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International Roadshows

One of the most common practices among investor relations departments is the non-deal roadshow. Significant portions of IR resources and time, as well as management's time, are dedicated to the matter of getting on the road, meeting with current shareholders, and courting potential shareholders. As investment markets have become more global, the practice of investor relations and the non-deal roadshow have followed suit. The following research and analysis assesses the current state of the U.S.-based international roadshow and outlines the best practices as laid out by some of Ipreo's most proactive corporate clients. Ipreo published an article in the June issue of BetterIR titled, "No Longer Foreign – The Growing presence of Non-U.S. Investors in U.S. Stocks" regarding the growing presence of non-U.S. investors (http://betterir.com/#jun.htm). This research picks up where that article left off, as it intends to expand on some of the compelling quantitative data Ipreo uncovered, with some qualitative insights, comments, and advice from practitioners in the field.

Key Takeaways and recommendations

- Roadshows in the U.K. are fairly common, while roadshows in Asia are less common, with Continental Europe somewhere in between. The more off the beaten path the investment meetings are, the more likely that they are being hosted by a company with brand recognition, suppliers, or customers in that region. If your management team has business in Asia, and China especially, it is more worthwhile meeting with investors in those regions. If you do not have brand recognition in the region, it is less worthwhile. If you do initiate meetings in Asia, plan to return regularly, as one trip is not sufficient to build relationships with Asian investors. We recommend starting with Tokyo, as it is a more established investment center.

- Issuers rely heavily on sell-side firms to arrange meetings internationally and coordinate logistics. The feedback on the majority of these firms and their efforts is positive. We recommend using a sell-side shop that you trust, and that has solid relationships with quality investors in the regions you are planning to visit.

- The main differences pointed out by participants are the tone of the meetings and the implied time horizons. We recommend thorough research on the firms you plan to meet with in order to weed out short-term shareholders or channel checkers that are not planning to, or are prohibited from, buying your stock.

- We recommend traveling to international investment centers without management, before bringing them on the road. This helps to make the ensuing trips with management smoother logistically and more worthwhile from an investor quality standpoint.

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Who Goes? Where? Why?

While the majority of Ipreo's U.S. clients focus their outreach on U.S. soil, an increasing number are traveling abroad chasing international investment capital. According to the Bank of New York Mellon's 2010 "Global Trends in Investor Relations" survey, the U.K., Europe, and Asia are the top three non-deal roadshow locales behind the U.S. While this is fairly common knowledge, the real question becomes why do these companies travel internationally? Also, what kinds of companies travel internationally? Where do they go? For the most part, companies that are travelling to the fringes of the investment world, such as Hong Kong, Shanghai, and Singapore, are companies with direct exposure to these economies through sales, supply chains, etc. However, as investors in Europe, Japan, and the U.K. look to allocate more capital to US investments, companies without direct exposure to these markets are finding it worthwhile to spend the time and resources traveling to places like Zurich, London, and Tokyo. Please see the table below for a list of non-U.S. investors with meaningful amounts of capital allocated to U.S. public companies. Other cities and countries that survey participants have traveled to in the past two years include Stockholm, Copenhagen, Frankfurt, Paris, Amsterdam, Australia, Milan, Scotland, and Barcelona, amongst others. Several IRO's mentioned that they go to Asia to meet with investors in conjunction with a scheduled trip to meet with suppliers or customers, rather than a standalone roadshow. The consensus is that the companies that have brand recognition internationally get the most bang for their buck, with other companies using the international roadshow largely as an afterthought to a pre-existing trip, especially in Asia.

