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Research distribution and investor engagement: reaching “Generation Netflix” and the retail investor

The world of entertainment has been through a revolution, with catch-up TV and new ways to watch programmes, such as via the PC, tablet or mobile phone. We are at the start of a similar change in investment research, and research providers have a steep learning curve to climb.

- ▶ Post MiFID II, brokers no longer have universal access to professional investors.
- ▶ The importance of retail investors is being recognised, but the way in which they access research is poorly understood.
- ▶ Email engagement has grown, but most research providers struggle to use it effectively.
- ▶ Sending everything to everyone does not work – it’s a quick route to being treated as a spammer.
- ▶ Audio-visual content is increasingly the first point of access to an investment idea.
- ▶ Twitter is very influential in the retail market, yet naively harvested.
- ▶ Most parties fail to understand the difference between “push” distribution, which mainly addresses existing investors, and “pull” distribution, which targets new ones.
- ▶ Much research distribution comes from the age of the post room, and does not employ modern marketing techniques to turbo-charge investor engagement and reach new audiences.

Investor engagement will never be the same after COVID-19.

- ▶ COVID-19 has broken the traditional investor engagement model.
- ▶ Most analyst meetings will remain virtual, as will roadshows.
- ▶ Physical conferences are going to need a huge draw to be successful (think Barack Obama in person).
- ▶ Just counting the number of investors on a call misses the point. It’s the total viewership of the content over time that matters, much as TV audiences are measured by adding catch-up viewers to live audiences.

Most of us have changed the way in which we consume entertainment content in the past 10 years. We decide when we want to watch something, and we are not tied down to a TV set, and new audiences, “Generation Netflix”, expect things to be different. We are at the beginning of a similar revolution in investment research distribution, which is little appreciated yet.

Many of us have experienced the impact of working from home (WFH). It has already changed the landscape for investor engagement, and we think these changes are, largely, here to stay.

Research reach and investor engagement

These changes can be likened to a Tsunami in the capital markets, and, when the tide goes back out, the geography will never be the same again. This matters to investors and quoted companies. In particular, companies that fail to grasp the new landscape put themselves at a disadvantage.

This note explores how the investment research and investor engagement worlds have changed, how Hardman & Co has adapted to their needs, and whether any of the previous shoreline will ever look the same again.

The Netflix world

Timeshifting, streaming and new ways to view

The consumption of video and audio entertainment content has changed dramatically in the past decade. Before then, essentially, content had to come through a TV set (albeit sent down a cable or by satellite) or a radio, and be watched live. Yes, there had been a proliferation of TV channels from the start of the century (compared with the three that this author grew up with). Some of these extra channels were used to “timeshift” programmes. For example, if you missed a favourite programme on *ITV1*, it started an hour later on *ITV+1*. Radio was worse – missed the 14.00 edition of *The Archers*? – better catch the repeat at 19.15, or miss it forever. The broadcaster decided when you could watch.

Then along came catch-up/on-demand services, such as *BBC iPlayer* or *ITV Hub* (or *BBC Sounds*, or podcasts for radio), and the viewers/listeners could decide when they wanted to watch or listen. More recently, we have been able to access content over the internet, on tablets and on mobile phones. A new generation of viewers expects to watch when they want and where they want.

In the UK, TV audiences are measured by BARB (Broadcasters’ Audience Research Board)¹, created in 1981. Until December 2014, the data were collected by simply monitoring the behaviour of approximately 5,000 households through a set top box, and the results were published each day. A research paper in 2013, from Thinkbox, recorded that 98.5% of viewing was via TV sets. From December 2014, BARB included viewing figures for the period of 28 days after the original broadcast.

In September 2018, BARB first started to report audiences on a multiple-screen basis, including viewing through tablets, PCs and smartphones, alongside TV sets.

New patterns of working

New ways of working mean more meetings squeezed into a day, no time lost between meetings, and travel between meetings not necessary

Pre March 2020, diaries were built around physical get-togethers, lunches, coffees and meetings. Before the pandemic hit, video conferences and webinars required broadcast quality studios and cameras; indeed, a video filmed at home on a PC or phone looked amateurish and was not good for a business’s brand.

