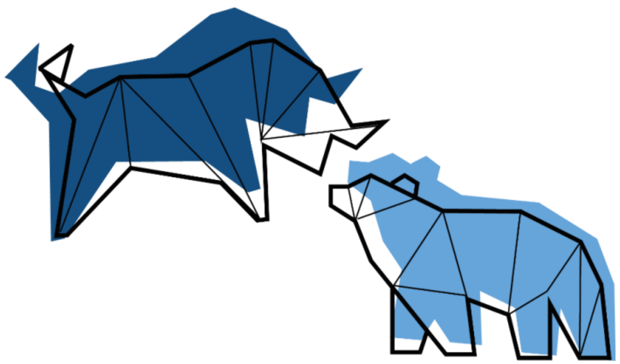


DIRK
Deutscher Investor Relations Verband

EY
Building a better working world

Managing expectations in volatile capital markets in IR

Published by DIRK, initiated and sponsored by EY as co-publisher

Mehr Wert im Kapitalmarkt

DIRK/EY Survey 2020

Content

Managing expectations in volatile capital markets in IR

Survey details

Managing expectations in volatile capital markets in IR

Respondents

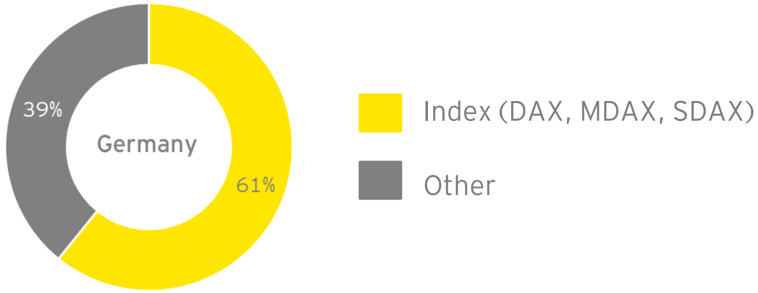
- Published by DIRK (German Investor Relation Association), initiated and sponsored by EY as co-publisher
- 103 responses from Investor Relations Officers in Germany, Switzerland and Austria*
- Companies mainly listed in reg. markets
- Members of IR associations in Germany (DIRK), Switzerland (IR club)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

Purpose of the survey

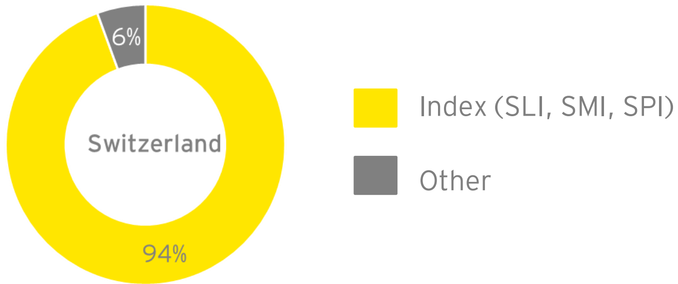
- Getting an insight into the management of expectations in volatile capital markets in Investor Relations
- Providing an overview on the communication and best practice of forward-looking information

* More than 300 Investor Relations Officers in GSA were approached

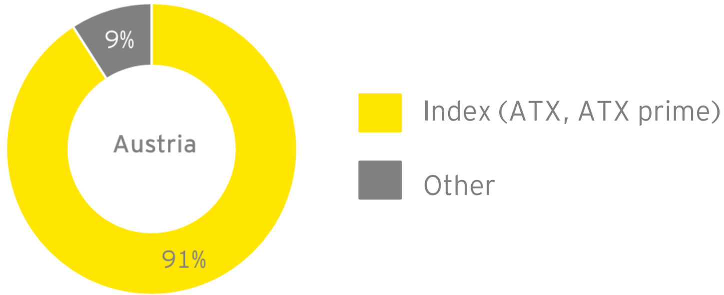
72% DIRK members



17% IR club members



11% CIRA members

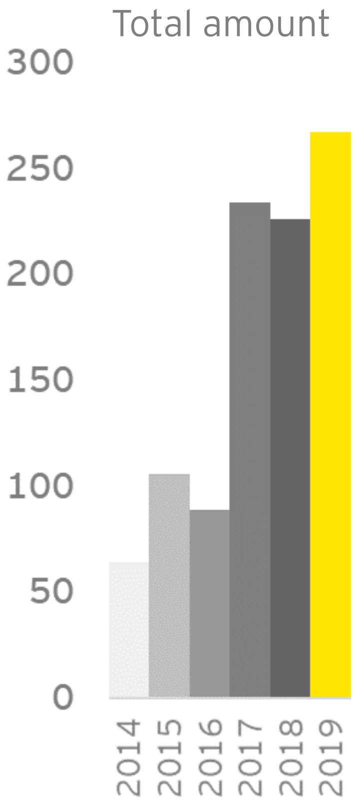


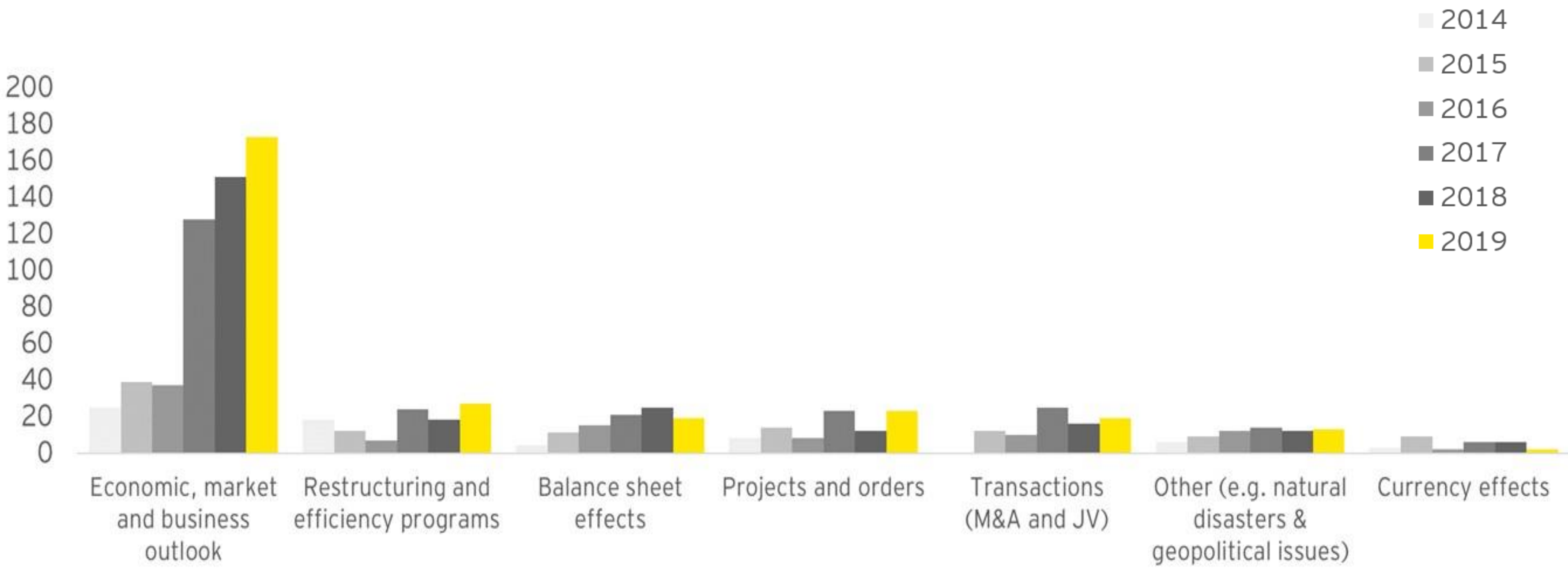
Forecast report and analyst guidance in IR

Total ad hoc notifications

Top 7 reasons (2014 to 2019)

Q What were the main reasons for ad hoc notifications?



