CONVENE

WHITE PAPER

WHY IROs SHOULD FOCUS ON STRATEGIC ENGAGEMENT WITH ANALYSTS

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IR teams have always relied on the sell side in varying degrees to serve as a conduit to the institutional investor community. This bridge has traditionally worked both ways; the sell side was able to pitch the company to its clients through corporate access and analyst research, and was "paid" through trading commissions, while corporates received institutional investor interest and valuable liquidity in their listed securities.

As has been widely reported, the upcoming MiFID II regulations are set to bring about a fundamental change to this dynamic. Put in the simplest terms, the new MiFID II regulations will require the sell side to break out research activities on a granular basis and assign a specific value that must be paid for separately by their buy side clients.

The advent of separate pricing for research and corporate access is already having an impact in how the buy side views their consumption of research. It is normal human psychology that once you see a price tag on something previously received for "free" as part of a broader package, questions about value and utility inevitably arise and there is no doubt that investors are already becoming far more discerning about what research they consume. This attitude will also extend to the meetings investors conduct with management (corporate access). Whereas it has been common practice in the past for investors to take the meetings with companies outside of their core focus at the insistence of their equity salesperson, investors are likely to be less speculative and far more targeted in who they meet now that those meetings cost hard dollars.

A natural consequence of a more selective buy side will be a serious evaluation by sell side firms on the size and breadth of their research departments. As client demand and revenue realities start to become better understood, there is a good chance that many sell side firms will be faced with a necessity to reduce or eliminate the underperforming or unprofitable parts of their service offering. Ultimately, as institutional investors make the rational move to only paying hard dollars for the research and opinions generated from the best analysts, there will be a gradual move to fewer sell side analysts covering a smaller universe of companies.

As the ramifications of MiFID II start to play out, the scenario of fewer analysts and less coverage will become the new normal for most investor relations professionals. This new normal translates into a diminished ability for the sell side to tell your story which will ultimately have a direct impact on your shareholder base and your stock's liquidity. In other words, IR teams are going to have to increasingly compete for quality sell side attention which will require strategic thinking about how to **ensure you are on the radar of the analysts that investors value**. IR teams will now be challenged with establishing a multi-faceted and long-term approach to what has previously been a fairly straightforward process and in this whitepaper, we will highlight the various tactics that IR teams should consider as they seek to adapt to this new landscape.

For a detailed look at how MiFID II is likely to impact IR teams, take a look at our whitepaper:

Looking to the future: MiFID II and the impact on Investor Relations
scan QR code or visit: http://alturl.com/fo6np

Targeting the analysts that investors value

The scenario of significantly reduced analyst coverage has emerged as a recurring concern in our conversations with IR teams. In the face of this challenge, to put it bluntly, it is important that IR teams focus their efforts on aligning themselves with the analysts that are likely to be around for the long-term. Simply put, there will always be a place for analysts that investors value highly and it is these individuals that are most likely to be the ones that thrive as research moves from a cost centre to a revenue generator.

That said, how can IR teams gain a thorough understanding of the analyst's that investors value? Purely looking at the success of an analyst's stock calls will only show part of the picture; the leading analysts are valued for the high level of service they provide clients, their ability to explain the key thematic trends within a sector or in many cases the clarity and accuracy of their financial modeling. When analyzing which analysts investors value, it is important to go beyond the quantitative data and look at the qualitative factors. Industry surveys such as the Extel Survey or Institutional Investor are the perfect resource to help you understand which analysts in your sector are most valued by investors. For full disclosure, Extel is part of WeConvene, which also means we are very familiar with the breadth of the survey in Europe and the value the investment community place on it as a measure of industry excellence. In 2017, 15,561 investment professionals at 3,199 buy-side firms cast their votes on the services they received from the sell side providing a deep and unique view on exactly who and what investors value. These rankings can be an invaluable tool for IR teams to assess exactly where analysts are ranked and also the analysts they should focus their efforts on building relationships with.

