Profile: Carlos Madrazo

Establishing Credibility in the Investor Community

Latin American banker turned investor relations officer in one of the most expertly run companies in Mexico, Carlos Madrazo provides his insights on governance, financial reporting, and auditing from a Latin American perspective.

Intro

Carlos Madrazo has worked extensively in both Latin America and the United States and understands investor relations from a number of different viewpoints. "My background is in Latin American mergers and acquisitions," says Madrazo. "Subsequently, I became CFO of a joint Televisa and Univision operation in the United States for six years, and for the last two years I have been heading the investor relations function for Grupo Televisa. As a result, I think I have come to understand the areas that are of most interest to the investor community." From these diverse perspectives—former banker, former CFO, and now investor relations officer for the largest media company in the Spanish-speaking world based on its market capitalization—Madrazo discusses how to further improve corporate governance, financial reporting, and financial auditing processes in order to further increase the usefulness of financial reports.

Carlos Madrazo: A brief bio

Carlos Madrazo is Head of Investor Relations at Grupo Televisa, S.A.B. Previously, Madrazo was CFO of a Televisa and Univision unit in the US, named TuTv. Prior to joining Grupo Televisa, he oversaw ING Barings' Latin America Media & Entertainment investment banking practice, and before that he worked at Chase Securities, where he spent six years in the Global Mergers and Acquisitions Group. Madrazo has an MBA from the University of Notre Dame and a Bachelor of Arts degree in Economics from Universidad Anahuac in Mexico City. Prior to his graduate studies, he worked for DuPont in Mexico City as Assistant Treasurer.

See also "About Grupo Televisa, S.A.B."

About Grupo Televisa, S.A.B.

"Grupo Televisa, S.A.B., is the largest media company in the Spanish-speaking world based on its market capitalization and a major participant in the international entertainment business. It has interests in television production and broadcasting, production of pay-television networks, international distribution of television programming, direct-to-home-satellite services, cable television and telecommunication services, magazine publishing and publishing distribution, radio production and broadcasting, professional sports and live entertainment, feature-film production and distribution, the operation of an internet portal, and gaming. Grupo Televisa also owns an unconsolidated equity stake in La Sexta, a free-to-air television venture in Spain."

See also www.televisa.com/eng/

Corporate governance is increasingly important to investors

How important is corporate governance from an investor's perspective?

"More and more, investors are finding that companies that demonstrate good corporate governance tend to deliver superior financial returns. As a result, they are increasingly taking a closer look at corporate governance and assigning value based on the strength of governance practices. As a matter of fact, for many investors, corporate governance has become one of the key factors in their investment decision-making process. From the perspective of the company, then, it is very important to incorporate solid corporate governance mechanisms—and to communicate them to investors—to ensure that the value of a company is maximized."

"The largest part of a company's intangible value is the confidence investors have in the management team."

No exposure to any risky derivatives

How has your company weathered the recent financial and economic crisis? What could we learn from that?

"Televisa has always been very conservative with its cash management. One of the keys to Televisa's good financial performance, even during last year's financial turmoil, was that we had no exposure to risky derivatives. As a matter of practice, we limit our use of derivatives to hedging foreign-exchange risks on the service of our debt, one to two years forward.

"It has always been important for Televisa's management to keep a solid balance sheet. Televisa was recognized as one of the most defensive stocks during the financial crisis because investors were looking for companies that were conservative, not only in their business ventures but also in their cash management."

Televisa applies new Mexican corporate governance code

To what extent is this conservative approach due to Televisa's corporate governance practices?

"Televisa's conservative approach to its finances became one of the pillars of the overall approach of the management team that took control of the company in 2000; it is now in its DNA. Televisa also takes a proactive approach in the application of corporate governance practices.

"In Mexico, companies are encouraged to comply with the governance code called 'Código de Mejores Prácticas Corporativas,' or corporate best practices code. This code has recently been completely revised (see also 'Principles of corporate governance, adopted by the 2010 Mexican corporate best practices code').

Principles of corporate governance, adopted by the 2010 Mexican corporate best practices code

1. Equal treatment, and protection of the interests, of all shareholders
2. Recognition of the existence of third parties interested in the health of the company
3. Responsible disclosure of information and a transparent administration of this process
4. Assurances in the definition and proper implementation of a strategic vision
5. Strict exercise of the board of directors' fiduciary responsibilities
6. Identification, administration, control, and disclosure of risks
7. Disclosure of the company's ethical principles and social responsibilities
8. Prevention of illegal practices and conflicts of interest
9. Disclosure of inappropriate acts and protection of those who report those acts
10. Compliance with all regulations to which the company is subject
11. Provision of certainty and confidence to investors and third parties as to the honest and responsible conduct of the company

"Let me describe to you in a nutshell how Televisa is applying the corporate governance best practice principles. Televisa's Internal Audit Department first identifies the business units at risk and the functional areas within those units that need special attention. Based on this analysis, Internal Audit determines a set of procedures that the business unit must comply with and then evaluates the business unit's compliance with these procedures on a regular basis. Internal Audit assigns the unit a grade and, if warranted, proposes changes to the procedures.

