Alpha IR Group

New Normal: Shift to Stakeholder Comms & Q1 Earnings Playbook

The Investor Relations (IR) manual is being rewritten by the COVID-19 situation, bringing profound implications that will significantly change the way we communicate and interact with Wall Street well beyond this crisis. Much has changed since we published our last COVID-related communication piece two weeks ago, which focused on the strategic and practical implications of the virus' impact on the IR function. Companies most directly impacted by the crisis have been forced to be early communicators regarding the aggressive actions they've taken to protect their franchises. Typical IR tools, like the provision of guidance and framing of capital allocation policies, are being questioned, at least temporarily. And we're all preparing for one of the most important earnings seasons that many of us will orchestrate in our careers.

One thing is clear, as gatekeepers of the IR function, we are all now the face and voice for our respective companies during this crisis. As a public company, the first communication during any crisis is usually IR-driven as we have "material" information that must be disseminated to shareholders in a fair and timely manner. The next few weeks will be filled with critical IR and crisis communication decisions, and thus we believe it is important for us to share our collective perspectives and experience on what we're seeing across corporate America today.

What follows is a broader discussion on how the traditional IR playbook is transforming, some thoughts to help our clients and friends navigate the upcoming earnings cycle, and an updated perspective on how your 2020 IR program will need to evolve to meet the changing dynamic on the Street.

A. Balancing Stakeholder Narratives with "Shareholder Value"

There are a few key "go-to" phrases in the IR professional's handbook that we all tend to use as we communicate to investors. For example, we often close an executive quote with a phrase like:

- "…we remain focused on driving shareholder value."

- "…we will continue to execute against our strategic plan with an eye toward maximizing long-term value for shareholders."
- "…we will continue to follow a balanced approach to capital allocation."

Over the past two weeks, we've helped many of our clients build business update releases and/or communicate new strategic events, and it has become clear that these types of phrases come across as somewhat tone deaf given the broader, multi-stakeholder audiences that are intently reading every corporate communication today. Near-term corporate priorities are much more focused on the health and safety of employees, controlling costs, and protecting the balance sheet than they are on "driving shareholder value." While we are all navigating this new normal for the first time, we need to file those standard phrases away for now and more overtly acknowledge our broader audiences as we recalibrate our IR strategy and messaging for 2020.

The phrase you're increasingly hearing today is "stakeholder communications," and it's here to stay. For certain, your next earnings call will be attended by a record number of stakeholders, which include employees, local/national media, suppliers, customers, regulators, and of course, equity and debt investors. There are critical messaging needs for each of those audiences, which can sometimes be at odds with one another. Thus, we'll all need to "thread the needle" during our next earnings communication as we balance critical shareholder communication with the broader needs of our employees and the communities in which we do business. That doesn't mean shareholders aren't critical and still near the top of the list for the IR function; however, they will share that top spot with numerous stakeholders throughout 2020 and likely beyond.

B. Q1'20 Earnings Playbook

If there were ever a time to be overly prepared for an earnings call, it's now. Investors are looking for real leadership in this environment, and every company's earnings communication will be intently scrutinized this quarter. We expect to see significant portfolio repositioning over the next few months, as investors evaluate which of their holdings need extra attention and analysis, versus those they can put in the back of their minds as long-term holds. While the first quarter is usually the easiest communication of the year, we now see this earnings cycle as one of the most complex and critical of our careers. All of us must be thoughtful, prepared and proactive with our commentary this quarter. With that in mind, the following is structured as a key considerations and potential Q&A checklist, no matter how COVID-19 has impacted your specific business.

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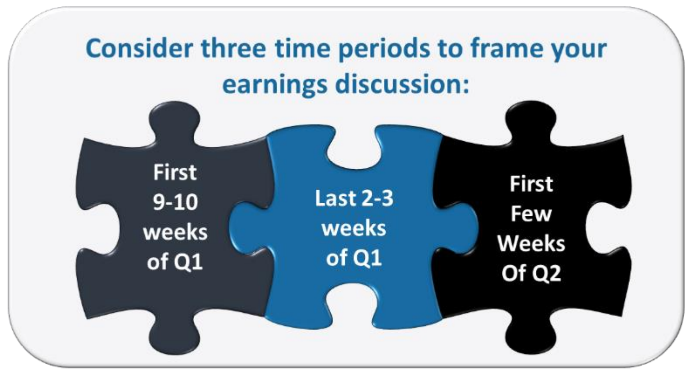
Critical Reminders

