MIFID2 IR SURVEY

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ACCESS & ACCESSIBILITY

Mifid2 is transforming the European equities industry. While most commentary has understandably focused on the implications for the buy-side and the sell-side, the knock-on effects for corporates are less well understood.

Thanks to the responses of over 300 European (IR) professionals, this survey of corporate attitudes attempts to paint a clearer picture of the landscape post-Mifid2.

EXANE BNP PARIBAS

EY
Building a better working world

“Mifid2 is dominating the thoughts of financial professionals across Europe and beyond. Dramatic changes to the way the industry operates are just around the corner. The old model – whereby every broker spoke to every investor and research was (almost) freely available – is coming to an end. In its place, we expect to see a more exclusive model with time, relationships and flows increasingly concentrated among a smaller number of counterparts.

The consequences are so wide-reaching that we expect corporate issuers to see the effects immediately. IR professionals clearly expect change – even if they're not sure exactly what form it will take – with the vast majority expecting their departments to be impacted by this regulation.

In this report, we look in more depth at some of the biggest issues, including the cost of running IR functions, the quality and quantity of research coverage, corporates' access to content and ability to redistribute it, the impact on consensus and changes to corporate access practices.

At Exane BNP Paribas, we need to change the way we work to create a clearer link between the value we provide to corporates and the management time they allocate to us.”

Vincent Rouvière
Head of Equities,
Exane BNP Paribas

"Mifid2 doesn't just affect the financial services industry. At EY, we expect this new regulation to impact corporates themselves and all users of the financial information they publish.

As the flow of information around markets changes, investors need greater confidence than ever in the quality of the financial information they use."

Hermin Hologan
Partner,
Ernst & Young et Associés

KEY FINDINGS FROM OUR SURVEY

01

A majority of respondents expect Mifid2 to increase the cost of carrying out their IR activities

02

90% of IR professionals expect the number of analysts covering their stock to decline

03

However – in by far the biggest surprise to us – a majority expect the quality of coverage to rise

04

Shrinking analyst numbers & reduced research visibility could make consensus less reliable, but IRs' current collation processes probably won't have to change

05

As market influence consolidates among a smaller number of leading voices, most IRs expect to weight management time heavily towards the most influential analysts

06

Respondents generally expect the number of people in their organisation accessing sell-side content to decline

07

Research quality and relationships are the most important factors for IRs when allocating corporate access to brokers

08

IR departments look set to organise more of their own access events, but the sell-side remains the key external partner of choice

09

IR professionals' desire to provide stricter investor target lists for roadshows needs to be reconciled with brokers' shifting client lists

DOES MIFID2 CHANGE EVERYTHING?

Everyone in the IR community is thinking about Mifid2, although few are certain about what kind of changes it will really bring. Don't worry – we all feel a bit like that at the moment.

Most IRs expect their activities to be impacted and the costs of IR functions look like they're only going one way… UP.

Mifid2 looks likely be felt most keenly by small companies who are readying themselves for a larger (and more expensive) impact.

SOMETHING IS HAPPENING… BUT WHAT?

Investor Relations professionals seem to be in the same position as the rest of us when it comes to Mifid2. Just like investors and brokers, they know that Mifid2 is coming and that it's going to bring changes, but aren't so sure exactly what those changes will mean.

An overwhelming majority (83%) of IRs who responded to our survey described themselves as somewhat familiar with Mifid2, versus a minority who felt they were either very or not at all familiar with it.

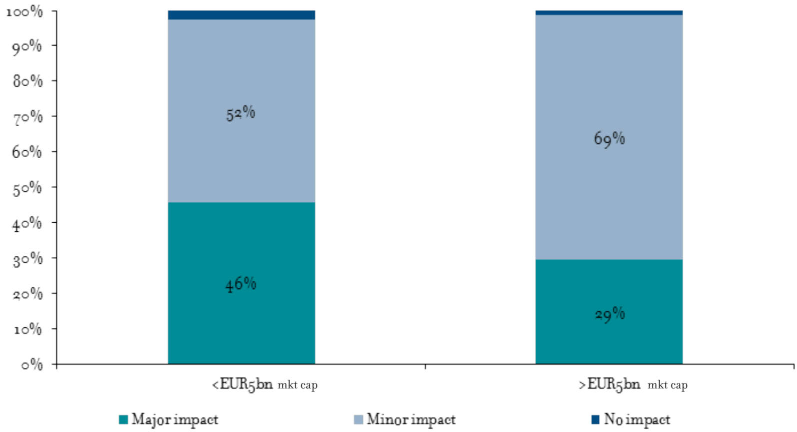
This cautious familiarity is a reasonable start point. There is less than one month to go until Mifid2 becomes a reality, but the full behavioural responses across the industry are unlikely to be visible until much later in 2018.

IR ACTIVITIES WILL BE IMPACTED

IR professionals are clear that this is going to change the way their departments work. Just 2% of respondents to our survey expect "No impact" from Mifid2 on their IR activities.

A third of IRs believe that Mifid2 will have a major impact on them. Heads of IR at smaller market capitalisation companies (<EUR5bn) are expecting bigger changes, with 46% of them anticipating a major impact, versus just 29% in companies with market capitalisations over EUR5bn.

IRs' expectations for the impact of Mifid2



This is rational, in our view. For sell-side research houses, the economics of providing coverage on Largecap shares look set to become relatively much more attractive than covering Small or Midcaps. We expect to see a significant reduction in sell-side coverage of smaller companies as it will be hard for many firms to find a profitable model based on secondary revenues alone.

The proportion of companies expecting a major impact is highest in France (43%), Benelux (43%) and Italy (38%). Nordic companies expect the least disruption (with just 15% expecting a "Major impact"), followed by Swiss (27%). We suspect that the longer history of unbundling and greater proportion of "local" coverage are both factors in the attitudes of Nordic companies. This split probably also reflects a skew in our survey – we had a relatively high proportion of Smallcap French respondents while Nordic respondents were heavily weighted towards larger companies.

MIFID2 = MORE COSTS

It's not just the sell-side and buy-side who are likely to see a direct financial impact from Mifid2. Over half of IRs (58%) think that Mifid2 is likely to make it more expensive for corporates to carry out IR activities while not a single respondent expects costs for IR functions to decline as a result.

Again, small companies expect to be the most affected. 76% of respondents with a market cap of <EUR2bn expect cost rises, versus 55% for those >EUR5bn.

We suspect that the main driver of higher costs here is the requirement to hire more staff. Both the number of sell-side analysts covering each stock and the number of investors they speak to are likely to decline. Many small investors will no longer have access to written sell-side research content at all. As a result, we'd expect the number of questions and requests coming directly from investors to IR departments to increase significantly.In fact, a number of larger asset managers are already adding their own corporate access professionals.

According to the most recent IR Magazine Global Investor Relations Practice Report, IR teams have been pretty stable globally, with an average of 2.7 members. Generally, IR team size has been correlated to market cap, although in 2016 the size of mega-cap teams shrank while most others modestly increased. This report also found that European IR teams are on average larger than their US and Asian counterparts.

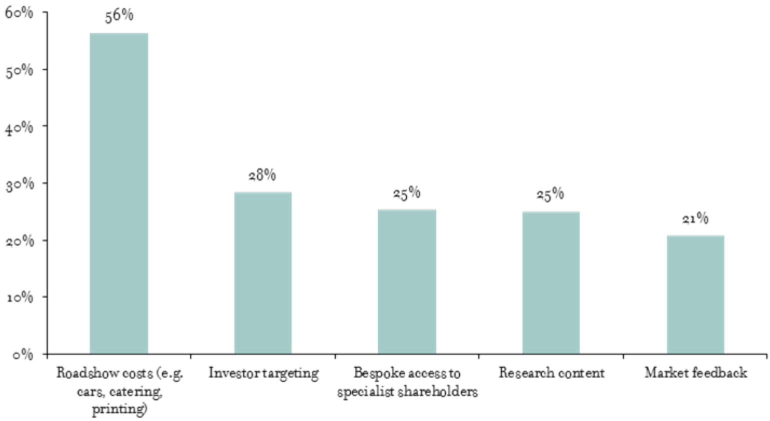
As a consequence of Mifid2, we suspect that the gap between the size of smallcap and largecap European IR teams will narrow. At the same time, we expect European IR teams will grow both in absolute terms and relative to their US and Asian peers.

