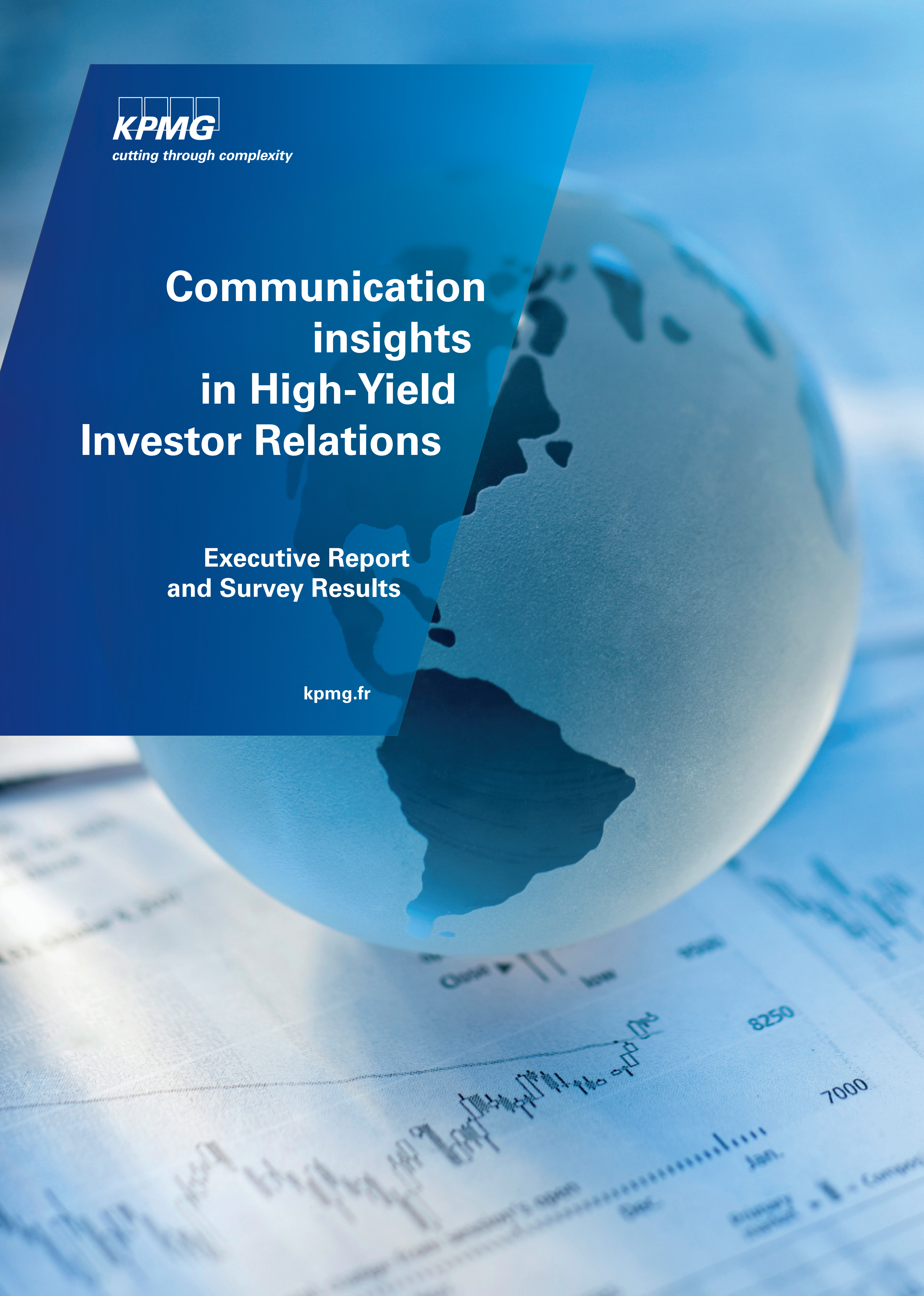


KPMG

cutting through complexity

Communication insights in High-Yield Investor Relations

Executive Report and Survey Results

kpmg.fr

Communication insights in High-Yield Investor Relations

Introduction

Over the last couple of years, the European High-Yield (or "HY") bond market has developed into a main stream source and longer-dated term funding for corporate and sponsor-backed companies. However, while the HY bond issue process is structured and fairly standardized, especially in terms of the scope and depth of financial disclosures, there is little guidance on post-issuance reporting and on-going communication with investors. Issuers are often left to their own devices when it comes to communicating effectively and maintaining strong relationships with investors post-deal.

