



orient capital

Change, challenge and opportunity: The impact of MiFID II on FTSE 350 Investor Relations

February 2019



orient capital

Orient Capital is the largest analyser of share registers globally and the dominant provider of equity ownership analytics to listed companies in multiple markets.

Our focus is to provide clients with a suite of products and services that enable them to maximise the opportunity of public ownership and to reap the benefits of good investor relations. We identify and track our clients' shareholders, as well as their behaviour, using either local ownership disclosure provisions or our own proprietary methodologies, which include leveraging our extensive global relationships with custodians and investors.

miracle, Orient Capital's online platform, is the system through which we deliver all our ownership reporting, whether this be across registered shareholders, institutional investors, underlying beneficial owners or employee shareholders. It comprises a uniquely integrated suite of modules that allow companies to efficiently and accurately identify, profile, track, manage, target and engage with investors, potential investors and the wider investment community.

Orient Capital is a member of ASX-listed Link Group, a leading global administrator of financial ownership data within the pension fund industry and across corporate markets.

Contents

Foreword	3
MiFID II ratchets up the pressure on IR teams	4
Investors go direct	5
Investor relations comes to terms with disintermediation	6
Understand your Investor audience to have a greater impact	9
Issuers seek more clarity from the market	12
Outlook: The evolving role of IR	14
Methodology	15

Foreword



2018 was a year of change and evolution for the investor relations (IR) industry. Regulatory reform has placed more responsibility on the shoulders of investor relations officers (IROs), at the same time as reducing the level of support they receive from the sell-side.

The impact is more keenly felt by FTSE250 IROs than their counter parties in the FTSE 100. Our latest survey of FTSE 350 IROs demonstrates the net result has been increased pressure on IR teams, who have taken on a greater range of responsibilities.

Following the implementation of MiFID II from 3rd January 2018, fund managers must pay for analyst research and brokerage services. Over a year in, its effects are changing how the industry operates.

With a cost now attached to equity research, investors have reduced the amount they consume. In turn, this has resulted in less research coverage from sell-side analysts – especially for FTSE 250 companies. This has been further compounded by a number of sell-side analysts leaving their roles, creating a need for a more proactive approach from IR teams to reach investors.

Simultaneously, corporate access is changing as disintermediation takes hold; with costs now attached to those services, institutional investors are less likely to use corporate brokers to facilitate meetings with issuers as they seek to engage directly with IR teams, and vice versa. Indeed, an increasing number of institutional investors are setting up their own in-house corporate access functions for this purpose.

The workload of IROs has increased as a result, and, to partially accommodate this, budgets have followed suit. Half the IROs surveyed report their budget has increased; a trend we predicted in our last survey in 2017. Nevertheless, a lack of resource and time pressures remain key concerns.

In this context, it is vital that IR programmes are as effective and efficient as possible. Best practice is paramount. With reduced support from sell-side, IR teams need to be able to prioritise meeting the correct investors and analysts, building their market intelligence, and shaping their company's corporate message appropriately.

A handwritten signature in black ink that reads "Alison Owers". The signature is fluid and cursive.

Alison Owers
CEO, EMEA
Orient Capital
e: owers@orientcap.com
t: +44 20 77 76 75 74

MiFID II ratchets up the pressure on IR teams



Time and resource identified as top concerns from IR teams

Regulatory change has increased pressure on resources and time management among IR teams. 44% of IROs saw the level of resource available to them as their primary concern, up from just 14% in 2017.

This squeeze on resource was felt more acutely among FTSE 250 companies, cited by 50% of IROs, compared to 39% among the 100. FTSE 250 companies have historically had smaller IR teams, and are therefore feeling the pressure caused by this diminishing support resource.

For both FTSE 100s and FTSE 250s resourcing and time management are inherently linked and a change in one certainly affects the other. The implementation of MiFID II has increased the range of responsibilities IR teams must take on as support IROs receive from brokers has reduced. As a result, 31% of respondents see time and management as a concern.