WHAT ELSE DO IRS EXPECT TO BE CHARGED FOR?

Mifid2 is triggering fundamental changes in the way that the sell-side and buy-side interact. The single-most noticeable change is likely to be the tightening of the distribution of research content. Nonetheless, other changes – including the elimination of any subsidies around the "concierge" component of organising corporate access – will also have knock-on effects for corporates.

Over half (56%) of respondents to our survey expect to be charged for the costs relating to roadshows (i.e. cars, catering, printing), although only around a quarter expect to be charged for other broker services, including access to research.

% of IRs expecting to be charged for:



The subject of who covers the logistics costs for roadshows and other access events is particularly complex. It is not helped by the dramatically differing views of the various local regulators with regard to payment for corporate access.

For Exane BNP Paribas, our first priority in the short-term will be to ensure that we meet all regulatory requirements. We're not yet sure how market practices will change thereafter.

We think corporate access brings a lot of value to both investors and corporates (and to us, as it often gives us the chance to spend more time with company management). But it's unsustainable and unrealistic for the sell-side - as the intermediary in this process - to provide these services at a loss. The uneven regulatory environment could result in different charging practices for different markets.

LESS RESEARCH BUT BETTER QUALITY. REALLY?

IR professionals expect the number of analysts covering their stock to decline post-Mifid 2. Almost every respondent described research quality as important (phew!) but it was a HUGE surprise to us to discover that a majority of IRs expect the quality of equity research to improve post-Mifid2. With total market advisory spend likely to fall overall, we doubt many buy-side and sell-side firms share this optimism.

A clear majority of IRs intend to focus their management's time to the most highly-ranked analysts, reflecting their rising dominance in a post-Mifid2 world.

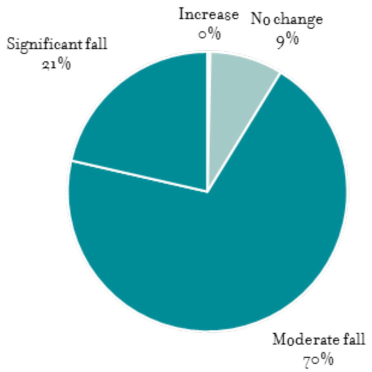
"I am not setting out to change the number of brokers we work with on Corporate Access. However, I suspect the number will naturally shrink because I am expecting the number of brokers who research Informa to decrease over time."

Richard Menzies-Gow,
Head of Investor Relations,
Informa

THE DISAPPEARING ANALYST

The number of sell-side research analysts looks set to shrink. Over 90% of IR professionals in our survey expect the number of analysts covering their stock to decline post-Mifid2, with a fifth of these expecting a "significant fall" (i.e. a reduction of more than 25% in the number of covering analysts).

Expected change in analyst coverage post-Mifid2



In an industry which most people believe has excess capacity, many market participants won't be mourning the loss of a few analysts. Largecap companies, in particular, may well feel that they could lose quite a lot of coverage before it became a problem.

For small companies – whose start point is more limited coverage – the impact on coverage is likely to be more material. In fact, 38% of the <EUR2bn market capitalisation companies in our survey expect a significant decline in analyst coverage. This is well over double the proportion of companies with >EUR5bn market capitalisation expecting a comparable fall.

Will this actually happen? Despite the declines in the size of the European equities commission pool over the past decade, the number of sell-side firms actually withdrawing from the business has been limited. For various reasons, the barriers to exit from the equities business are set very high. Mifid2 implementation may prove a catalyst for further retrenchment, but this could take longer than an analysis of the standalone economics of their advisory businesses might suggest.

Inertia in coverage could protect existing businesses in the short-term, with the coverage consequences likely to be more severe for newly-listed small companies.

THE MULTIPLIER EFFECT

Of course, the decline in the number of analysts covering any particular stock is only part of the story. Each sell-side firm will also be significantly reducing the number of buy-side counterparts it distributes research to.

Large, liquid companies are again well protected from this trend. In addition to the number of covering analysts remaining higher for large stocks, these analysts are also more likely to be working on platforms which retain a greater percentage of their current client base.

For smaller companies, the opposite may be true, as the smaller research providers who cover them are likely to see more drastic reductions to their advisory client base.

Which analysts cover your stock is probably going to be a more important driver of visibility post-Mifid2 than how many analysts cover your stock.

"We expect Mifid2 to impact research that on one side will become more selective but also less broad and widespread on the market. Investors will rely on lesser analytical research sources, a factor which companies hope may be compensated by more in-depth and focused analysis."

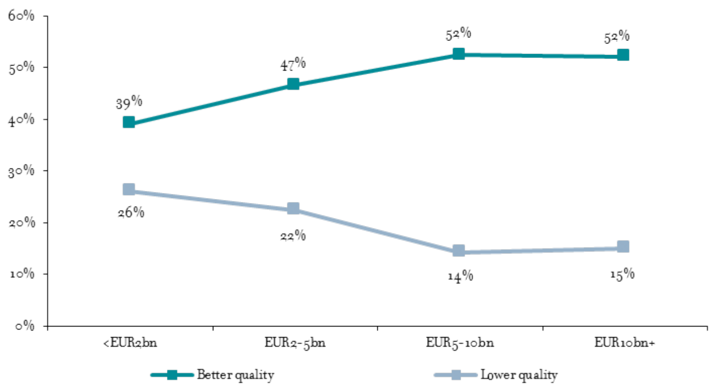
Fabrizio Rossini,
Head of Investor Relations,
Salini-Impregilo

WILL RESEARCH QUALITY REALLY RISE?

There is no doubt which survey response surprised us the most…

A majority of IR professionals expect the quality of research written about their stock to improve.

Expected change in written research quality post-Mifid2



This was a broadly held opinion, consistently repeated in every country (with the exception of France) and every size bracket. Again, large companies were more optimistic than their smaller peers.

This came as a big shock to us and we suspect that other sell-side and buy-side participants would be similarly surprised.

So what's going on here? We had to speak to a number of IR professionals to better understand their rationale. IRs believe that the number of analysts covering their stock will decline and think that Mifid2 will trigger a flight to quality. Logically, this means that the higher quality analyst coverage should survive, raising the average.

We’re a bit more sceptical. Some providers will undoubtedly continue to invest and improve the quality of their research – at Exane BNP Paribas, we definitely plan to be one of them!

Nonetheless, we see two reasons to think research quality overall is likely to decline:

Less Money: There seems to be little doubt that the overall advisory wallet for European equities will decline in 2018. This is a bad starting point to incentivise investment in quality research, although this will depend on the extent to which investors choose to concentrate their payments.

Pricing Structures: Research pricing structures are generally split between “Platform” (i.e. written reports, e-mails, models…) and “Service” (high touch interactions like meetings, calls and bespoke requests). From what we can tell, most research providers are pricing their Platforms at a very low level relative to Service. We do not expect this structure to incentivise investment in written content.

RESEARCH QUALITY MATTERS

IR professionals really care about research quality, with 70% describing it as "Very Important" and 30% as "Quite Important". Just one respondent to our survey said it was "Irrelevant" (phew!).

Nordic (42%) and UK (58%) companies are the least likely to regard it as very important, while Spanish (94%) and Italian (86%) companies place the highest value on research quality. Bigger companies generally seem to view research quality as a more important factor than small companies.

This presents a dilemma for listed companies. They want high quality research on their stock, but this isn't something within their control.

Quality research is not free and nor can you just go out and buy it. Indeed, it seems extremely unlikely that the quality research providers would countenance producing non-independent "sponsored coverage", which in any case we suspect would be valued far less by investors.

Mifid2 could make it very difficult for some companies to obtain quality research coverage.

INTERACTING WITH ANALYSTS

Post-Mifid2, we expect the most highly-ranked analysts to become even more influential as they increasingly dominate client relationships at the expense of the "long tail" of analysts outside the Top 5 rankings in their sectors.

