

The background of the page is a collage of various colored rulers (yellow, orange, green, blue, pink) and set squares, creating a technical or measurement theme. The 'IR' logo is a large white letter 'R' on a teal square background.

IR

magazine

Research Report

The Value of IR

Knowing what your audience expects and values is priceless to IROs. With this in mind, *IR Magazine* has launched a new series of surveys aiming to get more insight into the viewpoints and requirements of the global investment community.

This inaugural report, based on responses from 421 buy-side and sell-side analysts and portfolio managers, uncovers how influential the quality of investor relations is with the investment community, how it affects share price valuation and how much the arrival and departure of individual IROs at a company affect investment decisions and research coverage.

Upcoming reports in the series will determine what investors and analysts see as best practice IR in a range of topics, including investor engagement, IR websites, financial reporting, governance and disclosure.

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Summary

The quality of services offered by IR departments is important to the vast majority of fund managers and buy-side and sell-side analysts dealing with IROs on a regular basis, with only 7 percent of them declaring IR has no influence at all on their final coverage note or investment decision. Findings in this report reveal that, globally, nearly nine times out of 10, members of the investment community will assign a premium to the share price of companies with a well-run IR program – and a discount to those with a poor one.

Nor is the valuation disparity slight: 68 percent of respondents would apply a premium of 5 percent to 10 percent or more to good IR. More than a third of them would add 10 percent to 15 percent or more, and 6 percent would consider a premium above 20 percent as appropriate. In Asia, where the more nascent IR scene means an overall lower level of investor relations, 10 percent would gratify good investor relations with a premium of 20 percent or more.

Similarly, for 90 percent of respondents, a poor investor relations strategy will result in the application of a share price discount, with more than seven out of 10 subtracting between 5 percent and 10 percent, and 11 percent cutting 20 percent or more. Less credible IR attracts the strongest discounts in the mid-cap segment, where the proportion of investment community members deducting 20 percent or more reaches 14 percent, and in the Asia-Pacific region where 13 percent would apply this higher discount rate.

But good IR isn't anonymous: investors and analysts alike are keen to recognize the value of the person implementing a strong IR strategy, with 48 percent declaring that the appointment of a well-respected, senior IR professional would increase their interest in a company as an investment or coverage opportunity – a surprisingly high score that we can compare with responses about the arrival of a new CFO (77 percent) or CEO (92 percent).

Which attributes are most valued in IR professionals? The investment community primarily expects IROs to have expert knowledge of their company and sector, and to be trustworthy. The next main requirements are responsiveness and ease of access. Sell-side respondents value personal relationships as their third key attribute, while buy-siders favor IROs with a wealth of experience. The respondents placing the most significance on individual IR professionals are investors and analysts covering small-cap companies and those based in Asia.

A noteworthy conclusion is that this relationship of trust, value-add for the share price and general radiance created by a high-performing IRO's work translates into long-term financial community interest, as highlighted by the fact that only 3 percent of respondents would definitely revise their recommendation or position should the IRO leave.

Key findings

- Globally, only 7 percent of investors and analysts consider IR not to be influential at all in their investment recommendations/decisions.
- Eighty-eight percent of respondents assign a premium to their share price valuation for companies that practice good IR, with 68 percent adding 5 percent to 10 percent or more.
- Ninety percent of investors and analysts assign a discount to their share price valuation of companies that practice less-credible investor relations, with 71 percent subtracting 5 percent to 10 percent or more.
- Only 3 percent of respondents would definitely revise their position on the company if the senior IRO were to leave – but 48 percent say they would increase their interest in a company as an investment opportunity if a senior IRO with a good background or reputation were appointed.
- Regionally, the Asian investment community places more importance on, and assigns a far higher premium to, good investor relations than counterparts in the rest of the world.
- Sell-side analysts place a higher premium on good IR than buy-siders.
- The higher the market cap of a company covered or invested in, the stronger the sensitivity to good or bad IR, although those covering mainly small-cap companies place greater significance on individual IROs than those dealing with larger-cap companies.
- Differences in sector coverage between participants produce very little variance in the results. The region where respondents are based and whether they are on the buy side or sell side are more significant factors to consider.

