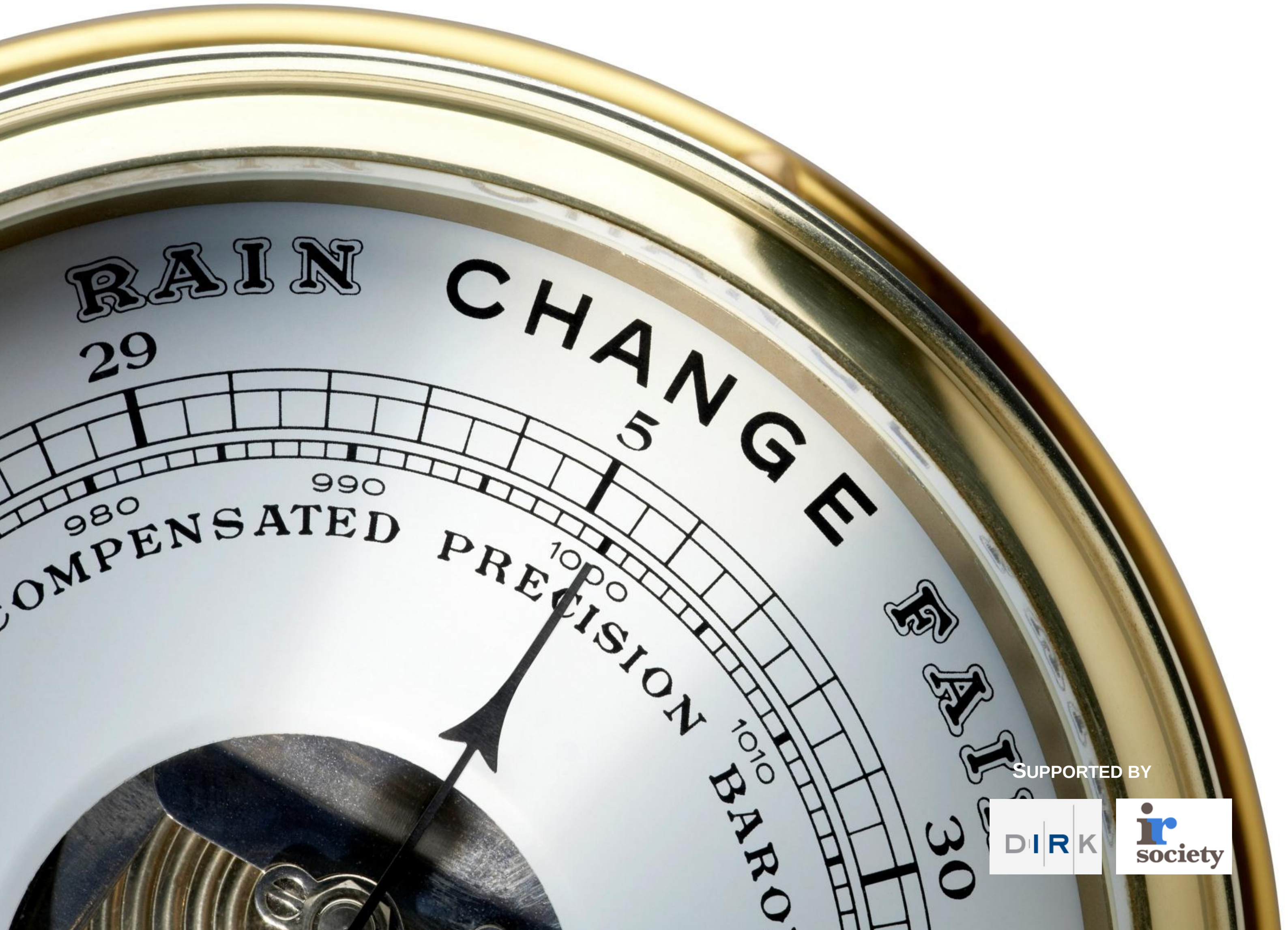
Citigate Dewe Rogerson

Investor Relations Survey

Redefining the investment case:
The quest for differentiation in a new economic reality

2013



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Investor Relations Survey
Redefining the investment case: *The quest for differentiation in a new economic reality*

Investor Relations Officers (IROs) from leading companies in Europe were invited to participate in our survey between 24th January and 28th March 2013. Citigate Dewe Rogerson sought their views on key communications challenges in 2013, disclosure and guidance, analyst coverage, investor engagement and targeting activities, use of social media channels, and other elements of their IR programmes.

A record number of 165 IROs contributed to our survey, representing companies from 20 countries and all FTSE industry indices.

We would like to thank all our respondents for making our fifth annual IR survey the most successful to date. A special thanks goes out to the UK IR Society and Germany's Deutscher Investor Relations Verband ('DIRK') for their support.

Citigate Dewe Rogerson, June 2013

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Key priorities for 2013

Conveying a clear investment case in a new economic reality

Achieving sufficient levels of differentiation and conveying a clear investment case in a new economic reality brought about by prolonged poor economic conditions and continued high market uncertainty is for many the key IR issue in 2013.

In this environment, nearly a third of IROs expect to face difficulties in managing market expectations, whilst a quarter plan to focus on further reshaping and broadening their shareholder bases through increased roadshow activity. Regulatory pressures remain among the key challenges for a fifth of respondents, a trend particularly prevalent among financial institutions, large caps and companies based in countries with harsh austerity programmes in place.

A sixth of companies across all market caps are feeling the pain when it comes to constraints on IR resources – an eight-fold increase compared to 2012. Rising up the agenda, developing a social media strategy will also be a key challenge for 7% of IROs in 2013.

Guidance and disclosure

Increasing focus on strategy and revenue drivers

Whilst investors continue to keep a close watch on efficiency levels and key risks and challenges of their portfolio companies, rising interest in company strategy and revenue drivers points to an increasing willingness to look beyond the short-term challenges.

Majority not changing disclosure levels

Following several years of disclosure reviews, 61% of IROs are now satisfied with the level of detail they provide to the market. Among those with plans to improve their quality of disclosure in 2013, a quarter will look to achieve this by providing more detailed financial information, such as further revenue and cost breakdowns.

Only a fifth changing guidance in 2013

A declining percentage of companies (22% in 2013 vs. 35% in 2012) have plans to change the amount or type of guidance they provide. Among the wide range of options under consideration, greater focus on mid-term strategy and guidance is the most popular (20%), followed by a reduced number of metrics cited by 16% of respondents.

Sell-side coverage

Continued decline in quality of analyst coverage

A record 41% of IROs noticed a decline in the quality of sell-side coverage over the past 12 months with companies with a market cap of between £500 million and £1 billion among the hardest hit. Only 13% of companies registered an improvement in research quality – not one of these were from healthcare, technology or utilities sectors.

Smaller majority remain satisfied with level of coverage

A smaller majority of IROs remain satisfied with the level of analyst coverage they receive – down from about three quarters in previous years to 61% in 2013. The decline in satisfaction levels was the mildest among companies with a market cap of more than £10 billion; all other categories saw a decline of 11 percentage points or more compared to 2012.

Internal buy-side research on the rise

More than a quarter of IROs have noticed an increase in internal buy-side research over the past 12 months. However, the vast majority of investors continue to use external research when making investment decisions. As such, the declining quality of sell-side research cannot be ignored.

Quality sell-side coverage encouraged through 1:1 meetings

One-to-one meetings with the IR team and senior management are among the most frequently used measures used to encourage quality sell-side coverage. Three quarters of IROs also use consensus collection and feedback on analyst forecasts to this end. However, only 21% publish consensus estimates on their websites with verbal communication the most popular medium for sharing consensus with the market.

Investor engagement

More proactive approach by IROs needed

Nearly half of IROs do not actively seek investor engagement on key issues ahead of significant events. More worryingly, only 12% state they are fully engaged in discussions with investors when it comes to executive remuneration. The rest either leave this responsibility to the Corporate Secretary, Remuneration Committee or other colleagues, or support these in dealing with investor queries on such topics. Encouragingly, however, most companies find that their investors are more interested in engaging with them regarding broader issues of financial performance and corporate strategy rather than executive pay.

Increasing transparency regarding executive remuneration targets and criteria

A quarter of companies have recently increased their level of transparency regarding executive remuneration targets and criteria in response to investor demands, with companies based in the UK and Germany driving this trend. To demonstrate their commitment to high corporate governance standards, 16% have gone a step further and actually changed these targets and criteria. Ultimately, four UK companies in our survey took the decision to reduce levels of executive remuneration as a result of investor engagement on this issue.

Investor feedback and frequency of contact among top criteria for measuring engagement levels

IROs measure investor engagement levels using a mixture of qualitative and quantitative measures. The most popular qualitative measure is investor feedback collected either directly or through independent external advisors. Encouragingly, 78% of such feedback is shared with the Board of Directors, including non-executive directors. The number of meetings or conference calls, and the general frequency of contact, is the most frequently used quantitative measure, with voting participation and changes in institutional ownership often supporting these findings.

Investor targeting and outreach

Intensifying roadshow activity and quest for new targets

Nearly all companies undertake investor roadshows with senior management two or more times a year. Over the next 12 months, 39% plan to devote more time to meeting investors with the majority setting aside between 25% and 50% of meetings for potential investors. Overall, 43% will include new financial centres in roadshow programmes in 2013. More in-depth coverage of continental Europe and secondary financial centres in the US is on the cards for over a fifth of companies, whilst a significant number will also be testing investor appetite in Asia.

In addition to exploring interest levels in new financial centres, companies are also increasingly marketing to non-traditional investors. Sovereign Wealth Funds are actively targeted by 24% of companies, whilst 22% plan to include SRI investors in their roadshow schedules in 2013.

Over a third of IROs delegate responsibility for dealing with SRI investors

In 65% of companies, IR teams manage the relationship with SRI investors. The rest, however, delegate this responsibility to their CSR or other colleagues. This practice is less frequent among companies with larger IR teams or greater SRI focus, such as those based in Germany and France.

Nearly two thirds publish or plan to start publishing a stand-alone sustainability report

Whilst 57% of companies currently publish stand-alone sustainability reports and a further 7% plan to do so in the near future, in some sectors this practice is driven more by a need to be seen as a responsible citizen rather than a genuine interest in engaging with SRI investors. For example, all telecoms and 80% of oil & gas companies produce stand-alone sustainability reports but none of them plan to meet with SRI investors this year.

Nearly all companies hold Capital Markets Days

Capital Markets Days remain a popular way of reaching out to the investment community – the most common practice is to hold them annually (35%). Only 10% of companies in our research sample never hold such events, a trend particularly prevalent in Spain.

Whilst the majority of companies provide an audio or video webcast of their events, 46% continue to discriminate against investors unable to make the presentations in person. Whilst this is particularly common among companies with a market cap of below £500 million (89%), there is room for improvement across all market cap categories.

Nearly a third of IROs see tangible results from holding Capital Markets Days in the form of either increased sell-side coverage, institutional ownership or both.

Social media

Growing importance of social media for investor relations

Whilst a growing number of IROs have told us they planned to increase communication through social media, most are having difficulty in identifying the best way of utilising these communications channels. This is reflected in the fact that only a third of companies currently have a formal social media policy.

Facebook remains the most popular social media channel with 53% of companies stating they had a corporate profile page. This is closely followed by LinkedIn and IR apps for tablets, with the latter increasingly growing in importance across Europe.

Limited use of social media

The most popular way of using social media channels is to publicise news and events, thereby supplementing other, more traditional communications channels. Whilst nearly all companies (91%) have adopted this practice, a much smaller percentage chose to engage more actively with the investment community through social media channels by promoting views through blogs (23%), providing a platform for internal communication (23%), or engaging in dialogue with analysts and investors (7%). However, a growing number of IROs see the effect of conversations which take place on these platforms on their company share price and are actively monitoring rumours (43%) and using these for general market intelligence (31%).

Several concerns deter IROs from more extensive use of social media channels

Most IROs (78%) view social media channels as time consuming and offering limited value added. The significant potential for compliance breaches and message distortion due to the informal nature of communication through these channels and oversimplified newsfeeds also give cause for concern to more than half of respondents. Over a third of IROs see potential for breach of professional etiquette as a further deterrent putting them off of using social media more extensively.

However, among companies without a formal social media policy, about a quarter use at least one social media channel for investor relations. Such lack of adequate internal controls amplifies the risks of using these channels to share information with the investment community.

IR function

IRO position in companies growing in importance

In terms of professional background, three quarters of IROs have previous experience in investor relations, a number of respondents have a background in accountancy and banking, whilst 12% have previously been responsible for broader corporate communications. As expected, the vast majority of IROs report to the CFO with 17% having a reporting line straight into the CEO.

More than half of IROs have additional responsibilities including corporate affairs, capital markets, strategy, treasury and others. This puts them a step closer to a future senior management role. However, three quarters do not regularly attend Board meetings, which not only restricts the IRO's awareness of the Board's strategic priorities, but may also have an impact on the Board's awareness of potential investor concerns regarding strategic plans and performance.

IROs use a mixture of qualitative and quantitative criteria to evaluate the success of their communications programmes. These are very much in line with measures used to evaluate investor engagement with analyst and investor feedback by far the most frequently used tool.

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For more information on Citigate Dewe Rogerson please see the back cover

Communications context and key challenges

Sustaining a longer term investment story against external headwinds

Prolonged poor economic conditions and high market uncertainty continue to present the key communications challenges for European companies. Whilst the message at the start of the crisis was very much focused on how well companies were positioned for an eventual upturn in market conditions, the length of the current downturn has started to cause a re-think in how companies position themselves. Sustaining a longer term investment story against external headwinds and retaining investor interest through sufficient differentiation against investment peers are seen to be among the big IR issues in 2013.

> "Sustaining a longer term investment story against a year of externally-driven headwinds." – UK, Consumer Services
>
> "…difficult to differentiate the company offering when value seems dictated by factors outside of the company's control." – UK, Utilities
>
> "Conveying a clear understandable story in this market environment." – Switzerland, Industrials

Exhibit 1: What do you see as your main challenges in 2013? (percentage of responses)

Naturally, company and market specific issues continue to play a key role in setting communications priorities for the year. These range from conveying progress achieved through restructuring or refinancing, addressing low trading liquidity or ethics issues (prevalent in the financial sector, in particular) to changing investor sentiment towards a country or industry as a whole.