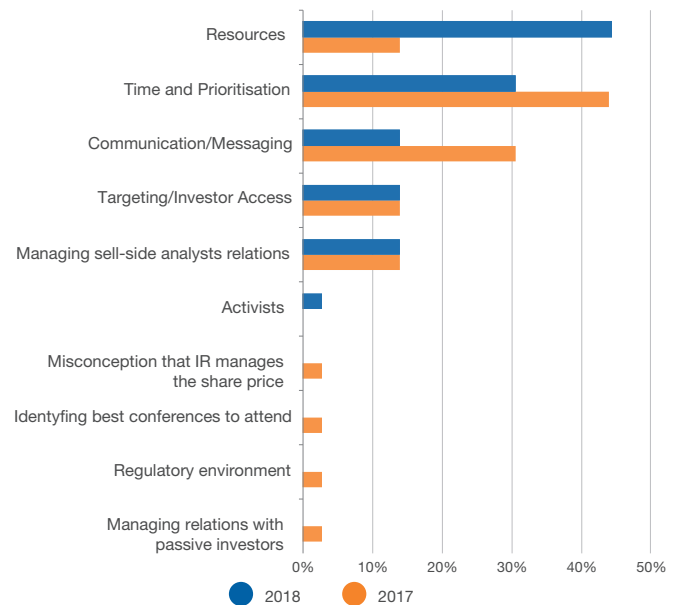
“We are seeing more direct contact with the buy-side. Some large investment houses no longer accept meetings through brokers.” **(FTSE 100)**

“We have more work. There has been no increase yet in budget, but we intend to possibly take on additional staff.” **(FTSE 100)**



Worry over investor access as MiFID II impacts both the buy side and sell side

The biggest concerns of IROs



Reduced investor access is an important matter for issuers too, with 14% of IROs identifying this as their primary concern. Two factors have contributed to this:

- Some corporate brokers have reduced the number of non-deal road shows and conferences organised for issuers
- A number of buy-side institutions no longer accept meetings organised by the sell side.

Investors go direct



Increased direct meeting requests from investors is the top new challenge for IROs

MiFID II has not just exacerbated existing pressures on IROs, it has also brought new challenges. A third of those questioned flagged the changes in the way meetings are arranged post MiFID II.

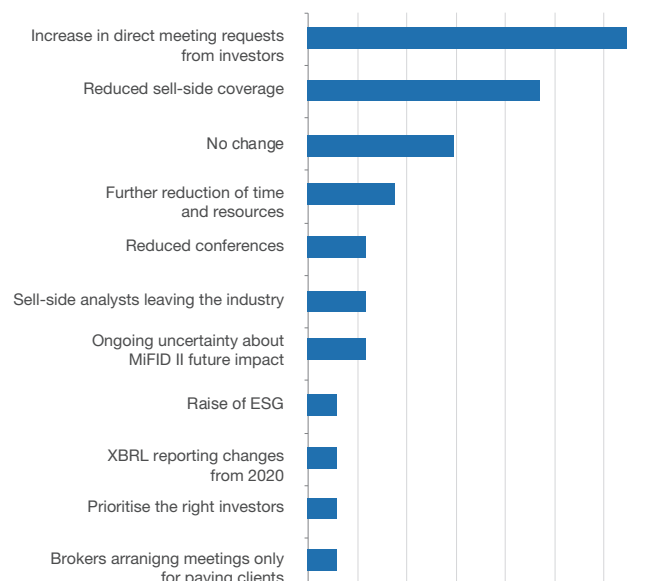
With a reduced buffer from brokers, the number of direct requests from investors has increased, partly explaining the additional squeeze on time and resource that IROs are experiencing.



Reduced sell-side coverage weighs on IROs' minds

Over a fifth of IROs highlight a reduction in sell-side research coverage as a new concern. This issue is exacerbated by sell-side analysts leaving the industry - a trend cited by 6% as a primary concern to them. Not only do these reductions have a potential impact on the accuracy of consensus estimates, but a dearth of research places even greater pressure on the IR team to be able to effectively communicate the business' strategy and prospects to inform investors' decision making.