How much does IR influence investment decisions/recommendations?

We asked investors and analysts to rate the extent to which the quality of IR influences their research coverage on, or decision to invest in, a company. Survey participants were asked to provide a rating of one to five, with one representing 'not influential' and five being 'very influential'.

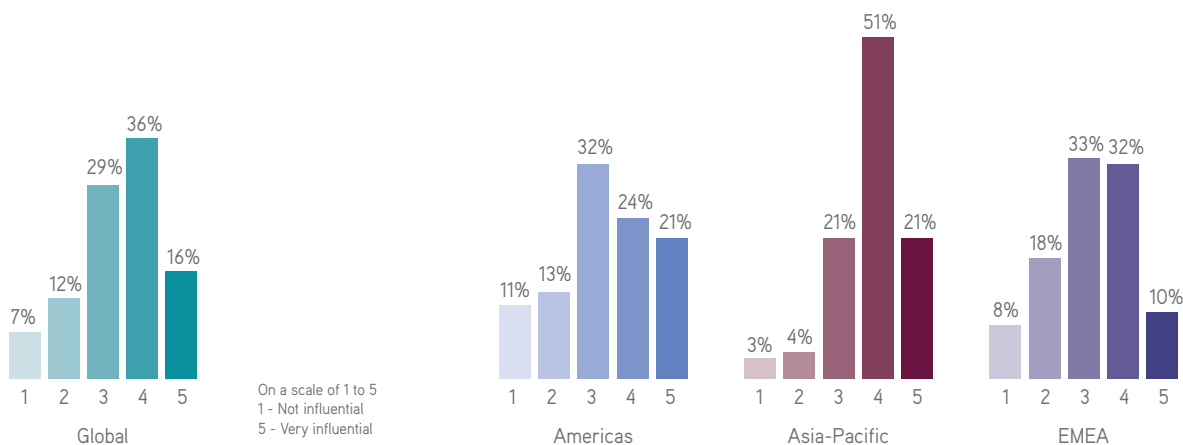
Taking into account responses from all 421 participants, only 19 percent do not consider IR to be highly influential on their

investment decisions/recommendations, with only 7 percent saying it is not influential at all.

Teresa Schinwald, a sell-side analyst at Raiffeisen, believes a high level of IR service is beneficial as it translates into 'a higher trust in your own estimates. If everything is going great, it's easy to be a good IRO, but when something goes wrong, only the tough get going: it really shows the IRO's quality.'

Richard Segal, a senior analyst at Manulife Asset Management, agrees with Schinwald. 'Definitely, the better the investor relations, the more comfortable we are with the company and the more likely we will be to make an investment,' he says. 'But we'll also be more likely to hold on to it if conditions become uncertain, and we'll have a higher exposure than otherwise.'

Extent to which the quality of investor relations influences your decision to invest in (or publish research coverage on) a company.



Results by region	
Region	Average score
Asia-Pacific	3.8
Americas	3.3
EMEA	3.2

Looking at the results regionally, investors and analysts in the Asia-Pacific region place a much higher importance on investor relations, with 72 percent of them entering a score of four or five, compared with 45 percent in the Americas and 42 percent in EMEA. This may partly be a reaction to the

perception that the general standards of IR in Asia lag behind other parts of the world.

Results by market cap coverage	
Market cap	Average score
Small cap (<\$2 bn)	3.5
Mid-cap (\$2 bn-\$20 bn)	3.3
Large cap (>\$20 bn)	3.5
All cap sizes	3.5

Those respondents whose investments or coverage are mainly in the mid-cap sphere rate the importance of investor relations slightly less than the rest, at 3.3 compared with 3.5 for all other respondents. But this segment is also the one most sensitive to substandard IR practice, as evidenced by the chart on page V.

