QUOTED COMPANIES ALLIANCE

HARDMAN & CO.

Research Report

Quoted Companies Discover the Power of Retail Investors

Contents

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James Ashton
Chief Executive, QCA

As you will see from this report, there has been a pronounced shift in attitudes towards how companies view retail investors

Introduction

Retail investors played a vital part in the UK's public markets long before the "Tell Sid" era of 1980s privatisations. But their influence waned as international money flocked to London equities post-Big Bang.

When I was reporting for the Daily Mail, I remember the heavy postbag after mobile operator O2 was taken over by Telefonica of Spain. Numerous legacy BT shareholders were frustrated by the process and wrote in for advice. It was a valuable lesson for me that good communications pays dividends – whether between a newspaper and its readership or a company and its owners.

Retail investors haven't always been embraced as well as they might by the companies into which they put their money, but times are changing. Helped by self-investment retirement schemes and easy-to-use internet platforms, share ownership among the retail investor community is rising and businesses cannot fail to take notice.

It is gratifying that these investors, which made up 37% of AIM ownership in 2020, are being reappraised as an important contributor to the capital raising process. They too can help companies to obtain finance, grow and spread wealth across society.

In particular, one of the reasons they are a vital part of the market ecosystem is because they follow a different time horizon to many funds, providing much needed liquidity for small and mid-cap companies whose shares may well be held by a small group of institutional investors who seldom trade.

As you will see from this report, produced in conjunction with Hardman & Co, there has been a pronounced shift in attitudes towards how companies view retail investors. The report gathers evidence of the growing number of events, as well as other forms of engagement, that companies are putting on to increase their visibility among this group.

As a rare positive to emerge from the Covid-19 pandemic, levels of engagement increased exponentially between 2019 and 2021. Video conferencing has become a fact of life, and connecting with the smallest retail investor is no harder than communicating with the largest pension fund. That trend continues, with record numbers of engagements during the first half of 2022.

Even better news is the unique analysis contained here that suggests greater retail engagement drives liquidity, which has become a precious commodity following the Woodford collapse – particularly for smaller stocks. The report is not only compelling in terms of its findings, but also provides useful information on how companies can improve their engagement.

I'd like to extend my thanks to Keith Hiscock and Yingheng Chen in producing this report with us.

James Ashton
Chief Executive, QCA

Key Findings

- The new focus on retail is reinforced by the HM Treasury-commissioned Austin report, governance codes and the QCA/Peel Hunt surveys.
- This is the first work analysing the data for events to which retail investors were invited, i.e. results presentations, capital markets days (CMDs) and other presentations.
- The number of retail investor events has more than doubled since before the pandemic. 42.1% of London Stock Exchange (LSE) quoted companies held at least one event over the period 2019-22.
- These events have become particularly common among smaller companies with market capitalisations between £25m and £500m.
- Companies that held such events in 2021, but did not in 2019, saw twice the improvement in liquidity in their shares compared with those that held no such events in both 2019 and 2021.
- These events themselves are only part of the solution to retail investor engagement. Post-event distribution is more important than the live audience, and management will most likely not understand the key issues facing investors. Other channels need to be used to complement events.

Introduction from Hardman & Co.

Retail investors used to be the second-class citizens of the stock market. The bulk of their money was held in funds or pension schemes where a professional took all the decisions and where they owned only a tiny part of the equity market directly. They also tended to ask annoying questions at AGMs! Many managements were encouraged to all but ignore them by advisors.

Today, we live in a world where that previously held view looks increasingly outdated. There are three primary reasons for this:

- Private investors have taken more control over their own money; for example, by replacing pension investments run by a manager with Self Invested Pension Plans.
- Compared with fund managers, these investors care much less about liquidity in shares, and their involvement can be an important factor in improving liquidity. In turn, this enables fund managers to invest, since they have been subject to greater liquidity scrutiny since the Woodford meltdown.
- There is a growing sense that these investors have been treated unfairly and that engaging with all shareholders fairly is just good governance, and should be part of the corporate ESG policy.

Thus, many companies now take the view that engaging with these investors is beneficial.

The purpose of this note

The reader would be hard-pushed to find someone in investor communications who thinks that there has not been a shift in attitudes towards retail investors, recognising that they play a greater role in the market than they have previously been given credit for.

This increasing engagement with retail has taken many forms. For this paper, we will focus on just one aspect: the growth of retail investor 'events' – because this is an aspect that can be measured from public sources. We will briefly touch on other methods of engagement, such as new media and sponsored research, later in this paper.

This paper considers whether the widely held view that investor events have become more common is supported by the evidence, whether the number of events has grown through the pandemic, how the take-up varies by sector and market capitalisation size and, finally, what the impact on liquidity has been.

As far as we are aware, our work is unique because no one else has constructed any data on this subject. While others may have discussed how this field has developed, they are essentially 'talking blind' without data.

The reason for the lack of data is probably that collecting it is extremely difficult. Essentially, this is a time-consuming, manual exercise; there is no central database, and no way to search sources digitally. Hardman & Co has carried out an exercise collating the data from eight leading providers and sources. For more detail, refer to the Methodology section.

1

1: The growing role of retail

Hardman & Co has been at the forefront of understanding the changing influence of the retail investor. Our think pieces have considered:

- The rise in the ownership of the market by retail from historical lows[1]. For example, in an earlier paper analysing the Office for National Statistics' share ownership survey, we noted that 37% of AIM was owned by individuals[2].
- How retail investors are even more important contributors to liquidity – for example, 82% of AIM stocks have an average trade size of less than £10,000[3].

Government-commissioned report recommends greater retail investor engagement

The growing focus on the retail investor can be gauged by the report from the UK Secondary Capital Raising Review commissioned by HM Treasury, published in July 2022 and chaired by the leading corporate lawyer, Mark Austin[4]. Indeed, chapter 6 of the report is entitled *Involve retail investors in all capital raisings*.

Austin recommends that "It is also important that retail investors are involved as fully as possible in all types of secondary fundraisings, including placings"[5]. Furthermore, he suggests that "the default assumption should be that they will be included" and that "companies should then have to report to the market on what approach they took to retail investors and how their interests were looked after".

