PROFESSIONALS ONLY

CARMIGNAC
RISK MANAGERS

THE IMPORTANCE OF CUSTOMER SATISFACTION TO CORPORATE SUCCESS

FOREWORD

Experience is everything.

At Carmignac, we have the strong conviction that customer-driven organizations thrive over the long-term. But to begin with, what is a customer-driven organization? It's an organization that invests and empowers its employees to offer the best possible client experience at all touchpoints in order to maximize satisfaction.

I joined Carmignac as Chief Experience Officer in 2020 with this customer-centric approach in mind, to build even more proximity with our clients, something that has always been core of Carmignac's strategy. My background in digital and organizational transformation goes beyond the asset management industry (luxury goods, softwares, consumer finance, retail and online banking, insurance) and I always try to keep an open eye on other sectors that innovate.

In this paper, we will dive into what customer satisfaction means to the universe of companies we can invest in and where unique sets of data are available to us. It comes at the time of the launch of our latest fund, Carmignac Portfolio Human Xperience, which invests in companies that go above and beyond for their customers and employees. Through this fund as well as the launch of our Voice of Customer programme during 2022, we can demonstrate the financial relevance of what has always been in our DNA: delivering a premium experience to our clients and to our employees. You will find more information regarding Carmignac's own approach to customer satisfaction at the end of this paper.

Whilst this analysis focuses on the first stakeholder group, customers, a second paper will focus more on employees and their importance to business success, so stay tuned!

Nathalie LAHMI
Chief Experience Officer, Carmignac

EXECUTIVE SUMMARY

The objective of this data-driven study was to firstly identify whether companies with high levels of customer satisfaction outperformed the wider investment universe and secondly, understand the financial characteristics of companies with high levels of customer satisfaction. Based on data analysed and assumptions, we came to the conclusion that on an average annualised basis over a 10-year period, companies with high satisfaction outperformed the index by 4% and this outperformance versus the low satisfaction companies reached 5.5% over the last 5 years. We also found that the high satisfaction companies have characteristics of higher price/ earnings ratio, price/ book ratio, return on equity and return on invested capital as well as typically lower net debt / EBITDA (for 5 of 10 years). We found these conclusions for all years when compared to the low satisfaction group. These are also assumptions supported by numerous consumer research (from PWC, Hubspot, BAIN & Company or Harvard University for example), supporting the link between customer satisfaction and higher profits and thus share price, and other financial characteristics. Furthermore, recent trends such as the rise of the customer voice, social media and online reviews may offer potential explanation of the increase in share price performance relative to low satisfaction companies over the last 5 years.

Finally, we took a sector perspective and concluded that firstly customers have higher customer satisfaction expectations for sectors such as electronics versus apparel and beauty and secondly, companies in sectors such as Consumer Discretionary and Consumer Staples are more likely to receive positive customer satisfaction on average, while Communication Services and Financials are more likely to receive negative customer satisfaction scores on average.

We also found divergences intra-industry and intra-sector, for example within the Consumer Staples and Consumer Discretionary sectors, Consumer Durables & Apparel and Household & Personal Products companies have higher customer satisfaction scores on average, whilst Automobiles & Components and Food & Staples Retail companies typically have lower scores. Furthermore, within the generally poor performing Financials sector, diversified financials companies have higher customer satisfaction scores on average, whereas Banks and Insurance companies have lower. We also highlight how companies within the same sector perform differently in terms of both customer satisfaction and share price, using the Southwest Airlines and Ryanair comparison[3].

INTRODUCTION

This study seeks to show how companies with high levels of customer satisfaction perform versus a broad index as well as identify the financial characteristics of this group of companies. We firstly present our methodology for the analysis, discuss headline conclusions regarding share price outperformance versus both the index and low satisfaction companies. We then look into financial characteristics of high satisfaction companies before analysing the results. We will discuss the key link between customer satisfaction and companies' profits, as well as the reasons why this link has become more pronounced over the last 5 years. Finally, we will explore any sectoral differences in the importance of customer satisfaction and identify sectors which are more likely to provide positive or negative satisfaction to consumers, before examining intra-sector and intra-industry differences for consumer sectors.

