

Citigate Dewe Rogerson

Investor Relations Survey

Setting a new course

April 2010



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Investor Relations Officers (IROs) from leading companies in Europe were invited to participate in our survey between 4th February and 3rd March 2010. 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.

127 IROs contributed to our survey representing companies from 17 countries and 35 of the 39 FTSE sector indices. Participants included 26% of the DAX, 24% of the FTSE 100, 18% of the CAC 40 and 14% of the IBEX 35.

This report is dedicated to the memory of Catriona Cockburn, author of our 2009 Investor Relations Survey. A respected and much loved colleague, Catriona was tragically killed cycling to work on 29th June 2009

Citigate Dewe Rogerson, April 2010

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Executive summary

Setting a new course

Having navigated the recession, Investor Relations Officers (IROs) are setting a new course. A degree of uncertainty and caution remains, but the findings of our 2010 Investor Relations Survey suggest confidence is returning and more respondents are planning to meet investors on roadshows with a more upbeat message. The strength of the stock market recovery over the past year was in stark contrast to the strength of the economy and a key challenge will be keeping expectations aligned to company fundamentals by managing disclosure and guidance. IROs are starting to look ahead and communicate the long-term picture, but must continue to reassure investors with short-term sequential analysis.

Disclosure

Shift in emphasis towards longer term prospects

The presence of so many uncertainties and variables as governments and central banks withdraw the measures they introduced to stabilise their economies means that forecasting demand is not expected to get much easier. It is encouraging to see that over half of respondents have either changed their disclosure over the past 12 months or are planning to do so. There are also reports of a change in emphasis towards long-term information, which suggests a switch away from short-term survival to focus on longer term prospects. Changes in disclosure have been driven by internal initiatives, but the influence of regulators has become more prominent and IROs could receive more inquiries from ratings agencies later this year.

Guidance

Twenty-eight percent of companies increasing the amount of guidance they are giving

Our findings on guidance support our view that confidence is slowly returning. Over the past twelve months 18% of respondents have actually increased the amount of guidance they are giving and a further 10% are considering increasing guidance over the next 12 months. A mixture of guidance in the form of 'hard' and 'soft' information provides IROs with a wider armoury without tempting analysts to focus on short-term numbers. Eighty-two percent of respondents share their consensus with the market and it is encouraging to see more respondents making their consensus available publicly via their website, which addresses an issue we raised in our previous survey.

Debt IR

Forty-one percent of companies providing additional information on debt

With a squeeze on bank lending expected to persist and with strong competition in the bond markets, companies will have to work hard to make their case for borrowing. Forty-one percent of respondents are providing additional information on debt. IROs must continue to build on their efforts to improve debt disclosure and it is slightly surprising that

59% of respondents do not think debt has become one of the mainstream activities within the IR role. Respondents that have increased disclosure on debt are doing so across a host of areas, but there is a particular focus on maturity profiles and covenants. The issue is unlikely to disappear and the challenge for IROs who have increased their focus on debt disclosure following the credit crunch is to maintain it.

Investor engagement

Forty-two percent of respondents receiving more questions on risk management

The subject of investor engagement came to the fore following the collapse of the banking sector. Shareholders have generally not been credited for engaging with companies, but few respondents in our survey doubted that investor interests are aligned with the objectives of their company. Eighty-seven percent of respondents said that they were. Whether regulators will force investors to take a more active role remains to be seen, but IROs are already dealing with a wider range of corporate governance issues. Over the past year, 42% of respondents said they had been asked more questions on risk management, 34% of respondents received more questions on remuneration policies and 17% of respondents said they had received more questions on board structures and responsibilities. Companies with aspirations to be the best in class are expected to move away from reporting that simply complies with the rules to more expansive and engaging ways of communicating on corporate governance.

Sell-side coverage / analysts

A call for quality over quantity

Respondents across all sectors have reported an increase in coverage, but when the data is cut by the size of the company, the vast majority of companies with a market capitalisation above £500m said coverage has increased while 42% of respondents with a market capitalisation below £500m said coverage has decreased over the past year. While some of the larger companies feel they have too many analysts following them, the majority of smaller companies would like to broaden their sell-side coverage. The increase in coverage has not been matched by an increase in research quality with over a quarter of companies feeling the quality has declined over the past 12 months. One respondent articulated the views of many when he said that the quality of coverage has polarised: *'There is more 'commodity' commentary on news and events and less detailed, thoughtful, genuinely analytical work'*. There have been more requests for information from independent research houses, but they do not appear to be addressing the gaps in coverage left by the large integrated banks. Our findings suggest the number of investment banks covering each company remains high, but research teams are smaller or staffed with more junior analysts. As a result, IROs will have to deal with more analysts, but with a growing sense that the final output will not be of sufficient depth and quality to convey their company's investment story properly.

Shareholder base and investor targeting

UK companies to target overseas investors

For many respondents the shareholder base has remained largely stable with an increase in foreign investors representing the biggest change, followed by increases in the number of long-only investors. The trend towards cross-border diversification by investors may

have slowed, but it continues to have an effect on the shareholder base. Of the respondents that plan to make changes to their investor targeting activities, the companies planning to target foreign investors are all listed in the UK, with around half looking overseas in general and the other half looking towards the US. The next stage in the evolution of foreign ownership could be more interest from sovereign wealth funds and developing countries, which could bring new cultural and regulatory influences. The ability to convey the company's investment story across more countries will present its own logistical challenges.

Channels of communication

Increase in confidence reflected by more communication

Most respondents are increasing communication across all channels. One-to-one meetings are back on the agenda and companies are going back on the road. As expected, we did not find many IROs communicating with investors via non-traditional channels of communication such as social networks but we wonder if enough respondents are aware of the risks and opportunities of this medium. Companies will need to ensure that their message is consistent among not only analysts and investors, but also in the press and increasingly on social networks. IROs also need to be able rapidly to tap into new information and rumours about their company that might originate on the social networks.

For more information on Citigate Dewe Rogerson please turn to page 36

Context

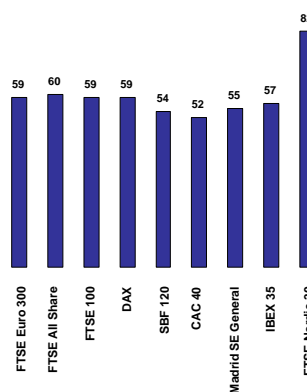
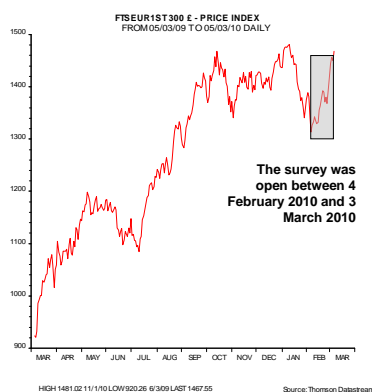
In March last year, the stock market was still finding its low point, corporate profits had been hit, confidence in equities was weak and visibility on future prospects was low. Most people were therefore surprised by the speed and strength of the recovery in share prices (exhibit 1). The rebound heralded a gradual end to the recession across Europe, but in many countries the strength of the stock market recovery is in stark contrast to the strength of the economy. A year on, the future is no less certain and IROs face a new set of challenges in an already challenging role.

Exhibit 1

Context

FTSE Euro 300 for 12 months to 5 March 2010

Percentage increase for 12 months to 5 March 2010 for selected indices



Source: Reuters Thomson Datastream

When asked what the biggest challenge was for 2010 (exhibit 2), the most common answer was conveying the investment story. The second highest answer was keeping expectations aligned to company fundamentals by managing disclosure and guidance, and the third highest answer related to challenges around the economy. This survey will reveal how IROs are managing expectations and providing guidance in a difficult environment.