Today, most meetings are on *Teams* or *Zoom*, and these services are also used for webinars, interviews and conferences. More meetings can be squeezed into a day, no time is lost travelling between meetings, and companies based in Manchester haven’t got to travel to London to present. The formality of a TV studio has been forgotten.

Will this prove a temporary hiatus before returning to the pre-pandemic way of doing business?

¹ <https://www.barb.co.uk/>

Investment research distribution

The old days

Gone are days of only printed, hard copy research

When this author started his career in the City in 1979, all research to institutions came by way of printed, hard copy. Indeed, the district immediately north of the City was the printing quarter, fulfilling this urgent requirement. Investors got their research in the post or by brokers' messengers (a job that disappeared). That was followed up by calls from their salesman, or even the analyst.

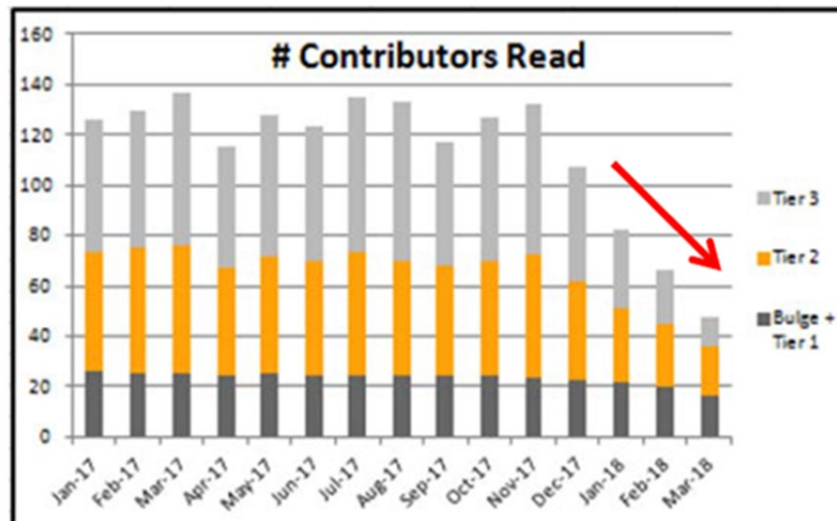
Over time, voicemails replaced direct calls and, eventually, email became the distribution mechanism (just the one email, mind you). However, it was still a cosy world pre MiFID II (January 2018), where, to all intents and purposes, every broker and investment bank had an identical distribution list, every institution and wealth manager spoke to every sell-side firm...and retail investors didn't matter.

The world post MiFID II

MiFID II changed institutional geography

MiFID II changed the institutional geography. With only two exceptions (one of which is sponsored research, such as that published by Hardman & Co), research could not be consumed for free. Broadly, investment managers paid for the research themselves out of their own P&L, rather than their clients' funds, and, not surprisingly, research budgets were cut. The result was that broker lists were shrunk dramatically. Consider this chart from Refinitiv (the former Reuters):

Readership – Bulge + Tier 1, Tier 2 and Tier 3



Source: Thomson Reuters

The chart shows the number of brokers from which an average top-12 client of Refinitiv took research (for pan-European equities). Before MiFID II, it was around 130, but this quickly fell to 50. On top of the difficulties MiFID II has created, the way in which fund managers consume research is also changing, as a younger cohort takes the reins.

Of course, this is only part of the story, because a whole new audience has become critical to increasingly more companies – the retail investor. You can read, in other insights from Hardman & Co, how the retail investor has grown in importance and how, for most companies, even very large ones, on most trading days, their trading

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sets the price ². Some brokers have tried to address this audience, but it requires an approach with which they are unfamiliar – it requires techniques and skills from high-end email marketing.

² Hardman & Co paper *Share ownership: For the many, not the few?* January 2020. <https://www.hardmanandco.com/wp-content/uploads/2020/01/Share-ownership-Hardman-Co-Insight-January-2020-2.pdf>

The new distribution landscape

Hardman & Co constantly evolving distribution techniques to adapt to changing tastes and address new audiences

Hardman & Co believes in producing deep, insightful research, not just “cut-and-paste” or a regurgitation of company “propaganda”. That’s important in itself, but doubly so for Hardman & Co, because a large part of our business is providing consultancy services, such as valuing private companies, analysing liquidity, working as Expert Witnesses in court cases, and advising stock exchanges around the world, etc. Producing shoddy investment research or “thin” product would undermine our reputation and affect our ability to win these consulting mandates.