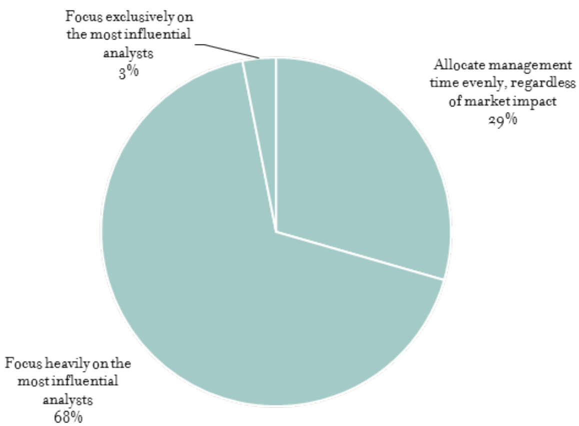
It's not just investors who are set to forge deeper and stronger relationships with a smaller number of sell-side counterparts next year.

Management time is scarce, so it's unsurprising that more than two-thirds of IR professionals plan to allocate that time primarily to the analysts who have the most influence in the market.

30% of respondents said that they will allocate management time evenly, regardless of perceived market impact while just 3% will allocate it exclusively to the most influential analysts.

We found no meaningful difference in approach based on company size. Nordic companies are most likely to allocate management time evenly, while Italian, UK & German companies more likely to focus on a smaller group of analysts.

How IRs plan to allocate management time post-Mifid2



RESEARCH DISTRIBUTION & CONSUMPTION

IRs play a key "gatekeeper" role in keeping management informed about equity research. There's no reason for this role to change, although the means of doing so may have to adapt as sell-side distribution methods evolve. The number of corporate readers of sell-side research is surprisingly high – with over 10 readers at around half of corporates, although this looks set to decline post-Mifid2.

Beyond research about their own stock, IRs are most likely to be interested in their peers and own sector as well as macro reports. Spec Sales commentary is also valued by the majority of IRs.

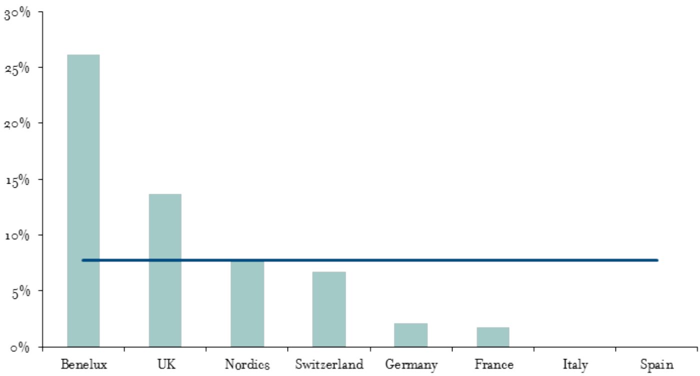
KEEPING MANAGEMENT INFORMED

For over 90% of respondents to our survey, the IR team plays a "gatekeeper" role in keeping management informed about sell-side research.

In over half of cases, the IR team does this by forwarding the most interesting research to management, while in 40% of cases the IR team provides regular summaries.

Less than 10% of management teams receive the research directly from the sell-side (for some reason, management teams in the Benelux region are over three-times more likely than the average to receive directly).

% of management teams receiving research directly from the sell-side



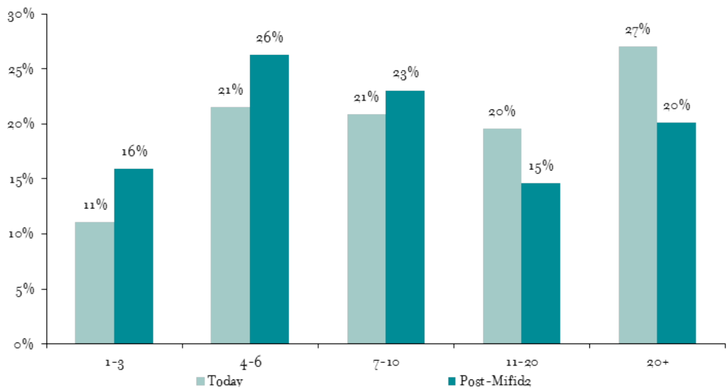
This approach may need to be adapted somewhat as we move into the post-Mifid2 world. There is now an increasingly strong regulatory and commercial rationale for research providers to better protect and control the distribution of their content. Platform prices for investors are generally being set on a per user basis which looks completely inconsistent with providing access to that research content in a freely downloadable format.

To ensure compliance with Mifid2, Exane BNP Paribas has already moved away from the Acrobat PDF – which offered no protection against downloading, forwarding or sharing. We suspect that other sell-side research providers will do the same. This should better align the distribution of equity research content with standard subscription-content models (we doubt that a newspaper like the FT, for example, would feel comfortable sending its digital subscribers a full PDF every day).

READING SELL-SIDE RESEARCH

Interest in sell-side research seems to go beyond the IR and management teams. Nearly half of respondents say that they have 11 or more people reading sell-side research today. That said, the impact of Mifid2 on the availability of written research content seems to be a factor in IRs' expectations of changes in consumption trends. The number of people within corporates who would like to read research post-Mifid2 is expected to decline.

Number of people by corporate reading sell-side research, pre- and post-Mifid2



The provision of equity research to corporate users poses a primarily commercial – but also regulatory - challenge for sell-side research providers.

At the simplest level, there is no change from Mifid2. Corporates are not Mifid2 regulated, so there is no risk of inducement. However, sell-side research firms do have an overriding regulatory (and moral) duty to treat their clients fairly. It's difficult to see how it could be considered fair to charge one group of clients a fee for research content while providing it to another group for free.

The commercial logic is similar. Mifid2 is bringing much greater transparency to the pricing of research content and service. Research pricing models attempt to quantify the value of the overall advisory services provided to investors. This includes content as well as time spent with clients. In our own model, for example, the number of individuals accessing the research platform is a key driver of the price.

WHAT DO IRS WANT TO READ?

IR professionals need to know what is being written about their stock, so that they can see exactly where the debate is taking place in the market as well as being able to correct any misconceptions about their business in the sell-side community.

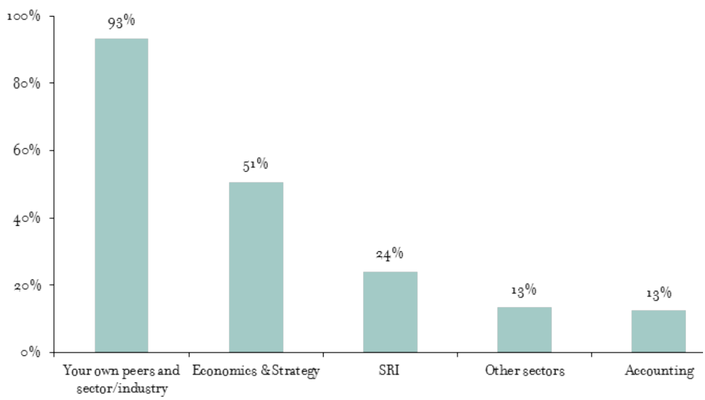
But beyond this, can sell-side research have a wider reach beyond the core audience of professional investors?

The answer is "sort of".

Our survey asked IR professionals what other kinds of research they were interested in reading. The vast majority (93%) value research about their peers and own sector.

Just over half of respondents told us that they value macro research, i.e. Economics & Strategy. Only a minority of IRs said that they value access to SRI (24%), other sector (13%) or Accounting research (13%).

What kind of sell-side research are IRs interested in?



WHAT ABOUT SPECIALIST SALES CONTENT?

Mifid2 doesn't draw a distinction between "Investment Research" in the traditional sense (i.e. the broadly disseminated research report) and other forms of market commentary. In fact, Mifid2 simply specifies that Research should be understood as "materials or services" which "provide a substantiated opinion" on the value or price of securities.

The vast majority of content produced by Research Analysts, Specialist Sales and Sales teams will meet this criterion. So, it seems best to assume that most of the content distributed by sell-side firms would be covered by Mifid2 – i.e. it would be considered an inducement if it was sent to a regulated investor where a pricing agreement is not in place.

