Investor Relations in Times of Uncertainty - meeting the needs of a post-crisis market

A Citigate Dewe Rogerson study

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Citigate Dewe Rogerson

Contents

Introduction

Who would be an IRO in the current uncertain times? Despite some signs of optimism in April, markets continue to be volatile, many investors still lack confidence in equities, and visibility on future prospects continues to be limited. These are just some of the factors making the job of communicating with shareholders, analysts and creditors a far from simple task.

To gain an insight into if, and how, investor communications activities are changing in view of the current market environment, Citigate Dewe Rogerson has conducted a survey among 80 leading IR officers from the UK and continental Europe.

Question topics included guidance and disclosure, analyst coverage and communication of forecast consensus, investor activity and activist investors, changes in the shareholder base, targeting and roadshow activities and the assessment of, and changes in investor sentiment. Finally, participants were asked to identify the key challenges that they expect to face during the year.

The survey participants represented a wide range of markets, sectors and company size. In total, 14 different countries are represented; just under half of respondents were from the UK and the remainder from continental Europe, with France (12%) and Germany (9%) being the two largest contributors after the UK. There was representation from all key sectors, and a range of market capitalisation from £200m to nearly £100bn.

Figure i: Sample by country

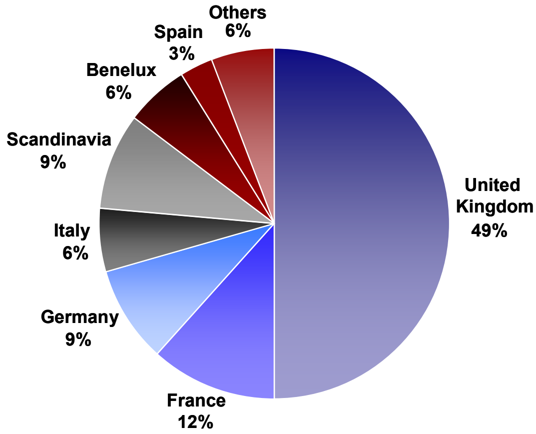


Figure ii: Sample by sector

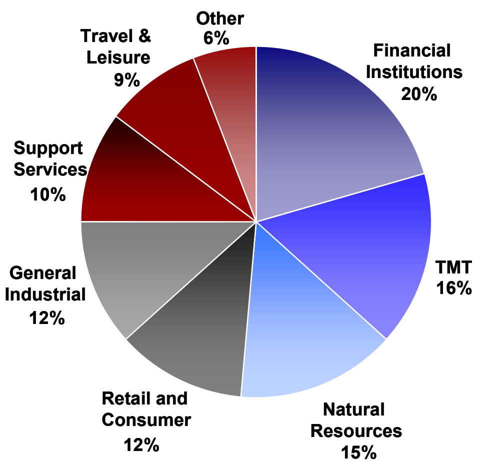
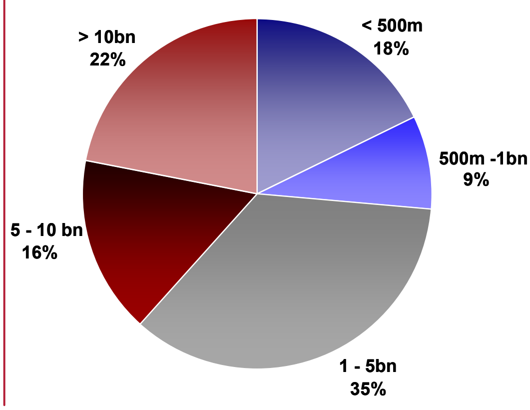


Figure iii: Sample by mkt cap (converted to sterling value)



Citigate Dewe Rogerson would like to thank all of those who took part in the study; we hope you find the results informative, and wish you every success for the remainder of 2009!

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Executive Summary

Disclosure and guidance

- Many companies are providing more information to the market: over 40% of companies have increased their disclosure, led - not surprisingly - by the financial sector, which has had to address specific issues regarding capital, asset exposure and risk
- Reflecting analyst and investor concerns regarding the financial strength of companies and their ability to withstand an economic downturn, there was an even more pronounced trend for increased disclosure relating to banking covenants (50% of participants either have already or plan to increase) and current financing (66%)
- Additionally, 28% of companies plan to increase disclosure in the coming year
- Despite the fact that some major companies, such as Unilever, have recently decided not to provide guidance to the market regarding future expectations, our survey found that nearly a quarter (23%) of companies were giving more guidance, particularly regarding the main performance drivers, with only 5% reducing guidance
- A post-results (April 2009) update supported the initial finding, with the majority of companies still giving at least the same amount of information as before
- However, it is important to note that the increased guidance that is being given is focusing not on specific financial targets, but in providing additional information on the main performance drivers to help analysts and investors come to their own conclusions

Analyst coverage and forecast consensus

- 26% of companies felt that the quality of coverage had declined, mainly due to analyst turnover, a decrease in the level of experience of analysts, but also because of the increasing focus on short-term trading rather than long-term fundamentals
- However, participants were broadly happy with the level of sell-side analyst coverage in terms of number of analysts following their company
- Nearly half of the participants have seen the range of analyst forecasts for their company widen, principally due to the worsening macro-economic backdrop; as a result some are now spending more time communicating with the analysts and trying to understand their underlying assumptions
- Making the IRO's task more difficult here is the fact that the majority of them see less than half of the analyst notes or models before they are published, and 30% are seeing fewer notes than used to be the case
- Although the vast majority of companies - either internally or through an independent consultant - do collect their own consensus, it is still rare for this to be made available publicly
- As a result, numbers 'in the market' tend to be taken from the third party providers and newswires who publish their own figures, which can be very different from the true consensus

Shareholder base, targeting and roadshows

- As expected, a number of participants have noted a decline in the level of hedge fund holdings and a corresponding increase in traditional long-only funds
- Shareholder targeting activities are being adapted in line with the changes being seen in the shareholder base, with many firms aiming to take a more comprehensive and sophisticated approach to this exercise
- Likewise, roadshow schedules are being reviewed, with the aim of focusing more on traditional funds as well as better prioritising management time; IR-only roadshows also seem to be on the increase

Investor activity and activist investors

- Investors have become more active in contacting companies for information, and in parallel, 42% of IROs said they had received an increase in requests for meetings
- However, while traditional investors may be becoming more active, the threat of activist investors is seen as diminishing if anything, and is not regarded as significant by the vast majority of corporates