However, we are also firmly of the belief that even the world’s best research would be completely valueless to our clients, companies and funds, unless investors could read it. Thus, Hardman & Co is constantly evolving its distribution techniques to adapt to changing tastes and to address new audiences.

What follows is our experience of this new environment. We have chosen, in some of this commentary, not to reveal our methodology, so that our competitors cannot benefit from our successes and erode our market advantage. Equally, we will not reveal all the data we have.

The evolution includes:

1: Emails

Overall engagement rates for all Hardman & Co emails, 2018- 21

	Sep 2018- Aug 2019	Sep 2019- Aug 2020	Sep 2020- Aug 2021	% increase 2019/20 vs. 2018/19	% increase 2020/21 vs. 2019/20
Emails sent	3,645,359	4,609,516	7,028,544	26.4%	52.5%
Unique opens	516,332	602,547	1,022,566	16.7%	69.7%
Individual open rate	14.2%	13.1%	14.5%		

Source: Hardman & Co Research

Growing engagement with emails

In the past three years, we have nearly doubled the number of emails sent. Partly, this is because Hardman & Co has been winning clients, and, partly, it is because more investors have signed up to us. The proof that we have not just added names to our list to make it look larger is the fact that the open rate (sometimes referred to as “read”) has remained constant, at around 14%. This is an extremely high rate for email marketing. Surveys conducted over the years by the *Financial Times* suggest that only 2%-5% of brokers’ emails are opened.

Of those who open our emails, a growing number download the entire report. In fact, our clickthrough rate has doubled over the period.

How have we achieved this success? There are a number of sophisticated, specialist methodologies that we employ, which we suspect our peers do not. Our distribution team, and the external parties with which we work, bring experience from the marketing, not stockbroking, world. To look at just one example, and without giving away our secrets to our competitors, we filter every email list each time a campaign is constructed. We target those most likely to be interested in the particular share or fund. This is quite labour-intensive, but, as the data show, pays off in engagement. Unfortunately, many research houses seem to have just one list, and send everything to everyone on their list, turning themselves into spammers.

Those of us with long memories will recall how estate agents used to run their mailing lists. Buyers would pop into their local branch and have an interview, during which a note would be taken of the minimum number of bedrooms required, the

Research reach and investor engagement

best location, whether off-road parking was critical, etc. Then, in the next few days, your post box would bulge with every property the agent had, regardless of your preferences. The kid in the post room found it easier to send you everything. No wonder *Rightmove* was such a success. Most research houses act like that kid in the post room.

Our distribution list for emails contains investors from the world's largest institutions through to retail. All names are GDPR-compliant, and we suspect that some research providers fall foul of this legislation.

Remember that these data are for unique opens and clicks. However many times an individual opens an email, we still record it as just one. Companies and funds should ask their provider whether their data are cleaned for this – we know others quote unclean figures.

More investors want to consume research in the form of audio-visual content. Here is a recent example.

An example of written research vs. audio-video content		
Email campaign	Unique opens	% of total opens
Written research	8,090	54.6%
Audio/video campaign	6,733	45.4%
Total	14,823	

Source: Hardman & Co Research

The balance of consumption has been moving consistently over the years to audio-visual and, we think, reflects the preferences of Generation Netflix.

2: Social media

Social media, and Twitter in particular, are a critical part of the retail investor ecosystem. Increasingly, Twitter is where debate takes place. For Hardman & Co, it is another way of distributing research, and it sparks lively interaction.

The power of Twitter has yet to be properly embraced by other sponsored research firms, let alone brokers.

Twitter followers at 26 September 2021	
Hardman & Co	20,610
Next largest sponsored research house in trading companies	4,957
Next largest sponsored research house in investment companies	1,023

Source: Hardman & Co Research

The latest figures show that we have approximately four times as many followers as our nearest sponsored research rival in trading companies; indeed, adding all our rivals together comes to just 8,800 in total!

