BRIEFING NOTE

Advisors

MifidII

Compliant

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The Role of Investor Relations

Getting IR to work and how it differs from PR

Our briefing notes are designed to provide proprietary balanced and unbiased market insights, they are written by senior practioners specialising in the subject matter and working with some of the most successful global companies on record and working for or with ACF Equity Research. Our briefing notes often include unascribed information from industry practitioners, users and sector companies. We assist corporates and investors alike to help them maximise the value they can extract from the subject matter. (If you would like further insights into this subject content contact sales & strategy at ACF Equity Research enquries@acfequityresearch.com or call +44 20 7419 7928 to discuss with senior counsel and sales and strategy).

- Both IR (Financial PR) and PR seek to influence influencers;
- IR and PR should be ensuring the Company's view point is heard;
- PR is focussed on the Company's operations and relations with non-financial stakeholders and interest groups, including governments;
- PR is responsible for internal Company communications especially cultural change;
- PR is intimately linked to marketing and sales activities;
- IR is highly specialised and targeted at retail investors, financial analysts, institutional investors and the general capital markets community.

Insight into the Role of Investor Relations

UK markets (LSE) require a code of practice for IR

US companies understand the necessity of PR

Investor relations has become an increasingly important component of the communications mix for public companies. This is now reflected in the guidelines published by the London Stock Exchange (LSE) who now direct listed companies to publish a code of practice that they will abide by in their future communications with the City, Shareholders and other Stakeholders.

There are two codes of UK markets IR practice, AIM and QCA

There are two codes of practice that can be chosen, with most of the Alternative Investment Market (**AIM**) listed companies using the one developed by the Quoted Company Alliance (**QCA**) details of which can be found at (https://www.theqca.com/shop/guides/)

On listing, a company will choose which code of practice they will follow and advertise this on their website so that the various City audiences are aware of what and how the Company will communicate with them.
Within each chosen code of practice there are a series of guidelines as to what is acceptable in terms of maintaining dialogue with those audiences in order to provide transparency on the operations of the Company with respect to the key areas of:

Exhibit 1: **IR advice and activities during and after IPOs**

IR advice areas for IPO and pre-IPO

Key Areas for IR Advice on Listing
Financial Reporting
Human Resource Policies
Board Remuneration
Audit Committee
Board changes etc.

Source: ACF Research

Exhibit 2: **IR key audiences at IPO and in the 2^0 market**

Stakeholders IR should address

Key Stakeholders for IR Programmes	
Financial media	
Sell-side Research Analysts	
Issuer-pays Research Analysts	
Private Client Investment Managers	(PCIM/PCB)
Retail Investors	(nano, small, mid cap)
Institutional investors	(mid, large, mega cap)

Source: ACF Research

In the sections below we look at each key stake holder in turn

Financial Media

Specialist financial press interest and understanding is essential

Financial Media - An understanding of the Company by the financial press specialising in the sector that the Company operates in is essential if the news flow of the Company is to be picked up and widely disseminated in the financial press.

Do not expect to get coverage in the FT or the WSJ

Although it seems to be the goal of the Chairman of all companies to be reported in the Financial Times (FT) however, the FT is a publication focusing on the top 100 UK Companies and reporting on the top International 200 companies from around the World. A Small to Medium Enterprise (SME) company with a market capitalisation less than £100m will find it very difficult to attract the attention of a financial journalist unless it is in conjunction with a deal of some kind with a major multi-national company.

The same general expectations outlined above with respect to the FT should be applied to the Wall Street Journal (WSJ) in the US, Les Echos in France and Frankfurter Allgemeine Zeitung (FAZ) in Germany. As a result, key realistic targets for reporter commentary for SME's in the UK are publications such as the Daily Mail. The Times, Telegraph, Yorkshire Post and City AM. In addition, the Investor orientated journals such as the AIM Bulletin and Investors Chronicle are also key targets for commentary on the Company.

