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INSIGHT

ISSUE01
APRIL 2021

Part of **Link Group** | Corporate Markets

Navigating corporate turbulence

Thoughts on big picture thematics and practical IR tips

An Orient Capital interview with Alex Bolis and Franco Bernabe of FB Group

In the first of Orient Capital's Insight interviews, we are pleased to bring you the insights of two renowned and key players in the Italian corporate markets space.

Please let us introduce you to Franco Bernabè and Alex Bolis who, with some significant experience behind them, now run the specialist management and shareholder services advisory business within FB Group.

Franco really needs no introduction, having made his name as an Italian manager and banker, who was for many years the CEO of ENI and Telecom Italia. As founder and chairman of the FB Group, he spearheaded the creation of Andala H3G, the restructuring of Netscalibur and Telit, the development of software services through Kelyan, and the reorganisation and floatation of NEXI, the Italian leader in payment services. Other past appointments include board positions at several Italian and International listed companies, as well as chair of Cellnex, the leading European mobile infrastructure company.

Alex developed his experience in finance, telecommunications and investor relations, initially as an investment banker and then as head of treasury and IR at Telecom Italia for over 10 years. He recently joined the FB Group to develop advisory services to listed companies across Europe.

In the first part of our interview, we explore with Franco, the theme of corporate preparedness in a shape shifting environment and what the impact on COVID-19 has meant for many listed companies. We hope you will agree, a fascinating read with some valuable insights shared.

Alison Owers, Global CEO for Orient Capital:

"We are really pleased to have been able to deliver the first of our OC Insights series, which touches on some very relevant topics which are ones we are seeing affecting many corporates across many countries. We do hope this resonates and that you will find the additional practical bite-size updates useful for your own IR programme."

Key investor questions are longer term and more corporate led purpose

Paolo Casamassima, Global Head of Market Intelligence for Orient Capital:

"Franco, thank you so much for spending some time with us. With so many aspects that we could cover, why don't we start with the elephant in the room. The last 12 months have been historic and dominated by the pandemic, how have you seen COVID-19 re-shaping company priorities?"

The pandemic fall-out has profoundly modified world economies and our ways of living. While vaccine availability is being delayed, and contagion is still spreading in many Countries, expectations for the global economy in 2021 still point to a reversal of last year's negative trends. Unquestionably the overall impact of the pandemic will stay with us for many years.

The number one priority for Companies is to rethink their overall organisation. They have already completely changed the balance between remote and on-site work, they now need to adopt these practices by simplifying management processes, cutting corporate travel and the requirement for multiple physical office locations. Businesses must readapt, strategies need to fit the new context, production processes must be normalised.

De-globalization is calling for reconsideration of the entire supply chain, balancing the pursuit of lower costs with certainty of supply. Many companies have already been short of critical components, while facing increased geo-political disorder. Onshoring appears high on many agendas, nowadays. Lean and just-in-time models based on pursuing maximum cost efficiencies are now being revisited, to reprioritise resilience. This new 'all hands on-deck' approach may leave some slack and redundancy on the table, but it will give motivation to many 'work-from-home' employees.

Companies need to continue to hire talent while retaining expert and experienced teams, to best pursue new opportunities, new markets and new products, responding to changing lifestyles and habits. Management today needs to be more inclusive, giving new inspiration while conveying to employees a sense of security in their company – a shelter from the storm.

"What is the corporate outlook in this new environment for 2021. What, in your opinion, do companies need to focus on?"

No business can afford to be left behind on innovation investment, R&D, work automation and digitisation. Processes that before COVID-19 could have taken 10 years, now need to be completed in 2-3 years. Many technological trends, such as cloud computing, online advertising and digital payments, are still in the early stages of adoption, and will bring further widespread benefits.

Some sectors have been particularly hard hit and will need a profound transformation. Others, which continue to have viable products and services, will have to accelerate investments. The best performing ones will have to run even faster than they do now.