Investor sentiment

- Nearly all participants said they track investor sentiment by means of in-depth perceptions studies or shorter feedback reports, with two-thirds either employing external consultancies or relying on their brokers for this
- Half of the participants have noticed a change in investor sentiment: most obvious here was the switch in focus away from growth and towards financial strength and stability, and also increasing caution and pessimism, although in contrast to this, some also felt that investor sentiment was starting to turn more positive from the beginning of the year

Main challenges for 2009

- This year is expected to be a challenging one on the IR front, with the main question being how to ensure that your positive messages are not only clearly communicated, but also understood and accepted by a sceptical market, particularly in certain sectors, with financial institutions having to battle against a general loss of confidence in their sector
- Setting and managing expectations is also high on the agenda for IROs in 2009, as is broadening the investor base, with the challenge here being to persuade fund managers made cautious by the gloomy economic environment that they should invest

Conclusions and Recommendations

Some clear trends can be seen from our research.

Disclosure is increasing, with many companies, either willingly or as a result of investor and / or media pressure, providing more information than used to be the case. In view of the market's increasing focus on aspects more traditionally associated with fixed income and credit, such as downside risk, earnings resilience, debt servicing and financial strength, companies will need to be prepared for in-depth questioning on these topics, and consider revising their disclosure policy accordingly to cover such areas as banking covenants, covenant headroom, debt maturity profile and refinancing risk. In essence, the traditional equity story of growth has given way to one of reassurance on the downside, and investor relations has to become closer to the company's Treasury function.

What to give in the way of guidance is another key area of debate, with companies having to strike the right balance between giving enough information for the market to make a reasonable assessment of prospects without unnecessarily tying themselves to a target which, for reasons beyond their control, turns out not to be achievable. Here, the aim should be to provide more detail around the key drivers, and focus on the aspects of the business that are within your gift to guide, such as controllable costs or capital expenditure. It is also advisable to work to move the market's focus more to the long term - something that some IROs have already highlighted as a key challenge for the year.

With forecast ranges widening, it is becoming even more important to have a thorough understanding of the underlying assumptions behind each analyst's numbers. There is a clear benefit in ensuring that analyst consensus estimates out in the market – and published in the media in the run-up to results – are up to date, drawn up on a consistent basis and are as far as possible accurate. Detailed interrogation of the numbers is, however, extremely time consuming, and we may well see more companies turning to external consultants to assist in this task.

In order to optimise the time spent in investor meetings, effective targeting becomes a must, and careful planning of the overall roadshow and conference schedule should be seen as an important part of the IR effort. Market perceptions will continue to change and evolve, and tracking these, both through direct contact and more formal, independent surveys will no doubt continue to be a key part of the annual IR programme.

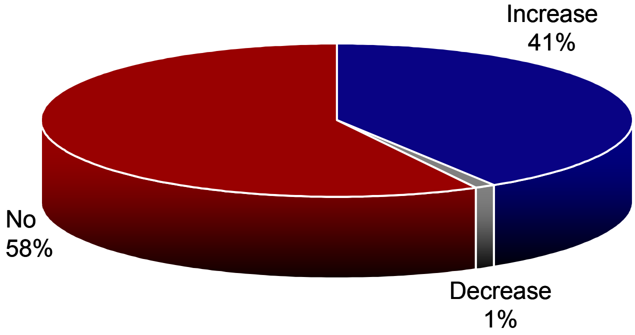
Obviously there can never be a "one size fits all" approach to investor relations and how to deal with difficult markets. What makes sense for one company may well not be the right strategy for another. However, as we look forward to a (hopefully) more optimistic environment in the second quarter of 2009 and beyond, it seems clear that whatever the market environment there will be increasing demands on the IR function, be it in responding to information requests, tracking changes in the shareholder base, targeting investors and optimising the time that senior management spends on IR, or keeping on top of the analyst forecast consensus and effectively managing expectations.

Detailed Findings

I) Disclosure - more detail helps to reassure and differentiate

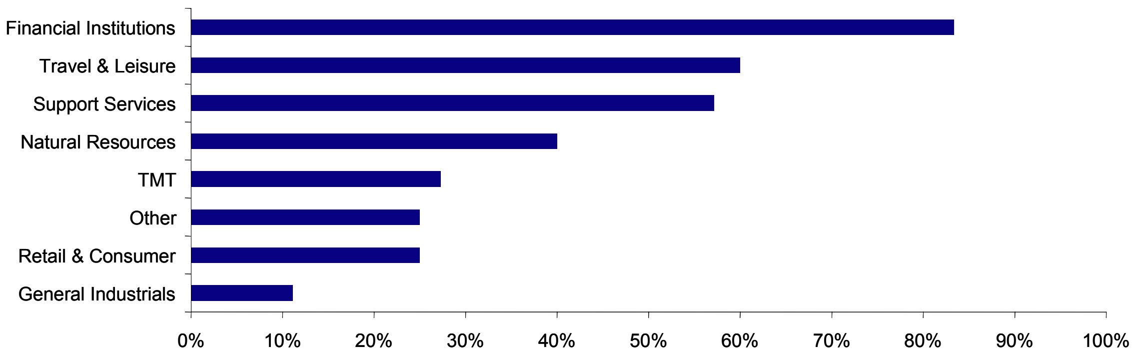
- Over 40% of companies have increased their disclosure over the past year, although sector analysis shows the trend is not universal
- The number of those having increased, or planning to increase provision of financing and covenant-related information is even more pronounced, at 66% and 51% respectively
- Additionally, 28% plan to make further disclosure improvements suggesting a clear trend to providing more information

Figure 1: "Has your general level of disclosure changed over the past year?"



In total, 41% of the companies polled said that their general level of disclosure had increased over the past year. However, within this there were clear variations between sectors. Perhaps predictably, it was financial institutions that led the way here, with 83% of FIG sector participants providing information in additional areas. Travel and leisure and support services were the only other sectors where more than half had increased disclosure, compared with less than a third of TMT and retail companies, and just 11% of the general industrials.

Figure 2: Companies having increased disclosure over the past year (by sector - measured as percentage of overall sector participants)



Regional variations were also seen, with Benelux at 75% having the highest proportion of participants increasing disclosure, and Italy and Spain, at less than 25%, the lowest.

