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Although corporate investor relations (IR) teams are not bound by the MiFID II regulatory changes, the early signs are that they are certainly being impacted by them. Direct contact with investors via roadshows and conferences is one of the most valued and influential tools that IR teams have and something that for the majority of teams is a vital component of their IR strategy. But whether they want to or not, European regulators have now forced companies, brokers and investors to fundamentally change the way in which they operate.

What are the implications of MiFID II for IR teams?

Although the impact has yet to be universally felt or unanimously agreed upon, the reality is that it is already happening and many of our clients are telling us it is happening faster than they expected.

1. The buy side still expect full corporate access, but the onus for managing this will fall on IR teams, many of which have previously relied on banks and brokers.
2. All IR teams will need to be more proactive in managing their relationships with the investor community — both with existing shareholders and new potential shareholders.
3. Whilst the buy side are still prepared to pay for access to analysts and research, the amount they are prepared to pay and the number of providers they will sign service level contracts with will reduce significantly.
4. As the major global asset managers have publicly committed to paying for services out of their own P&L, they have a keen focus on controlling costs and reducing their consumption of the services offered by brokers, so they are only paying for what they truly value.

MiFID II is a game changer when it comes to Corporate-Investor engagement. Roadshows organized independently of brokers will gain in importance, as the buy side increasingly demands direct access and IR teams from companies who are no longer well covered by brokers will need to intensify their outreach efforts in order to maintain visibility with the investment community. The direct approach also presents an opportunity for companies to reach out to investors who sit outside of the traditional broker client list in the established investment centers. Viewing this changing landscape as an opportunity is vital for IR teams as a way to achieve their strategic goals, but of course there is an implication in terms of the additional resources required to really take advantage of this opportunity.

The economic implications

Given the speed with which this is playing out, it's important to consider what the real economic implications are for companies and IR teams. By economic implications, we are referring specifically to the cost incurred by the company as they start taking greater control of their own roadshow program. There has been much written about prices the sell side is planning to charge for corporate access meetings and also what the buy side is willing to pay, but much less about the different types of costs incurred by those most fundamental to the whole process — the company. In our view there are three costs:

1. Logistics - visible cost such as travel, accommodation and entertainment.

2. Opportunity - the invisible cost of having senior management the CEO on the road and not in the office.

3. Time - the lesser known, dollar value of senior management time.

Of the three, logistics are the easiest to calculate, everyone can track the price of flights and hotels. The opportunity cost, although important to monitor is incredibly difficult to calculate, and despite it likely being a fun exercise, the numbers would probably be so speculative as to be almost meaningless, so let's leave that for another day. So then it is the time cost that we were particularly keen to understand, because that can be estimated by any IR team.

The true cost

Our starting point for calculating the "time cost" was to focus on the CEO where data was most consistent and readily available. The average CEO salary in the US in 2016 as published by Fortune Magazine was US$15.6 million which we then divided by 261 working days (according to The University of Human Resources), which gives a daily salary of US$. We then divided this by 8 hours (the average number of hours worked per day in the US according to the Bureau of Labor Statistics), although we are definitely cognizant that this is not quite representative of the hours the typical CEO will put in, nonetheless it comes out to an average hourly pay for US CEOs in 2016 of US$7,471.

A few months ago IR Magazine published its Global Roadshow Report for 2017 and in it they presented statistics that we can use to go even further in our analysis. In 2017, US companies did an average of 7.3 roadshows which equated to around 14.5 days a year on the road or approximately 116 hours (assuming the same workday as above). Interestingly, CEOs attended only 36% of the roadshows held. Using the hourly salary of US$7,471 and the number of hours spent on the road and the attendance percentage of the CEO (116 x 36% x $7,471) we can calculate the total cost to the company for the CEO's time on a roadshow and the number is not small at US$311,989.

Usually, the average number of meetings held per day is 7 (unless it is a deal roadshow in which case all rules go out the window) so this means that the CEO will attend approximately 37 meetings a year via roadshows. Making the assumption that each meeting is an hour long, the true cost for just the CEO's time in each investor meeting is approximately US$11,555.

OK, so that number won't be representative for all companies, and we are sure there are many companies where the CEO's survive on a lot less than US$15.6 million, but it is an important metric to think about as we move into a world where the buy side will be increasing the direct requests they make to IR teams for managements time and IR teams begin to take responsibility for managing their own roadshows. It's a powerful thing to be able to get access to the CEO for investors, but as Voltaire said "*With great power comes great responsibility*" which means IR teams will need to make absolutely sure that their CEO's time is not wasted during a roadshow.

$$\frac{\text{CEO Annual salary } \$15.6\text{M}}{261 \text{ working days} \times 8 \text{ hours}} = \textbf{CEO hourly salary } \$7{,}471$$

$$\text{Time spent spent on roadshows annually } 116 \text{ hours} \times \text{CEO participation } 36\% = \textbf{CEO time spent at roadshows annually } 41.76 \text{ hours}$$

$$\text{CEO hourly salary } \$7{,}471 \times \text{CEO time spent at roadshows annually } 41.76 \text{ hours} = \textbf{Total cost of CEO's time on roadshows in a year } \text{US}\$311{,}989$$

$$\text{Total cost of CEO's time on roadshows in a year } \$311{,}989 \div \text{CEO's meetings at roadshows annually } 37 = \textbf{Total cost of CEO's time per meeting } \text{US}\$11{,}555$$

All figures are based on statistical averages from validated sources.

