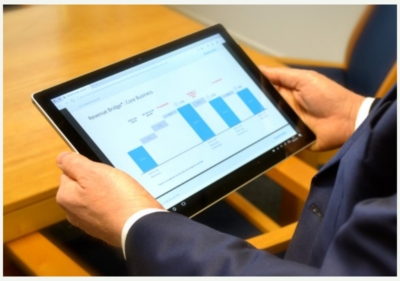
Heartwood Partners

Heartwood Partners Private Investor Survey

APRIL 2018

Survey results from 300 private investors

Real insight into improving communication with this important investor base



Our online survey

We had a fantastic response from over 300 private investors who took our Heartwood Partners survey. Thank you to all those that took part.

The survey was aimed at improving the understanding of which channels private investors use prior to making investments and in response, how listed companies can improve their communication with private investors.

From the data we collected, it appears that private investors have very clear views on what makes for effective communication.

MIFID II

The recent introduction of MIFID II is already starting to restrict the amount of sell side research reaching all investors. Companies need to devise a strategy to counteract this.

Managing expectations

Consideration should also be given to alternative ways to manage expectations. Private investors are dissatisfied with references to meeting expectations when little information is given detailing what those expectations are.

Investor relations website

Listed companies need to recognise the importance of their investor relations website. This is a shop window to your investors. Keep it clear and regularly updated.

Plain English

Many investors complained that too much jargon is used. Keep it simple.

Participants & Highlights

- **300 private investors took our online survey**
- **75% part time investors, 25% full time investors**
- **MIFID II is reducing access to research for all investors**
- **Share commentators / bloggers on social media and PI sites are important influencers**
- **Investor relations website is the first port of call for investors.**
- **Investor demand for video, call transcripts and use of plain English**

The importance of private investors

For many listed companies, private investors are all too often an underappreciated source of funds. Too many companies just concentrate on attracting institutional investors.

Don't ignore Joe Public

It is worth remembering that according to the Office for National Statistics, UK individuals owned 12% of UK quoted shares at the end of 2016. Their holdings were worth a £245 billion or equivalent to over 1.5 times the value of the FTSE100's largest constituent, HSBC. This study also ignored the entire AIM market, so the real figure is likely to be closer to 20% according to the Wealth Management Association. Therefore to ignore private investors is to count out a very significant and often long term provider of capital. Indeed research by Barclays Stockbrokers found that of those private investors who invest into IPOs, 42% are still holders after three years.

Source of liquidity

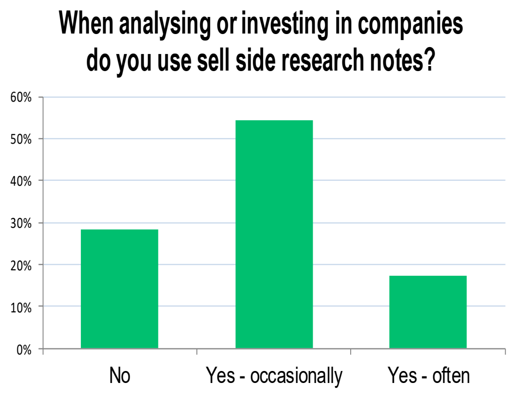
Private investors also provide a valuable source of liquidity in a share register. All too often we hear fund managers say "there isn't enough volume in this share for me to buy a position." This refrain is less often heard when a company has a healthy level of private investors, who can provide natural liquidity for institutional investors. This report aims to inform listed companies how to communicate better with private investors.

Inside this issue:

MIFID II is already reducing access to sell side research

One of our prime concerns at Heartwood Partners is the negative impact MIFID II is starting to have on access to company research produced by stock brokers.

Ostensibly sell side research is aimed at professional investors but there has always been creep from this channel into the private investor universe. As seen (top right), over 54% of our survey respondents use sell side research 'occasionally' and 17% use it 'often'.

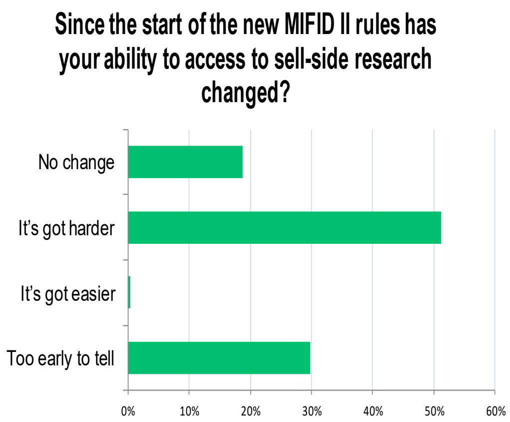


The impact of MIFID II appears to be impacting private investors more severely with over 50% of respondents reporting greater difficulty in accessing broker research.

