Deutsche Bank
Global Transaction Banking

American Depositary Receipts and the U.S. retail investor market:

Accessing an incremental pool of capital within an IR strategy

August 2016

Executive summary

With U.S. retail investor holdings of corporate equity of over $13 trillion, there is a significant opportunity for ADR issuers to target this captive audience for ADRs. As technology continues to evolve, more opportunities are available to Investor Relations Officers ("IROs") than ever before to conduct a global retail investor outreach program. In this report, we look at the relevance of U.S. retail investor capital pools for ADR issuers and discuss a wide array of strategies for crafting a U.S. retail investor outreach program.

The U.S. retail investor opportunity for ADR issuers

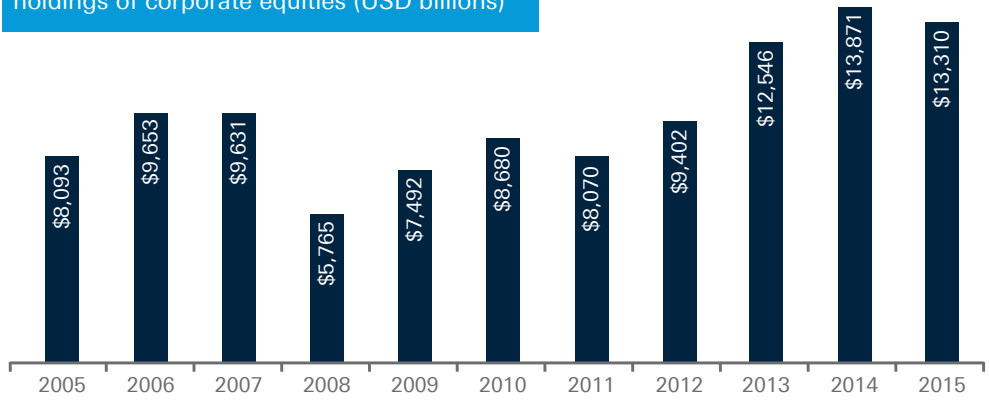
The U.S. investor market is the largest retail investor base globally, with an estimated 90 million[1] investors representing $13.3 trillion[2] in corporate equities, according to recent data from the Federal Reserve [Figure 1].

American retail investment has bounced back dramatically since the U.S. financial crisis, though has tapered off in 2015. In spite of the marginal tail off, the overall percentage of U.S. household financial assets invested in corporate equities has increased by 130% since the bottom of the markets in 2008 and remains at relatively high historical levels. Total client assets under management at large U.S. brokerages with on-line platforms, such as Morgan Stanley, Bank of America Merrill Lynch, Charles Schwab, E-Trade and TD Ameritrade have also reached historically high levels [Figure 2].

1 2016 Investment Company Fact Book, Investment Company Institute
2 Federal Reserve - Flow of Funds December 2005 - March 2016

Figure 1

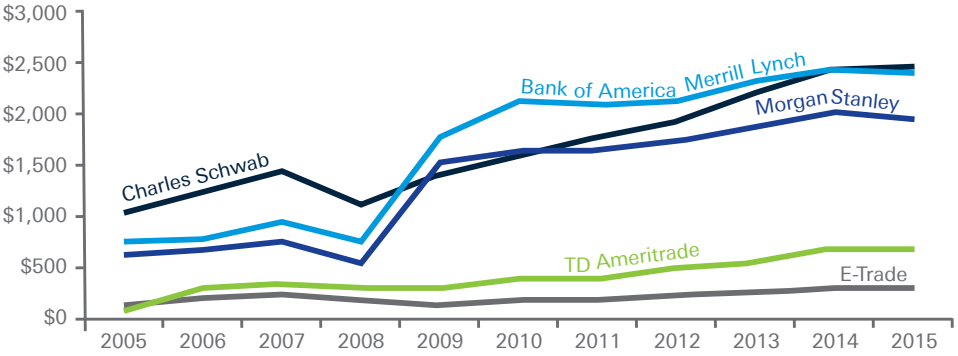
Household and nonprofit organizations direct holdings of corporate equities (USD billions)



Source: Federal Reserve - Flow of Funds, Dec 05 - Mar 16
Past performance is not indicative of future performance.

