REPORT 1

IR magazine

IR Insight

The IRO Perception Study

Who's the best investor to have?

What makes a good sell-side analyst?

Where does coverage need to be improved?

The IRO Perception Study provides an alternative viewpoint to the traditional investor perception study.

Inside, investor relations professionals have their say about the investors and analysts they deal with on a day-to-day basis. More than 1,000 IROs from all over the world reveal their true feelings about everything from who they prefer and what they don't like to the marks out of 10 they give the sell side.

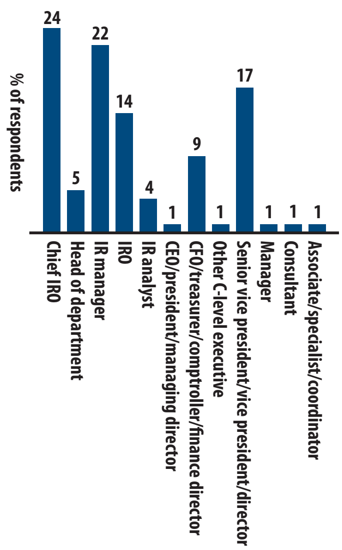
RESEARCH REPORT

A RESEARCH REPORT FROM *IR MAGAZINE*

JANUARY 2012

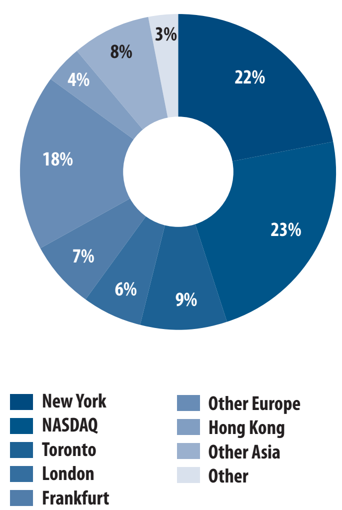
Who are you?

Respondents by job title



Where are you?

Respondents' companies by stock exchange listing



The IR professional is destined to get it from both sides: the cost of sitting between management and the investment community is regular appraisals by these internal and external clients, in the form of performance reviews, investor perception studies, award nominations, rankings and other ad hoc feedback from the investment community. But what does the heavily scrutinized IRO think of these appraisers?

In a global poll of IRO sentiment, conducted by IR Insight, the research arm of *IR magazine*, respondents were asked what they really think about management and the investment community. On the whole, the responses – more than 1,000 – reveal a general satisfaction with the sell side and an expectation that management will maintain its current commitment to IR.

The safe middle ground occupied by these top-level findings reflects the reluctance shown by the respondents to criticize the sell side en masse. Many IROs are tight-lipped about their all-important audience, even under the promise of anonymity. Simply asking them to part with the names of their favorite investors and analysts prompted cries of confidentiality and 'no comment'.

Nonetheless, a brave group of IR professionals, fluctuating from 200 to 400 in number, managed to overcome this initial reticence, dishing out the names of favorite buy-siders and sell-siders and revealing the true depth of their despair with the often inadequate – sometimes worthless – state of their sell-side coverage.

Senior management

The overwhelming majority of IROs (96 percent) believe senior managements' current view of the importance of IR has either gone up or stayed the same when compared with the previous year. Opinion is almost evenly split between these two, although slightly more IROs (51 percent) believe management outlook has not changed rather than gone up.

Only 37 IR professionals, equating to 4 percent of the respondents, think management now sees investor relations as less important. In most cases (75 percent or more), those IROs are from companies with a market cap of less than $10 bn, located in either Europe or the US, and operating in the industrials, TMT, financial services or energy sectors. Most also report directly to the CFO (62 percent).

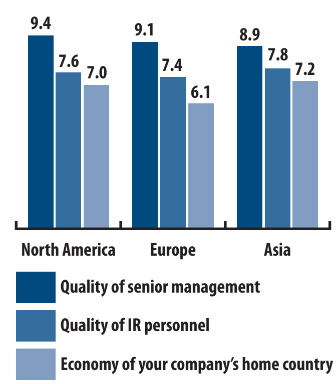
IR vs senior management

The global IR community has no delusions of grandeur. When IR professionals were asked to rate a variety of factors according to how important they perceive them to be to investors, the quality of senior management came top (although, in the same questions, IROs consider themselves more important than all macroeconomic factors).

On a regional basis, North American IR professionals perceive senior management to be more important than their counterparts in Asia do. Conversely, IR professionals in Asia perceive themselves to have the highest level of importance when compared with their European and North American peers. The biggest gap between the perceived importance of senior management and IR personnel is in North America.

Compelling factors

How important do you think the following factors are to investors (on a sliding scale of 1 to 10)?



