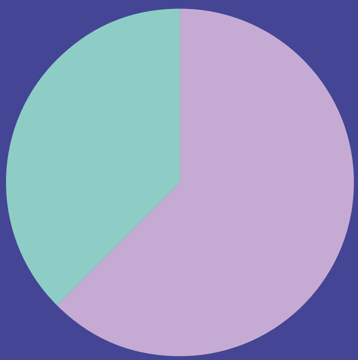
A MerchantCantos study

If investors were in charge of reporting.

merchantcantos

If investors were in charge of reporting.

Last year we conducted a series of structured interviews with 16 investment professionals spanning a number of investment styles and sector specialisations. They were drawn from both the buy-side and the sell-side.



10 Buy-side
6 Sell-side

Introduction

“The annual report is still considered to be the most important – and most credible – source of information about a company.”

The corporate reporting landscape has changed rapidly over the last decade. New regulations have put companies under unprecedented scrutiny. There are calls for more ‘clear and concise’ reporting, and there is increased pressure to consider the needs of a wide set of stakeholders. The role of the annual report is once again in the spotlight.

As the trend towards ‘no frills’ reporting gathers momentum, there is no better time to take a step back and ask what exactly do investors want from reporting. It is why we commissioned this independent study, and why we believe the results will be of great interest to corporate communicators.

One of our key findings is that the annual report is still considered to be the most important – and most credible – source of information about a company, particularly for investors making an initial investment decision. It is typically viewed as a barometer of the quality of reporting across other channels.

As reporting continues to evolve, companies should be mindful of what investors want and need from it. With new technologies shaping the way investors receive information, we believe now is the time for companies to rethink how they engage with investors, be responsive to their changing needs and explore distinctive ways to tell their corporate story.

Matt Shepherd-Smith
CEO, MerchantCantos

Executive summary

In 2020, the filing of annual reports in the EU will go digital. Some companies will see this as yet another example of unwelcome interference by European bureaucrats. Others will welcome it as an opportunity to examine their shareholder communication strategy: to question whether today's reporting model works in a digital age.

To help understand what this means, MerchantCantos commissioned some independent research. Its objective – to provide a window into how professional investors view some of the key issues that the IR community face. Although a relatively small sample of investors, we were struck by the consistency in the messages that we heard: we believe their insights provide a valuable starting point for the strategic decision-making that lies ahead.

What we did
We conducted a series of structured interviews with 16 professional investors based in both the UK and the USA[1]. Do they value the annual report? Which sections are they most likely to read? And what style of report do they prefer? We asked about their confidence in non-audited information and how the credibility of such information could be improved. Finally, we discussed dissemination channels. What do they use today? And what might the future hold?

With the impending regulations and new technologies comes a window of opportunity for reporting to evolve to suit the needs and expectations of a changing business world. Companies are being increasingly challenged and must adopt new communications strategies to meet the needs of a wide range of stakeholders. As our research has shown, there is still work to be done in order for companies to produce good quality reporting that goes beyond compliance, tells the corporate story in an engaging and credible way and matters to the people who read it most – investors.

1 The demographic breakdown of the interviewees may be found in the Methodology section on page 30.

What we learnt

Don't underestimate the importance of the annual report

- It is considered to be the most important – and most credible – of the documents produced for investors by companies.
- The quality of the annual report is thought to reflect management's commitment to transparency.

Know your audience

- Who is the target audience for your report?
- Proactively engage with your investor audiences to understand their views on your report – they won't give you feedback unless prompted.

Keep the annual report free from spin

- Reports are considered more credible if they are perceived to be free from spin.
- They are considered more useful if they are focused on the needs of shareholders.
- Investors and analysts like detail. Detailed tables are particularly welcome.
- Good navigation is considered very important.

The colour behind the investment case is important

- There is a strong desire for information that goes beyond 'no frills' - to understand the rationale behind the strategic decisions made by management, to see evidence that gives comfort that the markets a company serves can support its growth plans and so on.
- Keep the core of the report free from spin by presenting management's view of their business either in a separate section of the report or through a free-standing report or presentation.

Credibility is hard-earned, and easily lost

- Delivering over time is the surest way to build trust. However, in the interim, credibility is enhanced if there are personal assurances over the consistency and accuracy of the information presented, or if the process behind the data analysis used is reported.

Ignore technology at your peril!

- Whilst some cannot imagine engaging with companies in a way that differs from today's model, others see change as inevitable.
- Emerging key themes include using technology to make information easy to find, and potentially to provide more timely and interactive access to management.

Conclusion

We can't ignore the fact that change is coming; it's a digital world out there. Now is a good time for companies to review their annual report to determine whether it is meeting the needs of its audiences and if it will stand the company in good stead going forwards.

If you would like to discuss these findings further or need advice to help meet the digital challenge, please come and talk to us.

hello@merchantcantos.com

In this study, look out for:

Things to think about ✓

1. Annual reports matter

Investment professionals have access to an abundance of information from a myriad of sources. In the context of this data-rich environment, how does the annual report measure up? Is it considered to be an important piece of the information puzzle? And how is it used?

In this section, we get back to basics, addressing the most fundamental questions about annual reports. Put simply, do they matter?

"The annual report is our primary source of information on a company."

"The job couldn't be done without them."

On a scale of 1-10, where 1 is not at all important and 10 is very important.

How important is it to you to have good quality annual reports?

9.4 Average score

The importance of good quality annual reports
We start this analysis of the annual report by asking perhaps the most critical question of all: how important is it to investors and analysts that they have good quality annual reports?

The response was unambiguous. Investment professionals consider the annual report[2] to be a fundamental input into their investment decision. Indeed, a number of respondents told us that the answer to this question is so self-evident that they were shocked that we thought it needed to be asked.

Why is the annual report important to investment professionals?
In the rest of this section, we examine the reasons why investment professionals consider the annual report to be so important and then look at the way in which the report is used.

Investors and analysts operate within a remarkably data-rich environment. Given this, why is the annual report so important? We asked participants in the study to rate a number of reasons that might explain its appeal.