Persistent challenge of managing market expectations

An issue that continues to unite nearly a third of respondents is the challenge of managing market expectations in an uncertain environment. IROs of financial and consumer goods / consumer services companies, in particular, felt that this would remain at the top of the agenda in 2013 due to the high levels of market uncertainty. Current trends in guidance and plans for the year are discussed in more detail on page 8.

Increased focus on roadshows and investor targeting

In this market environment, IROs are increasingly realising the importance of reshaping and further broadening their shareholder bases. Compared to last year when only 6% of respondents cited this as a key challenge for the year ahead, 26% of IROs included this in their priorities for 2013. This is reflected in the continued intensification of roadshow activity and increasing inclusion of new financial centres in roadshow programmes, discussed in more detail in the ‘Investor targeting and outreach’ section of this report, starting on page 23.

Within this context, the recent debate regarding broker remuneration for corporate access was cited as topical for 2013. This follows a letter by the Financial Services Authority to the fund management industry in November 2012 which reiterated that corporate access should not be paid for out of dealing commissions, which could only legitimately be used to pay for trade execution and research. According to the Thomson Reuters Extel 2012 Survey, payments for corporate access accounted for more than a quarter of such commissions.

Aside from a potential change in the level of motivation brokers may have going forward when it comes to providing corporate access services, in particular to some of their smaller clients, this debate has once again highlighted the conflict of interest which exists in this area. This is expected to cause some IROs to examine future roadshow schedules with greater scrutiny to ensure the management team is spending its valuable time seeing investors who are likely to become stable, long-term holders of the stock rather than firms generating the highest levels of commission payments for the brokers through trading.

Continued regulatory pressure

For about a fifth of companies, regulation is expected to present a key challenge in 2013. This is particularly prevalent in the financial industry, and to a lesser extent among utilities. As one might expect, larger companies remain more exposed to regulatory pressures with companies with a market cap of above £1 billion citing this as a concern more frequently than those below this threshold. Following the implementation of a particularly harsh austerity programme aimed at lowering the country’s budget deficit to an EU-imposed target of 3% of GDP by 2016, it comes as no surprise that over a third of Spanish IROs, a greater percentage than in other countries, worry about the direction of future reforms and spending cuts.

Increased budgetary constraints

As the number of challenges IROs are facing continues to rise, so do constraints on IR resources. Whilst in 2012 only 2% of respondents felt that insufficient resources presented a key challenge to achieving their goals, this figure has jumped to over 17% in 2013. What is more, this figure is made up of companies across all market caps indicating it is not just smaller companies feeling the pain.

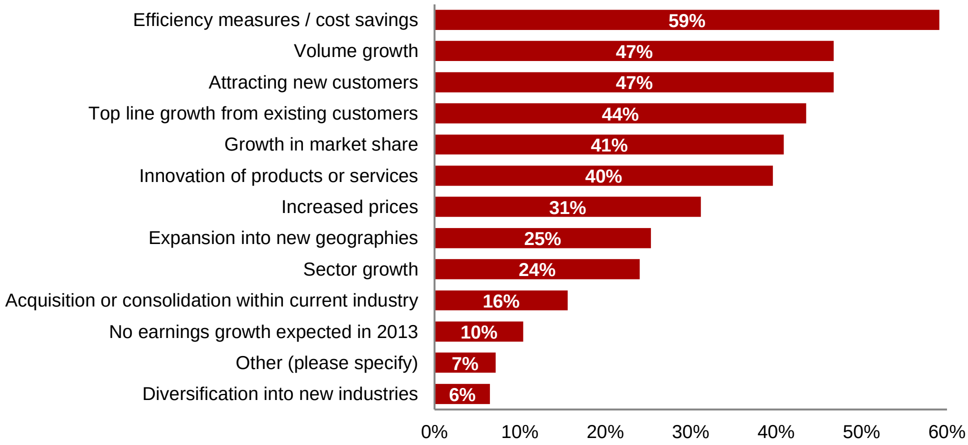
Rising focus on social media channels

Last but not least, and perhaps not surprisingly, developing a social media strategy has also increased in importance with 7% of respondents citing it as a key challenge for 2013, against 3% in 2012. Notably, 70% of these IROs are based in the UK.

Trends regarding the use of social media channels and plans for the future are discussed in more detail on page 29.

Optimisation of existing operations to continue to drive earnings growth

Exhibit 2: What will drive earnings growth for your company over the next 12 months? (percentage of responses)



When we asked respondents what would drive their earnings growth in 2013, efficiency measures and cost savings were cited by 59% of them (up from 47% in 2012).

When it comes to top line growth, attracting new customers, increasing revenues from existing customers and product / service innovation were once again among the most frequently cited responses. This trend was particularly driven by responses from companies within the financial and consumer goods / consumer services industries. Overall, 31% of companies expect price increases to play a key role in driving earnings growth against 19% in 2012.

At the same time, expansion into new geographies, acquisition / consolidation with the current industry and diversification into new industries have all moved down the list, with companies appearing increasingly to focus on optimising existing operations. Difficulties in identifying growth opportunities are also evident in the increasing number of companies expecting to achieve no earnings growth in 2013 – 10% against just 4% in 2012. Not surprisingly, this is particularly prevalent among utilities.

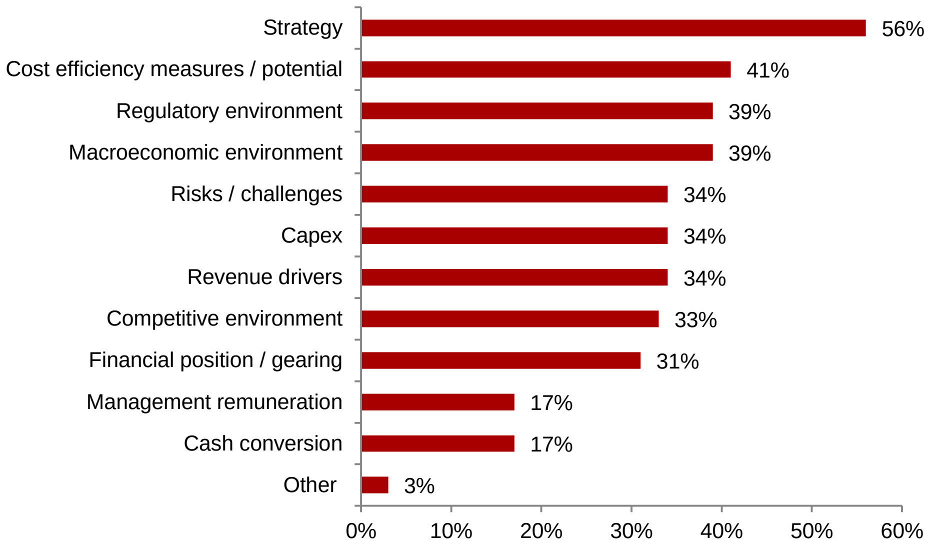
Guidance and disclosure

Increasing focus on strategy and revenue drivers…

Whilst the external environment continues to play a key role in driving investment decisions, company strategy and objectives are an area which has seen by the far the highest increase in the level of enquiries from analysts and investors over the past year. This is an area in which disclosure levels have historically also been on the rise with 59% of respondents in our 2012 survey stating that they had or were planning to increase disclosure in this area during the year.

Another area which has seen both increased disclosure levels during 2012[1] and a continued rise in the level of enquiries this year is revenue drivers[2]. These trends point to a growing willingness among investors to look beyond the current challenges arising from difficult market conditions and place greater focus on the strength of the long-term fundamentals of the companies they invest in.

Exhibit 3: Have you seen an increase in the level of enquiries in any of the following areas over the past 12 months? (percentage of responses)



…whilst maintaining a close watch on efficiency levels and risk profile

Continuing investor caution is reflected in increasing levels of interest in further potential for improving cost efficiency (reported by 41% of respondents), as well as in the risks / challenges companies are facing. Furthermore, capex levels and companies' overall financial position and gearing ratios were cited by about a third of respondents in the same context.

[1] 49% of respondents of our 2012 survey reported plans to increase disclosure levels regarding revenue and profit growth drivers.

[2] 34% of respondents of our 2013 survey registered an increase in enquiry levels regarding revenue drivers.

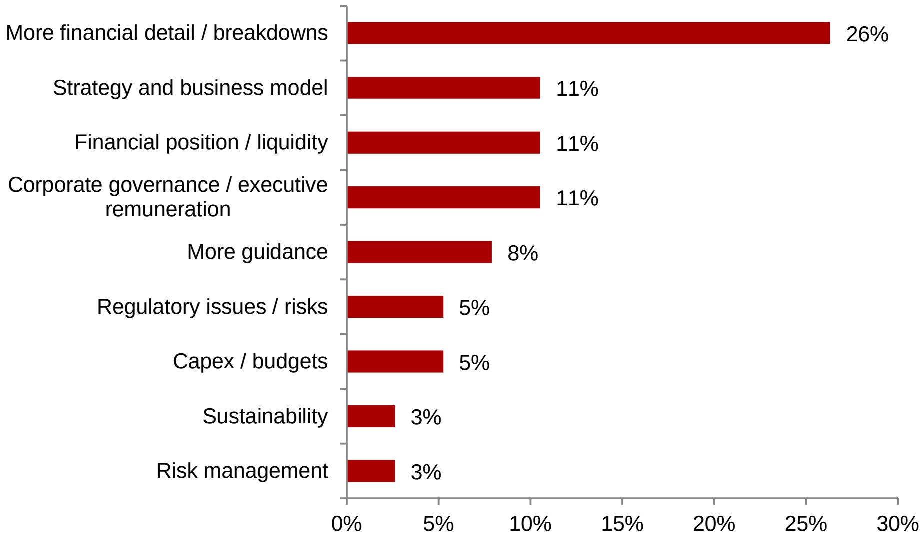
Majority not planning to respond to rising enquiry levels with increased disclosure

Interestingly, 61% of IROs have no plans to make any further changes to their disclosure in response to rising enquiry levels regarding the topics mentioned above, indicating that – following several years of disclosure reviews – most companies are now satisfied that they are providing sufficiently detailed information to the market across all key topic areas.

This view is particularly prominent among healthcare companies, none of which are planning to increase disclosure levels this year. 93% of industrial companies and 75% of telecoms are also firmly in this club.

Going against the trend, all respondents from the technology sector and the majority of those from the oil & gas sector (57%) will be increasing disclosure levels in 2013. They are among the 32% of the overall number of companies choosing to do so – up from 22% in 2012.

Exhibit 4: If you are planning to increase disclosure levels, please specify how? (percentage of responses)



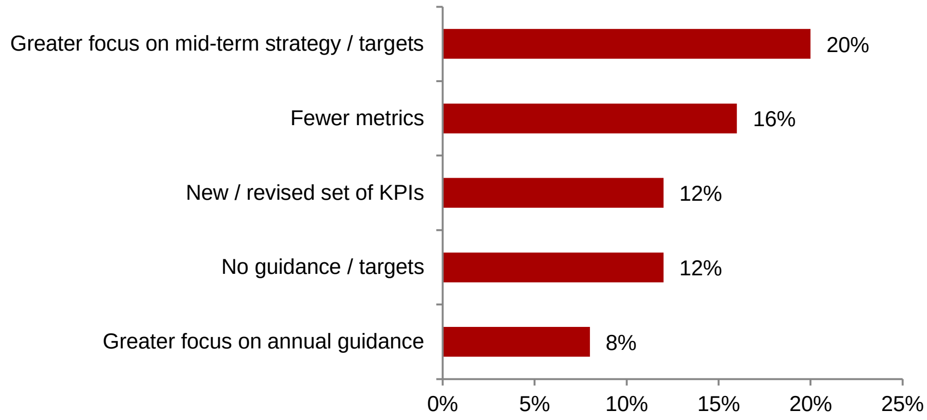
Of the 38 respondents who provided further detail with respect to how they were planning to improve their quality of disclosure, a quarter indicated that this would be done by providing more detailed financial information, such as further revenue or cost breakdowns.

Increased disclosure on company strategy and business models, greater detail regarding the strength of the financial position (including overall debt levels, liquidity and cash generation), and higher transparency regarding corporate governance and executive remuneration in particular were each cited by 11% of respondents in this context.

Only a fifth changing guidance in 2013

78% of companies have no plans to make changes to the amount or type of guidance they provide, up from a corresponding figure of 65% in 2012. The 22% with such plans appear to be considering a wide range of options.

Exhibit 5: Have you changed, or are you planning on changing the amount or type of guidance you give (e.g. metrics, time horizon etc.)? If yes, please specify how. (percentage of responses)



A total of 25 respondents provided commentary with respect to their plans with greater focus on mid-term strategy and targets being the most popular course of action amidst continued market volatility (20%). A further 16% of these participants are planning to deal with low visibility by reducing the number of metrics they guide on with several IROs indicating a shift towards qualitative commentary on some topics. 12% of companies took this a step further stating they no longer provided guidance to the market.

"Guide on fewer items and use ranges instead of absolute figures." – Denmark, Utilities

"Having given very specific guidance on many line items, we are now seeking to reduce the number of metrics given the progress to date on a number of these targets." – UK, Financials

"Have previously given quite specific guidance at a segmental level. Going forward expect to give specific quantitative group guidance and qualitative segmental commentary." – UK, Consumer Services

"We are planning on changing our KPI framework, though as a response to a change in our organisation structure and strategy rather than due to external pressure." – UK, Industrials

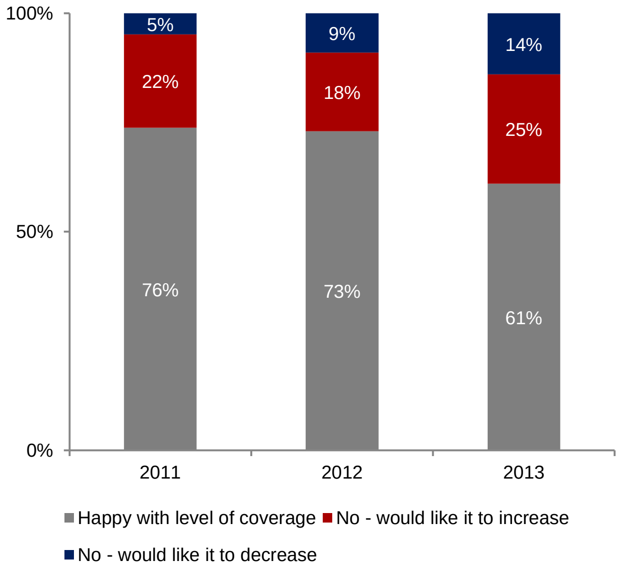
The research sample included a number of companies which have recently announced new mid-term strategies. As shown by the chart above, some of these companies took the opportunity to revise their KPIs, and subsequently their guidance metrics, as part of this process.