(1) Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations.
(2) Source: PWC – future of CX (2017), Forbes – customer experience is the future of marketing (2015), Hubspot (2018), Bain & Company – Retaining Customers is the Real Challenge (2006), Harvard Business Review – Stop Trying to Delight Your Customers (2010).
(3) Reference to certain securities is for illustrative purposes. This is not intended to promote direct investment nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication.

METHODOLOGY

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UNIVERSE

YouGov's Brand Index is a syndicated brand tracker that covers hundreds of sectors and thousands of brands around the globe. Their customer "Satisfaction" score used in our analysis is just one of their 'brand health' metrics (16 global KPIs in total), which measures how brands are perceived. YouGov calculate this score as: Positive Satisfaction % - Negative Satisfaction % = Net Score for each brand. For example, we receive data relating to Double Tree by Hilton, Embassy Suites, Hilton Garden Inn and Homewood Suites, which are all brands of the parent company Hilton Worldwide Holdings Group. To conduct our company level analysis, we then converted the underlying brand customer satisfaction scores into a single score at the listed parent company level. For this study we had coverage of approximately 200 companies within our investment universe or 'index' (MSCI North America), based on approximately 1000 individual brands. The 200+ companies represent the crossover between the index and the companies that have customer satisfaction from YouGov. We chose to focus on North American companies due to the availability of data. The data started in December 2011 and ended in December 2021 (10 years).

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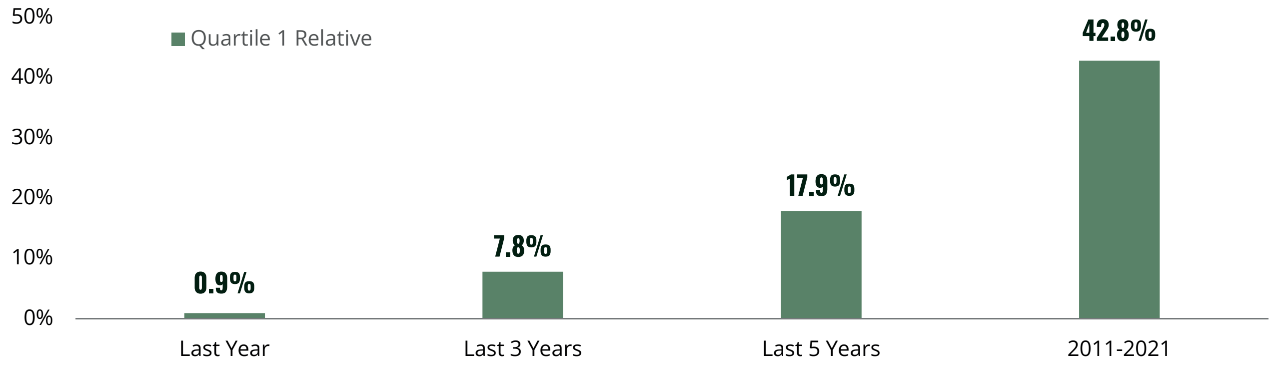
ANALYSIS

Using **FactSet**, on a weekly basis we measured the average return/ performance of the top quartile or 25% of companies (approximately 50) based on their customer satisfaction scores at each point in time going back to December 2011. Each of these weekly returns was used to create an index of rolling returns between December 2011 and December 2021. Indices were created for quartile 1 (high satisfaction), quartile 4 (low satisfaction) while the second and third quartile were included just as another point of comparison.