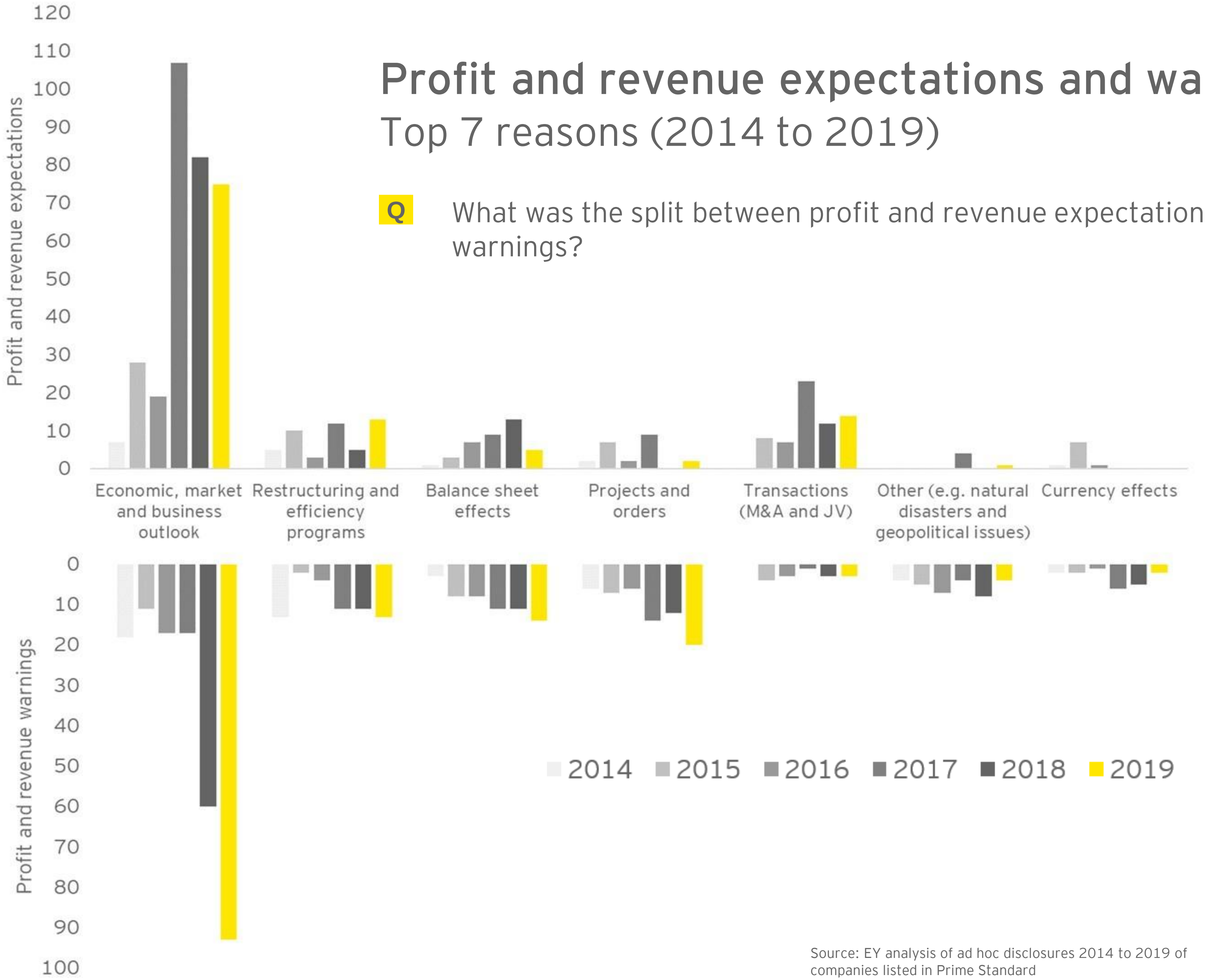


Source: EY analysis of ad hoc disclosures 2014 to 2019 of companies listed in Prime Standard

Profit and revenue expectations and warnings

Top 7 reasons (2014 to 2019)

Q What was the split between profit and revenue expectations and warnings?

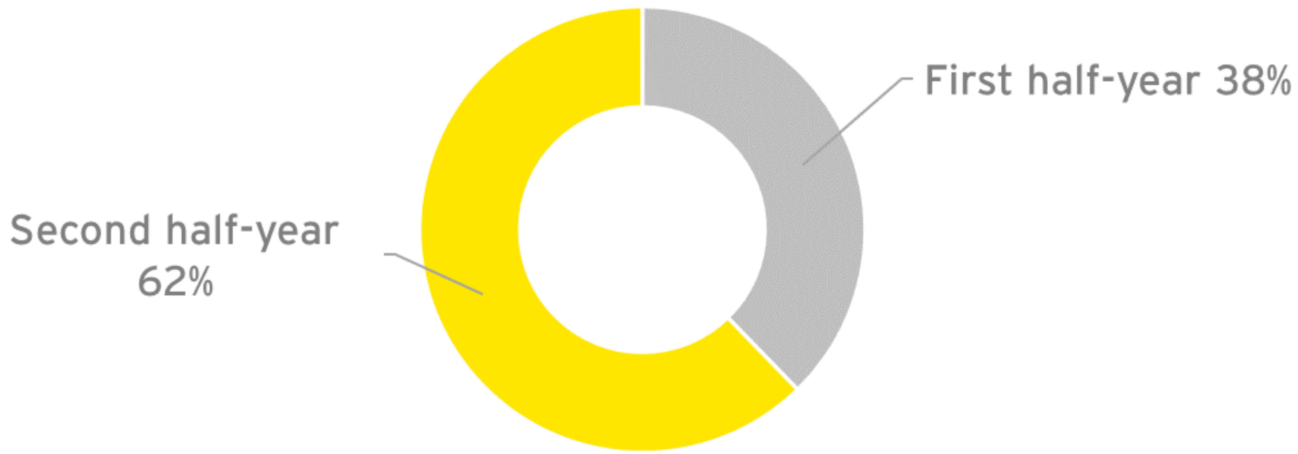


Source: EY analysis of ad hoc disclosures 2014 to 2019 of companies listed in Prime Standard

Disclosure of ad hoc notifications

First and second half-year (2011 to 2019)

Q When are ad hoc notifications disclosed?



Source: EY analysis of ad hoc disclosures 2014 to 2019 of companies listed in Prime Standard

Importance of forward-looking information

Formats and media for forward-looking information

Formats and media

- The analyst guidance and the forecast report in the management report are the most commonly used formats for the communication of forward-looking information, while the half-yearly statement and the quarterly information are less used formats
- The analyst conference/call is the most commonly used media for forward-looking information, followed by the investor conference
- The shareholders' meeting is rarely used as a medium for the communication of forward-looking information

Q What formats and media are used for the communication of forward-looking information?

(Multiple answers possible)

	Formats			Media	
1.	Analyst Guidance	89 %	1.	Analyst conference/call	91 %
2.	Forecast report in management report	87 %	2.	Investor conference	77 %
3.	Half-yearly statement	58 %	3.	Press conference	36 %
4.	Quarterly information	56 %	4.	Shareholders' meeting	29 %

n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

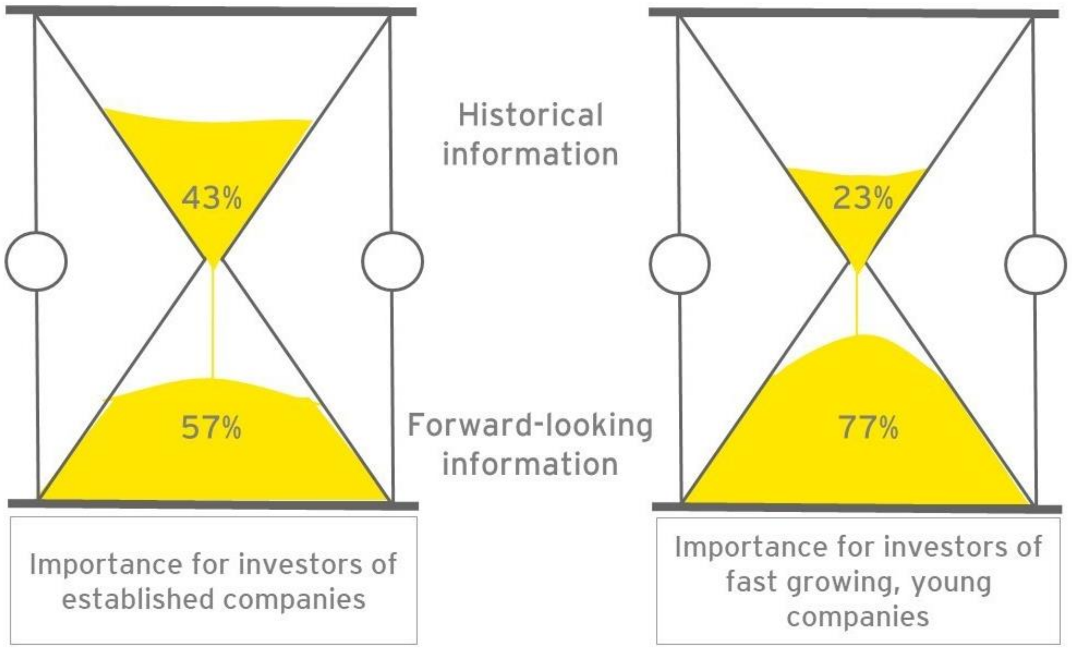
Importance of forward-looking information

