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All In: Investors Look to the Long Term Summary of BCG's 2013 Investor Survey

May 2013

THE BOSTON CONSULTING GROUP



Usage of these materials

This document summarizes the findings from a survey carried out by BCG teams in February 2013 with 125 investors and sell-side analysts across the world

It is being provided to those investors who participated in the BCG survey and is focused on helping investors and their portfolio companies understand:

- How are equity investors viewing current global economic environment, the markets evolution and investment opportunities in this environment?
- What are the different dimensions of current investor sentiment? How does it compare to previous years?
- How have equity investors changed their investment thesis for 2013 and beyond?

BCG is not making any specific recommendations given every company has a different starting point and set of circumstances

This document should be shared with your colleagues and portfolio company executives who may find it useful

- Please refer any questions from your portfolio companies, or the media, to one of the BCG Partners listed on the next page
- We welcome the opportunity to discuss our findings with them

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Background: BCG's 2013 investor survey

This is BCG's fifth annual investor survey, each conducted in a challenging yet very different environment

- March 2009: immediately following the nadir of the crisis
- March 2010: first signs of recovery appeared
- March 2011: uncertainty around macro-economic conditions and growth prospects
- February 2012: slowdown in global recovery & increasing uncertainty in economic outlook
- February 2013: cautious optimism in financial markets, "real" economy remains fragile

Profile of 2013 survey respondents

- 125 portfolio managers, buy-side and sell-side analysts
- Collectively manage around \$1.1 trillion – fund sizes from under \$500 million to over \$20 billion
- 75% most familiar with the S&P 500 and 15% with EuroStoxx. Respondents familiar with Euronext, FTSE, Nikkei and HangSeng also represented
- Global geographical representation, ~50% of respondents primarily focused on the US market
- Wide range of investment philosophies, including growth-oriented, value and special situations strategies

Global economy remains fragile

Financial markets rebounded in 2012 after disappointing 2011, but "real" sector remains sluggish

As was expected, global economy slowed down in 2012 – global output growth decelerated from 3.9% in '11 to 3.2% in '12

- US grew faster than expected thanks to upturn in housing market and continued monetary stimulus
- Eurozone economy contracted by -0.4% driven by continued challenges in peripheral economies (Greece, Italy, Spain etc)
- Emerging markets declined in 1H12 mainly due to lower investment demand in China; growth picked up in 2H12
- Japan showed signs of sliding into recession later in the year due to disruption in trade with China and to expiration of car subsidies; rebuilding activity after the 2011 earthquake led to overall annual growth of 2%
- Central banks in EU, US, and Japan engaged in further series of quantitative easing

Sentiment in the financial sector improved in 2012 ...

- Total Shareholder Return (TSR) positive in all markets, in contrast to 2011 when only 6 markets delivered positive TSR
- Eurozone risks significantly reduced by ~50% deficit reduction¹ and creation of Pan-European economic support and bank supervision institutions, leading to a decline in EU and EM2 CDS and bond spreads back to levels of early 2010
- After falling by ~30-40% in 2Q'12, capital flows to developing countries rebounded and reached new highs

... but real-side of the economy showed a weak recovery

- Unemployment remained high (~12% EU, ~8% US), leading to growing challenges of long-term unemployment (35% in developed economies)
- Despite improving unemployment (reached 4-year low in Feb'13), investment and industrial activity in the US remained weak, likely caused by continuing uncertainties in fiscal policy
- Growth in world trade volume decelerated sharply for the second year in a row from 12.7% in 2010 to 2.8% in 2012

Entering 2013, the economy remains fragile and uncertain (small improvement expected vs. 2012); the equity markets, in general, have had a strong performance in Q1

- Balance of risks now less skewed to downside than it has been in recent years
- Growth hinges on US/EU policies to restore business confidence and investment demand in China

How have investors' views evolved in this environment?

Global economy slowed down in 2012, as was expected

Driven by deceleration in both advanced and developing economies

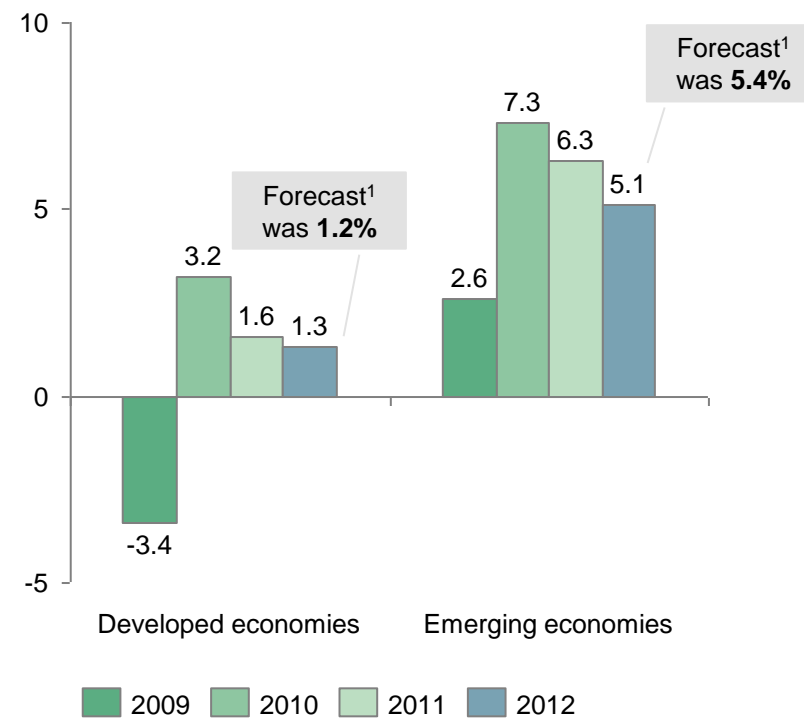
Global economy continued to decelerate in 2012

World real GDP growth (%)



Emerging economies performed below expectations

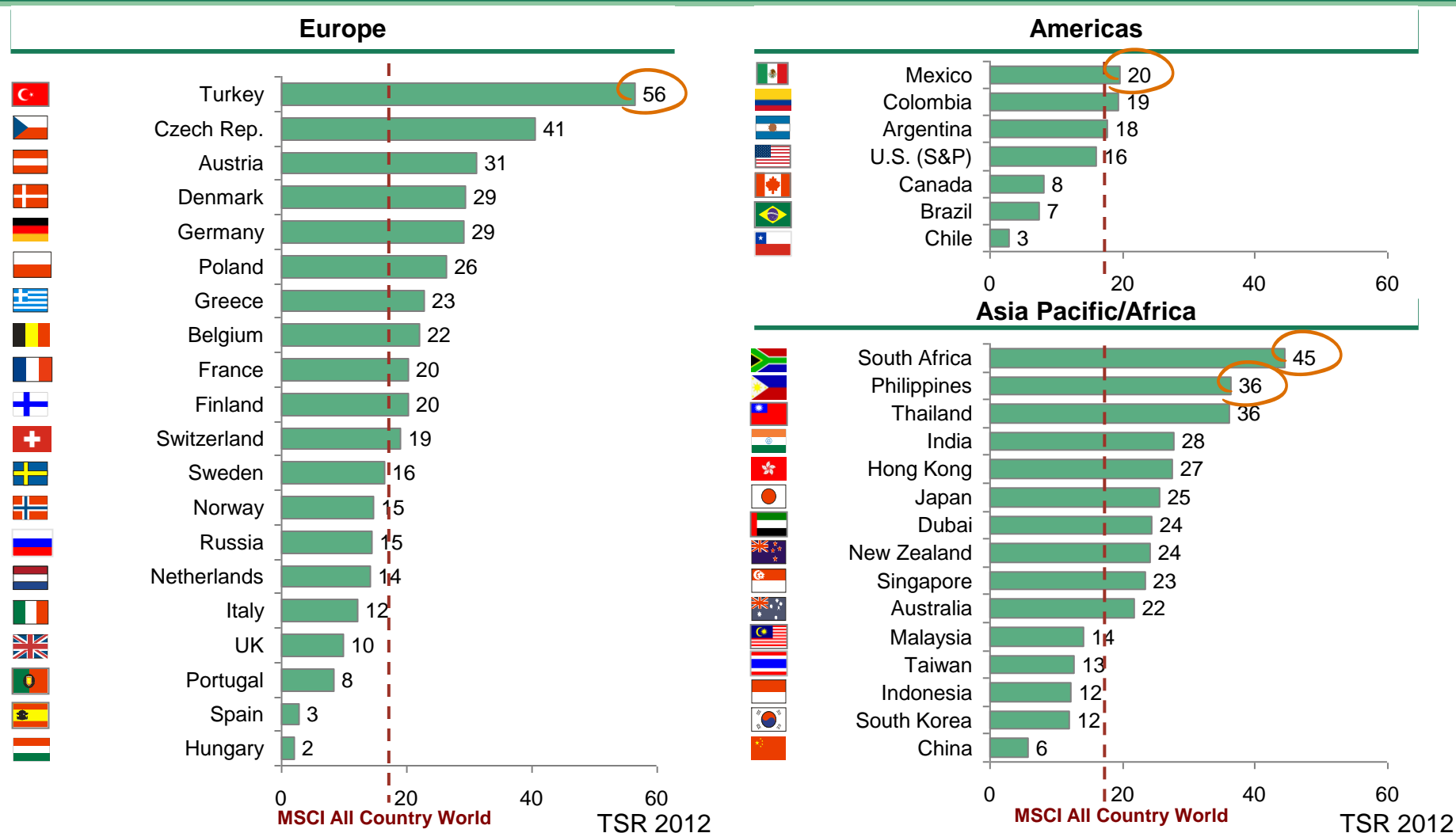
Real GDP growth (%)



1. Based on IMF forecast as of January 2012
Source: IMF; BCG analysis

Recovery in equity markets: TSR¹ positive in all key countries

Dramatic change in performance vs. 2012, when only 6 markets demonstrated positive TSR



Top performers are "next wave" emerging markets

1. TSR - Total Shareholder Return, the internal rate of return of all cash flows to an investor during the holding period of an investment

Source: Thomson Reuters Datastream; BCG analysis

Investor-Survey-2013-vF.pptx

Agenda

Summary of key investor findings

- Wide swings in investor sentiment
- Long-term perspective
- Value creation over growth
- New challenges for core management processes

What are the implications for our clients?

Appendix

Summary of key findings of 2013 BCG Investor Survey

1

Wide swings in investor sentiment

Moderate economic growth expectation driven by US housing recovery and emerging market growth

Investor sentiment in early 2013 significantly more "bullish" vs. 2012

- Reaction to the performance of the equity markets in the previous year

2

Long-term perspective

Volatility of the market appears to have caused these investors to increasingly adopt a long-term perspective on company performance

Favor companies making long-term investments in R&D and emerging markets to strengthen their competitive position

3

Value creation over growth

Near-term TSR expectation ~7%, slightly up from 2012; moderate earnings growth and lots of cash flow

Credible management and attractive valuation became two top investment criteria

Investor preferences for the use of excess cash continued to move away from strengthening balance sheet to returning cash to shareholders

4

New challenges for core management processes

~60% of investors see potential to better align corporate, investor, and financial strategies

Investors see potential for healthy and profitable companies to be more aggressive in current environment, e.g. in pursuing M&A as well as divestments

Improvement potential particularly seen in strategic planning, forecasting, risk, and value management

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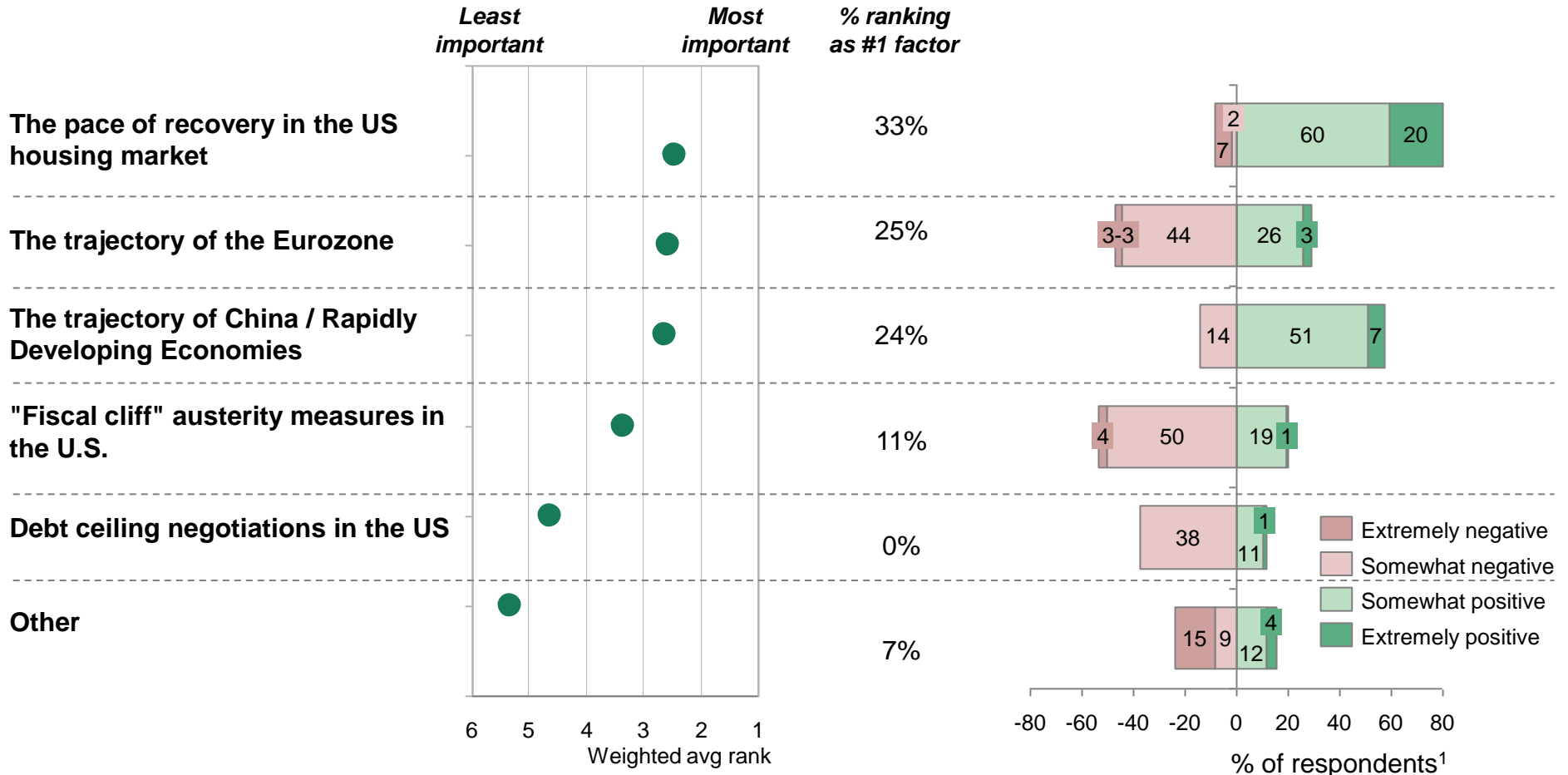
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Appendix

Expect positive impact from US housing recovery and emerging markets; Eurozone seen as key downside risk

What macroeconomic factors or shocks do you see as the most important drivers of the macroeconomic environment in 2013?

How positive or negative do you expect the impact in 2013 to be on the level of the index?



