

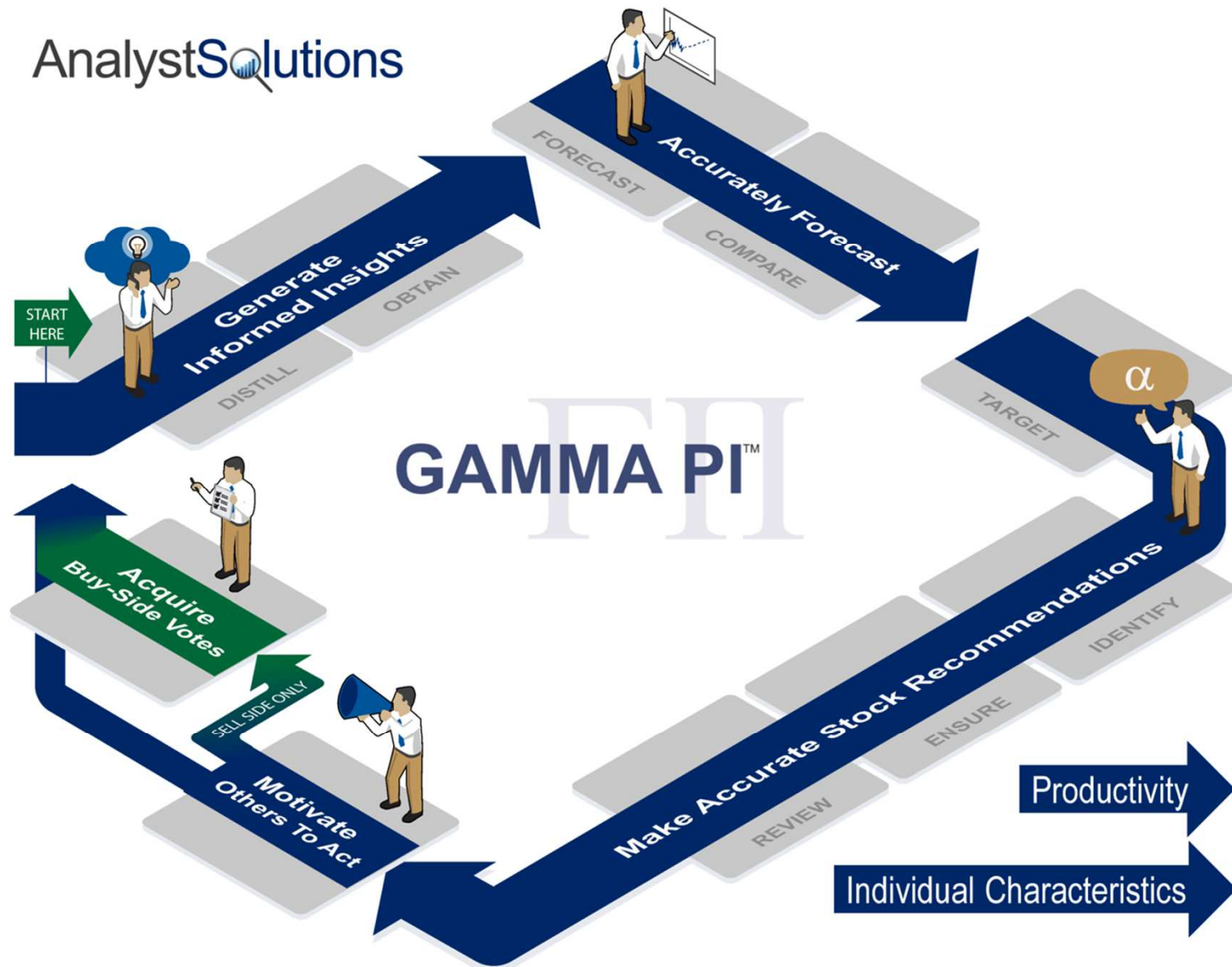
NIRI's 2024 IR Workshop

IR at an Inflection Point

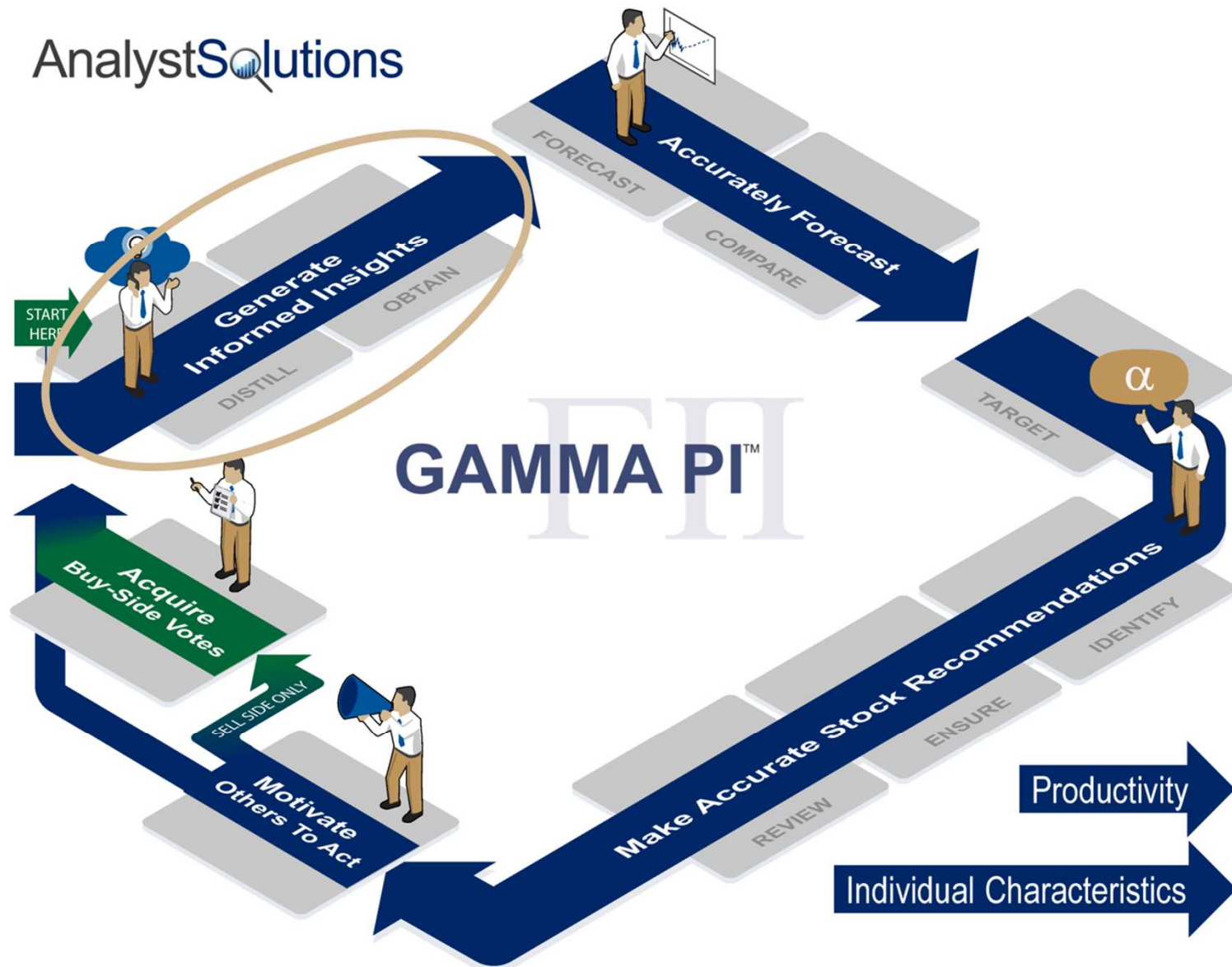
September 20, 2024



