

WHITE PAPER



Alpha IR Group

Debt Investor Relations

Are You Ignoring Your Debt Investors?



Poor Debt IR
Can Feed the
Rumor Mill

Debtholders Want
Better
Communication

Apply Equity IR
Strategies on the
Debt Side

Investor Relations & Fixed Income

Don't Leave Your Debt Investors Out in the Cold

Executive Summary

2017 witnessed another record year for corporate debt issuance, and over \$1.5 trillion of non-financial corporate bonds will mature globally over the next five years. Yet debt investors continue to feel like second-class citizens when it comes to garnering the attention and resources of the Investor Relations departments of many public and private companies.

It is no secret that most Investor Relations programs are geared to the equity investor. Management teams and IROs participate in, and are organizers of, a myriad of activities to keep equity shareholders current on the Company's strategy and financial health – quarterly earnings conference calls, investor conferences, non-deal roadshows, and Investor Days to name a few. But there is another audience, one that serves as a vital source of capital and whose voice is amplified in times of distress but can be overlooked in the course of day-to-day investor communications: the fixed income investor.

To gain perspective on this topic, Alpha IR conducted a series of candid conversations with experienced fixed income professionals, including traders, portfolio managers, sell-side analysts, and public and private company CFOs. These professionals aired their grievances and offered solutions on how best to address the information gap. Whether you are a public or a private company, these responses may help you evaluate your company's strengths and weaknesses and determine what you can do to avoid common pitfalls.

U.S CORPORATE DEBT ISSUANCE



“I’ve been the largest debt holder of several public companies and had to leave multiple messages for both the CFO and IR department before I finally got a return call post-earnings. And if the Company is private, it can take weeks to get anyone on the phone for an update.”

CONSISTENT COMMUNICATION IS KEY

- α “There are a lot of misconceptions on how the debt market receives communication from companies, in particular smaller entities. I always tell the management teams I see that they do need to be thinking about their visibility and acting like a big company. They should be actively communicating on a regular basis with all debtholders of size and should be regularly polling the market to understand investor demand. You cannot just engage with investors when its convenient for you or when you need to sell a deal.”
- α “Not communicating, or knowing, how your debtholders feel about your equity strategy could lead to a serious discount the next time you go to market.”
- α “I can’t tell you how many times a public or private company will go to market with an offering and then management will disappear shortly thereafter.”

Alpha Insight

Ultimately, the more your strategy acknowledges both sides of the market, and the more universal your investor communications are, the better the environment for quality buyers. Taking a few more hours a month to build better relationships with fixed income investors adds another item to the already extensive investor relations to-do list. But debt investors’ concerns are valid and can no longer go overlooked given their importance to, and potential impact on, the capital structure.

FALSE PERCEPTIONS CAN HURT YOU

- α “Nine times out of 10, when a management team does a non-deal roadshow focused on debt, the market assumes a deal is coming soon. If the IR departments of these companies would be proactive only a few times a year with the debt community, their securities wouldn’t be front run every time they actually do want to place a deal into the market.”
- α “The debt markets have a rumor mill and speculative mindset of their own, which needs to be managed by the IR departments of public and private companies just like they do with their equity communications. In fact, I’ve often seen a speculative story start with the debt community and end up significantly impacting the equity of that Company, as they weren’t paying attention to all of their constituencies like they should have been doing.”

Alpha Insight

The underlying message and tone in your communications with the debt community, on the road and over the phone, can have unintended consequences with the debt community. Further, debt and

equity markets are increasingly interlinked, and thus, proactive management of both markets can help to alleviate rumors and associated volatility across a company's publicly traded securities.

CAPITAL ALLOCATION – WHO DOES YOUR POLICY FAVOR?

- α “Capital allocation is so important to debt investors and many companies don't have a stated policy. Many companies appease equity holders with dividends, but if the Company wants to refinance debt and have access to the debt market in the future, you can't lever up the balance sheet for equity enhancement strategies.”
- α “It's a serious red flag if a company is not paying attention and communicating around its ideal leverage ratio. In particular, when companies do M&A and step outside their comfort zone, they need to think very strategically around their capital allocation go-forward strategy. Managements in those situations need to lay a clear path of what the new cash-generation power of the entity will be and how that will be allocated to get back to more ideal levels.”
- α “Bond holders get irritated with capital allocation policies that are poorly framed. For example, many technology companies will issue bonds using their foreign cash as a collateral. It's morally suspect but very much legal.”