At the same time, a small percentage are going in the opposite direction by focusing on the shorter-term, where visibility is greater.

Sell-side coverage

Smaller majority remain happy with level of coverage

Exhibit 6: Are you happy with the level of your current sell-side coverage? (percentage of responses)

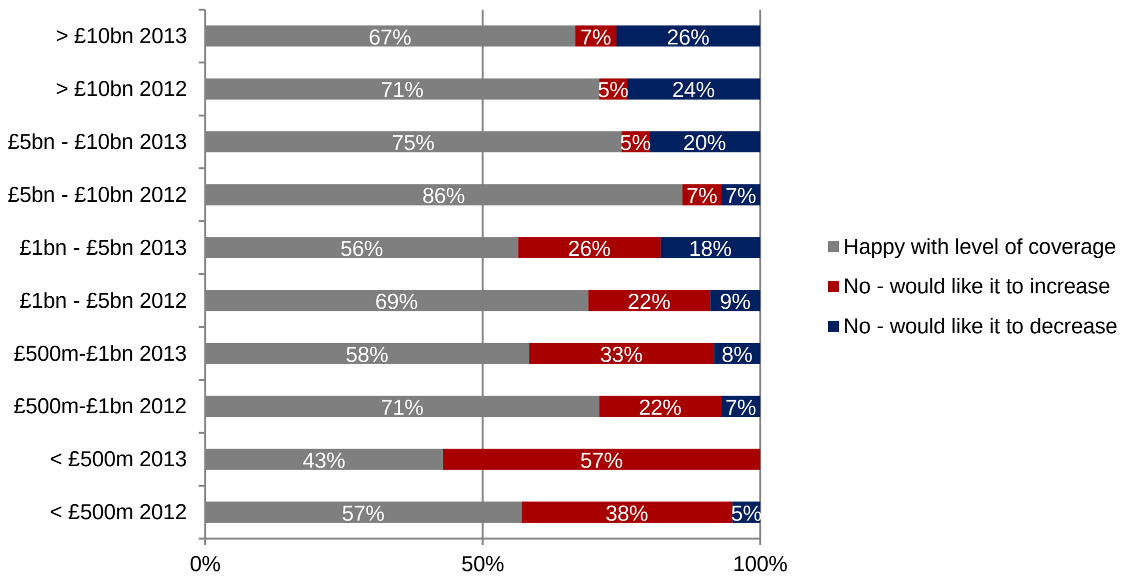


A smaller majority of IROs remain satisfied with the level of analyst coverage they receive – down from about three quarters in previous years to 61% in 2013.

Whilst this drop has been the mildest among companies with a market cap of over £10 billion at 4 percentage points, all other market cap categories registered a decline of 11 percentage points or more.

However, most IROs of companies with a market cap of above £5 billion who would like to see a change in this respect are wishing for fewer rather than more analysts covering their stock. At the same time, a quarter of companies or more below this threshold continue to struggle to attract a decent sell-side following. Respondents from the smallest companies in our sample (below £500 million market cap) appear to be fighting a losing battle in this respect – 57% would like to see an increase in sell-side coverage against 38% in 2012.

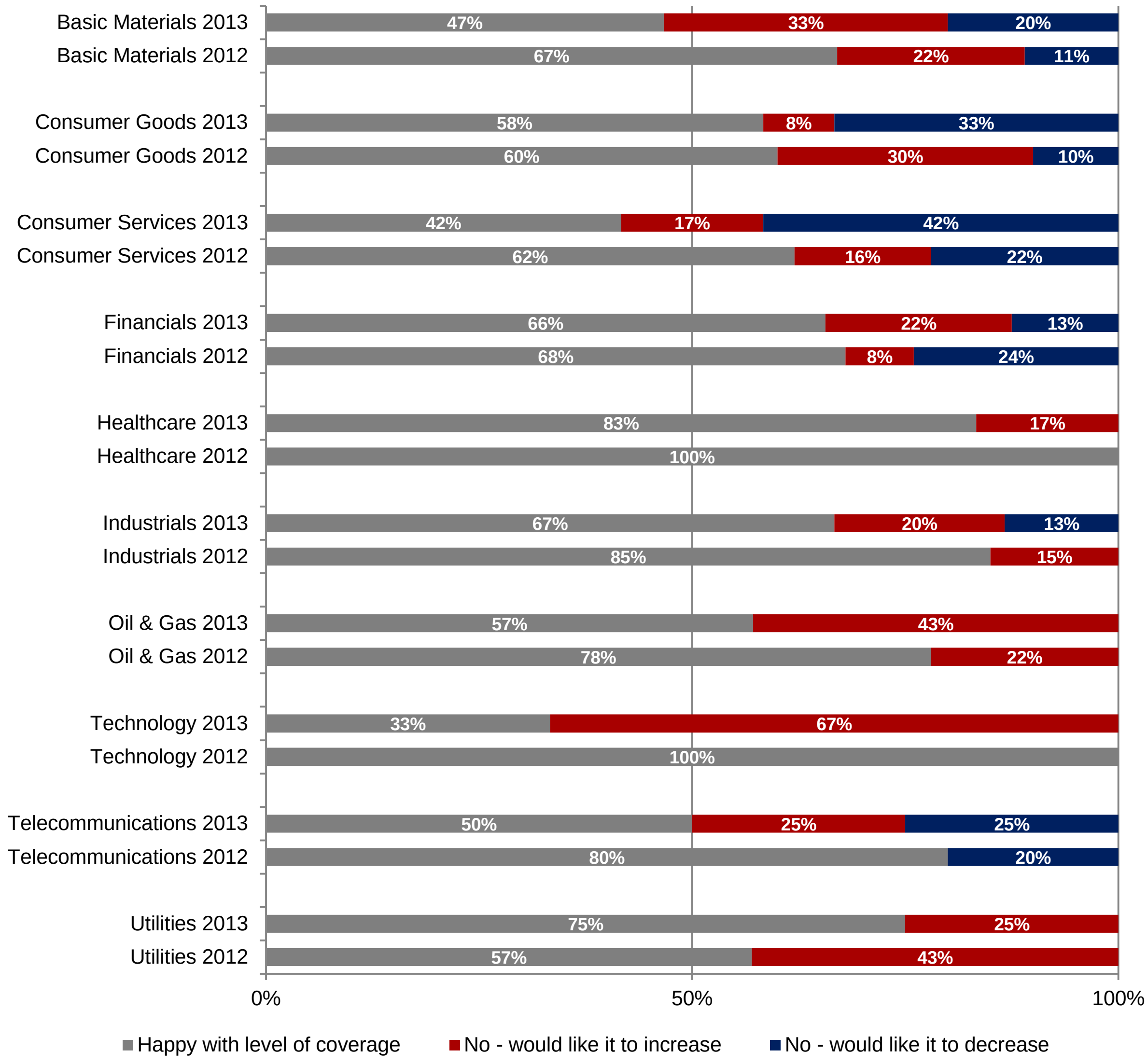
Exhibit 7: Are you happy with the level of your current sell-side coverage? (market cap breakdown: 2013 vs. 2012)



Companies within the healthcare sector remain the most satisfied with their level of sell-side coverage at 83%. They are followed by utilities, the only sector to register an increase in satisfaction levels with 75% of respondents happy with the current level of coverage against 57% in 2012.

All other sectors saw a negative trend in this respect with the most significant change recorded by the technology sector where all the respondents in 2012 were satisfied against only 33% this year. The same is true, to a lesser extent, for telecoms where only half of respondents are now satisfied against 80% in 2012. The highest percentage of companies calling for a lower level of coverage comes from the consumer services sector (42%), followed by their consumer goods peers (33%).

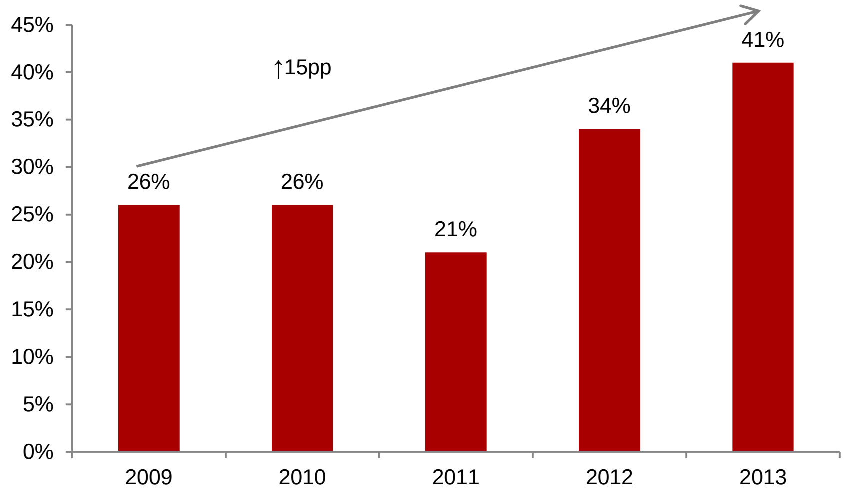
Exhibit 8: Are you happy with the level of your current sell-side coverage?



Continued decline in quality of analyst coverage

Over the past five years, IROs have been reporting a continued decrease in the quality of their sell-side coverage. This year is no exception with a record 41% of respondents expressing the same view.

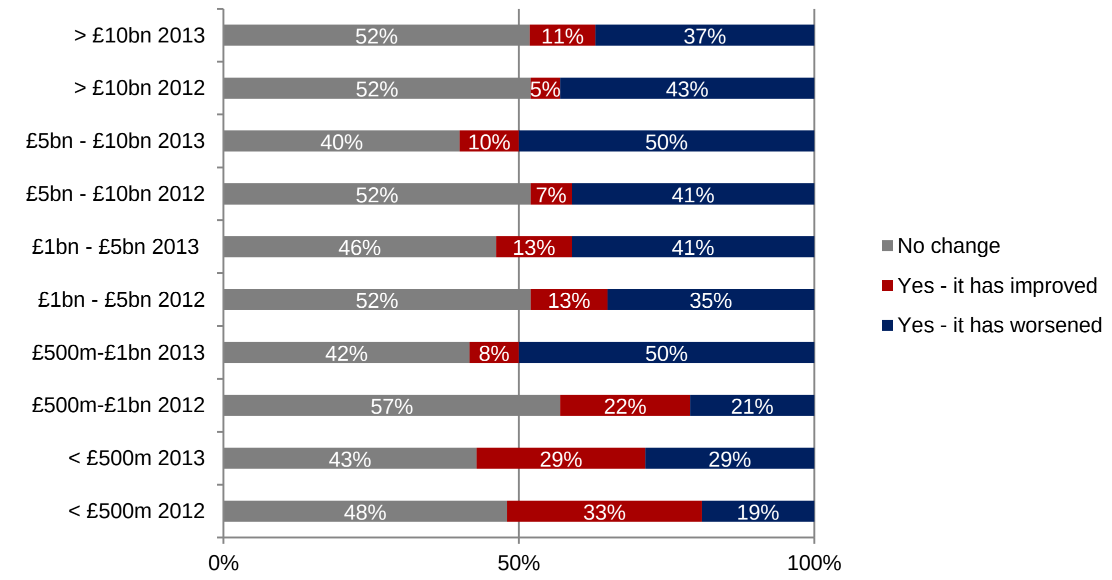
Exhibit 9: Have you noticed a change in the quality of your sell-side coverage over the past 12 months? Yes – it has worsened.



Companies with a market cap between £500 million and £1 billion seem to have been hit the hardest when it comes to research quality - 50% reported a decrease in research quality against 21% in 2012. At the same time, only 8% of these respondents noted an increase in research quality against 22% last year. Looking back to 2009, this was the only market cap category in which no declines in research quality were noted. The percentage of IROs seeing an increase in research quality remains the highest among small caps (29%).

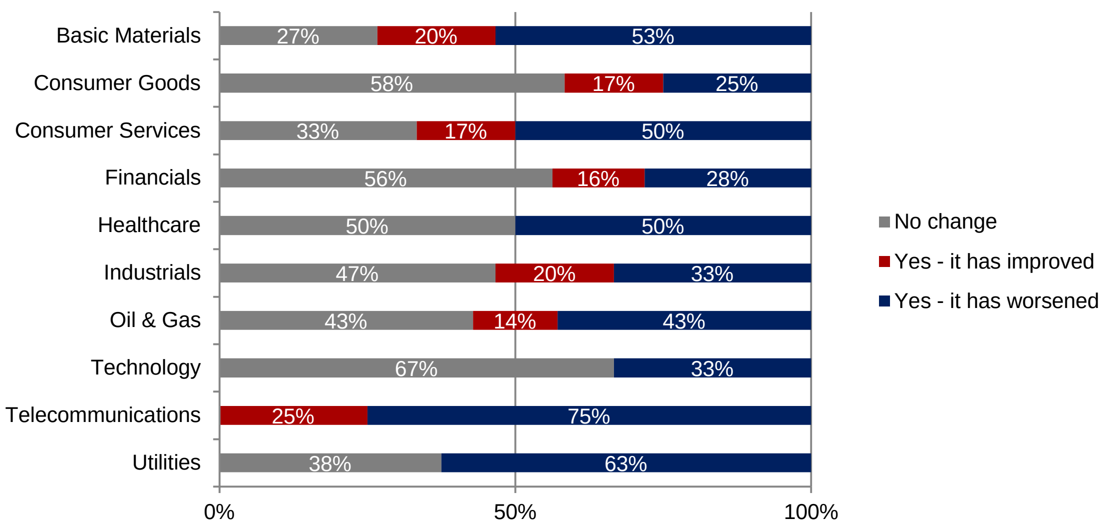
Overall, the percentage of respondents that felt the quality of analyst coverage had improved fell again from 15% in 2012 to a new low of 13%, whilst 46% of respondents reported no change in the quality of analyst coverage over the past 12 months.

