Taking the long view

AN INCREASE IN DEBT DISCLOSURE SIGNALS A SHIFT TO LONG TERM THINKING, SAYS **PETER WILLIAMS**.

Investor relations teams are giving greater focus on debt disclosure, according to a survey from Citigate Dewe Rogerson. The change to the way they handle debt is part of pattern of increasing disclosure and focusing on longer term information, according to data given by investor relations officers (IROs) in the survey.

The poll of 127 European investor relations directors found that while a degree of uncertainty and caution remains– confidence among companies is returning. This echoes many of the themes raised by The Treasurer last March (A lasting double act, page 24), mainly the way companies are changing how they communicate with investors and the challenges they face in the short-term.

By disclosing more information, IROs have addressed a difficult and uncertain environment. More than 50% of respondents have either changed their disclosure over the past 12 months or are planning to do so. A switch to longer term information suggests a move away from short-term survival.

Forecasting demand is likely to remain difficult given the presence of so many uncertainties and variables as governments and central banks withdraw measures introduced to stabilise their economies.

DEBT INVESTOR RELATIONS Just over 40% of companies are providing, or are considering providing, additional information on debt. The same number thinks that debt-related communication has become one of the mainstream activities within the IR role. Debt disclosure, according to IR professionals, has increased across a range of measures but there is a particular focus on maturity profiles and covenants. In 2009 the greater emphasis on debt was as a result of companies turning to the bond market as bank lending was squeezed. Figures quoted in the report suggest that European companies are expected to refinance about €225bn of debt over the next five years. However corporates will feel increasing competition from sovereign debt. The survey comments that while momentum is building that would suggest greater reporting on debt, “it is surprising” that 55% of respondents said they were not providing additional details on debt, or considering it. Furthermore, 59% did not think that debt-related activity has become mainstream within the IR role. This discrepancy is explained either by a lack of debt or actions already taken to disclose more information on debt. The report added: “A number of other respondents may be in for a rude awakening.”

The authors of the report have welcomed the greater disclosures on maturity profiles, covenants and sensitivities. They suggested that some companies are reluctant to provide information on headroom for covenants because they feel analysts will reverse engineer the data to work out the earnings required to breach them. The report suggests such companies should consider the alternative: if they do not provide the information there is a risk that the analysts will make their own worse case assumptions and could raise the spectre of a breach in covenants where none exists. Furthermore refinancing risk, risk of breach and other debt market sensitivities can be materially price sensitive, so an investor has a right to know.

RISK MANAGEMENT According to the survey 42% of investor relations professionals reckon they are fielding more questions on risk management and are dealing with a wider range of corporate governance issues. The report suggests that following the financial crisis, investor engagement has been thrust under the spotlight. “The questions are simple: would engagement by investors lead to better corporate governance, and would it in turn lead to better company performance and higher returns to investors?”

The survey does not give more detail on the sort of risk management questions asked by investor. But the other areas that prompt interest are remuneration policies for directors, partly because they are deemed newsworthy and were mentioned by 34% of those surveyed; and board structures and responsibilities, specifically referred to by 17%. Effectiveness of non-executive directors was also mentioned. While shareholders have generally not been credited for engaging with companies, an overwhelming 87% of respondents believe that investor interests are aligned with the objectives of their company. Companies with aspirations to be the best in class are expected to move away from reporting levels that simply comply with the rules to more expansive and engaging ways of communicating on corporate governance.

Despite the slowdown in M&A activity since the credit crisis and the recession, IROs clearly expect that to reverse. The survey revealed that UK companies, in particular, plan to target overseas investors. Responses to the survey suggest the trend in cross border diversification may have slowed over the past year, but the underlying trend remains.

Peter Williams is editor of The Treasurer.
editor@treasurers.org