

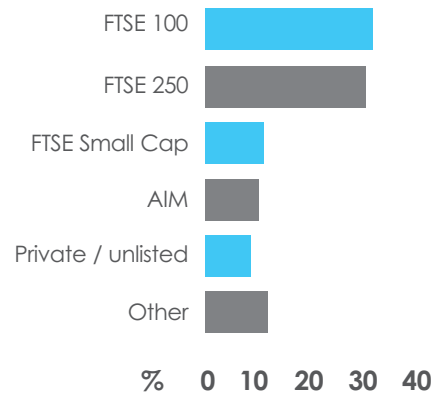
## OVERVIEW OF IRO SURVEY FINDINGS

IROs noted that they were generally happy with the number of analysts covering their company but commented that there was **a range of quality** – with most saying that they would prefer fewer analysts if the quality was better.

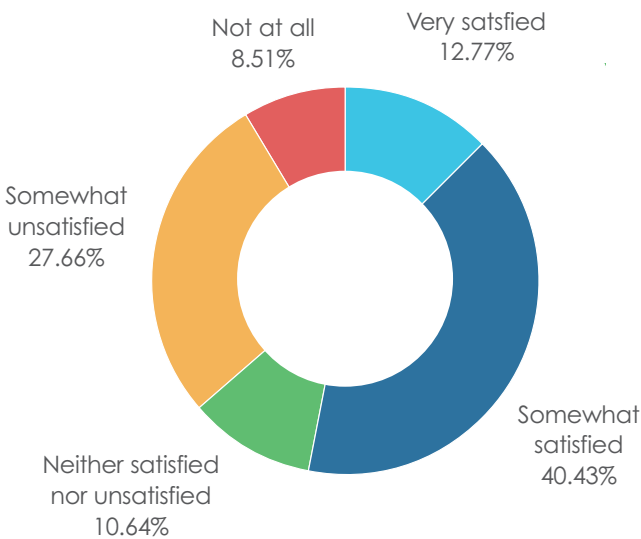
Nearly three-quarters – **74%** – believe there is a specific link between **equity research** and **valuations** for listed companies or those seeking to list.

A common complaint was that analysts were **not updating models frequently**. This was attributed to fewer analysts covering an increasing number of stocks.

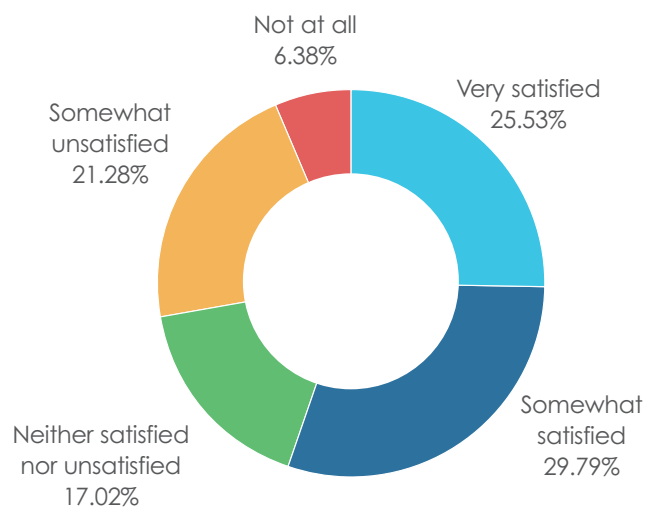
### Q. In which index is your company listed?



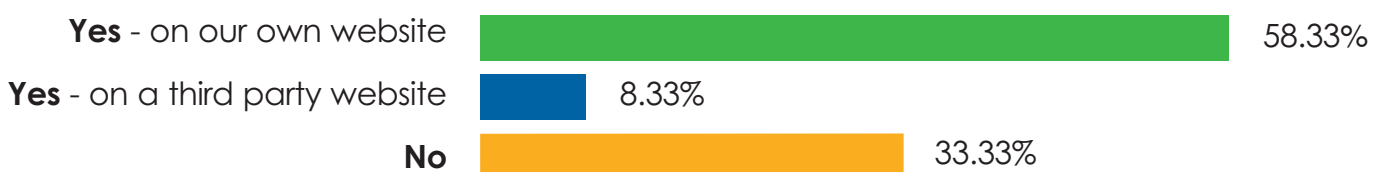
### Q. How satisfied are you with the overall quality of analyst research on your company?



### Q. How satisfied are you with the current number of sell-side equity analysts covering your stock?



### Q. Do you publish consensus on a website?



This is a reversal of the trend identified in our 2018 survey results in which only a third published consensus on their own website.