"We've traveled to Western Europe predominantly, and a little in the Asia-Pacific region. Mostly London, Paris, Frankfurt, Milan, and Switzerland. We are planning on going to China within the next three years, but we just haven't had the right circumstances. We're also looking to sell our drugs in that area too. China is on our radar for the next five years." – IRO, Large-Cap Healthcare Company

"We have typically done one trip per year to Continental Europe. Next year, we probably will go twice. We always go to London and Frankfurt, where there are numerous investors who are very conversant with US media, cable and satellite. There is effectively no difference between these meetings and meetings in New York. We also have had decent meetings in Stockholm, Copenhagen, Paris, the Netherlands, and Switzerland." – IRO, Large-Cap Media Company

"A main reason for the trips to Asia is the fact that a lot of our customers are located in Asia." – IRO, Mid-Cap Technology Company

"I guess it makes sense for Microsoft and Intel to go to China because they have huge operations in China and the brand recognition is there. We have almost no brand recognition in China and it would be a huge uphill battle. It has not even crossed our minds to think about IT Services in China." – IRO, Large-Cap Technology Company

Largest Non – U.S. Investors

Data source: BD Corporate public filing data

Investor Name	U.S. Equities ($mm)	City	Style	Turnover %
Norges Bank Investment Management (Norway)	86,668	Oslo	Value	21.5
Legal & General Investment Management, LTD	44,088	London	Index	10.0
BlackRock Investment Management (U.K.), LTD	38,600	London	Growth	51.9
Blackrock Japan Company, LTD	30,589	Tokyo	Growth	62.3
J.P. Morgan Asset Management (U.K.), LTD	25,833	London	Growth	68.9
APG - All Pensions Group, LTD	21,805	Amsterdam	Yield	42.0
Fidelity International Limited - FIL Investment Services (U.K.)	21,763	London	Growth	55.2
UBS Global Asset Management (Switzerland) AG	19,595	Zürich	Yield	22.2
Mitsubishi UFJ Trust & Banking Corporation	16,241	Tokyo	Growth	22.9
BlackRock Advisors (U.K.), LTD (formerly Barclays Global)	15,649	London	Index	31.1

Roadshow Logistics

Nearly 100% of survey participants use investment banks or sell-side firms to arrange investor meetings abroad, handle the logistics of the meetings, and sometimes cover expenses as well. Hence, it has certainly become the best practice to utilize this resource. The relevant questions become; Which firms are best? How do I choose? What are the best practices for interacting with these firms?

Nearly every bulge-bracket firm was mentioned by our participants, including UBS, Morgan Stanley, Bank of America, Citibank, J.P. Morgan, as well as smaller firms such as Cowen and Atlantic Equities. Based on the responses, we can conclude that choosing a firm to organize your trip is surely a company-specific decision. IRO's base this decision on several factors. First and foremost, a healthy relationship with the sell-side firm drives many of these decisions. Successful meetings in the past and help with past transactions would certainly foster these relationships. Secondly, when the sell-side has people on the ground in a given region, as well as strength (or perceived strength) of the analyst in that particular sector, IRO's have decided to use them. To be sure, brokerage firms are not supporting the IR function of public companies as a charitable service. Brokerage firms set up meetings for their clients as part of their service to them, and they will typically pick their best, most actively trading clients. As such, IRO's will typically approve the meeting list and may even provide a list of firms they would like to meet with. Ipreo's Corporate Analytics clients will employ the help of their targeting analyst to generate the best list of investors for a region, and also help vet the sell side's list of potential meetings.

"Issuers should not leave themselves at the mercy of the sell-side firm, because the sell-side firm might take them to a lot of shorts and hedges and people that they have business with, but who never would buy the stock. You have to do your own homework. If you're going to take a CEO with limited time, maybe have the IR person go there first to feel these people out and give them some background. Get them up to speed with healthcare and biotechnology and why your company is different and fills a niche that no one else does. You don't want to go into something cold where you're not going to make the best presentation and waste your CEO's time." - IRO, Large-Cap Healthcare Company

"The investment banks give us some great information; Equity Assets Under Management, Investment Style, Peer Ownership, US Equity Ownership, plus some individual knowledge about the account. With an investment bank, someone travels with you. There's lots of hand-holding. JP Morgan and Citibank were especially helpful. They call the account afterwards. The banks are working a lot harder on these non-deal roadshows now. We think the reason is because equity research is not making as much money as it used to, so we notice the banks are concentrating more on these non-deal roadshows. Investment banks also tell us what topics clients are interested in. Sometimes, the qualitative feedback from them is more important to us than the quantitative feedback." – IRO, Mid-Cap Technology Company