Pay as you go

MIFID II has mandated that institutional and private client fund managers can only receive sell side research if they pay for it, or if the company sponsors its own broker to write that research.

In a parallel report (view it here) aimed at institutional fund managers, we found that a net 42% of fund managers are receiving less research post MIFID II. Partly this is due to compliance departments ensuring research distribution rules are not transgressed, but also because most fund management firms have cut their external research budgets.



Clearly management of listed companies, especially in the small and mid cap area, should heed this change and think about ways to combat it.

One area that is gaining traction with companies is paid-for research. Here the corporate directly sponsors a research note that can be disseminated without restriction to all users. It has the added attraction that companies can post a link to the research on their investor relations page. One drawback is that it is often seen as the mouthpiece of the company and is not truly independent, however it does inform investors about the company and give some profit forecasts.

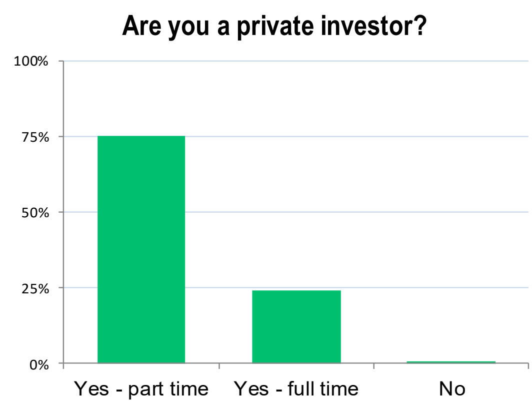
Alternatively new research platforms such as Research Tree are aggregating research and charging private investors a small monthly fee to access it. Our survey showed over 40% of all respondents are considering subscribing or paying for a research aggregation platform. Company management should ask if their corporate broker has signed up to this type of service to widen the distribution of their research to private investors.

A strong mix of full time and part time investors

Who took part?

From our results over just over 75% of the 300 survey respondents classed themselves as part time investors. Of the rest, the vast majority, 24%, classed themselves as full time investors. A couple of individuals, who did not class themselves as investors but wanted to know more about investing, also took our survey.

It is clear our survey attracted responses from the more professional end of the spectrum. This mix probably is probably not representative of the wider UK investing public. However the detailed responses should provide companies with real evidence of where they need to improve communications with private investors.



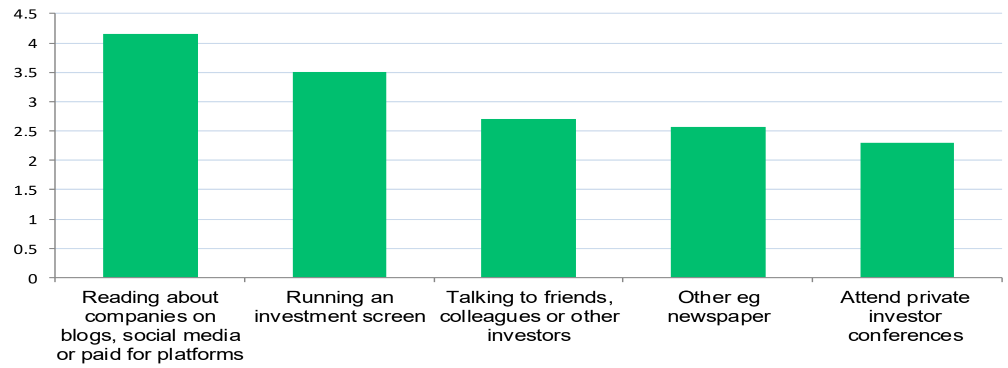
The private investor conundrum – sourcing ideas

We were interested to understand where investors sourced their ideas. Professional fund managers tend to rely on their internal analysts, sell side broker notes and advice from stockbrokers to source ideas for their client's portfolios.

Private investors have less access to these information sources. Instead they rely on other avenues with more emphasis on word of mouth and DIY methods.

We asked the respondents to rank by importance their sources for finding new investments. The most popular category was via social media channels and blogs. Running an investment screen was second. Attending investor conferences was least popular. Maybe this is because most investors have full time jobs and families so reduces the appeal? The presentations run by PR firms and organisations like ShareSoc we have attended have been very good, so should not be dismissed as a channel to interact with investors

Please rank in importance your primary sources for discovering new companies to research or invest in?



"The overwhelming favourites were blogs, social media and commentators as a source of ideas for private investors. "

Alex Schlich
Heartwood Partners

The rise of the Twitterati and bloggers

The sheer appeal of blogs, social media and commentators as a source of ideas for private investors surprised us.

