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Investor relations: Adapting to the COVID-19 next normal

The COVID-19 crisis is unsettling for many reasons, not the least of which is the mountain of uncertainty about health and well-being.

A similar level of uncertainty is also affecting the financial markets, creating economic anxiety and driving extraordinary volatility. For CFOs and investor relations (IR) professionals, effectively communicating at this time—and responding to the demands of multiple stakeholders—can be challenging, to say the least.

For example, investors, portfolio managers, and analysts are likely asking for details about the virus's impact on a company's business, including the effects on revenue generation and profitability, as well as the magnitude and duration of the impact on overall financial health. These stakeholders also likely want information on management's activation triggers for accelerating plans or taking a foot off the gas. For instance, they may want to know whether dropping below a certain key performance indicator (KPI) threshold would prompt the company to defer capital investment, or, in extreme cases, slow production or furlough workers. Also top of mind for investors is whether the company's capacity or confidence to pay dividends or repurchase shares will be affected by the COVID-19-related disruption.

In this environment, organizations can help mitigate ambiguity that erodes value by demonstrating to the investment community that leaders have an adaptive strategy and a plan to execute on it. Moreover, regardless of the IR challenges companies face, there are several immediate and long-term steps organizations can take to help manage uncertainty during this pandemic. And in this issue of *CFO Insights*, we will discuss some of those steps as they relate to guidance and future communications.

Guidance considerations: withdraw, revise, or reaffirm

In this rapidly evolving environment, quantitative information—the preference of most investors—may not be available. In those cases, affected companies may need to consider how material the disruption is to their business—an increasingly difficult task as uncertainty related to the impact and duration of the pandemic persists —and respond accordingly.

In the near term, this lack of information may be affecting guidance. Typically, when talking to investors, companies have three choices: withdraw, revise, or reaffirm guidance. In this environment, however, indications are that those that have revised guidance are now withdrawing it altogether.

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In fact, according to a poll of 113 large company CFOs, more than half of public company CFOs say they have withdrawn guidance, and among only those who normally provide guidance, the proportion is 66%. Under normal conditions, such action has the potential to amplify downward pressure on a stock because it could signal that company leaders are unsure about the organization's prospects and earnings (i.e., that they "just don't know"). But these are anything but normal times, and with the S&P 500 down substantially, there may not be much downside risk to withdrawing guidance.

Fewer companies are revising guidance completely, and some are expressing potential COVID-19 impacts in a range, albeit a wide one. The benefit of providing a range is that it helps communicate to the Street that management is in control, has estimated the impact, and has a plan to recover once the situation stabilizes. A challenge, of course, is the persistent uncertainty in the environment and the risk that the updated guidance may need to be changed again or withdrawn.

No matter what decision a company makes regarding its guidance policy, leaders can benefit from scenario planning to forecast potential impacts and associated consequences—on items such as covenants, for example—by applying the best available information. By using quality inputs, the company can demonstrate that it is properly attending to disclosure requirements and preparing to resume guidance once the situation stabilizes. Still, companies may want to consult with legal counsel to explore whether guidance revisions or withdrawals increase their legal risk.

Painting the big picture

Some investors might also appreciate learning how a company is monitoring and managing COVID-19 impacts. Management can discuss, for example, its expectations for situations that might be improving, worsening, or stabilizing. More specifically, management may want to describe what a recovery may look like—a sharp rebound or gradual climb—and offer projections on how long it could take the organization to return to normal levels of business activity. Whatever management decides to discuss, close attention should be paid to disclosure requirements and potential legal risks.

Such big picture responses can be particularly effective in a communications void. Without them, the market often comes to its own conclusions on performance—a circumstance that usually fails to deliver the organization's intended message. In a time of crisis like this, executives are typically better positioned than the investor community and other market observers to answer questions and explain performance indicators, anomalies, and related nuances.

Moreover, reiterating the company's long-term strategy can also reassure the investor community that the company's stated vision remains intact and the C-suite continues to focus on the endgame. At its heart, the company's message should reflect a steady hand at the wheel and the foresight that when the company is back to business as usual, it will return to executing on its investment thesis.

Getting the facts out

Delivering the company message to investors during the COVID-19 pandemic requires the C-suite and IR teams to act quickly amid priorities that seem to shift daily, including those related to the health and well-being of employees, customers, suppliers, and other stakeholders.

From an IR perspective, leaders responding to investor information requests can benefit from coordinating with the organization's groups that act as crisis and resiliency teams.

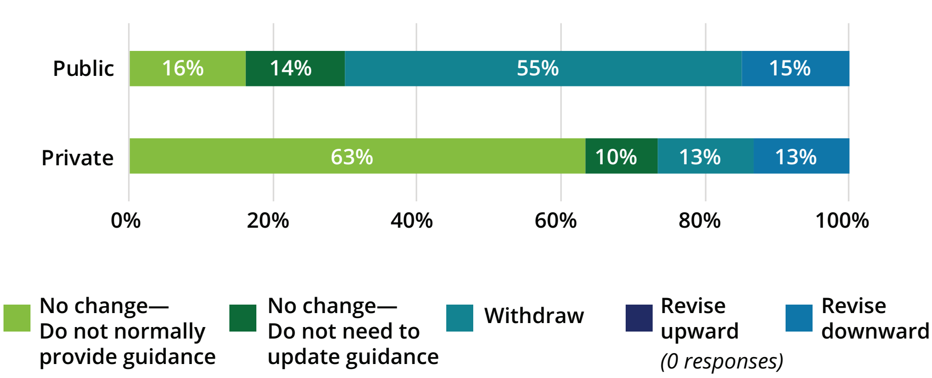
- The **crisis response team** is the architect charged with managing the overall event response infrastructure. It is the command center where communications protocols are established and decisions affecting company strategy and financial well-being are discussed.
- The **resiliency team** manages specific responsibilities and stress tests recovery plans, usually going deep into the weeds on issues.