An understanding of social media and how to use it is a modern necessity

Increasingly, the use of social media such as Vox Markets and interviews on internet orientated business sites are favoured as the CEO will get an opportunity to be interviewed for approximately 30 minutes and can therefore develop a whole theme around a real news item. Care must be taken to ensure that no "new" price sensitive information is discussed on such podcasts as this is contrary to the rules of the LSE and can lead to sanctions including suspension of the listing.

The financial media need meet and greets as well as third party analysis

See ACF Explains the role of PR

There is only one way to cement relationships with the key financial journalists and that is through a series of meet and greets with the individual journalist initially followed by catch up meetings as and when you are trying to place an interesting story. Your Financial PR (IR) Company (to be differentiated clearly from your PR Company – see ACF Explains The role of PR), will advise you as to which stories are likely to be of interest to a financial journalist and which publications to target. It is important to remember that a journalist will be more interested if they are the first one to publish a story, so exclusivity and targeting the most appropriate publication is important. Again, your Financial PR Company will guide you and indeed make the arrangements for an exclusive interview.

Financial Analysts

No one sees more IR people either in-house or agency side than financial analysts.

Issuer-pays and sell-side research analysts - During the IPO process you will have worked closely with either or both the in-house analyst of your broker (increasingly rare beast) and a third-party issuer pays research provider. From this interaction will come the research report(s) that will be used as part of the marketing process to institutional investors.

See ACF Explains MifidII and its implications for all companies

Following the completion of the IPO the in-house analyst should publish secondary research updates to their research forecasts and conclusions the half and full year results with pre and post results analysis and when something happens that changes the outlook for the Company, increasingly this does not happen and clients wonder why – see ACF Explains MifidII. Secondary research is increasingly produced by issuer-pays research houses, MifidII makes this more or less mandatory if you want any secondary research coverage at all.

Fund/Portfolio/Wealth managers require more than one house covering your company

However, having only one analyst publishing research does not give institutions a supporting overview (or a sense of confidence) on the Company for them to review if they are contemplating an investment. It is therefore important that your Financial PR Company arranges an analyst meeting at the half and full year results where you present the results published on the day to analysts from other brokers (less common now) and also, increasingly, analysts from specialist research houses.

It is unlikely that the number of shares traded in the Company on a daily basis will be sufficient for an independent broker to commission research on the Company as the return on the cost of writing research and following a Company will outweigh the amount of commission that can be generated from trading the Company's shares. However, they are still important as they may refer to the Company if they are writing a review piece on the sector and Institutional Investors will often phone up an analyst from an independent broker to ask for an opinion on a company before finalising an investment.

Ideally at least 5 sets of estimates in the market for active investment managers to review.

Our team's research and experience working inside global and local investment management businesses suggests that portfolio managers would like a small company, ideally, to have 5 sets or more of regularly published estimates in the market for these active style investment managers to review. This is because of the way their internal processes and systems are designed and used to help de-risk buying and selling points.

Our independent discussions and research with SLTs, PMs and retail investors alike has led to some unexpected conclusions (not covered in this briefing note).

Good quality research (knowledge, depth and balance) provides needed insight into a company. Our research with senior leadership teams (SLTs) and investors alike shows that quality research is becoming only more important globally (not just in the EU) post MifidII.

It is important to realise that the output from the in-house broker and anything published by independent brokers is only released to Institutional Investors so is not in the public domain. As a result, private investors (retail) cannot access these reports and the access they have to information on the Company is limited to what the Company generates itself.

In order to provide quality analytical reports for a company, the Company may contract a specialist research house to write and publish research reports of a similar nature to the house broker in terms of the knowledge base and depth of understanding of the Company.

While the independence and quality of commissioned research may vary, it does offer the retail and indeed the professional investor insight into a company and therefore these issuer-pays research reports are, when well written, a valuable source of information for investment decision makers.