It's interesting to note that the average score given across all job segments is the same, with sell-side analysts, buy-side analysts and fund managers each scoring the influence of IR at 3.4 out of five.

How much of a premium does good IR add to the share price?

We asked the survey group: 'Given two similar companies, please assign the premium to share price you would be willing to assign/pay for the company with better IR practices'.

Overall, 88 percent of the investment community assigns a premium to the share price valuation of a company with superior IR practices, with 68 percent adding 5 percent to 10 percent or more. Sell-side analysts place the highest premium on good IR with 40 percent adding 10 percent to 15 percent or more to the share price, compared with 32 percent of buy-side analysts and 34 percent of fund/portfolio

managers who would add the same amount.

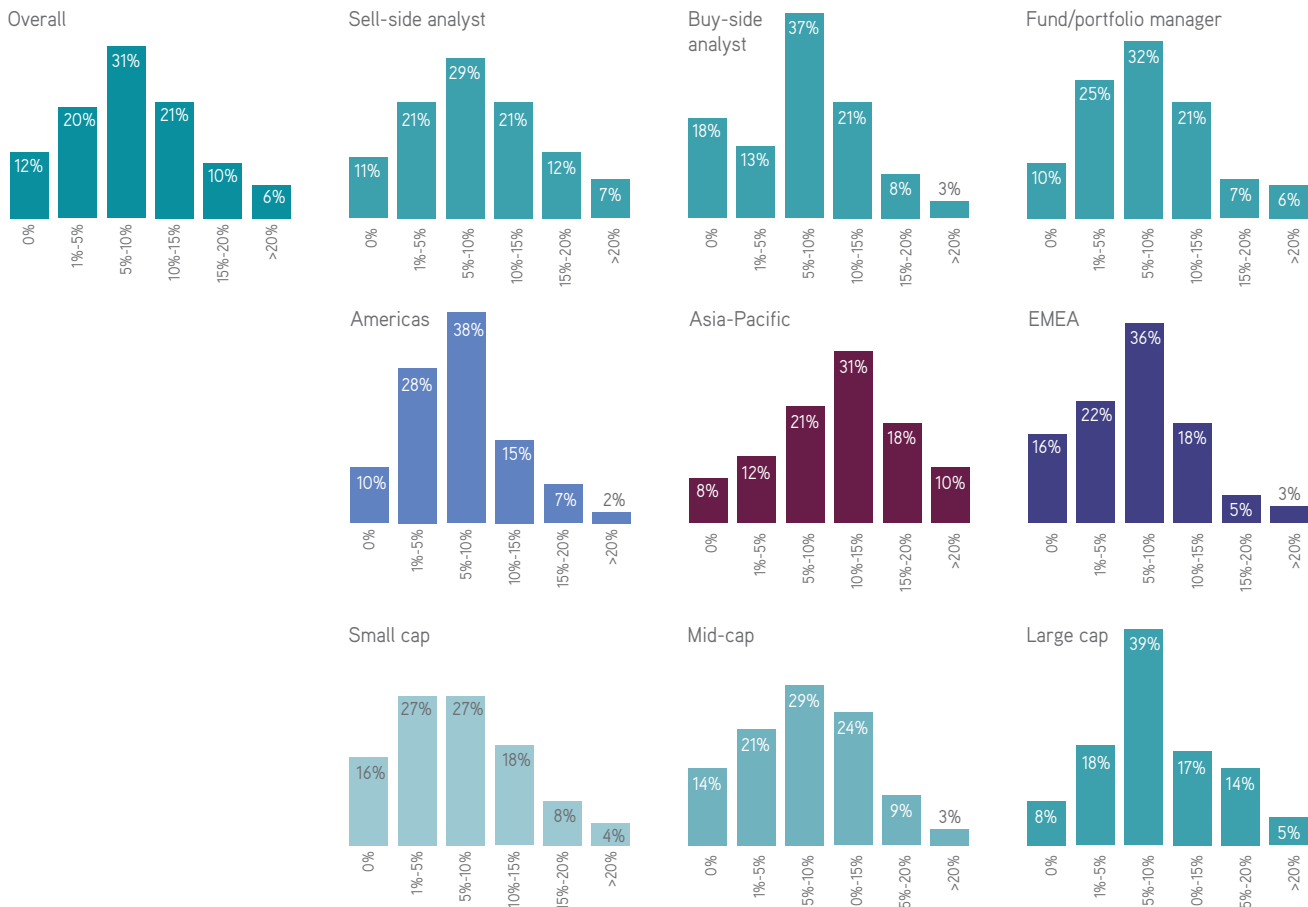
'I'll always be more positive on a firm if I know I can trust it to communicate properly, which means being as proactive and open as possible and adding a bit more flesh to the bones in terms of information,' Schinwald says. 'For example, if something bad happens and the company needs to lower its guidance, it should say by how much, if this is a final revision – because this is something my clients need to know.'