Time vs. value

As every IR team knows, just because the buy side is willing to pay an intermediary for a meeting doesn't mean that meeting will be a good use of the CEO's time, particularly if the investor only has a basic understanding of the company - we know of many IRO's who have experienced the horror of being in a meeting with their CEO when the opening line from the investor is "So what does your company do?". As nearly every IR team does to at least some degree, the key to making sure the CEO's time is well spent is pre-qualifying investors before they get that all important 1x1 meeting.

In the absence of the sell side providing their deep intelligence on investors and briefing IR teams on the respective level of company and sector knowledge of each investor allocated a meeting, the task of qualifying investors now falls even more heavily on the IRO. For many companies, it is already the norm, but our belief is that IR roadshows are going to grow significantly in frequency and IR teams will need to start taking on many of the responsibilities traditionally undertaken by the sell side Equity salesperson - getting investors up to speed on the company, selling the story and ultimately making that judgement call on whether they should get the meeting with the CEO. In the past, it was the highest paying clients of the organizing sell side firm that got the meeting - now it can be purely based on the strategy and goals of the IR team, just as long as IRO's are prepared to spend a lot more time on the road without management, meeting with the investment community.

So where now?

Given all of the above information, what should be the focus for IR teams? In our view, an IRO's time is always going to be better spent focusing on the activities that create value in the eyes of the C-Suite, namely investor communication, education and ultimately, building a diversified shareholder base. By using technology an IRO can move away from spending time on the mechanical elements of organizing and scheduling an investor roadshow for senior management and instead devote their time to ensuring that executives meet with the right investors - investors that are fully up to speed on the company story and have been 'qualified' before the meeting. If senior management spend their time meeting with the right investors then the chances are that the various costs associated with roadshows become a worthwhile investment rather than a costly missed opportunity.

Data Sources

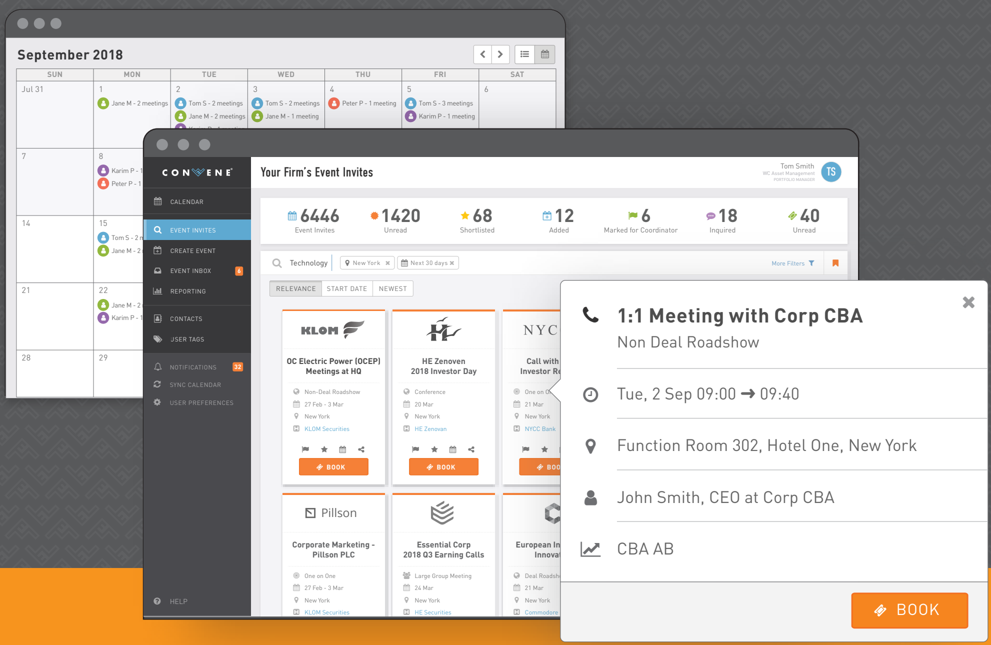
Fortune Magazine: Top CEOs Make More in Two Days Than An Average Employee Does in One Year - July 2017

IR Magazine: Global Roadshow Report 2017

University of Human Resource: 2016 working day payroll calendar

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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