Exhibit 10: Have you noticed a change in the quality of your sell-side coverage over the past 12 months? (by market cap)



Healthcare, technology and utilities were the only sectors not to register any improvement at all in research quality over the past 12 months. Again, IROs within the healthcare sector are among the most satisfied when it comes to the level of sell-side coverage but 50% feel that the quality of research has declined over the past 12 months. The same has been noted by companies from the consumer services sector, 42% of which would like to see a reduction in the level of sell-side they receive.

Exhibit 11: Have you noticed a change in the quality of your sell-side coverage over the past 12 months? (by sector)

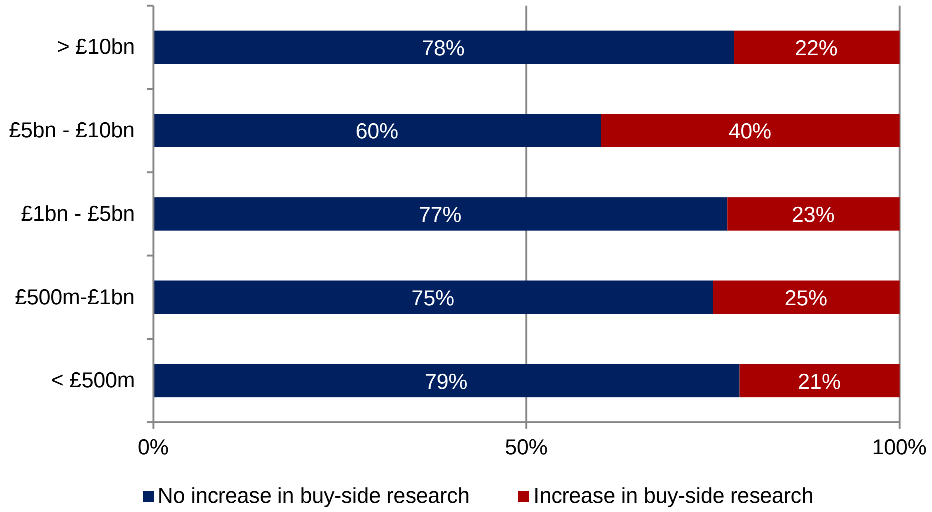


Internal buy-side research on the rise

More than a quarter of IROs are feeling the effects of the continued expansion in internal research capabilities seen at the majority of larger institutional investors with 27% respondents noting an increase in internal buy-side research over the previous 12 months.

This view is particularly prominent among companies with a market cap between £5 billion and £10 billion.

Exhibit 12: Have you noticed an increase in internal buy-side research over the past 12 months? (by market cap)



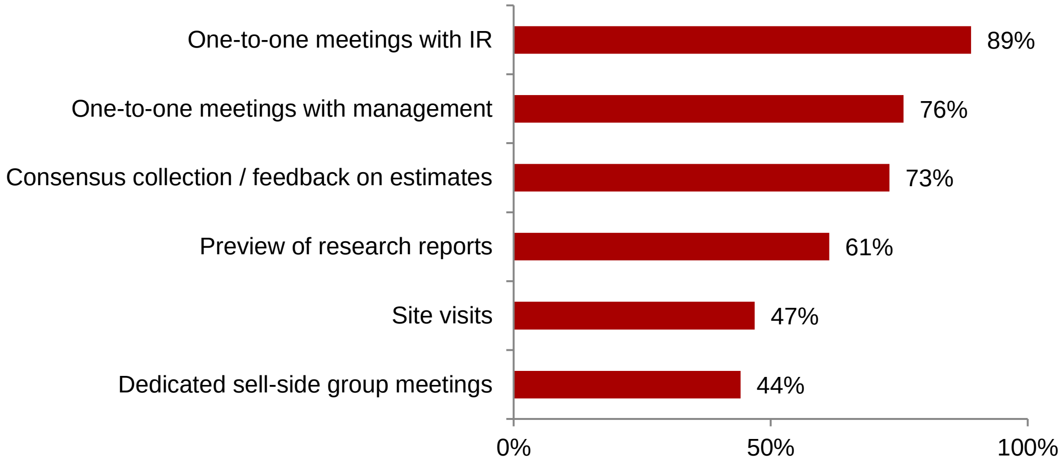
Continued buy-side focus on building larger and more experienced research teams to conduct fundamental company analysis is expected to further reduce investor reliance on sell-side research.

However, smaller institutions without resources to match the spending of their larger peers will continue to rely more on sell-side research as part of their overall investment process. In fact, according to a recent research report published by Financial News, 97% of investors use external research to various degrees when making investment decisions. As such, IROs cannot afford to ignore their sell-side analysts.

Quality sell-side coverage encouraged through 1:1 meetings

Recognising the need to encourage quality sell-side coverage, IROs are using a number of measures to engage with this audience, the most popular being one-to-one meetings with the IR team. Encouragingly, 76% of companies also regularly conduct one-to-one meetings between sell-side analysts and the management team.

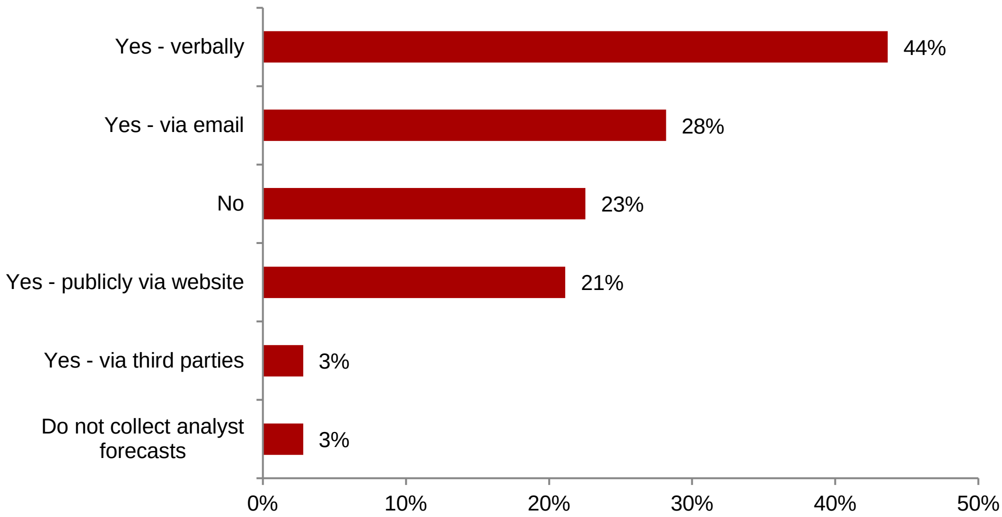
Exhibit 13: Which of the following measures do you use to encourage quality sell-side coverage? (percentage of responses)



Only a fifth publish consensus on website

Another important tool used by over a third of IROs to influence research quality is the collection of and feedback on analyst forecasts. Worryingly, in our view, verbal communication – the channel most at risk of selective disclosure – remains the most popular medium for sharing consensus with the market. At present, only 21% of companies – a figure largely unchanged on last year – capitalise on all the hard work that goes into expectation management by posting their consensus estimates on their websites for all to see. The majority leave the wider market reliant on third-party aggregators to set market expectations despite the fact that these figures can be out of date and often do not compare like-for-like when it comes to, for example, the treatment of exceptional items. In addition, smaller companies are frequently not covered by third-party consensus aggregators, which can further complicate expectation management.

Exhibit 14: Do you share your analyst consensus with the wider market? (percentage of responses)



Investor engagement

Investor engagement has been a highly topical subject in IR circles across Europe in recent years.

In the UK, following adoption of the Stewardship Code by the Financial Reporting Council in 2010, which called for institutional investors to step up their monitoring and engagement activities as a way to keep boards and management of investee companies accountable, a lot of the discussion centred on the challenges relating to the quality and quantity of the current stewardship practices.

Calls for more effective stewardship and engagement were also supported by the 'Kay Review' published in 2012 in which Professor John Kay backed the Code's assertion that investors focused on engagement for the long-term provided the climate in which companies could focus on creating value, with greater confidence that the benefits of their decisions would be recognised.

In response to this report, in March 2013 the UK's National Association of Pension Funds teamed up with the Investment Management Association and Association of British Insurers to push forward plans to set up an investor forum in order to improve long-term investment returns through broader collective engagement.

At the same time, the European Commission's 'Action Plan' announced in December 2012 stated amongst its objectives the intention to encourage and facilitate long-term shareholder engagement and to increase the level of transparency between companies and their shareholders. According to the Action Plan, shareholders should fully assume their responsibilities in order to make sure that the investee company remains competitive over the longer term. Companies should match these moves by becoming more transparent, and these initiatives are expected to contribute to the effective governance of companies. As a result of increased focus on this matter, there is an expectation that both institutional investors and proxy advisers will be subject to new obligations in the future. In particular, institutional investors may in the future be required to disclose their voting and engagement policies and voting records.

More proactive approach by IROs needed

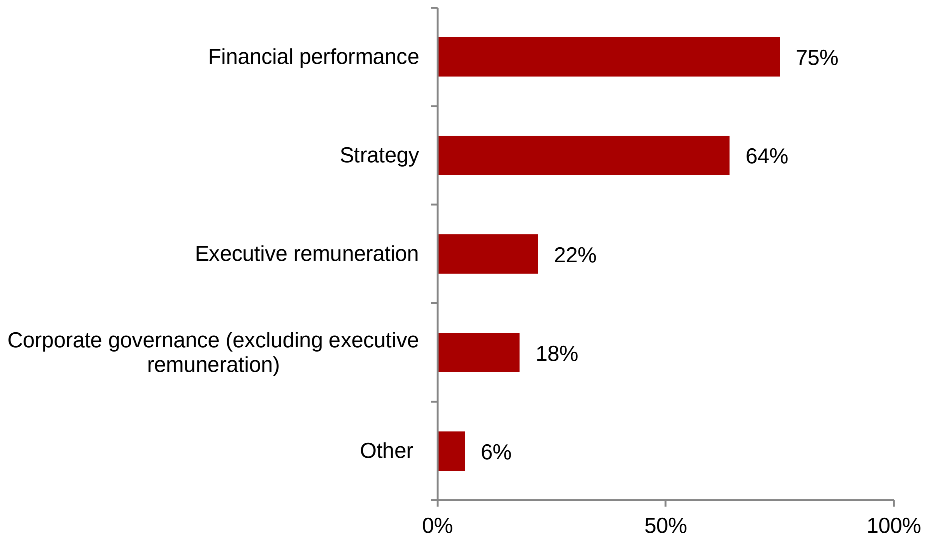
In our 2012 survey, IROs reported a growing frustration with the lack of investor engagement, with 55% citing this as one of the key barriers to effective corporate governance. Whilst the negative impact of conflicts of interest within investment houses on their ability to engage with companies they invest in is well documented, this year we examined the extent to which companies proactively encouraged greater engagement with investors and the role of IR teams in this process.

When asked whether they actively sought investor engagement on key issues ahead of significant events such as the AGM over the past 12 months, nearly a half of respondents stated that this was not the case. 41% of IR teams also reported having no involvement in discussions with investors regarding executive remuneration. Whilst this can partly be explained by the fact that for 78% of companies executive remuneration has not been an issue, the worrying trend is that when questions do arise, 20% of IROs take a back seat and let their Corporate Secretary handle these, whilst a further 22% support the Remuneration Committee in this respect. Only 12% of respondents stated they were fully involved in discussions with investors regarding executive remuneration. Whilst the largest companies with a market cap of over £10 billion are most likely to be fully engaged with investors over these issues, even among these companies only 15% of IROs take this approach. Companies whose IROs are least likely to have any involvement in dealing with executive remuneration queries are those with a market cap of £5 billion - £10 billion – 62% of these respondents cited they had no or hardly any involvement in this area.

Nearly a fifth of respondents also faced questions regarding corporate governance outside of executive remuneration. Among major European economies, France and Germany tend to face higher than average levels of queries regarding corporate governance issues overall.

Encouragingly, most companies have found that their shareholders are much more interested in engaging with them about broader issues of financial performance and corporate strategy rather than executive pay.

Exhibit 15: Which issues have been top of the agenda in this respect over the past 12 months? (percentage of responses)



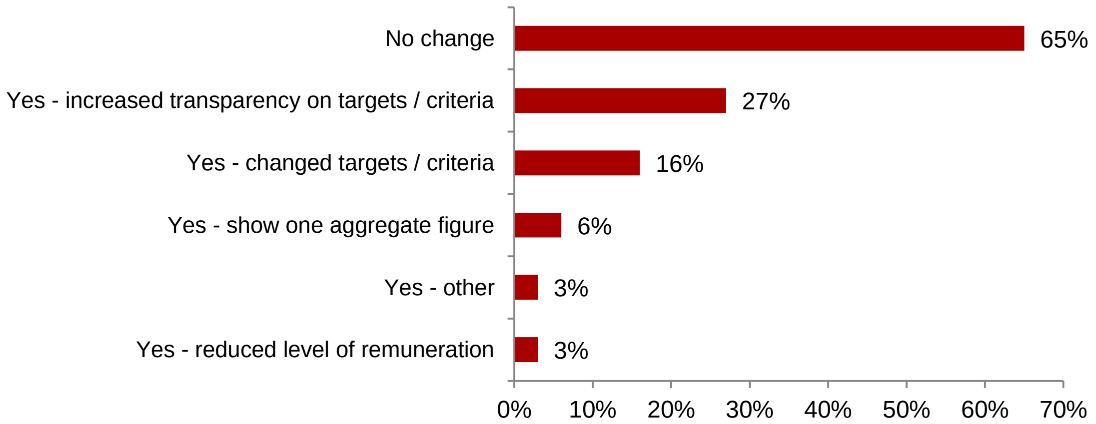
Increased transparency regarding executive remuneration targets and criteria

In June 2012, the UK Secretary of State for Business, Innovation and Skills, Vince Cable, announced a package of proposals following the government's publication of a consultation paper in March. The proposed measures, intended to curb executive pay, included enhanced compensation disclosure, including disclosure of a "single figure" for the total pay that directors received for the previous year.

