Citigate Dewe Rogerson

Investor Relations Survey

When less is more

2012

Citigate
Dewe Rogerson

Investor Relations Survey
When less is more

Investor Relations Officers (IROs) from leading companies in Europe were invited to participate in our survey between 24th January and 24th February 2012. Citigate Dewe Rogerson sought their views on disclosure and guidance, debt IR, investor engagement, analyst coverage, their shareholder base and investor targeting activities and their channels of communication.

154 IROs contributed to our survey representing companies from 14 countries and 34 of the 39 FTSE sector indices.

Citigate Dewe Rogerson, April 2012; updated edition May 2012

Contents

Executive summary

When less is more

Something investor relations officers (IROs) have known for years is finally dawning on regulators and policy makers – 'less is more'. Companies have struggled with the unintended consequences of decisions made by regulators, albeit with the best intentions. Their time and energy have been expended on producing data, driven by the short-term consideration of a quarterly reporting financial calendar, leaving less time to provide information that will support their longer-term investment case.

That's not to say that regular contact with the market is not desirable. In a volatile market it is helpful to provide regular updates, but this should be determined by the judgement of companies and IROs. The stock market in 2011 was certainly volatile and company fundamentals became further removed from the overall direction of the market creating a headache for IROs. For most of the year, the stock market reflected economic sentiment with investors taking fright from an unfavourable development in the European economy and returning when they saw the slightest sign that steps were being taken to resolve the situation. Political agreements between European leaders and an injection of money from the European Central Bank (ECB) have bought time and were reflected by an increase in share prices towards the end of 2011. However, there is still a long way to go until the European economy stabilises and while the risk of a large scale financial disorder may not be uppermost in the minds of investors, it certainly remains.

Policy makers, including the European Commission and International Accounting Standards Board, are only proposing changes to disclosure now and it will be a little while before they result in practical recommendations. But with competition for capital expected to intensify, companies need to be able to present an investment case, supported by insightful information that shows how they can position themselves for the kind of growth that will deliver superior returns in a low growth environment. Ideally there will be less time spent on box ticking and boilerplating and more time for insightful information that raises the level of conversation with investors and leaves more time for analysts to focus on fundamentals.

Disclosure

More disclosure on management remuneration, risks to business and cash conversion

Forty-nine percent of respondents have either increased their disclosure over the past 12 months or are considering plans to do so. In the light of calls from several influential parties to reduce the amount of data produced by companies, the finding that 46% of respondents are not changing their disclosure, up from 42% last year, may be more significant. It will be a long time before the good intentions of regulators filter through to practical recommendations, but the general direction to disclose less data and more meaningful information will be welcomed by the majority of IROs.

Guidance

Balance of companies increasing guidance although two thirds say no change

Whilst the number of companies increasing guidance outweighs those decreasing, a larger proportion of companies have decreased or plan to decrease the amount of guidance they provide compared to last year. This year 14% of respondents have increased the amount of guidance they provided over the past 12 months and 10% are considering an increase in guidance over the coming year. Seven percent have decreased guidance (vs just 2% last year) and 5% are considering a decrease. Economic uncertainty has made it difficult to forecast demand and it is likely that companies have continued to withdraw actual numbers or specific targets to avoid being hostages to fortune. The most popular medium for sharing consensus remains verbal communication, but companies relying on this channel need to guard against the increased risk of selective disclosure.

Debt IR

Fall in volume of enquiries related to debt over the past year

Fifty percent of respondents have seen a decrease in the volume of enquires related to debt over the past year and, with many companies preferring to accumulate cash, this finding was expected. The level of disclosure for companies with debt remains reasonably high. Eighty-five percent of respondents are providing information on maturity profiles and over half of respondents are providing information on funding costs / coupon rates, credit ratings and gearing ratios. At some point, companies will start to reduce levels of cash and take on more debt. Even for companies with cupboards full of cash, this is a good time to take a proactive stance and start building relationships with the debt markets.

Investor engagement

Lack of investor engagement remains the biggest barrier to effective corporate governance

Companies have become more ambivalent about whether the frameworks supporting corporate governance are effective. Forty-four percent of respondents agree, down from 52% 12 months previously. The difference is largely accounted for by the percentage of respondents that agreed in our previous survey shifting their stance to one where they neither agree nor disagree. The question of how much influence investors should have on corporations is long standing and investors are wary of becoming ‘insiders’. For the first time, over half of the respondents to our survey think greater engagement with investors would improve corporate governance.

Sell-side coverage / analysts

Steep decline in quality of analyst coverage. The rate of growth in analyst coverage declined for the third consecutive year

On the face of it, a reduction in sell-side analysts as a result of consolidation in the broking sector does not appear to have affected companies, where 73% of respondents are happy with the level of coverage they receive. However, the brokers mainly affected by consolidation are the small and mid-cap brokers and smaller companies have reported declines in coverage. In 2011, the percentage of companies with a market capitalisation below £500m that reported a decline in coverage was 20%. A year later it was 33%. There was also a steep decline in the quality of analyst coverage, with a third of companies overall and 40% of companies with a market capitalisation of over £5bn reporting a decline in quality. Part of this may be due to upheaval from consolidation, but it is a long standing problem and the pressure on analysts to conform to more frequent disclosures by companies leaves them with less time to undertake more detailed analysis.

Shareholder base and investor targeting

Increase in value orientated investors

Sixty-eight percent of respondents have reported changes in their investor base. For the third consecutive year, the biggest change to the shareholder base was driven by an increase in foreign investors. The rate of change slowed down slightly year-on-year and the slowdown is probably temporary driven by uncertainty in the wider economy. By investment style, the biggest change in the shareholder base was an increase in value investors, reported by 57% of respondents. Lack of disclosure on short-selling remains the biggest challenge faced by companies monitoring their shareholder base. It was cited by 51% of respondents, but this was down from 64% 12 months ago.

Channels of communication

Big rise in number of respondents planning more communication through social networks

Sixty percent of respondents have changed or are planning to change their mix of communication channels. The biggest change in the communications mix is represented by more ‘one-to-one’ conversations either in person or by telephone, cited by 33% of respondents, down from 38% in 2011. In 2010, when we started tracking social media, only 5% of respondents were planning more communication through this medium. Two years later, the percentage has increased to 14%. The percentage of respondents that said they are aware of an increase in communication between investors through non-traditional channels of communication such as LinkedIn and Twitter was 39%, which was broadly in line with last year. Worryingly, the percentage of respondents that do not know increased from 11% to 23%. Another worrying finding is an increase in the number of respondents that have become more concerned about rumours concerning their company on non-traditional channels of communication. Having remained at a constant 14% of respondents for the two years to 2011, this has jumped to 23%.

Author
Sean Bride
Investor Relations Practice
Citigate Dewe Rogerson
T: +44 20 7282 1044
E: sean.bride@citigatedr.co.uk

For more information on Citigate Dewe Rogerson please see back cover

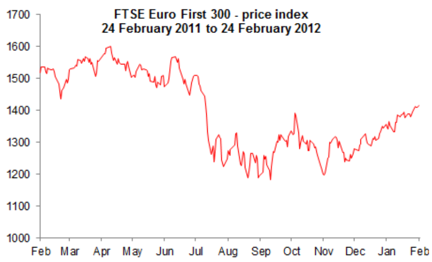
Context

When we published our 2011 survey, the FTSE-All World Index had more than doubled in the preceding 12 months and we asked respondents to select the factors they thought would present the biggest threat to this rise in the stock market over the next 12 months. Seventy percent of respondents said further fears and unrest over sovereign debt and as the year unfolded this proved to be prescient. A few months after we published our survey, the stock market rally had collapsed and movements in the markets reflected economic sentiment as politicians lurched from crisis to crisis.

Exhibit 1

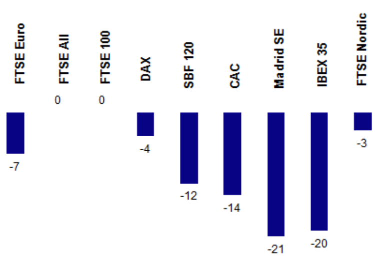
Context

FTSE Euro 300 for 12 months to 24 February 2012



Source: Thomson One

Percentage increase for 12 months to 24 February 2012 for selected indices



Source: Thomson One

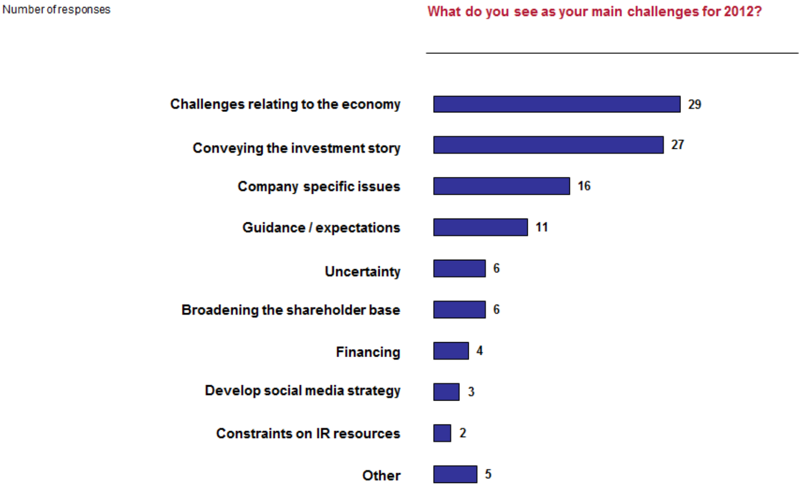
The effect on equities depended on how investors thought the economic crisis would unfold. The most optimistic scenario for Europe would see the authorities stabilise the European debt crisis, devise a realistic plan to reduce government debt and simultaneously steer economics back onto the path of annual growth. At the other end of the spectrum, the most pessimistic scenario would have seen a chaotic default by Greece, caused by a miscalculation by the European authorities, without adequate support for the region's banks and protection from collateral damage to the likes of Italy and Spain.