The HY market in Europe has reached record levels since 2013. Following the bank credit crunch, the HY market saw significant increases in liquidity creating highly advantageous market conditions for borrowers. Prospects for 2015 remain promising despite the volatility that the market experienced in autumn 2014. However, the volume of HY operations in Europe is still well below that in the United States.

Issuers are also attracted to HY bonds due to the greater flexibility they provide in terms of covenants compared with bank debt. There are also less numerous regulatory requirements for issuing HY instruments compared to issuing equity. This is particularly true with regard to post-issuance financial communication, which is largely driven by market practice.

Lack of guidance and standards may result in a sudden change in communication. During the issuance phase, the issuer is surrounded by advisors such as banks and lawyers, who provide assistance on the scope and depth of financial information to be disclosed. But once the issuance process is completed, management is often left to handle financial communication with the HY bond investor community on its own. This can present additional challenges particularly for non-listed first-time issuers who therefore do not have a specific Investor Relations department to handle communication with the investor community.

So post-issuance financial communication is usually a difficult exercise, especially for first-time issuers. The challenge is two-fold:

1. Maintaining investor confidence during the post-issuance period is crucial. This means being capable of producing information of the same quality as the Offering Memorandum (OM).
2. There are few regulations or benchmarks on the scope and depth of financial communication.

Getting investors' views on post-issuance financial communication and their relations with issuers is key to better understanding their expectations. It provides issuers with valuable insight into best practice, enabling them to adapt their financial communication accordingly.

The following pages summarise investors' views on post-issuance financial communication, investor calls and investor relations.

"Management often thinks that once they have sold their bonds, it ends there. They need to understand that IR needs to be transparent, accurate and clear."

Investor's feedback following our survey

Survey

Methodology and Background

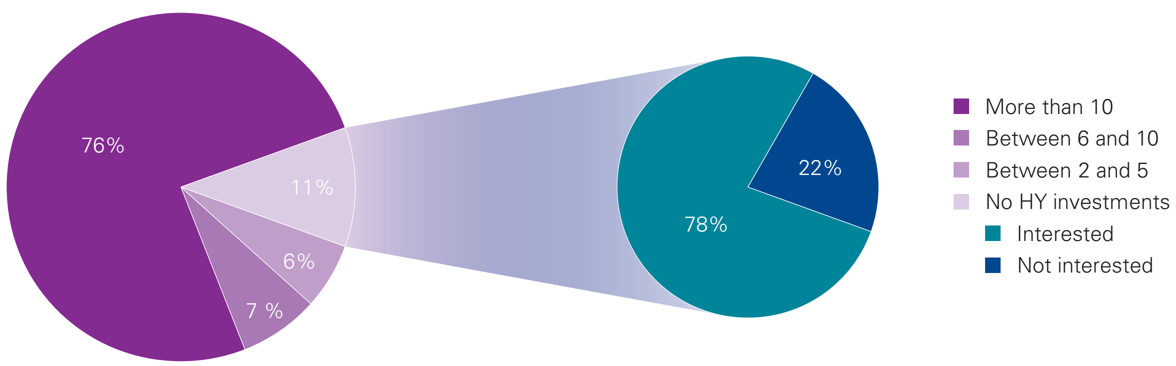
This study is based on a survey of 180 investors between 15 May and 25 June 2014.

The key messages from this study can be classified in three main themes:

1. Financial Communication
2. HY Investor Calls
3. Investor Relations

Chart 1:

Proportion of respondents' investment in HY bonds.



- We surveyed an experienced population of investors, with 71% of respondents having more than ten HY issuers in their investment portfolio.
- Among the small proportion of respondents that had no HY bonds in their portfolio more than three out of four would be interested in such assets.

More than 75% of respondents who have not yet invested in HY bonds would be interested in doing so in the near future. This confirms the positive perspectives for the HY market.

Financial Communication

Introduction

The majority of investors agree that the financial metrics presented in financial communication are properly defined and easy to understand, but one third of investors are still unconvinced.

Without detailed standards and practices on post-issuance financial communication, it is understandable that 60% of investors find that the metrics are properly defined and easy to understand.