Historical and forward-looking information

Importance of historical and forward-looking information

- Forward-looking information is generally more important to investors than historical information, especially for investors of fast growing, young companies
- For investors of established companies the importance of historical and forward-looking information seems to be more balanced

Q How important is historical and forward-looking information for investment decisions of investors?



n = 95

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

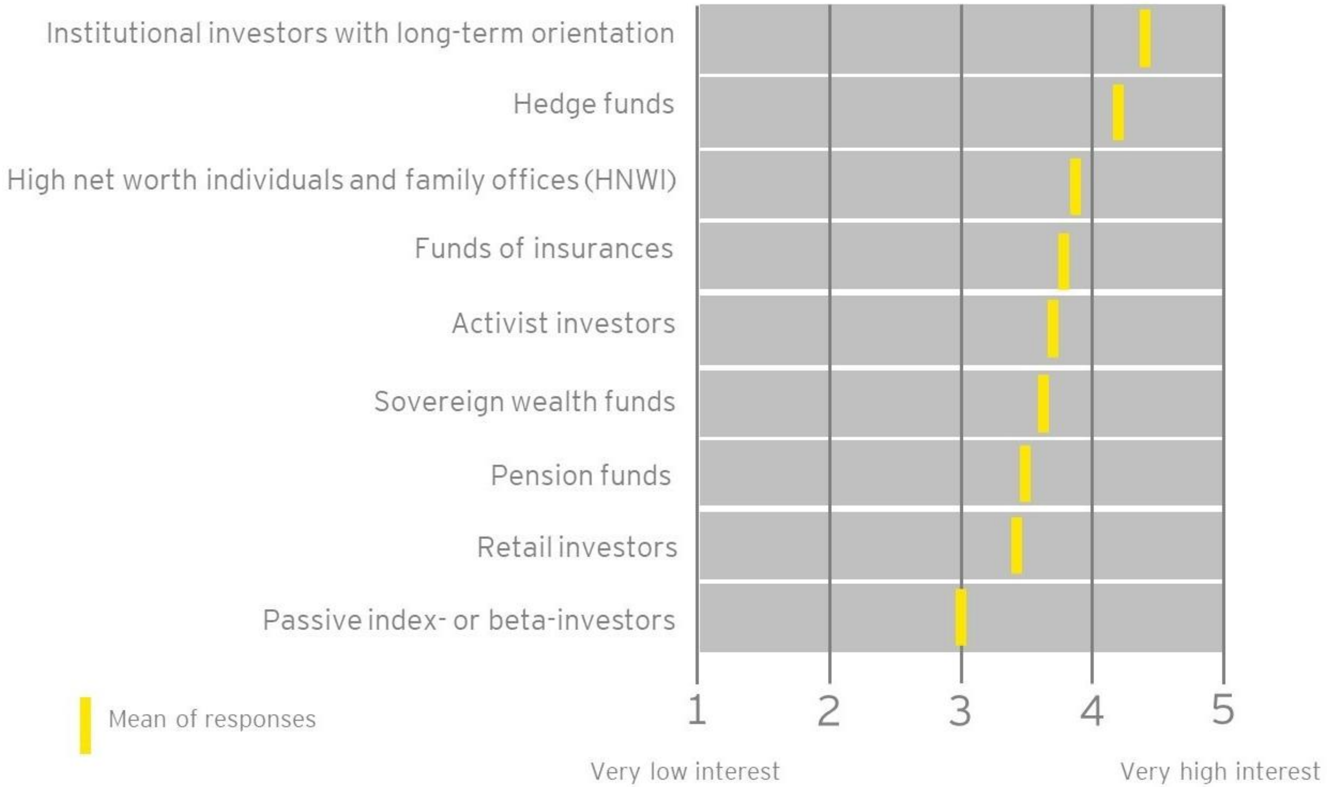
Importance of forward-looking information

Interest of investor groups in forward-looking information

Interest in forward-looking information

- In general, investor groups have a high and very high interest in forward-looking information according to the surveyed IR officers
- Institutional investors with long-term orientation and hedge funds seem to have the highest interest in forward-looking information
- The lowest interest is seen from institutional index- or beta-investors

Q What is the level of interest of the following investor groups in forward-looking information?



n = 91

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

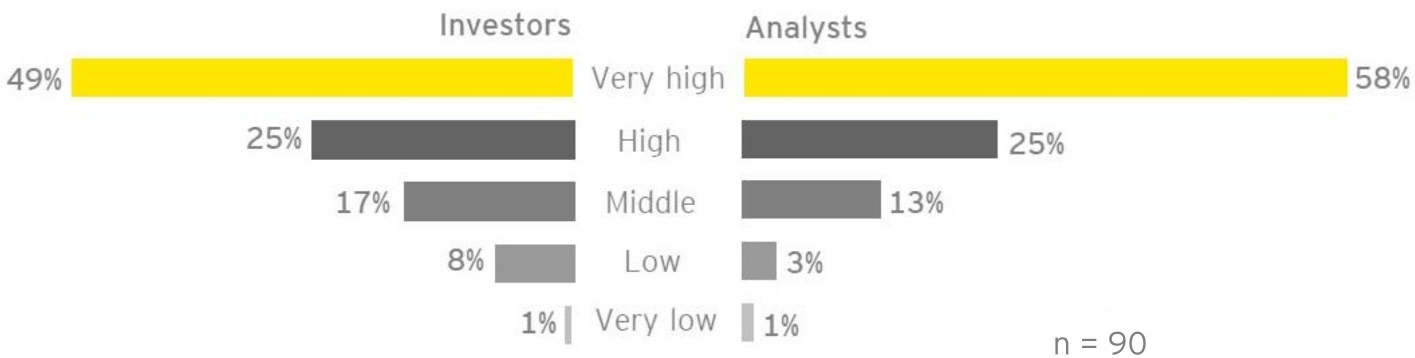
Best practice: Forecast report & analyst guidance

Interest in the forecast report

Interest in the forecast report

- Analysts and investors show a high and very high interest in the forecast report according to the surveyed IR officers
- Analysts show a slightly higher interest in the forecast report than investors
- Especially investors and analysts of SDAX companies seem to have a very high interest in the forecast report

Q What is the level of interest of analysts and investors in the forecast report?



n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

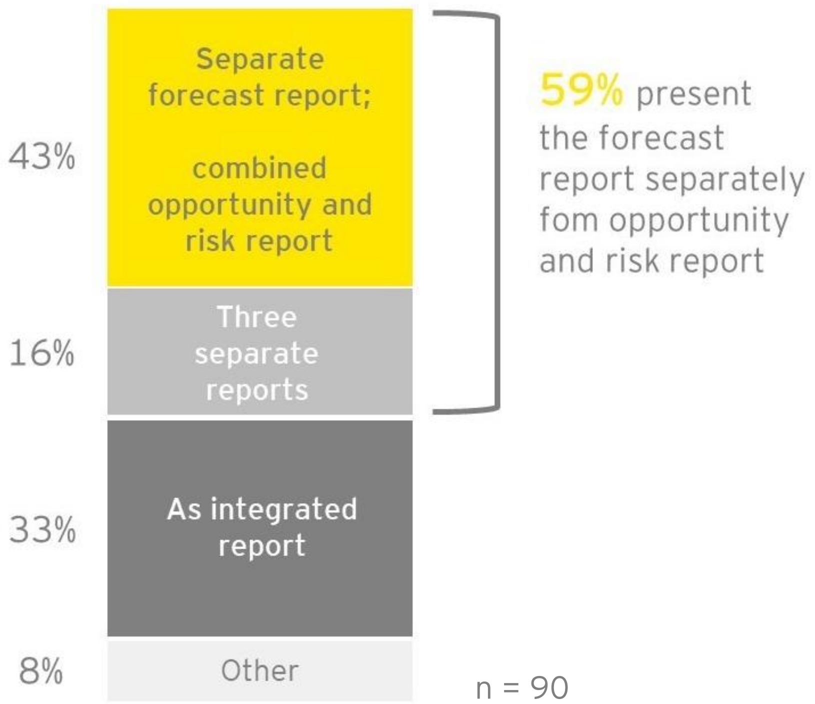
Best practice: Forecast report & analyst guidance