State of the Sell Side

The sell side was given an average rating of 6.5 by more than 1,100 IR professionals who were asked to rate their analyst coverage from zero to 10. This rating reveals general satisfaction with the sell side, since a neutral score of five is taken to show neither satisfaction nor dissatisfaction.

But the respondents' satisfaction is at best lukewarm, as more than two thirds have no strong feelings either way. The results are largely the same across all regions and market caps. IROs in the healthcare sector have the highest level of dissatisfaction with their analyst coverage (21 percent), in contrast to their counterparts in utilities with the lowest (3 percent).

Most respondents (61 percent) think the importance of the sell side will stay the same in the future. Outside of that view, slightly more IROs (23 percent) predict the sell side will decrease in importance than foresee it increasing in importance (16 percent).

IR professionals as a group are reluctant either to heap praise or be overly critical of the sell side, as these two ratings show. Fortunately, there are outspoken exceptions. When asked to comment on their sell-side coverage, a brave group of IR professionals – 203 in total – felt plucky enough to speak their mind and the results shed some light on the analysts who fall above and below the somewhat unremarkable 6.5 average rating.

Biggest bugbear

The top complaint from IR professionals concerns the variety in the quality of analyst coverage. Many respondents stress that the average they give is exactly that, an average, which means there are plenty of analysts who sit above and below this score.

There are also outliers at each extreme: six respondents award their coverage a score of zero – or 'very dissatisfied' – while 15 respondents award their analysts a 'very satisfied' score of 10 out of 10.

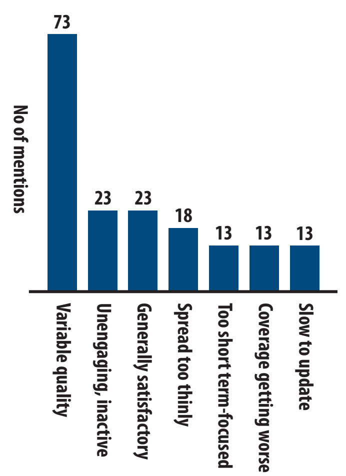
'My range is from four to 10,' explains a curt European IRO. Other IR professionals, like a more verbose US IRO from the financial services sector, are willing to provide a touch more color to their analyst ratings: 'Our coverage can be grouped into three distinct categories: four to five analysts put in quality time and effort to understand the story and business model; five to six analysts put in the required minimum but do not put time and effort into understanding the global aspects of our company; the rest focus only on the US business for which third-party data are provided, and apply trends in that business to the rest of our company.'

This type of analyst dissection into three groupings is quite common among the respondents, albeit the particular headings given to each category vary between IR departments. 'One third is great, one third is 'ehh', and one third is worthless,' says one US IRO in the TMT sector.

When IR professionals open up about the sell side, they can be highly appreciative about the analysts who fall into their highest tier. But they can also be damning, and it will not be surprising to some that most commentary is reserved for the analysts who fail to make the grade. 'Their business model is soon to be broken,' notes one particularly alarmist Canadian IRO.

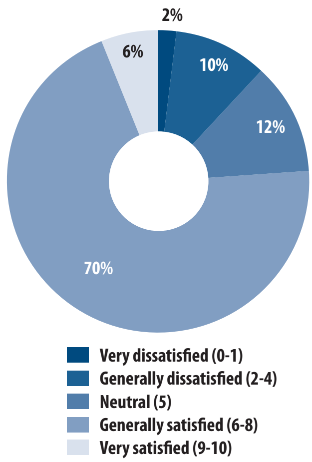
Analyst appreciation

How do IROs perceive analysts?



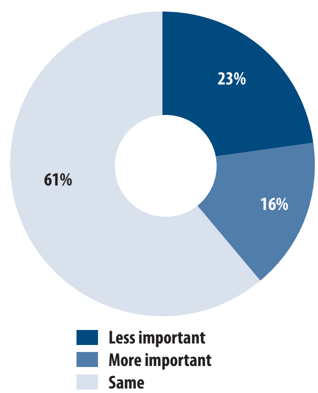
Coverage quality

How satisfied are you with the quality of your sell-side coverage?



Sell-side role

Do you think the role of the sell side is becoming more or less important?



The output of research reports, the traditional lifeblood of the sell-side analyst, is thin on the ground

Next to variable quality, the second most popular complaint from IR professionals concerns inactive and unengaged analysts who don't do any background research. 'It never ceases to amaze me how few analysts really take the time to do their homework,' says one IRO at a US energy company.

This lack of diligence takes various forms. Analysts in the middle to lower echelon are said to cover a firm without being in regular contact with the IR team. Earnings estimates, targets and stock recommendations are infrequently updated to reflect the latest company disclosures. Respondents warn this lack of engagement leads to models being out-dated or even faulty, and the examples given of such inactivity can be extreme. Take the example given by one Polish IRO who takes umbrage with the 18 months it took an analyst to update a recommendation.

