CTC Investor Relations

Market News

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

Time to get serious about the new revenue-recognition rules

A recent *Wall Street Journal* survey revealed that just 15 S&P 500 companies have disclosed how they plan to transition to the new revenue-recognition accounting rules. Public companies are required to file quarterly and annual reports using the new guidelines for fiscal years that begin after December 15, 2017. The new rules replace industry-specific practices with a unified five-step model to make revenue booking for similar transactions more comparable. It is also an effort to more accurately depict the timing, uncertainty and volatility of doing business. It will change the income statement for some companies, while producing minimal change for others. Either way, finance chiefs are required to explain to investors how, if at all, the new accounting methods and transition will impact their financial reports.

2016 was a year of busted deals

The past year saw the largest number of busted deals since the depth of the financial crisis eight years ago. Almost a quarter of the announced $3.55 trillion transactions—$797.2 billion—over the last 12 months were taken off the table as CEOs went after risky transactions to achieve the kind of growth they couldn't achieve otherwise. Assertive government regulators quashed merger dreams because they created too much market concentration, while recalcitrant target companies rejected low offers.

Sluggish IPO market drops to 7-year low

Initial Public Offerings (IPOs) accelerated in the second half of 2016, but they fell well short of 2015 levels in both activity and pricing, according to research by Renaissance Capital, an IPO Investment adviser and research firm. The year's 105 deals raised $18.8 billion, the lowest level since 2003, dropping 37 percent from the $30 billion raised in the 170 deals offered last year. The report attributes a drought in tech offerings, usually a leader in IPOs, caused by differences between private and public valuation leading many tech companies to push back their offering or withdraw them altogether. But tech deals were hardly the only culprit as IPO activity decreased almost across the board in 2016, with healthcare, financial, consumer and energy sectors all hitting multi-year lows.

EY's look at 2013's class of IPOs finds some governance updates

Ernst & Young (EY) took a look at the 2013 class of IPOs and compared how their governance practices have evolved over the last three years. Among the class of more than 100 companies examined, many have replaced some of their original M&A and private equity focused board members with more CEOs and others with public company experience. The boards also have a few more women, especially among large-cap IPOs. The percentage of these 2013 IPOs with independent board chairs rose from 26 to 34 percent; independent lead directors in the group grew from 35 percent to 40 percent. Only a few are adopting policies most listed companies now take for granted: annual election of directors, up from 23 to 28 percent among the class, and majority voting, up from 11 percent to 18 percent.

Audit deficiencies down, but still high

The Public Company Accounting Oversight Board found 39.2 percent of the audits they inspected in 2015 were deficient, down from 42.9 percent in 2014, according to the latest survey of fair value audit deficiencies by Acuitas, a CPA firm. The study credits the use of practice aides, checklists, coaching, and support teams for the first decrease in audit deficiencies since their survey started in 2009. They blamed audit deficiencies on failure to assess audit risks, test internal controls and test assumptions about underlying information. Almost a quarter of all deficiencies can be traced to impairment and fair market value measurements, especially fair value in business combinations, where deficiencies doubled from 23.1 percent in 2009 to 55.6 percent in 2014.

It's not that companies are reporting sustainability risks, it's how they're reporting them

A majority of U.S listed companies are disclosing sustainability risks to investors, according to the Sustainability Accounting Standards Board. However, 52 percent of those companies are using vague boilerplate language to flag the risks and not including management response strategy. Companies are required to disclose in their financial filings material risk they believe would impact investor's decision to buy or sell the security. Those risks have increasingly become associated with social and environmental issues, up to 67 percent from 40 percent four years ago and the study points out that it is in these areas where companies are failing to adequately describe the risk to investors.

Goodwill impairment doubles

The extent that carrying value of goodwill on financial statements exceeds its fair value doubled in 2015 to $57 billion, the most since the global financial crisis, according to financial advisor Duff & Phelps. The yearly number of impairments has remained fairly constant at around 350, but the size of the impairment per event rose to $163 million. Weakness in energy prices and several significant impairments in the tech sector were big factors. Fifty-six percent of energy companies reported impairment costs in the year. In the information technology industry, goodwill impairments more than tripled in 2015, to $12.9 billion. Leading the way were Microsoft at $5.1 billion for the write-down of its Nokia handset division, and Yahoo's $4.5 billion write-down of its Tumblr business.

CEO Succession: Yep, we've got a plan. Nope, we're not telling what it says

Equilar says that a third of S&P 500 companies assert in their proxy statements that they have a CEO succession plan. What's in the plan? Only 3 percent provide a clue, and often little more than that. The number of CEOs leaving S&P 500 companies is rising, and about 10 percent of the S&P 500 replace the CEO each year. But absent a line-item SEC rule forcing disclosure about CEO succession plans, only activist investor scrutiny is likely to prompt more disclosure about the processes companies use to make sure the revolving door kicks out the worst and admits the best.

States and cities look at tying policies to CEO pay ratios despite uncertainty

No one knows whether its foes will slay the Dodd-Frank-driven CEO pay ratio rule before the numbers are scheduled to show up in 2018 proxy disclosures, but that isn't stopping state and local governments from trying to sync such things as tax rates and contract award criteria to the ratio. One California state senator almost gained approval for state corporate income tax rates as low as 7 percent for companies with ratio of no more than 25 to 1, and 13 percent for companies with ratio of more than 400 to 1. Rhode Island lawmakers considered preferences in state government contracts for companies with ratios of 31 to 1 or lower. In Portland, Oregon, the city council approved a corporate surtax for companies with CEO pay ratios above 100 to 1.

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