



Communication of value drivers in Investor Relations

Market survey on short- and long-term
value drivers in IR practice

DIRK Mitgliederversammlung

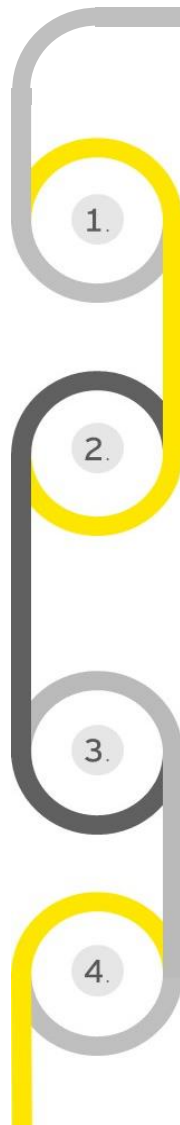
Oct 2019



Building a better
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Content

Communication of value drivers in Investor Relations



Framework for the communication of value drivers

Drivers of shareholder value

- ▶ Importance for different groups of investors
- ▶ Short- and long-term in capital markets
- ▶ Financial and non-financial value drivers

Potentials in IR communications

- ▶ Value drivers in the non-financial statement
- ▶ Transparency and frequency of reporting
- ▶ New KPIs and value drivers

Chance for a balanced communication of value drivers in IR practice

Survey details

Communication of value drivers in Investor Relations

Respondents

- ▶ Published by DIRK (German Investor Relation Association), initiated and sponsored by EY as co-publisher
- ▶ 97 responses from Investor Relations Officers in Germany, Switzerland and Austria*
- ▶ Companies mainly listed in reg. markets
- ▶ Members of IR associations in Germany (DIRK), Austria (CIRA) and Switzerland (IR club)

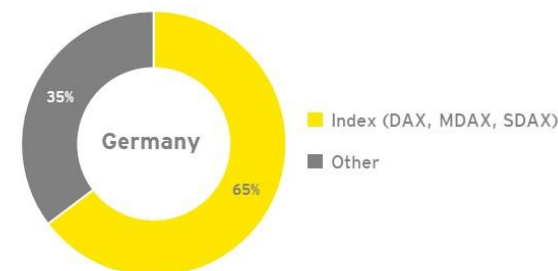
Purpose of the survey

- ▶ Getting an insight on short- and long term communication of value drivers in Investor Relations
- ▶ Providing an overview on both financial and non-financial value drivers and their potential for value creation in the short- and long haul

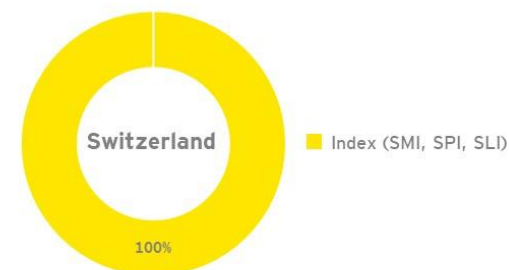
* More than 300 Investor Relations Officers in GSA were approached



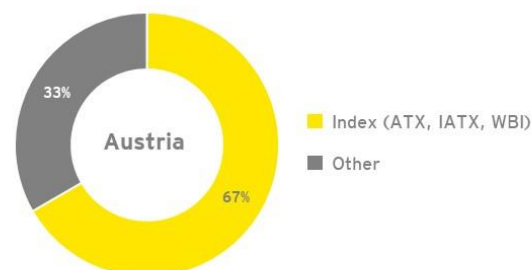
70% DIRK members



9% IR club members



21% CIRA members



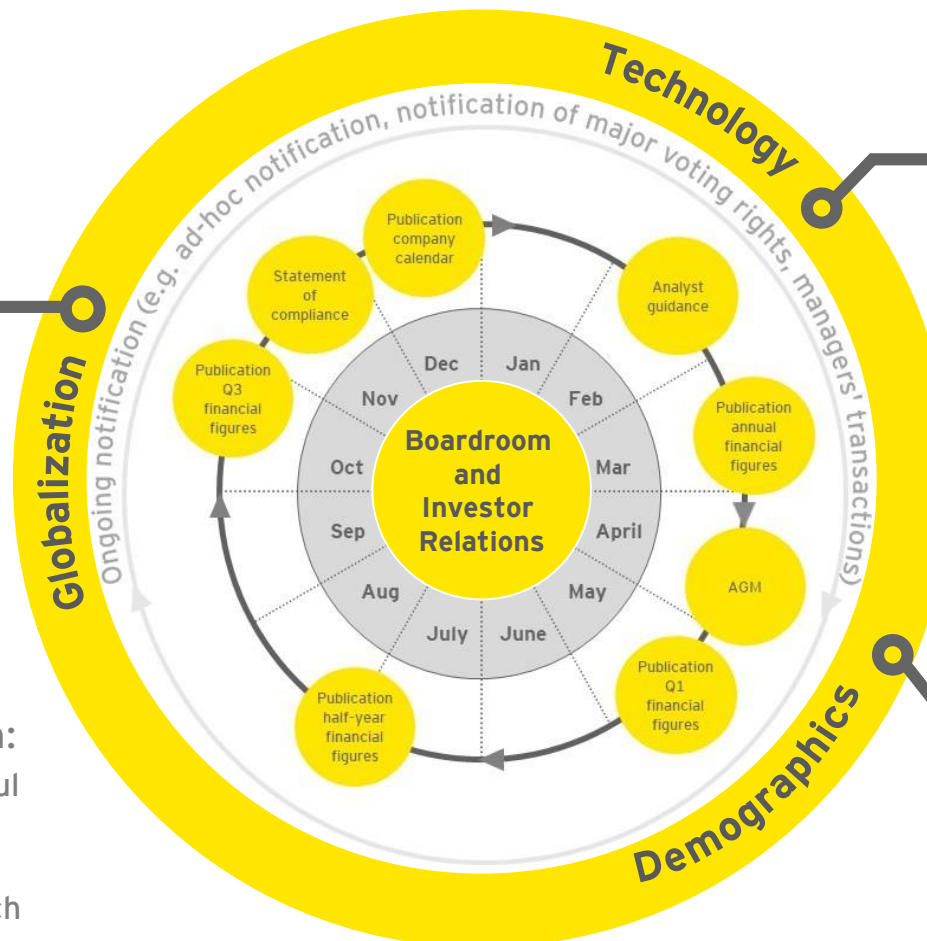


Framework for the
communication of value drivers

Change from old to new realities and megatrends

Risk of short-term - long-term disconnection

- ▶ VUCA markets
- ▶ “Activist” investors and concentration of ownership
- ▶ Better comparability through global standards
- ▶ Challenged national corporate governance by global best practice
- ▶ Fundraising in new pools of liquidity



- ▶ Fragmented market infrastructure
- ▶ Speed of communication and digital disruption
- ▶ Availability of data with autom. analytics in real time
- ▶ ESEF - machine to machine
- ▶ Blockchain as new wave