Presentation of the forecast report

Presentation of the forecast, opportunity and risk report

- The forecast report is presented separately from the opportunity and risk report according to the majority of surveyed IR officers:
  - 43% of the IR officers prefer to combine the opportunity and risk report, while the forecast report is presented separately
  - 16% of IR managers present all three reports separately
- One third of the IR managers prefer to present all three reports as one integrated report

Q How is the forecast, opportunity and risk report presented?



Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

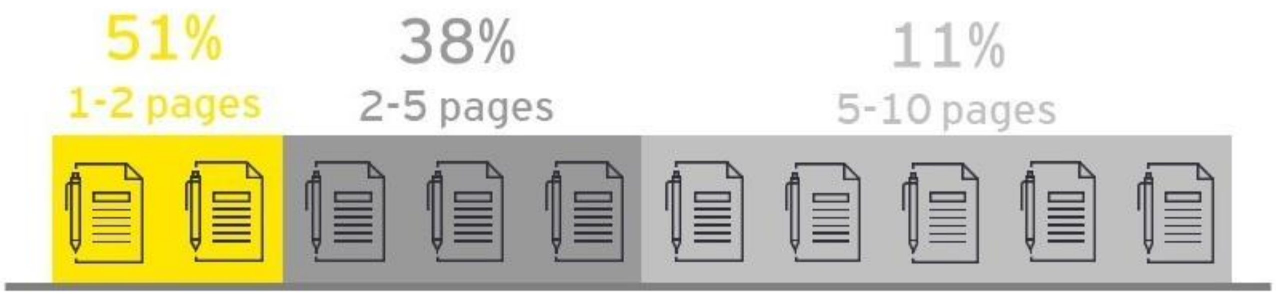
Best practice: Forecast report & analyst guidance

Number of pages in the forecast report

Number of pages in the forecast report

- For the majority of surveyed IR managers, the forecast report contains one to two pages
- For 38% of the IR officers, the forecast report contains two to five pages; especially IR officers of DAX companies present the forecast report on two to five pages
- For 11% of the IR managers only, the forecast report contains more than five pages

Q How many pages does your forecast report contain (without opportunities and risk report)?



n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

DIRK Deutscher Investor Relations Verband

EY Building a better working world

Best practice: Forecast report & analyst guidance

Forecast methods

Forecast methods

- The interval forecast (e.g. "We expect a revenue between 90m € and 110m € in the current business year") is mostly used as forecast method in the forecast report
- The qualified comparative forecast (e.g. „We expect a slightly increasing revenue in the current business year") is the second most used forecast method
- Point forecasts (e.g. "We expect a revenue of 100m € in the current business year") are rarely used

Q What forecast method do you use?

(Multiple answers possible)

63% Interval forecast

39% Qualified comparative forecast

10% Point forecast

n = 83

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Best practice: Forecast report & analyst guidance

Quarterly forecasts in forecast report

Quarterly forecasts

- 93% of the respondents do not provide quarterly forecasts in the forecast report
- Only 7% of the IR managers include quarterly forecasts in the forecast report

Q Do you provide quarterly forecasts in the forecast report?

93% do not provide quarterly forecasts in the forecast report

n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

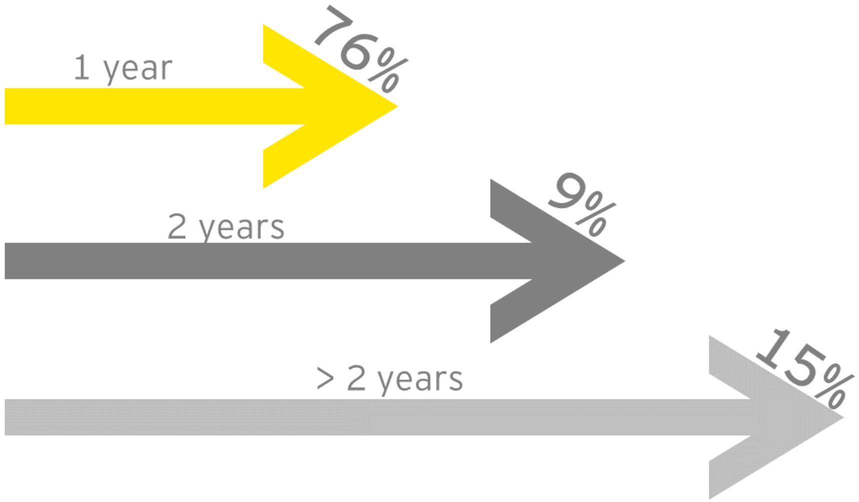
Best practice: Forecast report & analyst guidance

Forecast horizon

Forecast horizon

- 76% of the surveyed IR managers provide their forecasts with a forecast horizon of one year
- Almost one quarter of the respondents present their forecasts with a horizon of two years or more than two years

Q What is your forecast horizon?



n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

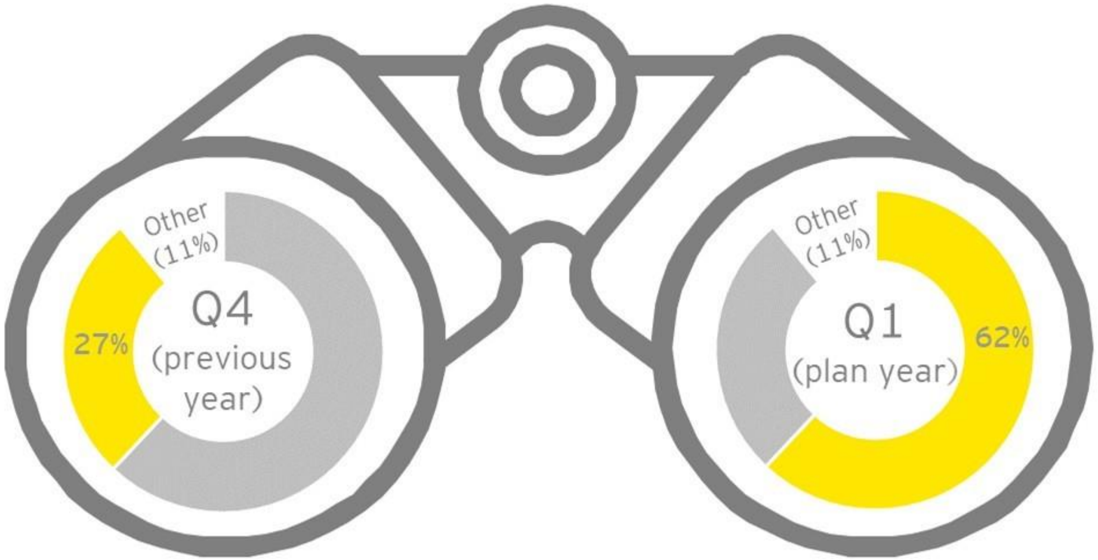
Best practice: Forecast report & analyst guidance

Disclosure of the analyst guidance

Disclosure of the analyst guidance

- According to 62% of the IR officers the analyst guidance is disclosed in the first quarter of the plan year
- 27% of the surveyed IR officers disclose the analyst guidance in the fourth quarter of the previous year

Q When do you disclose the analyst guidance for the annual forecast?



n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Best practice: Forecast report & analyst guidance