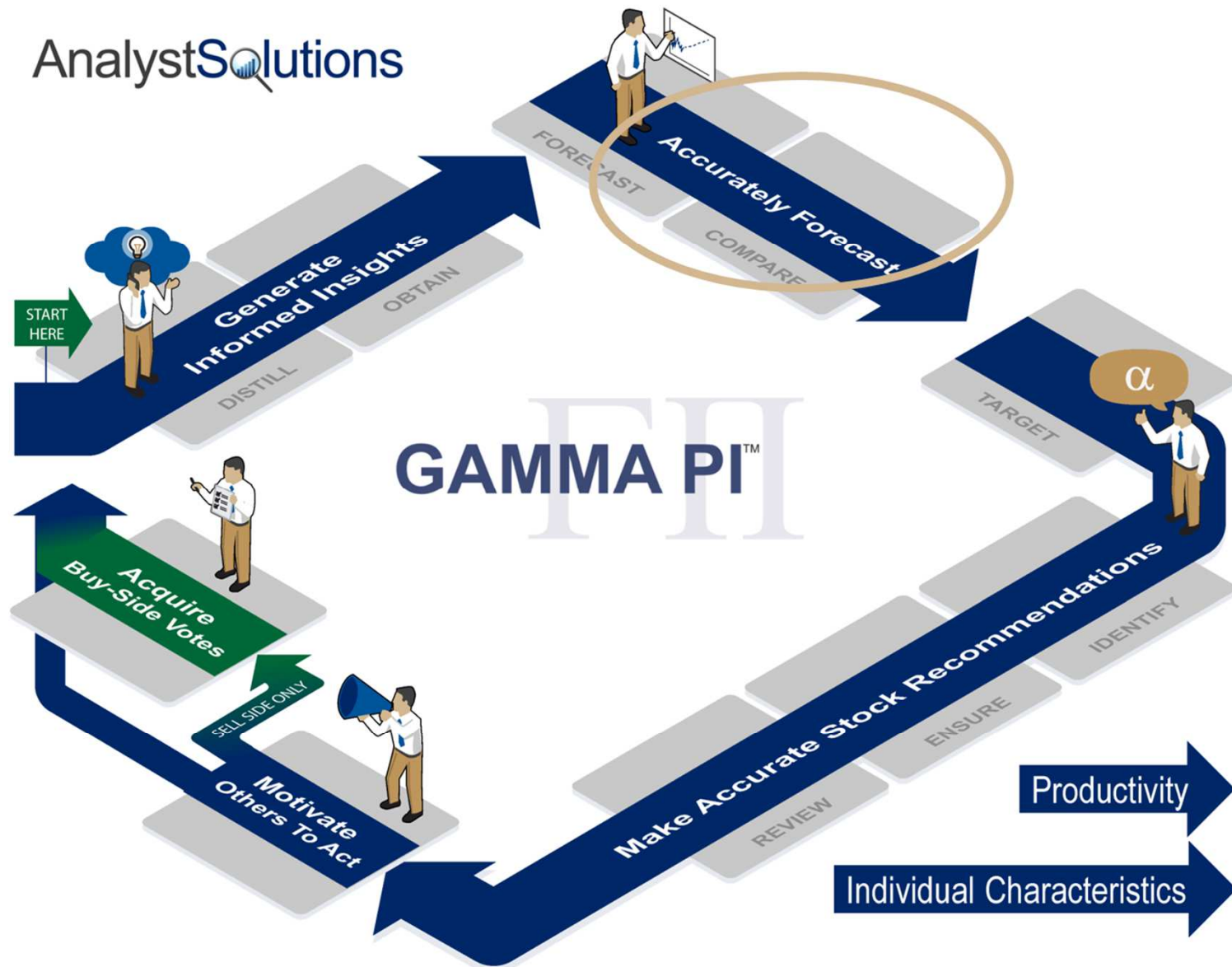
AnalystSolutions



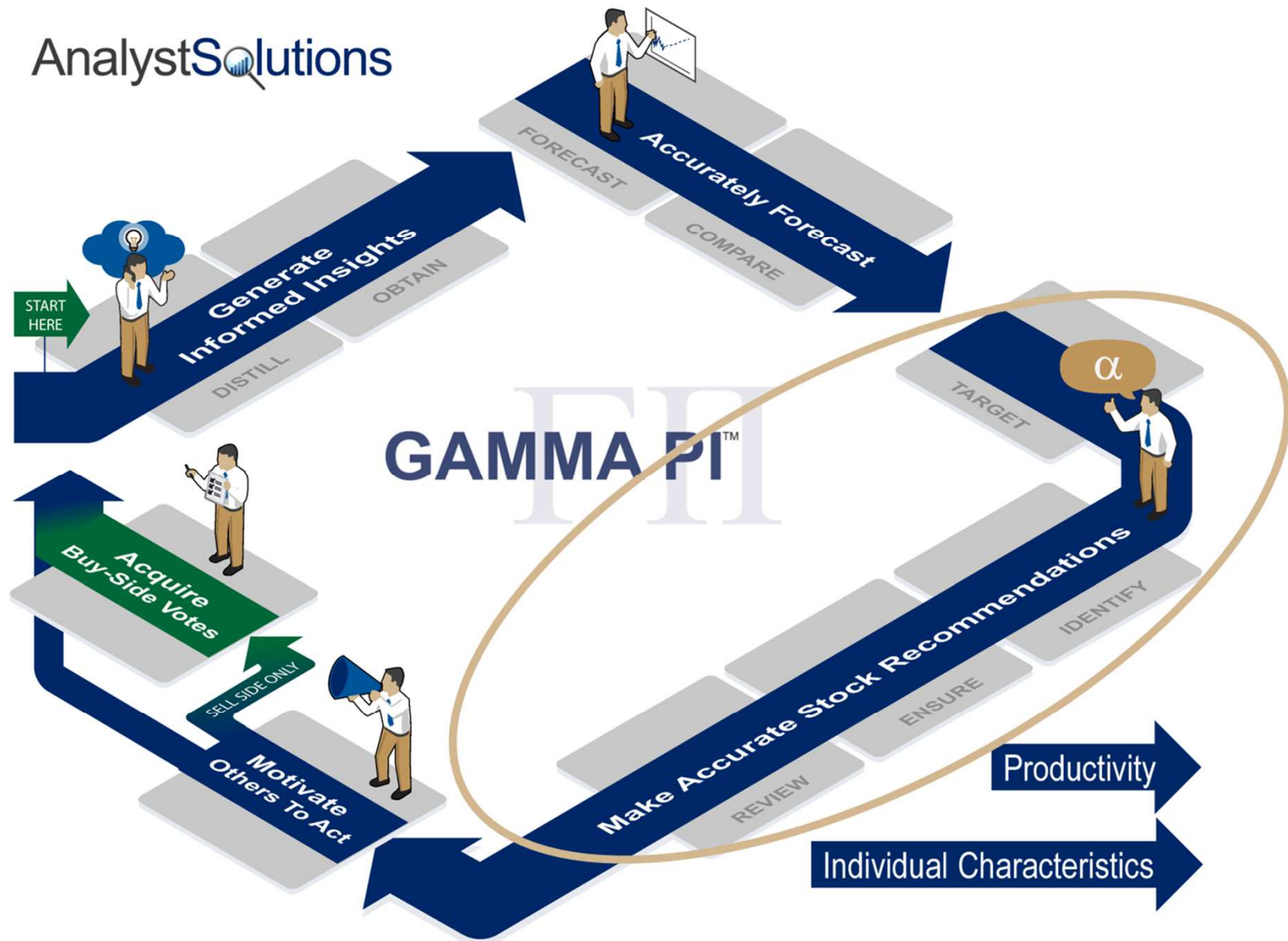
AnalystSolutions



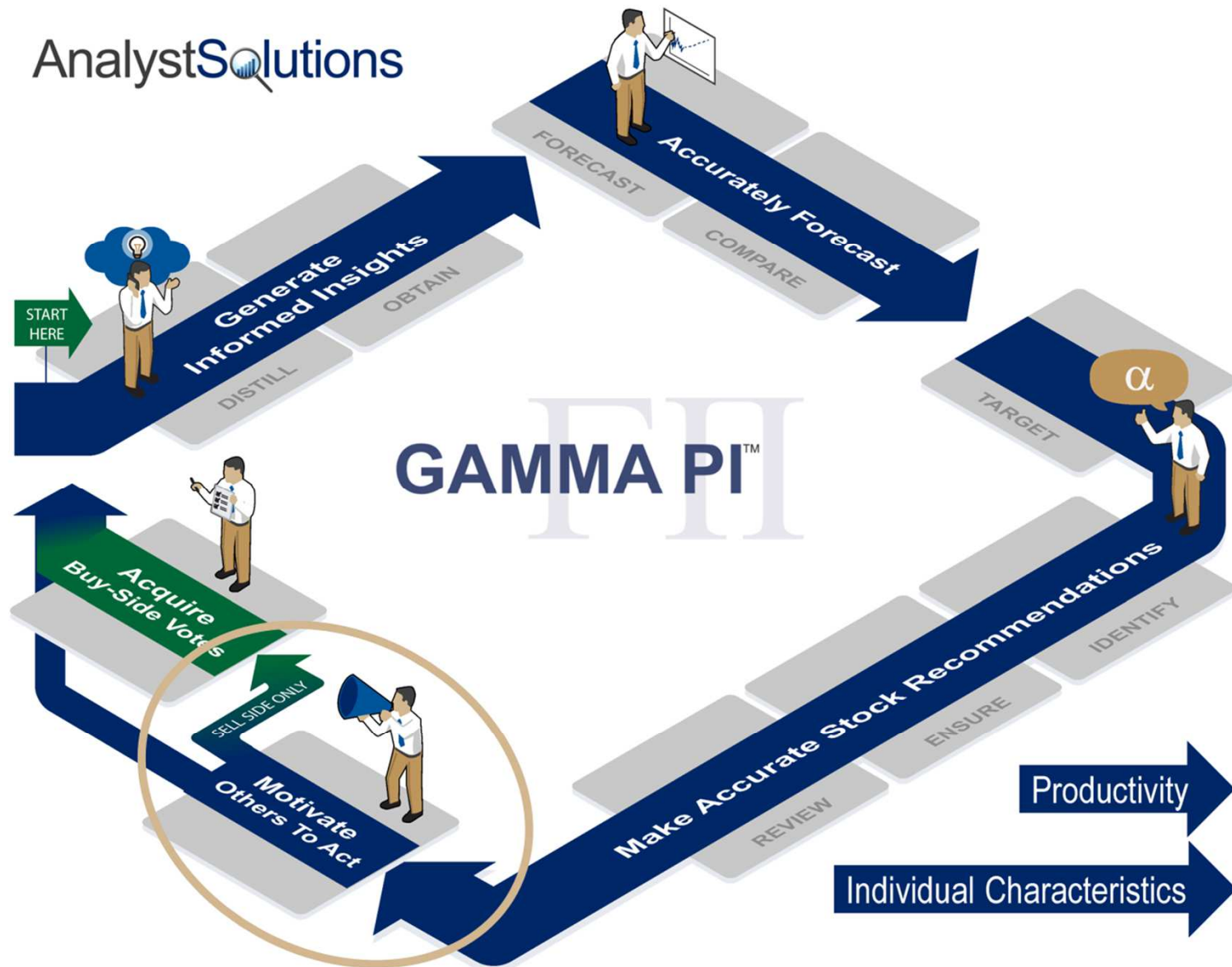
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