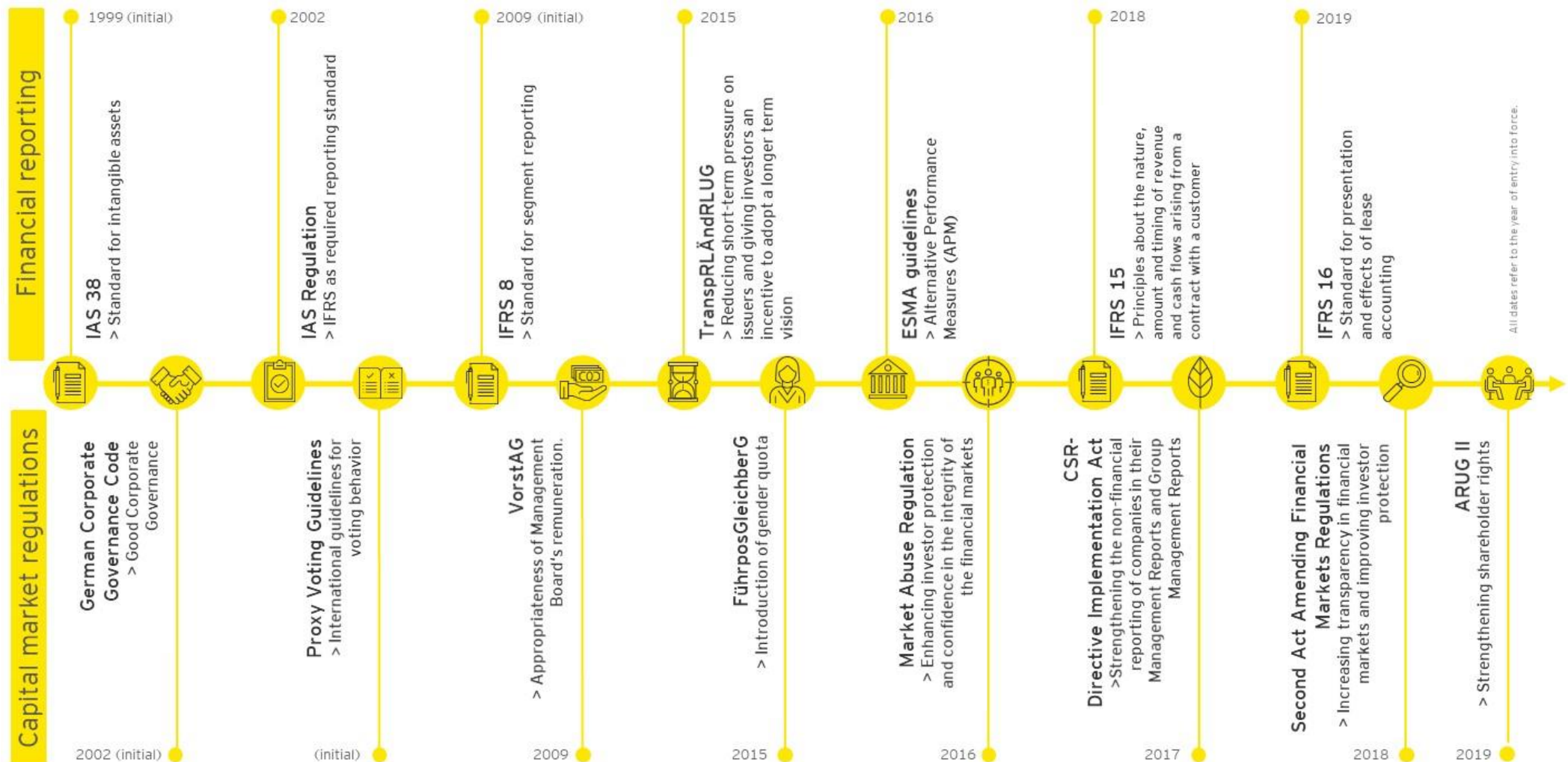
- ▶ New core values of next gen.
- ▶ Working with new tools and environments
- ▶ Sharing culture
- ▶ New communication formats
- ▶ Power of (passive) beta investors

Short- and long-term disconnection:

- ▶ More active, short-term and powerful international investors
- ▶ Long-term investors requesting commitment to a long-term approach

Framework for the communication of value drivers

Milestones in capital market law and in financial reporting



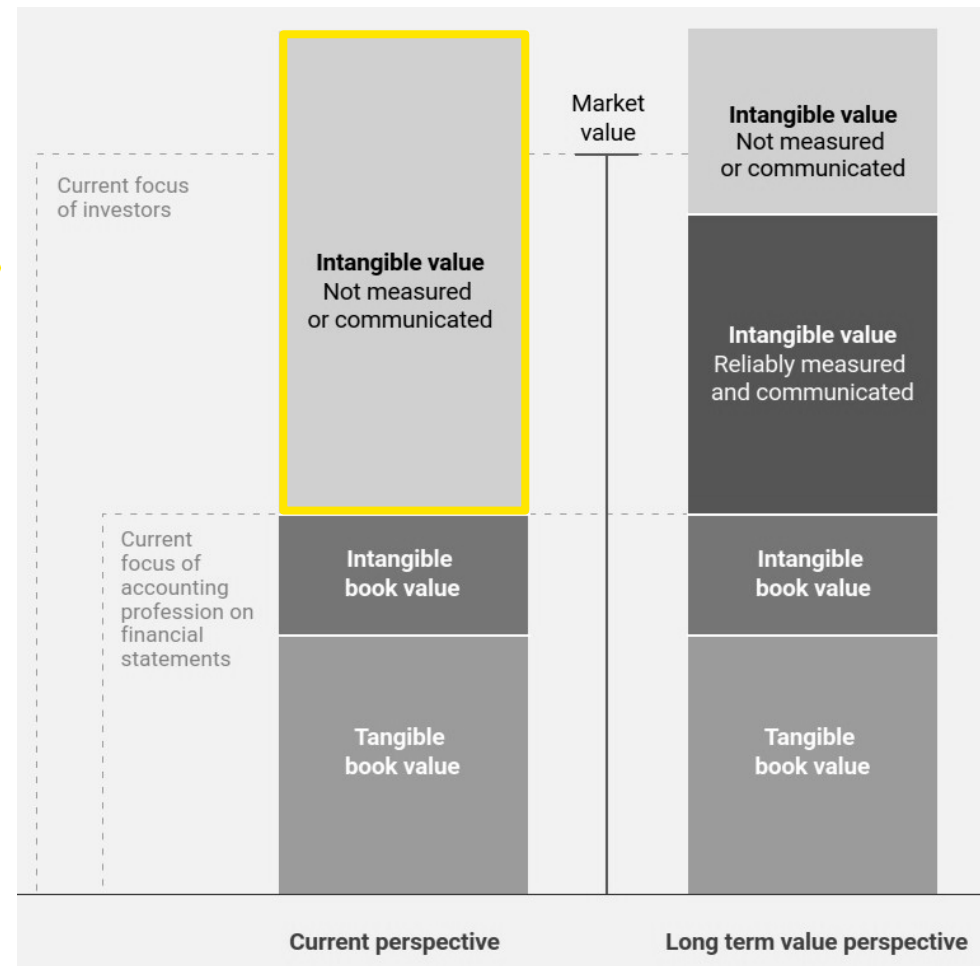
Digital age: Shape of value is changing

Intangible values getting more important for investors

Intangible assets represented 17% of market value in 1975 and by 2015 have risen in some sectors to **87%**

Undisclosed **intangible value** rose by **18%** annually from 2011

52% of market value is based on intangibles on average



Long-term
value drivers

Sources: EPIC report, 2018, 2017 Global Intangible Finance Tracker, 2017 Edelman Trust Barometer and 2017 ICAEW, EY: is everything that counts being counted?, 2018.

Digital age: Intangible assets

IAS 38 in historical financial statements

Intangible assets

- ▶ Visible in financial statements IAS 38.57
- ▶ Measured at cost

Intangible assets

- ▶ Only visible in financial statements when purchased
- ▶ Measured at purchase price

P&L

- ▶ Research costs generated internally are expenses IAS 38.54

IAS 38 defines an asset as 'a resource controlled by an entity as a result of past events; and from which future economic benefits are expected to flow to the entity'

IASB considers that the essential characteristics of intangible assets are that they:

- ▶ Are controlled by the entity
- ▶ Will give rise to future economic benefits for the entity
- ▶ Lack physical substance
- ▶ Are identifiable

Intangible assets meeting the characteristics are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortized on a systematic basis over their useful lives

Key question:

Purchased or self created - acquired externally or generated internally?

