

DIRK

Deutscher
Investor Relations
Verband



Strategic options: Capital market financing with shares and bonds

Market survey on the values of a capital market access and potentials
in the Investor Relations practice

Published by DIRK, initiated and sponsored by EY as co-publisher

Mehr Wert im Kapitalmarkt



DIRK/EY Survey 2023

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Strategic options: Capital market financing with shares and bonds

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Survey details

Strategic options: Capital market financing with shares and bonds

Respondents

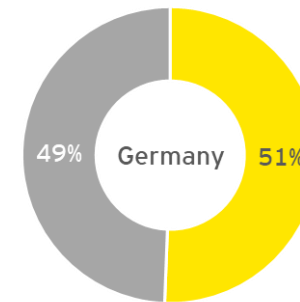
- ▶ Published by DIRK (German Investor Relations Association), initiated and sponsored by EY as co-publisher
- ▶ 110 responses from Investor Relations Officers in Germany, Switzerland and Austria
- ▶ Companies mainly listed in reg. markets
- ▶ Members of IR associations in Germany (DIRK), Switzerland (IR club) and Austria (CIRA)

Purpose of the survey

- ▶ Getting an insight of capital market access potentials in the IR practice
- ▶ Providing an overview of shares and bonds issuances and the role of IR



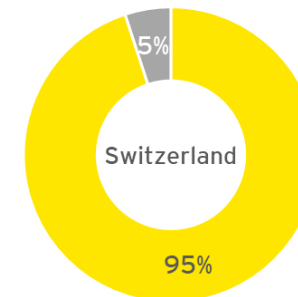
74 % DIRK members



Index (DAX, MDAX, SDAX)
Other



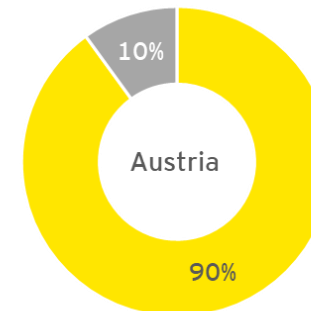
17 % IR club members



Index (SLI, SMI, SPI)
Other



9 % CIRA members



Index (ATX, ATX prime)
Other

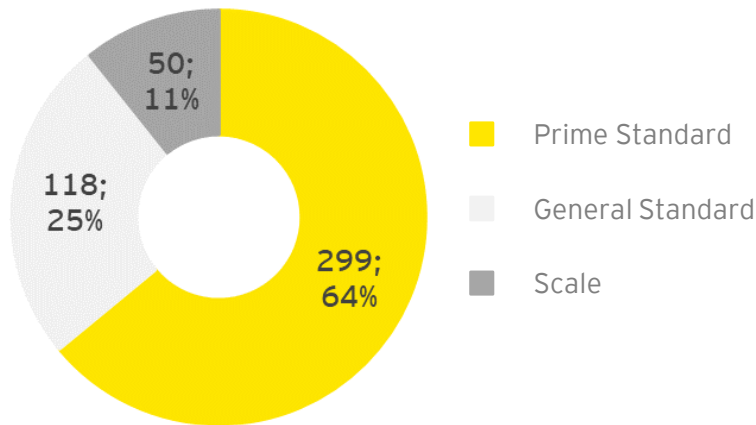


New capital through listings in
capital markets

New capital through capital market listings

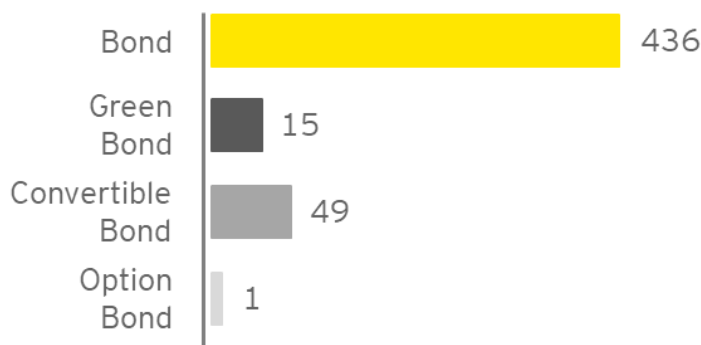
Markets offer many eligible equity and debt instruments