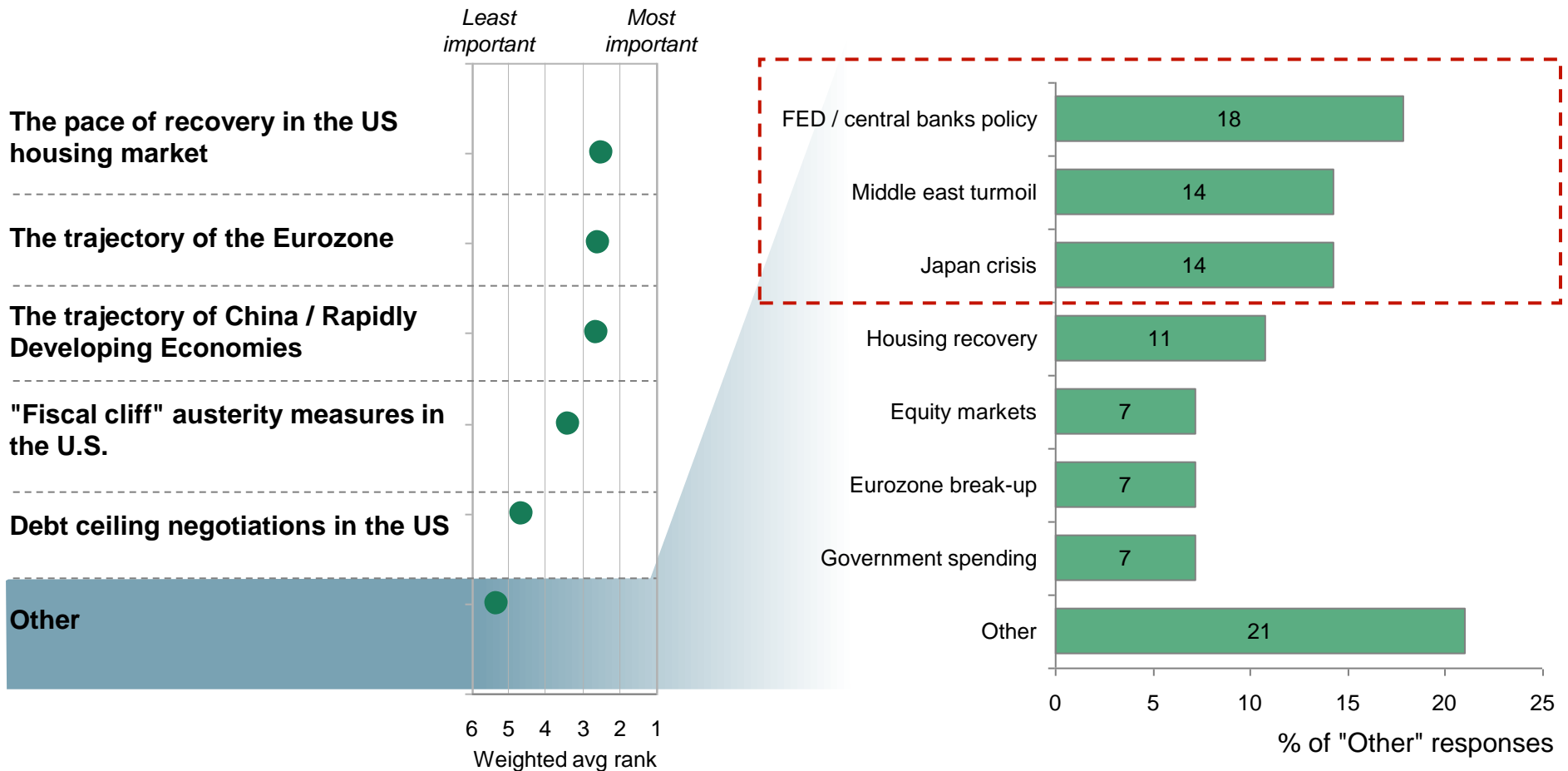
1. Excludes "Neutral" responses (thus %'s not adding up to 100%): "Neutral" for question #1 – 12%; #2 – 25%; #3 – 29%; #4 – 27%; #5 – 53%; #6 – 63%

Source: BCG investor survey conducted in Q1 2013

Investor-Survey-2013-vF.pptx

Central bank policies, turmoil in Middle East and Japan crisis also viewed as potential macro shocks in 2013

Please elaborate on what you consider to be the most important "other" macroeconomic factor influencing the macroeconomic environment in 2013¹

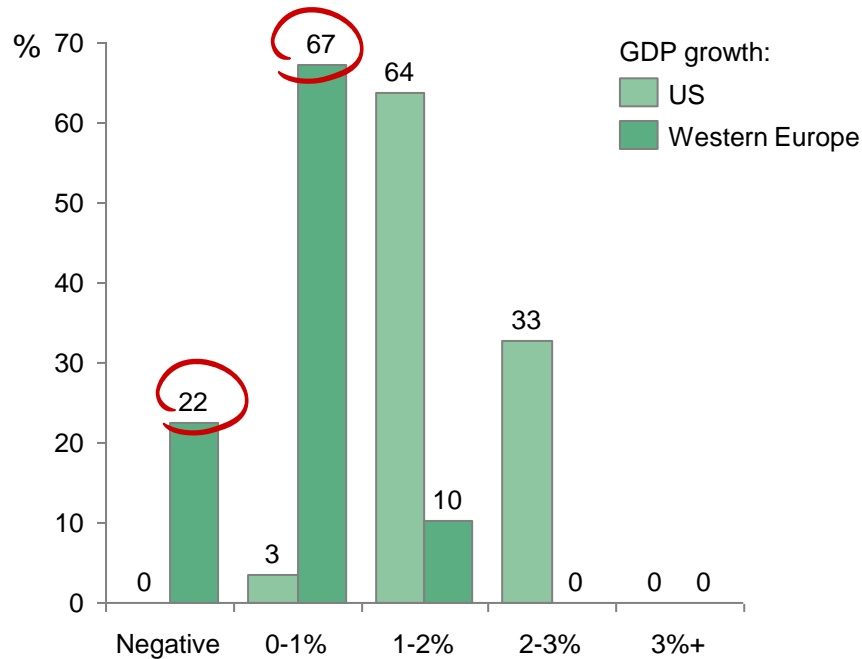


1. Total of 28 open-ended responses specifying "Other" risks. Open-ended responses assigned to common "themes" used for the graph on RHS.

GDP growth: both US and Europe investors expect the US (1-2%) to outperform Europe (0-1%)

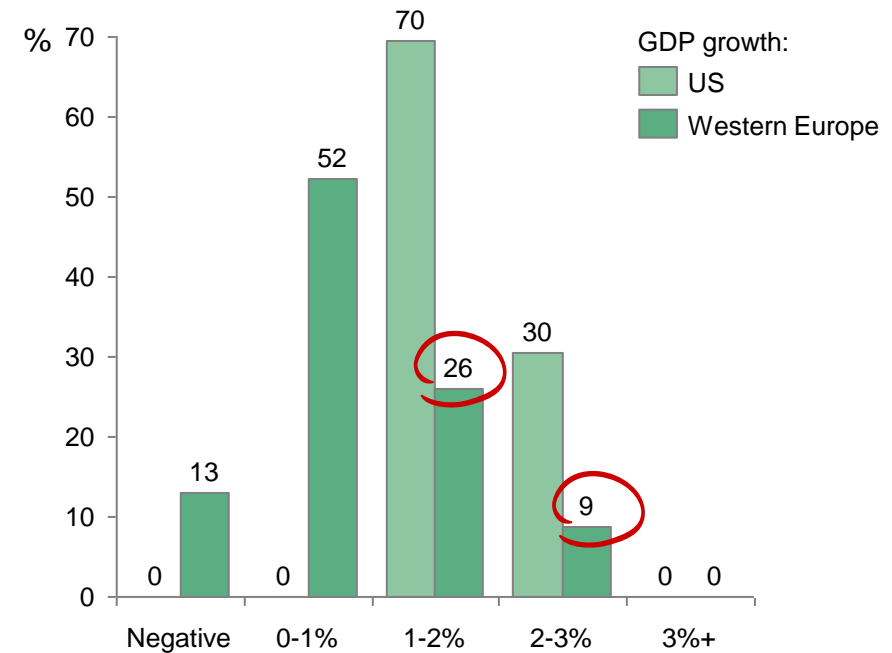
US investors more "bearish" on Europe

What do you expect the GDP growth rate to be in US in 2013? In Western Europe?



35% of Europe investors expect the region to grow in line with the US

What do you expect the GDP growth rate to be in US in 2013? In Western Europe?

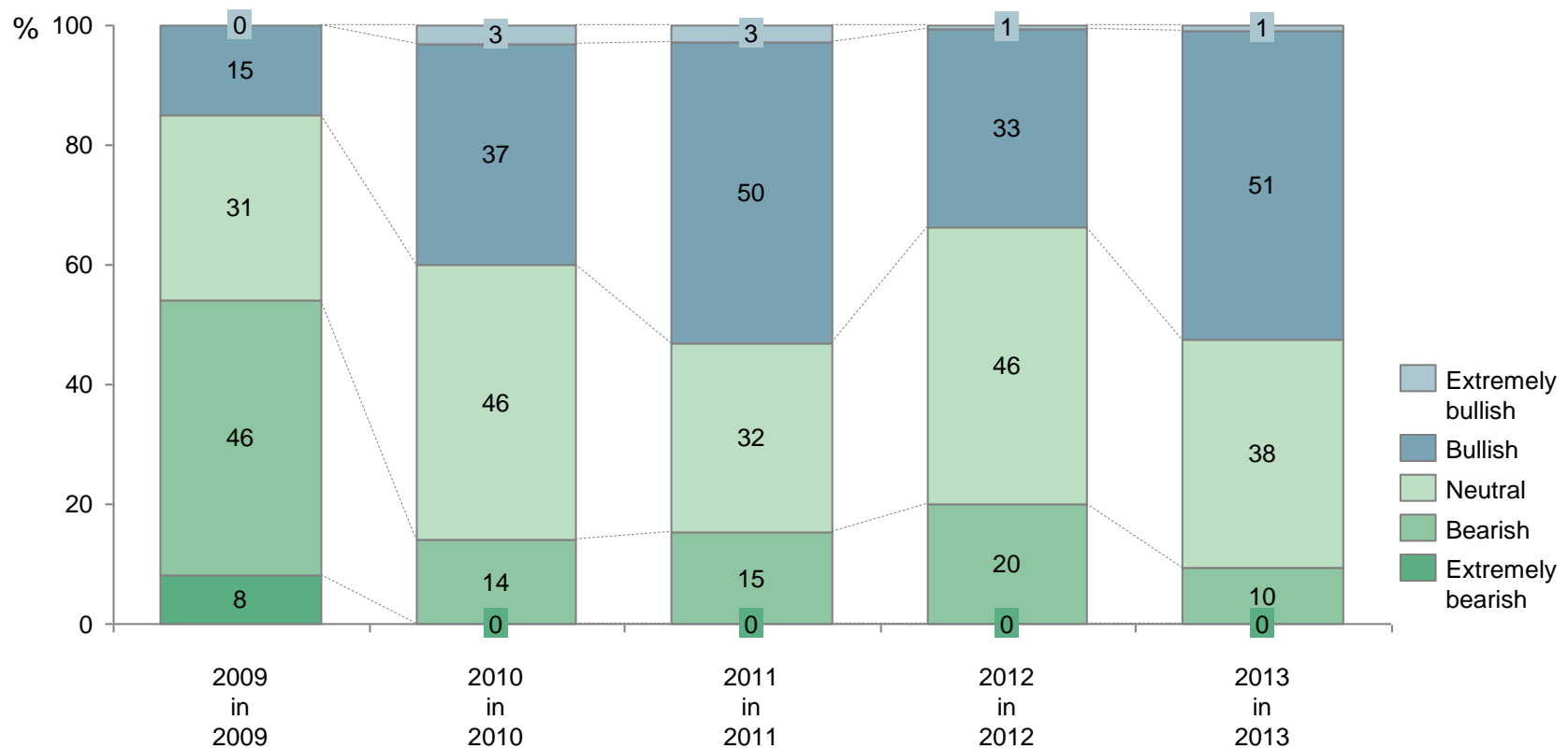


Note: US investors – all respondents who have listed US as geographic region of focus (52% of total sample); Europe investors – all respondents who have listed Europe as geographic region of focus (18% of total sample)

Source: BCG investor survey conducted in Q1 2013

Majority of investors community identified with "bullish" outlook; -- "bear" sentiment at its lowest in 5 yrs

Where would you place yourself on the bear/bull spectrum for equity markets in 2013?¹



1. Same question asked for the same-year sentiment (e.g. 2013 in 2013) and for the next year sentiment (2013 in 2013)

Note: There were 125 respondents in 2013, 165 in 2012, 111 in 2011, 110 in 2010, and 135 in 2009.

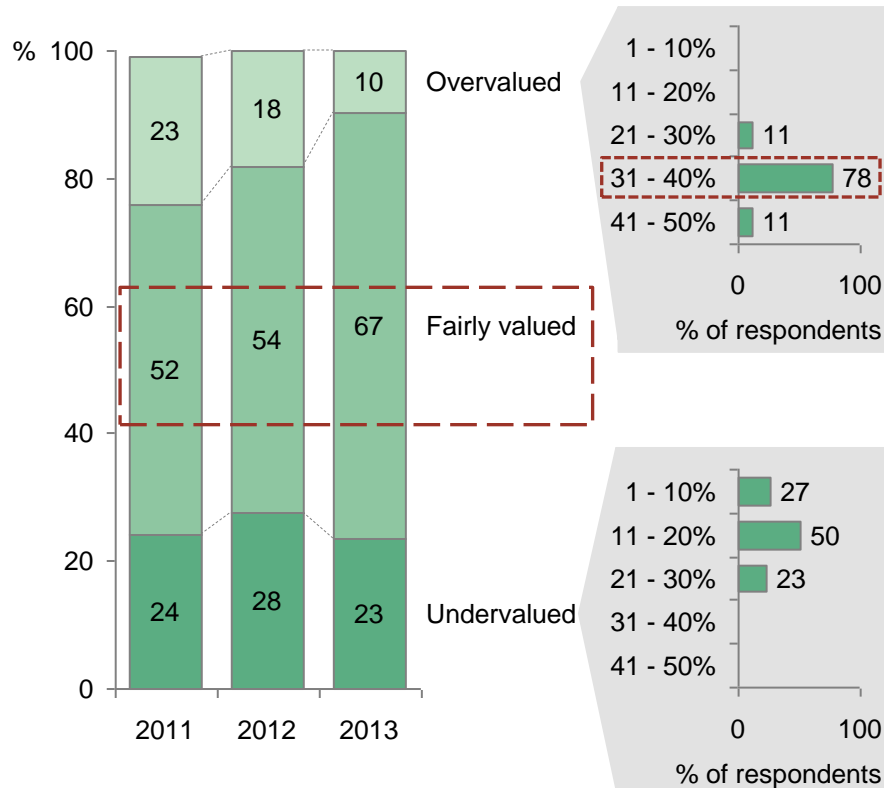
Source: BCG investor survey conducted in Q1 2013/2012/2011/2010/2009

Investors believe S&P 500 is fairly priced

Views on Euro Stoxx 50 divided: ~50% of investors think it is still undervalued

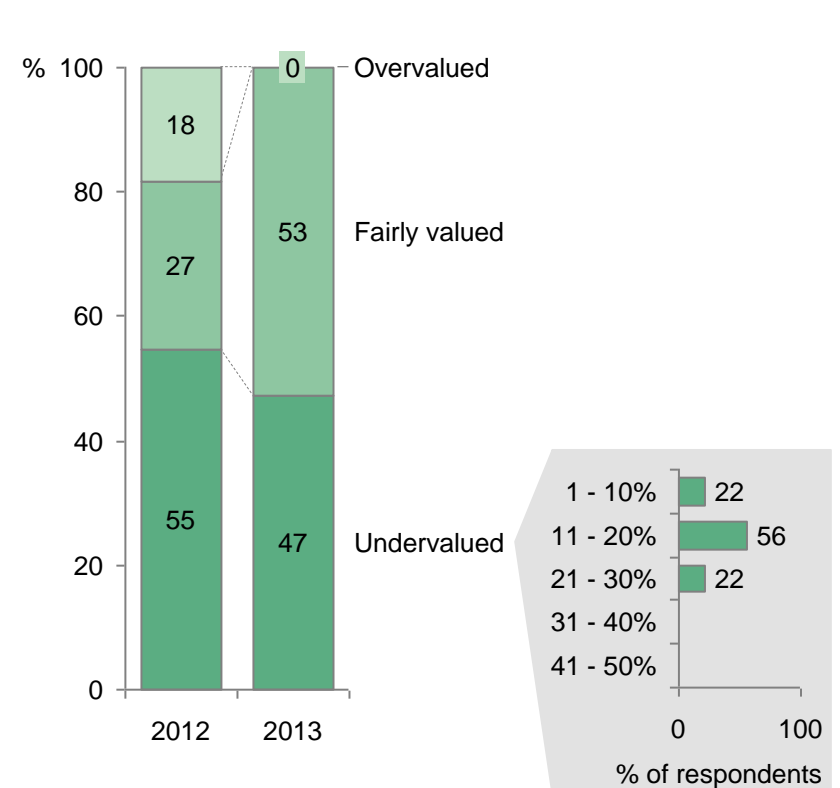
Majority believes S&P 500 is fairly valued, 10% minority thinks it is overvalued by ~30-40%

What is your opinion of the current valuation level of the S&P 500?¹ By how much overvalued or under-valued?



Euro Stoxx 50 investors divided on whether the index is fairly priced

What is your opinion of the current valuation level of the Euro Stoxx 50?² By how much overvalued or under-valued?



