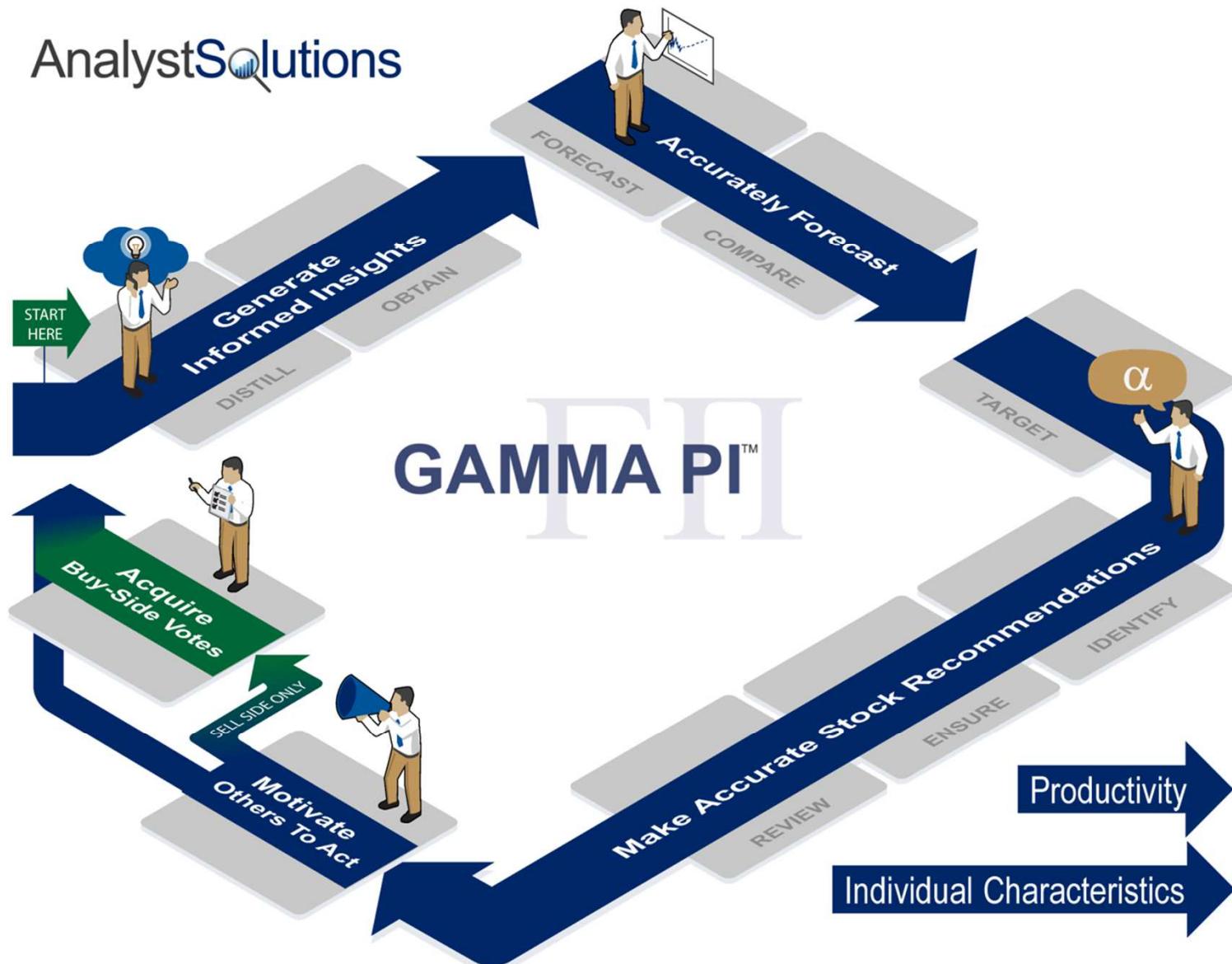


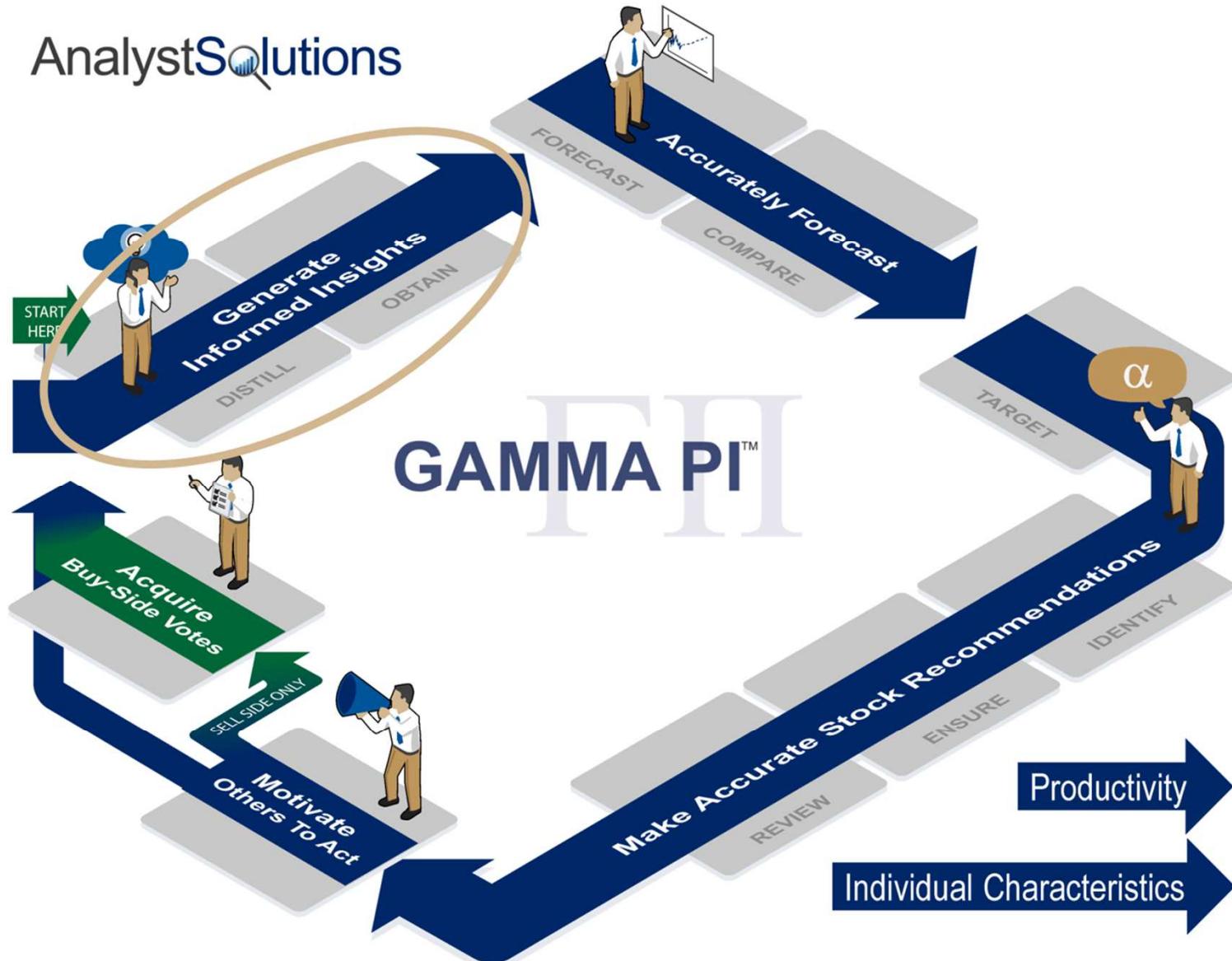
# NIRI's 2024 IR Workshop

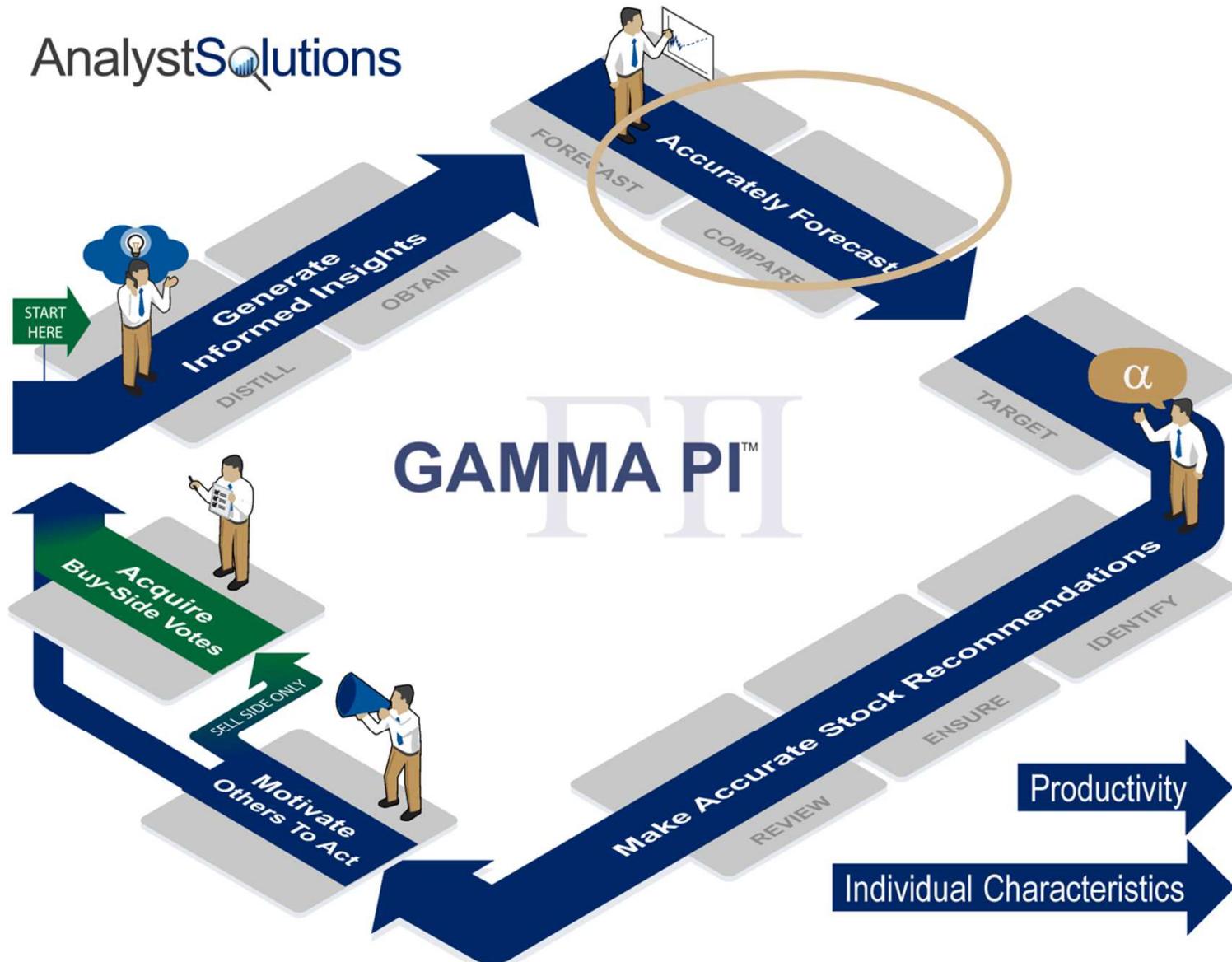
## IR at an Inflection Point

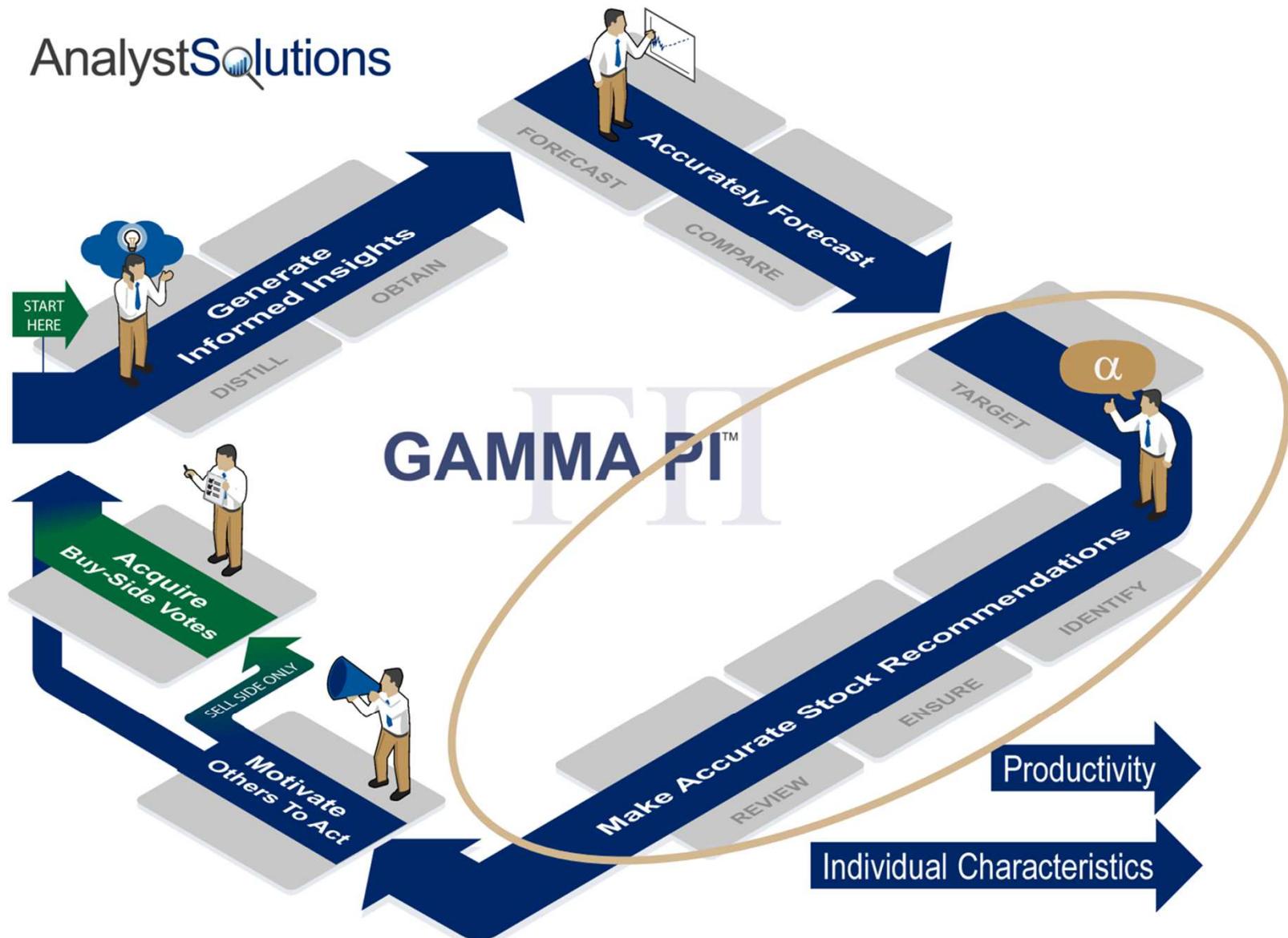
September 20, 2024

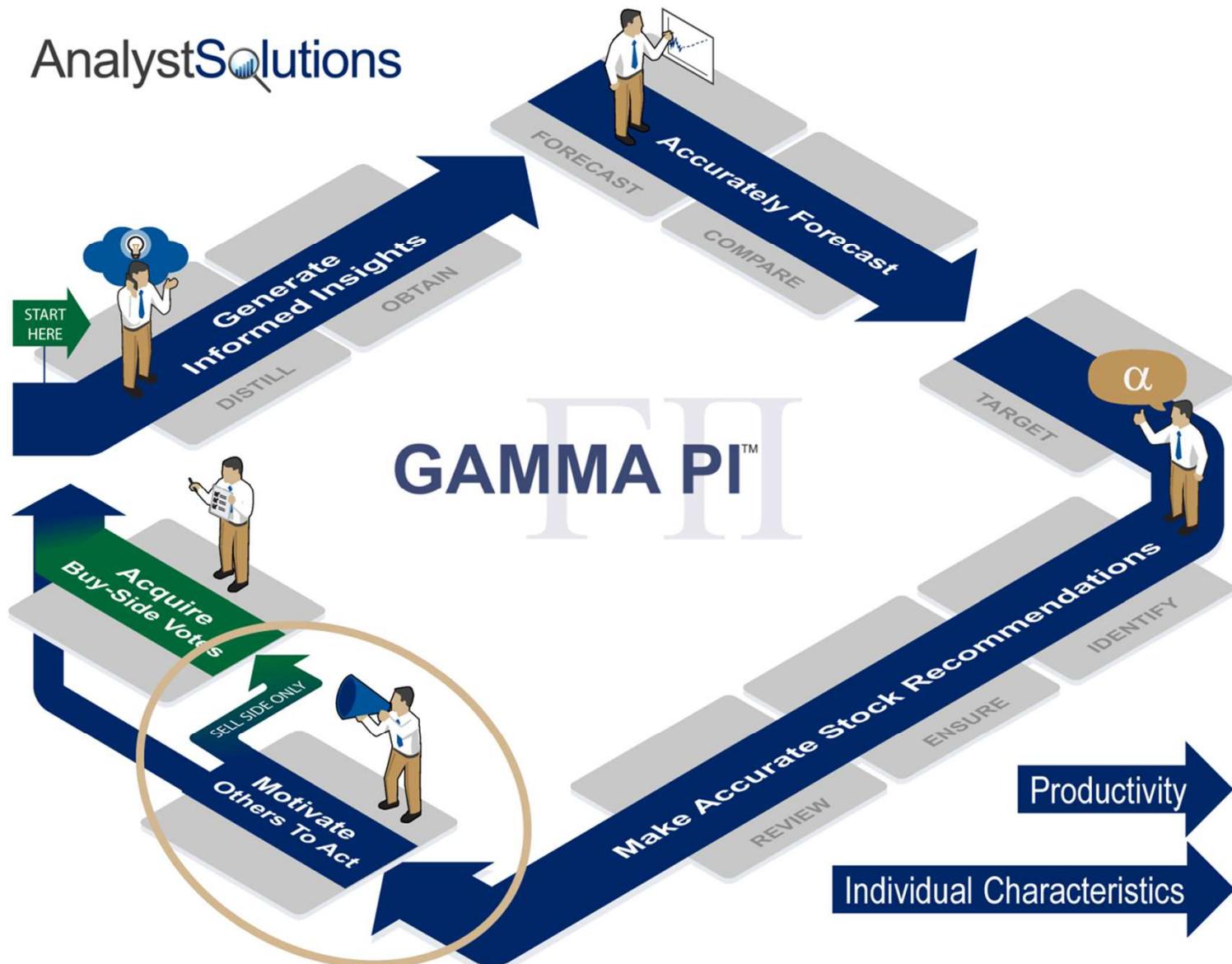


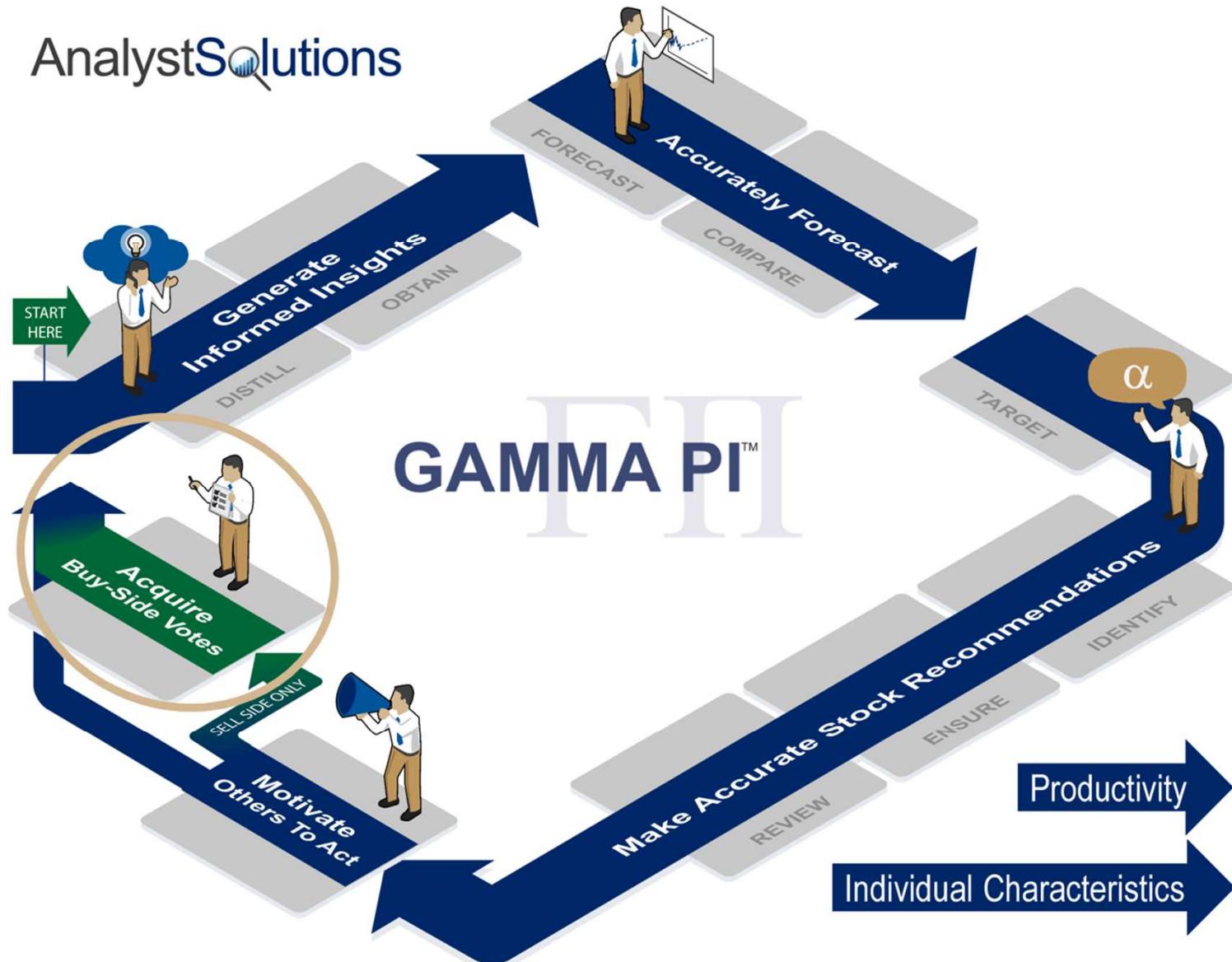


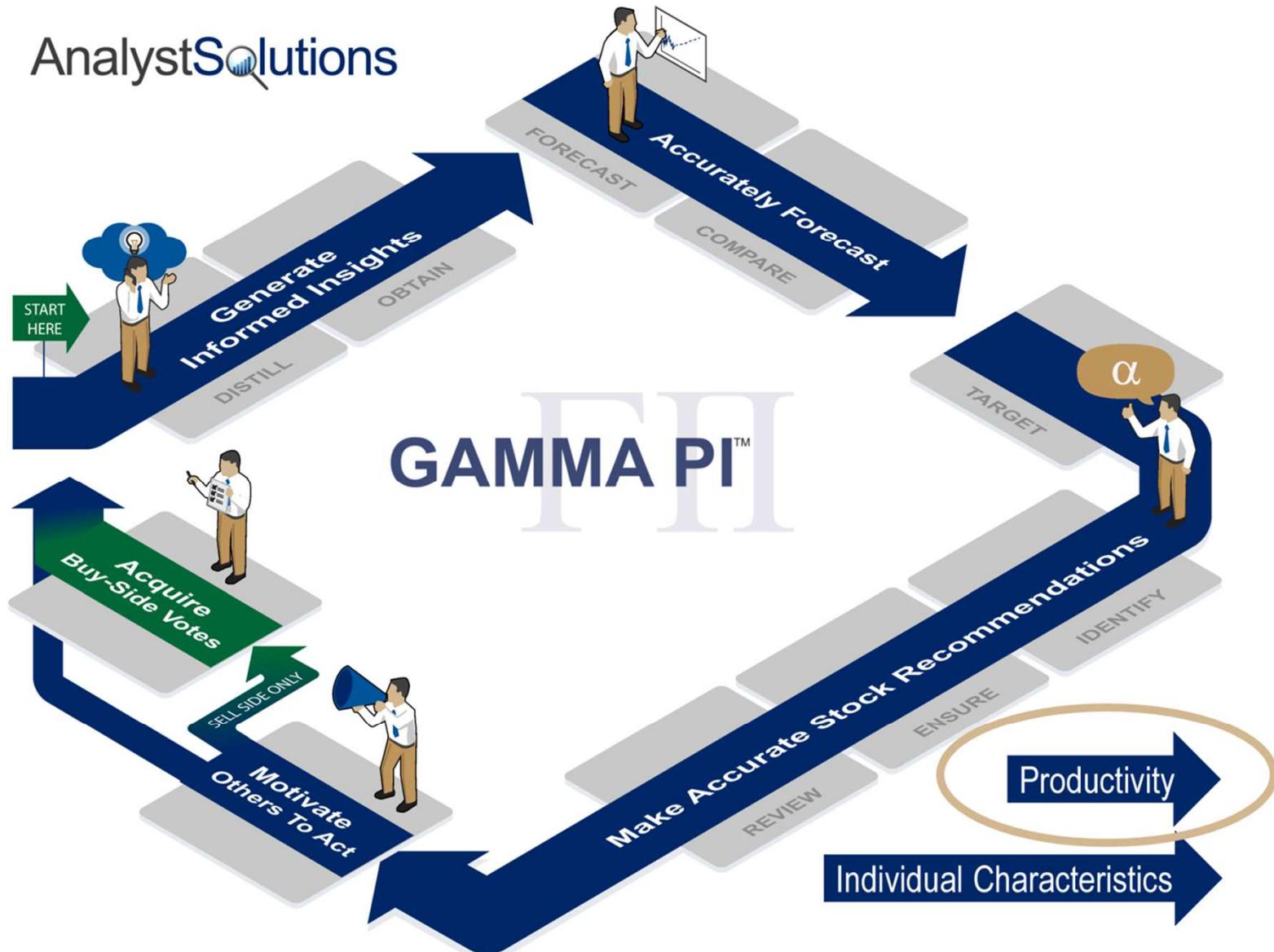


