CORPORATE BOARDS **USA**

Boardroom Fundamentals 301
Module 1: Investor Relations, Regulation FD, Earnings Guidance

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Investor Relations, Regulation FD, Earnings Guidance

Maintaining strong, transparent and effective relationships with investors in the company's securities is vitally important for many reasons, including:

- Investors own the company, so they have the power to vote their shares in the election of directors and other significant corporate matters requiring a shareholder vote
- Investor support during good times and bad can assist a company in weathering a crisis
- Good communication with investors helps to convey the fundamental value of a company and optimize share price
- Shareholder activism can be addressed through effective communication
- Generally, markets react negatively to uncertainty so keeping the market and investors informed about company developments can create trust and confidence

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Who should handle investor relations?

- Typically, the CEO and the CFO communicate with investors and analysts, but an investor relations department or outside firm often serves as the gateway

- Companies should adopt a policy identifying the executives authorized to communicate with investors and analysts so that the company speaks with one consistent voice. Usually, board members are not directly involved in speaking with investors

- Whenever discussing company developments with investors, preparation is key, including rehearsals of presentations, review of potential Q&A and familiarization with previously issued public statements and reports. Not a time to "wing it"

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Part of investor relations is dealing with shareholder or proxy advisory firms which make recommendations to institutional shareholders on how to vote their proxies on different issues, including director elections and other proposals. It is important to understand these firms' corporate governance guidelines so that they recommend a vote "for" company proposals.

Guidelines often cover:

- Annual election of directors v. staggered boards
- Anti-takeover mechanisms
- Executive compensation and equity plans
- Director attendance at board meetings
- Treatment of shareholder proposals to be included in proxy statements
- Board diversity
- Environment, social and governance (ESG) initiatives
- Mergers & acquisitions

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What is Regulation FD?

- Reg FD (fair disclosure) is an SEC regulation prohibiting selective disclosure of material non-public information to investors and market professionals. Material non-public information must be disclosed to investors, analysts and the general public at the same time.

- In practice, prior to announcing annual or quarterly earnings, companies will issue a press release providing the date and time of the announcement and instructions on how to access the earnings conference call or website presentation.

- At other times, private conversations with investors and analysts are permissible, as long as only clarifying information about public statements is provided or non-material information is conveyed.

- Violations of Reg FD may result in SEC enforcement actions

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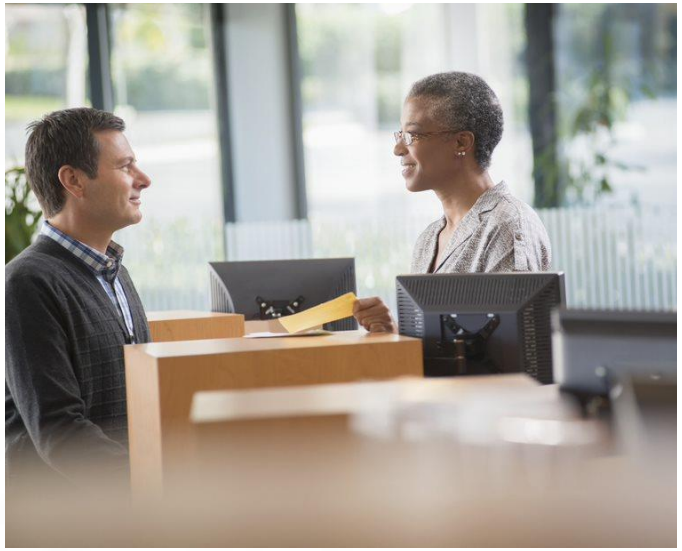
Earnings Guidance: Information provided by public company management about expected future financial results



Not required, but often communicated to assist the investing public in understanding financial direction and drivers of performance

If given, earnings guidance must be done in a Regulation FD compliant manner (public disclosure)

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Pros and Cons of Earnings Guidance

Pros:

- Sets expectations
- Avoids overly optimistic or pessimistic analyst projections
- Satisfies market demand for future earnings information

Cons:

- Creates difficult issues about when and whether to update guidance if current circumstances indicate that the projections will be missed
- Liability may be imposed for inaccurate or misleading earnings guidance
- Discissions about earnings expectations with analysists risk Regulation FD violations (such as answering the question, are you still comfortable with your guidance for the year?)

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Questions?

Contact Linda via email → **lindaiannone35@gmail.com**

End of Module 1

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