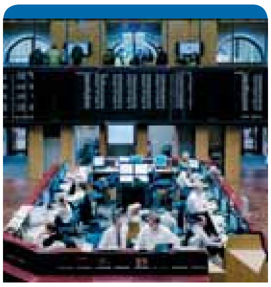
Communication can stop the barbarians at the gates

The example of Deutsche Börse AG



Deutsche Börse is without a communication base

Those who do not learn from history are condemned to repeat it. Many DAX and MDAX companies may wish they were better prepared when activist investors and private equity bids turn them into prey for speculators. Often they find that their own ideas on the company's strategy suddenly compete with those of short-term financiers, resulting in a struggle for the privilege of interpreting the "Equity Story". The following article analyzes the problems of insufficient communication using as an example the coverage of Deutsche Börse AG between January 2003 and March 2007 in the leading German media. The article then discusses some basic principles of managing communication risks. 3,591 passages on the company and its top executives in leading newspapers, weekly media, TV newscasts and selected financial magazines were analyzed in preparing this analysis.

Financial investors such as private equity groups (PE) or hedge funds are currently the nightmare of many CEOs of large or medium-sized listed companies. PEs aim at acquiring listed companies in order to take them off the stock market, break them apart, sell their parts and possibly realize additional profits by eventually taking the parts public again. Hedge funds, with the help of minority stakes that can, on occasion, be coordinated informally with other funds, aim at forcing companies with high cash reserves to pay out dividends, or they sponsor mergers or breakups that yield high share price gains in short term.

Both investor groups have in common the fact that they often have different ideas from those of the management of the companies concerned, and that they are now also trying to achieve their goals with the help of communication. The example of Deutsche Börse illustrates in which environment these strategies are particularly likely to bear fruit, thus turning into a stumbling block for the management.

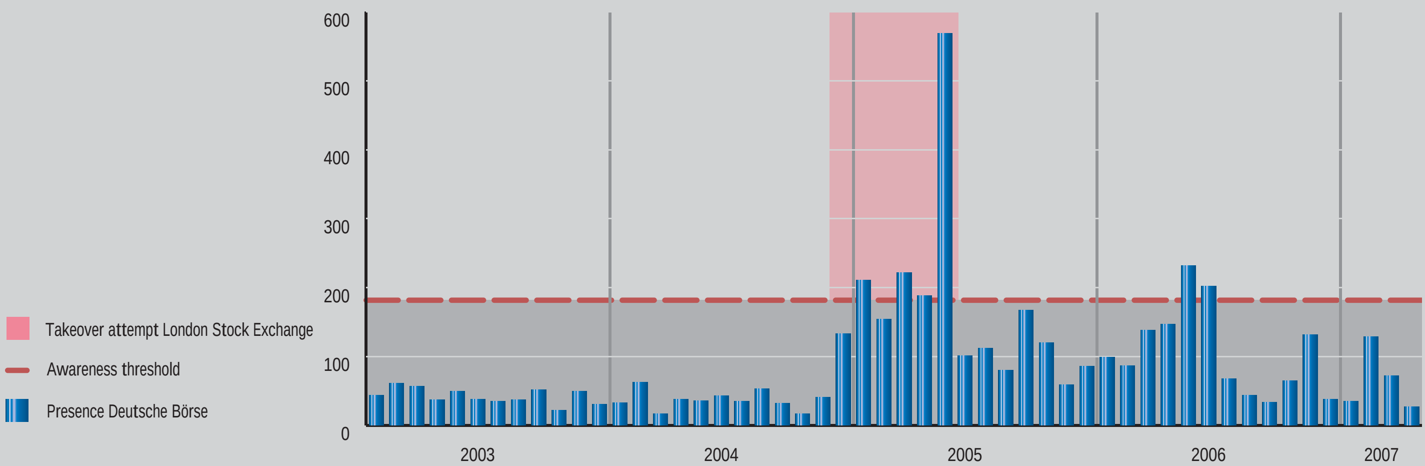
Achieving goals through the media

Since December 2004, Deutsche Börse had been trying again to take over the London Stock Exchange (LSE), after failed efforts in the fall of 2000. It had more than enough cash for a generous offer, having improved its capital ratio from 70 to 79% since 2002 and demonstrating in its annual reports a fair cash flow for the years 2002 until 2004.