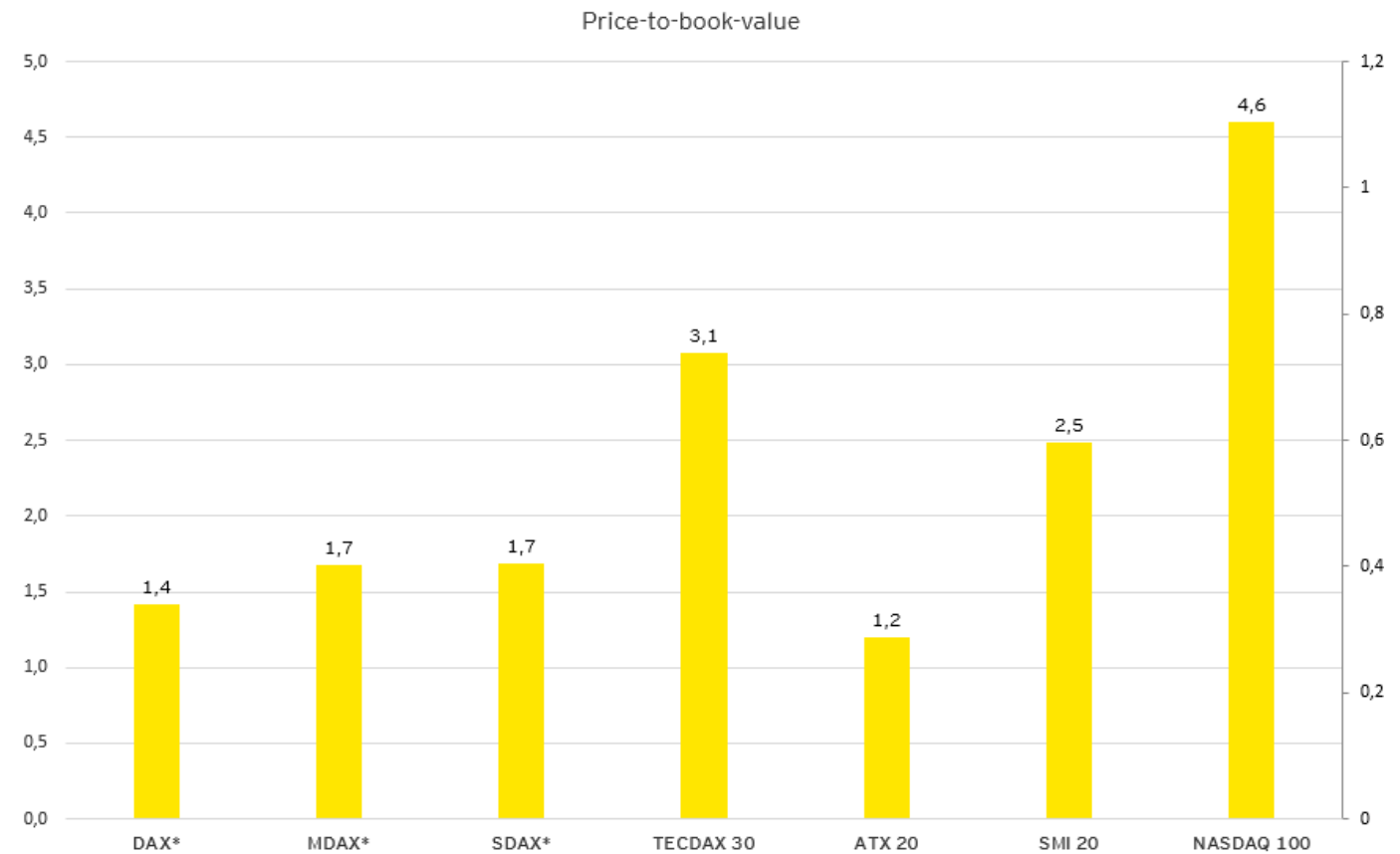
Goodwill acquired in a business combination is accounted for in accordance with IFRS 3 and is outside the scope of IAS 38

Intangible assets in listed companies

Price-to-book-value of selection indices

$$\text{P/B ratio} = \frac{\text{market price per share}}{\text{book value per share}}$$

Source DIRK/EY: Communication of value drivers in Investor Relations, 2019

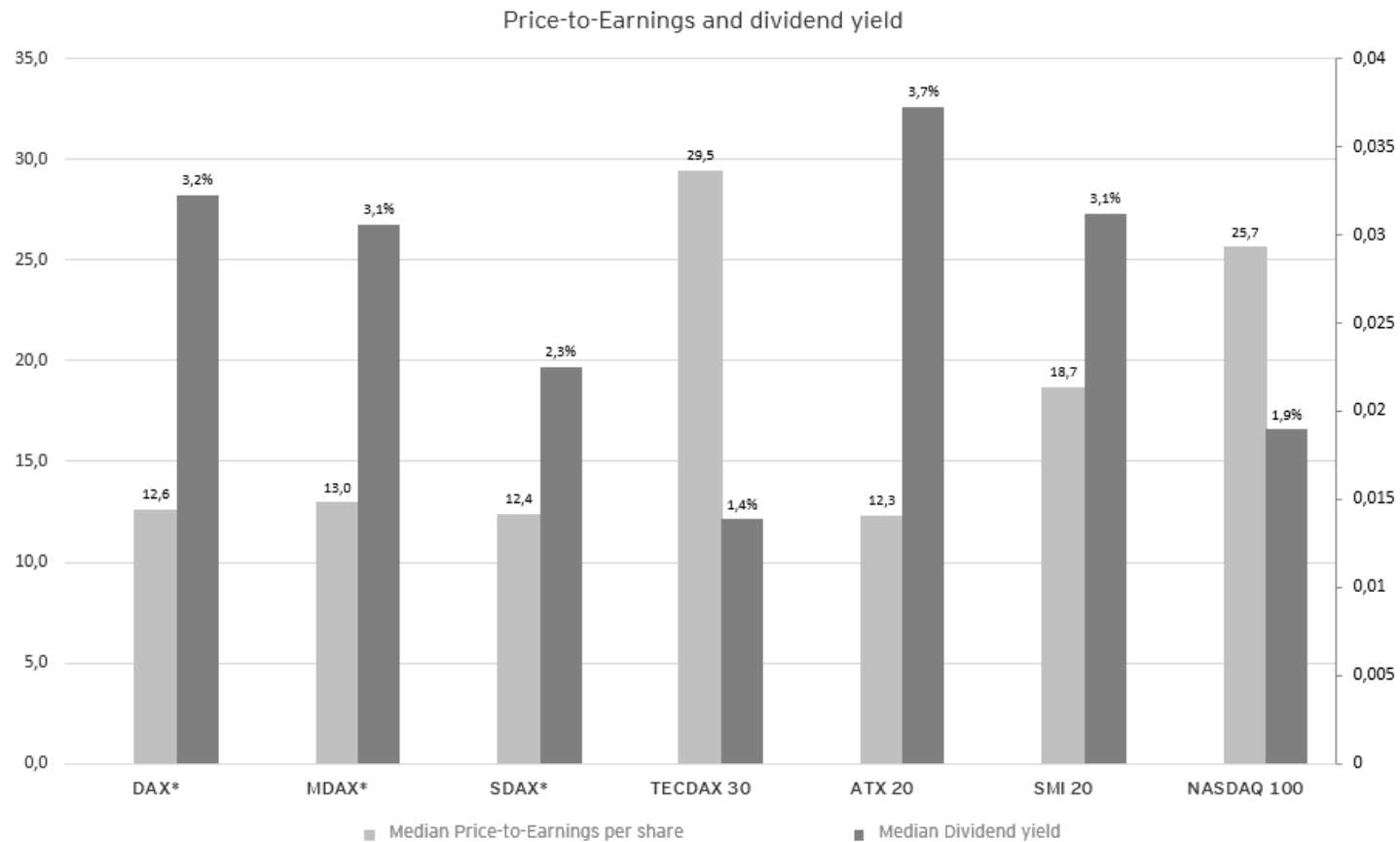


*without TecDAX 30 classified constituents
Source: Thomson Reuters, data based on 03/18/19

Price-to-book-value = Closing price of the last working day (book value/ outstanding shares)

Valuation KPIs of listed companies

Price-to-Earnings ratio and dividend yield



*without TecDAX 30 classified constituents
Source: Thomson Reuters, data based on 03/18/19

Price-to-Earnings ratio = Closing price of the last working day/earnings per share
TTM = Trailing Twelve Months (referring to the last 12 months)

