

WHITE PAPER

# HOW MiFID II WILL IMPACT INVESTOR RELATIONS





MiFID II's January 2018 implementation deadline is drawing closer, and by now, most buy and sell-side companies are hard at work developing the systems and internal procedures that will enable compliance with the complex set of new requirements. In our previous papers on this topic, we've looked at the impact of the new regulations on trade reporting, research and corporate access activities on financial institutions based both within and outside of Europe. But what about investor relations?

Until recently, the IR function was generally assumed to be only tangentially impacted by MiFID II because so much of the regulation's details are aimed at the technical elements of trading, price discovery, reporting and transparency. Even the new regulatory requirement that research be unbundled from trading commissions (and priced separately) is not really aimed at the provision of research or corporate access itself, but rather the establishment of increased levels of transparency around the cost of such activities, who is actually paying for it, and whether such payments generate conflicts of interest.

But, although investor relations is not specifically included as part of MiFID II, it is likely to be among the most impacted by the new regulations precisely because of the role's interaction with its two key stakeholders – the buy and sell-side – who will both operate in fundamentally different ways. In some respects, IROs who can embrace these changes may ultimately find the process more efficient and effective; others will need to redouble their efforts and explore new tools to remain on the radar.

In order to understand the new environment in which IROs will be operating come January 2018, remember that under the new rules, brokers will have to assign a price to the research they provide to institutional investors. Those investors, in turn, will not only have to determine whether that price is worthwhile, but will have to justify that research cost to the clients whose money they manage. The result? Enormous pressure on the provision of sell-side research. There will be a near-certain reduction in the number of companies covered by any given brokerage house's dwindling number of research analysts and it is highly likely that large-cap, highly-liquid stocks will be favored over smaller, less traded ones. Size, unfortunately, will matter.

For most IROs, this means the days of automatically counting on the brokerage firm (and its analysts) to act as the primary conduit between a firm and its investors are essentially over, at least for small to mid cap companies. Instead, investor relations professionals will need to embrace new ways of connecting with the two. We see three primary avenues:



To read our white paper, 'How technology can help firms tackle the MiFID II regulations for Corporate Access' scan this QR code or visit: <http://alturl.com/fxykd>

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1. Developing relationships with relevant, specialist brokers and independent research providers, the latter of which perennially struggled when pricing for research and trading was bundled but are likely to experience something of a renaissance under the new rules.
2. Finding, researching and establishing a rapport with key buy-side stakeholders; asset managers, hedge funds, investment advisors, pension plans and insurance companies. The investor universe is surprisingly large and fragmented, and the broker has traditionally served as a centralized point of contact for these relationships. Under MiFID II, the IRO will need to develop strategies and acquire tools to manage them internally.
- 3 Taking greater responsibility for corporate access, a function whose cost will also have to be priced and reported on separately under MiFID II requirements, and also becoming proactive in reaching out to investors to schedule meetings, calls and other interactions crucial to #2.

## CHALLENGES FOR IROS IN A MIFID II WORLD

Importantly, one of the greatest challenges for IROs in a post-MiFID II world will be finding ways to do all three of the above cost-effectively and efficiently. Investor relations might not be specifically contemplated as part of MiFID II, but there is no doubt that its implementation will place greater pressure on resources and the already limited budget companies allocate to the IR function.

Ultimately, the broadest consequence of MiFID II on investor relations is the potential reduction in services that the sell-side offer to IR teams. This won't mean brokers stop serving as intermediaries altogether, but their involvement will become more focused on companies that generate an ROI, basically those that their clients will be willing to pay a cold hard price for the coverage.

Indeed, for the IR teams fortunate enough to be part of a company guaranteed coverage by a wide number of brokers, not much is likely to change beyond a higher number of direct inquiries from investors. But for everyone else, expect a much larger volume of investors wanting to reach out directly to IR teams at companies in which they are invested or have an interest, in order to ask questions, book meetings and gather information.

The caveat to this is that many of even the most sophisticated asset managers struggle to find the right person to contact within a corporate. They consistently highlight the challenge of managing this task as one of the biggest barriers to building a more direct relationship with the companies they want to invest in. Being able to connect with the right person within an IR team to organize meetings and get questions answered will be an important focus of asset management firms in the post-MiFID II world and they will need a better method than their current practice of searching through the IR section of a Corporate website, trying to guess the correct contact point.

Conversely, for corporates whose story is less well known in the investment community, IROs will no longer be able to count on the sell-side to spread the word. As analyst coverage diminishes, a more proactive and strategic approach to the outbound element of IR will be required. This means taking control of both investor targeting and communications, not only finding those on the buy-side most likely to be interested but also reaching out to them in a coherent and organized fashion. As everyone in investor relations knows, it's not just about getting the room filled, it's about getting the right people in the room.

Taken together, the new environment is somewhat daunting. Not only will IROs have to handle an increased number of inbound inquiries from a group of increasingly independent minded investors, they will have to simultaneously manage comprehensive IR programs aimed at lessening the impact of no longer having guaranteed access





to the specific expertise that the sell-side has historically provided. This may include everything from market insight to investor targeting and importantly, in many cases, the organization and execution of time-consuming roadshows and investor days.

### **A CHANGING IR WORKFLOW - HOW TECHNOLOGY CAN HELP**

When viewed together, the general IR workflow at most companies looks significantly different in a year or two. Since it's safe to say that large increases in IR budgets and staffing are probably not on the cards, life for your average IRO is thus going to change. Demands on time are going to be significantly higher due to increased inquires and activities, while considerably more of the overall management and administration of investor interactions will need to be done in-house.