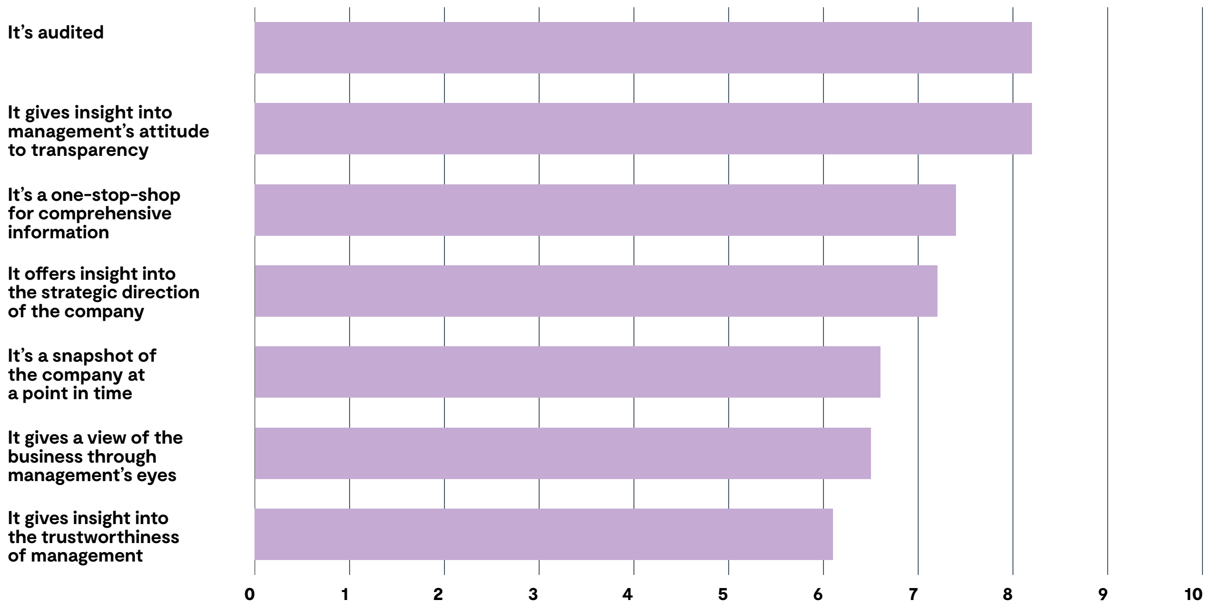
"For God's sake; these things matter!"

"It's a red flag if they don't produce a good annual report. It suggests they have something to hide."

2 In the US, we asked about their local document of record i.e. the 10-K

On a scale of 1-10, where 1 is not at all important and 10 is very important.

As an investor you have access to many sources of information on any given company. Given this, why is the annual report important to you?



It is perhaps not surprising to learn that the majority of investment professionals value the fact that the annual report is audited and that it offers a 'one-stop-shop' for information on companies.

More interesting, perhaps, is the role that annual reports play in providing insight into management's attitude to transparency. Respondents are quick to cite their favourite example of an annual report that exemplifies this: blatant omissions of 'bad stuff' by management, 'aggressive' alternative performance measures, reports that don't tie together – the list was long.

However, despite this, there was less conviction amongst participants that the annual report was a helpful tool in spotting trustworthy management.

"The fact that it is audited makes it more of a legal statement. And that is harder to screw up."

"It's what you don't read that gives you insight."

"Trustworthiness – it's not something you get just because you are good at writing."

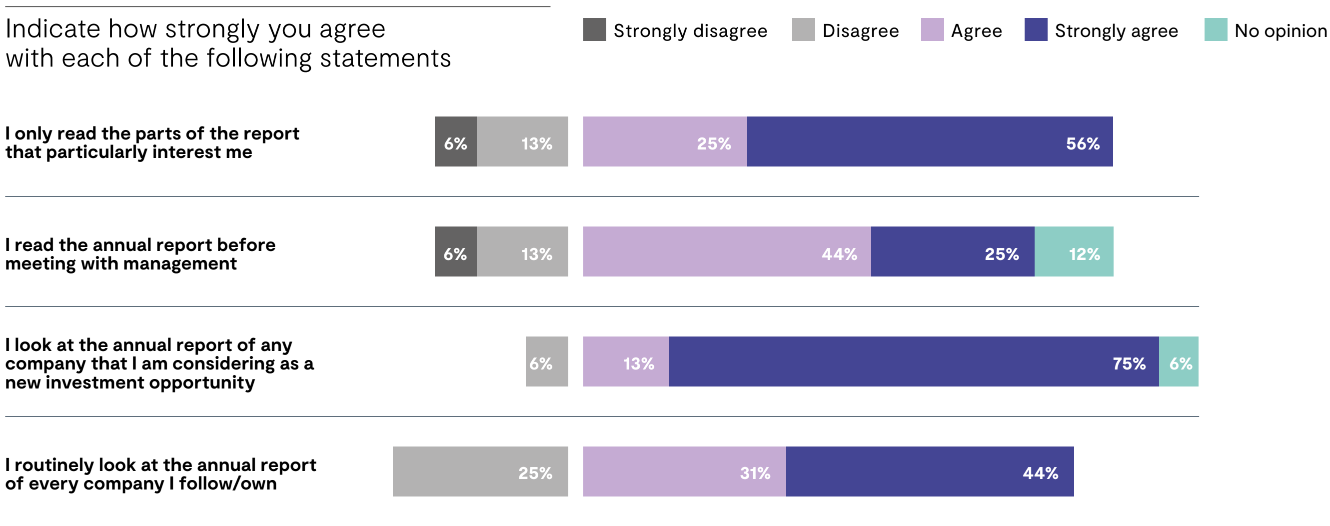
"Through management's eyes is an excuse for management to present things as they want."

It is also worth noting an area that was not rated so highly by investors and analysts. A number of participants described a sense of ambiguity when it came to rating the importance of the annual report in offering a 'through management's eyes' view of the business. Whilst all wish to understand management's view of the business opportunities that they face, a number feel that this is best presented elsewhere – that the annual report should be as objective as possible.

How do investment professionals use annual reports?
Having established why they value the annual report, the next step in our investigation was to gain a better understanding of how investment professionals use the document. Do they read it from cover to cover or dip into the sections that they prefer? If the latter, which parts of the annual report do they find most useful?

To explore these areas, we asked participants to rate how strongly they agree or disagree with a series of statements.

"I look at sections according to my level of current knowledge of a company. For a new investment case, I would look at most sections of a report."



As the chart above clearly illustrates, investors and analysts regularly read annual reports – particularly if new to a company. Whilst many do read the annual reports of every company they follow or own, some do not. The primary reason given for this was a pragmatic one – insufficient time given the size of their investable universe.

The main reason given for not reading the annual report before every company meeting was equally practical. Such meetings often take place immediately after the year-end results are announced and this is usually before the report is published.

Investors and analysts also tell us that they do not typically read a report from cover to cover. Instead they dip into the sections that interest them most.

"I go over the annual with a fine-tooth comb."

"I rarely read the business review. It goes out of date too quickly."

Which sections of the report do investment professionals read?
We asked the research participants to tell us which sections they always read, usually read, rarely read and never read.