Although Austin's review focuses on secondary fund raisings, he also proposes that "while on the topic of retail investors, their inclusion in IPOs should also be encouraged through the FCA shortening the six-day period for which an IPO prospectus must currently be made available to retail investors – and reducing this to three days (Recommendation 7)".

He also considers why we should bother about retail. He provides two principal reasons: to get access to an additional pool of capital; and to ensure equality of treatment – reflecting comments earlier in this paper.

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1 **Hardman & Co note:** Latest ONS survey: steady as she goes… and ignore retail investors at your peril on *ONS survey of share ownership* published 09/05/2022
2 Hardman & Co Share ownership: for the many, not the few bit.ly/3trTrKD published 04/02/2020
3 Hardman & Co note: Latest ONS survey: steady as she goes… and ignore retail investors at your peril on ONS survey of share ownership bit.ly/3TBt0x1 published 09/05/2022; pages 7 and 8
4 https://www.gov.uk/government/publications/uk-secondary-capital-raising-review
5 UK Secondary Capital Raising Review, page 7

Fundamentally, he recommends that "The aim of reform should be to ensure that, as far as possible, all shareholders, including both institutional and retail investors, should be treated equally"[6].

Codes of corporate governance encourage retail engagement

Talk of treating all shareholders equally is reflected in the UK's two predominant codes, the UK Corporate Governance Code[7] and the QCA Corporate Governance Code, one of which must be adopted by companies quoted on the LSE.

In the QCA code, it is highlighted that "The board must ensure that the company has effective lines of communication with all shareholders, engaging in positive dialogue with both institutional and individual shareholders"[8].

Investors and companies increasingly appreciating retail, according to survey

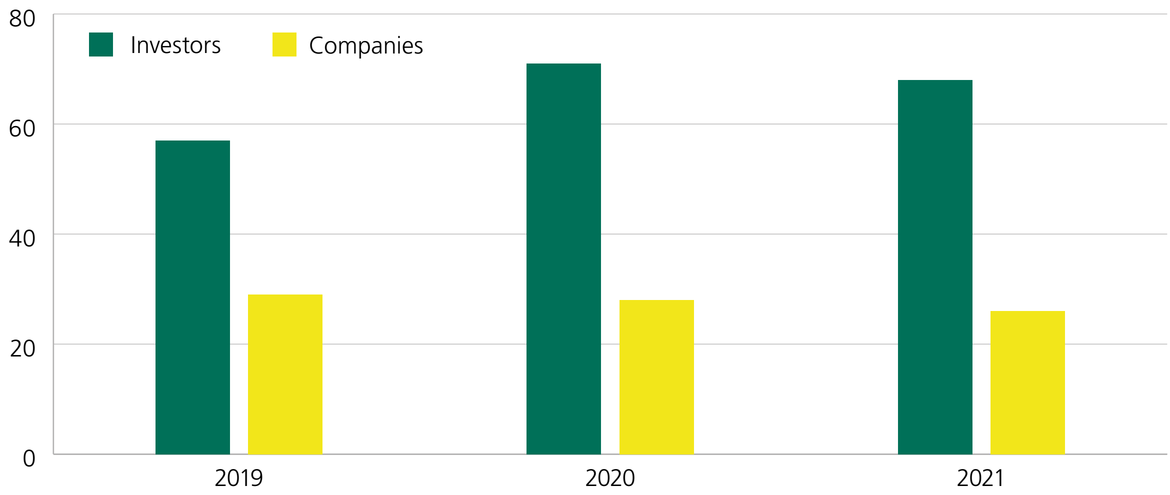
For some years now, the QCA and Peel Hunt have jointly commissioned a survey conducted by YouGov looking at corporate and investors' attitudes to UK equity markets[9].

There are two questions that are relevant to this report:

- Professional investors are asked how companies might increase their visibility with investors.
- Companies are questioned about what steps they have taken to raise their profile with investors.

The results returned are shown in the chart below.

Opinions on holding a capital markets day, 2019-21



Source: QCA/Peel Hunt Mid and Small-Cap Survey 2022, Hardman & Co

Of all the options offered to improve visibility, CMDs had the highest score among investors (only professional investors were surveyed – imagine what the response from retail would be!). Indeed, they have become keener over the years (56% score in 2019, 68% in 2021). Yet companies' opinions seem rather different; in 2019, 29% ticked this box, and the percentage had hardly moved by 2021, standing at 26%. This might seem at odds with the data presented later in this report. The QCA/Peel Hunt survey records opinions from small and mid-cap companies and professional investors focused on this size universe. This paper reports data about what actually happened for the UK market as a whole.

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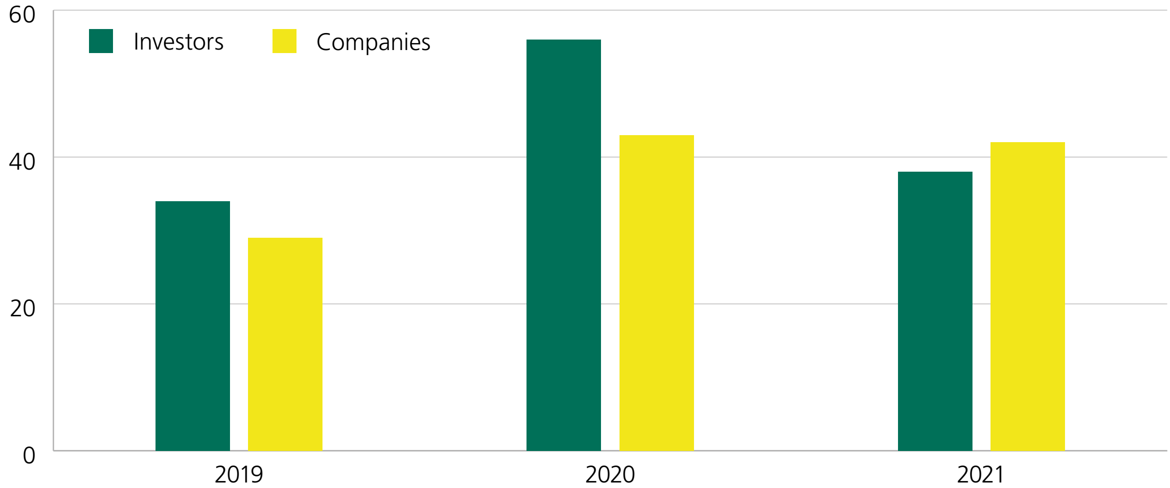
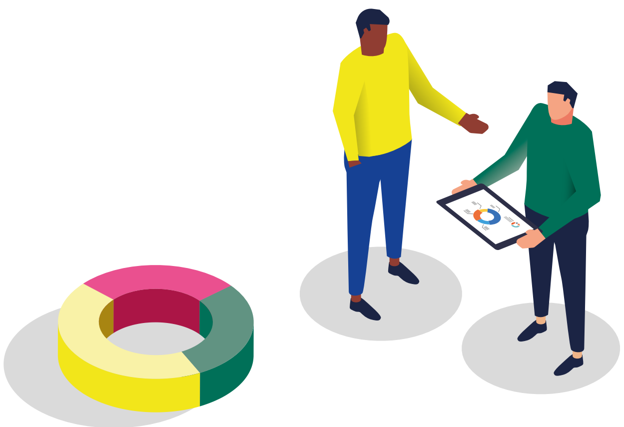
6 UK Secondary Capital Raising Review, page 60
7 Maintained by the Financial Reporting Council and last updated in July 2018; bit.ly/3TyLD4E
8 QCA Code, section 2 "information and engagement with shareholders and other key stakeholders"
9 QCA/Peel Hunt Mid & Small-Cap Investor Survey 2021 bit.ly/3tu4KCf