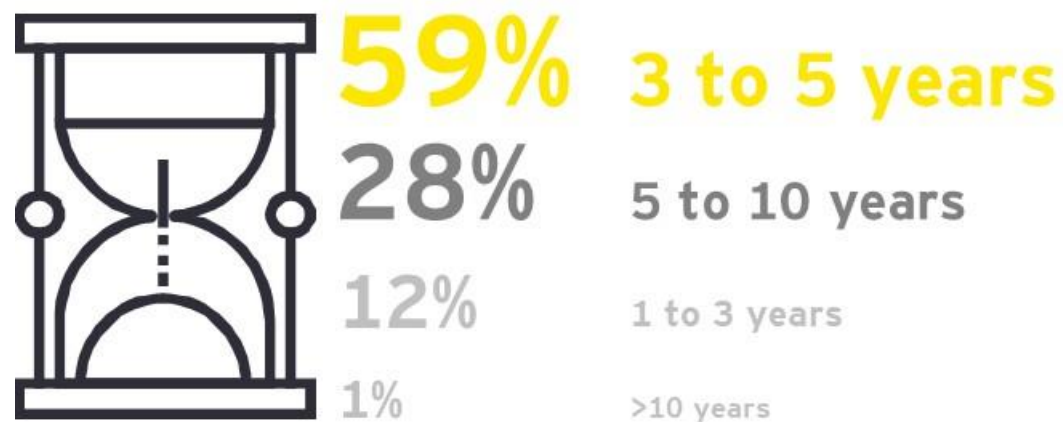


Drivers of shareholder value

Short- and long-term in capital markets

Time period for “long-term”

Q What is considered as “long-term” in the IR practice in context of value creation?



“Long-term” and “sustainability” are mentioned in several regulatory frameworks (i.e. corporate governance codes, EU capital market laws, accounting standards and admission requirements of stock exchanges), but there is hardly ever a specific clarification on the time period.

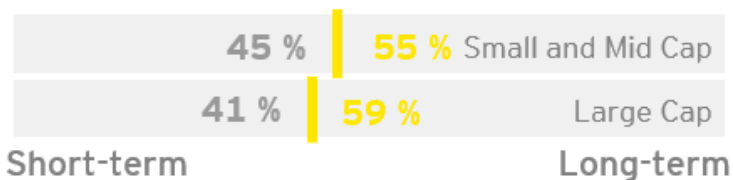
Importance for different groups of investors

Short- and long-term value drivers

Q How important are short and long-term value drivers in general for the following investor groups?



Q How important are value drivers for the following investor groups targeting different sizes of companies?



Source DIRK/EY: Communication of value drivers in Investor Relations, 2019

Financial and non-financial value drivers

Key financial value drivers – by index participation

Q What are the key financial value drivers for your business over the long haul?

Financial value drivers		DAX, SMI and ATX	MDAX, SDAX, IATX, WBI, SPI and SLI	No Index
	Revenue growth	57 %	56 %	69 %
	EBITDA growth	48 %	40 %	26 %
	EBIT growth	33 %	51 %	49 %
	Positive cash flow growth	67 %	51 %	32 %
	Growth of sector-specific KPIs	19 %	21 %	17 %
	Growth of investment in R&D	19 %	9 %	19 %
	Investments in internationalization	5 %	19 %	20 %
	Investments in new product launches	19 %	16 %	34 %

Rank 1
Rank 2
Rank 3
Rank 4

Source DIRK/EY: Communication of value drivers in Investor Relations, 2019

Financial and non-financial value drivers

Key non-financial value drivers – by index participation

Q What are the key non-financial value drivers for your business over the long haul?

Non-financial value drivers		DAX, SMI and ATX	MDAX, SDAX, IATX, WBI, SPI and SLI	No Index
	Great team and the ability to attract new talent	43 %	84 %	64 %
	Strong organizational culture	38 %	40 %	29 %
	Good corporate governance	62 %	42 %	32 %
	Strong brand and good image	43 %	30 %	54 %
	Providing confidence and trust	52 %	70 %	89 %
	Ability to innovate and disrupt	38 %	40 %	39 %
	Good information culture and transparency	43 %	28 %	21 %
	Open access to capital	14 %	28 %	29 %
	Environmental friendly, social engagement, sustainable acting	52 %	19 %	18 %

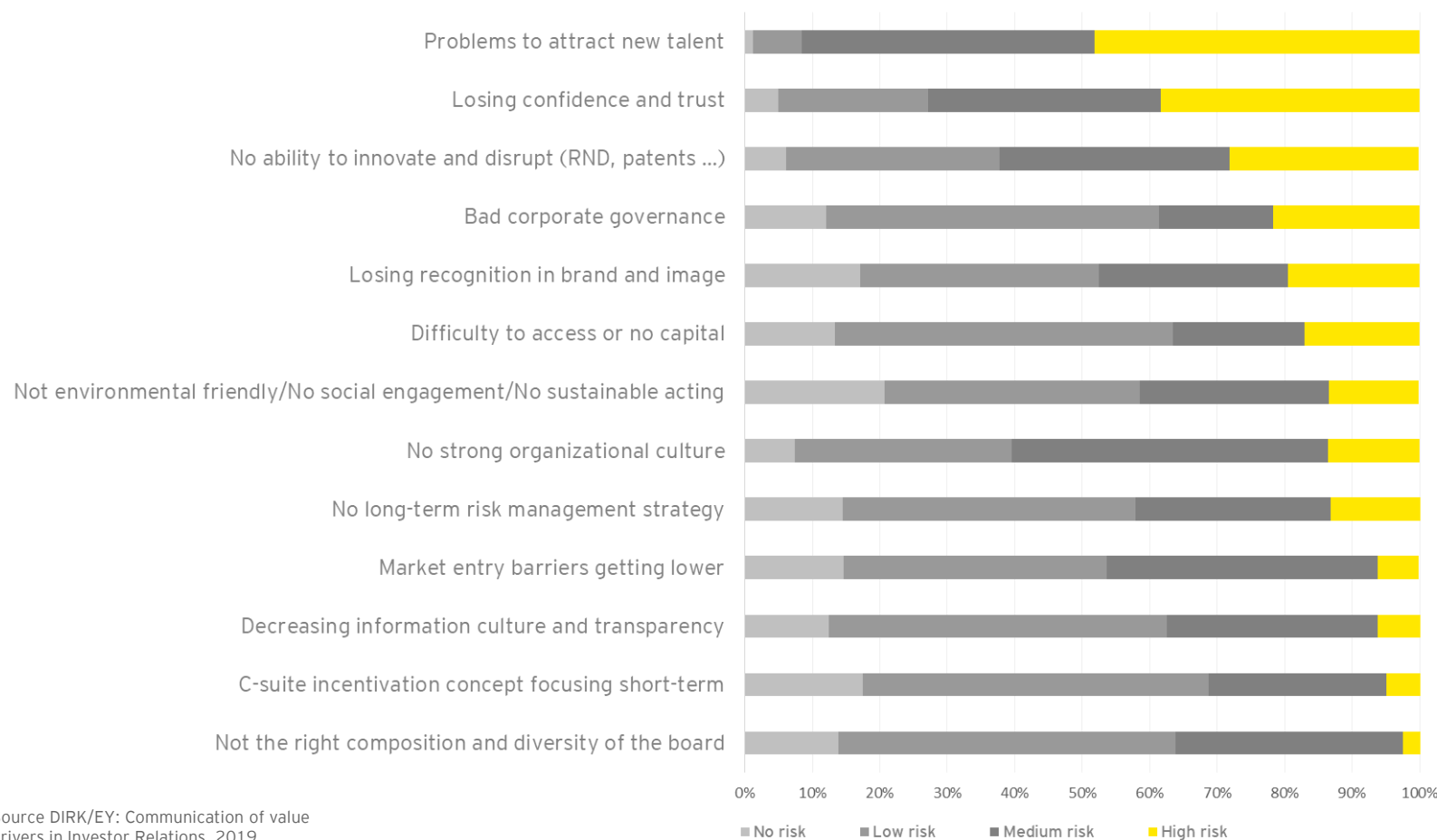
Rank 1
Rank 2
Rank 3
Rank 4

Source DIRK/EY: Communication of value drivers in Investor Relations, 2019

Financial and non-financial value drivers

Biggest non-financial risks over the long haul

Q What are the biggest non-financial risks for your business over the long haul?