"External auditors perform a similar audit on the relevant business units, identify the potential impact of an event, and provide their own set of recommendations. Any events considered high risk are then presented for consideration by the audit committee, followed by a presentation to the board of directors."

Ongoing risk management and internal control should be a key part of management at every level of an organization

What other recommendations do you have in the area of corporate governance?

"I think that risk management and internal control systems in many organizations are too narrowly focused. Risk management and internal control has to be an ongoing process of risk identification and review, and should be a key part of management, not only at every level of the organization but also across all operations.

"In addition, we should discuss increased protection for those charged with governance. I think a safe harbor provision should also apply to their assertion on the effectiveness of risk management and internal control systems, given the fact that even the most sophisticated internal risk management and internal control system cannot provide certainty to the realization of goals."

Fear of litigation also impacts companies outside the US

Is there a fear of litigation in Latin America?

“Latin American companies are certainly aware of litigation risk, especially when the company is listed on a US stock exchange. We are very careful about that. So this issue impacts not only US companies but also companies outside the US that are listed on a US stock exchange.

“The proper implementation of a corporate best practices code is precisely the first step to minimize litigation risk. Then, the investor relations function plays an important role in addressing investor concerns before the problems arise, by understanding the market’s expectations. We start by ensuring that our message to the market is consistent, transparent, and relevant, and we follow up by gathering valuable market intelligence and feedback that helps us correct or fine-tune the message.

“We are very careful about how we communicate with investors. It is not sufficient that we comply with US Regulation on Fair Disclosure (Reg FD). We are careful to coordinate our communications to the market with our public relations team, and we are sensitive to the fact that both departments reach a different audience.

“Also, we are careful when providing earnings guidance, and we do it in strict compliance with Reg FD. As a media company rapidly diversifying into telecom, we are only able to provide guidance on our TV broadcasting business, which is the portion of our business that has sufficient visibility. But we share with the market as much operating information as possible on the less predictable side of our businesses.

“On a regular basis, we monitor First Call earnings estimates and maintain a close dialogue with the sell side. We try to identify potential surprises—positive and negative—to determine if a surprise will result from miscommunication. Also, we place a lot of effort on addressing areas of interest and concern in the communications that result from our earnings release.

“I know that we have a good earnings call when no question goes unanswered. It means that we were successful at identifying the areas of interest in advance of our earnings release and were able to address them in the press release and management’s comments during the call.”

Transform financial reporting into an investor communications tool

What are your recommendations to further improve financial reporting?

“As of this date, financial reporting in Latin America is often perceived more as a necessary evil, rather than a tool for management and the investor relations team to share the strategy and performance of the business with the investor community.

“Fortunately, Latin American companies are starting to realize that it is very important to share the performance of a business and the success of its strategy with the investor community. It is not sufficient to only comply with filing requirements.

“While we obviously have to make sure that we comply with every reporting requirement, we also need to reach out to the market to find out what additional information the investor community needs. And every quarter, we should make adjustments.

"For the moment, there is a well-established way of sharing more demand-driven information, namely via investor conferences. We attend as many conferences as we can, work with as many analysts as possible, and pick up the phone as often as necessary to resolve any questions they might have regarding the business. We need to find a way to better present this information, or share our investor dialogue, in our business reports. It would make the work of investor relations more efficient and our reports more informative."

Face-to-face investor dialogue is essential

"The reality, however, is that investors want to meet with management face to face. Most investors who have a longer-term perspective will not make an investment decision until they have met Televisa management personally and found that they can have an open channel of communication.

"The smartest investors I have met start their dialogue with Televisa not by looking at the numbers but by meeting with management in order to understand the strategy of the business. They are not really judging the company by its numbers alone. They are also judging management's ability to realize a strategy.

"The fact of the matter is that in most companies, the largest part of a company's intangible value is the trust that investors place in the management team. If management projects confidence in its business plan, investors will, in turn, feel more confident about their investment in the company.

"Investors judge the quality of written statements, for example the quarterly earnings release, by listening to the tone of management in the earnings call. That is something that no technology or media platform will ever be able to replace."

Reach out to retail investors via intermediaries such as banks

How can companies better ensure that retail investors also receive this management discussion and analysis?

