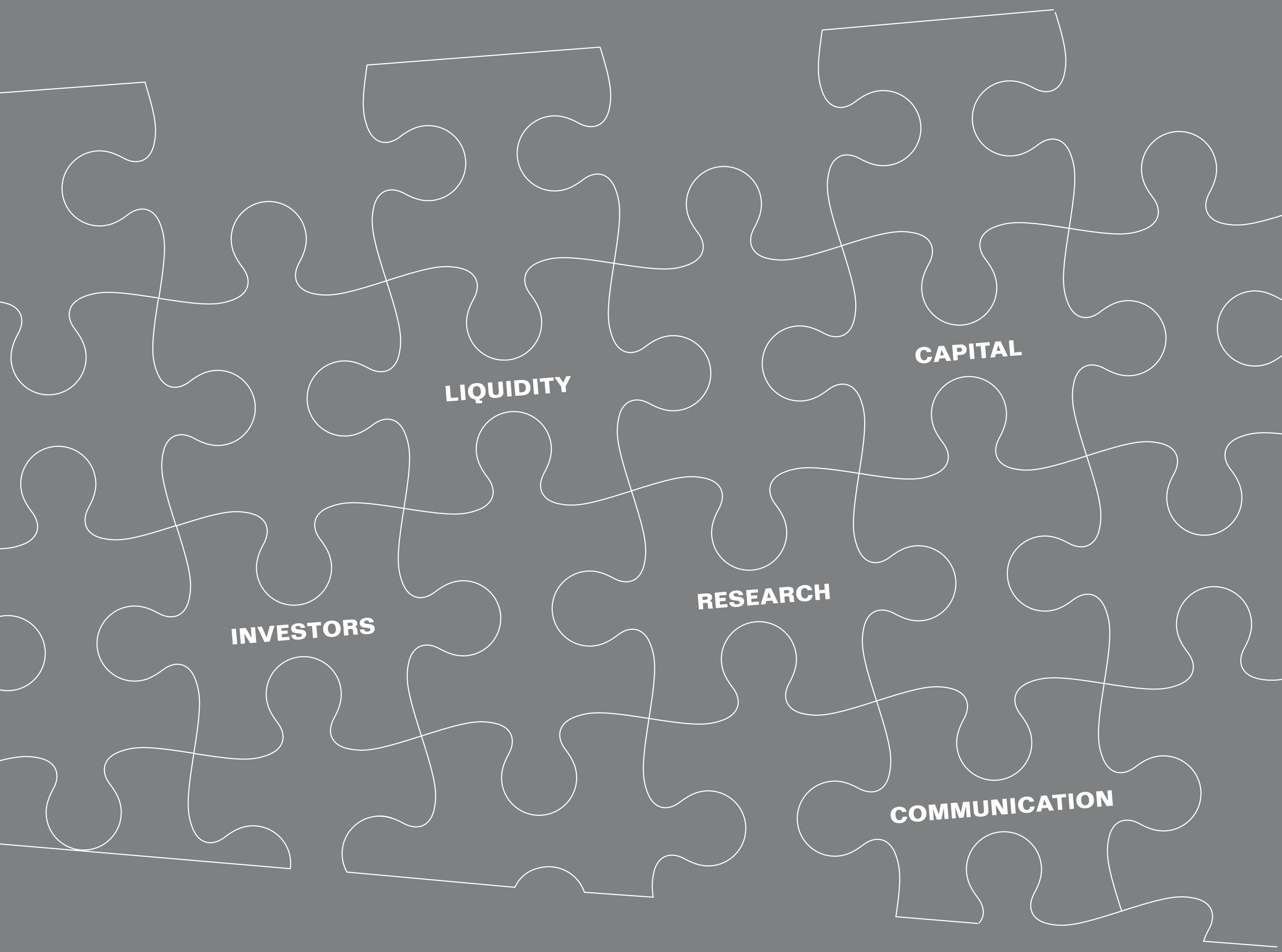
London Stock Exchange

Investor Relations

A PRACTICAL GUIDE



The aim of this guide is to provide practical assistance to companies on investor relations by examining best practice and key principles that might be considered when developing an investor relations strategy.

The guide collates a wealth of expertise and insight from a series of corporate advisers, quoted companies and investors, who have each provided their current thinking on a particular aspect of investor relations. Collectively, the guide addresses the definition of investor relations, what companies aim to derive from their investor relations activities, the range of stakeholders investor relations is aimed at and the advisers and tools available to companies that are planning to establish a successful investor relations strategy.

The guide will be particularly relevant to management teams of both private companies who are considering a stock market flotation, as well as companies whose securities are admitted to the London Stock Exchange's markets, such as AIM and the Main Market.

We trust readers will find this guide to be a valuable resource on investor relations best practice.

London Stock Exchange, March 2010

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Preface

Michael Mitchell, General Manager, The Investor Relations Society

Over the last 10 years we have seen significant movements in the capital markets, accompanied by changes in the speed and method of information dissemination. There have also been tectonic shifts in the structure of global financial power in favour of the BRIC economies and significant swings in the flow of investment funds towards hedge and sovereign wealth funds. These trends are likely to continue over the coming years.

For quoted companies this means a continuing challenge to attract and retain investment funds. Investor relations (IR) is therefore essential. Far from being an additional cost, an effective IR programme can not only save valuable management time, but can also help to deliver a fair valuation for the company's equity, reduced funding costs and provide a resilient shareholder base which will stand the company in good stead if times get tough.

To be effective however, the IR programme and those carrying it out, must have the full commitment and support of the Board and senior management. Properly used, the IR team will be the eyes and ears of the company in the market and will deliver valuable insight into market sentiment. We should remember that communication should be about dialogue, not just a one way flow of information. With corporate governance now moving up the agenda, a wise management team should listen to what investors are saying.

This guide will provide a valuable tool for all companies and we hope that best practice investor relations will be embraced by all management teams.

The Investor Relations Society is committed to promoting effective two way communication between companies and the financial markets and we therefore welcome the opportunity to be associated with this guide.

Key Practicalities

The following summary provides a brief overview of the key considerations covered in more detail throughout this guide:

Secure Board commitment
As part of your company's approach to corporate governance best practice, you will need to secure commitment from the Board, including Chairman, Executive and Non-Executive Directors, for the company to enter into a long-term and open two-way dialogue with shareholders, potential investors, analysts and the media.

Form the investor relations team and assign responsibilities
In practice, it is typically the Chief Executive and Finance Director who undertake the majority of the company's investor relations activities, with input from the company's advisers and should the company employ one, the Investor Relations Officer. Decide who will comprise your investor relations team, which tasks will be undertaken internally and which tasks your advisers will be responsible for.

Identify current and future shareholders
With input from your advisers, regularly analyse your share register to benchmark the profile of your shareholder register against that of your peers. From this analysis consider which segments of the investor community you need to spend more time targeting. For example, do you want just institutional investors or private individual investors as shareholders, or a mix of the two and if so, in what proportion? Similarly, will you be seeking investors who are based domestically or overseas to you, or both?

Determine your investment proposition
Undertake an in-depth analysis of the company to make sure you have a precise explanation of your company's investment proposition, including analysis of the company's current and future ability to provide shareholders with capital growth and/or capital returns, including their size and timing.

Select your communication tools
In addition to having procedures in place to manage and publicly announce any price sensitive information, decide on what other communication tools, such as meetings, annual reports and website you should use to succinctly communicate your investment proposition. The selection of such tools will reflect the regulatory obligations you may need to meet, the size and make-up of your current and target share register, the level of analyst and media coverage you are seeking, as well as the time, resource and budget you can commit to your investor relations programme.

Aim for a level of analyst and media coverage
In order to further profile your company to the investment community, form a view with your advisers as to what level of analyst and/or media coverage you should aim to achieve.

Set your financial reporting calendar
Set your financial reporting calendar, adhering to any regulations concerning the publication of your full and half-year results, annual report and any other information sets you may need to make publicly available.

Review your strategy
You should regularly review your investor relations strategy to measure its success against the objectives you set and to identify any improvements or challenges so that periodic adjustments can be made. Remember, competition for investor, analyst and media attention is strong, so awareness and understanding of your company amongst these audiences will be key to a successful investor relations strategy.

What Investor Relations is and who it is aimed at

This section of the guide examines what the term investor relations means and focuses on the reasons why a quoted company would choose to implement an investor relations strategy. It also looks at who investor relations is aimed at, detailing the characteristics and significance to quoted companies of the three principle investor relations audiences; investors, analysts and the media.

Introduction to Investor Relations

Tracey Pierce, Head of Equity Primary Markets, London Stock Exchange Group plc

What is Investor Relations?

Investor relations is the term used to describe the ongoing activity of companies communicating with the investment community. While the communication that quoted companies undertake is a mix of regulatory and voluntary activities, investor relations is essentially the part of stock market life that sees companies interacting with existing shareholders, potential investors, analysts and journalists.

As this guide details, investor relations can take many forms, for example, meetings with investors, company news-releases, annual reports and websites. The commonality however, is that each of the communication tools that companies utilise are designed to inform stakeholders about the company, so that they can gain a greater understanding about the company's business, its governance, financial performance and prospects. This is not to say that the communication is just one-way. Investor relations is a dialogue and is as much about companies explaining their business to the investment community as it is about companies listening to the views and feedback from that very group.

For many quoted companies, the dialogue will begin in the pre-IPO phase, when the company is profiling itself to what is often a new set of potential investors. Once on market, the communication continues with shareholders and financial market commentators, as well as with other potential investors.

Reflecting its nature to inform and update the investment community, investor relations is very much seen as a long-term, ongoing responsibility rather than an activity that companies undertake occasionally. With approximately 2,800 companies on the London Stock Exchange's markets, competition for investor, analyst and media attention is strong, with the risk being that un-nurtured relationships and low, or even no visibility with such groups, can result in a quoted company having limited access to these audiences.

Why commit to investor relations?

Fundamentally, the remit of investor relations is not only to create an awareness and understanding of your company amongst the investment community, it is also to help quoted companies gain access to capital and achieve liquidity in, and fair valuation for their shares.

Access to capital

The ability to raise capital and the ease with which that capital is raised are often seen as key measures as to how successful a company's investor relations efforts are. Entering into a dialogue and developing relationships with the investment community over time so that its participants become cognisant with the company and its investment proposition is generally seen as a worthwhile exercise when trying to achieve efficient, cost-effective access to capital.

Liquidity

One of the outcomes quoted companies aim for from their investor relations activities is to attract liquidity – frequency of trading in their shares. Profiling and explaining the company to the investment community on a continual basis can assist in creating greater awareness of a company. Depending on the availability of shares, this can then assist a company in attracting pools of buyers and sellers and the potential for higher frequency in the trading of its shares.

Fair valuation

Similarly, one of the other main goals of investor relations is for a company to achieve a fair market valuation, ultimately reflected in the share price, by managing expectations in relation to the company's current and future performance. Communicating to and with the investment community will enable a company to detail its own record of its performance and its strategy using publicly disclosed information. It will also help a company to understand how it is being evaluated and whether or not the market's expectations towards, and understanding of the company are in line with its own.

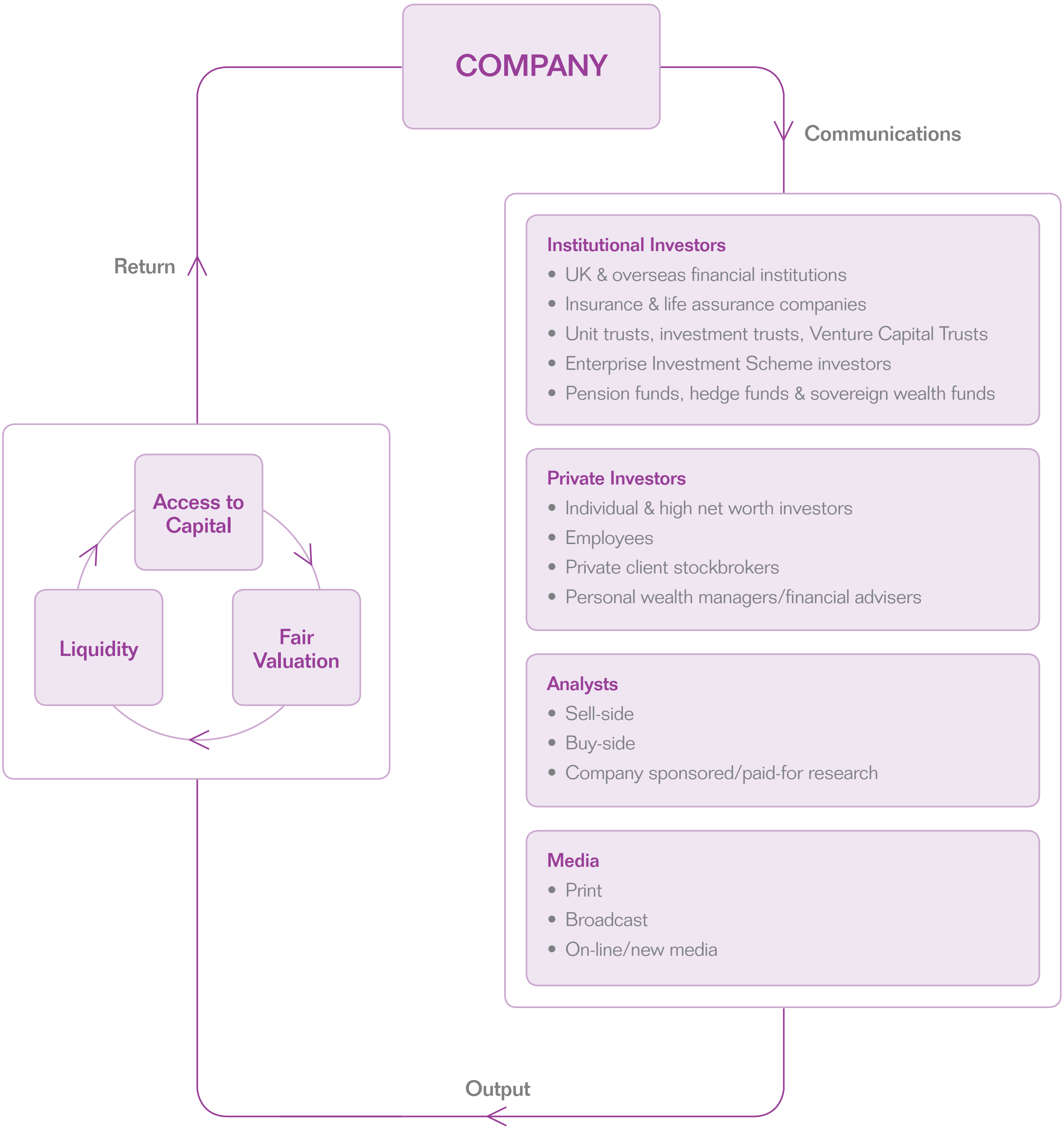
Getting the balance right

Practising investor relations will not automatically guarantee a company heightened profile, easy access to capital, liquidity in its shares or a fair share price. Naturally, other factors outside and in addition to a company's own activities, such as the economic situation, a company's fundamentals, confidence in its management team, the availability of shares and competition for investors' money, can have an impact on how a company is perceived, funded, traded and valued by the market.