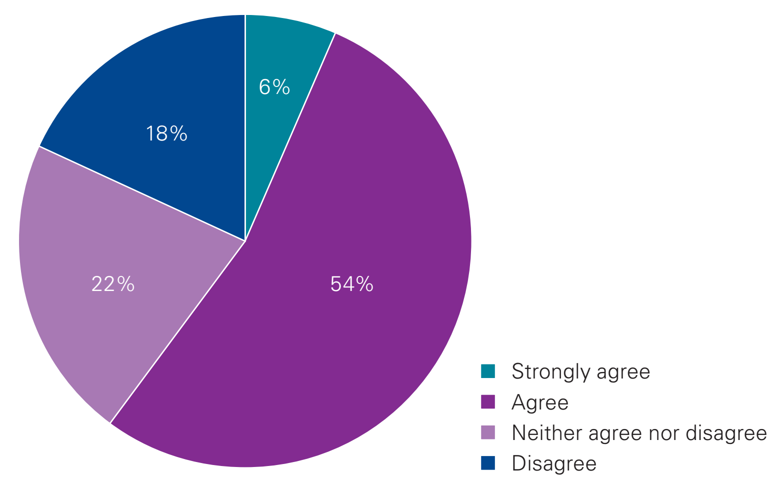
Another factor impacting investors' understanding is the fact that HY bonds are often issued with a maturity of several years. During this period, events and changes in scope can affect the company and impact the comparability of disclosed data. Financials often need to be restated to account for the pro forma effect of acquisitions and disposals, constant foreign exchange rates, and changes in accounting principles or in the chart of accounts.

Subsequently, even though most investors stated that the information presented is fairly consistent with that presented in the OM, we found that two thirds of investors believe that financial metrics do not enable comparability with historical data.

Some respondents commented that issuers seem to be more committed to maintaining communication with bank lenders than with bond holders, as the former appear to be entitled to more detailed, precise, updated information on the company.

Chart 2:

Are the financial metrics presented on a quarterly basis by the issuer usually properly defined and easy to understand?



Financial Communication
General appraisal

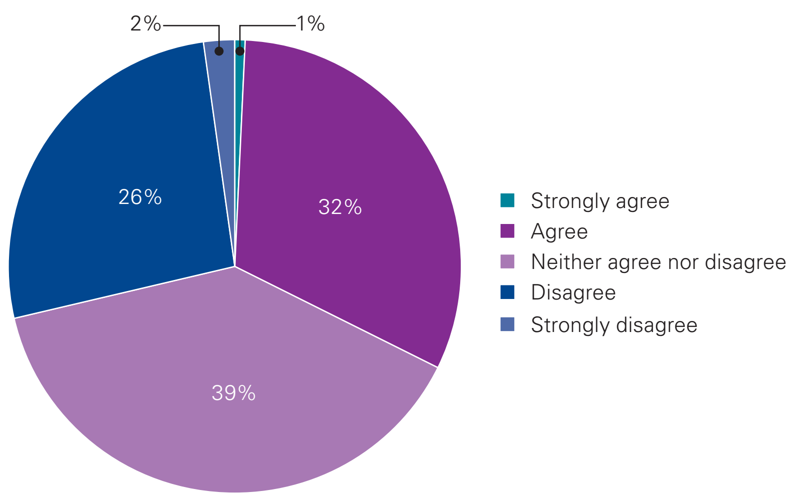
While one third of investors believe that the basis of preparation of financial indicators is disclosed and easy to understand, one third of respondents still disagree.

As the content of the information to be disclosed post-issuance is driven by market practices, there is no clear definition of what should be shared with investors. It is often up to the issuer alone to decide. As a result, issuers may communicate inappropriately, leading to misinterpretation and investor dissatisfaction.

One example that was identified in our survey, when we asked investors if a reconciliation between IFRS principles (GAAP measures) and key financial metrics should be disclosed in the quarterly financial presentation, the majority of investors (88%) think it should be disclosed, and 60% of investors are even convinced that an audit opinion on the quarterly financials should be mandatory.

Chart 3:

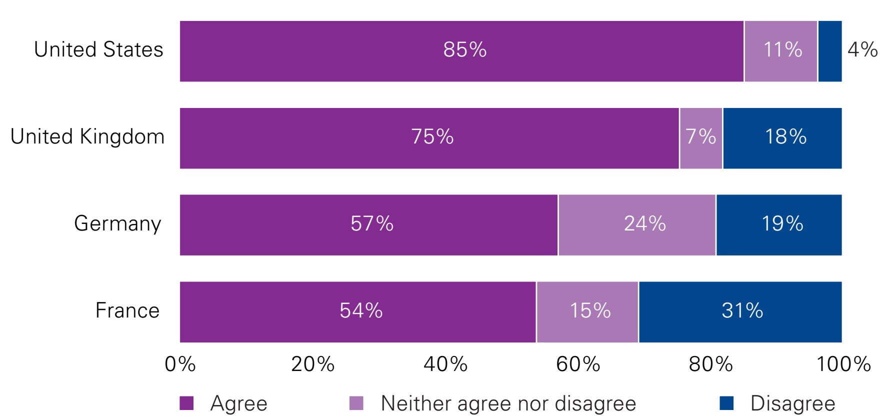
The basis of preparation of the financial indicators is always disclosed and easy to understand.