"We work with banks that market to retail investors via their branches throughout the country. These retail brokers receive exactly the same presentation as do larger, institutional investors. Not because we believe we have to for compliance reasons, but because we know that the retail investor is an important contributor to our potential investor base."

Investor communication is time sensitive

Would you consider streaming such investor meetings on your company's website?

"Under certain circumstances, yes; but I would advise caution. We do upload presentations from our investor conferences and other relevant events on our website, but the risk is that our audience does not have the proper context. A presentation today may not be as relevant as when it was presented three months ago, so we do it selectively.

"One of the keys to good investor relations is the timeliness of your communications. Preferably, the topics that you put on the table are the topics of greatest concern to the investor community. All of these topics have an expiration date: some last a year, some a quarter, some a week. A perfect example is the economic environment that prevailed last year. So the content that you put in the presentation is very time sensitive and should be handled accordingly."

Work with the investor community to ensure that you address their questions

"If you are reporting on a business, you need consensus between the corporation and the investor community to determine what is relevant and what is not. Investor relations officers need to play a bigger role to facilitate communications between a company and its stakeholders.

"Often, when we meet with investors we spend a good part of the meeting addressing questions, the answers to which may seem obvious to us, but which are not so obvious to the market. We need to constantly ask ourselves, 'How can we improve our reporting? How can we do it better?' Fortunately, many investors have a good enough relationship with us to tell us what needs to be changed or added in our regular reporting.

"But the feedback the market provides does not stop with me. Once a week, I meet with Televisa's senior management and present to them a list of the key concerns of the investor community. Then we take action. We are working for the investor community and are very focused on making sure that we always address any questions on the strategy and performance that the investor community may have."

Smart companies share the good news with the bad

How does one ensure that management provides a balanced overview of both the positive and the negative performance of the company?

"I think trust comes from not only sharing bad news but also sharing the lessons learned from dealing with a challenging situation. If a company's management can admit to mistakes and demonstrate that it has learned from them, the company will gain the confidence of the investor community, and in times of crisis investors are far more likely to ride the storm with it."

IFRS, although complex and expensive to implement, helps stakeholders better understand a business

From an investor relations perspective, how should we further improve accounting standards?

"Like any other Latin American company listed in the US, Televisa must comply with various sets of financial reporting standards. We have to comply not only with our own local rules but also with US rules. This is a very time-consuming task.

"We are moving to International Financial Reporting Standards (IFRS) in Mexico. Most of the publicly traded companies in Mexico will start accounting under IFRS in the first quarter of 2011 and reporting under IFRS in the first quarter of 2012. While IFRS is complex and expensive to implement, I believe that the application of IFRS will help our shareholders to gain a better understanding of our business and make better investment decisions. Not to mention that it will help to simplify compliance with the reporting standards."

End-users should determine whether reporting information is useful or not

Any suggestions to curb the complexity of financial reports and make them more useful to investors?

"At the end of the day, the user of our financial reports is going to be the better qualified one to tell us how to improve them. Only 13% of the respondents to IFAC's business reporting survey (2008) were users of financial reports. I wish that had been at least 50%.

"What investors really want to hear is not necessarily reflected in the current financial reports. That's why investors constantly are trying to meet with management, so they can find the information they're really seeking and get that feeling for the business that couldn't be reflected in the reporting."

Better distinguish between operational earnings and fair value changes

What are your views on fair value accounting?

"We think that fair value accounting may be very useful in some cases and in some industries. For example, it is appropriate for assets that are held for trading purposes, or if an entity's business is based and managed on fair value. In those situations, the expected earnings are based on buying and selling in the markets, and fair value accounting can approximate what those cash flows will be. For companies whose business models are not based on buying and selling in the markets, however, fair value accounting may be misleading to the readers of those statements.

"Standard setters and regulators should stop expanding the use of fair value beyond today's scope. Instead, they should better distinguish the impact on earnings that results from changes in fair value, versus those changes that we see from the day-to-day running of the business."

Primarily management—not the external auditors—should communicate a company's financial challenges

Should auditors be more transparent about their findings?

"The primary role of the external financial auditors is to validate the accuracy of the financial reports. While the auditors could probably play a role in expanding the reach of the message of a company, to ask them to do so would only have the effect of diminishing the perception of their objectivity and, hence, their credibility.

"If a company has a challenge that needs to be shared with the market, the market shouldn't find out about it through the audit. It should be first communicated by the management of the company itself. This goes back to what I said earlier about how bad news should be communicated: promptly and openly. To that, I would add by the company's management."

A company's board of directors—not its external auditors—should review the implementation of company strategy

Do you see a role for external auditors in certifying the management discussion and analysis?