Regionally, the Asian investment community assigns a far higher premium than its counterparts in the rest of the world: 58 percent of Asia-Pacific

respondents add 10 percent to 15 percent or more, compared with 26 percent in EMEA and 24 percent in the Americas.

Fund/portfolio managers and analysts who mainly invest in or cover large-cap companies tend to assign a higher premium: 74 percent of them add 5 percent to 10 percent or more to the share price, compared with 65 percent for those covering/investing in mid-caps and 57 percent for small caps. Only 8 percent of large-cap investors or analysts assign no premium to good IR, compared with 16 percent for small-cap investors and 14 percent for mid-caps.

How much of a premium would you be willing to pay for a company with more credible IR practices?



How much of a discount to the share price is applied to less credible IR?

We asked respondents: ‘Given two similar companies, please assign the discount to share price you would apply to the company with less credible IR practices.’

The survey results show that while good IR adds a considerable premium to the share price, substandard IR can be responsible for an even larger discount: 25 percent of respondents would apply a discount of more than 15 percent compared with 16 percent who would apply the same sized premium for good IR.

Overall, 90 percent of respondents assign a discount to the share price valuation of companies that practice less credible IR, with 71 percent subtracting 5 percent to 10 percent or more. For each of the job segments surveyed, 46 percent assign a

discount of 10 percent to 15 percent or more. Sell-side analysts are most sensitive to substandard IR: 13 percent of them apply a discount of more than 20 percent, compared with 10 percent of fund/portfolio managers and 7 percent of buy-side analysts.

Examples of poor IR practice resulting in a discount include IROs who ‘never get back to you’, or ‘don’t provide good-quality information’, and companies that ‘don’t make an effort to hire someone who speaks good English,’ Segal details. ‘Or they say, *I can’t answer that because it’s non-public information* when it might be something in their quarterly report.’

‘I particularly dislike it when IROs try to manage the consensus by giving us incorrect information,’ Schinwald says. ‘If

everyone has the same estimates, my work is worthless – it’s as if IR teams don’t acknowledge our role.’

Regional differences follow the same pattern as for the premium paid for good IR, with the Asian investment community assigning the biggest discounts to low IR standards: 66 percent subtract 10 percent to 15 percent or more from their share price valuation, compared with 39 percent in EMEA and 31 percent in the Americas.

The discount given for less credible IR also increases with market cap: 37 percent of those who mainly invest in or cover small-cap companies assign a discount of 10 percent to 15 percent or more, compared with 46 percent for mid-caps and 50 percent for those covering/investing in large caps.

How much of a discount would you apply to a company with less credible IR practices?



Effect on investment decisions of the departure of a senior IRO

We asked the survey group: 'If it were announced that the senior IRO was leaving, would you consider revising your position on the company?'