The chart below shows that investors and analysts regularly read many of the sections within the report. Strategy, risk and remuneration are all high priority areas for this audience. And although investors will typically access financial numbers through data intermediaries, most report that they turn regularly to the annual report for the detail in the footnotes. Perhaps more surprising is the degree of interest in the audit opinion – the new format for the opinion is clearly attracting some attention.

There is less enthusiasm for the outlook statement and for the chair's letter, which is described by some as more marketing than substance. The business review also receives a lukewarm response from a number of participants who argue that it is out of date by the time it hits their desk.

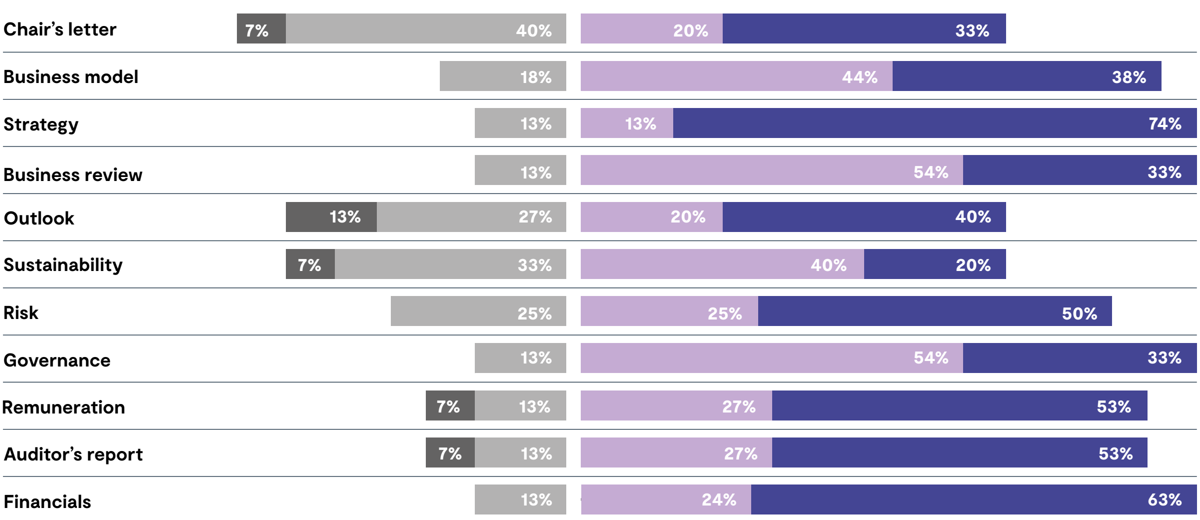
It is interesting to note that, for a number of investors, the value of the report lies less in any particular section but more in the consistency in messaging across the whole report.

> "The consistency between the different sections of the annual report is really interesting. For example, the definition of underlying performance in the remuneration report is often different to that used elsewhere by management."

> "It's the synergy between the sections that gives insight."

What information do you find particularly useful in the annual report?

Strongly disagree | Disagree | Agree | Strongly agree



“The chair’s letter is too corporate with a well-rehearsed tone. We are looking for incremental information, and you won’t find that in the chair’s letter.”

Transp

“The business review isn’t timely.”

“I really love the segment reporting. If they don’t break something out, I wonder what they are trying to hide.”

"The chair's letter is
just a cheerleader
for the company."

arency

"The chair's letter -
it's a bit of spin."

"The most important section, by far, is the financials. I read that first, form a view of what the financials say and then look at the words to see if they match."

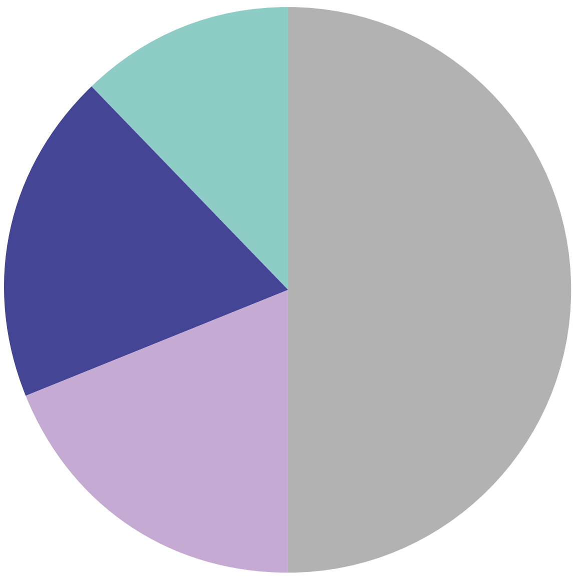
Let's talk about the annual report
Corporate executives regularly tell us that investors do not read their annual report. When asked why they think this, they tell us that they have never received a question about the contents of the document, and that this implies that the report remains unread.

This study has already shown both that investment professionals think the annual report is highly important and that they regularly read the document. But are management right in saying that investors and analysts never question them about the content or structure of the report?

We asked the research participants to rate the degree to which they agree with the statement: 'I regularly challenge management on the quality of their annual report'.

Indicate how strongly you agree with the following statement:

I regularly challenge management on the quality of their annual report.



50% Disagree
19% Agree
19% Strongly agree
12% No opinion

Their responses largely confirm management's contention that investment professionals do not question them about the report itself. But why? As the annual report is considered to be so important to investors, why don't they highlight any perceived omissions and disconnects?

The study's participants typically accounted for this apparent anomaly in one of three ways:

— They have other priorities when meeting with management such as talking about results, strategy.
— They are time-constrained and so rarely contact management to initiate a conversation about the quality of their reporting.
— There are enough attractive investment opportunities that they can afford to ignore companies that are not transparent.

"We tend to meet with management shortly after they have released their results. So we focus more on the results presentations than the annual report when meeting with management."

"If it's a garbage report, just move on."

However, a number of investors tell us that, if asked, they would willingly provide management with the feedback they need to improve the quality of their communication to the capital markets.

"We need to be prompted before giving feedback on an annual report."

"Companies need to get regular feedback on their reporting from their investors."

