CTC

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Market News

A monthly review of IR developments for our clients and friends. . .

SEC zaps Tesla on non-GAAP revenue reporting

The SEC has zapped electric-auto maker Tesla for skirting the commission's May 17 guidance on the use of non-GAAP performance metrics. Correspondence between the SEC and Tesla reveals that the SEC complained about "individually tailored" measurements in Tesla's third-quarter earnings release, noting that the company added certain costs to its GAAP revenue. The SEC told Tesla its guidelines specifically prohibit such adjustments. The matter was resolved in October when Tesla announced that it would stop reporting non-GAAP revenue, and the SEC accepted the company's response in an Oct. 12 letter. Tesla never made its case for its non-GAAP adjustment, the SEC said, adding that just because Tesla uses the adjusted numbers internally doesn't mean that they are useful to investors. Tesla is the latest of several companies curbing their non-GAAP disclosure in light of the SEC's concerns, including Halliburton, Walgreens Boots Alliance and Electronic Arts.

Traders squeezing investors in the middle

Equity trading desks are responding to cost pressures by rationing their services based on asset size, according to TabbFORUM's latest Institutional Equity Trading Study. Tabb said medium-sized investment firms were being squeezed the most, with some getting coverage from one junior sales rep instead of two more senior types. Tabb also cites the shift to passive stock indexes and ETFs as a significant issue, and the buy side's shift toward trading strategies that protect liquidity versus absolute gains. Tabb says the portion of the commission pool allocated to proprietary research declined by 15 percent from 2014 to 2015. Sell-side firms may have to de-emphasize research into specific stocks and emphasize liquidity-driven ideas to keep clients.

Brokers complain about steep exchange data charges

Market data has evolved into a battleground between brokers, the consumers of market data, and the exchanges and other market operators. Some institutional trading firms say that because market data isn't available elsewhere, they have to pay the exchanges, who are suffering their own cost pressures and need a growing revenue stream. In 2011, NYSE Group owner Intercontinental Exchange collected $134 million in data-fee revenue, or 10 percent of its total revenue. In 2015, data revenue was $871 million, or 26 percent of all revenue. Profit margins on data products can be as high as 70 percent for some streams.

Institutions plan to boost allocations to factor-based strategies

A study by Invesco (IVZ) found that pension funds, insurers, sovereign wealth funds and other institutional investors plan to almost double allocations to factor-based strategies over the next five years. Factor-based investors select securities based on sets of performance metrics such as liquidity, returns and risk, rather than issuer asset class and security type. Invesco said that 70 percent of respondents already use factors, mainly to manage risk reduction. Of the rest, half are considering options such as multifactor quantitative strategies, internal factor models and fixed-income and liquid alternative strategies. More than 60 percent said they are capable of assessing factor strategies, and 71 percent said they could do it in-house.

Russian exchange adds U.S.-based listings without consent

As it did three years ago, the St. Petersburg Stock Exchange in Russia is notifying many U.S. companies that they are being added to a list of non-quoted stocks still eligible for trading on the exchange. The exchange says the listings do not impose any obligations on U.S. listees, and is thought to be an effort mainly to gain international attention. In 2013, the exchange issued similar letters. Many of the U.S. companies asked for the listings to be withdrawn, and the exchange complied. But a change in Russian securities laws the following year specifically exempted foreign issuers from Russian reporting and disclosure obligations, and let the exchange proceed with unauthorized listings. Company requests to delete the new listings are apparently being ignored.

Roadshows rival investor conferences as popular forums to meet investors

During the past year 92 percent of U.S. companies went on roadshows, averaging 7.3 marketing trips during the year according to *IR Magazine's Global Roadshow 2016 Study*. During the year 96 percent of U.S. companies attended an average 7.4 investment conferences. Investor site visits are still popular, with 75 percent of U.S. companies hosting 5.6 visits, down from 79 percent hosting 5.3 visits in 2015.

Activist funds down 6 percent for the first nine months as their appetites downsize

For the first time since the financial crisis, *Hedge Fund Research* reported a drop in assets under management for activist funds in the first nine months of 2016. These funds, which pressure managements to make changes the funds believe will increase their value, were down $7.4 billion to $116.6 billion. A recent survey of activists conducted by law firm Schulte Roth & Zabel showed that 68 percent saw little opportunity in mega-cap stocks, but a similar share sees a lot of opportunity in small caps. Experts attribute the shift in strategy to the rise in the stock market and a push by large companies to maximize value. They also point out that small companies are easier targets, because they tend to be undervalued and have fewer resources to defend themselves.

Hexagon CEO fails to mention insider-trading arrest on investor call

The CEO of a Swedish company says he has no regrets about failing to mention that he was under arrest for insider trading and accompanied by police when he held the company's third-quarter investor conference call in October. Ola Rollen, CEO of Hexagon, spent 10 days in jail following his initial arrest on October 26 by Norwegian authorities over his family's investments in Next Biometrics ASA, a Norwegian company, just before the price of Next Biometrics shares skyrocketed. Swedish authorities let Rollen go ahead with the call two days later, with two police officers in the room. "My conscience is clear," Rollen said a week later after his release from jail. Hexagon officials said the company decided not to mention the arrest during the conference call because it had "very summary and conflicting information" at the time about the charges.

Banks agree: Stock buyback programs will be in vogue in 2017

S&P 500 companies are set to buy $780 billion of their shares back in 2017, according to a Goldman Sachs forecast. Goldman points to the Trump administration's expected push to bring overseas cash back to U.S. shores, with $150 billion, or about 20 percent of the buybacks coming from repatriation of overseas cash. If their forecast is realized, buybacks will make up the largest use of cash among S&P 500 companies for only the second time in the last two decades. Wells Fargo came out with a similar forecast. Both banks looked back to a tax repatriation holiday enacted in 2004, which caused buyback executions to spike 84 percent that year and 58 percent the following year. Buybacks exceeded all other increases in cash use during the period.

At this special time of year, we pause to remember that our business relies on the trust and confidence of the good people it is our fortune to work with. We appreciate your kindness and concern for us, and we want you to know how much we enjoy both our professional and personal relationships with you. In the New Year, we hope that we can continue to support you and your business, but equally important, we wish for continued friendship, and good health for you and your families throughout the year.

For investor relations or market questions, or to discuss our consulting services, please contact us at (937) 434-2700.

CTC Investor Relations website: IRbyCTC.com phone: (937) 434-2700 e-mail: ctc@irbyctc.com