Specialist Sales e-mails can provide useful summaries of, opinions on and context for sector news as well as published investment research. Specialist Sales' sector Dailies, in particular, provide a very efficient way to digest the major news flow of the day.

IR professionals told us that they are regular users of Specialist Sales content, with 22% saying that they "Always" read their e-mails and Dailies while a further 48% reported that they did so most of the time.

"Spec sales notes are a valuable source of market intelligence. Due to their closeness to investors, spec sales commentary often reflect not only their own thoughts but also the wider capital market perception."

Gunhild Grieve,
Head of Investor Relations,
RWE AG

WE'RE CHANGING THE WAY WE DISTRIBUTE RESEARCH

Like everyone else, we don't know exactly how market practices will change in 2018. But we do know that we – and indeed the whole industry – need to reform the way we distribute research.

Our objective is to meet our new regulatory requirements in a commercially viable way.

With investors, Mifid2 makes the mechanism for this very clear. Either a price is agreed or access to research content has to be withdrawn.

For corporates, the relationship is more complicated. While (surprisingly) we don't have a legal duty to show a corporate what we write about them, we generally do so. We also need to recognise the contribution IRs and management teams make to our research process by giving up time to share their insights and expertise with us.

EXANE BNP PARIBAS

But we can't provide unlimited access to everything we write or to every individual in a company. In the new year, we will work with IR teams to find a fair balance between access to our research for the people who need it and preserving the right level of exclusivity of our work.

We have already made one big change. We have withdrawn the traditional PDF and replaced it with a new version that can't be downloaded or forwarded. To access our research now, you now need to be individually entitled in our system and will (occasionally) be asked to verify your e-mail address. If your management teams are set up in our CRM, you can forward them links to the research.

Producing high-quality research content requires significant investment. And we think we're investing more in our content than anyone else. Every time our research is forwarded or redistributed, it hurts our business and our ability to invest further. Mifid2 officially brings the era of "free" research to an end. Technology & distribution policies must adapt at the same time.

We have already made some changes to our processes thanks to your feedback and we are always keen to get your thoughts on the best way to proceed.

WHAT HAPPENS TO CONSENSUS?

A shrinking sell-side means fewer analyst estimates. This could make it harder for IRs to establish exactly where market expectations sit. Largecaps are likely to be immune, but the consequences could be material for smallcaps. Mifid2 should also lower visibility of estimates on third party platforms, but with most IRs already collating their own consensus, this shouldn't make any difference to existing processes.

LESS CLARITY, LESS VISIBILITY

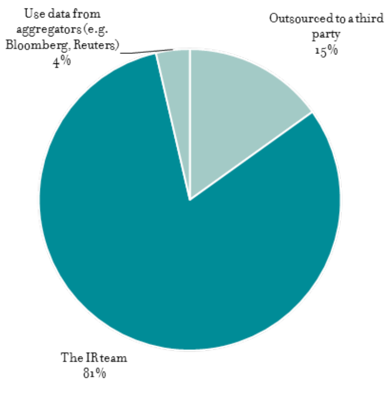
If, as expected, the number of sell-side analysts covering each stock declines, this is likely to make it more difficult for IR & management teams to have a strong sense of market expectations for their financial performance.

That said, if IR professionals are right and falling analyst numbers are associated with a rise in the average quality of research, consensus estimates could actually become more useful and reliable (we would again caution that rising overall research quality is not our assumption!).

Most sell-side firms currently provide financial forecasts on the stocks they cover to a number of third-party aggregators for inclusion in their consensus estimates. The logic of this situation does not look sustainable post-Mifid2, which incentivises firms to take steps to better control the distribution of their content. As research content becomes less widely available, we suspect that currently widely-used sources of consensus financial estimates will become less complete and less reliable guides to true market expectations. Shrinking availability of this information could pose a challenge for IR professionals, nearly 90% of whom described consensus as either "Very Important" or "Essential".

That said, the way corporates collect and use this data today seems unlikely to change much. Over 80% of respondents to our survey said that their IR team already collates estimates for consensus themselves, while just 4% use existing aggregation services.

Chart: How IR teams collate consensus estimates for their stock



CORPORATE ACCESS

Corporate access practices look unlikely to change much in the short-term. IRs rate research quality and Analyst / Spec Sales relationships as the key factors in awarding roadshows, but franchise strength and the size of client lists look set to become increasingly important as Mifid2 takes hold. While a majority of companies don't plan to change the number of brokers they work with, a quarter are planning to consolidate.

IR departments look set to organise more of their own access events, but the sell-side remains the key external partner of choice over other corporate access providers. The sell-side's competitive advantage in gathering market intelligence and feedback appears a key factor in this.

Investor targeting gets more difficult post-Mifid2, as brokers' client lists change. Reconciling this new reality with the desire of over a third of corporates to provide stricter target lists for roadshows could be a challenge next year.

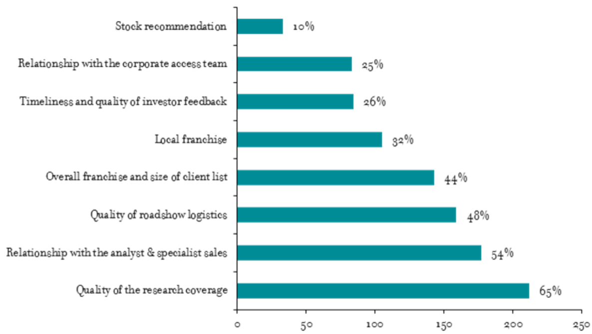
ALLOCATING ROADSHOWS

IR professionals cited quality of research coverage as the single most important factor in allocating roadshows to brokers, mentioned by 65% of respondents overall – an allocation policy which would be consistent with the importance IRs place on the quality of research. The next most important factor was the quality of relationships with the broker, something which we suspect is closely linked to the perception of research quality.

The third most important factor – mentioned 48% of the time - was quality of roadshow logistics. This is a useful reminder to everyone working in equities that no one's franchise is strong enough that it can afford to lose a management team in a Midwest airport.

Interestingly, 44% of respondents mentioned "Overall franchise and size of client list", something which we suspect is rapidly rising up the list and will escalate further from 2018. This is a direct consequence of the end of the current European equities business model, whereby every firm speaks to just about every investor. In Mifid2's "Less is More" world, different brokers' client lists will be dramatically different in terms of quality and quantity. In future, the choice of broker is likely to play a more important role than ever in the success of an access event.

Most important factors for IRs when allocating roadshows



Just 10% of respondents mentioned "Stock Recommendation" as a major factor in allocating a roadshow. It's reassuring to see this low response rate, given that it would be both (1) inconsistent with producing high quality research and (2) an offence for analysts to set stock recommendations for any other reason than their genuine, fundamental view.

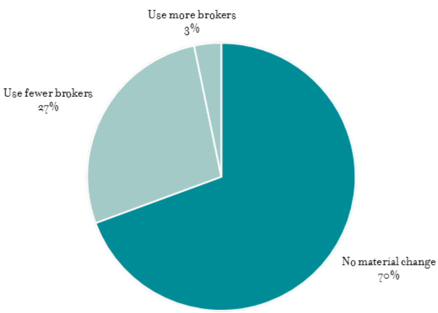
HOW MANY BROKERS WILL CORPORATES USE FOR ACCESS?

Despite the many changes it triggers, most IR professionals don't expect Mifid2 to have any significant impact on the number of brokers they use for corporate access, with 70% of respondents saying it will result in "no material change". A significant minority (27%), however, do expect to use fewer brokers while only 3% think they will increase the number they work with.

Companies in the Benelux (48%), Italy (43%) and Spain (39%) are most likely to reduce the number of sell-side firms they work with on corporate access. Whereas Nordic (19%) and UK (17%) companies are least likely to reduce the number.

In fact, 11% of UK respondents said that they expect to increase the number of brokers they work with. There doesn't appear to be any appetite among UK corporates to consolidate their corporate access activity, despite the changing market structure.