Responses for all respondent groups show the departure of a senior IRO would cause 3 percent to definitely revise their

position on the company, while for 33 percent it would depend on the background or reputation of the succeeding IRO.

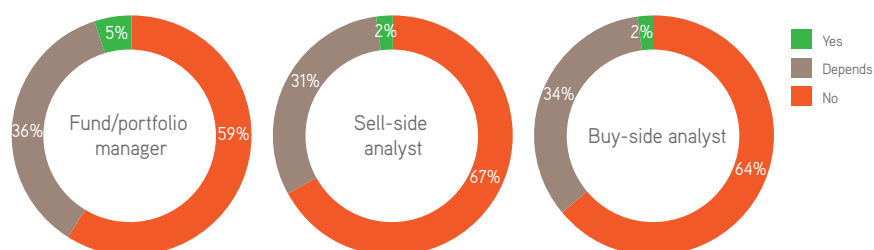
'A reputable IRO is someone the market trusts,' Schinwald says. 'If he or she leaves a company, I immediately get questions from fund managers about who will

be succeeding. They're also pondering whether they need to reassess the company the IRO is leaving. Companies may not always acknowledge this, but an IRO has a reputation that is part of his or her capital. It's intangible but often unspoken of.'

Results by job segment

Fund/portfolio managers are more likely to give a definite 'yes' about the departure of a reputable IRO influencing their position on the company.

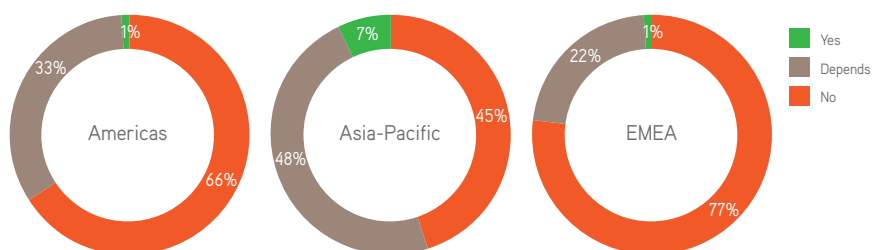
Results by job segment



Results by region

The Asian investment community appears to give slightly more importance to the senior IRO than other regions, with only 45 percent of them answering 'no' to this question, compared with 77 percent in EMEA and 66 percent in the Americas. This may be because dedicated, high-performing, in-house IR teams are less common in Asia than in other regions so the departure of a good IRO may be felt more keenly. 'The less information you're given, the more important the person becomes,' Schinwald notes.

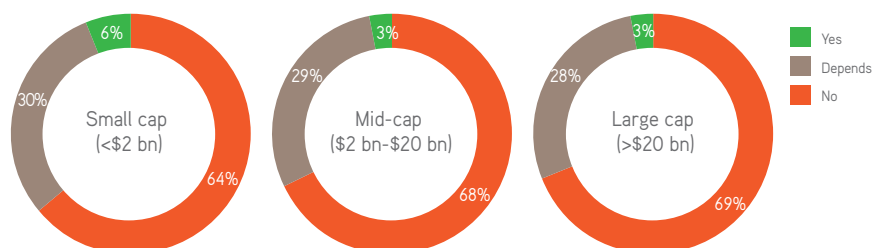
Results by region



Results by market cap

Respondents whose investments or coverage are mainly in the small-cap space believe there may be more at stake in the departure of a senior IRO than those dealing with bigger companies.

Results by market cap



Effect on investment interest of individual reputation/background

We asked the survey group: 'If a senior IRO, CEO or CFO with a good reputation or background were to move to a new company, would that increase your interest in the new company as a potential investment opportunity?'