However, if we look at opinions on increasing retail investor engagement, companies have become more positive. In 2019, only 29% of companies chose this as one way in which they were improving their visibility; last year, it was 42%, and a higher percentage of companies than investors (admittedly, only professional investors were surveyed) ticked this box.

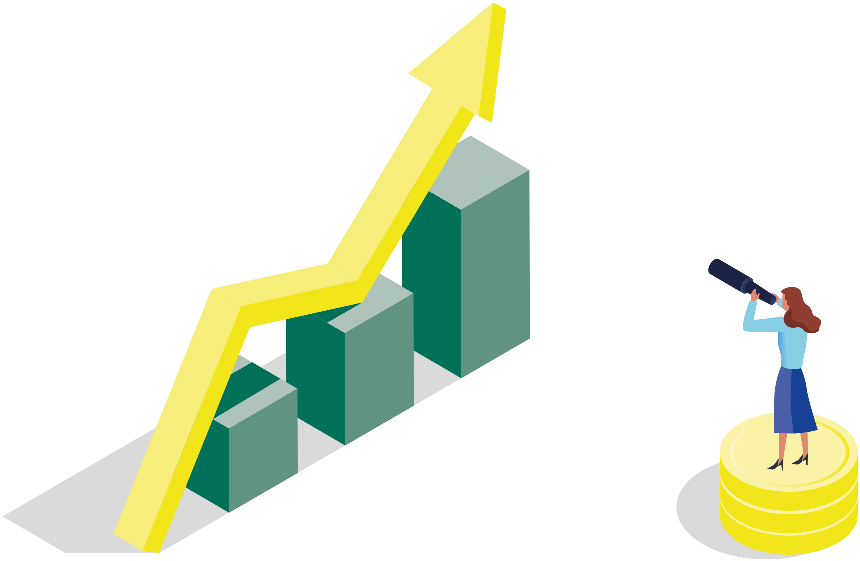
Increased retail investor engagement, 2019-21



Source: QCA/Peel Hunt Mid and Small-Cap Survey 2022, Hardman & Co



QCA/Peel Hunt survey explores attitudes to investor engagement and it finds investors' growing desire for CMDs while companies have become keener on retail investor engagement



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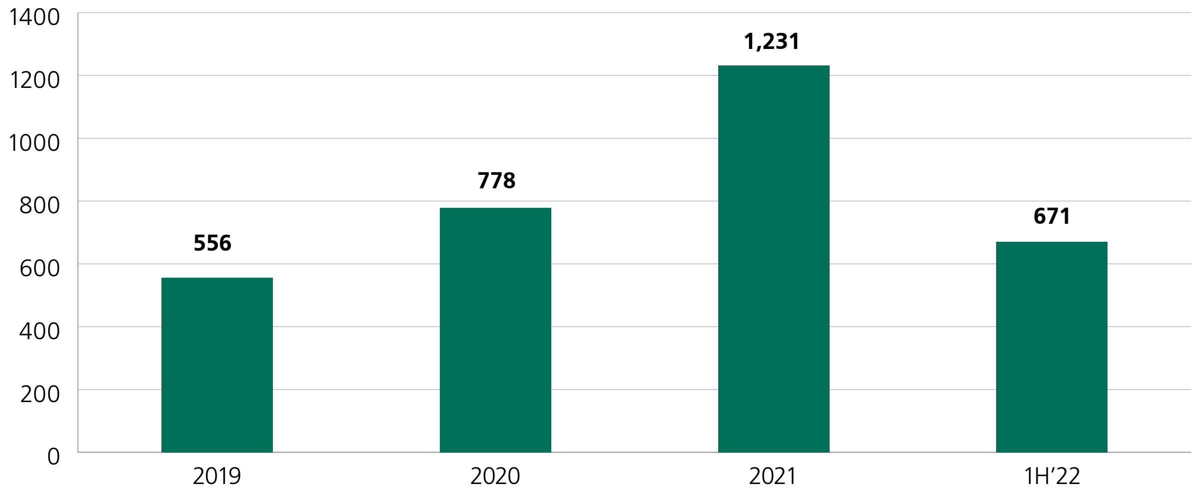
2: How common have investor 'events' become?

The world changed a lot during the pandemic, and that included retail investor engagement. Physical meetings stopped, and most companies and investors had a crash course in using Zoom and Teams. So, the time was ripe for time-effective investor engagement. One slot on the traditional results roadshow could be set aside to cover those investors who did not qualify for their dedicated meeting with management.

