



## Investor relations: What CFOs need to know before an IPO

Going public can be complex, expensive, and time-consuming, with new challenges, expectations, and stakeholders: analysts, investors, activists, regulators, and media. How they view the IPO and the company over time can weigh on the company's performance and perhaps the CFO's own tenure.

Managing the new pressures requires strong investor relations, but the starting point is not the quarterly close or the earnings call. Rather, it's having a compelling investment thesis, defining the desired investor base that aligns with your thesis and risk profile, assembling relevant and timely information and insights to guide investors toward management's view of the stock's value, telling a compelling and credible story to the Street, and managing investor perceptions in the aftermarket.

In this issue of *CFO Insights*, we'll examine the elements of the IPO IR process and the CFO's role in executing them.

### What's your investment thesis?

Given investors' many alternatives to invest their capital, it's vital to have a clear and sound investment thesis. What is the investment opportunity and potential future value your company offers? How will you create long-term value for the investors you seek and differentiate it from what competitors offer? Remember, value is an interpretation that investors make of the facts they have at their disposal about *future expectations*, not historical performance. It's the job of management and IR to shape investors' expectations of

the company's future performance and gain their confidence. How well that's done can significantly impact the stock's valuation during the IPO and over time.

As a company's business strategy evolves, its investment thesis may change, but it should remain the cornerstone of how CFOs and other executives communicate with the Street. Periodically, consider re-evaluating what makes the company an attractive investment with facts to support your views. Beware: complexity is the enemy of valuation. Investors seek certainty, and they may invest elsewhere if your investment thesis and communications are complicated. ➔

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### What type of investor do you want?

The growth in asset classes has elevated the importance for CFOs and IR to understand the type of investors that align with their company's investment thesis and engage with them routinely. When planning your IPO, think about which type of investors best align with your company's investment thesis, risk profile, and capital needs, and consider whether your investment thesis supports these objectives. Do you seek investors with a long-term orientation who desire consistent, steady returns? Or are investors who are willing to forgo short-term returns for long-term growth a better fit?

A mismatch of expectations can create volatility in your stock. It is important that this be carefully considered in the lead-up to the IPO and roadshow and actively managed in the aftermarket. Beware other investor types that can impact the stock, such as high-frequency traders, ETFs, and mechanical traders that use algorithms.

### What information does the Street need to value your stock?

The market's need for information is insatiable. CFOs and IR must determine what information is needed and when, who will produce it, and how to glean insights to guide the market to their view of the stock. How might investors and analysts value the company, and what models might they use? CFOs and IR also need intelligence and tools to track the company's performance relative to its peers and identify developments that could boost or threaten the stock's performance. Considerable planning should go into the process and systems for producing information needed to convey the company's strategy, progress, and story. The more systematized the process, the more time for analyzing data for insights, trends, and KPIs.

### What message will you send to the Street?

After the IPO, the CFO and other leaders must sustain the company's story in the marketplace, routinely providing information and leveraging analysts and media to help create demand for the stock. It's critical for the C-suite and management to align on the company's message to the market on why their stock is an attractive investment.

### Investor relations: CFOs weigh in on guidance and communication to the Street

In the midst of a fast-changing economic environment, most CFOs say they continue to provide earnings guidance in traditional ways, involving quarterly estimates and underlying assumptions, although some are not providing any guidance.

In Deloitte's [North American CFO Signals™](#) survey for the third quarter of 2019, in fact, 64% said their strategy for providing guidance was to provide best estimates along with the assumptions upon which they are based. Several CFOs specifically called out the provision of offering a range of possibilities rather than a single estimate, as well as presenting a discussion of drivers that would influence where their actual performance would fall within those ranges.

Sixteen percent of CFOs said they provide conservative estimates to allow for volatility in the macroenvironment, led by technology sector CFOs at 27%. Just 11% of respondents said they do not provide any guidance at all, with the highest proportion, 20%, coming from financial services CFOs and the proportion of technology CFOs coming in lowest, at zero.

Much less common were strategies involving less extensive and less frequent guidance. Just 5% of respondents cited providing only directional guidance or guidance only around a narrow set of metrics. Only 4% said they provide guidance less frequently

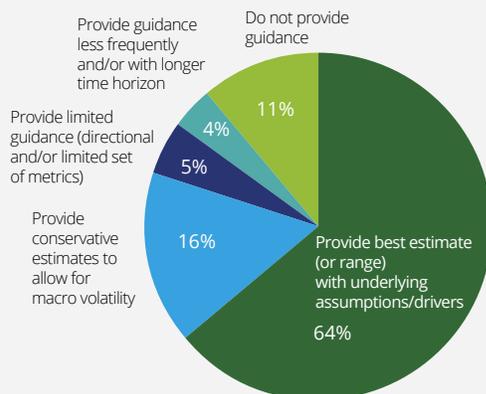
than quarterly and/or provide estimates that cover one-year to five-year time horizons.

Most investor relations analysis and communication activities still occur quarterly, even when earnings guidance does not; 70% of public company CFOs said their company provides guidance quarterly, followed by 17% who cited yearly guidance.