On a more specific level, investors are increasingly highlighting that they value the analysts who can provide bigger picture analysis. It goes without saying that the analysts who are across the minutiae of companies are invaluable, but those that really stand out with investors are the ones who can link company specific information to the larger thematic trends within a sector. The analysts that have proven their ability to knit together where your company is relative to broader trends are likely to be in high demand with investors.

In terms of relationship building, the strategic value of connecting with the wider analyst team at sell side firms will also become more important under MiFID II's rules as it gives you a direct link to tomorrow's top-ranked analysts. The next 18-24 months are likely to see an increase in the turnover of research staff as the leading analysts take the opportunity to branch out and establish themselves as independent research provider's and under-performing analysts leave the industry. In this environment, having strong connections in place with the high performing junior analyst at a major bank will pay dividends as they ascend the ranks internally and take on greater prominence with investors. In a similar vein, look for the movers in the sector - the analysts who although perhaps at a lesser known firm, are building a reputation for delivering excellent client service and are increasingly in demand with investors.

One of the points we have made in our previous white papers is that the upcoming MiFID II regulations will create a democratization of the consumption of research. The bundled pricing model has historically made it difficult for regional and specialized firms to compete with the larger full service brokers but investors will now act with a pure economic mindset and consume research from any provider that helps them generate alpha. This could lead to a renaissance for the smaller firms and the leading analysts here will start to get greater recognition from investors. On a related note, a number of smaller asset managers are facing the prospect of being priced out of consuming research services from the larger sell side firms due to the high research package prices quoted and as an alternative are looking at a wider range of providers and in particular, specialist research providers. Focusing on the analysts from these specialist research providers is a good way for IR teams to get exposure to a focused group of investors that in the future are likely to fly more under the radar.

IR teams should also be more tactical in how they leverage attendance at industry events and conferences and use these gatherings as an opportunity to actively research new analysts that might be relevant to your company. Like a sales process, IR teams will now need to find and convince new analysts that your firm is worth covering, instead of expecting it to be simply included as part of an industry or sector universe - or because of a strong corporate banking relationship.

Cultivating relationships

Once you have pinpointed the analysts that investors highly value or the potential leading analysts of the future, it will be more important than ever to dedicate efforts to cultivating these relationships and ensuring that analysts have everything they need to accurately present your story to investors.

Whether via informal get-togethers (the more the better), structured analyst days or even interactions at industry conferences and events, one-on-one contact with analysts will become paramount. Analysts will be under more pressure than ever to deliver results with increasing demands on their time. Therefore, making sure you are able to round out their understanding of your company and complement the information they have received from financials, securities filings and management conference calls, will better enable them to present a differentiated viewpoint to investors. This will ultimately mean they provide a better service to their clients, resulting in more demand for their services and increasing investor visibility on your company. Consider holding small, more intimate meetings on a frequent basis with a few analysts at a time instead of annual analyst days where an analyst's questions may never get asked or answered. The Extel 2017 Survey highlighted an increasing trend among IR teams for holding these smaller events with the consensus view that the format enabled IR teams to more efficiently get their message across.

Corporate access is now a premium service for many sell side firms, which means a number of investors may be priced out of securing the C-suite interactions they had previously taken for granted. Use this to your advantage – make sure the top-rated analysts following your company have recurring access to your top executives, and make sure they know not every firm is chatting with the CEO as frequently as they do. This provides a clear edge to the analysts whom you want to maintain strong relationships with and will help them deliver the best value to their clients.

Maintaining relationships with key analysts will be as important as creating them in the first place. Under the comparative-value framework in which research will be viewed going forward, ensure that your interactions are fully transparent, deliver current information and present a complete picture of your firm, warts and all. Nothing will send a top-performing analyst packing faster than providing them with outdated, incomplete or cherry-picked information. Additionally, the more you are available for questions and can help the analyst deliver timely and accurate calls about your company to their clients, the more you just helped justify the high hard-dollar fees that will now be charged – and the more they will be inclined to work with you.

