

Quiz

According to company reports....

What's the riskiest sector to run a business in?

A) Technology 12 risks

B) Utilities 18 risks

C) Retail 12 risks



Improving corporate reporting

The challenge of relevance.....

The Challenge

Business Relevant?

Decision Useful?

Meeting the challenge

1. The Reporting Gap

2. Strategic relevance

3. A complete view?

4. Will investors listen?

5. KPIs: A longer term view

6. Example: Sales performance

7. Disclosure frameworks

8. FEE: Fostering debate

9. Practical barriers



Room for improvement

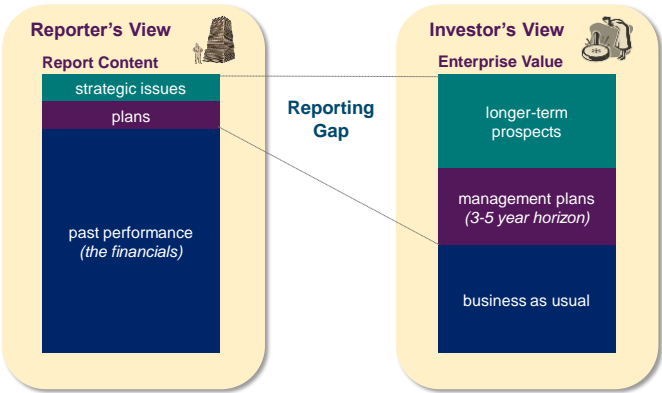
The KPMG Survey of Business Reporting
second edition

- Published Spring 2016
- 270 larger listed companies across 16 countries, and 15 non-financial sectors
- Focus on strategy, operational performance, and risk
 - KPIs analysed across 250 categories
 - Average report generated 100 information points

www.kpmg.com/uk/betterbusinessreporting

The Reporting Gap

The Challenge



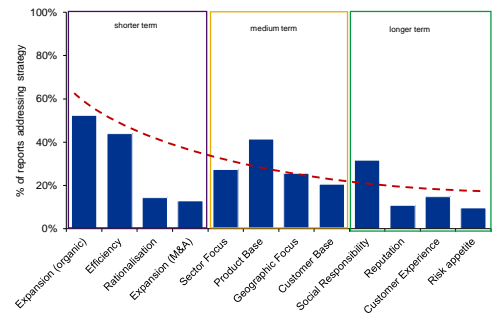


Strategic Relevance

Beyond an eighteen month horizon....

Business Relevant?

Aspects of strategy addressed in reports



44% of strategy discussions don't look beyond the short term

Business
Relevant?

Strategic Relevance

We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation....

.... CEOs should be more focused in these reports on demonstrating progress against their strategic plans than a one-penny deviation from their EPS targets

Larry Fink, CEO, Blackrock



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7

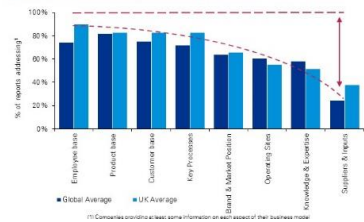
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Business
Relevant?

A complete view?

Business model

Aspects of the business model described in reports



- Lack of depth
- Key aspects of competitive advantage omitted
- Failure to connect with the rest of the report

Risks



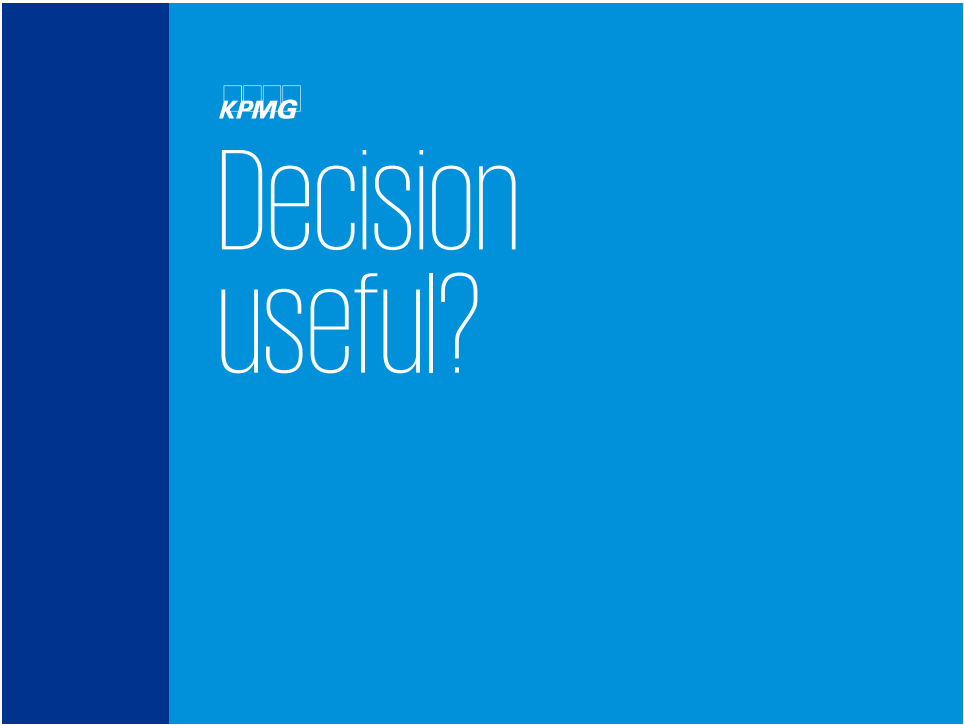
- Discussions could demonstrate a much more focused approach to risk management
 - Boiler-plate risk identification
 - Limited focus on shareholder value
 - Bland and passive discussion