Number of companies listed on FSE per segment in 2022*

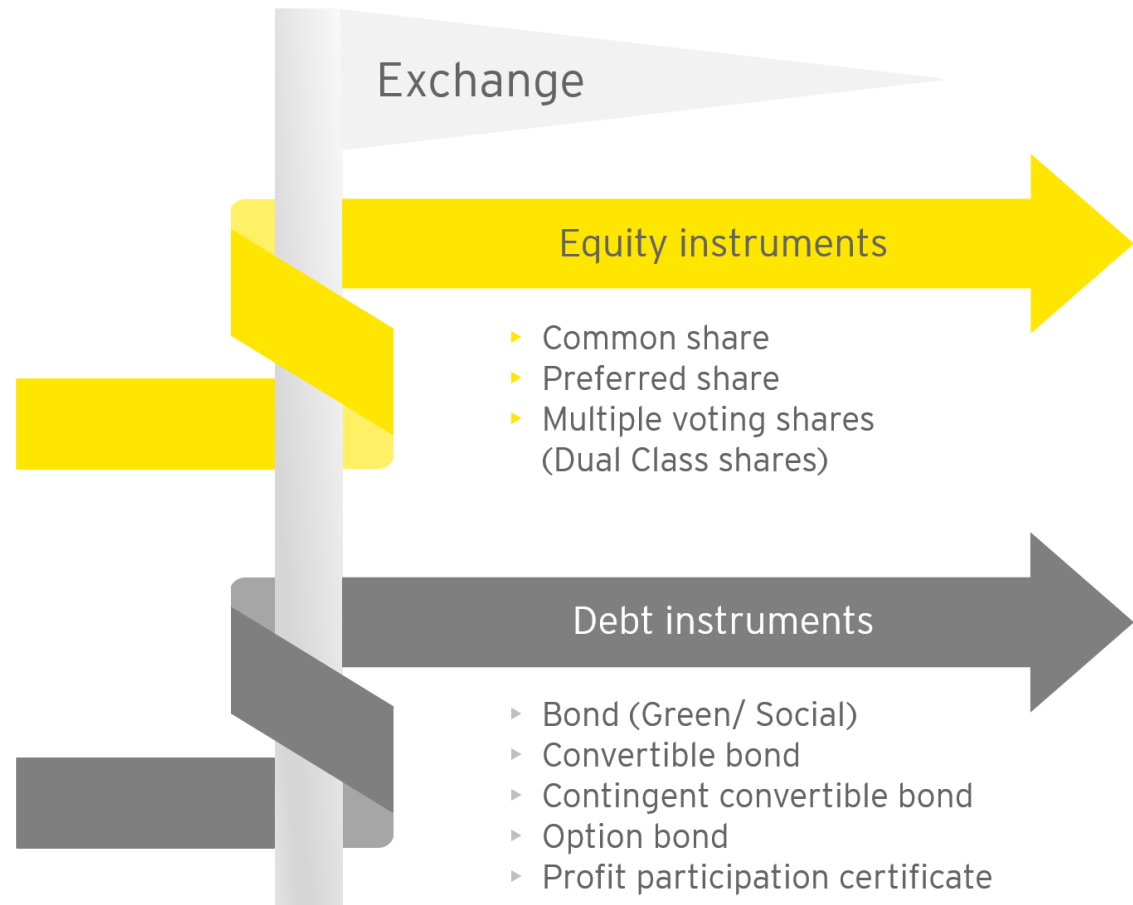


*Deutsche Börse AG, February 2023

Number of debt instruments listed on FSE in 2023**



**Frankfurter Wertpapierbörse, May 2023

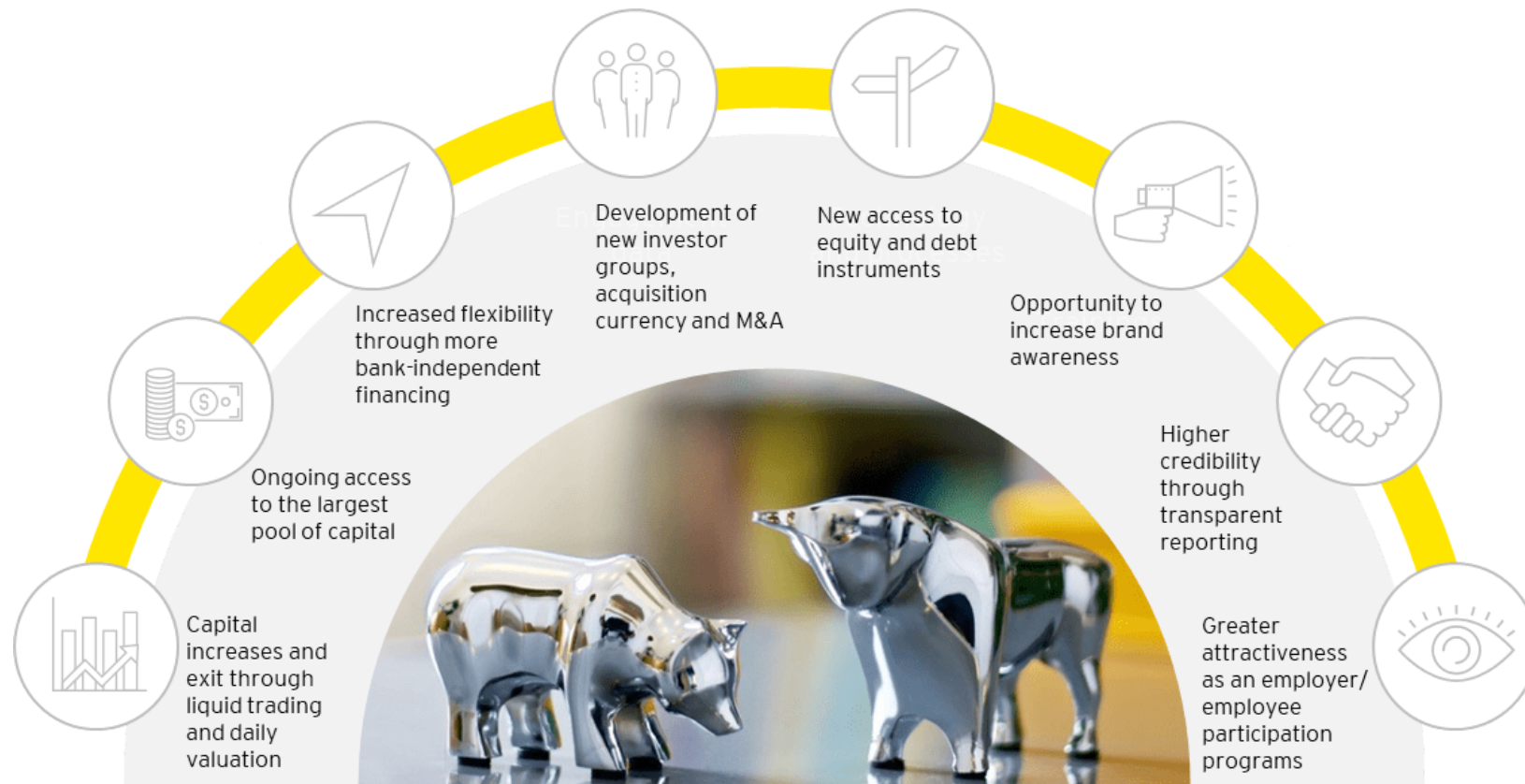


(not exhaustive)

Source: Strategic options: Capital market financing with shares and bonds, 2023

New capital through capital market listings

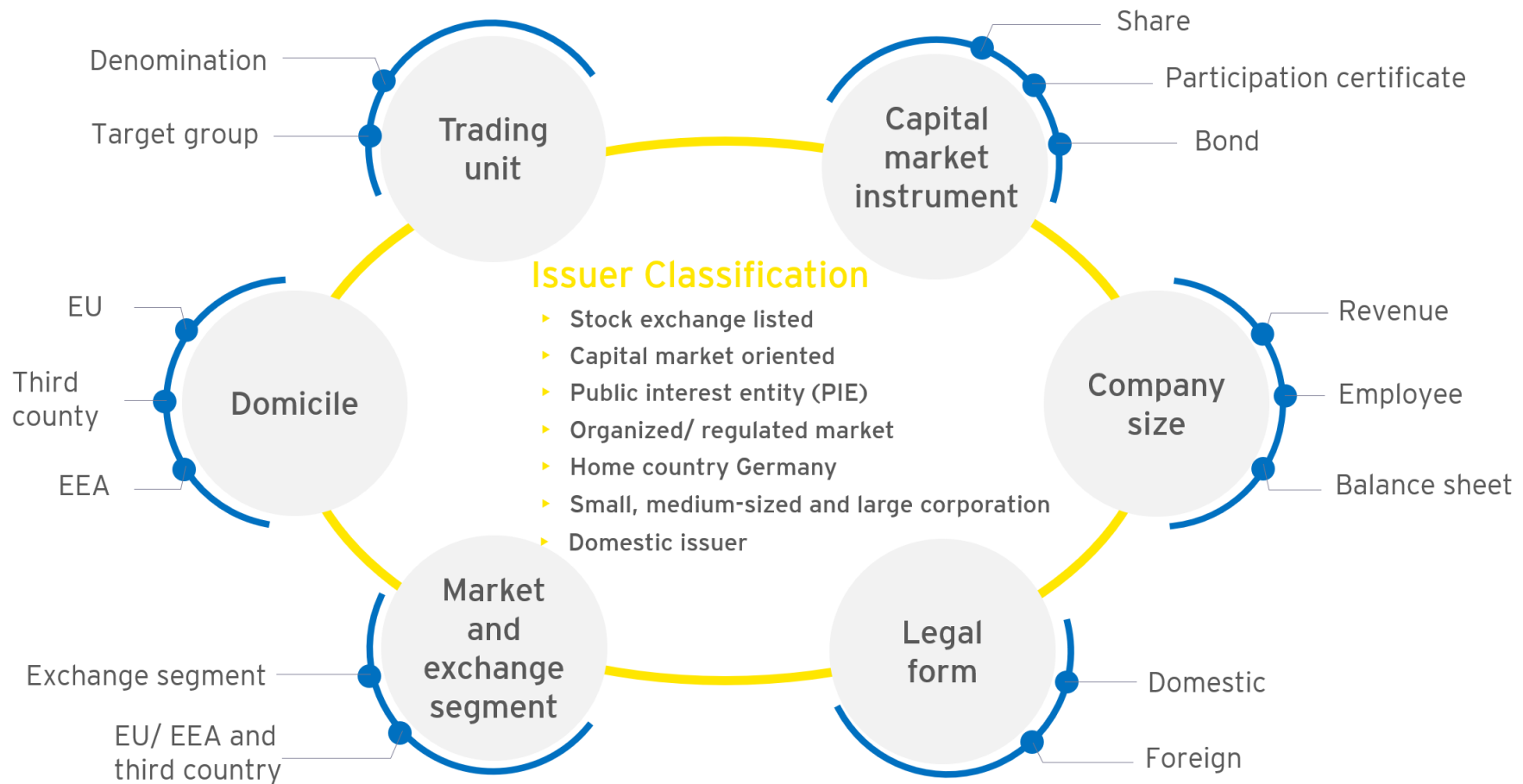
Capital markets offer a wide range of advantages



Source: Strategic options: Capital market financing with shares and bonds, 2023

New capital through capital market listings

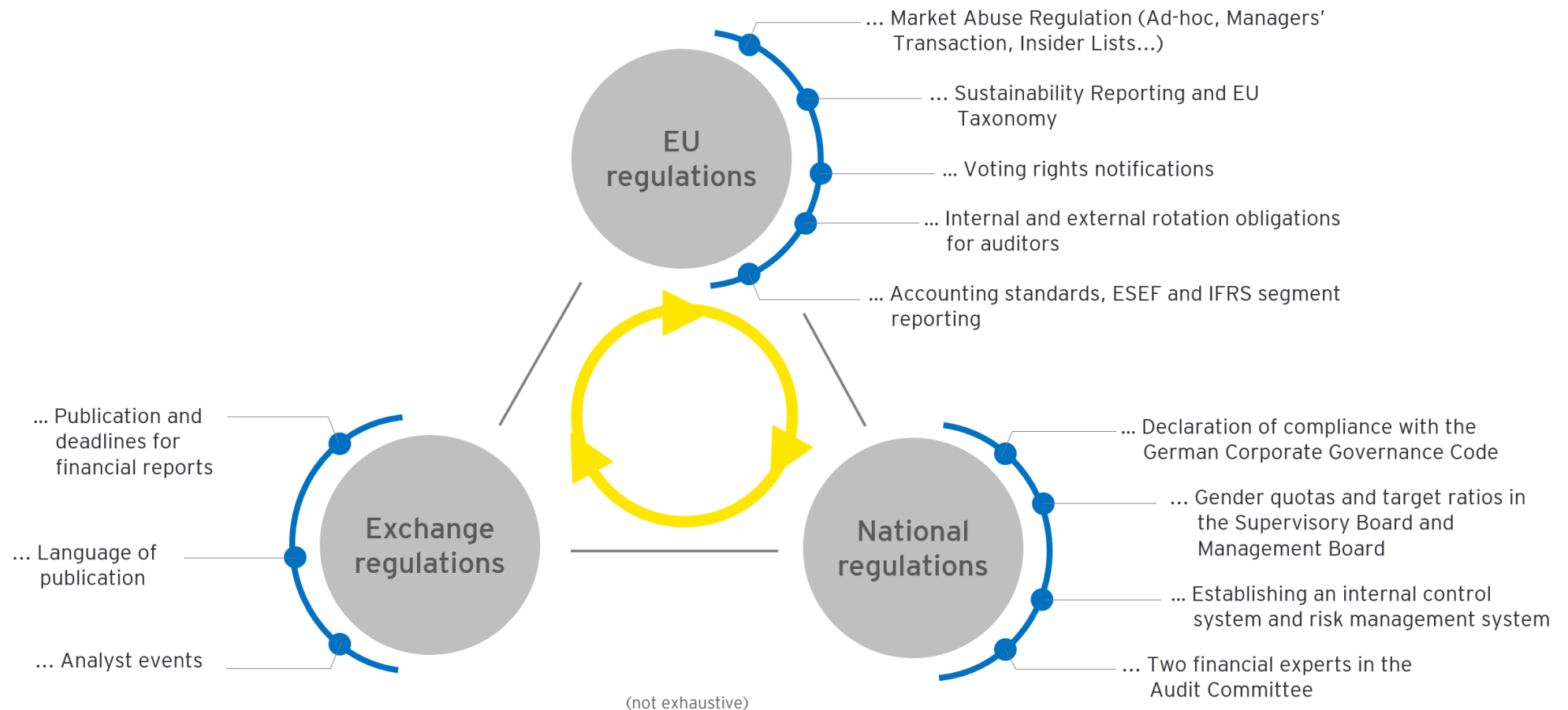
Issuer's classification determines playbook for IR



