



Edelman's

Qualitative Information Survey

Proprietary Research Underscores the Value of
Non-Quantitative Information for Institutional Investors



Investing is often thought of as purely a numbers game. But new research of buy-side analysts and portfolio managers reveals that investors look to qualitative information to deepen their investment thesis and refine their valuation model. This whitepaper discusses major takeaways from Edelman's new Qualitative Information (QI) research that we believe will provide insight for IROs and their management teams as they communicate with their investor base and seek to achieve fair valuation for their securities.

Financial statements provide a view of past performance. But in assessing valuation and making investment decisions, investors look to CEOs for a roadmap of corporate strategy that can be validated by the data. They want chief financial officers to provide context around the numbers to better understand historical trends and give clarity to what the next quarter or next year might portend.

Because the essence of investing is taking action today that will pay off in the future, investors require information to provide visibility to future milestones and expectations. As one investor puts it, "investing is having a vision for the future and confidence in the management team to deliver on that vision." Offers another: "investing is like a beauty pageant, where I need to anticipate how the judges will perceive the contestants."

Qualitative information, defined as non-quantitative information (such as a description of company's strategy, initiatives, milestones as well as additional color provided around topics like trends and guidance), helps investors paint a complete picture of an investment opportunity amidst the overwhelming volume of financial and other corporate news and data. A new proprietary survey completed by Edelman of 158 portfolio managers and buy-side analysts in the United States underscores the importance that investors put on this aspect of corporate disclosure.

More than 85 percent of respondents firmly agree that qualitative information helps them evaluate a company's forward-looking information and guidance. It assists them in validating an existing investment thesis and understand and interpret historical results. And far from treating an investment narrative as hype, 60 percent of them believe a well-articulated, forward-looking strategy helps them better understand a company's value.

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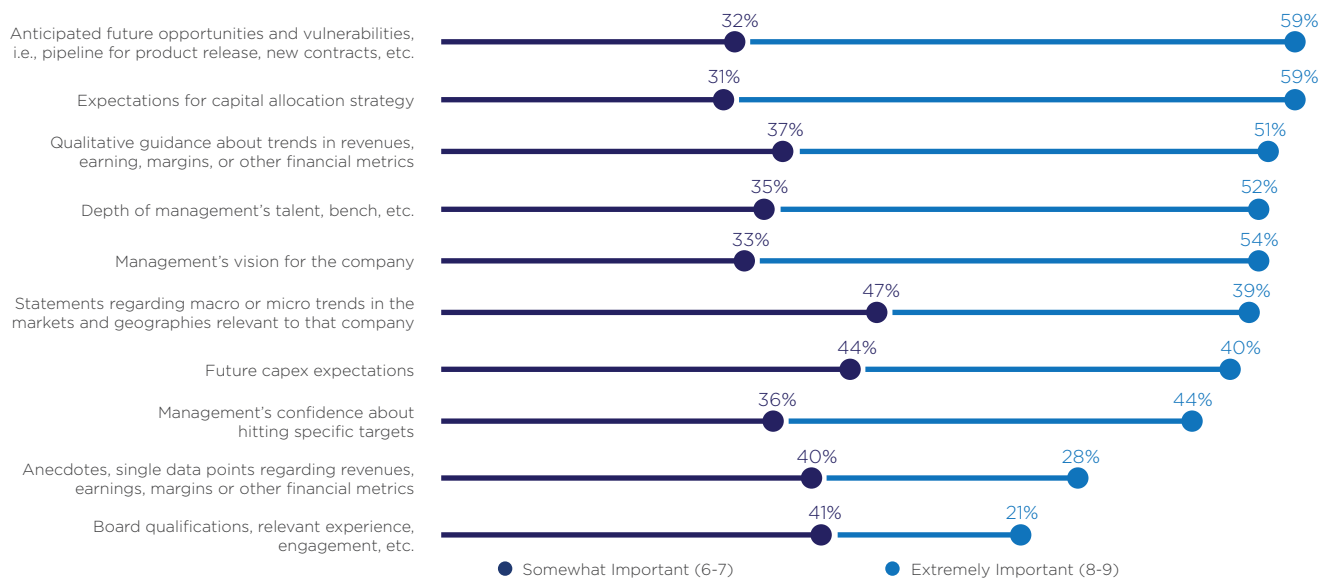
Survey Underlines Weight of Qualitative Insights

The survey by Edelman's Financial Communications & Investor Relations practice sought insights into the value investors place on qualitative information. Specifically, the survey findings drew these assessments of this qualitative data, including that:

- Investors view qualitative information as essential to analyze a company as it provides the context investors use to:
 - Validate their investment thesis;
 - Understand historical results and gauge expectations for future capital allocation and expenditure; and
 - Evaluate guidance and track performance against strategy.
- The CEO, chief financial officer, investor relations officer and line-of-business executives play distinct, but complementary roles in an IR program.
- Responsiveness to queries and effective conference calls rank as the most important factors in a strong investor relations program.