- ***"We have further increased the depth of our reporting and included more business specific KPIs."*** (German industrial company)
- ***"We always try to improve the level of disclosure and to comply with new European / SEC laws…"*** (Belgian retailer)
- ***"We have provided additional disclosure with regard to the sensitivities of earnings and capital position to movements on financial markets."*** (Netherlands financial institution)
- ***"We are giving more granularity in key areas of market concern."*** (UK financial institution)
- ***"Increased disclosure of underlying economics of business and detailed disclosure of bond and ABS exposures."*** (UK financial institution)

The main areas where companies are increasing disclosure include trading performance, costs, cash flow, dividends and acquisition strategy. In addition, some sector-specific trends can be seen, with financial institutions trying to reassure the market with more detailed breakdown of their asset exposure, liquidity, capital position and risk.

Regarding disclosure of key areas such as banking covenants and current financing, the trends were even more notable, with just over 50% of participants either having already increased or considering increasing disclosure of covenants, and an even higher 66% having provided or considering providing additional detail regarding current financing. This is perhaps in some way due to the pressure that has been seen publicly in the media, and no doubt privately from investors to provide more information.

Figure 3a: "Have you provided, or are you considering providing, additional detail regarding banking covenants?"

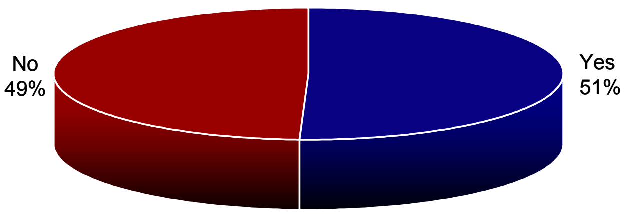
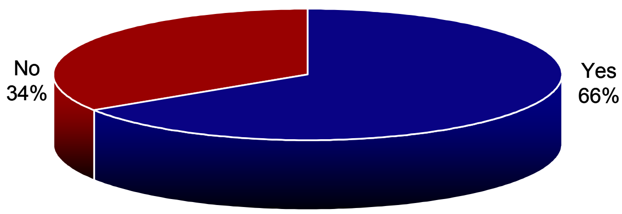
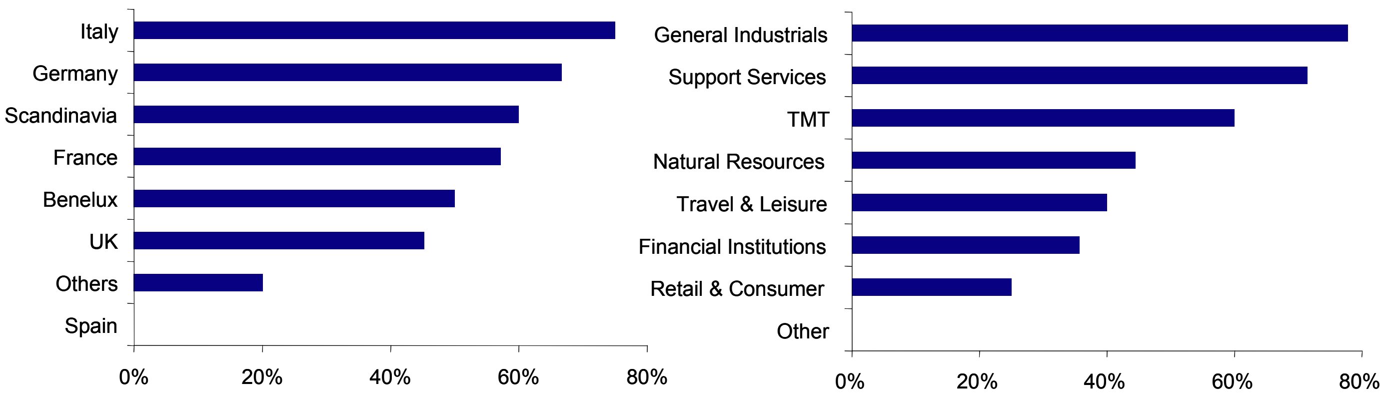


Figure 3b: "Have you provided, or are you considering providing, additional detail regarding current financing?"



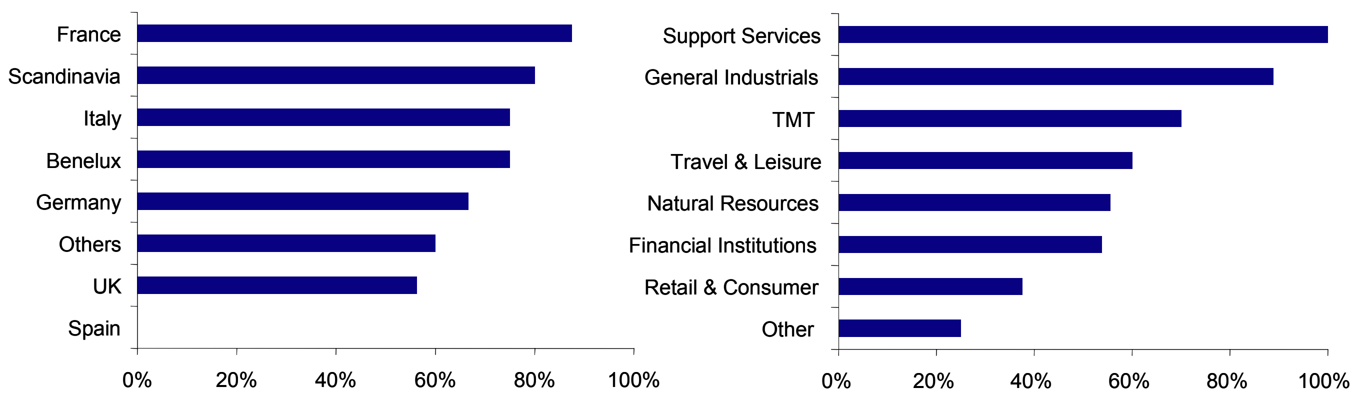
Looking at the regional and sector breakdowns, in terms of banking covenants, Italy and Germany (at 75% and 67% respectively) had the highest proportion of companies increasing disclosure. Variations among the different sectors saw a similar range: 78% of industrials had provided more information on their banking covenants, compared with just 25% of retail and consumer companies.

