AlixPartners

Managing investor expectations

in a disrupted world

When it really matters.

As companies begin to emerge from the pandemic crisis and settle into a “new normal,” longer-term views of the disruptive landscape are increasingly taking center stage in investor thinking.

And while the current financing environment remains favorable, certain warning signs are emerging, including inflationary pressures, higher long-term interest rates, and worrying cases of over leverage, that suggest the current market may not remain as accommodating indefinitely.

Businesses forging their post-emergence strategies should move quickly to put their financial and operational houses in order, while proactively communicating their planned approach to address longer-term disruptive trends, ideally on investors’ own terms.

Last year, we introduced a framework for stakeholder management in a COVID-19 disrupted world, which is outlined in the graph below, and have published a series of articles related to the ongoing challenges of managing these stakeholders in the current environment. Because disruption can mean so many things—many of which are by their nature unpredictable—we regularly advise our clients to establish a comprehensive risk assessment framework for their specific situation, re-evaluate it on a continual basis, and take steps to ensure their organizations have the flexibility to pivot quickly in a continually changing world. In this fifth and final article in this series, we look at how this framework can be applied to your investors.

STAKEHOLDER MANAGEMENT IN A COVID-19 DISRUPTED WORLD

	SOCIETY	EMPLOYEES	INVESTORS	SUPPLY CHAIN	CUSTOMERS
STAGE 1	**RESPONSIBLE:** The company is viewed as doing the right thing without regard for financial consequences. They put health, safety, and social responsibility above other considerations.	**SAFE AND CARING:** The company is seen as concerned about health and well being and is taking care of its people.	**VIABLE:** The company will not default; it has taken steps to maximize liquidity and has alternatives to call upon if needed.	**FUNCTIONAL:** The supply chain is working. Products and services are available (almost) regardless of cost, using extraordinary measures (air shipments, repositioning inventory, etc.) if required.	**SAFE AND AVAILABLE:** Customers feel safe availing themselves of a good or service. They do not feel at risk in a physical environment, and they feel that their data and financial information is secure when transacting in a remote environment.
STAGE 2	**COMMITTED:** The company is viewed as serving employees, customers, and other stakeholders in a balanced and thoughtful way. It considers the complex and often conflicting obligations it has and demonstrably seeks to strike the best balance possible.	**PROACTIVE AND CREATIVE:** The company is leading and influencing direction, not just reacting to outside factors.	**STABLE:** The cash crisis has passed. The company has sufficient cash flow, can meet its obligations, and if stressed by unforeseen challenges, can react quickly with options. The company is positioned to take the market share.	**RELIABLE:** Goods and services are available when and where customers want or need them on a consistent basis and without extraordinary or heroic measures. Customers and suppliers do not need to beconcerned and their trust is reflected in sales.	**RELEVANT AND NEEDED:** Now that the ‘newness’ of the situation has worn off, the product or service is a part of the normal course of customers’ daily habits. If it was part of their lives pre-COVID, it still is. If COVID caused a customer to trial the good or service, it has now moved into their normal.
STAGE 3	**LEADING:** The company is seen as a positive change agent. It is recognized as a voice of reason and wisdom in guiding positive change in its industry, wider commerce, and the world at large. Seen as promoting social cohesion and reducing societal inequalities.	**EXCITING AND GROWING:** The company is positioned to grow and prosper. Its people of all diverse backgrounds feel secure in their roles and personal prospects are bright.	**OPTIMIZED AND FLEXIBLE:** The company has driven its cost of capital down to appropriate levels while having a plan for best, most likely, and worst-case scenarios. It has explained this to all approriate parties and inspired confidence. It has articulated a growth plan that is logical and supported.	**ADAPTABLE AND REDUNDANT:** There is a viable plan for key things that could go wrong, such as the unexpected shutdown of a location or a key supplier. While this flexibility has a price, the supply chain is lowest appropriate cost, adjusting for risk.	**VALUABLE AND ALIGNED:** The confidence crisis has passed, and customers have choices. But they do not exercise them because they view the product or service, and the company providing it, as part of a valued relationship.

But how and what should companies be communicating with investors about disruption?

Since there is no single 'investor mindset,' investors don't have a uniform framework for assessing the impact of disruption. Companies can take this as an opportunity to guide investor thinking by first taking the initiative to frame the discussion for investors, then by translating the impact of these initiatives into analytical metrics that reflect their perspective.

Examples of such metrics might include the following:

RETURN ON INVESTMENT FROM DISRUPTION INITIATIVES. Investors routinely use Return on Invested Capital (ROIC) and related metrics to benchmark investment opportunities and performance. However, they may struggle to fit disruption topics into this framework. Take the example of a company coordinating its strategy across multiple parts of the organization, including new hires, sales & marketing programs, R&D, capex and other actions. These initiatives might impact different parts of a company's financial statements, making it difficult for investors to isolate and measure them as a whole. In this instance, the company might consider calling out the aggregate amount invested across the entire program and how it will gauge return on that aggregate investment.

"VARIABLIZED" COSTS' IMPACT ON OVERALL MARGINS. Increasing the mix of variable costs in the total cost base improves companies' ability to remain nimble in the face of changing competitive landscapes. These shifts, however, may not be obvious in financial disclosures. Additional guidance on how costs (and, therefore, margins) could flex up and down as the landscape changes enables investors to assess the company's potential performance under multiple scenarios, fosters a better appreciation for the steps the company is taking to gain that kind of flexibility.

EMBEDDED OPTIONALITY FROM DISRUPTION INITIATIVES. Operational improvements that increase response time, provide protections against supply-chain shocks, and bring other similar benefits can all help better position a company in a disruptive environment. They can also be viewed as embedded options that, for the "cost" of that option, either provide the company (and, by extension, its investors) improved access to upside opportunities, protect against downside risk, increased diversification, and bring other benefits. Many investors are familiar with sophisticated option-based analytical frameworks and are likely to value (quite literally) these embedded options when they are highlighted to them.

ACCOUNTABILITY METRICS AND ALIGNMENT OF INCENTIVES. Investors will need a means of measuring progress, and it is in everyone's interest to understand how success will be measured how that will influence executive compensation. By establishing and communicating KPIs, milestones and objectives, as well as an understanding of how these initiatives fit into the company's overall strategic plan, companies can better ensure ongoing alignment with their investor base.

Finally, it is important to remember that there are many different types of investors, and their priorities and concerns may not be uniform: creditors might focus on liquidity, cash flow visibility, and downside protection; equity investors might emphasize cost and timeline to achieve growth targets. Even within these groups, interests are likely to diverge.

Since disruption implicates such a broad spectrum of business issues, all classes of investors will appreciate management teams' efforts to better communicate the impact that their initiatives will have on their business.

Facing disruption requires decisive action and bold leadership. The time to engage with your investors on these topics is now.

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About us

For over 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges–circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring, and risk mitigation.

These are the moments when everything is on the line: a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference; it's how we do it.

Tackling situations when time is of the essence is part of our DNA, so we take an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.