Expected changes to brokers used for corporate access post-Mifid2



"I don't expect to change the criteria I'm using today for allocating roadshows to brokers: I'll continue to work with brokers who have a high-quality research on our stock as well as strong distribution capabilities in the target market (sales & trading, specialist sales, etc.)."

Francesca Rambaudi,
Head of Investor Relations,
Amplifon

WHAT ABOUT ORGANISING YOUR OWN ROADSHOWS?

If corporates do succeed in reducing the number of brokers they work with for corporate access, it's likely to be because they'll be organising more roadshows themselves.

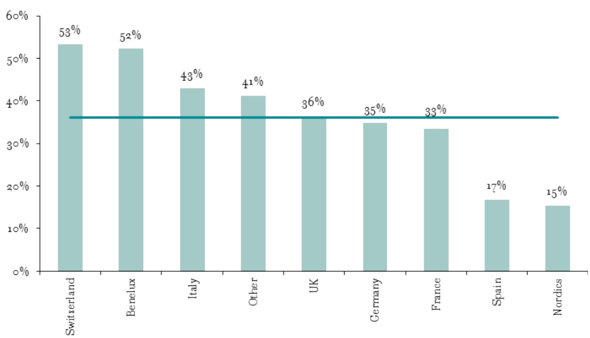
While the majority expect no change, a significant 36% of respondents to our survey intend to organise more roadshows themselves versus just 1% planning to do fewer in-house.

This trend was most pronounced in Switzerland (53%), Benelux (52%) and Italy (43%) while Nordic companies (15%) were least likely to increase the number of roadshows they organise themselves.

Surprisingly, market capitalisation didn't seem to be a significant factor in this decision.

We would have expected larger companies to be more inclined to insource roadshow organisation, given their greater IR resources. The counter argument would be that the broader potential investor universe for larger (and more liquid) stocks requires much more work around investor targeting, an area where the sell-side should be well-positioned to provide advice.

% of IRs planning to organise more of their own roadshows

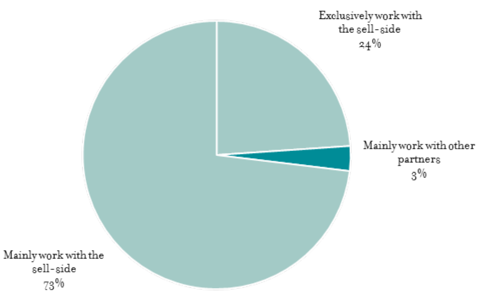


THE SELL-SIDE WILL REMAIN THE PARTNER OF CHOICE

Despite the changing face of the market, the sell-side is likely to remain the partner of choice for listed companies organising corporate access. Nearly a quarter of respondents to our survey said they would exclusively work with the sell-side post-Mifid2, while three-quarters of companies would "mainly" work with the sell-side. This compares to just 3% mainly working with other providers.

Spanish (44%), French (35%) and Swiss (33%) companies are most likely to work exclusively with sell-side partners; UK (16%) and Benelux (13%) companies are the least likely. The smallest market cap companies are much more likely to work exclusively with the sell-side than their larger peers.

IRs' plans for corporate access partners post-Mifid2



"We value a deep understanding of investors focus in the main geographies as it allows us to make roadshows allocation more efficient. Post Mifid 2 implementation, only the best brokers will be able to provide that kind of service".

Ronald Wasylec,
Head of Investor Relations,
VEOLIA

THE VALUE OF MARKET INTELLIGENCE

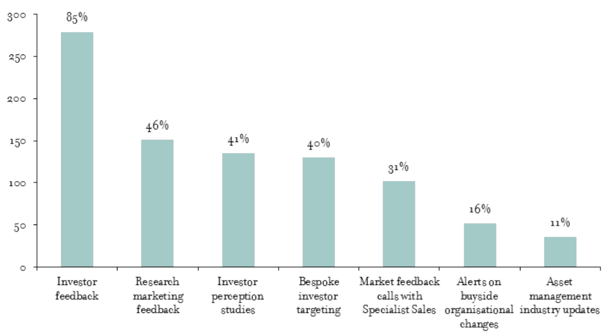
The responses to our question on the most valuable forms of market intelligence may help to explain why the sell-side is likely to remain at the heart of the corporate access process. By far the most valuable piece of market intelligence to IR professionals is Investor Feedback – mentioned by 85% of respondents.

Providing meaningful feedback is much easier for corporate access partners who are actively engaged in the investment story themselves and participating in a daily dialogue with the investment community. Sell-side firms' knowledge of the subject companies should result in more meaningful feedback than other providers are able to deliver.

The second most valuable market intelligence for IRs is research marketing feedback – something which can also only be offered by the sell-side (although to varying degrees of quality, depending on the quality of their analysts and size of their client lists). Similarly, market feedback calls with Specialist Sales were mentioned by 31% of respondents.

Investor perception studies and investor targeting were seen as equally important but few respondents felt that updates on buy-side organisational changes or the asset management industry would be particularly valuable.

Most valuable market intelligence for IRs



ROADSHOWS VERSUS CONFERENCES

Most IR professionals don't expect the introduction of Mifid2 to have a significant impact on how they allocate their time between roadshows and conferences, with nearly 80% expecting no material change.

Among those who did expect a change, slightly more expect to increase the weighting to conferences (14%) than those who expect to do more roadshows (8%).

We're not surprised that the status quo seems most likely for now. But it will be interesting to see how regulation shapes this trend over time. Roadshows are generally seen by investors as more of a commodity. Theoretically, there should not be a regulatory issue for a broker to allocate a roadshow slot to a client where there is no research pricing agreement in place (although commercially, it's obviously not attractive).

Corporates may draw a distinction between roadshows where the primary aim is to meet their existing shareholders (relatively simple to organise) and where they are trying to meet new prospective investors (more complex).

Roadshows offer corporates more choice over the investors they meet with, but they are less efficient and less scalable than conferences, where intraday travel can be reduced to zero. This is particularly valuable in large geographic markets with a dispersed investor base (such as North America). However, conferences do require much more forward planning and won't necessarily fit perfectly with the pre-determined timetable of quarterly results releases.

Conferences are generally a more efficient use of management time, but with the significant resources put into them by the organisers, it's extremely unlikely that a broker could – or would - invite a non-paying client to a conference unless they levied a specific charge. In future, we suspect conferences could become the preserve of sell-side firms with large overall (or local) research franchises, as they are better able to maximise attendance at these events.

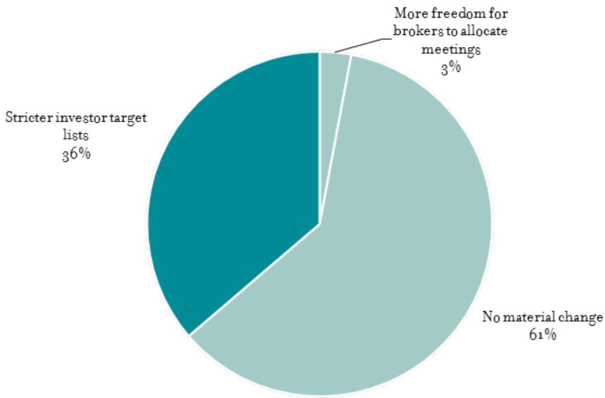
French (90%) and UK (86%) corporates are much less likely to change their access mix post-Mifid2, which perhaps reflects the larger local investor base available to them.

CAN WE AGREE ON INVESTOR TARGET LISTS?

If you want to know where sell-side and IR attitudes towards corporate access are likely to be least aligned post-Mifid2, we think you'll find it on the issue of investor targeting.

While a majority (61%) of respondents expect no change, a very significant 36% of corporates intend to provide brokers with stricter target lists for roadshows, versus just 3% who intend to give brokers more freedom.

Expected changes in approach towards investor targeting post-Mifid2



Reconciling this with the substantial changes to sell-side firms' client lists from 2018 is going to be challenging. Up until now, everyone has worked with everyone. While the broker and corporate might not have agreed completely on how to allocate access, they were at least united by the knowledge that one's client was the other's existing (or potential) shareholder.