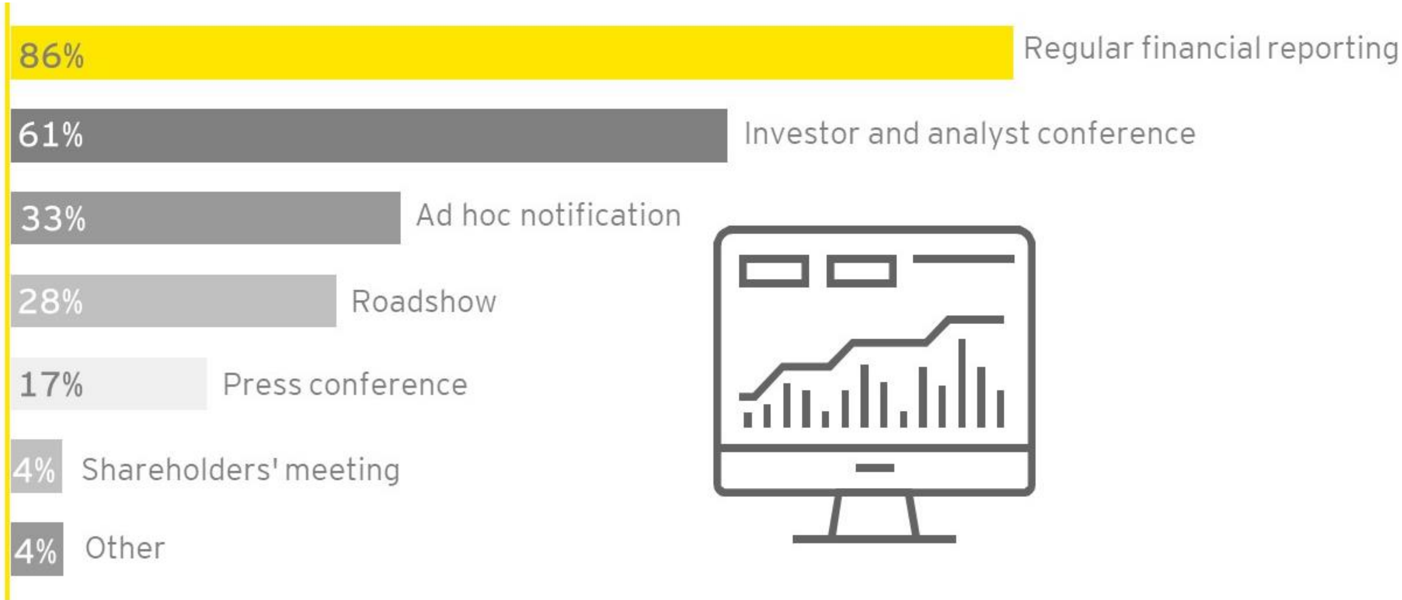
Media for the analyst guidance

Media for the analyst guidance

- For the vast majority of surveyed IR managers, the analyst guidance is communicated by means of regular financial reporting, followed by the investor and analyst conference
- The shareholders’ meeting is a rarely used media for the communication of the analyst guidance

Q What media do you use for the communication of the analyst guidance?

(Multiple answers possible)



n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Best practice: Forecast report & analyst guidance

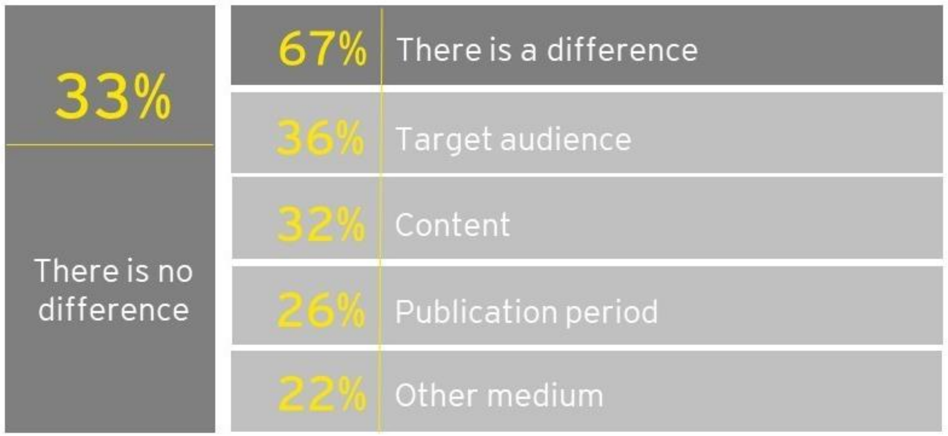
Differences in forecast report and analyst guidance

Differences in forecast report and analyst guidance

- Over two thirds of IR officers see a difference between forecast report and analyst guidance
- Main differences perceived are the target audience, followed by the content and the publication period
- One third of the surveyed IR officers do not see any difference in the forecast report and the analyst guidance

Q Are there any differences between forecast report and analyst guidance?

(Multiple answers possible)



n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Financial and non-financial information

Financial performance indicators – by index participation

Key financial performance indicators

- Revenue, EBIT and dividend policy are the most important financial performance indicators for large-, mid-, and small cap companies; EBITDA is also important for companies which do not belong to an index
- EBIT is most important financial performance indicator for DAX companies

Q What are your most relevant financial performance indicators?

(Multiple answers possible)

Financial performance indicators

	DAX, ATX,SMI	MDAX, SDAX, SPI, SLI, ATX prime	No Index
Revenue	47 %	66 %	64 %
Gross margin	7 %	12 %	4 %
Free-cashflow	40 %	38 %	36 %
EBIT	67 %	48 %	36 %
EBITDA	40 %	40 %	40 %
Return on capital employed	40 %	22 %	8 %
Financing	7 %	10 %	8 %
Dividend policy	47 %	42 %	24 %
Interest result	7 %	8 %	12 %
Research and development expenses	0 %	8 %	4 %
Consolidated result	40 %	30 %	36 %
Return on equity/ return on investment	13 %	18 %	20 %
Investments	27 %	12 %	8 %

Rank 1 | Rank 2 | Rank 3 | Rank 4

n = 89

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Financial and non-financial information

Non-financial performance indicators–by index participation

Key non-financial performance indicators

- CO_2 - related statements is the most important non-financial performance indicator for large and mid caps
- Moreover, customer satisfaction is an important non-financial performance indicator, and ranks first for companies which do not belong to an index
- Training measures are also important non-financial performance indicators, especially for mid- and small cap companies and companies which do not belong to an index

Q What are your most relevant non-financial performance indicators?

(Multiple answers possible)

Non-financial performance indicators	DAX, ATX, SMI	MDAX, SDAX, SPI, SLI, ATX prime	No Index
Customer base	20 %	14 %	25 %
Customer satisfaction	47 %	34 %	46 %
Employee satisfaction	33 %	30 %	33 %
Employee fluctuation	7 %	30 %	17 %
Number of employees	47 %	14 %	12 %
Training measures	0 %	38 %	42 %
Energy consumption	33 %	34 %	8 %
CO_2-related statements	87 %	42 %	13 %
Information on research and development	20 %	33 %	25 %
New products	20 %	24 %	29 %
New markets	7 %	20 %	21 %
Social commitment	33 %	18 %	25 %

Rank 1 Rank 3
Rank 2 Rank 4

n = 88

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Financial and non-financial information

Key non-financial opportunities

Key non-financial opportunities

- The majority reports on non-financial opportunities, especially on the good corporate governance
- The second most often reported non-financial opportunity is environmental friendly/social engagement and sustainable acting
- Other non-financial opportunities are the strong brand and good image, the ability to innovate and to disrupt as well as the good team and the ability to attract new talent
- Almost one fifth does not report on non-financial opportunities

Q Do you report on non-financial opportunities?

(Multiple answers possible)

We report on non-financial opportunities	83%
Good corporate governance	45%
Environmental friendly/social engagement/sustainable acting	43%
Strong brand and good image	39%
Ability to innovate and to disrupt	36%
Good team and the ability to attract new talent	34%

We do not report on non-financial opportunities	17%

n = 83

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Financial and non-financial information

Key non-financial risks

Key non-financial risks

- The majority reports on non-financial risks, especially on governance risks (e.g. compliance, board structures and corruption)
- Social risks (e.g. employees, demography, security and health) are the second most often reported non-financial risks, followed by climate and environment-related risks
- Only 12% do not report on non-financial risks due to the fact that they do not present material risks for the company

Q Do you report on non-financial risks?

