

IR Messaging During Political Backlash

As a result of the recent U.S. elections, Mexican stocks took a beating like no other in 4Q16-1Q17.

Donald Trump, the most unlikely of contenders for the U.S. presidency, took the title and the markets reacted. The general outlook was not positive. This was a president who promised to protect U.S. jobs at any cost, even if that meant pulverizing the thriving Mexican *maquila* region. Trump also boldly vowed to build a wall to separate the two countries, a wall that he swore would be paid for by Mexico. Furthermore, in order to strengthen trade competitiveness, he threatened to withdraw the U.S. from NAFTA and spread heavy tariffs on Mexican products.

Immediately, the dollar soared, weakening the peso as well as many other currencies in the region. It seemed as though Mexican industry and its immigrants were on the front lines as Trump attacked.

Interestingly, some of the results were positive; amid the confusion, however, any positive news would not surface until weeks, even months, later.

Points to Consider:

- What is the silver lining: are there opportunities arising amid the crisis?
- Fact versus rhetoric – Has any reform actually taken place?
- What is the best case scenario?
- What is the worst case scenario?
- How much of the hit is market conditions and how much are internal factors?
- Is company maintaining a politically-neutral stance?

Fast forward to April 2017:

- The Trump administration announces “revisions” to NAFTA
- The peso strengthens once again returning to pre-election rates; Mexico pulls all the stops to halt any further weakening, including raising interest rates
- Plans for “the wall”, perhaps even just a *fence*, are put on hold while Trump focuses on tensions with Russia over Syria
- 2026 World Cup bid announced, backed by Trump, to host tournament in the U.S., Mexico and Canada

But the question remains: *What is the proper messaging for a public entity during the actual political uncertainty?*

Let us begin our discussion with the fact that there is nothing a company can do or say to completely eliminate any stock hit in a negative or uncertain macroeconomic situation. This is because some things are just out of a company’s control and there are usually more factors at play than those that meet the eye. Consider that some industries are more susceptible than others. Retail and consumer stocks, for example, are usually the first feel the impact of an economic downturn. This could also include airline stocks and restaurant services.

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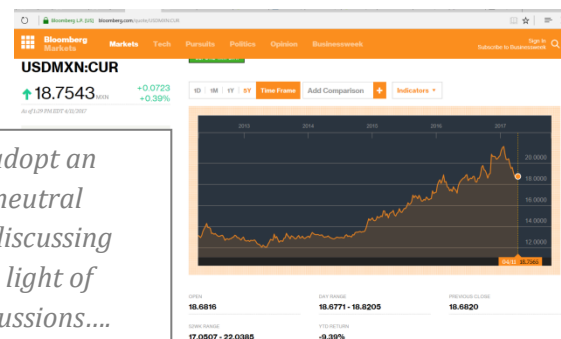


Figure 1: Mexican Peso in the last 5



Another item to consider is that some companies may have been softening all along; recent news may have just further aggravated the situation but is not necessarily the main culprit. In the case of the peso devaluation, the Mexican currency had been steadily on the downturn (see Figure 1) and is expected to suffer even further in 2018, when the local elections take place.

The above is not to say that Trump's win was not the cause of the many headaches over the course of the last six months, it is to say however, that issuers must adopt an analytical and neutral position when discussing their outlook in light of political repercussions. This includes generating a plan of attack to minimize long term volatility of securities. The plan focuses around assessing the situation, building a strategy that is fact based and then creating an outlook that will be shared with the market. Having a hold on these three principles will put the company in a better position to ride the wave of volatility until (hopefully) the noise dies down.

Assess the current situation

First of all, take a look around. Is the current market environment providing opportunities for your company? What are they? And what are the other factors at play? Perhaps revenues are deteriorating due to other factors outside of the political environment. What are these factors and how can the company arm itself with useful and valuable information in order to forge ahead?

Part of the assessment is to immediately “gather your troops” and generate feedback. In this case, your employees are your soldiers on the ground. They are invaluable in creating a solid corporate strategy during times of crisis. *What are their concerns for the business? What have they seen on the field? What are the steps you can take right away in order to alleviate the situation?*

Meanwhile, your clients or customers are your allies. Your company will need them by its side in order to ride out this unfortunate wave together. As such, it is important to assess their position. *Do they plan any cutbacks that may affect your business? Is there any reassurance you can give them that will entice them to hold out before making any drastic changes?*

Build a fact-based strategy

Once you have this information you can formulate a market strategy that is fact based and sound. For the market, it is very important to know that the company is being proactive and taking steps to protect their interests. Furthermore, knowing that the company has an intelligent plan in place may deter some (not all) wavering investors from selling their positions. Analysts can use this information to update their reports and maintain a steady dialogue with the company as conditions change.

This strategy is the crucial messaging component that the market requires in order to maintain their interest in your company. This strategy is different for every company and each industry, however, some universal examples include:

Plan of attack:

- Assess the current situation
 - Build a fact-based strategy
 - Create a realistic outlook
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- *Generating products and services that adapt to the new market environment*
- *Reassuring existing clients, customers, employees and partners regarding the company's commitment to long term growth*
- *Diversifying the company's market towards those not impacted*

Create a realistic outlook

What does that mean for my company? That's the million dollar question for which no one has an answer. Despite this, a company can create an outlook that is realistic by using the information it has collected and thereby generating a credible outlook.

The market wants to know: what is the best case scenario versus the worst case scenario. In the best case, for example, the peso devaluation can make international travel less enticing than domestic travel, which can boost domestic travel and leisure. In real estate, leases may be long term and may be for periods of 5, 10 or even 20 years. Perhaps new business won't come in, but will the clients with existing leasing contracts have the option of bowing out of their deals, if they haven't completed their contract term? Remittances from abroad could rise (and did) as concerns for loved ones back home grew. This is a boost to purchasing power for the entire country that is the recipient of these cash inflows.

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In the event of a worst case scenario, a company may suffer heavy tariffs and lower sales revenues in the event of a NAFTA renegotiation. In other cases, a wall can create anti-American sentiment that can make it unsavory for U.S. companies and products doing business abroad. Painting a picture of what the specific downfalls are for your company can not only help you prepare, it can also build market credibility and foster solid relationships with your closest investors and analysts.

Finally, don't wait another minute before reaching out. Once you have assessed the situation, built a strategy and generated an outlook, reach out to your market audience in the form of a conference call or a non-deal roadshow to settle any potential unease that exists. Specifically if your stock or bond price has taken a hit, act sooner rather than later. A good communications program is based on proactivity, and this is the best time to demonstrate that your company can navigate the upturns as well as the challenges in a successful manner.

For more information on how i-advize Corporate Communications can help your company formulate its message, contact us at:

Maria Barona, Managing Partner
i-advize Corporate Communications, Inc.
80 Broad Street, Suite 2503 - New York, NY 10004
Tel: 212-406-3691 - Cell: 917-797-0062 - Fax: 212-509-7711

E-mail: mbarona@i-advize.com * www.i-advize.com