

2020 Corporate Access Survey Series

Benchmarking

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IHS Markit is pleased to present Part 3 of our 2020 Corporate Access findings. Based on a survey of over 300 global IROs conducted in January of this year, below we present our findings on the preferences of Investor Relations teams on benchmarking goals.

KPIs becoming more specific and results-oriented

- The #1 KPI for all regions and market caps is ‘Number of Meetings with Targets’
- Results-focused KPIs - buying/selling by targets and owners – are on the rise
- Nearly six in ten IROs frequently report to Management

For decades, IROs have searched for objective and credible ways to evaluate their performance. In the beginning, pioneering IROs offered to have a portion of their compensation tied to stock performance metrics such as total return, PE expansion, and volatility. IROs have since opted out of these plans as market and business conditions overwhelmed the positive effects their efforts could have on these measures. Not long after, shareholder demographics became the “in” thing – IROs began measuring results they were more closely associated with such as the style or turnover characteristics of shareholders (collectively, "Shareholder Demographics"). But here, too, market and business conditions – as well as buy-side industry dynamics – often obscured the effect the IRO had on the shareholder base, leading to spurious evaluation of IR performance.

Fast forward to the modern era. In 2016, NIRI published a survey on the adoption of key performance indicators by IROs. Among the many observations, the survey reported that “93% of IROs use at least one goal for their IR program” and “the most frequently used IR goals are quantitative in nature.” Our survey confirms: a majority of IROs hold themselves accountable to quantitative KPIs, with an emerging emphasis on shareholder transactions.

“As investors get more reluctant to take meetings, senior management becomes more reluctant to attend investor events. We are always looking for effective ways to measure success.”

- Large-cap, Basic Materials (UK)

Specificity talks, generalizations walk

Survey results reflect a clear push by Management to hold IROs accountable to KPIs they can reliably measure. The table below shows a majority of IROs using KPIs connected to marketing efforts focused on specific groups, compared to a minority of IROs using KPIs connected to more generalized groups or activities.

Most Common KPIs, with Trend and Regional Detail

| Key Performance Indicator | All | Trend | North America | Europe | Asia |
|---------------------------------|-----|-------|---------------|--------|------|
| Number of Meetings with Targets | 68% | ↑↑ | 70% | 65% | 71% |
| Retention / Growth by Holders | 59% | ↑↑ | 62% | 48% | 63% |
| Initiation by Targets | 57% | ↑ | 64% | 36% | 61% |
| Number of Meetings with Owners | 56% | ↑ | 63% | 46% | 41% |
| Number of Meetings | 46% | ↑↑ | 39% | 57% | 57% |
| Number of Events | 34% | ↓ | 26% | 47% | 44% |
| Shareholder Demographics | 32% | ↓ | 28% | 22% | 56% |

Notes: 'All' column ranks KPIs described as 'Very Important' across all industries and market caps for the most recent reference period (2019). Trend column indicates positive or negative change relative to previous reference period (2017). Two arrows indicates and +/- change of at least 15%. Green or orange fill in the Region fields indicates strong regional variance. Increases/decreases and detail by market cap referenced in text below are not shown in table above.

This trend is especially notable in North America. The percentage of North American IROs that believe it's 'Very Important' to track the Number of Events and Shareholder Demographics declined by 28% and 18%, respectively. On the other hand, 56% of Asian IROs believe tracking Shareholder Demographics is 'Very Important', an increase of 180% (a number likely inflated by a relatively small sample size.)

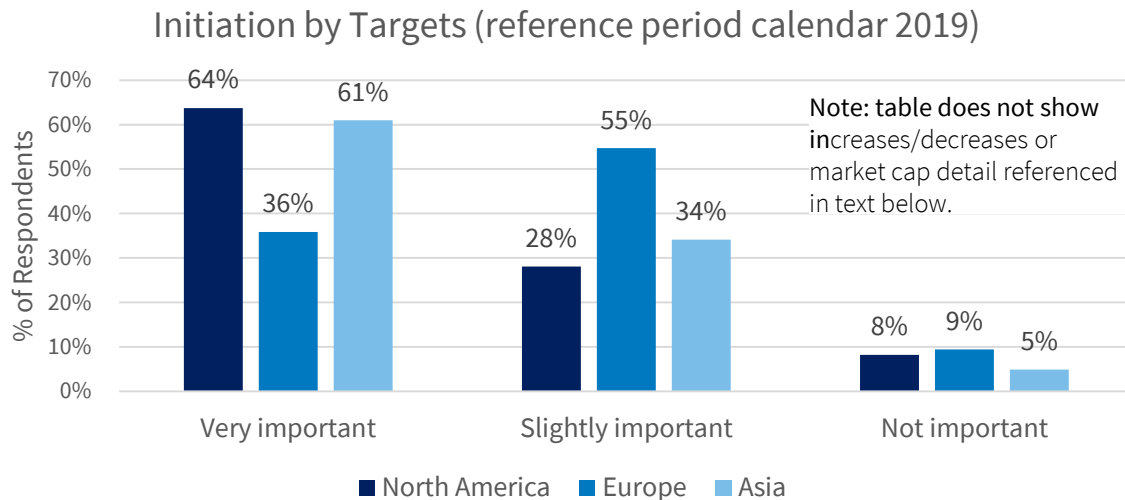
European IROs place less importance on shareholder transactions relative to their North American and Asian counterparts, but the trend is ambiguous: the percentage of European respondents who believe tracking Retention/Growth in Ownership increased,