Source: Strategic options: Capital market financing with shares and bonds, 2023

New capital through capital market listings

EU, national and exchange regulations set standard for IR calendar and duties



Source: Strategic options: Capital market financing with shares and bonds, 2023



Strategic options for capital
market access

Strategic options for capital market access

Further use of capital market access (SPO) - Top 5 reasons

Further use of capital market access „Secondary public offering“ (SPO)

- ▶ Financing growth and internalization is most relevant when considering raising further equity in the organized capital market (66%)
- ▶ Second most important reason for raising further equity is the flexibility in raising capital in a highly liquid market (38%)
- ▶ Financing innovation and new technologies is another important reason (35%)

- Q** Which of the following aspects do you consider relevant for the decision to use the organized capital market to raise further equity?
(Multiple answers possible)

Equity



n = 103

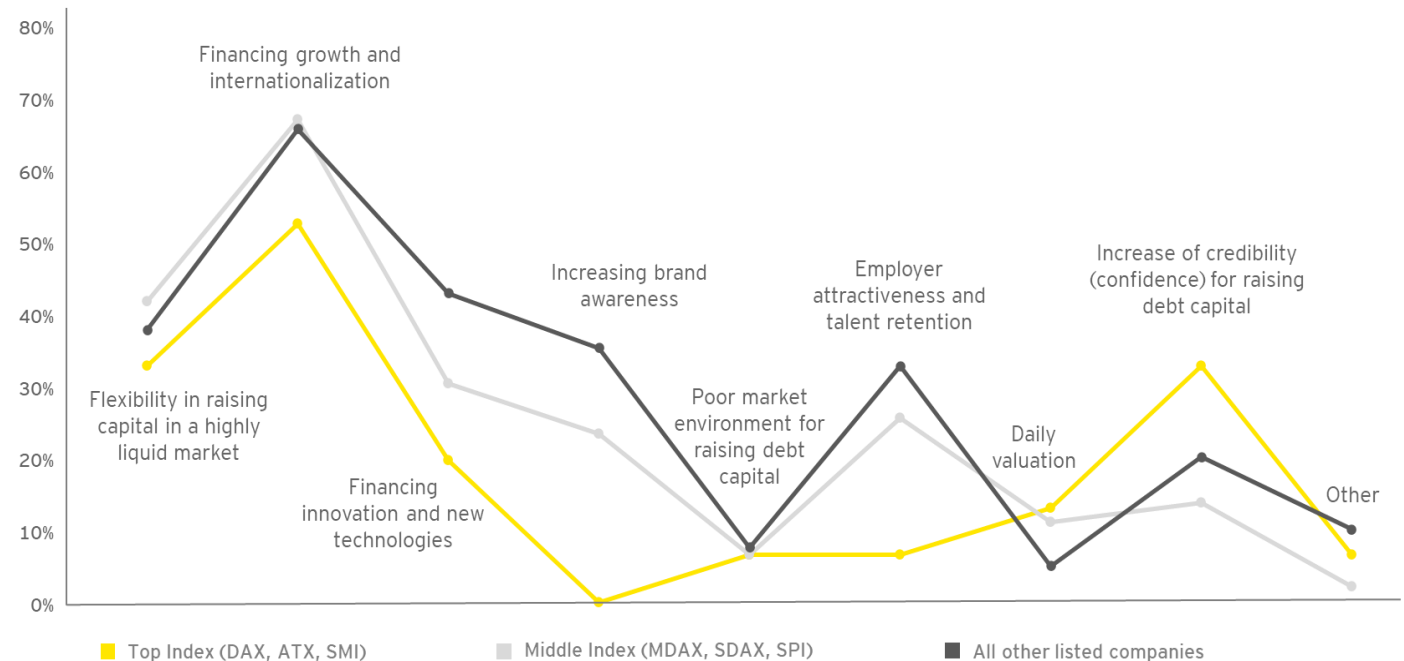
Strategic options for capital market access

Further use of capital market access (SPO) - by size

Further use of capital market access (SPO)

- ▶ Financing growth and internalization is the most relevant reason for raising further equity in the organized capital market especially for mid-sized and smaller companies
- ▶ Financing innovation and new technologies, increasing brand awareness and attractiveness as an employer is predominantly important for smaller companies
- ▶ Increasing credibility (confidence) for raising debt capital is an important aspect for larger companies
- ▶ High correlations among all companies with regards to the flexibility in raising capital in a highly liquid market, poor market environment for raising debt and daily valuation

Q Which of the following aspects do you consider relevant for the decision to use the organized capital market to raise further equity?
(Multiple answers possible)



Source: Strategic options: Capital market financing with shares and bonds, 2023

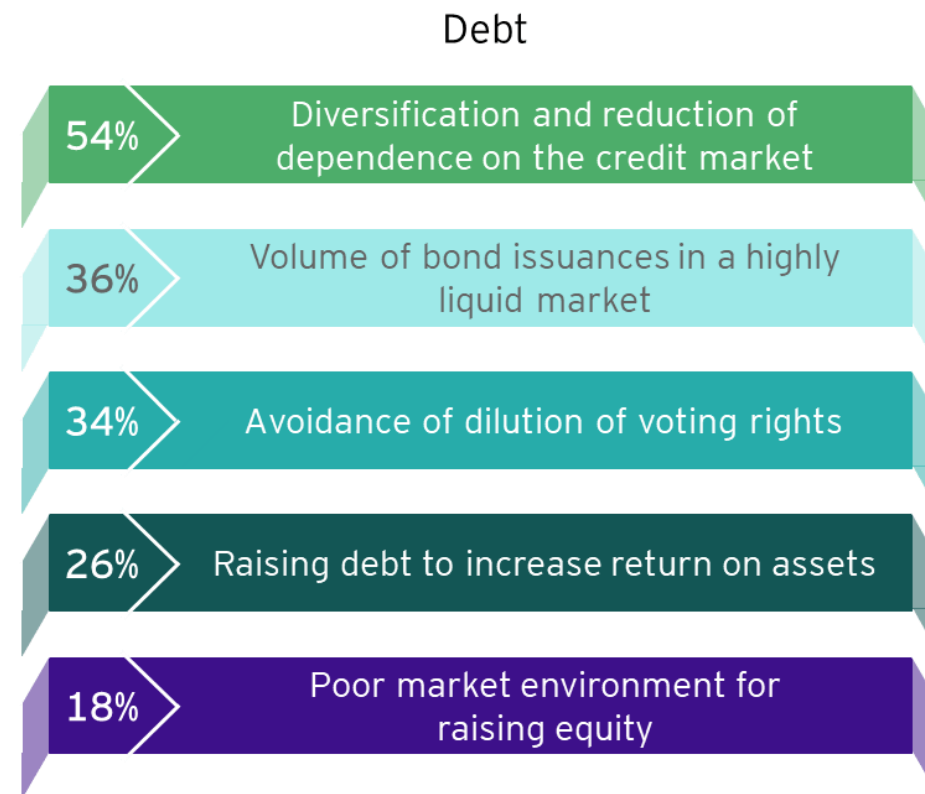
Strategic options for capital market access

Further use of capital market access (SPO) - Top 5 reasons

Further use of capital market access (SPO)