While investors worked through the enormity of the problem and tried to make sense of the economy and its likely direction, companies found it hard to get a hearing for their investment case. The stock market moved crab-like throughout the year, falling when investors took fright from an unfavourable development in the economic crisis and rising at the slightest sign that steps were being taken to help resolve the situation. In such a volatile market, company and industry fundamentals became further removed from the overall direction of the market creating a headache for IROs.

When asked what the biggest challenge was for 2012, 'challenges relating to the economy' was the most common answer, replacing 'conveying the investment story', which was the biggest challenge in 2011 and 2010 (exhibit 2). The two challenges are however inextricably linked for many companies. Providing guidance in an uncertain environment was also more prominent in the list of challenges cited by respondents.

Exhibit 2

Context



Notes
95 respondents answered this question.
Multiple responses apply

"Anticipating and explaining macroeconomic impacts on business" – Luxembourg, Consumer Service

"Communicating our long term growth story in a bumpy environment set to be uncertain and volatile" – Denmark, Basic Materials

"Convincing investors of the Company's long term growth opportunities despite sector growth slowing in the face of challenging consumer environment in the short term" – UK, Consumer Service

"Given the current world economic environment, it is important to set a tone that takes this situation into account" - Not disclosed

"Not being penalized due to external factors" - Spain, Basic Materials

Renewed economic growth is required to create a more favourable environment for equities, but this remains a considerable challenge while governments and consumers try to cut back on their level of borrowing and fret about employment prospects. The corporate sector does not have to pay off debts and the balance sheet recession for many corporates was over long ago. Companies however, have preferred to accumulate cash, which is at high levels following a drive to realise efficiencies and cost savings. Economists are calling for companies to start investing, which in many countries would help rebalance their economy away from domestic consumption and public spending. Companies however, have resisted, preferring to hoard their cash in case the economy slipped back into recession or the banks were unable to fund their working capital requirements.

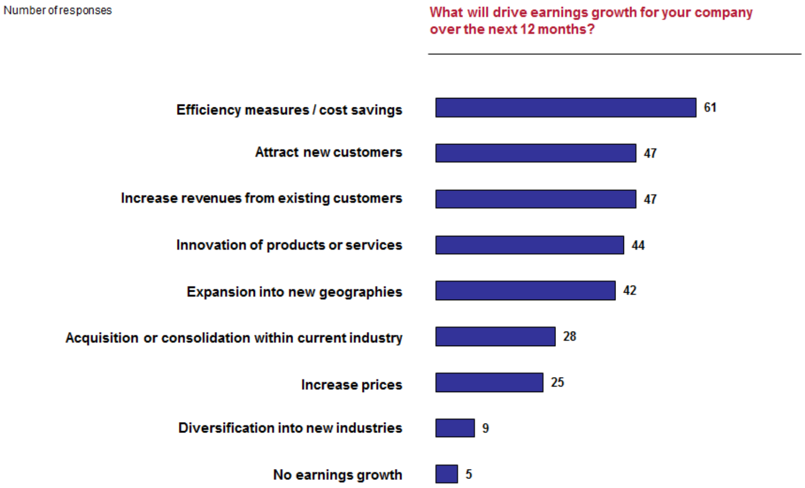
By the end of 2011, the threat of a large scale financial disorder, which dominated sentiment throughout the year, had receded (or at least it had disappeared from the front pages of newspapers as people tired of talking about it) and share prices recovered to a degree. The political agreements that European leaders reached at the end of the year and the injection of money from the European Central Bank have bought time. But much still needs to be done and many European countries need to rebalance their economies. Greece and Portugal could still upset the markets with disorderly defaults and Spanish banks may require more capital as recession takes hold. The ECB has provided banks in the eurozone with 1.02 trillion euros of cheap funding, but will be reluctant to provide further funds on such generous terms if governments fail to deliver reforms or boost bailout funds. It is also unknown how well citizens in countries struggling under the burden of debt will tolerate austerity measures when the end does not appear to be in sight and already high employment keeps rising.

Assuming economic growth does return and the environment for equities improves, there are several long-terms trends which are increasing the level of competition for capital. In 2011, the last company in the FTSE 100 offering a final salary pension scheme to new employees announced the arrangement would cease in 2013. This is the latest development in a shift from defined benefit to defined contribution pension schemes that has been gathering pace over the past ten years. Defined benefit schemes tend to become more conservative as active membership falls, which suggests that demand for fixed income instruments could grow at the expense of equities. The strength of the shift will depend on whether corresponding growth in defined contribution schemes takes up the slack, which in turn will be determined by the risk appetite of individual pension holders and the level of saving imposed by governments. An increase in the proportion of retired investors as a percentage of the total population is expected to result in a shift away from equities to bank deposits and fixed-income instruments as pensioners rely more on investment income and stop accumulating assets.

Many companies were frustrated that their share price appeared to be out of their control as macroeconomic factors seemed to dominate investment decisions last year. Quantifiable messages on cost reduction and efficiency measures are already understood by the market and investors want to hear how companies intend to grow and gear up for a recovery, albeit against an economic backdrop that is expected to deliver low growth in GDP at best for most countries. When we asked respondents what will drive earnings growth, we were encouraged by the number of areas they expected it to come from (exhibit 3). However, most respondents are still relying on efficiency measures and cost reductions. Growth strategies that will differentiate companies, such as innovation of products and services and expansion into new geographies, and deliver superior growth in a low growth environment appear further down the list.

Exhibit 3

Context



Notes
129 respondents answered this question.
Multiple responses apply

To help companies make their investment case, there are signs that regulators and policy makers are starting to realise that 'less is more'. Both the European Commission and International Accounting Standards Board have signalled their intention to reduce demands for data organised around a financial calendar where the frequency of reporting has increased, but where the costs of producing the information outweigh any benefits. Although these measures were originally introduced with the best intentions, they have resulted in a box ticking exercise where 'boilerplating' and disclosures that seek to cover every eventuality do little to illuminate the equity story.

The survey is based on the views of 154 IROs representing companies from 14 countries across Europe and 34 of the 39 FTSE sector indices. Citigate Dewe Rogerson would like to thank everybody who contributed.

Further classification data is provided in exhibits 20, 21 and 22 on pages 34 and 35.

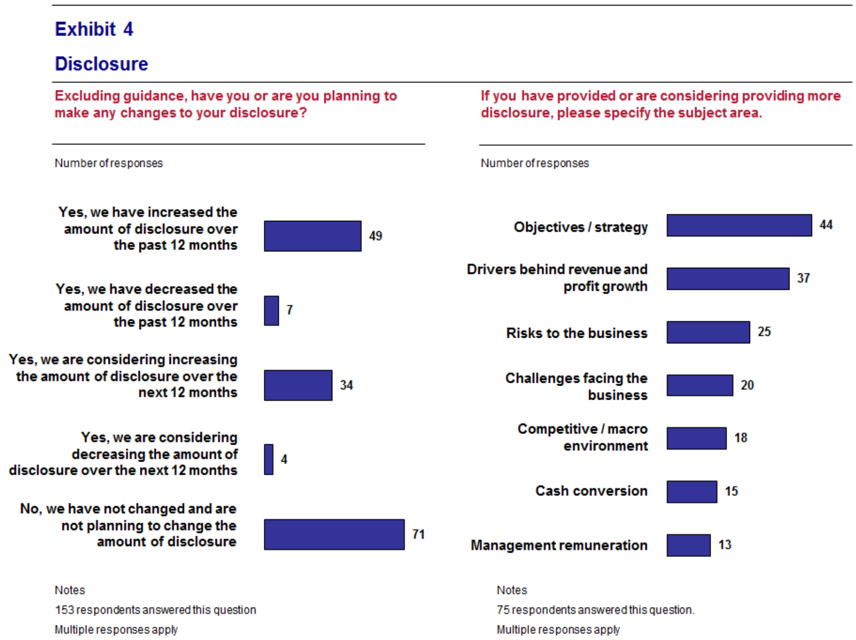
Disclosure

More disclosure on management remuneration, risks to business and cash conversion

- Forty-nine percent of respondents have either increased their disclosure over the past 12 months or are considering plans to do so.
- The areas that have seen the biggest increases in disclosure compared to last year are management remuneration, risks to the business and cash conversion.
- All of the respondents from the forestry and paper, food producer and asset management sub-sectors are increasing disclosure.

Slight increase in number of companies not changing their disclosure

Thirty-two percent of respondents said they have increased their disclosure over the past twelve months and eight of these 49 are considering further increases in disclosure over the next 12 months. A further 26 companies are also considering increasing their disclosure over the next 12 months taking the total percentage of companies increasing, or considering increasing, disclosure to 49% (exhibit 4). This is down slightly from our previous survey in 2011.



Forty-six percent of respondents have not changed their disclosure and are not considering plans to change their level of disclosure over the next 12 months. This is up from 42% in our previous survey.

The issue of disclosure is very topical and if the increase in the number of companies not changing their disclosure reflects a turning point where companies can focus on quality rather than quantity, it will be welcomed. Over several years, the demands on companies to provide more information have been growing, but the merits and value of this information is being called into question. The response to failures in financial markets has been to demand greater transparency and more disclosure and few people involved in investor relations would argue with this principle. They do, however, take issue with the calls for more data organised around a financial calendar where the frequency of reporting is high and where the costs of producing the information can outweigh any potential benefits. There have been some encouraging signs that the tide may be about to turn.

