CTC Investor Relations

Market News

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

"Virtual-Only" annual meetings gets SEC backing

The Securities and Exchange Commission reaffirmed in December its earlier position giving companies the right to decide the format of their annual meetings. The Commission ruled that HP Inc. could drop an investor proposal to replace a virtual-only shareholder meeting with a traditional in-person annual meeting. In the ruling, the SEC said that the company's board of directors can decide whether the annual meeting should be virtual or in-person. A virtual meeting can be done over-the-phone, online or by using a combination of both. Shareholders log into a special website using a code or pin number to cast their vote and ask questions. Broadridge Financial Solutions Inc., the main provider of virtual shareholder meetings technology, reported last year that 187 companies used its services to conduct virtual shareholder meetings, up from 28 in 2010.

US public companies down a third from 20 years ago while their average size more than triple

The number of U.S. listed companies has declined by more than 3,000 since peaking at 9,113 in 1997, accord to the University of Chicago's Center of Research in Security Prices, while average valuation of a public company has more than tripled. In June, there were 5,734 public companies, little more than in 1982, when the economy was less than half of its current size. Meanwhile, the average size of a public company swelled to an all-time high of $4.7 billion in 2014 before dropping slightly the past two years. Contributing factors, according to the Center, are interest rates near record lows, investment funds seeking higher returns by backing private companies that would otherwise go public, and fewer public companies for equity investors to choose from as companies merge and get acquired.

Companies get serious about controlling audit costs

Median costs for a public company audit increased 3.2 percent in 2015, according to the Financial Executive Research Foundation. However, the report showed that audit fees fell in 2015 for more than 1,100 of the nearly 6,500 companies they surveyed, or 18 percent. That made the increase for the remaining 82 percent considerably more. Managements said they were able to save by centralizing operations, reducing the number of processes requiring separate controls that must be tested; aligning key controls with key risks; better document internal controls; improved communications with external auditors and by utilizing more technology.

Whistleblower wins $5.5 million

The SEC whistleblower program awarded more than $5.5 million at the end of 2016 to someone who directly reported critical information to the commission about an ongoing scheme at their workplace. The report led to a successful enforcement action ending the scheme and bringing the culprits to justice. Enforcement actions from whistleblower tips have resulted in more than $904 million in financial remedies. The program has awarded approximately $142 million to 38 whistleblowers since issuing its first award in 2012.

Stock buybacks are weighing down corporate balance sheets

Publicly traded companies tracked by Fitch Ratings, one of the big three credit rating firms, reported that from September 2015 to September 2016 net share buybacks totaled 107 percent of free cash flow after dividends among the publicly traded companies they track. They added that this is part of a trend of buyback costs over 100 percent of free cash flow after dividends since 2014, creating a hole in balance sheets often plugged by debt. The report stressed that while most stock buybacks will be credit-neutral, they will continue to be a constraining factor on corporate credit quality, in some cases causing downgrades and negative outlook changes. Ironically, the report concluded that the market is poised for a possible new round of buybacks as President Trump encourages companies to bring back cash held overseas, which many analysts believe will stimulate a fresh round of share repurchases.

Automated press coverage increases trading volume

In 2014 the Associated Press began using algorithms to write media articles about public companies' earnings announcements. Since then, AP's coverage has increased from approximately 400 earnings report stories per quarter to nearly 5,000, according to a University of Washington and Stanford University study. The study shows that 57 percent of the companies now being covered by AP hadn't previously received any coverage. As a result of the new media coverage, the report states the companies have seen their stock trading volume increase, on average, by 38 percent.

Tick Pilot Program increases liquidity, but at a price

Almost five months into the Tick Pilot Program created to widen the quote spread of small-cap stocks to increase their trading volume, the liquidity of the affected stocks has increased, but at a cost. Investment Global Technology (ITG), a brokerage and financial marketing technology firm, said its database of tick pilot stock traded by institutional investors shows average trading costs are almost 50 percent higher since the program began. While the issues in the test group account for only about 4 percent of U.S. trading volume, experts warn the dramatic cost increase can put a drag on trading performance. Architects of the program argue that more evaluation is needed to determine the true cost and impact on the market structure.

SEC says OTC stocks continue to lure suckers despite warnings

A new SEC white paper on U.S. over-the-counter markets confirms what most investors already know: OTC stocks are mostly illiquid, extremely volatile, often targeted by market manipulation schemes, and rarely get exchange listings. Those trends have worsened as the privately run markets have reduced self-established disclosure requirements. The report examined 1.8 million trades by 200,000 individual investors from 2012 to 2015 plus dozens of penny stock enforcement proceedings, and concludes that "the size of the OTC market is large and has grown by dollar volume in recent periods, especially in the tier with the weakest disclosure-related eligibility requirements." Who gets hurt? The SEC says it's mainly investors in areas where the population is older, retired, low-income, low-wealth, and low-education.

Wanna hit? First NYSE-listed cannabis play debuts

Innovative Industrial Properties (NYSE:IIPR), a REIT that invests solely in real estate leased to marijuana growers, is the first pot play on a U.S. national exchange. Its December IPO raised $67 million at $20, but has mellowed since. Analysts are not chill about the REIT's industry concentration, management's lack of (investment) weed experience, and uncertainty about changes in fed regs under President Trump. Nasdaq had earlier turned down MassRoots, a social networking site for potheads.

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