Working together, these teams can ensure that the company considers all possibilities and provides consistent communications. For example, in the case of supply chains, the crisis team might decide that a plan is needed for when a critical vendor is unable to deliver components on time or in the required quantity. In contrast, the resiliency team oversees the development and implementation of processes that activate the backup vendor plan.

C-suite executives and IR professionals can draw on the work of these two teams to help build trust between the organization and investors during this time. For example, management can demonstrate that its strategies to combat COVID-19 are fit for the purpose by tying gap assessment findings to current mitigation efforts. Additionally, management can cite business vulnerabilities that have the greatest potential to diminish value or disrupt the business—and share its plans to mitigate

Figure 1: What is your company's approach for providing earnings guidance?

More than half of public company CFOs say they have withdrawn guidance; among only those who normally provide guidance, the proportion is 66%. Private company CFOs are relatively unlikely to say they normally provide guidance.



Source: COVID-19 CFO Poll, CFO Program, Deloitte LLP, April 2020 those threats—to illustrate to investors the organization's proactive approach to enterprise risk.

What's more, leaders also can develop, and then emphasize, their focus on "a single source of the truth" for corporate information. The crisis and resiliency teams can support this effort by issuing enterprise-wide directives and frequent updates based on the most reliable and diverse internal and external sources. Those include government data related to community outbreaks, the duration of social-distancing mandates, the status of incapacitated workforces, and the immobility of products.

Assessing the next normal

While the timing is uncertain, the pandemic will subside at some point. Nevertheless, tectonic plates have shifted and business as usual has likely changed. This shift offers an opportunity for executives to consider the impact of their COVID-19 responses on their companies' risk profile and competitive standing.

For example, for many companies still operating during the pandemic, the workforce became more remote and virtual out of necessity, and this change will likely outlast the outbreak and create an opportunity to diversify the company's talent pool. However, a more virtual operation may also increase cyber risk.

Customer experience has changed as well, with clients forced onto digital platforms, which could accelerate digital transformation and adoption. Supply chain resiliency has taken a hit, too, and proactive companies will likely look to diversify supplier and other third-party risks. In that regard, investors may want to understand how the supply chain affects a company's risk profile, future business opportunities, and financial performance.

Moving forward, executives should begin to unpack the implications of the COVID-19 outbreak; prepare for how it could affect their companies' investment thesis; and craft how they will explain the impacts, their responses, and their recovery plans to investors.

A pandemic or other crisis of equivalent magnitude may not threaten a company's fundamental business model, but it can undercut its financial stability. To convey to investors that the company is not off course, and is navigating disruption effectively, management should continue discussing its long-term vision, as well as its plans to create competitive differentiation, evaluate market opportunities, and remain aligned to the organization's investment thesis.

COVID-19 checklist: What CFOs and IR professionals can do to address the pandemic

The financial impact of the current crisis naturally raises concerns among investors. But organizations can help mitigate the ambiguity that erodes value by demonstrating to the investment community that leaders have an adaptive strategy and a plan to execute on it. In addition, they can take the following steps for the immediate, midterm, and long term.

1. **Re-evaluate guidance.** Companies will have to decide whether to update, withdraw, or reaffirm their existing guidance, and Deloitte's experience indicates that many that have changed have decided to withdraw. But if guidance is revised instead, there's still a risk that an update may have to be changed or withdrawn at a future point. Companies should consult with legal counsel to explore whether guidance revisions or withdrawals increase legal risk.
2. **Assess additional disclosures.** Determine appropriate COVID-19 disclosures in current or future materials (e.g., proxy statements); assess if any additional actions trigger an SEC 8-K disclosure.
3. **Communicate potential impact.** While quantitative information may be unavailable, management can convey how the virus fallout is expected to affect sales, revenue, operating profit, and P&L. Some companies have already done so, expressing the potential COVID-19 impact in a range.
4. **Undertake scenario planning.** IR teams can undertake scenario planning to forecast potential impacts and associated consequences of areas of particular interest to investors, such as covenants.
5. **Coordinate with the crisis and resiliency teams.** CFOs can draw on the work of the crisis and resiliency teams to help build trust with investors. For example, management can demonstrate that its strategies to combat COVID-19 are fit for the purpose by linking gap assessment findings to current mitigation efforts.
6. **Go virtual.** Where possible, consider replacing in-person investor conferences with virtual presentations, webcasts, and conference calls.
7. **Conduct competitive analysis.** Monitor competitor disclosures related to COVID-19 to keep up-to-date with what others are disclosing.
8. **Stay the course.** Reiterating the company's long-term strategy can reassure investors that the stated vision remains intact. At its heart, the message should reflect a steady hand and assurance that when the crisis abates, the company plans to return to executing on its investment thesis.
9. **Review communications to credit agencies.** In light of COVID-19's potential impact, reconsider communications to ratings agencies.
10. **Monitor activist activity.** Assess activist investor responses to the lower stock price environment; evaluate your company's vulnerability to activist investors.

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