The European Commission surprised many observers when, in October 2011, it announced proposals under the Amendment Directive to abolish the requirement for companies to publish quarterly reports or interim management statements. It was intended to reduce the burden on smaller companies, but a desire not to introduce differential rules would mean that all companies will benefit. It is an initiative that would be heartily endorsed by Professor John Kay, who is currently leading a review of UK equity markets and long-term decision making. In his interim report, published in February 2012, he argued that quarterly earnings reports rarely help companies. According to Professor Kay, at best, the need to compile and explain interim results distracts management from more important tasks and, at worst, bad decisions result from the desire to make the numbers look good. In March 2012, Hans Hoogervorst, head of the International Accounting Standards Board, argued that not all accounting disclosures provide useful information. He said the thrust of accounting standards had been towards making sure that every eventuality is covered and disclosed, but this had resulted in a box ticking exercise where everyone had moved away from using their judgement to decide which disclosures matter to users.

For companies focusing on the quality of information, we think the framework outlined on exhibit 4 is a good place to start:

- The percentage of respondents disclosing more information on risks to business has increased by eight percentage points, year-on-year, to reach 33%. This could be in response to investors making decisions in an uncertain environment that have focused more attention on the risks to their investment. This is particularly true of value investors that accounted for the largest increases to respondents' investor base. This is an area where companies are sometimes tempted to increase the quantity of information, but where the quality of information is more important. Companies need only outline the principal risks and need to avoid generic statements that could apply to any company.
- The percentage of respondents disclosing more information on cash conversion has also increased by eight percentage points, year-on-year, to record 20% in 2012. This could include more detailed disclosure on operating cash flow strategy, the effect of changes in local currency and other sensitivities, definitions of cash flow and targets, and repatriation restrictions. Increased disclosure on cash conversion is also a feature of an uncertain market with investors focusing on the underlying drivers of value.
- Year on year, a much higher percentage of respondents is disclosing more information on management remuneration, up eight percentage points from 9% in our previous survey to 17% in 2012. The issue of management remuneration has been very prominent in the English language press and this is a significant

increase, though the absolute number of companies increasing disclosure on pay is low compared to other areas of increased disclosure. This may be because companies already disclose large amounts of information on management remuneration and it is an area where the calls for quality over quantity are loudest. In particular, a clear explanation of the link between short and long-term performance and the remuneration package, assuming it exists, will be required to silence critics and justify levels of executive pay.

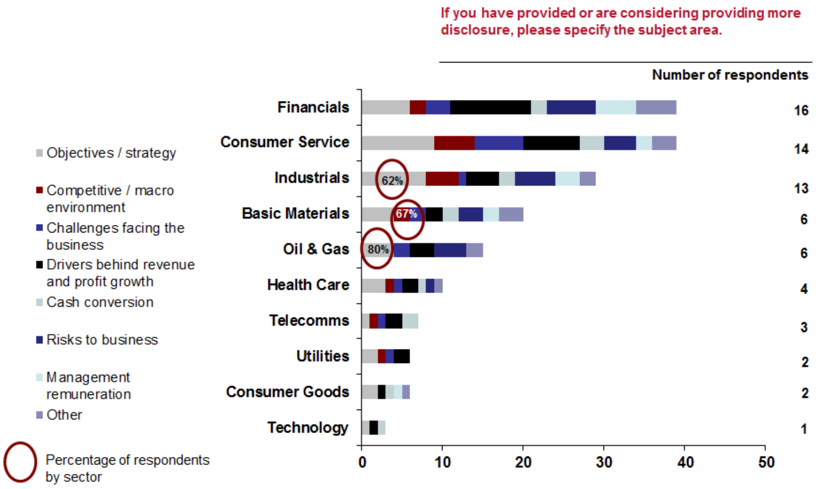
- Fifty-nine percent of respondents are disclosing more information on objectives and strategy. While this remains the most common area for increases in disclosure, it is down slightly from 64% in 2011.
- The percentage of companies increasing disclosure on the drivers behind revenue and profit growth was also down on the previous year. Forty-nine percent of companies are disclosing more information in this area compared to 60% in 2011. It is also possible that strategies to increase earnings through cost cutting measures and efficiencies are already understood by the markets, although this remains a significant increase.

Analysis by sector

On a sector basis, the highest percentage of respondents that have increased their disclosure or are considering increasing their disclosure fall within the forestry & paper, asset management, food producer and oil and gas sectors (exhibit 5):

Exhibit 5

Disclosure



Notes
Bar chart excludes companies that did not provide classification data. A total of 67 respondents answered this question

- All of the respondents in the **forestry & paper** sector have increased or are considering increasing their disclosure and the majority are disclosing more information on objectives / strategy and risks to business.
- For the second consecutive year, all of the respondents in the **asset management** sector have increased their disclosure. Last year, they provided more information on objectives / strategy and this year the dominant theme is the drivers behind revenue and profit growth.

- Eighty-three percent of **oil & gas producers** have increased or are considering increasing their disclosure and four-fifths of these are disclosing more information on objectives and strategy.
- Seventy-two percent of **banks** have increased or are considering increasing their disclosure and 88% of these are disclosing more information on the drivers behind revenue and profit growth. In our previous survey, the focus had been on risks to the business and increased disclosure in this area fell from 71% of respondents to 33%.
- Seventy-one percent of respondents in the **travel & leisure** sector have increased or are considering increasing their disclosure and 60% of these are disclosing more information on objectives and strategy.

At the other end of the spectrum, the lowest percentage of respondents that have increased their disclosure or are considering increasing their disclosure fall within the general retail and insurance sectors:

- Twenty percent of **general retailers** have increased or are considering increasing their disclosure. This sector is not short of KPIs, either produced by companies or by third parties, and this could have a bearing on the findings.
- Twenty percent of respondents in the **insurance** sector have increased or are considering increasing their disclosure. This is a significant decline on the previous year when 77% of insurers had increased or were considering an increase in disclosure, mainly on the drivers behind revenue and profit growth.

Guidance

Balance of companies increasing guidance although two thirds say no change

- Fourteen percent of respondents have increased the amount of guidance they provide and 10% are considering an increase in guidance over the coming year.
- Seven percent have decreased their guidance and 5% considering a decrease over the coming year.
- Capital expenditure is the most commonly offered form of guidance, followed by guidance on revenues.
- Eighty-two percent of respondents share their consensus forecast with the market.

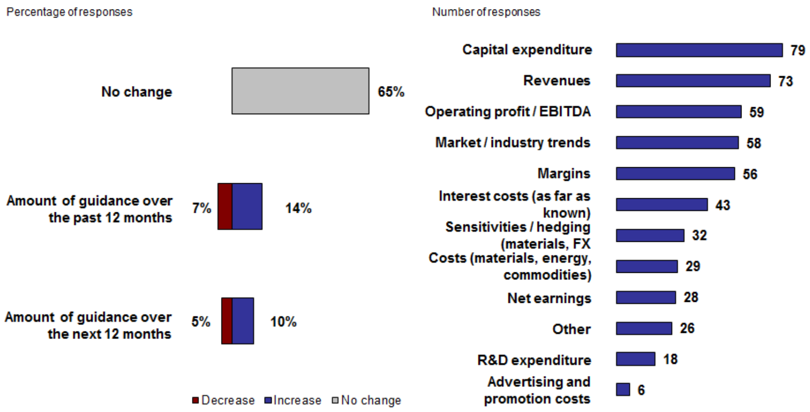
Percentage of companies increasing guidance is stable while those decreasing rises

Whilst the number of companies increasing guidance outweighs those decreasing, a larger proportion of companies have decreased the amount of guidance they provide compared with last year with 7% of respondents decreasing the amount of guidance they provided over the past 12 months versus just 2% in our 2011 survey; 5% are considering a decrease in guidance over the coming year (exhibit 6). The percentage of companies that increased guidance over the past 12 months, whilst higher in absolute terms at 14%, remained stable compared to last year's survey and the percentage of companies considering an increase in guidance has fallen back slightly at 10%. As a result, the percentage of companies that have not changed their guidance has fallen back from 72% in 2011 to 65% this year.

Exhibit 6

Guidance

Have you or are you considering changing the amount of guidance that you communicate to the market? | **Which of the following do you provide, or are considering providing, formal guidance on?**



Notes

143 respondents answered this question

2 (1%) companies have both changed and are considering changing their guidance

Notes

132 respondents answered this question.

Multiple responses apply

The findings from our analysis of criteria below would suggest that companies feel they are already providing sufficient guidance. For many companies the level of uncertainty increased, which was reflected by the level of volatility in the stock markets. Economic uncertainty has made it increasingly difficult to forecast demand and it is likely that companies have continued to withdraw actual numbers or specific targets to avoid being hostages to fortune.

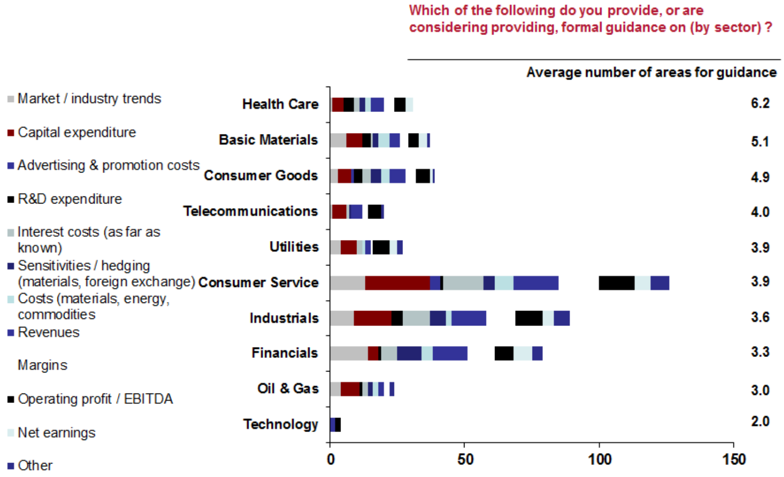
The most common form of formal guidance continues to be capital expenditure, followed by revenues, but the options offered in our questionnaire are by no means exhaustive. Respondents are also providing guidance on movement in gross margins, tax rates, new business flows, cash flow, amortisation, cost targets, return on capital and operational KPIs. Industry specific ratios also apply and, interestingly, one bank is providing guidance on compensation and benefits.