"We rotate between the sell-side firms, but we base it on who has the best presence in those countries; who has done the best job, who has the best reputation. Bigger bulge-bracket firms have a better presence in those countries, but if someone came to us and they were small, had a really good pitch, and had a lot of contacts, we wouldn't dismiss that." - IRO, Large-Cap Healthcare Company

"For the first European trip we chose Cowen because they had organized and evolved a lot of the targeting and access program for our CFO when he was early in the process, and they had impressed him. In 2010, it was an assessment that Citibank was reasonably strong in London. It was based on the strength or the perceived strength of the sell-side against their relationships. We were very impressed with the most recent trip and the analyst at Atlantic Equities was very knowledgeable about the space. They cover U.S. companies for European investors and seem to be very well plugged in. We chose them based on our perception of how strong they are in terms of knowing our industry, knowing about our company and also about knowing the investors who might be interested in our company. I think it is in our best interest to stay with one firm rather than keep jumping around. For Singapore and Hong Kong, we will use Credit Suisse. One of the reasons for Credit Suisse is that the analyst who covers the space is based in Singapore. We thought it made sense since he actually lives in the market. One of the things we started doing was asking the investors themselves, "Who do you respect?" You invariably will know some of the portfolio managers or analysts in Europe, so ask them what they think." – IRO, Large-Cap Technology Company

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Domestic vs. International

As globalization takes hold and international capital markets open, management teams have stretched across oceans in search of untapped capital in foreign markets. As it stands, London is the most popular destination as it is fairly easy to get to, there is no language barrier, its financial institutions are familiar with the business practices and markets of the West, and there is a concentration of investment capital. See the table below for a list of top U.K.-based investors. Continental Europe has followed suit as a secondary destination, as European institutions chase growth beyond the European Union. The most recent frontier has been Asia, with Tokyo the most common destination, but expanding into Singapore and Hong Kong as well. Australia, South America, Russia and India were mentioned by participants in our survey, but to a far lesser extent, so we focused on the details of roadshows in the U.K., Europe, and Asia.

Top U.K. based Investors

Data source: BD Corporate public filing data

Investor Name	U.S. Equities ($mm)	City	Style	Turnover %
Legal & General Investment Management, LTD	44,088	London	Index	10.0
BlackRock Investment Management (U.K.), LTD	38,600	London	Growth	51.9
J.P. Morgan Asset Management (U.K.), LTD	25,833	London	Growth	68.9
Fidelity International Limited - FIL Investment Services (U.K.), LTD	21,763	London	Growth	55.2
BlackRock Advisors (U.K.), LTD (formerly Barclays Global)	15,649	London	Index	31.1
HSBC Global Asset Management (UK), LTD	13,094	London	Growth	66.9
Baillie Gifford & Company	10,831	Edinburgh	Growth	27.3
Aberdeen Asset Managers, LTD (U.K.)	10,239	Aberdeen	Growth	33.4
Schroder Investment Management, LTD	9,310	London	GARP	41.0
Walter Scott & Partners, LTD	9,242	Edinburgh	Growth	43.3

There are several differences that our U.S. clients have pointed out between domestic and foreign investors, with the most common being the investment horizons and the tone of the conversations. In general, participants feel that the investors abroad are more long-term oriented and the tone of the conversations were broader in scope. For example, there tend to be more conversations about trends in the industry than there are about next quarter's numbers. Also, while European investor meetings were deemed different than domestic meetings, the experience in Asia was even more so. Tokyo received the best marks as an investment center, as IR teams felt the meetings were more worthwhile. Investors were more knowledgeable and long term oriented in Tokyo than Hong Kong or Singapore. However, one participant noted the large number of index funds in Tokyo. The firm may own a stock, but meetings will not necessarily move the needle one way or the other as the firms will only slightly overweight (or underweight) a position.