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Contrary to popular thinking, debtholders indeed have an ownership stake in the Company, just usually not in the form of equity. They are concerned about the Company's prospects, competitive pressures, operating leverage, and ultimately, available cash flow to meet its obligations. If a company has a capital policy that is heavily weighted toward using cash for things other than prudently managing its outstanding debt and balance sheet (e.g., buybacks, dividends, and/or inorganic growth,) then the Company can expect increased scrutiny from both debtholders and ratings agencies. If recent trends are any indication, the voice of the debtholder is expected to become more strident in the years to come. Poor capital allocation does not go unnoticed in this constituency, and some industries have a reputation for bad policies. Remember, when times get difficult, it will likely be the debtholders you need the most, and they will be the ones sitting in the room with you.

PRIVATE COMPANIES HAVE TO DO IR TOO

- α “Getting financials with any consistency for debt-only companies can be nearly impossible. Private companies that come to the market a second or third time, who have ignored debtholder communication needs in the past, almost certainly end up with slight discounts in the next capital raise as debt investors have long memories.”

- α “Private companies don’t have quarterly or annual reports, so you have no real ability to monitor the credit up and down. This leaves the Company prone to speculation.”
- α “There is no excuse in 2018 for private companies not to have an IR website if you’re relying on the public markets to finance your company.”

Alpha Insight

The lack of available financials from private issuers is a significant obstacle for the fixed income investor. Having an online portal to make company financials available is an obvious solution to the issue of transparency, but many private companies do not feel compelled to provide that level of insight beyond the walls of the Company’s headquarters. Management and IR teams of these companies would be well-served to consider the use of an investor relations website, particularly as investors consider this a critical piece of their due diligence process prior to engaging a management team. Financial transparency is less of an issue for companies with public equity, as the majority maintain an online investor relations presence with access to quarterly financials, investor presentations, SEC filings and other relevant materials. However, it is prudent to consider how your website may be utilized by debt investors, with many large issuers adding a debt-related portal specifically for this important audience.

WHAT CAN THE IR TEAM DO ABOUT IT?

Debtholder communications remains critical in a world that is increasingly becoming more intertwined and complex. With over 100 years of collective strategic IR, banking, sell-side and buy-side experience, our takeaways from these conversations are as follows:

1. All companies must have an online portal or IR website to provide access to financials and establish a 24-hour communication response policy.
2. If a debtholder (current or prospective) wants to hear from you, make time for them. They may want to speak to the CFO, but IR teams need to be trained to answer as many questions as they can. This should be consistent with your responsiveness to the equity community.
3. Maintain an active dialogue with all your investors – equity and debt. Our teams are trained to respond to any inquiry within 24 hours as we believe it is a best practice.

4. Consider a perception study every two years, conducted by experienced IR consultants who are well-versed in your business and are prepared to have intelligent, sophisticated conversations – but avoid survey-focused shops as real institutional investors do not do surveys.
5. For private companies, consider hosting quarterly or semi-annual conference calls to review the corporate strategy and provide an overview of the Company’s financial health.
6. For public companies, be sure to address the debtholders directly at key points in the corporate timeline, such as M&A, implementing a dividend, or authorizing a buyback program. Remember to focus on the debt-to-equity ratio and reaffirm the long-term plan to service the debt.
7. Train the senior team to engage with all stakeholders via third-party coaching, Q&A framing and preparation, and if necessary, Reg FD training.

It is important to start with a self-assessment. After reading these responses, and hearing the frustrations, most shortfalls should be apparent. While some improvements are obvious, such as creating a portal and establishing a communication policy, other more novel approaches can be pursued. The right IR partner can work with you to hone your current approach to debt IR and execute a perception study to get a pulse check on your performance. Further, firms like ours – staffed with primarily ex-Wall Street and financial associates – can help you outsource 90% of the IR function, so you can better focus on running your business.

At Alpha IR, our specialty is helping high-quality companies maximize their investor communications efforts through both a programmatic and project-driven approach. We bring large agency experience, with a small company holistic touch that does not believe in a ‘one size fits all’ strategy. With our unique team structure, you’ll get the attention of our senior leaders, who collectively bring over 100 years of IR consulting experience. We have conducted over 800 perception studies over the past two decades and conduct over 600 conversations annually with analysts and investors on behalf of our clients.

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Alpha IR Group

About Alpha IR Group:

Alpha IR Group is a full-service investor relations consulting firm that partners with companies to deliver best-in-class investor relations, from strategic insights to daily, tactical execution. Alpha IR offers a range of tailored programs, as well as sophisticated insights and significant experience with activist preparedness, investor day preparation and execution, earnings support, M&A/transaction support, perception studies, and more. The firm's leaders have over 100 years of combined sell-side, buy-side, investment banking, and IR consulting experience. Alpha's growing staff supports a client base that spans seven industry verticals and represents over \$100 billion of equity value trading on public exchanges in North America.



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