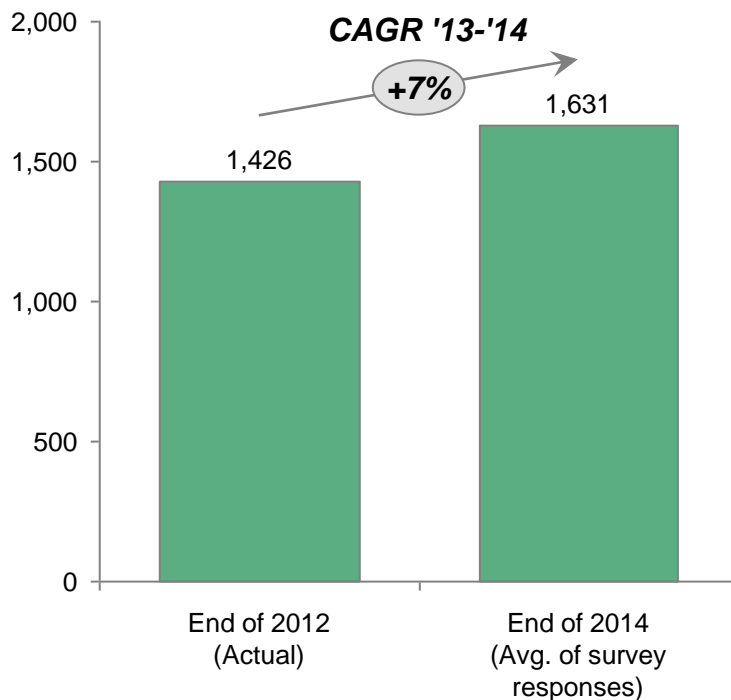
1. Question on LHS only asked to respondents most familiar with S&P 500 (~75% of total); 2. Question on RHS only asked to respondents most familiar with Euro Stoxx 50 (15% of total)
 Source: BCG investor survey conducted in Q1 2013/2012/2011

Investors expect S&P to grow faster than Euro Stoxx over the next two years

S&P expected to grow at 7% average annual rate in 2013-2014

By the end of 2014, what do you think will be the price for the S&P 500?¹

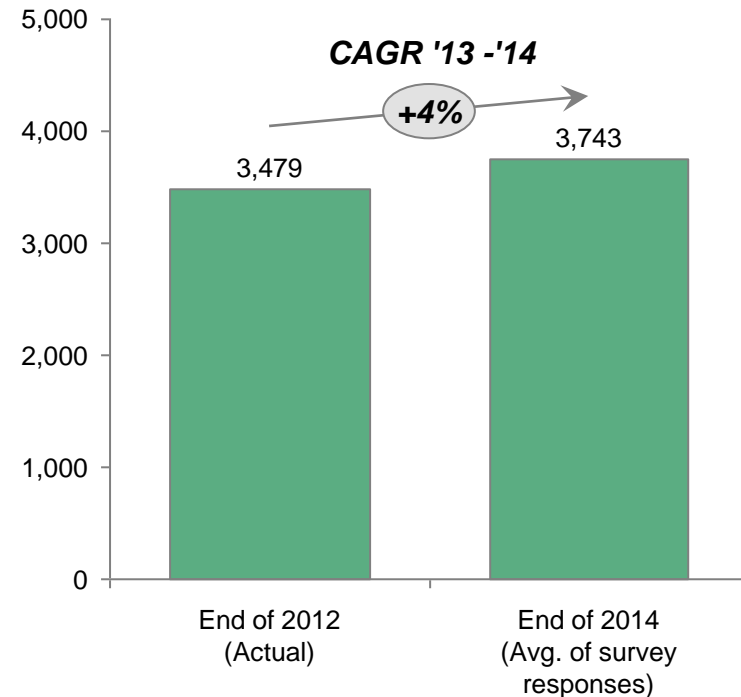
Price of S&P 500



Euro Stoxx expected to grow at 4% average annual rate in 2013-2014

By the end of 2014, what do you think will be the price for the Euro Stoxx 50?²

Price of Euro Stoxx 50

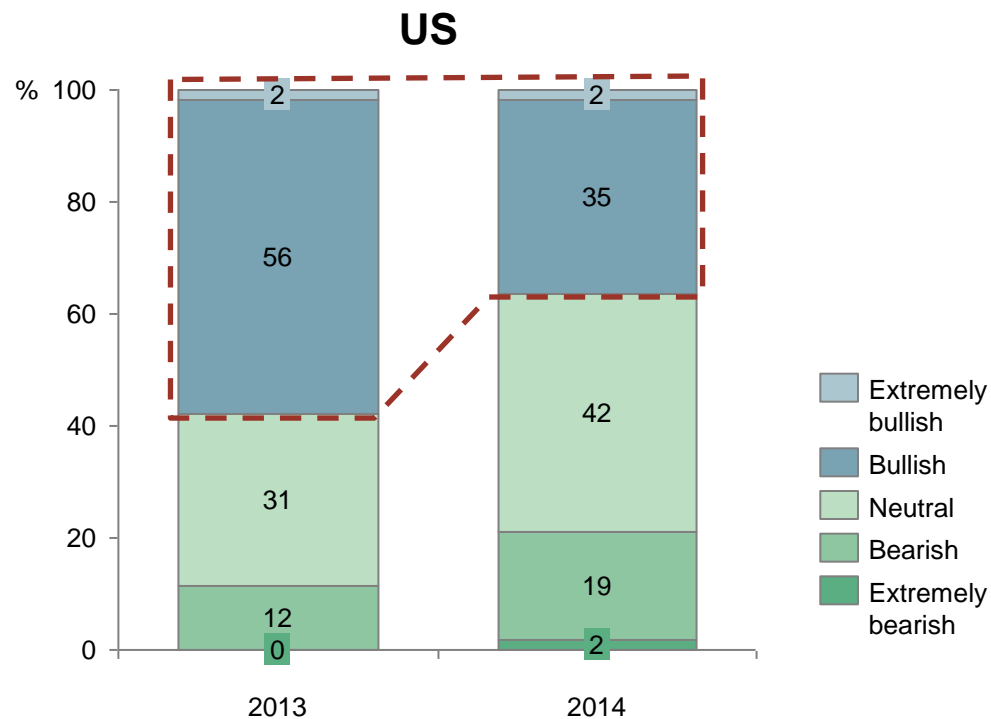


1. Question was only asked to respondents most familiar with S&P 500 (~75% of total sample); 2. Question was only asked to respondents most familiar with Euro Stoxx 50 (15% of total)
Source: BCG investor survey conducted in Q1 2013

Investors focusing on Europe more "bullish" post-2013

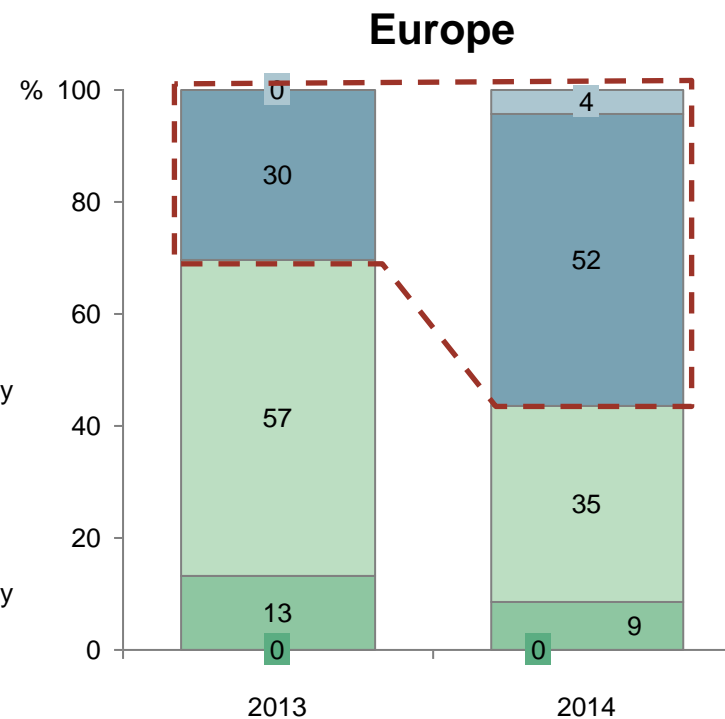
US investors less bullish for 2014 than 2013

Where would you place yourself on the bear/bull spectrum for equity markets in 2013 and 2014?



56% of Europe investors place themselves as bullish or extremely bullish for 2014

Where would you place yourself on the bear/bull spectrum for equity markets in 2013 and 2014?



Note: US investors – all respondents who have listed US as geographic region of focus; Europe investors – all respondents who have listed Europe as geographic region of focus
Source: BCG investor survey conducted in Q1 2013

Agenda

Summary of key investor findings

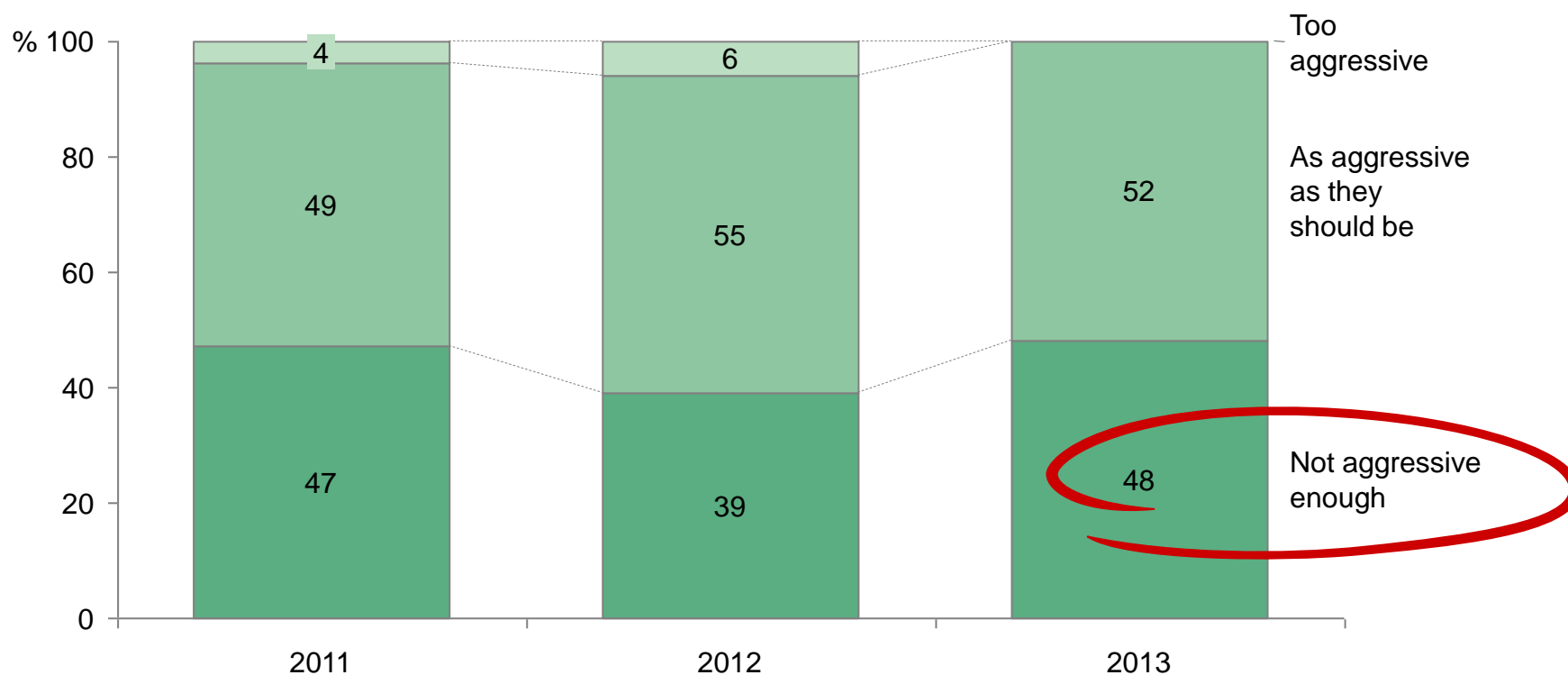
- Wide swings in investor sentiment
- Long-term perspective
- Value creation over growth
- New challenges for core management processes

What are the implications for our clients?

Appendix

Nearly half of investors believe companies are not aggressive enough in exploiting current environment

Do you believe the companies you invest in/follow are being aggressive enough to exploit the current environment and bolster their long-term competitive position?

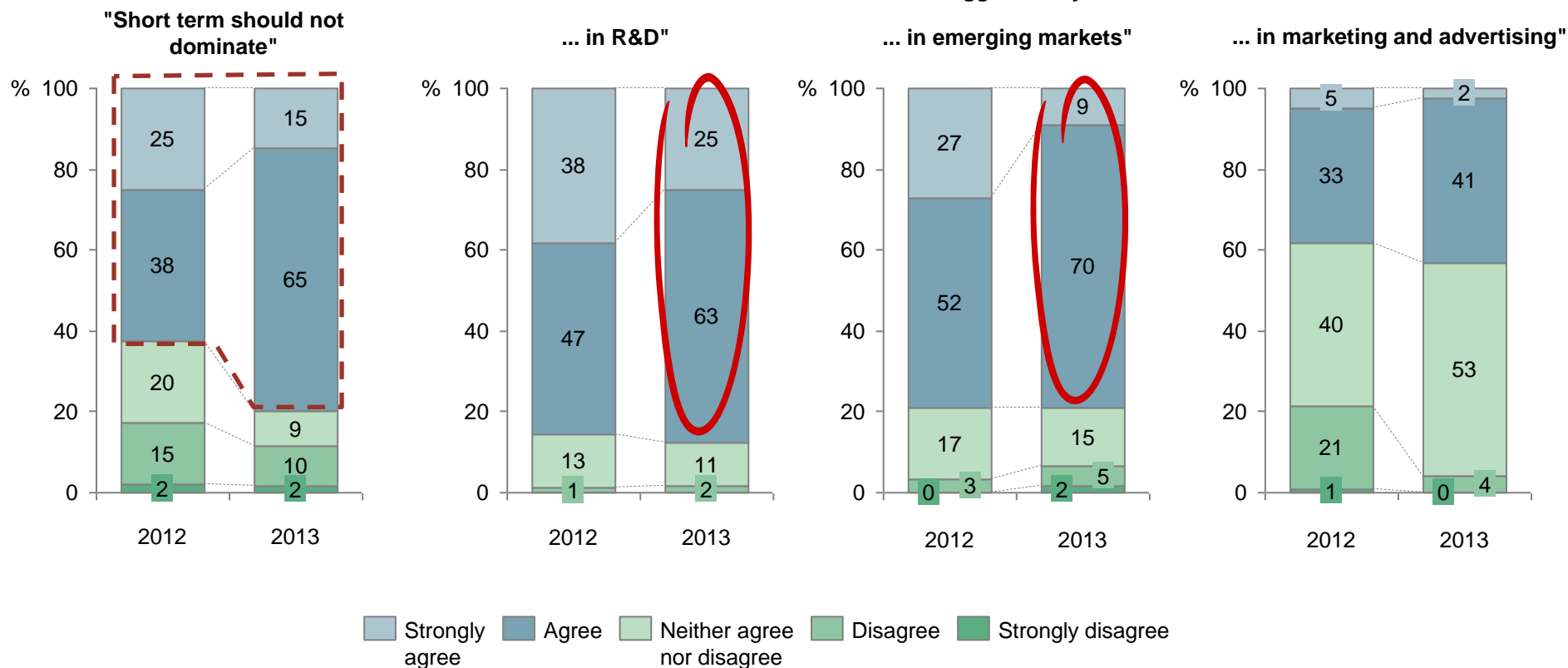


Investors place more importance on longer-term focus

R&D and emerging markets continue to be key areas of investment

How would you react to the following statements for companies with strong free cash flow and a healthy balance sheet for the next 12-18 months?

"When it makes sense strategically, financially and from risk perspective companies should invest more aggressively..."