Post-Mifid2, it will often be the case that a company management team wants to meet an investor that may not be an advisory client of the broker at all (in fact, for a limited sell-side franchise, it's possible that an entire roadshow could be targeted at non-clients!). This presents some new challenges around brokers' willingness to allocate time, who pays the costs incurred, getting hold of the client to organise the meeting, the provision of ancillary research services and the ability to gather useful investor feedback after the event.

insight

“Mifid2 doesn’t have a lot to say about corporate access, but that doesn’t mean it won’t have a big impact on the nature of interactions between corporates and investors.

Longstanding advisory business practices are seeing massive disruption. While relationships between brokers and investors are becoming more transparent, the visibility of corporates in the European equity marketplace – particularly small companies – is shrinking. The consequences for your IR activities will be far-reaching and unpredictable.

We don’t know exactly what will happen, but we agree with most of the views expressed in this survey. The demands on your time will rise and the cost of carrying out your IR activities is likely to go up next year.

While the sell-side is likely to remain the partner of choice for access events, many IR teams plan to organise more roadshows themselves. While this should help you navigate some of the new regulatory complexity, it means even more time and cost pressure.

Our philosophy is to build a partnership with you which works both ways. We want to provide a great corporate access service (alongside top research coverage), but we expect to be rewarded with management time in return.

Something that will not change is passion. Steve Jobs was right :

‘The only way to do great work is to love what you do’.

We’re looking forward to working with you in this new era for European equities.”

Benedicte Thibord
Head of Insight – Corporate & Expert Access,
Exane BNP Paribas

"Knowledge of exactly which individuals to meet within a given institution is particularly useful. There is no substitute for time spent building your own relationships directly, but corporate access and sales teams who have actually taken time to meet with and understand the needs of a wide variety of buy-side contacts can provide valuable insight."

Chris Griffith,
Head of Investor relations,
Tesco

HOW EXANE BNP PARIBAS CAN HELP?

Organising a quality investor roadshow is about to get a lot more complicated. The whole value chain – Research, Investor Targeting, Logistics and Feedback – needs to work properly if scarce management time is to be best utilised. Market Intelligence is critical if you want to meet your potential next big shareholder.

In an environment where top investors are dramatically cutting back their broker lists, your choice of partner matters more than ever.

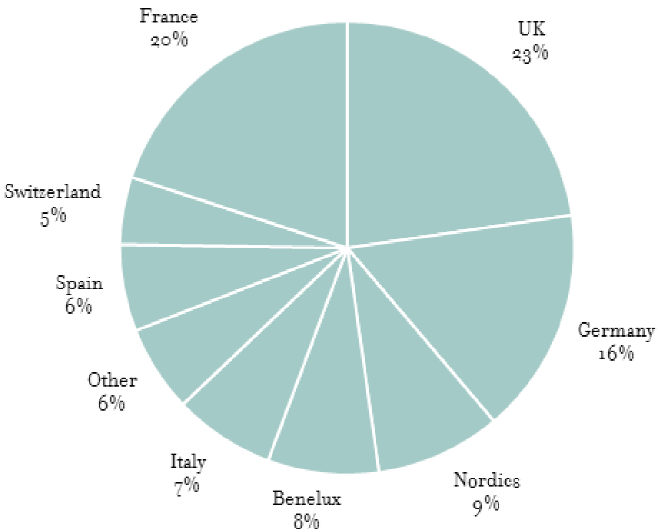
There is no substitute for a strong, integrated cash equities platform and daily interactions with the key investors.

That's why we're continuing to invest to provide the best possible service to clients in Advisory, in Execution and in Access, with the recent launch of Exane BNP Paribas Insight.

Mifid2 is going to bring lots of change, plenty of challenges and (probably) quite a few surprises.

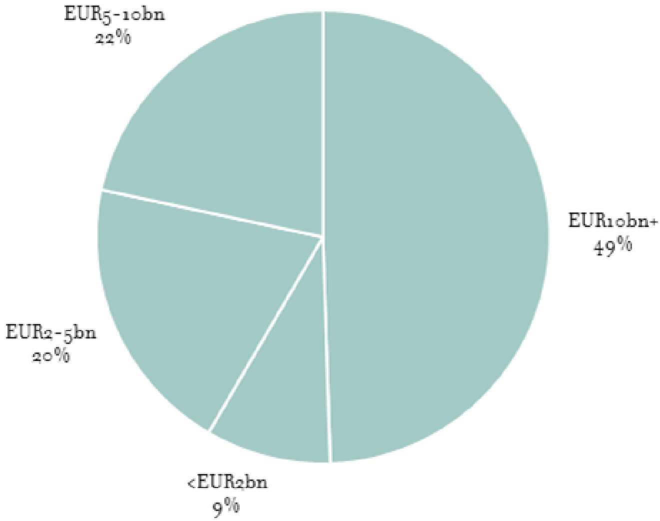
SURVEY SAMPLE AND METHODOLOGY

Our survey was conducted in September-October 2017 and is based on a sample of 330 IRs, mostly based in the UK (23%), France (20%), and Germany (16%).



SURVEY SAMPLE AND METHODOLOGY

The majority of respondents were from large cap companies.



About EY

EY | Assurance | Tax | Transactions | Advisory

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders.
In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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EYG no.03709-174Gbl

About Exane BNP Paribas

About Exane BNP Paribas

Exane BNP Paribas is a leading European equities business. We offer a high quality execution platform with full electronic trading capability. Our research product is renowned for its depth and quality and is reinforced by experienced, top-ranked Sales & Specialist Sales teams as well as a high quality corporate access service.

High Quality Research

We have invested consistently over recent cycles to build a top research franchise which was ranked Number 1 in Europe in the most recent Extel Survey. Overall, we now rank in first place in 15 sectors (out of 30) while we have a Top 3 position in 25 sectors.

We believe this success is due to our focus on innovative, high quality research and data. We will continue to invest to strengthen our research product and provide a better service to clients.

Strong Distribution & Access

We believe that high quality content deserves proper distribution. That's why we have a well-resourced and highly-experienced 45-person Sales team with a local presence in most major markets and a Specialist Sales desk covering the majority of equity sectors. Exane BNP Paribas was also ranked 1st for Equity Sales in the 2017 Extel Survey and in the most recent Greenwich Associates awards.

Connecting investors with corporates is a critical role for us. We offer a full suite of products as part of our new Insight service offering. Last year, we hosted 20 industry conferences, 100 expert access events and organised over 15,000 investor meetings.

Execution Excellence

We believe that execution quality matters more than ever. We offer a full suite of Trading products across High Touch, Electronic Trading and Program Trading. Our experienced team and cutting-edge technology make us key partners for Europe's major equity investors.

We have built a strong Electronic Trading platform, where we continue to add new counterparts and where volumes are rising significantly. Exane BNP Paribas was a winner at The Trade's Algorithmic Trading Awards. We won the award for Anonymity – the number one priority for electronic trading clients. We were also nominated for Execution Consistency, Customisation and in the overall category for large clients (AUM >$50bn), where we received the highest score for Customer Service.

THANK YOU

We would like to thank everyone who participated in this survey. We could not have written this report without your help.

We would particularly like to thank the investor relations professionals who took the time to give us a more qualitative picture of their outlook on MiFID2, which helped inform the commentary contained in this report, and also the IR associations for their valuable support.

This survey was coordinated by Nick Webb and Benedicte Thibord with the help of Marianne Tanguy and Antoine Cretel.