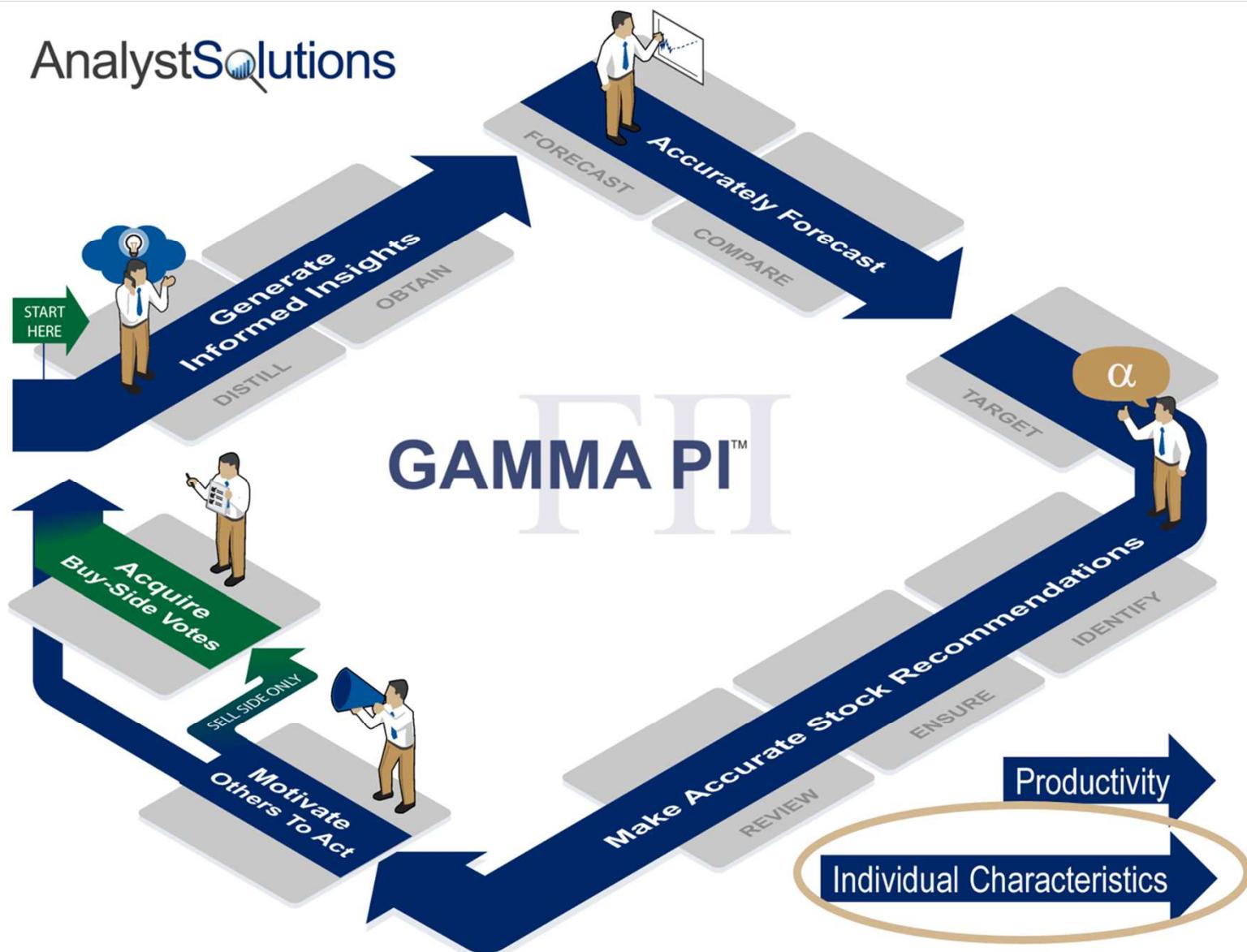






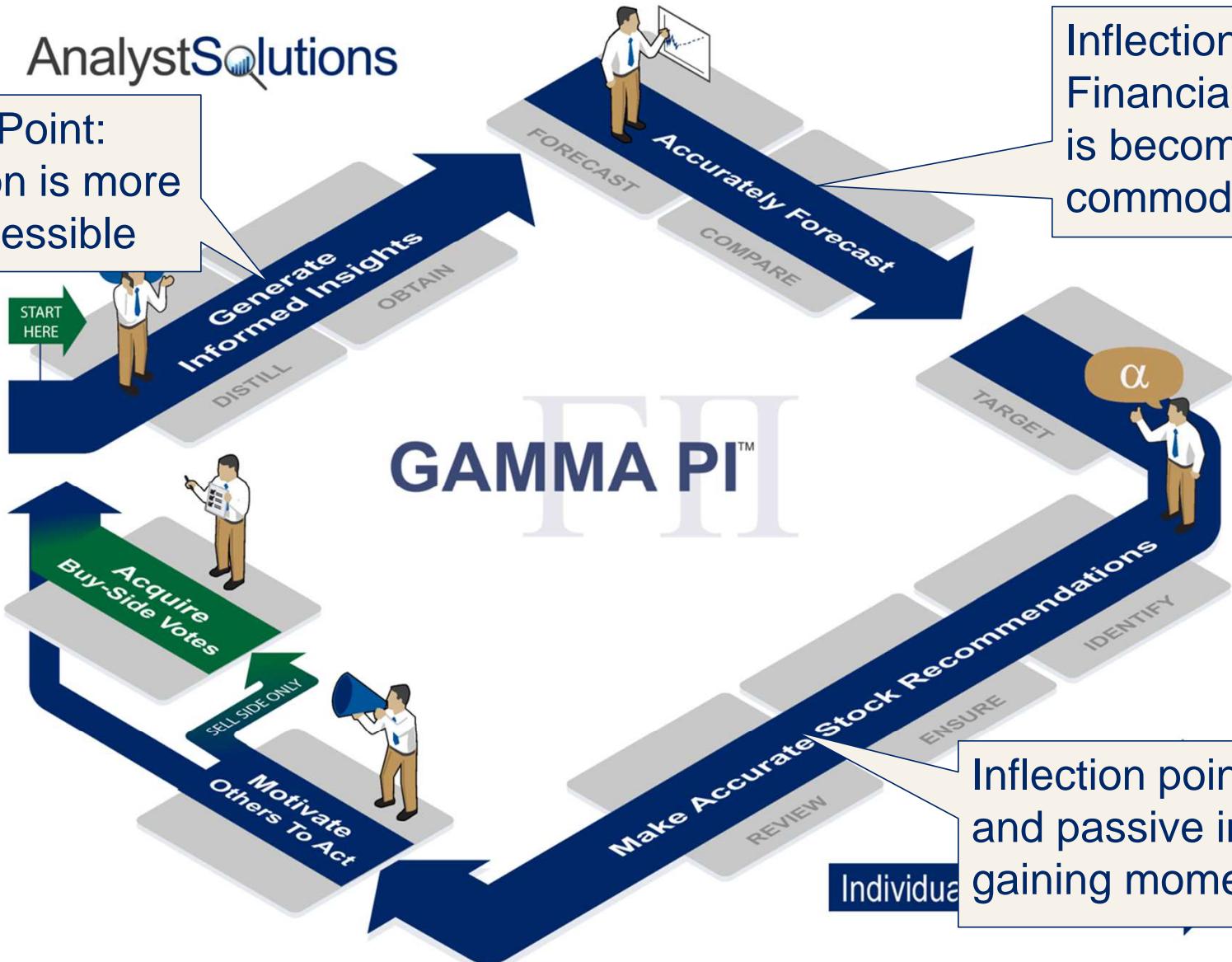








Inflection Point:  
Information is more  
easily accessible



Inflection point:  
Financial modeling  
is becoming a  
commodity

Inflection point?  
Quant and passive investing  
gaining momentum

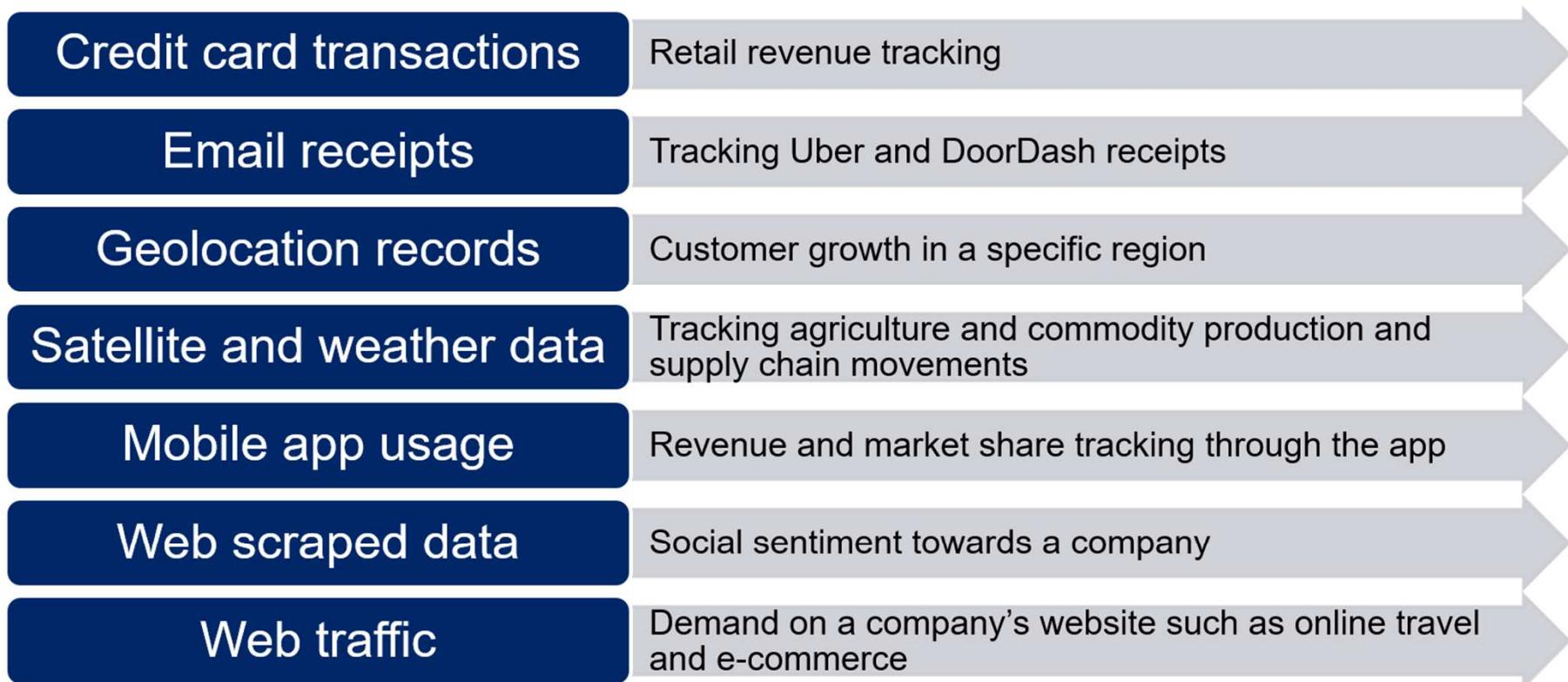