Things to think about
Your reporting now

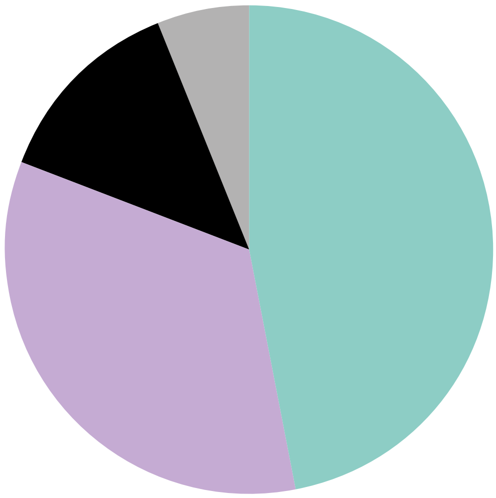
- ✓ Do you know what investors think about your annual report? Do they like it, how much of it do they read, which elements work well and which could be improved or removed?
- ✓ Is your report telling a consistent view throughout the entire document? Do the individual sections tell the same story? Does the narrative at the front concur with the notes to the financials?
- ✓ Is this view consistent with other communications from the company? Do investors trust you?
- ✓ Who are the audiences for your annual report? Is it a professional investor audience, retail shareholder base, employees or other interested stakeholders?
- ✓ How well does the current process work? Do you get the support you need from both your colleagues and internal stakeholders? Do you get the advice and support you need from your external partners?
- ✓ How aware are you of the reporting landscape? What about the regulatory and technological changes taking place? Are you up to speed with best practice and disclosure requirements? Do you know what your peers are doing? Do you know about the changes to filing requirements and XHTML?

2. The importance of style

There is wide diversity in the style of annual reports produced in the UK. At one end of the spectrum, there are the visually engaging reports that offer a wealth of narrative, case studies and graphics. At the other are 'no frills' reports that come close to the look and feel of the 10-K, with few graphics and a minimum of storytelling. In between these two extremes is a discernible middle ground – reports that offer more graphics than a 10-K but that are less heavily 'designed'. Which style is preferred by investment professionals, and why?

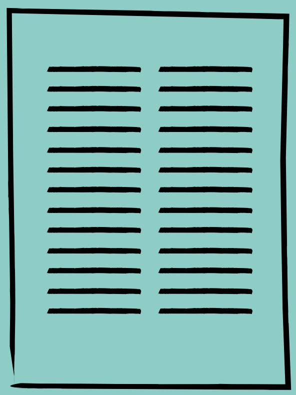
Choosing style
We presented participants in our research study with annual reports that exemplified both ends of the reporting spectrum, as well as the middle ground.

If you had the choice, would you rather a company produce a no frills, middle ground or narrative report?



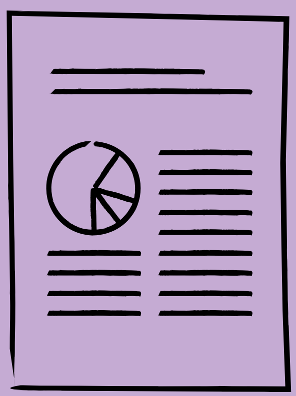
47% No frills
34% Middle ground
13% Narrative
6% No strong preference

No frills



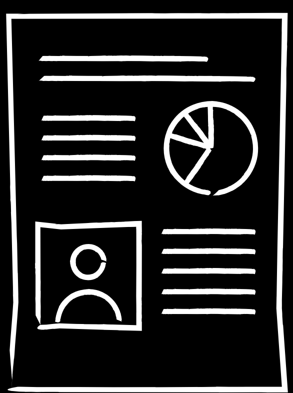
- Little or no messaging, minimal narrative or storytelling
- Very limited colours
- Virtually no graphics (charts, graphics, diagrams and images etc.)
- Similar to the 10-K in the US

Middle ground



- Limited messaging and storytelling: perhaps confined to a couple of sections and some case studies
- Colour confined to key sections
- Some graphics (charts, graphics and diagrams etc.)
- Some photography in limited sections

Narrative



- Messaging and storytelling, particularly in the strategic report (eg. through a separate thematic section, highlighted in leadership statements, case studies etc.)
- Extensive use of colour, particularly in the strategic report and, to a lesser degree, in the governance section
- Use of graphics (charts, diagrams and graphs etc.)
- Use of photography (eg. as full page images, and to support case studies etc.)

47%
No frills report
The reasons given for choosing a no frills report can be grouped into four categories.

1. Credibility
For some, there is an association between a highly designed report and 'spin'. A number express a fear that important facts may be lost in a document that appears to be in part a marketing pitch for the company.

"I'm cynical of all the pretty picture stuff."

34%
Middle ground report
Those who prefer the middle ground report believe that there are instances where graphics can help the reader to digest information.

"There are places where visualisations allow you to access data more readily."

13%
Narrative report
Although only a few of those interviewed prefer the narrative style of report, those who do find them a more engaging read.

"Give me a more interesting report. I like visuals and more narrative."

2. Ease of navigation
The 10-K is widely held up as the gold standard for ease of navigation. It may not be a particularly engaging read but the consistency in its format makes it easy both to find information and to compare across companies.

"You know where the numbers you are looking for will be found."

3. Cost
A number of respondents are concerned about the cost of a highly designed document.

"I don't want management wasting shareholders' money."

4. Digital-ready
A few participants speculate that a 10-K format would work best in a world of digital data. They assume that its consistent structure will make it simpler to tag information and to search using advanced analytical tools.

"I'm an advocate for the 10-K. It would allow AI to perform advanced analytics on a consistent basis."

"You can't always tell a story without frills."

The death knell for narrative reports?
Do these findings mean that companies should stop producing narrative-style annual reports? A few respondents speculate that there might be certain scenarios under which management might want to keep a more engaging format.

Our study sought the views of professional investors. We did not engage with the retail investment community. A few investors ask whether companies with a large retail shareholder base might wish to add more design elements to their report.

"I can see why management might want to use more graphics if they have a large base of retail shareholders."

However, it should be noted that an equal number of investors find the notion that retail investors might prefer a different style of report 'patronising'.

A small minority note that a more narrative style would help them to get up to speed on small cap companies – companies that are perhaps less familiar to the capital markets and that have little sell-side coverage.

"I like more narrative and case studies if it is a small cap name."

Similarly, a few acknowledge that an annual report might try to serve communities beyond investment professionals and that those stakeholders might value a different style of communication.

"Employees may well prefer a more accessible document."

However, it should be noted that many interviewees strongly contend that the annual should not try to serve the needs of multiple stakeholders. They argue instead that the target audience for the report ought to be shareholders and that any other stakeholder communication should find another medium.

"Annual reports seem to be too much of an answer to all constituents of society, including government. There is a tendency to try to get everything into the report – even if it is not material i.e. price sensitive."

"If it is not material to investors, find another channel."

Things to think about
Your reporting going forward

- ✓ Do you know what approach you want to take for your next report? Is that the same as before, or will you change? Why? Will you produce a narrative style, a middle ground or no frills report?
- ✓ If it's the same as before, do you have everything and everyone that you need? Is there any additional support and information that you require?
- ✓ If you go down a no frills approach, how effectively will this get across your broader story? Do you need to include other materials and think about other channels? Is budget an issue?
- ✓ Are there improvements to content and disclosure that you should be making? Which areas of the report do these apply to? Do you need help with the disclosure requirements/applying best practice? Can you obtain the data you need from within the organisation?
- ✓ If you plan to adopt a new approach, do you have everything and everyone that you need? Is there any additional support and information that you require?