While the Deutsche Börse supervisory board gave its go-ahead, opposition grew, as was to be expected, in the London City on the one hand (**FAZ**, 18.1.05), and among some shareholders on the other (**FAZ**, 17.3.). Resentments were particularly strong among representatives of the hedge funds Atticus and TCI (**Berliner Zeitung** 8.3.).

In the end, the then CEO of Deutsche Börse, Werner Seifert, pulled back from the brink and dropped the takeover attempt which, according to most analysts, would have made sense strategically, signi-

1) Presence of Deutsche Börse



Number of passages
Basis: 4,673 passages (at least 5 lines/5 seconds) in 33 media outlets
Time period: 01/2003 - 04/2007

ficantly improving Deutsche Börse's medium-term growth prospects (epd). The takeover attempt ended in a fiasco and Mr. Seifert had to step down.

Below the awareness threshold

The analysis of media coverage since January 2003 shows that Deutsche Börse's strategy as a company was barely visible before the renewed takeover offer for the LSE. With an average of 50 news stories per month in 25 media, it stopped far short from the awareness threshold for a wider public.

Werner Seifert's operational success thus remained a secret. Despite the weak market environment after the breakdown of the New Economy, he had managed to achieve considerable results.

Forced to step down by communication

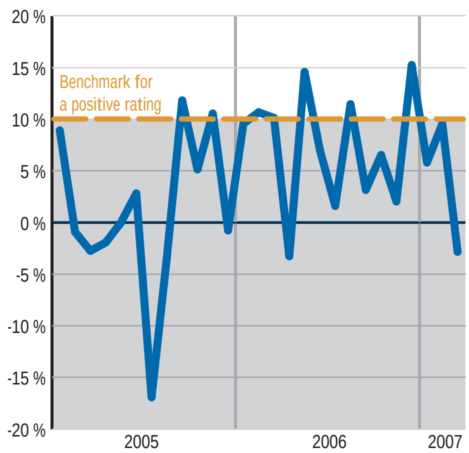
Parallel to the increasing opposition to the offer since mid-January 2005, coverage made a jump (**chart 1**). Attention peaked when the institutional investors, in the run-up to the annual general meeting in May, urged Werner Seifert to step down and prevailed with their wishes for higher dividend pay-outs of liquid assets. Deutsche Börse was particularly vulnerable because it failed to win over a crucial group of investors through communication: Even investors that were, in principle, more oriented towards medium-term investments, ended up succumbing to the pressure of the short-term shareholder results demanded by the hedge funds.

As the investors and analysts often follow a herd instinct, published opinion plays a considerable role. Rule number one for warding off market speculations is therefore a sufficient and continuous presence of the company in the opinion-leading media, so that the management's own strategy as well as present or past success can be evaluated.

Wrong topics dominate the image

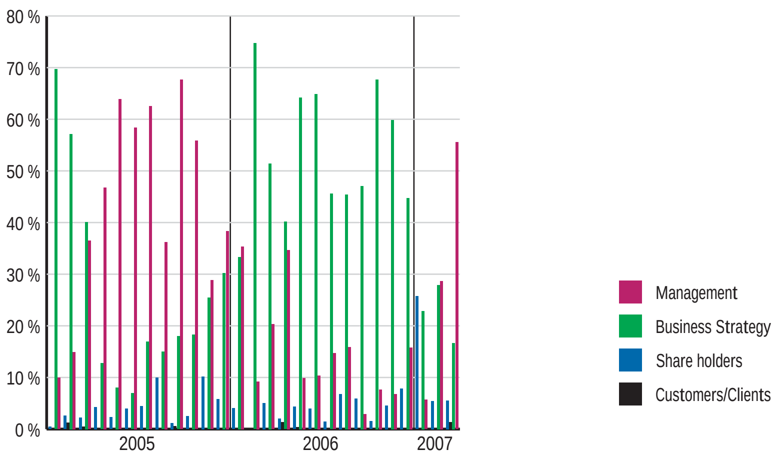
Effective communication not only depends on sufficient presence but also, and in particular, on the content communicated. Bob Eccles and Samuel de Piazza ("Value Reporting") recommend communi-