The biggest new challenges IROs face



“Maintaining sufficient analyst coverage in a MiFID II context will be a challenge.” (FTSE 250)

“Reduced research on the company might lead to more negative consensus.” (FTSE 100)

“MiFID II might present more challenges if more and more people keep leaving the sell-side.” (FTSE 100)

Investor relations comes to terms with disintermediation



Investor meetings have **increased by 24%**

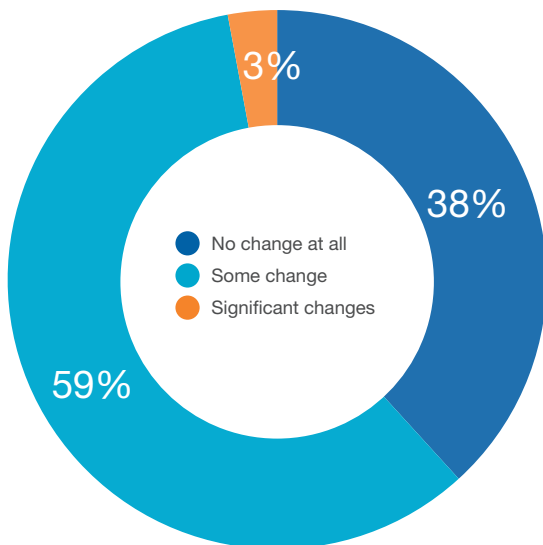


Half have increased their budget since MiFID II was implemented

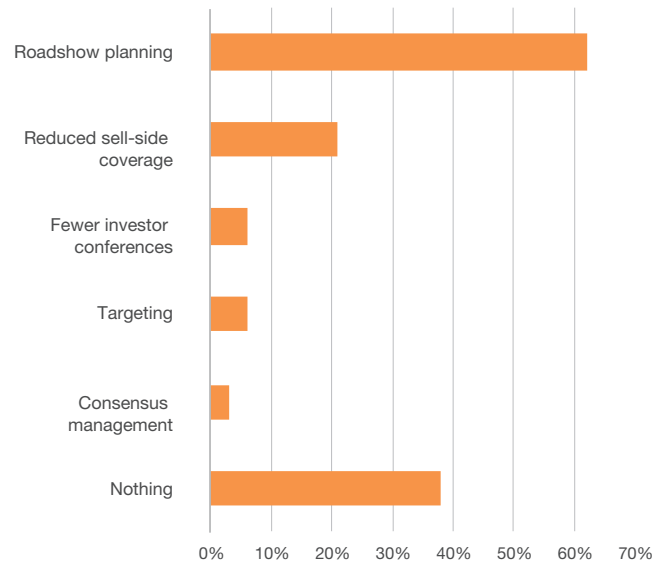
The role of IR has evolved as a result of the challenges raised by MiFID II; 62% of IROs note their function has changed.

Roadshow planning and investor meetings have been the areas to see the greatest change, cited by 56% of those surveyed, following increased direct engagement from investors, and the need for a more proactive approach from issuers.

Has your IR function changed following the implementation of MiFID II?