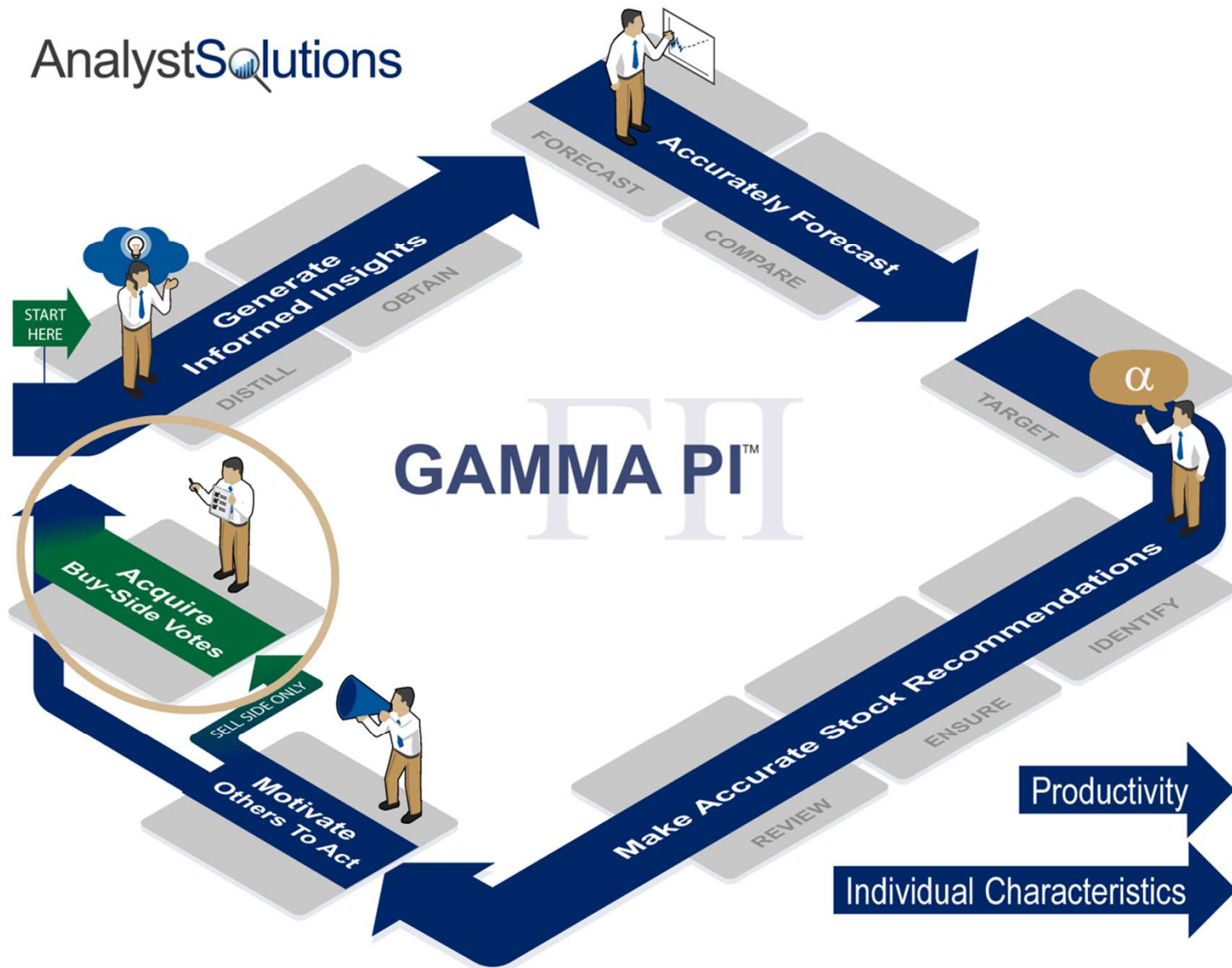
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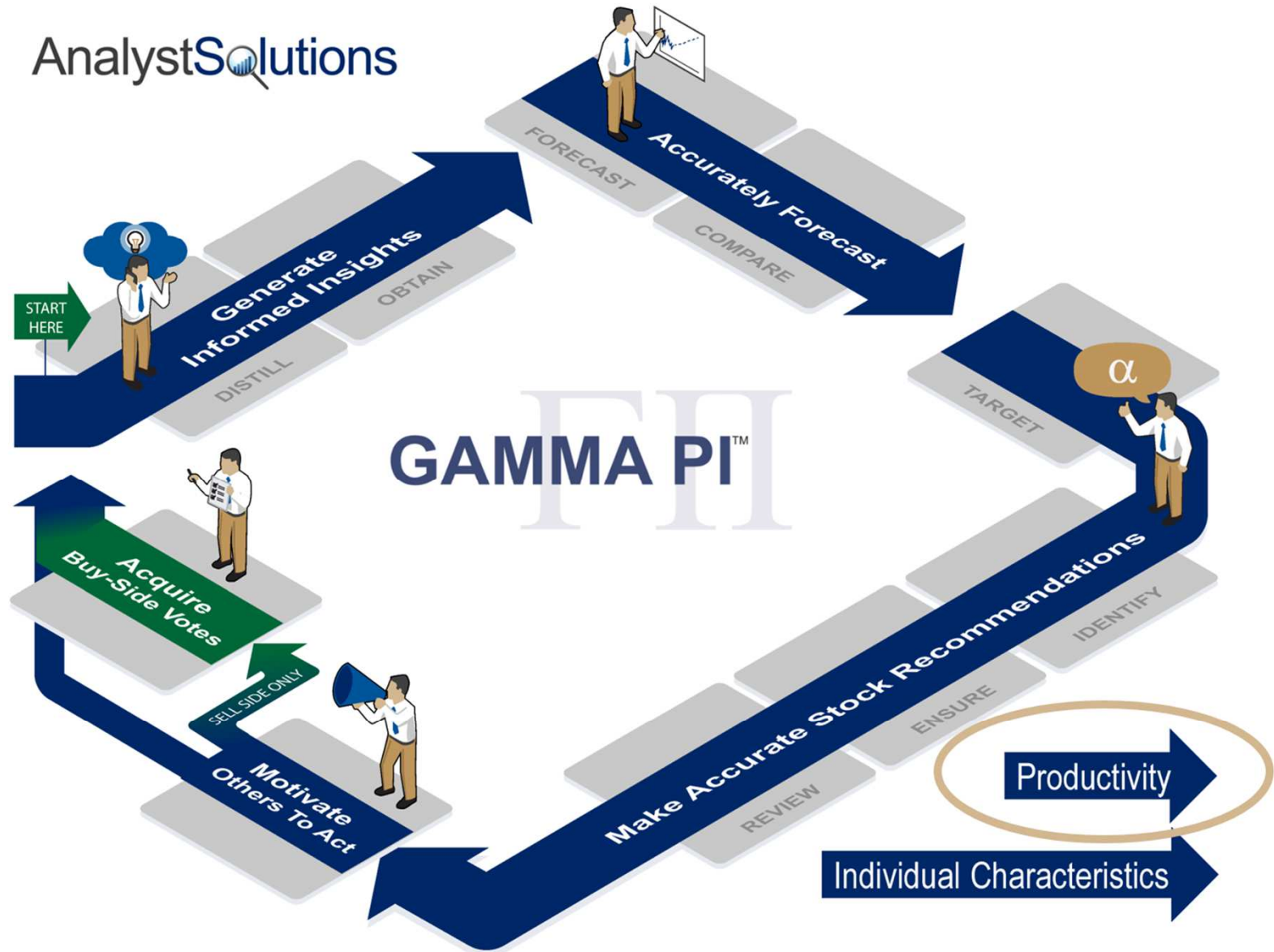