On reflection we should not have been so hasty in our judgement. A number of well known share bloggers have gained serious numbers of followers. Commentators like Paul Scott or Graham Neary at Stockopedia regularly attract over 8,000 readers, while Richard Beddard and Phil Oakley at Sharescope have a large number of Twitter followers as well as paid for subscribers.

Commentators can make their views known widely over Twitter and via blog posts. Unlike most sell side analysts they are not bound by commercial broking relationships with the company in question. Thus if they deem a set of results issued by a company to be poor they are more than happy to say so.

I find their analysis generally very balanced and it is refreshing to read what experienced commentators really think rather than couching their views in oblique references in order not to offend corporate clients. So for companies invited to interact with these commentators, you can expect a fair hearing.

An example of balanced comment on Twitter from Sharescope

Heartwood viewpoint: Companies need to invest in themselves

Talking to a number of fund managers, we often hear that there is too much "me too" or undifferentiated research, especially in the large cap space. Fund managers complain that analysts are often overly focused on a company's most recent set of results rather than outlining the opportunities or structural challenges facing the company over the next five years.

Conversely, in the new MIFID II regime it is worth considering that at the bottom end of the market cap spectrum, there is likely to be further reduction in the amount of research written. Many smaller companies will only be covered by their NOMAD or corporate broker. It is just too expensive and does not justify the returns to cover companies without taking on the corporate broking function.

All companies need to think about ways to improve the understanding of their investment case. In a world where sell side research is becoming more difficult to obtain, the first place a potential investor, of any variety, is likely to go to is the company's investor relations webpage. It is a shop window into the company.

We encourage all companies to explain their investment case in a clear and concise manner. The investor relations page should give a brief overview of the company's investment merits. It should also give access to regulatory documents and presentations, annual reports, upcoming financial events, details regarding governance and corporate & social responsibilities (CSR) and details of how to contact the company.

"the investor relations website is your shop window to the world's investors. Make sure you have it stocked up with all the information they need"

Simon Young

Heartwood Partners

Video preferred

One trend worth bearing in mind was outlined to us by Rob Mundy, CEO of Research Tree. Rob explained that when analysing the click throughs on Research Tree from investors accessing research notes, there is a noticeable preference for those notes with video content. This would appear to confirm the view that it is so important to make things as easy as possible for your investors. There are some experienced video providers like PI World who conduct excellent interviews with management and don't cost the earth. The cost / reward looks attractive for companies and should be given consideration.

AIM high

The investor relations webpage is a company's opportunity to shine with investors. Too many AIM companies hide behind the AIM Rule 26 and do the bare minimum. The most depressing comment we hear is when a company's senior management admit that its own corporate website is sub-standard.

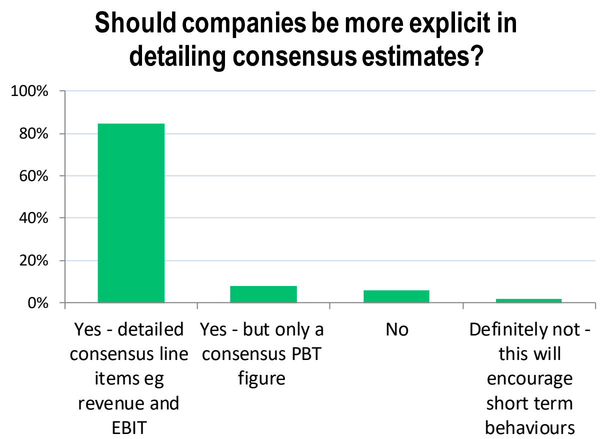
Make sure you don't let your company down and create a positive impression for all visitors. Investors, like all humans, suffer from biases. Recency or extrapolation bias is the tendency to place greater emphasis on recent data points. Don't let investors, who encounter a poorly constructed investor relations website, extrapolate that to your wider business.

Managing Consensus expectations

The reduction in the amount of sell side research being published and the impact of MIFID II restricting the amount of research reaching investors has big implications for investor communications.

Companies will typically reference in a regulatory update whether trading is "in line with expectations". These expectations are usually prefaced with either 'management' expectations or 'market' expectations. Most private investors don't have access to consensus expectations published on Bloomberg or Reuters, so referencing these providers is only really useful for professional investors.

In our survey 84% of respondents wanted greater detail when companies referred to consensus. Particularly, they would like greater granularity on revenue and operating profit expectations (also see pg 6) . This may not be possible all the time. So at the very least it is helpful if companies refer to what current market expectations are for profit before tax (PBT) in a regulatory release or trading update.



Views from survey participants

Our final question was designed to understand specific areas that concern investors or where they have strong feelings regarding investment in listed companies.