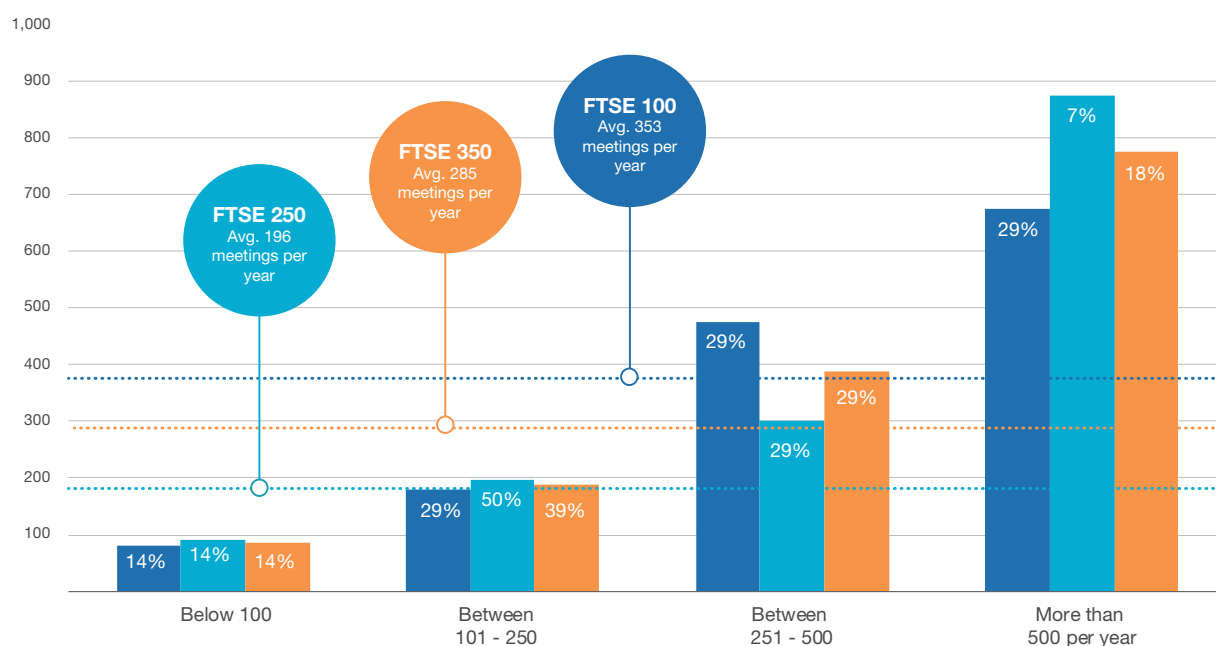
What aspect of your specific IR function has changed the most?



The number of investor meetings IROs are arranging and attending has increased significantly, placing a strain on resource. The typical FTSE 350 company now conducts 328 investor meetings per year – up by 24% from 265 meetings in 2017.

FTSE 100 companies are more prolific. They conduct on average 395 meetings per year, up from 318 in 2017. Those in the FTSE250 conduct 260 meetings per year, an increase from 218 in 2017, reflecting the lower level of resource they generally have at their disposal to arrange and attend meetings compared to the FTSE 100.

The number of investor meetings conducted by the FTSE 350 annually

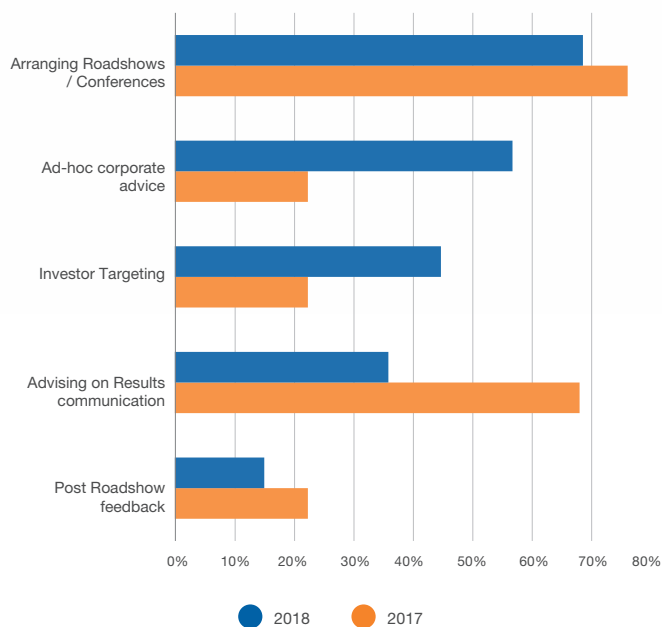


The role of corporate brokers has started to evolve, as they play a reduced role in arranging roadshows and conferences (68% in 2018, compared to 75% in 2017), or providing feedback after roadshows. By contrast, brokers are increasingly relied on by IR teams for bespoke advice (56%).