73% of investors see a correlation between the quality and depth of the financials and the geographic location of the issuer.

Chart 4:

The quality and depth of the financial information provided by the issuer usually depend on geographic location.



There is quite a contrast in opinion, with 85% of American respondents agreeing with the statement and only 54% of French investors. This can be explained by several facts.

Non-European investors' access to information may be hindered due to a lack of knowledge of local business specifics. Differences in accounting principles and reporting standards may also have an impact, as well as the level of English of issuers or speakers on the calls.

Also, HY practices in some European countries are less mature than in the United States and United Kingdom.

Financial Communication
Key information sought by investors

In addition to updated financial metrics, HY investors would like insight into the following:

- **Operating performance & business insight:** Investors need to gain a clear view of the operating performance of the issuer through its key drivers. This implies providing non-financial data (operating volumes, contracts, orders), segment information and management's view of the industry and competition.
- **Outlook and forecasts:** Investors need a consistent view of the outlook and potential changes in business. They are interested in the challenges the issuer will face and the action that management is prepared to take over a one-year horizon. Giving this information may, however, place certain future performance obligations on the issuer and, therefore, these should be considered with caution.
- **Covenants and credit profile:** Investors need insight into the issuer's credit profile. Some investors would want the disclosure of company's bank loan covenants. At a minimum the issuer's credit rating should be disclosed.
- **Cash flow and working capital:** Although financial communication often includes information on cash flow, respondents expressed the desire to have a complete, clean cash flow statement (CFS) calculated from net income rather than an abbreviated CFS based on EBITDA, WC and Capex. Investors want an in-depth discussion on liquidity and its drivers.
- **Capital and debt structure:** According to some investors, quarterly communications should include information on the capital structure, with a breakdown of debt by type and maturity, expected changes, as well as off-balance sheet commitments.

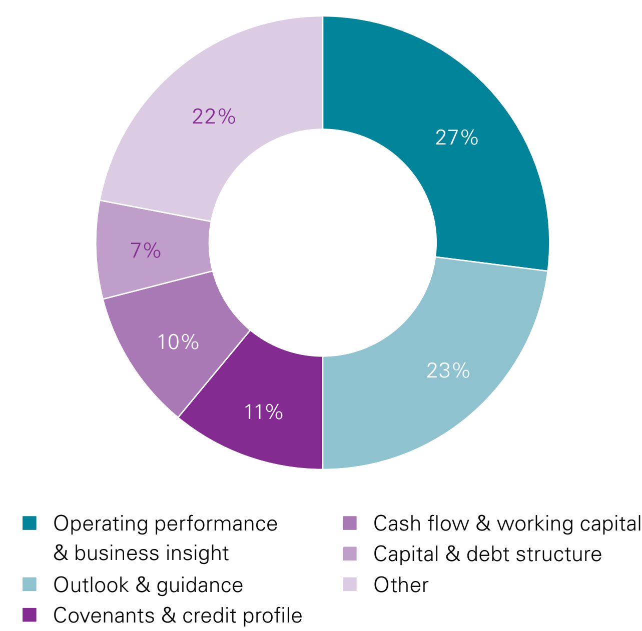
Respondent comments

When asked what is the key information that should be included in quarterly disclosures, HY investors stated:

- **"A consistent approach to the use of forecasts."**
- **"Key operating metrics for the business."**
- **"More in-depth colour on current trading and outlook."**
- **"Quality of presentation is not always consistent."**
- **"It would be helpful to know where companies are in terms of their covenants."**
- **"There are often only abbreviated Cash Flow statements,… whereas I REALLY want to see proper CF statements…"**
- **…**

Chart 5:

Investors' opinion on key information that should be included in companies' financial communication.



HY Investor Calls

Introduction

Investor calls are one of the main means of maintaining investor relationships and, as such, they should not be underestimated.

We asked investors what key elements of the call they appreciate. While their opinion is often divided among different aspects of the call, more than one quarter of respondents chose the Q&A session.