Source DIRK/EY: Communication of value drivers in Investor Relations, 2019

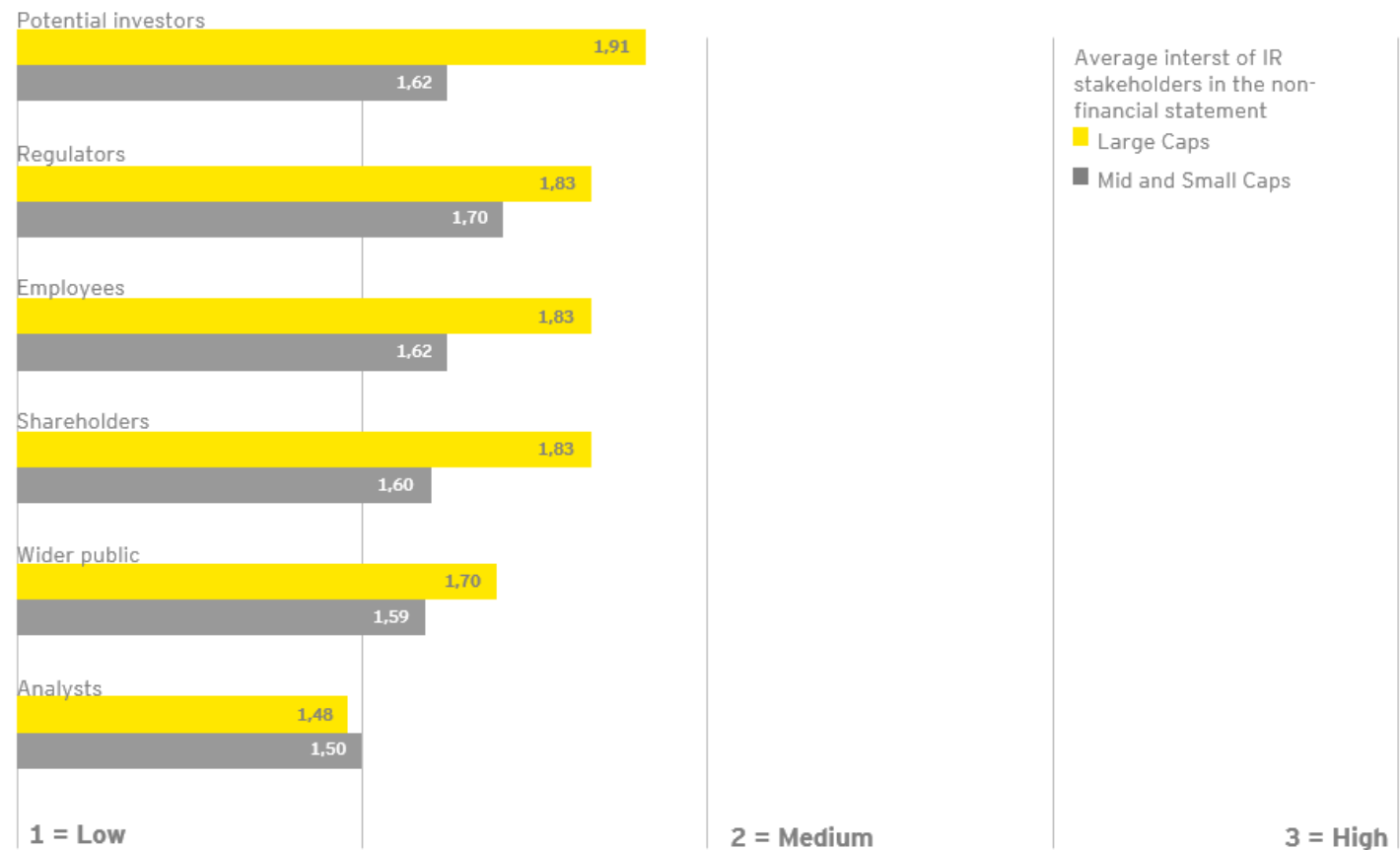


Potentials in IR communications

Value drivers in the non-financial statement

Interest of IR stakeholders in the non-financial statement

Q How big is the interest of IR stakeholders in the non-financial statement?

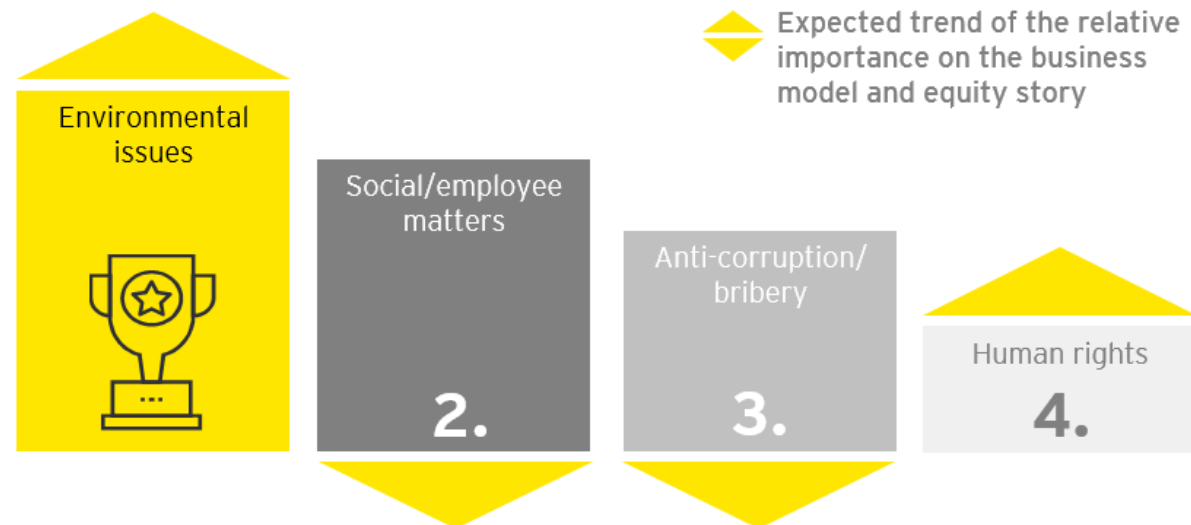


Source DIRK/EY: Communication of value drivers in Investor Relations, 2019

Value drivers in the non-financial statement

Ranking of topics impacting business and equity story

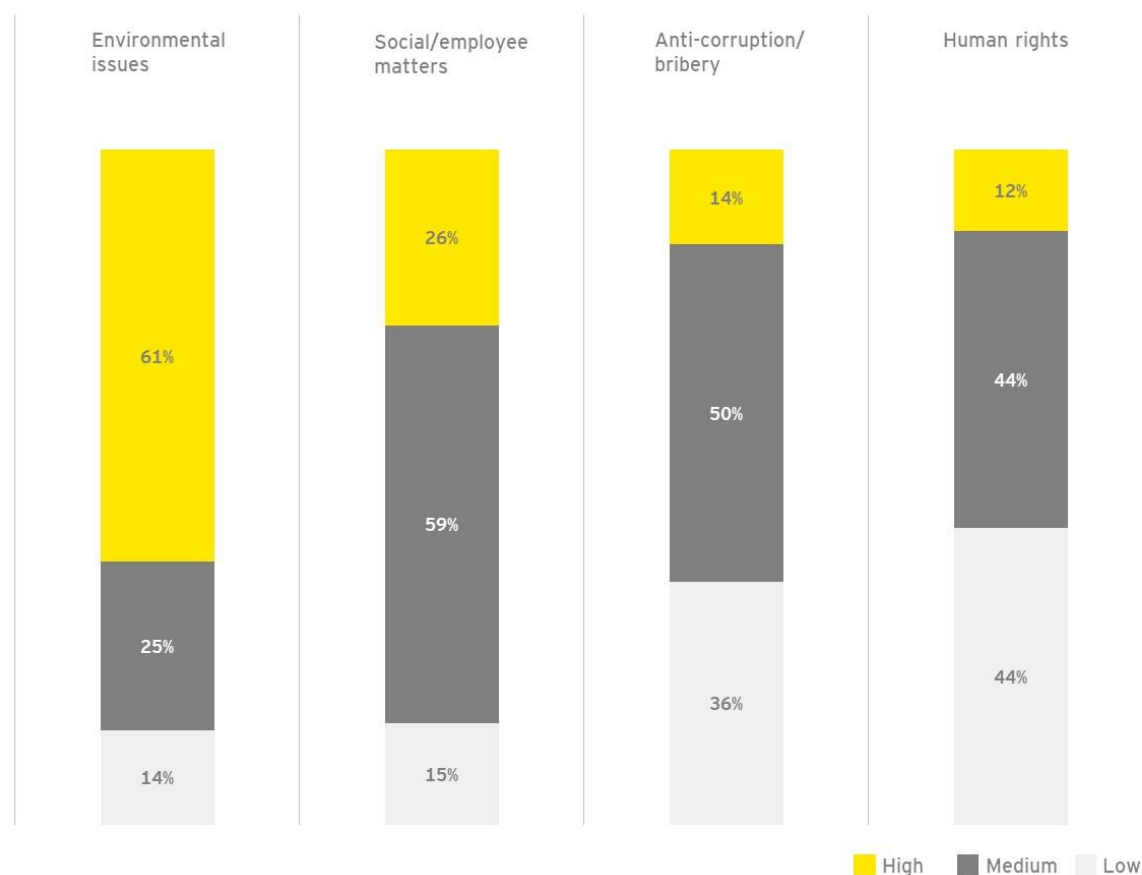
Q Which topic of the non-financial statement has the biggest impact on your business model and equity story?