Figure 2

Total client assets / balances (USD billions)



Source: Company 10-K / 10-Q, SEC EDGAR Database
Past performance is not indicative of future performance.

Benefits of targeting U.S. retail investors

In a world where corporate investor relations budgets are limited and resources stretched, targeting non-local retail investors will typically be low on the priority list. Most issuers focus on targeting U.S. institutional investors, whom are easy to identify and buy large volumes of the shares. Given that senior management will be focused on the business and large institutional investors, for the most part any retail outreach is a decision dependent upon the investor relations officer's (limited) time.

If targeting retail investors forms part of the IR strategy, there are a number of benefits of utilizing the ADR program:

1. Diversification in the shareholder base. A successful U.S. retail investor outreach would help to diversify the shareholder base both geographically, as well as by investor type. For companies with specific targets for U.S. ownership, a retail outreach could help to drive potential investment.
2. Attracting long-term investors. U.S. retail investors tend to be loyal, long term shareholders, with retail investor association. BetterInvesting, one of the key U.S. retail investor associations, have stated that their members tend to hold positions for an average of four years.
3. Added market liquidity. For small cap companies or those with low levels of liquidity, it may be an opportunity to add some incremental liquidity. However, we would note that to achieve meaningful liquidity through U.S. retail investors, a high degree of commitment would be required.
4. Shareholder activism. With shareholder activism on the rise globally, it may make sense for some companies to strengthen relationships with retail investors, including U.S. retail investors owning the ADR.

Views from the retail industry: Is a U.S. retail strategy right for you?

The typical U.S. retail investor tends to be heavily invested in U.S. domestic companies, with a high concentration in mega cap names with recognizable international brands. Some 37% of portfolios are held in U.S. and international equities with the rest being held in other asset classes.[1] In particular U.S. retail investors tend to favor owning equities that pay a dividend and have a strong branded business to consumer strategy[2]. With U.S. valuations at relative highs, some U.S. investors may be looking overseas for relative values, despite the strong home bias.

U.S. retail investors, including high-net worth investors and financial advisors, are represented by multiple investor associations, founded to educate the public and to engage investors with corporates including:

— MoneyShow, a financial education provider formed in the 1980s, has membership of 186,000 investors. Focused on self-directed investors and advisors, MoneyShow offers a variety of educational services and products for investors as well as outreach solutions for corporate partners.

— The American Association of Individual Investors, a not-for-profit education publisher with 150,000 members, founded in 1978. The organization offers investing advice, with educational offerings such as model portfolios, stock screeners, and investment courses, amongst others.

— BetterInvesting, also known as the National Association of Investors Corporation (NAIC), a non-profit organization created in the 1950s to educate individual investors. The organization has 120,000 constituents, many joined with the 6,500+ investment clubs core to the group. BetterInvesting also offers an array of educational products and services, some provided by volunteers, as well as outreach solutions for corporate members.

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>
> AdvisorPerspectives.com

So what do U.S. retail investors look for in foreign equities? According to one 35-year veteran financial advisor from Bank of America Merrill Lynch, "High net worth retail investors are most interested in listed companies with recognizable brand names that pay a dividend." Any ADRs she's been recommending to her clients recently? "Unilever."[1] What does she think could improve interest in over the counter names? "An indexed product comprised of global large cap unlisted securities".