Analysis by sector

The health care and basic materials sectors use the widest armoury to guide analysts

Exhibit 7

Guidance



Notes

Bar chart excludes companies that did not provide classification data. A total of 124 respondents answered this question

Twelve months ago the health care sector used the widest armoury to guide analysts followed by technology and utilities. Discounting technology where the sample is too small to offer any meaningful conclusions, health care companies continue to use the most criteria followed by basic materials and consumer goods (exhibit 7).

- In the **health care** sector, respondents use an average of 6.2 criteria to provide guidance with one company using as many as eight criteria and no company using less than four. All of the respondents in the sector provide guidance on revenues and all but one company provides guidance on capital expenditure, R&D expenditure, operating profit / EBITDA and margins.
- Respondents from the **basic materials** sector use an average of 5.1 criteria to provide guidance. The most widely used criteria are capital expenditure and market / industry trends, which were both adopted by 75% of respondents.

Respondents in this sector use market / industry trends more than any other sector.

- In the **consumer goods** sector, respondents use an average of 4.9 criteria to provide guidance. The most common criterion, used by 75% of respondents, is revenues followed by capital expenditure and operating profit, both used by 63% of respondents. The number of companies providing guidance on advertising and promotional costs was down on the previous year, with only 13% or respondents using this criterion.
- Respondents from the **telecommunications** sector use an average of 4.0 criteria to provide guidance. All of the respondents use capital expenditure and operating profit / EBITDA and all but one company provide guidance on revenues. The respondents use another five criteria between them, but there was no consistency in their adoption.
- Unsurprisingly, the **utilities** sector is not dissimilar to telecommunications. In this sector respondents use an average of 3.9 criteria to provide guidance. As in telecommunications, the most commonly used criteria are capital expenditure and operating profit / EBITDA.
- In the **consumer service** sector, respondents use an average of 3.9 criteria, but the sector included a wider variety of measures to provide guidance. As in most sectors, capital expenditure is the most widely adopted criterion, used by 75% of respondents. The second most common criterion is revenues, used by just over half of the respondents, followed by interest costs and margins, used by 47% of respondents, and operating profit / EBITDA and market / industry trends, used by 41% of respondents. Within the consumer service sector, market / industry tends are popular with media companies and used by 70% of respondents in this sub-sector to provide guidance.
- Respondents from the **industrials** sector use an average of 3.6 criteria to provide guidance with one company using nine criteria and one company using just one criterion. This is the highest range of all the sectors and reflects its diversity. The most widely used criterion is capital expenditure, used by 56% of respondents, followed by revenues, used by 52% of respondents.
- In the **financials sector**, respondents use an average of 3.3 criteria to provide guidance with one respondent using 7 criteria and 13% of respondents using just one criterion. The most commonly used criterion is market / industry trends, used by 58% of respondents, followed by revenues used by 54% of respondents.
- Respondents from the **oil and gas** sector use an average of 3.0 criteria, with the overwhelming majority (88%) using capital expenditure to provide guidance. Half of the respondents from the oil and gas sector use market / industry trends.
- The sector with the lowest average criteria is **technology** with respondents using an average of 2.0 criteria. The sample of two companies is too small to draw definitive conclusions, but both companies use revenues and operating profit / EBITDA to provide guidance.

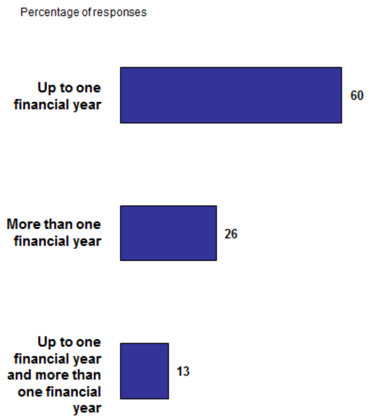
The majority of guidance covers a time frame of up to one year

Of the 134 companies that provide guidance, 60% of respondents focus on a time frame of up to one year and 26% of respondents focus on a time frame of more than one financial year (exhibit 8). Thirteen percent of respondents provide guidance on both time frames.

Exhibit 8

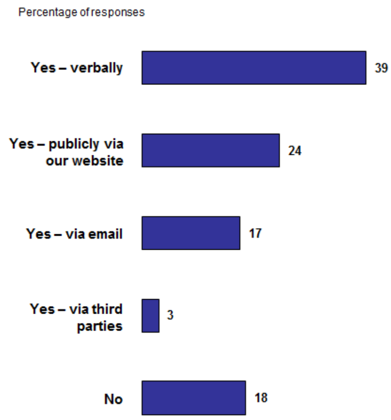
Guidance

What time frame does your guidance focus on?



Notes
134 respondents answered this question.

Do you share your consensus with the wider market?



Notes
144 respondents answered this question.

Percentage of respondents sharing their consensus with the wider market remains high

Eighty-two percent of respondents share their consensus forecast with the market, down from 85% in our previous survey, but within a band between 80% and 85% that has been consistent since our survey started four years ago. Companies that do not share consensus with the wider market have adopted this stance for several reasons. Some remain concerned that they will be seen to guide the market, some are concerned that they do not have a suitable internal system for compiling consensus, and some have found difficulties compiling a meaningful consensus because of irregular and inconsistent updates from analysts.

Little change in the medium used to share consensus

The most popular medium for sharing their consensus with the wider market remains verbal communication (exhibit 8). This was cited by 39% of respondents and was followed by the corporate website, adopted by 24% of respondents, and email cited by 17% of respondents. The number of companies using the corporate website fell back slightly year-on-year, but is comfortably ahead of the number in 2010, when the medium was used by only 15% of companies.

We are concerned about the risks of companies sharing their consensus forecast on a selective basis only, which leaves them open to accusations of selective disclosure. The risk of this is heightened for companies relying on verbal communication and email. Companies also need to guard against relying on third party information providers, which can result in some material inaccuracies and inconsistencies. These arise when analysts no longer cover a stock or have not updated their estimates for a period, but their last forecast number is included in the consensus, and when allowances are not made for different accounting standards.

Debt IR

Fall in volume of enquiries related to debt over the past year

- Fifty percent of respondents have seen a decrease in the volume of enquiries related to debt over the past year.
- The most common areas of debt disclosure are maturity profiles, funding costs and credit ratings.

Fall in debt enquiries reflects stronger balance sheets

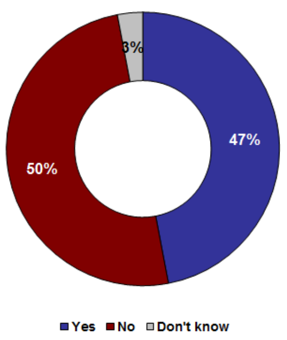
Fifty percent of respondents have seen a decrease in the volume of enquires related to debt over the past year and, with the general tendency for companies to accumulate cash, this finding was expected (exhibit 9). Although interest rates were low, companies decided to hold onto their cash, perhaps because they feared banks would be unable to finance their working capital requirements or because they feared a recession. The headline findings do however mask some regional variances. Seventy-nine percent of respondents from Spain, 71% of respondents from Russia and 66% of respondents from Italy reported an increase in volume of enquires related to debt over the past year. In comparison, only 32% of respondents in Germany reported an increase.

Exhibit 9

Debt IR

Has the volume of enquiries related to debt declined since the credit crisis?

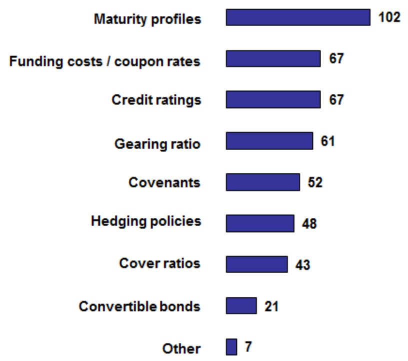
Percentage of responses



Notes
137 respondents answered this question.

In which of the following areas do you provide information on debt?

Number of responses



Notes
119 respondents answered this question.
Multiple responses apply

The level of disclosure for companies with debt that responded to this question remains reasonably high with 36% providing information on at least five of the nine areas covered by the survey. Eighty-five percent of respondents are providing information on maturity profiles and over half of respondents are providing information on funding costs / coupon rates, credit ratings and gearing ratios (exhibit 9).

At some point, companies will start to reduce levels of cash and take on more debt to optimise their capital structure. The onus on companies to invest in growth to boost economic returns will inevitably result in companies seeking new sources of funding. Although, for many companies, the cupboards are full of cash, it is a good time to start building relationships with the debt markets. The adage that says you should source debt when you don't need it springs to mind, not because it won't be there when you do, but because the price will have moved up and competition will have increased.

While this survey reveals that disclosure on debt is good, this information is not always visible on corporate websites, a stark contrast to the visibility of the equity IR webpages. This and anecdotal evidence suggests that companies need to be more proactive and ensure they have a debt communications programme to develop supportive relationships, built on a differentiated investment case. In its simplest terms, equity investors are primarily focused on the P&L and debt investors are more interested in the balance sheet and the cash flow statement. In reality, consistency in communication is essential with both groups interested in the same strategic message. Consistent financial policies will also help build confidence among fixed income investors.