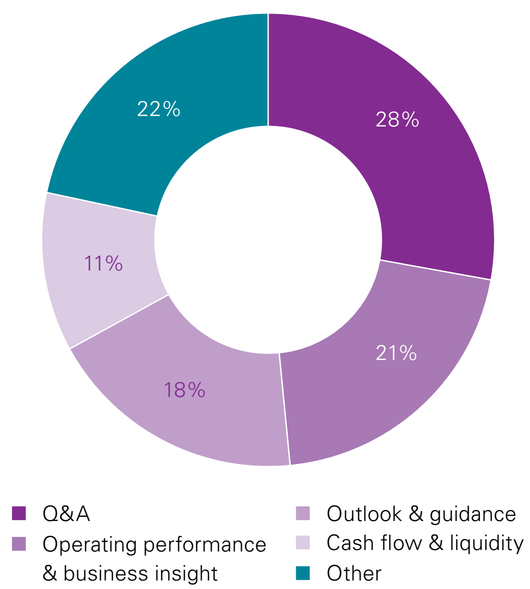
Although the Q&A session is of utmost importance to investors, more than half of respondents believe that the issuer's management team does not provide sufficient depth when responding to HY investors' questions.

Investors may be discouraged by issuers who do not provide appropriate answers to their questions. Issuers who correctly address the needs and concerns of investors are more likely to maintain and improve their business relationships.

The Q&A session is the part of the quarterly conference call that investors appreciate the most. Nevertheless, less than half of respondents believe that top management provides sufficient depth when answering questions.

Chart 6:

What aspects of conference calls with HY investors do you particularly appreciate?

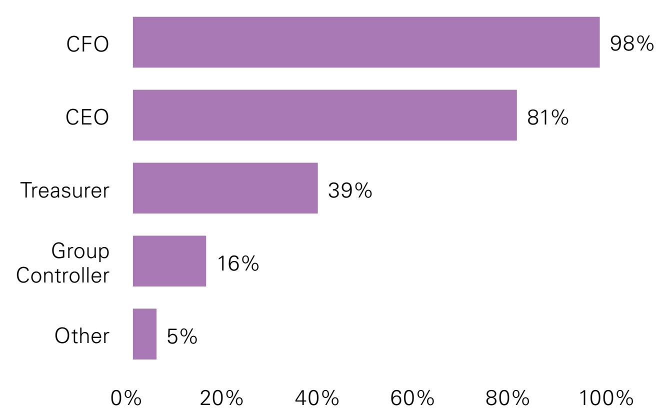


HY Investor Calls
Participants

There is consensus among investors about which key individuals in the company should participate in quarterly investor calls.

Chart 7:

In your view, which key people should participate in the call from the issuer's side?



The overwhelming majority of investors believe that the CEO and CFO should participate in the quarterly investor calls.

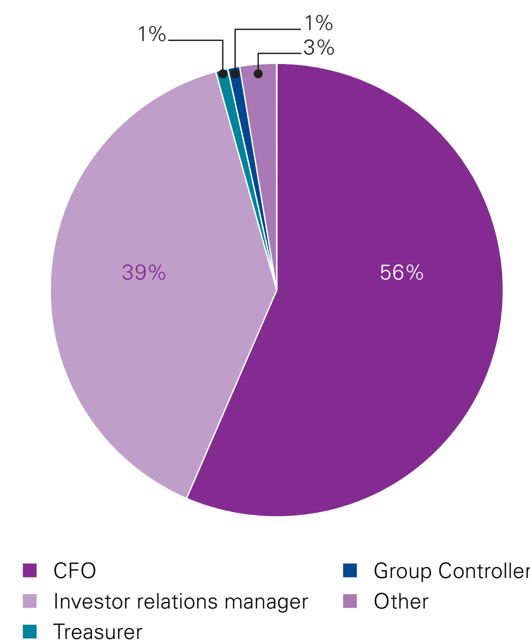
Nevertheless, a significant number of investors would like more insight into business performance which implies the participation of an operational manager (COO, Head of sales or Business Unit manager).

Financial performance topics are mostly addressed by the CFO and the IR manager.

The CFO and IR manager are the main contact points for most queries. An additional question in the survey showed that two thirds of respondents don't believe that an Investor Relations department would handle their interaction with the issuer more efficiently than their usual contact in the Finance department. Some investors also want their broker or investment banker to participate.

Chart 8:

To whom do you address your questions about the financial performance of the company?



HY Investor Calls
Room for improvement

Although the technical content of HY calls is a key aspect for investors, they also pay special attention to the point of view of the issuer during the exchange and to overall handling of the call, from preparation to recording and posting online.

- **Data quality, transparency and consistency:** The main concern of investors is data transparency and disclosure. They want to be knowledgeable and informed about the whole story, including positive and negative elements.
- **Preparation of the call (schedule and contents):** The second concern of investors is to have the opportunity to review information in advance allowing them to prepare for the call efficiently. Investors generally need more time between the publication of results and the conference call. They also expect issuers to be prepared to answer certain questions from the investment community.
- **Availability of presentation, transcripts, replays, etc:** According to investors, best practice is to record the whole call, and post-recording and transcript on the website for investors that were unable to participate. Audit and record-keeping are also recommended. Finally, they also ask for easier access and connection.
- **Q&A duration and openness:** Most of investors believe that the duration of the Q&A session is not sufficient. Half of investors believe that issuers don't provide enough depth in their answers to investors' questions.