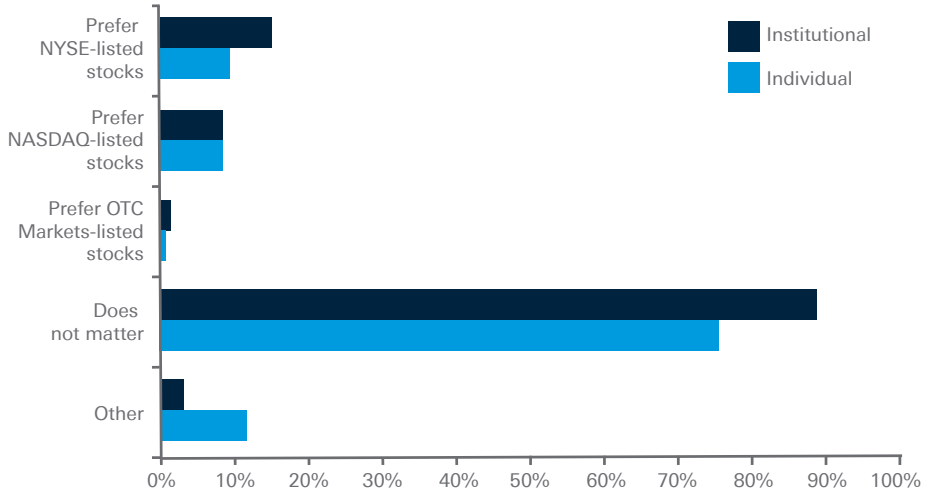
1 This information is intended for informational purposes only and does not constitute investment advice, a recommendation, an offer or solicitation.
2 AdvisorPerspectives.com

However, the average U.S. retail investor doesn't seem concerned with listing status – according to the 2016 Shareholder Confidence Survey authored by PR Newswire and Vintage, which polled 15,000 retail investors, 75% indicated that listing status did not matter to them [Figure 3]. The average U.S. retail investor may not focus as much on listed shares according to Ken Zak, Director of Corporate Relations at BetterInvesting, but they do tend to favor companies with a reasonable market capitalization, that trade over $5, have a good financial history and pay a regular dividend. Also, he notes, "Brand is very important".

Realistically, for many non-U.S. corporates, especially those with tight resources and limited global brand recognition, a U.S. retail investor outreach will not make sense. However, for ADR issuers, who by definition offer an investment vehicle providing U.S. retail investors a convenient way to invest in their shares, it may not hurt to review options to capture U.S. retail investor ownership with little effort.

Figure 3

Does it matter to you which stock exchange your equity investments are listed on?