Investor engagement

Lack of investor engagement remains the biggest barrier to effective corporate governance

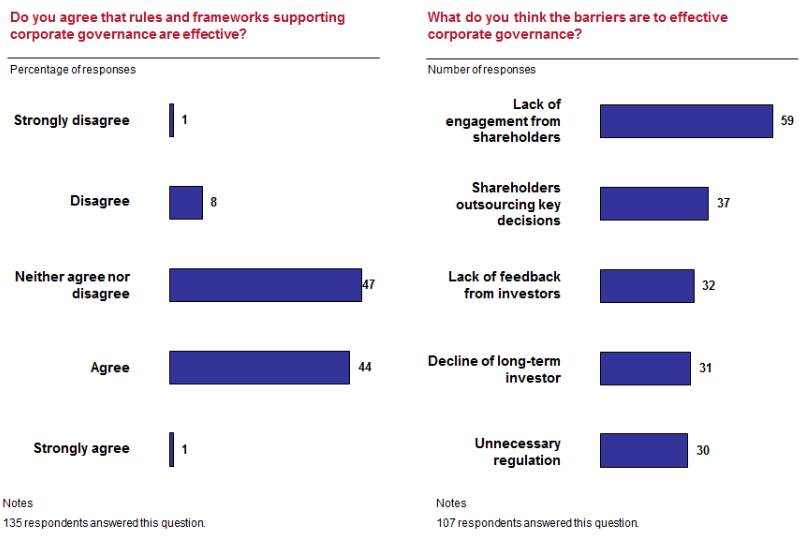
- The percentage of respondents that agree the rules and frameworks supporting corporate governance are effective is down from 52% to 44%.
- Lack of engagement from shareholders is the biggest barrier to effective corporate governance cited by 55% of respondents.

Percent of respondents that agree that rules and frameworks supporting corporate governance are effective is down

Forty-four percent of respondents agree that the rules and frameworks supporting corporate governance are effective, down from 52% twelve months previously (exhibit 10). The difference is largely accounted for by the percentage of respondents that agreed in our previous survey shifting their stance to one where they neither agree nor disagree.

Exhibit 10

Investor engagement



"In general aside from local investors and very large international funds the interest or knowledge around our company's corporate governance issues was shockingly low. This I feel is a terrible failure on the part of investors: a failure to properly exercise their ownership rights and those of the underlying investors in their funds" – Not disclosed

"Lack of communication within some institutional investors between the fund managers who control the investment decisions and the governance specialists who determine voting decisions" – UK, Consumer Goods

This issue of investor engagement is always topical. A recent proposal by the coalition government in the UK hit the headlines and is typical of the increasing pressure on investors to take a more active stance. It is consulting on plans to introduce a binding vote on pay for shareholders, which would come into force in 2014. The Netherlands, Norway and Sweden already have binding votes. Shareholders, however, tend to be more comfortable with an advisory role preferring companies to justify their decisions rather than getting more involved in decisions on pay.

Significant increase in lack of engagement as a barrier to effective corporate governance

Fifty-five percent of respondents cited lack of engagement as a barrier to effective corporate governance, an increase of 14 percentage points over the past year. The issue of whether more engagement by investors will lead to better corporate governance continues to be debated and for the first time, over half of the respondents to our survey think greater engagement from investors would improve corporate governance. The question of how much influence investors should have in corporations is a long standing issue. At the same time, investors are wary of becoming 'insiders'. However, it is clear from the trends in this survey that the case for more active engagement has been growing.

A host of factors prevent many fund managers developing a greater stewardship relationship with companies including shorter timescales for measurement of fund manager performance and remuneration, incentive structures for brokers that encourage increased trading activity and technological developments that have made increases in trading easier and cheaper. Increases in foreign ownership, most notably in the UK, has also reduced the opportunities for collective action by shareholders as a more heterogeneous group is less likely to know each other and mobilise itself. There is also a concern initiatives introduced to improve stewardship sometimes emphasise formalities rather than substance.

In fairness, the Stewardship Code in the UK genuinely aims to enhance the quality of engagement between companies and shareholders. The requirement for investors to publish their voting policies, for example, helps companies to understand better the concerns of their key shareholders. 'Comply or explain' has been a principle in the corporate governance of listed companies since the Cadbury Report (1992) and is generally considered to work satisfactorily although the European Commission has expressed concerns that the explanation sometimes lacks detail.

The issue of shareholders outsourcing key decisions is related to the point on lack of engagement and has risen as a barrier to effective corporate governance over the past year. Thirty-five percent of respondents said this was a barrier, an increase of seven percentage points. Paradoxically, this may be a feature of a greater focus on corporate governance within companies by investors and the increase in the propensity of investors to vote. The pressure on institutional investors to exercise their stewardship responsibilities has contributed to this trend. It has resulted in them making more use of proxy advisors, which advise on resolutions presented at general meetings in order to submit voting advice or recommendations on these resolutions to their clients. This has led the European Securities and Markets Authority to launch a consultation paper asking for comments on the accuracy, independence and reliability of proxy advice and transparency on the management of conflicts of interest, dialogue with companies and the procedures used to inform voting recommendations.

Sell-side coverage / analysts

Steep decline in quality of analyst coverage. The rate of growth in analyst coverage declined for the third consecutive year

- Forty-eight percent of respondents said the number of analysts providing coverage on their company has increased over the past year, down 17 percentage points on 2011.
- Seventy-three percent of respondents are happy with the level of coverage they receive in terms of analysts.
- A third of companies believe the quality of analyst coverage has worsened. The gap between the percentage of respondents that feel that quality has declined (34%) and those that feel it has improved (15%) has widened.

The rate of growth in analyst coverage declines…

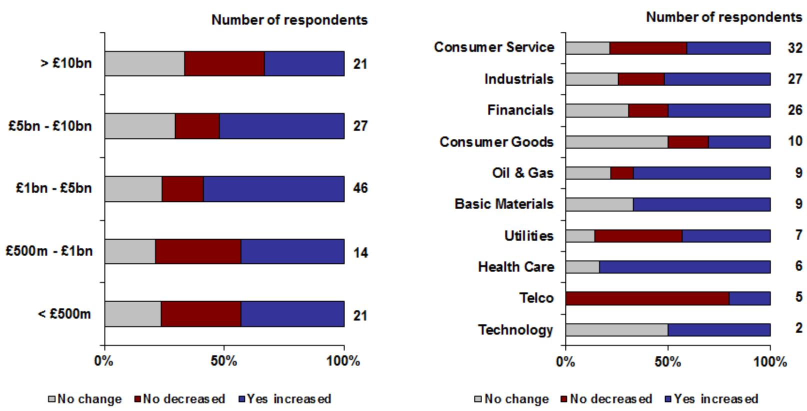
Analyst coverage increased for 48% of respondents and, while this is a significant figure, it was down sharply on the previous year when 65% of respondents reported an increase (exhibit 11). In the past, declines have been weighted towards smaller companies, but this year, the effect was more dispersed. About a third of companies with a market capitalisation below £1bn reported a decrease in analyst coverage as did companies with a market capitalisation above £10bn. Companies with a market capitalisation between £1bn and £10bn reported increases big enough to offset any declines in analyst coverage.

Exhibit 11

Sell-side coverage / analysts

Has the number of analysts providing coverage on your company changed over the past year? (by market capitalisation)

Has the number of analysts providing coverage on your company changed over the past year? (by sector)



Notes

Bar chart excludes companies that did not provide classification data. A total of 142 respondents answered this question

The **health care** sector reported the biggest increase in sector coverage with 83% of respondents saying that analyst coverage on their company had increased over the past year. The **basic materials** and **oil and gas** sectors also reported a significant increase in coverage, with 66% of respondents in each sector reporting increases. The biggest decrease was reported by the **telecom** sector where 80% of respondents said that analyst coverage on their company had decreased over the past 12 months.

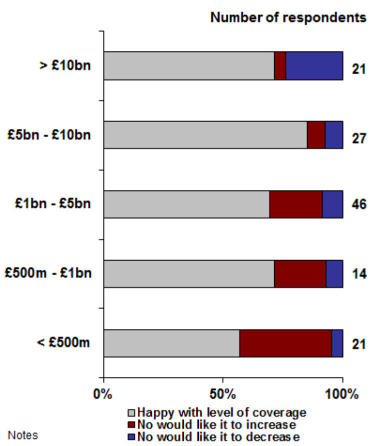
…but the majority of companies remain happy with the level of coverage

Although a significant proportion of companies reported a decline in analyst coverage, nearly three quarters of respondents (73%) are happy with the level of sell-side coverage they receive in terms of the number of analysts (exhibit 12). This is broadly in line with 2011, when 76% of respondents were happy with the level of coverage, weighted towards the largest companies. Eighty percent of respondents with a market capitalisation over £5bn are happy with the level of analyst coverage, compared to 57% of companies with a market capitalisation below £500m.