3. Beyond compliance

A high proportion of the investors we interviewed favour a no frills report. But is that all they need to make their investment decisions? Clearly, investors will be calling on a wealth of contextual information as part of their investment process: economic data, input from the sell-side and from industry bodies, to name just a few. Our interest was more specific. If a company produces a no frills report, is there any additional contextual information that an investor needs, and that the company is best positioned to provide?

The answer is an emphatic “Yes”. The analysts we spoke to express a thirst for credible, company-sourced information. They want to understand management’s view on the opportunities and risks that their business faces. They need the rationale behind the strategic decisions made and the evidence that gives comfort that the markets they serve can support their growth plans. Investors are not asking for spin, but a more nuanced understanding of reasons why management is committed to a given path.

What type of information is missing from a no frills report?
The answer appears to be: ‘it depends’. Investors tell us that the exact nature of the additional insight that they seek varies by sector and by company.

For example, a few talk of the value of industry reports, which set out the detail behind the markets in which a company operates. Such in-depth analyses of an industry’s dynamics fall outside the scope of a typical annual report. However, when done well, they are considered an invaluable way to gain a better understanding of the environment in which a company operates, and the market opportunity for the products that a company sells. One analyst went so far as to describe one such report as her ‘bible for understanding the industry’.

“Understanding the environment in which the company operates - that tends to be the stuff that can’t be covered in an annual report.”

Several participants took a slightly different angle to the question, talking instead about the role of the annual report within the context of corporate reporting. They see it as a document of record. As such, it is not the best way to communicate time-sensitive information.
A few go further, arguing that this document of record needs to be as objective as possible; management’s personal view of the business opportunities that they face, though important to the investor, is best presented elsewhere.

“The annual report is a confirmatory document – a reference document. You also need current information.”

“We need an extra document that gets inside management’s head.”

“Storytelling is the missing bit. But we get that from capital markets days, and from the slides and transcripts that follow.”

How is any additional information best disseminated?
Views are mixed. For some, nothing rivals face-to-face meetings. However, as such personal contact is not always possible, there is widespread support for the production of a short supplementary document or an annotated presentation. Some would even like to see it presented as a separate section in a no frills annual report.

"I am a long-term advocate for a UK Edgar where everything is filed in a turgid, standard fashion. I would encourage management to produce a 30 to 50 page format where they can communicate their journey and values in their own way."

"The 10-K is easier to navigate – it's more time efficient. But people like charts. The younger generation in particular is really receptive to visuals. So I think we should go the way of the US and produce both a 10-K and annual report."

"The 10-K is the most important document. It's the baseline. It provides the quantitative. Slides give management the chance to tell their own story. They give more of a fulsome view – more of the qualitative."

"If I had to survive with just one document, I would go with the 10-K. But I am glad to have both of them."

All this may sound relatively straightforward. But there is a snag. As such supplemental information is typically not assured, what can management do to keep it credible?

4. Keeping it credible

Some participants tell us that the credibility of non-audited information has improved in recent years. However, as the research findings show, there is still a way to go.

"It's all written with rose-tinted glasses."

"As long-term investors, our trust in management is high. Until it is lost, that is."

"I am always suspicious when 'other' is a big number."

"You get management that twist the way they define ratios just so they can claim to be the leading company in some area. It makes you distrust the rest of their reporting."

On a scale of 1 – 10, where 1 is not at all credible and 10 is highly credible.

How would you rate the credibility of the non-audited/assured information reported by management?

6.1 Average score

Delivery

There is nothing like delivering on guidance to build trust.

Balance

Companies can increase the credibility of their disclosures by being honest.

Consistency

Credibility of information is undermined if it is not consistently presented, both over time and across the various documents and presentations that a company issues.

Face-to-face

Gain confidence in non-audited information through regular face-to-face meetings with management.

Personal assurances

Personal assurances that the information presented is not misleading.

Process

Disclose the process that has been used to ensure that information reported is accurate.

How to give investors more confidence in reporting.

"Virtually the only thing that convinces people is historic delivery."

"Credibility is built over time."

"Much better to say that you aren't number 1 in an area – you may not even be number 5 – but then explain how over time you aim to be a leader."

"The non-audited information needs to be consistent with the back end. If it isn't, it isn't credible."

"Some management change their metrics every six months. I want consistent metrics and trend data that run for 5 years."

"See management in their operating environment – how they interact with staff, and so on."

"You need management and the non-executives to be willing to say 'this is true'."

"You would feel more comfortable with non-audited information if management described the process by which it is quality assured."

Things to think about
Improving the credibility of non-audited information

- [x] Are you able to provide greater disclosure about the process for obtaining non-audited information, how it is compiled and the extent to which it is quality-assured and verified?

- [x] Are you able to state that you believe this information is fair and balanced?

- [x] Can you be consistent across documents and channels and from year to year, even if you face a more challenging operating environment? Is it consistent with the information in the financial statements and notes?

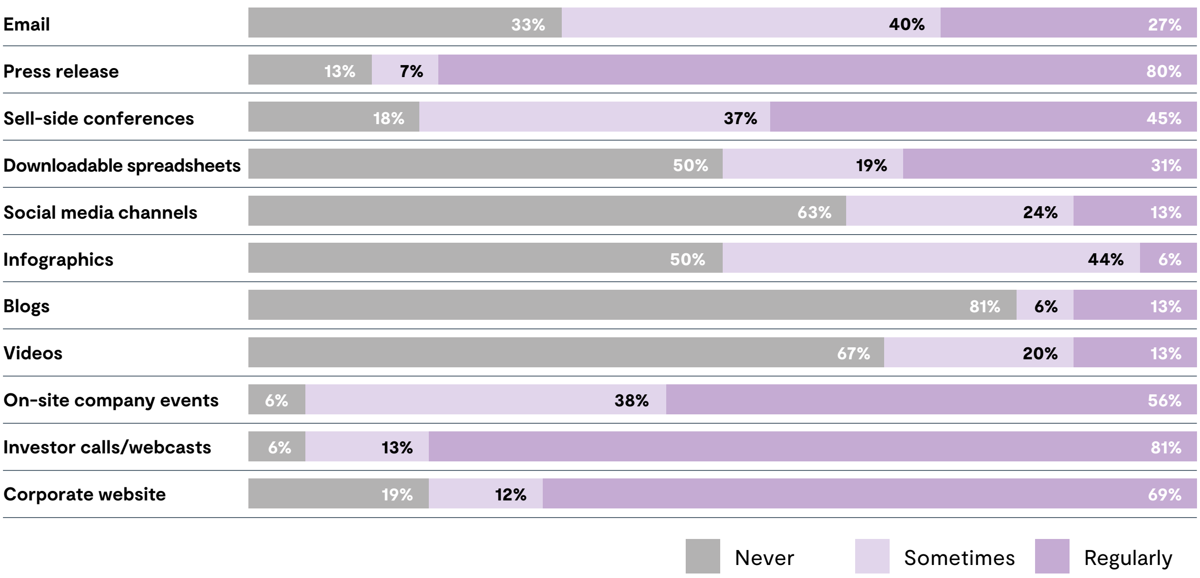
- [x] Would it be appropriate to have more face-to-face meetings with investors?

