Client Memorandum

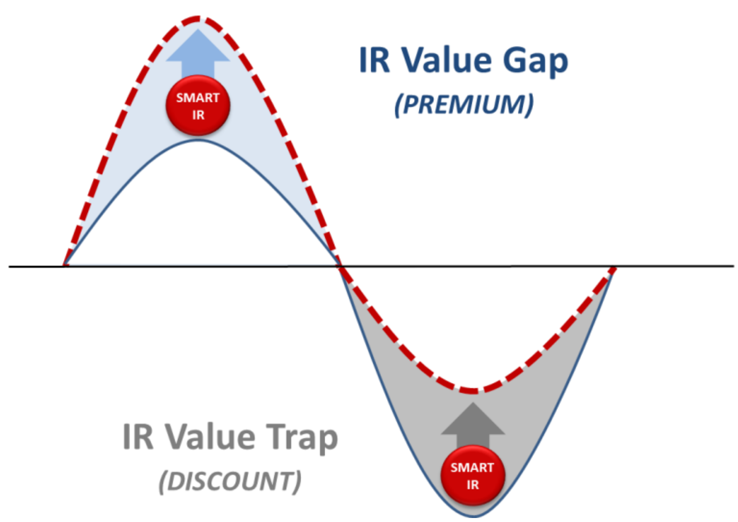
Alpha IR Group

COVID-19 Brings New Realities & Priorities for Your 2020 IR Program

As we continue to counsel our valued clients and friends here at Alpha IR, we wanted to share a compilation of collective feedback, opinions, and findings as we all adjust to the highly volatile market environment that will likely be with us for the next few weeks. The fourth quarter earnings cycle became increasingly more complex as we entered its latter stages and COVID-19 started to dominate news headlines. Companies that were fortunate enough to present early in the cycle avoided tricky, virus-related questions, but many provided 2020 guidance that may not have been appropriately hedged for the looming, albeit temporary, business disruptions. Later filers were able to provide more conservative outlooks but had Q&A sessions that were dominated by essentially unanswerable questions around the potential near-term impact of the virus.

Most investor conferences, NDRs, and Investor Days have gone virtual or been delayed to later dates, and many of us are learning to remain proactive and productive while working remotely. Adding to the complexities, many of us are in the middle of the proxy season, while the first quarter earnings cycle is about to begin. Furthermore, call volume from the Street has accelerated. For example, we're now averaging over 100 investor calls per day for our clients (at least double the normal average). Fortunately, most investors have kept their wits about them and remain focused on the long term. However, as overseers of the IR function, many of us are struggling with how we shift our message, our business outlook, and our IR approach given the current environment.

While investors need limited hand-holding in growth periods, they often need four times the effort in challenging markets. Times like these make or break management team's credibility, and investors have long memories. The coming weeks and months are going to be critical in terms of ensuring that we have a smart, front-footed approach to managing our IR functions. We look forward to working together through this uncertain period and hope this will help us all frame up our collective strategies for the rest of the year.



A. How Should I Support the Stock Today?

When stock prices are cut in half and a business hasn't changed materially, there is a natural and appropriate reaction to want to take a proactive and public stance to help support the stock. While many businesses are facing short-term challenges, many companies we've spoken with this week are seeing very little disruption in their operations and have adapted well to new working conditions. So, we've held several great debates both internally and with many of you around special press releases and/or business update conference calls to help support shareholders. Here are a few thoughts to consider on this topic:

- First, we have seen very few companies take this proactive approach yet. That may change, but at this point everyone is scrambling to get a pulse on duration and magnitude of the impacts. Likewise, Wall Street is a little more focused on their problem holdings still as opposed to finding rebound opportunities.
- As one PM said to us today, *"…at this point, companies should keep their public commentary limited to focusing on their people and their health, their businesses and managing their liquidity with an eye toward maximizing it every day."*
- We also remain cautious about special, business update conference calls, even for those companies that will exceed their Q1 guidance and/or consensus estimates, as we believe that it will be hard for most companies to discuss their visibility beyond the first quarter. There are too many unknowns to offer a lot of support for the rest of the fiscal or calendar year, and we all need time to assess how things develop.
- However, we do think certain businesses may have an opportunity to be proactive here in the next weeks using press releases, CEO letters and/or FAQs on their websites to reinforce critical messaging. Many of us are also in the process of editing our annual shareholder letters, and this document provides another opportunity to reinforce strategy, stability and risk mitigation.