- First, let's focus in on our primary goal for our next earnings cycle. Simplistically, investors today are separating their portfolios into two groups: 1) long-term holds, and 2) worrisome holdings. Some businesses have been truly impaired and/or may have impending financing needs which will push them into Group 2, and obviously spectacular IR communication can't be a panacea for reality (although you still owe it to your investors to try). But poor, reactive communication could take a stock that belongs in Group 1 and put it into Group 2. Thus, our primary goal with this impending communication is to provide as much detail as we can to end up in the first group. Companies that demonstrate strong leadership, aggressive action to protect their businesses, flexibility to bridge the gap, and reinforce the long-term investment appeals of the business are the most likely to be put into the first group. Group 1 stocks will be put in the back of the portfolio, worried about less, and will be candidates for additional investment in the near term.

- Given that goal, it will be critical to take the opportunity to do a deeper dive into why your investors own your stock in the first place. Based on our recent investor calls, the Street has lost sight of the basics, such as competitive positions in the market, recurring revenue backbones, end market diversity, etc. As such, we feel investors need to see a solid portion of the next earnings call dedicated to each company's core business fundamentals and long-term investment appeals.



- In terms of framing your results and business activity, we believe you should break up your discussion – regardless of how this environment has impacted your business – into three distinct time periods: 1) the first nine to ten weeks of the first quarter when the economy was healthy; 2) the last two to three weeks of the first quarter as components of the economy were shut down; and, 3) the first few weeks of the second calendar quarter. To maintain any semblance of your historical or new guidance program, anecdotal information across those three key time periods will be critical to lending credibility to your projections.

- Obviously, every company must include a full review of the impact that the crisis has had on its top-line opportunity, short-term earnings power, and overall capital requirements. Plan for a deep dive into your balance sheet, liquidity, access to additional capital, recent banker conversations, etc. The messaging here will be particularly important for companies with significant business disruption as you don't want to look desperate, rather the communication should be deliberate and focused on taking smart, strategic action to protect the franchise.

- In terms of balancing critical stakeholder needs, any discussion around headcount reductions and/or plant closures that impact your various local communities needs to be done with significant empathy. Again, it's not just your investors on these calls, it's all of your stakeholders and the media.

- Lastly, if this situation has benefitted your business, be very careful not to "pound your chest" too loudly. Consider how what you say today will age over the coming weeks and months. This isn't the right environment to take credit for outperformance. It's also not the right environment to be too optimistic, as the situation remains so uncertain. Instead, focus on the long-term implications of how your business is positioned to maintain or return to growth in the future (i.e. "bridge the gap").

Questions That Will Require Formal Preparation

Based on the several hundred investor calls we've had over the last few weeks, we expect earnings call Q&A sessions this quarter will be far more detailed and probing around critical risk characteristics of the business. Many of these questions may be difficult for some companies to answer, but you should be well prepared and rehearsed to provide at least a high-level "pulse" on each topic:

- **Key Customers:** *Mix, exposure, health by end market?*
- **Variable vs. Fixed Costs:** *Flexibility, ability to shift resources?*
- **Contract Structures:** *Status, protections, terms?*
- **Supply Chain:** *Status today? Plan to shift to be more N.A./U.S. centric?*
- **Past Learnings:** *How did the business do during the last crisis?*

- **CapEx Flexibility:** *Maintenance vs. discretionary?*
- **Cash Burn Expected:** *Under various scenarios?*
- **Debt Covenants:** *Conversations with bankers to date?*
- **Working Capital:** *Policy changes made or planning to make?*
- **Access to Capital:** *Supplier trade credit terms/changes? Other avenues?*

An Outline to Get You Started

In the appendix, our team crafted a general outline that we've shared with a few clients to get them started on building their earnings scripts. By no means is this outline going to fit every company, but given the uniqueness of the times, it may give you some ideas to consider. Click here to jump to the outline: General "Big Picture" Q1 Earnings Outline.