- ▶ Diversification and reduction of dependence on the credit market is most relevant when considering raising further debt in the organized capital market (54%)
- ▶ Second most important reason for raising further debt is the volume of bond issuances in a highly liquid market (36%)
- ▶ Avoidance of dilution of voting rights is another important reason (34%)

- Q** Which of the following aspects do you consider relevant for the decision to use the organized capital market to raise further **debt**?
(Multiple answers possible)



n = 104

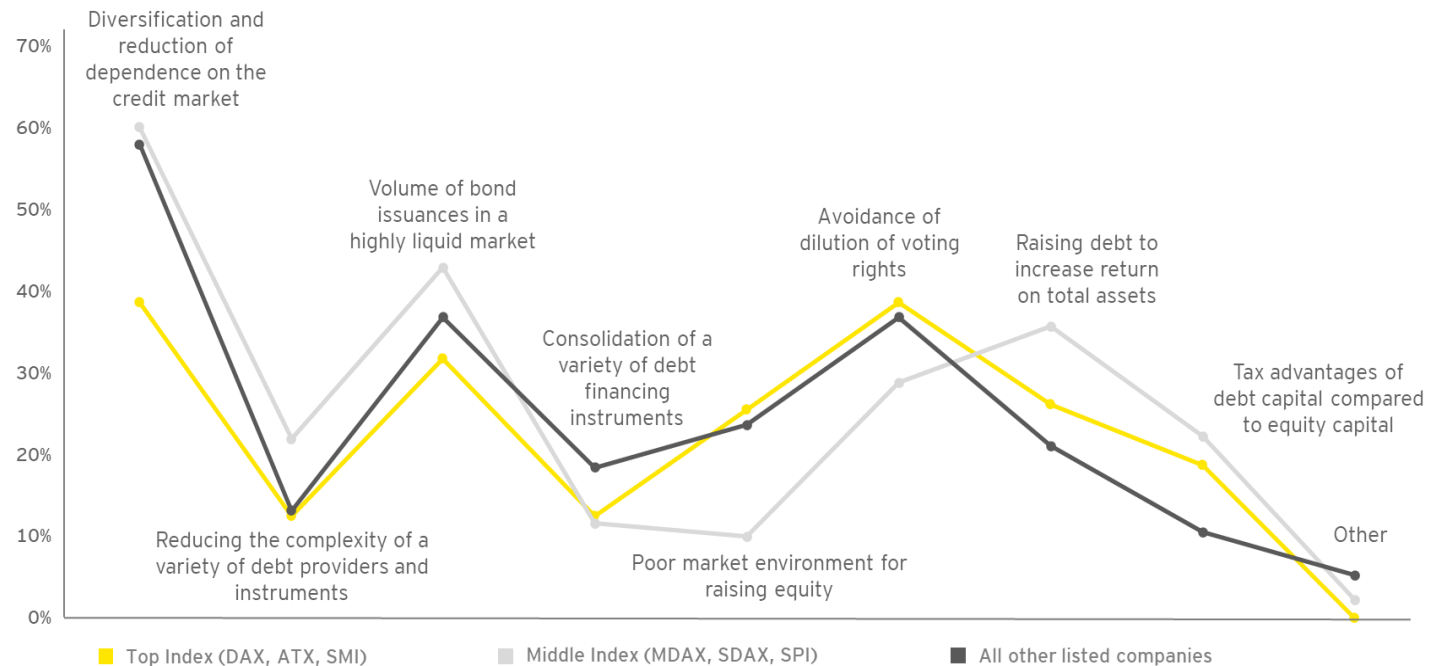
Strategic options for capital market access

Further use of capital market access (SPO) - by size

Further use of capital market access (SPO)

- ▶ For mid-sized and smaller companies, diversification and reduction of dependence on the credit market plays a greater role than for larger companies
- ▶ Especially for mid-sized companies, raising debt capital to increase return on total assets is an important aspect
- ▶ In general, great alignment among the different sized companies

Q Which of the following aspects do you consider relevant for the decision to use the organized capital market to raise further debt?
(Multiple answers possible)



Source: Strategic options: Capital market financing with shares and bonds, 2023

n = 104

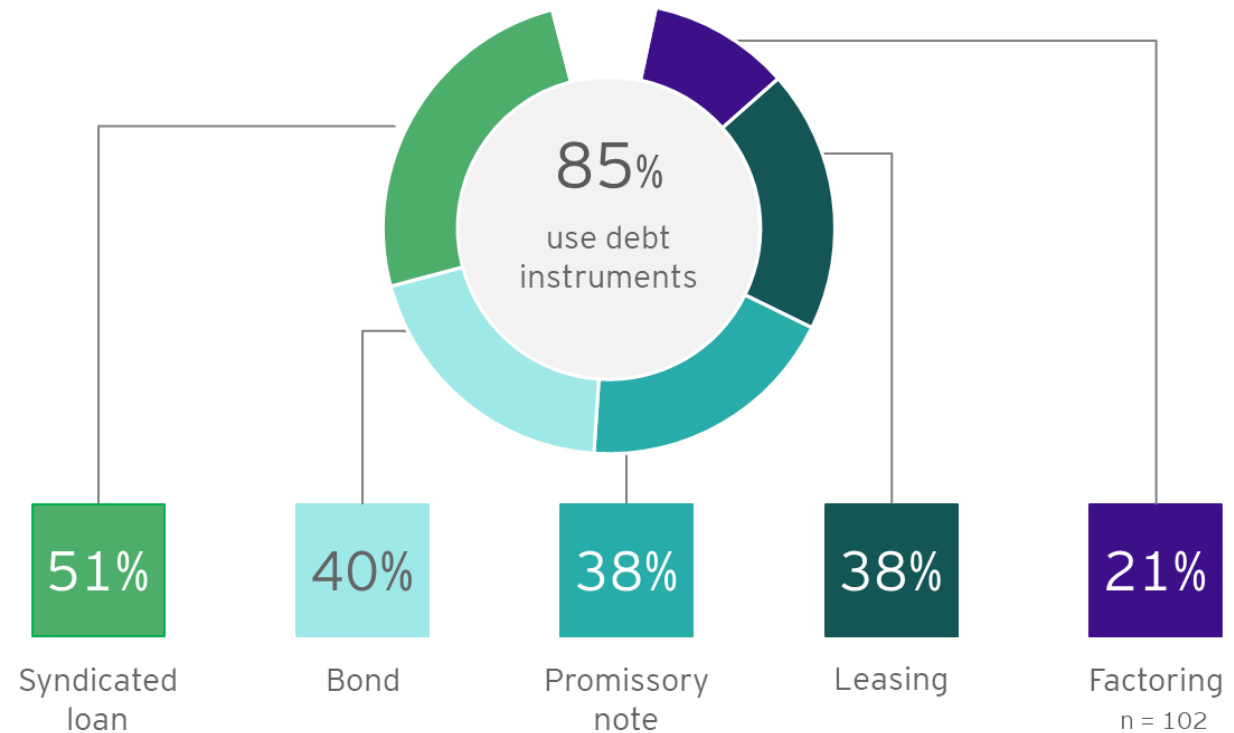
Strategic options for capital market access

Companies prefer a mix of debt instruments

Companies prefer a mix of debt instruments

- ▶ According to the IR officers, 85% of the companies use debt instruments
- ▶ Syndicated loans are the most frequently used debt instrument (51%), followed by bonds (40%), promissory notes and leasing (38% each)
- ▶ Larger companies tend to use bonds and green or social bonds more often for financing; smaller companies prefer "classic" debt instruments such as syndicated loans, promissory notes, leasing and factoring
- ▶ 15% of companies don't use debt instruments according to the surveyed IR officers

Q What debt instruments do you currently use?
(Multiple answers possible)