(Multiple answers possible)

We report on non-financial risks	88%
Governance risks (e.g. compliance, board structures and corruption)	64%
Social risks (e.g. employees, demography, security and health)	61%
Climate and environment-related risks	55%
Political framework	39%
Reputational risks	36%

We do not report on non-financial risks	12%

n = 87

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Strategies on management of expectations

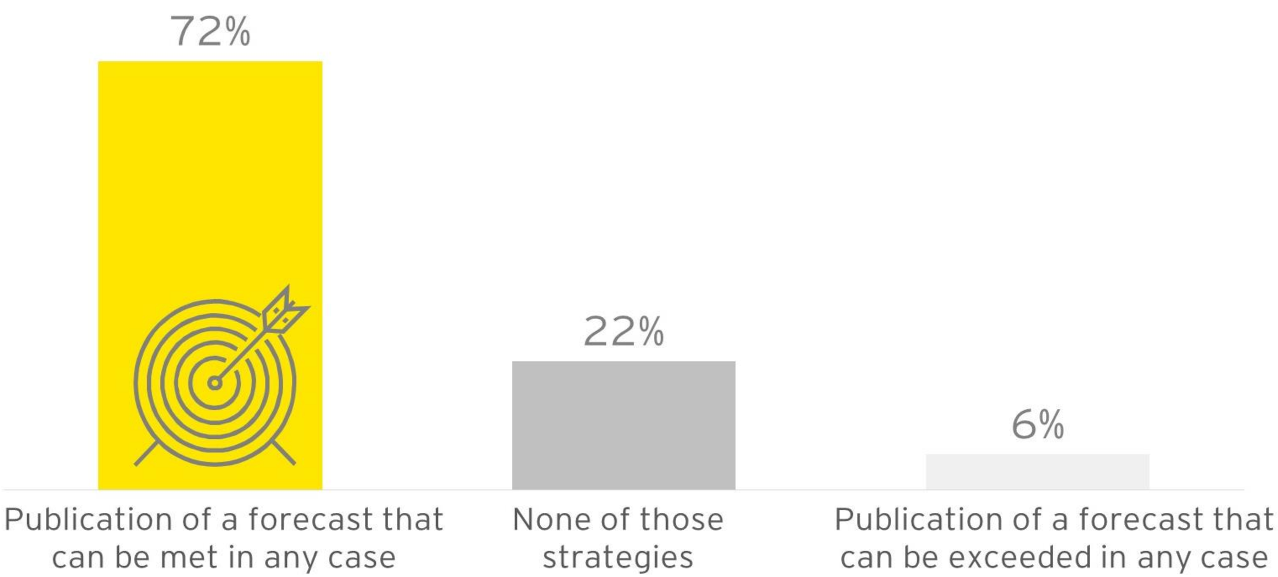
Communication of forecasts

Communication strategy to build long-term trust

Communication strategy to build up long-term trust

- A forecast, that can be met in any case is the most favored communication strategy to build up long-term trust in the capital market
- Only 6 % of the respondents favor a forecast, that can be exceeded in any case
- None of the surveyed IR officers favor a forecast that cannot be met in any case

Q What communication strategy on forward-looking information is most beneficial to build up long-term trust in the capital market?



n = 83

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

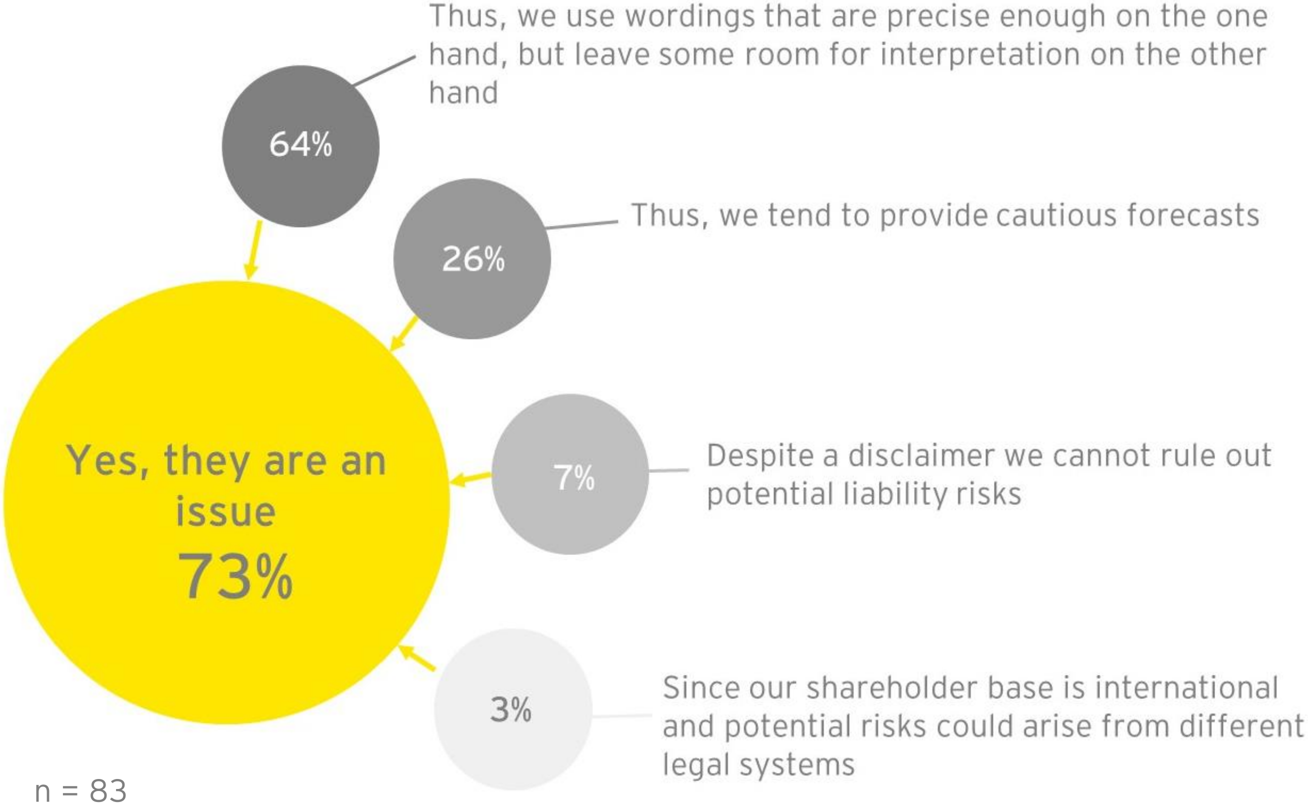
Communication of forecasts
Potential liability risks

Potential liability risks

- Potential liability risks for the company are an issue when communicating forward-looking information according for almost three quarters of the respondents:
  - Thus, 64% of the IR officers use wordings that are precise enough on the one hand, but leave some room for interpretation on the other hand and
  - 26% of the IR officers tend to provide cautious forecasts
- According to 27% of the respondents, potential liability risks of the company are not an issue when communicating forward-looking statements

Q Are potential liability risks of the company an issue when communicating forward-looking statements?

(Multiple answers possible)



n = 83

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Forecast adjustments

Top 3 external and internal factors

Reasons for forecast adjustments

- The economic situation/economy is the major external reason for forecast adjustments, followed by shifts in orders/revenues, which is a major issue especially for small-cap companies. Geopolitical uncertainties ranks far behind
- False assumptions are the major internal reason for forecast adjustments. The internal infrastructure ranks far behind, followed by inappropriate KPIs

Q What were the reasons for adjustments of forecasts?

