DENTONS GLOBAL ADVISORS

Integrating Government Affairs into your Investor Relations Program

Key takeaways

- All US businesses – especially public companies – are increasingly being impacted by activities in Washington, including legislation, regulation and spending
- Investor Relations Officers must understand and integrate geopolitical events into their ongoing messaging and shareholder engagement programs
- Devising and implementing a proactive government relations program is critical to mitigating potential risk while also maximizing opportunities that may come your way

Investor Relations meets Government Relations

In Bill Clinton's 1996 State of the Union address, he declared that "the era of big government is over." Not exactly. Since that famous speech, the size of government has grown exponentially, with thousands more federal employees, hundreds of additional committees and trillions in new spending. With it, Washington impacts more areas of the U.S. economy than ever before.

Nowhere is this more apparent than in corporate America, where regulation, tax policy and large spending packages can all have a significant impact on business plans. Furthermore, as many U.S. businesses (especially public companies) become more global and customers, suppliers and shareholders more ubiquitous, companies of all shapes and sizes are realizing governmental interaction – federal, state and local, foreign and domestic – is here to stay.

As a result, Investor Relations Officers (IROs) of public companies must better understand how to work within the confines of Washington and key state and municipal hubs to ensure they are minimizing risks and maximizing opportunities. With all this mind, IROs should consider a few key truths.

What happens in Washington does NOT stay in Washington

For years, public companies – particularly small- and mid-cap names – have tried to keep their heads down and focus on themselves, leaving it up to others to interact with policymakers and legislators. Many CEOs say, "We are focused on running our business, and the rest will take care of itself." Unfortunately, that's easier said than done. In the past 25 years there have been substantial changes in policy, regulations and political sentiment that have affected companies of all shapes and sizes. Here are several examples:

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- **Tariffs** – The "Trump Tariffs" were a series of tariffs imposed in 2018 to reduce the U.S. trade deficit by shifting American trade policy from multilateral free trade agreements to bilateral trade deals. The Trump administration also imposed and escalated tariffs on goods imported from China, leading to an ongoing trade war between the two superpowers.

- **Tax reform** – In December 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law, representing the most significant tax code overhaul in more than three decades. In addition to many individual tax rate changes, the TCJA lowered the corporate tax rate from a tiered tax rate to a flat 21%and changed the U.S. from a global to a territorial tax system.

- **Regulatory environment** – In addition to understanding legislative changes, IROs must have a firm understanding of the regulatory environment and how to effectively communicate its impact on your company and your industry as a whole. This is obvious for highly regulated sectors like Energy and Healthcare, but newer industries like cryptocurrency, cybersecurity and social media are being heavily influenced as well. Potential regulations on the use of artificial intelligence (AI) will not only impact companies directly involved in that technology, but also many companies on the periphery of it. The SEC is an obvious regulatory agency that has, and will continue to have, a big impact on all public companies.

- **Monetary policy** – Gaining significant headlines over the past several years, U.S. monetary policy is a set of tools used by the central bank to control the overall money supply to promote economic growth while keeping inflation in check. Following more than a decade of extremely low rates, the Fed has increased interest rates several times over the past year in the hopes of stemming ongoing inflation. Nearly all companies are affected.

- **Fiscal policy and tax incentives** – In addition to regulatory and tax changes, over the past several years we have seen an influx of massive spending bills – many of which stemmed from the economic impact of the Covid-19 pandemic – that have created opportunities (including tax credits, forgivable loans and other economic incentives) for those companies who understand these new laws and their many intricacies. Oftentimes the companies benefitting the most from large bills such as the Inflation

Reduction Act (IRA), the CHIPS Act and PPP were part of the discussion BEFORE the laws took effect and have been extremely proactive in understanding their ability to financially benefit from the available incentives. Understanding how monetary incentives from significant funding opportunities like the IRA and CHIPS Act will be implemented and overseen will be a big focus area for many companies, both private and public, who will be looking to benefit financially from the legislation.

- **Geopolitical challenges** – Choosing to do more, or less, business with other countries based on geopolitical concerns is nothing new, but has been especially prevalent in the past few years following escalating tensions with China and the Russia-Ukraine War. We also continue to hear a theme of "de-globalization" from policymakers and the need to have separate EU/U.S. and Chinese supply chains, creating redundancies in the system. For example, the pandemic highlighted the need for alternative supply chains for critical products such as semiconductor chips, medical equipment and antibiotics, among others. As a result, creating separate supply chains will be a big focus area in Washington for years to come –and a popular topic for investors to ask about on earnings calls.

- **ESG and its implications** – Although most public companies have spent considerable time and resources implementing and expanding their ESG programs in the past several years, there has been a rising level of pushback among certain groups (state pension funds, religious groups, political parties, etc.) regarding the value of ESG and the ramifications of supporting certain environmental or social causes. The "anti-woke" sentiment among some key stakeholders – best exemplified by recent lawsuits filed by several State Attorneys General aimed at fighting a perceived overstep in ESG investment guidelines – must also be taken into account. Understanding the difference between political posturing and the real potential for regulation is important to understanding what has become trickier terrain over the past year.

Each of these changes has had a fundamental impact on the U.S. economy and companies doing business here. And like most large policies, there have been clear winners and losers.

Institutional investors care about geopolitics

As our clients, both public and private, pursue their various initiatives, they are fielding a surge of questions from institutional investors about how they are preparing and responding to 1) developments at the federal and state level and 2) the impact of global political events on business operations.