B. Guidance Considerations

As we rapidly approach another earnings cycle, there are critical questions to consider: What do we do about the guidance we just gave a few weeks ago? Should we change our guidance policy entirely? Should we consider issuing a pre-release in the near-term or post the closing of the quarter? Will we be required/urged to quantify the COVID-19 impact? How do we estimate the go-forward impact of COVID-19? And many more, to be sure.

Regarding guidance, there are important lessons learned that we can apply having advised many Alpha IR clients through multiple recessions, including the financial crisis of 2009. The phrase "this time is different" is appropriate right now. With that said, our decades of experience counseling companies has taught us that there are underlying similarities and strategies that should be employed when recessions or severe disruptions to the economy occur. For example, we expect most companies to shift their guidance programs to align with the limited visibility they currently have in their business. A few other thoughts to consider in this unfolding environment:

- While we defer to legal counsel, a few industry bellwether's have proactively pulled guidance – in particular those most severely affected in the travel, retail, entertainment and restaurant spaces – but the general consensus is that the Street is operating under the assumption that any/all guidance is moot at this point, pending clarity on the magnitude and duration of COVID-19.
- Under this assumption, the majority of companies we've spoken with are planning to wait until the first quarter earnings call to officially retract/reset guidance, unless, of course, new material events and/or reactions are necessary before that time.
- We expect most companies to at least temporarily suspend annual guidance programs as they lack the line of sight far enough into the future to make an accurate forecast.
- For those companies that do have better visibility, we believe that a temporary shift to quarterly guidance can be an effective tool to offer investors some perspective on what's attainable.
- In any scenario, qualitative guidance will remain absolutely critical to ensure investor retention and eventually drive new investor interest at today's depressed valuations.
- We also expect many companies to use this period as an inflection point to consider wholesale changes to future guidance policies. In those instances, and before any knee-jerk reactions, we're advising clients to do a deep assessment of their historical guidance effectiveness and carefully consider the implications of removing this important Street management tool moving forward. For others, we'd expect a return to the preferred annual guidance approach with quarterly, qualitative and directional communication as visibility improves.
- Lastly, and practically speaking, all investor safe harbor statements and MD&A language will need to be immediately updated for today's new realities around future guidance projections. If your IR website requires an acceptance of your safe-harbor statement before viewing, that should be updated immediately.

C. IR Materials & Key Q1 Messaging Necessities

IR teams and professionals must be prepared to answer investors' concerns over the next few weeks as we start to get ready for the next earnings communication. As always, we will counsel our clients to be predictive of investor concerns and build their IR materials (earnings-related or other) to answer investor questions proactively, in your own words, versus framing reactive responses to tricky questions. A few considerations for your IR material adjustments over the next few months include:

- We've already constructed several slides for updated investor presentations over the last two weeks to reinforce our clients' ability to withstand temporary business disruptions. This obviously includes the strength of the balance sheet, access to additional capital, and in some cases the tapping of credit lines as an extreme precaution. While it sounds a little defensive, management teams have prepared their businesses for unplanned events, you can offer your investors a sense of comfort by including this type of information, proactively, in your investor education materials over the next few months.