“Keeping balance between reality (trading still challenging) and analysts trying to call turn too aggressively” – UK, Consumer Products

“Over optimistic analysts if markets continue to recover” – France, Consumer Services

“Managing expectations in a lower growth and high volatility economic environment” – Spain, Consumer Services

“Managing guidance in an uncertain world” – UK, Industrials
 “Managing expectations in uncertain times” – UK, Technology
 “Managing expectations versus recovery pace” – France, Consumer Products
 “Macroeconomics” – Spain, Financials
 “Uncertain consumer dynamics” – Denmark, Consumer Products

Exhibit 2

Context



As the year goes on, we will be able to find out a little more about how much of the stock market’s strength is due to an unprecedented fiscal and monetary stimulus and how much is due to company fundamentals. For now, several of the drivers behind the market rally remain in place. Although central banks are holding back on further quantitative and credit easing, the severity of the recession leads many commentators to conclude that it will be a while before inflationary pressures emerge. Interest rates are expected to remain low, a factor that attracted money into more risky assets, but investors are already wondering when this will change.

Having stabilised the economy, governments will have to retrench. Tax increases and cuts in spending are unavoidable and on these issues, the only question is when. The baton will pass to the private sector, but forecasting demand with any certainty will remain tricky for many companies. To what extent did short-term schemes, such as car scrappage, bring forward demand rather than create demand? Can companies maintain sales momentum without further government intervention when consumers face the prospect of tax increases, a rise in interest rates and a squeeze on disposable income from inflation? In this environment, how are IROs managing expectations, what disclosure are they providing and what sort of guidance will be required?

The European Central Bank signalled an end to its policies to boost bank lending at the end of 2009, and in February 2010 the Bank of England said it would not extend its quantitative easing programme. Central banks need to manage their exits carefully with every move scrutinised by the markets. Share prices will suffer if they withdraw too quickly and jeopardise a recovery, but bond yields will rise sharply if they withdraw too slowly and threaten a rise in inflation.

Growth in sovereign debt issuance in 2009 was largely a function of fiscal policy decisions to support the economy, and is expected to peak in 2010 as a lag effect of the slowdown in the global economy. The impact of the sovereign debt crisis in Greece was a prominent issue in the debt markets as our IR survey opened for contributions in February and borrowers were finding conditions harder as bond investors demanded better terms. In light of this, the survey considers the role of debt IR and polls respondents on the changing nature of debt disclosure.

The reverberations from the credit crunch will continue to resonate for some time yet and could have far reaching consequences for companies and their IROs. Tax payers, governments, and regulators have decreed it must never happen again, but introducing measures to address the risk takes time. The issue of investor engagement has been prominent. The survey explores potential changes to the relationship between investors and companies, and seeks to understand how communication around corporate governance is changing.

As investment banks announced record bonus payments for their top staff, for many observers it appeared that the surviving investment banks had emerged from the crisis unscathed with the integrated investment bank model continuing largely unchallenged. It seems a good time to gauge the health of the sell-side model and the thoughts of IROs on the ability of analysts to understand their company and provide useful research.

A key role for IROs is tracking their company's investors and the survey assesses changes to the shareholder base over the past year. Has the composition of the shareholder base changed significantly and how have recent events affected trends in asset allocation and cross-border diversification by investors? The ability to target investors and changes to the communication mix in the light of regulatory and technological developments are also explored.

The survey is based on the views of 127 IROs representing companies from 17 countries across Europe and 35 of the 39 FTSE sector indices. Participants included 26% of the DAX, 24% of the FTSE 100, 18% of the CAC 40 and 14% of the IBEX 35. Citigate Dewe Rogerson would like to thank everybody who contributed.

Further classification data is provided in exhibit 20 and 21 on page 35.

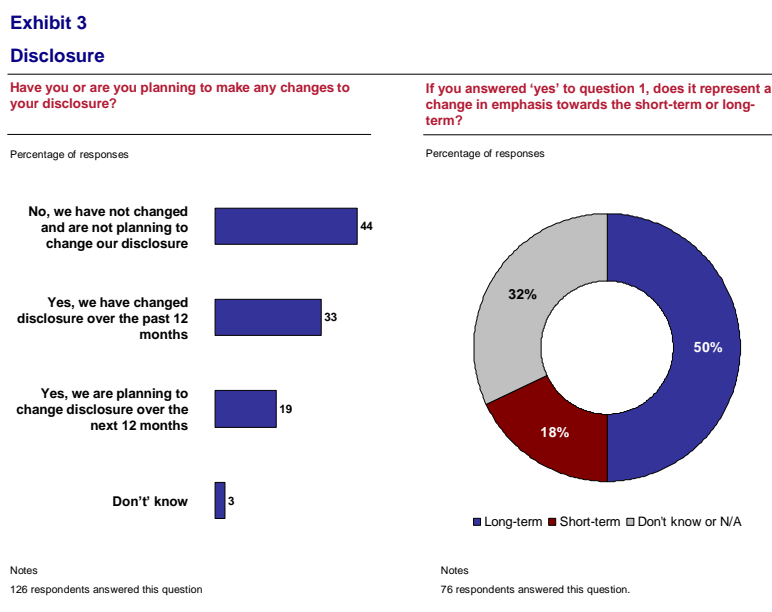
Disclosure

Shift in emphasis towards longer term prospects

- Over half of respondents have either changed their disclosure over the past 12 months or are planning to do so.
- There has been a shift in emphasis towards long-term disclosure suggesting the focus has switched from short-term survival to the longer term prospects for companies.
- Increases in disclosure are said to be mainly the result of internal initiatives.

Level of disclosure on the rise...

Thirty-three percent of respondents said they had changed their disclosure over the past 12 months and a further 19% said they are planning to do so (exhibit 3).



...with a shift in emphasis towards longer term disclosure

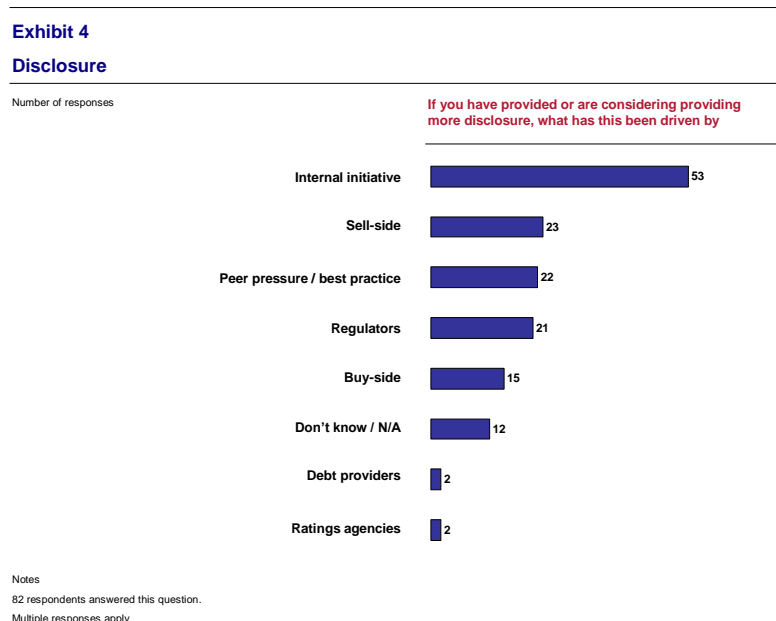
Of the companies that had, or are planning to change disclosure, 50% said it represented a change in emphasis towards long-term information and 18% said it represented a change in emphasis towards short-term information (exhibit 3). This suggests that analysts and investors are switching their focus to the longer term prospects for companies and away from short-term survival.

Analysis by sector reveals that 66% of respondents in the basic materials sector have changed their disclosure. This figure includes four chemical companies and for three of

them, the change in disclosure represents a change in emphasis towards long-term information (the fourth did not know). The other respondents in this sector are miners that are changing their emphasis towards short-term disclosure. This could be the result of companies moving away from annual contracts, which provide greater visibility, towards short-term information determined by quarterly pricing and high market volatility. Sixty-six percent of financial services companies have also changed their disclosure. Excluding five financial services respondents that did not know, 41% of financial services respondents, including all the banks, said they were changing their emphasis towards long-term disclosure. That means two thirds of financial services companies are changing their disclosure. This would suggest that the financial services sector is looking to the long-term after a torrid period of fire fighting. Other notable sectors are consumer services, where 47% of respondents have changed their disclosure, and industrials, where 45% of respondents have changed their disclosure. Within the consumer services sector, 78% of respondents changing disclosure are changing the emphasis towards the long-term, including all travel and leisure respondents. In industrials, excluding one respondent that does not know, half of the respondents are changing their emphasis towards long-term disclosure and half are changing their emphasis towards short-term disclosure. All the construction and materials respondents changing disclosure are emphasising short-term disclosure.