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8

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Will investors listen?

Decision Useful?

Illustration: Headlines from a research report

One underlying earnings measure
- trading EBITDA

Three operational KPIs
- membership;
- ARPM;
- customers

1st Take: 1H17 results:
Operational improvement
continues

Numbers are fine with EBITDA of £192p vs Mts £193m. Importantly the improvement in personal membership has continued into Jul/Aug and the new systems investment is on schedule (it is spending less). It has taken a £10m provision for double cover, which will likely cause some discussion, but it believes this will not rise. The company remains happy with FY consensus EBITDA £640m ex Ireland (Mts £646m).

Key points from the results:

- The most important KPI continues to move in the right direction. In total membership was 3,321 in Mts 3,228 involving a 30% decline of 0.6m. Progress in personal and membership has continued this half-year, driven by marketing new business volumes (up double-digits). The CRM system is not yet up and running but should make a positive impact in due course. Retention at 87% is flat on the FY, which is potentially a touch disappointing relative to 80.8% 1H17 (last yr, implying 82% for 2H, but we are not sure how "hard" a number the £2m is and we don't model an improvement in retention until next year. Personal membership is the key driver of cash flow and shareholder value.
- ARPM (average) grew by 2% to £192. This was driven by mix and product sales patterns and price rather than price in line with its strategy. Total ARPM was up 5% as it stopped going away from memberships. Both ARPMs are not of IPT which added 33% from Nov 2015 which makes the personal membership improvements look a better achievement.
- £2B customers grew 2% to 10.75% and average income increased 5.6%, from £38 to £39.75% is a significant increase in the UK market (last yr, 2016). The average increase in income per member was due to an increase in call costs, paid in a 10% base.
- Higher costs vs phasing of ad spend: the EBITDA was ahead £177m vs Mts £175m, while costs were higher due to increased call costs offset by phasing of advertising spend and product mix. The company has not disclosed cost per call, mobile repair rates, % 3rd party progress, but "good progress has been made". However, volumes of breakdowns were higher, resulting in more cost offset by lower ad spend. While phasing of ad spend gives the AA some flexibility over numbers, it will be interesting to see how these two factors trend for the rest of the year.

Source: Morgan Stanley

Three analysed financial balances

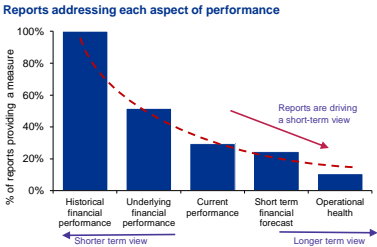
- operating costs;
- provisions;
- strategic investment

Two GAAP derived measures

- insurance margin;
- pension deficit

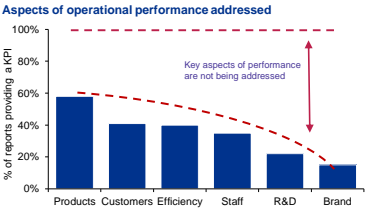
Decision Useful?

KPIs: A longer-term view



- 1. A long-term view needs long-term information
- 2. Practice is not meeting the regulatory ambition

3. Even where KPIs are provided, they are often of peripheral relevance

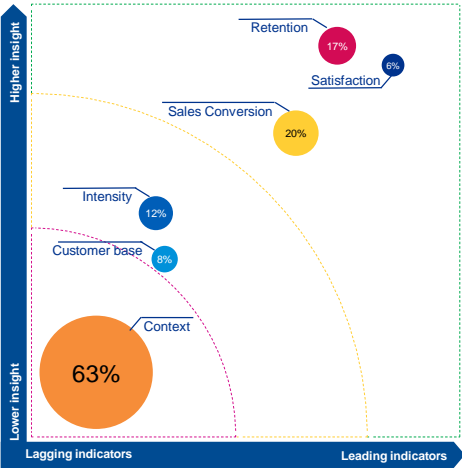


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Decision Useful?