(Multiple answers possible)

Top 3 external factors	Top 3 internal factors
1. Economic situation/economy	1. False assumptions
2. Shifts in orders/revenues	2. Internal infrastructure
3. Geopolitical uncertainties	3. Inappropriate KPIs

n = 82

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Forecast adjustments

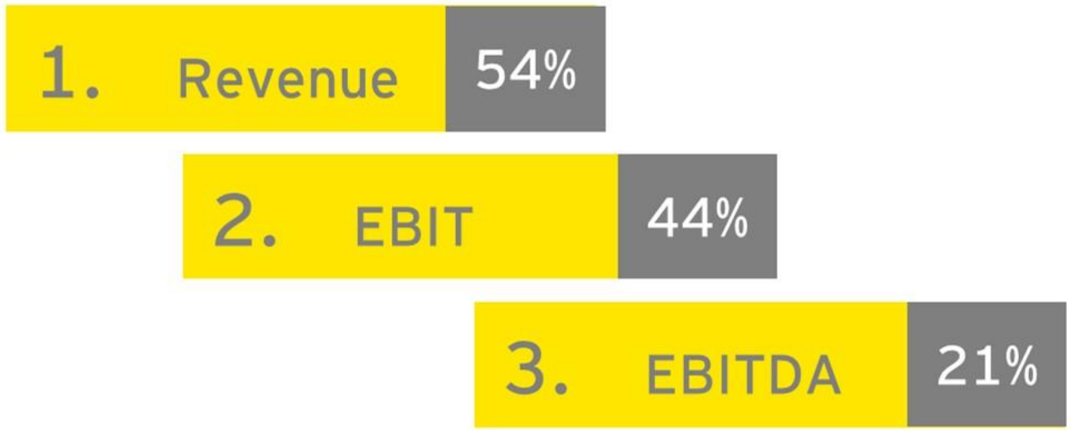
Top 3 adjusted performance indicators

Top 3 adjusted performance indicators

- Revenue is the most adjusted performance indicator, followed by EBIT and EBITDA
- Non-financial performance indicators are not adjusted according to the surveyed IR officers

Q What is the most adjusted performance indicator?

(Multiple answers possible)



n = 43

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Improvement potential for forecast formats

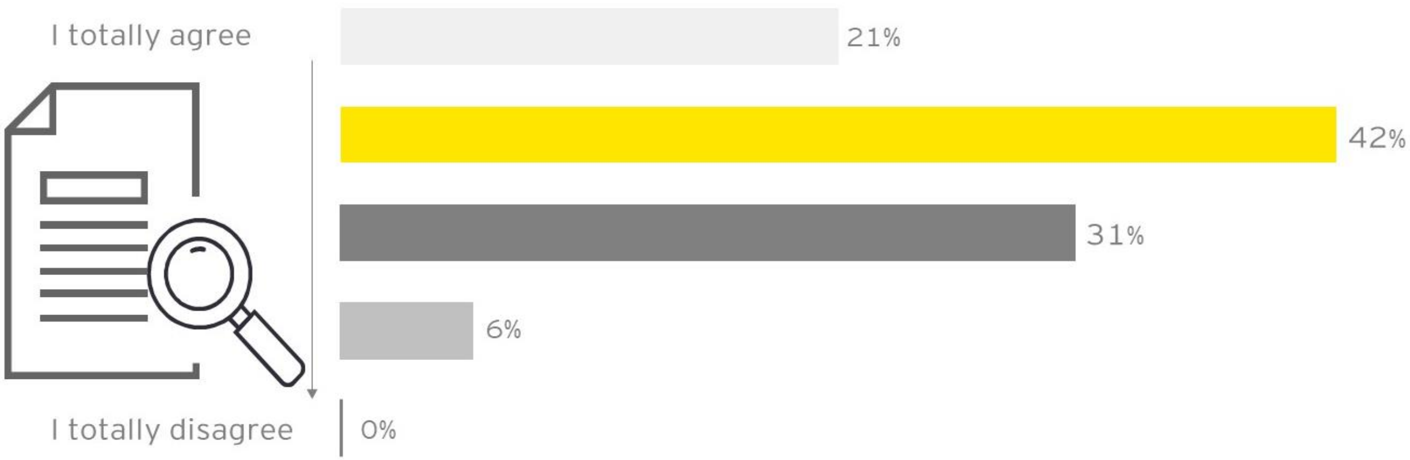
Purpose of the forecast report in IR

Fulfilment of purpose

- Almost two thirds of the respondents agree or totally agree, that the forecast report is an effective tool to inform about the future situation of the company
- 37% of the IR officers see the forecast report rather critical, when it comes to the fulfilment of its purpose in IR

Q Do you agree with the following statement?

"The forecast report is an effective tool to inform about the future situation of the company and provides high informational benefits."



n = 90

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Improvement potential for forecast formats

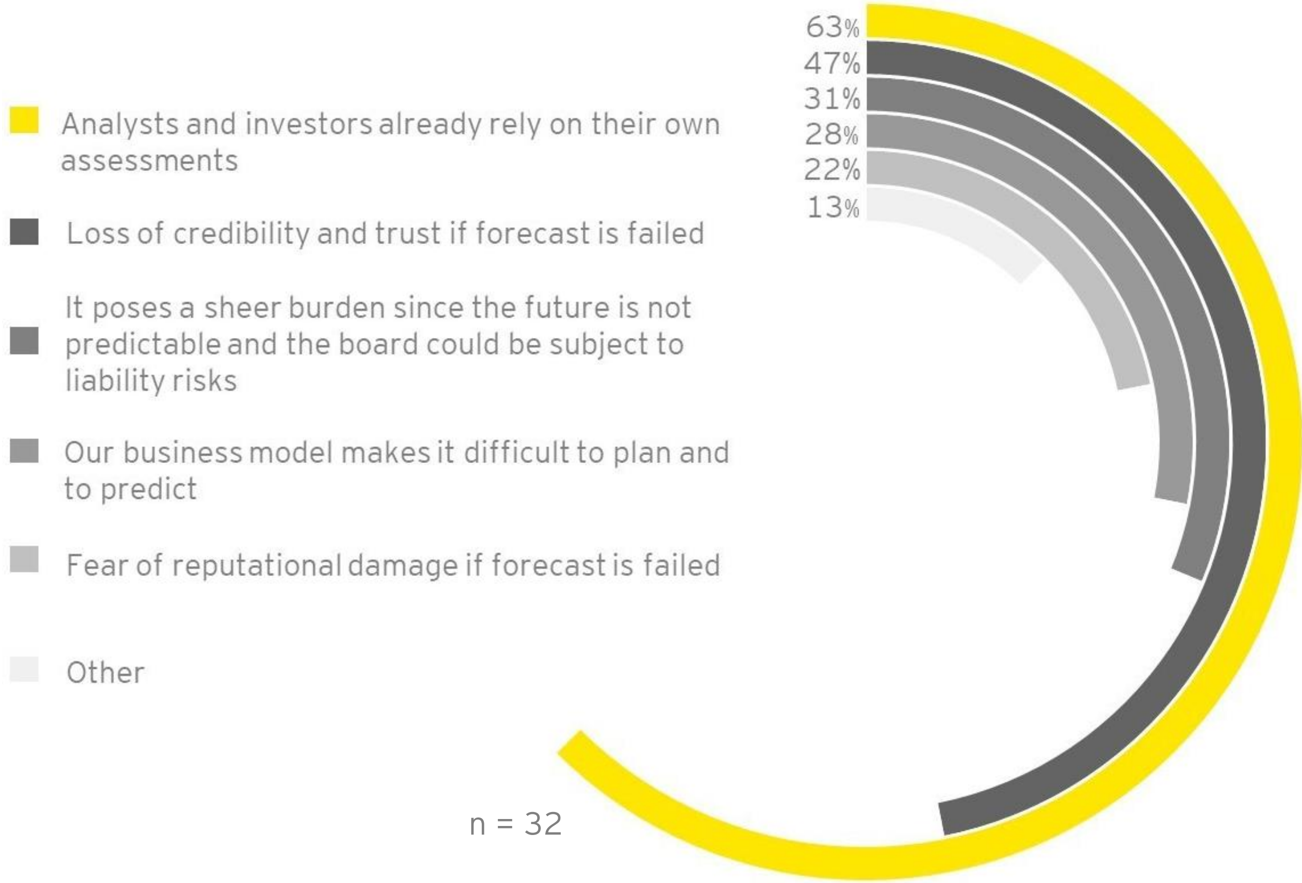
Main concerns raised by IR managers

Main concerns about the forecast report – raised by IR managers

- The concern most commonly raised by IR managers, who see the forecast rather critical, is that analysts and investors already rely on their own assessments
- 47% of the IR managers fear a loss of credibility and trust if the forecast is failed
- For almost one third of the respondents the forecast report poses a sheer burden since the future is not predictable and the board could be subject to liability risks

Q Why do you think the forecast report is not an effective tool?