A majority of respondents emphasized that senior management's vision including their expectations for opportunities and challenges are extremely important in evaluating companies. Overwhelmingly, they want management to provide information that allows them to gauge the executives' confidence in products, market trends and financial and strategic plans.

Investors also seek management's qualitative guidance about trends reflected in various financial metrics, even if quantitative ranges are absent. As the chart below indicates, investors tell us they want visibility into a variety of factors that go beyond the requisite quarterly disclosures.



Differing Viewpoints

Examining different investor styles reveals different preferences for the information they value.

For instance, according to our research Growth-oriented and GARP (growth at a reasonable price) investors place a higher value on what they hear from management about vision, depth of bench and “confidence” in targets than do Value-centric and Hedge investors. Consider just two survey findings that underscore this. On the issue of management’s vision for its company, 74 percent of GARP and 69 percent of Growth investors consider this especially important vs. 54 percent of Value-centric and 45 percent of Hedge investors.

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On the significance of management’s confidence about hitting specific targets, Growth and GARP investors (69 percent and 68 percent, respectively) voice strong interest in management’s opinions. But among Hedge and Value-centric investors, the percentages are far lower, at 38 percent and 33 percent, respectively.

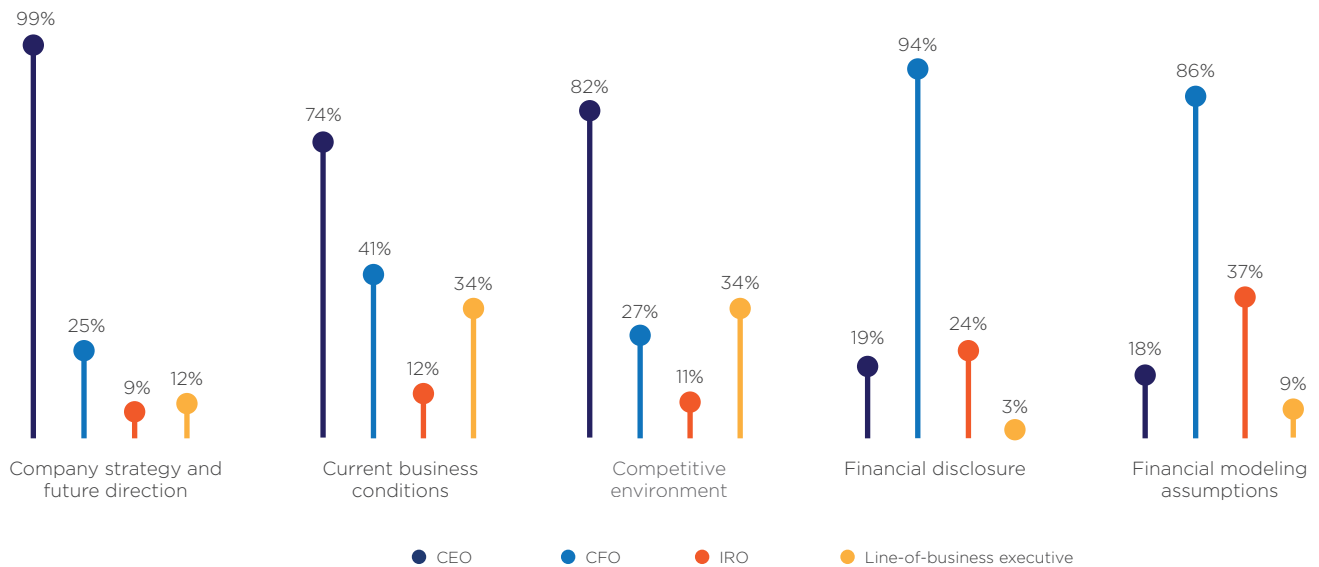
What explains this chasm? We surmise that it reflects Growth investors’ are more focused on longer-term future outcomes, and search to fill the forward-looking whitespace that drives their valuation models. The visibility an investor has toward future periods is principally a function of good IR communications. As such, investors want to hear directly from management about strategy and future milestones because they recognize management is best positioned to provide the clearest view on these topics.