Figures 4a and b: "Have you provided, or are you considering providing, additional detail regarding banking covenants?"(by region and sector, measured as percentage of overall sector participants)



Companies from France (88%) and Scandinavia (80%) were statistically the most likely to have provided more detail on current financing. As with banking covenants, industrials (89%) were also among the leaders to provide more information on financing, although here, the support services sector really stood out, with all participants having increased disclosure in this area.

Figures 5a and b: "Have you provided, or are you considering providing, additional detail regarding current financing?" (by region and sector, measured as percentage of overall sector participants)



- ***We have given more information on debt borrowing facilities and covenant monitoring."*** (UK support services company)
- ***"We have increased disclosure regarding debt and associated covenants."*** (UK household goods company)
- ***"More information on covenants and financing."*** (French TMT company)
- ***"We are giving more detailed information on cash flow, balance sheet, financing arrangements…"*** (UK TMT company)
- ***"We have given greater visibility to our debt make-up and maturity profile.***" (UK utility company)
- ***"We are giving some additional information on the balance sheet/debt situation - covenants etc."*** (UK travel & leisure company)

Interestingly, despite some evidence of an increasing focus on pension fund deficits, only around a third of participants said they had provided, or were considering providing, additional information regarding the situation of their pension fund. Here again, the leading industries in terms of increasing disclosure were support services (57%) and general industrials (56%). Looking at the regions, Benelux and Germany (both 50%) had the highest percentage, with Scandinavia and Spain (20% or less) the lowest, although of course this does not take account of existing levels of disclosure, which may well vary by country or sector.

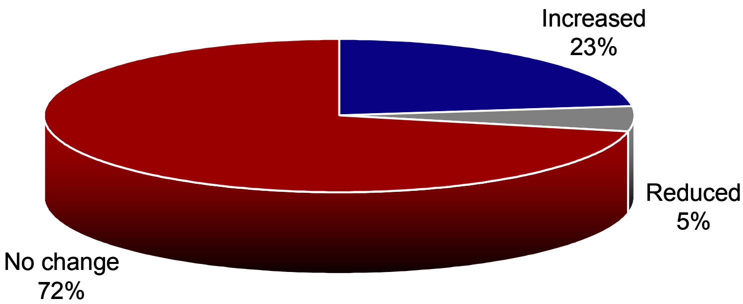
Looking to the coming year, 28% of companies (including those that have already increased disclosure this year as well as a number that have not as yet made any changes) are planning to increase disclosure in similar areas as those already seen, underlining both the importance of openness in market communications as well as reflecting the need to match up to one's peers in terms of disclosure.

II) Guidance - focus on 'softer' information and factors within management control

- Some evidence of increasing guidance, despite recent tendency by some major companies to steer clear of targets

Given the recent widely reported moves by companies such as Unilever and Deutsche Börse to cut their financial targets altogether and with GlaxoSmithKline dropping its short-term earnings guidance, it is interesting to note that 72% of participants said they had made no changes to the guidance given to the market over the past year, and just under a quarter of participants in our survey were giving more guidance.

Figure 6: "Have you changed the amount or type of guidance that you communicate to the market over the past year?"

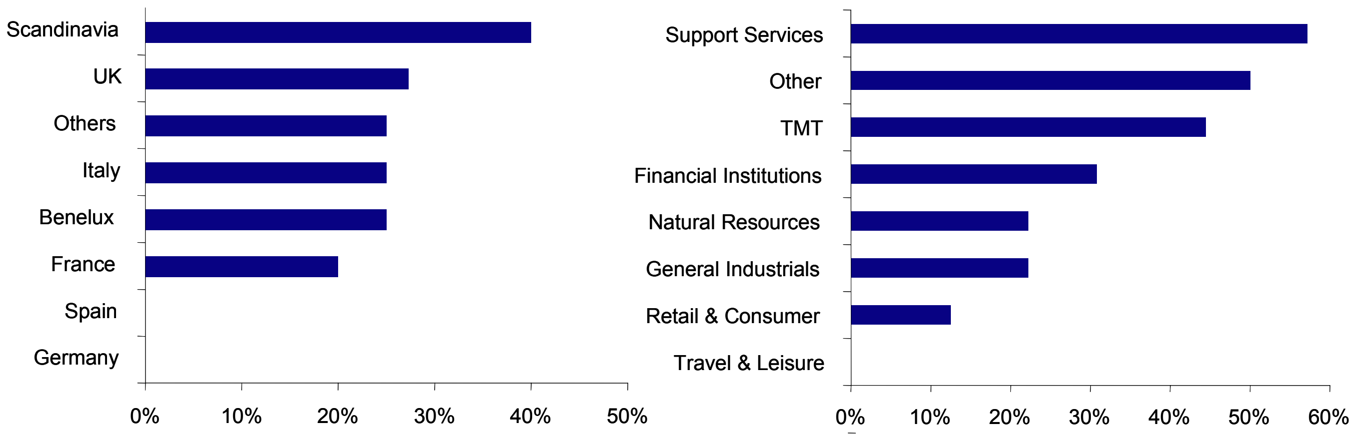


Of course, one should bear in mind that the survey was carried out before the full year earnings season, and that the fact that some major companies have chosen not to give earnings targets at this time may lead others to follow suit in future. However, updated information received during April suggests that most are still giving at least the same amount of guidance as before. It seems clear, therefore, that companies have by no means given up on this practice, and for certain sectors, such as the relatively well performing telecoms incumbents, it is 'business as usual', with most giving guidance on all their normal metrics. In other industries, it is more a case by case development, with Reckitt Benckiser, Unilever's sector peer, giving clear growth targets for both sales and net income.

Focusing on the actual survey results, increased guidance was most commonly seen in the utilities and support services sectors, with retail having the lowest proportion of companies providing more detailed guidance. From a regional perspective, Scandinavian countries stood out, with 40% having given more guidance; Spain and Germany were at the other end of the scale, with no companies in this category.

The survey also suggested that there was no direct correlation between profit warnings and changes in guidance policy, with the same proportion of companies which had issued a profit warning during 2008 providing more detailed guidance as those that had not. However, of the 5% of companies that had reduced guidance, all had issued a profit warning earlier in the year.