The proposed "single figure" is intended to be comprehensive and to cover all types of compensation received by directors in the previous year, including fixed and variable elements, as well as pension benefits. For this purpose, variable pay would be calculated as annual pay earned, rather than potentially awarded, including full bonuses paid for the reporting period and long-term incentives for which the reporting year is the last financial year of the performance cycle.

According to our research, only 6% of European companies have adopted this approach, providing one aggregate remuneration figure for each executive director. These select few companies are based in the UK, the CEE/CIS region and Southern Europe.

Exhibit 16: Has your company made any changes to your executive remuneration policy as a result of investor engagement? (percentage of responses)

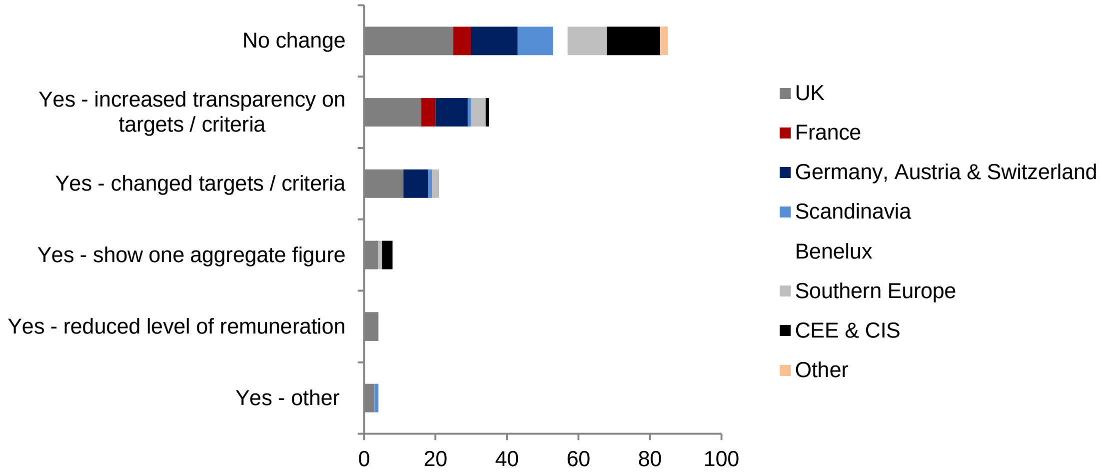


One of the reasons behind the low take up of this practice in other regions to date is the lack of clarity on how deferred pay and long-term incentives, which are awarded over time subject to performance, are to be treated in order to maintain a clear distinction between base pay and performance pay.

Overall, however, 27% of companies have recently increased their level of transparency regarding executive remuneration targets and criteria in response to investor demands. Companies based in the UK and Germany, in particular, have been driving this trend. To demonstrate their commitment to high corporate governance standards, 16% have gone a step further and actually changed these targets and criteria.

Ultimately, four UK companies in our survey took the decision to actually reduce levels of remuneration as a result of investor engagement on this issue.

Exhibit 17: Has your company made any changes to your executive remuneration policy as a result of investor engagement? (percentage of responses, geographical split)

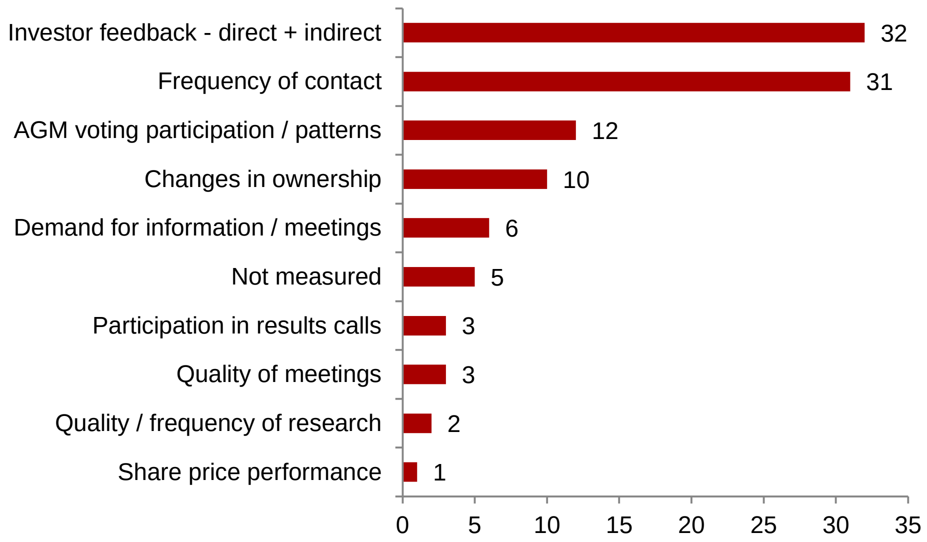


At the other end of the scale, no companies from Benelux and only a few from Scandinavia reported changes to either remuneration policy or its disclosure over the past 12 months. Two factors may go some way in explaining this trend - executive compensation at Scandinavian companies has historically been among the lowest in Europe; at the same time, performance-linked compensation has enjoyed high popularity across the region.

Whilst only four French companies who took part in our research noted that they had increased transparency levels regarding executive remuneration targets and criteria, this may change going forward following the publication of a draft law planned to tighten regulation of executive pay and introduce transparency into the remuneration of top executives. This move follows approval of similar measures in Switzerland which came on the back of the EU decision to cap bankers' bonuses.

Investor feedback and frequency of contact among top criteria for measuring engagement levels

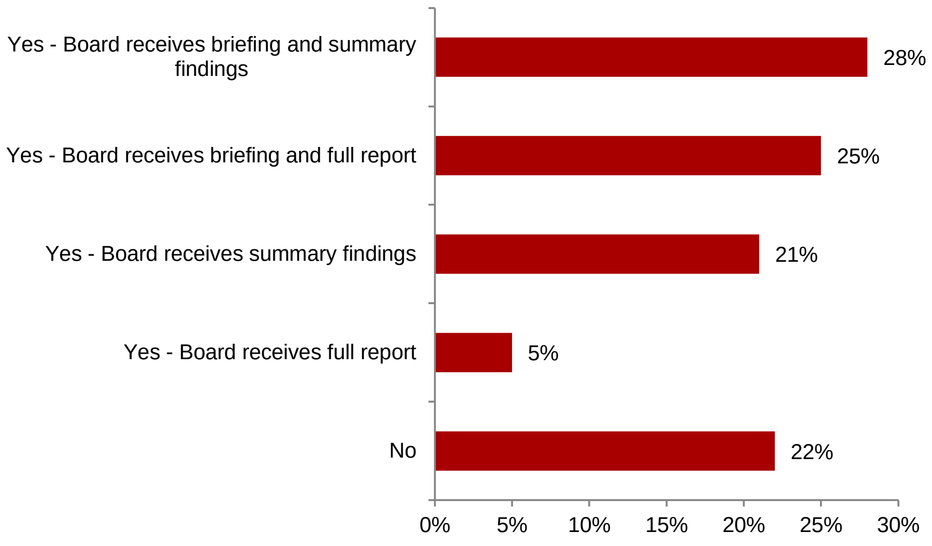
Exhibit 18: How do you measure investor engagement? (number of unprompted mentions)



Total number of responses: 80

IROs find measuring levels of investor engagement effectively somewhat challenging. The most popular qualitative measure cited by 32 respondents is investor feedback following meetings or periodically, collected either through direct conversations with the IR team or by independent external advisors. Encouragingly, 78% of companies share such feedback with their Board of Directors, including non-executive directors – most frequently in the form of a briefing and summary findings.

Exhibit 19: Do you share the findings of perceptions research studies with your Board of Directors, including non-executive directors? (percentage of responses)



The level of voting participation at AGMs and the voting patterns of institutional investors also play a key role in assessing how engaged investors are with the company. However, the number of meetings / conference calls and the general frequency of contact appear by far more popular quantitative criteria based on which investor engagement is measured. Similarly, companies monitor investor participation in their results conference calls and presentations, how often investors initiate contact or request information, as well as how frequently they update their financial models. Several respondents also mentioned the quality of meetings as a good way of assessing investor engagement, whilst the seniority of fund managers / buy-side analysts who attend the meetings was also noted as a good indicator in this respect.

"Seniority of investors attending roadshows and attendance of fund managers vs analysts." – France, Utilities

"Primarily through regular feedback and through a formal independent opinion survey." – UK, Financials

"We collect the following information to measure investor engagement: 1. feedback from the meetings; 2. number of meetings; 3. quality of meetings; 4. main questions." – Russia, Oil & Gas

"Number of meetings, number of people on calls and webcasts, incoming questions to IR." – UK, Basic Materials

"Number of calls / meetings / conferences / reverse roadshows, our and their proactive approach. Their preparation for a meeting / call. Their intention to focus on one specific business unit or on one specific topic. – Switzerland, Healthcare

"Shareholder ID and trading data." – Germany, Basic Materials

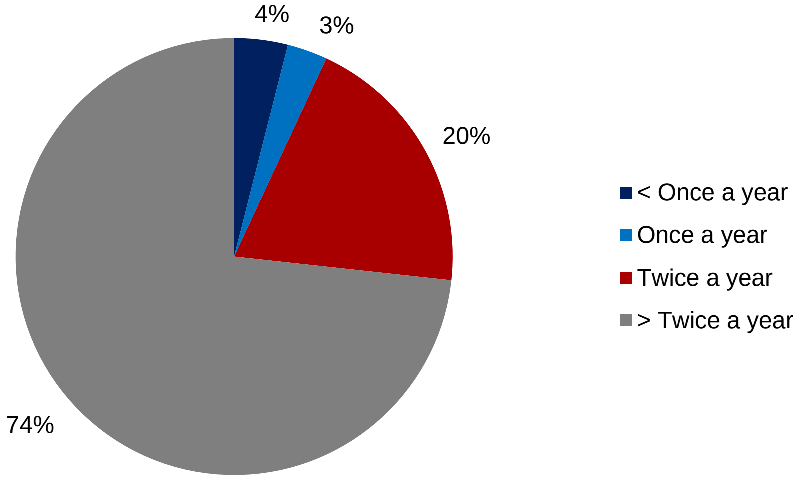
Aside from levels of interaction and investor feedback, perhaps a more concrete measure of investor engagement cited by 10 respondents is the monitoring of changes in institutional ownership of the stock. Shareholder register analysis is used to evaluate not only investor engagement levels per se but also the success of investor targeting and other efforts aimed at growing the shareholder base.

Investor targeting and outreach

Intensifying investor targeting and roadshow activity

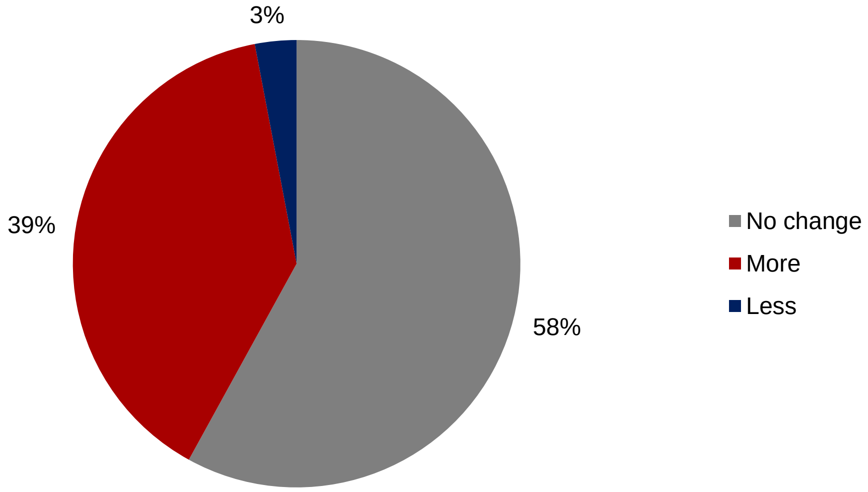
Our research has shown that nearly all companies undertake investor roadshows with senior management two or more times a year (three quarters more than twice).

Exhibit 20: How frequently do you undertake investor roadshows with senior management? (percentage of responses)



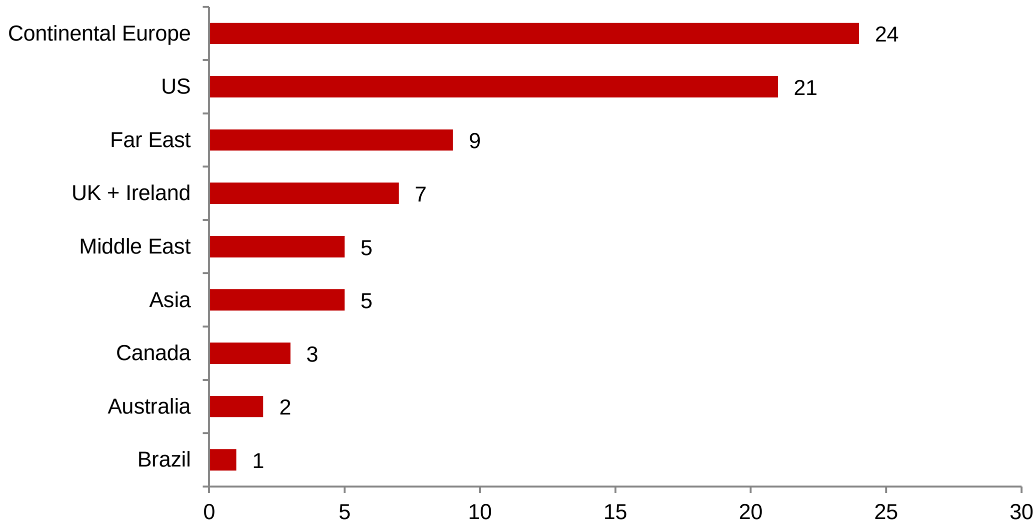
In line with increasing focus on reshaping / broadening the shareholder base among European IROs, a record number of respondents (39%) plan to devote more time to meeting investors over the next 12 months with 43% of companies stating that they would be including new financial centres in their roadshow programmes for the year.