Strategic options for capital market access

Advantages of placing a bond when stock exchange listed

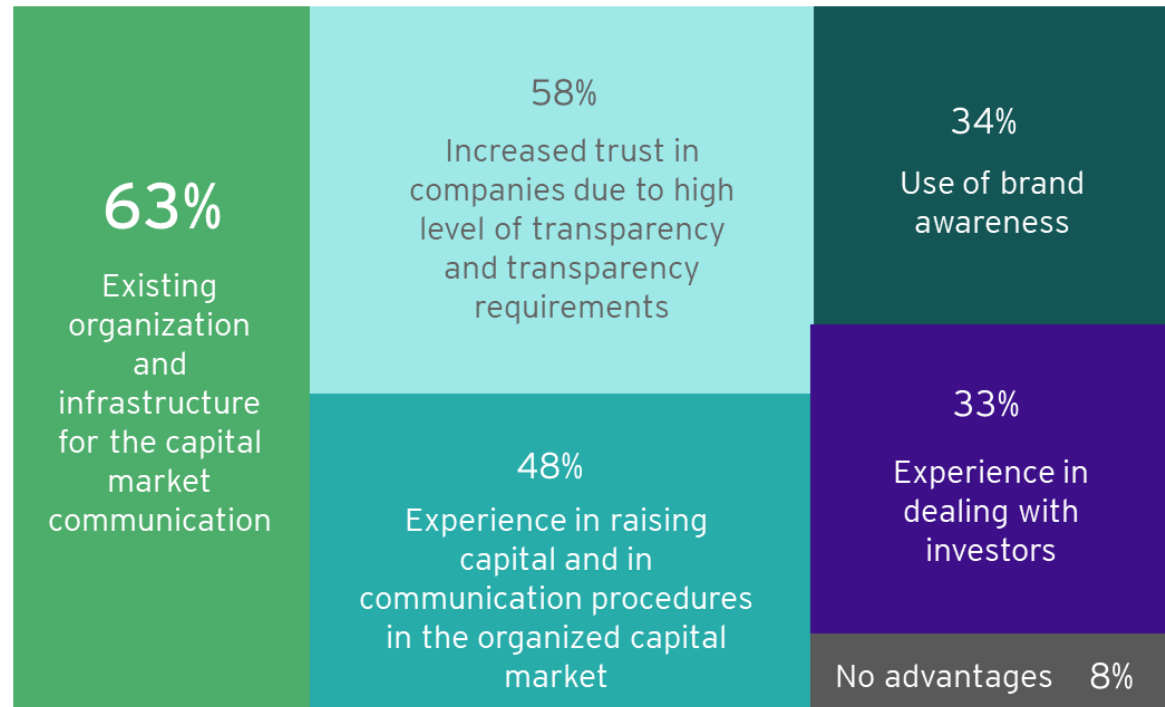
Advantages of placing a bond when stock exchange listed

- ▶ The stock exchange listing can facilitate the subsequent placement of a bond, thus making the bond financing much easier
- ▶ The existing organization and infrastructure for capital market communications is one of the biggest advantages perceived for a subsequent bond financing (63%)
- ▶ Other major advantages perceived are the increased trust in the company due to a high level of transparency and transparency requirements (58%) and experience in raising capital and in communication procedure in the organized capital market (48%)
- ▶ For 34% of the IR respondents, the use of brand awareness is another big advantage when raising debt

Source: Strategic options: Capital market financing with shares and bonds, 2023

Q What are the advantages of raising debt through a bond financing in the capital market when already stock exchange listed?

(Multiple answers possible)



n = 100

Strategic options for capital market access

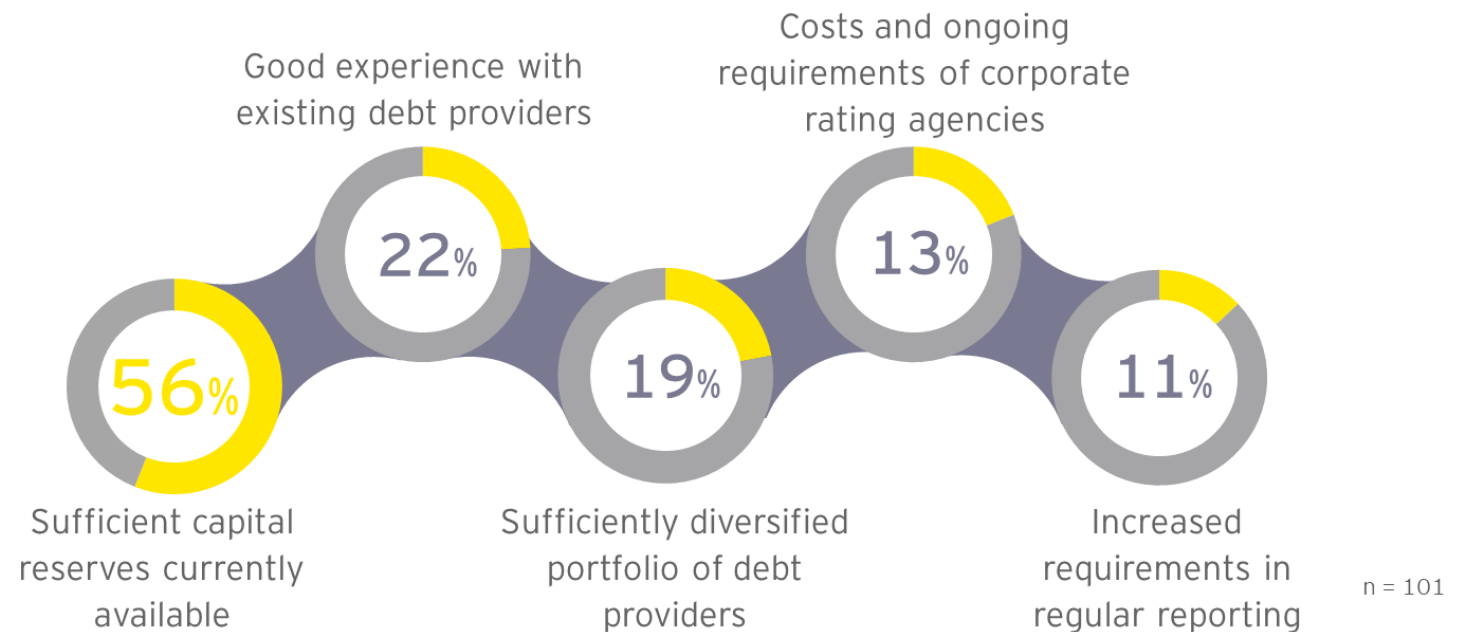
Reasons against a bond financing in the capital market

Reasons against a bond financing in the capital market

- ▶ According to 56% of the IR officers, there is no need for a bond financing due to sufficient capital reserves of the stock exchange listing
- ▶ Other reasons for not using a bond financing are the good experience with existing debt providers and a sufficiently diversified portfolio of debt providers
- ▶ The additional effort in regular reporting and by moderating another capital market instrument in IR does not play a role in the decision-making process for a bond financing

Q What are the reasons for not using the capital market with a bond financing?

(Multiple answers possible)



Source: Strategic options: Capital market financing with shares and bonds, 2023

Strategic options for capital market access

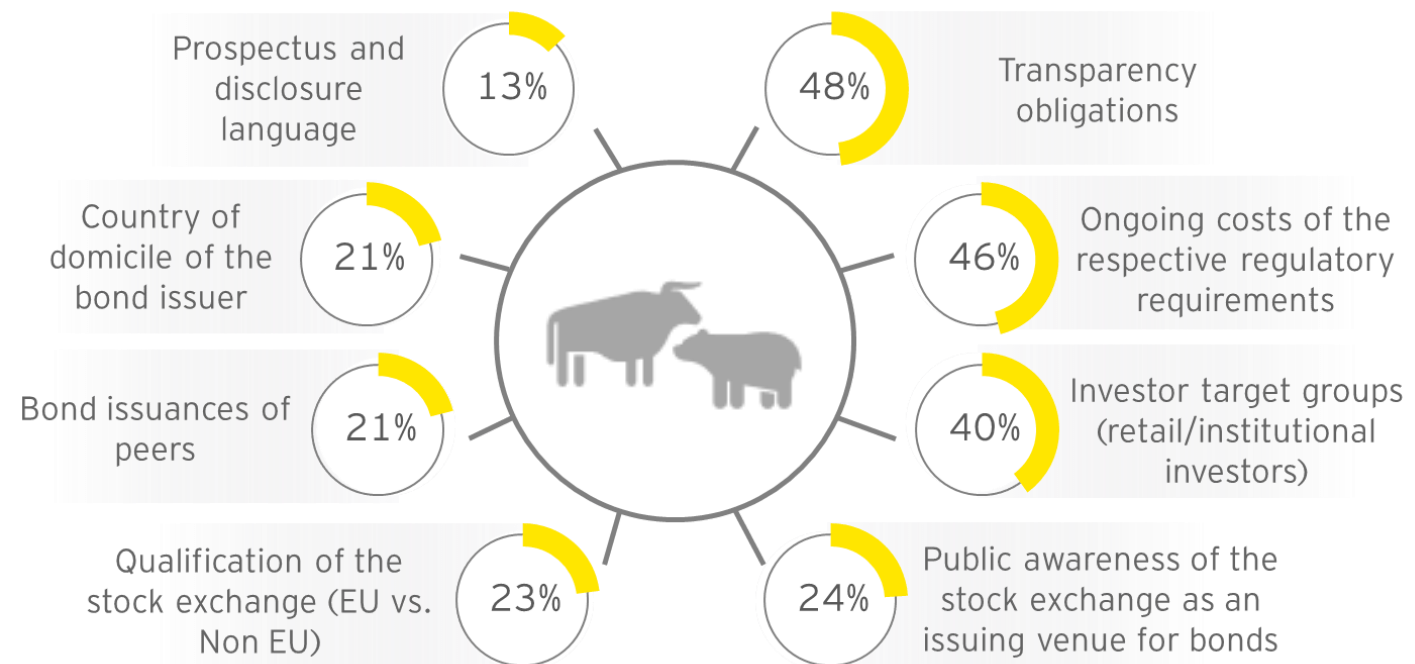
Aspects for choosing the stock exchange and segment

Aspects for choosing the stock exchange and segment

- ▶ For 48% of IR respondents, the transparency obligations is the most important aspect when selecting a stock exchange and segment for bond financing (particularly significant for mid-sized and smaller companies)
- ▶ Other important aspects are the ongoing costs of the respective regulatory requirements ("Multilateral Trading Facility" (over-the-counter) vs. "regulated market") (46%) and the investor target groups ("retail" vs. "institutional investors") (40%)
- ▶ The public awareness of the stock exchange as an issuing venue for bonds is an important aspect, too (24%)

Q What aspects are relevant for choosing the stock exchange and segment for the bond financing?