C. Tactical Consideration: Earnings Timing

In early March, the SEC announced that it would provide companies with an additional 45 days to file disclosure reports that would otherwise have been due between March 1 and April 30, 2020. In an environment where the state of the world is changing every day, we see some benefit for certain companies to take an extra week or two to close their books and report their next earnings. Obviously, none of us have closed the books remotely in the past and we should anticipate delays. Thus, we do not believe that investors will be concerned if you don't report on the exact same cycle as you traditionally have. Further, an extra week or two could present some greater clarity in your path forward.

If you operate an essential business and it's business as usual, approach this earnings cycle as you normally do. But for others who'd benefit from the extra time to provide a cushion for the auditing process and to see how peers report, we think it's reasonable to delay your call one to two weeks. That said, we do think investors will react negatively to companies that 1) choose not to have a call, or 2) push their call out the full 45 days allowed. Both would be seen as signals to assume the worst. Further, the longer a company waits to report, the more recency bias will be required in your prepared remarks as investors will want you to discuss the second quarter's progress to date.

D. Guidance in 2020

Over 300 NASDAQ and NYSE companies officially pulled or updated guidance as of today, leaving a significant number of companies that will need to update their projections in the upcoming earnings cycle. Of note, we've had many interesting conversations with outside counsels this week who've said not commenting on prior earnings guidance in any kind of "business update" release is akin to validating everything you said in the past. While we do not fundamentally agree with that statement, we do know that the overwhelming majority of the investors we've spoken to over the last two weeks thoroughly expect that every company's guidance is "out the window."

> "Investors have long memories. We've had phone calls this week where they referenced something the CEO told them in the 2009 crisis."

On CNBC this week, Jim Cramer openly questioned whether the provision of guidance was even possible in today's environment. So how should most companies approach updating guidance? Taking a page from the 2008/2009 playbook, the answer is fairly simple. What is your visibility today? Is it one week, one month, one quarter, or still one year? No one should be "rolling the credibility dice" as it relates to guidance in this environment. You won't get credit for it and maintaining management credibility through times of crisis is absolutely critical. We've had phone calls with investors just this last week where they've referenced something the CEO told them in the 2009 crisis. Investors have long memories, and most have recently dusted off notes that may be 10 years old.

Consider the options:

1. **Maintain Guidance:** Even companies that have benefitted from this environment will likely find skeptical investors when it comes to maintaining guidance. If your outlook remains confident, the provision of your underlying assumptions will be critical. But understand it's not worth staying with stretch goals if the guidance is difficult to reach as you're unlikely to see the stock price reflect it in the short-term.

2. **Shift to Quarterly Guidance:** While we traditionally prefer annual guidance, as it gives you the ability to navigate quarterly anomalies, uncertain times call for more certain measures. As long as some short-term visibility remains, we believe most companies will shift to a quarterly approach to guidance in 2020. We also don't believe this needs to follow your company's traditional pattern either. In some cases, a simple EBITDA range may be enough to provide some perspective on how the business will perform next quarter and support the key messages you're trying to focus investors on. There is no one size fits all here, but we do believe that investors will be supportive of a change in guidance timing and metrics, and the tool can still be used effectively to help guide investors and sell-side analysts (i.e. their models/estimates) through a tricky time period.

"Uncertain times call for more certain measures."

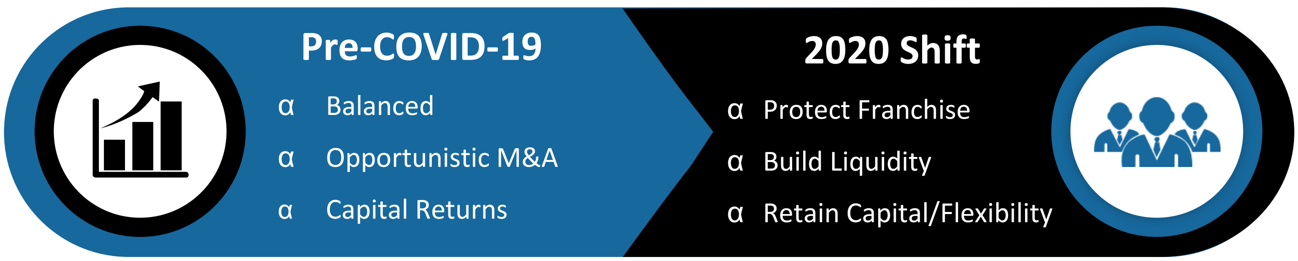
3. **Temporarily Suspend Guidance:** For companies deeply impacted by the pause in the economy, there may likely be no choice but to suspend guidance altogether. Investors will understand this but will look to probe much deeper into companies in this situation. It's also been noteworthy that those suspending guidance over the last few weeks have not been penalized in the market. In fact, irrespective of sector, those companies making the announcement that they're suspending guidance have generally traded in line with the market on the day of the news. Discussions will surely center on cash burn, liquidity, capital availability, and scenario analysis instead of formal guidance. Further, thinking strategically about the qualitative guidance you provide will also be critical for companies that suspend or eliminate guidance.