Figures 7a and b: Breakdown of companies having increased the amount or type of guidance over the past year (by region and sector, measured as percentage of overall sector participants)



However, to get the real picture of what is happening in terms of guidance, it is necessary to look more closely into the type of information that companies are giving. This shows that the increased guidance that is being given is generally focused on ‘softer’ areas. So rather than giving more in terms of specific targets, companies are providing information that aims to help analysts and investors to assess the expected performance for themselves. This includes areas such as free cash flow dynamics and drivers, providing insight into and more detailed commentary on industry trends, and sensitivity analysis relating to a range of potential scenarios.

What is also interesting to note is that some IROs are spending more time reviewing analyst models and talking through the underlying assumptions, thus helping analysts arrive at a more informed forecast than might be the case otherwise.

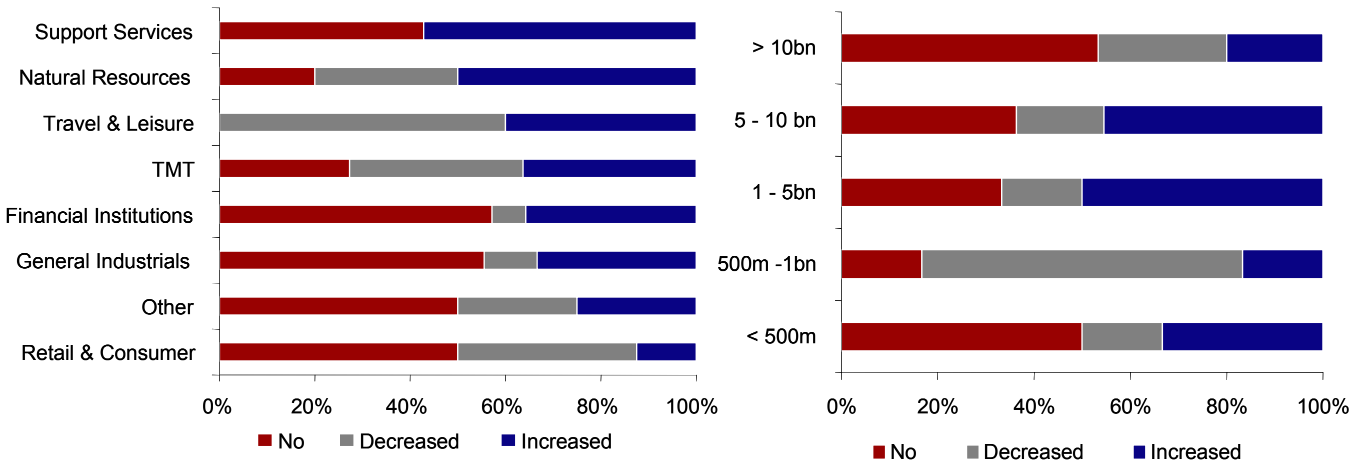
- ***We are giving more guidance on financing, cashflow, and the pension deficit.”*** (UK support services company)
- ***“We have tried to give guidance on sensitivities of specific items to market impacts.”*** (Netherlands financial institution)
- ***“We provided more visibility on FCF dynamics and drivers.”*** (Italian TMT company)
- ***“We have tried to give more guidance on 2009 trends.”*** (UK TMT company)
- ***“We gave guidance on operating margins and the level of debt for the first time - before we only gave guidance on the revenue growth.”*** (French industrial company)

III) Sell-side coverage – close communication required

- Level of coverage fine, but some issues with quality
- Uncertain environment and differing macro views leading to increase in forecast ranges

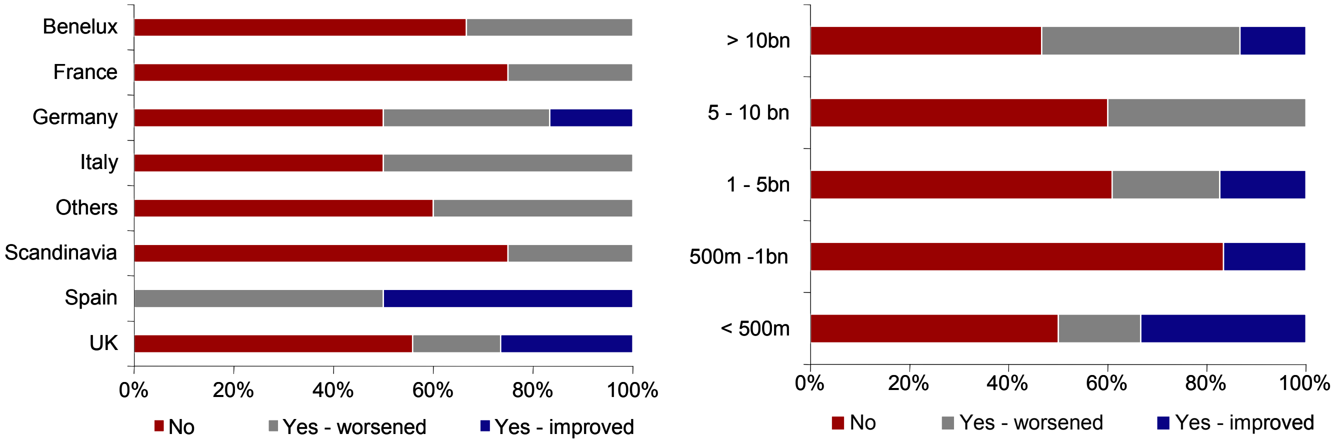
The vast majority of participants (85%) said they were happy with the level of analyst coverage that their company received. This is in spite of the fact that a quarter of companies had seen their level of coverage decreasing. This decrease was most notable among companies in the £500m - £1bn market cap range, with 60% of these suffering a decline in the number of analysts following them. Conversely, 50% of companies with market capitalisations ranging from £1bn - £5bn saw their analyst coverage increase. In terms of sectors, the highest proportion seeing an increase in coverage was seen among the natural resources and support services companies, whereas 60% of travel and leisure companies saw a decrease in their coverage. However, it should not be assumed that a decrease in number of analysts covering is always a bad thing, with one IRO mentioning that with too many analysts covering it is impossible to spend enough time going through the figures with all of them, and that as a result they tend to focus on the smaller number of 'core' analysts.