“Post MiFID II, we now need to arrange lots of meetings ourselves and this is becoming challenging.” **(FTSE 100)**

“There are more and more incoming operational requirements. Resources will remain scarce, especially if brokers will do less and less to support our logistical activities. We will have to have an IRO in-house able to do corporate access in the next 5 years.” **(FTSE 250)**

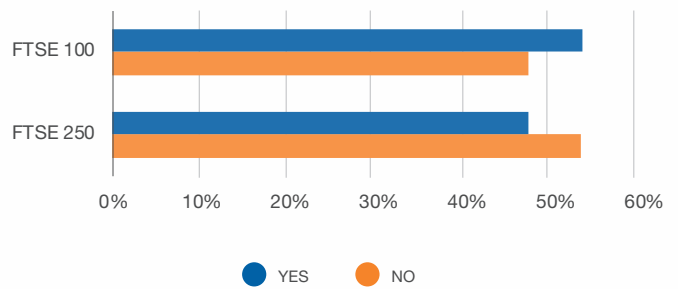
The changing use of brokers



The upshot of the increased burden on IR teams has been larger budgets. Half of all IROs have seen their budget increase since MiFID II. This is slightly more prevalent among the FTSE 100 (53%) than the 250 (47%). Meanwhile, 26% of companies have increased headcount within the IR team to cope with greater demands on internal resource.

Given resource and time remain the biggest challenge for IROs, it's likely that we may see firms commit to a larger spend as time passes, especially as the full impact of MiFID II becomes clearer.

Has the overall IR budget increased since the MiFID II implementation?



"We have increased headcount. We have more investors' enquiries and we don't have enough people to deal with them." (FTSE 250)

"We have more work. We have not increased the budget yet, but we intend to possibly take on additional staff." (FTSE 100)

"We increased the budget and have hired more people with buy side experience." (FTSE 250)

Understand your Investor audience to have a greater impact



Share register analysis and CRM remain core components of IR programmes



More companies seeking wider pool of accessible intelligence to track and target investors



Although use of investor targeting well established, 38% want more qualitative results

As the IRO workload increases, along with a requirement to be more proactive in their approach, it is even more important that resources available are used more carefully and efficiently. This means truly understanding the existing and potential shareholder base, the market perception of the business and targeting investors effectively.

Shareholder analysis and relationship management

Share register analysis remains a crucial and universal starting point for any IR programme. All FTSE 100s questioned conduct an analysis on a monthly basis, as do 80% of FTSE 250 companies.

Tracking and targeting investors for roadshows and monitoring key movements in the shareholder base remain the key reasons for using a share register analysis service.