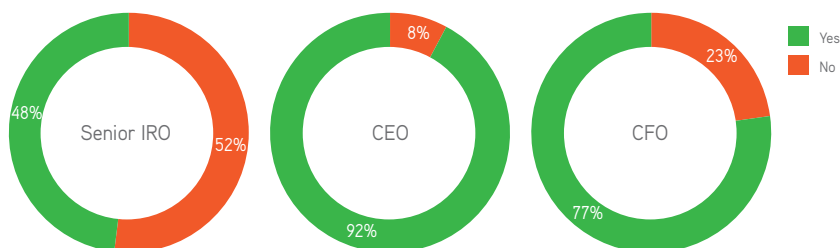
While it is probably to be expected that, for the majority, a new CEO or CFO with a good reputation or background would increase their interest in the company as

an investment or coverage opportunity, it is perhaps surprising that so many respondents felt the same way about senior IROs, with almost half of them saying 'yes'. This is in stark contrast to the question on the effect of the departure of a senior IRO, where only 3 percent said it would definitely make them revise their position. These findings highlight how important recognition of an IR professional's

individual qualities, reputation and influence can be.

'If an IRO I know – someone I respect and who is respected in general – has gone to a new company, I believe that suffices as due diligence about whom he or she will be working for,' Segal notes. 'Beyond that I wouldn't want to give it too much weight. It wouldn't have as much of an impact if I knew the company already.'

If a senior IRO/CEO/CFO with a good reputation or background were to move to a new company, would that increase your interest in the new company as an investment opportunity?



Results by job segment

As with the question on departures, fund/portfolio managers tend to place slightly more importance on the effect individual IROs can have than analysts do.

		Sell-side analyst	Buy-side analyst	Fund/portfolio manager
Senior IRO	Yes	47%	45%	50%
	No	53%	55%	50%

Results by region

Again, respondents in the Asia-Pacific region show a higher regard for IROs than those in other regions.

		Americas	Asia-Pacific	EMEA
Senior IRO	Yes	39%	57%	52%
	No	61%	43%	48%

Results by market cap

Investors and analysts from the small-cap sphere again place more significance on individual IROs than those dealing with larger companies.

		Small cap (<\$2 bn)	Mid-cap (\$2 bn-\$20 bn)	Large cap (>\$20 bn)
Senior IRO	Yes	48%	42%	45%
	No	52%	58%	55%

Importance of individual qualities and experience

We asked the survey group to rank on a scale of one to five the importance of various aspects of an individual IRO's background and conduct. The following charts show the average score in points for each respondent group. The key attributes, according to both investors and analysts, are the individual IRO's business knowledge, background and credentials, perceived trustworthiness and ease of accessibility.

'You want IROs to give opinions but not be too opinionated,' Segal says. 'You want them to be able to discuss their competitors,

clients and suppliers but without being biased. And you don't want to find out two weeks later that they told you what you wanted to hear or they exaggerated a lot.'

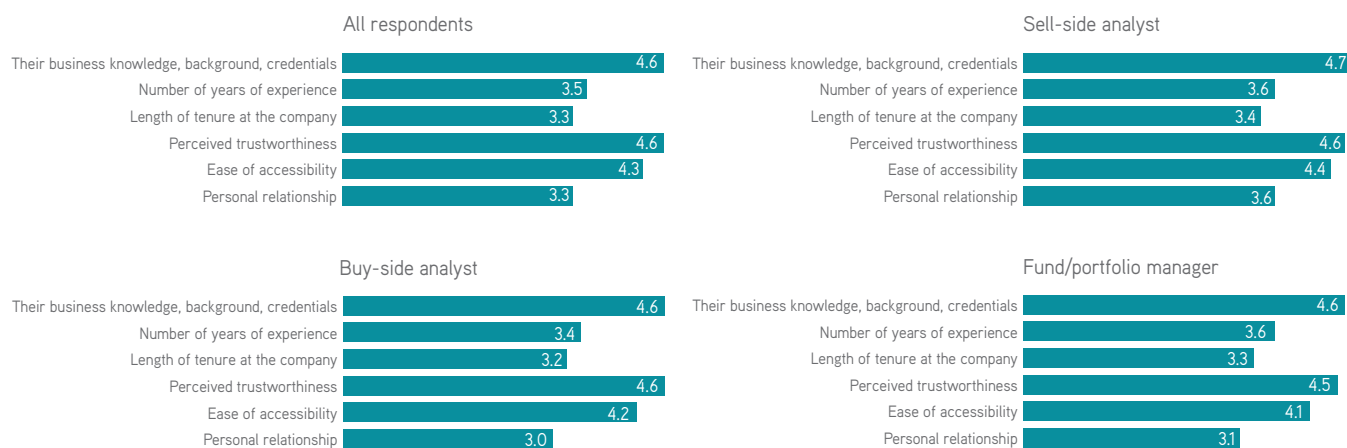
The least important criteria cited – an IRO's length of tenure within the IR team and the personal relationship with respondents – still score above average at 3.3 out of five, the latter attribute being valued most highly by sell-side analysts.