Exhibit 21: Are you planning to devote more / less time to investor roadshows over the next 12 months? (percentage of responses)



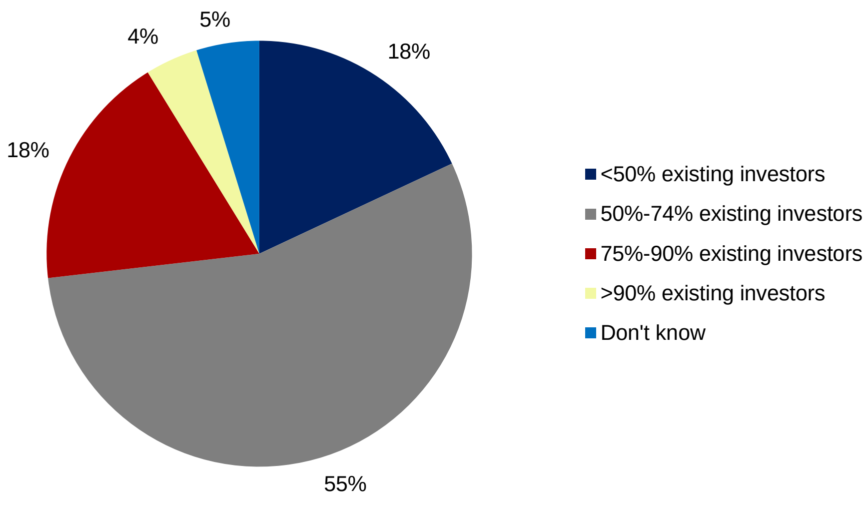
In search of new investors, IROs are planning to intensify their marketing efforts in continental Europe by covering additional destinations including cities across Scandinavia and Benelux, as well as in Ireland and Switzerland. The second most popular region remains the US where secondary financial centres such as the East Coast excluding New York and Boston, the Midwest and the West Coast are set to see greater numbers of European management teams stopping by for a meeting. A significant number of companies will also be testing investor appetite in Asia this year with Hong Kong and Singapore among the new target markets, along with increasing focus on the Middle East and Tokyo. For a select few, Canada, Australia and Brazil will feature for the first time in roadshow plans.

Exhibit 22: Have you included, or are you planning to include any new financial centres in your roadshow programme this year? (number of mentions)



Overall, the majority of companies are devoting between 25% and 50% of time on the road to meeting potential investors. Whilst approximately 18% remain predominantly focused on existing shareholders (75%-90%), the same number of companies are planning to devote over 50% of time to non-shareholders this year.

Exhibit 23: What is the split between existing and potential investors targeted through roadshows? (percentage of responses)



Non-traditional investors increasingly targeted through roadshows

In addition to exploring investor appetite in new financial centres, companies are also marketing to non-traditional types of investors – for example, 24% of respondents stated that they would be actively targeting Sovereign Wealth Funds through roadshows in 2013 (50% of these come from the largest market cap category of over £10 billion).

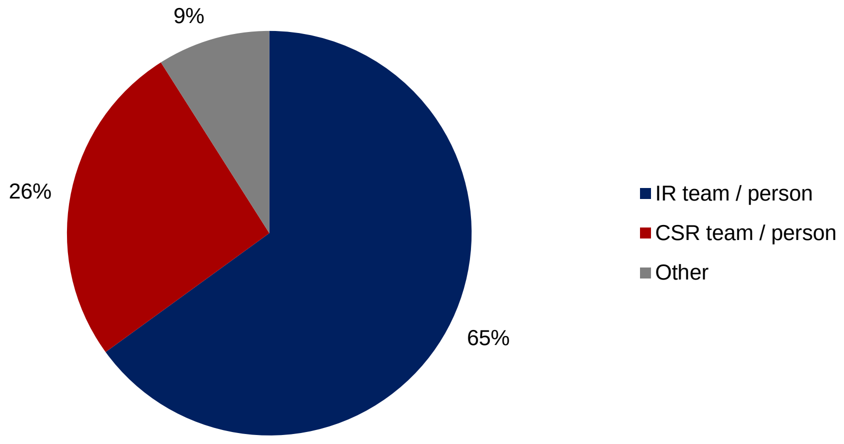
Another type of investor that will feature in 22% of roadshow schedules this year are SRI investors. More than half of companies with a market cap of over £10 billion stated they would be targeting this type of investor through roadshows over the next 12 months. Interestingly, 88% of respondents representing utilities are in this camp placing this sector far ahead of others in this respect. At the other end of the scale, somewhat surprisingly, none of the consumer services, healthcare or telecoms companies who took part in our research are planning to explore interest levels among SRI investors this year.

At a country level, 53% of German companies will be actively targeting SRI investors followed by 44% of French and 40% of Swedish companies. However, UK companies appear to be potentially missing a trick here with only 14% planning to see this investor group over the next 12 months.

Over a third of IROs delegate responsibility for dealing with SRI investors

When it comes to dealing with SRI investors, in the majority of companies (65%) IR teams take the lead and manage these relationships. Over a third, however, delegate this responsibility to their CSR or other colleagues – a practice particularly popular among healthcare companies (57%). Interestingly, nearly all German and French IROs (80% and 89%, respectively) deal with SRI investors themselves compared to just 57% of their UK counterparts, reflecting both the higher focus on this investor group and the larger size of IR teams in these markets.

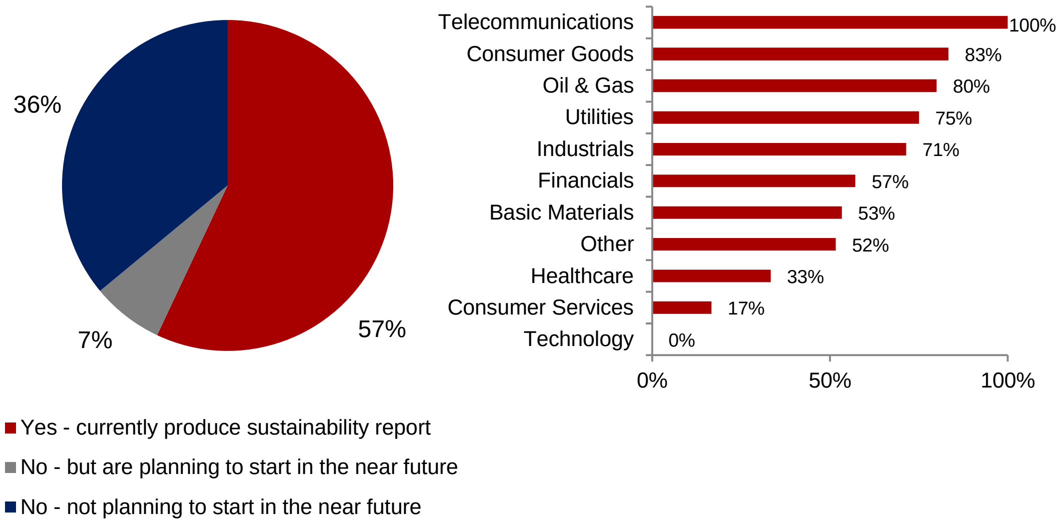
Exhibit 24: Who within your company has primary responsibility for dealing with SRI investors? (percentage of responses)



Nearly two thirds publish or planning to start publishing a stand-alone sustainability report

As part of either targeting SRI investors or addressing relevant concerns mainstream fund managers may have in this respect, 57% of companies currently produce a stand-alone sustainability report with a further 7% planning to start in the near future. Following the release of the fourth generation of GRI sustainability reporting guidelines in May 2013, these companies will benefit from the more accessible framework and greater focus on materiality these guidelines will provide, supporting the overall trend towards greater integration of financial and sustainability reporting.

Exhibit 25: Do you produce a stand-alone sustainability report? (percentage of responses, by sector)



In line with their strong focus on SRI investors, 75% of respondents representing utilities noted that they currently publish a stand-alone sustainability report. However, in some sectors this practice is driven more by a need to be seen as a responsible citizen rather than a genuine interest in engaging with SRI investors – for example, all telecoms and 80% of oil & gas companies produce a stand-alone sustainability report but none of them plan to meet with SRI investors this year.

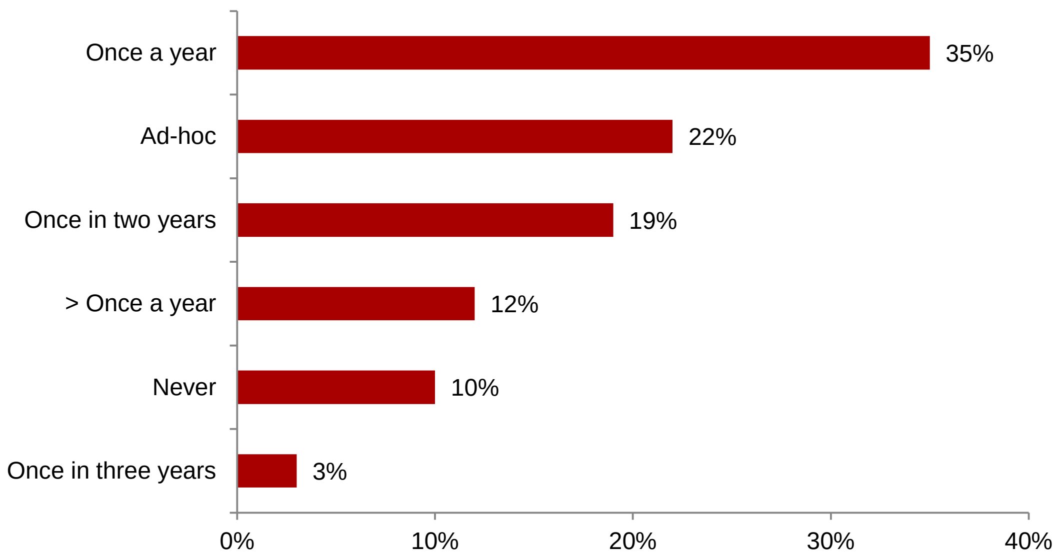
Looking at a country split, the UK is behind most Western European countries in this respect. Whilst all Swedish, 67% of German and 62% of Spanish companies produce a stand-alone sustainability report, this figure is 48% in the UK – more in line with the CEE/CIS region (47%).

Capital Markets Days used by 90% to reach out to investors – a third see positive impact on sell-side following / ownership levels

Our research has shown that the practice of holding regular Capital Markets Days has not gone out of fashion among European companies. These remain a popular way of reaching out to the investment community with 35% of companies holding such events on an annual basis (the most common practice across most market caps) – this figure is higher than average in Germany and the UK, with 47% and 44%, respectively. Nearly all companies, bar a 10% which have never held a Capital Markets Day, host them more or less regularly – either more than once a year, once in two / three years, or on an ad-hoc basis. The highest percentage of companies that never host Capital Markets Days can be found in Spain (36%).

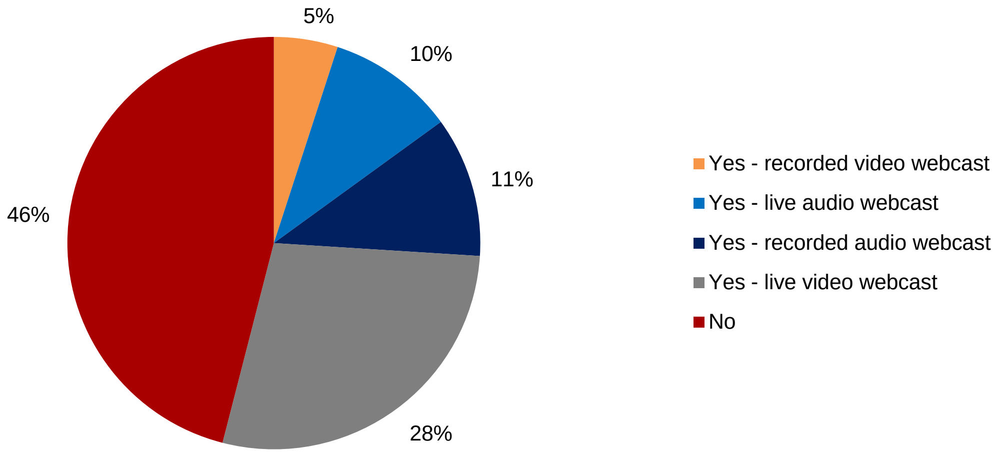
Among the smallest companies in our sample (with a market cap below £500 million), 30% do not host Capital Markets Days. However, even in this category, 40% of respondents host this type of event every year.

Exhibit 26: How frequently do you host Capital Markets Days? (percentage of responses)



Whilst the majority of Capital Markets Days are webcast with either live or recorded video / audio feeds made available to those unable to attend, 46% of companies continue to discriminate against analysts and investors who do not make the event in person. Companies with a market cap of over £5 billion, in particular, tend to opt for live video webcasts – the ideal scenario which provides simultaneous access to information and full video transmission. Given the high costs of webcasts, however, it comes as no surprise that 89% of companies at the other end of the scale (market cap below £500 million) do not webcast their events. This percentage is also higher than expected among the largest companies (market cap over £10 billion) at 32% indicating that there is room for improvement across all categories.