- Many sell-side analysts rushed this week to do a deep dive into corporate capital structures, and we expect this line of inquiry to expand and remain elevated for the foreseeable future. We believe IR teams should be ready to discuss detailed questions around issues such as debt covenants, their relative level of restrictiveness, issues around collateral and overall access to capital in their impending IR communications.
- We are currently helping many of our clients outline what's different about their businesses to navigate these uncertain times and where they have flexibility to ride out short-term COVID-19 specific disruptions. The majority of companies will have short-term business impacts, but not long-term disruption as they feed critical components of the economy. So, as you think about competing for capital, this kind of differentiation will be critical to build and consistently reinforce across all of your IR communications.
- Capital allocation will remain a hot topic as always, and we thoroughly expect many companies to at least temporarily suspend share buybacks and prioritize cash over the next two quarters. You won't be alone in making those decisions and investors will applaud that decision in most cases.
- Now is a good time to visit with your FP&A, CFO and CAO to discuss the potential implications of delayed financial results. Auditors must also adapt to the new realities of reporting, and whether old timelines work within the current environment. We would have no concerns about pushing earnings calls to later in the cycle than you might normally report and don't believe that investors will overread such decisions.
- We have seen and expect to see additional direction from the SEC and legal counsels to ensure that new disclosures align with non-GAAP rules, and we'll all need to be up-to-date on those rules as they gain further clarity over the next few months.
- Ultimately, we expect every company's quarterly communication throughout 2020 to include some form of quantification of the impact of COVID-19 on their business. Year-over-year comps will be difficult for everyone. Thus, this extra detail will outline short-term impacts and allow you to talk around maintaining market share, and how you're ready to win back lost business as these stimulus packages start to reignite the economy.

D. Wall Street Engagement

It's a natural reaction to delay investor interaction during uncertain times, especially when the honest answer to many questions right now is "we don't know." But having a strategy and plan for even this unprecedented environment is critical. Often during these times of flux, it's crucial to assess your past IR activities' effectiveness, seek opportunities to increase your ROI on those activities and rethink your engagement strategy for the future. A part of that strategy should be virtual investor relations for the time being (i.e. phone calls, virtual

NDRs/conferences, etc.). However, making up for "lost time" will be important for all companies, and we fully expect the back half of 2020 to be record-breaking in terms of conference volume, requests for management time on NDRs, rescheduled Investor Days, etc. As such, having a plan will be critical to ensuring you achieve your program's goals and maximize management time spent on IR.

Investor Phone Calls Today & Tomorrow

- Institutional investors – large and small, new and core – are calling on IR at a highly-elevated rate, seeking to attain a sense of short-term comfort around the extent of business disruption that's been seen to date, business flexibility, balance sheet resilience, etc. Retail investors also continue to call and are looking for IR teams to hold their hands through this turmoil. As the front line in investor communication, we have to take these calls and do the best we can with today's information.
- The question is, "*Do we have a duty to disclose new information to all investors before we have that phone call?"*
- Everyone can safely say, "*We're still assessing the impact that the virus will have on the business and our outlook, and we will update all of our investors when the time is right*." This is the reality for every company today.
- For those experiencing material disruptions to their business, such as travel, retail, entertainment and restaurant industries, pre-releases may be required, as will the suspension of guidance.
- For others that have limited impact outside of currently unforecastable supply chain and/or economic impacts, we suggest caution. To provide accurate information, most companies need to see a few more weeks of impact, which will bring us past the closing of the first calendar quarter. Thus, we would suggest that in many cases, the right answer is to wait on any guidance changes until: 1) the pre-release season in early April, especially if you will miss guidance/analyst estimates by a significant amount; or 2) the next earnings cycle communication, when we can provide more context and clarity with a full set of financials and one hour of prepared remarks.

Conferences/NDRs/Investor Days – Investor Visibility in 2020

- Most investor events have shifted to virtual video and/or conference call formats, and we continue to believe that investor visibility remains highly important.
- We are prioritizing current investors first for our clients, but we've started to receive recent and increasing interest from prospective investors who are thinking opportunistically given today's valuation.
- Although it's too early to tell, our conversations with investors have us believing that many investors are moving quickly toward a Darwinian approach to their portfolios and the overall market. To say that many active investors will be recalibrating their holdings in this environment may be a dramatic

understatement. Set against the backdrop of continuing change ricocheting across Wall Street, the effects of COVID-19 may act as an accelerant to existing trends while at the same time providing a unique opportunity for active managers to differentiate themselves. From an IR perspective, in this environment, no company can afford to put its head in the sand over the rest of 2020.