Rather, the aim of embarking on an ongoing investor relations programme is that it enables the investment community to have greater awareness of the company's investment case and commercial activities so that shareholders, potential investors and traders, can each take an informed view and a decision as to their involvement with that particular company.

For many quoted companies, the balance will be about updating those who already follow or invest in the company and profiling the company to new audiences.

Investor Relations



Institutional Investors

Andrew Buchanan, Executive Director, UBS Corporate Broking

Long-term, concentrated support

Institutional investors are, by some margin, the most important category of investor to quoted companies owing to the sheer weight of assets that they manage and the degree to which they can invest. It is widely acknowledged that institutional investors own the vast majority of the UK equity market. In some cases, institutional investors may also own nearly all of a company's issued share capital. Their influence extends beyond their total assets under management since, compared to individual private investors, investment decision making, including voting, is concentrated in a much smaller group of individuals.

A key attraction of institutional investors to companies is that the bulk of assets they manage are long term in nature which means that their investment horizons are also long term. This means that institutions generally form a fundamental view on a company's long term prospects and are therefore able to look beyond short run volatility in its performance. Such support is extremely important in allowing management teams the time and space to be able to execute their strategic plans. That said, most institutions have a fiduciary duty to achieve best value for their underlying investors and will only tolerate short term underperformance so long as it remains consistent with eventual delivery of long term value.

Managing pooled assets

Institutional investors are those investors who manage pooled assets, ranging from Venture Capital Trusts to mutual funds, unit trusts, life assurance and pension plans, which individuals or other investment firms collectively invest into. This is an important distinction from individual private investors who invest their own money.

The institutional asset management industry operates globally and is very diverse in terms of the variance in size and depth of funds that firms have under management. Similarly, there is wide diversity in the areas that institutional investors focus on and the investment strategies they deploy. For example, funds may be tailored to offer very specific investment including pure exposure to a particular country, region or industry sector, whereas other funds may only invest in certain asset classes or be seeking a specific income level, perhaps through dividends, or a certain growth profile.

In addition, some fund managers will approach their investment selections on an ethical or corporate social responsibility basis. Others may allocate funds to companies considered to be large or small sized businesses. Although institutional investors invest across markets such as AIM and the Main Market, fund mandates may dictate what percentage of a fund can be allocated to a certain market, industry sector or even shareholding level in any one company.

Hedge funds, long only investors and sovereign wealth funds

Hedge funds are an example of a more recent specialist category of institutional investor. There are several features that distinguish a hedge fund from other types of institutional investors. For instance, hedge funds are often lightly regulated entities which means that they are prohibited from marketing their products to certain categories of investor, principally non-professional individual investors. Their clients are usually wealthy individuals and other institutional investors. Similarly, hedge funds generally adopt relatively unconstrained investment strategies which allow them to invest across asset classes and geographies as well as use leverage in their portfolios, including short-selling. This last point is a key differentiator from the more traditional managers. Use of leverage in investment portfolios increases the risk exposure to the investors and is one of the reasons why regulators have restricted their availability. The more traditional asset managers who do not use leverage techniques, such as short-selling, are often referred to as 'long only' investors.

Sovereign wealth funds are another sub category of institutional investor that have risen in importance in recent years. As their names suggest they are institutions constituted to manage national wealth, the source of which typically arises from significant trade surpluses. Whilst a number of them have existed for many years the long period of economic growth between 2003 and 2007, which was marked by considerable East-West trade and a protracted bull market in commodities, generated significant trade surpluses in oil producing countries such as in the Middle East, Norway, Russia and exporters such as China and Singapore.

Benchmarked performance

Whatever the pool of assets under management is, the common goal for institutional investors is to make investments that achieve a total return either via income or capital appreciation, or both, for a given level of risk. The investment return objectives will be driven by the needs of the underlying investors and asset managers will design investment strategies, their products, to meet these needs.

Fund managers will generally adopt a benchmark against which they and their clients can assess their performance. These benchmarks are usually a stock market index. The assessment is therefore a relative measure of performance. For example, actively managed core UK equity mandates often target a two percentage point out-performance against the FTSE All Share index. Out-performance relative to the benchmark is often called 'alpha' by market practitioners. Strategies aimed purely at tracking index, or 'beta', performance are increasingly popular since they are cheaper to administer and more consistently deliver against the benchmark. Investors seeking alpha have had to pay more in fees to cover the costs of, and, in some cases, just to get access to the most skilled investment managers.

Focus on key investors

One of the most important steps for quoted companies is to identify who are the most important individuals at shareholder and target shareholder institutions they need to build relationships with. Investment decision making for particular funds managed by firms is usually concentrated in a small number of individuals. Whilst they may rely to a greater or lesser degree on advice and recommendations from internal analysts and external analysts and sales people, ultimately they are accountable to their investors for the performance of the funds they manage.

In order to make best use of the time spent on investor relations, companies will need to identify the most significant institutions and individuals and also what their current opinion is on the company. Armed with this information, companies can then set about allocating their resources to best achieve their objectives.

Institutional Investors
A Fund Manager's View

Harry Nimmo, Head of Smaller Companies Equities, Standard Life Investments

Knowing your investors

Investors in quoted companies come in all shapes and sizes with a multiplicity of requirements, risk tolerances, investment styles and processes. Indeed no two investors are the same and may actually approach the purchase of a company's shares from equal and opposite directions. It is fortunate that this is the case as it takes buyers and sellers to make a market. From an investor relations perspective, it is therefore important that quoted companies know their investors.

At the most basic level it is worth knowing whether an investor is seeking income or capital returns or a combination of both. An idea of the risk tolerances of the investors is also of importance. Some investors for example will not invest in 'blue sky' companies that are more concept than revenues and profits. Other investors follow stock market indices very closely to reduce risk. It also makes sense to know whether the investor has large funds under management or is a small boutique and whether they specialise in investing in large or smaller quoted companies.

Growth vs. value

The rudiments of the investment process are of major importance in the investor relations mix. The major categories can be broadly termed 'growth' and 'value' although there is a fair degree of overlap between the two. Growth investors will be primarily concerned about the future growth prospects of the business in question. They may add 'momentum' to their thinking on the basis that great share price performance has longevity and may be extrapolated into the future.

The value investor however is looking for companies that are out of favour because the share price and/or the business have been performing badly. They may in particular be looking for a share price fall, possibly after a profit warning as an opportunity to get involved in a share. The text opposite details what fund managers typically consider when assessing whether to invest in a company or not.

Long only institutional investors

The group of investors to pay most attention to are the large, long only institutional investors with good cash-flow into their funds, a track record at investing in your company's asset class and with a tendency to hold their investments for extended periods. They are the investors who are likely to be there for a company's next round of capital raising. They are the investors who will add quality and respectability to your shareholder register thus encouraging others to invest. It is also worth knowing the performance track record of the fund manager or institution involved. If a fund manager or institution is known in the industry to be particularly shrewd this in turn might encourage other investors to 'get involved'.

At a micro level there are clearly a number of sources of information for the institutional fund managers when looking at potential investment. Broker written research, personal contact, company announcements, published accounts and the internet, are all of importance. However, the key determinant is the face to face meeting between analyst, fund manager and senior executive of the company. Potential institutional investors may meet a company several times before investing and valuation is often the determining factor in the end. However it is worth persevering particularly with the better 'quality' investors.

What Fund Managers will be looking for in companies

Fund managers will be seeking to understand the dynamics of the business in which the company operates and in particular, potential growth rates into the future. The track record of the company and its senior executives will be of importance. 'Quality of earnings' will often govern how much a fund manager will pay for a particular share. A predictable earnings stream and growth trajectory is of great value. Corroboration of profit and loss account by strong and predictable cash-flow is important. The defensibility of a company's market, in terms of its control over the pricing power of its products or services, barriers to competitive entry and levels of market share are all factors key to investors.

The expression 'quality of management' is almost impossible to measure or describe and in reality is a much broader term. Essentially it relates to the depth of the management team, successfully expedited growth strategies and the area of 'corporate culture'. In terms of growth strategy, organic growth is generally favoured to acquisitive growth, however evidence of skill in the latter may be a major attraction.

A final group of categories would include 'valuation' which could be based on a whole series of variables, for example P/E ratio (price-to-earnings ratio), or EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation).

The investor also has to get hold of the shares. Clearly the level of free float (shares available to outside investors and thus not in strategic or related party hands) will impact this so companies need to give this some consideration to ensure sufficient liquidity in their security.

Private Investors

Russell Cook, Director of Corporate Finance, Charles Stanley Securities

Why are private investors important?

All quoted companies should seek to have a diverse range of investors on their share register. Typically, the majority will comprise a range of institutional investors who will invest according to a range of criteria, in the main dictated by the structure and requirements of the funds they manage. Institutions tend to be longer-term investors, whereas private investors, who will comprise the balance of the register, often have shorter-term aspirations. Private investor interests may be driven by changing sentiment towards industry sectors; perceived value opportunities (such as a valuation anomaly); by income (an attractive yield); or by tax-efficiency, although there are a range of restrictions on the buying and selling of shares for these purposes, such as having to hold them for a minimum time period in order to claim the full benefit.

Most importantly, from the company's perspective, private investors often buy smaller parcels of shares, providing much-needed liquidity in the company's shares, especially in those cases where the shares are tightly held. Indeed with many smaller quoted companies, where it is not uncommon to find a greater proportion of private over institutional investors, it is private investors that provide the majority of the liquidity.

Liquidity is vitally important as it can contribute towards a higher or lower share price. In very simplistic terms, a hypothetical company in an attractive industry sector with a track record of delivering good results and with a well-diversified share register and reasonable levels of buying and selling in its shares, should maintain a consistently fair share price – in part because it has a consistent approach to investor relations, spending time and effort courting institutional and private investor interest to the extent the latter will want to buy and/or hold the shares.

Contrast this with an equally hypothetical company that has an inconsistent or non-existent approach to investor relations, that is in an out-of-favour sector, with a mixed track record in terms of results and with little trade in its shares: it is likely to have more sellers than buyers. Whilst the conclusion to draw from this comparison is obvious, it is important also to remember that stock market liquidity is itself a function of a blend of relative stock market health and activity and economic confidence.

Who are private investors?

Private investors are members of the public who buy shares in quoted companies. They may buy shares directly, without taking professional advice, via an execution-only stockbroker or internet-based share dealing system; or they may pay for advice from a private client stockbroker and buy shares on the latter's recommendation, or, alternatively, leave their stockbroker to structure their investments according to their particular needs and make some or all investment decisions on their behalf under a so-called advisory or discretionary client agreement.

There is also a sub-set of private investors: people who become shareholders in quoted companies by virtue of being shareholder employees of a company that goes through flotation; by holding performance-related share options; or by purchasing shares via company-sponsored schemes. In all cases, these shares may, ultimately, become ordinary (tradable) shares, although companies may impose restrictions on when shares can be bought or sold.

Unusually, the UK offers companies and private investors a range of tax-efficient investment opportunities. These include investments made in shares of companies quoted on AIM; in Venture Capital Trusts (VCTs); in Enterprise Investment Scheme–qualifying (EIS) investments; and in Inheritance Tax (IHT) funds.

The 'local company' factor

Companies often have private shareholders that buy shares for emotive reasons. These include past and present employees of the company and their families who may have invested directly, or hold (now converted) share options that are often retained for reasons of loyalty or sentimentality; through to people who may live near the company in question that buy shares simply as a result of positive news coverage in local media.

How do private investors hold their shares?

A private investor's shareholding, if greater than, say, 0.25 per cent of the equity, will appear on the company's share register either in their own name, or that of the trust they may be held in. If less than that, it will be aggregated with other small investors under Miscellaneous Private Investors. If shares are held via an advisory or discretionary stockbroker, they will be held in a nominee account. These are easily identified and effectively aggregate that broking firm's clients' holdings in one account.

Good company investor relations practice and targeting private investors

All quoted companies should have a clear, effective and rolling annual investor relations programme. A programme is exactly that: an agreed and proactive approach to communication with stock market constituents in order to maintain visibility with existing and potential investors.

Companies should seek to interface with as many shareholders and non-shareholders as possible, which, in the case of reaching private investors, usually involves structured visits to key regional cities where there are concentrations of private client broking firms. In reality, these brokers seldom invest off the back of a first meeting: remember that they are spoilt for choice in terms of potential investments and will often want to meet management two or three times over a 12-18 month period, in order to get to know and become comfortable with both the people and the business.

Good practice also includes encouraging private investors to attend the company's AGM in order to meet and question the Board. Some companies also choose to exhibit at professionally organised regional events that specifically target private investors.

The role of the media and private investors

In addition to an annual investor relations programme, companies should retain a financial public relations adviser. As well as targeting private client brokers, they are vital in terms of honing the message to investors and the media and in gaining media coverage in the right places, at the right time. National newspapers give increasingly less space to routine company news and results, whereas there is a wide range of magazines and websites targeted specifically at private investors. Again, coverage in these can be crucial in terms of stimulating interest in, and demand for, a company's shares from private investors.