Lastly, it's worth noting that the SEC offered some reprieve for companies to make sure they don't overthink their safe harbor and forward-looking statements as they talk about guidance this quarter. The goal of this announcement was to encourage companies to communicate "as much information as practical" without worrying that "good faith attempts to provide appropriately framed forward-looking information will be second guessed by the SEC." The full announcement can be found at this LINK.

E. Capital Allocation in 2020

One of the biggest shifts in communication as a result of these uncertain times will be what public companies say about capital allocation. Historically we've always advised that the only real answers to investor questions on capital allocation are generally, 1) we expect to maintain a balanced approach to capital allocation over the long term, and 2) we reserve the discretion to overweight various levers in short-term periods when we believe they will drive the most value. For example, an over-levered company might say, "we're going to be balanced in our approach to capital allocation and have these four priorities, but this year we're focused on leverage reduction as we want to further de-risk our balance sheet." This allows the company to shift gears if they need to be opportunistic but offers investors a strong sense for the focus in the short and long term.

However, in today's environment, where balance sheets and liquidity will surely be tested, those rules likely need to be put on hold. First, companies that participate in any government assistance programs will be heavily scrutinized and likely unable to execute share repurchases. Dividend increases and potentially even dividends themselves may also come under heavy scrutiny if the recovery ends up U-shaped. As an example, there have been over 30 dividend suspensions so far in the last few weeks. The reality is everyone's number one priority today is protecting the franchise and riding out the storm.

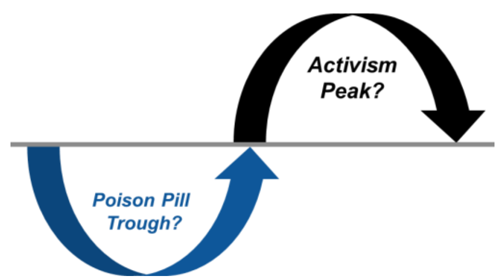


Investors will understand that and thus we view the above visual as a perfectly acceptable approach. That said, the minute shareholders see a path to the conclusion of the crisis, expect share repurchase questions and expectations to quickly resurface.

F. Activism in 2020

One of the more interesting debates we've had internally here at Alpha is what does "stakeholder communications" mean for the activist community in 2020? We see two short-term outcomes from this situation on activism.

- First, we see COVID-19 as its own poison pill that will likely keep many activists sidelined for much of the year. Pushing management change or strategic shifts in many businesses today might only further impair those companies that are fighting for survival.
- Second, we think it's time that public companies start to stand up to activist demands more directly, and this may be the catalyst that helps. Too often we see boards acquiesce in order to avoid the distraction of a fight, and many of the smaller activists play directly into this pain point. As long as you are acting as your own activist and running an efficient and thoughtful business, you can and should stand up to low-end, opportunistic activists.



Thus, we believe the multi-year trend to remove poison pills and staggered boards will start to shift in 2020. You've already started to see some poison pill implementation over the last week, and while it likely won't be extreme given the related governance concerns and voting issues, corporate America will and should respond to protect itself in this environment.

G. IR Necessities in Q2'20

After the first quarter earnings cycle concludes, we'll likely see a market that remains highly volatile. Positive news that depicts a path back to our old lives will likely push the market, while economic realities will likely pull on it. Below are the necessary IR priorities for upcoming months:

1.

Stay Available

- Q2 call volume will be extreme with extended market volatility
- Block off a few hours of CEO and/or CFO time every two weeks for most influential equity and/or debt holders and prospects
- Be patient with frustrated investors, this is a trying time for all of us

2.