Disclosure said to be driven by internal initiatives

According to the majority of respondents, increases in disclosure are mainly the result of internal initiatives, with peer pressure and best practice also prominent (exhibit 4). As you would expect, the sell-side is the most important external influence on disclosure with regulators also influencing demand for more information.



Less prominent are debt providers and ratings agencies. In the case of the latter, new legislation from the European Parliament that imposes more stringent requirements on

ratings agencies, which could result in more requests for information from IR departments, may not have an effect until the fourth quarter of this year.

To convey their investment story, in our view companies should use the following building blocks, which will enable them to provide a strong narrative at all times but particularly when investors are navigating current levels of uncertainty.

- Firstly, they should provide context and insight into macro-economic factors and market dynamics that affect their industry and their competitive position, and provide commentary on trends as they see them.
- Secondly, they should provide information on long-term drivers, with details on the strategic priorities and business model that will enable them to meet their objectives.
- Thirdly, particularly in the current business environment, they should provide timely data points. Investors will find sequential quarter on quarter comparisons invaluable as they try to establish how the cycle is developing and whether the economy will catch up with stock market expectations.

Guidance

Twenty-eight percent of companies increasing the amount of guidance they are giving

- Eighteen percent of respondents have increased the amount of guidance over the past 12 months and a further 10% are considering increasing the amount of guidance they provide.
- A mixture of 'hard' and 'soft' guidance gives IROs access to a wider armoury.
- Eighty-two percent of respondents share their consensus forecast with the market and the fastest growing medium for this is the company's website.

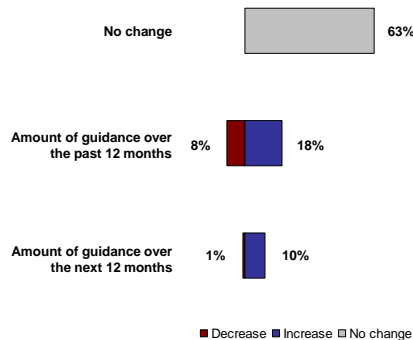
Overall, companies have increased guidance over the past 12 months, albeit at a slower rate, but confidence is returning

The issue of guidance has been prominent in IRO circles over the past year, when a lack of visibility on economic prospects led many companies to question their policies. A degree of caution and uncertainty remains, but our findings suggest that confidence is returning. Our 2010 survey found that 18% of respondents have actually increased their amount of guidance over the past 12 months and only 9% have decreased it (exhibit 5). A further 10% are considering increasing guidance over the next 12 months. In 2009, 23% of respondents increased guidance and 5% had decreased it.

Exhibit 5 Guidance

Have you or are you considering changing the amount of guidance that you communicate to the market?

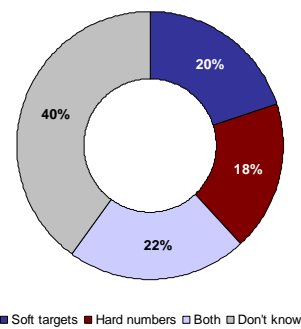
Percentage of responses



Notes
118 respondents answered this question

If you have increased or are planning to increase the level of guidance you give, are you providing more information in the form of:

Percentage of responses



Notes
60 respondents answered this question.

Of the 21 companies that increased the amount of guidance they are giving, 10 were from the UK and three were from Spain, two countries that struggled to emerge from the recession. Around two thirds of their revenues come from home markets giving lie to the

assumption that economic uncertainty prevents companies from providing guidance. These companies represented a range of sectors, but consumer services and financials were more prominent than might have been expected. Analysis of companies decreasing the amount of guidance they are giving did not reveal any patterns by sector or geography suggesting that the decisions were based on factors specific to the company rather than wider influences in the sector or economy.

More confidence on providing guidance using hard numbers...but only in certain countries

A survey completed by a European broker¹ shortly before we opened our survey concluded that quantitative guidance was set to make a comeback in 2010, suggesting that confidence is returning. Our survey endorses this finding, which reignites the debate on whether companies should provide guidance around hard numbers, i.e. either financial numbers (whether specific or a range), or soft targets such as the drivers and industry trends behind cash flow forecasts. Of the companies that have increased or are planning to increase the level of guidance they provide, 18% said the information would take the form of hard numbers and a further 22% said they would provide both hard and soft guidance (exhibit 5). Twenty percent favoured soft targets only and 40% did not know.

The past few years have seen a trend towards guidance on soft targets so it is slightly surprising to see a move back towards hard numbers. The US has tended to favour hard numbers and formal guidance in the form of earnings per share or profit numbers, but European companies have generally chosen to guide analysts by explaining the company's performance in the context of developments in its industry. This addresses, to some extent at least, the risk of analysts focusing on short-term numbers rather than strategy, and the share price volatility associated with companies missing their earnings target.

Further analysis revealed that cultural factors may have an influence. Of the companies favouring guidance in the form of hard numbers, 64% were from Denmark and Germany. The percentage rises to 88% when anonymous returns are stripped out. Those respondents that favoured both hard and soft guidance came mainly from the UK.

This particularly British compromise seems about right in our view and gives IROs access to a wider armoury for guidance. As in disclosure, companies should provide insights and trends on the outlook for macro and market dynamics and a view on how the company is positioned to benefit from or address those trends. They should provide guidance on factors under their control such as capital expenditure, advertising and promotion, interest costs as far as known, and the hedges they have in place. If the company is not operationally geared it could also consider margin targets. We believe companies should not provide guidance on factors outside their control such as commodity prices and interests costs, but could provide sensitivities. The aim is to provide clear information that enables the analysts to do their own work and make their own assumptions. It is our strong view that companies should not provide guidance in the form of earnings per share.

¹ CA Chevreux, 2009 European Corporate Survey, January 2010

Most respondents share their consensus with the wider market...

Eighty-two percent of respondents share their consensus forecast with the market. A couple of respondents pointed out specifically that they shared their consensus for information and not as guidance. From the companies that did not share consensus estimates, two respondents provided the following reasons. One said they did not provide guidance and another felt that too many analysts hovered around the consensus.

...with company websites growing in popularity as a vehicle to communicate guidance

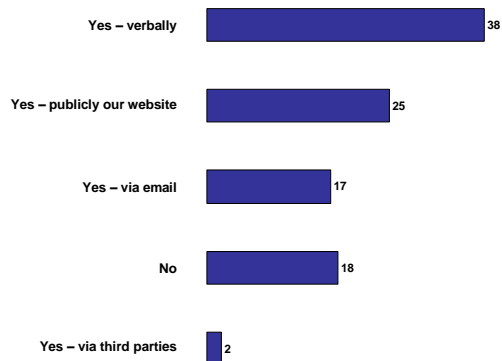
The most popular medium for communicating guidance remains verbal communication, at 38% of respondents, but down from 42% in 2009 (exhibit 6). E-mail is less popular, favoured by 17% of respondents and down from 25%. The fastest growing medium is the company's website, which rose from 15% of respondents to 25%.

Exhibit 6

Guidance

Percentage of responses

Do you share your consensus with the wider market as a basis for guidance?



Notes

114 respondents answered this question.

It is encouraging to see more respondents making their consensus available publicly via their website, which addresses an issue we raised in our previous survey. In the absence of wider publication, numbers 'in the market' are often taken from third party 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. There is no reason why companies should not publish consensus numbers provided they are based on timely data collected directly from analysts and are drawn up on a consistent basis. Concerns that they would be construed as an official profit forecast are understandable, but in our view misplaced.

Debt IR

Forty-one percent of companies providing additional information on debt

- Forty-one percent of respondents said they were providing or considering providing additional details on debt.
- Forty-one percent of respondents think that debt-related communication has become one of the mainstream activities within the IR role.
- Respondents that have increased their debt disclosure are doing so across a host of areas, but there is a particular focus on maturity profiles and covenants.

For much of 2008 and into 2009, investors were preoccupied with short-term survival and repairs to company balance sheets. They are now looking ahead at the longer term prospects for growth, as demonstrated by the strength of the stock market recovery, but the credit crunch still casts its shadow. Banks remain under scrutiny as the debate on financial regulation continues with a number of governments suggesting reforms. They are rebuilding their balance sheets and re-pricing risk and as a result, the squeeze on bank lending is expected to persist.

