



# PRIVATE INVESTOR VIEWS ON COVID-19 COMMUNICATIONS

...SO FAR

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## Introduction

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Alma PR conducted a survey of self-defined private investors, with responses gathered between 23 April – 30 April 2020. The aim was to find out the views of individual investors regarding PLCs’ corporate communications related to the Coronavirus crisis.

According to the Office of National Statistics, at the end of 2018 UK-resident individual investors held 13.5% of UK shares, and individuals held 25% of AIM stocks<sup>1</sup>. From January to March 2020, 20% of the FTSE all share was driven by retail investors with a significant increase in retail investors opening accounts with stockbrokers in Q1 2020<sup>10</sup>. They make up a significant part of the investment community, and their views should not be overlooked.

The survey garnered 108 responses. Whilst this a relatively small sample size, we believe the results highlight various interesting themes and are worthy of some discussion. How frequently respondents traded was varied, with no more than 23% of the group falling into any one category. The breakdown is provided below.

### Frequency of trading



If you represent a company looking for practical advice on how to develop your communications strategy in line with these results, we would be delighted to have the opportunity to discuss this with you. Please do not hesitate to contact us on [info@almapr.co.uk](mailto:info@almapr.co.uk)

## Executive Summary

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- 1) **In general, private investors think companies have been doing a reasonable job at communicating**
  - 73% of respondents felt that companies were communicating either ‘acceptably’ or ‘better than expected’
- 2) **Private investors encouraged companies to focus on key, relevant information. Respondents wanted to see as much disclosure and transparency as possible, whilst reducing unnecessary ‘noise’**
- 3) **The majority were understanding of companies withdrawing guidance**
  - Only 13% of respondents thought that companies were definitely not sensible to withdraw forward guidance
  - 32% said ‘it depends’ with commentary showing that it is more widely accepted for those hardest hit
- 4) **The overwhelming majority of respondents, over 85%, would not be comfortable seeing a company furlough staff and not announcing pay cuts for management**
  - Less than 1% of respondents thought it was simply ‘okay’ for companies to furlough staff without announcing management pay cuts
- 5) **More than ever, investors are seeing AGMs as a key time for investors to engage with a PLC. They are open to the methodology a company uses to facilitate this**
  - Nearly 90% of respondents believe that a virtual AGM would be helpful, however investors are also comfortable with additional video and audio or allowing questions to be sent by email
- 6) **Opinion on reasons provided for cancelling or suspending dividends is split**
  - 49% of respondents thought companies’ explanations on this topic had been clear enough
  - Out of those that did not think that companies’ explanations had been clear enough, 73% said that this was because they ‘lacked detail’
- 7) **Nearly 80% of respondents believe that how a company behaves during the crisis would change how they feel about it as a long-term investment decision**
  - Only 5% state that it would not impact their long-term investment decisions
- 8) **In terms of where private investors get their news from, company announcements were rated most important, by some margin**
  - 75% of respondents said it was the most important source
- 9) **Approximately half of respondents said that they are trading more frequently in the current environment**
  - 50% of respondents said that they are currently trading more frequently, with 33% trading at about the same levels

## Conclusion

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Several themes emerged around what private investors appear to be looking for in communications in the context of the crisis, which companies should consider going forward:

- **Greater transparency and explanation**
  - Consider whether it may be appropriate to provide:
    - additional announcements
    - analytics of performance during the affected period
    - greater detail on mitigating actions
    - forward-looking scenario planning
  - Provide clarity around the decisions you are making, based on your specific circumstances
  
- **Avoiding unnecessary irrelevant information**
  - Reflect on the importance of each point in statements
  - Update only where there is new, pertinent information to provide
  
- **Continued engagement**
  - Explore new ways to ensure private investors continue to be openly engaged with throughout this period
  - Continue to engage through several channels to reach the widest pool of investors
  
- **Proof of social responsibility**
  - Documentation of any support provided to stakeholders will likely be remembered going forward

## Findings

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### 1) In general, private investors think companies have been doing a reasonable job at communicating

**73%** of respondents felt that companies were communicating ‘acceptably’ or ‘better than expected’

Comments received showed that respondents were understanding of the challenges companies face at the moment:

- “no win situation as so many competing interests”
- “like all of us companies don’t know what is going on, so I am sympathetic to the lack of info”
- “doing ok under the circumstances”

However, it was noted that there is huge amount of variation from company to company:

- “large dispersion - some excellent, some poor”
- “vast difference between companies”
- “some companies have behaved impeccably, and communicated well, others have behaved poorly”

### 2) Investors encouraged companies to focus on key, relevant information. Respondents wanted to see as much disclosure and transparency as possible, whilst reducing unnecessary ‘noise’

It was clear from commentary that several respondents felt that RNS announcements should be edited to focus only on key relevant information at this time. Generic statements were felt to be unnecessary:

- “too many general comments rather than specifics on impacts, actions, plans”
- “too many RNS releases that don’t add any value”
- “generic stuff a waste of space. If you have nothing clear and company specific say nothing”

However, there was definite demand for additional disclosure around pertinent points:

- “they must give their cash & debt position, covenants etc. They should give a 2 stage stress test, e.g. expected & severe”
- “that their staff are a primary concern is a given. We need best case, worst case scenarios”
- “a higher frequency of comments would be welcome. Even if to let us know when they expect to have a better grasp of how they are affected.”

Several shared their disapproval of companies who seemed unwilling to engage or communicate at all:

- “the best companies communicate well the worst not at all. What changes?”
- “transparency is even more important now than before. Saying nothing tells the market that business is bad which might not necessarily be the case”
- “some listed companies have still to make any CV-19 statement which is unacceptable”

### 3) The majority were understanding of companies withdrawing guidance

Only **13%** of respondents thought that companies were definitely not sensible to withdraw forward guidance.

**32%** said 'it depends' with commentary showing that it is more widely accepted for those hardest hit

- "if there is real uncertainty rather than an excuse"
- "if they clearly have limited foresight as to the impact I agree to pulling forecasts"
- "some can't possibly predict (hospitality), others are using it as an excuse"
- "if they are clearly affected yes, no if not"

There were, however, a number of calls for the analysis of different scenarios:

- "it is understandable that guidance is withdrawn - but shareholders should be informed what scenarios the board has considered and what their impact would be"
- "It's not good enough to just say that it's too difficult to forecast. We need base case & worst case scenario forecasts from companies, and confirmation of how long their funding will last."
- "Range of scenarios and resulting guidance based on them should be given"

### 4) The overwhelming majority, over 85%, would not be comfortable seeing a company furlough staff and not announcing pay cuts for Management

Less than **1%** of respondents thought it was simply 'okay' for companies to furlough staff without announcing management pay cuts

Several investor groups have also made public comments on this topic – the Investment Association for example released new remuneration guidance<sup>2</sup> saying executives at listed businesses who were not mindful of their own remuneration after receiving taxpayer-funded assistance risk "significant reputational ramifications".

The High Pay Centre's research<sup>3</sup> shows that at least 18% of FTSE 100 companies and 23% of FTSE 250 companies were intending to take advantage of the UK Government's 'Coronavirus Job Retention Scheme' and goes on to say that "*In the past five years these companies have spent a combined £321 million on CEO pay.*"

LGIM also warned that companies 'better explain' if they tap government funds without directors pay 'taking pain'<sup>4</sup> and early in April, the Financial Times reported that investors would be scrutinizing how meaningful salary sacrifices will be<sup>5</sup>.

## 5) More than ever, investors are seeing AGMs as a key time for investors to engage with a PLC. They are open to the methodology a company uses to facilitate this

Nearly **90%** of respondents believe that a virtual AGM would be helpful, however investors are also comfortable with additional video and audio or allowing questions to be sent by email

There has been significant media coverage around the scrutiny of 'closed door' AGMs with ShareAction and Share Soc, two pressure groups, having criticised companies which give shareholders no chance to ask questions in real time, stating 'this is no time to hide away'<sup>6</sup>.

Whilst virtual AGMs are encouraged, it is important to note that a hybrid AGM is not always possible, with the bylaws of some UK companies not permitting this. It seems that shareholders are cognisant of this and other avenues of communication are being utilised by increasing numbers of companies.

