THE ENDURING ATTRACTIONS OF EUROPEAN OWNERSHIP

An introduction to why publicly-traded North American companies should encourage European ownership in these challenging times.

EAGLE IR

PURPOSE OF THIS DOCUMENT

In this overview of the European market for the equity of North American listed companies we present a case for why the allocation of resources to investor relations in Europe remains a positive strategic step.

In times of great uncertainty European based investors retain a justified perception as a receptive audience to a company's efforts to be heard and valued in the equity markets.

Should our perspective resonate then management might consider how best to step forward. In this respect we would be happy to provide a more in-depth account of the practical steps to drive a European program forward.

In the following pages we provide:

- An account of the historical reasons why companies have turned to European investors for support,
- An overview of the European investment scene as it pertains to North American companies, and
- Suggestions on a practical response to the impact of coronavirus on the ability of companies to build and maintain relationships with European investors.

We hope you find this document to be helpful and wish you well – both professionally and personally – in these challenging times.

Garry Wilson, Director

WHY EUROPE?

Active investors. The bulk of European funds allocated to investing in North American equities are done so on the basis of active investment strategies.

Tracking funds are a part of the marketplace, but international equities have always tended to be managed according to actively maintained individual strategies, whether it be growth focused, value orientated or in the pursuit of income as a component in achieving better total shareholder returns [TSRs] than the fund manager might achieve domestically.

If anything, this has become more acute with the growth in environmental, social and governance [ESG] considerations, requiring additional modelling and evaluation.

An attractive consequence of this pursuit of active investment strategies is that European investors value personal contact with management in the process of making investment decisions.

Longer-term investment horizons. At a time such as now when the year, let alone the quarter, is challenged by global uncertainties, the propensity for European investors to look at companies on a medium-term basis, i.e., over a time horizon of 3 – 5 years and beyond, is of real value to management seeking a supportive ear.

With constrained resources in the form of small investment teams allocated to covering the daily ups and downs of Wall Street, it is understandable that European investors have never really focused on the quarter but preferred to gauge performance relative to strategy.

WHY EUROPE? - CONTINUED

Rather than dip in and out of a stock from one quarter to the next, European investors have traditionally taken their time and built positions to deliver their expectation of attractive rewards over years and not quarters.

A supportive audience in approach. An old investor maxim is that in international markets you are in effect a guest as a shareholder. As an investor you are buying into management and their strategy. And as a guest if confidence in management declines then selling the shares is the correct action rather than agitating from within.

This longer-term outlook means that companies can be reasonably sure of European support through thick and thin. Such investors are unlikely to sell in a market spiraling downwards if they believe the medium to longer-term outlook is still more attractive than other options.

Europeans will listen to managements aspirations for the company rather than the noise on the Street.

And this supportive approach can lead to European investors featuring regularly among the top 20 and 50 holders of a company's equity.

WHY EUROPE? - CONTINUED

An alternative source of demand. A basic idea of investor relations is that while the function should provide support and attention to existing shareholders – and contacts – strategically it makes sense to be also looking for additional doors to open.

Creating an ongoing pool of demand, driven by a longer-term perspective, can only be a positive counter to near-term selling. European investors will bide their time before acting on an entry point as they are looking at the TSR likely to be achieved in 5 years and not 5 minutes.

So, we have offered 4 very reasons why a commitment to building and maintaining relations with European based investors should be a tangible part of any North American company's investor relations activities.

An Illustration. Edinburgh-based Baillie Gifford, with over $100bn allocated to North American equities is one of the more prominent targets in Europe. Holding shares in more than 200 US companies at year end the firm's average holding period was just short of 5 years.

Average turnover of ideas was c.7% over the previous 2 years. By comparison, Chicago-based Citadel, had idea turnover of almost 30%, and New York-based Royce and Neuberger Berman were c.15 – 16%. This is an important consideration when looking for where to allocate management time to investor relations.

Baillie Gifford entered 2020 as the largest investor in Tesla after Elon Musk with almost 8% of the company. The firm also held positions ranging from 5% to over 12% in 43 other North American companies at the end of 2019.

EUROPEAN OWNERSHIP CAN BE SIGNIFICANT

Companies such as Waters [WAT] and WW Grainger [GWW] have maintained European ownership in the mid to high teens of shares outstanding.

Waters
THE SCIENCE OF WHAT'S POSSIBLE.™

GRAINGER®
FOR THE ONES WHO GET IT DONE

Martin Marietta

ebay™

THE EUROPEAN AUDIENCE

European based investors account for over $2 trillion invested in North American equities. Some firms are familiar globally with the London offices of BlackRock, Fidelity and Schroders being obvious stopping points, but the likes of Baillie Gifford, Nordea and Pictet can match the funds allocated to North American equities of many a firm in New York, Chicago or Toronto.

Whether it be pension funds such as British Airways and British Petroleum in London, mutual fund managers in The Netherlands such as Robeco or NNIP, or specialist investment boutiques in Stockholm, such as Didner & Gerge and Rhenman & Partners, there is a spectrum of investment outlooks such that most any company can find an audience if willing to reach out.