In 2009, companies were able to sidestep the banks and target investors directly and bond issues reached record highs. However, at the start of 2010, bond issuance slowed and capital markets became concerned about the vast amounts of sovereign debt that countries are expected to issue. Barclays Capital expects to see issuance of \$5,583bn versus \$4,872bn in 2009². With European companies expected to refinance about €225bn of debt over the next five years, according to figures published by the *Financial Times*³, there is a concern that demand for company debt will fall as countries compete with companies.

In February 2010, the London Stock Exchange launched its electronic order book for retail bonds, and introduced a facility to the UK that is already available in the US and parts of continental Europe. It enables private investors in the UK to track corporate bond prices online, and offers lower minimum orders to encourage greater retail demand. Initially, 10 corporate bonds are available for trading and it will be interesting to see how this market develops and how debt disclosure will evolve.

Are companies providing enough information on debt?

Also in February, while respondents were completing their surveys, the UK Treasury issued a discussion paper suggesting tougher disclosure rules for companies to help them compete and encourage demand for their debt. The ideas in the paper draw heavily on the US, where bond issuance is favoured over bank lending and debt reporting is more frequent and generally fuller. Therefore, while momentum is building that would suggest greater reporting on debt, it was surprising that 55% of respondents in our survey said they

² = G4 (Treasuries, Gilts, Bunds and JGBs)

³ *Financial Times*, 'High-yield debt', 18th February 2010

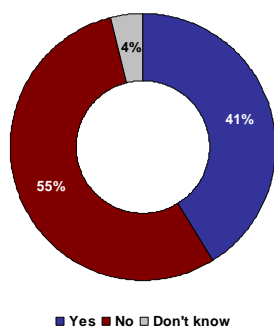
were not providing or considering providing additional details on debt (exhibit 7). Furthermore, 59% of respondents do not think that debt-related communication has become one of the mainstream activities within the IR role.

In some cases, this discrepancy is explained either by a lack of debt or by actions already taken to disclose more information on debt. A number of other respondents may be in for a rude awakening.

Exhibit 7
Debt IR

Have you provided, or are you considering providing, additional details on debt?

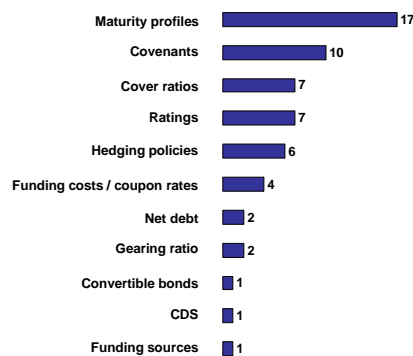
Percentage of responses



Notes
112 respondents answered this question.

If yes, please provide details

Number of responses



Notes
40 respondents answered this question.
Multiple responses apply, excludes non specific information

Respondents that have increased disclosure on debt are doing so across a host of areas, but there is a particular focus on maturity profiles and covenants (exhibit 7).

“Definitely a general trend towards IR handling more calls on convertible bonds, long-term debt, CDS, cost of debt etc” – UK, Utilities

“I have provided more information on debt during and after the financial crisis than I did before” – Sweden, Industrials

“Perhaps some more detail on maturities / tranches etc. Already give covenants” – UK, Consumer Services

“Maturity profile of debt, covenants, all other important information that rating agencies look at” – Germany, Industrials

In our view, greater disclosure on maturity profiles, covenants and sensitivities can only be a good thing. Companies that are reluctant to provide information on headroom for covenants, perhaps because they feel analysts will reverse engineer the data to work out the decline in earnings required to breach them, should consider the alternative. If they do not provide the information, there is a risk that analysts will make their own worst case

assumptions and raise the spectre of a breach in covenants when none exists. Furthermore, refinancing risk, risk of breach and other debt market sensitivities can be materially price sensitive; an investor has a right to know.

Investor engagement

Forty-two percent of respondents receiving more questions on risk management

- Eighty-seven percent of respondents said that investor interests are aligned with the objectives of the company.
- IROs are dealing with a wider range of corporate governance issues.
- Over the past year, 42% of respondents said they had been asked more questions on risk management.

Following the collapse of the banking sector, the issue of investor engagement was thrust into the spotlight. The questions are simple: would engagement by investors lead to better corporate governance, and would it in turn lead to better company performance and higher returns to investors? If investors had been more engaged, would they have been able to rein in the excesses of the managers running the banks they owned? The idea gained currency as governments and regulators conducted their post mortem on the banking crisis.

The answers to the questions, which on the face of it appear to present compelling logic, are not straightforward. As the first duty of investors is to their fund holders, there is a question about how much influence investors want to have on corporations. It is unlikely that they would want to become 'insiders'. Investors do not work for governments either and it has been argued that they could never have filled the regulatory vacuum. Critics also argue that the failure of the banking sector was not due to a lack of engagement.

Investor interests aligned with company objectives

Shareholders have generally not been widely credited for engaging with companies, but few respondents in our survey doubted that investor interests are aligned with the objectives of their company. Eighty-seven percent of respondents said that they were. Considering the growth in the use of CFDs, we were surprised that this percentage was so high. The minority of respondents that did not feel that investor interests were aligned with the objectives of their company felt that investors were driven by a short-term horizon.

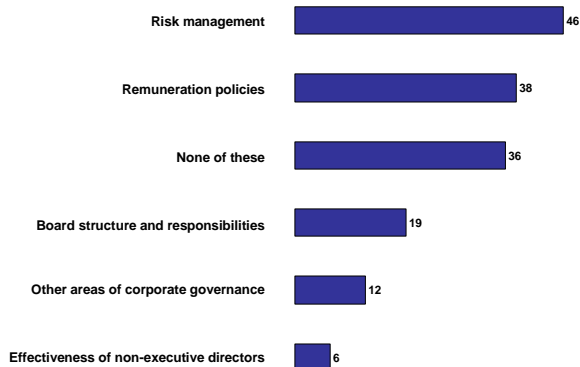
IROs dealing with a wider range of corporate governance issues

The arguments on investor engagement could quite easily form a survey in their own right, but it is important to understand the corporate governance issues that investors are starting to take more interest in. Traditionally, corporate governance issues have featured further down the list of investor concerns, with the possible exception of remuneration policies because they are often so newsworthy.

Exhibit 8**Investor engagement**

Number of responses

Over the past year, have you been asked more questions on:



Notes

110 respondents answered this question.

Multiple responses apply

Over the past year, 42% of respondents said they had been asked more questions on risk management (exhibit 8). As you would expect, a large proportion are in the financial services sector. Fifty-five percent of financial services respondents are fielding more questions in this area, including every bank. On a geographical basis, 67% of German companies have been subjected to increased interest in risk management, along with neighbouring respondents from Austria, Switzerland, Denmark, Luxembourg and the Netherlands.

The subject of remuneration policies is the second most frequent area of corporate governance enquiry with 34% of respondents receiving more questions over the past year. The enquiry was popular in France (50% of French companies), Germany (44%) and the UK (40%). Overall, the type of sector the company operates in does not have a bearing on the findings.

Seventeen percent of respondents said they had been asked more questions on board structures and responsibilities, but no particular sector or geography featured more highly than another suggesting that this area is company-specific.

German companies in particular have received a lot of interest in corporate governance. In Germany, recent increases in the number of foreign investors found on shareholder registers may have slowed during the period covered by the survey, but growth in previous years and a few high profile cases of shareholder activism may have contributed to the growing interest in corporate governance.

Whether the regulators will force investors to take a more active role in corporate governance remains to be seen. A more likely outcome is the introduction of codes of practice along the lines of one published by the Institutional Shareholders Committee

(ISC)⁴. Asset Managers are invited to sign up to its principles and their customers will be able to see which managers are committed to active engagement with the board. While it is not compulsory, those that do not will need to be prepared to explain why it is in the interests of their customers. The aim is to strengthen the chain of accountability by shareholders. The code also seeks to create a nucleus for collective action when necessary, which will help bring together a fragmented industry.

If new codes and rules are introduced, the implications for IROs are wide ranging. Corporate governance has traditionally been the preserve of the board of directors and the company secretary rather than the IRO. There is therefore a risk that messages emanating from two departments in the company will become confused. It would also put a strain on resources as companies field more questions from more investors – provided they have the resources to ask them.