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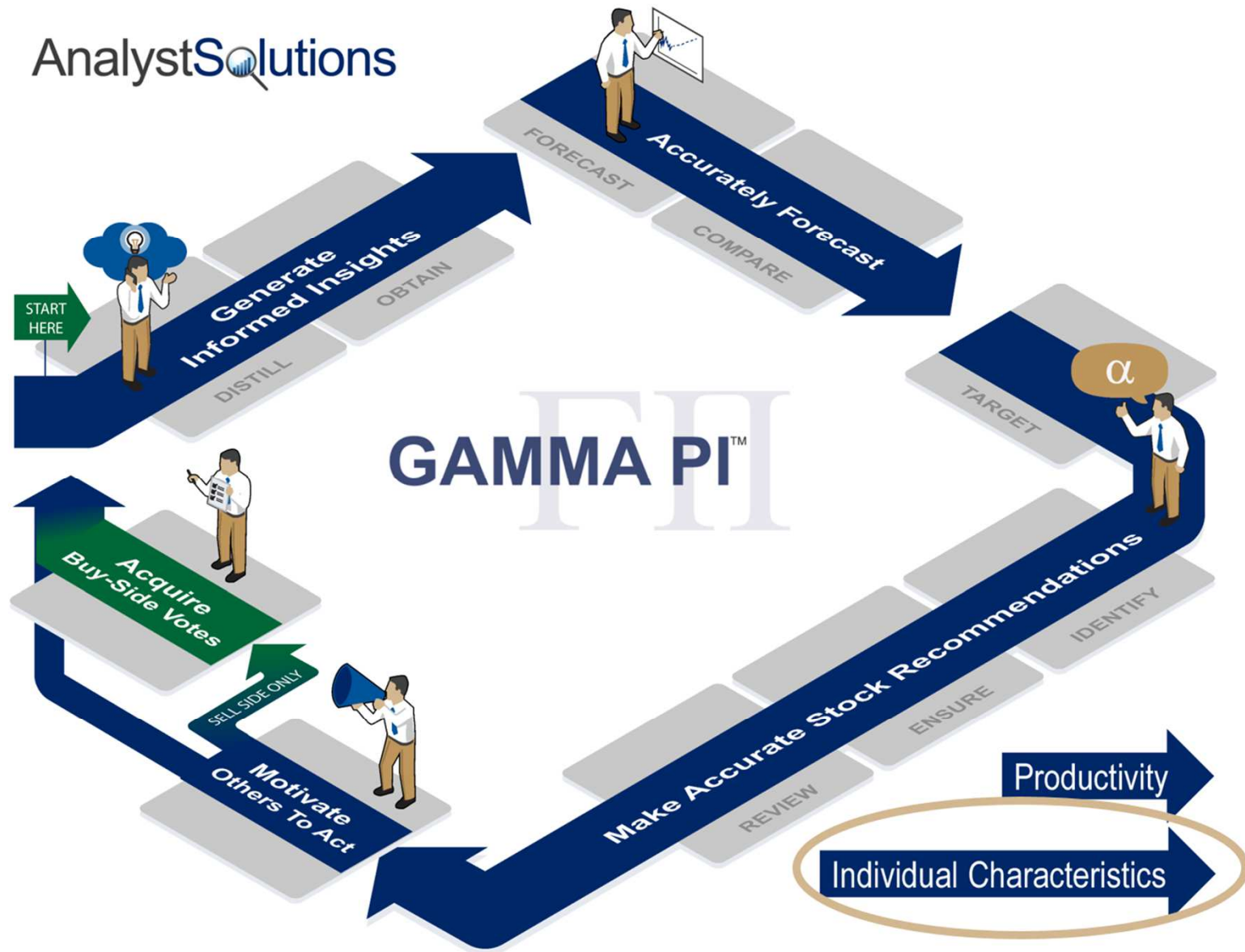
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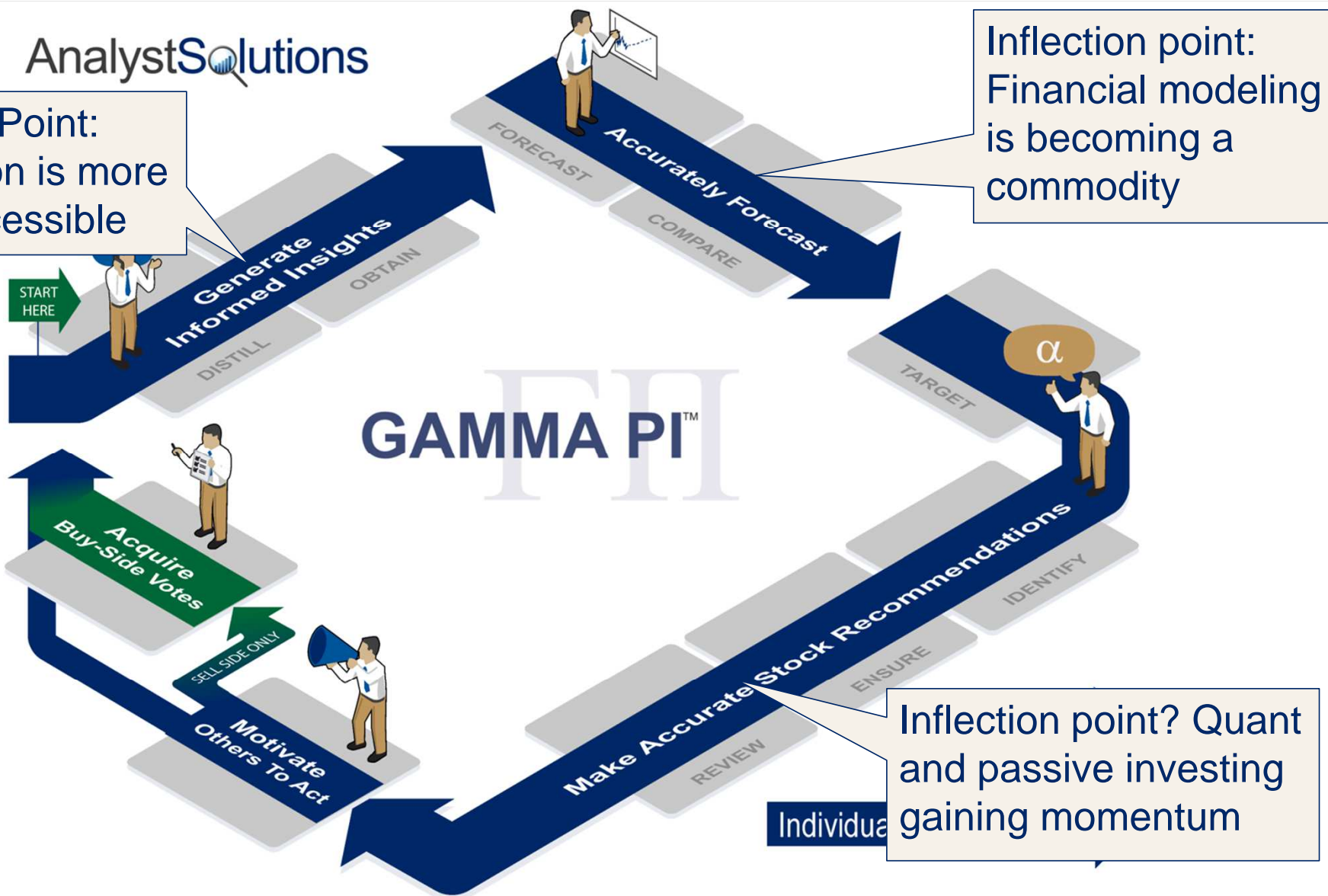