Source: Shareholder Confidence 365 Study - 2016

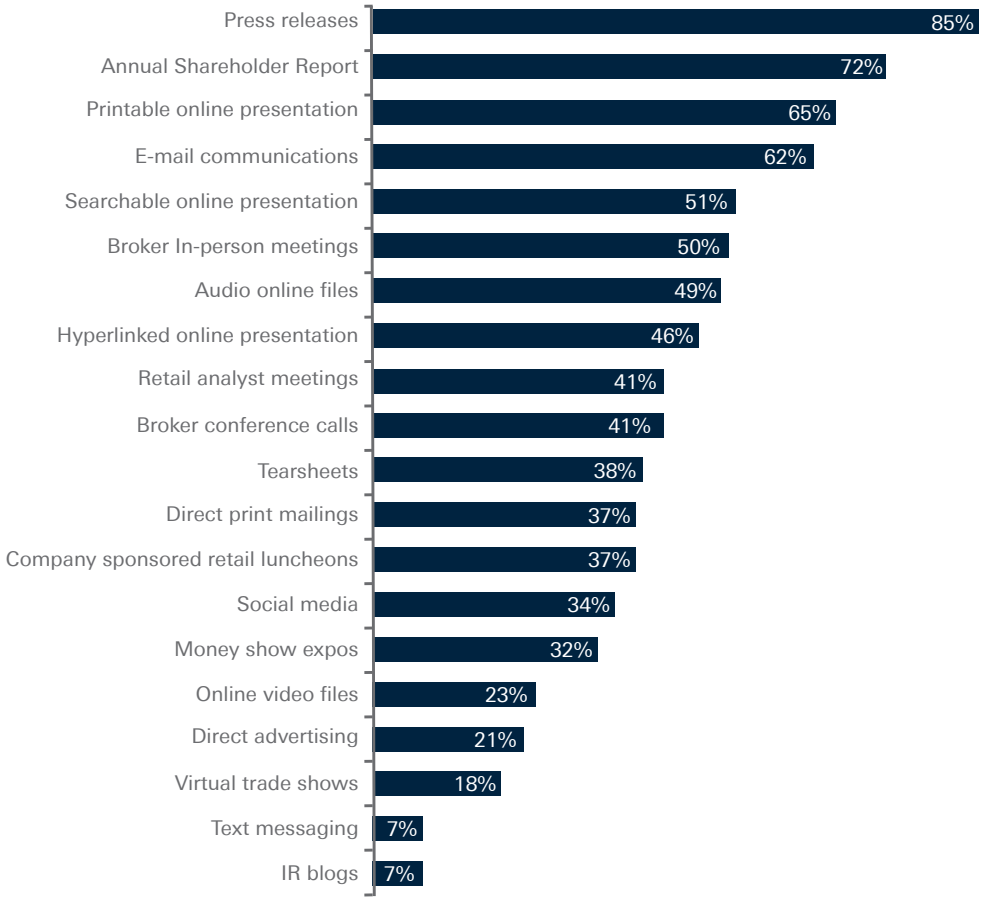
New technologies offer more solutions

Historically, a full blown U.S. retail outreach by a non-U.S. corporate could entail attending retail investor conferences in various U.S. cities, meeting with retail brokers, taking regular calls from retail investors and even employing a U.S. investor relations officer. In NIRI's 2014 Retail Shareholder Practices survey, U.S. investor relations officers shared and ranked methods they have used to reach out to U.S. retail investors [Figure 4]. The most widely employed strategies are notably, low touch/cost, including press release, annual report and corporate presentation distribution and interaction with brokers and retail analysts.

However, depositary receipt issuers have a wider spectrum of options for a global retail investor outreach than ever before, thanks to strong advances in technology and communications, including increasingly sophisticated on-line solutions, the rise of social media and greater use and acceptance of virtual media.

Figure 4

Methods used to attract retail investors



Source: NIRI Retail Shareholder Practices Survey - 2014, Compiled by NIRI, Oct 2014

Strategies for attracting U.S. retail investors

Here we detail a number of strategies which issuers could employ in various combinations to produce the most effective U.S. retail investor outreach:

Investor focused website

Invest in a good retail investor focused website

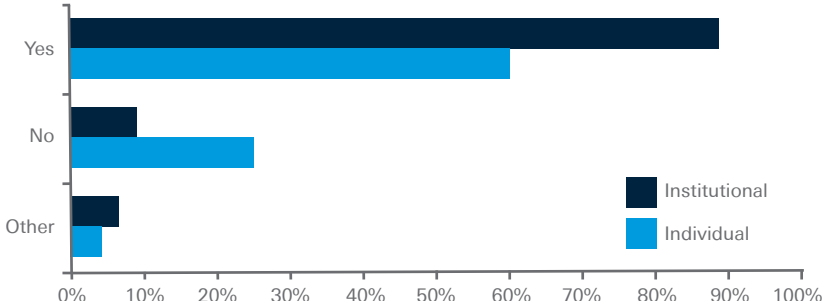
One universal low touch strategy is improving your investor relations website to make it more "retail friendly". According to the Shareholder Confidence Survey 2016, 60% of U.S. investors visit company websites to research new investment ideas, with over 80% of respondents indicating that they visit the company website to gather information about the company, including financials, SEC filings and corporate governance research [Figure 5 & 6].