The immediate outcome from this debate is that IROs can continue to expect questions on a broader range of corporate governance issues. A logical step for companies would be to move away from reporting that simply complies with the rules to more expansive and, dare we say, engaging ways of communicating on corporate governance.

⁴ The constituent members of the ISC are: The Association of British Insurers (ABI), the Association of Investment Companies (AIC), the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF).

Sell-side coverage / analysts

All call for quality over quantity

- Seventy-one percent of respondents said that the number of analysts providing coverage on their company has increased over the past year.
- Most companies are happy with the level of coverage, but some of the largest companies would like to see it decrease and the majority of smaller companies would like to see it increase.
- The quality of analyst coverage has not improved over the past year. Twenty-six percent of respondents feel the quality has declined over the past year and only 14% feel it has improved.
- Forty-seven percent of respondents have received an increase in requests for information from independent research houses. Many of these requests were directed to the larger companies, which would suggest that independents are not filling in the gaps in coverage of smaller companies left by the integrated banks.
- The range of forecast estimates published by analysts has narrowed, representing a significant improvement on last year's survey.
- Most respondents review less than 50% of analyst research notes before publication, mainly because of bank policies that prevent it.

With so many other discussions on financial services competing for attention, it is understandable that the debate on the future of sell-side research, while related to many wider concerns, may not have been as prominent recently. Critics argue that too much research recycles conventional wisdom or is biased towards corporate banking clients. Proponents of the current model feel these arguments are too simplistic and point out that only an integrated model can fund serious long-term research. Wherever your sympathies lie, it cannot be denied that improved price transparency for traders and an increase in electronic trading and exchanges are squeezing margins and putting costs under pressure.

Attempts to separate research from equity sales and corporate finance by unbundling soft commissions were watered down in the US, while this side of the Atlantic always favoured a market based solution. The concerns driving this initiative – conflicted analysis – did however direct research budgets towards the buy-side at the expense of the sell-side.

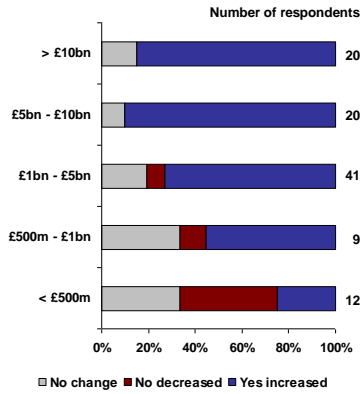
Analyst coverage has increased...

The finding that 71% of respondents said that the number of analysts providing coverage on their company has increased over the past year would suggest that the current model is in good health. Respondents across all sectors have reported an increase in coverage (exhibit 9), but when the data was cut by the size of the company, the vast majority of companies with a market capitalisation above £500m said coverage has increased while 42% of respondents with a market capitalisation below £500m said coverage has decreased over the past year (with a further 33% reporting no change) (exhibit 9).

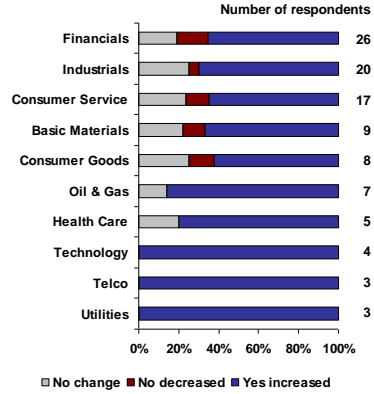
Exhibit 9

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 113 respondents answered this question

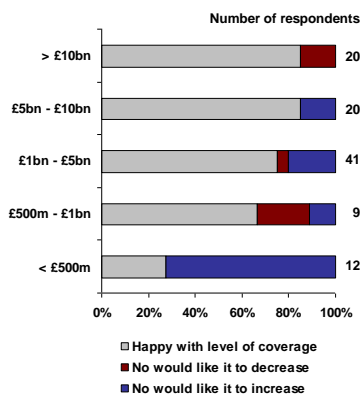
The findings reflect the importance of trading commissions in the sell-side model, despite the intentions of regulators to address this. The integrated model may be able to fund serious long-term research, but not necessarily for smaller companies. Consolidation among investment banks and strong profits over the past year have not changed the situation.

...and most companies are happy with the level of coverage

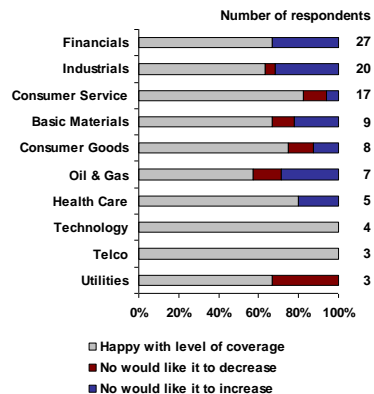
Exhibit 10

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 104 respondents answered this question

Seventy-one percent of respondents are happy with the level of coverage they receive in terms of analysts, 22% would like to increase the number of covering analysts and 7%

would like to see a decrease. Those wanting to increase are weighted towards companies with a market capitalisation below £500m (exhibit 10). Sixty-seven percent of respondents in this band would like to see an increase in the number of covering analysts. On a sector basis, 33% of financials and 30% of industrials would like to see an increase in coverage in terms of analysts (exhibit 10).

Eighty-five percent of the largest companies – those with a market capitalisation above £10bn – are happy with the level of coverage they receive in terms of analysts, but 15% would like to see a decrease (exhibit 10). This finding is not exclusive to the biggest companies; a number of smaller companies (22%) in the £500m to £1bn band would also like to see a decrease. Respondents that want to see a decrease in coverage feel very strongly about the issue as revealed by the following comments:

“We would like to see more ‘in-depth’ coverage rather than more analysts with light coverage” – UK, Industrials

“There are too many, most of them not doing a good enough job” – France, Basic Materials

“We would like to decrease the coverage. With 30 houses now covering us there are too many ‘me toos’ not adding any value” – UK, Oil and Gas

“We would be happy to lose a few along the way. There are a number of analysts who do not make an effort to engage with us during the year but publish research at the time of the results which contains inaccuracies or misconceptions” – UK, Consumer Goods

The quality of coverage has not improved over the past year

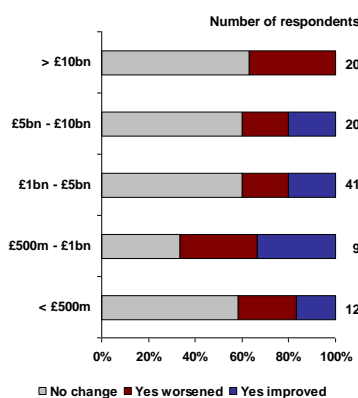
Further investigation reveals stresses and strains in the sell-side model – and not just among the smaller companies that feel neglected. Concerns remain about the quality of analyst coverage, which were raised in our survey last year. Twenty-six percent of respondents feel the quality of analyst coverage had declined over the previous 12 months, which was the same percentage reported last year. Unfortunately, on balance the quality of coverage is not getting any better. Only 14% of respondents feel it had improved over the past year, compared to 17% in our 2009 survey.

Companies with a market capitalisation above £10bn would prefer to see more quality than quantity (exhibit 11). Over the past year, 60% of respondents in this band have seen no change in the quality of analysts’ output and 35% would like to see it improve. Sixty percent of respondents in the bands between £1bn and £10bn agree that there has been no change in the quality of coverage, but the number of respondents believing that quality has declined was offset by those that believed it had improved. Companies with a market capitalisation below £500m are not impressed with either the quantity of coverage or the quality of coverage. Only 16% of respondents report improvements in the quality of analyst coverage and 25% report declines.

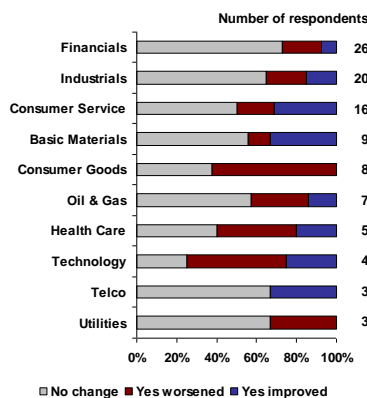
Exhibit 11

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 111 respondents answered this question

On a sector basis, consumer goods companies are the least happy with the quality of analyst coverage over the past year, with 63% reporting that it has declined (exhibit 11). This is notably higher than any other sector. Fifty percent of health care and technology companies believe the quality has declined, but this is based on a small number of respondents. On a more positive note, 33% of basic materials companies and 31% of consumer service companies think the quality of analyst coverage has improved over the past year.