DATA ANALYSIS

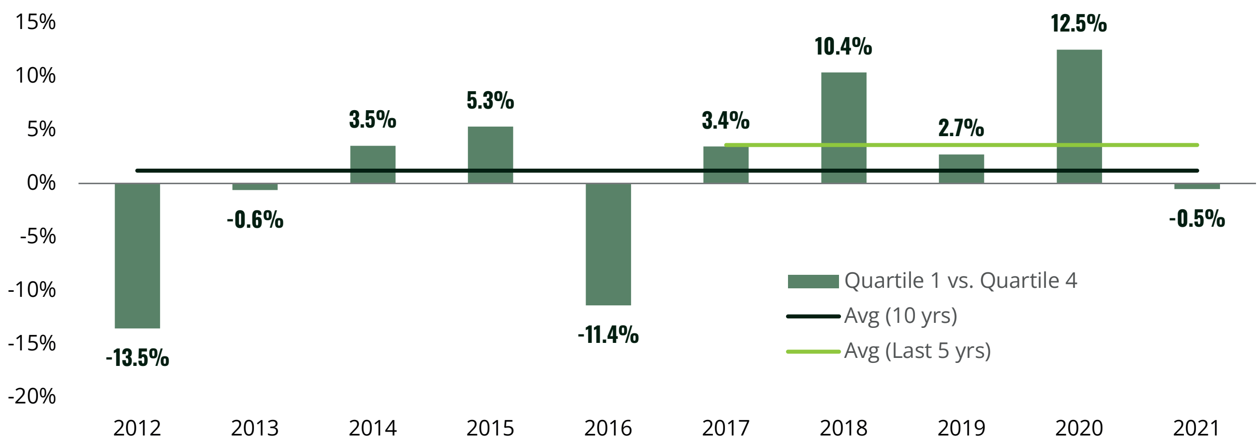
We found that high customer satisfaction companies outperformed the index by 4% on an average annualised basis over the 2011-2021 period. Furthermore, high customer satisfaction companies performed better than the index over the last year, 3-year and 5-year periods as well as over the 2011-2021 period, during which they outperformed during 8 of 10 years (Figure 1).

FIGURE 1: HIGH CUSTOMER SATISFACTION COMPANY SHARE PRICE OUTPERFORMANCE VERSUS INDEX



We also found that the difference in annualised return between high and low customer satisfaction companies was 5.5% over the past 5 years. This gap increased from 1% over the 10-year period (as shown in Figure 2) suggesting growing importance of customer satisfaction in driving returns. While there are some years during which low customer satisfaction companies outperformed high satisfaction companies, these were following recessionary periods during which the share price of companies that particularly suffered during the recession increased faster than the high customer satisfaction companies (for example, 2012 post Eurozone crisis, 2016 post recession in Emerging Markets due to the fall in commodities price). Furthermore, the outperformance has reduced during each year of occurrence.

FIGURE 2: RELATIVE SHARE PRICE OF HIGH SATISFACTION VERSUS LOW SATISFACTION COMPANIES



(Figure 1 & 2) Source: Carmignac, YouGov, June 2022.

HIGH CUSTOMER SATISFACTION COMPANY CHARACTERISTICS

VALUATION

We found that high customer satisfaction companies were characterised by a higher price/ earnings ratio (Figure 3) and price/ book ratio (Figure 4), on average, when compared to the index. Furthermore, low customer satisfaction companies had lower ratios when compared to the index.

FIGURE 3: PRICE / EARNINGS RATIO

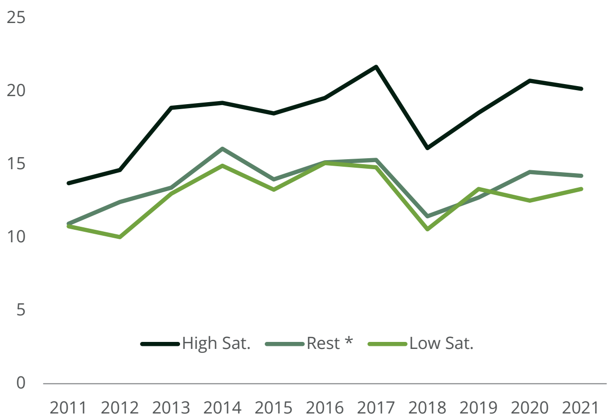
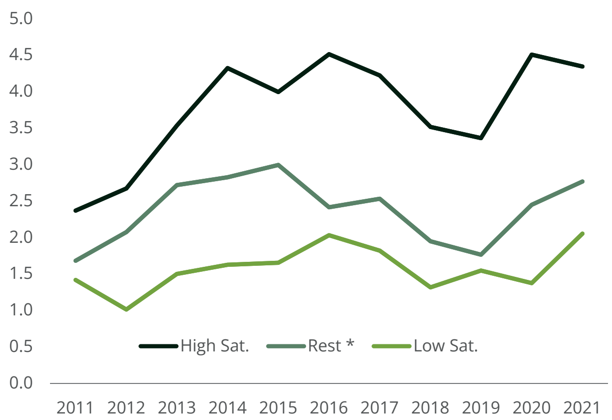