"There is a huge difference in the meetings with international investors. They ask bigger picture questions regarding industry trends. They'll want to talk about healthcare reform and the state of medicine and innovation, whereas Americans look at the minutiae, like 'when is the trial data coming?' No one ever minds meeting with European investors." - IRO, Large-Cap Healthcare Company

"The level of company-specific knowledge may be lower in an international roadshow, compared to a domestic roadshow. In Continental Europe, my perception was that the thinking was more long-term and more strategic." – IRO, Mid-Cap Technology Company

"We find the people we meet with on international roadshows have not covered our Company specifically, but have covered our peers, and they know the industry from our peers' perspective. The meetings tend to be a little more basic, where we are running through the basic model and outlining competitive differentiators." – IRO, Large-Cap Technology Company

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There were two themes that surfaced regarding mainland China specifically. One, China is still a bit behind its Asian counterparts in that firms need special permission from the government in order to invest abroad. Chinese investment in foreign equities is limited to funds that have been awarded an investment quota under the QDII (Qualified Domestic Institutional Investor). The quota is only $60B, with a fraction devoted to Western stocks. See the table below for a list of QDII investors. Obviously, before taking a meeting in China, companies will want to make sure they can invest in your company. For more information on Chinese investors, please reference the March 2010 issue of Ipreo's Better IR Newsletter at www.betterir.com/#mar.htm.

The second theme is that most companies that visit investors in China are doing so in conjunction with other business related meetings. There may be customers or plants in China, and management teams will take a few investor meetings while they are there. This is somewhat similar in Europe, where most companies that take their teams to Europe have brand recognition in the E.U., although companies are more willing to visit Europe specifically for investor meetings than they are willing to visit Asia, and especially China.

"I have found that the investors in Tokyo as compared to Hong Kong or Singapore tend to be more knowledgeable and more long term oriented. While there are some Hong Kong/China based institutions in Hong Kong, you also see a lot of Hong Kong branches of hedge funds and institutions, like Fidelity, BlackRock, or Impala. While they may have a limited amount of say-so, generally they are just the eyes and ears and the outpost. The decisions are actually being made elsewhere. The quality of the meetings in Hong Kong is not nearly as good as in Tokyo. There is a caveat here; a lot of investors in Japan aren't stock pickers per se. They'll start with an index and then they'll over or underweight specific sectors and specific stocks within sectors. In the case of Shenzhen, they're not ready for prime time. I think Shenzhen is probably a microcosm of China overall. It's not that they can't be good investors, it's that right now they are so inwardly focused that even those funds who've taken the time to get permission from the Chinese government to invest in non-Chinese securities, they just consider the opportunities within China to be so alluring that they really aren't spending the time with offshore investments. So is Beijing slightly more open? Yes, but while we had a good meeting in particular with CIC, the general impression that we got was that they are more interested in whether we were going to issue more stock or wanted to go private or some sort of special deal as opposed to them picking up shares on the open market." - IRO, Large-Cap Consumer Services Company

"Of the three countries on the trip, the investors in Japan knew the most about our company and our industry. Our impression was that we felt that a number of the investors in Korea and Taiwan were channel checking. They couldn't buy U.S. Companies – they were just getting information on our customers and on our business. We don't want to make these trips to meet investors who cannot buy our stock." – IRO, Mid-Cap Technology Company

Top QDII China based Investors

Data source: BD Corporate public filing data

Investor Name	Equity Assets (USD,mm)	City	Dominant Style
China Asset Management Corporation, LTD	22,245.99	Beijing	Aggressive Growth
Harvest Fund Management Company, LTD	15,325.85	Beijing	Growth
E Fund Management Company, LTD	14,859.25	Guangzhou	Growth
China Southern Fund Management Company, LTD	10,519.69	N/A	Growth
China International Fund Management Company, LTD	8,713.67	Shanghai	Aggressive Growth
Yinhua Fund Management Company, LTD	7,444.64	Beijing	Growth
Bank of Communications Schroder Fund Management Company, LTD	5,363.42	Shanghai	Growth
Fortune SGAM Fund Management Company, LTD	5,132.29	Shanghai	Growth
Guotai Asset Management Company, LTD	4,616.85	Beijing	Growth
ICBC Credit Suisse Asset Management Company, LTD	1,421.55	Beijing	Growth