(Multiple answers possible)



n = 97

Strategic options for capital market access

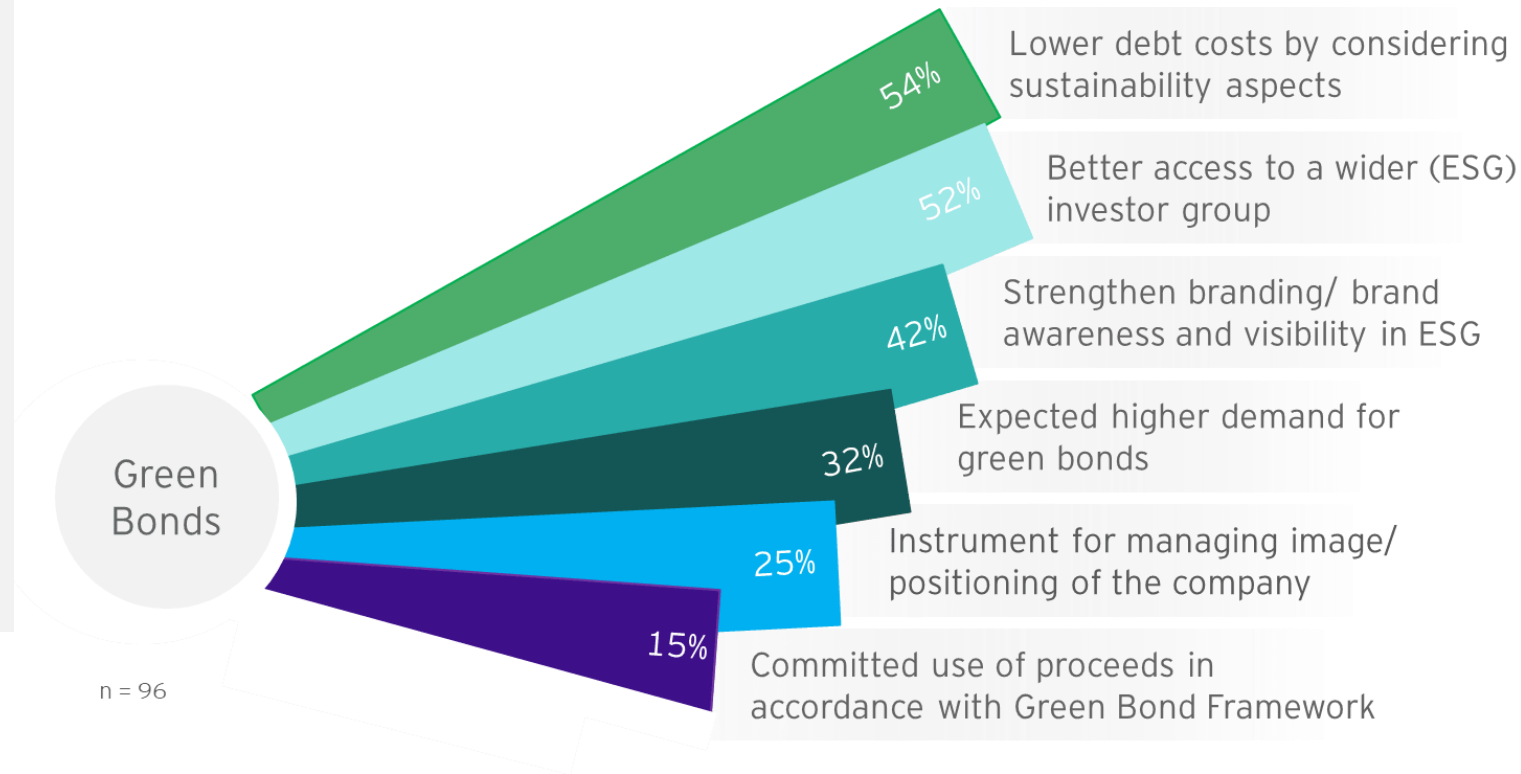
Motives for using green bonds

Motives for using green bonds

- ▶ For 54% of IR respondents, lower debt costs through the consideration of sustainability aspects is the most relevant motive for a green bond financing
- ▶ Second most important motive is the better access to a wider (ESG) investor group
- ▶ The strengthening of the branding and brand awareness and visibility in ESG is an important aspect, too
- ▶ Large companies in particular, consider the higher costs resulting from the ongoing requirements of the green bond framework as an important aspect for a green bond financing

Q Which of the following motives are relevant with regard to assessing whether to raise debt with a green bond financing?

(Multiple answers possible)



Source: Strategic options: Capital market financing with shares and bonds, 2023

Strategic options for capital market access

Relevance of the reporting elements "E", "S" and "G"

Q How important are the reporting elements „Environment“, „Social“ and „Governance“ for equity and debt investors in the non-financial statement/ sustainability report?

(Rank 1 = most relevant; Rank 3 = least relevant)

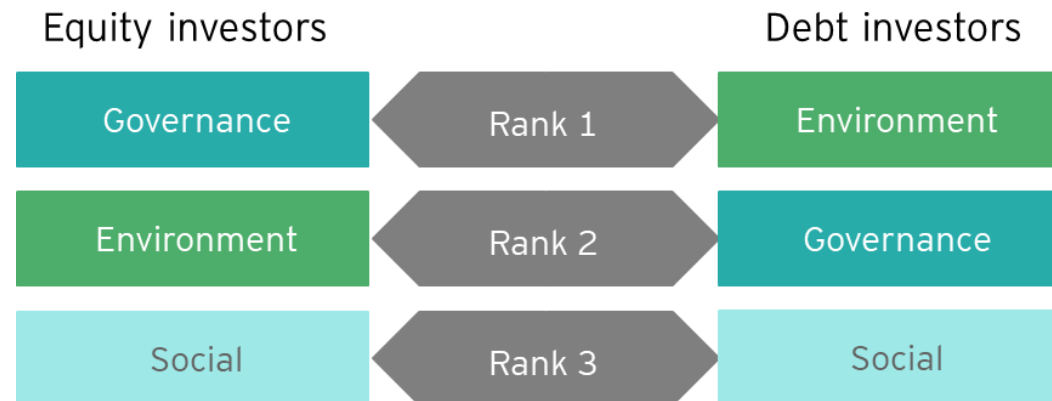
Relevance of „E“, „S“, and „G“

► Equity investors

- "Governance" is the most important element in the sustainability report
- The larger the company, the more important "Governance" becomes
- The element "Environment" ranks second and "Social" ranks third

► Debt investors

- "Environment" is the most important element in the sustainability report
- "Governance" ranks second; the smaller the company, the more likely "Governance" is to rank first
- "Social" ranks third