5. Spreading the news

How is technology changing the way in which investors access the information produced by companies today – and how do they think it might help them in the future? In this section, we ask investors how they like to access corporate information. We then look ahead to innovations that might, in the future, help make reporting to the capital market more efficient, timely and credible.

Today's channels of communication
We presented investors with a list of channels used by companies to communicate with their shareholders and asked them to tell us which they use regularly, sometimes and never.

The annual report is typically just one element of a company's investor reporting strategy. What else do you like to use?



81% Investor calls/webcasts are the most regularly used communication channel

From the chart above, we see that investors use conventional channels of communication (such as the corporate website, investor calls and press releases) far more than social media, videos and blogs. This holds true regardless of the age of the interviewee.

Many of those who use the corporate website tell us that they use it simply to download presentations and reports, which they then store on their own systems. By doing so, they say that they are better able to pinpoint particular items of information – that their own internal systems have better search functions than those typically offered within a corporate website.

"It's just advertising."

Why is there such limited appetite for newer forms of communication, such as videos and blogs? Some tell us that there is not enough incremental information in such media to make it worth the investment in time. Others, however, express a degree of cynicism about the objective of such media. They associate it more with marketing than offering credible corporate information.

The role of data intermediaries
Investment professionals use data intermediaries to access a range of corporate information. Traditionally such intermediaries put emphasis on corporate financials (both 'as reported' and 'scrubbed') along with news stories, and background information on the company. With the advent of advanced analytics, intermediaries are expanding the scope of their product offering. Some, such as Alphasense or Sentieo, use linguistic search algorithms to pinpoint information on a given topic across a wide range of company documents, including regulatory filings, presentations, supplementary reports – and in some cases, even social media feeds, such as Twitter.

Does this mean that investors no longer look at the reports as presented by management? Investors tell us that these search engines are particularly useful when they are familiar with a company and have a specific question that they need answered. However, the original report comes into its own when they wish to assess whether the overall picture of performance hangs together, or if they are new to a company and need to develop a thorough understanding of the business. As such, new channels and technologies appear to complement rather than supplant traditional company reports.

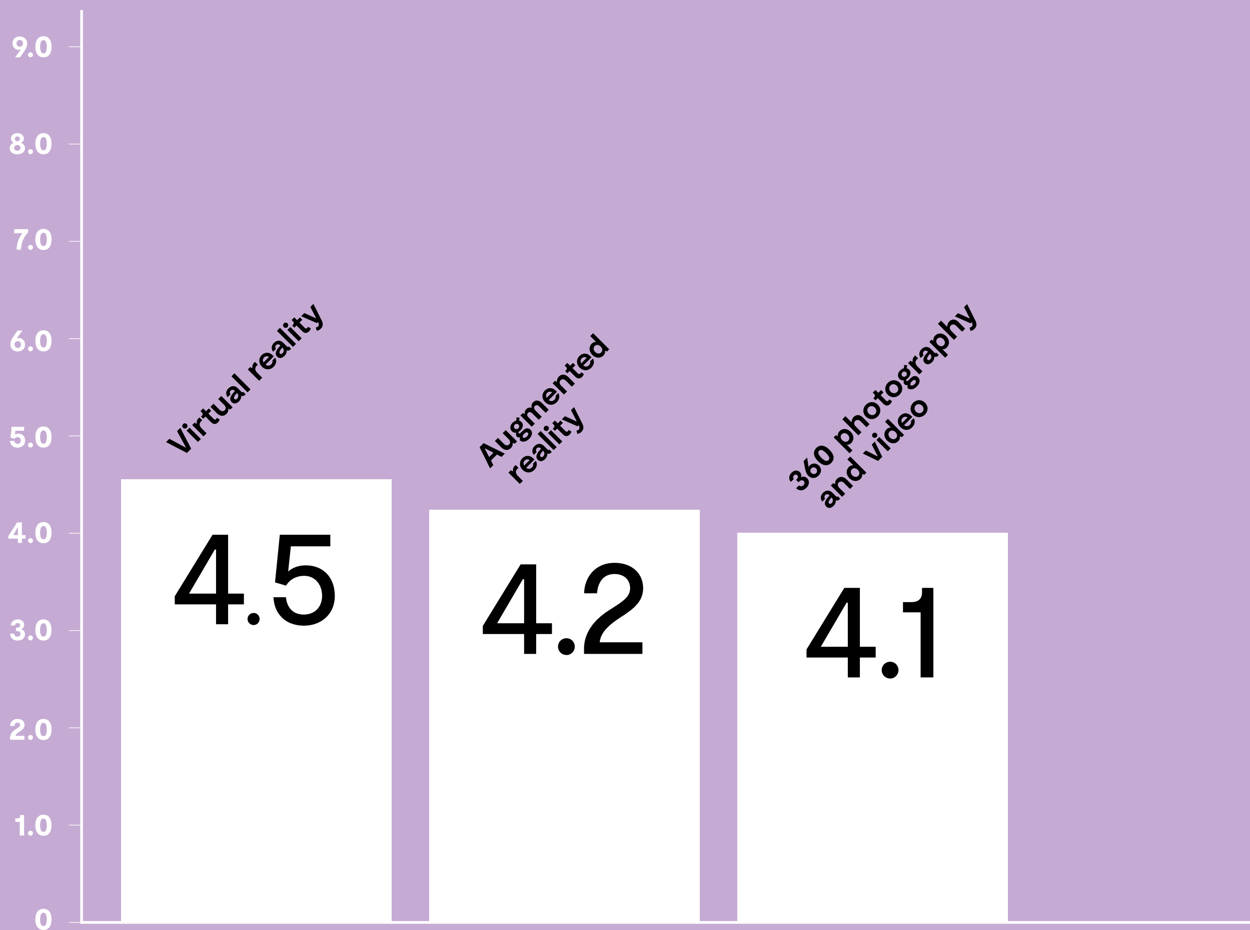
"There is a lot of redundancy in reports. We can search documents. You don't need to disclose the same paragraph five times."