AnalystSolutions



AnalystSolutions

Inflection Point:
Information is more
easily accessible



Individual

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



Source: Inex One and Integrity Research, 2021



Alternative Research

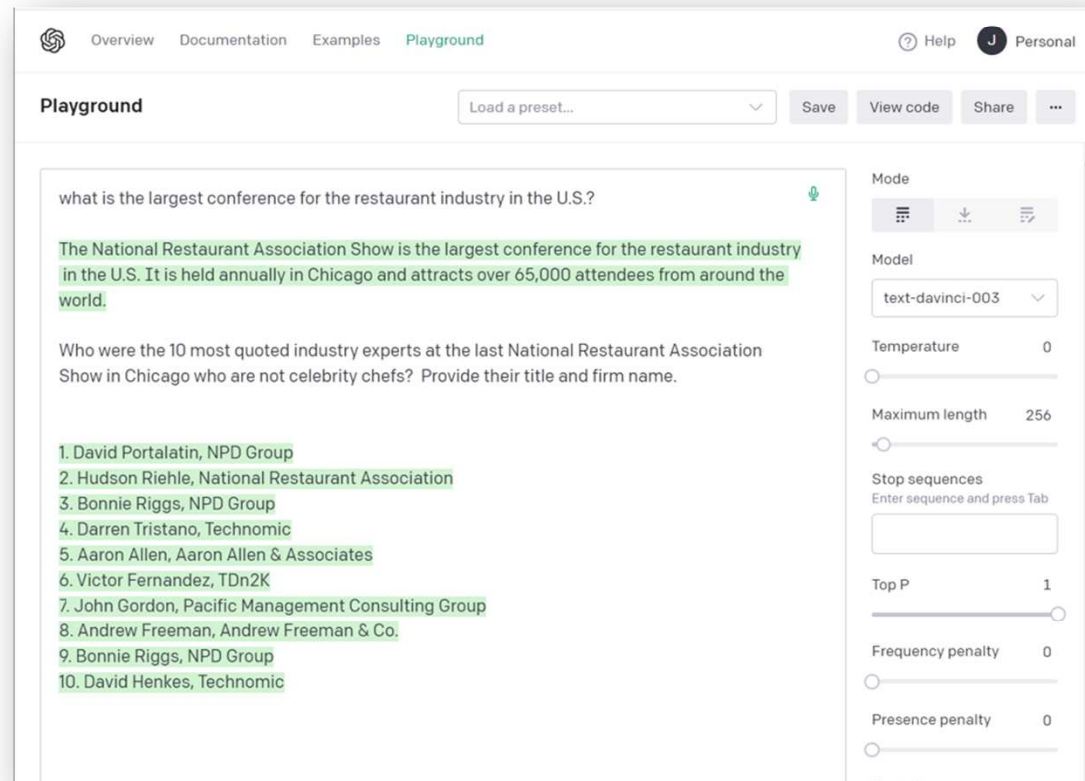
| | |
|----------------------------|--|
| Credit card transactions | Retail revenue tracking |
| Email receipts | Tracking Uber and DoorDash receipts |
| Geolocation records | Customer growth in a specific region |
| Satellite and weather data | Tracking agriculture and commodity production and supply chain movements |
| Mobile app usage | Revenue and market share tracking through the app |
| Web scraped data | Social sentiment towards a company |
| Web traffic | Demand on a company's website such as online travel and e-commerce |