'Being on first-name terms and at least being able to speak to an IRO once or twice a year even if his/her headquarters are

miles away is important,' says Schinwald, who appreciates when IROs 'stay ahead of the curve by asking what their buy-side and sell-side audiences need. It can be as simple as adding an Excel file with data to your quarterly release. But this works both ways: I encourage them to tell me if they're not happy with me.'

Schinwald also expects a good IRO to treat the sell side fairly, 'both the big names and the local brokers', while Segal believes the latter should 'prioritize their important clients and answer candidly.'

The importance of individual qualities and experience



Results by region

There is little regional variance in the results, with respondents from Asia-Pacific and the Americas being very closely attuned. Survey participants based in EMEA give a lower score for each attribute, but the order in which they position them remains the same as for the other regions.

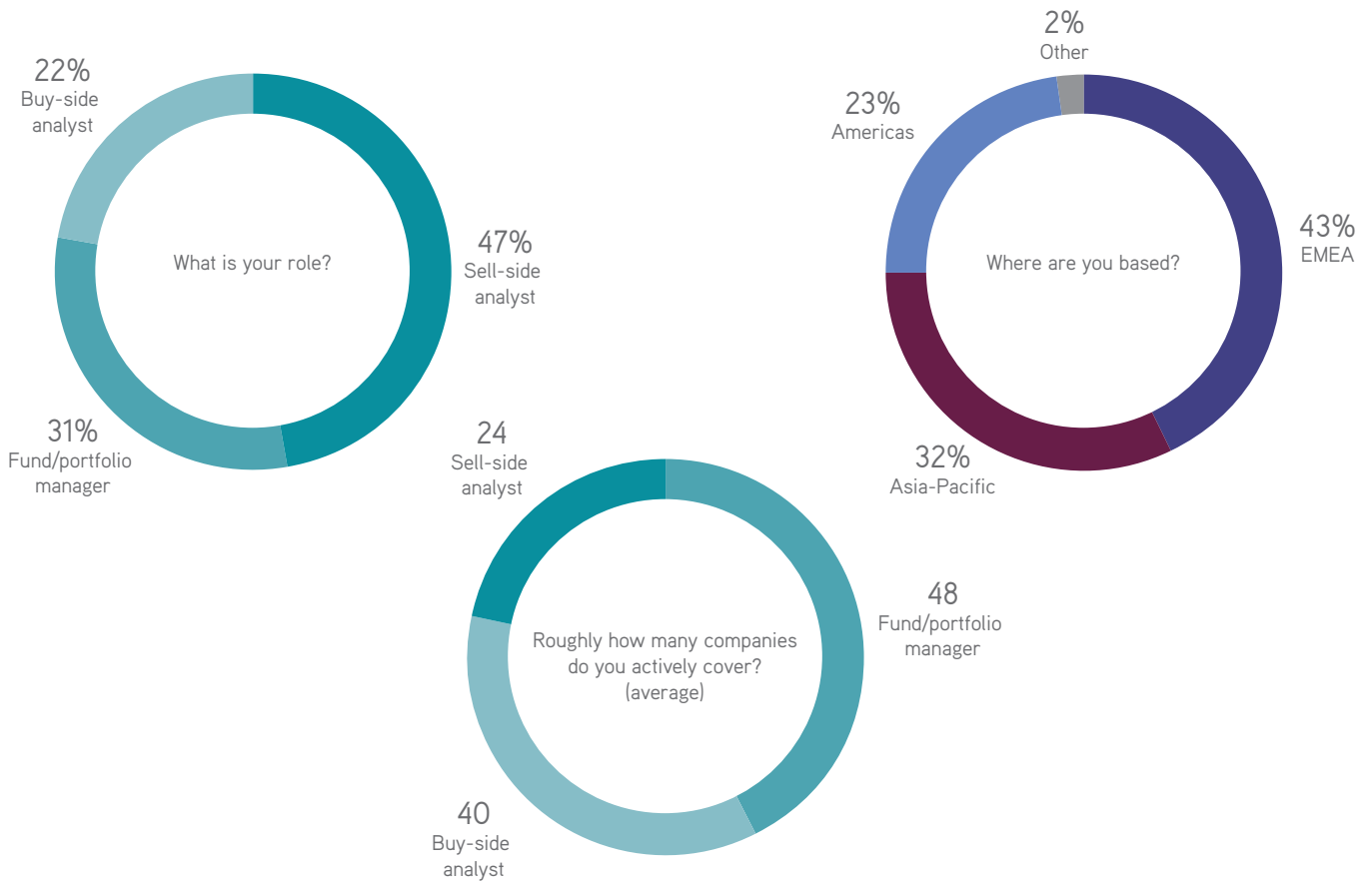
	Americas	Asia-Pacific	EMEA
Their business knowledge, background, credentials	4.6	4.7	4.5
Number of years of experience	3.6	3.7	3.4
Length of tenure at the company	3.4	3.5	3.1
Perceived trustworthiness	4.6	4.6	4.5
Ease of accessibility	4.4	4.4	4.2
Personal relationship	3.5	3.4	3.1