Issuer-pays research also gives institutional investors piece of mind and an alternative place (and increasingly the only place) to turn for a conversation with an analyst. This is because, the independent reports are in the public domain and can be accessed directly from the research house, through publication on the LSE RNS service or through direct distribution.

Retail Investors (and PCBs)

Private Client Brokers (PCB): The Financial Conduct Authority (FCA) would like all private investors to invest through a regulated body. The most powerful and widespread group licensed to advise private individuals are the Private Client Managers.

Institutions are unlikely to trade for 18 months following an IPO.

Liquidity – which is key to maintaining your valuation – comes via PCBs and their US equivalents (Wealth Managers) post an IPO.

Institutions to sell your shares into the market in large blocks for lack of transparency

As it is unlikely that institutional investors will trade the shares of the Company in the first 18 months or so following the IPO. As a result, the majority of shares traded in the aftermarket (the period following IPO) will come from retail investors who have acquired their shares through a PCB.

It is important therefore, to establish a relationship with PCBs in London and their US equivalents (personal wealth managers and some types of “mutual” fund structures) and in the geographic area where the Company is based.

This direct contact with the Company will enable the PCBs to form an opinion on the prospects of the Company which they can turn into a recommendation to buy for their private clients or to purchase shares directly if they have discretionary managements of client portfolios.

When an underlying demand for shares is created there is a greater chance of the share price responding positively following the publication of news. Meetings with PCBs are usually arranged by your Financial PR Company in the form of a roadshow and can take place in the UK market in London, Birmingham, Liverpool and Manchester, Leeds and Bristol and Exeter.

Retail Investors: Have already been referred to above document but are included here again as a key audience for information from the Company.

Following the IPO, most large Institutional Investors who will own most of the shares placed at IPO will be prevented from selling shares through a lock-in period which could be hard cast for year one and soft for year two.

Founding shareholders will also be locked in by a similar mechanism, which means that the only shares that can be traded are those that have been placed in the IPO to PCBs and small institutional investors. These types of for investor by and large are not long-term holders and will buy and sell based on the news flow of the Company.

As stated above, access to fundamental information on the Company is primarily dependent on the information provided by the Company itself.

IPO documents go out of date quickly

Investors have access to the IPO prospectus, but for most SMEs, particularly fast-growing ones, this document will become outdated quickly and additional information must come from the Company itself or, if commissioned, from issuer-pays or broker research.

The code of practice adopted by the Company will provide a guide to best practice with regards to communicating with retail investors. It is recommended that a Company should consider having specific Private Client evenings specifically to allow retail investors access to the senior management team and to have a presentation that provides the same company information that is being given to Institutional investors.

These take the form of a formal presentation and questions and answer session followed by refreshments and an opportunity to talk one to one with management. Your Financial PR firm will make the arrangements and often invite PCBs who are usually happy to share their knowledge with private clients following a formal presentation.

Strong differentiator for your company

Retail investors rarely receive the same quality of information as institutional investors. Making sure you give retail investors the same presentation as institutions and commissioning institutional quality research signals to potential retail and HNW/family office investors that they are not being treated differently, this is a strong differentiator for your company.

RNS and Other Activities

Provided by the London Stock Exchange for price sensitive news and other announcements the Company is obliged to make.

Regulator News Service (RNS) - The RNS platform is provided by the LSE. The full regulatory platform is for announcements which directly affect the Company and included financial results, board changes, important business announcements such as major contract wins or losses. It is also the channel for routine regulatory announcements such as TR1 documents that are generated when investors who own more than 3% of shares buy or sell shares.

Any announcement on the full RNS platform should provide the reader with a clear and concise statement of events. This is overseen by the NomAd (Nominated Advisor and company police force on behalf of the LSE…and FSA), who approves the content before publication. The initial drafting may be done by the Company and its Financial PR agency, but the final draft comes from the NomAd.

