Edelman conducted a proprietary survey to explore the use of qualitative information in investment decision-making, and to discover how investors use qualitative information in their role at their firm.

We defined qualitative information (QI) as non-quantitative information that can help an analyst or investment professional develop a better understanding of a company’s strategy, competitive position, products, business performance and future developments.

The survey was conducted over a three week period in April 2015 and incorporates the views of n=158 investors, categorized per the charts on the right. The end goal was to reveal valuable insights to help IROs and financial communicators.
Executive Summary

Investors rely on qualitative information to fill out their investment thesis and create a valuation model: The numbers do not stand on their own.

- Investors view qualitative information as essential to analyze a company as it provides 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, CFO, IRO and line-of-business executives have distinct, but complementary roles in the IR program.
- Responsiveness and effective conference calls rank as the two most important factors in a strong IR program.
Qualitative information is an essential input to building models and validating guidance/investment thesis

- Management must give visibility to intangibles – soft information is a critical element to the investment process for 85%+ of investors.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Somewhat agree (6-7)</th>
<th>Agree Completely (8-9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative information helps me evaluate a company's forward-looking information and guidance</td>
<td>43%</td>
<td>44%</td>
</tr>
<tr>
<td>Qualitative information helps me validate an existing investment thesis for a particular company/security</td>
<td>35%</td>
<td>51%</td>
</tr>
<tr>
<td>Qualitative information helps me understand and interpret historical results</td>
<td>36%</td>
<td>48%</td>
</tr>
<tr>
<td>Qualitative information helps me to develop a valuation model for a particular company/security</td>
<td>43%</td>
<td>34%</td>
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</tbody>
</table>

- Investors reject the notion that qualitative information is not useful:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Somewhat disagree (3-4)</th>
<th>Disagree Completely (1-2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-quantitative information cannot easily be compared with investment peers or competitors on a like-basis and thus add noise to the analysis</td>
<td>29%</td>
<td>34%</td>
</tr>
<tr>
<td>Non-quantitative information is not verifiable in real-time and thus cannot be modeled</td>
<td>32%</td>
<td>31%</td>
</tr>
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Investors view qualitative information as essential to understanding a company’s investment story

- Investors want qualitative explanation from management to gauge their confidence in products, market trends, and financial and strategic plans.

**Investor appetite for types of non-financial information**

- Anticipated future opportunities and vulnerabilities, i.e., pipeline for product release, new contracts, etc.
  - Somewhat important (6-7): 32%
  - Extremely Important (8-9): 59%

- Expectations for capital allocation strategy
  - Somewhat important (6-7): 31%
  - Extremely Important (8-9): 59%

- Qualitative guidance about trends in revenues, earning, margins, or other financial metrics
  - Somewhat important (6-7): 37%
  - Extremely Important (8-9): 51%

- Depth of management's talent, bench, etc.
  - Somewhat important (6-7): 35%
  - Extremely Important (8-9): 52%

- Management's vision for the company
  - Somewhat important (6-7): 33%
  - Extremely Important (8-9): 54%

- Statements regarding macro or micro trends in the markets and geographies relevant to that company
  - Somewhat important (6-7): 47%
  - Extremely Important (8-9): 39%

- Future capex expectations
  - Somewhat important (6-7): 44%
  - Extremely Important (8-9): 40%

- Management’s confidence about hitting specific targets
  - Somewhat important (6-7): 36%
  - Extremely Important (8-9): 44%

- Anecdotes, single data points regarding revenues, earning, margins or other financial metrics
  - Somewhat important (6-7): 40%
  - Extremely Important (8-9): 28%

- Board qualifications, relevant experience, engagement, etc.
  - Somewhat important (6-7): 41%
  - Extremely Important (8-9): 21%
Growth and GARP investors especially look for qualitative information to fill the whitespace in their projections.

- Growth-oriented and GARP investors place a higher value on what they hear from management – vision, depth of bench, and “confidence” in targets – compared to Value-centric and Hedge investors.
Management’s articulation of strategy provides a critical variable for developing investors’ theses and models

- Investors want to hear a company’s strategy and future plans directly from senior leaders.

Q7. Please indicate the degree to which you agree with the following statement “Management is in the best position to know the company’s strategy and is thus a valuable resource for developing our investment thesis and anticipated future performance.”