Looking at dedicated sponsored research houses in investment companies, our nearest rival has one-twentieth of our following. Adding them all together gets to just 1,602 followers.

The use of Twitter also takes some learning. Some competitors think the more Tweets the better; others combine writing about results with news of the cricket!

Audio-visual content becoming more important

Twitter a critical part of retail investor ecosystem

The retail investor is becoming increasingly important to companies and funds, and Twitter plays an ever-greater role in their information gathering. This has yet to dawn on many research providers.

3: Hardman & Co website

Year-on-year, the number of users has grown 44%. The routes through which they arrive at our site have changed dramatically, requiring a new approach, which we would rather not disclose in public.

4: Other channels.

We have seen growing success through the differentiated way we use Regulatory News Service (RNS), from working with partners in specialist investment audiences, and from using algorithm-driven technologies to keep our companies' research at the top of Google for longer.

5. Push vs. pull

Pull distribution focuses on existing investors...

Hardman & Co has a very wide range of distribution methodologies, of which the above are merely a sample. However, companies and investors need to understand the difference between push and pull. In the old landscape, brokers just used pull distribution; they had a closed user group of institutional investors. Many distribution networks mirror this. For example, some brokers speak of making their research available to retail investors. What this means is that they can access a website, but unless you keep checking the website, you won't find newly released research, because you never get sent an email. Other organisations ask the investor to specify the stocks in which they are interested, and will only send material on them. This is all what we call "pull" distribution.

...push distribution targets new ones

"Push" distribution finds investors who have not heard of the company or fund, but where the stock fits their search profile. These are the most valuable leads, but the toughest to find without your product turning to spam. This is where the Hardman & Co distribution adds most value.

We are also of the belief that the best research, combined with the best distribution, is not enough. What our clients want is to find new names that will be interested in their story. So, our team interrogates our readership data to find these names.

In today's investment market, investors demand new ways to access research and new types of content. The old "post room" model deserves to die.

Investor engagement

Pre pandemic

We used to live in a world where the following happened:

- ▶ When a company announced its results, a physical meeting for analysts was held.
- ▶ This was followed by a “roadshow”, where the company’s brokers organised a series of one-to-one meetings with institutions, possibly with a group lunch for them.
- ▶ A regional roadshow might follow, where the organiser would often have to “strongarm” a wealth manager or small institution to meet the company, calling in “favours” to fill the diary. As a result, many participants had little interest in the stock, but were just there for a good lunch – a waste of time for the company management and the investor!
- ▶ Some parties, such as Hardman & Co or Mello, might organise forums or conferences for the retail investor to hear the story from management and question them, but, generally, this would be some time after the results.

We believe many of the changes brought about by pandemic regarding investor engagement will be permanent

During the pandemic

All physical meetings stopped from the start of the pandemic, and we all hastily learned how to use *Zoom* and *Teams*. Every type of engagement listed above was replaced by a virtual equivalent.

What was expected changed rapidly – no longer the swanky studio and perfect camera work. It became acceptable to have less-than-perfect lighting, a background of books, kitchen utensils, or, in the case of the author, toy cars.

The post-pandemic world

While there may be a rush to meet old friends as the world opens up again, much as school children are eager to swap stories after the long summer holidays, we believe that many of these changes will prove permanent.

We note that, of all the invitations to Hardman & Co to participate in analysts’ results meetings, only one has been for a physical meeting. Keeping it virtual is a very effective use of time. Of course, there are downsides: you cannot see the body language, which can be revealing; nor can an analyst sidle up to management afterwards and ask a question where he thinks he has a unique angle without flagging it to competitors.

Roadshows have gone virtual. Indeed, why even reserve a slot? The fund manager should be able to hear the standard management presentation any time he wants. He just needs a time slot for asking questions, if he has any. We do, however, still think that a physical meeting will be best the *first time* an investor meets management – to get more of a sense of the *zeitgeist* of a company.

Regional roadshows will not return, we believe, except for IPOs or the first time a company meets an investor. They are an inefficient use of management time. Even before lockdown, they often proved a struggle to fill.