The CEO is the Preferred Voice

By a huge margin, investors say the CEO should be the lead voice in communicating corporate performance and strategy as well as current business conditions and the competitive environment. Virtually all investors surveyed say the CEO is most credible to discuss company strategy and future direction.

But the chief financial officer is seen as the go-to person for financial disclosure and modeling. This is especially true of portfolio managers, 53 percent of whom are more likely to want to hear from the CFO. The IRO plays a strong role as well, especially on financial modeling and financial disclosures.

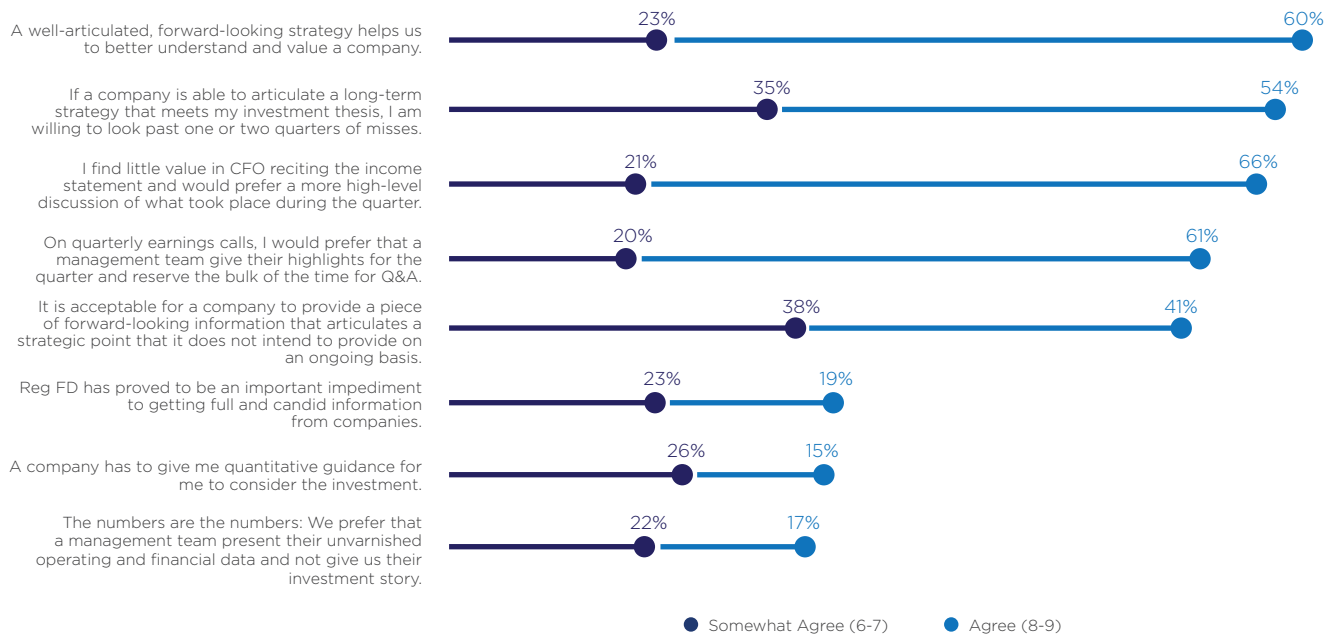


The Investment Story is Paramount

What investors say they seek most from management to help them shape their own models is a well-crafted investment story. The investment story proves essential in filling out the value equation, and a story that is bolstered by quantitative proof points confers credibility to the management team.

Survey respondents are virtually evenly split on whether quantitative guidance is necessary to consider the investment, which is in contrast to the strong desire by investors for a well-articulated strategy and time for management to answer questions on an earnings call.

Investors also say they highly prefer these elements from company management to help develop their investment strategies and decisions.



Information Sources Deemed Most Reliable

The survey asked investors what sources of information they consider most reliable and some of the findings were surprising. Investors value direct conversations with senior management (92 percent find phone conversations with senior management to be most reliable, and 89 percent value one-on-one meetings with management.) But it is striking that 90 percent appreciate the Q&A period of quarterly earnings calls, which is more than 23 percentage points higher than the sixty-seven percent who find the prepared remarks reliable.

In the end, though, preparation for candid discussions is still key, and marketing materials, scripted portions, and media, though not as strong as other factors, serve as the foundations for one-on-one discussion and Q&A.