Example: Sales KPIs



Some measures are more relevant than others

There is (some) good practice out there – but it's patchy

A step change is needed to meet investor needs



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FEE: Fostering debate

Meeting the
Challenge



Discussion paper
<http://bit.ly/15futurecorprep>

1. **Growing audience**
2. **Content: financial and non-financial reporting**
3. **Core & More**
4. **Approach to policy making and innovation**

TECHNOLOGY as driver and enabler of change

General acknowledgement of issues identified in FEE paper

Mixed views on broader stakeholder model; investor primacy stressed by many

Generally agreement with importance of technology

Mixed views on Core & More, need for clarification

Less input on future policy agenda

Disclosure frameworks



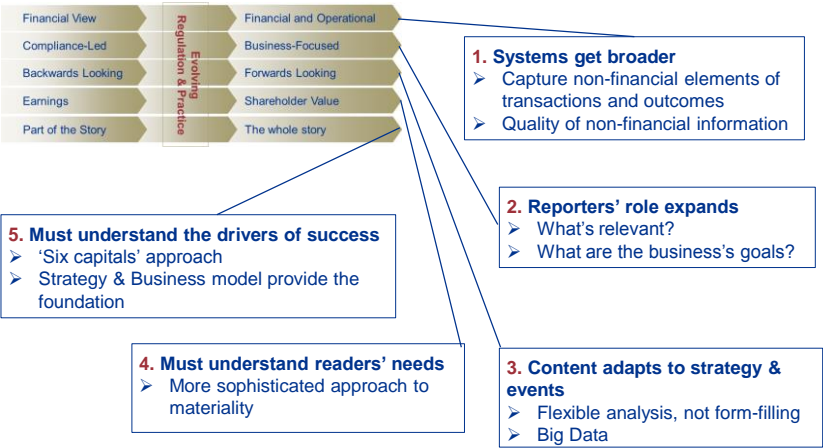
- Strategic Management**
- Business Objectives
 - Strategy
 - Business Model
- Business Environment**
- Business trends and Factors
 - Principal risks and uncertainties
 - ESG factors (if material)
- Business performance**
- Development, performance & position (including progress against strategy)
 - Financial and Other KPIs (including indicators of future financial prospects)
 - Statutory diversity disclosures



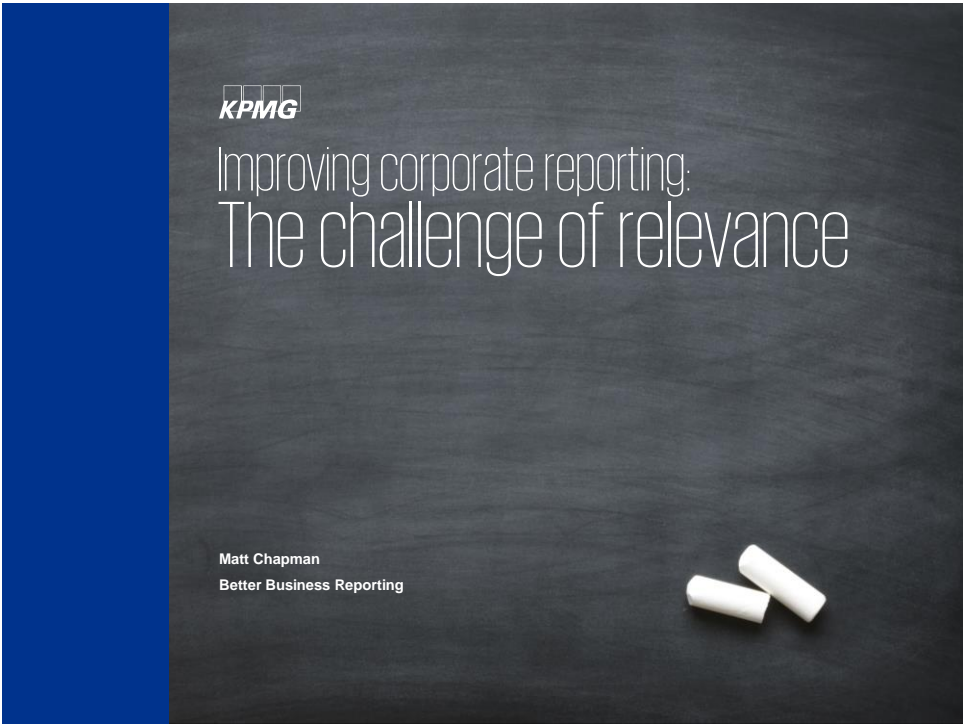
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Practical challenges

Five challenges for report preparers



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