n = 97



IR organization for share and
bond issuances

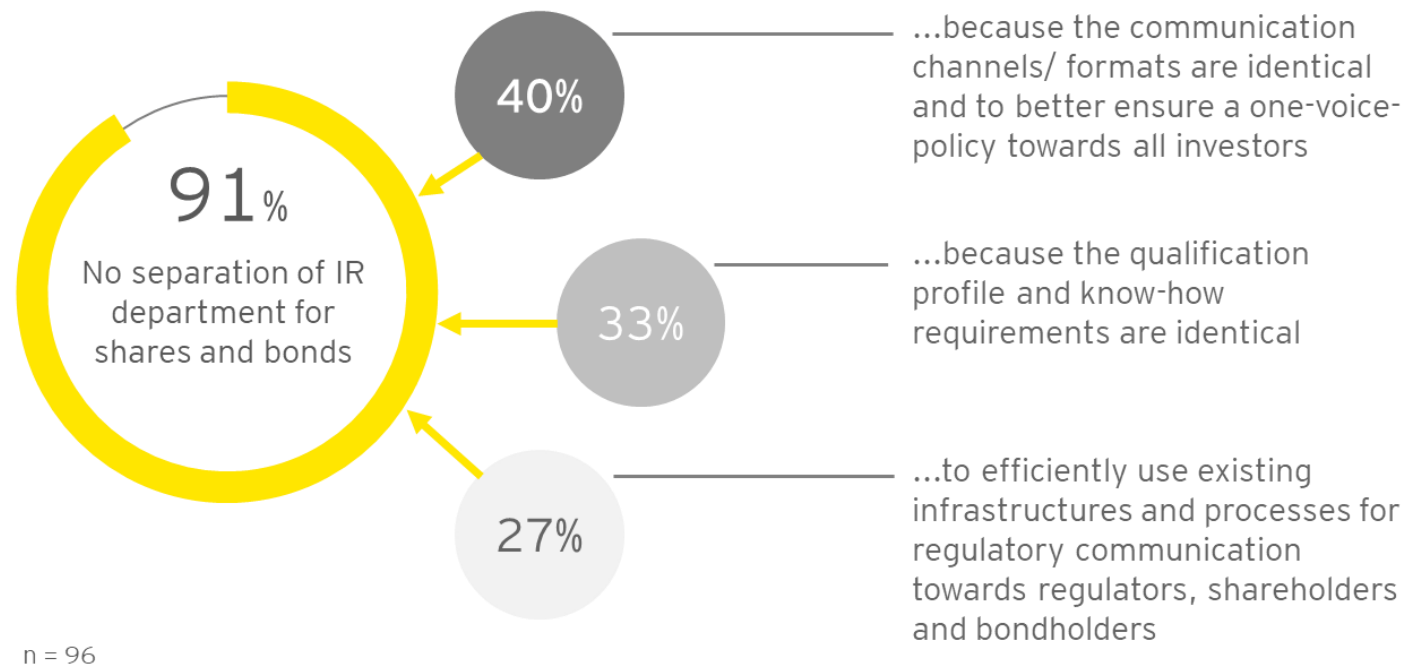
IR organization for share and bond issuances

Organization of IR department

Organization of IR department

- ▶ The majority (91%) of IR respondents are opposed to separate IR departments for equity and bonds for capital market communications and infrastructures for the regular reporting:
 - ▶ Because the communication channels and formats are identical and in order to better ensure consistency in communication (one-voice-policy) to all investors
 - ▶ Also, the qualification profile and know-how requirements for equities and bonds do not differ significantly
 - ▶ With one IR department existing infrastructures and processes for regulatory communication towards regulators, shareholders and bondholder can be used more efficiently

- Q** Should there be separate Investor Relation departments (for equities and bonds) for capital market communications and infrastructures for regular reporting?
(Multiple answers possible)



Source: Strategic options: Capital market financing with shares and bonds, 2023

IR organization for share and bond issuances

Responsible departments for relationship management

Responsible departments for relationship management

▶ Bond Investors

- ▶ IR is responsible for the relationship with bond investors according to 69% of the surveyed IR officers
- ▶ The smaller the company, the more likely IR is being responsible, while in larger companies it is more likely that Treasury is responsible for the relationship with bond investors

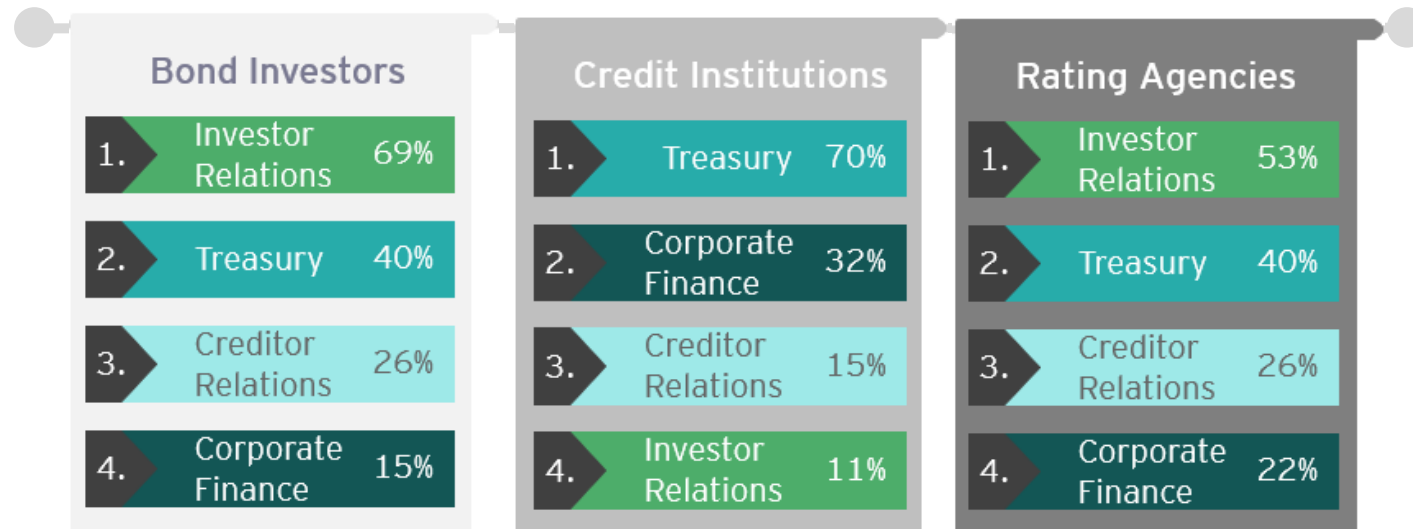
▶ Credit Institutions

- ▶ For the majority of IR respondents, Treasury is responsible for the relationship with credit institutions (70%)

▶ Rating Agencies

- ▶ IR respondents see IR (53%) but also Treasury (40%) as being responsible
- ▶ The larger the company, the more likely Treasury is responsible for the relationship with rating agencies

- Q** Who in the company is responsible for the relationship with bond investors, credit institutions and rating agencies?
(Multiple answers possible)



n = 96

Source: Strategic options: Capital market financing with shares and bonds, 2023

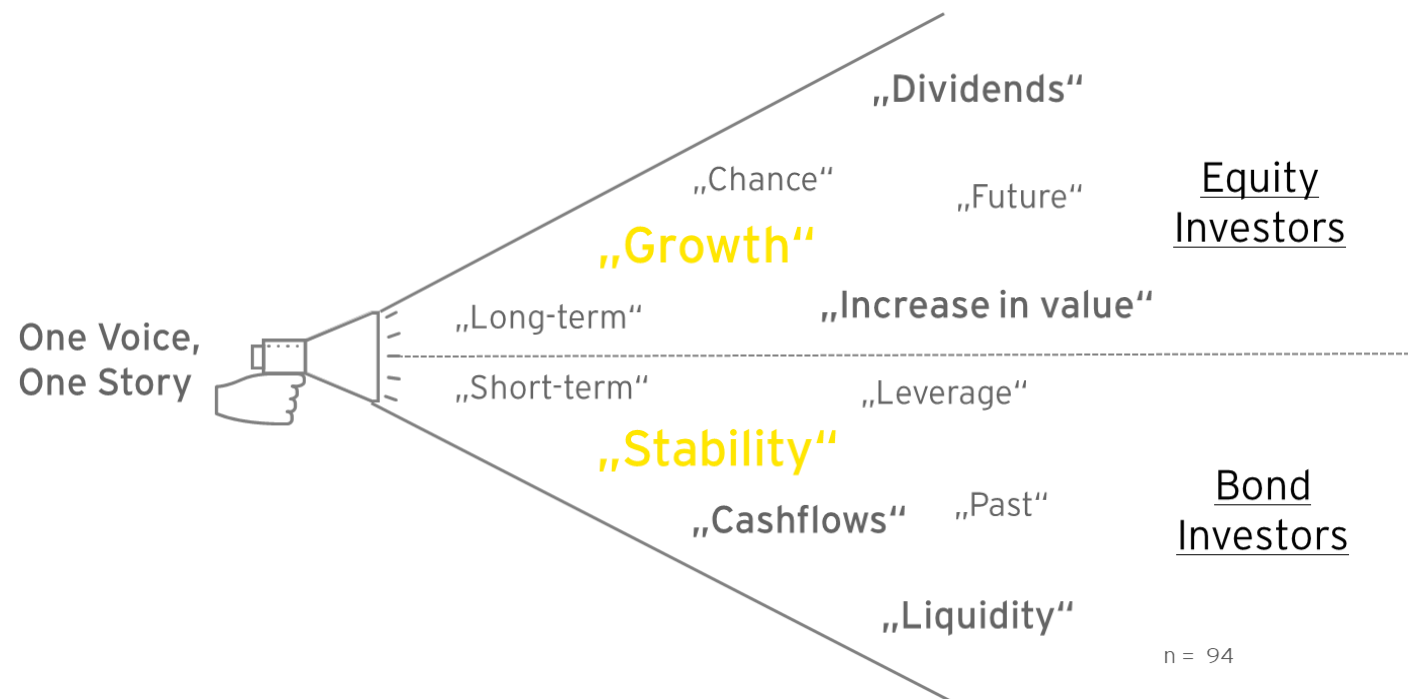
IR organization for share and bond issuances