An overview

Number of investor engagement events, 2019-1H'22



Source: Refinitiv, various websites, Hardman & Co

The chart above shows the number of investor engagement events to which retail investors were invited over the period 2019 to 1H'22. These were, typically, CMDs and results presentations, and the bulk were virtual. The data include virtual AGMs conducted through one of these platforms, but not physical AGMs. Since June 2020, 59 AGM-related events/presentations have been accounted for in our data. The data are for all LSE-quoted companies.

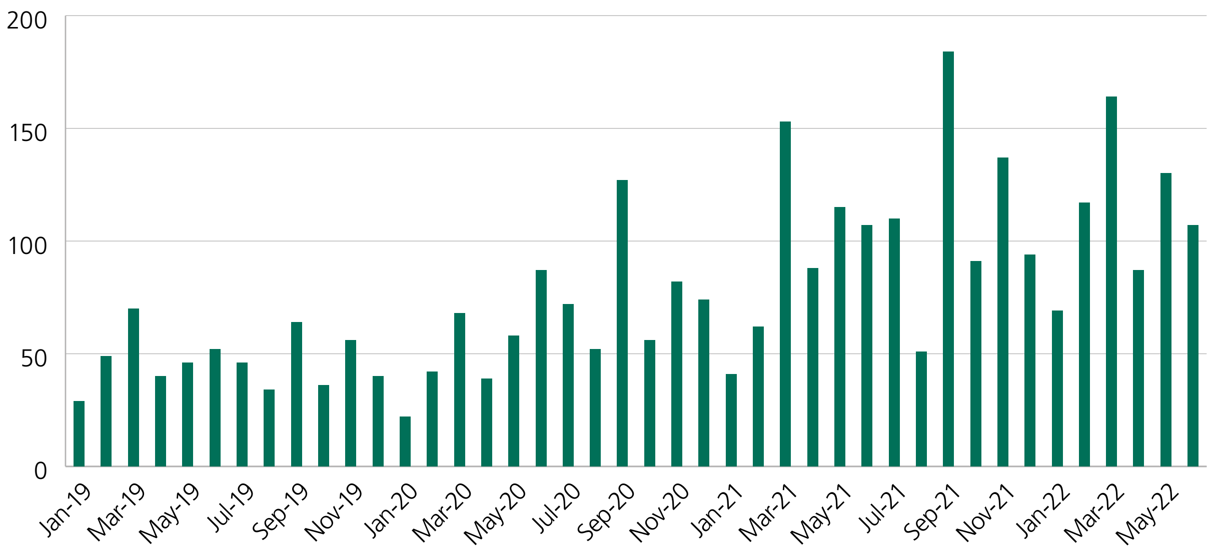
This paper focuses on single company events. The data do not include events at which more than one company presents. These may be virtual or physical and are, typically, targeted at retail. A great example is Mello, which holds large physical events that enable retail investors to meet many companies in one day, and regular evening virtual events to engage with the same audience.

In calendar 2019, before the pandemic, there were 556 of these events. In calendar 2021, there were 1,231 such meetings – representing growth of 121%.

There is a concentration of these meetings in certain months, but, essentially, no seasonality between half years. Thus, it is reasonable to double the figure for the first half of 2022 to give a full-year forecast of 1,342, which would represent further growth of 9% on 2021. So, there has been substantial growth.

To confirm the seasonality of these events, the data in the next chart are illustrated by month.

Number of investor engagement events by month, Jan'19-Jun'22



Source: Refinitiv, various websites, Hardman & Co

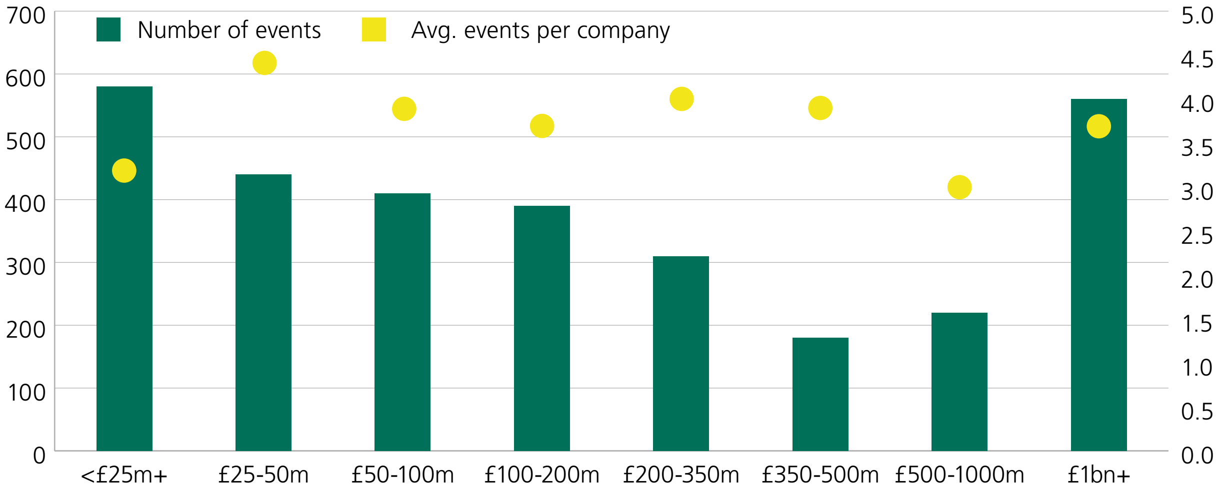
In total, over the 3.5 years, 839 companies held one or more events. Using the number of LSE-quoted companies as at 30 June 2022 (1,994), 42.1% of companies have held at least one event during these three and a half years. Thus, the data do tell us that these events have become far more common.

42.1% of companies held at least one event during 2019-22

Investor engagement events by market capitalisation

The next question to ask is how this engagement varies by market cap.

Number of investor engagement events by market cap, 2019-22



Source: Refinitiv, various websites, Hardman & Co

The bars show the total number of events over the 3.5 years for each market cap band, whereas the dots show the average number of events over the period for those companies that had at least one event. Readers should note that, in the interests of speed, the market cap band in which a company is counted is determined by its market cap on 30 June 2022. Obviously, many companies will have moved between these bands over time – so the representation of the results should be viewed as an approximation. One may wonder why companies with market caps between £500m and £1bn have substantially fewer events than larger or smaller companies.