2) Assessment of Deutsche Börse



Assessment = Balance of the +/- ratings in %
Basis: 3,591 passages (at least 5 lines/5 seconds) in 33 media outlets
Time period: 01/01/2005 - 03/20/2007

3) Share of selected image factors in Deutsche Börse's media image



Share in all passages
Basis: 3,591 passages (at least 5 lines/5 seconds) in 33 media outlets
Time period: 01/2005 - 04/2007

Research links:

www.deutsche-boerse.de

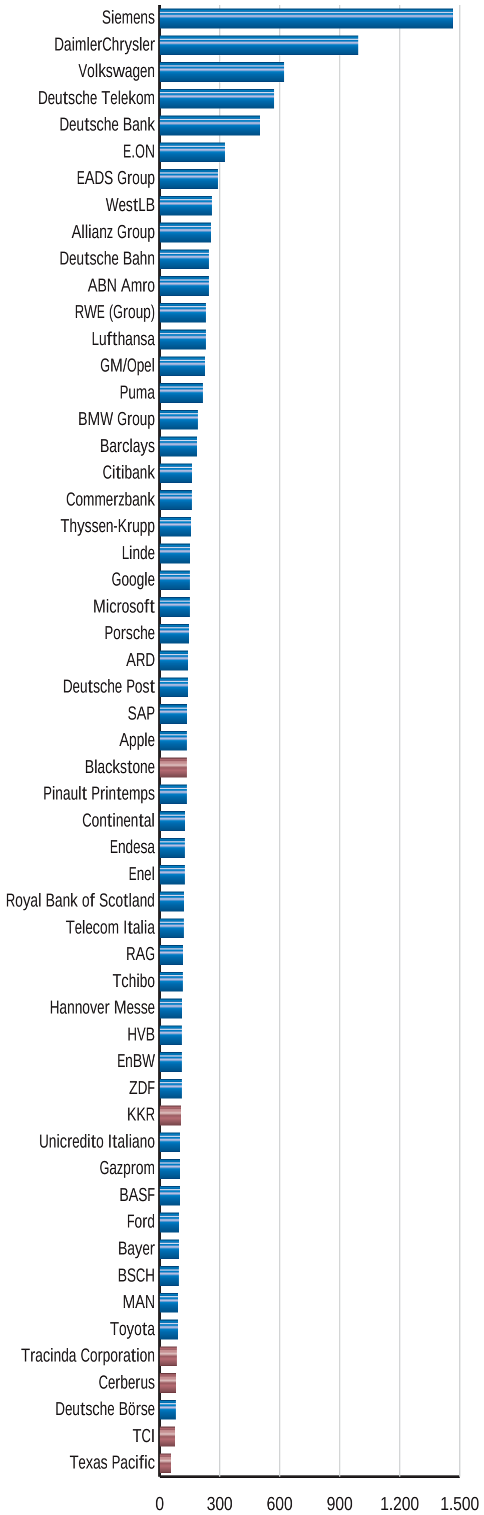
http://www.berlinonline.de/berliner-zeitung/archiv/.bin/dump.fcgi/2005/0510/wirtschaft/0030/index.html?group=berliner-zeitung;sgroup=;day=today;suchen=1;keywords=seifert%20AND%20TCI;search_in=archive;match=strict;author=;ressort=;von=1.1.2005;bis=31.5.2005;mark=seifert%20and%20tci%20%E4nd

http://www.zeit.de/2005/20/Finanzinvestoren_Hedge

http://www.zeit.de/2007/09/Deutsche-Boerse

http://www.dirk.org/upload/pdf/jahreskonferenz/jahreskonferenz10/workshop%203.2.pdf

4) Coverage on companies April 2007



Share of passages
Basis: all passages on these companies (at least 5 lines/5 sec.) in 33 media
Time period: 04/2007

cating the decisive value drivers of the company in a transparent and continuous way. The main value drivers are:
1) Quality of the products and services,
2) Customer satisfaction and loyalty,
3) Operative efficiency, innovations and
4) Employee satisfaction.