"The challenge is that once you venture beyond the numbers and into the strategy, the determination of the strategy's success becomes somewhat subjective. So it would be difficult for a financial auditor, who is not a media and telecom expert, to judge the success of the implementation of a strategy for a media company such as Televisa. This is truly a role for the company's board of directors. Without a doubt, the board should review, criticize, and ask for corrections to the company's strategy. Management should have an open dialogue with the board and take feedback from the board seriously."

Address audit liability to reduce audit cost

Does your organization have any specific issues in relation to its audit?

"The challenge we have is that the cost of the audit has become significantly higher. It is many times higher when you are a publicly traded company as opposed to a private company. A lot of that is the additional cost necessary to cover the liability insurance that the audit companies have for auditing a publicly traded company."

Increasing auditor choice is up to companies and their investors

"Another challenge is that there are only a few big auditing firms left. Investors tend to trust the bigger firms more than the second-tier firms, not only because they are better known, but also because they have a global presence. The globalization of corporations has encouraged audit firms to act as multi-country entities that deliver uniform services and implement consistent business policies around the world. This has resulted in consolidation of local firms into global audit firms, and this is inevitable. At the end of the day, it is in our hands—and in our investors' hands—to give an opportunity to the smaller local and regional audit firms. The more business they get from us, the easier it will be for them to grow into large audit firms that can compete with the existing ones."

Corporate social responsibility important criteria for certain investors

How is Televisa communicating its corporate social responsibility (CSR) with its various stakeholders?

"Investors are increasingly seeking information on a company's environmental, social, and governance performance—all components of CSR or sustainability performance—because they see these as indicators of good overall corporate management and often superior performance. We do communicate our governance practices in conjunction with our financial reporting, but frankly we could do a better job of communicating on other issues, in particular social and environmental issues.

"At Televisa, we have a great platform for reaching the general population. We are the largest producer of soap operas in the world, and we do incorporate messages in our programs' story lines, for example about the importance of voting or the value of perseverance, and on some of the key social issues, such as the environment or child nutrition. This is one way that we connect with audiences and communities. That connection is important to our customers, employees, and, of course, our investors, as well as other stakeholders. We can certainly make better use of this platform as well as other communications channels.

"In addition, through Fundación Televisa, an important organization in Mexico, we provide funding for school construction, medical care, food, and other assistance for people and communities in need. In our annual report we provide information on how Televisa contributes to the social and economic development of communities in Mexico.

"There are certain investment funds that are dedicated to investing only in companies that place importance on giving back to the community. And more and more, institutional investors are including this kind of information as a standard part of their approach to valuing companies. By better communicating our CSR information with our investors, we can help them make more informed investment decisions about our company and appeal to a broader cross-section of investors."

Key recommendations from Carlos Madrazo

1. Ongoing risk management and internal control should be a key part of management at every level of an organization and across all operations.
2. A safe harbor provision should apply to those charged with governance for their assertion on the effectiveness of risk management and internal control systems, given the fact that even the most sophisticated risk management and internal control system cannot provide certainty to the realization of goals.
3. The proper implementation of a corporate best practices code is the first step to minimize litigation risk.
4. Users of financial reports are the better qualified to determine whether reporting information is useful or not. Investor relations officers, therefore, need to play a bigger role to facilitate communications between a corporation and its stakeholders to determine what is relevant and what is not, and to ensure that they always address any questions on the strategy and performance that the stakeholders may have.
5. Transform financial reporting into an investor communications tool by:
    - Enabling face-to-face investor dialogue;
    - Finding out the additional information needs and make reporting adjustments accordingly;
    - Making sure to always address any questions on the strategy and performance that the investor community may have; and
    - Sharing the good news with the bad—promptly and openly.
6. Investor communication is time sensitive. Therefore, the content that companies put in their (online) presentation should be handled accordingly.
7. Rather than further expanding the use of fair value in business reports, standard setters and regulators should better distinguish the impact on earnings that results from changes in fair value, versus those changes that result from the day-to-day running of the business.
8. A company's board of directors—not its external auditors—should review the implementation of company strategy.
9. The market shouldn't find out about a company's challenges through the audit. It should be first communicated by the management of the company itself.
10. Increased auditor choice is in the hands of companies and their investors: the more business they give to local and regional audit firms, the easier it will be for them to grow into large audit firms that can compete with existing ones.

Key recommendations from Carlos Madrazo

11. By better and more effectively communicating their corporate social responsibility information with their investors, companies can help them make more informed investment decisions and appeal to a broader cross-section of investors.

We welcome your feedback on these recommendations. To provide us with your feedback, please complete this brief survey.