Number of investor engagement events by market cap, 2019-22

Mkt. cap band	No. of companies	No. of companies with events	% of companies with events	No. of events	Average events per company
<£25m	521	186	35.7%	578	3.11
£25-50m	181	98	54.1%	438	4.47
£50-100m	22	105	47.3%	410	3.90
£100-200m	236	104	44.1%	392	3.77
£200-350m	175	77	44.0%	307	3.99
£350-500m	92	45	48.9%	174	3.87
£500-1000m	195	73	37.4%	220	3.01
£1bn+	372	151	40.6%	555	3.68
Total	**1,994**	**839**	**42.1%**	**3,074**	**3.66**

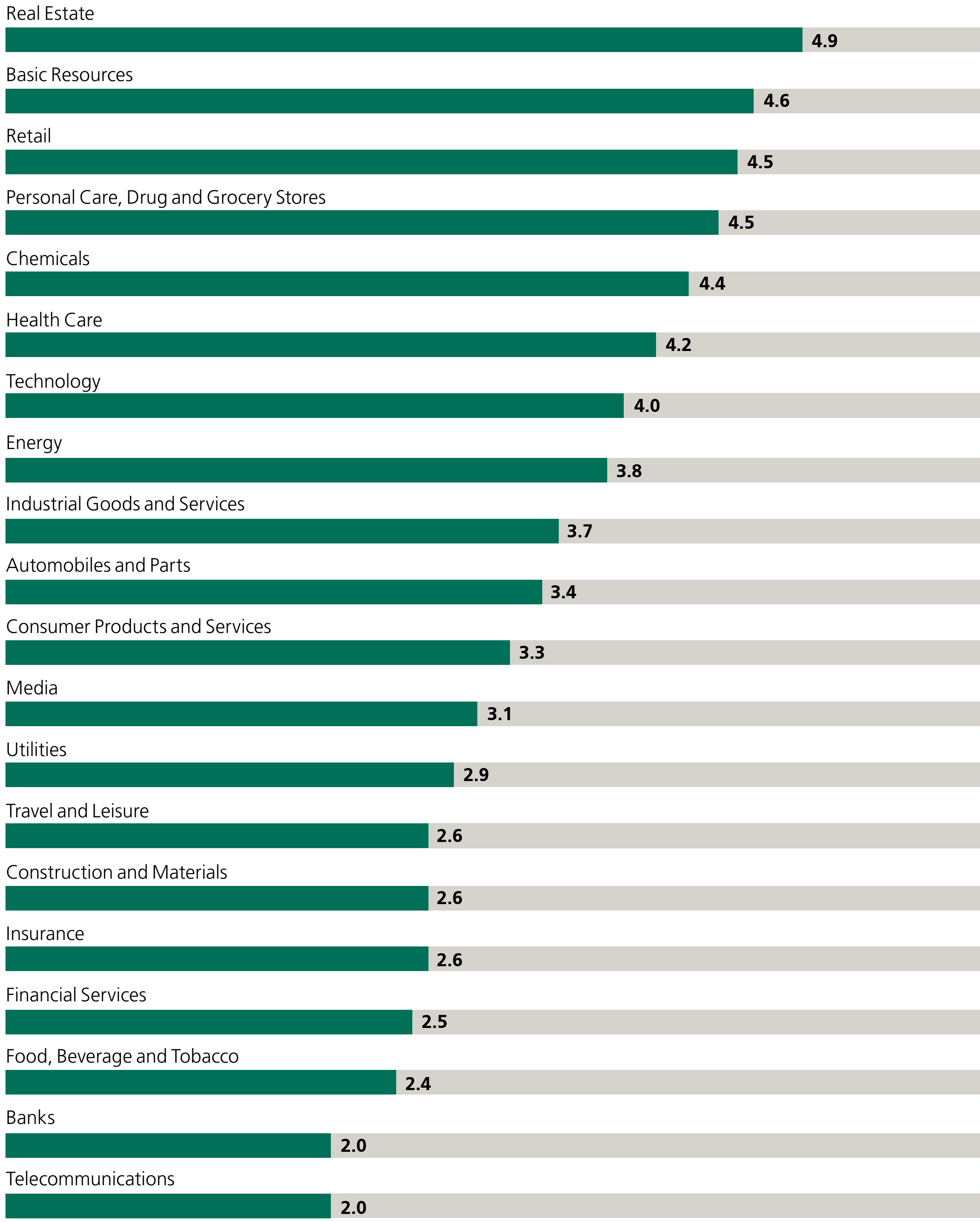
The table above details the data from the chart. It also tells us the percentage of all quoted companies in each size band that held an event. What we find is that nearly half of all companies with market caps below £500m held at least one event in the period; the exception is those with market caps smaller than £25m, for many of which the quotation is a technicality, and they have little or no interest in 'external' investors.

Looking in aggregate at the 906 companies with market caps between £25m and £500m, 429 (47.4%) held at least one event. Thus, nearly half of these companies set out to engage with retail investors by organising an event.

Investor engagement events by sector

The chart below amalgamates all the years, and considers the variation between sectors. There are massive differences between sectors, but we find them difficult to explain. Maybe sectors act as a herd – once a few companies decide to have events, others follow.