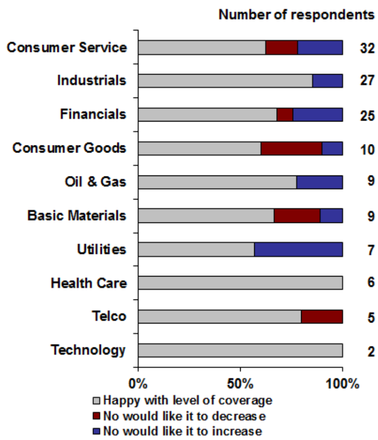
Exhibit 12

Sell-side coverage / analysts

Are you happy with the level of coverage that you receive in terms of analysts? (by market capitalisation)



Are you happy with the level of coverage that you receive in terms of analysts? (by sector)



Notes

Bar chart excludes companies that did not provide classification data. A total of 140 respondents answered this question

The consolidation of smaller brokers is not having a detrimental effect on coverage for the largest companies and it is the smaller companies bearing the brunt of consolidation. Consolidation of small and mid-cap brokers has been anticipated for many years, but finally started to gather pace at the end of 2011 following remorseless pressure on their business since 2008. Altium Capital closed its stockbroking arm, Ambrian Partners and Arbuthnot Banking sold their broking divisions, Evolution Group's investment banking arm was acquired by Investec, Canaccord acquired Collins Stewart Hawkpoint and N+1 acquired Brewin Dolphin's broking arm.

Eighteen percent of companies would like to increase the number of covering analysts. As in previous surveys, the majority of these companies have a market capitalisation below £500m and 38% of respondents in this segment would like to increase their analyst coverage. This was an increase on 2011, when 27% called for more coverage. By sector, the analysts most in demand are those covering **utilities** and **insurance**. Forty three percent of **utility** companies and 40% of **insurance** companies would like to see an increase in coverage. This is broadly in line with previous years. Thirty three percent of **real estate** companies also complained about the lack of coverage. Although 80% of **telecom** companies had reported declines in analyst coverage, 80% of telecom companies were happy with the level of coverage.

For the first time, this year's survey introduced a question asking if respondents would like to see a decrease in analyst coverage. In 2011, companies volunteered this information, unprompted, complaining that in addition to the administrative burden, there were far too many analysts clamouring for the attention of investors. This year, 9% of respondents would like to see a decrease in the number of analysts. The majority of these respondents have a market capitalisation over £10bn. Last year, **general retailers** in particular argued for a reduction in analyst coverage. This year, their wish was granted with 55% reporting a decrease in coverage and 55% (not necessarily the same retailers) declaring themselves happy with the level of coverage.

Steep decline in quality of analyst coverage

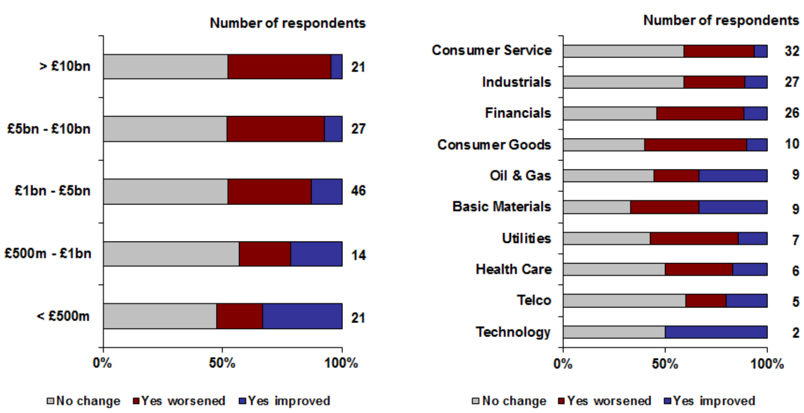
Companies have been concerned about the quality of analyst coverage for as long as this survey has been tracking the issue, but this year, the percentage of respondents reporting a decline in the quality of analyst coverage over the past 12 months reached a high of 34% (exhibit 13). This compares to 21% in 2011 and 26% in 2010. The percentage of respondents that felt the quality of analyst coverage had improved fell back to 15% and, on balance, companies reported a steep decline in quality. Fifty-one percent of respondents reported no change in the quality of analyst coverage over the past 12 months.

Exhibit 13

Sell-side coverage / analysts

Do you think the quality of analyst coverage has changed over the past year? (by market capitalisation)

Do you think the quality of analyst coverage has changed over the past year? (by sector)



Notes

Bar chart excludes companies that did not provide classification data. A total of 140 respondents answered this question

Although small caps had seen the biggest declines in analyst coverage, they were satisfied with the quality of coverage they received. Thirty-three percent of respondents in the segment defined by companies with a market capitalisation below £500m said it has improved, which was the highest percentage of respondents by size. For the largest companies, receiving the attentions of the highest percentage of analysts, more research is not necessarily resulting in better research. In fact, over 40% of companies with a market capitalisation of over £5bn reported a decline in the quality of analyst coverage. Only 4% of companies with a market capitalisation above £10bn reported an increase in quality.

By sector, the biggest declines in the quality of research were reported by **consumer goods** companies. Fifty percent of respondents in this sector said the quality of analyst coverage over the past 12 months has worsened and only 10% said it has improved. This has been a theme since our survey started tracking the quality of analyst coverage and while **consumer goods** companies reported a slight improvement last year, they believe the quality of research has declined since then. Forty-three percent of **utility** companies and 42% of **financials** said the quality of analyst coverage over the past 12 months had worsened. The sector highlighting the biggest improvement in the quality of analyst coverage was **basic materials** for the third year running with 33% of respondents reporting improvements. However, opinion in the sector was divided with a third reporting a decline in quality and a third saying that it had stayed the same. The **oil and gas** sector reported an improvement in the quality of analyst coverage for the second year running. Thirty-three percent of **oil and gas** companies said the quality of research had improved, up from 23% last year.

"Too short term and superficial" – UK, Consumer Goods

"More junior people are working on the coverage due to the changes (also personal changes) in the industry in the last year" – Not disclosed

"Analysts covering more stocks and having less time to focus on one specific company. Macro issues are also very distracting as stocks are not being driven by fundamentals" – Not disclosed

"Too many "me too" broker around with little contact to company" – Germany, Financials

"Lack of fundamental analysis, too many analysts providing trading ideas to clients, too much spoon feeding by clients" – UK, Telecommunications

"There has been a high degree of turnover which has resulted in a relatively less experienced level of analyst coverage. There has been a longer term trend where analysts are shorter term in their outlook and only really interested in getting a particular number right in their spreadsheets" – Not disclosed.

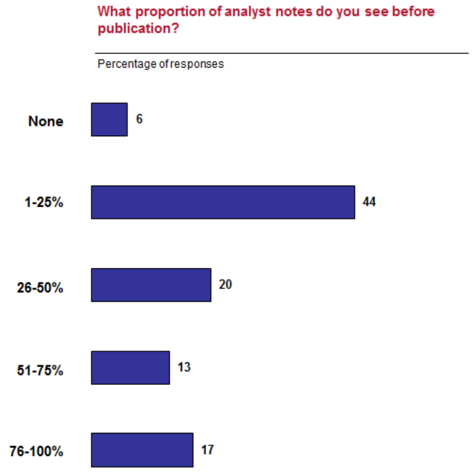
Increase in number of respondents reviewing less than half of analyst notes

Seventy percent of respondents see 50% or less than 50% of analyst research notes before publication (exhibit 14), which is up from 65% last year and 62% in 2010. Only 17% of respondents see between 76% and 100% of analyst research notes before publication. A third of these had a market capitalisation below £500m. The reasons for this are already understood. They include bank policy that prevents the sharing of notes ahead of publication and practical considerations arising from the sheer amount of notes, driven by increased reporting, that make it impractical for companies to review all the broker notes.

Some analysts with long relationships with companies do not feel the need to review research before publication. This year, there were more instances of phone calls between analysts and companies ahead of publication to check facts and discuss broad themes.

Exhibit 14

Sell-side coverage / analysts



Notes
141 respondents answered this question.

"We do not seek to formally review notes before publication, but maintain regular contact with analysts and would receive calls if there were particular queries that analysts needed to resolve before publication" – UK, Consumer Goods

"Compliance mainly - and a couple of analysts unwilling to share ideas and/or timing of notes before publication. I am finding this increasingly frustrating. There is no downside as far as I can see to an analyst at least having the courtesy to inform IR of a big change in recommendation/price target the night before publication. It ends up making IR out of touch with the market in front of their CFO/CEOs" – UK, Consumer Service

"We are clarifying all topics and issues by telephone one-on-one's" – Not disclosed

Shareholder base and investor targeting

Increase in value orientated investors

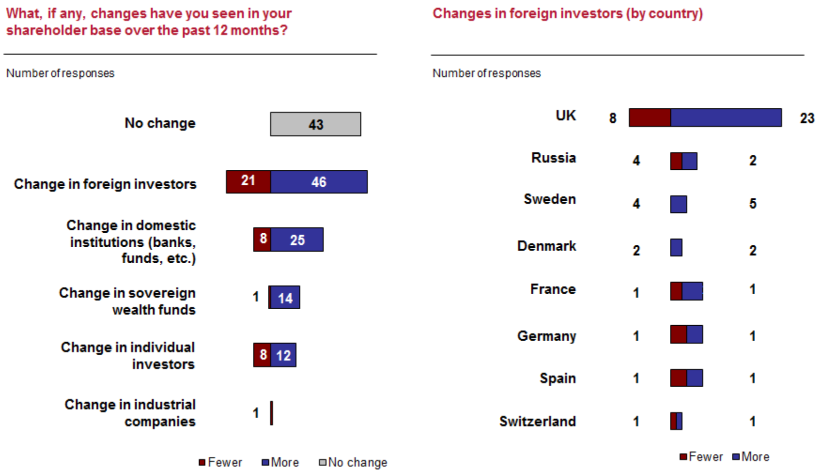
- Respondents reported that an increase in foreign investors accounted for the biggest change in their investor base.
- For the second consecutive year, the biggest change by investment style was an increase in value-orientated investors.
- Lack of disclosure on short-selling remains the biggest challenge companies face in monitoring their shareholder base, albeit down slightly from the 2011 survey.