Exhibit 27: Do you webcast your Capital Markets Days? (percentage of responses)

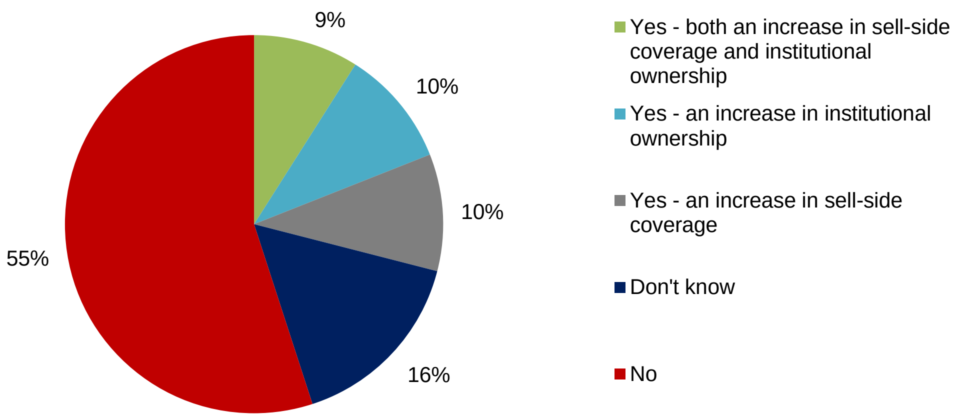


By sector, the highest popularity of live video webcasts is among utilities (75%), which due to their large size tend to have above-average IR budgets. At the same time, basic materials companies are most likely not to provide any kind of webcast (64%).

Among the largest European economies, similar practices can be seen among German and French companies with 53% and 50%, respectively, providing live (video or audio) webcasts of their events. British companies, however, are slightly behind in this respect with only 43%. A small minority (8%) of more technologically advanced companies also use a social media element to publicise their events.

Most importantly, when asked whether they registered an increase in sell-side coverage or institutional ownership following a Capital Markets Day, 29% of respondents indicated they could see tangible results in the form of either increased sell-side coverage, institutional ownership or both. The remaining 71% either did not register tangible results or have not attempted to measure the effect of such events.

Exhibit 28: Have you registered an increase in sell-side coverage or institutional ownership following a Capital Markets Day? (percentage of responses)



Social media

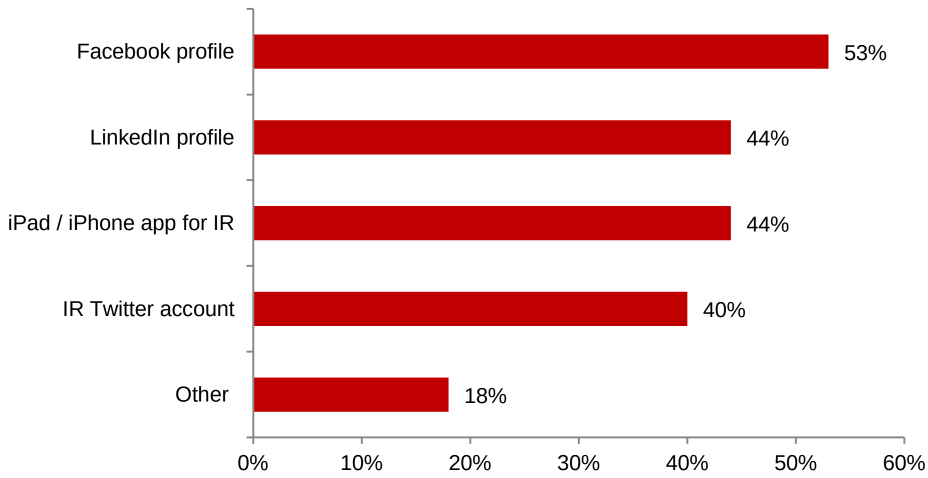
Growing importance of social media for investor relations

Following the US Securities and Exchange Commission's announcement in April 2013 that companies can use social media for corporate disclosures and the subsequent decision by Bloomberg to integrate Twitter feeds into its financial information service, there remains little doubt regarding the growing importance of social media channels for investor relations. These developments follow a stream of partnerships between StockTwits, the investor-focused social media network which offers subscribers a platform through which to exchange information regarding companies, and information providers such as PR Newswire, Reuters, Yahoo Finance and CNN Money.

Acknowledging these trends, over the past three years, a growing number of IROs have told us they planned to increase communication through social media networks. However, the fact that only about a third of companies which took part in our survey in 2013 have a formal social media policy in place shows that identifying the best way of utilising these communication channels remains challenging.

Facebook the most widely used social media channel

Exhibit 29: Please select which of the following, if any, your company currently has? (percentage of responses)



The most popular social media channel remains Facebook with 53% of companies stating that they had a corporate profile page. This is followed by applications for the iPad / iPhone (or android tablets) which have seen a significant rise in popularity over the past 12 months, particularly among companies with a market cap of over £10 billion. In this respect, Europe appears to lead the way with a number of blue chip companies including Nestlé, BP and Unilever among the early adopters of this technology. Whilst its popularity can no doubt be explained by the low maintenance and set up costs, as well as features such as push notifications (which send messages to users even when the application is not running), more widespread acceptance among analysts and investors has been seen as largely dependent on the emergence of an application that would aggregate all individual company content.

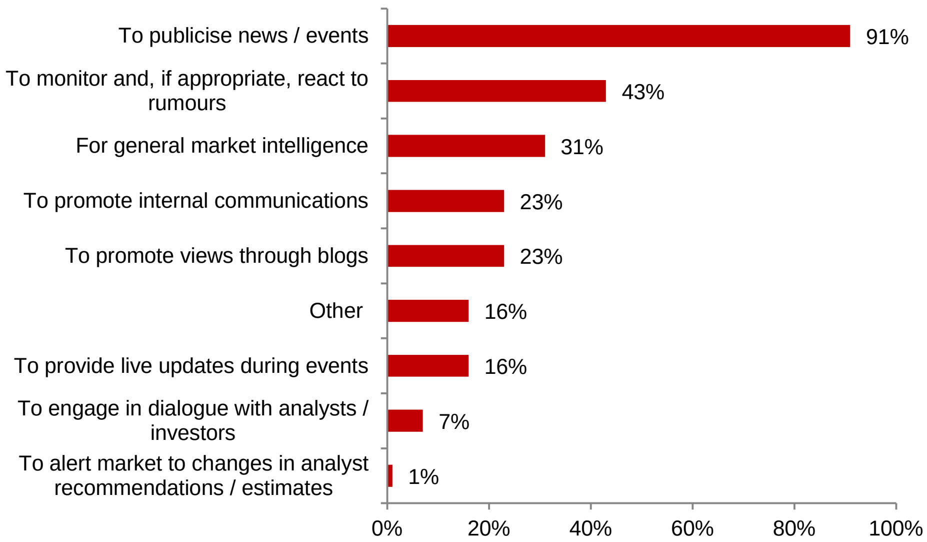
Following the launch of such an application in 2013, which should not only drive usage levels among investors but also help bypass the need for companies to have separate applications based on different operating systems for each tablet, the number of companies opting for a tablet application may see a significant increase going forward.

The same percentage of companies (44%) have a LinkedIn profile. Our research has shown that the smallest companies (market cap of below £500 million) are most likely to use this channel for investor relations. Whilst 40% of companies have stated they had Twitter accounts, the way these are used remains relatively limited.

Limited use of social media

Overall, publicising news and events remains by far the most popular use of social media channels, which are widely seen as supplementary to other communications channels.

Exhibit 30: In what way do you use social media channels? (percentage of responses)

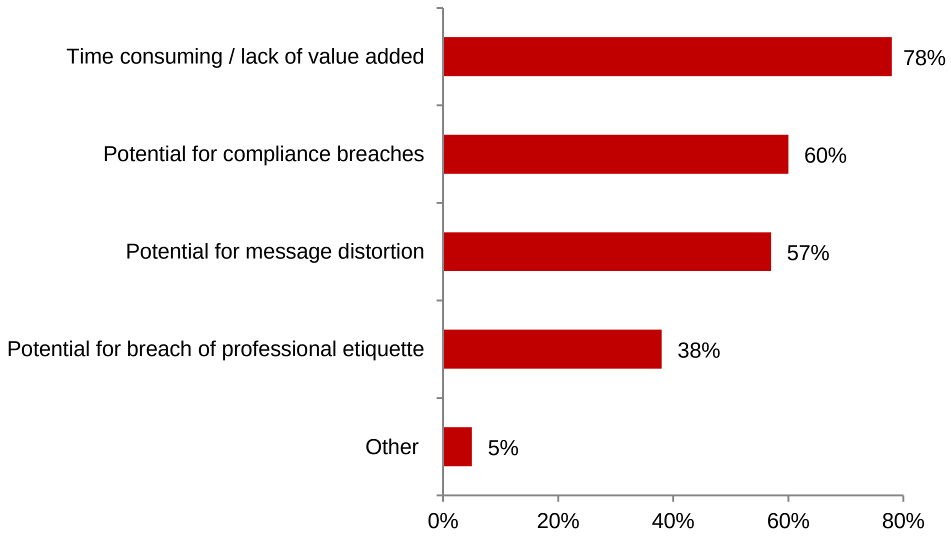


A much smaller percentage of companies chose to more actively engage with the investment community and other stakeholders through these communication channels by promoting their views via blogs (23%), providing a platform for internal communication with their employees (23%), or engaging in dialogue with analysts and investors (7%).

However, whilst active engagement remains very much optional, the growing number of intelligence tools offering companies a way of tracking social media conversations, shows that an increasing number of IROs see an impact of these conversations on their share price. This means that investors, too, are listening. As such, monitoring rumours and general market intelligence take second and third place with 43% and 31%, respectively, in terms of the most popular ways in which social media channels are used.

Several concerns deter IROs from more extensive use of social media channels

Exhibit 31: What concerns, if any, do you have about the use of social media channels for IR? (percentage of responses)



Most IROs (78%) continue to view social media channels as time consuming and offering limited value added. The significant potential for compliance breaches and message distortion due to the informal nature of communication through these channels and oversimplified newsfeeds, in the case of Twitter in particular, also give cause for concern to more than half of respondents. Over a third of IROs see potential for breach of professional etiquette as a further deterrent putting them off of using social media more extensively.

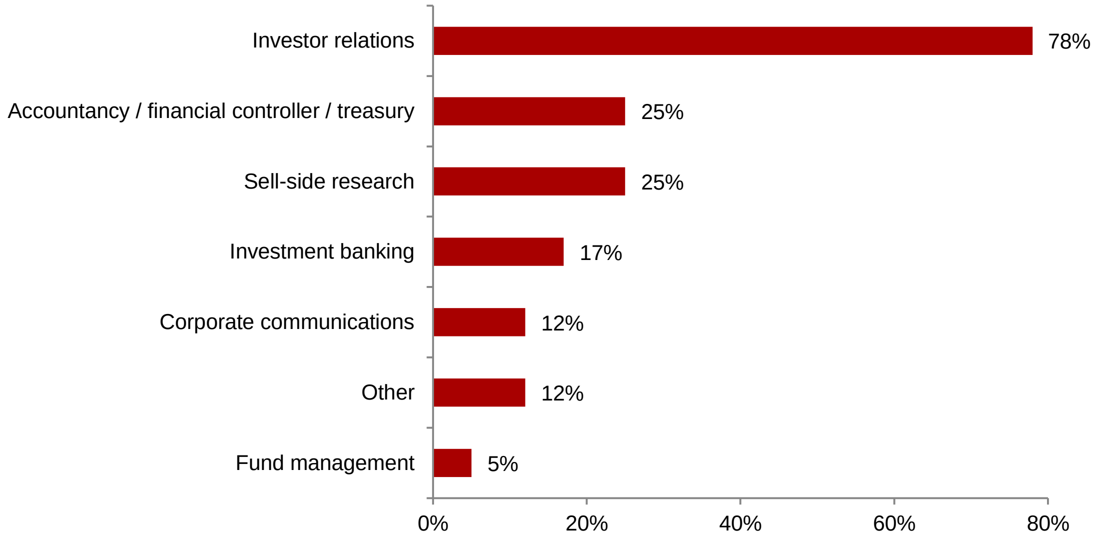
Interestingly, among companies without a formal social media policy, about a quarter use at least one social media channel for investor relations. Without adequate internal controls with respect to usage of such media, these companies are particularly exposed to above-mentioned risks.

IR function

IRO profile

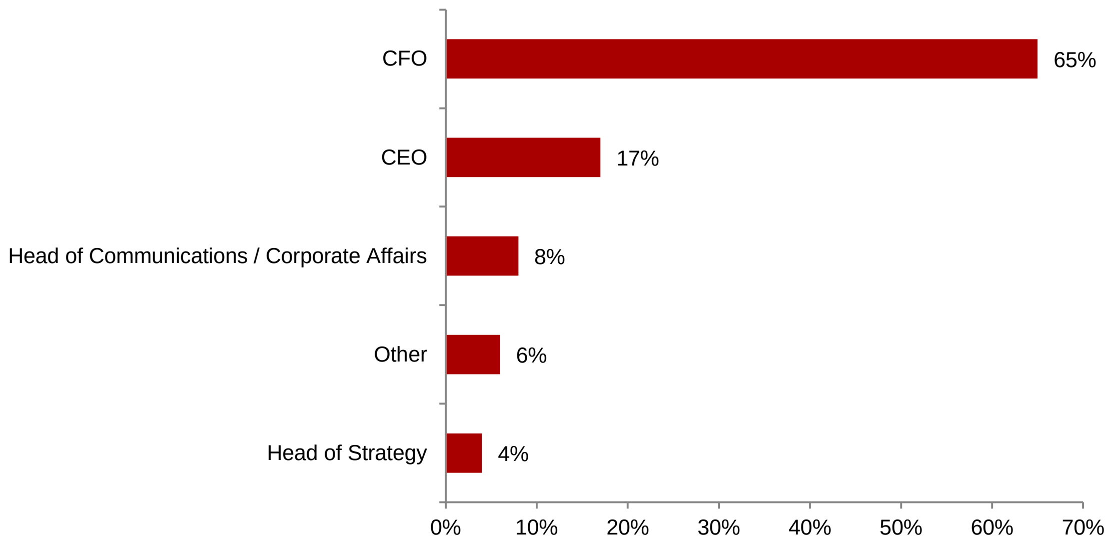
In addition to investor relations, where over three quarters of IROs have previously worked, a number of respondents have experience in accountancy and banking (most notably sell-side research and investment banking), whilst 12% have previously been responsible for broader corporate communications.

Exhibit 32: What is your professional background? (percentage of responses)



As expected, the vast majority of IROs report to the CFO with 17% having a reporting line straight into the CEO.