Things to think about
Other communication

- What other communication channels do you use for reporting purposes? Do they differ from your wider communications? These might include face-to-face meetings, your corporate website, social media channels and video etc.
- Do you know what your audiences think of these? Do they like them, how often do they use them, which elements work well and which could be improved or removed?
- Which channels are you going to use in future? How will these change what you do now? How can you leverage content across these?

Future-thinking

How might technology change how the investor accesses information in the future? We asked participants for their thoughts. We asked the investors to rate a list of emerging technologies. For each, we offered some illustration of that technology in practice today.

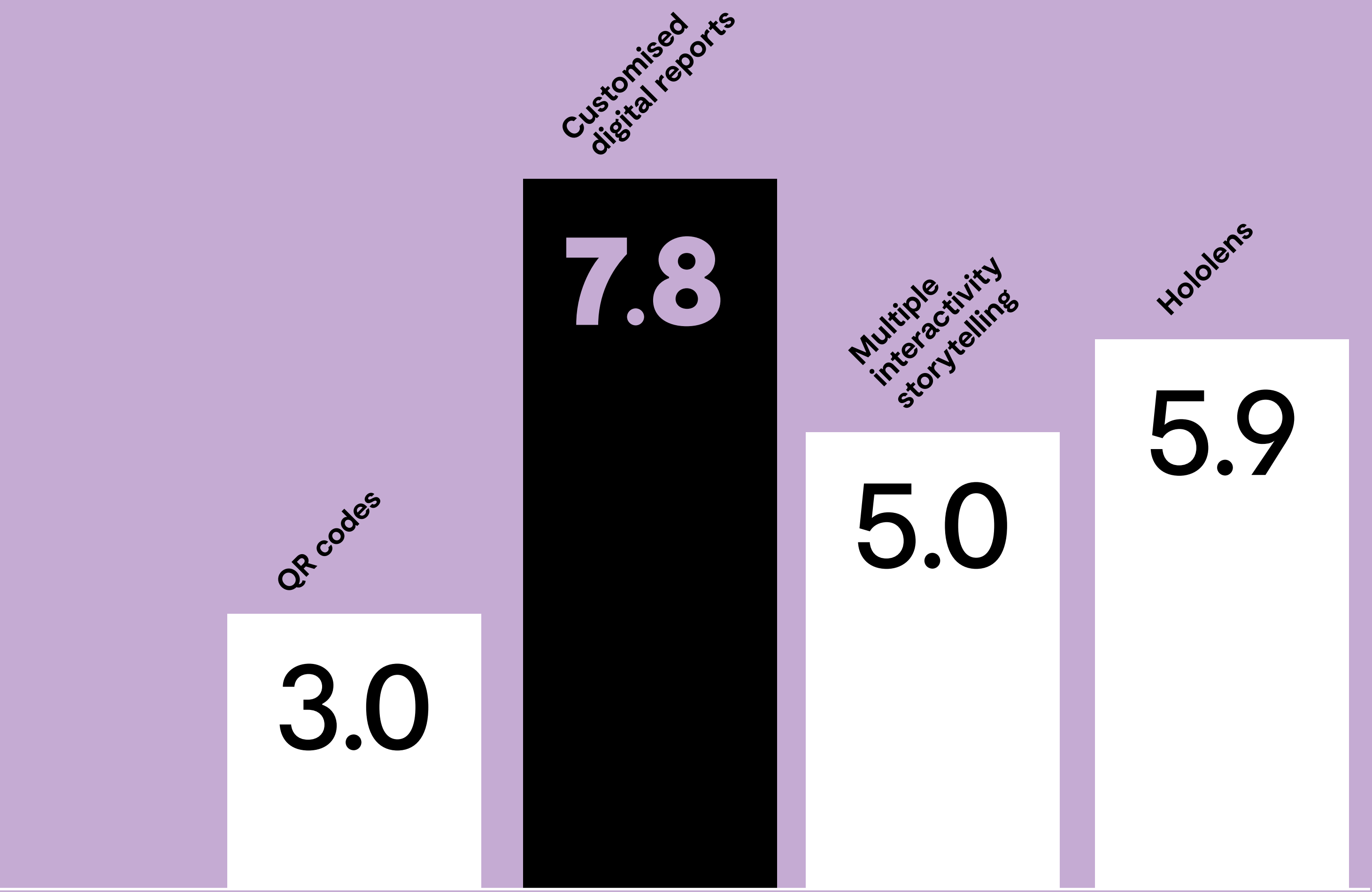


Technology is changing rapidly. On a scale of 1 – 10, where 1 is no interest and 10 is very interested, how interested would you be to see any of the following introduced?

A computer-generated scenario that simulates real-world experiences through senses and perception

An interactive experience of a real-world environment whose elements are "augmented" by computer-generated information, including visual, auditory and olfactory perceptions

360-degree photography and video that simulates the experience of being at the location, allowing the user to look around as well as sometimes zooming into specific angles



A barcode that is a machine-readable optical label that contains information about the item to which it is attached, allowing users to access imagery, video, infographics or other information from their smartphones and tablets

A function that allows users to create their own reports based on preferences and key search terms. The focus lies in finding and identifying content that best answers a user's query

Using multiple digital formats to tell a company's story such as video, before-and-after photography and virtual reality instead of a one-dimensional expression of information

A computer-generated 3D image of the holographed subject that gives users the ability to interact and engage with the hologram

Not all of the investors we interviewed were overly familiar with the technologies that we listed. As it is hard to evaluate the usefulness of a technology in the abstract, many of our participants instead turned the conversation around, talking more about the characteristics of a successful product. In particular, they focused on its potential to help search through information efficiently, to reduce consumption costs and to allow more timely updates.

"Anything that simplifies the way investors search for information can only be a good thing."

It should be noted however that, although happy to assess the potential benefits of each technology, investors were just as keen to discuss any possible drawbacks. Most notably, they are concerned about the potential that unscrupulous management might manipulate digital images or digital searches to hide the 'bad stuff'. For any technology to be embraced by the capital markets, investors will need to feel confident that they are getting the complete picture, warts and all.

As can be seen from the chart above, there is one proposed solution, customised digital reports, that stands out from the rest. We established in the last section that investors use corporate websites regularly. Improving the way in which they search these sites is considered by many to be a 'no brainer'.

"Easier to navigate is a step forward."

"I would be very keen to see this. It sounds like a no brainer."

However, several interviewees asked how they could be confident that management had not skewed the search engine to present a positive spin on any given topic. There is little divergence of view about virtual reality, augmented reality and 360 photography.

"Everyone is time poor. This would save time."

"Are management skewing the search engine to present a positive spin on any given topic?"