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Measuring Success

Measuring success is a bit trickier for international roadshows due the lack in reporting of non-U.S. investors. In the U.S., issuers have the benefit of quarterly 13F filings to compare ownership pre- and post-roadshow. Many of our clients utilize Ipreo's International Identification team in order to gauge ownership, but other sources of measurement are available as well. Participants have been impressed with the level of feedback from the sell-side firms that host the trips, as well as the feedback received through Ipreo's perception studies. These firms can collect valuable feedback from your trip and report back to the issuer. Additionally, more anecdotal methods have been cited such as the number of incoming follow up calls and the level of sophistication of questions, in order to gauge meeting quality.

"Transparency of ownership is certainly a big problem in that data availability is much more limited than it is in the U.S. or even Europe for that matter. Although the institutions themselves will begrudgingly talk about whether or not they own us, they won't go into detail about how big or small that ownership position is." - IRO, Large-Cap Consumer Services Company

"One way to measure success is from the number of inbound calls that I am getting. I get a lot more foreign inbound calls now than I did in the past, as a result of international roadshows." – IRO, Mid-Cap Technology Company

"We find out if people buy, or if people increase their positions, if they ask any follow up questions. And then we get the feedback from the sell-siders, the roadshow people, the good, the bad, and the ugly. We ask for all of it. Whoever is taking us around gives us the background, and Ipreo gives us the background, so I don't feel like I'm behind the eight ball. I always feel informed " - IRO, Large-Cap Healthcare Company

Lessons Learned

Our clients offered some lessons that can be shared. Perhaps most importantly, it was mentioned more than once that IR professionals should go to Europe or Asia first, before bringing management. Getting a sense for a sell-side firm's reach and presence in the region, nailing down logistics, and vetting investors would top the list of priorities on this first trip. Regarding Asia, Tokyo might be a good place to start with a preliminary trip. Tokyo has a large amount of capital and long-term investors that are allowed to invest in U.S. equities. This brings up another takeaway, which is to make certain that the investors on the schedule have the ability to invest in your company. Particularly in mainland China, there are only a few firms that have government permission to invest in foreign companies. Additionally, survey participants stressed the importance of continuing to participate in international roadshows. These investors will take some more courting, but have the capital and low turnover to make repeat trips worthwhile.

"I think much more so than the domestic roadshows, who brings you out does make a difference. Over the last several years it would appear that the larger firms have pulled back from Europe or have had some turmoil and do not cover it as well as they use to. As a result, the relationships with some of the firms are not as good as they could be. It can also just be a hit or miss sometimes." – IRO, Large-Cap Technology Company

"It's really important to nail down the logistics. You're dealing with different languages and different time zones. You really have to take into account the travel times and what works in those localities for travel. You may say you want to take a little puddle jumper plane from here to there, but some of the sell side firms might say you're better off taking a high speed train from this country to that country. It just takes more time, more homework. It's not like going to an American city where you've probably been there before." - IRO, Large-Cap Healthcare Company

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"Make sure the investors that you are meeting on your trip are legally allowed to buy your stock." – IRO, Mid-Cap Technology Company

"Do it yourself first. Don't take the management team right away; have the IR team go first and feel it out. Then bring the management team on later trips." – IRO, Mid-Cap Technology Company

"I would say if you have never done a roadshow to Asia before and you wanted to dip your toe in the water, start with Tokyo due to the amount of money available, the likelihood of success, and the long-term orientation. But here's the caveat: Asian investors in general, and I think Japanese in particular, are very relationship-oriented. If you are going to take the time to do a roadshow then hopefully you are making a long-term commitment. If you are going to go there once and not do it again, you've wasted your time." - IRO, Large-Cap Consumer Services Company

For more information about this study contact:

Jason Oury
Director, Global Markets Intelligence
212.849.5431
jason.oury@ipreo.com