Source: BCG investor survey conducted in Q1 2013; BCG investor survey conducted in Q1 2012

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- Wide swings in investor sentiment
- Long-term perspective
- **Value creation over growth**
- New challenges for core management processes

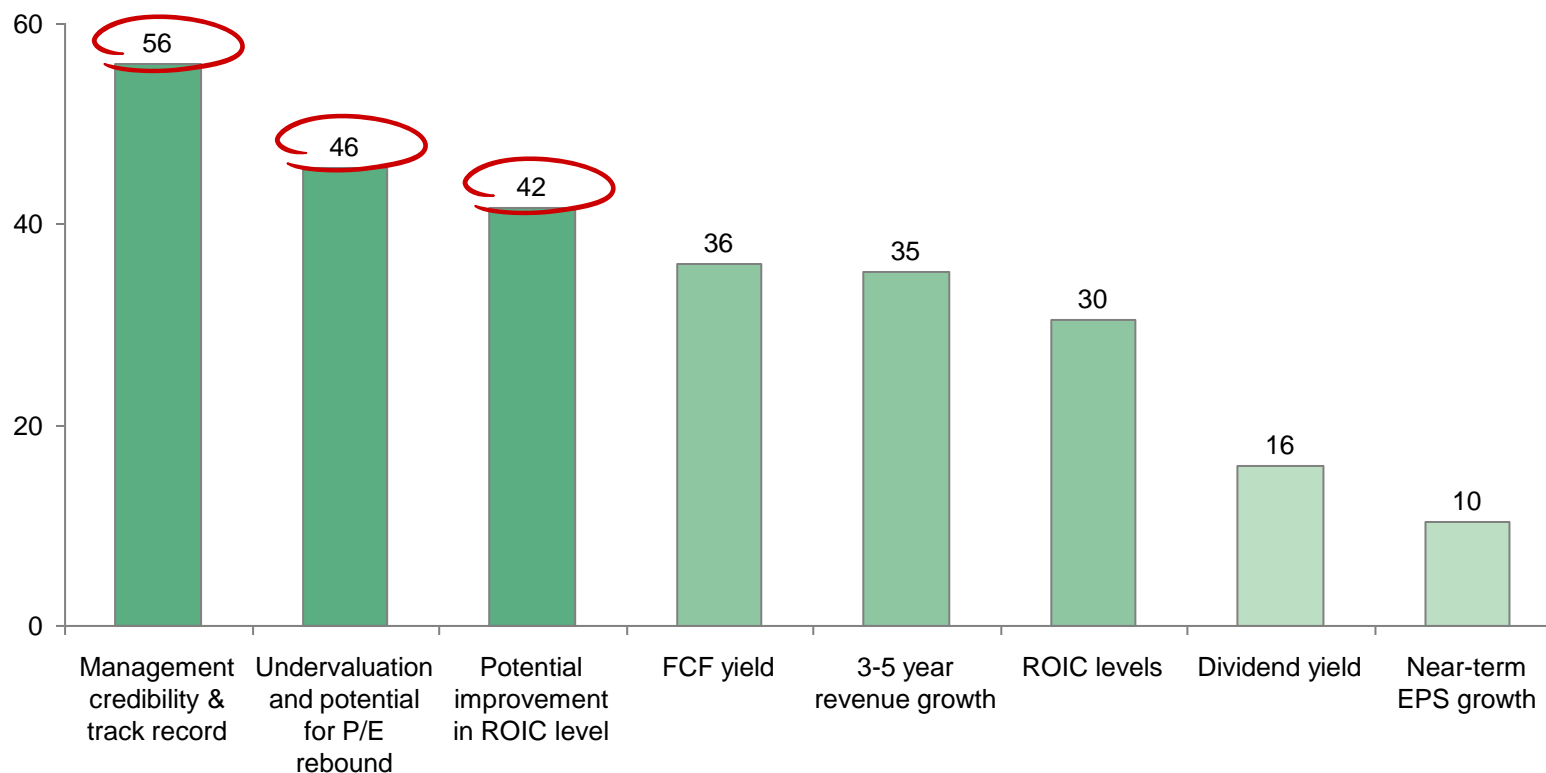
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Credible management and attractive valuation viewed as key investment criteria

Which of the following fundamental metrics or characteristics would be most important to you in deciding whether to invest in (or give a BUY recommendation to) a financially healthy company over the next 12 to 18 months?

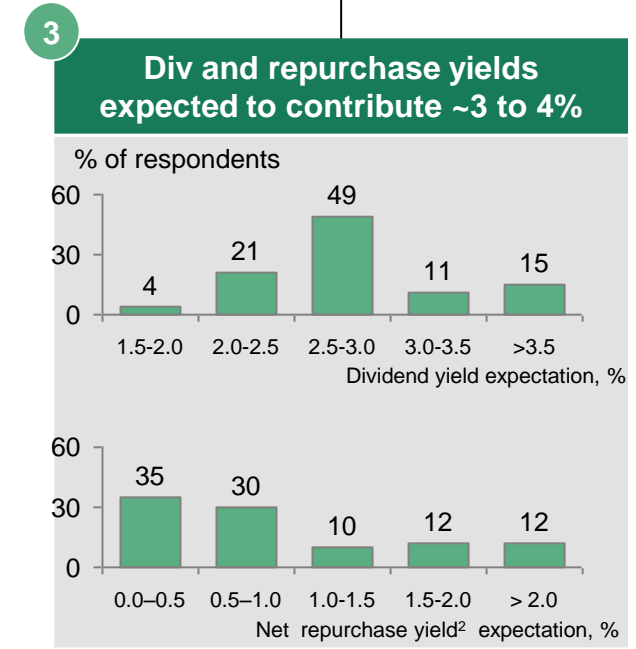
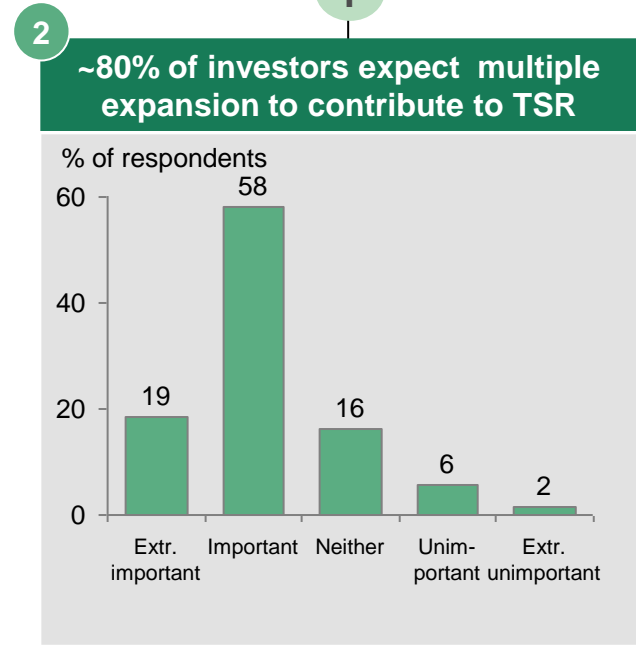
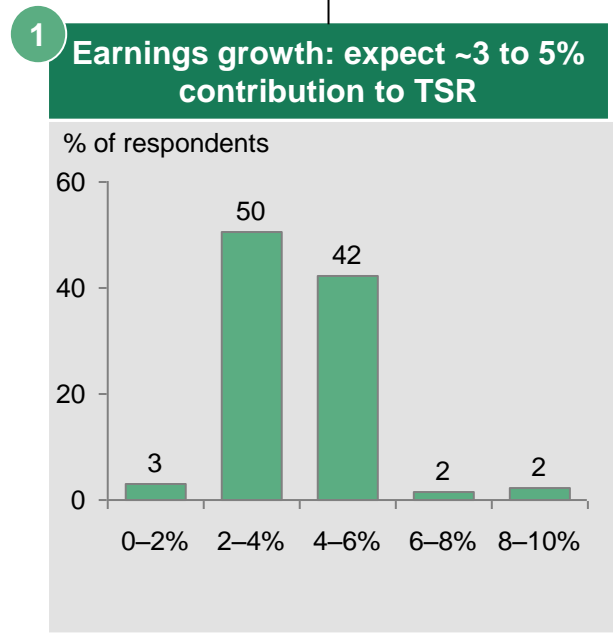
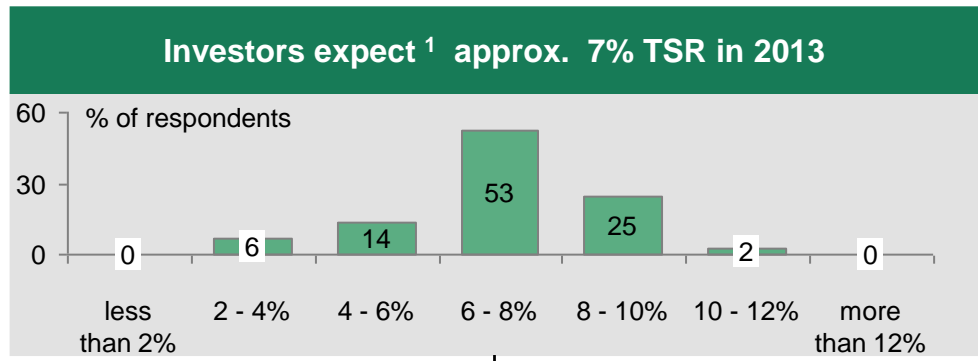
% of respondents who selected the metrics as one of their top 3 investment criteria



6 answer options with <10% respondents not shown on the graph¹

Respondents were given 15 answer options; top 9 responses shown which were selected as #1, 2 or 3 criteria by more than 10% of respondents in 2013. Answer options not included: - Gross margin percentage; - Change in gross margin percentage; - Buyback approach; - Leverage ratios; - Credit rating or debt ratio; - M&A posture
Source: BCG investor survey conducted in Q1 2013/2012/2011/2010/2009

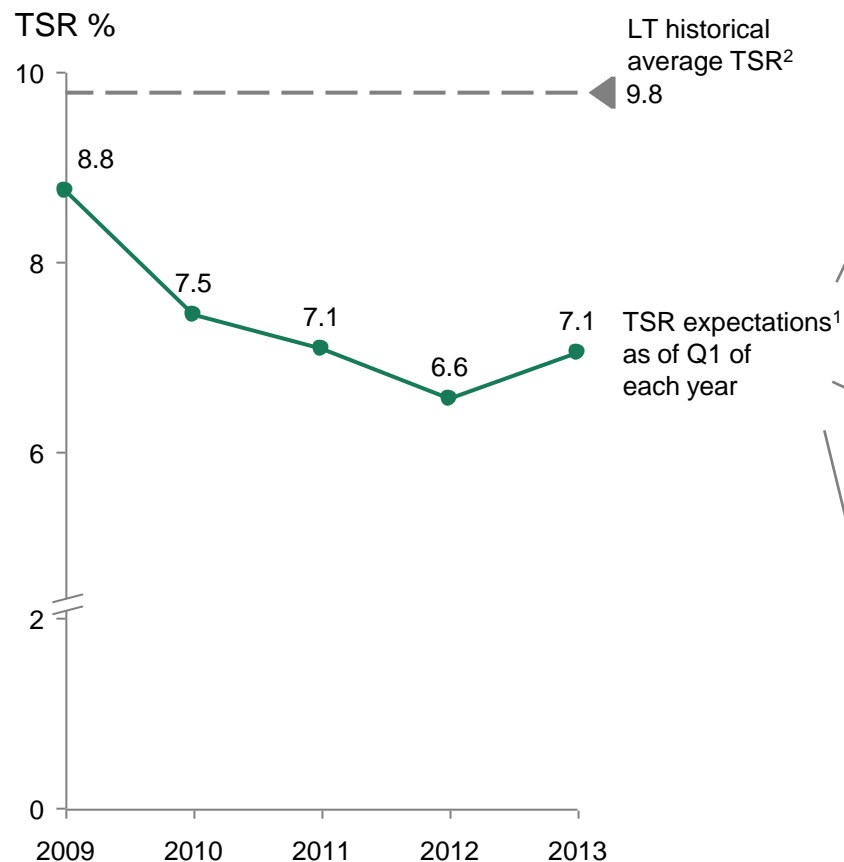
In 2013 investors expect approximately 7% TSR once economy settles to its new normal



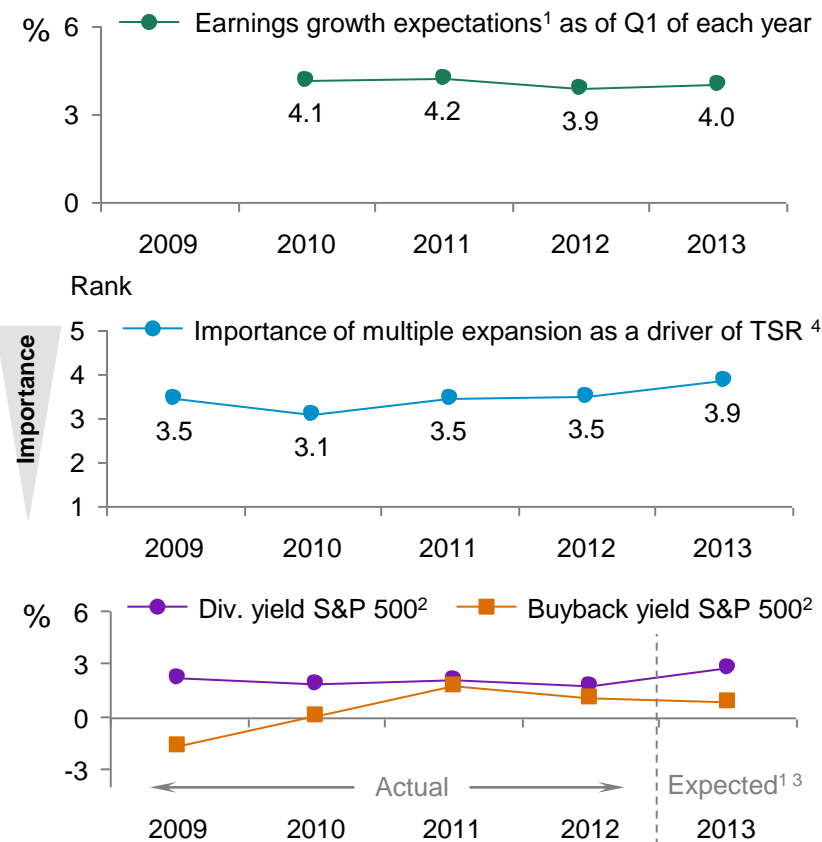
1. Weighted expectation based on mid-points of response intervals 2. Net yield is gross repurchase yield adjusted by share issuance;
Source: BCG investor survey conducted in Q1 2013

In 2013 TSR expectations improved vs. previous year for the first time in the last 5 years

TSR expectations have been declining every year in 2009-2012

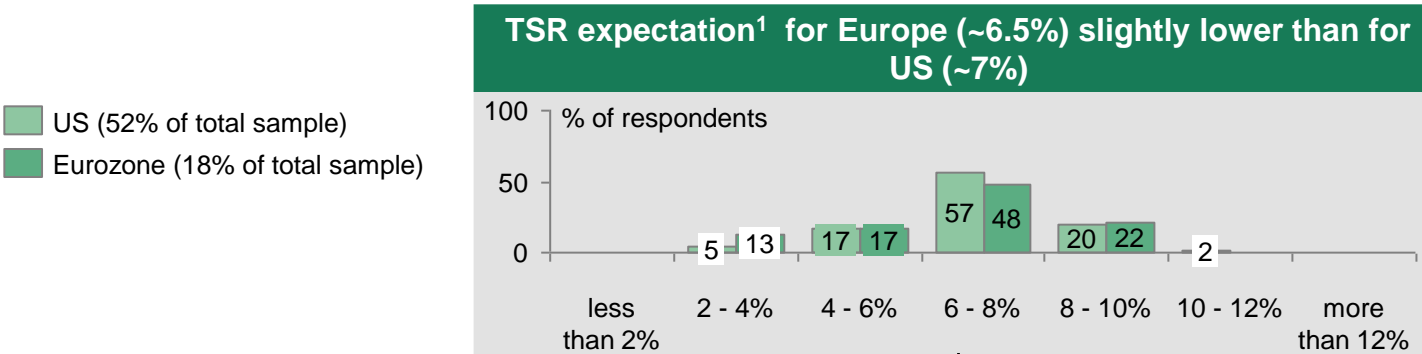


Investors see multiple expansion as an increasingly important TSR driver

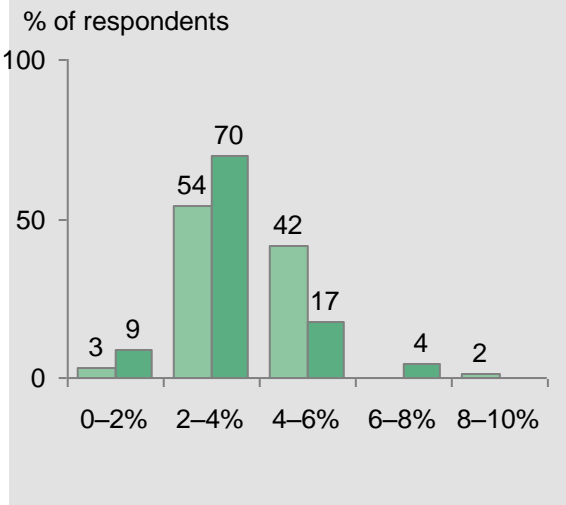


1. Expectations calculated as weighted average of mid-points of answer choice intervals (e.g. 7% for 6-8% interval), weighted by distribution of responses (e.g. 53% of investors chose 6-8% interval for expected TSR in 2013 survey); assumed 1% for "<2%" interval and 13% for ">12%" interval 2. Market capitalization-weighted average yield for S&P 500 companies 3. Expected value based on 1Q2013 survey results (weighted average) 4. Expectation as of Q1 of each year; weighted-average importance rank
Source: BCG investor survey conducted in Q1 2013, 2012, 2011, 2010, 2009; BCG Value Science Center

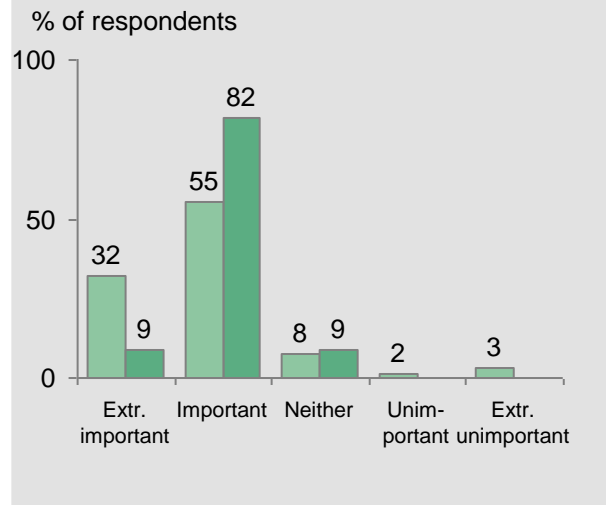
Investors focusing on Europe expect slightly lower TSR, mainly due to lower expected earnings growth