Value drivers in the non-financial statement

Effort (time and money) for the non-financial statement

Q How big is the effort (time and money) related to the non-financial statement?

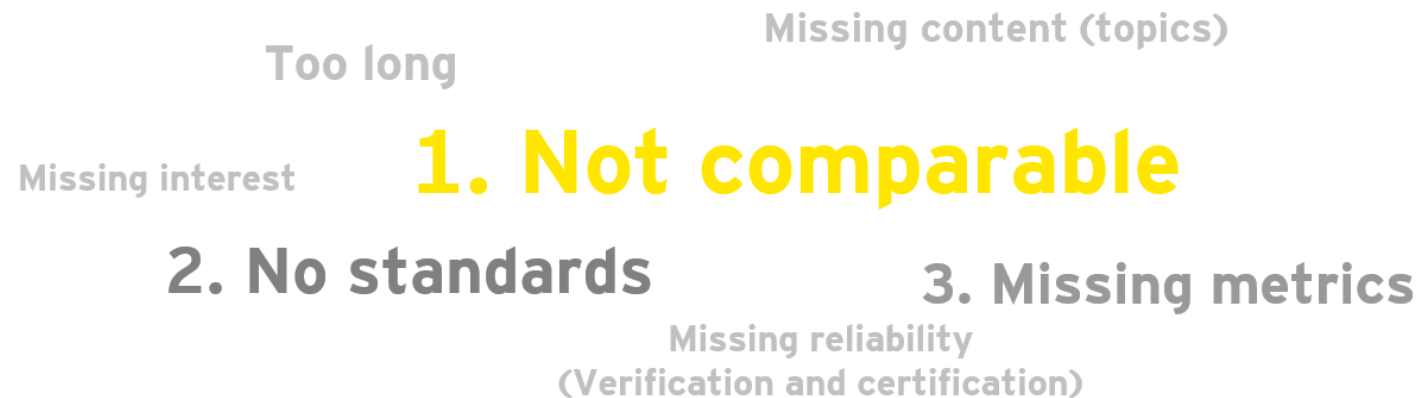


Source DIRK/EY: Communication of value drivers in Investor Relations, 2019

Value drivers in the non-financial statement

Top 3 main concerns about the non-financial statement

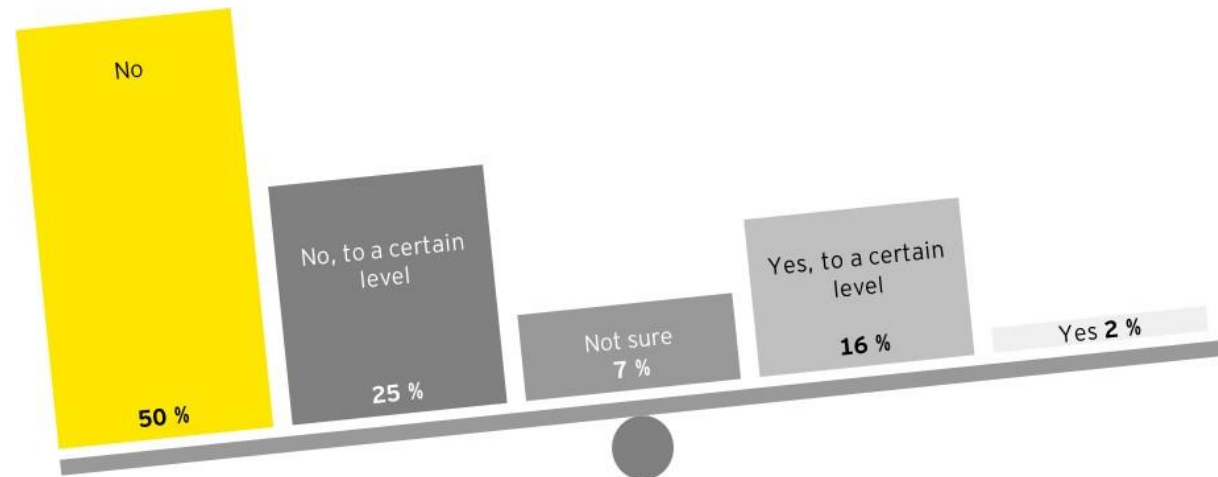
Q What is the most common concern of the non-financial statement raised by IR stakeholders?



Transparency and frequency of reporting

Frequency of disclosures – impact on long-term orientation

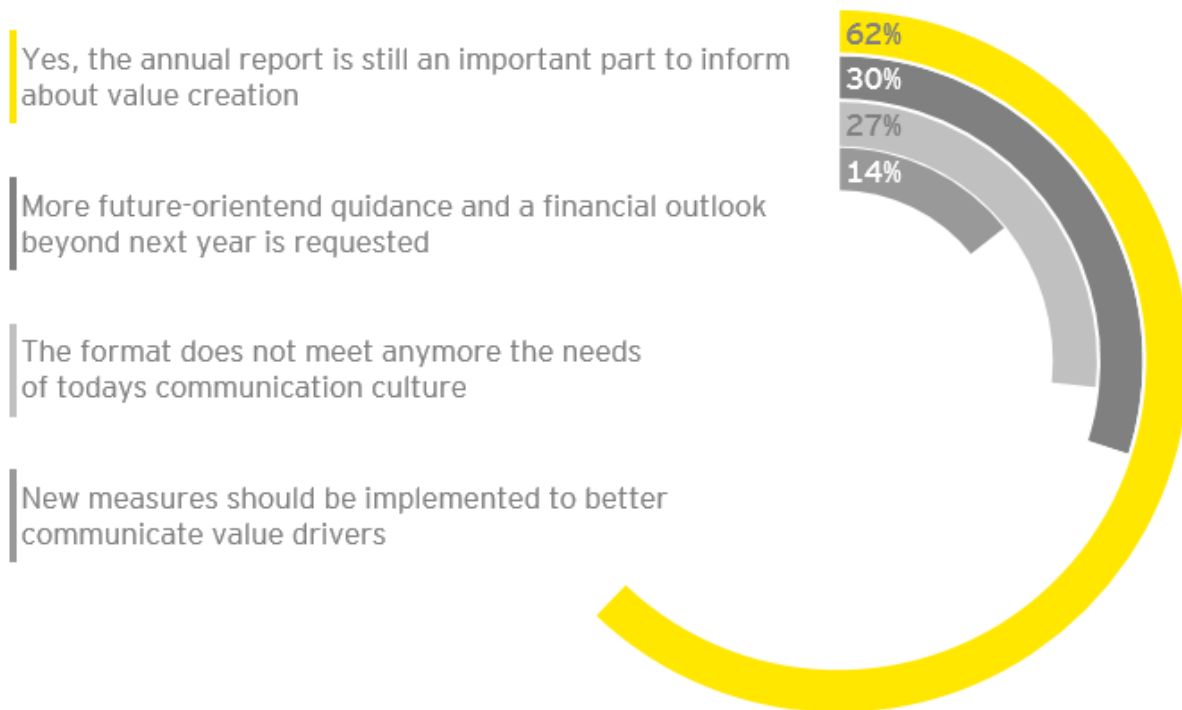
Q Is a high frequency (i.e. quarterly) of financial and non-financial disclosures in IR communications beneficial for long-term orientation?