The internet and private investors

Aside from providing private investors with the facility to buy and sell shares on-line, the internet has transformed investor relations practice for companies. For example, AIM-quoted companies in particular are now bound to maintain a comprehensive investor section on the business on their website. In addition, through the corporate website, most companies encourage email communication from investors. The corporate website also provides a platform for efficiently providing private investors with information and updates about the company.

Conclusion

The interest and support of private client brokers and private investors can be vital in stimulating demand for shares and with it, potential liquidity. These constituents must be catered for as part of every company's rolling investor relations programme, and company management must consider how much effort they expend with this set of investors.

Members of the Association of Private Client Investment Managers and Stockbrokers (APCIMS), who include wealth management and broking firms, provide a key role in facilitating investment in and providing liquidity for quoted companies, including Small and Mid-Caps, on behalf of private investors.

According to the Compeer 2009 UK Wealth Management Industry Report, at the end of 2008 the private client wealth management industry had £335 billion of investment assets under management. Just under 60 per cent of those investment assets were held in direct equities, a small drop from 61.4 per cent in 2007. In terms of liquidity provision, the Compeer report also showed that execution-only, advisory and discretionary firms undertook 16.1 million trades on behalf of private investors in 2008, a rise of three per cent on 2007.

The depth and liquidity of the UK private investor pool is therefore significant and one which quoted companies have the opportunity to engage with as part of their investor relations strategy.

David Bennett
Chief Executive,
APCIMS

Analysts

Dominic Emery, Associate and Olivia Lee, Associate, Investec

Analysing the analyst

As companies quoted on UK stock markets do not generally publish their own earnings guidance, the role analysts play in forecasting a company's performance is vital in setting market expectations about its likely profitability and future growth. This becomes the central benchmark by which companies are judged. A company must remain very conscious of the market's expectations of its performance and immediately inform the market if they become aware that they are likely to diverge materially from consensus analyst forecasts - in the form of issuing either a profits warning, or an upgrade statement.

Analysts therefore play a pivotal role in the relationship between a company and its investors. The regulations create a situation where quoted companies do not explicitly set their own forecasts or expectations but are nonetheless judged by their ability to meet the market's expectation of their performance, as prescribed by the analysts.

Publishing opinion

An analyst will publish opinions on a company. Their publications will take the form of:

Event driven publications

These will typically be produced following a company's publication of results, trading updates or corporate activity. On a Mid-Cap stock, one would expect an analyst to publish perhaps six pieces of such research each year. The table opposite details what analysts will often cover in their publications.

Thematic pieces

These pieces tend to look at a number of stocks in a peer group at the same time and analyse dynamics and drivers which are affecting them or will be of importance in the future. Unlike the event driven publications, these notes tend to have a longer shelf-life and seek to provide insightful views.

Typical areas covered in analyst reports:

- Description of a company and its activities
- Comparisons with peers and read-across implications of peer activity
- Opinions and analysis on how the company and management are performing
- Opinions and analysis on the wider macro influences affecting the company
- Forecasts of financials including full income statement, cash flow and balance sheet (or summaries thereof)
- Expectations (including a target share price)
- Valuation of the company using a variety of metrics (discounted cash flow and peer-group multiples are the most common)
- A recommendation to the reader (buy, sell or hold)
- Forthcoming catalysts and expected news-flow that support the recommendation

Because analysts normally differ in their opinion on a company's future performance, there exists a range of forecasts. By taking an average of all the analysts' forecasts on a particular stock, a 'consensus' forecast can be reached. Analysts will compare their forecasts to the consensus number, particularly when they change their forecasts and either bring them more in to line, or diverge further from the consensus number.

Different analysts also focus on different aspects of a company's performance. For example, some analysts will place more emphasis on the gross profit than operating or post tax profit of a company. Also certain figures will be more relevant depending on the sector, such as the sales density figure for the retail sector. The treatment of specific items such as goodwill, share-based payments and pension interest also frequently differs between analysts, which means that there may be some judgement required in arriving at the true consensus figure. This complicates the calculation of consensus figures, as do out-of-date forecasts which can distort the situation, causing outliers.

Research notes are targeted mainly at institutional fund managers and hedge funds, who use the notes to help guide their investment decisions. Often they will use a wide variety of brokers' reports to get the full spectrum of market opinion on a company and also challenge their own views. Fund managers inevitably have particular analysts who they trust and rate more highly than others and will put greater weighting on their opinions, models and forecasts. The companies covered also review the research written on them and often this is used as a gauge by management as to whether the wider market opinion is supportive of their particular strategy. 'Management of analysts' expectations' is therefore an important element of effective investor relations.

Analyst coverage

Many factors influence the analyst's decision to initiate research. It is expected for the house broker to write research on all of their corporate stocks. The majority of analysts have a sector focus and therefore need to cover a good number of companies within that sector in order to speak with authority and understand the sector dynamics. The decision will also depend on a company's market capitalisation, daily average trading volumes and the stock's overall liquidity. For example, if a company has a small number of tightly held institutional holders or a limited number of shares readily available, it would be difficult for the broker to monetise its research.

Companies with a market capitalisation below £100m tend to enjoy coverage from between one and four analysts. Those companies with a market capitalisation between £100m and £1bn may be covered by up to 10 analysts and for companies with market capitalisations above £1bn, as many as 30 analysts might provide coverage. Above a market capitalisation of c.£1bn, it is usual for a company to have a dedicated investor relations team to interface with buy and sell-side analysts. Below £500m it is often the Finance Director's responsibility to communicate directly with the analysts.

The very largest investment banks invariably have global operations. Such banks will organise their research on a global basis with a sectorised top-down approach. Their focus is on maintaining coverage of all the key companies quoted on the major global markets.

In the mid-market, investment banks employ a different focus, primarily looking at companies quoted and headquartered in the bank's own domicile and viewing these companies in terms of the sector in which they operate, rather than their market capitalisation. Research will normally be issued on a pan-European or purely UK basis.

At the smaller end, boutique investment banks tend to focus their attention on Smaller-Cap companies, possibly with a high proportion of AIM companies, where the boutique feels that there is an interesting equity story or believe that a company is unfairly regarded and undervalued.

What analysts want

Analysts strive to have as deep an understanding of a company, its key drivers and macro influences as possible, which requires regular access to the company's management and ongoing direct communication. This is vital for their understanding of historic financials, particularly if there were one off events that effected performance in the past, as well as assisting the accuracy of their published estimates.

Site visits, depending on the type of company, are often useful for increasing their knowledge base. Analysts also like management teams to visit their sales team on a continual basis, in order to maintain interest and enthusiasm in the equity story. Some analysts also like to have access to the larger customers of the company to increase their understanding of future growth prospects.

Essentially, all analysts are continually looking for an information edge over their competitors, which allows them to generate interest and activity – whether buying or selling of a company's shares.

Sell-side Analysts: work for investment banks and stockbrokers. Their research is distributed to institutional and other investors. Sell-side analysts will aim to achieve high rankings in external institutional voting surveys in order to maximise the impact of their research. Sell-side analysts look to generate share-trading commission revenue from institutional investors.

Buy-side Analysts: are employed by fund management institutions to provide specialist knowledge. Buy-side analysts produce research that is only used internally by the fund managers in guiding their investment decisions. Their forecasts and recommendations are not publicly available. Buy-side analysts are guided by the fund managers as to the stocks on which they should be providing research.

Company Sponsored/Paid-for Research:
Similar to sell-side analysts, but rather than getting paid via share-trading commission flows, these analyst firms charge the quoted company under coverage directly for individual research reports or a subscription service. Due to this, the research can be criticised for being biased, however the research house has a reputation to uphold and therefore defends its arm's length credentials. This research, in addition to its house broker research, can be particularly useful to a smaller company which does not get covered widely by other analysts and is seeking to generate further interest in its story.
Sponsored research is generally distributed to a wider audience from the standard institutional fund manager base including private client brokers who look after retail money and can be a useful tool for aiding the liquidity of the stock.

Company Sponsored/Paid-for Research
A Fund Manager's View

Gervais Williams, Head of UK Small Cap, Gartmore Investment Limited

As a fund manager in the Small-Cap space, an area comprising a large number of companies who are not always widely researched, we regularly use paid-for research reports (research reports commissioned and paid for by quoted companies and procured from independent equity research providers) to support our decision-making process. We have found such reports useful as part of our research process as it means we have more information about a company. Indeed we also utilise such research as we find it may add value when marketing our products by providing a third-party opinion to support investment decisions.

The availability of paid-for research, often referred to as company sponsored research, has the potential to bring a greater number of active participants in the stock trading of a company. It may be easier to raise new capital and increase liquidity of the shares already in existence if a broader base of potential investors is familiar with a company. Reducing the liquidity risk premium should be reflected in a more favourable share price. Additionally, improved liquidity is a factor which improves the likelihood that a larger number of fund managers may consider the company. The time taken to liquidate fund holdings is an important consideration for managers of open-ended funds, who may need to sell assets to fund redemptions and cannot afford to have large positions which may be difficult to sell.

Paid-for research also widens the range of opportunities available to investors who are not able to meet the management of companies being considered for purchase. While institutional investors are able to gain access to the management of such companies and possibly spend time with them, not everyone has this opportunity. With a large universe of quoted companies, it is difficult to meet every company even if you do have access.

It is sometimes difficult to ascertain whether the research provided is sufficiently objective. We have found that research companies are keen to develop a reputation for quality and for this reason they are very careful about what they publish. While companies will be able to review factual information, typically they are not permitted to influence the opinions expressed by the researchers. As a result, paid-for research companies' opinions are taken more seriously because they are willing to be critical of the companies they research.

Media

Polly Fergusson, Director, Pelham Bell Pottinger

Business news hits the front page

As billionaire investor Warren Buffett observed: "It takes 20 years to build a reputation and five minutes to ruin it." This is particularly pertinent to the world of international finance, where reputation is everything.

Recent economic conditions have significantly impacted many business reputations that have been built up over years. In turn, this has increased the appetite for business news and the days when financial stories were hidden at the back of the paper are over. Business news is no longer low status – it has migrated into the main sections of newspapers, thrusting financial journalists into the limelight.

This means that for all businesses, and quoted companies in particular - which have a duty to engage with their shareholders - effective communication with the financial press is more important than ever, whether traditional print (newspaper and magazine) journalists, broadcast press including radio and television, or internet-based new media (see matrix overleaf).

The influence of financial journalists

The financial journalist plays an influential role in today's financial markets; they are relied upon by investors and the public as a filter to assess the 'investability' of companies; offering buy or sell advice; to determine trading news and financial results, whether exceptional profits or trading downturns; and making sense of complex financial information. The need for companies to communicate effectively to this audience and ultimately to all shareholders is paramount. Coverage in the financial media will foster positive, or negative, profile and visibility for a company and acts as a backdrop to its investor relations (IR) programme.

Whereas IR and Public Relations (PR) professionals are in the business of establishing, building and protecting reputations, financial commentators are in the business of questioning these, attempting to put a true value on these reputations. Good financial PR will act as a conduit between a company and the financial media, and help this process. It is a far cheaper way of building a company's reputation than advertising, with the added benefit of being a third party (journalist's) opinion, which adds credibility.

The journalist's agenda

For a company to communicate effectively to media, it is imperative that its IR and PR representatives understand the dynamics of the financial journalist's agenda, so any engagement runs smoothly and effectively for both the company and the journalist.

The recent rise in demand for financial and business news and cutbacks in the media has resulted in a significant increase in workload for financial journalists. The speed of internet newsflow means journalists are often expected to constantly update news stories throughout the day – and night – to stay on top of a story.

Meeting deadlines is a crucial part of the journalist's trade, which means a fast response from IR and PR advisers is essential. Financial PR firms should understand the pressures facing the media and the best time to call journalists. IR and PR advisers should always be prepared to anticipate the questions that will be asked and will appreciate to never phone a journalist on deadline unless the call is relevant to the story in question.

Media Matrix: UK & International

Print	Broadcast	On-line/New media
• Financial newspapers	• Financial television stations	• Newswires
• National newspapers	• Television and radio stations with financial news	• Financial websites
• Regional newspapers		• Blogs
• Financial/investment magazines		
• Sector trade press		
• Newsletters		

On some occasions, journalists will call companies outside normal 'working hours' if they believe they have unearthed an exclusive and want to pre-empt any planned press activity. In this situation, IR and PR advisers should be working with a company's management with pre-agreed responses ready.

It pays to treat journalists as important and very demanding customers, and that way a company is more likely to get a favourable result.

Relationship-building with the media

Relationship-building should be at the heart of any media strategy. A positive relationship should smooth lines of communication and generate goodwill between a company and media, and should go a long way to ensuring that a company has its fair share of voice in the media.

Companies should try to engage with media in a variety of ways including 1:1 meetings throughout the corporate calendar and not just at results. Different news will require different approaches to the media. Key to any meeting or engagement is preparation and companies should expect a briefing with their IR or PR advisers ahead of each journalist meeting so they know what to expect. A PR professional will have a good relationship with relevant journalists and if a meeting is taking place, will understand the basis on which the meeting is happening, the information required by the journalist and how to handle any potential problem areas. If this process is not adhered to, companies may well find themselves in a difficult situation; ill-prepared for an interview, handling an inquisitive journalist's questions awkwardly and potentially giving away confidential information and the wrong impression of the company.

All key announcements by public companies need to be released to the market. Annual and interim results are major opportunities for quoted companies to engage with the media and this can mean several interviews with relevant journalists from the financial pages, newswires and online. Outside the normal reporting periods, companies may need to update shareholders, with trading statements. Other events that might spark communication include announcements of key contracts or new business and Board appointments. These are opportunities that can encourage media relationships and develop understanding of the company.

Given the often dry material that the financial media is given, providing supporting material will add colour to a story and increase its attraction to a journalist. Using materials such as quotations, photography and statistics to illustrate a trend or issue more effectively can all form an effective part of a financial PR strategy to engage a journalist.

