CTC Investor Relations

Market News

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

Many IROs still avoid hedge fund meetings

New research published by *IR Magazine* revealed just one in five investor relations professionals say they directly target hedge funds. This is despite the number of hedge funds in the market and their varied investment criteria, including funds that act like long-only institutions. In recent years hedge fund managers have reached out to corporate managers seeking to build better relationships by overhauling their approach to meetings and hiring corporate access professionals. Yet, only 13 percent of the IR respondents say their company's attitude about engaging with hedge funds has changed over the last five years. Of the respondents that do target hedge funds, the most popular type is long-short funds, targeted by 70 percent. Next was multi-strategy funds, targeted by 51 percent.

Corporations are disproving SEC claims that non-GAAP numbers are misleading investors

After a proliferation of the use of non-GAAP numbers, last May the SEC issued new guidelines on the use of financials inconsistent with U.S. Generally Accepted Accounting Principles, and started a push to review non-GAAP financials. The regulators questioned 61companies on whether some of the adjustments exclude regular business expenses that would provide investors with a rosier picture than the actual results. Audit Analytics and the *Wall Street Journal* reported that the SEC backed down on their review of 35 of those companies, concluding their numbers weren't misleading. Accounting firm PwC suggests that companies establish a policy for how they calculate non-GAAP numbers to ensure the practice is consistent from one period to another. In addition, executives should work through the nuance and judgment and be prepared to defend it to their audit committee.

Sixteen-year study finds revenue/earnings manipulated to meet analyst expectations

While it might not be too surprising to some, a 16½ year study conducted by Calgary University found many companies engage in revenue and earnings management to meet or beat analyst expectations. Of the 6,836 public companies from five major business included in the study, revenues and earnings manipulation were most common in the technology and health care industries. Researchers believe this was caused by the fact that the stock price changes almost double over other stocks in the two sectors after missed earnings or revenues against analyst predictions. The study's author also concluded that when a company just meets or slightly beats analysts' revenue or earnings benchmarks, there is a stronger likelihood the company would manage its accounting to meet that goal. The study found this conclusion to be especially true for early-stage companies.

New audit reporting standards under consideration

Today the Public Company Accounting Oversight Board is holding an open meeting to consider adopting a new standard that would require auditors to provide a description of "critical audit matters" in financial statements. "Critical audit matter" is defined as any matter arising from the audit that was communicated or required to be communicated to the audit committee, relates to accounts or disclosures that are material to the financial statements, or involves especially challenging, subjective, or complex auditor judgment.

Majority of directors say tweak Dodd-Frank, don't replace it

As the Trump administration assesses how to change the regulatory landscape, new research by Spencer Stuart and NYSE Governance Services found that 58 percent think some provisions should be tweaked, and just nine percent of respondents believe Dodd-Frank should be left alone. Only a third of the directors polled wanted the legislation to be completely repealed. Whatever happens will have to wait longer than first expected. The Trump administration reports that its early June target date to propose changes to the act will be missed; regulators will report findings piece-by-piece.

Activists are focusing in on a new target: CEOs

No longer satisfied with their traditional strategy of grabbing board seats and demanding buybacks or breaking up the company, activists initiated nine campaigns targeting CEOs in 2017. That's by far the fastest pace on record, according to FactSet. This includes high-profile CEOs losing their jobs at AIG, CSX and Aronic, and CEOs at Buffalo Wild Wings and Avon Products under siege. After the financial crisis, activists were able to win board seats and produce quick returns by share buybacks or breakups. But with fewer public companies and an up market, those traditional strategies are less effective.

Investors voting with feet for lower-cost funds

Morningstar says that investors are paying less in fund fees than ever, but it's not because the funds are cutting fees. The research firm says that its study of U.S. open-end mutual funds and exchange-traded funds founds that, instead, investors are shifting assets to index and other funds with lower costs. The asset-weighted average expense ratio across funds (excluding money market funds and funds of funds) was 0.57 percent in 2016, down from 0.61 in 2015 and 0.65 three years ago. But the simple average expense ratio of the largest 2,000 funds in 2013, which accounted for 85 percent of assets in mutual funds and ETFs, was 0.72 percent in 2016, unchanged from 2015 and 2014.

Fox News turmoil yields special note in parent company 10-Q

Twenty-First Century Fox acknowledged in its most recent 10-Q filing that changes in the primetime lineup at its Fox News Channel "could have a negative impact on our ratings." A new disclosure section the company added summarizes the impact of allegations of sexual harassment and comes just weeks after on-air personality Bill O'Reilly was forced out after 20 years at the channel and the departure last year of executive Roger Ailes and other top talent, including anchor Megyn Kelly. The section did not name Ailes or O'Reilly. It mentioned receiving "regulatory and investigative inquiries" about the cases "which could lead to future litigation."

Pay Ratio Rule still on track

It appears that companies relying on Congress or the SEC to delay the implementation of the pay ratio rule will be disappointed. Re-opening of comments earlier this year did not result in an outpouring of complaints. Apart from form letters, the SEC received only 180 comments – of which only about 15% were against the rule.

SEC employee found with hand in the cookie jar

A former SEC staff accountant made more than 100 illicit options trades between 1998 and 2014 using his work computer, according to an SEC complaint. It explained that David Humphrey sold put options on exchange-traded funds and some individual stocks. He pleaded guilty to making false statements in government filings to conceal the trades. He was fined $108,600, which included forfeiting $51,900 in profits he made from one trade of Under Armour shares. He also agreed to a permanent bar from working as an accountant or auditor for public companies.

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