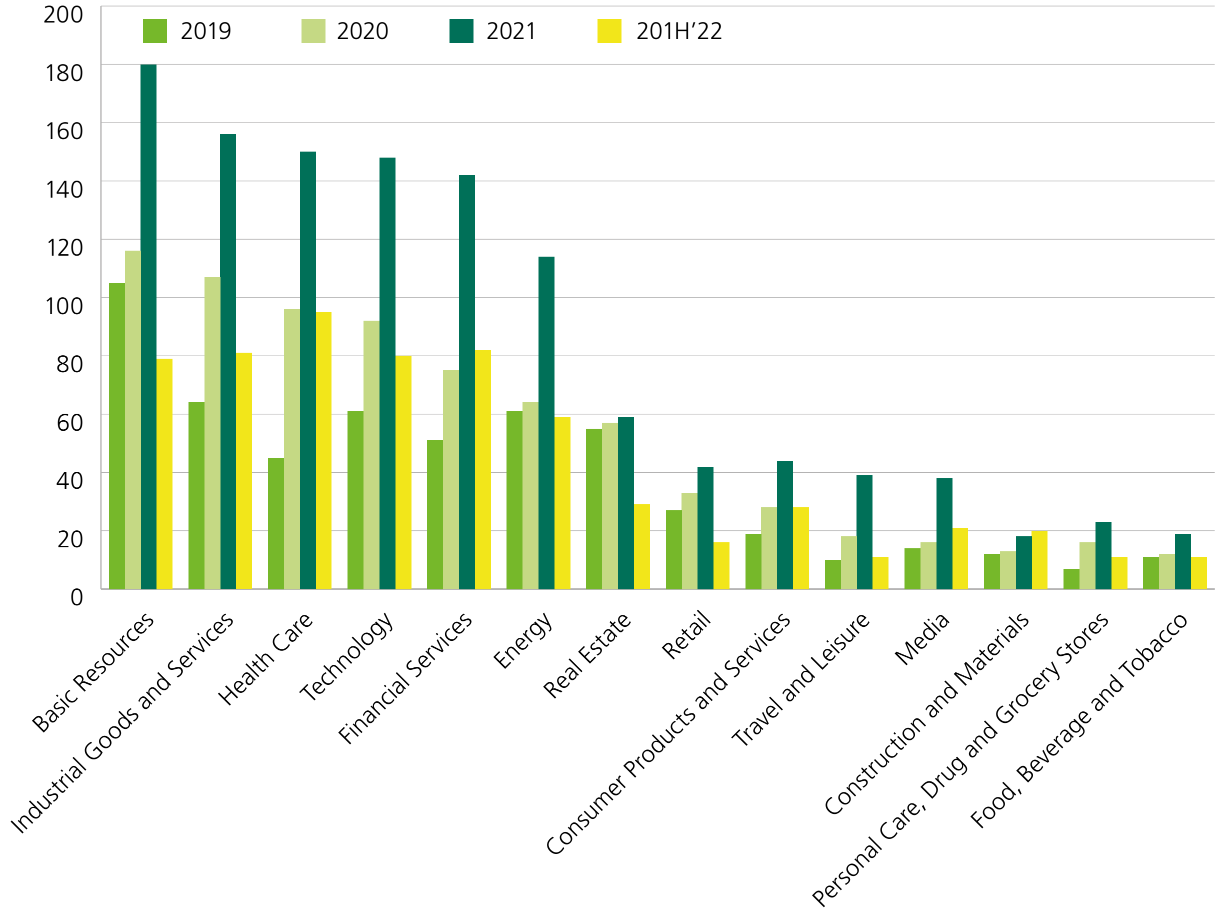
Average number of events by sector, 2019-22



Source: Refinitiv, various websites, Hardman & Co

Although it may be difficult to explain why the adoption varies so much by sector, the second chart shows that every sector has seen a growth in these events over the periods of our analysis.

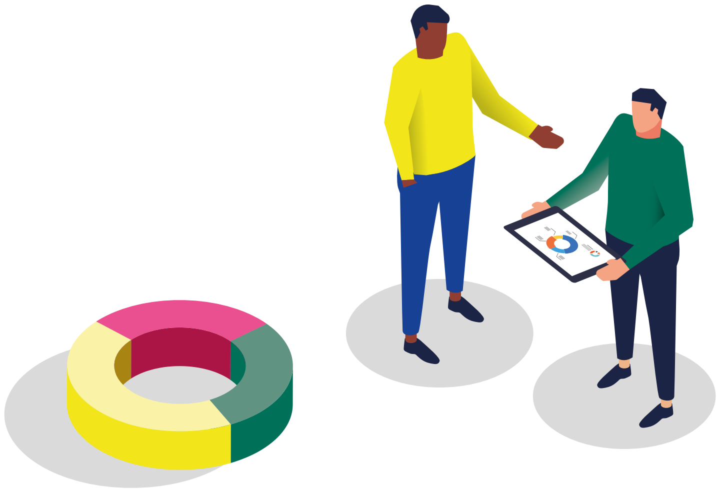
Number of events by sector and by year, 2019-1H'22



Source: Refinitiv, various websites, Hardman & Co

Nearly half of companies with market caps of between £25m and £500m held at least one event

3



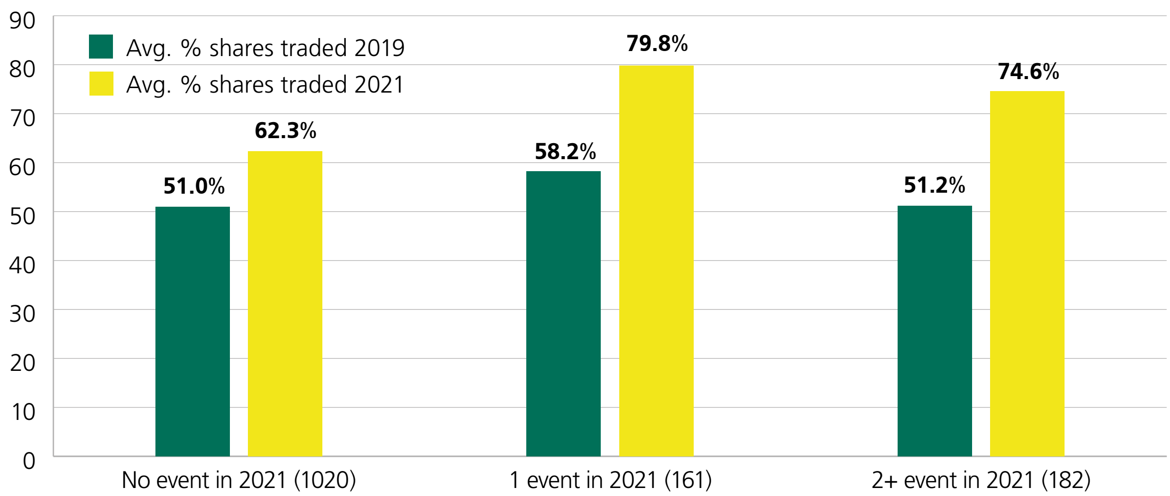
3: What has the impact on liquidity been?