Results by market cap

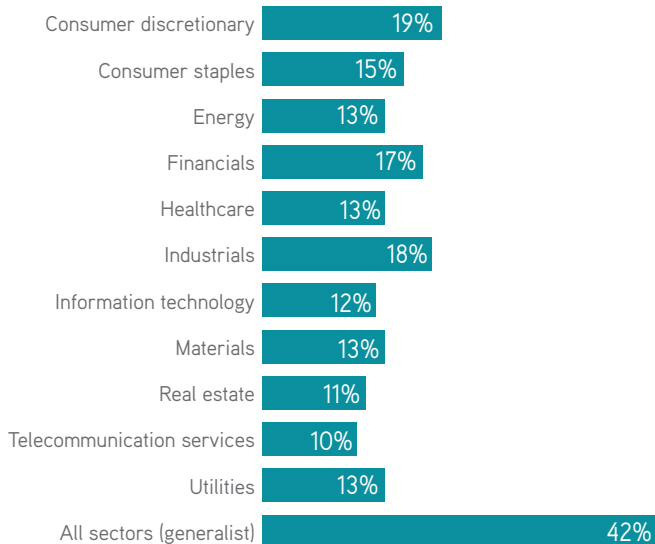
As with region and investment role, there is little disparity between investors and analysts who cover different market cap ranges. Personal relationships, years of experience and length of tenure are again considered the least important aspects.

	Small cap	Mid-cap	Large cap
Their business knowledge, background, credentials	4.6	4.6	4.4
Number of years of experience	3.5	3.5	3.5
Length of tenure at the company	3.1	3.3	3.4
Perceived trustworthiness	4.5	4.6	4.5
Ease of accessibility	4.3	4.4	4.2
Personal relationship	3.5	3.3	3.3

Respondent breakdown



Which sector or sectors do you cover?



Which market cap size are the majority of companies whose stock you follow/invest in?