- Somewhat agree (6-7)
- Completely agree (8-9)

By Fund Type

- Growth: 56%
- Value: 50%
- Hedge: 50%
- GARP: 69%

"Management is in the best position to articulate the company’s strategy and is thus a valuable resource for developing our investment thesis and anticipated future performance."
Investors value unscripted discussions with management and the IRO as most-reliable information sources (after SEC filings)

- Earnings call Q&A viewed as more valuable than scripted remarks
- Direct conversations with IR are a top source of information
- Company website is also highly valued, and about half of respondents viewed media as important, though trade media outranked business media
Investors highly value a well-crafted investment story and use it to provide a basis for valuation

- A strong story is critical to filling out the value equation and giving investors confidence to overlook short-term misses.
- Investors 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.

A well-articulated, forward-looking strategy helps us to better understand and value a company.

- Somewhat agree (6-7)
- Agree (8-9)

If a company is able to articulate a long-term strategy that meets my investment thesis, I am willing to look past one or two quarters of misses.

- Somewhat agree (6-7)
- Agree (8-9)

I find little value in a CFO reciting the income statement and would prefer a more high-level discussion of what took place during the quarter.

- Somewhat agree (6-7)
- Agree (8-9)

On quarterly earnings calls, I would prefer that a management team give their highlights for the quarter and reserve the bulk of the time for Q&A.

- Somewhat agree (6-7)
- Agree (8-9)

It is acceptable for a company to provide a piece of forward-looking information that articulates a strategic point that it does not intend to provide on an ongoing basis.

- Somewhat agree (6-7)
- Agree (8-9)

A company has to give me quantitative guidance for me to consider the investment.

- Somewhat agree (6-7)
- Agree (8-9)

The numbers are the numbers: We prefer that a management team present their unvarnished operating and financial data and not give us their investment story.

- Somewhat agree (6-7)
- Agree (8-9)
When evaluating a company’s investor relations program, responsiveness and quality earnings calls are most important

- Investors are looking for forums to directly connect with management, including the deeper management bench.
- Participation at investor conferences and investor days are also viewed as important.
- 30 percent of investors agree that management should be visible in financial media

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<th>Factor</th>
<th>Somewhat important (6-7)</th>
<th>Important (8-9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company responsiveness to inquiries</td>
<td>21%</td>
<td>71%</td>
</tr>
<tr>
<td>Quality of earnings conference calls</td>
<td>33%</td>
<td>55%</td>
</tr>
<tr>
<td>Conducting earnings conference calls</td>
<td>23%</td>
<td>64%</td>
</tr>
<tr>
<td>Management's willingness to meet in-person or by phone</td>
<td>29%</td>
<td>57%</td>
</tr>
<tr>
<td>Participation and availability at investor conferences</td>
<td>36%</td>
<td>45%</td>
</tr>
<tr>
<td>Access to management beyond the C-suite</td>
<td>45%</td>
<td>36%</td>
</tr>
<tr>
<td>Quality of Investor Day</td>
<td>46%</td>
<td>32%</td>
</tr>
<tr>
<td>Conducting an Investor Day</td>
<td>44%</td>
<td>28%</td>
</tr>
<tr>
<td>Visibility in financial media</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Q9. Which of the following factors do you consider when evaluating the quality of a company’s investor relations program?
The CEO is the preferred voice for corporate performance and strategy; the CFO is the voice for financial disclosure and modeling.

- CEO overwhelmingly viewed as the voice for strategy, direction, current business conditions, and competitive environment. Line-of-business executives also valued the CEO for current business conditions and competitive environment.
- CFO must be the lead voice on financial disclosure and modeling assumptions.
- The IRO plays a strong role, especially on financial modeling assumptions.

Q11. From whom do you prefer to receive information about the following?

- Company strategy and future direction: 99% prefer the CEO, 25% CFO, 9% IRO, 12% line-of-business executive.
- Current business conditions: 74% prefer the CEO, 41% CFO, 12% IRO, 34% line-of-business executive.
- Competitive environment: 82% prefer the CEO, 27% CFO, 34% IRO, 11% line-of-business executive.
- Financial disclosure: 94% prefer the CFO, 19% CEO, 24% IRO, 3% line-of-business executive.
- Financial modeling assumptions: 86% prefer the CFO, 18% CEO, 37% IRO, 9% line-of-business executive.
Internal Research and Bloomberg Terminal, followed by Sell-side Analysts, are the buy-side’s highest-priority sources of information.

- Media also viewed as important source of information.

Q12. Please rank in order of priority, with 1 being top priority and 7 being lowest priority, which sources you go to for stock and company information.
“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.”

“A good IR person is worth several points of valuation multiple.”

“Investing is having a vision for the future and confidence in the management team to deliver on that vision.”

“Investing is like a beauty pageant, where I need to anticipate how the judges will perceive the contestants.”
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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