Wonderful though retail investor events might be for ticking boxes on the ESG agenda, the key question should be whether they make any difference to liquidity – a growing concern for professional investors post-Woodford, and one that is often shared by company management.

To answer this question, we have narrowed down the data to those companies that held no events in 2019 and were still quoted in 2021. Let us be clear, the fact that two variables move together does not prove causation, let alone the direction of causation.

In all the following charts, we have calculated the percentage of shares traded by comparing the number of shares traded in each calendar year with the average number of shares in issue in each respective year.

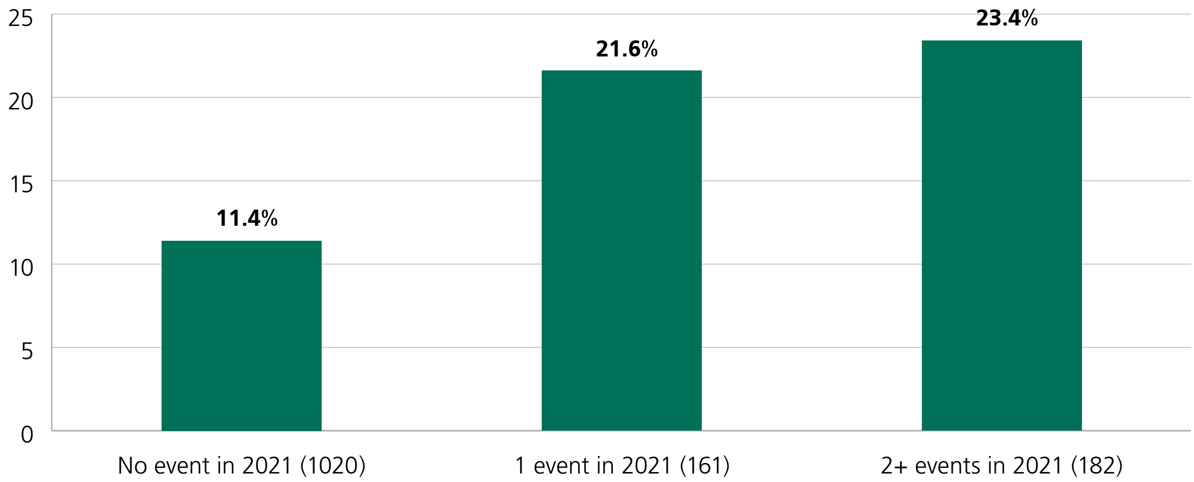
Impact of 2021 events on liquidity for companies with no 2019 event



Source: Refinitiv, various websites, Hardman & Co

Note: The number in brackets at the bottom of the bars represents the number of companies in that basket.

Change in liquidity for companies with no 2019 event



Source: Refinitiv, various websites, Hardman & Co

This set of companies, as a whole, saw an improvement in liquidity between 2019 and 2021. However, those that had no events in 2021 (the vast majority of the group), as well as in 2019 (effectively the 'control group'), saw a mere 11.4% growth in the percentage of shares traded[10] between the two years. In contrast, those that had one event saw liquidity up 21.6%, while those with more events grew liquidity by 23.4%.

Change in liquidity for companies holding no events in 2019

	No of companies	% of companies	Change in % traded
No events in 2021	1,020	74.8%	11.4%
1 event in 2021	161	11.8%	21.6%
2+ events in 2021	182	13.4%	23.4%
Total	**1,363**	**100.0%**	

Source: Refinitiv, various websites, Hardman & Co

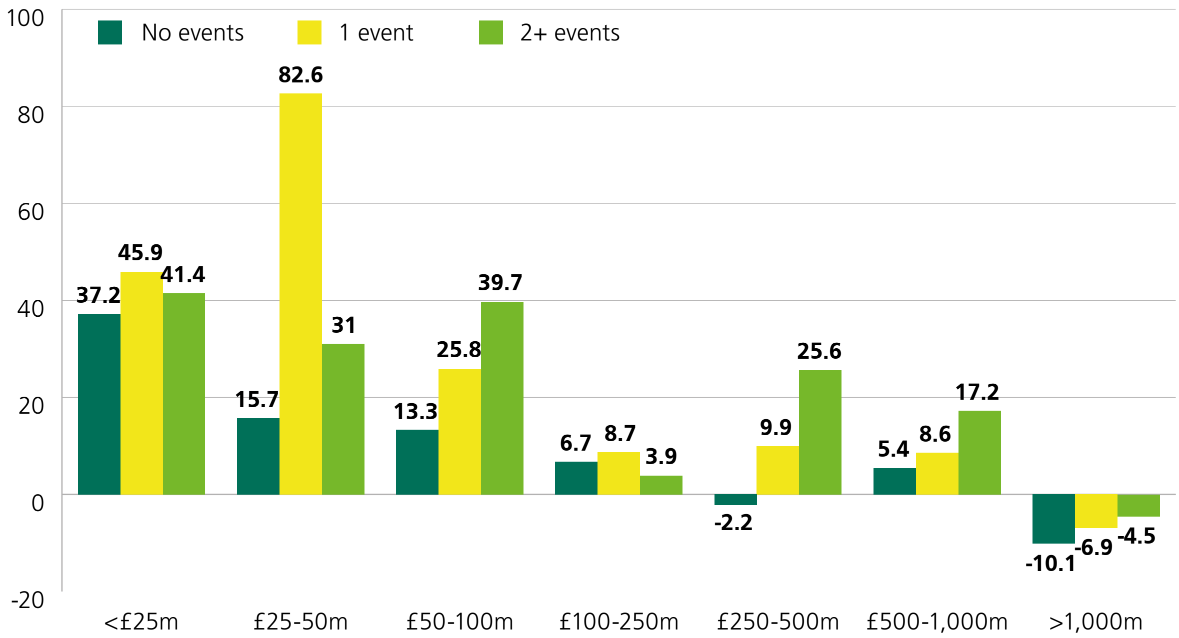
Thus, the answer to the question of whether engaging with retail improves liquidity is emphatically 'yes'.

In the table and chart below, the market cap band in which a company is included is determined by the market cap on 31 December 2021.

The answer to the question of whether engaging with retail improves liquidity is emphatically 'yes'.

