

h2Radnor View

Like it or not, shareholder perceptions are YOUR reality

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If a shareholder complains and the company's management team are not aware of it, has the complaint even really happened? We make this comment in jest, but recent corporate news flow has neatly encapsulated the risks posed to a public company board unaware of its investors' views.

As an example, take Boohoo vs. Mike Ashley, a veritable clash of retail titans now with a dedicated website (www.boohoodeservesbetter.com) and continuous tit-for-tat sniping via Regulatory Announcements on the London Stock Exchange.

The Boohoo share price is down by 90% over a five-year period, as shown in the chart below. Mr. Ashley has repeatedly and publicly criticised Boohoo's management team for their inaction in reviving the business, and for their lack of engagement with him as a major shareholder. Frasers Group owns almost 30% of Boohoo, but crucially what do the other large shareholders think about the situation?

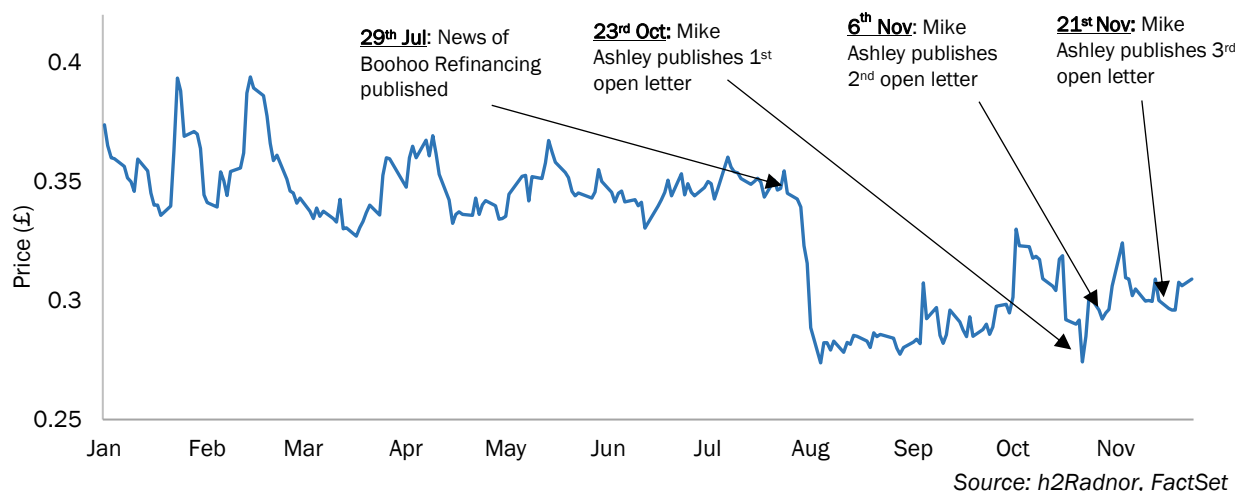
The remaining c.60% of shareholders (discounting Mr. Kamani, who has made his support clear) will be the key for Boohoo management to either win or lose this battle. Understanding what the remaining shareholders think will give some clarity to whether the management have the backing to continue the fight and respond to Mike Ashley's actions with confidence.

From the 2024 share price performance chart (also below), it is unlikely that the share price will recover until this shareholder dispute is resolved. Knowing this, will the c.60% shareholders be willing for the company to continue to incur hefty advisory fees and untold reputational damage?

Boohoo Group plc – Price Performance (5yr)



Boohoo Group plc – Price Performance (YTD 2024)



Another recent example is the shareholder rebellion faced by investment trust PRS REIT, in summer 2024. A consortium of investors who represented over 17% of the register, moved to force the chair out and change the strategic direction of the business. These noisy shareholders requested an Extraordinary General Meeting to vote on a number of items. One suggestion was for the company to consider selling properties to repay its debt, when the cost exceeds the net rental yield of the portfolio.

PRS REIT was by no means the worst performing investment trust over this 5-year period, so clearly something else went wrong here. The rebellion suggests a major breakdown in alignment between management and shareholders. We think more could have been done to reassure investors to keep them aligned with the company's strategy. It's worth noting that the company was set substantially to complete numerous build-to-rent homes by the end of 2024. At this point, further value could be derived from the portfolio.

PRS REIT – Price Performance (5yr)



Shareholders are not faceless institutions, they are (usually) rational and human, who need to feel their concerns are being listened to. They are, typically, invested in the company for the long-term and their collective aims and aspirations therefore need to be in sync with management. As well as listening, a company needs to ensure they understand and empathise with the motivations of their different holders.

Buy and hold investors will have a different remit to highly agile hedge funds, who will in turn have a different remit to risk averse income investors who prioritise dividends. Let's also not forget other key areas, such as ESG and sustainable investment portfolios, which bring their own challenges and concerns for their managers. Finally, when it comes to a sell decision, it's important to remember many forces can be at play. An institutional investor may have redemptions or other liabilities to meet, meaning a partial or full sale can be completely unconnected to the company and its performance.

Referring back to our examples, both exhibit a lack of two-way interaction between the shareholder register and the company. This in turn has caused a breakdown in mutual trust and support. If Boohoo's management team had spent more time engaging with disruptive shareholders like Frasers Group, acknowledging and acting on their concerns, then this perception of an inactive management team could have been avoided. Similarly, if PRS REIT had clearly communicated a strategic direction which proved its commitment to reducing the discount and drive long-term growth, shareholders may have felt less compelled to complain so publicly.

The cold truth is that the way a company is perceived by its shareholders is its reality. If there is a feeling that management is behaving like an ostrich, isolating itself off from the market, then regardless of the company's strategy and ambitions, this is how it will be seen. Disgruntled, vocal shareholders need to be listened to and engaged with, just the same way as quiet, inactive ones do.

At h2Radnor, we have extensive experience in delivering impactful perception studies that provide deep insights into investors' wide-ranging views of the business strategy, valuation and performance. Critically, these studies ask investors to articulate their investment hypothesis behind their holding and whether it still holds.

We take a flexible approach to perception audits, encouraging a two-way dialogue (rather than a Q&A) with investors, which makes for a more productive discussion. We find these meetings tend to result in stronger views and more detailed responses. They help uncover topics the company may have misunderstood or not fully considered. A deeper understanding of investor attitudes results in superior communication and significantly closer investor alignment.

Once we have completed a perception audit, we are better equipped to advise on the best way to position your investment case, equity story and review investor materials such as presentations.

A well-constructed and proactive capital markets strategy is a vital catalyst for unlocking unrealised shareholder value. Our team's deep experience means we act as a trusted adviser for our clients.

Please do get in touch if you want to discuss.

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