## INVESTMENT RESEARCH – SURVEY FINDINGS

We surveyed members on changes in analyst coverage for their stock since May 2021 by company size, yielding the following insights:

Market cap

**<£200m** ... these companies experienced a **decline** in coverage, potentially highlighting a disproportionate impact of MiFID II on smaller caps and potentially also suggesting that the £200m exemption falls short in mitigating its effects (although we acknowledge the limited sample size of 4).

**£500m – £10bn** ... these witnessed a **marginal net increase** in coverage, albeit with varied outcomes – some experienced an increase, some a decrease, and some remained unchanged. This suggests that the influence of MiFID II may have largely manifested prior to May 2021.

**>£10bn** ... these exhibited a **slight net decrease** in coverage, similarly showcasing mixed results – some observed an increase, some a decrease, and some remained unaffected. This further supports the notion that the impact of MiFID II had largely played out before May 2021.

Q. Have you seen an increase or decrease in the number of analysts covering your company's stock since March 2022 (when the £200m exemption came in)?



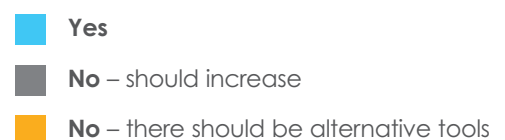
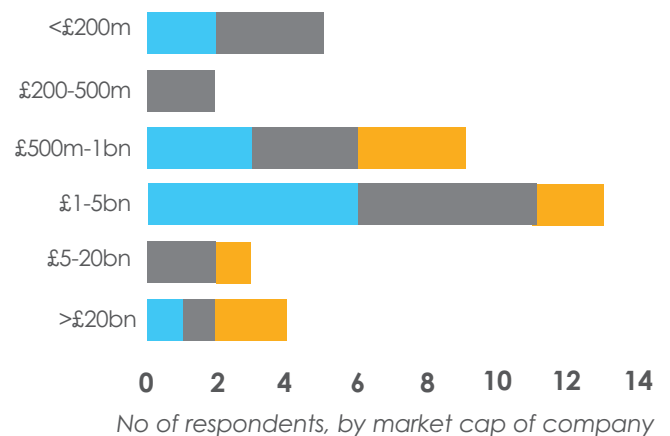
Q. Is the £200 million market capitalisation exemption for smaller quoted companies appropriate for the MiFID unbundling rules?

**35%** think the £200 million market capitalisation exemption is **appropriate**.

**43%** think it should be **increased** (no respondents thought it should be decreased).

**21%** think there should be **alternative tools** to incentivise research in smaller companies.

A number said that **c. £500m** would be better with some suggesting **>£1bn** would be preferable.



## INVESTMENT RESEARCH – SURVEY FINDINGS

### Q. How important is sponsored (paid-for) analyst research for your company today (i.e., post-MiFID II)?

**21%**

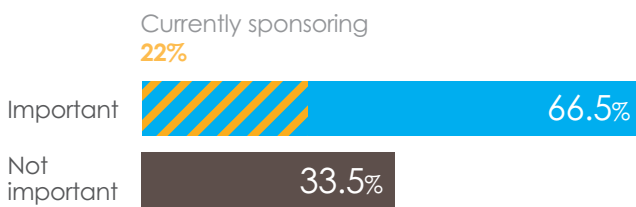
of respondents said that sponsored analyst research is **important**, of which **8.5%** are currently sponsoring research.

This shows an increase since **2021**, when fewer than **13%** thought it important, with less than **4%** actually sponsoring research.

This year, **74.5%** did not think it was important, with the remaining **4.5%** answering 'don't know'.

#### Respondent breakdown in selected groups

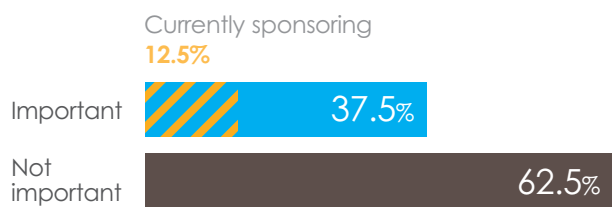
##### Market cap: £500m – £1bn 2023



##### Market cap: < £500m 2023



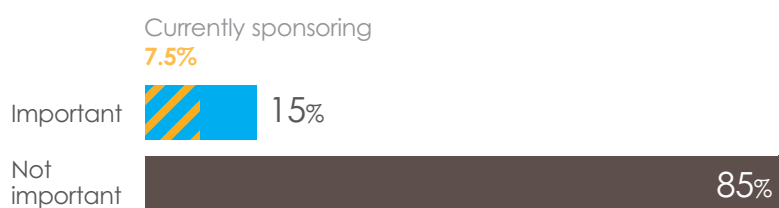
##### Index: FTSE 250 2023



##### Index: FTSE Small Cap 2023

Of the 5 FTSE small cap responses, **20%** (1) believe it important and are currently sponsoring research, whilst the remaining **80%** (4) think it is not important.