FIGURE 4: PRICE / BOOK RATIO



PROFITABILITY / LEVERAGE

We also found that high customer satisfaction companies seems consistently more profitable. For Example, they tend to have a higher return on equity and return on invested capital (Figure 5 & 6) versus the index and also versus low customer satisfaction companies.

FIGURE 5: RETURN ON EQUITY

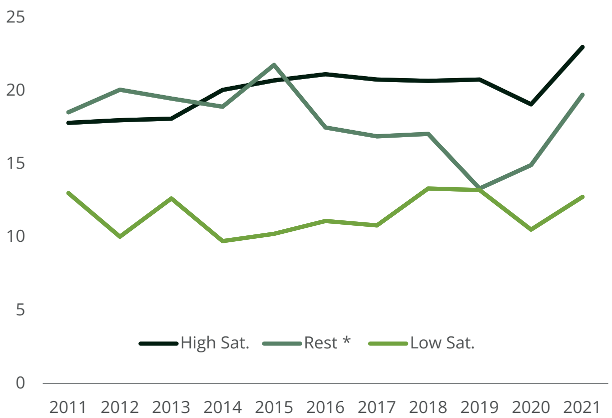
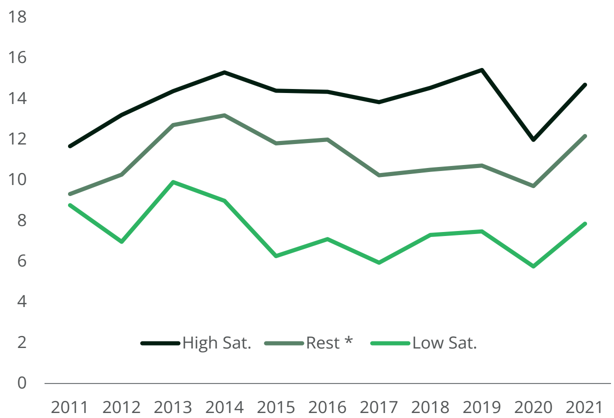


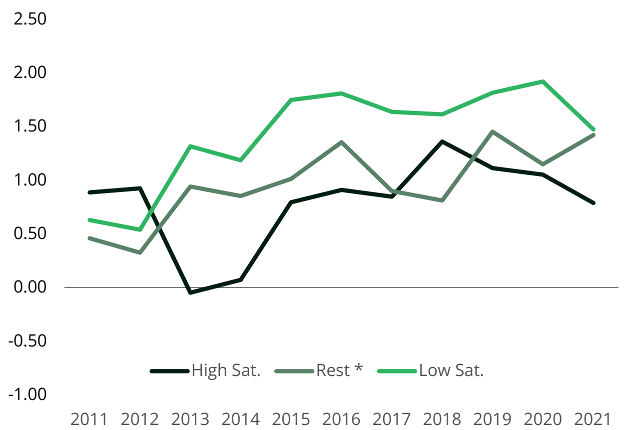
FIGURE 6: RETURN ON INVESTED CAPITAL



(Figures 3 - 7) Sources: Carmignac, YouGov, June 2022.
*rest: rest of the universe, i.e companies in the second and third data quartile.

Furthermore, high customer satisfaction companies had lower net debt to EBITDA (a measure of debt/leverage) versus the index (Figure 7) in 5 of the 10 years and in all years when compared to the low satisfaction companies.

FIGURE 7: NET DEBT TO EBITDA



ANALYSIS

Based on the assumptions defined (including scope of companies) and from the analysis conducted, we came to the conclusion that companies with high customer satisfaction outperformed both the index and low customer satisfaction companies and have been consistently more profitable, with a limited use of debt/leverage, which arguably justifies their higher valuations.