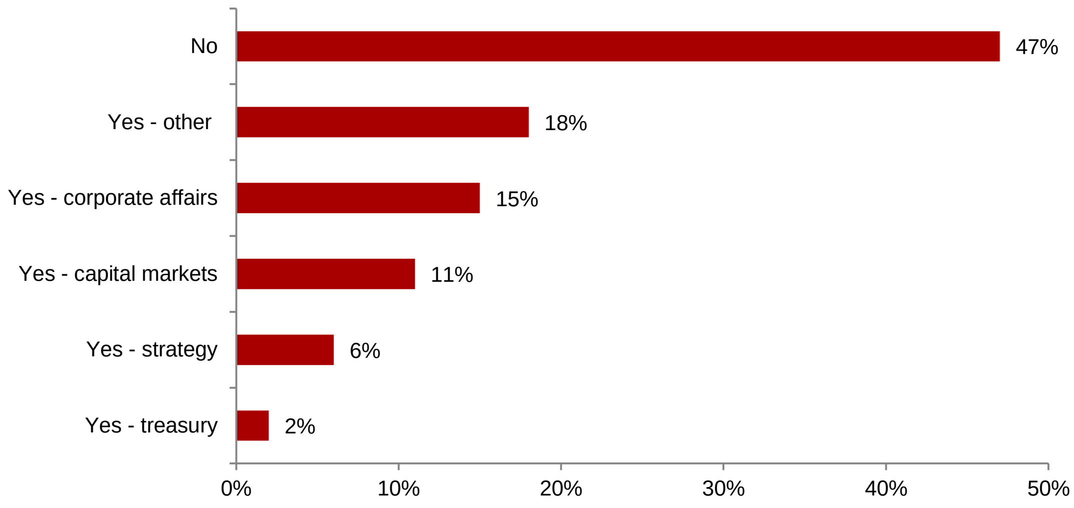
Exhibit 33: Who do you report to? (percentage of responses)



IRO position within the company

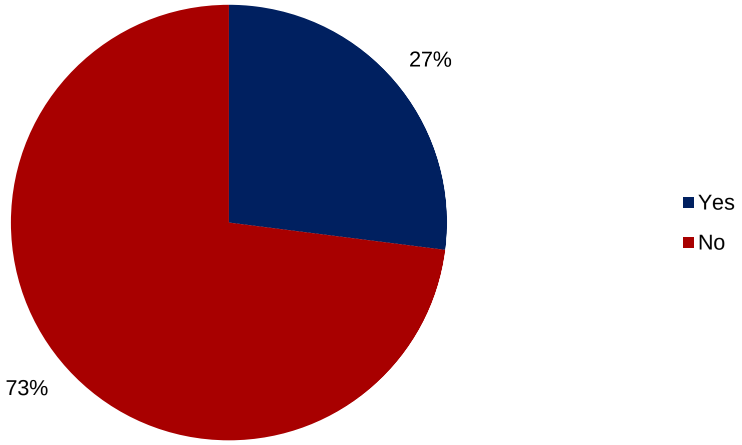
More than half of IROs have additional responsibilities including corporate affairs, capital markets, strategy, treasury and others. Greater involvement in these areas is widely considered as beneficial for career development, positioning the IRO a step closer to a future senior management role.

Exhibit 34: Do you have any additional responsibilities outside of IR? (percentage of responses)



Three quarters of IROs do not regularly attend Board meetings. This not only restricts their awareness of the Board's strategic priorities, but may also have an impact on the Board's awareness of potential investor concerns regarding strategic plans and performance.

Exhibit 35: Do you regularly attend Board of Directors meetings? (percentage of responses)



Measuring IR effectiveness

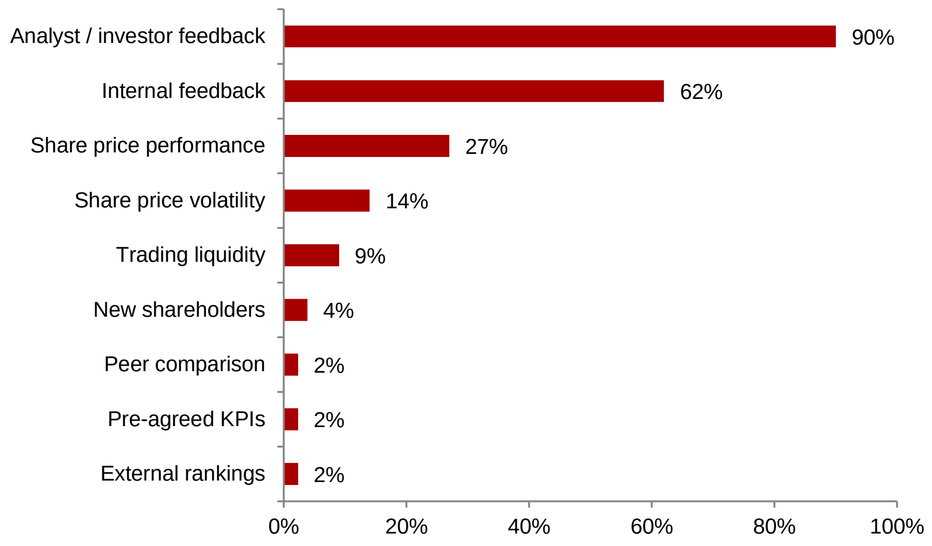
IROs use a mixture of qualitative and quantitative criteria to evaluate the success of their programmes. These are very much in line with the measures used to evaluate investor engagement, discussed on page 21.

The most important qualitative measure, and the most popular overall, is analyst and investor feedback. This is followed by internal feedback, including perceptions of the management team.

To balance this data with some hard figures, companies take into consideration the impact of their IR activities on share price performance and volatility, trading liquidity, and their success in attracting new investors onto the shareholder register.

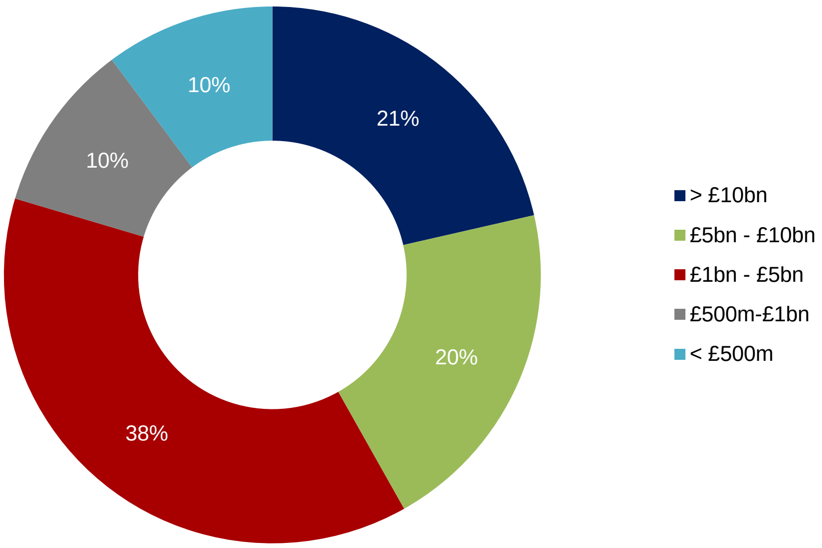
Other criteria include benchmarking against peers, performance against KPIs set at the start of the year and external rankings.

Exhibit 36: How do you measure the success of your IR programme? (percentage of responses)

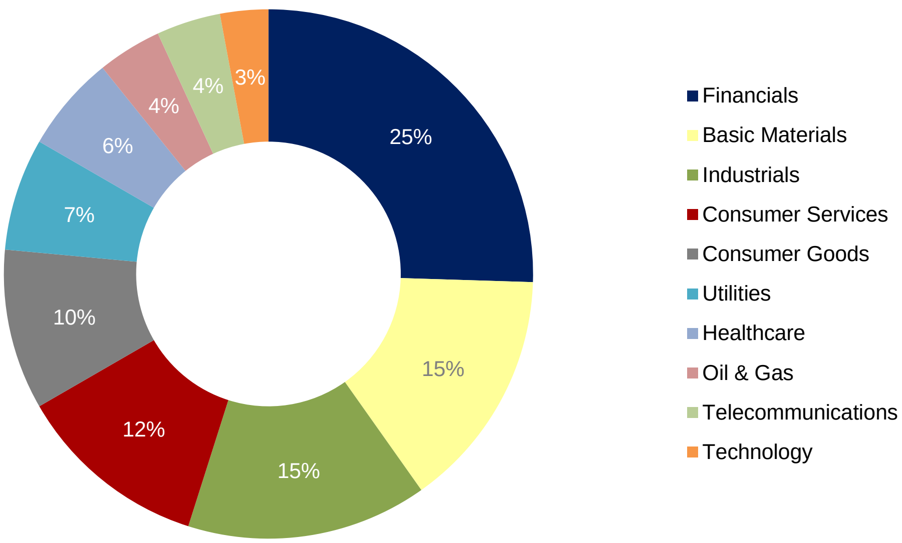


Respondent profiles

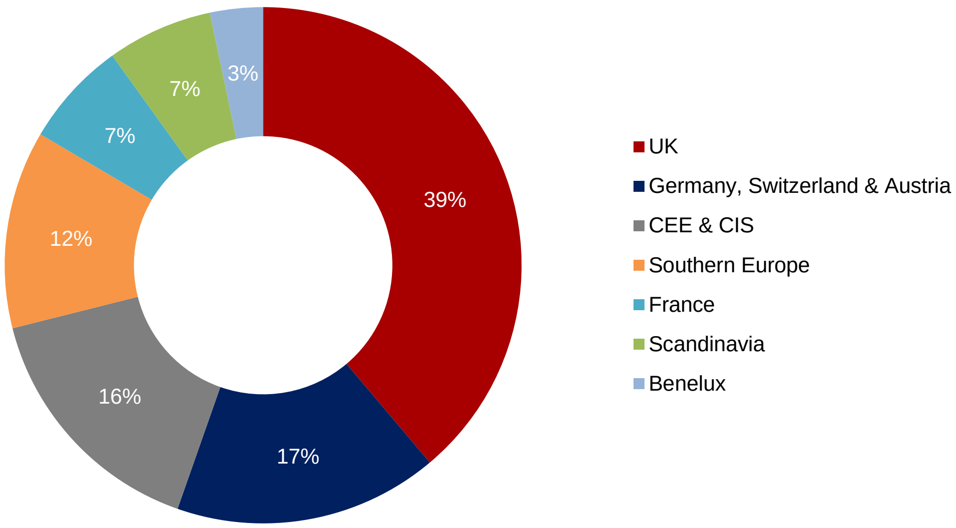
Respondent profile by market cap *(excluding undisclosed)*



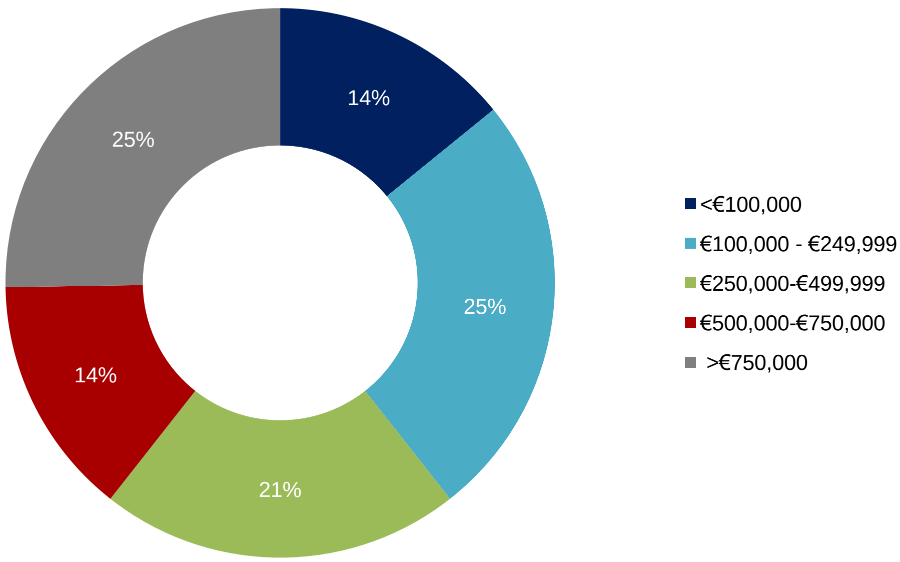
Respondent profile by industry *(excluding undisclosed)*



Respondent profile by location *(excluding undisclosed)*



Respondent profile by size of IR budget *(excluding undisclosed)*



About Citigate Dewe Rogerson

Citigate Dewe Rogerson is a leading international consultancy specialising exclusively in financial and corporate communications including:

- Full service investor relations advice and support;
- Financial calendar work;
- M&A, demergers, restructurings;
- IPOs and all other capital market activities;
- Shareholder activism;
- Corporate reputation and positioning;
- Crisis communications and issues management; and
- Public affairs consultancy.

We have more than 90 experienced consultants in London including a dedicated team of 10 IR specialists. Our more than 300 clients in 37 countries include 100 of the top 500 companies in Europe, and we are justly proud of our strong relationships with the IR community and international media. Headquartered in London, Citigate has an extensive global network of wholly-owned or affiliate offices in key financial centres, many of which are also leaders in their respective markets.

Investor Relations

Our dedicated team of investor relations consultants combines backgrounds in investment banking, equity analysis, fund management, accountancy and in-house investor relations to bring an unparalleled breadth of financial markets expertise and an in-depth understanding of the international investment community's IR requirements. Add to that our rigorous analytical skills and extensive access to the buy- and sell-side and you start to understand why we are consistently ranked among the leaders in our field.

Our independent strategic advice is exactly that - influenced by nothing other than our clients' best interests. And as a full-service consultancy, we also have the experience and technical - as well as human - resources to support a company's investor relations team in successfully executing its IR programme.

Our client list is drawn from all over the world and represents a wide spectrum, both in terms of industry and company profile. But they all have one thing in common: a desire for exceptional service and advice that is tailored to match their precise needs.

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