CTC Investor Relations

Market News

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A monthly review of IR developments for our clients and friends. . .

Managements spent less time marketing companies to investors in 2016

According to *IR Magazine's Global Investor Relations Practice Report 2016,* nine out of 10 respondents took to the road to market their companies to investors through either conferences or roadshow marketing trips. In the U.S., investor conferences were the most common form of investor engagement for companies. On average they attended 7.1 conferences, went on 6.7 roadshows and hosted 3.5 site visits. Companies increased both investor conferences and roadshow visits from 2015. Roadshows were up by 0.7 days and conferences by 0.2 days. Site visits were down 0.7 days.

General accounting costs vary widely according to the system's sophistication

Companies using sophisticated, efficient general accounting systems spent less than $0.48 per $1,000 in revenues on accounting in 2016, compared to more than $1.98 by companies whose general accounting systems are outdated, and, in some cases, still manually driven, according to the American Productivity & Quality Center Benchmarking Data Study, which surveyed 915 companies. In other words, an organization with $5 billion in revenues could save approximately $7.55 million annually by updating its general accounting system. The bottom performers tend to do nearly one-third of their general accounting entries by hand, increasing labor-related costs while perpetuating the cycle of paper-based processes and poorly designed work flows, which lead to more manual intervention and mistakes.

Primary concerns for proxy season: Gender diversity, climate change and regulatory uncertainty

Going into 2017 proxy season, 70 percent of institutional investors see board diversity as a primary concern, particularly gender diversity, according to Ernst & Young Center for Board Matters. Last year women gained less than one percent of board seats in S&P companies, the same growth rate they saw in each of the past five years. With less than 18 percent of board seats occupied by women, at that rate parity would not be reached in 30 years. Close to a third of the investors said climate change's impact on companies and executive pay were concerns. They also listed regulatory and legislative issues, especially changes that could impact governance, backsliding of U.S. environmental regulations and possible repeal of certain shareholder protection provisions.

Chirp from the White House causes companies to create unique crisis strategies

It can take only 140 characters for President Donald Trump to send a stock tumbling or soaring, and management scrambling. For this reason, companies are drafting war room plans to address surprise presidential tweets. Experts recommend strategically placed ads on MSNBC's *Morning Joe,* CNN and *The O'Reilly Factor* on Fox News, all programs and networks which seem to inspire Trump's Tweets. Some companies aggressively announce new jobs to head off criticism. Lobbyists advise clients to review their business interests, especially as they relate to federal contracts, so they can talk about how the firm invests domestically. One company has bucked the Trump-Tweet trend. After he blasted Nordstrom for dropping his daughter's fashion label, Nordstrom's shares gained more than 4 percent.

SEC nominee Clayton inspired by Tom Wolfe's 'Bonfire of the Vanities'
SEC Chair nominee Jay Clayton is a white-shoe Wall Street M&A lawyer whose clients have included the former Lehman Brothers and Goldman Sachs, where his wife has worked for 17 years. In his confirmation hearings this month, however, Clayton is expected to defend fewer regulations on capital-raising. His philosophy, friends say, is called the "Tom Wolfe theory of contagion risk management," referring to how unintended consequences unfold in Wolfe's "The Bonfire of the Vanities."

Cash-flow forecast accuracy is a concern for corporate treasurers
Despite today's technology, cash flow forecasting is still a manual spreadsheet-based process for many companies. In most cases the forecasts are revised monthly or quarterly, rather than the preferred weekly updates done by only 15 percent of companies, according to PwC. More than half of the 220 survey participants are concerned about forecast accuracy, about timely inputs, and about the processes they use. Forecast horizons vary, with 27 percent forecasting in the current budget period, 25 percent in the current quarter and 19 percent in the current month. A 12-month rolling forecast is used by 22 percent. PwC concluded that respondents don't expect material improvement.

Proxy statements grow in importance
As a defense to shareholder activism, public companies' proxy statements are becoming more informative and adopting more user-friendly formatting to improve transparency. S&P 100 companies detailing shareholder programs in the proxy grew from 12 percent in 2012 to 63 percent in 2016, according to Equilar. Among the same companies, 42 percent attributed their reporting changes to shareholder activism, up from 14 percent four years earlier. With a nudge from government, reporting responses on say-on-pay votes nearly doubled, from 17 percent to 32 percent during that time. Companies also ramped up efforts to help proxy users navigate through the growing document. In 2012, 39 percent of S&P 100 proxies led off with a topic summary and added color graphics. In 2016, 79 percent did that. Equilar predicts that transparency rewards will drive others to follow.

Does more institutional ownership encourage tax dodging?
Business-school researchers say complex tax strategies are more common among larger public companies with high institutional ownership. And they say tax code complexity, as much as high rates, encourages such companies to employ strategies that augment results and justify compensation. Profs from the University of Minnesota, Harvard Business School and George Washington University found a "significantly positive relationship" between tax avoidance strategies and new institutional owners. They said simplifying the tax code will level the playing field for companies that can't afford the resources to exploit the current system. This supports an earlier study that found a 10 percentage-point increase in institutional ownership led to a two-point average reduction in effective tax rates.

No crowds for equity crowdfunding
Nine months after the SEC approved rules for public equity crowdfunding, very few are pursuing such funding and investors are wary of it, too. Experts say that the dream of letting entrepreneurs raise equity from non-accredited, Joe Sixpack investors is foundering on too much regulation and cost, and too much risk for both sides. Title III of the 2012 JOBS Act was supposed to unleash a wave of investing through online marketplaces connecting startup capital seekers with small investors, but has raised only an estimated $5 million and $20 million through January. Only 100 companies had registered for so-called Reg CF offerings through September, and there were 19 registered funding portals. Issuers' chief complaint is disclosure – the cost and lack of privacy. Investors say issuers disclose too little to justify illiquid investments in companies with a high risk of failure.

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