RNS Reach - However, there is a parallel service provided by the LSE called RNS Reach. This service is for newsworthy announcements that are not mandatory under the full RNS platform.

RNS Reach is a marketing platform for information releases the Company choses to make.

You can consider this as a marketing platform as the announcements do not have to be authorised by your NomAd, although it is good practice to allow them to see a final copy before publication.

RNS Reach can be used to give additional operational colour.

RNS Reach publications can contain information that is not price sensitive but that can give additional insight into the operations of the Company. It is a route to issue invitations, for example, outside of the individual databases that you will have on the various people you have met.

RNS Reach can be used to widen your potential investor pool

RNS Reach goes to the same subscribers as an RNS

The distribution of both the full regulatory service and RNS Reach is identical so any RNS Reach release will go to all the secondary information providers such as Reuters and Bloomberg as well as directly to virtually all financial groups in the UK and, depending on the level of service that you have agreed to, to financial and media organisations in Europe, Asia and the Americas.

Site visits and analyst briefings – but be aware!

Other Activities - As the Company matures there are other initiatives that can be used to maximise the relationship between the Company and its communication stakeholders. The most popular is an arranged site visit which can attract representatives from your communications targets (although mixing journalists with financial analysts and Institutional Investors is **not advised!**).

Hiring an IR (Financial PR) Agency

If your market capitalisation of valuation is in the nano, micro or small cap range it is unlikely you will have a dedicated IR person in-house. Even many mid-sized companies, if they have one at all only have part-time in-house IR specialist (this is less true for US mid-caps). Hiring an IR agency provides instant expertise and bandwidth. Finding an IR agency can be done in the following ways:

- Ask your advisors – your strategic advisors will have relationships with trusted agencies and they'll know what will suit you;

- Go to an industry body as found in the exhibit below who have or will help you find a list of agencies;

Exhibit 3: **IR industry bodies**

Market	Body	Website
US	IR Society	https://www.niri.org/about-niri
Canada	NIRI	https://www.ciri.org/Home.aspx
UK	CIRI	https://irsociety.org.uk/resources/service-providers
Australia	AIRA	http://aira.org.au/

Source: ACF Research

- Ask ACF's analysts and senior leadership team who they recommend – they are connected to the good, proactive agencies.

Seasoned financial analysts meet and know more IR agencies that any other group of advisors

Once you have a shortlist (no more than four as it can be a time-consuming exercise) then the critical next stage is to provide your IR agency with a brief.

The brief outlines what your business goals are and what your financial markets communications objectives are, your target investor and influencer audiences, plus relevant information (i.e. financial plan).

Be specific about how you will measure the success of the campaign. Ask your advisor or the agency for a template you can fill in. As part of the brief, you need to be clear about budgets.

To be clear: good PR requires investment over a consistent period of time. It is not prohibitive but nor can it be done cheaply. The budget depends very much on your brief, your sector and specialisms required and geographies to be covered. You can also choose to pay a monthly retainer or a flat project fee.

The Difference

IR is a highly specialised activity concerned with the financial markets' ecosystem alone.

The difference between IR and PR - Both IR (Financial PR) and PR seek to achieve the same general goals – to influence the influencers, promote the company's side of an issue (by ensuring the Company's view point is heard and understood) and defend the Company in times of crisis, where this is possible.

PR is concerned with operations, internal and external cultural change, and non-financial stake holders and "police" including governments.

Both IR and PR are there for crisis management and both seek to influence the influencers.

The **difference** is that PR is focused on communications surrounding the Company's actual operational/business activities with influencers, governments, non-financial regulators, the general non-financial media and crucially, internal communications and cultural change. PR is also intimately linked to marketing and sales activities. IR (Financial PR) is highly specialised and targeted at retail investors, financial analysts, institutional investors and the capital markets community in general.

We strongly recommend reading our complementary briefing note on Investor Relations (Financial PR) on our website at ACF Explains Investor Relations

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