“It has polarised – there is more ‘commodity’ commentary on news / events, less detailed, thoughtful, genuinely analytical work” – UK, Real Estate

“Following the crisis, analysts fear to be wrong. Thus they change their minds far too often” – Germany, Industrials

“Analysts are overworked and inexperienced” – UK, Consumer Services

“A lower number of analysts with shorter experience in the sector, covering more banks” – Italy, Financials

“Less resources to carry out the same amount of work” – Spain, Oil & Gas

There is clearly a sense of frustration among IROs. There are a number of paradoxes. For example, analyst coverage is high for most respondents and for some, too high, but analysts are spreading themselves too thinly. The demise of some investment banks does not appear to have reduced capacity, but analysts are covering more stocks. This suggests that the number of investment banks covering each company remains high, but research teams are smaller or staffed with more junior analysts. This is creating problems

for IROs. They have to serve more analysts, but with a growing sense that the final output will not be of sufficient quality and depth to convey their company's investment story. In the words of one respondent, quantity rather than quality seems to be the driving force. IROs are spending too much time correcting inaccuracies and collecting background material. The problem does not lie solely with the analysts that need to meet the demands created by more frequent updates and reporting. However, the risk of investment decisions driven by a short-term horizon without a deep understanding of the company will remain until the situation is addressed.

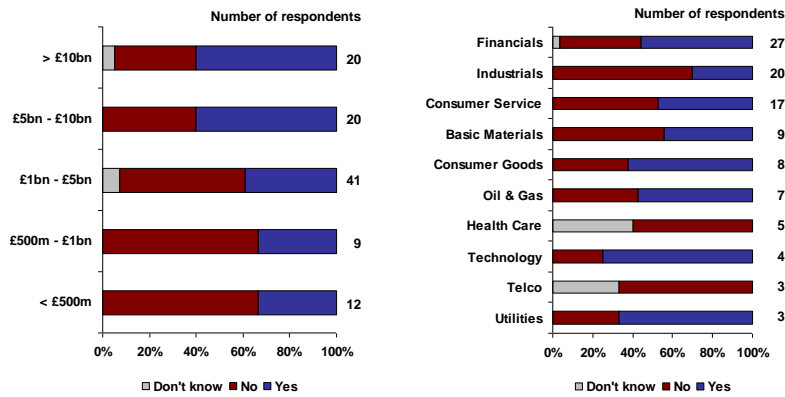
Independent research houses are not filling the gaps in coverage

Exhibit 12

Sell-side coverage / analysts

Over the past year, have you received an increase in requests for information from independent research houses? (by market capitalisation)

Over the past year, have you received an increase in requests for information from independent research houses? (by sector)



Notes
Bar chart excludes companies that did not provide classification data. A total of 114 respondents answered this question

Interestingly, in the context of the changes described above, 47% of respondents have received an increase in requests for information from independent research houses. However, judging by the recipients of their requests for information, they are not closing the gaps in coverage of smaller companies left by the integrated banks. On the contrary, they are also targeting the larger companies with 60% of companies with a market capitalisation in excess of £5bn reporting an increase in requests for information over the past year (exhibit 12). This is nearly twice as much as the companies with a market capitalisation below £1bn. Nor is the independent sector necessarily addressing quality concerns. The consumer goods sector reports one of the largest requests for information from independent research houses over the past year (exhibit 12), but they have failed to arrest the decline in the quality of research.

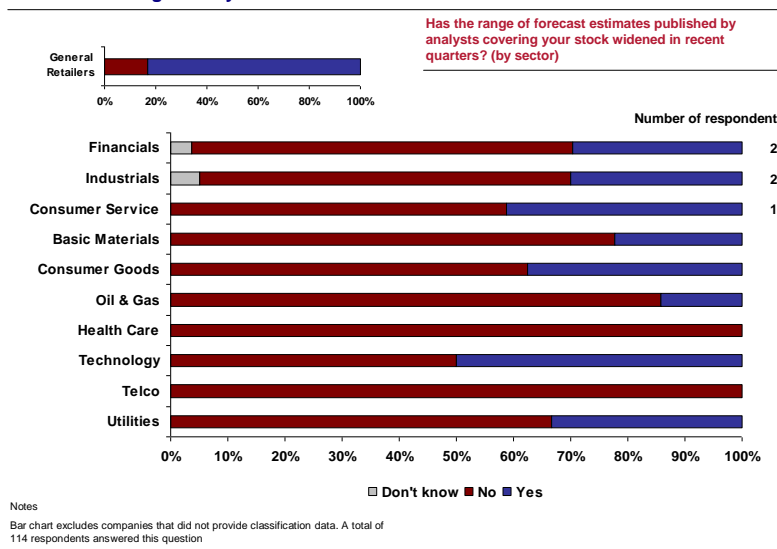
Independent research houses should at least provide a new approach and the success of this model will be helped by how they differentiate their research. With investment banks subject to pressures that lead them to publish more high level updates, there would appear to be a gap in the market. The high number of requests for information from the independent sector presents a challenge for IROs. They must continue to meet the needs of a high number of sell-side and buy-side analysts providing coverage on their company,

while identifying influential analysts from independent research houses and building relationships with them.

There are fewer signs of forecast estimates widening

Thirty-three percent of respondents report that the range of forecast estimates published by analysts covering their stock has widened in recent quarters. This is an improvement on our 2009 survey when nearly half of the survey participants said they had seen an increase in the range of analyst forecasts. It perhaps reflects more certainty about the economic environment, at least compared to a year ago when economies were in recession and the stock market was still finding its low point. But the trend is still a concern.

Exhibit 13
Sell-side coverage / analysts

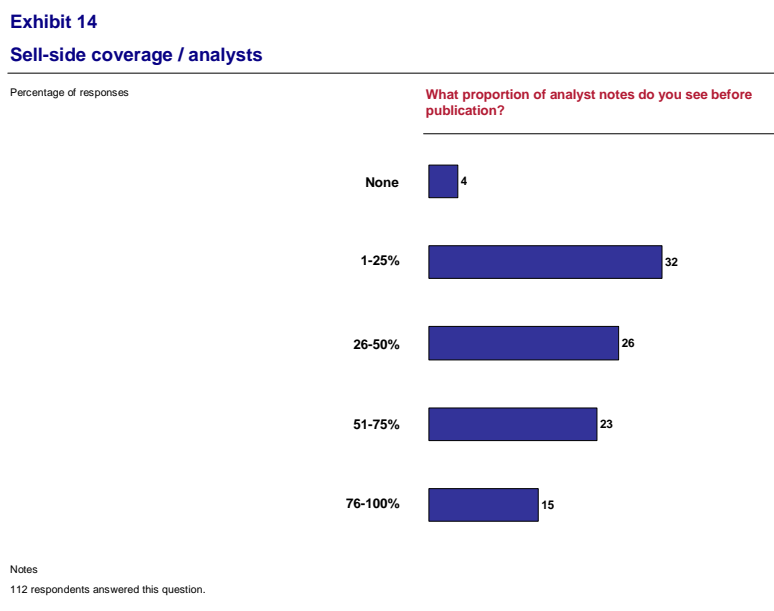


Consumer service (41%) and consumer goods (38%) are two sectors where the percentage of respondents reporting a widening range of analyst forecasts higher than average (exhibit 13). Among general retailers, the percentage is particularly high, with 83% of respondents reporting that estimates have widened. Low interest rates and lower than expected headline unemployment supported consumer confidence far more than the market anticipated, which gave consumer facing companies a boost, but created diverging opinions among analysts. Exceptional events such as car scrappage schemes and temporary reductions in VAT would also have made forecasting more difficult.