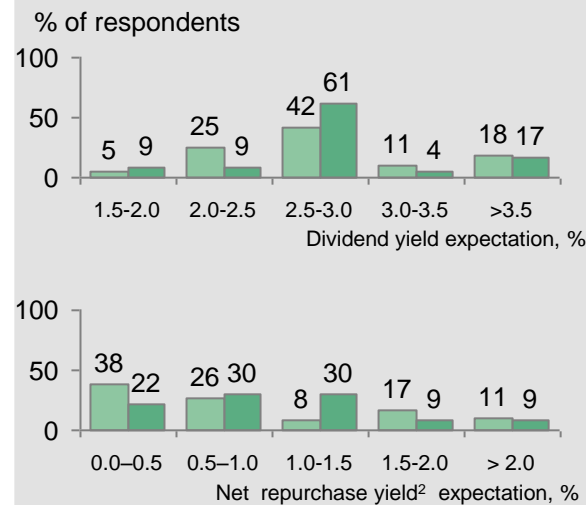
Earnings growth: lower growth expected¹ in EU (~3%) vs US (~4%)



Multiple expansion: significant impact expected in both regions



Similar div and repurchase yield expectations¹ in US and EU

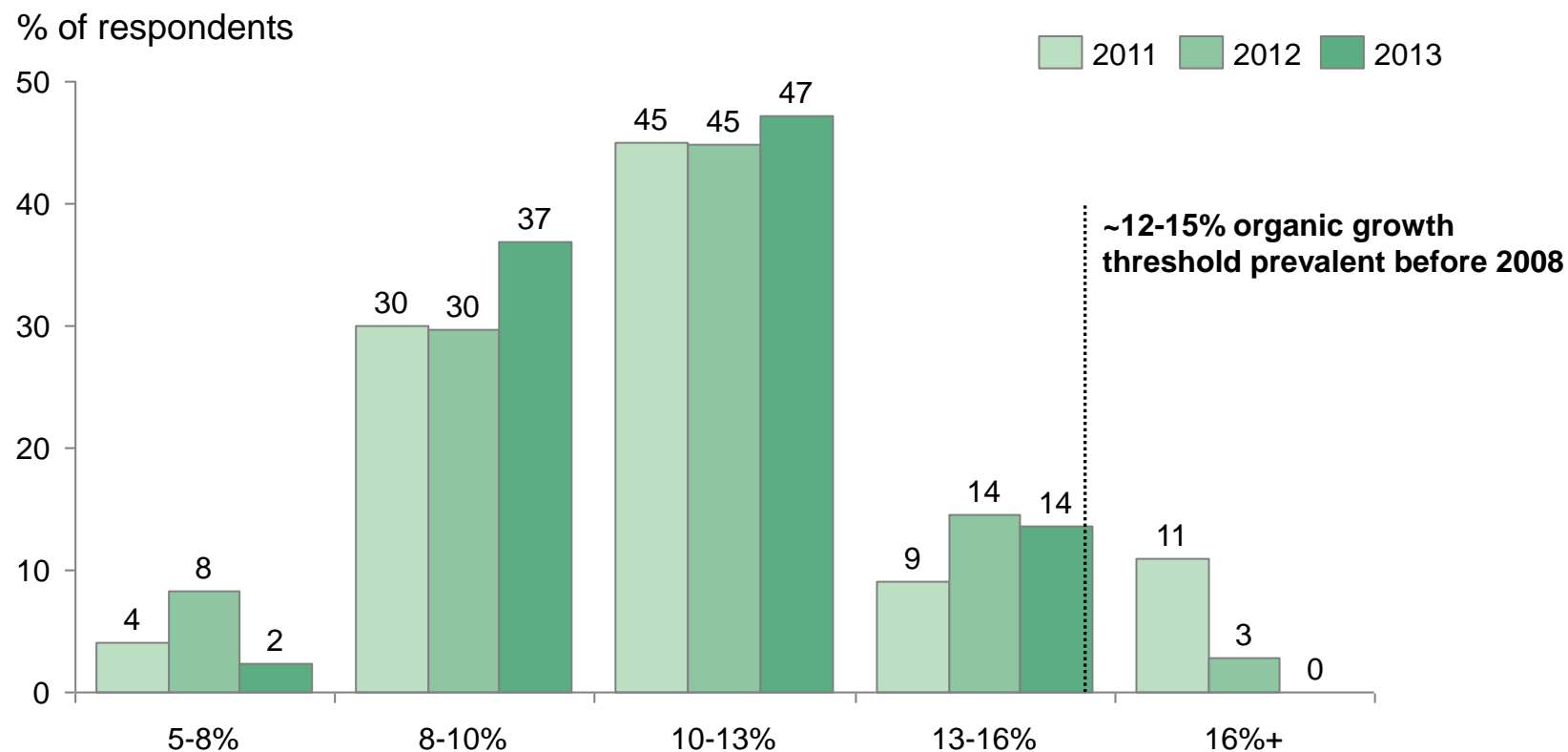


1. Weighted expectation based on mid-points of response intervals 2. Net yield is gross repurchase yield adjusted by share issuance
 Source: BCG investor survey conducted in Q1 2013

Investors' expectations for the growth stock higher in 2013

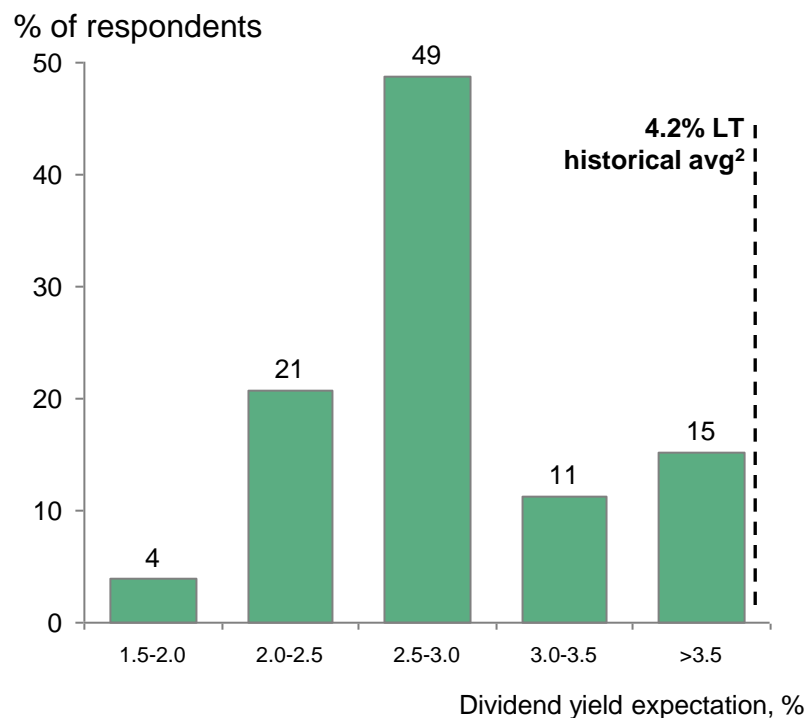
Still below ~15% growth threshold a few years ago; no one expects 15%+ growth rates

In the current environment, what is the level of organic revenue growth (excluding acquisitions) required for a company to be considered a "growth stock" by "growth" investors?

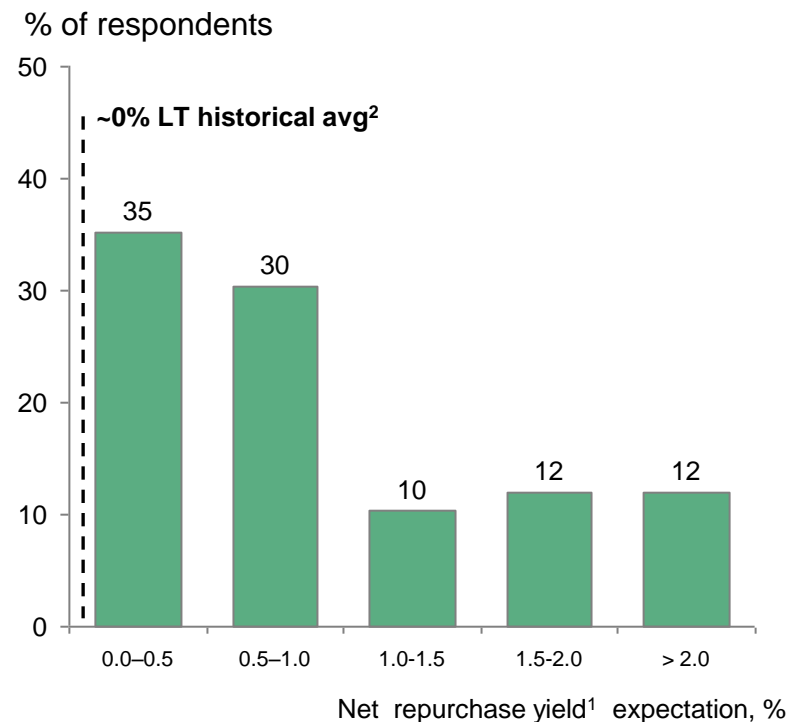


Investors expect ~3-4% combined contribution to TSR from dividend and share repurchase yields

Expected dividend yield (~2-3%) below LT average



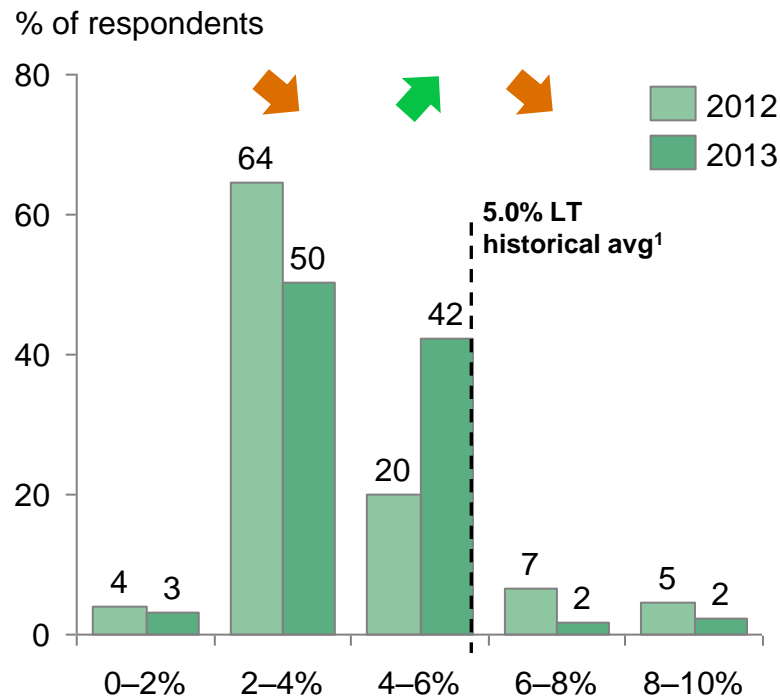
Majority expects <1% net repurchase yield¹



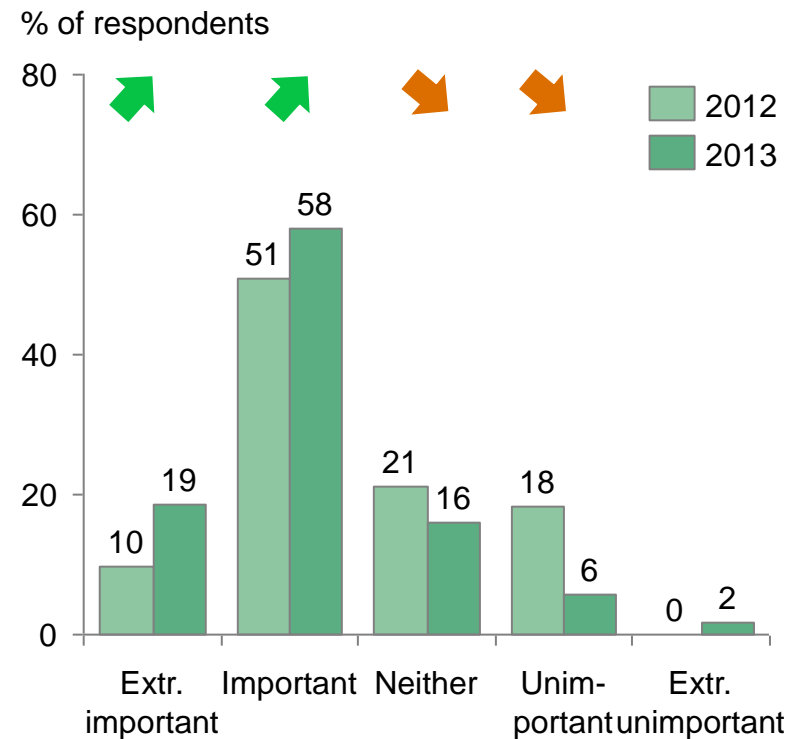
1. Net yield = Gross repurchase yield adjusted for share issuances 2. Long-term average for dividend yield: 1926-2012; LT avg for net repurchase yield for S&P over the last 20 years
Source: BCG investor survey conducted in Q1 2013

Compared to 2012 investors expect larger contribution of earnings growth and multiple expansion to TSR

Earnings growth expectations in 2013 closer to long-term average



Growing majority continue to believe multiple expansion will contribute to TSR

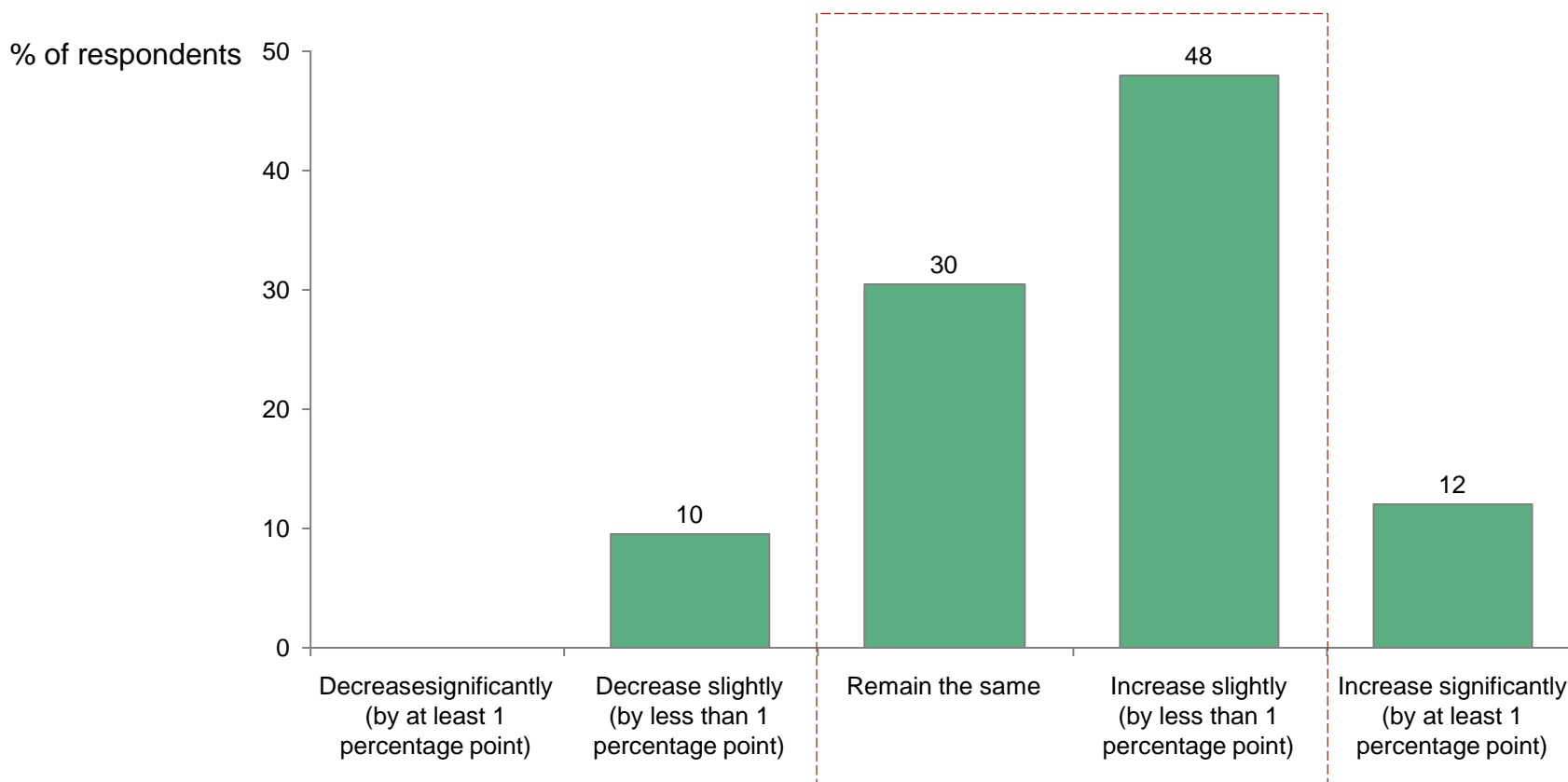


➔
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➔
 - Direction of major changes (>5 ppt) in distribution of survey responses (no change/down/up respectively)