Research reach and investor engagement

Investor forums will generally stay virtual for retail investors. Some may return as venues to network and swap stories. In many ways, that was a notable feature of the popular Mello physical events. You could witness retail investors comparing notes on the companies they had just seen present – was the presentation well-attended, could they answer every question, did you understand the story? They were, for example, like motorbike meets where enthusiasts bring along their own bikes and exchange stories about changing distributor caps.

We might even ask what it would take to entice an investor to a physical event. Networking and story swapping are reasons, but another reason would be a star act. Imagine Barack Obama speaking in person at an ESG investment conference – yes; yet another ESG conference – no.

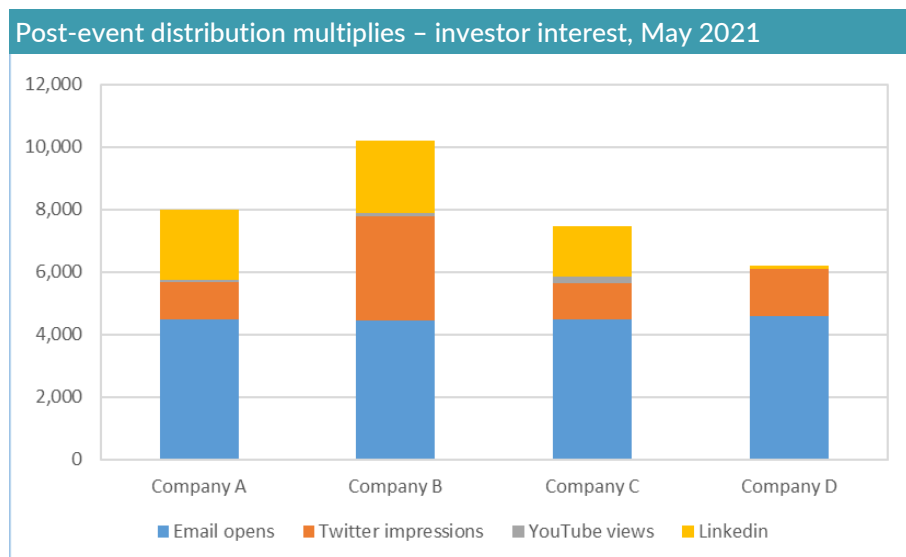
As we have already explained, the importance of retail investors is increasingly recognised, and the pandemic has helped them in two ways. First, PrimaryBid was able to play a useful role in emergency fundings for large and small companies by tapping retail money. Secondly, keeping aside a slot on a “virtual roadshow” for retail investors has become more common, although not yet ubiquitous. This enabled those investors not just to hear the presentation but also to question management. Several organisations moved to fill this demand, such as InvestorMeetCompany and Hardman & Co. We hope this is a permanent change.

It is total reach that counts, not just live attendees

Some competitors have stopped holding investor forums. We have seen much larger attendance at our virtual forums than had been the case at our physical events – they are easier to attend. When people talk about webinar and virtual events, they seem to focus on the number on the live call. There is nothing wrong with knowing that, but, increasingly, it misses the point. It is the same as just counting the audience watching a TV programme live. What companies should ask is how many investors are being reached in total.

Consider the chart below.

Much larger attendance at virtual forums now than at physical events previously



Source: Hardman & Co Research

Research reach and investor engagement

Example of push vs. pull at investor forum Hardman & Co held in May this year

In May of this year, Hardman & Co held a virtual investor forum at which four companies presented. We had several hundred investors on the event live; yet our post-event distribution generated a huge multiple of this number. Now, of course, we recognise that a Twitter impression probably isn't worth as much as an opened email, or, perhaps, attending the live broadcast.

Let us finish by considering the results for company A above. 8,000 investors had some engagement with the Hardman & Co output on the company after the event. Included in this output, 16,000 emails were sent. 4,486 were opened, a rate above 25% (it was more than 26% for the three other companies). These 8,000 investors haven't gone out and bought the shares yet, and, in our view, probably, 7,900 had not even heard of the company before. But, their interest, at the very least, has been tweaked. It is push vs. pull again. How many shareholders does company A have? The number is 80.

About the author

Keith Hiscock, CEO, Hardman & Co

As Chief Executive, Keith is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate.

Keith has more than 40 years' stockbroking experience, and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.



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Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