Stay Visible

- Investors need more handholding now than ever
- Conferences are now virtual, support your sell-side
- Consider creative XYZ 101 events and materials. For example, host a webinar with a key segment head, update factsheets, or build a virtual tour of a plant

3.

Stay Proactive

- Set up post earnings follow-up calls before the event
- Drive your own virtual NDR to hit all top holders and top-10 core prospects from your target list
- Build the IR plan you always wanted with intelligent targeting, activist crisis preparedness and a proactive plan for 2021

4. People

Stay Long-term Focused

- Start to plan your next Investor Day event, as everyone will need to reset the 3-to-5 year strategic plan for shareholders when this is over
- Use this time to develop a better relationship with your board, inclusive of consistent, strategic IR updates and bi-weekly materials

H. Investor Relations When This Passes

Times like these bring both temporary and permanent change. One of the most critical ways any IRO or IR team can prepare is by building a real strategic engagement strategy and making sure they have a seat at the table with both the management team and the Board. To earn and keep that seat, you'll need to navigate a number of permanent shifts that are coming, including:

"Virtual is Great"
CEO/CFOs are going to learn to love virtual meetings and no-travel NDRs

Sell-side Challenges
Virtualization will further harm sell-side's model and shrink the industry

Run on I-Day Venues
Q4 sold-out and 2021 will bring numerous events given needs to reset the long-term vision

ESG Acceleration
Stakeholder focus should bring lagging companies into at least a "me too" ESG position

Smarter Targeting
Many SMID-cap companies will have to rebuild their entire shareholder base

More Open Conf. Calls
Fewer sell-siders = lower Q&A participation; SMID-caps may need to open queue to buy-side

Debt IR Matters
Debtholder communications is often an afterthought, but distress brings new perspectives

Stronger IR Functions
Crisis and transformed Wall Street will require more strategic and experienced IR capabilities

We look forward to staying in touch with you - stay safe and healthy!

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, high-touch 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.

Appendix A: General "Big Picture" Q1 Earnings Outline

CEO Opening:

- **State of the Union**
  - Employee update/safety focus/thank you
  - Business/Operational update over three key periods: 1) first 9-10 weeks of the quarter, 2) the last 2-3 weeks as the economy was disrupted, and 3) the most recent few weeks
  - Status of the supply chain, vendors, partners
- **Actions Taken**
  - Demonstrate urgency taken to fortify business, protect assets, cost containment, etc.
- **Outline Components of the Business that are Working**
  - Discuss % of business that's still working, timeframes to reopening others based on what you know today
  - Where possible, take credit for conservative balance sheets, liquidity access, ability to bridge the gap
- **Confidence/Leadership**
  - Reassure employees, customers, suppliers, and others about company's ability to navigate this crisis

CFO Portion:

- **Q1 Performance Review**
  - Walk down Income Statement but keep to key metrics and drivers
  - If possible, provide some anecdotes of performance over three time periods CEO discussed
- **Cost Discussion & Plans**
  - Fixed vs. variable cost status, cost containment efforts, CapEx curtailments, etc.
  - Opportunities still available under various scenarios
- **Liquidity/Cash Status and Strategy**
  - Cash preservation strategies, working capital plans, business flexibility
- **Balance Sheet Status and Strategy**
  - Debt structure and status: looming maturities / refinancing
  - Other actions taken to fortify business: drawing on LOC, access to debt markets, etc.
  - Covenant review, anecdotal banker conversations (express partnerships where possible)
  - Capital allocation strategy in current environment
- **Guidance Discussion**
  - Quantitative or qualitative, you'll need to outline your visibility in some form or fashion

CEO Closing:

- **Outline Short-term Strategic Priorities for Q2**
  - Talk confidently to business resilience, optionality to ride out likely scenarios, etc.
  - Offer outlook that fits best, likely quarterly guidance and/or qualitative and directional ideas
- **Core Business/Investment Appeals (long-term)**
  - Recap of core tenets of the company and the differentiators that support resiliency
  - Performance and resiliency in 2008/2009 or past crisis situations if applicable
  - Reminders of what you are not (address misperceptions you know exist if needed)
- **Bridge to New Normal Thoughts**
  - How will the company rebound under various market recoveries