Key observations:

- Beyond an obvious weighting towards larger cap stocks there is a healthy investment in small and mid cap stocks too.
- London and Edinburgh provide the foundations of any program based on funds and investment strategies.
- The advent of MiFID II has severely undermined the broker as the traditionally dominant route to market.
- European investors, having reassessed their research needs as a response to MiFID II, are more reliant on their own internal observations than the research provided by the broker community.

THE EUROPEAN AUDIENCE - CONTINUED

Size does not matter. The majority of funds may be allocated to larger cap stocks forming the S&P 500 index, but the combination of a willingness to search for alpha and funds with a specialist interest in the small and mid-cap end of the spectrum mean that there is opportunity for all, regardless of size and industry.

For example, WW Grainger Inc, was a little-known industrial supply company in 2000 with negligible European ownership and a small cap label. By 2010 the company had been through the dot-com bubble, 9/11 and the Great Financial Crash of 2008 and emerged with European ownership of around 30%. A decade later it is still one of the most held stocks in Europe.

The UK provides the foundations upon which to build a successful program. Europe is a commitment. A typical company program will find an audience waiting for management not only in core markets of London and Edinburgh but also in Zurich and Frankfurt, Scandinavia to the north of the continent and Milan to the south.

It merits time and not just when the company has a good story to tell. The term ‘fair-weather friend’ has often been applied to company management teams who only turn up when the going is good. Europeans appreciate those who are willing to stick their heads out of the trenches when times are difficult, like now, and keep them informed. After all, difficult times might present good buying opportunities.

THE EUROPEAN AUDIENCE - CONTINUED

Marginalization of the broker role. As a result of MiFID II brokers are adjusting to a relationship with European investors based on greater clarity of value contribution. MiFID has created transparency in the marketplace driving investors to be clearer in how they come to make investment decisions and the costs incurred in doing so. The services of the broker as trader, idea generator and access provider have therefore come under greater scrutiny and experienced renegotiation.

A consequence is European investors are moving towards a more direct relationship with the companies they invest in. This is being seen in North America too with the emergence of a wave of buy-side corporate access managers wielding responsibility for linking their investment teams to corporate management. The future for both companies and investors is one of a DIY model.

Self reliant on research needs. There is still a role for the broker research analyst as a generator of ideas and supporting data and argument for European investor clients. A typical European team investing in North American equities has tended to be resource constrained and therefore open to the advice of third-party commentary. With the demands of MiFID II this is changing such that investors may only call on broker analysts if they have specific questions they are willing to pay to be answered. This has been recognized on Wall Street by broker analysts jumping ship from their employers to form their own boutiques where they can hold on to the value in the reputation they have garnered as experts in their fields.

MANAGING A EUROPEAN AUDIENCE

Trust remains a key variable in decision making. This would usually be a very straight forward message. Unless you are Facebook, or Google or Tesla, then you need to get on a plane and meet with investors face to face and compete for their attention.

Through good times and bad, demonstrating a willingness to maintain access in Europe is a basic requirement of building the enduring relationships that European investors are known to provide.

This need for personal contact used to be referred to as 'seeing the whites of their eyes' when assessing managements strategy as an investment proposition. As pointed out there are certain companies that do not need to market themselves because it is difficult to ignore their significance to the economy and the markets.

"If you do not come to Paris then we do not invest in your shares."

This was the response the CFO of a Chicago based company received when addressing an audience of investors in Paris on his maiden visit to the city. He was struck by the positive welcome at odds with the apparent lack of share ownership. The essential message of 'getting to know one another' remains true today.

Coronavirus has put in person contact very much on hold for the time being. So, the task is to make it as easy as possible for European investors to have access via video and tele conferencing. Our key observation on this is demonstrate a willingness to communicate even with all the uncertainty around currently.

MANAGING A EUROPEAN AUDIENCE – CONTINUED

A simple step in the current environment would be to distribute an open invitation to European shareholders and potential investors to contact the company for an update. Set aside time specifically for this audience. Seize the opportunity to be viewed as committed to Europe as an audience rather than sit back on a reactive wait and see who calls approach.

Ensuring your contact database is up to date is an option, but European investors will tell you the last thing they need is another press release sat in their inbox.

Broker led virtual conferences may offer another avenue, assuming European investors are willing to pay to participate and they are investors suited to your program.

Now is a good time to educate yourself on just who manages what in Europe and which firms should be a part of any communications efforts. One of our initiatives is taking investor relations professionals, management and board members up the learning curve on Europe through interactive sessions. This can prepare the way for a more confidently implemented and managed outreach program driven internally.

At the end of the day if you feel you have a story to tell of opportunity, progress and value beyond the delivery of quarterly numbers then Europe should be high on any list of relationship priorities.

www.eagleir.net

Eagle IR was founded in 1997. The firm is focused on the delivery of support to publicly-traded companies and investors in the facilitating of meaningful communications.

Our motto is 'placing access in your hands' reflecting an approach concentrated on providing value, transparency and accountability.

We are a small firm of investor relations professionals. Our roots are in the Scottish financial community and immersed in the ethos that relationships matter in the communications between management and shareholders.

The firm has developed into a consultancy serving companies and investors in Europe, North America and beyond.

Contact Garry Wilson at gjwilson@eagleir.com for further information.

As facilitators our role is about finding the right fit for our clients.