> *"Your investor relations website must help retail investors understand what the company is, its business model and where it's headed in the future."*
>
> Jon Phillips, Investis

On this subject, Jon Philips, U.S. consulting director for Investis, a developer of corporate websites, states, "Your investor relations website must help retail investors understand what the company is, its business model and where it's headed in the future. Success stories and interactive charts and tools always help but a 'Year in Review' section provides a story arc, framing the company's numbers into a narrative that can be read by wider audiences. Simplicity, creativity, and a tilt toward visual expression are keys here, and will assist in getting your message out."

Figure 5

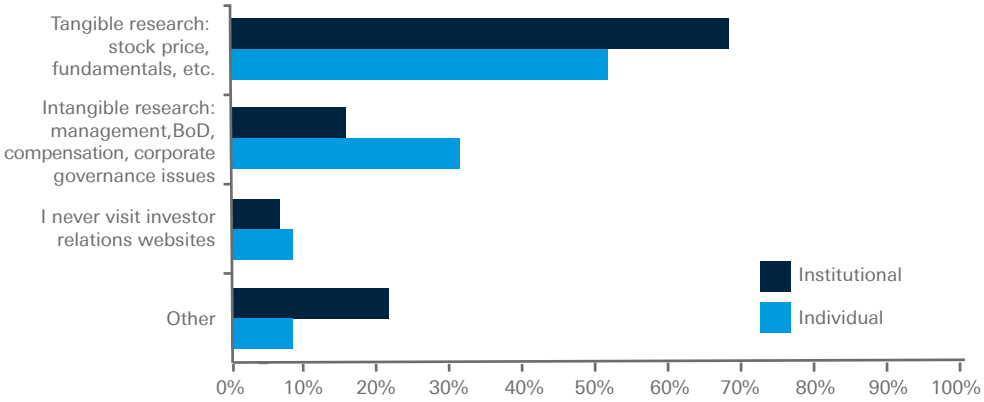
When researching NEW stock investment opportunities, do you visit the Investor Relations websites of those companies?



Source: Shareholder Confidence 365 Study - 2016

Figure 6

What is the #1 reason you visit a company's Investor Relations website?



Source: Shareholder Confidence 365 Study - 2016

Virtual retail investor conferences

Participating in virtual retail conferences has grown quickly in popularity, driven by improved infrastructure and technologies, increased investor globality and tighter travel budgets. Since the popularity of virtual events has grown, investor relations officers have been able to reach out to investors that they otherwise would not have been able to meet due to cost, time or logistical constraints, and looking ahead, the trend seems to point to more virtual interaction with investors.

Deutsche Bank's Virtual Retail Conference

Deutsche Bank was the first depositary bank to offer regular virtual conferences for ADR investors. The Deutsche Bank Virtual Investor Conference, also known as "dbVIC", launched in September 2012 as an efficient solution to reach U.S. retail investors, a natural audience for depositary receipts. The event, offered 3-4 times annually, is unique in that it is marketed across multiple platforms, focusing on individuals, financial advisor networks as well as institutional investors.

In fact, institutional investor participation in what was intended as a retail investor outreach has been notably robust, with the typical participant base 40-50% institutional on average. Due to strong demand, a function to add one-to-one meeting requests has been added as a service for participants. The event is free of charge for Deutsche Bank clients. John Duncan, of SAP's U.S. based investor relations team, notes, "The dbVIC is the ideal platform for us to interact live with both retail investors and institutions in remote locations who we would otherwise struggle to reach given time and logistical constraints."

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OTCQX Virtual Investor Conferences

In 2015, OTC Markets launched a series of global virtual conferences for its premium tier OTCQX traded names. Acknowledging that the market has become increasingly online, data-driven and social, OTCQX has been helping to connect companies with the designation to reach a wider audience of both U.S. institutional and retail investors by leveraging online channels. OTCQX's Chris King stated, "In the first year of hosting the OTCQX Virtual Investors Conferences, nearly 30 companies have reached a wide distribution of retail and institutional investors. OTC Markets also offers other initiatives include print interviews and the OTCQX Video Series, including the senior executives of OTCQX companies, and is distributed through OTC Markets social media channels."