Figures 8a and b: "Has the number of analysts providing coverage on your company changed over the past year?" (by region and size)



However, while most companies had no complaints about the number of analysts following them, over a quarter of respondents (26%) felt that the quality of analyst coverage had declined over the past year, compared to only 17% who had seen an improvement. Here, there was a notable distinction between opinions in the UK and continental Europe, with only 6% of IROs from the latter region seeing an improvement in quality of coverage, compared to 26% in the UK. In contrast, 34% of continental European participants felt that the quality of coverage had worsened, against only 18% from the UK. However, indications are that things may be improving for smaller companies, with a third of smaller companies (those with a market cap of less than £500m) believing that their quality of coverage had improved, and none of those in the £500m - £1bn market cap range seeing any worsening in quality.

Figures 9a and b: "Do you think the quality of analyst coverage has changed over the past year?" (by region and size)



A variety of reasons were given to explain why the quality of analyst coverage has been affected in recent months. Most frequently cited was the change in analysts following the stock, with more experienced people who have built up a good understanding of the company being replaced by new, less experienced analysts. Also mentioned was the fact that analysts now - affected no doubt by internal cost-cutting among the brokers - have to cover more companies, with the result that they have less time to focus on the details of any particular equity. Another concern was the growing focus on short-term trading, with analysts becoming more simplistic and event-driven in their recommendations, and placing less emphasis on a company's underlying value drivers. Finally, there was criticism that amidst all the market uncertainty, some analysts were not updating their numbers frequently enough, with the result that their forecasts were rapidly becoming unrealistic.

Where there were improvements, these were seen mainly through the stock becoming better known - either through moving into their market's main index and hence attracting more attention, or due to the fact that analysts were doing more thorough analysis and thus developing a better understanding of the company.

- ***"A number of covering analysts who were experienced in our company/sector have lost their jobs due to closures or rationalisation, and as a consequence there is a decreasing number of experienced/"quality" analysts in our sector."*** (UK travel & leisure company)
- ***"Research has become more focused on addressing shorter term hedge fund trading client base rather than fundamental long term analysis of companies' prospects."*** (UK retail company)
- ***"The quality of coverage has slightly worsened. Each analyst covers a wide range of companies and has little time left to understand in more detail the particularities of the company's activities/business, which leads to some inconsistencies over time."*** (Portuguese utility company)
- ***"Coverage quality has improved because the knowledge of the analysts is better and better, but worsened because they are under pressure from their marketing and sales teams and react more and more to short term events rather than to reflect the fundamentals of a company."*** (French industrial company)

Not surprisingly given the current economic uncertainty, nearly half of the survey participants said they have seen an increase in the range of analyst forecasts. However, only a relatively small number were taking specific action to address this, partly on the basis that the variation tends to be due to the differing macro-economic assumptions of the individual brokers, and partly because - as alluded to earlier - the companies themselves do not feel able to give specific guidance. Those that are taking action to try and reduce the forecast range are focusing on increasing their communication with the analysts, and spending more time trying to understand the underlying assumptions that are resulting in their figures. This task, however, cannot be made any easier by the fact that nearly three quarters of IROs questioned said they see less than half of the analyst notes before they are published, and half of them see less than a quarter. In addition, around a third said they now see fewer notes before publication than used to be the case, with only 5% seeing more.

Figure 10: "What proportion of analyst notes do you see or review before publication?"

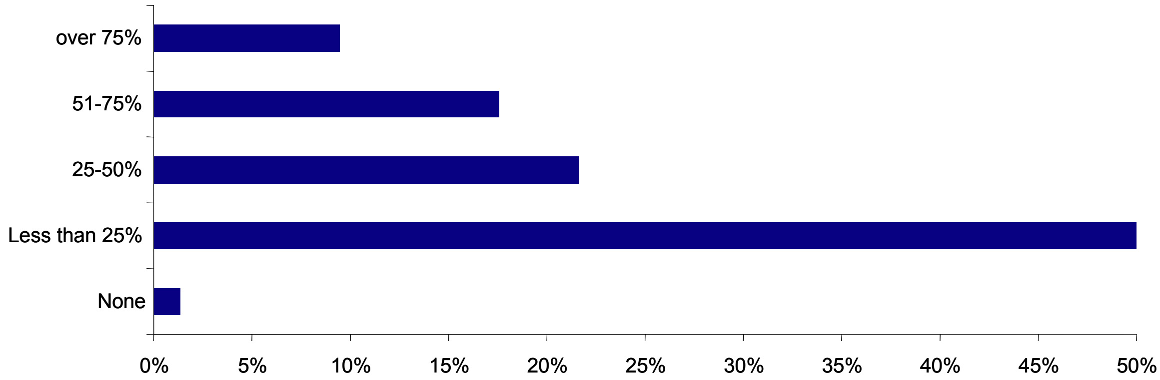
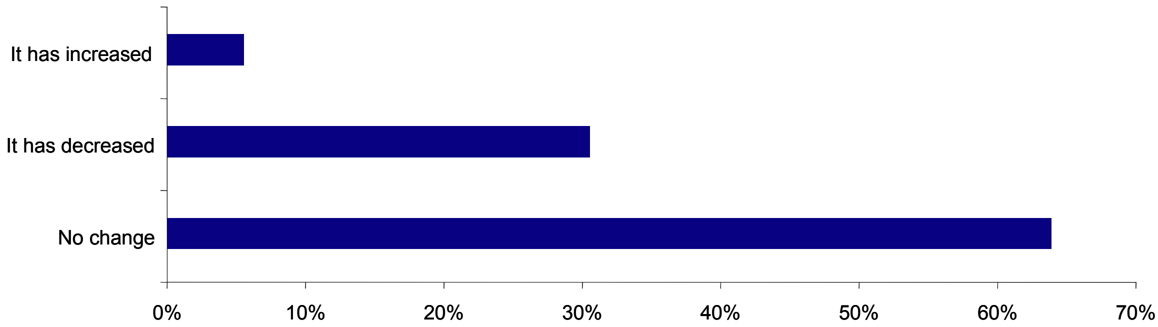


Figure 11: "Has the proportion of analyst notes you see before publication changed at all in the past year?"



