

THE CASE FOR PERCEPTION RESEARCH

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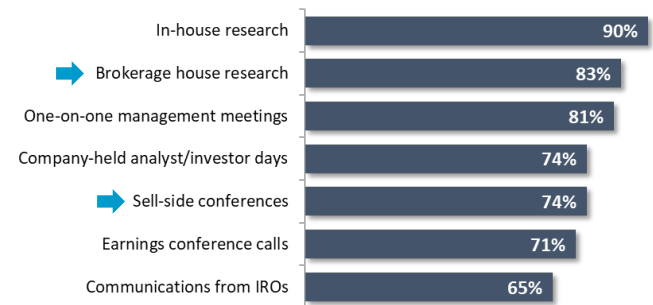
THE CASE FOR PERCEPTION RESEARCH

WHAT CAN PERCEPTION RESEARCH DO FOR YOUR COMPANY?

Regardless of how large or small your company is or in which industry it operates, perception research provides management with invaluable insight, including the ability to:

- Frame your company's presence in the marketplace: how widely is it known, what is known and where are the gaps between this and what has been communicated?
- Delineate strengths, weaknesses, opportunities and threats.
- Segment investors into specific groups that can be targeted according to their unique interests/needs – e.g., the sell-side versus the buy-side; owners versus targets; fund managers by size of institution, investment objective or industry focus.
- Understand why your company may be valued above or below your peer group.
- Determine whether your company's business strategy aligns well with investor goals.
- Identify how best to seize the attention of investment professionals and persuade them about the merits of your company's investment appeal (see graphic to the right).
 - *The drivers motivating investment behavior.*
 - *The strategic messages most likely to appeal to investors.*
 - *The appropriate media mix to employ (face-to-face meetings, conference calls, marketing sell-side research, print media, the Internet, etc.)*
 - *The sources of investment information of greatest value (company officers, sell-side research, in-house institutional research, etc.)*
 - *The most promising investor audiences to target.*
- Monitor how investors' attitudes and needs are evolving (and implications for investor communications strategies/messaging) through tracking updates of benchmark studies.
- Array your company's investment appeal against that of similar companies in your space (industry or cap-size norms and standards).

Top Ways in Which Stocks Usually Come to Attention (Aided)*
(Among Total Global Buy-side, April 2017, n=336)



*Multiple responses

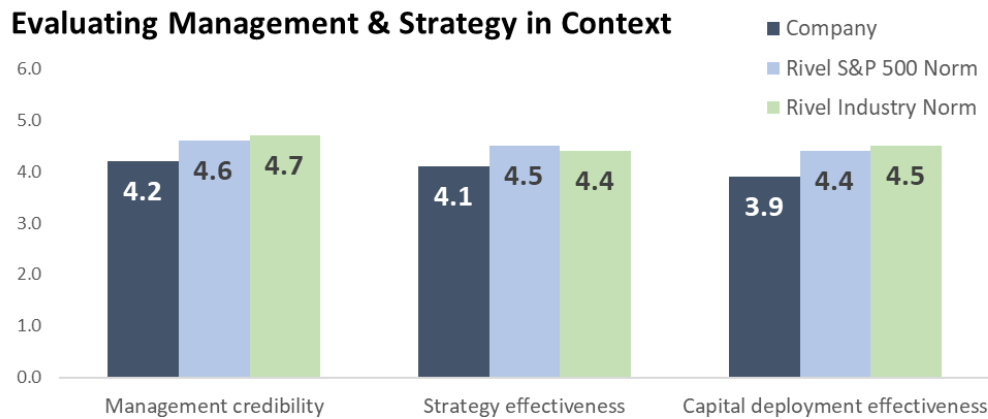
➔ Going away due to MiFID II?

Very Important* Attributes That Drive Investment Decisions
(Total Global Buy-side, April 2017, n=336)



*Ratings of 8-10 on a 10-pt importance scale

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Perception studies among the investment community provide the context within which management teams can make informed strategic decisions. The primary goal is to develop the kind of timely, actionable insight that companies need to keep pace with today's fluid environment for investor communications, identify opportunities and help ensure that their investment appeals are better appreciated, indeed resonate, among investment professionals.