Managing any negative news

Media meetings are typically arranged to project a positive image of the business with the aim of securing helpful, informed coverage. However, negative news will sometimes emerge and companies should work with their IR and financial PR advisers to mitigate any potential damage.

Every company should have a media policy in place, so that all employees understand the rules of engagement with the media, including what to do when a journalist calls unexpectedly.

'Issues management' – that is, continuously monitoring and assessing potential problematic issues and their development – can identify potential problems at an early stage and prepare for media engagement, which greatly reduces the potential damage to the company.

Even when journalists are writing negative stories, it pays to be polite, helpful and truthful. They will remember this and respect you for it.

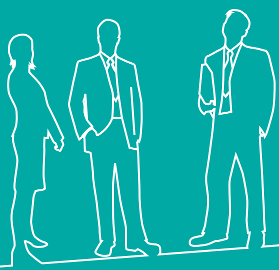
When companies are presented with difficult questions, they may be tempted to consider making comments 'off the record', but a simple rule is that if you don't want to see it in print, then don't say it!

Conclusion

Dealing with the media can be a rewarding experience. If companies and their IR and PR teams are well prepared and understand the journalist's agenda, this can go a long way to alleviating negative coverage and assist a company in enhancing and improving its public profile and reputation. Companies need to display openness and to maintain a constructive dialogue with all key stakeholders, including the media, particularly in difficult times. While it can be an easy choice for companies in such circumstances to reduce their communication budgets, the reality is that this is exactly the point when open communication may benefit a business most.

The Investor Relations Team

When setting and delivering an investor relations strategy, it is important for quoted companies to know who should comprise the investor relations team and what each team member does. This section of the guide details the roles and responsibilities of a company's own management team as well as those of the main advisers a quoted company would typically work with. These include registrars, corporate brokers, financial PR firms and investor relations consultancies.



Company Management

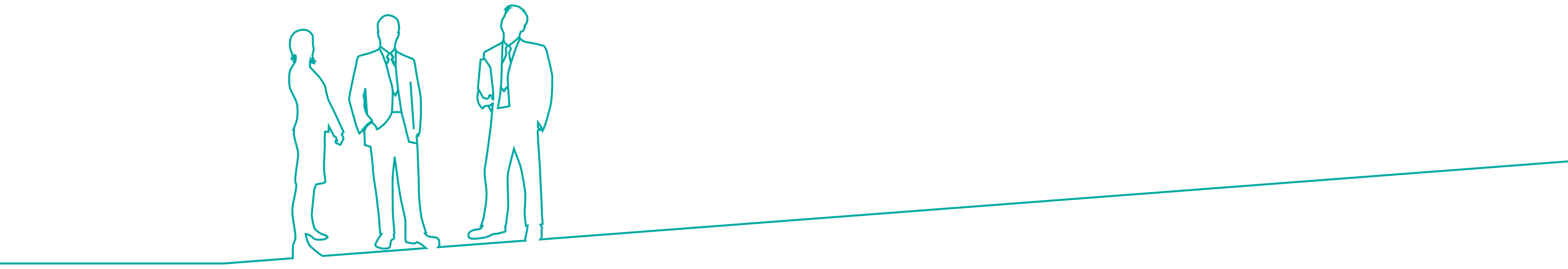
Paul Froud, Head of Investor Relations, London Stock Exchange Group plc

The investment community places significant emphasis on the quality of a company's Board, and in particular its management team. Institutional investors may well insist on meeting key management prior to investing, and will expect to maintain a dialogue with the company's Chief Executive and Finance Director. Effectively, this means that these directors will have to commit time to meeting and speaking with shareholders, potential investors, sell-side analysts and journalists. Although companies will involve their advisers, and in some cases, specialist consultants, the investor relations function cannot be outsourced wholesale.

Despite investor contact naturally being more concentrated around the publication of company results, it is not uncommon for Chief Executives and Finance Directors to spend c.10 – 20 per cent of their annual time on investor relations. Naturally, time allocated to investor relations activities will very much depend on a number of factors – the number of shareholders in the company, whether the share register mostly comprises institutional or private investors and whether the company is actively seeking new investors, as well as the level of news flow and company announcements that require explanation or comment. As well as direct contact with investors, company management and investor relations personnel will also need to allocate time with sell-side analysts and the media. The time commitment necessary will again be determined by the level of company activity and the extent to which a company wishes to raise its profile.

Investor relations activities may also extend or internationalise for a company as it grows in size, profile and following. Larger sized companies, as well as those with either a very large or internationally dispersed following, will normally employ an Investor Relations Officer to support the Board with the company's investor relations duties, such as preparing investor presentations, company announcements, website content and liaising with the company's advisers on investor relations matters. In mid and small sized companies it is typically the Finance Director that carries out these responsibilities alongside the Chief Executive.

One commonality between large, mid and small sized companies however, is that alongside its advisers, a company's Board should regularly review the company's investor relations strategy and investment case, as well as evaluating whether the current contact programme is meeting its objectives, examining the composition of its existing and target shareholder bases, and appraising the effectiveness of the channels the company uses to communicate with the investment community.



Entering into a long term dialogue with a company's Chief Executive and Finance Director is a key factor that drives our investment decision.

Essentially, as investors we are backing the management team and their ability to deliver their strategy and provide returns for their investors.

It is equally vital that the Non-Executives are high calibre, because shareholders need them to challenge and guide the Executives.

Investors will want to have open lines of communication with both the Executive and Non-Executive Directors and companies should embrace this as part of their investor relations strategy, for example by a Non-Executive offering to talk directly to shareholders without the Executives present.

Andrew Buchanan
Fund Manager,
Octopus Investments

Registrar

Matthew Edmund, Business Development Manager, Computershare and Georgeson

Why do companies need a registrar?
The Companies Act 2006 states that every company must keep a register of its members.

A good registrar will:

- Maintain the company's register of members and handle shareholder transactions and queries
- Provide an interface to share-trade settlement providers
- Make payments, including actioning dividends
- Manage corporate actions, such as capital raisings, mergers and acquisitions
- Distribute information about the company to its shareholders
- Aid industry and market development. For example, influencing procedural changes to the benefit of companies

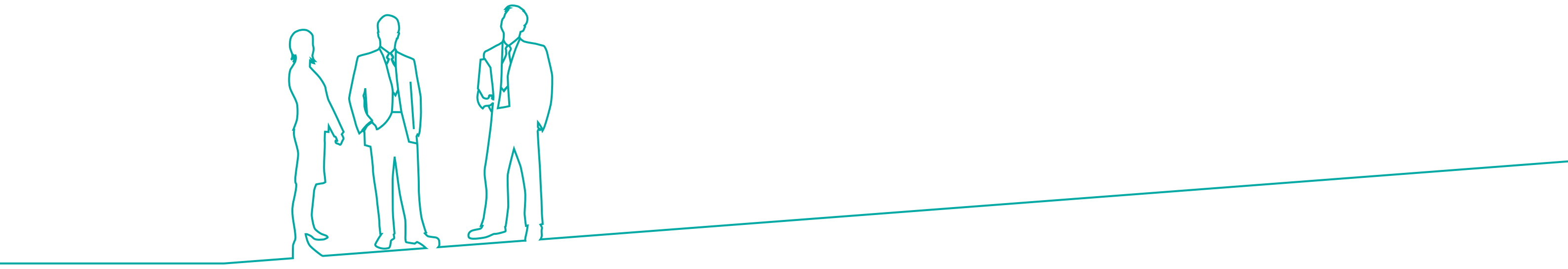
In addition to the above, the table overleaf details a wider range of activities that registrars also typically assist quoted companies with.

The share register – knowing who owns your shares
Quoted companies will need to constantly monitor share ownership either via the registrar or working alongside other providers that specialise in shareholder analysis. This analysis of the register is of particular importance during an AGM, corporate action or when trying to spot stock predators.

When devising an investor relations programme the first place to start is the register of members. This is your list of current shareholders and from this point you can start to understand who they are and as importantly, who has chosen not to invest.

The register of members cannot tell you what you need to do in isolation, but it can be analysed and cross referenced against other data sources to identify investors. This 'shareholder analysis' unearths the underlying beneficial holders below the custodian.

The registrar will have a comprehensive view into a company's registered shareholders enabling companies to gain enhanced visibility into who is behind the various nominee accounts, and how the shareholder base is comprised: direct registered retail (private) investors, private client brokers, institutions, prime broking desks (usually held for hedge funds) and stock lending accounts. This view allows a company's investor relations team to plan and prioritise its time to ensure they are meeting with actual shareholders, understand what type of investor they are and who they should be targeting in terms of likely future shareholders.



Range of activities that registrars typically assist quoted companies with:

Shareholder information and reporting
Web-based facilities that allow companies access to shareholder information, including share prices, shareholding enquiries, top shareholders reporting, domicile reports, shareholding range analysis, proxy voting reports and other statistical enquiries.

Shareholder communication
Companies can dispatch electronic copies of statutory documents and tax vouchers directly to shareholders and email broadcasts of pre-scheduled company publications. Some registrars will offer on and offline printing and annual report design and production.

Meeting services
Registrars can usually provide a comprehensive package of meeting solutions essentially designed to support every stage of the process, from proxy card design, printing and distribution to vote collation and reporting of results. In addition, registrars might also offer technology solutions including electronic hand-held voting.

Employee share plans and share options management
Whether undertaken at the IPO or afterwards, introducing an employee share plan can potentially increase your company's shareholder base through employee ownership. Such plans can also be a useful tool in attracting and retaining staff.

Governance and company secretarial services
Products and services to help companies make sure all their legal entities and subsidiaries comply with national and international regulatory rules and support the company Board.

Global capital market support and depositary interest
Overseas companies can use a Depositary Interest (DI) service to expand international reach and find efficient ways to raise new capital from sources outside their domestic markets.

Shareholder portfolio management
Web-based tools that enable shareholders to easily and effectively manage their investment portfolio.

Share-dealing services
Registrars often have the ability to offer comprehensive share-dealing programmes, which include dividend reinvestment and register reduction programmes.

Proxy Solicitation – knowing who has the voting rights

Who owns your shares is very important for ongoing investor communications. Equally important is knowing where the voting rights reside, as this information is key to soliciting votes for company meetings and resolutions. Many beneficial owners, such as local authority pension funds, may outsource the investment management of their assets but maintain the voting discretion in-house. Understanding which different accounts are managed and where they appear on the register, is critical in determining if your shareholders are supporting management or not.

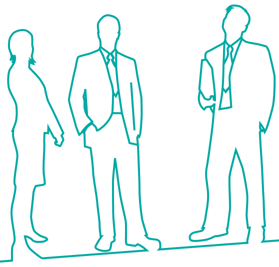
Proxy solicitors, a division often found in registrar firms, can help companies track votes and link them to register analysis to provide an overview of who is voting, who is not, and which investors oppose or support certain company matters, for example, the remuneration report or the share plan that may be coming up for renewal at the next shareholder meeting. More importantly, proxy solicitors can also establish whether you have a known activist or event driven hedge fund in your list of shareholders. Tying the register analysis to the governance and shareholder meeting highlights potential risks the company may be exposed to, by way of activist shareholders or potential failure to pass all resolutions at the AGM.

Many institutional investors are supported by various proxy advisers when it comes to voting. Such proxy advisers provide recommendation on how their investor clients should vote on each company resolution. Proxy advisers utilise local market guidelines and best practices and in some cases, create their own policies which determine how many of the world's largest financial institutions vote at your shareholder meeting. They are multipliers in terms of influencing how the shareholders vote on critical issues such as director elections, increasing capital and the remuneration report setting the pay schemes for senior management.

A proxy solicitor will help assess which investors wholly rely on the recommendation of their proxy advisers versus those that utilise the proxy advisers' research but make up their own mind. A proxy solicitor can also help to reverse an 'against' recommendation or canvass shareholders to support management if the proxy advisers do not reverse their opposition.

Conclusion

By the nature of the tasks involved, it will typically be the company secretarial and investor relations teams who create and develop the long term relationship with the company's registrar. As the above points demonstrate, aside from supporting companies with their core shareholder communications and payment needs, registrars are instrumental in assisting companies with their corporate actions, such as the IPO, shareholder meetings, acquisitions and takeovers.



Corporate Broker

Adam Kelly, Vice President – Corporate Finance, J.P. Morgan Cazenove

Remit of the corporate broker

Historically, brokers were the principal corporate advisers to a company, with long-standing relationships that originated when the company first floated. Traditional broker arrangements were relatively informal; brokers provided advice on a broad range of issues through the life of the relationship and derived fees mainly from relatively infrequent security issues. The brokerage model today includes both the traditional broking firms with a specialist focus on equity-related activities, as well as the full-service broking firms, usually comprising a banking and brokerage component.

Today, the single most important aspect of the broker function is to monitor the company on an ongoing basis, acting as the conduit between the company and the markets. Brokers are responsible for identifying potential issues and opportunities and working with the company and the market to propose solutions that are in line with the core objectives of the company.

The key services that brokers provide quoted companies with include:

- Pure broking services, which comprise all market making and equity-raising activities for quoted company clients, such as successfully issuing equity (company shares) and supporting the equity issues with the broker's in-house underwriting capabilities
- Providing support services such as disseminating market intelligence to clients, supporting them during results announcements, assisting with investor relations and performing shareholder analysis
- Serving as the interface with regulators, e.g. AIM Regulation (in a Nominated Adviser capacity), the UK Listing Authority (UKLA) and the Takeover Panel, as appropriate
- Advising the company on the market aspects of transactions, such as the likely market response to an M&A transaction

More recently, there has been a trend towards a full-service brokerage model, where banks with corporate finance and debt market capabilities offer a broader spectrum of services to clients. A typical full-service specialist would also offer M&A financial advisory services, financial advice concerning capital structure, assistance with corporate governance issues, compliance with the Combined Code and, in some cases, additional services such as electronic processing and trust dealing.

The table opposite provides an in-depth description of the core activities and services that a corporate broking house typically undertakes on behalf of quoted companies.