(Multiple answers possible)



Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Improvement potential for forecast formats

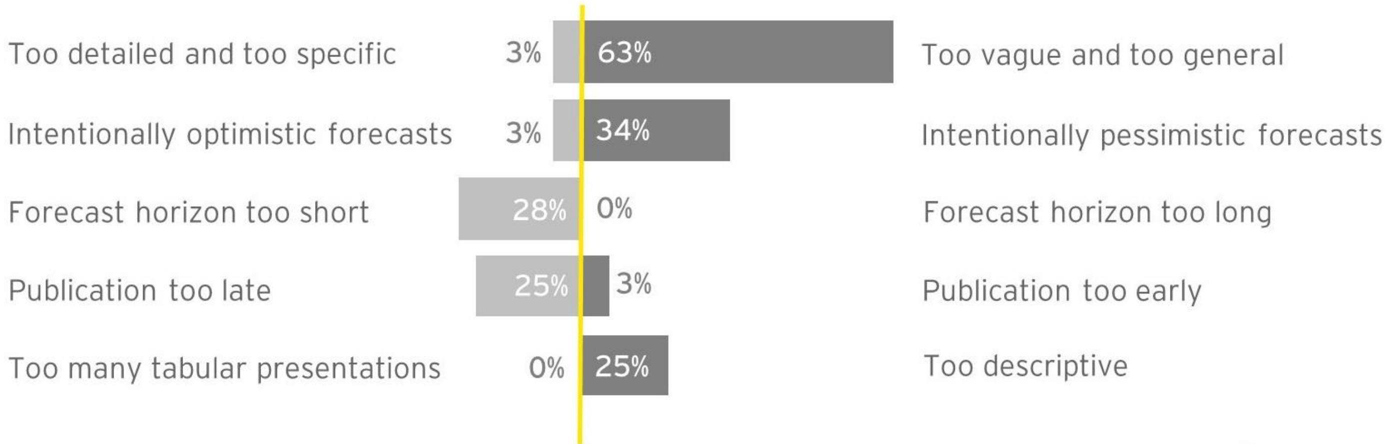
Main concerns raised by IR stakeholders

Main concerns about the forecast report – raised by IR stakeholders

- According to the surveyed IR managers, the most commonly raised concern of IR-stakeholders is that the forecast report is too vague and too general
- The second most raised concern of IR-stakeholders is that the forecasts are intentionally too pessimistic according to the respondents
- More than one quarter of the IR managers criticize that the forecast horizon is too short for IR-stakeholders

Q Which concerns are most raised by IR-stakeholders regarding the forecast report?

(Multiple answers possible)



n = 32

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020

Chance for a better management of expectation in IR

Chances for a better management of expectation in IR

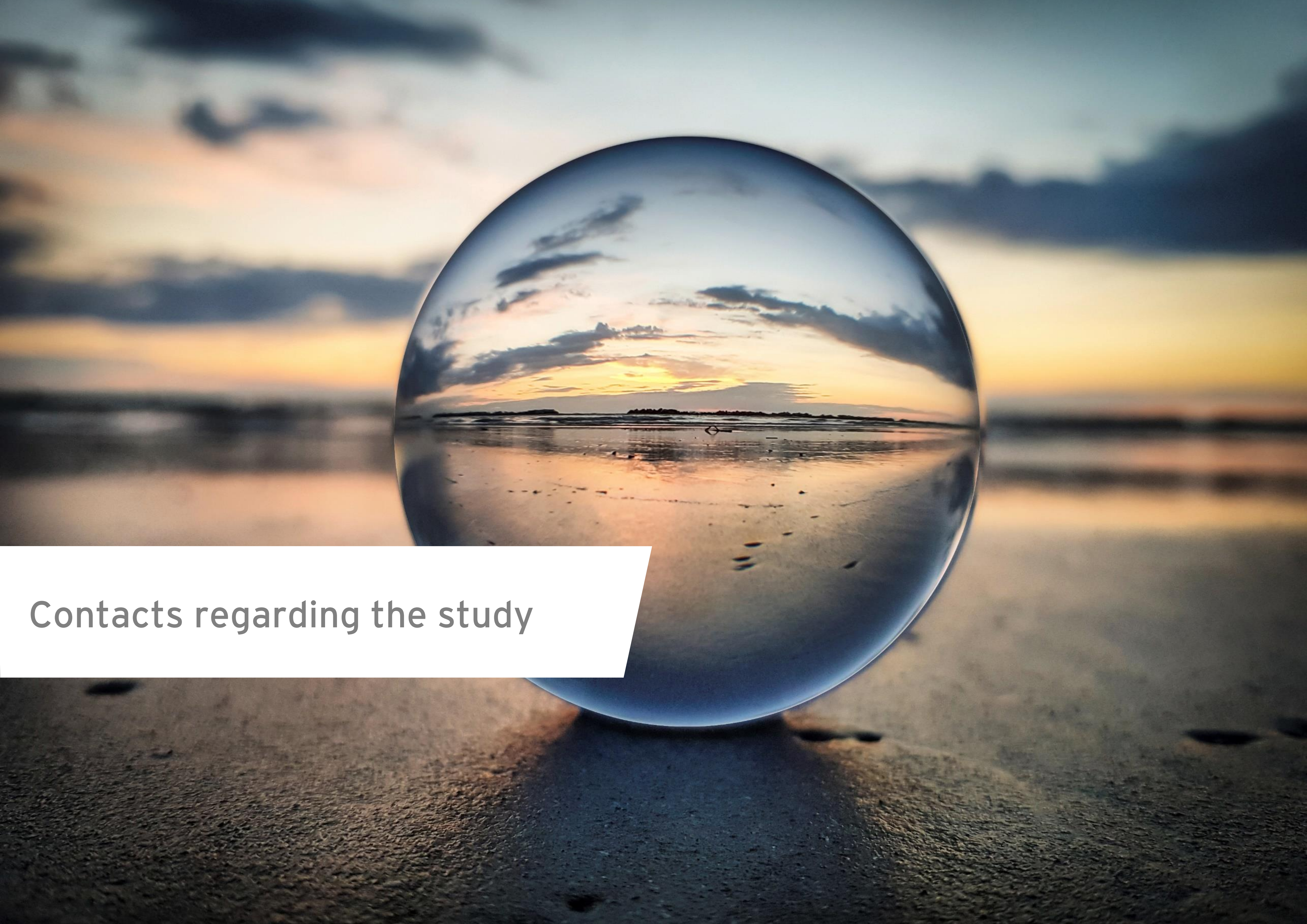
Approaches in IR practice

- Due to VUCA markets and external geopolitical shocks, the annual, quarterly and monthly planning is getting increasingly difficult for the internal and external management of expectations; forecasts may lose validity rather fast.
- Particularly in uncertain and volatile times like this, IR is encouraged more than ever:
  - to provide reliable forward-looking information by means of appropriate formats and media,
  - to build up credibility in the capital market
  - to strengthen investor confidence.

The survey shows that forward-looking information and the IR management of expectations is of high relevance to investors, analysts and other IR-stakeholders. IR officers see potential for improvement and four essential approaches can be identified:

1. More convergence between forecast report and analyst guidance, in order to improve comparability of the two formats. Main differences perceived are the target audience, followed by the content and the publication period.
2. More detail accuracy and depth of forecasts in the forecast report. The most commonly raised concerns are that the forecast report is too vague and too general, that statements are rather restrained and that the forecast horizon is too short; the majority provides their forecasts with a forecast horizon of one year, though.
3. More balanced communication of forecasts on the key non-financial performance indicators. Important non-financial performance indicators are CO_2–related statements, customer satisfaction and training activities.
4. Better and more reliable communication of forecasts, especially concerning the economy and economic situation which represents the most common external factor for forecast adjustments. Also, more intense examination of the assumptions which are the basis for the forecasts, since false assumptions are the most common internal factor for forecast adjustments.

Source DIRK/EY: Managing expectations in volatile capital markets in IR, 2020



Contacts regarding the study

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