Different communication focus for equity and bond investors

Different communication focus for equity and bond investors

- ▶ While the equity and bond story contain one "message" or "storytelling" - one voice, one story - they differ in terms of focus topics, according to the IR respondents
- ▶ **Equity Story**
 - ▶ Focus on "growth" but also on "increase in value" and "dividends"
 - ▶ Investment is more of a chance and focuses on the future and the long-term
- ▶ **Bond Story**
 - ▶ "Stability", "cashflow", "liquidity" and "leverage" are important in the bond story
 - ▶ Investment focuses on the past and the short-term

Q What are essential differences between equity story and bond story?
(Multiple answers possible)



n = 94

IR organization for share and bond issuances

KPIs for debt and equity investors vary

KPIs for debt and equity investors vary

Financial KPIs

- ▶ For equity investors cashflow ranks first, dividend policy ranks second and revenue ranks third
- ▶ For debt investors, leverage ranks first, cashflow second and equity ratio third

Non-financial KPIs

- ▶ For non-financial KPIs, Good Corporate Governance ranks first and CO₂-related data ranks second for both equity and debt investors
- ▶ IR respondents rank the customer satisfaction third for equity investors and the energy consumption third for debt investors

Q What are the most important KPIs for equity and debt investors?
(Multiple answers possible)

| | | Type of KPI's | | | |
|------------------|-----------------|---|---------------------|---------------------------------|-----|
| | | Financial KPI's | Non-financial KPI's | | |
| Type of investor | Equity investor | 1. Cashflow | 61% | 1. Good Corporate Governance | 62% |
| | | 2. Dividend policy | 52% | 2. CO ₂ related data | 58% |
| | | 3. Revenue | 45% | 3. Customer satisfaction | 30% |
| | | 4. EBITDA | 38% | 4. Employee satisfaction | 23% |
| | | 5. Return on equity, sales profitability and return on assets | 37% | 5. Information on R&D activity | 23% |
| | Debt investor | 1. Leverage | 71% | 1. Good Corporate Governance | 64% |
| | | 2. Cashflow | 63% | 2. CO ₂ related data | 54% |
| | | 3. Equity ratio | 38% | 3. Energy consumption | 23% |
| | | 4. Liquidity (Degree 1, 2, 3) | 35% | 4. Customer satisfaction | 19% |
| | | 5. EBITDA | 32% | 5. Information on R&D activity | 16% |

n=100

Source: Strategic options: Capital market financing with shares and bonds, 2023



Active IR to benefit from stock exchange listing

*World Federation of Exchanges, February 2023
 **Deutsche Börse AG, February 2023;
 *** EY, February 2023

Source: Strategic options: Capital market financing with shares and bonds, 2023

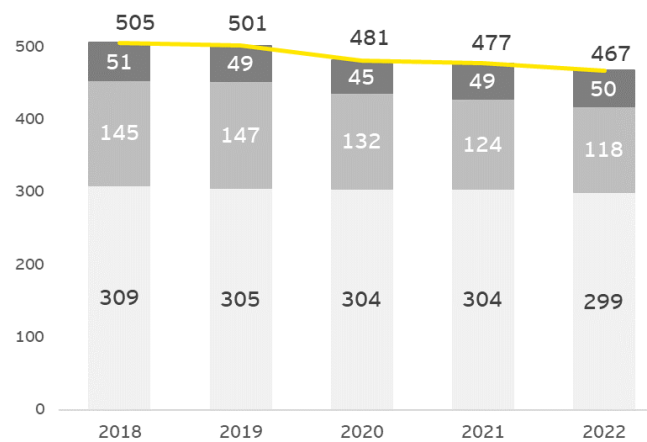
Declining number of stock exchange listings on FSE

- ▶ Since 2000, the number of listed companies on FSE is declining*
- ▶ The number of foreign issuers also declined from 245 in the year 2000 to 50 in the year 2022*, **
- ▶ Possible reasons for the decline:
 - ▶ Increased regulatory requirements in the going and being public phase
 - ▶ Increased listings in foreign stock exchange markets and decrease in the value of a dual listing through increased interconnectedness and electronification of capital markets
 - ▶ More delistings through M&A activity and insolvencies
- ▶ High number of delistings in 2020 and 2021
- ▶ High amount of IPO's in 2021, though

Active IR to benefit from stock exchange listing

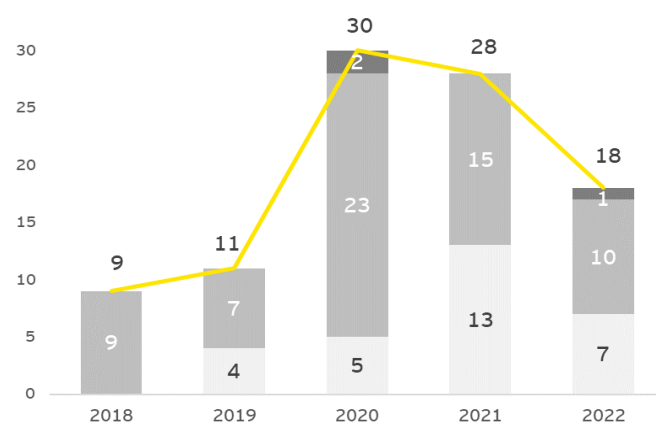
Declining number of stock exchange listings on FSE

Number of listed companies on the FSE**

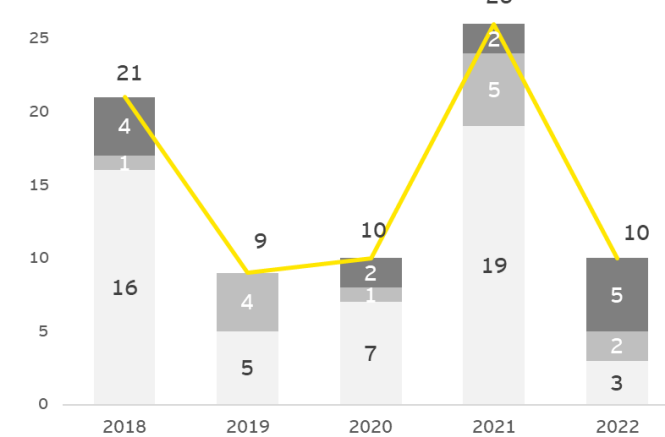


Year 2000 - 989* listings
 Year 2023 - 467** listings
 > 50% decrease

Number of delistings on the FSE**



Number of IPOs on the FSE***



Prime Standard General Standard Scale Total

Active IR to benefit from stock exchange listing

Approaches in IR practice

Stock and bond issuances on the organized capital market can be valid options for financing the business for listed and non-listed companies.

Besides access to capital, the stock exchange listing provides many advantages for the company.

1. An active IR or Fixed Income IR plays an important role in maintaining the advantages and values of a stock exchange listing
2. IR with central organization of capital market communications and financial disclosures for shares and bond listings
3. One voice, one story counts - with different communication focuses for equity and debt investors
4. Bond financing is a valid funding option in the mix of debt instruments on the basis of an existing stock exchange listing
5. Different importance of "governance" and "environment" in ESG rankings for bond and equity investors in the field of Sustainable Finance

Contribution of IR with strategic funding options in capital markets

Checklist

The following questions help to individually position your company and with the strategically considerations about financing options in the capital market:

1. What are the options for accessing the capital market and what financing means are available? Can our business and financing strategy be meaningfully combined with a capital market strategy?
2. How can we improve our existing market access or increase its benefits and, if necessary, use the capital market as a further source of financing?
3. Are our motives and objectives still the same as at the beginning of the IPO? Is the capital market still the right strategic path?
4. Which stock exchange and which segment offers the best conditions for our financing strategy? Which investors do we want to address?
5. How do we prepare for the issue of shares or bonds?
6. What are the ongoing disclosure and transparency requirements for equity and debt instruments on the capital market and what are investor requirements? How do we plan and organize our IR capital market calendar for the respective instrument?
7. How can we professionally organize the IR function in the company for equity and debt instruments and how do we define important processes, infrastructures, responsibilities and communication lines in order to be regulatory "compliant" and to ensure a "one voice policy"?
8. What are the key elements and how do we prepare an attractive equity or bond story?
9. What role does sustainability play in our company, in our story and in IR communications? Do we want to use a green or social bond to finance sustainable projects? What are the initial and ongoing regulatory requirements of a green bond?
10. How can IR or fixed income IR increase the company's value potential by better communicating key performance indicators to equity and debt investors?



Contacts regarding the study

Contacts regarding the study

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