## 6) Opinion on reasons provided for cancelling or suspending dividends is split

**49%** of respondents thought companies' explanations on this topic had been clear enough

Out of those that did not think that companies' explanations had been clear enough, **73%** said that this was because they 'lacked detail'

Reflecting the views of our respondents, press coverage on this topic has also been somewhat divided between those reporting this as a prudent and understandable move, versus those that do not fully understand or do not agree with why the decision has been made. Providing clear, full, and context-specific explanations around decisions that are taken may go some way to providing greater understanding.

## 7) Nearly 80% of respondents believe that how a company behaves during the crisis would change how they feel about it as a long-term investment decision.

**Only 5% state that it wouldn't impact their long term investment decisions**

It is apparent that how companies treat their employees will be front of mind in investor decisions going forward. McKinsey's recent research: Navigating COVID-19: Advice from long-term investors<sup>7</sup>, stated: *"The investors' primary piece of advice? Look after employees first, followed by customers and suppliers. It will pay off in the long run, as each group will certainly remember how you treated them during this difficult time. The profits and dividends will come later if you make the right decisions and moves now."*

The Financial Times<sup>8</sup> notes that *"some companies have been able to hide behind positive public declarations about how they value their employees, suppliers and communities. But such statements are now being put to the test as businesses have been forced to react to government-imposed measures to stop the spread of the virus."*

Alongside the investor community, the press are keeping a close eye on who is going above and beyond to behave morally in this time, with the actions of Tim Martin branded 'selfish'<sup>9</sup>, whilst businesses helping the NHS effort or providing extra security/pay to workers are applauded.

## 8) In terms of where private investors get their news from, company announcements were rated most important, by some margin

**75% of respondents said it was the most important source**

**Traditional national/regional media received a lower ranking than investment blogs, company videos and company research**

**Discounting company announcements, which were the clear outlier, all other sources fell within a much narrower range**

This would suggest it is worthwhile for companies to put significant time and thought into their announcements. Adopting a multi-channel approach to investor engagement may also provide companies with an increased chance at getting their message conveyed.

## 9) Approximately half of respondents said that they are trading more frequently in the current environment

**50%** of respondents said that they are currently trading more frequently, with **33%** trading at about the same levels

The findings would suggest that private investors are actively managing their portfolios at an increased level and/or looking for investment opportunities in the current market context. This is supported by research from Primary Bid<sup>10</sup> who notes that stockbrokers are seeing a 2-3x increase in new account openings from private investors. This also suggests that even more so in the current climate, investors are more attentive to monitoring and reacting to company information – the same Primary Bid<sup>9</sup> panel noted that in the two weeks following lockdown, volumes traded reached some of the highest numbers on record.

## Appendix

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1. <https://www.ons.gov.uk/economy/investmentpensionsandtrusts/bulletins/ownershipofukquotedshares/2018>
2. <https://www.theia.org/sites/default/files/2020-04/Remuneration%20and%20COVID-19.pdf>
3. <http://highpaycentre.org/pubs/high-pay-centre-briefing-corporate-response-to-the-economic-shutdown>
4. <https://www.telegraph.co.uk/business/2020/04/22/slash-executive-pay-furloughing-firms-top-investor-warns/>
5. <https://www.ft.com/content/dd711963-8f69-4b41-a428-2666e668ba40>
6. <https://www.ft.com/content/28c0b09e-2907-4479-914c-0bb6349446ec?segmentId=bf7fa2fd-67ee-cdfa-8261-b2a3edbfd916>
7. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/navigating-covid-19-advice-from-long-term-investors>
8. <https://www.ft.com/content/bc988e0e-687c-4c72-98eb-ae2595e29bee>
9. <https://inews.co.uk/news/business/tim-martin-wetherspoons-coronavirus-uk-staff-work-tesco-government-help-2516588>
10. [https://www.primarybid.com/webinar/capital-raising-equity-in-the-current-climate?utm\\_source=Email&utm\\_medium=Mailchimp&utm\\_campaign=webinar150420](https://www.primarybid.com/webinar/capital-raising-equity-in-the-current-climate?utm_source=Email&utm_medium=Mailchimp&utm_campaign=webinar150420)