The frequency of share register analysis

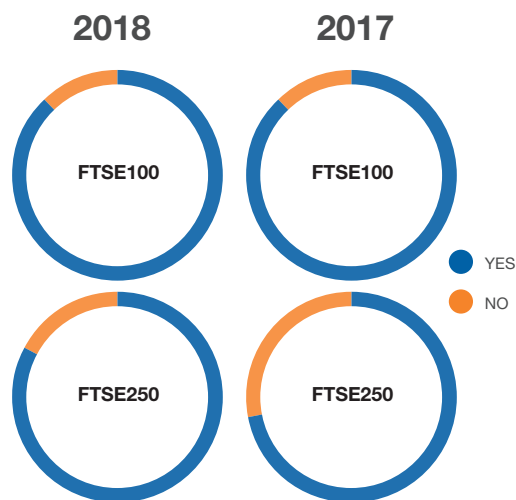


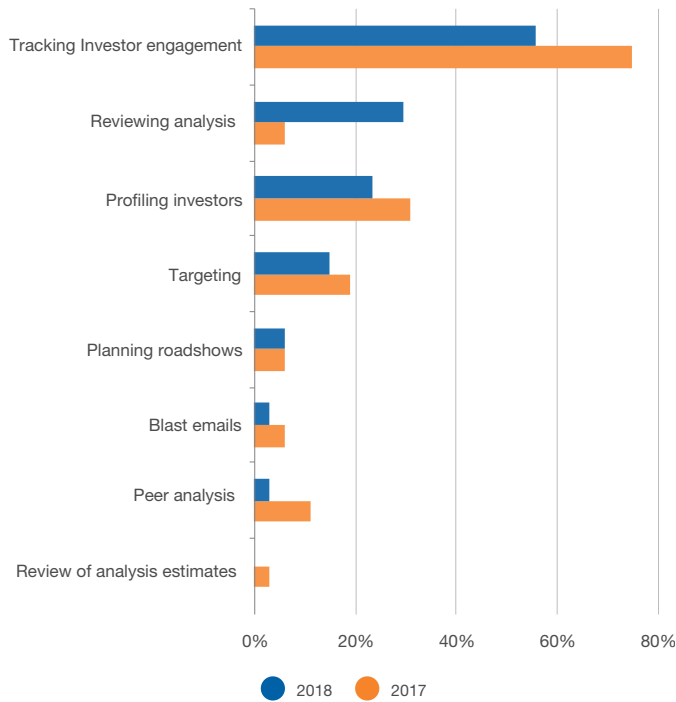
IR contact relationship management

Custom built IR contact relationship management (CRM) platforms are available to support investor relations usage and can successfully link share register analysis with IR engagement.

These platforms are widely and increasingly used with 88% of FTSE 350 having a CRM as part of their IR toolkit. This upward trend is more markedly seen in the FTSE 250 with 82% of IROs, who consider a CRM to be a very important tool, compared to 72% in 2017.

IR CRM Use





The top reasons for having a CRM continue to include tracking investor engagement as well as reviewing the analytics:

“The CRM we use is a very important aspect of our IR function, especially now that we have started running peer analysis and targeting using it.” (FTSE 100)

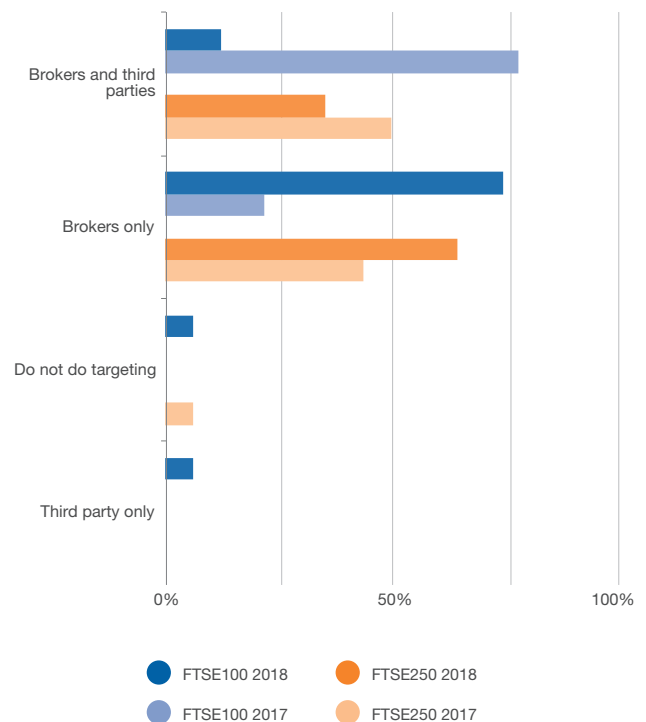
“CRM is pivotal for ad-hoc analysis on existing shareholders and possible new holders.” (FTSE 250)

How IR CRMs are employed across the FTSE 350

Investor targeting is more important than ever post-MiFID II. It provides an insight into interested buy-side investors looking to either open a position in a stock, or increase an existing position. As IR teams increasingly interact more directly with investors, targeting allows them to focus their efforts and resource. Although investor targeting is widely adopted across the FTSE 350, there remains questions about the detail and level of insight currently being generated, given that one fifth of IROs see it as something of a challenge

Since 2017, our FTSE 100 audience found that they are more reliant on advisers to conduct targeting exercises, with 75% primarily using brokers. Only 12% use a combination of brokers and third parties, perhaps to eliminate the need to review multiple sources.