Alternative Data Database

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

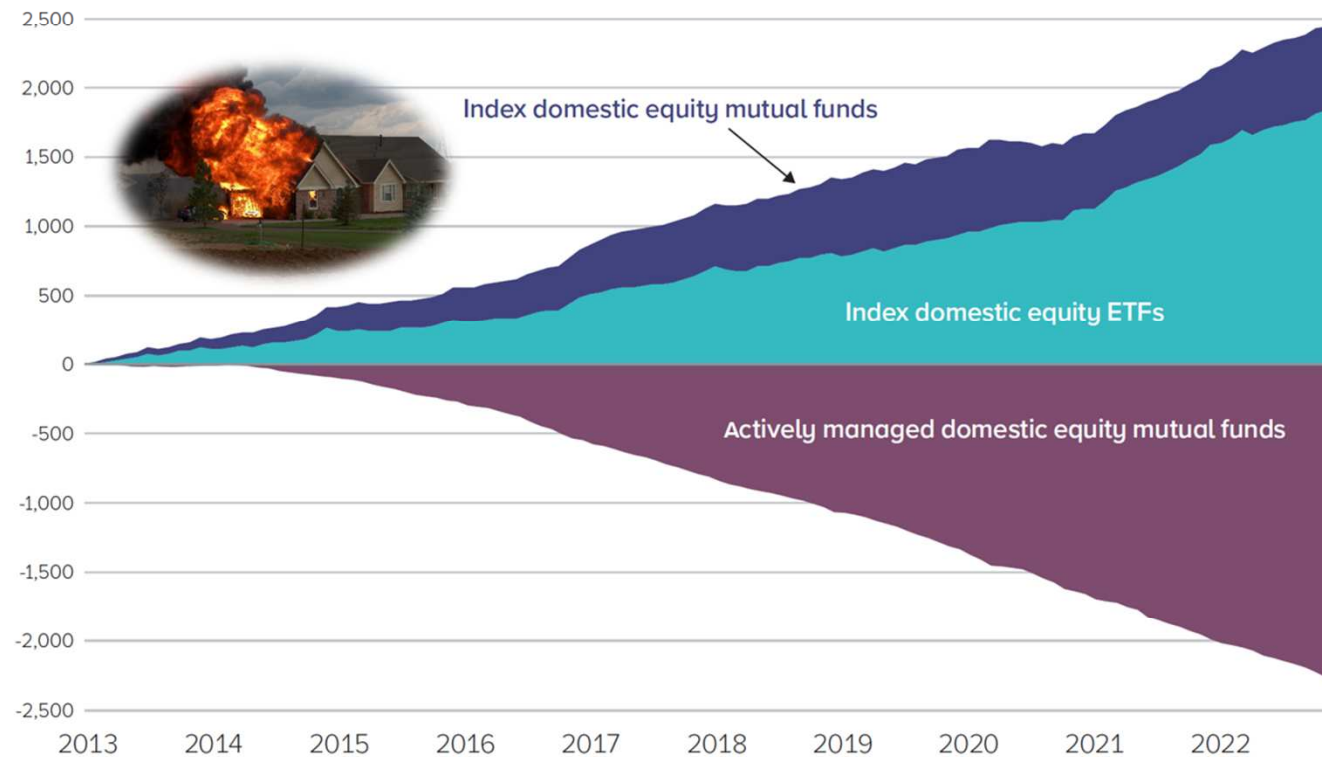


Use AI to Find Leads



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?

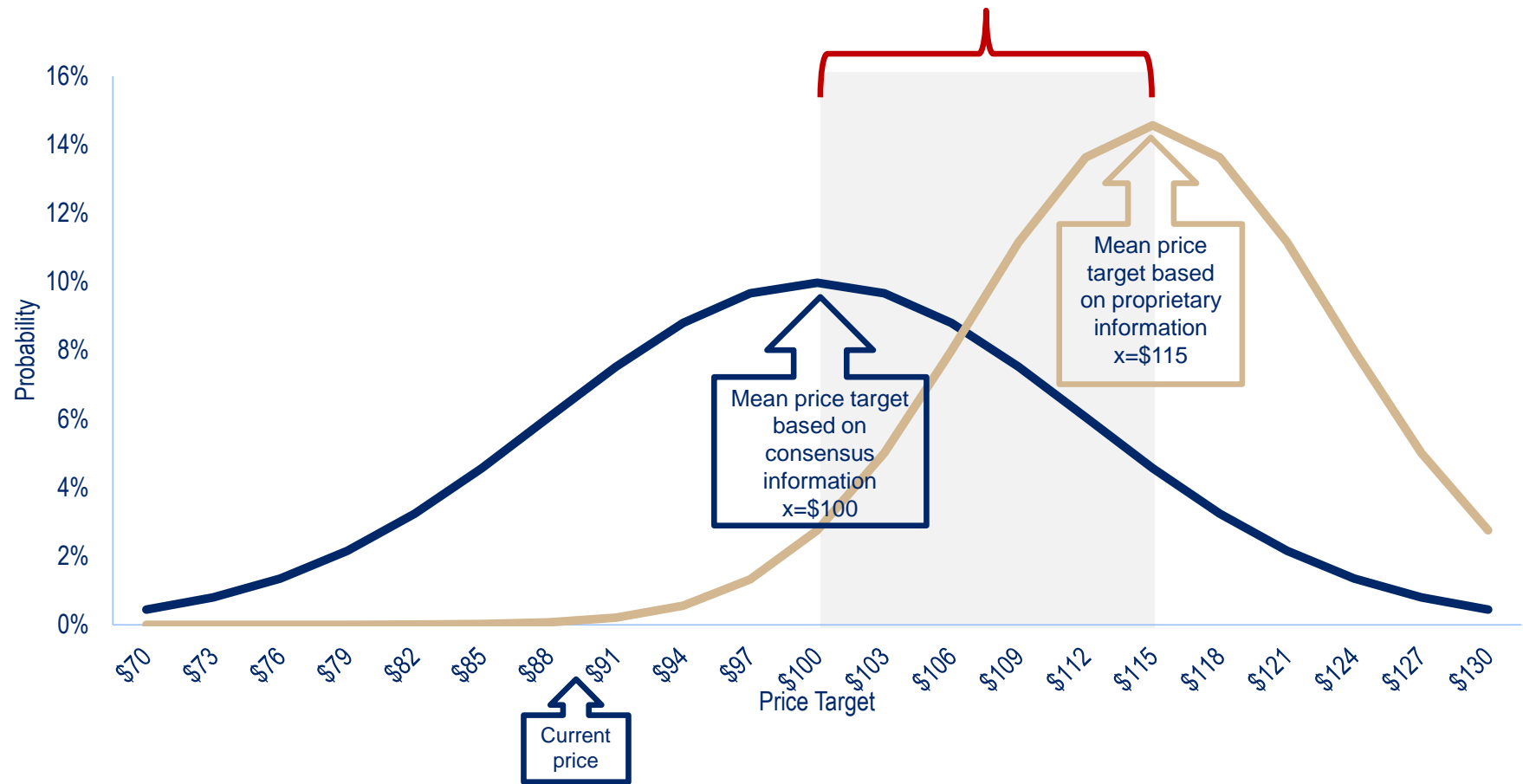
What We Tell Our Clients...