Almost half of respondents are still unconvinced of the quality of tools used to run conference calls.

Chart 9:

How would you rate the tools used to run conference calls for HY investors (e.g. issuer's website, dial-in, availability of information prior to the call)?

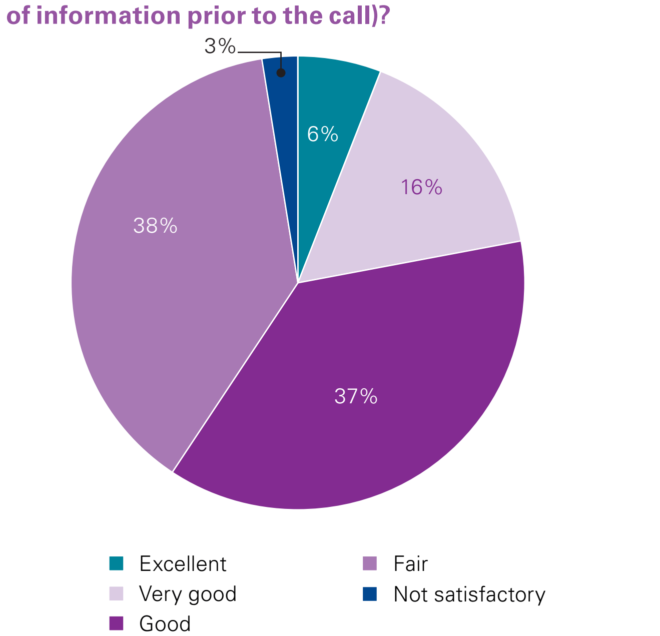
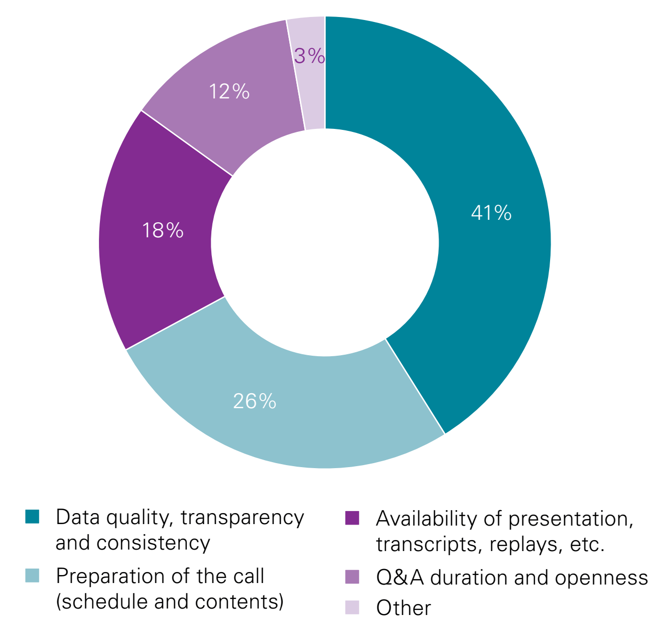


Chart 10:

What are the main improvements that could be made to conference calls with HY investors?



Investor Relations

Introduction

The Investor Relations department should be the entrance point for most investors' questions. Nevertheless, our survey shows that some efforts still need to be made to position the IR department as the cornerstone of issuer-investor relationships.

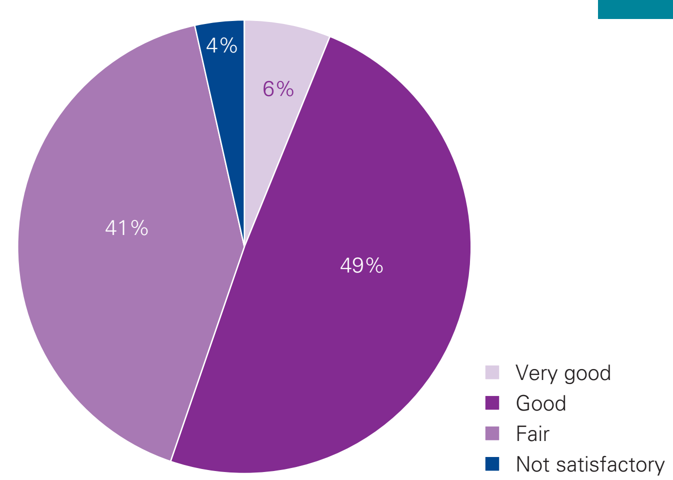
Some investors believe that rather than approaching the Investor Relations department, they should contact either the CEO or CFO of the company in order to get accurate and insightful answers to their questions.