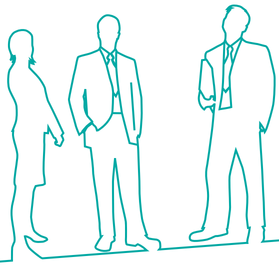
Description of a corporate broking house's core services for quoted companies

Equity capital markets
The broker is responsible for advice on the structuring, sizing, timing and pricing of any capital raising, including Initial Public Offerings, rights issues, placings and open offers, vendor placings, cash placings and block trades. In addition, the broker's role will include investor education, marketing to domestic and international institutional investors and the provision of advice to the company in the allocation and pricing of offerings. The broker will organise a marketing programme to support an issue and secure sub-underwriting or placing arrangements with a spread of institutions. The broker is also the key liaison on the client's behalf with the UK Listing Authority (UKLA), the London Stock Exchange and other exchanges. In addition to regular equity-related services, full-service brokers also provide active capital management programmes, involving for instance, share buyback programmes and other returns of capital to shareholders.

Sales
Sales teams have a duty to advise their institutional investor clients on the merits of a range of stocks. The clients will include institutions and hedge funds in both the UK and overseas. Sales teams are often involved in meetings with the companies to which the firm is broker and develop a deep knowledge of these companies, strengthening their dialogue with institutional clients. As a result, sales teams have a very good understanding of investors' views on a particular stock.

Research
Brokers provide a range of research for institutional clients. Research includes daily, weekly and monthly commentaries, sector reports and stock-specific analysis. Research teams provide a good understanding of market and sector trends, and their insights are supplemented by their frequent interactions with a range of sector specialists and fund managers amongst the broker's institutional clients.

(continued overleaf)



Description of a corporate broking house's core services for quoted companies (cont.)

Shareholder analysis
Shareholder analysis is typically the foundation for the investor relations function. Brokers are responsible for providing integrated shareholding information including details on the history of a share register, current shareholding patterns and the breakdown of beneficial holders. Further, brokers will typically analyse the weighting of an institutional holding relative to the sector and market, helping to identify the 'over' and 'under' weights. Most brokerage firms provide an extensive shareholder analysis report which includes changes in shareholdings, details of buyers and sellers, identification of investment styles of the investing institutions, explanations of movements within shareholdings and value-added knowledge on the identities of nominee holders. Ideally a quoted company should be able to use the shareholder reports to monitor institutional changes, to understand better the trading in their stock, reconcile institutional notifications against underlying shareholdings and as a tool to assist in monitoring proxy votes at EGM/AGMs.

Corporate finance department
In the case of full-service corporate brokers, the corporate finance department is responsible for providing advice on a wide range of financial matters, including balance sheet structure, mergers and acquisitions and fund raising. Often, the corporate finance department is the key participant in advising on any planned strategic move by the company and, in the case of transactions involving the issue of equity or debt securities, giving advice on market capacity and pricing. The team is also responsible for liaising on the client's behalf with the Panel on Takeovers and Mergers and clearing all related documentation.

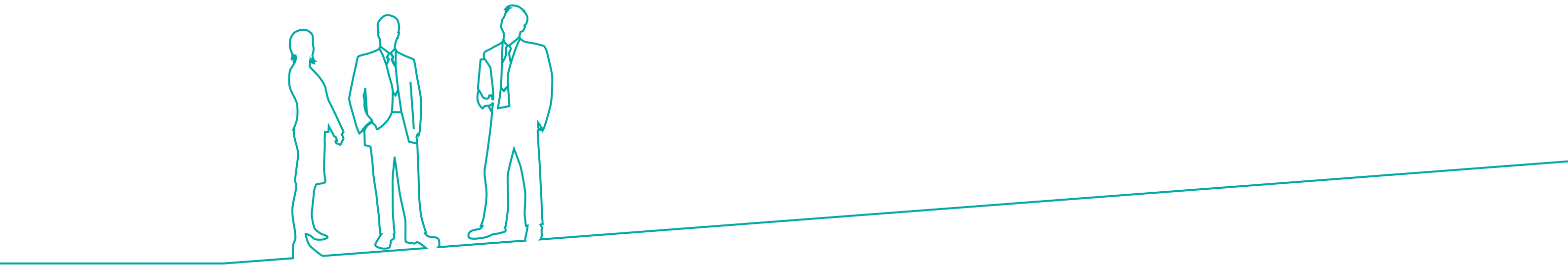
Other services
In addition, some brokers have developed electronic processing as client requirements have increasingly focused on a more efficient way of processing exercise and sale information. Brokers may provide quoted companies with custody and trust dealing services. Additionally, full service brokers may provide services such as employee share incentives and director share dealing services, to assist companies during transactions such as IPOs, takeovers and fund raisings.

Institutional investor access - organising introductions for companies

A key element of the brokerage service involves connecting companies with existing and new institutional investors. This is usually a sequential process which involves, initially, careful targeting of the investor base. This is followed by coordinated roadshows where companies meet investors in a series of one-to-one and group meetings in key investor locations, including the UK and overseas, over a number of days. Typically, brokers will have well-established relationships with key investors and will be able to provide a targeted and focused approach to accessing these investors, after having carefully identified appropriate institutions.

Investor targeting involves in-depth analysis of the current share register, supported by analysis of shareholdings for the company's peers and for the sector in general. The corporate broker's investor relations team also receives input from corporate finance colleagues and the research and sales teams on the 'public side' of the Chinese wall (see diagram overleaf), whose knowledge and insights are gained from close interaction with institutions. Typically, the broker's investor relations team is the key contact for all investor meetings including the post-results roadshows, site visits, transaction roadshows and other investor meetings.

In terms of logistics, corporate brokers will provide a tailored schedule of meetings and ensure that companies meet all the appropriate contacts. In the case of significant equity transactions, management is often accompanied by a broker representative who knows each of the institutions and the individual fund managers well and can provide in-depth briefings prior to the meetings. Following the roadshow, the broker will provide the company with a feedback report based on conversations with those institutions that met the management.



The Chinese Wall

Structure of the company-broker relationship

Corporate brokers aim to bring three elements together for their quoted company clients:

Market knowledge

The most important requirement is that the broker provides in-depth market knowledge to the quoted company. In order to select brokers, companies use a varied set of metrics, looking for brokers with a proven degree of experience, often evidenced by the broker's track record of selection by clients or by the level of transaction flow. Further, companies should seek brokers who will offer them a detailed understanding of the potential investor base. Larger companies often appoint two brokers, building a relationship with both on a day-to-day basis, and are likely to use both in the event of a large transaction. This strategy may enable companies, including Mid and Small-Cap companies, in certain situations to access a broader range of investors and thereby help boost liquidity in their own shares.

Develop the investment case

The broker should be skilled in developing the strongest and most relevant investment case, alongside the company, based on knowledge of the company, sector and overall investor attitudes towards the company. Further, brokers' sales and research teams, who have close relationships with institutional investors, provide a vital source of feedback for the company.

Market making

In addition to developing the investment case, the brokerage house often performs a critical market making function for their clients. In general, this implies that the equities business of the broker has to quote buy and sell prices, encouraging trade in the company's shares. The market making function provided by the brokerage firm is particularly relevant for smaller companies that tend to have fewer liquidity providers.

Conclusion

Effectively, the corporate broker is the 'eyes and ears' of the Board, acting as the conduit between the market and the company, reporting the views of the shareholders to the Board on an ongoing basis and giving the company a good feel for what investors more generally are looking for at any particular stage in the cycle. The broker (Nominated Adviser in the case of an AIM company), is also responsible for ensuring that a quoted company releases important information to the market on a timely basis, enshrined in a company's 'Continuing Obligations' to the market.

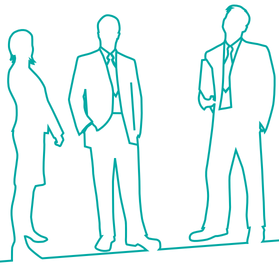
By quoting buy and sell prices in a company's shares throughout the trading-day, market makers undertake an important function to provide and contribute to the liquidity of individual shares as well as the overall liquidity of the markets that we trade in.

Having multiple market-making firms quoting prices in your shares can assist in reducing the difference between buy and sell prices, known as the 'spread', which itself can help with increasing the liquidity of your shares.

When deciding whether to register as a market maker in a stock, I will consider a number of factors such as the likely spread, free float and the company's market capitalisation.

In general, market makers welcome companies contacting them directly in order for us to better understand their business activities and help price the security appropriately.

Julian Palfreyman
Chief Executive,
Winterflood Securities Limited



Financial PR Firm

Ed Firth, Managing Director, Investor Relations Practice, FD

Remit of the financial PR agency

Nearly all quoted companies will employ a financial communications adviser - typically referred to as its financial PR agency. The financial communications adviser is primarily responsible for promoting the company and its prospects to the investment community.

It is the role of this agency to work closely with quoted companies and the company's other advisers, such as its investment bank(s), lawyer(s) and auditor(s), to ensure consistency in messages to investors, analysts, employees, customers, journalists and other key stakeholders. This includes providing the company with strategic communications advice on capital markets communications strategy, through ongoing investor relations advice and support, shareholder targeting, peer group analysis, financial news management and any other activity crucial to achieving the company's fair valuation on the stock market. The table opposite details what a financial PR agency will typically advise and assist a quoted company with.

The company - financial PR agency relationship

Financial PR agencies work closely with senior management within the company, usually the Chief Executive and Finance Director, and if it has the function in-house, the investor relations team. This is because a company's corporate reputation and that of its management team are fundamental influencers of perceptions towards the business as a traded stock.

A financial PR agency can be engaged by a company to advise on a specific project – for example to provide advice and support regarding an IPO, M&A activity, hostile bid or defence, reputation issue/crisis communications, fundraising or share placing – or on an ongoing retained basis to provide continued support. Most quoted companies engage a retained financial communications agency on this basis, as the agency builds up a relationship and knowledge of the company and works with the client continually.

As the financial PR agency is usually the gatekeeper to company announcements, it is authorised typically by its clients to issue announcements to the market on their behalf.

Areas that financial PR agencies advise on:

- Communications strategies
- Business and financial media strategy and relations
- Financial calendar reporting
- Drafting of regulatory news releases and financial communication presentations
- Peer monitoring and analysis
- Gathering analyst forecasts and establishing consensus forecasts
- Corporate governance issues
- Shareholder analysis
- Investor targeting
- Roadshow management
- Investor perception audits
- Analyst liaison
- Crisis communications issues
- The in-house corporate PR function

Financial PR key audiences

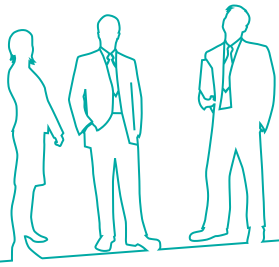
Primarily, the audiences that a financial communications agency will engage with on behalf of its client are the business media, sell-side analysts, private client brokers and, where required alongside the company's corporate brokers, institutional investors:

Financial/business media
A financial PR agency will have extensive knowledge of and contact with the financial and business media. The agency will provide advice to its client to maximise the opportunities available to them to communicate with the global marketplace and will use its detailed knowledge of the media to best advise its clients on particular situations.

Sell-side analysts
Sell-side analysts will issue stock recommendation notes on companies, based on their understanding of the business, its markets and future prospects. It is the agency's role to manage the relationships with the analysts, including engaging them at financial calendar events such as full-year and half-year results, conducting perception studies and keeping the company informed of analyst sentiment and consensus forecasts.

Private client brokers
Should a quoted company wish to market itself to private client stockbrokers as a means of gaining access to private investors, financial PR agencies are often the adviser who will arrange for the company to meet with private client broking firms.

Institutional investors
In addition to the above audiences, financial PR agencies can, when required, provide investor relations advice and independent perception audits relating to institutional investors.



Investor Relations Consultancies

Richard Davies, Managing Director, Richard Davies Investor Relations

The role of the investor relations (IR) consultant

Many quoted companies choose to use IR consultancies either on a retained basis or to provide advice and support through corporate actions such as mergers and acquisitions. IR consultancies may specialise in specific niche services such as share register analysis or market sentiment studies or, conversely, may offer a broad range of IR related services to support the in-house team, tailored to meet the client's requirement. Inevitably some of the services that IR consultancy firms provide may also be offered by other financial advisers such as corporate brokers, registrars and financial PR companies who may sub-contract such services to IR consultancies.

Niche Services

The services that IR consultancies typically provide are:

Share register analysis and effective targeting

The foundation of any investor communications strategy lies in share register analysis. Over the years the trading environment has become increasingly complex and sophisticated. The share register in itself is unlikely to reveal the actual owners of a company's shares due to the large number of pooled nominee accounts and the advance of derivatives, stock lending and trading accounts. Rigorous analysis of the register is essential for companies to understand who owns its shares, who is making the investment decisions and who holds the voting rights.

Good analysis of the share register will indicate buyers and sellers of the shares; overweight and underweight positions; geographic location; investment style; market and sector weightings; funds under management; and non-holders. The IR consultancy will then augment this information using peer group analysis and market intelligence to build a picture of which institutional investors the company should target for company meetings. Accurate and well-researched data will allow IR consultancies to approach those fund managers with a high probability of investing in the stock to meet with company management.

Roadshows

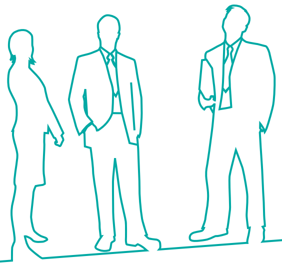
IR consultancies often assist companies in the targeting and organisation of roadshows (a series of meetings with investors) due to the intelligence provided by their shareholder analysis and contact relationship management capabilities. An IR consultancy will typically also have a working knowledge of the private client stockbroker market which companies often overlook in favour of the larger financial institutions. Including this audience in the investor relations strategy can offer access to a pool of loyal and long-term shareholders.

