

Capitalising on growing global equity investor interest

SUMMER 2014

Building your profile in international markets should be a top priority for IROs, as the volume of cross-border capital flow gathers pace. Larisa Kogut-Millings looks at the global challenges.

Over the last two years we have seen a marked increase in fund flow into equities. This represents a major opportunity for companies looking to attract new investors or access capital markets for strategic reasons, specifically IPOs. This is being driven by a demand for return, both capital and yield, and a related increase in risk appetite. Ever more fund managers are looking beyond their domestic markets for higher returns.

A recent FTI Consulting survey of over 100 global institutional investors conducted in January-February 2014 showed that:

- 78% of investors believe there is increasing competition for capital across borders;
- brokers are increasingly being considered too conflicted to be providers of impartial advice;
- 58% of investors believe companies should expand their marketing efforts to reach a more global set of investors;
- 91% of investors say the regulatory or political environment is important to their investment decision; and
- 71% of investors anticipate an increase in cross-border shareholder activism.

The changed corporate access regulatory regime and continued globalisation of fund managers creates new opportunities and challenges for IR professionals. The opportunity to get in front of new funds and increase the breadth of shareholder registers can only be successful if the company can overcome the challenges of targeting the right investor through an effective marketing programme.

Careful consideration should be given to the annual roadshow schedule and the effectiveness of meetings held, ie how many of these meetings were with targeted investors?

Among the top questions are how to progress further the company's investor targeting programme to capture new

investors in the register and whether the company's core messages resonate with its target audiences.

From a tactical point, two of the questions are how does the company's engagement change when meeting or targeting investment funds in the US, Europe, Asia or sovereign wealth funds, and how does the company leverage its communications, both digital and financial, to increase its visibility in the global market..

International risk

An increasing number of fund managers are developing their investment ideas in house as opposed to relying on broker research. It is important to understand the sensitivities of implementing a marketing programme across different markets and to realise, for instance, that many funds cannot make an investment without meeting the company. Surveyed investors felt that meeting companies twice a year was ideal before making an investment decision while three times per year was optimal for companies after they became investments.

Additionally, 46% of those surveyed found that meetings set up directly by companies have been useful to identify new investment ideas and a further 22% felt that meetings arranged directly by companies were of higher quality compared to those set up brokers.

Global investing is not without its pitfalls for both fund managers and the companies. When being approached by international companies directly 56% of investors were receptive to meetings with targets in their respective sectors, only 20% of those asked were keen to meet international companies outside of their sector.

A lack of transparency in financial reporting, poor company information disclosure, regulatory and political risk were seen as the biggest impediments to making investments in international companies. Companies which are not prepared to actively market themselves may find that they are not on investors' radar or, even worse, that investors have formed a wrong opinion of the company's valuation and investment attractiveness – or that the company has become a target for an activist investor fund.

To capture international investor interest – 42% of investors surveyed have invested before in non-domestic IPOs – companies should evaluate the cost vs opportunity of expanding their marketing efforts.

Only an insightful IR programme can produce results and deliver the right messages through the right channels to the right audiences.

GLOBAL EQUITY MARKETS

- Market seeing increase in investor risk appetite.
- Change in corporate access regulation means increased importance of targeted marketing towards investors.
- Reduced reliance on broker research.
- 71% of investors anticipate an increase in cross-border shareholder activism.



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