When asked what steps they were talking to address this, companies that had seen a divergence in forecast estimates shed some light on the difficulties they face. In a number of cases, the divergence was due to differing assumptions on the economic outlook and house views on currency, which are embedded in forecasts and hard for IROs to challenge. IROs could provide more precise guidance, but while this may address the immediate problem, it could present longer term problems by tying companies to narrow financial targets.

Most respondents review less than half of analyst notes

Sixty-two percent of respondents see 50% or less than 50% of analyst research notes before publication. Of these, 4% do not see any at all (exhibit 14).



The main reason for this is bank policy that prevents the sharing of notes ahead of publication, particularly by bulge bracket banks.

“Certain brokers, especially major US houses, do not permit the reports or models to be reviewed and / or commented on prior to publication. This can, and does, lead to significant errors occasionally being published and then having to be retracted. This is in nobody’s interest and there should be substantial effort made by corporates and regulatory bodies to encourage all brokers to limit the negative influence of box-ticking lawyers in their “compliance” departments. Investors should be at the forefront of this effort and give their unmitigated support. I’m happy to be quoted on this!” – Benelux, Telecommunications

“Disclosure policies on the side of brokers forbidding any ‘preview’ even only for the purpose of detecting possible factual errors” – Italy, Financials

“Mainly bulge bracket international houses who have a policy of not providing for review” – UK, Oil & Gas

The policy means that notes cannot be checked for factual inaccuracies. This creates problems – and not just for IROs that have to spend time correcting mistakes and addressing misperceptions. It is hard to argue with the comment above that incorrect information finding its way into the market is in nobody’s interest.

Despite a number of issues reported in our survey, sell-side analysts remain one of the most important stakeholders for IROs. On a practical level, it would be impossible to engage with every investor on an individual basis, but sell-side analysts perform another pivotal role between a company and its investors. Well respected analysts have considerable influence, and if they like what they hear, they can be the most effective channel for disseminating a company's message. The challenge for IROs will be to convey the long-term investment story in the face of apparent short-term pressures on sell-side analysts.

Shareholder base and investor targeting

UK companies to target overseas investors

- The biggest change to the investor base was caused by geographic diversification by investors followed by an increase in long-only investors.
- Eighty two percent of respondents said there was no difference in their ability to monitor the shareholder base over the past year.
- Companies targeting overseas investors are all listed in the UK

Little change in the shareholder base for many respondents, but changes in geographic diversification for others

Seventy-seven respondents answered our question on changes to their shareholder base suggesting that the remainder had seen no change. In addition, 26 respondents said they had seen no change to their shareholder base (exhibit 15). One or two announced an increase in either strategic, retail, value, or income investors. Nearly 10% of total respondents announced increases in long-only investors, while changes in active investors and hedge funds were minimal.

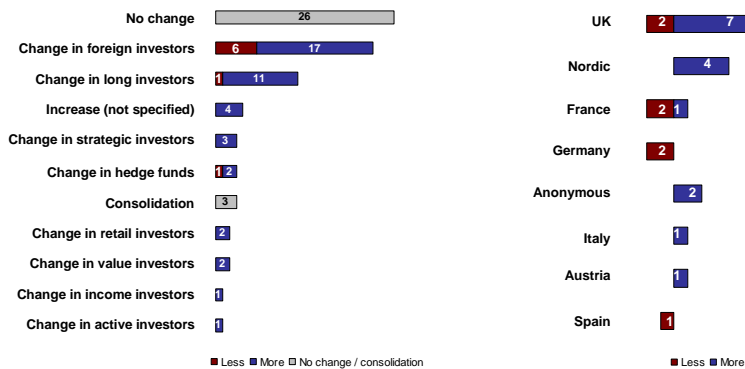
Exhibit 15

Shareholder base and investor targeting

What, if any, changes have you seen in your shareholder base in recent months?

Changes in foreign investors (by country)

Number of responses



Notes

77 respondents answered this question

Multiple responses apply

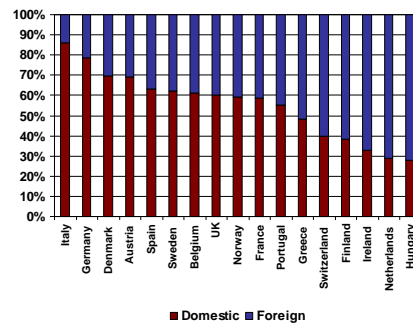
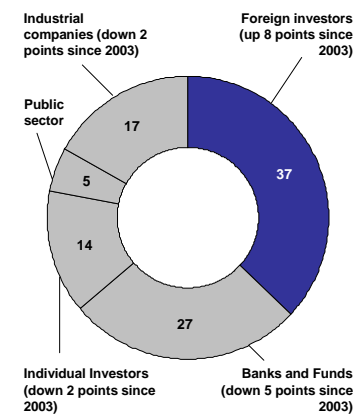
The largest change to the shareholder base is geographic diversification by investors reflecting a trend towards cross-border diversification that has been a feature of European capitalism over the past decade (exhibit 16). Between 2003 and 2008, the percentage of foreign investors in European companies increased by eight percentage points to account for 37% of the shareholder base. This was mainly at the expense of domestic banks and

funds, which fell by five percentage points to account for 27% of the shareholder base. The decline in shareholdings by banks and funds reflects changing trends in the allocation of assets. A long-term shift away from risky investments as populations grow older has been accelerated by increased regulation and mark-to-market accounting. This was noticeable in the UK, where banks and funds switched out of equities and into bonds, but foreign investors took their place.

Exhibit 16
Shareholder base and investor targeting

Equity ownership by holder (2007/8)

Percentage of foreign investors by country



Source: FESE

For many companies in continental Europe the influx of foreign owners forced a change in the way they communicate with investors. In a number of cases, investors have engaged actively and forced companies to restructure themselves and justify changes to the board. Foreign investors have also had to adapt, particularly in countries which have works councils. A foreign investor in Germany can find itself on the advisory board with a huge influence on decision making.

The responses to the survey suggest the trend in cross border diversification may have slowed, but the underlying trend remains. Of the 17 respondents reporting increases in foreign ownership, nine specified an increase in American investors. A slight diversification towards the US can have a big effect as the funds controlled by American investors are so vast. Other respondents reporting an increase in international investors did not specify the regions, but they may have received interest from investors in Asia and petro-economies, which are expected to increase their exposure to risky assets. Pension provision in developing countries must also have an influence at some point in the future, although it is yet to be reflected in significant changes to the shareholder base among respondents. A reduction in charges for cross-border equities trading and efficiencies, particularly in clearing and settlement will only increase cross-border diversification.

The evolution of changes in asset allocation and cross-border diversification will have implications for companies and the activities of IROs, although for many there will be a

sense of déjà vu. IROs are already familiar with fears of a short-term focus, less commitment and complications from cross-border voting. They will be less familiar with new cultural and regulatory influences from developing countries. The ability to convey the company's investment story across more countries will present its own logistical challenges.

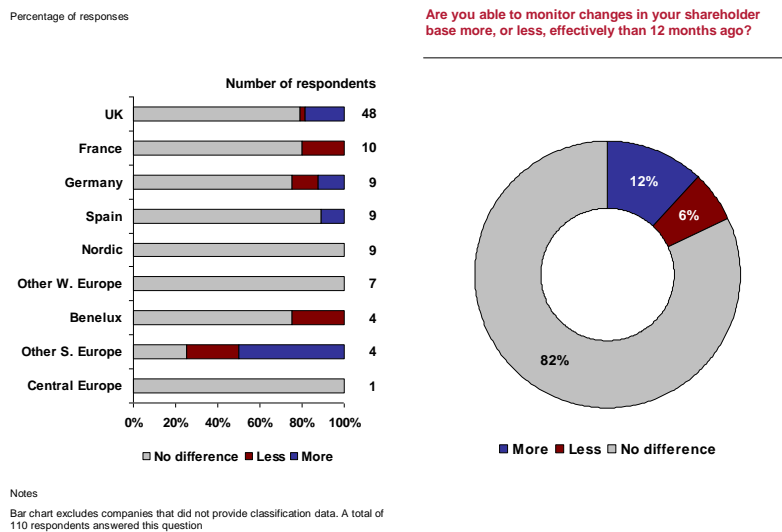
An increase in overseas investor targeting by companies listed in the UK

Twenty-eight percent of respondents plan to make changes to their investor targeting activities during the next 12 months. The changes fall into two broad categories: a renewed effort to target foreign investors and a change in tactics. The companies targeting foreign investors were all listed in the UK, with around half looking overseas in general and the other half looking specifically towards the US. Changes in tactics include targeting investors at a different level or introducing a greater focus on senior decision makers. Others described a more 'scientific' approach, targeting different types of investor or a new approach based on the preferences of a new CFO.