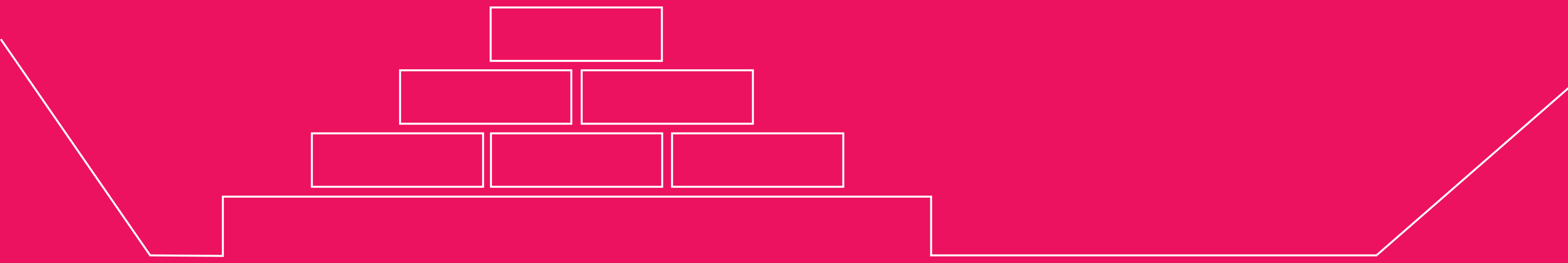
Sentiment studies
Corporate governance as defined by the Combined Code demands that "there should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place." It is the Chairman's responsibility to ensure the entire Board is informed of shareholder sentiment. Many companies undertake sentiment surveys to ascertain cognition and perception of their stock. IR consultancies can support quoted companies by interviewing a cross section of overweight, underweight and absentee investors to gauge shareholder sentiment and offer strategic outputs.

In-house training and support
Although most FTSE 100 companies employ dedicated investor relations professionals, smaller companies may not be able to justify having this function in-house. In this instance, investor relations responsibilities may be allocated to a finance or company secretariat role. Even with a dedicated Investor Relations Officer or team in place, there can sometimes be periods when more resource is required. IR consultancies can help quoted companies in these situations by providing:

- Specific advice on a given corporate action
- All round support on a retained basis
- Training and support to those who may find themselves with investor relations responsibilities with no prior experience

Investor communications materials
An IR consultancy can also assist quoted companies with their written communication materials such as company announcements, annual reports and website content. Quoted companies must operate within a strict legislative and regulatory framework which is increasingly complex and constantly changing. IR consultancies will advise management teams on the timing, content and distribution channels for such material. The market is also sensitive to subtle nuances. An IR consultancy will be able to advise on how the market will react to announcements and how quoted companies position themselves most effectively.





Building the Investor Relations Programme

Before deciding on which tools to use to communicate with the investment community, management teams will need to carefully define the company's case as a potential investment. This section of the guide looks at what companies should consider when formulating their investment proposition and the various tools that companies typically use to communicate this, including meetings, company announcements, annual reports and websites, as well as the provisions in the Companies Act 2006 for communicating with shareholders electronically.

Formulating the investment proposition

Bob Holt, Chairman, Mears Group plc

Critical analysis

There are many aspects of running a publicly quoted company which are of paramount importance. One aspect that is often underestimated is the need to ensure that in conjunction with the company's advisers all aspects of the investment proposition are considered. A critical analysis of the strengths and weaknesses of the company from the outset of public company life will repay the company many times over by ensuring that investors are targeted by their type and size of fund and appetite for future further investment.

Proposition factors

Various types of funds such as Venture Capital Trusts by their very nature are long term holders of qualifying investments whereas hedge funds are by nature shorter term in their outlook. Reflecting the company's investment proposition, your advisers will be able to direct the company towards a typical audience. Similarly, the investment proposition will also dictate whether the company is likely to attract private investors, again a useful long term source of investment. Deciding at the outset as to whether the company should look to attract only institutional shareholders or private individual shareholders as well, will help companies formulate their investment proposition and their communications programme. Dependant upon the size, complexity and market sector, a company could however choose to only attract institutional shareholders.

Although the size of the company at flotation is not crucial in determining the shareholder profile, tracker funds exist to invest solely in the constituents of the various stock market indices, such as the FTSE 100 index. Of increasing interest are ethical funds which place as much credence upon compliance to the various codes of conducts for Boards of Directors as they do towards proper and visible corporate social responsibility. Companies are best advised to seek out those funds with ethical requirements ahead of any approach.

When formulating the company's investment proposition, it will also be vital to have a view on whether the company is likely to seek further investment in the short term as investors will need to know if the company will be returning to the market for further funding and over what period.

Case study: Mears Group plc

Bob Holt, Chairman

Since joining AIM in 1996, and our subsequent move from AIM to the Main Market in 2008, Mears Group has always looked to enter into a dialogue with both institutional and private investors. Reflecting the nature of our business and our commitment to corporate governance and corporate social responsibility, we have also sought to speak with managers of ethical-orientated funds about the company's investment proposition. Analysing the company and its performance so that our investment proposition is current, clear and firmly understood, is something we undertake on an ongoing basis.

Growth and dividend policies have been central themes to our investment proposition. For example, Mears Group entered into the domiciliary care market with the acquisition of Careforce, which saw us issue additional shares to investors to raise over £25m. In addition, over our 2004 – 2008 financial period, sales revenue increased from £174m to £420m and profit before tax and amortisation grew from £7m to £20m. In the same period, dividends paid to shareholders moved from 1.90p to 4.75p per share.

Much of the 'Outlook' section of our 2009 interim results analyst presentation encapsulates the dynamics of Mears' investment proposition:

- Strong fundamentals for the core business
- Growth markets
- High visibility of future revenues
- Spend drivers defensive
- No bad debts

In terms of communicating our investment case, we regularly meet with our shareholders, prospective investors, analysts and the media. We also publish investor-related information about the group, such as key financials, analyst presentation material and copies of our annual and interim reports, on our website.

About Mears Group plc

Mears Group is a leading social housing repairs and maintenance provider working in partnership with Local Authorities and Registered Social Housing Landlords and it has a growing presence in the domiciliary care market through its Careforce business, providing personal care to people in their own homes delivered through partnerships with Local Authorities. In addition, Mears subsidiary Haydon is a specialist, mechanical and engineering services business.

Dividends and capital growth

As part of the process of putting together the company's investment proposition, management teams should analyse the company's aspects and flexibility around paying dividends as these will immediately attract a certain class of investment at the same time as giving an appearance of long term planning to shareholder return. It is no secret that those companies who pay a dividend from the outset of their public company life are likely to be of more interest than none payers.

Investors will also want to know the short, medium and long term benefits of being shareholders in the company. Therefore, management need to clarify their views on rates of growth of revenue and earnings and potential exit for shareholders as these will all dictate investment targets. Having decided on the dividend and or growth ambitions, the company's advisers will direct the company towards those funds best suited to the company.

Easily understood

Whatever the investment proposition is at the outset, it should be easily understood by the company's advisers. Once agreed, the company's investment proposition must be easily identifiable and communicated to the widest focused and targeted investment community. Ensure that where the company deviates from the initial strategy that any deviation is managed in an open and honest way.

Meetings

Heather Salmond, Managing Director, Abchurch Communications

Face to face

Meetings with your key target audiences are a critical opportunity for you to convey your equity story. The management team must be well prepared, with strong collateral, to ensure that meetings which are arranged for you by your advisers are as effective as possible.

There are a number of regulatory financial calendar requirements which will provide clear opportunities for the Board to meet with the company's stakeholders throughout the year. It is important to maximise these opportunities, and to ensure that you are reaching all audiences. Your communications activities should include face to face media and analyst briefings, as well as meetings with institutional investors and private client brokers.

Cornerstone meetings

Institutional investors

These meetings are typically arranged by the company's corporate broker, and are one-to-one meetings at the institutions' offices, often accompanied by a member of the sales team of the broking house. With new and potential investors, these meetings will take the form of a presentation from the company, followed by questions. With investors who are more familiar with the company, these meetings can be much more interactive from the outset.

At the time of the full-year and half-year results, companies will typically be taken on a roadshow of individual meetings with institutions by their broker, in order to update existing shareholders on the company's progress as well as to meet potential investors for the first time, giving them an introduction to the company. In the UK, the majority of these meetings take place in London.

Similarly, brokers may look to extend company roadshows internationally across Europe, the United States or elsewhere, in order to cater for any overseas investor interest.

Private client brokers (PCBs)

Private client brokers are an important audience for quoted companies as they can influence the stability of its share price. A roadshow allows you to take your company beyond London, as PCBs cover the whole of the UK. If you have met the London branch of a firm, also talk to those based in other parts of the country or overseas, as they control distinct pools of capital.

Your financial PR firm may arrange individual meetings with PCBs, but often it is more efficient to host a group meeting with PCBs from a range of different houses. Some PCBs at a presentation may already be shareholders, whilst others will be new to the story altogether.

Sell-side analysts

Developing relationships with sell-side analysts is important because it encourages analyst coverage in addition to that of your house broker. This is beneficial because not only will other houses have distinct distribution from your house broker, gaining you wider exposure amongst investors, but also this sort of third party endorsement is powerful when it comes to investment decisions. You should target both sector-specific analysts, as well as generalists covering companies of your size. Once an analyst has become interested, your company might form part of a note on the sector, or, it might have a compelling enough story for a stand-alone piece of research.

You should use your results twice a year as an opportunity to hold group analyst presentations, usually at the offices of your financial PR firm. These meetings are an opportunity for analysts who are new to the company to gain an overview of its operations from the management, as well as the latest up-to-date figures. These can be followed up with individual meetings, so that an analyst thinking of initiating coverage can have a more detailed conversation with the management.

Press

Building strong relationships with the press is the key to gaining coverage in a highly competitive market. It is important to build relationships and understanding with the key journalists in your sector across all types of media. The most effective way to engage a journalist and convey a company's equity story is through face to face meetings. If the journalist has good background knowledge of the company this will mean that they will be more inclined to cover your story when you release specific news, or to quote you as an expert on your space as part of a broader article.

Background briefings, which allow the journalist to get to know the company, are a good way to solidify relationships. At these initial meetings it is also useful to give the journalist a wider landscape of the competitive market, and to discuss developments in the sector on a broader level. This will position the management as experts on the space and will increase chances of coverage in a broader article. Briefings can then be conducted by phone at a later stage at points such as the results, when there is specific news to discuss.

Other meetings

General meetings

Companies should use their general meeting to communicate fully with shareholders; not only can the meeting itself be used for the Chairman or Chief Executive to present and provide an update on current trading, but this should be reflected in a market announcement which gives all investors an update, including those who were unable to attend the meeting itself. The announcement must replicate the content of the meeting, to ensure that all investors have the same information. This update is often written in the form of a quote in the announcement.

The general meeting should also be used as a discussion forum, and questions should be encouraged once the formal proceedings are completed. This ensures that the management is transparent with shareholders about the running of the business, and provides an opportunity for shareholders to raise queries or concerns in an organised and regulated environment.

Site visits

If your operations have a visual element to them, a site visit is a powerful way to convey your story and to give visitors greater insight into the company. Inviting the media, analysts and investors to visit your company will increase their understanding of what you do and how you operate. This also gives an opportunity for them to speak with other employees, and to gauge the quality of the middle management. Events such as the opening of new facilities, acquisitions or the launch of a new product are the ideal opportunities to host a visit.

Round table debates and conferences
Typically organised by investment banks, round table debates and sector conferences can be a good introduction to investors. This is particularly the case if you are invited to attend a conference other than your house brokers' as you could be in front of a new set of contacts. These can either take the form of a series of presentations by individual companies, or a more generic discussion on a theme.

Meeting collateral
Presentations used at meetings should contain information about the company's operations, the management team, the financials, the market drivers for the business and the competitive landscape. These are the areas that the investment community will be most interested in, and will give its members an insight into the business's investment proposition.

It is often helpful to also take any marketing materials, such as a company brochure, as this gives an indication of the quality of the product or service, and also indicates the sort of customer that the company is targeting.

The secret of getting your message across to fund managers is to keep it simple. What I want to understand is what are the inputs that go into a company and what affects them in terms of price and supply.

It is then important to understand what a company does to those inputs and how what it produces in terms of products and services is then sold. The better a fund manager understands your business, the more support your company is likely to have in the market.

We like companies which under promise and over deliver. Too many companies feel they have to over promise and then stretch to try and make the numbers. Do not resort to a succession of company announcements in an effort to try and sustain your share price.

Fund management is a worldwide business with thousands of eyes keeping a look out for opportunities. If you keep producing attractive profit growth then someone will find you and when they do they will want a clear and concise message.

Andy Brough
Co-Head of Pan-European Small Companies, Schroders

Preparation

It is important that the management are well prepared before any of these meetings, and know what the investor, analyst or journalist is looking for. The best way to do this is to understand what other investments an institution holds, or what topics and companies the journalist or analyst has recently written on. Your broker should be able to brief you on what the investors you are meeting are looking for in terms of returns, and also their preferences towards timing and size of investments. You should also learn how knowledgeable they are about your sector to identify whether you need to explain the technology or operations in simple terms, or whether they have a stronger understanding of the competitive landscape. Corporate brokers will be able to give you this information on each investor you are meeting, as they hold the relationships directly.

All directors need to be consistent in their responses, particularly to any tricky questions. It is important to have agreed responses and good corporate material, key messages, to rely on and refer to during meetings. This will give a high degree of consistency to the messages that are conveyed during each meeting. The management team also need to be prepared to answer questions on the directors and their backgrounds, as well as threats to the business, barriers to entry and competitors.

Given that most of the meetings that are arranged by your advisers will be on a tight time scale, often lasting for an hour or less, it is crucial to be succinct and well prepared in order to make the most of the time that you have with people. The company's presentation should last no longer than 40 minutes, to enable time for questions.

Conclusion

The meetings that you have throughout the year are an opportunity to demonstrate the company's progress and to keep investors updated and informed. They are also a way to attract new investors and the support of the press and analyst community. It is critical to leverage all of these opportunities to their full effect, and to remain transparent and consistent in all communications.