Majority of respondents report changes in their investor base…

Sixty-eight percent of respondents have reported changes in their investor base (exhibit 15), up from 62% last year.

Exhibit 15

Shareholder base and investor targeting



Notes
132 respondents answered this question
Multiple responses apply

For the third consecutive year, the biggest change to the shareholder base over the past 12 months was driven by an increase in foreign investors. The rate of change slowed down slightly year-on-year, but it remains to be seen whether the long-term trend in cross border diversification will abate. This has been driven by globalisation of corporate activity as well as globalisation of equity strategies and the slowdown may be temporary driven by uncertainty in the wider economy. Thirty-four percent of respondents reported an increase in foreign investors, down from 38% a year previously. A higher percentage of respondents also reported a decline in foreign investors, specifically US investors, up from 7% to 16%. The trend in increased foreign ownership is most keenly felt by UK companies.

Forty-one percent of respondents from the UK reported an increase in foreign investors, broadly in line with last year, but the net effect was lower because 16% of UK companies reported reductions in foreign ownership compared to only 2% previously.

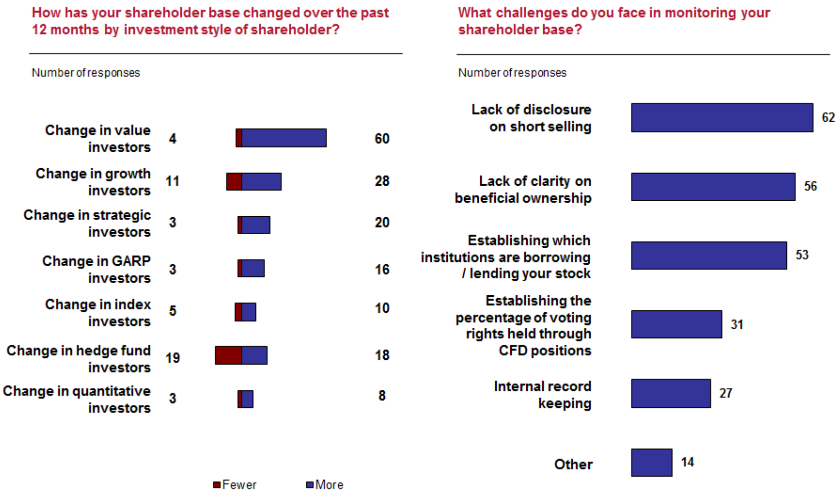
Over the past two decades, the proportion of shares controlled by domestic institutions such as banks and fund managers has been declining. The increase in domestic institutions on the share registers reported by respondents in this survey may also be temporary. Nineteen percent of respondents reported an increase in domestic institutions, up from 14% twelve months previously. The increase in ownership by sovereign wealth funds was broadly in line with last year.

…and increase in value-orientated investors

By investment style, the biggest change in the shareholder base was an increase in value orientated investors for the second year running. Fifty-seven percent of respondents reported an increase in value investors, compared to 51% 12 months previously (exhibit 16). When the survey invited responses at the end of January 2011, the stock market had seen a remarkable rally. It then fell back and for most of 2011, there were opportunities for value investors to accumulate stocks. Value investors typically take a long-term view and independent analysis of value indicators reveals that investors following valued based investment strategies are yet to be rewarded. In the eurozone, stocks with low price/book multiples lagged the market, according to Style Research, an investment research firm. That said stocks with high dividend yields, another indicator of value, have outperformed the market, which suggests that investors are keen on cash returns, but have avoided companies they perceive as being more risky.

Exhibit 16

Shareholder base and investor targeting



Notes
105 respondents answered this question
Multiple responses apply

Notes
120 respondents answered this question
Multiple responses apply

The increase in growth investors was down slightly on last year, unsurprisingly considering the general uncertainty in the economy. Ten percent of respondents reported a decline in growth investors, compared to 5% last year, and 27% of respondents reported an increase in growth investors compared to 28% last year. There was a notable increase in strategic investors with 19% of respondents reporting an increase, compared to 9% in 2011.

For the second year running, the largest declines in the shareholder base by investment style were hedge fund investors. Last year, this was more than offset by a higher percentage of respondents that had seen an increase in hedge fund investors, but this year the net effect was broadly flat. As predicted, there was a further shake-out among hedge funds as some failed to live up to expectations and others sold themselves to larger funds to avoid the financial burden of investing in compliance and internal operations.

Lack of disclosure on short-selling remains the biggest challenge companies face in monitoring their shareholder base

The biggest challenge companies face in monitoring their shareholder base is a lack of disclosure on short-selling, which was cited by 51% of respondents (exhibit 16). This was down from 64% twelve months ago, but the issue of short-selling has remained uppermost in the minds of many IROs as stock markets remained volatile. In August 2011, Belgium, France, Italy and Spain announced new bans on short-selling or on short positions on a temporary basis for financial stocks.

Lack of disclosure on short selling was mentioned as the biggest challenge by companies listed on exchanges in the UK, Spain, the Netherlands and Italy. In the case of Italy this was in spite of a ban on short selling and the introduction, in July 2011, by the Italian Companies and Stock Exchange Commission, of an initial threshold for disclosure to the regulator of 0.2% of the issuer's share capital. This is in line with the proposals from the European Securities and Markets Authority (ESMA), the successor to the Committee of European Securities (CESR), which proposed a pan-European disclosure regime in March 2010. From 1 February 2012, France also put into effect the short positions disclosure regime developed by CESR with respect to all French shares admitted to trading on Euronext Paris and Alternext Paris. This was too late to have a bearing on the findings from our survey, where the biggest challenge faced by companies listed in France is establishing which institutions are borrowing / lending their stock. The question remains as to whether pan-European regimes can be effective as they are subject to a range of variables including different interpretations on what constitutes a reportable position.

Lack of clarity on beneficial ownership is the second largest challenge facing companies monitoring their shareholder base. This was cited by 47% of respondents, down slightly from 50% 12 months ago. Analysis by geography will not be conclusive for companies covered by this survey as there is a lot of geographical variance between each company's shareholder register. However, as the legal rights of issuers to identify the holders of their shares are mostly defined by geographic borders, we can highlight some broad findings.

Lack of clarity on beneficial ownership was the biggest challenge or the joint biggest challenge for respondents in Switzerland, Denmark, the Netherlands, Luxembourg and Belgium. In the case of the Netherlands, Luxembourg and Belgium, a legal framework to enable issuers legal rights to identify the holders of their shares does not exist. The basis of a legal framework does exist in Denmark and Switzerland, but according to Capital Precision, a firm of shareholder identification analysts, they are among a group of countries where it is ineffective for a number of reasons. These include lack of transparency of foreign ownership, lack of enforceability, lack of acceptance of national regulation by custodians and the timing of the register update.

In the final quarter of 2011, the European Commission published the provisional wording of a draft directive to amend the Transparency Directive. The proposals in the new draft directive, known as the Amendment Directive, will affect notifications of interests in shares and related financial instruments of listed companies. They are designed to introduce greater consistency into the notification of interests regimes in different member states by removing options that currently exist in the way that the Transparency Directive is implemented. In particular, it will be mandatory to aggregate holdings of voting rights with holdings of financial instruments in calculating notifiable interests, something that is not currently required in all member states.

The Amendment Directive addresses the concern that the Transparency Directive could result in maximum harmonisation, which would have meant that national law cannot exceed the terms of the legislation. However, it is not clear how this will affect provisions that sit outside the Transparency Directive-based rules, such as the provisions of Section 793 of the Companies Act 2006. UK companies will be keen to ensure that the Companies Act disclosure regime is not affected.

The percentage of respondents that said they face challenges establishing the percentage of voting rights held through Contracts for Difference (CFD) positions fell from 31% 12 months ago to 26%. However, the percentage of respondents struggling with internal record keeping, at 23%, registered the highest year-on-year increase of six percentage points.

Channels of communication

Big rise in number of respondents planning more communication through social networks

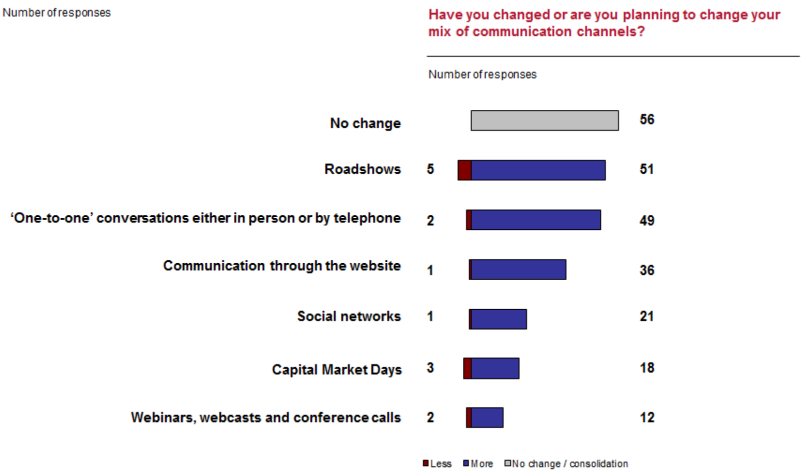
- Sixty percent of respondents have changed or are planning to change their mix of communication channels.
- This represents an increase in communication across all channels, with communication through 'one-to-one' conversations accounting for the biggest net increase, followed by more roadshows.
- Communication through social networks accounted for the fastest rate of growth by communication channel year-on-year.

Most companies have changed or are planning changes to their communications mix

Sixty percent of respondents have changed or are planning to change their mix of communication channels, down slightly from 62% last year (exhibit 17). The majority of respondents making changes are increasing communication through at least one channel, with 27% of respondents increasing communication through two channels, 11% increasing communication through three channels and 9% of respondents increasing communication through four channels. Only one company is making increases across five channels.