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Building a better working world

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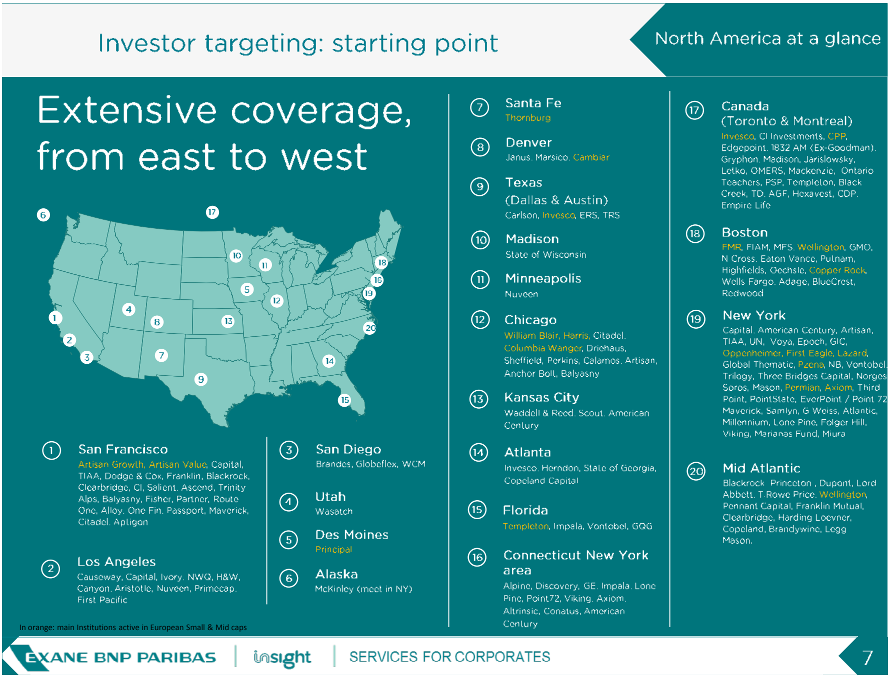
HELPING YOU NAVIGATE AROUND NORTH AMERICA


Investor targeting: starting point
North America at a glance
Extensive coverage, from east to west
1 San Francisco
Artisan Growth, Artisan Value, Capital, TIAA, Dodge & Cox, Franklin, Blackrock, Clearbridge, CI, Salient. Ascend, Trinity Alps, Balyasny, Fisher, Partner, Route One, Alloy. One Fin. Passport, Maverick, Citadel. Apligon
2 Los Angeles
Causeway, Capital, Ivory. NWQ, H&W, Canyon. Aristotle, Nuveen, Primecap. First Pacific
3 San Diego
Brandes, Globeflex, WCM
4 Utah
Wasatch
5 Des Moines
Principal
6 Alaska
McKinley (meet in NY)
7 Santa Fe
Thornburg
8 Denver
Janus. Marsico. Cambiar
9 Texas (Dallas & Austin)
Carlson, Invesco, ERS, TRS
10 Madison
State of Wisconsin
11 Minneapolis
Nuveen
12 Chicago
William Blair, Harris, Citadel. Columbia Wanger, Driehaus, Sheffield, Perkins, Calamos. Artisan, Anchor Bolt, Balyasny
13 Kansas City
Waddell & Reed. Scout. American Century
14 Atlanta
Invesco. Herndon, State of Georgia, Copeland Capital
15 Florida
Templeton, Impala, Vontobel, GQG
16 Connecticut New York area
Alpine, Discovery, GE. Impala. Lone Pine, Point72, Viking. Axiom. Altrinsic, Conatus, American Century
17 Canada (Toronto & Montreal)
Invesco, CI Investments, CPP, Edgepoint. 1832 AM (Ex-Goodman). Gryphon. Madison, Jarislowsky, Letko, OMERS, Mackenzie, Ontario Teachers, PSP, Templeton, Black Creek, TD. AGF, Hexavest, CDP. Empire Life
18 Boston
FMR, FIAM, MFS. Wellington, GMO, N Cross. Eaton Vance, Putnam, Highfields, Oechsle, Copper Rock, Wells Fargo. Adage, BlueCrest, Redwood
19 New York
Capital. American Century, Artisan, TIAA, UN, Voya, Epoch, GIC, Oppenheimer, First Eagle, Lazard, Global Thematic, Pzena, NB, Vontobel. Trilogy, Three Bridges Capital, Norges Soros, Mason, Permian, Axiom, Third Point, PointState, EverPoint / Point 72 Maverick, Samlyn, G Weiss, Atlantic, Millennium, Lone Pine, Folger Hill, Viking, Marianas Fund, Miura
20 Mid Atlantic
Blackrock Princeton , Dupont, Lord Abbett. T.Rowe Price. Wellington, Pennant Capital, Franklin Mutual, Clearbridge, Harding Loevner, Copeland, Brandywine, Legg Mason.
In orange: main Institutions active in European Small & Mid caps
EXANE BNP PARIBAS
insight
SERVICES FOR CORPORATES
7

VIEWS FROM IR ASSOCIATIONS

"1st January 2018 is tomorrow and we are still unclear about the potential impacts of MiFID2. How much will it be disruptive for the industry and Investor Relations more specifically? I believe there will not be any Big Bang, however, market practices might change dramatically in the coming years."

Elisabetta Cugnasca,
President,
AIR (Italy)

"MiFID2 is rapidly approaching and a lot of issuers are still questioning the changing effects of this regulation on the investor dialogue. It is clear the situation as it exists today between issuer-broker-analyst-investor will change but it is less clear what the end game will be. It will be a period of change with other players emerging and relationships being recalibrated. "

Wim Allegaert,
Chairman,
BelIR (Belgium)

"While the impact of MiFID2 on quoted companies will be indirect and has yet to be seen, there is a risk that the original good intentions of the regulations may have been lost in translation. The implementation of MiFID2 means more administration for both investors and brokers, and could result in reduced coverage of quoted companies with limited liquidity. This may not necessarily lead to better value for the investor. It is also a regulation that is applicable within a limited area of a global market. One wonders if there were not a more practical way of achieving the original goal."

Chris Hollis,
President,
CLIFF (France)

"From the corporate issuers' point of view there is great uncertainty as to how MiFID2 is actually affecting them, and in particular their Investor Relations efforts. Particularly smaller issuers expect their coverage – in some cases already low – to be reduced even further, while larger companies don't expect major changes. We expect broker conferences for small and mid-cap companies to increase in importance as they are a way for corporates to present their capital market story to a comparatively large number of investors with a reasonable budget. Some issuers already plan to organize their own roadshows. An increase in the quality of contacts could be a positive effect of these changes. With the 2018 deadline drawing nearer, many issuers would like to see specific offers from their brokers as they have to plan next year's budget. However, the sell-side has so far currently been very reluctant to openly speak about plans regarding their new business and pricing models."

Kay Bommer,
General Manager,
DIRK (Germany)

"The date for the implementation of MiFID2 on 3 January 2018 is rapidly approaching. However, the implications for Investor Relations professionals remain somewhat diffuse. It is clear that our relations with key stakeholders – investors, analysts and banks – will be impacted, and this impact will not necessarily be the same for small and large cap companies. In the Danish Investor Relations Association we assist our members in understanding MiFID2 in a number of ways, including meetings and conferences."

Tina Høilund Pedersen,
Director,
DIRF - Danish Investor Relations Association (Denmark)

"We believe that the significance of IR's own work could increase after MiFID 2, and it is clear that IR professionals will do their best to be well-prepared and open-minded for the upcoming change."

Katri Sundstrom,
Chairman of the Board,
FIRS (Finland)

"Amongst the MiFID2 provisions, there are both opportunities and threats. We have high expectations regarding the SME Growth Markets and hope that many market operators will take advantage of this option. We would like to see the SME Growth Markets create an environment truly benefiting companies and promoting growth and jobs in Europe. At the same time, we are concerned about the provisions connected to analyst research. Research coverage of small and mid-caps is already very low (less than 30%) and there is a real concern that after application of MiFID2 rules, research coverage of smaller companies may decline even further. It is therefore important that national regulators make it clear that corporate-sponsored research and associated corporate-sponsored services may be received by fund managers without payment and without fear of action for breach of the MiFID2 prohibition of inducements."

Florence Bindelle,
Secretary General,
European Issuers

"By now, we should all recognise the changes effected by the impending implementation of MiFID2. Based on the experience of our Corporate IR members, direct communication between listed companies and their stakeholders is likely to become more important than ever. As such, IR professionals, along with their company management, are likely to play an ever increasing role in the efficient functioning of capital markets. To do so, IR must ensure that we remain open, accessible and communicative in engaging all stakeholders."