1. Long-term average for developed markets 1926-2011
 Source: BCG investor survey conducted in Q1 2013

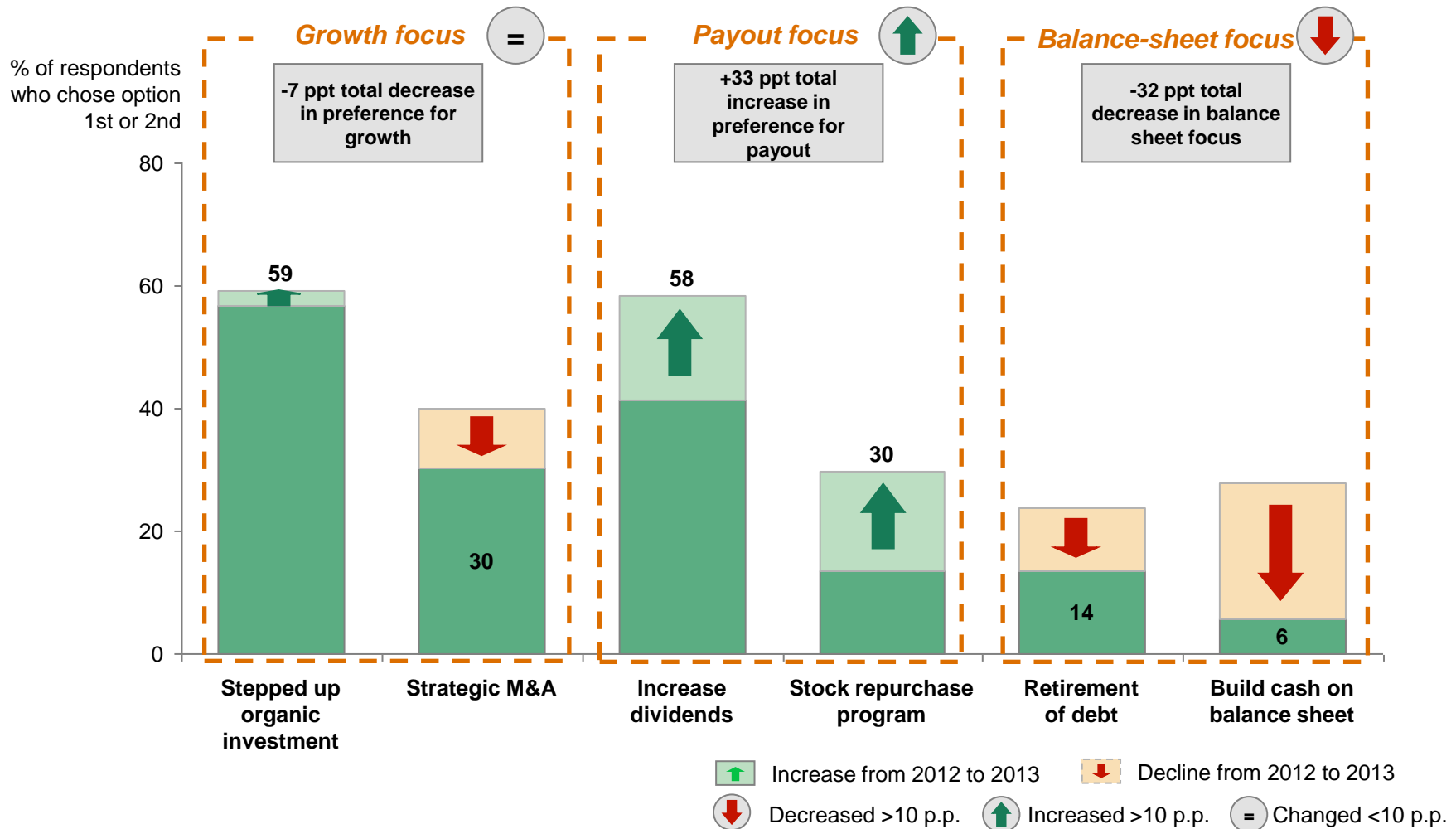
Expect dividend yield to remain unchanged or increase slightly (<1 ppt)

Looking out beyond the next several years what do you expect to happen to the dividend yield?



Investors continue to increase focus on payout vs. 2012; deleveraging/cash build-up decreasing top priority

How would you rank the following options based on your preference for the use of excess cash?¹

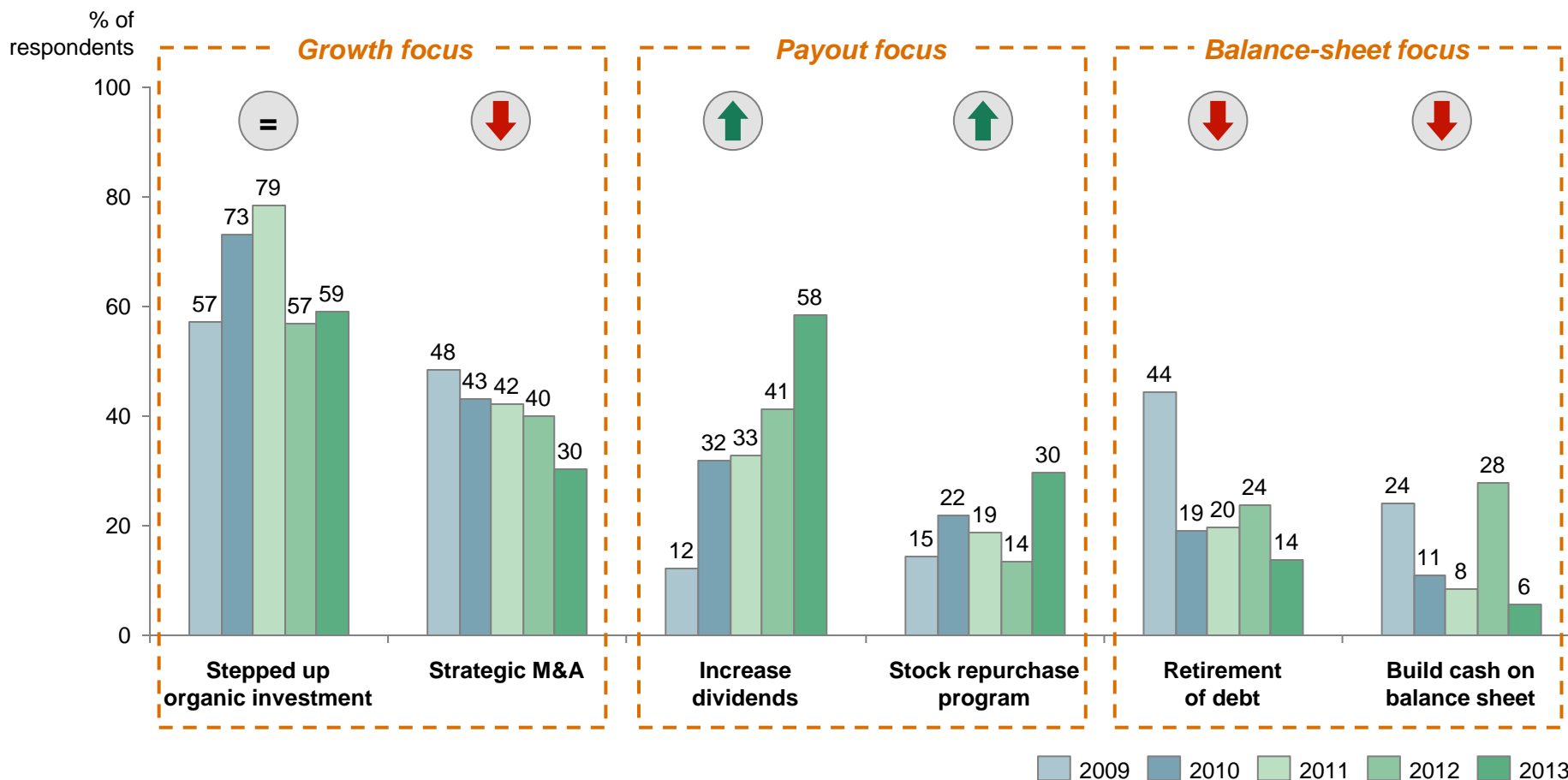


1. Only first and second choices are considered in the chart
 Source: BCG investor survey conducted in Q1 2013; BCG investor survey conducted in Q1 2012

Investors looking for disciplined stewards of capital

Focus on organic investments and dividend increases

Given your expectations for Total Shareholder Return (TSR), GDP growth, and the current macro-economic environment, what do you think the optimal capital and free cash flow deployment policy should be for healthy companies that generate strong free cash flow that have plenty of excess free cash flow well beyond dividend and debt payment commitments?



1. Only first and second choices are considered in the chart

Source: BCG investor survey conducted in Q1 2013/2012/2011/2010/2009

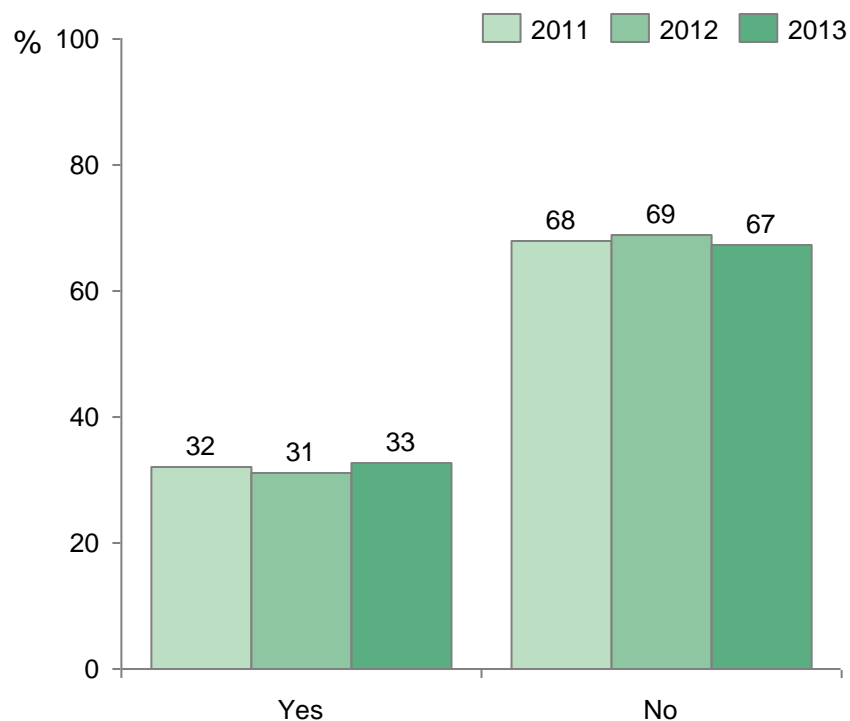
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Investors continue to be unhappy with buyback programs

View special dividend as less attractive cash return option

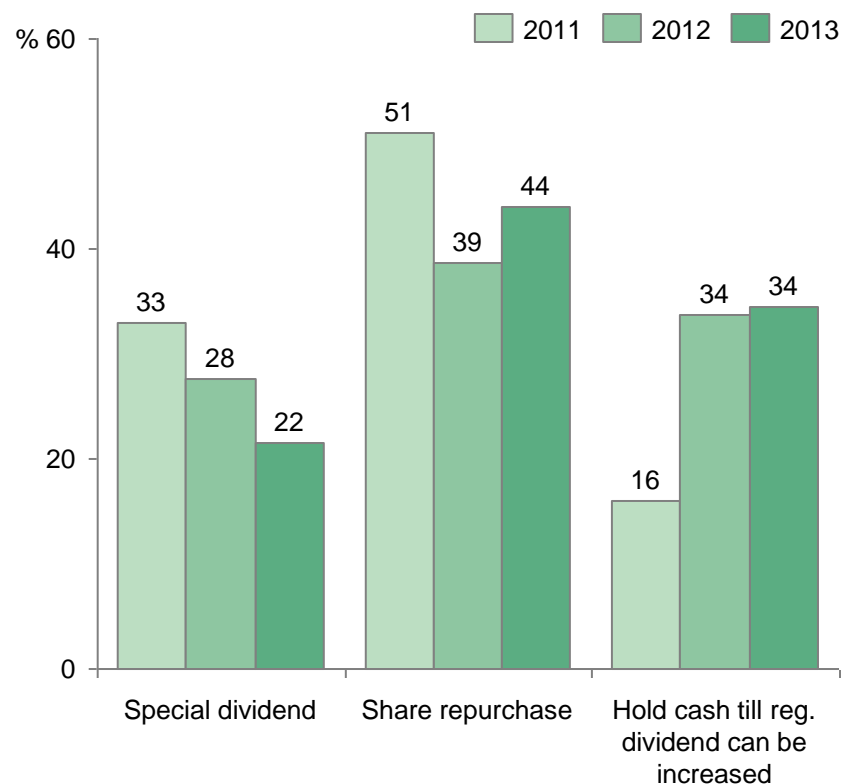
Perception that mgmt is doing poor job persists over last 3 years ...

Do you feel management teams are doing a good job of opportunistically repurchasing shares when undervalued?



... with growing preference for cash return through regular dividend

What do you think is the best alternative for the company to return additional cash to shareholders?



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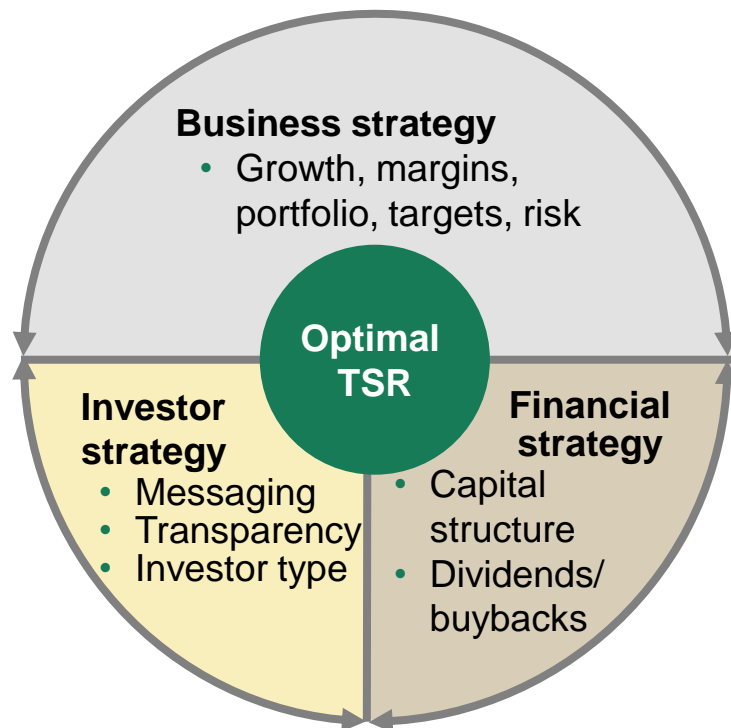
- Wide swings in investor sentiment
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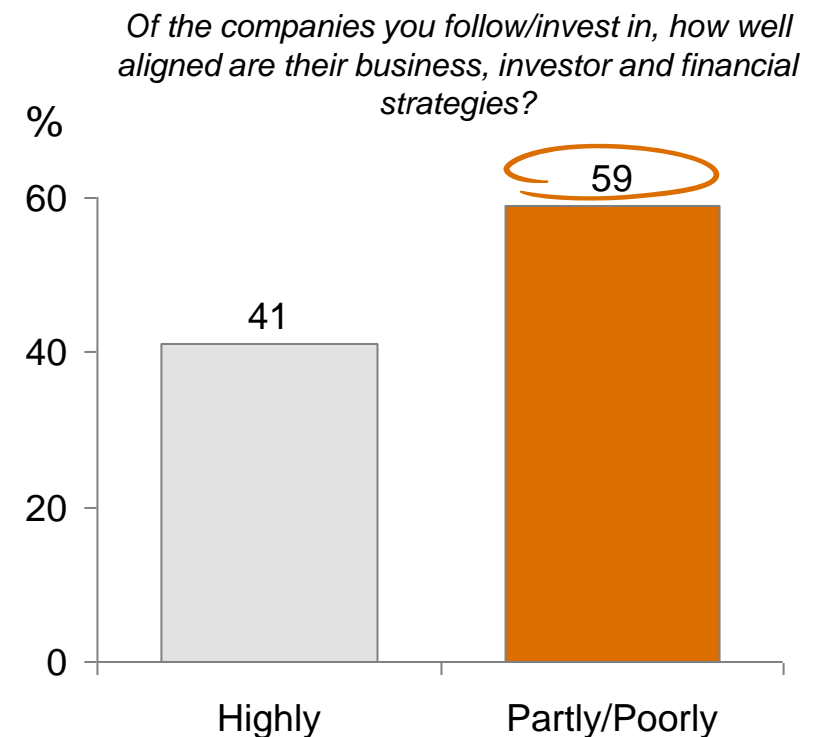
Majority of investors sees room for improvement in aligning corporate strategy to realize optimal TSR

Optimal TSR can only be achieved by aligning corporate strategy...



