EYES ON THE COMPETITION
EXECUTIVE SUMMARY

The investor relations (IR) role has evolved in response to the demands of more sophisticated investors and a faster-paced global environment. To thrive in this environment, today’s investor relations officer (IRO) needs a keen understanding of external industry dynamics and key forward-looking indicators in order to properly anticipate external developments and prepare senior management to respond.

The tasks of industry forecasts, understanding revenue projections and conducting relative valuation are no longer confined to sell-side analysts and buy-side investors. Evaluating these measures has become a major part of the IRO domain.

The IRO today has to know everything about the competition—from stock prices and earnings to detailed fundamental analysis and industry forecasts—and in today’s complex financial environment, that role has become more important than ever.

Traditionally, IROs relied on news, company filings, research reports and stock prices to evaluate how a company measured up against competitors in its industry. The main goal was to understand company and industry developments and to communicate with shareholders.

Now, these sources just scratch the surface of what an IRO needs to know. Today’s IRO has taken on a more analytical role, looking at the long-term impact of a new law, a ratings downgrade or a change in executive leadership. As changing regulations make the corporate world more challenging to navigate, it is vital to stay on top of policies, technology and all issues that could potentially affect the company and industry as a whole.

Anand Srinivasan, senior Bloomberg Industries analyst, said an IRO has to be able to answer any shareholder question, “even if it is lobbed from left field. It is no longer atypical for someone to ask the IRO what the company’s energy footprint is with regard to how much non-soluble material it is using. The questions are much more complex.”

In addition to knowing every detail about their company’s financials, IROs also need to understand how potential government agency actions could affect their valuation. Srinivasan remembers when a pension fund asked the IRO of semiconductor chipmaker how the company would react to the FCC’s decision on distributing spectrum. “This investor wanted to know what would happen if the FCC did not allocate more of a particular spectrum it had planned to allocate in 2016 and whether the company would lobby against the FCC,” he recalled. “The investor wanted to know this because it handled the District of Columbia’s [pension] assets and might have a conflict of interest.”
The increasing demands on IROs have redefined the role, changing what was traditionally a communications and public relations role into a more high-level, strategic and advisory position. High-frequency trading networks, in conjunction with a more diverse investor base and increased shareholder activism, have put pressure on IROs to handle more complicated issues.

Due to the evolution of the IRO’s responsibilities, the role is attracting people with stronger finance and analytical backgrounds. "I’m seeing finance and operations people go into IR," Srinivasan observed. “The goal now in IR is to learn diverse functions.”

Kathleen Lally is part of this new generation of IROs. She is one of an increasing number of former Wall Street analysts who have switched into IR. The vice president of IR at Public Service Enterprise Group (PSEG) routinely compares the Newark, N.J.—based integrated energy company to 16 peer companies in the industry. "I'm looking at how we trade versus these peer groups in terms of multiples and what the influence is on our valuation," Lally said.

Each month, she puts together a document with analysts' estimates of how the company is trading relative to its peers and evaluates what makes each company stand out. "Then I drill down into the data," she explained. "If this is how this one analyst is looking at this particular competitor, I ask myself, ‘Why isn’t he or she applying the same multiples to us, good or bad, and what would it mean if they did?’"

Lally’s extensive background on Wall Street has given her a leg up when it comes to conducting peer analysis. "It’s increasingly the role of IR to make sure that our people, investors and other stakeholders understand what is influencing the valuations on our competitors’ stock prices and why this is important to us," she adds.

IROs are now taking a more proactive role in assessing the growth prospects of other companies within their industry, according to Hulus Alpay, head of IR at Medidata Solutions Inc., an software as a service—based clinical development solutions firm in New York. "I am constantly on the hunt for clues about our competitors’ health—the state of their products, markets, Wall Street concerns about them and so on," Alpay says. “Even with quasi-peer companies, I need to get a sense of whether or not they are seeing significant organic or inorganic growth, and why.”

Because today’s IROs have become adept at sifting through and analyzing vast amounts of data, they are responsible for helping senior executives make more informed and confident decisions. “Everything in business boils down to market intelligence, which is the key role today’s IRO must perform,” Alpay said.

These days, Ed Lowenfeld, vice president of investor relations at The Lear Corporation, a Southfield, Mich.—based global supplier of automotive seating and electrical power management systems, digs into financial statements and analyzes ratios to see how other companies are performing. "I have access to a Bloomberg terminal and do peer analysis, looking at our stock versus our competitors’ stock in the automotive supplier space each day, if not each hour," says Lowenfeld. "I do valuation multiples and certainly keep track of the news. I know when our competitors’ sales are up or down.”

Lowenfeld has to stay on top of news and act on rumors that may affect his firm or others in the industry. If he hears that union workers at a major competitor’s key supplier are planning to go on strike, he has to quickly assess whether this would affect Lear and make sure his stakeholders get accurate information about the potential impact. "If the investor community thinks I have a relationship with this same supplier, I need to get out in front of this and learn everything I can. I need to assess and take action on every morsel of information that comes my way."

Competitor business intelligence is so important to some companies that they created entire divisions dedicated to gathering this type of data. Turkcell, a leading mobile phone operator in Turkey, split its IR into three different divisions, one of which exclusively focuses on competitive research and analysis. "We need to be able to quickly answer questions from executive management, investors and other stakeholders about our peer companies globally," said Nihat Narin, director of IR at the Istanbul-based company. "The division analyzes every single mobile operator in the world, not just Turkish competitors.”

This department gathers and studies a wide range of financial metrics, including market penetration, revenue per minute, capital-to-employee ratio, dividend policies and competitors’ investor presentations. Their analysis goes beyond borders. "One competitor is in 30 countries that we are not in, yet we still examine everything going on in these countries," Narin says. “There’s always the chance we can get a whiff of their strategy. You never know.”
In the past, data was limited and dispersed to the public at a much slower rate. But now, IROs have to be smarter and faster to get ahead of any potential rumors and developments that could affect their companies. They can’t just read news and react afterwards. They have to be able to anticipate what could happen and take a proactive role in helping executives prepare and make educated decisions.

Bloomberg recruited former IROs like Sam Brothwell to develop a novel platform for Bloomberg that caters to the needs of this changing role. This tool integrates data and related analyses on a sector-by-sector basis, which provides an IRO with the competitive intelligence needed to respond effectively to stakeholder questions. A key advantage, he said, is the ability to access this data in real time on a mobile device.

Brothwell served briefly as an IRO twice in his career and, in between, he was a sell-side analyst on Wall Street. He explained that during his time as an IRO, one of the main challenges was finding all relevant data and compiling it into a manageable format. “The information was there; the problem was a centralized way to get at it all,” Brothwell explained. “When Bloomberg asked me to help develop a solution, I didn’t need to be persuaded that one was needed.”

Brothwell said this platform would have made his job much easier. “Had I had this tool as an IRO, especially when I was on the road, it would have made monitoring the markets and benchmarking my company against the industry extraordinarily easier and more comprehensive,” he said.

» The IRO role has changed as a result of the immense amount of data available to the public and the speed at which it is now disseminated.

» The professional backgrounds of IROs have evolved to meet this need, with a trend toward former buy-side and sell-side financial professionals filling the role now more than ever before.

» Sophisticated financial technology solutions have contributed to the evolution of the role and today’s IRO must capitalize on best-in-class analytics to stay ahead of the key developments in the financial markets.

» A keen understanding of financial metrics, industry dynamics and forward-looking indicators has become crucial to the IRO’s ability to anticipate and react to key external developments and prepare senior management to respond.