# Expert Networks

- Expert networks are groups of subject matter experts who are hired by firms in need of specific high-level expertise
- The types of experts include academics, C-levels, founders, and high-level officials

## Expert network market map 2021



# Alternative Research

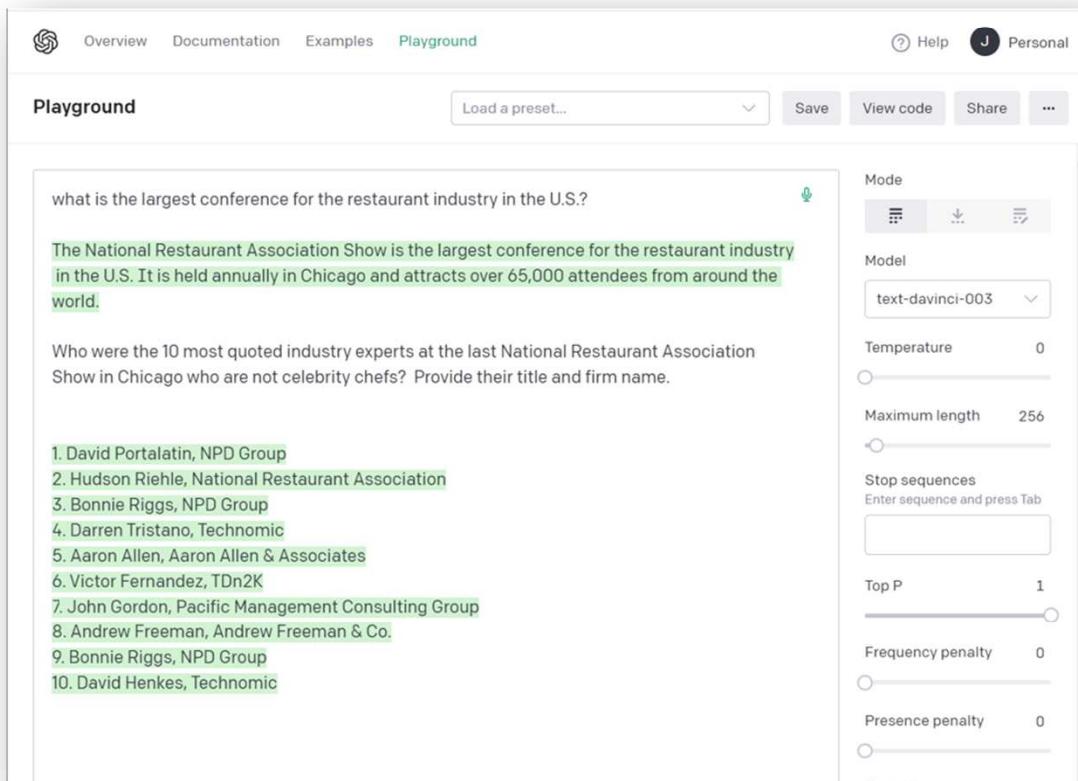


# Alternative Data Database

– <https://alternativedata.org/data-providers/>



# Use AI to Find Leads



The screenshot shows the AI Playground interface. In the main area, a query is entered: "what is the largest conference for the restaurant industry in the U.S?". The response is: "The National Restaurant Association Show is the largest conference for the restaurant industry in the U.S. It is held annually in Chicago and attracts over 65,000 attendees from around the world." Below this, another query is posed: "Who were the 10 most quoted industry experts at the last National Restaurant Association Show in Chicago who are not celebrity chefs? Provide their title and firm name." A list of 10 experts is generated, each with a number and their name and affiliation:

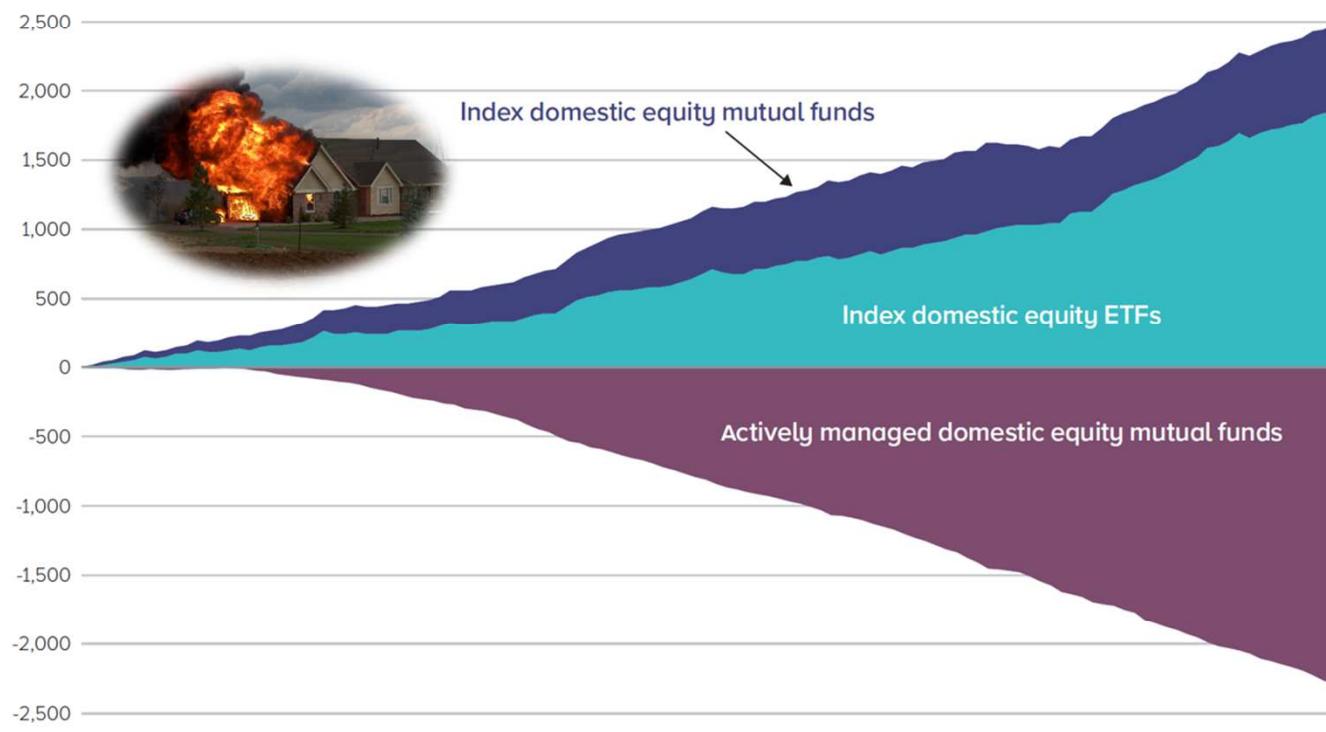
1. David Portalatin, NPD Group
2. Hudson Riehle, National Restaurant Association
3. Bonnie Riggs, NPD Group
4. Darren Tristano, Technomic
5. Aaron Allen, Aaron Allen & Associates
6. Victor Fernandez, TDn2K
7. John Gordon, Pacific Management Consulting Group
8. Andrew Freeman, Andrew Freeman & Co.
9. Bonnie Riggs, NPD Group
10. David Henkes, Technomic

On the right side of the interface, there is a sidebar with various configuration options:

- Mode: Grid, List, Card
- Model: text-davinci-003
- Temperature: 0
- Maximum length: 256
- Stop sequences: Enter sequence and press Tab
- Top P: 1
- Frequency penalty: 0
- Presence penalty: 0

# Worthy of Analysis

Cumulative flows to domestic equity mutual funds and net share issuance of index domestic equity ETFs, billions of dollars, monthly



Source: Investment Company Institute

# Portfolio Manager's Frustrations

- Over 80% of research is worthless
  - Not unique
  - Few to no insights
  - Backward looking
  - Lacks substance
  - Lacks conviction
- Research should focus on:
  - What's unique about the analyst's work?
  - What's the market missing?
  - Where do the supporting details come from?
  - What's new from the last update?

Tell me something that  
will generate alpha



# Do We Deliver On Our Commitments?

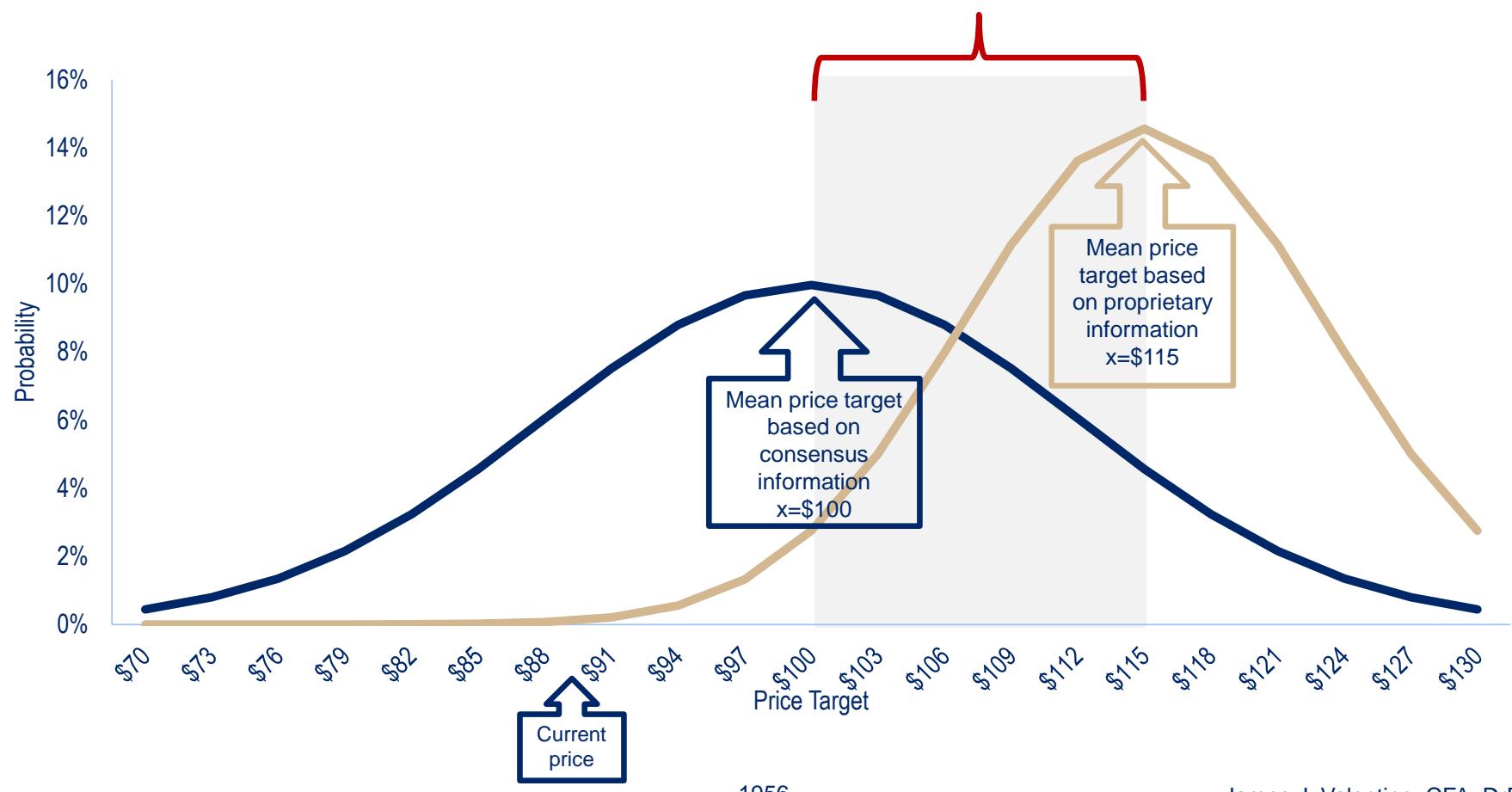
## What We Tell Our Clients...

- “We like to say that investment research is in our DNA”
- “Research is not simply a priority for us, it is part of what defines us and distinguishes our firm”
- “The investment team uses a bottom-up research process to identify companies that, among other things, sell at a discount to their intrinsic value”

## What Analysts Tell Me...

- “I cover too many stocks to have time to develop unique sources of information”
- “I’m not comfortable contacting information sources I don’t know”
- “We’re not allowed to use expert networks and so my primary source of information is company management”

# Information Asymmetry



# Survey Responses: Generating Informed Insights

When researching a critical factor that is likely to impact my stock, I have a wide network of contacts to speak with for insights, beyond company management

My peers are faster than me in distilling key points from information likely to impact a stock

When developing assumptions about my companies, my main source of insight is from the company and financial press

I spend my time developing new sources of information, independent of company management