Coverage of this kind, often in name only, is viewed by some respondents as a cynical way for sell-side banks to attract roadshow business and to solicit the company's attendance at conferences.

Dangerously thin

The output of research reports, the lifeblood of the sell-side analyst, is similarly thin on the ground, not to mention thin in terms of any genuine analytical content. 'Sell-side analysts should write reports more often,' says a Brazilian IRO in the energy sector.

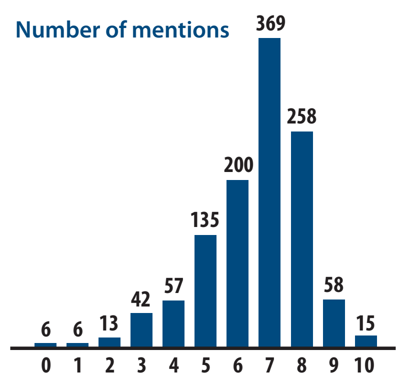
IROs frequently compare analysts who don't produce regular reports to financial journalists. A popular perception of these analysts is that they do little more than push press clipping to investors. 'Many sell-siders do a minimal job, essentially repeating what they hear on our earnings call,' complains a US IRO in the industrials sector.

In line with this view, respondents bemoan the opinion and bias that are passed off in place of fact-based evaluation. Moreover, the worst-performing analysts are portrayed as short-term obsessives who only predict the next quarter's figures and do just enough to post their earnings guidance in the Thomson Reuters analyst consensus service, First Call. This low level of engagement can actually be a danger, according to some IR professionals, because ill-informed views based on incorrect figures and data can spook investors and have an unfairly detrimental effect on the stock.

The senior vice president of a US TMT company sums up the prevailing view: 'Most of the sell side has become a news and rumor network. The amount of fundamental research and analysis being done beyond 'channel checks' has become the exception to the rule. Only about 20 percent of our sell-side analysts add value for investors. Unfortunately, the sell side caters to the fast money (those who ultimately pay the sell side's salary), so a lot of fear, uncertainty and doubt get spread around, which needlessly worries our longer-term investors.'

Admittedly, there are some mitigating factors. IR professionals have some sympathy with the dwindling headcounts at these sell-side firms, which contributes to analysts being asked to cover an increasing number of stocks. 'It's sad how the sell side has changed over the last several years,' says the head of IR at a US TMT company. 'Sell-siders covering 25+ companies can't do a good job on all of them so they cover only a couple of them well. The overall quality of research has definitely dropped.'

Satisfaction with the sell side on a scale of 0 to 10



Another downside for IR departments of analysts covering more stocks is that firms are sometimes lumped together into a different sector with a peer group of companies that operate non-comparable businesses, at least in the IROs' view.

Some of this segregation of analysts into groups could also be a by-product of limited IR resources. Certain analysts are necessarily preferred by IROs over others because they offer a greater return on time invested. As the senior vice president of a Swiss industrials company explains: 'With about 40 analysts covering our stock, there is quite a wide quality spread. We tend to focus on about 15 key players; the rest we monitor but don't interact with too often.'

A European energy sector IRO thinks 10 is the ideal number of analysts to follow one stock. 'Ten good ones and I can give them roadshows every year,' he says. 'With 24 I cannot fulfill their expectations of marketing and they don't fulfill my expectations in research. Too many diminishes the quality.'

Improving the focus

The respondents also suggest ways in which the sell-side offering can be improved. A number of US IROs share concerns about the domestic focus of the coverage. For example, the sole focus of New York-based analysts is all too often the US-based business of the company; this is said to be true even of companies where half of the assets and even more of the profits come from outside the US.

IROs at US companies with international operations believe it is becoming increasingly important for their analysts to cover global competitors domiciled outside the region. As the CFO of a US consumer goods company puts it: 'The sell-side industry needs to globalize along with the industries it is covering or its relevance is reduced.'

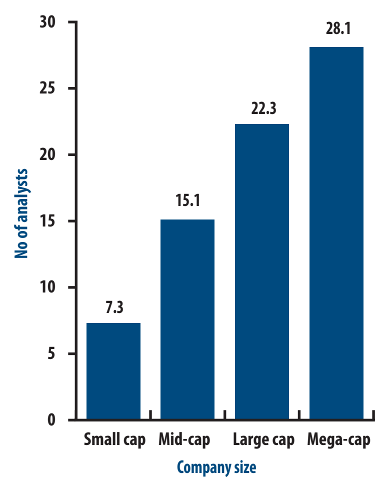
This is reflected in the preference for coverage by the big institutions, which is also backed by the preferred sell-side firms (see page 6). Small-cap firms want more analyst coverage, though the preference is for the big sell-side names because of the marketability they can bring to the stock and the attention such coverage can draw from institutional investors. When IROs express a desire to lose a few analysts from their coverage it is the smaller, secondary, tertiary or boutique sell-side firms that are first for the chop.