Consensus gathering is almost exclusively done from analyst models, with only a small minority of companies relying on published notes to collect the range of forecasts. It still seems relatively rare to publish the consensus - only 16% of participants currently do this, compared to the 67% who either share their information verbally or via email to analysts (often restricted to those who participate in the process). However, this lack of wide publication tends to mean that the numbers 'in the market' are often taken from third party providers, which can result in some material differences. In particular, participants mentioned the fact that these third parties sometimes include analysts that are no longer actively covering the stock, and do not always have the latest information as most analysts update their models more frequently than they publish actual notes. More importantly, some companies note discrepancies caused by the fact that allowances are not always made for different accounting standards, and that where the fiscal year does not run in line with the calendar year this can also lead to errors in the consensus calculation. In addition, the pre-results polls that are often published by the major newswires regularly include just a small selection of analysts and therefore cannot be seen as an accurate reflection of the true consensus.

- ***"Some analysts persist in publishing their forecasts under UK GAAP rather than IFRS. When we calculate consensus we obviously adjust for this. Unfortunately the third party providers don't and so their version of the consensus is almost always wrong."*** (UK retail company)
- ***"Consistently third party data providers fail to analyse material definition inconsistencies in analyst models resulting in quite material errors in the consensus."*** (UK retail company)
- ***"There are some differences as 3rd party providers may include forecast estimates from brokerage houses that have some "indicative" numbers on our stock but have yet to officially initiate coverage and hence we do not include them in our consensus."*** (UK support services company)
- ***"A common problem is analysts reporting IAS 39*** **[recognition and measurement of financial instruments]** ***adjustments differently - excluding or including them for valuation purposes, which makes comparisons against reported performance difficult."*** (UK financial institution)

IV) Shareholder base, targeting and roadshows - stepping up activities

- Hedge funds replaced by more traditional holders; targeting activities focused accordingly
- Aiming to ensure efficient use of management time; roadshows mainly focusing on key investment centres

Not surprisingly, given market developments, a number of participants said they had noticed a decline in hedge fund holdings in their shareholder base, with a corresponding increase from the more traditional long-only funds. Stock lending levels have also declined.

There have been some notable changes in geographic mix, with a number of companies from both the UK and continental Europe noticing an increase in US holdings, in some cases - in France in particular - at the expense of UK holdings. A few of the Scandinavian participants had also seen a decline in international investors in general.

Increasing shareholder concentration was an issue for a small number of, mainly UK, participants, although others are seeing more fragmentation of their investor base. One thing that is clear, however, is that as a result of the increasing volatility, many companies have had difficulty tracking changes among their shareholders and so are not yet entirely clear as to the full extent of how their shareholder base has been impacted by the current environment.

- ***"Our US shareholder base has increased significantly."*** (German TMT company)
- ***"The company has experienced a significant share price fall and now has a much more fragmented register."*** (UK retail company)
- ***"There is huge volatility and it's hard to track where the shares are."*** **(**Netherlands industrial company)
- ***"No large change - some overweight institutions have reined in - but this sell flow has been picked up by quality institutions."*** (UK travel & leisure company)
- ***"More long term investors, more sovereign funds, more US investors; less hedge funds; less UK investors."*** (French travel & leisure company)

Targeting activities appear to be being adapted accordingly, with 40% of participants intending to make some changes in this area. A number are planning to raise the priority of targeting in their overall programme, and trying to increase its effectiveness through introducing more sophisticated methods. Finally, some are planning to target more specialist funds, with SRI being noted as a particular area of interest.

In terms of roadshow scheduling, although second tier centres were noted as an area of focus for some IROs, companies seem generally to be planning to spend more time focusing on the key investment centres. They also plan to reduce the time spent meeting hedge funds in order to concentrate on the major, long term-focused institutions. In line with the increasing interest that has been seen from across the Atlantic, meeting activities in the US are being stepped up by some of the larger companies, although others, conscious that a diminishing market value is likely to reduce interest from that market, plan to reduce the number of visits there. With the aim of better prioritising senior management time, there are plans to increase the number of IR-only roadshows, and make more use of broker conferences.

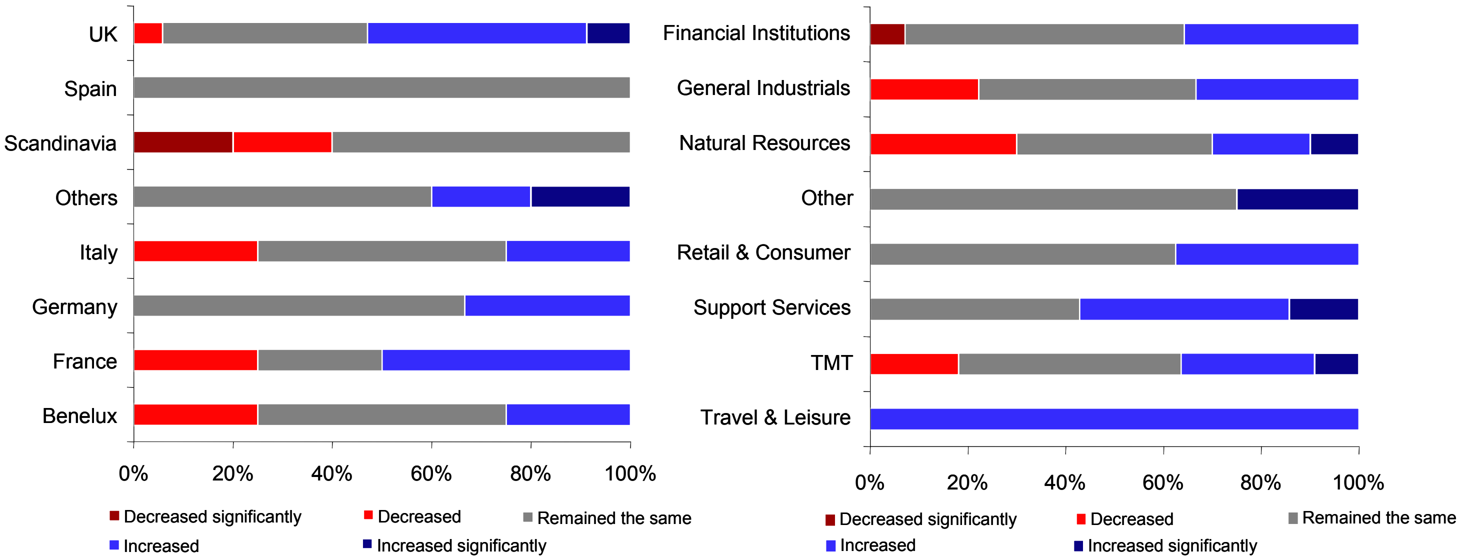
- ***"We will be targeting more traditional long only funds."*** (UK natural resources company)
- ***"We will be optimising our targeting thanks to a better and up to date knowledge of our investors."*** (French travel & leisure company)
- ***"Targeting has been largely defensive this year, emphasising existing holders - we aim to selectively widen the scope."*** (UK financial institution)
- ***"We plan to be very focused on our CEO and CFO time with investors and analysts and to employ more senior managers (outside of IR/CEO/CFO) in communicating with investors."*** (UK travel & leisure company)
- ***"Our need to visit the US is diminishing in line with our market cap - we are now too small for many US institutions to want to meet with us."*** (UK retail company)
- ***"We will be doing more IR-only roadshow activity."*** (German TMT company)
- ***"We will increase the number of IR-only visits to London and New York to complement executive roadshows there."*** (Netherlands financial institution)