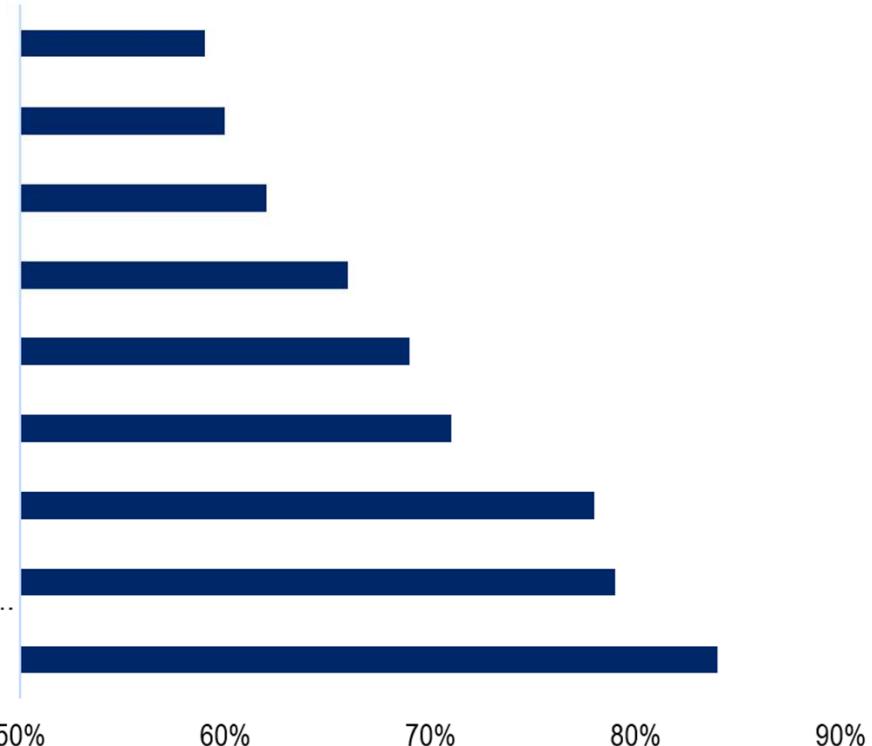
Information in the financial media is either wrong or distorted

I closely monitor a specific subset of macro-economic or industry-level indicators and their potential impact on the stocks I analyze

When information is critical to my valuation, I validate it using independent sources, rather than just the company's management

For stocks in my assigned universe, I proactively identify 1-4 key factors per stock that will likely be critical to their performance over my investment time...

Even though I am required to recommend stocks, not industries, I analyze industry/sector data



# Two Critical Questions

**Which factors are going to move my stocks?**

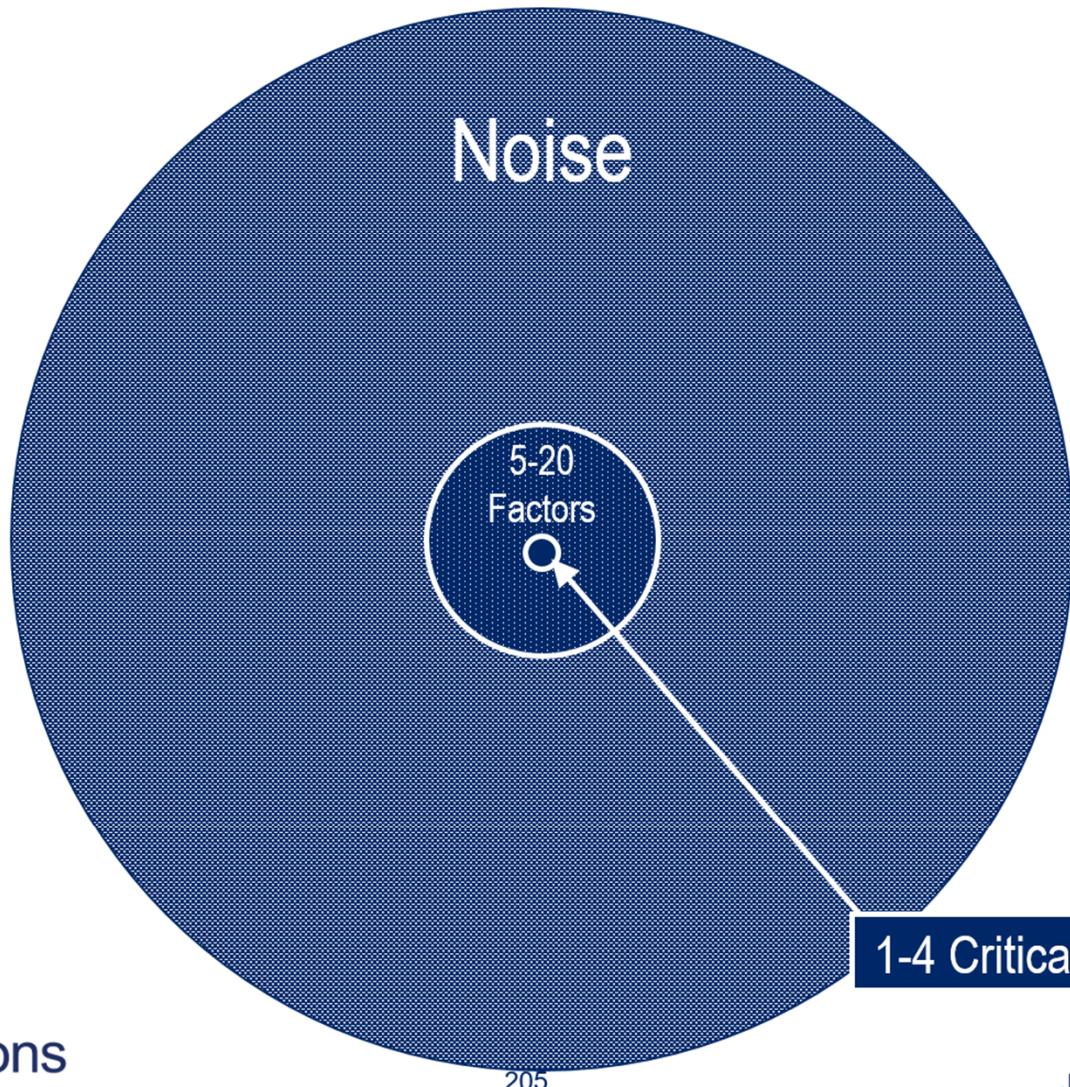


**Where can I get unique insights on these factors?**



# Drinking from a Fire Hose





# EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



Factor to Potentially Be Researched	If this factor were to occur or change from trend, it would cause changes in consensus' expectations to <u>Exceed</u> my materiality threshold	This factor will Probably deviate materially from consensus expectations during my investment time horizon	Based on my research on the factor, I'm good at forecasting this factor and its catalyst (it's not just a guess)	The overall Consensus will be poor at accurately forecasting or spotting an anomaly for this factor	Total
Cost management/productivity/Improved network	5	4	4	5	18
Level of fuel surcharge collected	5	4	4	4	17
Acquisition(s)	5	3	2	5	15
Ground package volume growth	3	4	4	4	15
Domestic Express package pricing/yield	4	3	4	3	14
Ground package pricing/yield	4	3	3	4	14
International Priority package pricing/yield	3	4	3	4	14
International Priority package volume growth	2	4	4	4	14
Service levels other than during the holiday season	3	2	4	5	14
Change in senior management	5	2	2	4	13
Digital documents reducing overnight envelopes	2	4	3	4	13
GDP growth	5	3	2	3	13
Labor cost trends	3	3	3	4	13
Domestic Express package volume growth	2	3	4	3	12
Service levels at holiday season	2	2	3	5	12
Asia-Pacific volume growth	2	3	4	2	11
Change in level of tech shippers vs. non-tech shippers	4	2	3	2	11
Purchase of new aircraft	1	3	3	4	11
Level of major weather disruptions	1	3	1	5	10
Depreciation rate	1	2	2	4	9

What has the greatest influence  
on the stock market over the  
long-term?