The correlation between high customer satisfaction and higher company profits, and therefore valuations and share prices is supported by consumer research (as detailed below). For example, according to Hubspot (2018), 68% of consumers are willing to pay more for a brand known to offer good customer service and consumers who rate a company's service as 'good' are 38% more likely to recommend that company[4]. Conversely, for those low customer satisfaction companies, 17% of customers will not buy from a company after a single bad experience[5] and it takes up to 12 positive experiences to make up for a single negative one (and many won't give the company this many chances)[6].

Furthermore, we note that over the last 5 years, this outperformance has increased, due to the rise of social media and customer feedback.

In more recent years, customers have increasingly found 'their voice' through social media and customer feedback, increased the interaction between consumers and corporates and exercised their right to avoid companies that don't meet their standards. Furthermore, a 2018 study by Accenture found that 71% of young consumers believe that criticising brands on social media or refusing to buy from them can affect how companies act. This becomes even more paramount in a backdrop where brand loyalty has been decreasing over the past 10-15 years[7].

Online reviews are a fairly recent phenomenon and are now considered by McKinsey[8] as one of two primary factors (alongside price) in purchasing decisions with 95% of consumers saying that online reviews influence their online buying decisions (Digital Marketing Depot, 2019). Online reviews first appeared in 1999, although only really started to gain popularity in 2012 with the emergence of the 5 big review sites: Yelp, Amazon, Google, Facebook and TripAdvisor. From 2012-2016 Facebook was the leader in online business reviews, with Yelp close behind, but in 2017 Google began to become a clear leader[9], alongside the emergence of others such as Feefo and Trustpilot. Another pivotal year was 2020, as due to COVID-19, e-commerce trends and online reviews reached new highs, as shown in Figures 8 and 9.

FIGURE 8: GLOBAL E-COMMERCE TRENDS (BN USD) (REALISED AND EXPECTED)

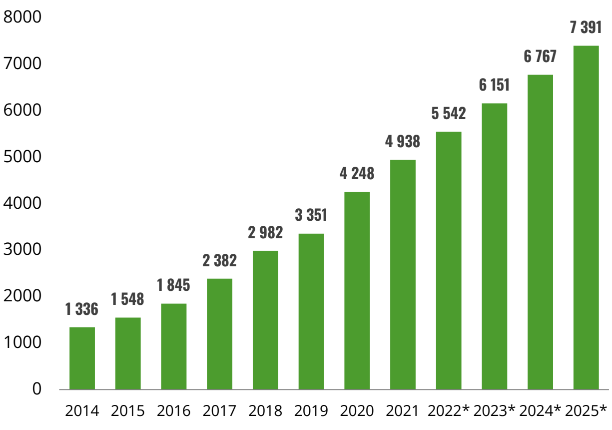
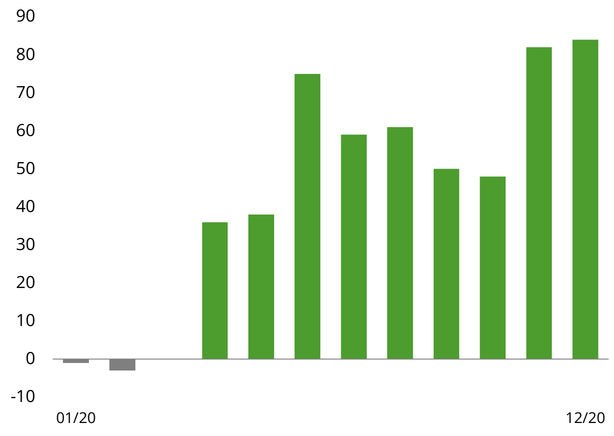


FIGURE 9: MONTHLY GLOBAL CUSTOMER REVIEW SUBMISSIONS, YEAR-OVER-YEAR% CHANGE



(4) Qualtrics (2020). (5) PWC (2017). (6) Forbes (2015).
(7) McKinsey (2021). (8) McKinsey (2021). (9) ShopperApproved (2019).
(Figure 8) Source: Statista, 2022. (Figure 9) Source: McKinsey, 2021.