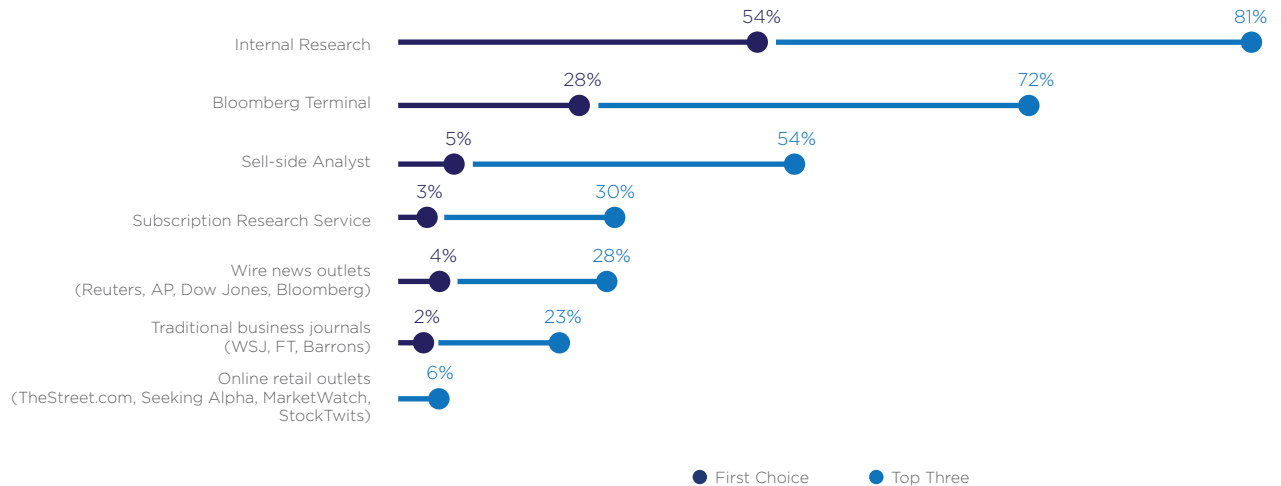
At least three-fourths of respondents also value a one-on-one meeting or phone conversations with a company's investor relations officer; company press releases; the Q&A portion of company presentations at broker-sponsored conferences; written documents apart from SEC filings on a company's website; and non-quantitative research such as customer interviews, employee websites and channel checks, among others.

Information sources such as video materials on a company website and the scripted portion of presentations at broker-sponsored conferences were not considered as reliable as direct conversations, but still ranked as highly reliable information sources. Media is an important consideration in that 30 percent of investors agree that management should be visible in financial media. However, it was interesting to note that trade media is considered more reliable than business and financial media by a fairly substantial 11 percent margin, perhaps reflecting trade reporting to be in closer proximity to the nitty-gritty of a company's business, and thus providing a better source of qualitative information.

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Doing Their Own Homework

According to the survey, the vast majority of investors rank their firm's internal research as their No. 1 source of information. Social media and retail investment-focused blogs, though it was no one's top choice, still ranked in the top three for some investors. Here's how they rank the order of sources of stock and company information:



What Makes an Effective Investor Relations Program?

In the survey, investors weighed in on what to them makes an effective investor relations program. The No. 1 criterion: responsiveness. This is followed by high-quality earnings calls, personal conversations with management, and investor conferences and Investor Days.

Investors made it clear that the investor relations officer plays a crucial role in coordinating and brokering conversations with the financial community. IROs must also ensure that the right messages are told, by the right voice, to the right investor. It is very similar to the role corporate communications officers (CCOs) play with the media, industry analysts and other influencers.



Paving the Road Ahead

The majority of investors surveyed agreed that investing is “like driving forward while looking in the rear view mirror.” And it’s non-quantitative information, told well, that provides those critical inputs into the road ahead. As one investor put it, “If you’re prepared to invest in a company, then you ought to be able to explain why in simple language that a fifth grader could understand, and quickly enough so the fifth grader won’t get bored.” The onus is on management and IR to provide that language, and to tell the company’s story proactively to the financial community.

Numbers alone, while important, aren’t sufficient to ensure investors achieve the optimal valuation. The inaugural Edelman Qualitative Information survey validates the view that best-practice investor relations gives context to the results, provides color to forward projections, and uses anecdotes and other information to convey successes and offer insight into management’s thinking.

About Edelman Investor Relations

Edelman Financial Communications & Investor Relations is a boutique strategic consultancy with the reach and resources of the world’s largest public relations firm. We advise public and private companies on strategic and capital markets communications to help position them effectively with the financial community during transformative events as well as during normal-course business.

Clients choose to work with us because of our specialized and experienced financial communications team, our ability to provide the full range of Edelman’s services (such as digital and social media, public affairs and employee engagement) and our ability to access Edelman’s global network of 65 offices around the world.

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