HOW DOES PERCEPTION RESEARCH PROVIDE INSIGHT TO YOU?

While the answer to this question largely depends on the provider, a reliable and trustworthy study should be based on:

- Precise, rigorous marketing research discipline ... in a word, sound *methodology*.
 - Unbiased, *representative* samples of investment professionals as opposed to anecdotal interviews with a few select investors.
 - *Confidential, impartial* in-depth interviews using seasoned executive interviewers schooled in the complexities of the financial markets and the investment community.
 - Asking *the right questions* that are both exacting and probing.
 - *Large sample sizes* that produce both quantitative and qualitative (Why did you say that? What do you mean by that?) insights on which reliable strategic decision-making can be based. For example, this involves interviewing 20 to 25 of your top 50 shareholders as opposed to 5 or 6. Or, if global insight is required, sample sizes in excess of 100 participants are necessary ... not 30 to 35.
 - *Telephone interviewing* whenever possible to avoid the pitfalls of online surveys – uncertainty if the right person is being surveyed, inability to probe for insight in a representative way (that is, getting to the silent majority as opposed to just those with an axe to grind), inability to ensure questions are understood in the manner intended.
- Robust interpretation – comprehensive, independent third-party analyses that call on years of investment community experience (and are not biased by investment banking or other IR-type consulting services/relationships).
- Sound, objective consultative advice and recommendations predicated on reliable, conclusive data.

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THE VALUE OF GLOBAL INSIGHT

Understanding the drivers of investment behavior is a major challenge, especially when the audience is notoriously tight-lipped and increasingly protective of its competitive edge. Yet, the investment community is among a company's most important constituency when it comes to valuation, and ensuring shareholders are engaged, and target investors are interested, is a daunting task. How does a company build the essential knowledge base of its constituents, their investment guidelines and information needs that can then serve as the foundation for the success of future investor communications initiatives? How does a company uncover how the majority genuinely perceives management and its strategy, and distinguish these views from singular, heavily biased, agenda-driven perspectives not representative of the investment community?

Insight is the answer ... insight that is uncovered through careful questioning, sharp analyses and thoughtful communications planning based on implications identified by this process.

A perception study is an invaluable path to this kind of intelligence and can be advantageously used by companies to gain the expertise necessary to accommodate shareholders, attract prospective investors and ultimately improve valuation. It is a time-tested tool (proven over the decades by both consumer marketers and political strategists) that helps build the compelling insights companies need to distinguish themselves and their investment appeals.

The common refrain is, "Yes, we talk to our investors all the time, we know how they feel about us." Yet, the truth is you only know what they want to tell you, and what they want you to hear.

A DISTINCT OPPORTUNITY

This differentiation is especially critical in light of the competitive landscape public companies find themselves, and not simply from peers. Rivel's global buy-side research has consistently shown that institutional investors are involved with well over a hundred companies at any given time. The latest study revealed this number is up to 122 – the average number of stocks an investor is following at any point in time. In other words, your company is competing with not only industry competitors, but 122 other companies for a spot on an investor's radar. How do you compete in this crowded landscape? What makes you stand out?

Moreover, the need for perception study insight has become stronger due to the dramatic and accelerating change that has transformed the global investment community – two market crashes within 10 years, Reg FD, further marginalization of the sell-side due to MiFID II, the rise of interest rates, a US administration intent on combating globalization and starting trade wars. Add to these uncertainties the shocking examples of poor corporate governance that have given way to activism, a major component of today's environment that is not going away.

THE VALUE OF CERTAINTY

Can you say for certain your shareholders support your strategy? How about your use of cash? Are you confident they *understand* the strategy in and out, what with 122 other strategies crowding their minds? Do they prefer your peers over you? Is your management team credible in their eyes? Not knowing for

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certain how your company performs on these metrics, or worse, thinking you perform well while investors believe the opposite, will negatively impact valuation.

Now, the common refrain to these questions is often, “Yes, we talk to our investors all the time, we know how they feel about us.” Yet, the truth is you only know what they want to tell you and what they want you to hear. Occasionally they might voice their concerns, but not too much to jeopardize their access. It’s highly debatable you hear what they truly believe, the unvarnished, full spectrum of perceptions they have about the company, its management team and its strategic vision.