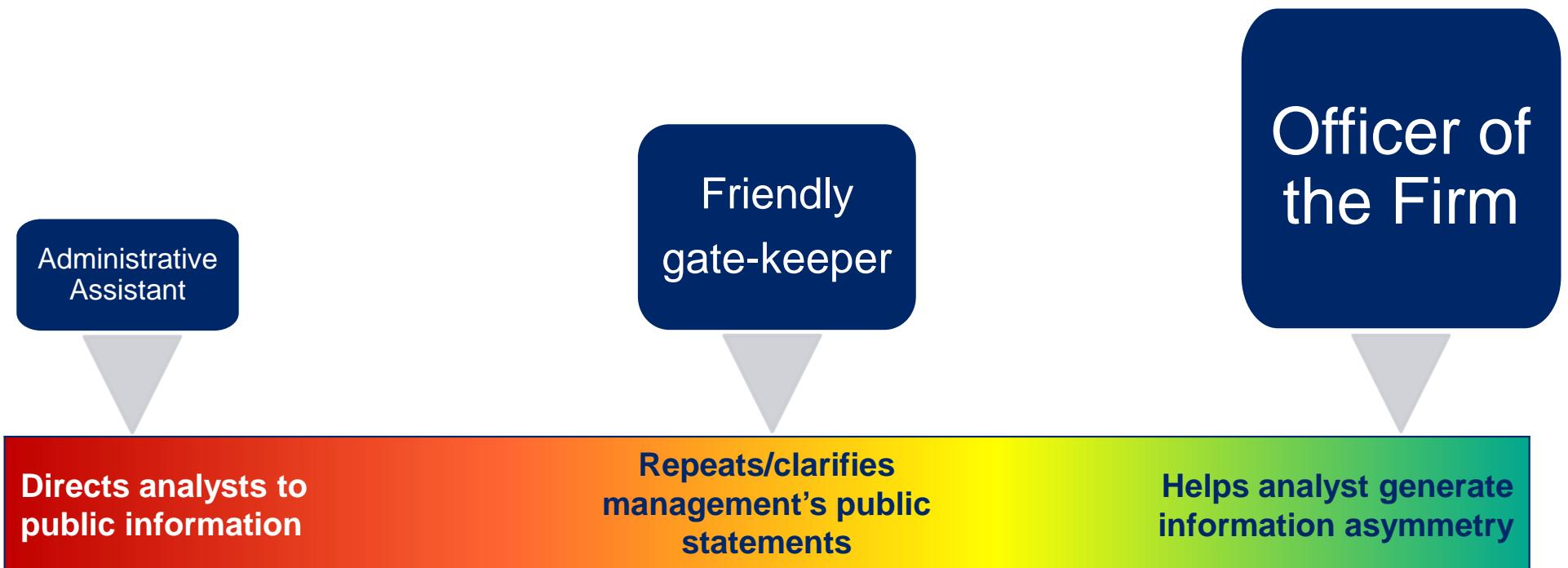
# S&P 500



# Exceed Materiality vs. Probability

		Exceed Materiality	
		LOW	HIGH
Probability	HIGH	Potential Time Drain	Potential Critical Factor
	HIGH	<ul style="list-style-type: none"><li>Company may enter new market that is very small</li><li>Company is likely to discontinue a product that isn't generating material profit or losses</li></ul>	<ul style="list-style-type: none"><li>New subscriber growth likely to be 10% versus 6% historical trend</li><li>Merger synergy not likely to be realized</li></ul>
	LOW	<ul style="list-style-type: none"><li>Company could lose frivolous lawsuit</li><li>Dissident shareholder proposal has been made to limit the company's ability to spend on political activities</li></ul>	<ul style="list-style-type: none"><li>Company could win away major contract from competitor that doesn't expire for 3 years</li><li>Non-union employees of well-run company may decide to unionize at some point in the future</li></ul>
		Easy to Avoid	Evaluate if Monitoring Required

# Value of IRO



# IROs Thriving in a New Era

The Best IROs will help analysts/PMs **forecast the long-term earnings/cash flow growth of their firms** by...

- Knowing which factors:
  - Drive their stock (“critical factors” that meet the EPIC™ framework)
  - Don’t drive their stock (direct analysts/PMs to the nearest exit ramp when they are fixated on these)
- Being at the spearhead of new information/developments
  - Embedding themselves with senior management in all strategic decision-making so they have as much information as possible
  - Staying current on their stock’s critical factors (do their own research if necessary)
- Closing the information asymmetry gap for analysts and PMs (while staying within Reg FD parameters)
  - Letting analysts know what the consensus is missing
  - Informing analysts when they appear to be out of consensus (right or wrong)
  - Mentor analysts who are eager to conduct proprietary research



# Study of Analysts

THE ACCOUNTING REVIEW  
Vol. 98, No. 7  
November 2023  
pp. 457-477

American Accounting Association  
DOI: 10.2308/TAR-2021-0140

## The Field of Investment Advice: The Social Forces That Govern Equity Analysts

**Yuval Millo**  
University of Warwick

**Crawford Spence**  
King's College London

**James Valentine**  
Marquette University

**ABSTRACT:** Literature on equity analysts presents a conundrum: analysts are seen as influential market participants, yet researchers widely criticize them for their bias and inaccuracy. Studies drawing from economic frames struggle to explain this. Therefore, we develop a new conceptualization that positions analysts as actors operating in a social field. Drawing on a qualitative study involving 70 interviews with analysts and portfolio managers, we offer two broad insights. First, we identify long-term interpersonal and interinstitutional ties between buy-side and sell-side actors which contribute to social inertia in the field. Second, we illustrate how sell-side analysts' social environment is dichotomous, pushing some to converge with consensus estimates, while encouraging others to diverge. Taken as a whole, our findings contribute to the accounting literature by enriching our understanding of the social and institutional forces that govern analyst behavior.

**Keywords:** equity analysts; equity research; qualitative field study; field theory; social inertia.

## INERTIA

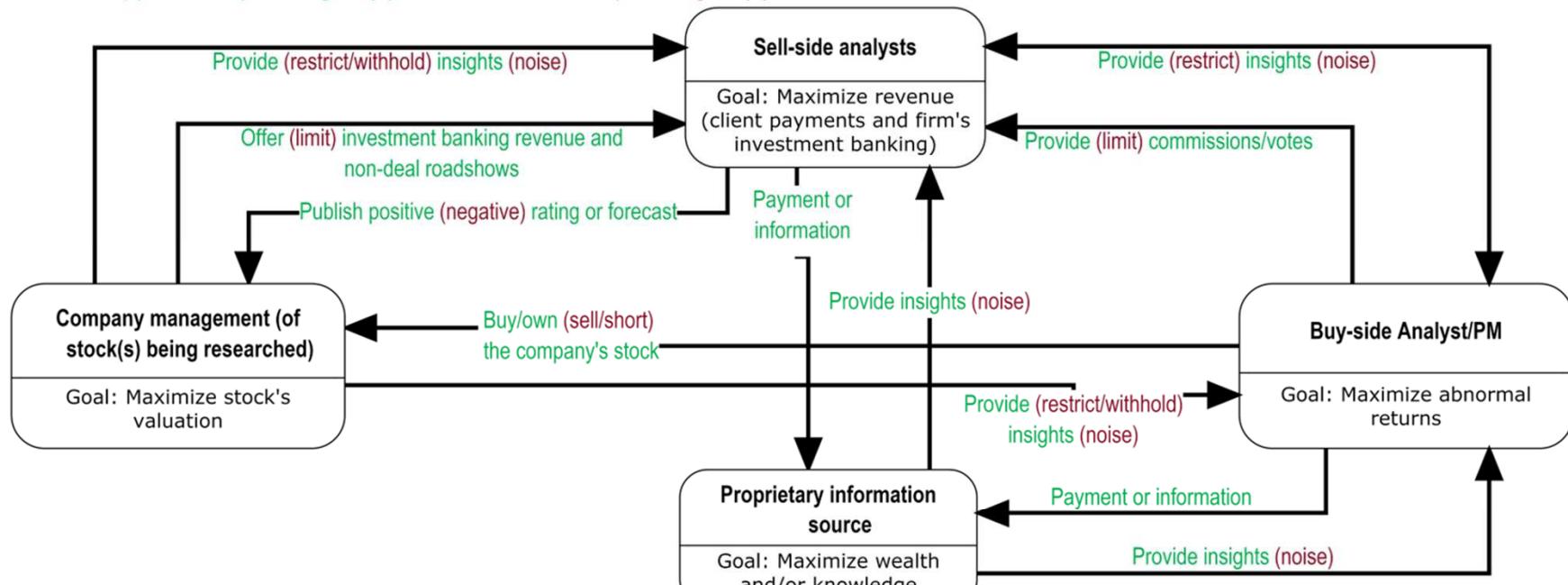
*Sticky Relationships and Ossified Ideas  
in Financial Markets*

**YUVAL MILLO, CRAWFORD SPENCE,  
AND JAMES J. VALENTINE**

Columbia University Press  
New York

# Dyadic Relationships in Equity Research

Green = supports recipients' goal(s), Red = hinders recipients' goal(s)



# Study Conclusions

- The field of investment advice includes the imperfections and idiosyncrasies found in other fields of human action in that professionals:
  - Hire friends
  - Can't be bothered to change things that they know should probably be changed
  - Struggle to convince their superiors to do things a different way
- Financial markets evolve slowly, if at all
- The active management field exhibits traits of other threatened communities:
  - Asserting strong identities
  - Framing practice areas as inaccessible to others
  - Delegitimizing competitors
  - Engaging in hopeful fantasizing

# Our Next Study...

- Research the role of the IRO in the investment process
- Goal is to interview 50 IROs in the U.S. and Europe
- If you are a seasoned IRO and would like to participate in our study, please email me at:  
[jvalentine@analystsolutions.com](mailto:jvalentine@analystsolutions.com)
- All information is anonymized (identities are stripped from the transcripts/notes soon after the end of the interview)

# NIRI's 2024 IR Workshop

## IR at an Inflection Point

September 20, 2024

[jvalentine@analystsolutions.com](mailto:jvalentine@analystsolutions.com)