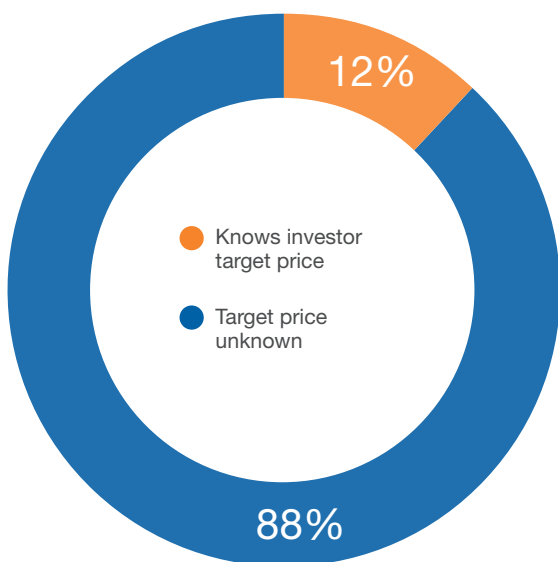
In the FTSE 250, the trend is reversed; 50% use a combination of third parties and brokers, up from 31% in 2017, while 35% rely only on brokers – down from 50% in 2017, perhaps indicating that they are seeing less support from their brokers, with the need therefore to source alternative support to build out their IR programmes.



Support for targeting exercises

Many companies, however, are unsatisfied with the quality of the targeting reports they receive; 38% of respondents would like to gauge more information on existing investors to shape their engagement. Indeed, only 12% of issuers noted that they understand their investors' target price in relation to their stock, while some of those questioned did not know whether a current investor is sitting at a profit or loss, something which should be vital insight for investor meetings.

Understanding of investors' target prices



Without the appropriate level of insight from targeting, IR teams can find themselves flying blind when it comes to arranging and, planning investor meetings, and focussing their communications effectively.

The importance of improving this targeting has been recognised by 12% of issuers, who have already budgeted to commit additional resources towards targeting from 2019.

“We have increased targeting through third parties, and we also do more in-house through our CRM.” (FTSE 100)

“I don’t find brokers’ targeting very useful as they only present us with their clients. We do a lot of in-house targeting work.” (FTSE 250)

“We believe that targeting will become a bigger part of our IR role and we will be doing more in-house.” (FTSE 250)

Issuers seek more clarity from the market



Six in ten of those surveyed run independent perception studies



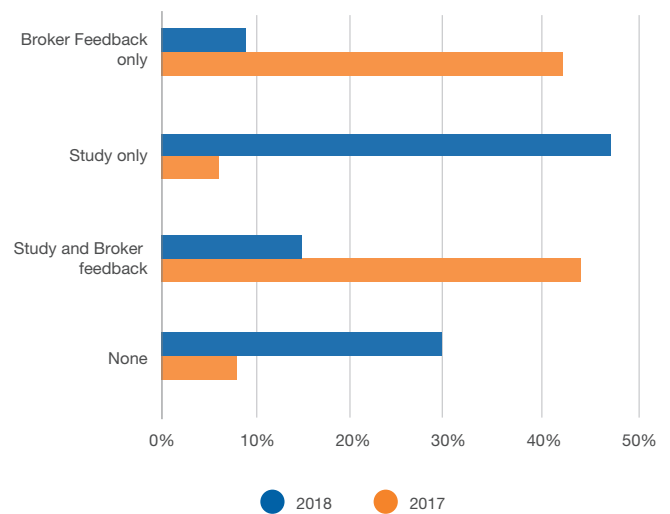
Reduced role of broker leaves **29%** without any support

Perception studies are commissioned to provide companies with intelligence on market sentiment and the effectiveness of their IR programmes, in order to shape future communications.

They are growing in popularity and importance. 59% of FTSE 350 respondents now run independent third-party perception studies every 12 to 24 months, climbing from 50% in 2017.

Companies' evolved use of third parties suggests less reliance on the corporate broker as they seek an alternative independent view. Only 9% of FTSE 350 respondents currently use brokers' feedback alone to assess market perception, compared to 42% in 2017, as external IR service providers come to the fore. Nevertheless, this has also left a large proportion of issuers without external support at all; 29% of respondents do not undertake such studies, citing budgetary constraints as the key obstacle.

Source of market sentiment analysis



Perception studies are far more prevalent among the FTSE 100, with 71% of the large caps commissioning them, compared to 53% of FTSE250s. 59% of FTSE 100 only use third-party perception studies while 6% use broker feedback exclusively.