while the percentage who believe tracking Initiation by Targets decreased. More on this later.

There were few notable differences in survey responses by market cap group. Unlike previous years, issuers placed a similar emphasis on targeting regardless of market cap; however, small-caps emphasized Initiation by Targets (as opposed to counting meetings) more heavily than large-cap companies, with the former rating it 'Very Important' 67% of the time versus the latter rating it 'Very Important' 58% of time.

IROs Adopt Investment Banking Role

Marketing deals is among an investment banker's top priorities. Convincing a potential issuer that the bank can successfully market a deal and maximize its value is often the decisive factor in winning a multi-million dollar fee. Similarly, can IROs monetize their marketing success? It appears the majority are taking steps down that path.



Nearly six out of ten IROs (57%) across all regions and market caps rate as 'Very Important' their ability to convert targets to owners. Specifically, 64% of North American respondents found Initiations by Targets to be 'Very Important' followed by IR teams based in Asia (61%) and Europe (36%).

In Asia, the percentage increase in respondents who rate Initiation by Targets as 'Very Important' increased by 71% relative to the previous reference year (2017). In North America, the percentage increased 18%, while in Europe the percentage fell 14%.

What might explain the decline in Europe? We note that the percentage of European respondents who rate Retention/Growth by Holders as

'Very Important' increased by 54% relative to the previous reference year (2017), far more than in North America (12% increase) and Asia (27% increase.) Possibly, MiFID II reduced investors' net value (value minus research charges) of taking meetings with issuers they don't own relative to the net value of taking meetings with issuers they own, and IROs adjusted their KPIs accordingly.

In our prior survey, large-caps led the way in adopting KPIs related to ownership changes, but small-caps are providing the momentum currently: 69% of small-cap IROs rate Initiation by Targets as 'Very Important', an increase of 44% over the previous reference period, compared to 58% of large-caps (a 5% increase).

An Update on Reporting to Management and the Board

Related to the topic of Benchmarking is Reporting. Nearly nine out of ten IROs report to the C-Suite, and just over seven out of ten to the Board, which is stable relative to 2017. With the exception of the majority of North American IROs reporting to the C-Suite on a 'Frequent' basis, we do not observe substantial variance in reporting practices across regions and market caps.

| | All | North America | Europe | Asia | Large-cap | Mid-cap | Small-cap |
|--------------------------|-----|---------------|--------|------|-----------|---------|-----------|
| Report to C-Suite | | | | | | | |
| Frequently | 55% | 62% | 43% | 37% | 53% | 61% | 49% |
| Sometimes | 32% | 26% | 36% | 56% | 32% | 30% | 37% |
| Report to Board | | | | | | | |
| Frequently | 32% | 31% | 32% | 27% | 27% | 33% | 33% |
| Sometimes | 40% | 43% | 26% | 56% | 49% | 34% | 42% |

The frequency of reporting is partly a function of the scarcity and materiality of new information available to report – IROs that deliver dynamic, needle-moving news that only they can deliver increase their access to Management.

Consider, the C-Suite and the Board likely have multiple sources for stock performance metrics (recall the early IR KPIs) and are not strictly reliant upon IROs for the details. Meanwhile, the pace of change in more IR-centric metrics such as shareholder demographics (the second generation of IR KPIs) is glacial and unlikely to warrant regular reporting.

We believe reporting your engagement with owners and targets – and measuring their subsequent buying and selling – will keep your conversations with the C-suite and Board fresh and compelling.

As you engage Management, avoid penning yourself in with tables and graphs (exclusively). If you “closed” a new investor, tell a short story about that success including the attributes critical to the win: themes that resonated, hurdles overcome, internal and external participants, and even venues. These details hold your audience's attention and help your leadership understand and support your initiatives.

“IR measurement is difficult as we can benchmark only numbers, but the real measure of success for investor relations is the quality of investor interactions and their understanding of our business.”

- Large-cap, Basic Materials (UK)