Unlike the other questions, the answers were freeform, not multiple choice. We gathered over 150 responses. The responses can be grouped around 7 different topics: Clarity of communication, private investor access, earnings expectations, use of videos, investor relations website, shareholding and 'other'.

For each theme we have given a selection of verbatim quotes, where we feel the response is representative of the whole and offers a good suggestion to the corporates.

Category	Replies
Clarity of communication	32
Private investor access	30
Earnings expectations	19
Use of videos	14
Investor relations website	13
Other	11
Shareholding	10

Clarity & Communication

Write clear concise RNS statements.

Too many, mainly small, companies fill them up with difficult to interpret jargon, which seems more likely to mislead than inform.

Use plain English in any reporting.

Just to be willing to communicate and present regularly. This is even more important now due to MIFID2

I think that all companies should aspire to report their results and forecasts with as much detail and clarity as Next*. This would not only improve the way in which investors understand the company but would also demonstrate that the board are fully aware of the profit drivers in their business (as well as costs) and are able to communicate this knowledge.

More information would be useful. But the definitions of cash flow, earnings etc needs to be clear.

* click to go through to the annual report

Private investor access, AGMs and voting

Value the PI investor base more by being more accessible through forums eg Sharesoc

Meet with private investors to explain their business, their strategies & their performance.

Make AGMs more accessible. Noon at the company's HQ (which some do) is much more friendly.

Make it easier for investors who use nominee accounts to attend AGMs. Make it standard policy that private investors can vote on AGM resolutions through their broker when they have nominee accounts.

Making sure that events such as AGMs are easily accessible - well advertised, sensible time, at the company's HQ/site, include a presentation & tour where appropriate.

Earnings expectations & guidance

Detail what market or management expectations are in their RNS - since we can no longer see broker research thanks to MIFID II

Be explicit about the difference between "market expectations" and "management expectations" and state what those expectations are in an appendix

Provide as clear forecasts of key metrics in RNS's as they already provide to analysts.

Increasing guidance will increase the number of profit warnings and has takeover panel implications. Ever thought that maybe investors should think longer term?

When talking about market or management expectations tell us explicitly what they mean, be consistent with measurement reporting and be honest.

Videos, conference calls & transcripts

CEO or CFO to give more interviews (once a quarter or after significant releases?) with independent interviewers that are streamed.

It would be really helpful if transcripts of results and other meetings were available as they are for large companies, along with the Q&A

Conference calls allow everyone to listen, there is a great culture in the US - I don't understand why there isn't here.

Webinars including replays are an excellent way for private investors to hear and see company management

Do a video of results presentations and Capital Market Days, to go on the website. Use a broker who can be accessed on Research Tree - some of the paid for retail investor research is less good that others.

It should be compulsory for companies to give a 3 minute video presentation of company overview and expectations etc

Investor relations website

A simple contact name for all investor queries particularly around dates of results and trading statements.

Provide Analyst research documents on the company's website - both the good and the bad. Also provide consensus estimates of sales, profits etc

Commission research that is freely available and give profit and revenue figures along with expected figures

Publish future trading update / results announcements well in advance

The current presentation should be on the IR home page (done by Canadians) and the various past (or targeted at a specific audience) presentations should also be listed on site; as seen on some US IR sites

provide a function to register for RNS email alerts

Shareholdings

Private investors should be allowed to participate in capital raising on the same terms as institutions, e.g. via Primary Bid

Put pressure on the Exchange etc to sort out those 'Holdings in Company' forms - they are impossible to interpret. Yuk.

Regard private investors as equal priority to institutions

Never raise capital at more than 5% discount without a rights issue and open offer

The nominee system has got to be addressed. It prevents direct communication between the company and the shareholder.

State the company policy on issue of new shares.

Miscellaneous

Just do more and don't be put off by extra costs

No after hours RNS reports

Have 2 Brokers covering them as a minimum.

Heartwood Partners

King’s House
36-37 King St
London
EC2V 8BB

Alex Schlich +44 7710 164120
Alex.schlich@HeartwoodPartners.com

Simon Young +44 7811 406100
Simon.Young@HeartwoodPartners.com

For more info:
HeartwoodPartners.com

Heartwood Partners is an investor relations specialist that works with public and private companies to improve their communication with both institutional and private investors.

We have a proven track record of working with our clients to build a stable, well-informed shareholder base and to increase the number of investors who understand the investment proposition. Greater awareness of the company's merits reduces the likelihood of the company trading at a material discount to its intrinsic value.

Get in touch:

Simon Young
Co-founder and Partner
simon.young@heartwoodpartners.com

Alex Schlich
Co-founder and Partner
Alex.schlich@heartwoodpartners.com