V) Investor activity and activist investors

- More requests for information and meetings, but activism less of a threat

The general consensus appears to be that, with the increasing market uncertainty investors are becoming more active in contacting companies for information, particularly in terms of financing and debt issues. In parallel, requests for meetings have increased for a number of companies. Overall, 42% have seen an increase or significant increase in meetings requests, compared to 12% who have seen a decrease. Demand for meetings has risen most in the support services and travel and leisure sectors.

Figures 12a and b: "Compared to 2007, has the number of meeting requests that you receive from investment institutions increased, decreased or remained broadly the same?" (by region and sector)



However, while investor activity may be increasing, the threat of activist investors does not seem to be a major concern for most IROs. Less than 3% of participants currently see activist investors as a significant threat, with 56% seeing them as no threat at all. The general view seems to be that if anything, the activist investor threat is diminishing. This is attributed partly to the decrease in number and strength of hedge funds, but also to a perceived decline in the 'agenda for change', and the diminishing popularity of high gearing levels. Some note, however, that with depressed valuations, it could be considerably easier for a potential activist to build a large stake, and so the threat - for some companies at least - has by no means disappeared completely.

- ***"Activist investors have played a significant part in bringing about consolidation in our sector in the last two years and remain "active" in our space, but with reduced influence and contact."*** (UK travel & leisure company)
- ***"Previously, with a bigger 'change' agenda, activists saw greater scope to make noise. Now, with changes completed and a focus in the market on under-performers, activism has declined."*** (UK consumer company)
- ***"It has declined as gearing has become less popular."*** (French industrial company)

VI) Investor sentiment - assessment and changes thereof

- Sentiment surveys conducted by the vast majority; post-event feedback supplemented by in-depth studies
- Investor sentiment not surprisingly more cautious; focus more on financial position and sustainability

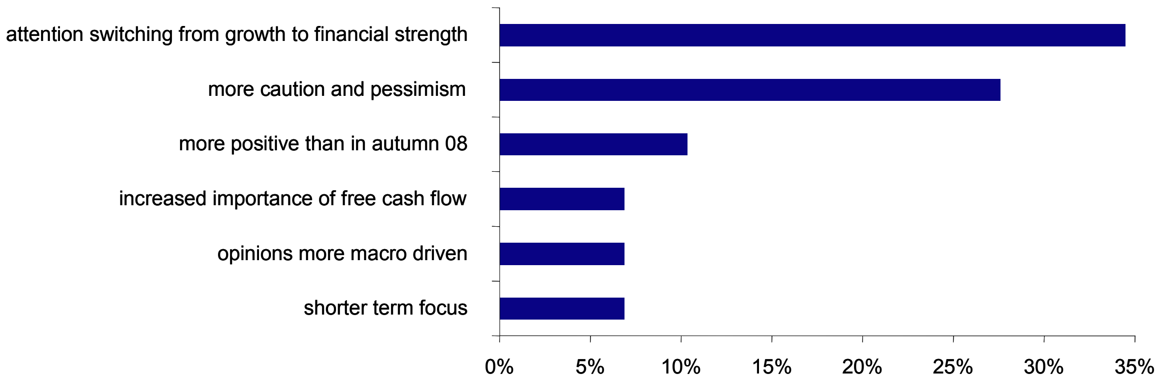
Nearly all participants said that their companies undertake some form of regular perception study to keep track of sentiment in the market. Of these, just over a third carry out the studies internally, with a similar number using specialist IR consultancies, and the remaining 30% relying on their broker support.

In terms of the type of studies carried out, 42% rely primarily on in-depth investor perception studies, with the remainder focusing on post-roadshow feedback and / or pre- and post-event polls. The vast majority of companies use these results for briefing their wider management board, although participants took care to point out that this is not the only form of briefing and stressed the importance of direct, ongoing communication with their investor and analyst base.

Perhaps surprisingly, given the market turmoil, only half of the participants said they had noticed changes in investor sentiment. In general, these mirror the findings we have seen already in terms of the increasing focus on companies' balance sheet structure and financing arrangements.

So, as shown in the chart below, investors are seemingly more interested in being reassured about a company's balance sheet strength and gearing levels than in hearing about its growth potential. Interestingly, while the more prevalent view was of more caution and pessimism in the market, some saw signs of a more positive outlook emerging in 2009, particularly in terms of the support that investors are giving to those companies which are giving an honest, open assessment of the situation.

Figure13: "What changes have you noticed in investor sentiment over the past year?"



VII) Main challenges for 2009

- Building support for the positive messages

It goes without saying that 2009 is expected to be challenging on the IR front. Of particular concern for IROs is how, in such a volatile and uncertain environment, to ensure that the positive messages are clearly communicated and, more importantly, understood and accepted by the investment community. This is of particular importance for certain companies, such as those involved in the financial sector, which face the challenge of rebuilding the confidence that has been so badly affected by recent developments. Also high on the list is the question of how to counteract the effect of a gloomy economic environment on investor sentiment, and how to go about broadening the investor base when investors are still hesitant to put their confidence back in equities. So - as noted earlier - identifying and communicating with potential new investors will be an important task. Managing expectations is also seen as one of the main challenges for the year ahead. And finally, looking to counteract the more short-term focus that is being seen, some will be looking to encourage the market to concentrate on the long term potential.

Figure14: "What do you see as your main challenges for 2009?"

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
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We have more than 80 experienced consultants in London structured along 15 sector teams. 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 combine 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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