Reinforcing its importance, in a 2022 Institutional Investor Study, Schroders notes that geopolitical uncertainty was a top concern for almost all institutional investors. Keith Wade, Chief Economist at Schroders, highlighted the shift in investor apprehensions, stating, “After many years of loose monetary policy, investor concerns are dominated by the rise in inflation and the policy response from central banks. Geopolitical risks have also risen in the wake of the Russian invasion of Ukraine.”

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A recent example highlighting the need to understand the impact of geopolitics is the recent merger agreement between the PGA Tour and LIV Golf. Outside of potential anti-trust issues, a new question being posed in Washington related to the deal is, “Now that the PGA has gotten it started, is it okay for companies to take Saudi money now?” Not only does the agreement impact professional golf as we know it, but the knock-on effect of working with a country like Saudi Arabia becomes a lot less clear.

While specific geopolitical and geoeconomic concerns may vary from year to year, it is clear that companies need to have an answer regarding their potential impact.

How to solve the problem

Public company IROs have a lot on their plates as they manage a wide variety of activities including buy- and sell-side engagements, messaging and earnings, to name a few. While most IR programs require their teams to consistently work with other internal departments such as Finance and Operations to access key information, engaging in Government Affairs (GA) often takes a back seat until a problem arises. ***In today’s environment, that is simply too late.***

Similar to crisis planning, devising and implementing a proactive government relations program is critical to mitigating potential risk while also maximizing opportunities that may come your way. There are several “lessons learned” to consider when devising your Government Affairs program:

1) **Do NOT rely solely on large industry players or trade organizations to serve as your DC proxy**

   It is very common for small-to-medium-sized companies to defer to their larger competitors, or an industry trade association, to advocate on their behalf in Washington, helping them save valuable time and resources that can be used elsewhere. Unfortunately, there are several problems with this approach. First and foremost, large industry leaders are going to advocate for what best serves THEM and THEIR shareholders – not necessarily the broader industry.

   Similarly, while trade organizations have a duty to advocate for their entire membership, there can be a natural bias toward positions taken by the largest dues-paying members or the path of least resistance, which can influence positions they take and congresspeople with whom they interact. Maintaining a separate dialogue with key Washington influencers that know and understand YOUR company’s specific needs is critical to protecting your company’s interests over time.

2) Better leverage your Government Affairs team

For companies with the internal resources to support a separate Government Affairs function, it is important to maximize their efforts throughout your Investor Relations program. First and foremost, stop remaining in your silos – the best companies collaborate across Investor Relations and Government Affairs. Hold bi-weekly meetings to provide each other real-time updates and proactively include Government Affairs messages in your Investor Relations materials to get ahead of potential investor questions, while also ensuring messages are consistent across functions. Furthermore, you must work collaboratively to develop robust Q&A for earnings, sell-side conferences and ongoing investor conversations that address key hot-button geopolitical issues that could affect your business. Lastly, make sure both IR and Government Affairs are monitoring peers' commentary on regulation, legislation, tax rulings, disclosure, etc., ensuring you aren't caught off guard by any investor or media inquiries.

Many companies have done an excellent job aligning their IR and GA departments to deliver a unified message and proactively address activities in Washington that could impact their business. Walmart and JP Morgan, in particular, stand out for having integrated their investor and government relations messages and programs. But for every company that does it well, there are many more that struggle to integrate their communications.

3) Set up a Government Affairs function and find an informed partner in Washington (and Brussels)

For companies that have not yet established an internal Government Affairs function, there are several "must-haves" to successfully protect, prepare for, or capitalize on current and potential legislation or regulatory changes:

- **Implement proactive Government Affairs monitoring.** While many companies have established media monitoring to stay informed about news impacting the economy or their industry, they often overlook issues that directly affect their own organization. By implementing or outsourcing a proactive and vigilant monitoring system, companies can significantly extend the lead time necessary to address potential challenges or opportunities arising from the legislative process. This is a service where informed providers on the ground can offer a critical differentiator.

- **Have on-the-ground relationships in place BEFORE legislation happens.** Having relationships with well-connected Government Relations experts will allow your company to better understand an evolving political landscape in real-time as well as ensuring your voice will be heard by the right people should a situation develop. Similar to the need to have connections with reporters in place in order to drive a robust media relations program, relationships should be established regularly with stakeholders in Washington to ensure that there is a level of familiarity and trust with your brand.

- **Understand the agencies that can affect your business**. Too often companies think the only contacts to know in Washington are congresspeople, forgetting about the regulatory agencies that, many times, can have a major impact on your business. The EPA, FDA and FTC impact major swaths of the U.S. economy and each have their own unique ways of working. There is also a difference between the posture of the political appointees and career staff, making for a complicated stakeholder environment that is worth investing time.

- **Develop a plan.** Any strategy or plan must incorporate pending legislation, potential election outcomes, key political appointments, and other significant moments that will help you and your team scenario plan well in advance of a significant event taking place.

- **Make your Government Affairs program global**. Not every political event happens in Washington. Brussels, in particular, can have a major influence on multinational companies and can often set a precedent for what is to come in the States. Having a general awareness of the issues on the European agenda will make you better equipped to understand the risk landscape and cater to international investors.

Conclusion

Given the vast size and increasingly active U.S. government over the past 25 years, small- and mid-sized companies no longer have the luxury of deferring to their larger competitors or industry trade groups to handle all things Washington. Understanding the current landscape, as well as potential legislation and regulation that could impact your business – and how your company can influence the outcome – will help de-risk your story and provide the assurance your investors need that you are aware of important regulatory scenarios and can successfully navigate the growing complexity of today's political environment.

About Dentons Global Advisors

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