BetterInvesting and MoneyShow eShows

"Branding and visibility is important, and we understand that IROs are resource constrained."

Kim Githler, MoneyShow

Retail investor conferences now offer virtual products including broadcasting live webcasts from their physical events. Both BetterInvesting and the MoneyShow offer webcasts of physical events as well as virtual conferences. According to the MoneyShow co-founder Deborah Russo, the MoneyShow launched their virtual platform in 2010 and has seen strong demand; virtual events grew over 30% in 2015, and double digit growth is expected into 2016. MoneyShow CEO Kim Githler notes, "Branding and visibility is important, and we understand that IROs are resource constrained."

"The virtual format levels the investor playing field on a global scale."

John Viglotti, PR Newswire

John Viglotti, Vice President of Investor Relations products and services at PR Newswire, which manages virtual event logistics and distribution adds "Virtual investor conferences deliver an efficient and effective channel for public companies to simultaneously reach both individual and professional investors, regardless where they are sitting, worldwide. The virtual format levels the investor playing field on a global scale."

Direct retail investor outreach

For some, an in-house retail investor outreach program may be feasible. This could entail a number of strategies including:

— employing a direct purchase plan, such as the DB Global Direct Investor Services Program, which offers retail investors convenient, low cost services to make it easier to invest in ADRs, and includes a Dividend Reinvestment Plan (DRIP). DRIPs allow investors to reinvest dividend payments in the shares or depositary receipts of the issuer without using a brokerage firm.

— implementing an employee stock option plan (ESOP), especially if your firm has U.S. based staff

— maintaining a retail shareholder database derived from the IR website, investor inquiries and virtual/physical conferences or purchasing a database from an investor relations partner

— direct retail investor marketing, including print and online advertising through BetterInvesting, the MoneyShow and American Association of Individual Investors or through media services such as a video retail marketing presentation via Bloomberg Markets Spotlight

— direct electronic and paper mailings

U.S. retail broker outreach

As part of a retail outreach, some corporates may reach out directly to U.S. retail brokers, or their financial advisors. Bank of America Merrill Lynch offers a limited outreach to its financial advisors, in a senior management attended event which is typically combined with an institutional non-deal roadshow. Availability is extremely limited and may include only 'Buy' and 'Neutral' rated names covered by the bank; the initial contact is typically the sell-side equity research analyst. Morgan Stanley offers a similar outreach to its retail arm. In addition, smaller brokers in less travelled parts of the U.S. may be open to introducing senior management to their retail arms.

Relationship building with U.S. retail financial advisors may also be achieved through other avenues, including working with investor relations consulting firms or participating in retail investor conferences that financial advisors frequent.