Facing this scenario, companies need to ensure a wider-than-usual liquidity buffer. Many of them refinanced debt and enlarged their cash positions in the early days of the pandemic. This focus of de-risking through pre-financing must remain, as, once the huge Government supported COVID-19 lifelines begin to be withdrawn, corporate bad debt will start to increase, and insolvency procedures will be put under new tests.

"Based on the themes raised, would you suggest companies highlight to investors?"

Companies must show investors that the new paradigm is fully understood and managed. Impacts must be declared, defence of prior positions must be argued, the pursuit of new opportunities must be supported by robust analysis. Doing nothing is not an option, and nothing should be taken for granted. Investors expect management to demonstrate their experience, declare the challenges that are being met and announce the changes that are necessary. CEOs need to show they have a very clear strategy in mind, well beyond quarterly results.

In this new context, short term performance will attract less attention, while the key investor questions have a longer term, corporate purpose led focus. For example, 'Is this company still going to exist in its current or in a new form five years from now? Do I really understand its strategy? Is this company building enough free cash-flow in the medium-long term? Is the company proactively pursuing long-term value generation, or is it distracted from this by some contingent issue which should not be there? Is this company investing enough for the future? What is its environment and climate-change related agenda? What are the steps that it is taking to protect its workers, to ensure gender parity and to offer safer and better conditions for all employees?'.

Furthermore, many investors today are paying attention to the appropriateness and sustainability of the dividend policy. More and more often, investors are prepared to accept a dividend reduction, or even its temporary suspension, in exchange of an extraordinary investment plan, through which future free cash-flow generation will be maximised. Companies should not waste this opportunity to strengthen their capital structure and reinforce their medium/long term competitive position.

"Franco, given your vast experience and taking all of the above investor focus points into account, how do you see the role of the board evolving?"

Historically being a board member could for some be considered a part-time job, with perhaps limited involvement and responsibilities. These days, pressing and complex corporate requirements, ranging from those generated by the pandemic, to those needed to implement innovative technologies and to pursue ESG priorities, are generating an unprecedented call for high professional and human qualities in today's board members.

Companies need to ensure that their board is made up of the best talent available and supports a wide variety of age and experience, from financial to industrial, scientific to social, from consulting to legal. Gender composition needs to be balanced and over boarding needs to be avoided, in order to allow for full participation on all key activities of the company, including investor engagement.

Stewardship and accountability must be delivered through deep commitment and oversight of both strategic decisions and day-to-day operations. There is also a deeper need for independence, accompanied by an easy and continuous access to management, with whom dialogue needs to be constructive but firm, while all relevant decisions need to be well understood and shared.

More than ever, the board needs to carefully monitor business developments and appropriate risk-taking. An appropriate and comprehensive dashboard for risks, business progression and results must be in place for all directors and internal auditors.

"You mentioned ESG (Environmental, Social and Governance) which is a very hot topic. In your view, what is the state of ESG in the current ongoing pandemic context?"

Projections indicate that EU-27 greenhouse emissions by 2030 should be 45% lower than 1990 levels, which sets the context of the importance of ESG and Sustainability in today's world.

In the past, ESG has been presented in inverse-order priority versus its original sequence. It was 'governance' first and foremost. Evolution and improvement in the quality of the governance of listed companies has been significant over the last decade. Investors have been a great driver for this development and will continue keeping a strong focus and oversight on it.

At its outbreak last year, the pandemic initially triggered huge attention to the 'Social' factor, as safeguarding the health and wellbeing of employees, extending more flexibility in payments to customers and helping local communities seemed to take on an urgent focus and increased importance for the good standing, the reputation and even the survival of the company itself.

Since then, as companies have adapted to dealing with COVID-19 for the long term, the focus has been to reinstate E, S and G in their original order, pushing the 'environmental' momentum ahead of the other factors. Climate risk is today rightly perceived as a major economic issue. A deeper sensitivity on health and economic matters has emerged. The Paris Agreement and its net-zero GHG emissions target by 2050 entered in full force in 2016, and other climate-related frameworks were finalised over the past three years. We should consider the familiarisation period over. Investors now expect companies to have communicated their environmental targets and to

The familiarisation period is over. Investors expect ESG to be communicated.

update periodically on their progress, using the appropriate methodologies and reporting metrics.