'They take up a lot of time but provide little value,' says a US consumer services IRO. A fellow American in the TMT sector agrees: 'There are too many small, insignificant firms in the mix. They are frustrating to deal with as they don't have the resources to thoroughly cover their sectors.'

But this by no means sounds the death knell for the small advisory house. As the big sell-side firms continue to slash headcounts, the number of out-of-work analysts joining these smaller firms will increase, as will the number of new firms being set up by former colleagues in similar situations. 'We are surprised at the number of boutique sell-side firms cropping up in an era when one would expect funds to be scarce for additional research,' notes a US IRO in the TMT sector.

Analyst numbers

Average number of sell-side analysts covering the company



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FAVORED INVESTORS AND ANALYSTS

Favorite investors

Which investors do you like dealing with?

Rank	Investor (by no of mentions)
1	Fidelity International
2	Capital Group
3	T Rowe Price
4=	BlackRock
4=	JPMorgan Asset Management
4=	Wellington Management
4=	William Blair & Co

Favorite analysts

Which sell-side analysts do you like dealing with?

Rank	Analysts (by no of mentions)
1=	Bank of America Merrill Lynch
1=	Credit Suisse
3	Barclays Capital
4=	Deutsche Bank
4=	Morgan Stanley
6=	JPMorgan
6=	UBS
8	Macquarie
9=	Citi
9=	Jefferies

IROs express a clear dislike for aloof sell-side analysts who haven't done their homework. But what do they like? And who?

On the whole, the respondents repeat a preference for investors and analysts with characteristics like knowledge of the industry, long-term thinking and the ability to share insight with the company in a two-way conversation with the IR team. The IR professionals who were willing to name names provide a total of 174 unique buy-side and sell-side firms, whereas a minority (49) refused to comment or gave no preference.

The names of firms are often given alongside the names of specific individuals, perhaps emphasizing the importance of the personal relationship between IRO and analyst. If so, this relationship is strongest in the case of the sell side, where sometimes respondents give *only* the names of the analysts, without mentioning their employer.

It's no surprise that an agreeable personality is also a valued attribute in an investor or analyst. Congeniality, an alternative perspective and a sense of humor can all make a repetitive conversation more pleasant for the IRO locked into a round of quarterly telephone calls.

'I prefer dealing with a handful of sell-side analysts and buy-side guys because they are smart, do their homework and are generally pleasant to talk to or be around,' explains the IR director at a US energy company. 'Not exactly earth-shattering news, but we all like nice people who are good at their jobs.'

Buy side

Fidelity emerges as the most popular investor to deal with (based on the number of mentions). One IRO describes it as 'smart, professional, low maintenance, long-term focused and works hard to get to know the story.' In fact, IROs repeatedly describe Fidelity as professional, smart, hard-working and with a long-term focus. It is said that Fidelity's buy-side analysts keep up to the minute with company developments and have a good understanding of the business and the industry.

Similar things are said about Capital Group in second place and T Rowe Price in third. Both receive praise for being long-term, knowledgeable investors, respected for doing their homework. Often this is said by the same IROs who enjoy dealing with Fidelity. Particular individuals at Capital and T Rowe Price are also singled out for being 'gentlemanly' and 'polite'.

BlackRock, JPMorgan Asset Management, Wellington Management and William Blair & Company share joint fourth place.

Sell side

Bank of America Merrill Lynch and Credit Suisse receive the highest number of mentions on the sell side. The analysts belonging to each bank are commended for their professionalism, knowledge of the industry and diligence. Both banks receive additional praise for the quality and quantity of their research reports and their assistance with investor events. In particular, Bank of America is credited with organizing the best roadshows and conferences, while the analysts at Credit Suisse are said to be supportive when companies are on the road.

The word 'completeness' is repeatedly used to describe Bank of America, which is also credited for its ability to balance short-term and long-term perspectives. Credit Suisse is singled out for the alignment of its analysts' views with those of management and it is regularly complimented for its genuine global reach.

Barclays, in third place, is lauded for its understanding of what companies are trying to achieve: friendly, down-to-earth analysts are said to be proactive in helping IROs tell the investment story and spotting any gaps that need filling.

Other familiar names like Deutsche Bank, Morgan Stanley, JPMorgan and UBS occupy the rest of the top 10. Goldman Sachs, Nomura, RBC, Raymond James and Stifel Nicolaus & Co are tied in 11th place.