Exhibit 17

Channels of communication



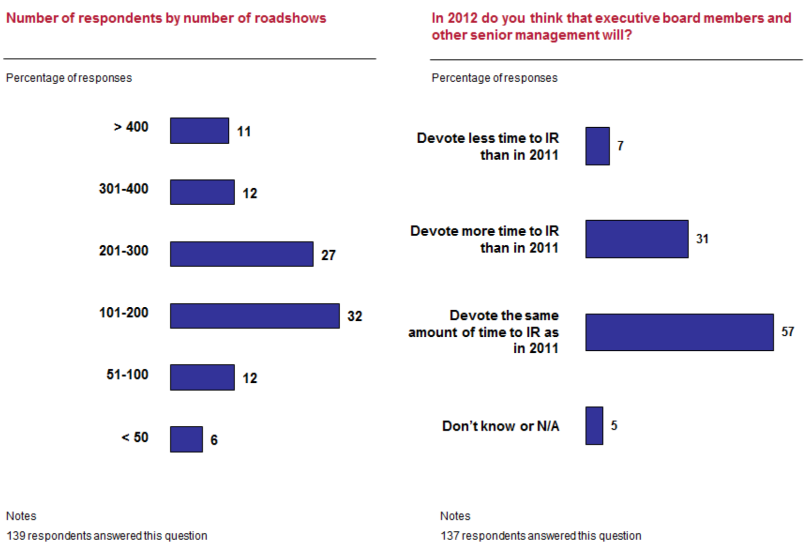
Notes
141 respondents answered this question
Multiple responses apply

The biggest change in the communications mix is represented by more 'one-to-one' conversations either in person or by telephone, cited by 33% of respondents (using a balance statistic), down from 38% in 2011. This was followed by more roadshows and more communication through the website.

Most respondents had between 100 and 300 investor meetings last year with 32% of companies holding between 101 and 200 meetings with investors and 27% of companies holding between 201 and 300 meetings (exhibit 18). Eleven percent of respondents held over 400 meetings and at the other end of the spectrum, 6% of respondents held under 50 meetings. In 2012, 31% of respondents expect executive board members and other senior management to devote more time to IR than in 2011 and only 7% expect them to devote less time.

Exhibit 18

Channels of communication



Fifteen percent of respondents have changed or are planning to change communication through capital markets days. The term, capital markets day, is in danger of becoming a misnomer with fewer companies holding investor and analyst events for a whole day. We are aware of greater variety in the way companies structure these events. Alternatives include a shorter teach-in following an earnings announcement, lunches or dinners to enable analysts to address more technical questions to management, and more regular, but shorter updates on activities by division. Communication through the website grew at a faster rate in 2012 at 25% versus 21% in 2011. Communication through webinars, webcasts and conference calls continues to grow, but grew more slowly with 7% of respondents reporting growth through this channel compared to 9% last year.

In 2010, when we started tracking social media, only 5% of respondents were planning more communication through this medium. Two years later, the percentage has increased to 14%. Contrary to popular opinion, these are not necessarily consumer or technology companies, which are often perceived as the companies with most to benefit from this medium. Our survey revealed that companies from support services, banking, chemicals, real estate, utilities, oil & gas and healthcare equipment are all experimenting with social media. Fifty-seven percent of respondents increasing or planning to increase communication through social media are also increasing communication through their website. The corporate website will grow in importance and a priority for companies will be to put the most important and relevant content on the face of their webpages so that it is visible to users directed to their website through social media.

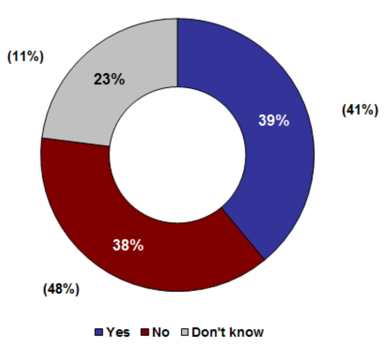
The percentage of respondents that said they are aware of an increase in communication between investors through non-traditional channels of communication such as LinkedIn and Twitter was 39%, which was broadly in line with last year (exhibit 19). Worryingly, the percentage of respondents that do not know increased from 11% to 23%. This suggests an increase in uncertainty. As non-traditional channels of communication multiply, there is a risk that IROs are being left behind.

Exhibit 19

Channels of communication

Are you aware of an increase in communication between investors through non-traditional channels of communication such as LinkedIn and Twitter?

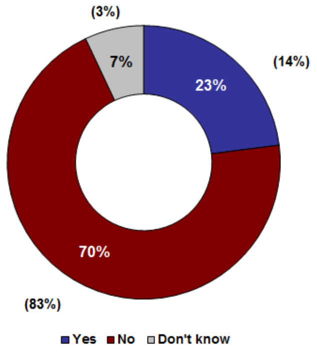
Percentage of responses
Findings from 2011 survey in brackets



Notes
141 respondents answered this question.

Have you become more concerned about rumours about your company on non-traditional channels of communication?

Percentage of responses
Findings from 2011 survey in brackets



Notes
141 respondents answered this question.

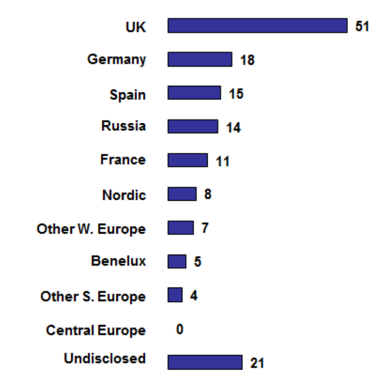
Another worrying finding is an increase in the number of respondents that have become more concerned about rumours concerning their company on non-traditional channels of communication. Having remained at a constant 14% of respondents for the two years to 2011, this has jumped sharply to 23%. There is a growing body of evidence that shows analysts and investors are interrogating new media for new insights. In the pursuit of alpha, investors are starting to scan social media for information from employees, customers and suppliers. Conflicting information from unofficial sources can make life difficult for a company's official sources. From social media channels, there are examples of investors having gleaned new information on the success or otherwise of new products, found out about lay-offs before a redundancy programme is formally announced, discovered a very well connected blogger that is revealing company plans while they are still in the incubation stage and even the value of a private transaction or the undisclosed revenues for a particular division. The nature of social media channels with their roots in more relaxed off-duty activities leaves companies at the mercy of unguarded comments by employees who do not think beyond their primary audience of friends and family.

Data bank

Exhibit 20

Classification data for participants

Number of respondents by country



Number of respondents by sector

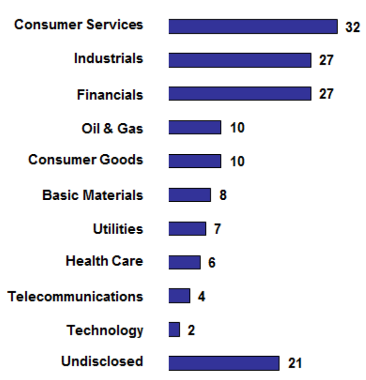
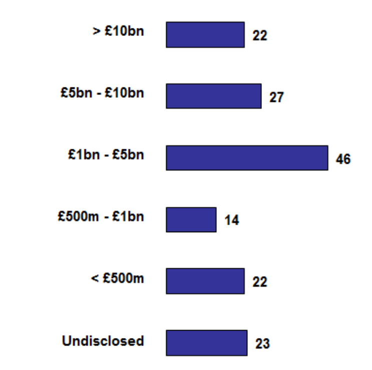


Exhibit 21

Classification data for participants

Number of respondents by market capitalisation



Total budget for IR department including headcount

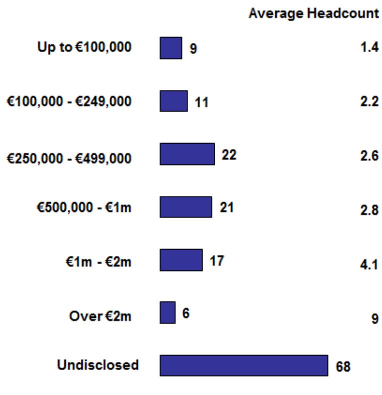
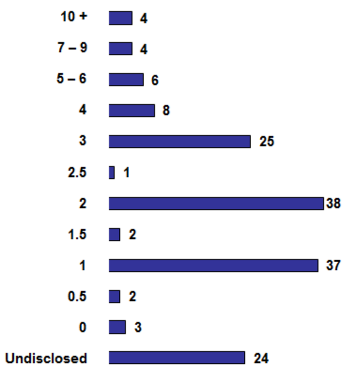


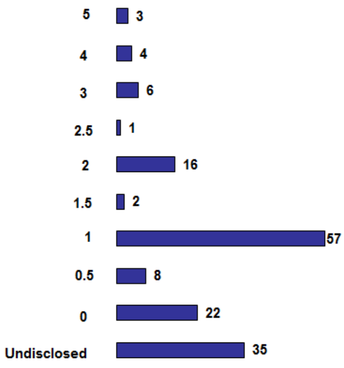
Exhibit 22

Classification data for participants

Number of respondents by size of IR department (Professional)



Number of respondents by size of IR department (Support)



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;
- 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.

For more information, please contact:

Michael Berkeley
Direct Tel: + 44 20 7282 2883
michael.berkeley@citigatedr.co.uk

Sean Bride
Direct Tel: + 44 20 7282 1044
sean.bride@citigatedr.co.uk

Citigate Dewe Rogerson
3 London Wall Buildings
London Wall
London EC2M 5SY