The European Union has committed to become the first carbon-neutral continent by 2050 and has aligned its COVID-19 recovery package with that objective. Companies must now deliver facts. A 2020 UN Report shows that 338 environmental target-setting Companies (including
Enel, Mastercard and Tesco) have reduced their polluting emissions by 25% since 2015, a difference of 302 million tonnes of CO2 equivalent.

Without solid target-setting, measurement and disclosure standards on environmental impact, listed companies risk the adverse and high-profile negative voting impacts from major shareholders at their AGMs. Those who have done their homework, must meet their audience early to outline their corporate purpose as part of their wider governance (ESG) engagement. It will be necessary to take action in the short-term, to keep the Paris Agreement objectives within reach. The restarting of our economies requires them to actively adopt the path of a carbon-neutral, sustainable future.

In the second part of our interview, Alex gives his key ideas for proactive investor engagement and explores key requirements for the investor relations team to adopt in today's post pandemic environment.

"Alex, with the growing importance of investor engagement, how should companies be approaching it?"

Investor engagement is how institutional investors and money managers actively assess, as well as through meetings with executives and directors, the governance and the approach to sustainable business practices of the listed companies they invest in, and how they give feedback on their views and expectations.

This is an elaborate and personalised process, typically reserved for more relevant companies and for larger equity holdings, through which voting intentions in AGMs get formed along with other factors. According to the 2020 UK Stewardship Code, principle 9 states that "Signatories engage with issuers to maintain or enhance the value of assets." Examples of engagement include:

- meeting the chair or other board members
- holding meetings with management
- writing letters to a company to raise concerns
- raising key issues through a company's adviser

Engagement has been gaining further relevance with the implementation of the Second Shareholder Rights Directive in the EU (SRD II), which sets specific obligations for the exchange of information between listed companies and their shareholders. On the website of all major institutional investors and asset managers, you can find ample disclosure on their engagement and related voting activities, along with a list of their expectations on ESG, strategy and compensation aspects to be discussed in meetings with companies they invest in.

To mention one example, BlackRock in the 2020 season voted in 16,200 shareholder meetings, after engaging with 2,020 companies, up by 39% versus previous year (1,458). Showing the deep degree of scrutiny dedicated to the voting process, 37% of voted meetings included votes against one or more of management recommendations. Interestingly, last season BlackRock discussed in more than 400 of its engagements the impact of COVID-19. The stance it took was a very constructive one, supporting companies on proposals outside their normal governance policies, such as virtual shareholder meetings, poison pills, dividend cuts, off-cycle revision of executive pay and authorisation for additional financing without shareholder approval.

Whilst in another example, Vanguard, which voted in 18,476 shareholder meetings during the last season, State Street, which voted in 10,298 meetings, also have active engagement policies and corporate access departments.

Ultimately constructive and regular engagement opens up high value add opportunities for listed companies to exchange views with well-informed shareholders on ESG, corporate strategy and capital allocation, human capital management and compensation policies, in order to be aligned with evolving best practice, and to maximise the long-term value of their shares. It should be embraced within every listed company and is at the heart of a successful IR programme.

"Given everything that has occurred in the last 12 months and before, how do you see the IR function within a company developing and what do you think companies should focus on?"

The pandemic has generated a deep upheaval in the operations and the capital allocation priorities of companies. Short-term results have been impacted, and even more so, long-term targets and the way they are internally set and externally communicated. Some key pointers that IR teams should be taking into consideration are:

- **Proactive communication is a must**

It is not practicable to wait for the annual "Investor day" to update the financial markets on how the company is meeting new challenges, or how its strategic thinking is evolving

Therefore, every quarter, on top of communicating results, management now needs to show the impacts of the pandemic and how the company is dealing with them. Investors need to know how existing business is being adapted and how new opportunities are being pursued.