- “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”

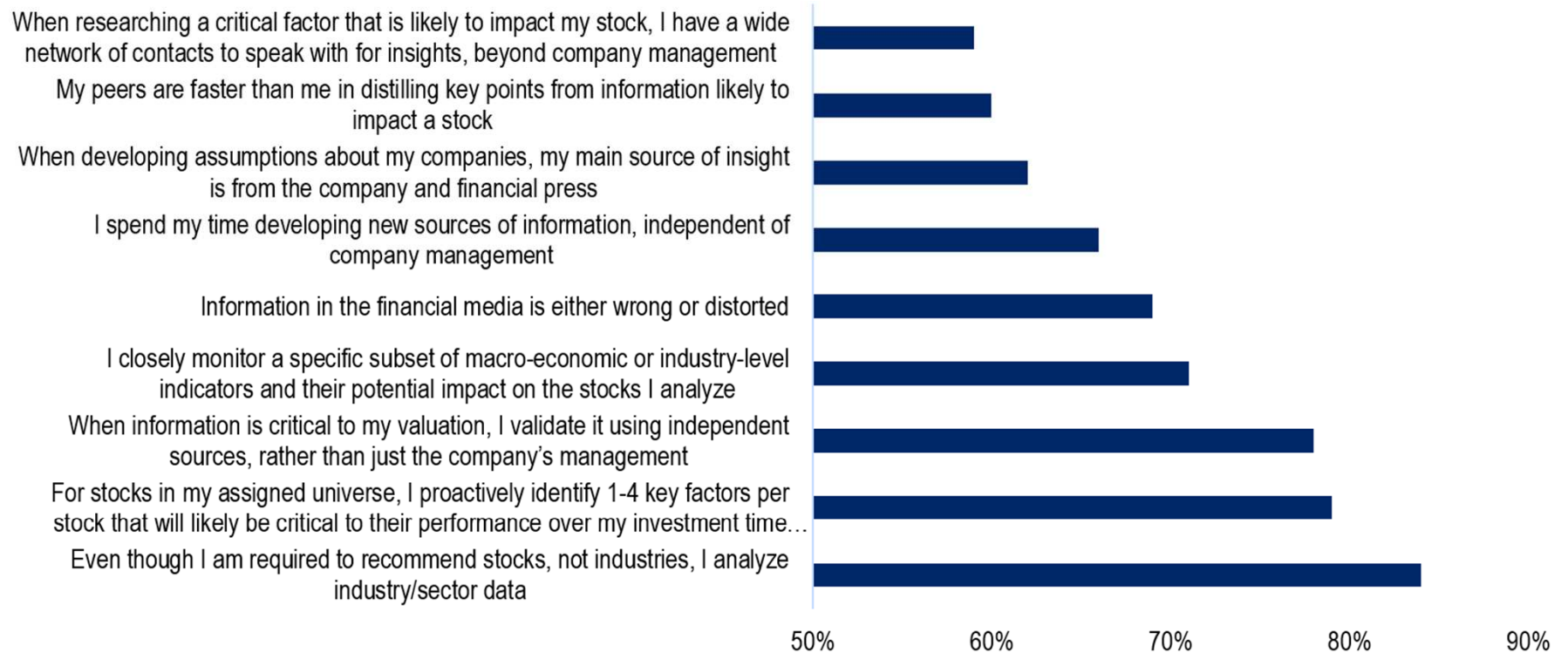
What Analysts Tell Me...

- “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



Two Critical Questions

Which factors are going to move my stocks?

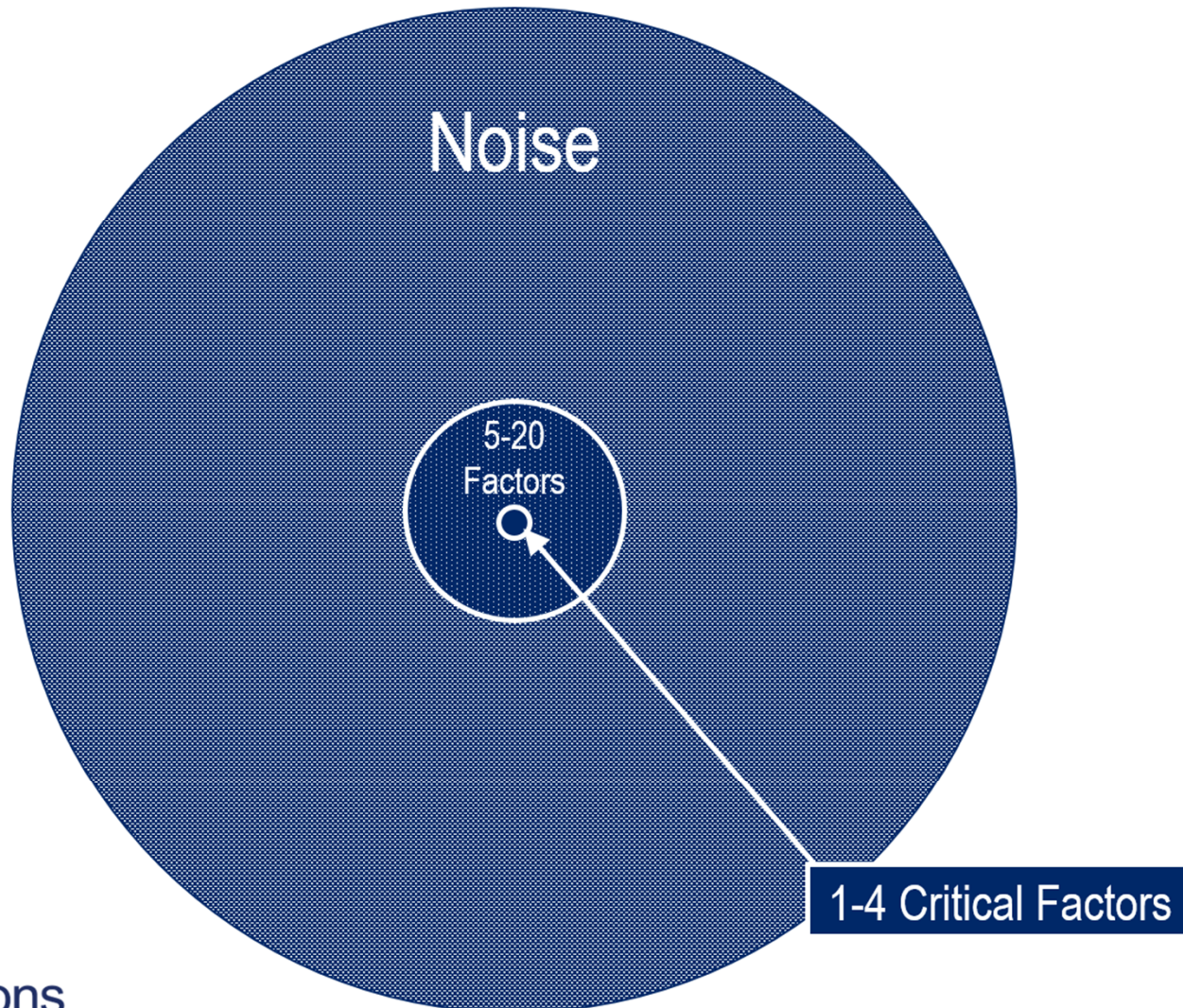


Where can I get unique insights on these factors?