This is frequently due to the belief that an IR department does not have the same level of knowledge as the CEO and CFO and therefore will not be capable of providing the appropriate information to investors in a timely manner.

Chart 11:

Overall, how would you rate the quality of your interaction with issuers?

Only one half of investors are satisfied with the quality of their interaction with issuers.



Investor Relations
People and relationships

The following aspects of issuer-investor relationships can be enhanced:

56% favor events such as investor days, consisting of a one-day visit to the issuer's premises. HY investors get to meet and know more about the company and other investors' points of view.

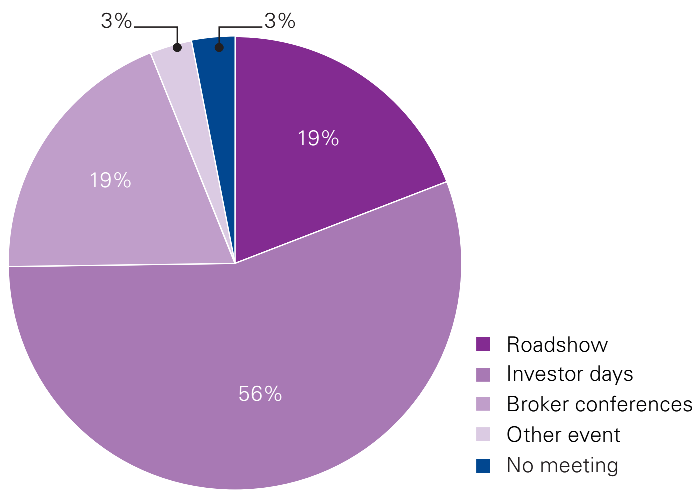
19% of the remaining investors prefer roadshows, which allow more personnalised contact with a smaller audience.

Investors want to meet issuers more regularly.

Finally, 19% of investors are inclined towards broker conferences, a more classic approach.

Chart 12:

Do you believe that more regular face-to-face meetings with issuers would be useful, and if so, what type of event would you prefer?

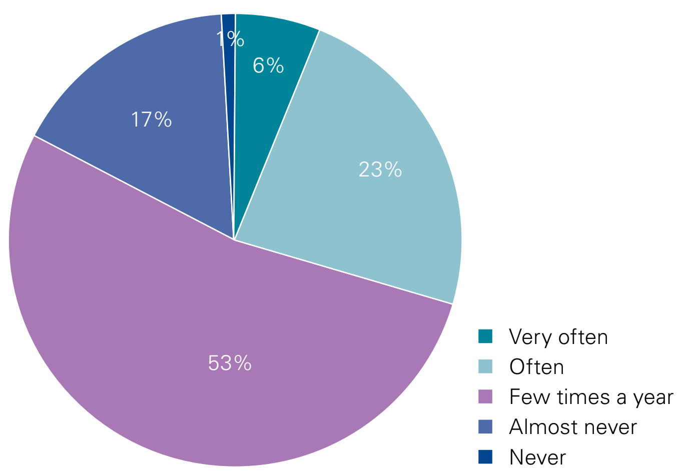


Most investors do not maintain regular contact with issuers, and do not develop a true business partnership with them.

A regular and open relationship with issuers is what most investors are looking for. They believe closer contact would allow them to gain better insight into the company, would promote trust in their investment and facilitate follow-up.

Chart 13:

Do you have regular contact by phone or email with issuers in which you have invested?



Investor Relations
Room for improvement

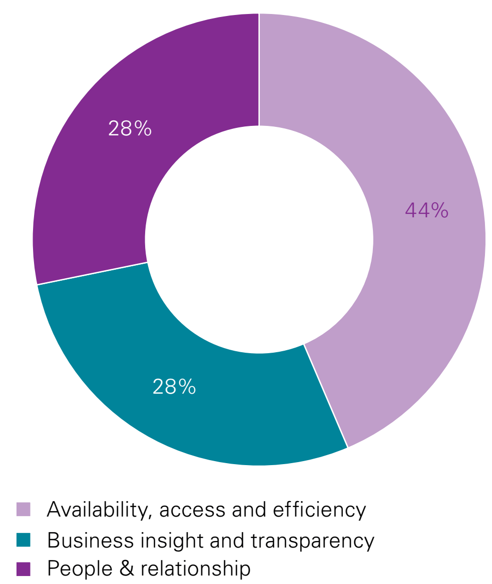
According to respondents, the following three areas are crucial for improving the quality of investor relations.