##### Index: FTSE 250 2021



##### Index: AIM 2023

Of the 5 AIM responses, **80%** (4) think it is not important, whilst the remaining **20%** (1) answered 'don't know'.

Note: responses from FTSE Small Cap and AIM groups were at a low level.

These findings indicate increasing interest in sponsored research, particularly at the £500m to £1bn market cap level and the FTSE 250. The apparent lack of interest in sponsored research among the smallest caps may be due to increased budgetary constraints or reliance on their corporate broker.

## INVESTMENT RESEARCH – SURVEY FINDINGS

### Comments from respondents

- “ The UK should be centre of European research given the advantage of operating in global English and the concentration of stock market participants in the City.
- “ Some research houses are better than others... there are now too few analysts covering too many stocks, so models are not updated as regularly as required for those companies where the expectations might fluctuate more regularly.
- “ We pay analysts in lots of different ways, without which we would not have a meaningful consensus or voice in the market. It is ridiculous that small listed companies need to pay in such a way, and as such is a burden to being listed.
- “ MiFID II has clearly had a very negative effect, which has far outweighed any notional 'saving' on price for investment funds.
- “ The sell side is covering too many stocks across too many sectors to really be effective.
- “ There has been a market deterioration in the frequency and quality of deep dive research in the last five years, and it has accelerated in the last two.
- “ Equity analysts are being spread very thin, as a result of the economics within the banks. This encourages them to take on more clients per analyst and provide less thoughtful or insightful research.
- “ Obtaining and retaining research coverage is very difficult, too difficult. It is very difficult for the sell side to make money on providing research, so they restrict where they do so. Whilst they may willingly do so for larger companies, they want a fee for smaller companies but the irony is that smaller companies don't have the business to justify the spend. The model under MIFID II is broken.

## INVESTMENT RESEARCH – SURVEY FINDINGS

### Suggested improvements

**To improve the provision and quality of research a number of suggestions are offered:**

- ✓ Increase the £200m limit on exemption to unbundling or remove for all stocks outside of FTSE 350.
- ✓ Allow brokers to provide research to whoever they want without the need to have formal relationships.
- ✓ Introduce an expiry date on research, e.g. six months to incentivise updating or providing a relevant view. This would alleviate the concern that analysts are not updating consensus as they were two years ago. One respondent noted that, on 30th May, 10 out of 23 analysts hadn't updated post financial year results in February.
- ✓ Encourage the use of ESG-based analysis to support a medium-term to longer-term view of company performance, away from the current focus on quarterly results.
- ✓ Improve the market liquidity of smaller companies.

The survey was conducted from 25 May to 7 June 2023 among IR Society member IROs. There were 56 respondents, and not every respondent answered every question.

## THE INVESTOR RELATIONS SOCIETY'S VIEW

This survey revealed that, whilst our investor relations officer (IRO) members are generally satisfied with the number of analysts covering their company, they had concerns regarding the perceived varying quality of research. Indeed, most noted that they would prefer fewer analysts but higher quality.

We note that our survey indicates that our member IROs think there is a link between research coverage and valuations with nearly three-quarters of respondents believing there is a specific link between equity research and valuations for listed companies or those seeking to list, which underscores the crucial role played by research in shaping market perceptions and determining the fair value of companies, and also suggests that potentially improving the quality of research on companies could positively impact valuations.

A particular issue was that some analysts were not updating models sufficiently frequently. This was attributed to analysts covering an increasing number of stocks and having less time for each one. Analyst estimates should be informed and up-to-date, so that the market has a reasonable expectation of financial results. If analysts fail to update their forecasts, this can lead to inaccurate consensus estimates that may give rise to a need to correct the misapprehension, which is a cumbersome and potentially damaging process.

A significant number of companies now provide their own consensus estimates and publish them on their investor relations website, which is in line with IR Society best practice guidelines. However, investors are also influenced by estimates published by third party providers, which are often the most easily accessible, but these can sometimes contain inaccurate or old data.

We suggest the Financial Conduct Authority considers facilitating discussions over a voluntary code on the timeliness of third-party consensus models, under which providers of third-party consensus would be expected only to include timely and relevant forecasts, perhaps for example those that have been updated within the last six months, or within, say, three months following a material announcement (e.g. M&A, guidance update etc).