- Virtual events have their drawbacks, but we believe this period of our lives will likely increase the use of video and virtual calls. There is a long-standing love-hate relationship between management teams and investor conferences – especially given the growing hedge fund domination at most events – and thus we see this as a new reality.
- Now is the time to think proactively about doing the strategic things with your IR program that you have always wanted to do. Do you have a real strategic IR plan? Has your team done the right kind of IR targeting background work necessary to navigate what's sure to be an acceleration in Wall Street's evolving landscape? Does it make sense to use this downtime to do an investor perception study to hone your messaging further and rebuild your IR materials to be best practices? These are all small, smart investments that will position your program to take control of the IR message as the world emerges into the new normal.
- Lastly, the second half of 2020 will present the busiest investor engagement calendar seen in decades. Clients with considerable sell-side coverage will have significant demands made for their time to market to investors at conferences for much of the already heavy conference season in September to December. Understanding how to prioritize management's time with a clear message and the right partner while competing for capital will be critical.

Annual Meeting Implications/Proxy Issues

- While annual meetings have become non-events for the most part, there have historically been some limitations to moving to virtual events given some of the proxy advisory firms' rules and mandates.
- We believe this is the year things may shift, perhaps permanently. The SEC has provided some direction for companies that already mailed their proxies, but that now subsequently would like to shift those events to a virtual format. See this link to the SEC release and please check with external counsel.
- For those in the middle of proxy-related or activist shareholder issues, we believe many will de-escalate as now is not the time to force corporate change in most situations. Activism isn't going away. If anything, it will likely accelerate as we move into the latter half of the year. But expensive proxy fights are in no one's best interest right now, and we expect to see some short-term pullback on activist demands over the next few months.
- Lastly, we would expect to see many companies reevaluate the use of poison pills and become much more defensive on governance issues should valuations lag for an extended period of time.

E. Unintended Consequences

There will be a number of consequences to this new environment, and we believe the first will be an acceleration in Wall Street's transformation. With increased competition for capital, the negative implications of MiFID-II on the function of the sell-side, and companies taking a more proactive role in organizing their own NDRs, the face of Wall Street is rapidly changing and moving away from the traditional sell-side research-focused model.

- The sell-side has been struggling for some time now, in particular in their ability to earn a profit covering SMID-cap companies. We saw significant layoffs in December, and a handful of firms have started to make their analysts "independent." Where possible, we are encouraging our clients to support their analysts with virtual NDRs. However, we believe the lower-tier sell-side remains highly vulnerable in 2020, and we expect more SMID-cap company IR teams will need to take more direct control of their investor visibility.
- With less sell-side, many smaller companies are going to have to be prepared for earnings calls that lack sell-side participants. Q&A should be opened to investors in many cases, and we here at Alpha IR have a few proactive ways to ensure a quality Q&A session without the sell-side. This includes getting buy-side questions ahead of time, and potentially being open to emailed questions during the call.
- We also hope that the increasing influence and volume of passively-managed investors may slow here. An over-weighting of passive interest has likely supported recent volatility, and now is the time for smart, actively-managed investors to shine over the next few years and outperform passive strategies. As a result, we hope to see more stability in Value and GARP-oriented strategies over the next few years.
- Lastly, there will be fewer investor conferences and greater acceptance of virtual investor events. IR programs need to prepare for this new reality.

To conclude, we have entered a completely new environment and the resources of the investor relations function will be taxed throughout 2020. Those companies that think strategically about the function and help hold their investors' hands through this volatile time will be more quickly rewarded than those that don't. We will be launching a new blog in the coming weeks and will be taking a more proactive approach to offering broader advice through that tool. We will send new invites to that when it's launched next month. We look forward to working together through this period of temporary volatility and have the experience and crises capabilities to help make sure we do so efficiently and effectively.

About Alpha IR

The Alpha IR Group is a holistic investor relations and transactions/crisis consulting firm that protects, enhances and builds the investment brands of America's leading companies. We bring over 100 years of collective Wall Street, financial, and large agency experience, while retaining a small company, holistic approach. With deep sector expertise and senior-driven programs, Alpha IR is the right choice to manage our clients' reputations, credibility, and ultimately, their valuation. For more information please see www.alpha-ir.com.