- **Availability, access and efficiency:** Investors' main desire is for the issuer's IR department to communicate efficiently. Investors believe improvements are possible in terms of the timing and quality of responses to queries and access to financial materials, especially on the company's website.
- **Business insight and transparency:** Most investors are satisfied with the level of competence of the issuer's IR department. However, investors generally demand more disclosure. Their main concern is to avoid asymmetry in access to information or favoritism between investors. This can happen when one investor has a stronger business relationship or closer economic links with the issuer than others.
- **People and relationships:** Many investors think the issuer-investor relationship could be strengthened through more consistent contact, more regular face-to-face meetings and site visits. Some investors also expressed the need to meet both the IR manager and top management at least once a year. Others also consider that the IR department is a poor substitute to talking with the CFO and CEO as they are not always equipped to give the detailed answers sought by HY investors.

Investors' main concern is to strengthen their relationships with issuers through better access to the IR department and top management.

Chart 14:

What are the main areas for improvement in the investor relations process?



Respondent comments

When asked how to improve the investor relations process, respondents stated:

- **"Strengthen investor relations by building long-term trusting relationships with credit holders."**
- **"Use IR websites as opposed to just email distribution lists."**
- **"Give investors the opportunity to meet senior management face to face."**
- **"More frequent contact -- organize more conferences, host investor days, etc."**
- **"Improve the speed and quality of responses."**
- **...**

Key learnings

Financial communication to the high-yield bond investor community is a sensitive issue, particularly for first-time investors who have very little experience.

As opposed to equity operations, **there is little or no best practice guidance** and visibility on post-issuance disclosures to bondholders, as witnessed by the many disparities in depth and quality of financials.

The study confirms **certain basic points**, including:

- the poor **quality of the basis of preparation** of financial indicators (only a third of respondents stated that it was sufficiently clear, although this depends on the issuer's geographic location);
- **inadequate financial information** quality, according to almost half (41%) of respondents;
- **need of consistent financial** information indicators with those in the Offering Memorandum.

Another key point is that financial communication **should not be limited to calls** when key accounting indicators like EBITDA or Free Cash Flow are announced to investors.

Without providing too much detail on the budget or business plan, financial information should include the company's **growth prospects** and **levers** in addition to cash flow and liquidity performance. For example, liquidity was considered the most important aspect by only 11% of respondents, compared with business insight (21%) and outlook and forecasts (18%).

This is further proof that, in addition to the CFO, Group Controller, Treasurer and other financial executives, **the CEO should also take part in conference calls** to comment on the company's growth prospects and operational performance (attendance expected by 81% of investor respondents).

The other important point highlighted by the study, especially with regards to first-time investors, is that **investor relations must extend beyond conference calls**.

Although very few investors (4%) state that they are dissatisfied with their relations with the issuer, most (97%) would like to have **greater direct contact through events** like investor days and road shows. First and foremost Investor relations should be based on **transparency and trust** and managed by a dedicated IR department. If no such department exists in the company, the **CFO is often considered the middleman**. The IR department or CFO is responsible for ensuring equal treatment of all investors with regards to financial disclosures.

High-yield financial communication is nonetheless an opportunity for first-time investors to receive **top-quality financial information**. The time and effort put into creating an efficient IR department to build strong, transparent relations **will pay off as the company becomes better equipped** to handle future debt and equity market transactions.

KPMG observations

1 The HY investors represent an important provider of capital to the company and therefore it is important to manage such parties as key stakeholders of the group to sustain long-term relationships and appetite.

2 Providing clear, transparent and consistent information that addresses the key drivers and performance of the business is important to maintaining relationships and credibility in the market.

3 There is a balance in providing the right level of information. While providing very detailed information will improve investor insight, such information may be used to inform investor markets expectations, inform secondary market pricing for the bonds and may be used to measure ongoing performance. Care should be taken to achieve the right balance.

4 Key messages should be positioned carefully so that this is positioned to take into account the credit 'lens' of debt investors rather than other stakeholders.

5 Information disclosure should be considered carefully in the context of regulatory requirements to ensure public disclosure treats each class of stakeholder (e.g. shareholders, HY investors, other lenders) appropriately.

6 Maintaining a clear and consistent investor relations programme can support best practice communication and support management credibility with investors.

Contact us

Nicolas Richard
Partner, Head of Management Consulting France
T: + 33(0)1 55 68 89 99
E: nrichard@kpmg.fr

Damien Allo
Partner, Debt and Capital Advisory
T: + 33(0)1 55 68 87 58
E: dallo1@kpmg.fr

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