"You would need an independent company to stand behind it so that I know that the company is not biasing the best results from their data."

Although they may have their place – particularly in showing facilities in remote or hostile areas – most investors are highly reluctant to trust the pictures. Have the images been edited?

There is also little enthusiasm for QR codes. We were asked on several occasions why a company would use this rather than simply embedding a link in their report.

Looking further out, a number of the investors are intrigued by the notion of using holographic technology (such as Microsoft's Hololens) to have virtual meetings with management. Meeting the CEO in a plant in Chile from the comfort of one's desk, if possible, would be very welcome.

Age doesn't matter

We interviewed a broad range of investors, from those who are relatively new to the industry to seasoned veterans. Do those who have always worked in an internet world have a differentiated perspective on the potential impact of technology on their day job?

We found that the age of the interviewee did not prove to be a significant predictor of interest in, or knowledge of, emerging technologies. Why might that be? We speculate that it is difficult for everyone, regardless of age, to imagine doing everyday activities notably differently. And so, when new technologies emerge, history has show that they are initially used to replicate old methods. It is only after a period of experimentation that people abandon the evolutionary approach and start the revolution.

Things to think about
Other communication

- ✓ Have you considered any new technologies for your reporting (VR site tours, augmented reality, 360 photography and video, customised digital reports, digital interactive storytelling, holograms etc.). Which ones might be appropriate for you and why?
- ✓ Do you need to know more about these and how they could benefit your reporting/ investor communications?

Measuring success

- ✓ How will you gather feedback from your audiences? Can you build in a feedback mechanism?
- ✓ After all this, how will you know if you have achieved your objectives? What will success look like for you? Can you identify some KPIs? Can you agree some performance measures at the outset?

Methodology

The research questions
Our research sought to understand:

- The role that the annual report plays in investment professionals' analysis of performance;
- The style of annual report that investment professionals prefer;
- The information that investors and analysts need from management in addition to that provided in the annual report;
- The credibility of non-audited information; and
- How technology can change the way management and investment professionals interact.

Our approach
From the start, we wanted to understand not simply *what* investment professionals think on a given topic, but *why*. For this reason, we dismissed the idea of conducting a large-scale on-line survey, choosing instead to arrange one-on-one meetings with investors and analysts – meetings that allowed us to drill down into the rationale behind their responses.

Although the findings that we present are not 'statistically significant', the consistency in the results gives us confidence that the messages we have heard are to an extent representative of the broader set of fundamental investors.

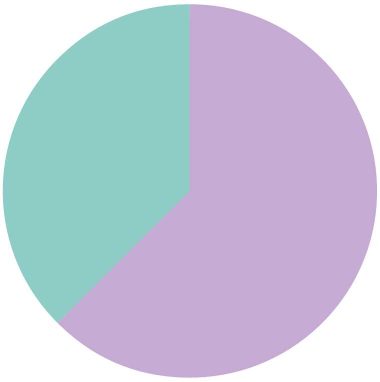
Who did we talk to?
Between March and May 2018, we conducted a series of structured interviews with 16 investment professionals based in the US and the UK. Our focus was on those who analyse the fundamentals of a company rather than those who adopt a more passive approach.

The length of each interview varied widely from 30 minutes to 1.5 hours. On average, we spent 1 hour with each participant.

Participants spanned a number of investment styles and sector specialisations. They also spanned a range of age groups because we wanted to explore whether millennials think differently about the potential for technology to change how content is delivered to the capital markets.

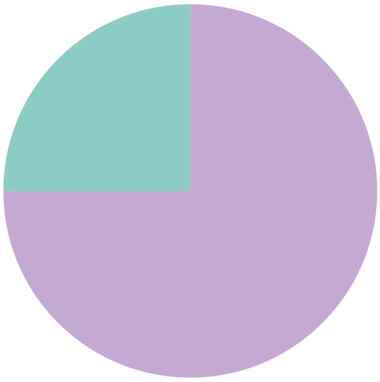
In the future, we hope to expand this research to representatives from the retail investment community.

Participants by type



10 Buy-side
6 Sell-side

Participants by geography



12 UK
4 US

Contacts

Alison Thomas
Independent consultant
Alison helps organisations to develop evidence based strategies for engagement with key stakeholders. Her work experience spans portfolio management at a number of blue chip investment management organisations; academia, including a number of years as a fellow at Oxford University; and consulting. While at PwC she led the firm's global research initiative into understanding and improving the usefulness of corporate reporting, and created a highly regarded investment community engagement programme. She is a regular contributor to accounting and business journals.

Annie Bissett
Director, Client Strategy
Annie has over 20 years of experience in her role as Director of Client Strategy and advises a range of companies on their external and internal communication programmes. She has worked for several London-based consultancies and prior to that worked in-house in communications and investor relations at Man Group and Wellcome.

Jarrad Comley
Partner, Executive Creative Director
Jarrad leads MerchantCantos' creative offer globally, with particular responsibility for brand and digital design. A specialist in multi-channel corporate communications, he works closely with clients to generate creative strategy, then translating it into visual ideas and experiences. He has a deep understanding of annual reports having worked with some of the UK's largest companies.

Bill Krarup
Director, Investor Communications
Bill brings nearly 30 years' experience to his role as Director, Investor Communications, in which he oversees complex projects, both in print and online, and advises on best practice in corporate reporting.

Pierre Vinsot
Account Director
Pierre is a senior member of the account management team at MerchantCantos. Over the years, Pierre has gained deep expertise in UK corporate reporting, in parallel to managing corporate communications accounts and campaigns. He has a law degree and, after graduating from Sciences-Po Paris, he earned a master's degree in market research and marketing strategy.

For further information, please contact:
James Williamson
Director, Business Development
M: +44 (0)7968 997 377
T: +44 (0)20 7936 1364
jwilliamson@merchantcantos.com

About MerchantCantos

MerchantCantos are an award-winning creative communications agency with a global reach. Offering advice and creativity across Brand, Investor Communications, Employee Engagement & Sustainability. We understand how business works.

Our purpose is simple: to maximise engagement with the audiences that matter most to our clients. How? By making the complex clear, the corporate creative, and the message compelling. We bring a global, creative perspective to communications challenges – from offices in Europe, North America, Asia and the Gulf. We are built for the fast-moving world of our clients: a unique mix of thinkers, designers, developers and filmmakers who take a fresh, creative approach to business issues and are passionate about doing great work. Our culture is underpinned by four core values: Attentive, Collaborative, Positive and Creative. We put clients first – always; we strive to find a fresh point of view; we proactively engage with each other to do more for our clients; and we look for solutions not problems.

merchantcantos.com

“For God’s sake;
these things matter!”

merchantcantos