This makes it even more necessary for the Investor Relations function within a company make good use of their time. They have to acquire full-title access to C-level management and to the board, as only then will they be able to keep track of his company's story and take part in developing it and helping to communicate it to the market. If they don't already, it is imperative that the Head of IR / IR Director sit on the executive committee, in order to kept aware of the fundamental strategic decision-making processes within their company.

- **Integration of corporate comms is vital**

Investors and regulators, employees and customers, communities and the wider society: all need to have access to the same story. On one side, reporting needs to include all aspects of ESG. On the other side, company websites, media and stakeholder microsites need to be all deeply aligned. IR can play a vital role in helping to shape key company messages, to ensure the views of the CEO and of the board are well expressed in them, and will not be misinterpreted by investors or the market.

- **Make yourself accessible**

A new, proactive approach is needed also towards shareholders to deal with the MIFID-2 related analyst erosion, IR departments have already stepped-up closer and direct investor access. During the pandemic, this switched to virtual communication, which should become an ally, as now that everyone has got used to it, longer term it could make accessibility to C-level management easier and open up greater investor engagement, especially whilst travel is not practical.

- **Update your website**

Your IR website needs to be upgraded to be cutting edge. The quality and format of the uploaded material is now more important than ever, as in-person meetings are off the table. In addition to easily accessible historical reporting and comprehensive information on the company, new options include video clips on business premises, operational aspects and strategy, accompanied by recent interviews with top management, offering an on-going "Investor Day" experience.

If they don't already, the IR Director should sit on the ExCo

While new priorities are set for IR, inside and outside of his company, there is also the need for a better understanding of risk management and ESG, as these two areas become core areas of interest for investors.

Overall, I would say that for IROs, the working day is getting longer and if anything, perhaps their teams need to expand to ensure the team can be effective and deal with the growing demands of the role.

Paolo Casamassima, Global Head of Market Intelligence for Orient Capital:

"As you can see from the topics covered by Franco and Alex in our first OC Insight, COVID-19 appears to have been a real catalyst for improved ESG reporting and IR communication.

We see the tangible link between human capital and social capital; environmental issues and financial materiality as the real driver of investor focus, that in turn increases the pressure on companies for better disclosure.

This ever evolving subject will become more and more prominent in the months to come and lead to strong changes in the way IROs and Management improve their IR practices."

Who are Orient Capital?

High quality share ownership analytics, market intelligence and investor communications give you the confidence to engage. That's what the OC Standard from Orient Capital is all about. Supporting over 1,600 issuers, we are the largest analyser of share registers globally and the dominant provider of equity ownership analytics to listed companies in multiple markets.

Our focus is to provide clients with a suite of products and services that enable them to maximise the opportunity of public ownership, and to reap the benefits of good investor relations. We identify and track our clients' shareholders, as well as their behaviour, using either local ownership disclosure provisions or our own proprietary methodologies, which include leveraging our extensive global relationships with custodians and investors.

D.F. King Ltd is our specialist team that is internationally renowned for securing shareholder support in corporate actions. They specialise in designing, organising and executing campaigns for AGM, EGMs, takeovers, proxy defence, shareholder activism and corporate governance advisory.

They support over 350 projects a year to help clients engage with their key investors, manage contested situations, activist defence and debt restructuring. Making D.F. King the company of choice across EMEA and beyond.

Together we work on sophisticated analytical and shareholder support campaigns, providing our clients with combined solutions that consistently deliver successful results.

Both Orient Capital and D.F. King Ltd are members of ASX-listed Link Group, a leading global administrator of financial ownership data within the pension fund industry and across corporate markets. Our corporate markets capabilities include register, employee share plans, investor relations and stakeholder management. We operate from offices in 18 countries throughout Europe, Africa, the Middle East and Asia Pacific.

We are passionate about setting and being **'The Standard'** in our fields of expertise.

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