Company Announcements

Charles Bond, Partner, Cobbetts LLP

Transparency

In order to maintain fair and transparent markets, it is of fundamental importance that quoted companies keep investors regularly informed about their affairs. The various provisions set out both in statute and regulation relating to company announcements help to create such transparency and protection for market participants.

What to announce

The need to provide investors with regular news flow means that companies will need to have in place an annual reporting calendar to enable them to announce certain planned events throughout the year, such as the publication of annual and half-yearly reports. In addition to this, companies may hold regular investor or analyst briefings and will also communicate with their shareholders at the Annual General Meeting. The periodic publication of news helps to create a balanced and orderly market in a company's securities.

However, companies must also operate on an ad hoc basis to ensure that any new developments are also disclosed to the market without delay. This will normally involve consideration of whether there is any 'inside information' which requires disclosure to the market.

The concept of disclosing inside information is set out in the UK Listing Authority's (UKLA) Listing Rules. Listing Principle 4 states that a "listed company must communicate information to holders and potential holders of its listed equity securities in such a way as to avoid the creation or continuation of a false market in such listed equity securities."

What is inside information?

The principal provisions relating to disclosure of inside information are set out in the Disclosure and Transparency Rules ("DTRs") which implement certain European Directives on disclosure and transparency. These apply to all companies on a regulated market, such as the London Stock Exchange's Main Market. However, companies quoted on AIM are subject to their own rules relating to the disclosure of price sensitive information, although the principles are very similar.

When determining whether a company has inside information, the flowchart on page 54 can be followed. The initial assessment of whether particular information amounts to inside information must be made by the company, with help from its advisers. In reality, unless the case is obvious, input from the company's advisers will be vital, as there will be a number of different factors which will need to be taken into account when assessing the significance of the information, such as the company's size, recent developments and market sentiment about the company and its sector, the swing in share price, including other market variables affecting price, the source of the information, the company's financial condition and information previously disclosed by the company to the market.

Usually a company will look to a combination of its legal adviser, to ensure that it complies with the necessary regulations, its broker and corporate finance adviser, to assess the significant price effect test (which, for the avoidance of doubt, is not reliant on any specific percentage movement in price), as well as the input of a financial PR firm so that any announcement is properly structured for the investor audience. With respect to AIM companies (see further below), all such considerations must be made in conjunction with a company's Nominated Adviser.

Certain rumours or speculation circulating in the market or the press may prompt the company to consider whether such information is inside information. The flowchart overleaf should be followed in each case but, in general, if the rumour is accurate and is inside information, an immediate announcement will be required. If the rumour is false, then the company may choose to delay disclosure, probably indefinitely. There is no obligation to respond to a false rumour, although a company may wish to correct significant errors where they lead to general market misapprehension or the market being misled.

For further help on the subject, the Committee of European Securities Regulators ("CESR") has published guidance in which it considers what constitutes inside information and provides additional clarification on the terms 'precise nature' and 'significant price effect.' In addition, there is a (non-exhaustive) list of the types of event or information which may constitute inside information, ranging from changes in management or control of a company to a projected withdrawal from or entry into a new core business area.

When to announce

Once a company decides that there is inside information, the general rule is to disclose this to the market without delay.

The UKLA has previously made it clear that there is no reason to delay disclosure either due to a lack of formal Board approval or in order to arrange a parallel event, such as an associated webcast. Similarly, the practice of delaying an announcement until the formal regulatory information channels (see further below) are closed and then feeding an exclusive to a newspaper over the weekend for enhanced coverage (sometimes known as 'the Friday night drop') is also unacceptable.

Nevertheless, the disclosure regime does permit a company (under its own responsibility) to delay disclosure of inside information. For example, if an unexpected and significant event occurs about which the company needs more information in order to make any announcement meaningful, a short delay is acceptable. However, if there is danger of a leak before the impact of the relevant circumstances can be confirmed, the company should put out a holding announcement while the issue is investigated. Failure to make such a holding announcement may result in the company's trading being suspended.

Determining whether a company has inside information

Is the information of a 'precise' nature?

- Does it relate to circumstances that exist/are reasonably likely to come into existence?
- Is it specific enough to enable a conclusion to be drawn as to the possible effect of those circumstances on the price of the company's securities? (i.e. NOT solely rumour or speculation)

Yes ↓ / No →

Is the information generally available?

- Is it information which could be obtained by research/ analysis by market users?

No ↓ / Yes →

Does the information relate directly/indirectly to the company or its securities?

Yes ↓ / No →

If the information was generally available, would it be likely to have a significant effect on the price of the company's securities or related instruments?

- Is the information of a kind that a 'reasonable' investor would be likely to use as part of the basis of his investment decisions?

Yes ↓ / No →

No ↓

INSIDE INFORMATION

Announcement required

NOT INSIDE INFORMATION

No announcement required

Even if a company does have full details of certain inside information, it can still delay disclosure if its reason for doing so is so as not to prejudice its legitimate interests, provided that:

- such non-disclosure would not be likely to mislead the public;
- any person receiving the information owes the company a duty of confidentiality; and
- the company is able to ensure the confidentiality of that information.

An example of this may be where confidential and price sensitive negotiations on a deal are underway by a company and its advisers, and disclosure of the information would prejudice the outcome of the transaction.

In adverse market conditions, companies may be reluctant to publish negative news in circumstances where trading may have already substantially deteriorated. The DTRs do recognise that where the company's financial viability is in grave and imminent danger (although not insolvent), disclosure of rescue negotiations can be delayed for a limited period if the information would seriously jeopardise shareholders' interests by undermining the conclusion of those negotiations. However, it is important to be clear that this only applies to the details of the specific transaction and not to the fact that the company is in financial difficulty, which in itself remains disclosable. Companies should consult their advisers on such matters.

Although the inside information provisions do not apply directly to AIM companies, similar principles should be taken into consideration. Pursuant to the AIM Rules for Companies ("AIM Rules"), an AIM company must disclose any unpublished price sensitive information without delay. However, the AIM Rules do provide a similar carve-out to the inside information exemption in that an AIM company need not disclose unpublished information about impending developments or matters which are currently in the course of negotiation. If an AIM company is in any doubt as to whether certain information should be disclosed to the market, it should consult with its Nominated Adviser.

How to announce

Information that is disclosed must be available to everyone. The concept of selective disclosure to only certain people is incompatible with a transparent market and is therefore not possible, except in very limited circumstances such as when there is valid delay in disclosure as noted above. In order for information to be accessible by all, an announcement must be released to the market via a Financial Services Authority (FSA) approved Regulatory Information Service (RIS) in the first instance so as to ensure prompt and fair disclosure to the market.

Any announcements should be true, accurate and not misleading and should not omit anything likely to affect the import of such information. As well as the DTRs and the AIM Rules, all companies and their directors also need to be aware of the market abuse regime, the financial promotion, misleading statements and practices provisions under the Financial Services and Markets Act 2000 ("FSMA"), the insider dealing rules under the Criminal Justice Act 1993 ("CJA"), fraud under the Fraud Act 2006 and, in the relevant circumstances, the inside information provisions under the City Code on Takeovers and Mergers.

Control of inside information

Listing Principle 2 of the UKLA's Listing Rules states that "a listed company must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations." This means ensuring that its procedures, systems and controls relating to the disclosure and protection of inside information are sufficiently robust to enable compliance with the DTRs. For companies on a regulated market (which does not include AIM companies), this includes the obligation to compile insider lists where their employees and advisers have access to inside information.

The obligations on AIM companies in respect of the control of unpublished price sensitive information are less prescriptive; such companies are obliged to have in place sufficient procedures, resources and controls to enable it to comply with the AIM Rules, which includes the protection and appropriate disclosure of unpublished price sensitive information.

According to the FSA's Principles of Good Practice for the Handling of Inside Information, there should be clear responsibility within organisations for overseeing controls and procedures in relation to inside information, as well as ensuring that staff are given the appropriate level of training to understand the importance of keeping information secret, and the consequences of their failure to do so. Companies may, for example, use restricted access IT systems to limit access to inside information. Guidance on implementation of such policies is available from the General Counsel 100 Group, a body that represents the senior legal officers of most of the FTSE 100 companies.

Penalties, sanctions and censure

The FSA may impose a penalty on a company for any breach of the Listing Rules or the DTRs. The penalty can be whatever sum the FSA considers appropriate, given the circumstances. In addition, the FSA may privately or publicly censure a company or suspend trading of its securities. In addition, if a company or its directors breach the DTRs, it or they may also be in breach of other statute and regulation as set out above, some of which can result in criminal sanctions.

Similarly, if the London Stock Exchange considers that an AIM company has breached the AIM Rules, it may issue a warning notice against the company, a financial penalty and/or a censure. In more extreme circumstances, the London Stock Exchange may cancel the admission to AIM of the company's securities and/or publish the fact that it has been fined or censured and the reasons for that action.

Annual Reports

Richard Carpenter, Managing Partner, Merchant

Reporting changes

The corporate reporting environment in the UK and overseas has gone through significant change in recent years. Annual report content in the UK has been subject to regulatory and legislative change that has impacted both the front and back sections of annual reports – ranging from the once mandatory Operating and Financial Review (OFR), through to the Business Review and Enhanced Business Review and the implementation of International Financial Reporting Standards (IFRS) for the accounts.

The technological environment has changed significantly too. Many companies are looking to move their reporting into an online format. That progression has been helped by changing legislation both in the UK (the Companies Act 2006) and overseas allowing companies to default to online or electronic communications with their shareholders – rather than sending printed material.

Key document

Due to its statutory nature, the production of the annual report should be seen as a key activity in any company's investor relations programme. In many ways, the annual report is a direct extension of a one-on-one meeting with investors – it gives the strategic detail of the results information that is released at the time of the preliminary announcement. As with any other key part of the investor relations programme, the publication date of the annual report should be set well in advance as part of a company's financial calendar.

Content

The annual report remains an absolutely key part of the overall shareholder and stakeholder communications mix. Many companies view it as the document that brings together all of their key messages throughout the year. It is, in that regard, a sort of 'convenience publishing' tool for investors. It should bring together a description of the business; the context in which the business is operating; an overview of strategy, performance and operations; plus key governance information, including risks and uncertainties. Last, but certainly not least, it should present the main financials, together with detailed explanatory notes. In essence, the report should give readers an in-depth understanding of the company, its performance and, crucially, its prospects going forward.

This latter aspect of the annual report's role has grown in prominence in recent years with companies paying more attention to the 'forward-looking information' they include within the document. As such, there needs to be a clear balance in giving some indication of future prospects without making unrealistic statements that could compromise the directors' legal obligations. Companies that are adept at presenting this type of forward-looking information tend to concentrate their efforts on talking about their plans for the future – for example, strategy – and setting those plans in the context of the threats and opportunities that they currently see in their marketplace. It is increasingly common to also use externally-sourced statistics to back up that sort of case – for example, overviews from industry bodies that analyse the sector.

Reviewing annual reports (both printed and online) for the Investor Relations Society's Best Practice Awards, it is noticeable that there are considerable differences in performance.

Many companies communicate their strategy, performance, governance and risks effectively in their annual reports, presenting the information in such a way that enables readers to quickly understand each aspect.

However in many cases strategy is not clearly stated up front and business drivers are not explained. It was also felt that discussion on corporate governance, an area which is coming under much closer scrutiny and one where there is an opportunity for companies to show how best practice is embedded in their culture, could be improved.

The challenge going forward therefore is for companies to be clearer, briefer and more strategic with the content of their annual reports so that they gain the attention of investors.

Michael Mitchell
General Manager,
The Investor Relations Society

Indeed, it is these and other 'softer' elements of company reporting that have come more to the fore in recent years – partly as a result of the changing regulatory environment and partly due to changing focus from companies and investors. Increasingly, companies are including a range of 'non-financial' key performance indicators (KPIs) alongside the more traditional financial measures of performance. These range from indicators such as 'footfall per unit' in the case of, say, a retail operation to those associated with corporate responsibility programmes, such as environmental and employee satisfaction indicators. The idea behind this non-financial focus is to give readers a wider appreciation of how the company is operating along with other reputational factors that might impact the bottom line.

Design

There is, of course, little point in drawing together lots of detailed financial and non-financial information if no-one can access the information or no-one wants to access the information because it looks too complicated. Many companies nowadays hire the services of annual report design and consultancy specialists to help them structure and design the content – in both print and online. The navigational aids and look and feel should be specifically designed to help guide readers through the maze of information included within the report. It is also worth bearing in mind that your audiences will want to access the information in different ways. Some will want to read all of the content in depth, but many will be looking for a quick read approach, so pulling out key messages and content is crucial.

Distribution

Despite the change in legislation noted earlier, the vast majority of companies continue to post out their printed reports to all shareholders. Increasingly, however, some audiences prefer online formats to the print option and Large-Cap companies, in particular, are trying to respond to that demand. Typically, many companies moving towards the online communication approach have found that an average of 20 per cent of shareholders still want to receive their materials in printed format.

The UK market has seen Larger-Cap companies with large shareholder bases eagerly embracing the possibility of communicating with their shareholders online. After all, it offers the possibility of drastically reducing print runs and mailing costs and therefore brings significant cost savings. Companies with more average sized shareholder registers – for example, 10,000 shareholders or less – have been more cautious about the move due to the lack of such immediate cost-savings. Each company should weigh up the needs of its audiences and the way in which they communicate with their shareholders before determining their own approach.

In recent years a range of online formats have emerged to satisfy these trends. Virtually all quoted companies now make their annual report available as a PDF online – thereby satisfying the need to produce the same content in print and online. Some of the Larger-Cap companies have also opted to produce all of their annual report as full web pages (or HTML). Others have opted to produce the front ‘narrative sections’ of their reports in HTML, while keeping the back section as PDFs. Again, there is no right or wrong approach – companies should simply think about the needs of their audiences while also considering a range of other factors, such as budget, accessibility and transition towards wider online communications.

It is this wider consideration that is driving some companies towards online reporting. While they may feel no immediate demand from their shareholders and may see no immediate budgetary advantage, there is a widespread acceptance that investor communication is increasingly moving to an online format. The annual report should form part of that wider online investor communications effort and sits comfortably alongside electronic versions of investor presentations, share price charts and AGM information.

