Excellence in financial communication

Meeting the needs of international investors by ensuring effective financial communication
Financial communication

Effective financial communication of a company’s performance can affect its share price performance and cost of capital.

The effectiveness of corporate management is commonly assessed by how a company’s share price performs. However, if share prices do not perform in line with performance and peer companies’ share prices, management should review its financial communications effectiveness and strategy.

Financial communication (often managed by an investor relations (IR) function) is an important link between the company and its investors, especially in challenging global capital markets. So it is no surprise that the top 10 priorities of management and boards include opportunities for effective financial communication with investors.

Communication matters: the management and board require an effective financial communications strategy for a challenging 21st century

**Public spotlight**
Corporate performance and behavior has been in the public spotlight and is regularly highlighted in the media, featured on dedicated round-the-clock news channels as well as in real-time online portals and social networks.

**Globalization**
Particularly through interlinked capital markets, the IR function has to meet global best practices. Active investors have an increasing influence and demand for additional information.

**Constant change**
Capital markets have undergone major infrastructural changes in the past decade. In terms of regulations and corporate governance, good financial communication must provide a greater volume of intelligence and it must adapt to these changes.

**Real-time environment**
Today’s share trading is dominated by many high-speed global networks. The stock market remains a fast-moving environment with a greater demand for faster IR response to investors’ requests.
Achieving and improving effectiveness in the investor relations function starts in the boardroom.

Excellence in financial communication depends on the external and internal effectiveness of the IR function.

Internal effectiveness
Effective communication also relies on clear processes and structures governing which information will be provided and how individual units are acting together through to final disclosure.

External effectiveness
Keeping existing shareholders satisfied with the right information, on a timely basis, and attracting new investors, in order to ensure that a company’s share price is fairly valued, while simultaneously maintaining regulatory compliance in the capital markets, are key goals of the IR function.
Seven effectiveness

Which factors determine the effectiveness of the financial communications of listed companies or entrepreneurs preparing to raise capital?

1. **Compliance with all regulatory requirements**
   
   Are there clear internal processes and communication, and reporting lines and responsibilities, in place to ensure regulatory compliance to help maintain investors’ confidence?

2. **Good corporate governance**
   
   Can the best practices of your peer group be matched in delivering financial communication in response to day-to-day investor requests? Are the structures and organization appropriate?
CEOs and CFOs around the globe bear responsibility for the effectiveness of their companies’ IR function, both internally and externally.

But how can this be achieved or improved?

3 Providing transparency

Are all internal departments aware of disclosure obligations and periods, as well as regulatory changes, at all times? Are they supported by the IR calendar? Who monitors the IR function?
4 Compelling equity story

Is the equity story both attractive and up to date, reflecting the key performance indicators, segment reporting and business strategy?

5 Delivering on promises

Are you meeting the expectations regarding your forecasts based on relevant analyst guidance?
6 Facilitate share liquidity

What is the best method for keeping pace in the competition for capital and maintaining share liquidity as a listed company, especially if internal awareness and external attention has waned?

7 Investor communication

Does the capital market communication follow international standards, and does it have a presence in all relevant media channels?
Communication matters

Why assess financial communication?

Testing the IR function to mitigate risks

The first external indications that action is needed to examine the IR function and financial communication include falling share prices compared with your peer group, despite good financial results or latent low liquidity in the share or high volatility. Internally there could be uncertainty regarding the reliability or transparency of internal processes and a lack of clearly defined responsibilities; repeated failure to meet budget figures; and a rise in the number of queries from the board of directors regarding aspects of the strategy.

<table>
<thead>
<tr>
<th>Perceived risks</th>
<th>Potential opportunities</th>
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<tr>
<td>Decreasing share liquidity</td>
<td>Improve share liquidity on exchange</td>
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<tr>
<td>Declining share price relative to peers</td>
<td>Improve the position in the peer group to attain a better valuation</td>
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<td>No index visibility</td>
<td>Raise investor awareness</td>
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<tr>
<td>Less or no analyst coverage</td>
<td>Improve index participation or ranking</td>
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<tr>
<td>Weak investor awareness</td>
<td>Align organization to investors’ expectations</td>
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<tr>
<td>Weak internal alignment to investors’ expectations</td>
<td>Optimize internal processes to fulfill regulatory and disclosure requirements</td>
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<tr>
<td>Uncertainty about disclosure processes</td>
<td>Improve transparency for the board and align communication activities</td>
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<tr>
<td>Lack of transparency in the internal organization and governance</td>
<td>Optimize effectiveness of IR</td>
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<td>Cost pressure on IR budget</td>
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Improving the IR function to realize opportunities

Alternatively, you may see opportunities for enhancing and improving financial communications. In the case of index candidates, this can mean improving the ranking in the index.

You may also seek to more closely align the organization, processes and infrastructures with the growing importance of the IR function, especially in challenging global capital markets, to improve their effectiveness in the future.
Why work with a market leader?

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EY provides wide-ranging support to your financial communication organization

- Implementation of financial communication in your organization
- International benchmarking, analysis and identification of potential for improvement
- Reviewing the effectiveness of your financial communication
- Realizing the identified potential for improvement
- Putting IFRS in financial communication into practice
Regardless of whether you want to source debt capital or equity from private or public capital markets, investors’ demands on your financial communication are becoming increasingly similar. We look forward to discussing these issues with you in person.

Your EY team
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