

# INVESTMENT COMMUNITY SENTIMENT SNAPSHOT

The Russia-Ukraine Conflict and What IROs Need to Know

The recent tension between Russia and Ukraine has significantly strained Russia’s relationship with the West and brought into question the former-G8 member’s political and economic ambitions and its impact on the rest of the world. In light of this conflict, Ipreo’s Perception Analytics Team interviewed global investors (with approximately \$400B EAUM) and a sample of well-respected sell-side analysts with a focus on Russian equities to determine if and how their views toward Russian issuers and the country as a whole have changed, and to better understand the catalysts for investment in the region going forward. Importantly, Ipreo also determined investment community expectations for the IROs of Russian companies and what role the Russia-Ukraine conflict should play in their communications with the investment community during this time of economic uncertainty.

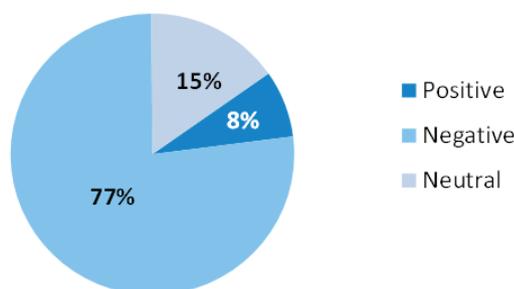
## Outlook on the Russian Economy

General investment community sentiment toward the Russian economy is currently negative:

- Most respondents explain that while the true impact to the Russian economy is still unknown and relatively difficult to measure, they do not intend to invest marginal dollars in Russian equities and will apply a greater risk premium to the country as a whole. Other anticipated negative outcomes include capital flight, currency devaluation, increased borrowing rates, and overall slowed country growth, with negative economic implications for the global macro environment.
- Some investors have a positive viewpoint and note that valuations of Russian companies have dropped off as a result of recent tensions, creating an attractive entry point and significant upside potential, while investors who remain neutral state that no clear economic changes have occurred and that they question the true weight of sanctions against Russia.

“The recent developments have impacted my outlook for Russia extremely negatively. Clearly, sentiment toward Russian investments has been impacted. The direct effect on the economy is difficult to quantify right now, but most investors are sure that there will be a negative impact on capital inflows, currency, inflation, and economic growth. It will also impact the borrowing rate for Russian banks. We do not know the scope right now. However, it will definitely not be positive for the economy.”

### Outlook on Russian Economy In Light of Russian-Ukraine Tension



## What IROs Need to Know

Investors and analysts agree that the IR teams of Russian-based companies should incorporate a discussion of the Russia-Ukraine conflict into their communications if it has certain or potential impacts to their companies. Most importantly, by proactively and honestly addressing the following factors, IROs can leverage the opportunity as a way to gain credibility in the marketplace.

- Investors and analysts suggest that IR teams discuss the financial impacts of political and economic sanctions (such as changes in demand impacting production and export volumes), the company's ability to circumvent or combat these factors (including any strategic change), as well as setbacks due to existing currency exposure.
- The minority of respondents who state that IR should not incorporate a discussion of the Russia-Ukraine conflict into their communications with the investment community state that the matter is beyond the realm of IR's role and thus the team will be unable to provide concrete, value-additive information beyond what is already publicly known.

"The IR teams of Russian companies should focus on their company's strengths and have some scenarios in their minds as to what would happen if there are sanctions against Russia. Can Russian companies be flexible in terms of moving production volumes and export volumes to other customers? Anyone who blindly denies that there will be a financial or economic impact is being unrealistic. Companies should articulate why they are not worried, how they are protected, and what would happen given different sanctions."

"We would like to know what is changing as soon as the company is aware of it. This may relate to demand, the strategy, or investments. Whenever a disruptive event occurs, no matter what that event is, we want IROs to communicate updates to us as they get them. I want to know now rather than 6 months from now."

"The IR teams of Russian-based companies cannot overlook the current Ukraine conflicts completely in their communications with the market. It definitely does have an impact on companies. For some companies, there is a direct impact. There is news today that there are companies that might be included on the US sanctions list. How each company is impacted will be on a case-by-case basis."

"The IR teams of Russian companies should not address the current situation with Ukraine. They will probably be objective, but they do not necessarily have better predictive power about future events than anyone else."

## Looking Ahead: Key Investment Catalysts

Investors cite a number of catalysts that would prompt them to invest/increase their current holdings in Russian equities. While many of these factors are beyond the realm of discussion for IROs, significant changes in any of the following factors can provide an ideal opportunity to proactively engage with investors and highlight any positive quantitative or qualitative impacts to the business and operating environment for Russian companies:

- The most frequently-cited catalyst is improved clarity into the Russian political agenda.
- Additional one-off factors include a near-term resolution between Ukraine and Russia, indications of longer-term political stability, eased tensions with the West (such as a reverse in current economic and political sanctions), a ruble recovery, and a clear bottoming to GDP.

“Sanctions being reversed, a peaceful election in Ukraine, and Russia being accepted by the world stage (including NATO, the U.N., and the U.S.) would be positive catalysts. Strengthening of the ruble, which has been weakened by this conflict, would also be a positive catalyst.”

“I would need to have better insight into the political sphere in order to have confidence in the region going forward. The macro will not be supportive of this type of environment, so any positive indications or turnaround in the macro would be a good indicator that investor concerns have waned.”

Author: Brynn Steblay – Senior Analyst, Perception Analytics

### For more information, please contact:

#### **Evan Bernstein**

Director, Corporate Services

+44 (20) 7665 9735

evan.bernstein@ipreo.com

#### **Robin Auten**

MD, Perception Analytics

+1 212-849-3740

robin.auten@ipreo.com