CEOs don’t make major strategic decisions based on anecdotal feedback from a few customers, but on an insightful reading of trends and challenges based on research and data.

Survey research provides reliable answers to such problematic issues and questions. More importantly, providing investors with a completely anonymous outlet in which to convey their honest and candid perceptions of a company is the only proven way to get an accurate picture of what the market thinks.

Some companies are determined to achieve this through a random sampling of investment professionals, collecting anecdotal feedback they can then bring to management and the board. However, this practice is rife with problems. Assuming an investor candidly conveys everything, surveying a few will only reveal how *they* perceive the company. How do you know if these sentiments are representative of the shareholder base or Wall Street as a whole? How do you account for bias or investors with a hidden agenda?

You’d have to survey dozens upon dozens of investment professionals to be able to conclude what is just noise or one-off concerns, and what is the consensus perception within any given audience. There’s no certainty in anecdotal feedback without this quantification, it simply introduces the unsubstantiated “I think, I feel” factor to decision-making. “I think our shareholders approve of our reinvestment plan.” “I feel like the market really understands our three-year strategy.” “I’m pretty sure investors find management credible, four I spoke to last month said so.”

CEOs don’t make major strategic decisions based on anecdotal feedback from a few customers, but on an insightful reading of trends and challenges and relying on research and data. Then why trust hearsay from a few investors to make major communications decisions? Via a proven, time-tested model, perception studies provide management teams with the certainty of research backed by data needed to make informed decisions. This insight is vital to establishing the best communications strategy for interacting with the investment community. Otherwise, companies run the risk of disclosing something Wall Street is not ready for and subsequently harming valuation.

CASE STUDIES

LOSING STRATEGIC SUPPORT

A pipeline company was considering strategic options for its business. Investors were not happy about steady cash flow being generated by one business in turn being reinvested into a less predictable and riskier business. Rivel's perception study confirmed what the company had feared. [READ MORE](#)

CAPITAL DEPLOYMENT DECISIONS

A financial company was in hot pursuit of growth and by any means necessary. However, growth became too overheated and almost led to financial ruin. It was a close call, but management had been able to see the signs, dial back the growth and instead focused on turning around the company, and avoided bankruptcy. [READ MORE](#)

CHANGING GUIDANCE METRICS

Over the course of its long history, this automaker had a very poor track record of production growth. Management was never able to confidently forecast this growth since it was largely dependent on real-time demand, which was closely tied to macroeconomic conditions. Very hesitant to change guidance after many years of releasing these numbers, the company turned to Rivel to begin laying the groundwork for adjusting its guidance practices. [READ MORE](#)

STOPPING GUIDANCE COMPLETELY

A large-cap company in used equipment sales had a nightmare of a time guiding on numbers. Its growth was attractive but erratic due to what the new equipment manufacturers were doing with promotions, etc. Constant misses (higher and lower) on its own guidance had begun to hurt credibility. Beating the consensus numbers by a large margin started giving the company the appearance of sandbagging its quarters. [READ MORE](#)

AN ACTIVIST COMES KNOCKING

This company had five divisions, but one of the divisions was a poor fit strategically. Investors couldn't understand why this was part of the business. In its first perception study, there was much frustration around this underperforming division. [READ MORE](#)

SHIFTING INVESTOR BASE

Management of a longstanding, mega-cap "Wall Street Darling" had a hard time accepting that its growth was slowing. They wanted IR to focus on keeping and attracting growth investors. However, while growth investors were getting all this attention and access from leadership, this audience kept edging away in ownership and interest. [READ MORE](#)

CHANGING WHO TALKS TO WALL STREET

The founder of a mid-cap was not well liked by investors or analysts. His entrepreneurial spirit made him come across as overly confident and promotional when the company began experiencing some growing pains. But since he held onto a sizable position of stock, he wasn't going anywhere (plus he wasn't a big fan of speaking to investors). However, his credibility among investors was severely lacking. [READ MORE](#)

ASSESSING CREDIBILITY

A large-cap CEO was frustrated that his team's execution was consistent, but the valuation lagged peers and the market. The study clearly showed that investors felt differently. The findings revealed that the investment community believed the company still had to prove itself as an entity. This meant delivering on its promises in a consistent way. [READ MORE](#)