Transparency and frequency of reporting

Information on value creation in annual report

Q Is the annual report comprehensive enough to inform about value creation over the long haul?
(Multiple answers possible)



New KPIs and value drivers

Top 4 long-term value drivers for more regular use in IR

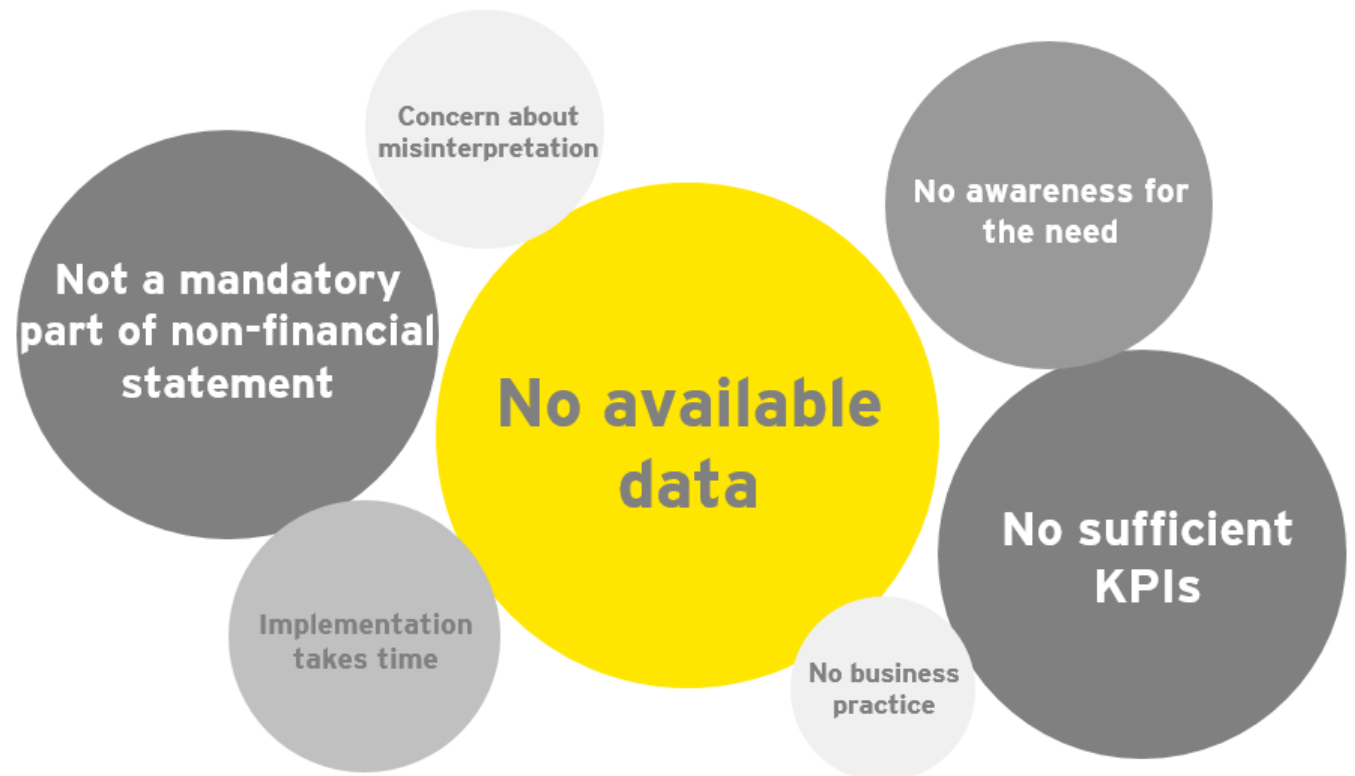
Q Which long-term value drivers could be used more often in the regular IR communication?



New KPIs and value drivers

Reasons for non-usage of countable KPIs in IR

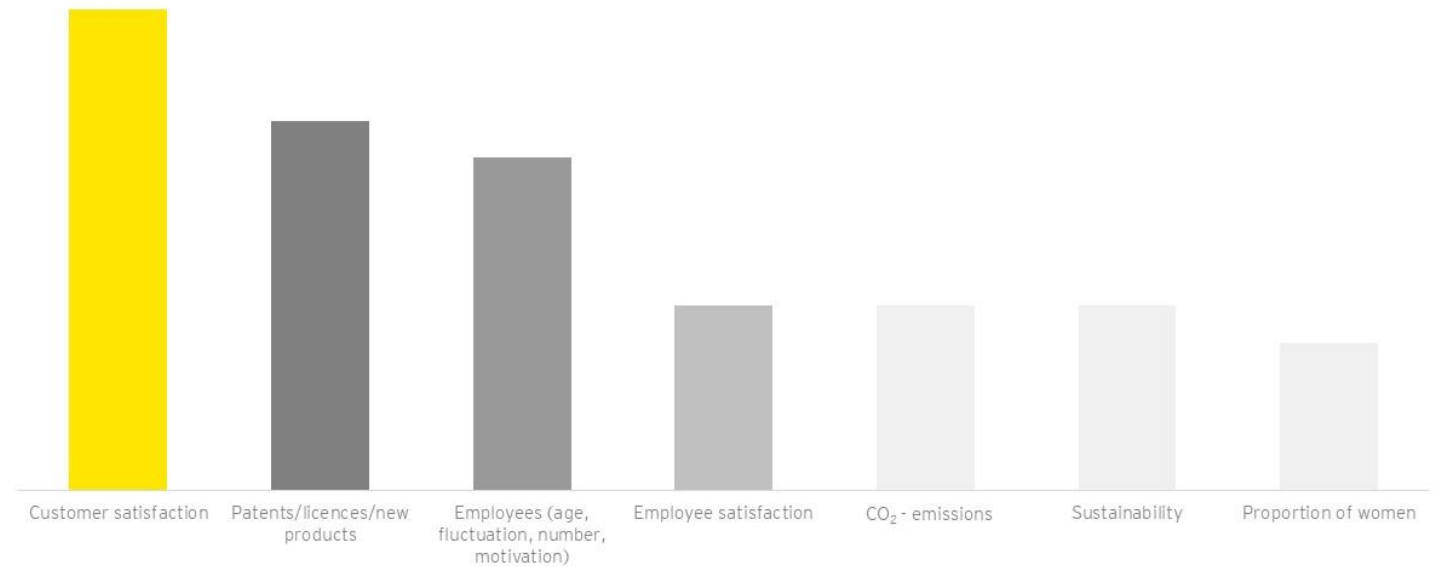
- Q** If you are not using countable KPIs in IR communication, what are the reasons?
(Multiple answers possible)



New KPIs and value drivers

Ranking of countable KPIs for more regular use in IR

- Q** Which countable KPIs could be implemented to better use long-term value drivers in IR communication?
(Open question)