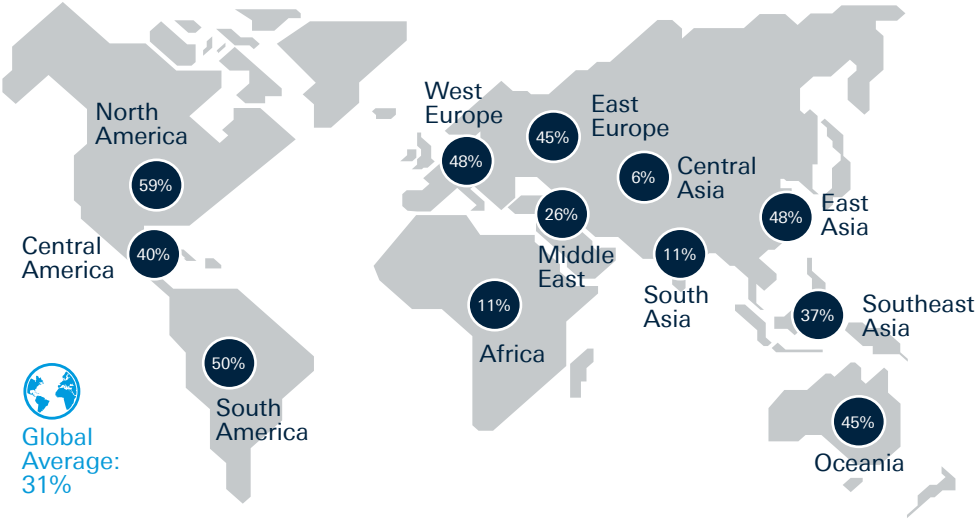
Consider and monitor social media

U.S. retail investors are more technology savvy than ever and are more likely to access social media than other retail investors around the globe. According to a 2016 report by We are Social, the U.S. far outpaces the rest of the globe in terms of social media usage [Figure 7]. In a 2015 social media study conducted by Investis, of 500 of the largest publicly trade U.S. and UK companies, the social media tools most used for IR related research include Twitter (70%), YouTube and Facebook (39%), LinkedIn (33%) and Google+ (32%). [Figure 8].

What types of companies is social media relevant for? The majority of corporates that use social media also have a large business to consumer business; also, the larger the market capitalization and investor relations budget, the more likely they are to use social media due to the resource intensity of the outreach. However, many firms view regular monitoring of social media discussions around its brand and its global peers as best practice, even without an active social media campaign.

Figure 7

Social media use by region — Total active accounts on the top social network in each country, compared to population



Sources: We Are Social; Facebook; Tencent; VKontakte, LiveInternet.ru, Nikkei, VentureBeat, Niki Aghaei; UN, U.S. Census Bureau for population data.

Figure 8

Top social media platforms/tools among social media users for IR work, 2015

1. Twitter (70%)
2. YouTube / Facebook (39%)
3. LinkedIn (33%)
4. Google+ (32%)

Source: Investis

U.S. retail investor conferences

A historically popular way to reach out to U.S. retail investors has been to attend retail investor conferences including BetterInvesting and the World MoneyShow. Most non-U.S. corporates attending American retail conferences tend to be mega cap companies, with an existing large U.S. shareholder base. They have strong global brands and likely pay a dividend; they have large Investor Relations team and may have a dedicated retail or U.S. investor relations officer.

What does participation in retail investor conferences entail? BetterInvesting and MoneyShow retail investor conferences typically occur across the United States in cities such as Orlando, Florida; Las Vegas, Nevada; and Toronto, Canada, as well as major Financial Centers such as San Francisco, California and New York City. The company representative, usually a member of the investor relations team, has a variety of options of how to reach out to investors at the event, including meeting investors at their dedicated booth, presenting at event meals, and speaking on educational panels.

Benefits of attending physical events include becoming more knowledgeable about potential retail investors and their view of the company by engaging in a dialogue, supporting investment in the shares by educating retail financial advisors and high net worth investors.

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Useful tips for retail conferences

The keys to success at a U.S. retail investor conference include:

1. Having a good story to tell: What does the company do? How do they make money? Why should the investor invest in the company?
2. Using multiple platforms – Aside from manning a booth and greeting investors individually, it may make sense for the IRO to sit on panels or speak at group events.
3. Consistent / persistent messaging – maintaining an ongoing presence is critical to a U.S. retail outreach.
4. Giveaways – Retail investor conferences provide the perfect opportunity to market the company's brand via small corporate gifts handed out for free at booths. This is particularly effective for companies in the consumer goods sector.

Conclusion

ADR issuers have an advantage compared with non-U.S. corporate peers without an ADR, offering individual investors a cost effective and convenient way to own their shares. While a U.S. retail investor outreach may not be appropriate for all ADR issuers, many may employ a combination of low touch strategies to encourage maximum U.S. ownership with minimum effort. For well branded global companies with ample resources, which tend to be favored by U.S. retail investors, the outreach could be a worthwhile endeavor, leading to a more diversified shareholder base with incremental long-term investors.

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