Of the 28 companies making changes to their roadshow activities in 2010, 65% were listed in the UK. A large proportion of respondents is increasing activity and expects to spend more time on the road.

No difference in ability to monitor shareholder base

Exhibit 17
Shareholder base and investor targeting



Eighty-two percent of respondents said there was no difference in their ability to monitor their shareholder base over the past 12 months (exhibit 17). In fairness, a number of initiatives are still on the drawing board and it will be a little while before IROs see any benefit. In June 2009, the Financial Services Authority (FSA) implemented a general disclosure regime for Contracts for Difference (CFDs) to avoid them being used for insider information cases. Investors must disclose positions above 3% taken through CFDs, in addition to those held directly through equities. Twelve percent of respondents said they

could monitor changes in the shareholder base more effectively. They were mainly from the UK, with 19% of UK respondents reporting they were better able to monitor changes. It is possible that the FSA's efforts have made their life a little easier, but the finding is not conclusive. In a number of instances, this was due to internal initiatives to improve analysis and based on the responses from participants that provided further information, the use of CFDs remains an issue. The Committee of European Securities Regulators is looking into short-selling disclosures for the European Union and it has been reported that the Transparency Directive could be extended to include disclosure of cash settled derivatives.

Channels of communication

Increase in confidence relected by more communication

- 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 ‘one-to-one’ conversations accounting for the biggest increase, followed by more roadshows and Capital Markets Days.
- Thirty percent of respondents said they were aware of an increase in communication between investors through non-traditional channels such as social networks. Only 13% have become more concerned about rumours relating to their company through these channels.

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

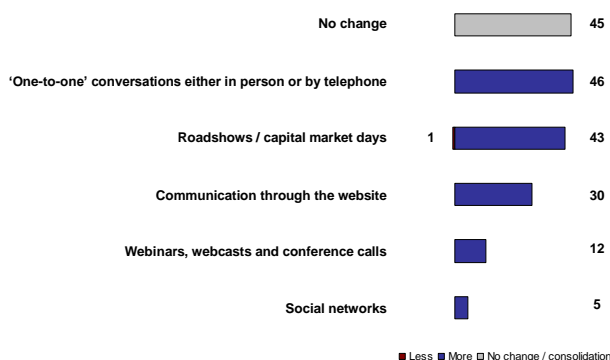
Sixty percent of respondents have changed or are planning to change their mix of communication channels. Apart from one respondent who is reducing the number of roadshows and Capital Market Days, the majority of respondents making changes are increasing communication through at least one channel.

Exhibit 18

Channels of communication

Number of responses

Have you changed or are you planning to change your mix of communication channels?



Notes

111 respondents answered this question
Multiple responses apply

The biggest change in the communication mix is represented by more ‘one-to-one’ conversations cited by 41% of respondents followed by more roadshows and Capital Market Days (exhibit 18). Thirty-nine percent of respondents have increased or are planning to increase the number of events following a period of retrenchment when budgets were under pressure. Some companies were also fearful of proactive

communications either because of a lack of visibility in earnings or the absence of a positive story to tell. Communication through the website continues to grow while communication through webinars, webcasts and conference calls grew more slowly, but represent a useful way of disseminating information to market participants at the same time.

Are IROs paying enough attention to social networks?

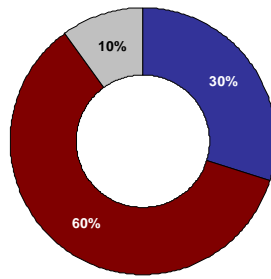
Only 5% of respondents have increased or are planning to increase their flow or communication through social networks such as Twitter (exhibit 19). This is despite 30% of respondents saying they were aware of an increase in communication between investors through non-traditional channels of communication. Only 13% of respondents have become more concerned about rumours about their company on non-traditional channels of communication, perhaps because they are already aware of the risks or perhaps because their fears have receded during the markets' recovery (exhibit 19). On the face of it, the figure seems low and the threat should not be underestimated.

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

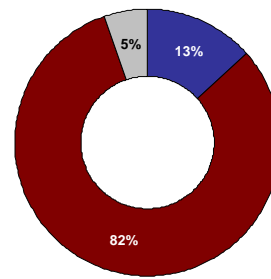


■ Yes ■ No □ Don't know

Notes
111 respondents answered this question.

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

Percentage of responses



■ Yes ■ No □ Don't know

Notes
112 respondents answered this question.

At this stage, non-traditional communications channels present an unknown quantity. It is understandable that so few respondents use them, although interesting to see that some companies are at least dipping their toe in the water. The finding that nearly a third of respondents reported being aware of an increase in communication among investors through non-traditional channels supports the widely held belief that the confines and strictures that traditionally shaped the flow of company information are breaking down. It is entirely possible that this will filter through to the carefully controlled flow of company information to the markets, which to date has largely been determined by regulations for financial reporting.

When every remark about your company triggers a frenzy of second guessing, investors and analysts will want an unequivocal answer from the IRO. Otherwise there is a risk that the stream of information will become debilitating. If management becomes paralysed by the endless flow of information and does not communicate effectively, it could be overtaken by events and forced to concede its grip on its investment story. A BBC journalist recently remarked that many journalists find out about developments on Twitter that are so new, that when they ring the company, the company's own press office is unaware of them. In this environment, it will become harder for IROs to anticipate potential problems and limit their effect on the share price. More than ever, companies need to present a clear and consistent view on their long-term strategy coupled with a regular flow of facts and data points in order to cut through the clutter and deflect rumours and short-term speculation.

Companies also need to ensure that their message is consistent among not only analysts and investors, but also in the press, and increasingly on social networks, where software programmes trawl for the snippets of data that could present a tiny trading advantage. Last year a technology company in the US introduced a piece of software that can monitor 'tweets' for price sensitive information and translate it into buy/sell orders that are executed through algorithmic trading systems.

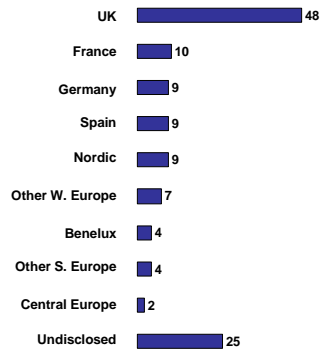
Internally, the ability of an IRO to sift through the deluge of comment and clearly communicate what matters to their company's management will become more valuable. The abundance of information on the internet could also throw up non-mainstream investment issues or lines of analysis and only by understanding the developments in non-traditional communication channels will IROs be able to tap into them.

Data bank

Exhibit 20

Classification data for participants

Number of respondents by country



Number of respondents by sector

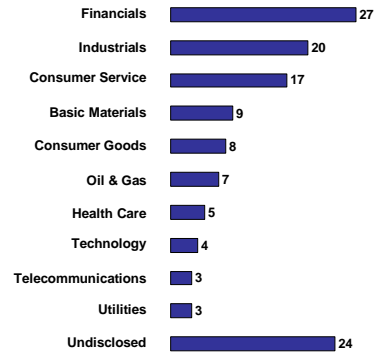
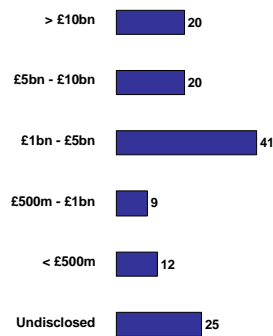


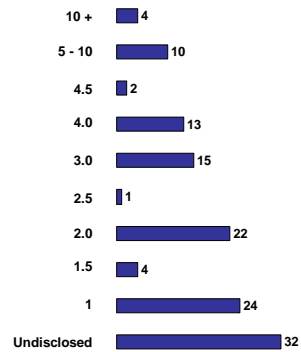
Exhibit 21

Classification data for participants

Number of respondents by market capitalisation



Number of respondents by size of IR department



About Citigate Dewe Rogerson

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

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