“It’s useful to understand how strong a certain feeling is among the market, whether positive or negative. The perception study is the validation of IR doing a good job, communicating properly the strategy to the market; whether we provide sufficient disclosure on all areas.” (FTSE 100)

“Investor perceptions are the most useful piece of research that comes out of our IR service providers.”
(FTSE 100)

“We get brokers’ feedback; however, it is getting much worse, so we now rely more on third parties only.” (FTSE 250)

“When you want to deliver certain strategic messages to the board, you can use a study to help you deliver this.” (FTSE 100)

Outlook: The evolving role of IR

Seismic regulatory changes have shifted the ground beneath IROs. While this has put IR teams under greater pressure, it has also heightened their importance, improved their alignment and interaction with the C-Suite, and increased their range of responsibilities.

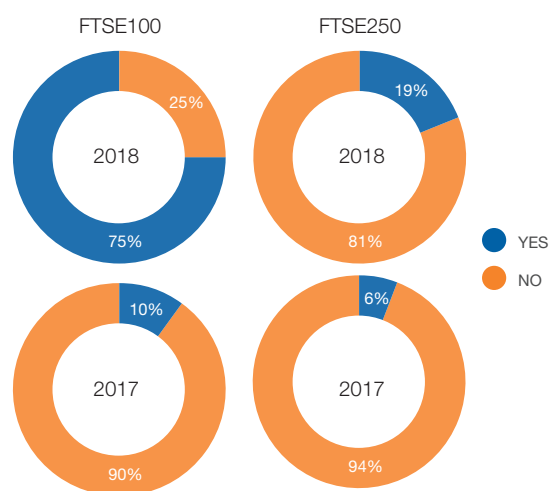
As IROs see more direct engagement with investors, it is vital they use their available resource as effectively as possible. Prioritisation of investor meetings should be based on thorough and impartial analysis of shareholders and prospective investors, marrying quantitative and qualitative analysis. In this context, and with budgets likely to rise further, we expect a greater -albeit selective - use of outsourced consultancies to increase.

MiFID II is not the only driver of change. Investor appetites are increasing the ground IR must cover effectively. The rise of ESG investing means corporate governance is a key example. More and more investors are requesting corporate governance meetings from FTSE 350 companies.

IROs are working with their company secretarial colleagues to respond to this demand through thematic conferences, group lunches, ESG and Chairman's roadshows. Indeed, 75% of FTSE 100s are now regularly organising corporate governance roadshows – three times the number in 2017.

Corporate governance initiatives among the 250 are currently less prevalent, but as ESGs continue to grow in focus, it may become increasingly entrenched within all shareholder engagement efforts.

Proportion of companies that conduct regular corporate governance roadshows



“Often Corporate Governance analysts attend an equity roadshow without notice. This is fine because we have separate ESG meetings bi-annually, so we are prepared for these.” (FTSE 100)

Key takeaways for IR professionals:

- MiFID II has brought increased pressure on IR resources, leading to larger teams and budgets
- Sell-side research coverage has diminished, creating need for more proactive communication from IR teams
- Corporate access has changed, as investors and IR teams increasingly engage directly, rather than via broker
- As IROs' workloads increase, targeting and prioritisation become even more important to ensure effective use of resource
- Growing importance of corporate governance to investors now reflected in IR programme of largest companies

Methodology

Following the implementation of MiFID II in January 2018 and using the comparable results of their 2017 study, Orient Capital interviewed a cross-section of investor relations professionals from 36 FTSE 350 companies, across 12 sectors, to help understand the changing industry landscape and dynamics. This survey took place over the summer of 2018. Orient Capital would like to thank all those who participated in this survey.



orient capital

Contact us

Alison Owers

CEO, EMEA

e: owers@orientcap.com

t: +44 20 77 76 75 74

Paolo Casamassima

Head of Global Market Intelligence

e: paolo.casamassima@orientcap.com

t: +44 20 77 76 75 74

Gustav Pegers

Head of Sales and Marketing, EMEA

e: gustav.pegers@orientcap.com

t: +44 (0) 7500 781064