Aligning business, investor and financial strategies key to improving valuation and TSR

...but almost two thirds of investors see potential for improvement

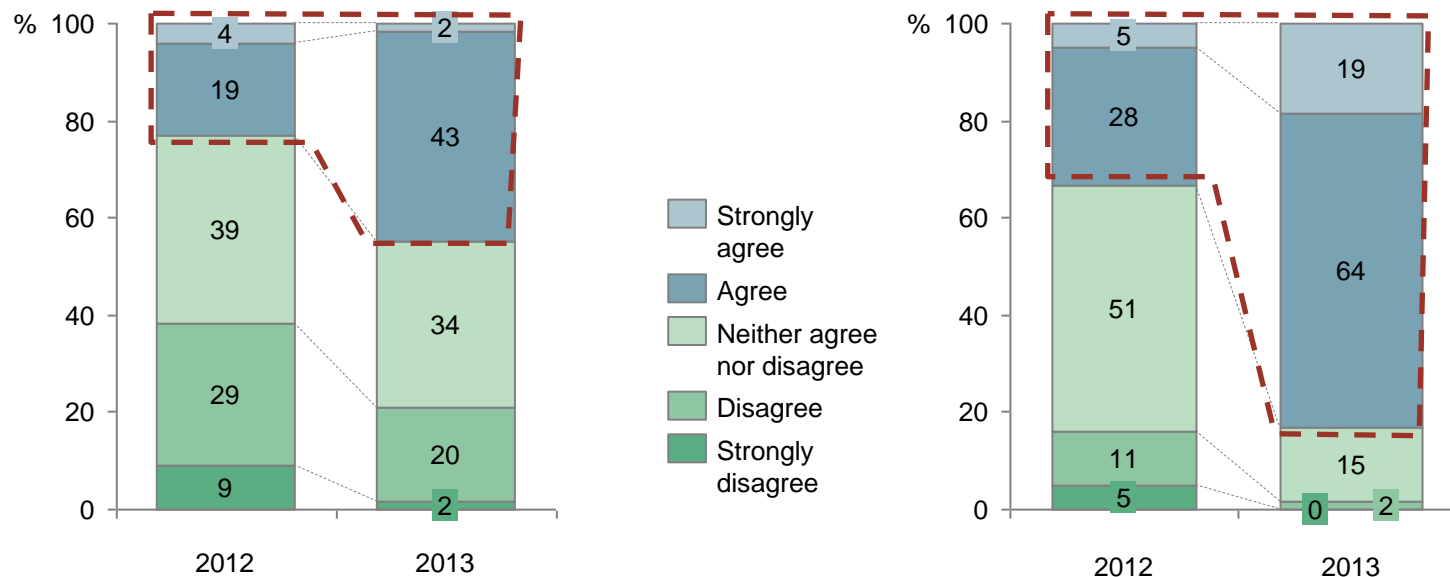


Investors receptive to more aggressive pursuit of M&A and divestitures

How would you react to the following statements for companies with strong free cash flow and a healthy balance sheet for the next 12-18 months?

*"Companies should be **more aggressive on M&A** when it makes sense strategically and financially"*

*"Companies should be **more aggressive on divestitures** when it makes sense strategically and financially"*

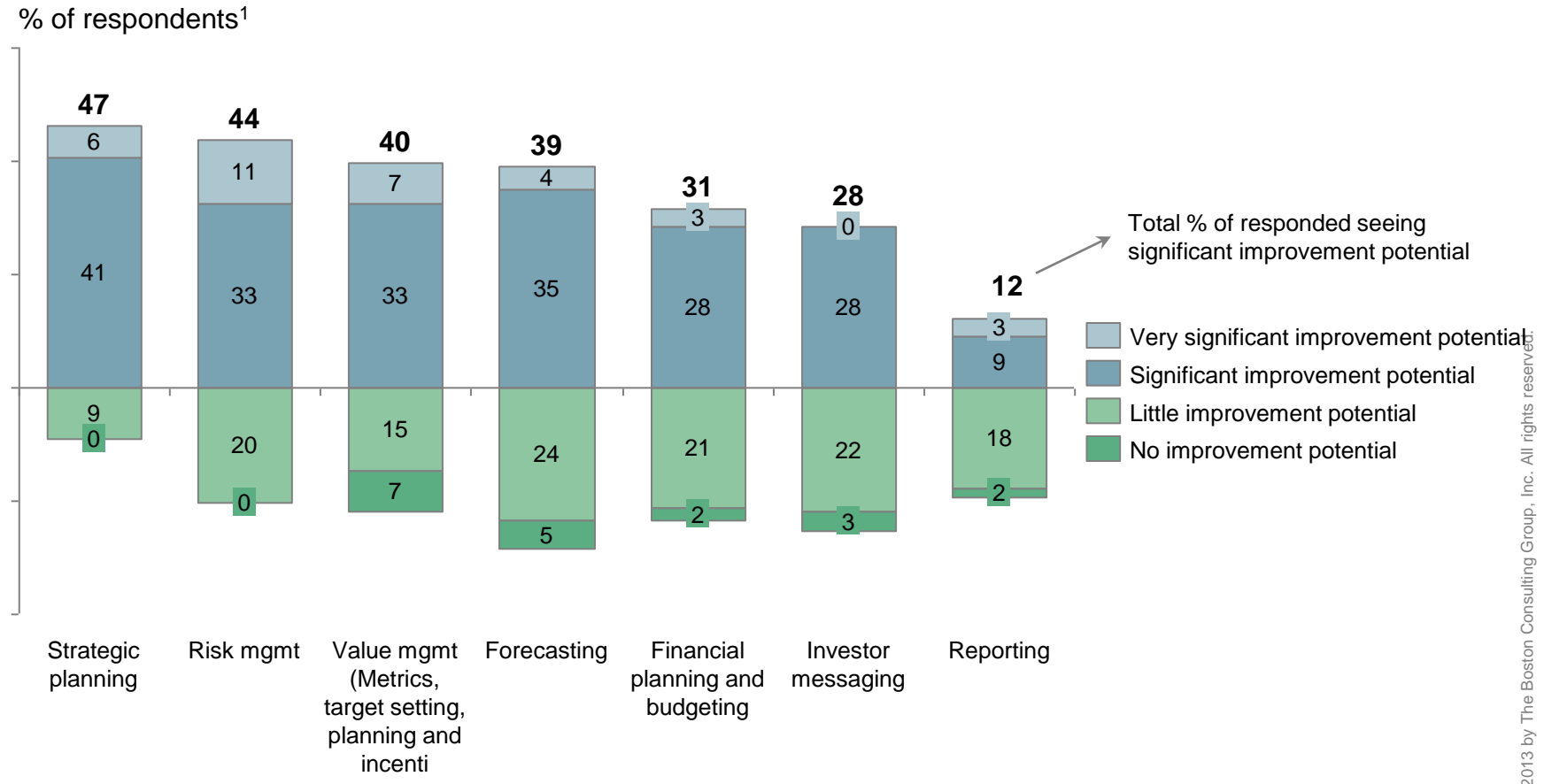


Source: BCG investor survey conducted in Q1 2013; BCG investor survey conducted in Q1 2012

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Strategic planning and risk management seen as areas with largest potential improvements in portfolio companies

Given the current macro environment where do you see improvement potential in your portfolio companies?

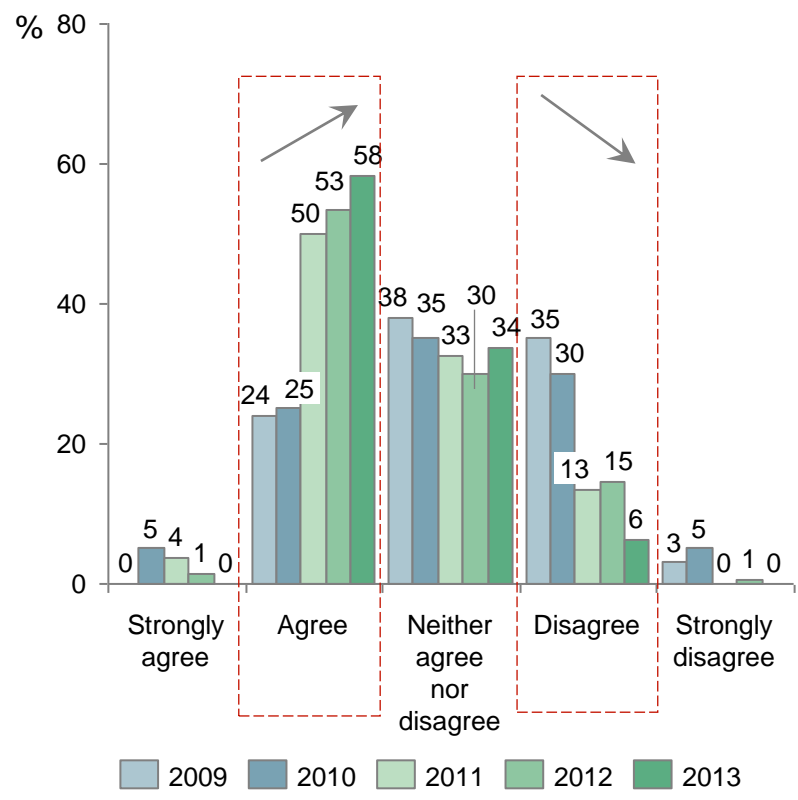


1. Total for each improvement lever <100% because "Some improvement potential" responses not shown on the graph (~50% for most levers)
Source: BCG 2013 investor survey (Q1 2013)

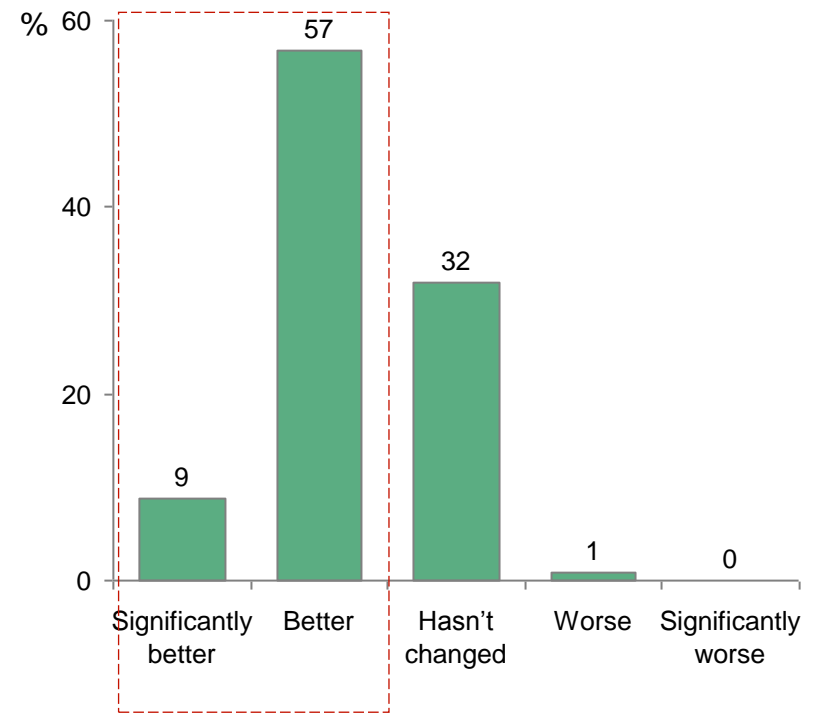
Investors feel that the companies they follow are getting better at investor communication

Perception on investor communications improved vs. last year and vs. pre-crisis

On average, the companies I follow/invest in have done a good job of investor communications in this difficult economic and capital markets environment?



Of the companies you invest in/follow, how does the quality of their investor communications compare to this time five years ago (before the crisis began)?



Source: BCG investor survey conducted in Q1 2012; BCG investor survey conducted in Q1 2011; BCG investor survey conducted in Q1 2010; BCG investor survey conducted in Q1 2009

Agenda

Summary of key investor findings

- Wide swings in investor sentiment
- Long-term perspective
- Value creation over growth
- New challenges for core management processes

What are the implications for our clients?

Appendix

Investors realize that superior TSR will be hard to come by in a low-growth environment outside multiple-driven runs

In today's low-growth investment environment we believe the following four steps are especially important in defining a company's value creation strategy:

1 Define a long-term growth strategy

- Identify promising growth opportunities with clear organic and acquisitive growth sources,
- Investors understand the necessity of M&A: 45% agree that companies can be more aggressive in M&A arena ...
- ... but only if it makes sense financially and strategically – when it comes to deploying excess cash investor preference for M&A is consistently decreasing in priority
- >80% believe companies need to be more aggressive in divestitures

2 Understand valuation multiple drivers and deflators

- Multiple expansion expected to be an important contributor to TSR in the coming years
- Critical to identify key levers for P/E expansion: ~80% of the multiple can be actively managed

3 Develop disciplined approach to excess cash payout

- Investors view dividends and share repurchases as #2 and 3 priorities for use of excess cash after organic investment
- Nearly 70% of investors not satisfied with share buyback programs

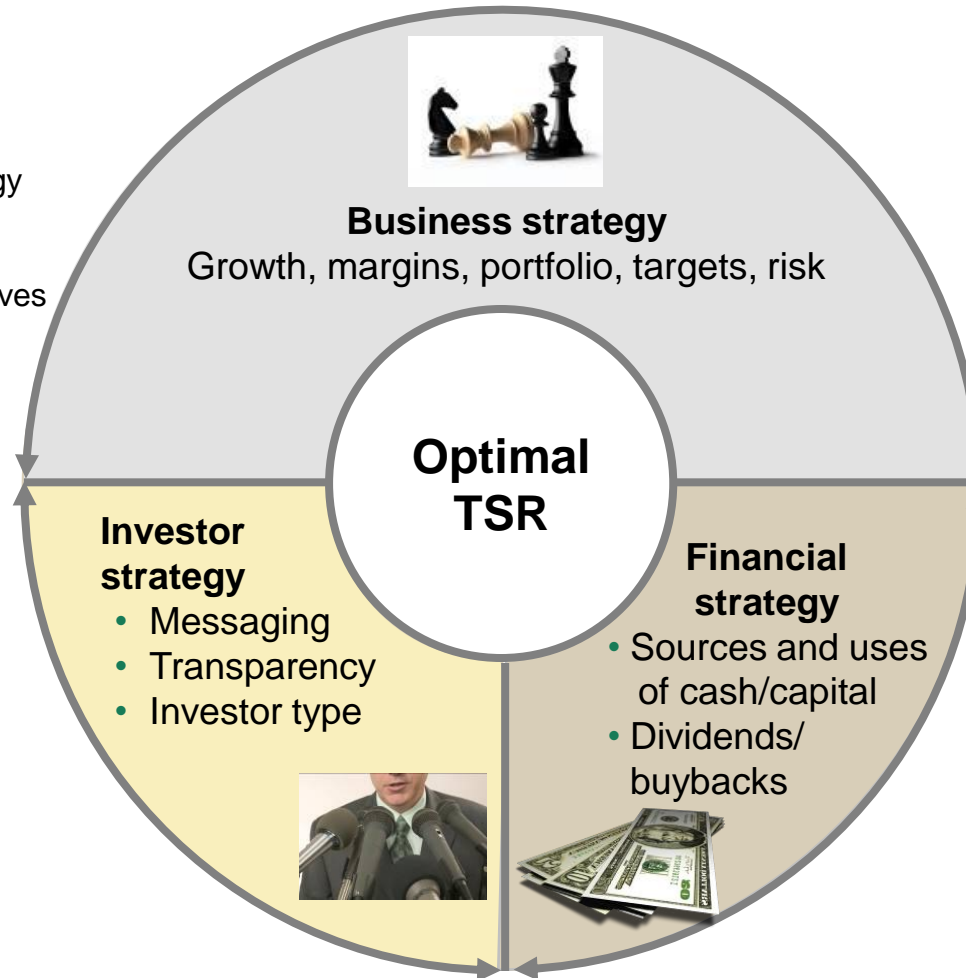
4 Upgrade core management processes

- Investors see improvement potential in all core management processes, esp. strategic planning and risk-management
- Majority of investors believes companies can better align their corporate, investor and financial strategies

Critical to ensure companies align their business, financial and investor strategies

- Competitive advantage
- Portfolio strategy
- M&A / divestiture strategy
- Capital allocation
- Organic growth, margin, asset productivity initiatives

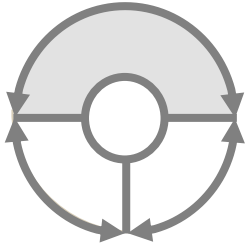
- Investor segmentation
- Target investor mix
- Investor migration plan
- Investor communication
- IR practices
- Multiple valuation



- Return cash to shareholders
- Regular dividends
- Share buybacks
- Special dividend
- Leverage ratio / rating aspirations
- Net working capital management

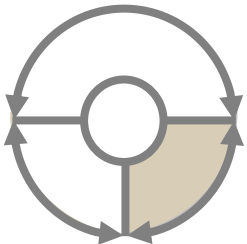
Key questions addressed by TSR strategy fact-base

Corporate strategy



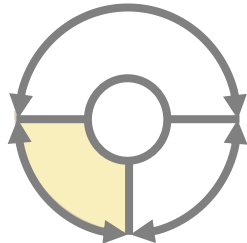
- What realistic TSR and share price should our business plans deliver? In which period of time?
- How do we prioritize and allocate resources amongst competing strategic alternatives? Should we focus on the near-term or long-term impact?
- How does each of our business units contribute to our TSR, share price, P/E? Should we divest any of our businesses?
- Where do strategic M&As fit in our strategy?