John Gollifer,
General Manager,
The Investor Relations Society (UK)

"The introduction of the new MiFID2 regulation might have considerable implications for the investor relations function in general, especially for smaller funds who might not be covered by analysts in the near future. As a result, IR departments of smaller funds should reinvent themselves and position their company to the investor community in an efficient way, in order to create sufficient liquidity and demand for its shares."

Joris Wilton,
Board member,
NEVIR (The Netherlands)

"MiFID2 has the potential to be a game changer when it comes to company-investor engagement. Non-broker roadshows will gain importance in the near future and IROs – especially of small- and mid-cap companies – will have to intensify their shareholder targeting and visibility at the same time to get in direct contact with institutional investors they wish to meet. Administrative work and logistics might potentially increase but IRs will gain in importance as personal meetings between companies and investors will remain one of the most efficient communication instruments."

Barbara Zäch,
Managing Director,
IR Club (Switzerland)

"On its own, MiFID2 will accelerate the trend towards less and less independent research coverage for smaller quoted companies. To reduce the impact of this it is important that clarity is provided on what represents an acceptable minor non-monetary benefit. The next step is to find ways to increase small cap research. This will improve liquidity and encourage companies to access capital markets in order to grow, create jobs and deliver long-term value for shareholders."

Tim Ward,
Chief Executive,
The Quoted Companies Alliance (UK)

"MiFID2 will ring the bell for the next generation of the capital markets. We are all professionals and we will find new ways and new solutions. Proactive IR will get a new meaning. Research will move from the sell side to the buy-side. Banks and other providers will create new services. Technologies will offer new ways of communication, research, investing etc. MiFID2 is probably a disruption but definitely not the end of the world - and it could also be a chance. We have to deal with it. And we will."

Patrick Kiss,
IR Club

ALL ABOUT IR ASSOCIATIONS

aeri
Asociación Española para las Relaciones con Inversores

The Spanish Association for Investor Relations (AERI) was established in 1991 as a non-profit association and with the objective of serving its forum members for the promotion and improvement of Investor Relations of companies listed on the Stock Exchange Spanish, promoting activities focused on the professional development of its members, organization of events and conferences, implementation of international best practices in Investor Relations, representation of issuers before regulators and markets , as well as for the exchange of experiences and knowledge in said matter.

AIR
Associazione Investor Relations

The association:

- Promote the role of the IRO in the financial community
- Encourage the educational, training and professional process of the IRO
- Improve the quality of institutional communication between listed companies and financial stakeholders

DIRF
Dansk Investor Relations Forening

The aim of the Danish Investor Relations Association – DIRF is to promote communication between listed companies and their investors thereby increasing investor interest in Danish shares and company bonds and thus to promote a general understanding and good relationship between companies, their shareholders and other capital market players.

BEL IR
Belgian Investor
Relations Association

Founded in 1992, the Belgian Investor Relations Association (BelIR, formerly BIRA) concluded in 2000 a Cooperation Agreement with the Federation of Enterprises in Belgium (FEB). BelIR has recently embarked on a new ambitious project aimed at strengthening its role. BelIR's mission comprises :

- The promotion of the investor relations as a discipline as well as its best practices in compliance with the statutes and regulations applicable to this domain;

- The promotion of its Members' professional development;

- To be a forum of exchanges and reflections for the issuers and the investor community in general;

- To ensure a representation at the national, European and international levels.

FIRS SUOMEN IR-YHDISTYS

The Finnish Investor Relations Society brings together the IR professionals of companies that are publicly listed, have announced plans for a listing, or offer other publicly tradable securities, as well as dedicated IR consultants. About 200 IR professionals from all around Finland are members of the Society. The objective of FIRS is to promote the professional skills of its members. Topical matters are covered in presentations, panel discussions, workshops and training sessions. You can also gain valuable knowledge in member get-togethers by exchanging views on best practices and current IR trends with senior IR colleagues and gathering fresh opinions from newcomers.

The Finnish Investor Relations Society is a channel for interaction and networking. We cooperate with financial analysts, the media and other communication specialists.

DIRK – the German Investor Relations Association – is the largest European trade association uniting businesses and capital markets. We give investor relations (IR) a voice and represent approximately 90% of the capital listed on the stock exchange in Germany. As independent experts, we optimise the dialogue between issuers, investors and the relevant intermediaries, while setting professional standards of quality. Our members receive expert support and practice-oriented knowledge, as well as access to networks and IR professionals from across the globe. In addition, we actively promote the investor relations profession and offer extensive opportunities for further training and development in close cooperation with science and research.

Created in 1987, the Cliff is the French association of financial communication professionals. It has more than 230 members from both listed companies representing more than 90% of the Paris market's capitalisation and from consultants and specialists in fields related to financial communication. As such, the Association is a recognized voice for the profession in France. With an active programme encouraging the sharing of experiences, expertise and new evolving topics, a successful training programme in partnership with a renowned French University (Paris-Dauphine) and its contribution to the annual publication of the "Financial Communications: Framework and Practices" together with the OCF, the Cliff helps promote the status of Investor Relations professionals.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community.

EuropeanIssuers is a pan-European organisation strategically positioned to represent the interests of publicly quoted companies from all sectors to the EU institutions. Dedicated to serving our members from 14 countries from across Europe, we aim to ensure that EU policy creates an environment in which companies of all sizes—from emerging growth companies to the large blue chip companies—can easily raise capital through the public markets and deliver growth over the longer term.Members include both national associations and companies, covering markets worth €7.6 trillion market capitalisation with approximately 8,000 companies.

IR Club is a well-established investor relations community that allows IR professionals to network with peers from all over the world. IR Club was formed in 2011, to address the need for an online investor relations community in Germany. Since then, IR Club has become an overwhelming success and has more than 1,300 members! Due to its' popularity. The main objectives of IR Club include the promotion of networking, communication, exchange and transfer of knowledge among investor relations professionals – we are particularly interested in the use of social media in investor relations. IR Club is open to anyone interested in investor relations such as scientists, students and those wishing to make a career change. For the opportunity to mingle with practicing IROs at all levels, as well consultants and service providers. Colleagues from the areas of private equity, open-end and closed-end funds, unlisted companies and of course all those who deal with the communication with lenders (creditor relations / fixed income) are welcome, too – we are all one ecosystem. The IR Club does not compete with national IR associations, but sees itself as a partner, who extends the networking opportunities for IR professionals. Country-specific issues can be discussed in more than 30 online groups. It takes no time to register as a member and it's free of charge!

IRclub.ch
Swiss Investor Relations

The IR club Switzerland is the network for investor relations professionals in Switzerland, a forum for exchanging ideas, tackling key IR issues and developing best practices. The IR club Switzerland also aims to establish and promote contacts between club members and investors, asset managers and financial analysts both in Switzerland and abroad.

NEVIR

Established in 1991 the NEVIR is run by IR professionals for IR professionals. It aims to empower members through education, professional development and networking initiatives, and to promote the sharing of IR knowledge and best practices

NEVIR's mission is to promote best practice in investor relations; to support the professional development of its members; and to act as a forum for issuers and the investment community.

Our membership is diverse and represents small, mid and large cap companies from all industries. We seek to represent and support them in all aspects of professional investor relations.

SFF | Sveriges Finansanalytikers Förening

SIRA is the SFF group that represents people who work with investor relations. With growing rules and ever-changing requirements for listed companies, maintaining and developing knowledge in relevant IR areas is crucial. The group works by organizing lunches and courses in the area as well as being the natural gathering place within IR in Sweden for both corporate representatives and consultants. The group may also constitute a referral body within IR-related regulations.

The Quoted Companies Alliance is an independent membership organisation that champions the interests of small to mid-size quoted companies.

The value of our members to the UK economy is vast – as is their potential. There are nearly 2,000 small and mid-size quoted companies in the UK, representing 85% of all quoted companies. They employ approximately 1.4 million people, representing 5.5% of private sector employment in the UK. So our goal is to create an environment where that potential is fulfilled. We identify the issues that matter to our members. We keep them informed. And we interact to build the understanding and connections that help our members stay ahead. The influence we have, the influence we use and the influence we grow ensures that our members always benefit from the impact of our initiatives.

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