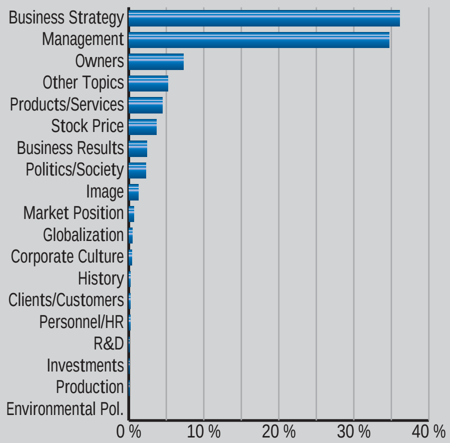
Successful stock markets are primarily defined by their efficiency, innovations and position on the financial markets. These factors should have had a particular weight in the media image of Deutsche Börse, in order to publicly substantiate Werner Seifert's claim to lead and to create credibility for the takeover bid. Yet those factors got lost in Deutsche Börse's image in 2005, because financial investors publicly undermined the strategy (**chart 2**).

The analysis over time, however, also shows that the structure of Deutsche Börse's media image has not changed significantly since. After Werner Seifert's succession had been decided and Reto Francioni nominated, the share of management topics went back down from more than 60 to 20%. But from then on, strategy topics dominated the media image with roughly 50%. Customers or customer relations continued to be barely visible.

Value drivers were not perceived as strengths

An even closer look at the image factors in the coverage on Deutsche Börse indicates glaring weaknesses in

5) Relevance of image factors at Deutsche Börse



Share in all passages
Basis: 3,591 passages (at least 5 lines/5 seconds) in 33 media outlets
Time period: 01/01/2005 - 03/20/2007

6) Assessment of image factors at Deutsche Börse

Assessment = Balance of the +/- ratings in %
Basis: 3,591 passages (at least 5 lines/5 seconds) in 33 media outlets
Time period: 01/01/2005 - 03/20/2007

Relevance= Share of image factors in all stories

Assessment= Balance of the +/- ratings in %

A positive image starts with an overhang of 10 % of all positive ratings

its image management throughout the period January 2005 to March 2007: The factors, which made up almost 80% of coverage – strategy (takeover attempts), management (changes of CEO and board members) and the conflict with shareholders – are portrayed in a primarily negative way (**charts 5 and 6**).

Strengths, such as excellent profitability even in times of weaker markets as well as innovations through new products and segments, played little to no role. Yet coverage on actual successes requires backing up with information on processes, products, corporate culture and other value-driving factors.

History can repeat itself

The type of tumult that has afflicted Deutsche Börse over the past three years cannot be washed away from the corporate image over night. The trend in the company's assessments continues so be highly volatile, even after the realignment in the fall of 2005. In February 2007, the **FAZ** reported on new attempts by the hedge fund Atticus to break up Deutsche Börse (24.02.). By selling its affiliate Clearstream, Atticus argued, it could then pay higher dividends to its shareholders. Since then, Deutsche Börse has been advertising its course more offensively, including the most recent takeover plans for the US stockmarket ISE – which again were strongly attacked by Atticus (**FAZ** 11.05).

After the events two years ago, the media have become more careful and now know better how to interpret the motives of short-term-oriented financial investors. However, the most important players among financial investors have managed to achieve such a strong media presence themselves that they can get their messages across very effectively. Most of them openly communicate their investment principles when bidding for companies (**chart 4**). Groups such as Blackstone, KKR and TCI had a higher presence in April than many other companies. Deutsche Börse, too, was partly outflanked. It therefore continues to run the risk of not receiving a sufficient media resonance with its strategic plans.

At the same time, companies are also scrutinized by the public: Public support or opposition also decide on the success of a takeover bid. This was exemplified by the company Linde: Its works council was allowed to publicly comment on the bids for the forklift truck division, which was on sale. (vb)

Basis
Media: A total of 33 media outlets
Time period: 01/2005 - 04/2007
Analysis: 3,591 passages on Deutsche Börse AG, CEO and supervisory board

Effective defensive communication

1) Continuous and perceptible communication

2) Successful communication of all the company's important value drivers

3) Communication support through relating statements by relevant groups in the media (analysts, employees, clients)

4) Analysis of the communication put out by financial investors and prompt reaction to possible criticism