At the same time, as sell-side coverage becomes more concentrated and limited to a narrower slice of public firms, the IRO will need to actively and consistently build new relationships with targeted investors in order to foster greater awareness and keep the company's shareholder base diversified and well-informed.

Thankfully, technology is going to help IROs thrive in this post-MiFID II world. A new generation of web-based platforms have been developed that take as much organizational and administrative pain out of the IRO process as possible. They integrate seamlessly with existing tech infrastructure and processes, and in many cases, are particularly well suited for the type of environment anticipated after MiFID II's implementation.

At the base level, the leading platforms in the market provide tools that help IRO's efficiently manage the organization of investor roadshows, calls and meetings by leveraging the latest technology and introducing functionality such as

real-time meeting booking. An important benefit of a platform as opposed to a CRM system is that direct connectivity with the investment community means that every inquiry and interaction is automatically logged and tracked, which removes the need for manual entry of data and allows for real-time reporting and analysis of IR activity and interactions, on any device, anywhere.

Investor relations, meet administrative efficiency... and with MiFID II around the corner, it's not a moment too soon.

In addition to the organizational benefits a platform can bring, another key advantage to such platforms is the mutual discovery that can occur between companies and investors. On one hand, investors can easily find the companies and events of greatest interest to them and, at the same time, be spared the inevitable frustration associated with trying to find the relevant person inside a company able to answer questions, provide information, and schedule follow ups with management.

On the other hand, IROs can leverage such platforms to connect with the investor community, targeting and pre-qualifying potential investors that may not even know the company exists and efficiently interacting with them to build investor interest. In both cases, time is saved, important information is shared quickly without the typical back-and-forth of email chains and voicemails, and a swath of administrative hassles is avoided – desirable in any environment, but we think increasingly critical to most IROs by this time next year.





## THE BOTTOM LINE

Like most new and sweeping regulations, MiFID II's implementation will mean different things to different companies, and will more than likely result in a number of unintended consequences. Nonetheless, from the perspective of investor relations professionals at all but the largest firms, the unbundling of research and corporate access from trading commissions will fundamentally change how both the buy and sell-side approach small and medium sized companies, and not for the better.

Accordingly, IROs will need to address the challenges posed by MiFID II head on. They will have to attract the attention of investors and analysts without the benefit of sell-side representation and coverage, manage an increased level of inbound inquiries in an organized and efficient manner, organize and manage roadshows and meetings, remain sensitive to management's time, and develop proactive, strategic approaches to both investor targeting and outreach. Leveraging as much technology as possible to make this process as painless as possible only makes sense.

Investor relations teams should be using the time we have now before implementation to develop the internal strategies necessary to operate successfully in a post-MiFID II world, and test which solution works best for them.

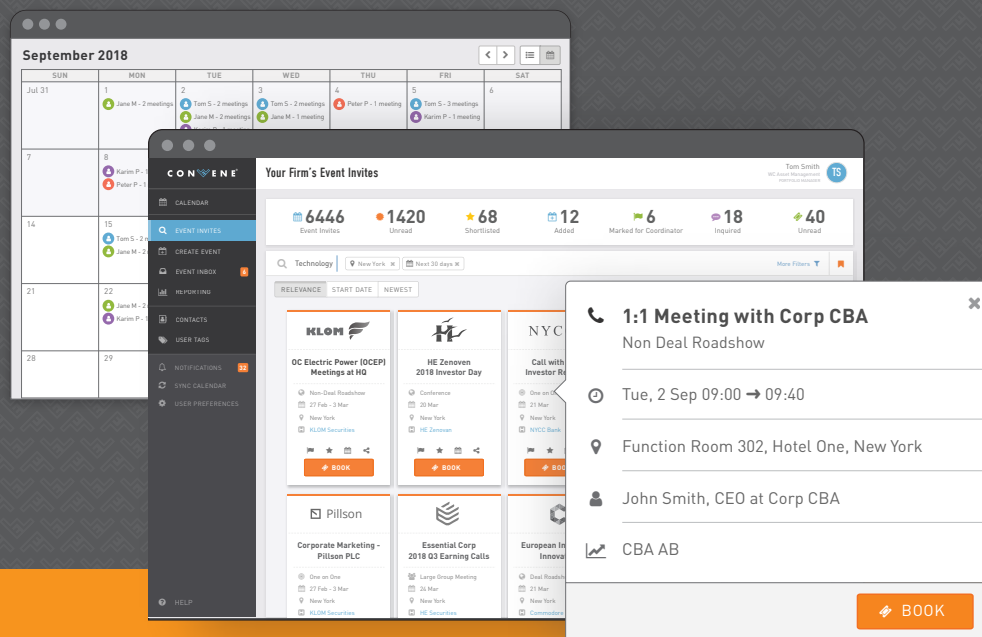
Whether the new regulations ultimately succeed in leveling the playing field for traders and investors remains to be seen, but for the IR role at most companies, they represent a welcome opportunity to bring greater efficiency and control to a process that has more often than not been relatively unwieldy, time-consuming and difficult to manage. It's not going to happen overnight and it will undoubtedly occur in varying degrees across the financial landscape, but MiFID II is an industry catalyst. It will force IROs to think and act more proactively than ever before, and new technology solutions will play a significant role in determining just how seamlessly they can adapt to the new environment.





# ABOUT WECONVENE

**WeConvene** is a global, independently owned web-based platform that automates corporate access consumption and evaluation for the investment community. Events large and small directly impact investment strategies and WeConvene provides value to buy-side, sell-side and corporate organizations by enabling efficient discovery, booking and tracking of meetings.



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