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 Exceed 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?

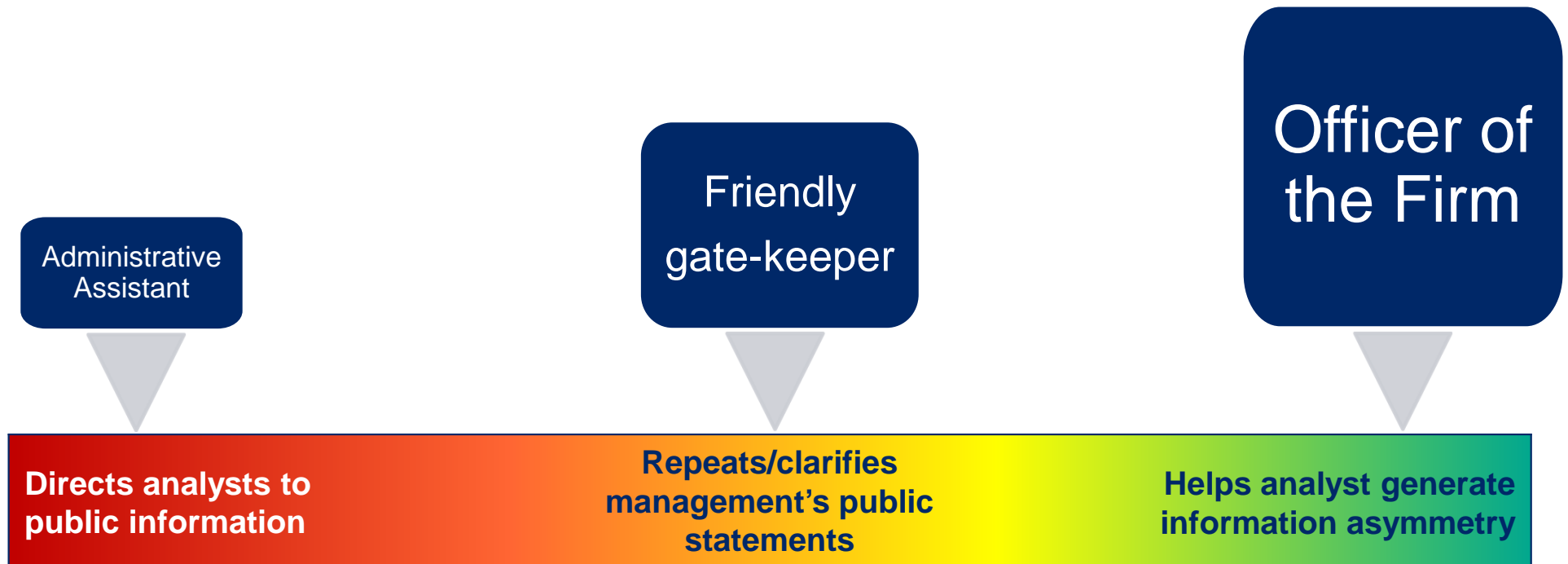
S&P 500



Exceed Materiality vs. Probability

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

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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

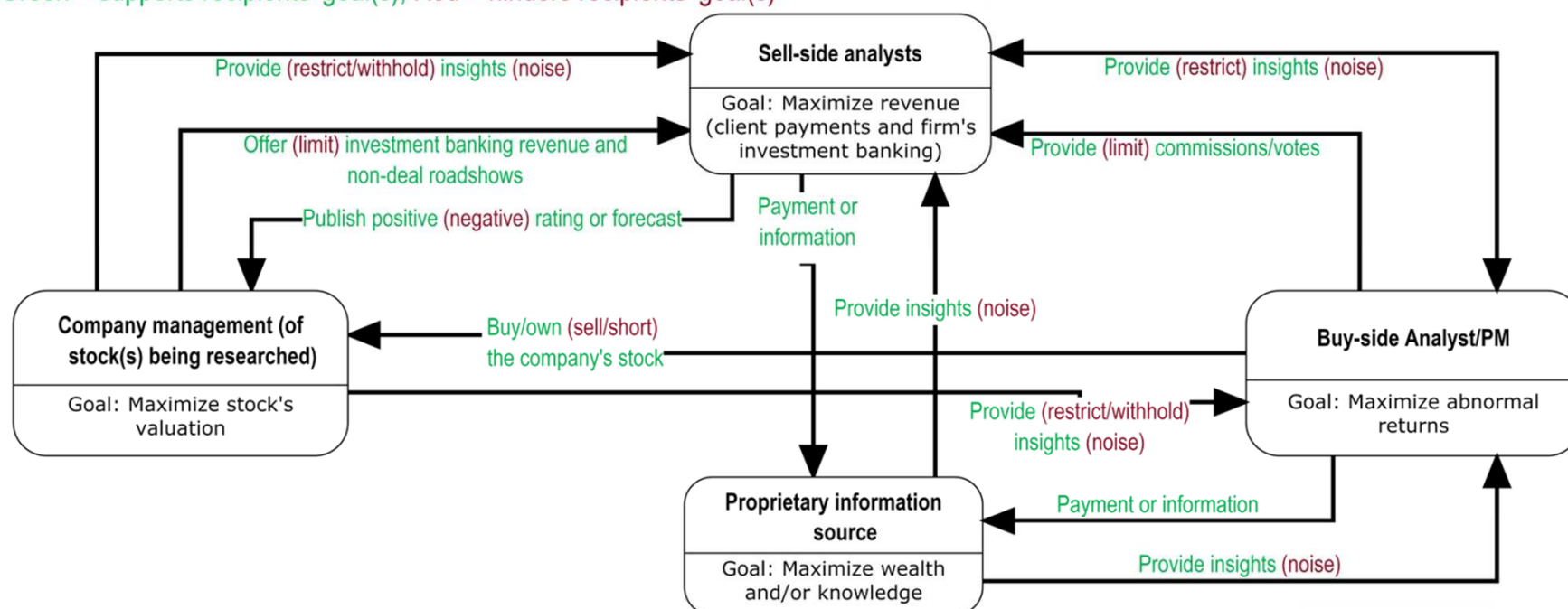
*Sticky Relationships and Ossified Ideas
in Financial Markets*

**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)



James Valentine, CFA

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
- All information is anonymized (identities are stripped from the transcripts/notes soon after the end of the interview)

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September 20, 2024

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