Investor Relations Websites

Al Loehnis, Director, Investis

Standard-Bearer

The continuing obligations for quoted companies to provide timely disclosure of price sensitive information and equal treatment of all shareholders have always been central to the regulatory regime. However it was not until the advent of the internet that companies had a practical means of fulfilling these.

The role of the company website today goes far beyond meeting regulatory obligations. In many cases websites are the first touch point between an investor and a company and so act as a standard-bearer for the corporate brand and values. As standards have improved so expectations have risen and the quality of the website sends subtle but important signals to an investor: Does this look like a company that treats investor relations seriously? Can I expect active, open communications going forward? In a survey conducted by Investis, many institutional investors noted a correlation between a poor website and a company that was perceived to lack transparency or to have poor management.

Good practice for investor relations websites

All companies should treat their website as a key communications platform and recognise its importance to investors and other stakeholders. However, to some extent, expectations are rightly different for well-established, large international companies and young companies new to the market.

For companies who are making the transition from private to public ownership through an IPO, the website is particularly important. You may have more people looking at your site over the course of two weeks than you will for the next two years. But in the run-up to an IPO, the demands on senior management time will be enormous. So it pays to think about it early and get a good framework of corporate information in place long before any announcements are made.

All quoted companies should take advice as to what regulatory requirements their website needs to meet as there are various rules and guidance governing corporate information disclosure across a company's website. For example, AIM companies are required to ensure that the information is disclosed in accordance with AIM Rule 26, which requires that each AIM company must, from admission, maintain a website on which certain information must be available free of charge and easily accessible from one part of the website.

The table opposite sets out some guidelines on content and a typical structure that an investor relations website might follow, but more generally here are five key areas to give thought to when considering your investor relations website.

Guidelines on investor relations website content and structure

Menu Section	Typical Pages	Comment
About Us	Business overview	The 'elevator pitch' of what you do
	Strategy	Ideally with performance KPIs/targets
	Company history	Tell the story of your evolution
	Product or service information	With an investor audience in mind
	Information about markets	Drivers, dynamics, trends, competitors
	Fact sheet	Key information at a glance
Governance	Combined Code compliance	Statement of compliance
	Board of Directors	Photos, biographies, roles and responsibilities
	Board committees	Include membership and terms of reference
	Company structure	Explain how business is organised
	Director's shareholdings	Consider detailing Director's dealings too
	Senior Management information	Key management below Board level
	Risk management	Include other relevant policies
News & Events	Press releases	Include e-mail alert and RSS feed
	Regulatory announcements	12 months minimum
	News clippings	Or links to third-party sites
	Financial calendar	Include reminder feature
Results & Meetings	Recent/forthcoming results	Gather all information in one place
	Results archive	Use tabs and tables to make easy to use
	Key financial data	Latest P&L, Cash Flow and Balance Sheet
	Annual reports	HTML as well as PDF sections ideally
	Presentations	Include results, analyst visits, conferences etc.
Share price details	Share price display	Summary table plus listing information
	Charting tools	Allow comparison with peers and indices
Shareholder information	AGM information	Note regulatory requirements
	Key shareholders	Holdings over 3% and analysis by size
	Registrar	Contact details, forms and links to sites
	Dividends	Policy, payment history and calculator
	Shareholder documents	Prospectuses/Admission documents if relevant
	Analyst information	Include estimates if possible
Advisers & Contacts	Table of key advisers	Broker, Sponsor or Nominated Adviser, Financial PR, Auditors, Lawyers etc.
	Company contact details	Details for named IR and Media contacts

The above table provides high-level guidance only and advice on detailed requirements should be sought.

Content

The general rule on content is that more is better: investors can then filter what they do not want. Many investors are using the website as their primary source of information and they value both depth in content (for example comprehensive archives of historical information going back five or 10 years) and breadth in content (for example detailed information about operating companies and their products, explained from an investor's perspective not with a customer in mind).

Importantly 'more content' does not mean 'longer text'. When creating content specifically for the web, make it easy to digest. The more text there is on a page, the lower the recall – in general, web copy should be 40 per cent shorter than the print equivalent. You can improve search engine rankings and comprehension by keeping text short and breaking it up with good use of sub-headings and bulleted lists.

Do not just think about the written word. Multimedia content is increasingly important in creating an engaging experience and in bringing a less formal and more personal tone to corporate communications.

Context

Perhaps the most common failing of websites is to focus too inwardly on the company and not to provide the broader picture of the market environment and other contextual information.

- What are the dynamics of the market in which you operate?
- What are the long term trends and where do you see it going?
- Who are your competitors and what is your market position?
- Is it a tightly regulated market?

If you are not providing answers to these sorts of questions then investors will be going elsewhere for this information, to sources over which you have no control. It is a missed opportunity to not provide the contextual framework within which people will be assessing your company.

Usability
However good your content is, users will leave your website quickly and with a negative impression if the site suffers from poor usability. Good usability is the sum of many parts, including for example:

- A user-centric design, with good colour contrast
- A familiar, consistent navigation mechanism
- Simple structure with well-labelled content sections
- Homepage and landing pages with good signposting
- Content pages that do not require too much scrolling
- Archives that make it easy to find documents in a choice of formats
- Orientation aids, like breadcrumb trails and related links
- Fast page-load speeds
- Good coding, to ensure accessibility for all users

Functionality
The web is an interactive environment and there are many useful tools you can provide to engage and help your website visitors. Think about your audience's needs and how you can help them with those. Some examples of features and tools you might consider:

- Basics: Search, site map and print-optimised pages
- Data tools: Share price charting, KPI charting tools, calculators, analyst estimates
- Maps and timelines: Interactive applications to explain history and geographic presence in an engaging way
- Alerts and reminders: E-mail and calendar alerts, RSS news feeds

Ongoing management
How you are going to manage your site on an ongoing basis is as important a consideration as what to display in the first place. While some of the content should be 'evergreen', there will be plenty of content that needs regular checking and updating to ensure it remains consistent with the broader communications output.

Investors will notice quickly if content on a site is not current or key announcements are not updated simultaneously with market disclosure. They may not complain, but they will stop regarding your website as an authoritative source and you will have lost control of your message. So establish some governance rules for the website early on and get buy-in from management about the resources required and the responsibilities on an ongoing basis. In addition, you should consider periodically reviewing other quoted companies' websites to benchmark if your own website is as easy to use, informative and up-to-date as that of your competitors. Remember, investors, analysts and journalists who use company websites for their research will notice and may be influenced by such differences.

Conclusion
Websites are a critical part of the investor relations toolkit: an opportunity (and an obligation with respect to AIM companies under the AIM Rules for Companies) to reach the widest investor audience, to engage with them and to start building valuable relationships. The most important success factor is not the size of the budget you have, but the commitment you make to treat it as a communications platform. If you embrace it, you will be rewarded.

Electronic Shareholder Communications: The Companies Act 2006

Andrew Hutchings, Partner and James Kerton, Associate, Freshfields Bruckhaus Deringer LLP

New regime

The Companies Act 2006 (the Act) created a new regime for communications between companies, shareholders and holders of debt securities that came into force on 20 January 2007. It applies to any information or document required or authorised to be sent or supplied under the Act. This means it covers, but is not limited to, annual accounts and reports and notices of general meetings. The three basic types of permitted communication from a company to its shareholders are hard copy, electronic communication (such as email or fax) and website publication.

Website publication: the advantages for companies and shareholders

The Act allows a company to communicate with its shareholders by website either with their express agreement or, if certain conditions are met and procedures followed, with their deemed agreement. Website publication has several advantages for the company and its shareholders:

- increased speed and convenience of communication for the company and shareholders - shareholders will be able to access communications on the date of publication, rather than waiting for postal deliveries;
- savings on environmental resources, as the company can reduce paper and printing usage; and
- cost savings in relation to administration, printing and post.

Since Carillion introduced the provision of shareholder documents in electronic form in September 2008, we have enabled shareholders to access documents more quickly, reduced the impact on the environment through printing a lot less documents and also benefited from the cost savings of printing and posting less. It is a good and sensible arrangement which recognises the development in communications.

Tim George
Deputy Company Secretary,
Carillion plc

How can companies take advantage of the rules for website communications?

A shareholder is deemed to have agreed to receive company communications on the website if two conditions are met.

First:

- either the shareholders have passed a resolution at a general meeting allowing the company to communicate in this way or the company's articles contain provisions to this effect.

Second:

- the company has asked the shareholder individually to agree that the company may communicate by website (either generally, or in relation to a particular document or item of information), explaining that the effect of a failure to respond will be to trigger the automatic consent rules (i.e. the shareholder will be deemed to have agreed to website communication); and
- no response is received within 28 days beginning with the day of its request.

The company may only send a request once every 12 months for the same or similar documents or information. Even if a shareholder has agreed expressly, or is deemed to have agreed, to website communication, he or she may still obtain hard copies of documents free of charge at any time. Listed companies (which does not include AIM companies) must also comply with the Financial Services Authority (FSA) rules on electronic communications set out in the FSA Disclosure Rules and Transparency Rules. Similarly, the AIM Rules for Companies contain guidance for AIM companies that opt to communicate with shareholders by electronic means.

Making the communication by website

When a document or item of information required or authorised to be sent or supplied under the Act is published on a company's website, the company must notify the shareholder of:

- the presence of the document or information on the website;
- the address of the website;
- the place on the website where it may be accessed; and
- how to access the document or information.

This notification must be sent as a hard copy or, if the shareholder has agreed, by electronic communication such as email. The FSA has confirmed that, in respect of listed companies, such a letter must comply with the usual Listing Rules requirements for circulars. The company must usually make the document or information available on the website for at least 28 days beginning with the date the notification of availability is sent. The company must also comply with any extra requirements about website publications in the company's articles.

Email communication: express consent still required

Companies still need a shareholder's express agreement to use electronic communication such as email. Any agreement with a shareholder made since 2000 under the companies legislation that preceded the Act continues to have effect for the purpose of the new regime. Even if a shareholder has agreed to electronic communication, he or she may still obtain hard copies of documents free of charge at any time.

Communications in hard copy

There have been no recent changes in the rules governing hard copy communications between companies and their shareholders, the main requirements of which are detailed in a company's articles of association and, in respect of listed companies, the Listing Rules.

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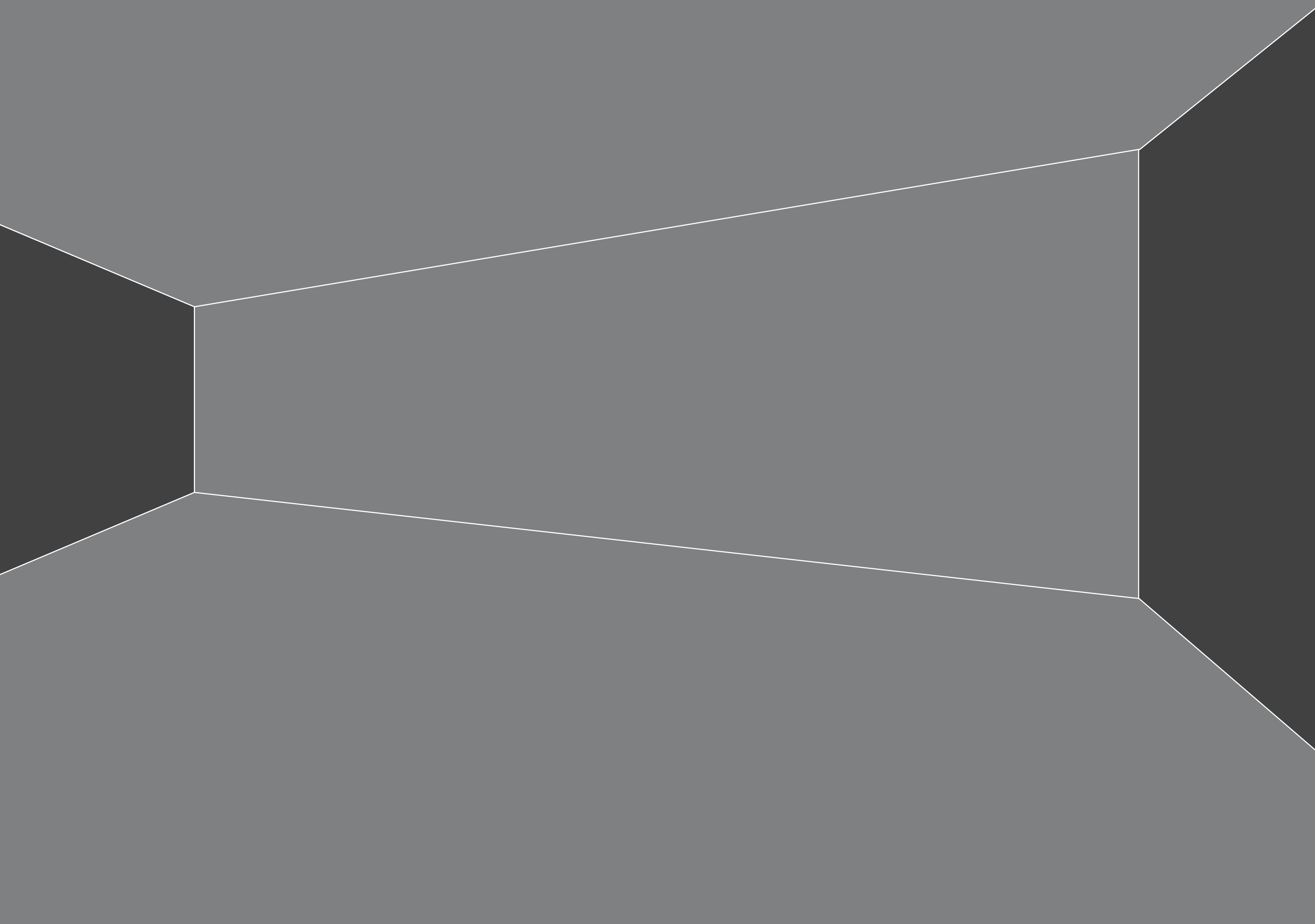

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