There are three considerations that will determine the extent of influence of online reviews on company revenues, namely:

1. **The strength of the customer satisfaction ratings**: McKinsey (2021) examined the correlation between star ratings and product sales, and found that it was positive in 55 of the 70 product categories, with three- or four-star ratings benefitting from sales that were three times higher than those with one-star ratings.

2. **The level of response from corporates to consumers**: Businesses that reply to an average of 32% of reviews will have an 80% higher conversion rate from potential to actualised customer than those that respond to 10% of reviews[10].

3. **The number of reviews that a company has**: those with more than the average number of reviews bring in 82% more in annual revenue than businesses with below-average review quantity[12].

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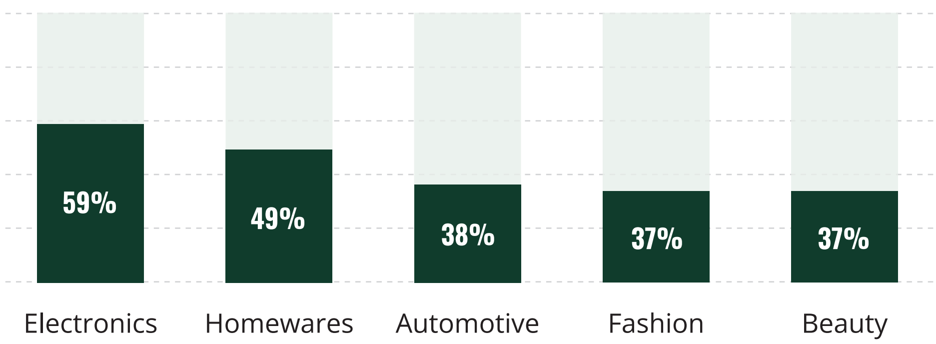
An example of how companies are leveraging new datasets such as these online reviews to better serve their customers is **Kia Motors UK**[13], which scores very favourably based on their YouGov customer satisfaction score. In 2019, Kia Motors UK won the Best Customer Satisfaction Strategy Award from The Institute of Customer Service, for providing an excellent customer experience through its dealer network. More recently Kia Motors UK announced their use of the Feefo reviews platform as key tool in building customer loyalty. On their use of such data Kia noted it "*provides us with the technology we need to turn feedback into actionable insights. We're also able to gain a deeper understanding of what customers value and use this to adapt and develop our future products and services.*"[14]

SECTOR AND INDUSTRY LEVEL OBSERVATIONS

Companies in certain sectors are more reliant on a good rating for a customer to buy a product. Firstly, in Figure 10, we see that a majority (59%) of UK customers[15] would expect at least a 4-star rating (on a 1-5 scale) from an electronics retailer to buy the product, whereas only 37% of customers would need such a high rating to buy fashion and beauty products[16].

FIGURE 10: PROPORTION OF UK SHOPPERS THAT EXPECT 4 STARS OR ABOVE TO BUY FROM A RETAILER



* The trademarks and logos do not imply any affiliation or endorsement.). (10) GCommerce (2020). (12) Source: Search Engine Land , 2019. (13) Reference to certain securities is for illustrative purposes. This is not intended to promote direct investment nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. (14) Diginomica (2021). (15) This example is used outside the 10 years analysis performed on US companies for illustrative purposes. (16) Trust Pilot/ BrightPearl (2021). (Figure 10) Source: (Trust Pilot/ BrightPearl, 2021).

Furthermore, as part of our data analysis above, we conclude that there are certain industries which are more likely to be viewed positively from a customer satisfaction perspective. This analysis was performed on a net basis, i.e., percentage of high customer satisfaction companies per industry – percentage of low customer satisfaction companies per industry. Of particular note are the Consumer Discretionary (+39%) and Consumer Staples (+11%) sectors. Conversely Communication services (-23%), Financial (-19%) and Energy (-9%) sectors typically have more companies with negative customer satisfaction than positive.