[10] See Methodology section for detail of these calculations

Impact of events on liquidity by market cap



Source: Refinitiv, various websites, Hardman & Co

We list below how many companies are included in each bar above. It might be argued that the sample size of some bars is small enough that one should be wary of drawing too many conclusions.

No. of companies by market cap band

Mkt. cap	<25m	£25-£50m	£50-£100m	£100-£250m	£250-£500m	£500m-£1bn	>£1bn	Total
No event	258	85	98	157	108	111	203	**1,020**
1event	27	20	17	24	17	10	46	**161**
2+events	41	30	22	43	20	9	17	**182**
Total	**326**	**135**	**137**	**224**	**145**	**130**	**266**	**1,363**

Source: Refinitiv, various websites, Hardman & Co

The overriding message is that engagement with retail improves liquidity, particularly for sub-£1bn market caps. This has hugely positive implications for the market and its stakeholders. For investors, increased liquidity lowers the costs of trading, improves the ease of moving in and out of assets, lowers price volatility, decreases risk and improves price formation. For companies, improved liquidity reduces the cost of raising capital, helping them to meet their financial obligations more easily, and potentially reach better performance levels.

4

4: The limitations of retail investor events

While we believe that there is real merit in inviting retail investors to events, there are some considerations to be borne in mind:

- It may seem counter-intuitive, but the CEO/CFO is often not the best person to tell the company's investment story, despite what some parties suggest. The CEO/CFO may know the history of the business well, but usually has less experience of understanding which elements of the company's story will attract which sort of investors, because they do not talk to investors day-in, day-out.
- The management may be seen as rather biased, or economical with the truth, particularly if members of the management team are themselves large shareholders or have big options packages that vest at a higher share price.
- Focusing on the number of investors on the live call increasingly misses the point. The evidence is that live audiences are declining across the board, as, post-pandemic, there are more demands on time. Today, investors are more likely to watch a recording, rather than the live event. This mirrors the way in which we now consume television content. In Hardman & Co's case, they have multiplied the live impact more than ten-fold through clever use of post-event distribution. This distribution should be a critical factor in the choice of provider for these events. Their note, Research distribution and investor engagement: reaching 'Generation Netflix' and the retail investor, provides more detail[11].
- As well as engaging with existing investors, these events should be a chance to showcase the company to potential, new investors. Reaching those investors requires carefully targeted distribution, and it is unclear whether many of the current providers can meet this criterion.

It is a mistake to assume the management knows best how to tell its story

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[11] Hardman & Co: Research distribution and investor engagement: reaching 'Generation Netflix' and the retail investor, 15/10/2021 Read here: bit.ly/3Ev3O6Q

5

5: Other ways in which to engage retail investors

- **Websites.** The use of websites and the internet by investors seems to have lagged their use elsewhere. However, Hardman & Co's experience is that traffic has grown dramatically in the last few years. Companies need high-quality content for their sites, which brings us neatly to sponsored research.
- **Sponsored research.** This is research about a company or fund, which is paid for by that issuer. Professional investors can consume it without breaching the MiFID II rules (covered by clause 12.3), and, as long as it meets certain criteria, it can be made available to retail investors without conducting a 'know your client' exercise.

  Good, sponsored research not only has credibility, but is seen to be independent of the management. Furthermore, if seasoned professionals are used, they will discern better than the management to whom the stock will appeal, and can address the questions these investors are most likely to ask.

  Hardman & Co is the longest-established sponsored research house in London. It employs a large team of analysts, who, on average, have 25 years' experience in their sector. It is known for its deep-dive product, which is complemented by class-leading distribution. Every sort of investor is reached, from the world's largest investors through to retail, via multiple distribution channels.
- **IR houses.** These can provide a range of services that will help engagement, from working on media coverage to organising roadshows. Some even organise virtual events.
- **Media coverage.** There is nothing wrong with a company getting its message in the press; it is just that this is becoming increasingly difficult, especially for small and mid-sized quoted companies. The primary reason is the reduction in the pool of financial journalists.
- **Release more news.** This is another suggestion from the QCA/Peel Hunt survey. More relevant news keeps your story in investors' minds. Research from a sponsored research house can be part of the solution. For example, Hardman & Co's research is released into the Regulatory News Service (RNS) stream.

Sponsored research can provide credible validation

6

6: Methodology

- Hardman & Co collected data from publicly available sources about investor events to which retail investors were invited, excluding physical AGMs (virtual AGMs are included, but none took place in 2019, and a mere 59 events are recorded in our data).
- Given the difficulty in collecting the data, it is probable that there are some qualifying events for which we do not have details.
- Many of the events are not exclusively for retail.
- The providers/sources include:
  - » BRR Media
  - » Equity Development
  - » Hardman & Co
  - » Investor Meet Company
  - » PI World
  - » Proactive Investors
  - » Progressive
  - » Refinitiv Eikon
- Data were collected for the period 1 January 2019 to 30 June 2022.
- Companies were allocated to sectors based on the LSE's data for 30 June 2022.
- Companies were allocated to market cap bands based on the data for 30 June 2022. A company may have been in other size bands before that date.
- When measuring liquidity, we have calculated the percentage of shares traded in each year. We take the average of the number of shares in issue at the beginning and end of each calendar year to create the base against which the number traded is compared.

About the QCA

We are the Quoted Companies Alliance champions the UK's community of 1000+ small and mid-sized publicly traded businesses and the firms that advise them.

We believe the public markets can be the best place for companies to source the funds to grow, operate transparently and distribute wealth, fairly.

The QCA seeks to inform policy in dialogue with regulators and government, showcase the latest thinking on leadership, investment, technology and governance through our events and research, and provide a forum to share good practice among members, who are quoted on the Main Market, AIM and the Aquis Stock Exchange.

theqca.com

About Hardman & Co.

We are a rapidly growing, innovative corporate research and consultancy business, based in London, serving the needs of both public and private companies.

Our expert team of nearly 35 sector analysts and market professionals collectively has over 400 years of experience. This depth of knowledge and a reputation for integrity have built trust with investors. With effective communication and precision distribution, we help companies disseminate their investment message to interested investors, and also advise them on strategy.

Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.

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