"Even when they do not provide quarterly guidance, CFOs overwhelmingly cite quarterly cycles for reviewing analysts' views, talking with key analysts, and talking with key shareholders—all cited as quarterly by more than 90% of CFOs," said [Greg Dickinson](#), managing director, Deloitte LLP, who leads the North American CFO Signals survey. "Monitoring their investor base composition, comparing income statement performance, and soliciting investor input all drew above 80% of respondents."

The *CFO Signals* survey reflected responses from 172 CFOs, representing many of North America's largest and most influential organizations, with 74% from public companies. "As for private company CFOs in the survey, the interesting statistic is that nearly 85% responded that they rarely or never consider taking their company public," said [Sanford Cockrell III](#), national managing partner of the US CFO Program, Deloitte LLP. "The three top reasons for that response are wanting to keep a long-term focus, retaining flexibility in decision-making, and avoiding burdens of public company reporting and compliance."

Figure 1: How public companies approach providing guidance



Source: North American CFO Signals, Q3 2019, CFO Program, Deloitte LLP

They should ask: how do our decisions, culture, and behavior support our value proposition to investors? The answers can inform the IR plan to make clear the company's strategy and how it will be executed to build shareholder value. Another key question surrounds earnings guidance. Some companies have shifted from quarterly to annual guidance to take a longer-term focus; others don't provide any guidance whatsoever.

**Are you prepared to manage post-IPO?**

The pressure to manage investor perceptions may increase in the aftermarket. CFOs and IR must continually monitor investors' sentiment toward the company, its stock, investment thesis, leadership, and other factors—especially in the event of a crisis. With the transparency of information and social media today, investors can easily punish the stock of a company that takes too long to address a negative event.

Some companies fail to think through these and other issues and how they're interconnected before going public. Once leaving the private arena for the public spotlight, it can be difficult to take time to reflect on the big picture: continually connecting the investment thesis to strategy, operations, and performance, and gathering data and insights to help demonstrate to investors that their stock is a solid investment. ◀

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**Close encounters with activist shareholders**

When it comes to dealing with activist shareholders, CFOs seem to have plenty of experience.

In fact, in the Q3 2019 *CFO Signals* survey, nearly 45% of surveyed CFOs said their company had experienced shareholder activism in the last three years, with direct management communication the most common form. Just over half of public company CFOs said they have considered, taken, or expect to take action specifically in response to shareholder activism.

"It is clear addressing activism appears to be a significant focus for CFOs," said **Chris Ruggeri**, national managing principal of Deloitte Risk and Financial Advisory's Risk Intelligence for Deloitte Transactions and Business Analytics LLP. "Nearly 80% of respondents cited at least yearly presentation of an 'activists' view' to leaders, and 65% did so for assessing their company's takeover attractiveness."

Survey participants were asked whether they had encounters with activist shareholders within the last three years, and 44% cited at least one form of activism. Direct communication with management was by far the most common for all industries, with 35% of CFOs citing it over the past three years. Letters to the board came in a distant second at 11%, and indirect communication, which came in second in 2015—the last time we asked about shareholder activism—at 30%, fell to third this quarter at 8%. Shareholder proposals and proxy contests again came in fourth and fifth.

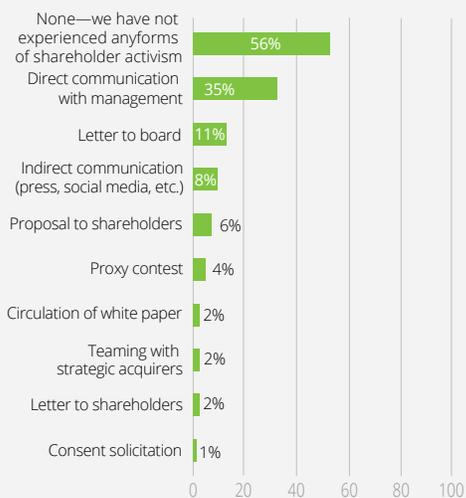
Fifty-two percent of public company CFOs said they had considered or already made changes in response to shareholder activism, or that they expect to make a change in the next three years. The percentage was highest for those who had

experienced activism in the last three years (75%), but it was also substantial for those who had not (31%).

Repurchases were the most common action already taken, with 22% of all public company CFOs citing this action (29% for those who had experienced activism; 17% for those who had not). Board changes were next at 20% (33% and 10%), followed by new performance initiatives at 19% (29% and 11%).

Among CFOs who had experienced activism, the addition of activists to the board, management changes, and governance policy changes were also relatively common (all 20% or higher). Among those who had not experienced activism, governance policy changes, executive compensation changes, and environmental and social policy changes were relatively common (all 10% or higher).

**Figure 2. Types of activism experienced**  
*Which forms of shareholder activism has your company experienced within the last three years? (Percent of public company CFOs citing each form.)*



Source: North American CFO Signals, Q3 2019, CFO Program, Deloitte LLP

## Contacts

### Chris Ruggeri

National Managing Principal  
Deloitte Transactions and  
Business Analytics LLP  
[cruggeri@deloitte.com](mailto:cruggeri@deloitte.com)



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