Craft your message carefully and make sure analysts are able to represent your firm correctly to investors. IR teams are the ones who are best placed to explain what truly differentiates your company from the competition so don't rely on the analyst to get there on their own. Make sure they know and can easily articulate what makes your company so interesting or valuable to investors. This is the IR team's prime directive: generation of a consistent, comprehensive and compelling picture about the company.

Information is key and time is an analyst's most valuable commodity so make sure they can get relevant and up-to-date information easily. How many times have you gone to the investor relations page of a company website only to see the most recent press release is from eight months ago? Or the investor presentation is three calendar quarters old? Content-rich web sites that include frequently updated and accurate information, links to regulatory filings, contact information etc. and can be navigated on mobile devices may seem like obvious suggest-ions yet we are consistently amazed at how many IR teams fail at these basic responsibilities. And if you think it was important before, analysts now have a direct economic imperative to generate, timely, accurate research that needs to stand-out from the field to ensure investors are willing to buy.

Proactively engage with the "right" analysts

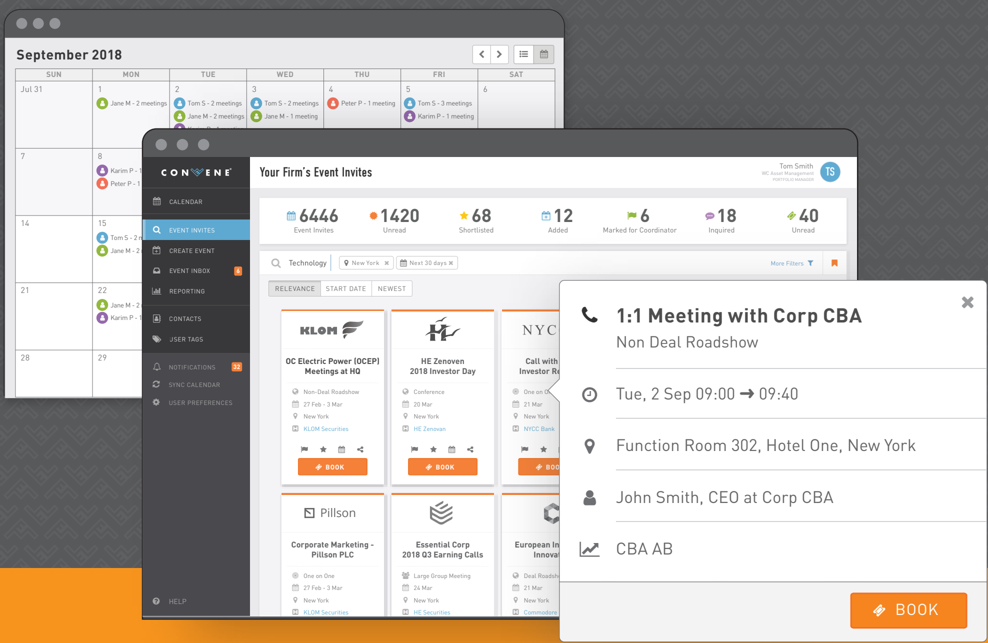
MiFID II's requirement to unbundle research from trading commissions and assign hard-dollar pricing to everything from a two-page research report to a day-long visit with management is already changing the way research and corporate access is being generated, delivered and consumed. Ultimately, an investor confronted with hard-dollar costs will make hard-dollar decisions about what they purchase and basic economics suggests this will translate into fewer analysts covering a smaller universe of companies - something that has already started.

Accordingly, IR teams will need to proactively compete for attention if they hope to defend the shareholder and liquidity benefits typically associated with traditional sell-side support. In military terms, this is described as "leaning forward," a mentality that involves taking initiative, driving conversations and systematically pursuing desired outcomes.

IR teams leaning forward into MiFID II's changes should develop an ongoing, strategic plan that helps them identify the analysts most highly valued by investors as well as the next generation of analysts likely to be leading the pack in the future, alongside a greater focus on relationship management and the timely provision of complete, unvarnished information. Such a plan will ensure the bridge between your company and the institutional investor community remains intact. Neglect it, and your company risks being consigned to the uncovered masses, constantly struggling to build visibility with the investors that matter.

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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