Financial strategy



- Do we have the correct capital structure? Do we have the optimal credit rating?
- What are the current terms of our debt? When should we refinance or increase our debt?
- What is the minimum level of operating cash that we need to have on our balance sheet? What additional cash do we need for other uses?
- What is the best way to return cash to shareholders?
- How do we fund our M&A activity? (i.e. cash, debt or equity)

Investor strategy



- What is our investor thesis?
- What is the optimal investor type for our company (e.g. Alpha Value, GARP, etc.)?
- How do investors evaluate our company's performance and what do they expect from it?
- What is our company's appeal to investors vs. our investment peers?
- How do we tailor our investor communications to attract the appropriate investors?

Agenda

Summary of key investor findings

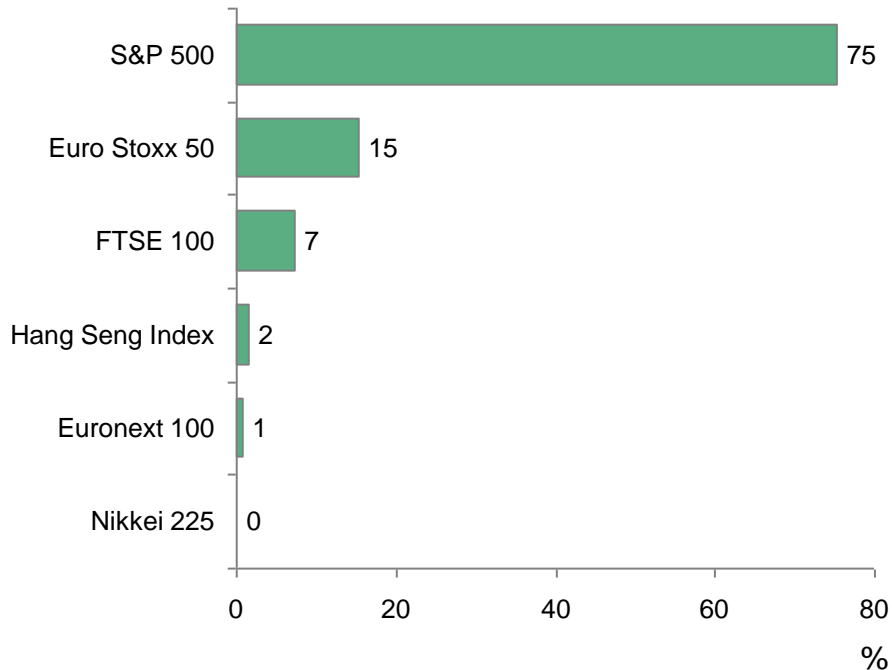
- Wide swings in investor sentiment
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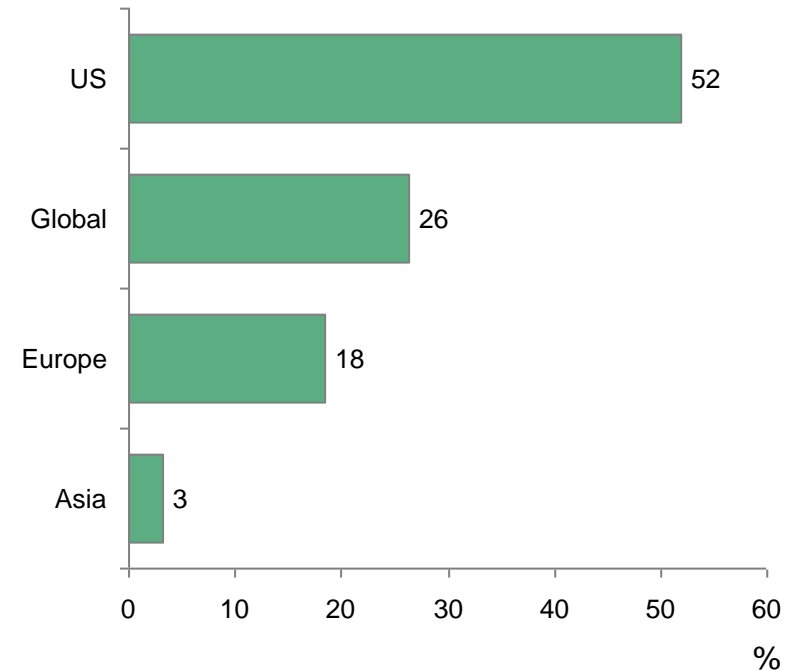
Appendix

Majority of investors focusing on US markets

Which of the following indices are you most familiar with?

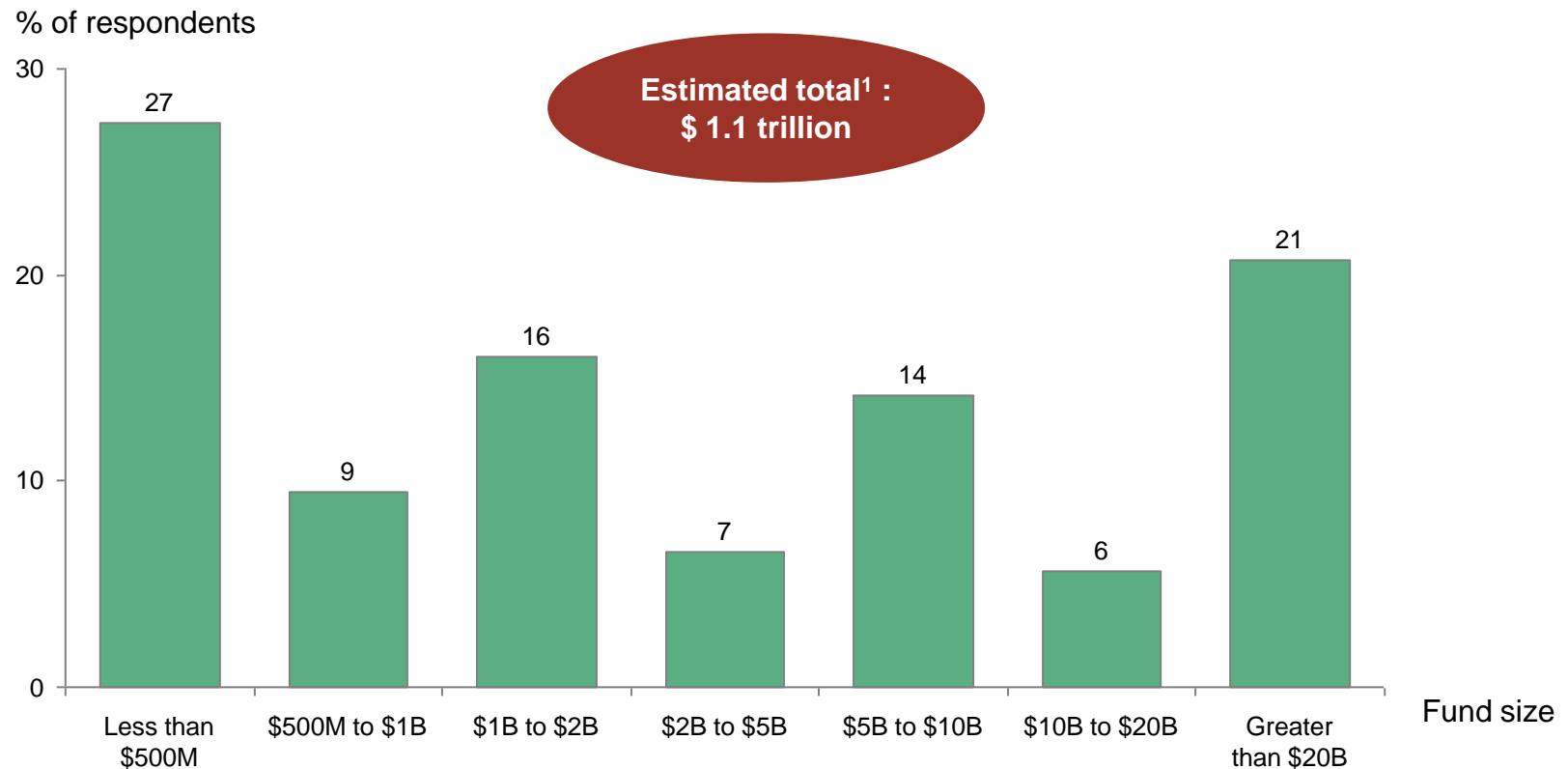


What geographic region(s) do you focus on primarily?



Estimated \$1.1 trillion of assets under the management of the surveyed investors

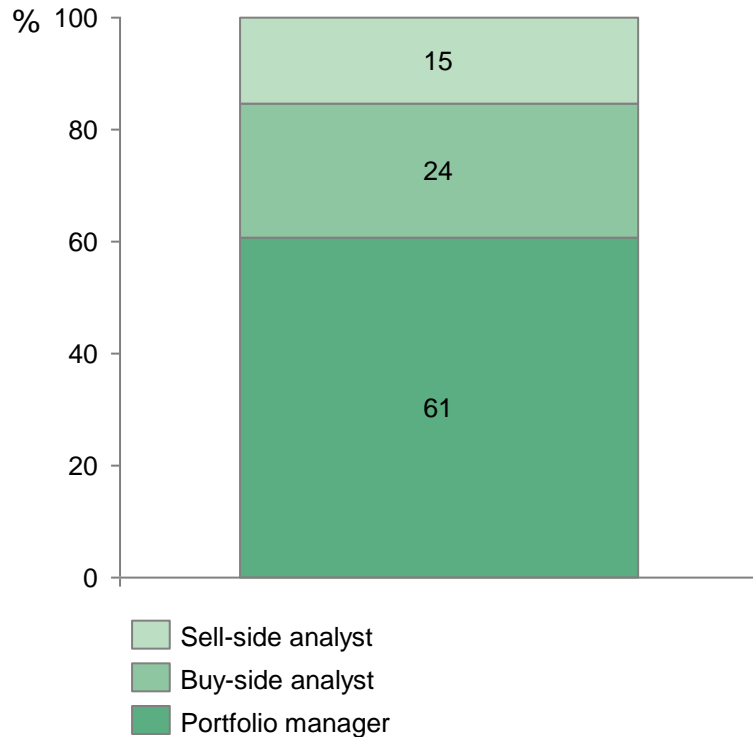
Approximately, what are your fund's assets under management?



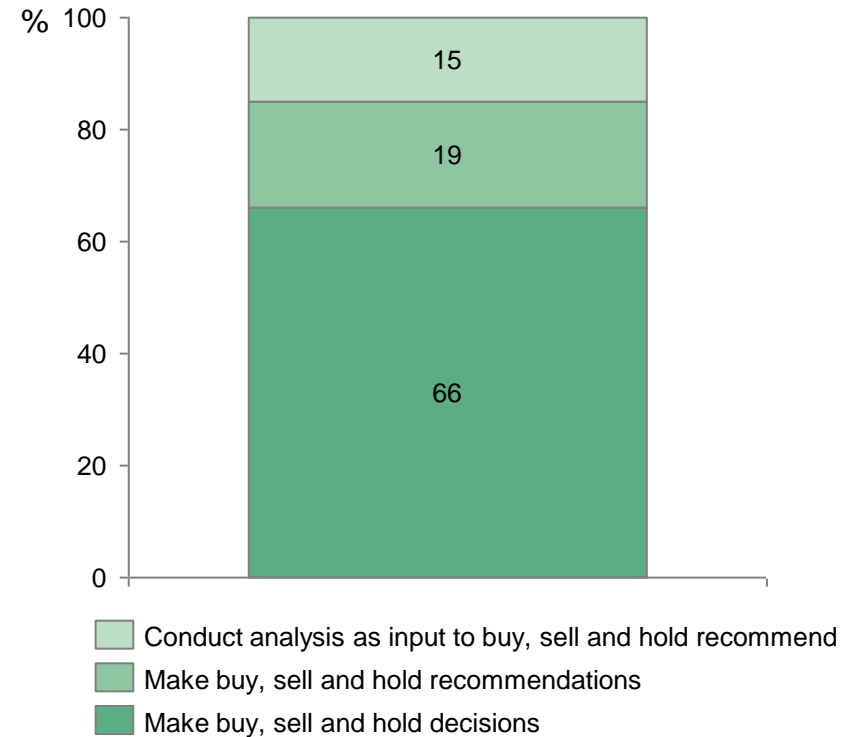
1. Total assets under management estimated based on mid-points of fund size intervals in answer options; assumed \$250M fund size for answers falling in "Less than \$500M" interval, and \$30B for answers falling in "Greater than \$20B"
Source: BCG investor survey conducted in Q1 2013

More than half of investors are portfolio managers, and 57% are responsible for investment decisions

Which category best describes you?

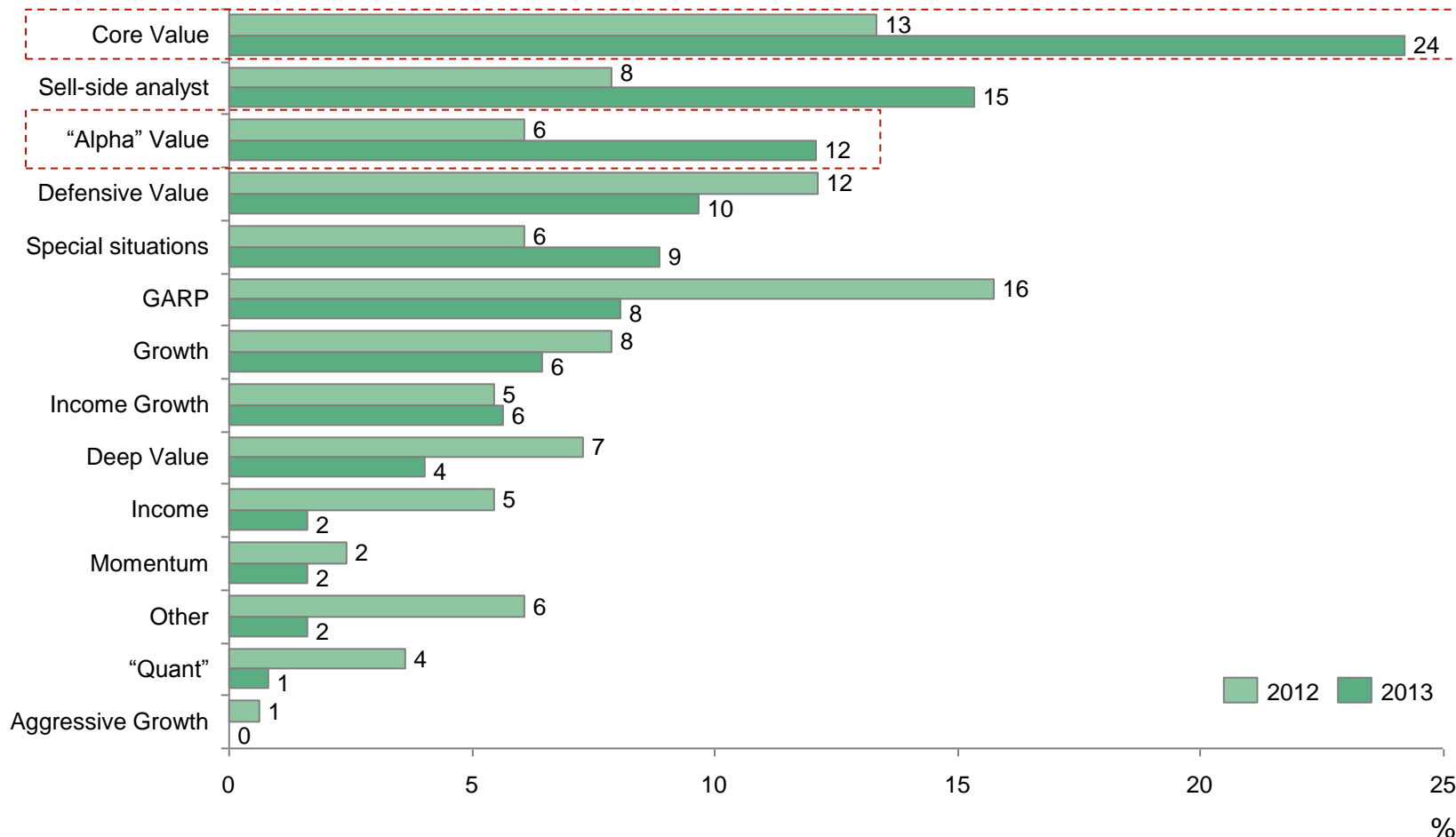


Which category best describes your role in the investment process at your firm?



More investors in this year's sample pursue Core Value or "Alpha" Value strategy

How would you describe your 2013 investment philosophy and mindset?



Source: BCG investor survey conducted in Q1 2013, BCG investor survey conducted in Q1 2012

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Thank you

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