When we examine differences within sectors, there are some interesting divergences (Figure 11). For example, within the Consumer Discretionary & Consumer Staples sectors, levels of customer satisfaction are higher in industries such as Consumer Durables & Apparel and Household & Personal Products. These include companies such as VF Corporation, Ralph Lauren, Clorox and Church & Dwight. This contrasts with companies in the Automobiles & Components and Food & Staples Retail industries. Within Sectors such as Financials, which as mentioned above typically score poorly, there are also some divergences, for example whilst the Banks and Insurance companies display the lowest levels of customer satisfaction, the more diversified Financials companies score much better on a relative basis.

FIGURE 11: AVERAGE CUSTOMER SATISFACTION SCORE BY INDUSTRY GROUP FROM BEST TO WORST ACROSS MULTIPLE SECTORS.

Industry Group	**Sector**	**Customer Staisfaction Score (1=best, 100=worst)**
Semiconductors & Semiconductor Equipment	Information Technology	11
Capital Goods	Industrials	17
Consumer Durables & Apparel	Consumer Discretionary	26
Household & Personal Products	Consumer Staples	28
Retailing	Consumer Discretionary	38
Food Beverage & Tobacco	Consumer Staples	40
Pharmaceuticals Biotechnology & Life Sciences	Health Care	43
Technology Hardware & Equipment	Information Technology	45
Consumer Services	Consumer Discretionary	47
Diversified Financials	Financials	54
Food & Staples Retailing	Consumer Staples	56
Automobiles & Components	Consumer Discretionary	57
Transportation	Industrials	59
Software & Services	Information Technology	59
Media & Entertainment	Communication Services	68
Insurance	Financials	68
Health Care Equipment & Services	Health Care	69
Banks	Financials	78
Energy	Energy	82
Telecommunication Services	Communication Services	92

(Figure 11) Source: Carmignac, June 2022. (The sector consolidation was performed through the proprietary model used for Carmignac Portfolio Human Xperience that aggregates unique sets of data to create a customer experience score.

Finally, when looking even more granularly, we find specific companies' differences within sectors. Whilst our analysis and back-testing focussed primarily on North American companies, in Figure 12 we compare a U.S. and European Airline. Southwest Airlines is a clear leader and invests significantly in customer experience[17] and thus has a high customer satisfaction score, whilst European competitor, Ryanair shows considerably lower customer satisfaction. Over the period of our back-test (2011-2021), Southwest Airlines delivered a 50% higher return than Ryanair when adjusted for currency differences. The comparison of intra-sector and intra-industry trends is likely to be the subject of future papers.

FIGURE 12: SOUTHWEST & RYANAIR YOUGOV CUSTOMER SATISFACTION SCORES

CONCLUSION

This paper sought to firstly analyse whether U.S. companies with high levels of customer satisfaction outperformed the wider index and secondly identify the financial characteristics associated with such companies. We found that companies with high levels of customer satisfaction outperformed the wider index by 4% on an average annualised basis over the last 10 years and outperformed the low satisfaction companies by 5.5% over the last 5 years. We also looked at the financial characteristics of high customer satisfaction companies in comparison to the index and found higher price /earnings and price/ book ratios, higher return on equity and higher return on capital employed in nearly all years. Furthermore, for 5 of the 10 years, they also had lower net debt / EBITDA ratios. These conclusions were found for all years when compared to low customer satisfaction companies. We then analysed the results, concluding that high customer satisfaction drives customer preferences, company profits and thus share price and other key financial characteristics. We also examined what may have changed in recent years to drive the growth in outperformance versus the low satisfaction companies, namely the rise of the customer voice, social media and online reviews. To extend the analysis, we looked at sectoral differences regarding the importance of online reviews in buying decisions (consumers expect higher customer satisfaction to purchase electronics products versus fashion and beauty) and identified the sectors that tend to have higher customer satisfaction (consumer staples and discretionary) or lower (communication services, financials and energy). Finally, we examined intra-sector and intra-industry differences highlighting significant customer satisfaction divergences between companies within the same sector and industry.