Chance for a balanced
communication of value drivers
in IR practice

Chance for a balanced communication of value drivers in IR practice

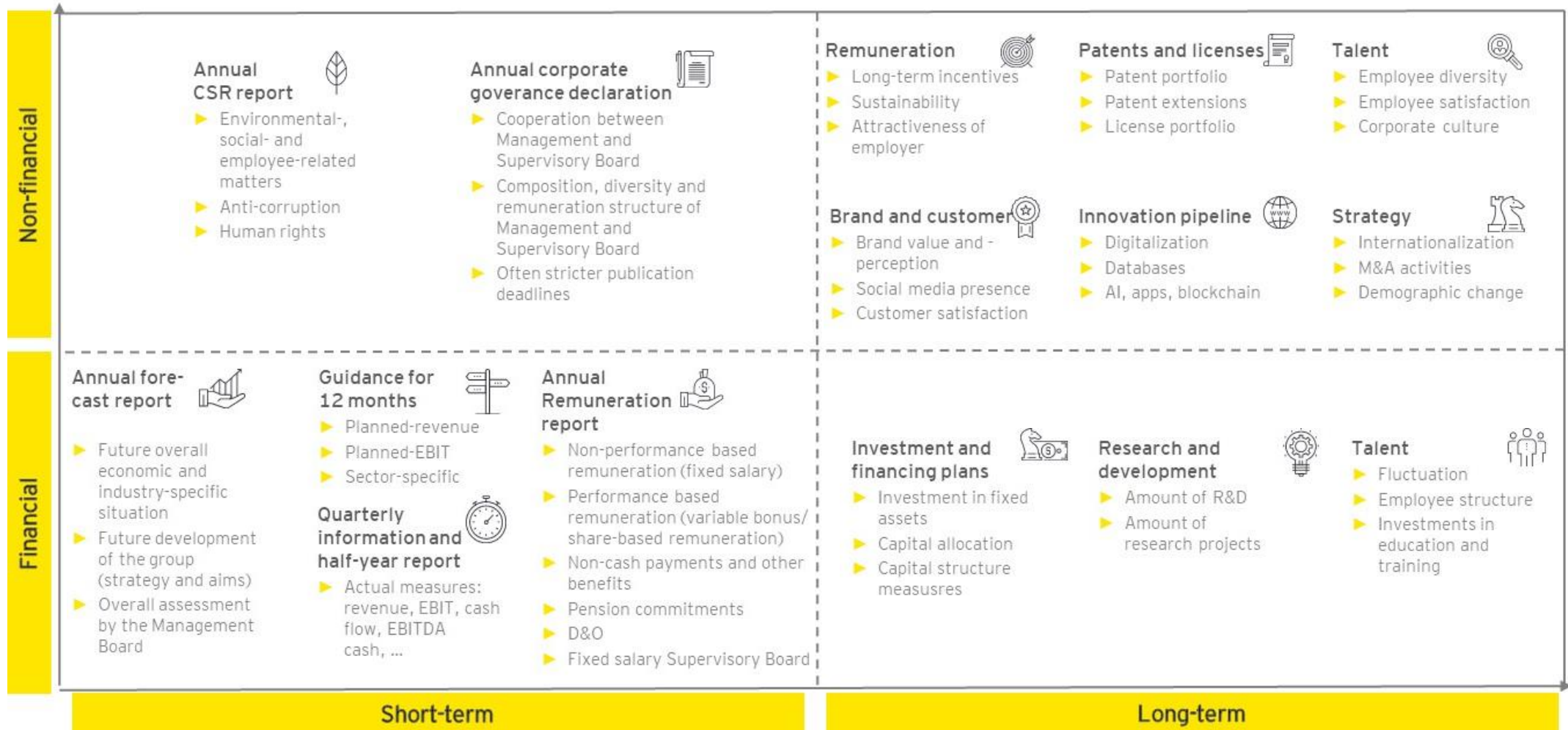


The survey shows that IR officers see potential for improvement in the communication of long-term financial and non-financial value drivers. Overall, there are four approaches identified:

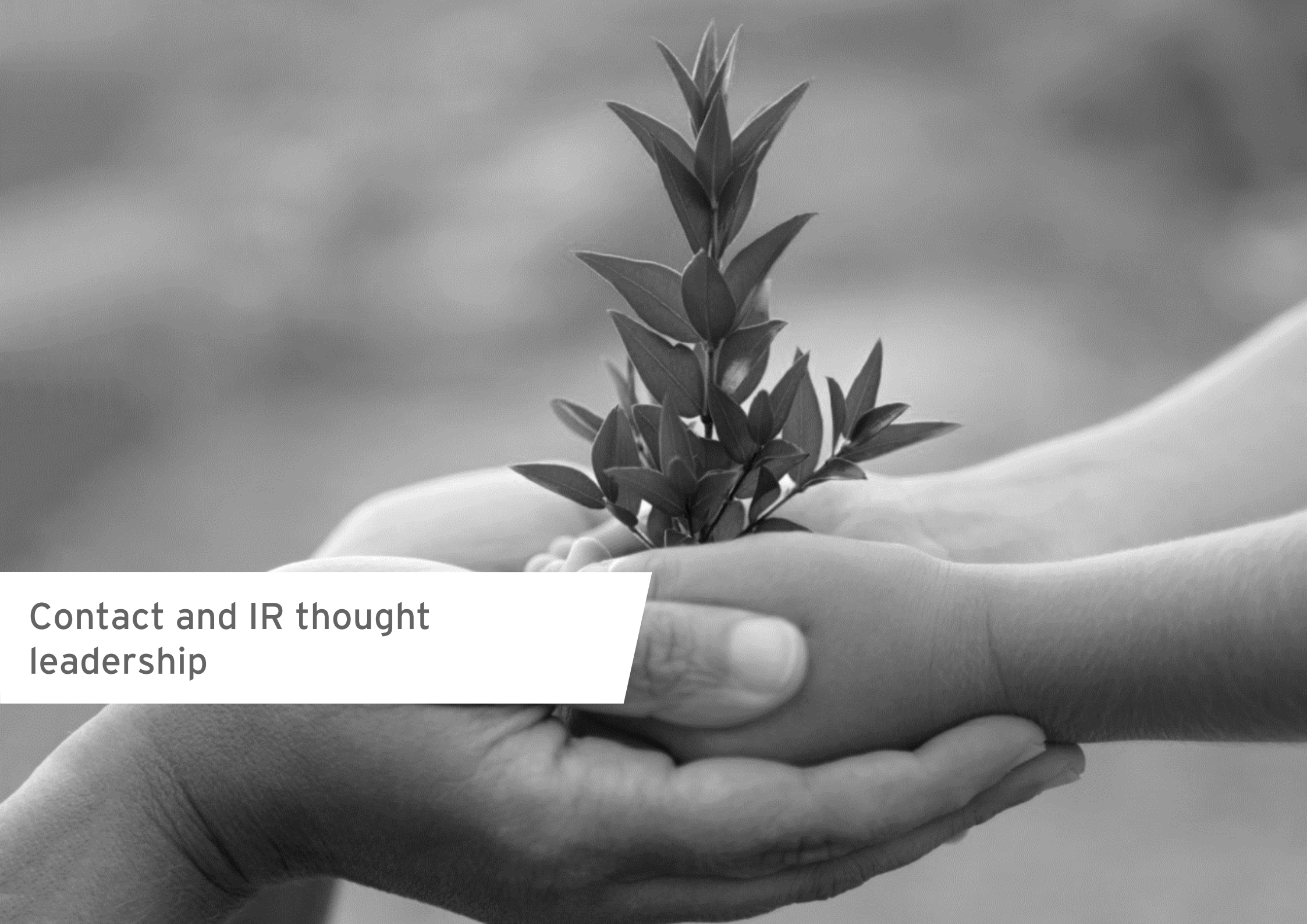
1. Better positioning of the non-financial statement amongst all IR stakeholders, but especially among analysts, who provide the capital market with a range of the fair company value. The most important parts of the non-financial statement are the environmental and social and employee matters.
2. Better communication of the non-financial and long-term value drivers. Important value drivers are the ability to innovate and disrupt as well as the company's employees and the ability to attract new talent. These need to be analyzed in detail and presented in a more transparent way.
3. Better communication of the financial and countable long-term value drivers such as customer satisfaction, the portfolio of patents and licenses and employee structure, -fluctuation and -satisfaction.
4. A more balanced communication of all value drivers in order to achieve a fair and sustainable company value. The establishment of standards and clear measures are key to better comparability, particularly of non-financial value drivers.

Suggestions for Investor Relations

Assessing and communicating the value drivers



Source DIRK/EY: Communication of value drivers in Investor Relations, 2019



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leadership

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