Before the metaverse starts transforming customer experience by allowing for a high level of personalization in numerous industries, we think that a "human-to-human" approach to business strategy (focused on both customers AND employees) will remain a key pillar of corporate success. We look forward to the second episode of this series, focused on employee happiness!

(17) PR Newswire (2022).
(Figure 12) Source: Carmignac, YouGov, June 2022.

CARMIGNAC'S APPROACH TO CUSTOMER SATISFACTION

WHAT OUR CLIENTS TELL US

For Carmignac, it has always been essential to listen to our clients – professionals and end-investors alike – in order to create a level of proximity that makes us unique in their eyes. We strongly believe that proximity creates deeper, more intimate bonds between customers and companies. It unlocks new possibilities for enhancing people's lives. In addition, our independence and the fact that we are not linked to a banking or insurance network has made this proximity a business imperative over the years. There is no room for complacency for us in order to retain and engage with clients. That's the reason why we have always provided easy access to senior management, portfolio managers, experienced members of the Sales team and increasingly new interactive platforms. All this feeds into their customer experience. Pre-covid, we had many opportunities to share Carmignac experiences that we are progressively re-introducing to connect again, human-to-human. As an illustration, we have seen clients expressing their sorrow to see a Member of our Investment Committee retire. We receive letters, emails, calls, every day and night that reflect our family-business spirit, because it proves that we can tell each other's the truth at all times. Courage, Team Spirit, Responsibility and Independence is what defines us and what we strive to demonstrate on a daily basis.

HOW WE ARE TRYING TO INNOVATE

In parallel, we are identifying levers of improvement that will continuously increase their level of satisfaction and optimise their experience. Collaborating with our own clients helps us **deliver premium and seamless experiences, tailored to their ever-evolving needs and expectations**.

We strongly believe in collaboration and co-design, i.e., creating a continuous dialogue with our clients to support our ambition in delivering experiences that increase their engagement with us.

- We have set up a Voice of Customer program, running quantitative and qualitative studies directly with our professional and private clients in individual countries. Direct conversation with our own clients helps us to:

    - Understand and monitor the level of satisfaction and engagement of our professional and private clients
    - Understand what our clients are saying and Carmignac's perceived strengths and weaknesses
    - Identify levers to strengthen our client satisfaction and engagement
    - Close the gap between the brand promise and the customer experience we deliver
    - Implement strategic actions to address specific client segments and offer a seamless multi-channel experience

- We conduct regular User Testing with professionals and end-investors to constantly test prototyped digital solutions – in order to ensure that what we will launch is likely to answer their needs.
- We also provide online surveys and forms, offering our website users the possibility to provide some feedback that will support us as we design the experiences of tomorrow.

Professionals have a vast number of choices available to them, but also, they need to stay constantly updated to offer the best solutions to the end-investors or to their own financial organization. In a world that is ever evolving, client insights support the development of our product offering to be at the forefront of innovation.

CONTRIBUTORS’ BIOGRAPHIES

Rebecca SLY

ESG Analyst

4 years’ experience | Joined Carmignac in 2020

Rebecca has been an ESG Analyst at Carmignac since 2020, following completion of her MSc in Climate Change, Management and Finance from Imperial College London. Prior to this Rebecca spent 2 years on the Corporate Banking graduate scheme at Lloyds Bank. Rebecca also holds a bachelor’s degree in Modern Languages and Business Management from the University of Birmingham.

Obe EJIKEME

Fund Manager, Analyst

19 years’ experience | Joined Carmignac in 2014

Obe is a Fund Manager within the Cross Asset team. Obe joined Carmignac in 2014 as Quantitative Equity Analyst. He started his career in 2003 at FactSet Research Systems as a Senior Consultant. Then, he worked for seven years at Bank of America Merrill Lynch where he was Head of European Equity and Quantitative Strategy. Obe holds a bachelor’s degree in Computer Science from the University of Hull.

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MAIN RISK OF CARMIGNAC PORTFOLIO HUMAN XPERIENCE

LOWER RISK						HIGHER RISK
Potentially lower return						Potentially higher return
1	2	3	4	5	6*	7

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

CURRENCY: Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

DISCRETIONARY MANAGEMENT: Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.

DISCLAIMER

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