

2020 Corporate Access Survey Series

Broker Selection and Service Satisfaction
-By Brendan Fitzpatrick and Zander Yokum

In this report, IHS Markit presents Part 5 of our 2020 Corporate Access findings. Based on a survey of over 300 global IROs conducted in January 2020, below we present respondent's criteria for selecting a corporate access partner, and their satisfaction with the services they provide.

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IRO satisfaction with sell-side corporate access service is declining

- Satisfaction has declined broadly across service categories, especially sell-side ability to schedule meetings with suitable investors.
- The ability of sell-side corporate access to schedule suitable investors is by far the most important factor in broker selection.
- DIY is on the rise – the percentage of IROs who always or usually engage investors directly without sell-side intermediation has increased 68%.

In this final installment of our Corporate Access Survey Series, we conclude with an examination of one of the strongest and longest-lived informal collaborations in the business world – the partnership between issuers and brokers to market stock to investors. Think of how long this arrangement has endured – the many thousands of investor conferences, the millions of brokered one-on-one meetings – over the course of decades. Contemplate the value exchanged – the brightest and most capable analysts and salespeople marketing the stock of companies who in turn contribute the time and talent of the most highly compensated executives in the world – all unbound by any formal contract.

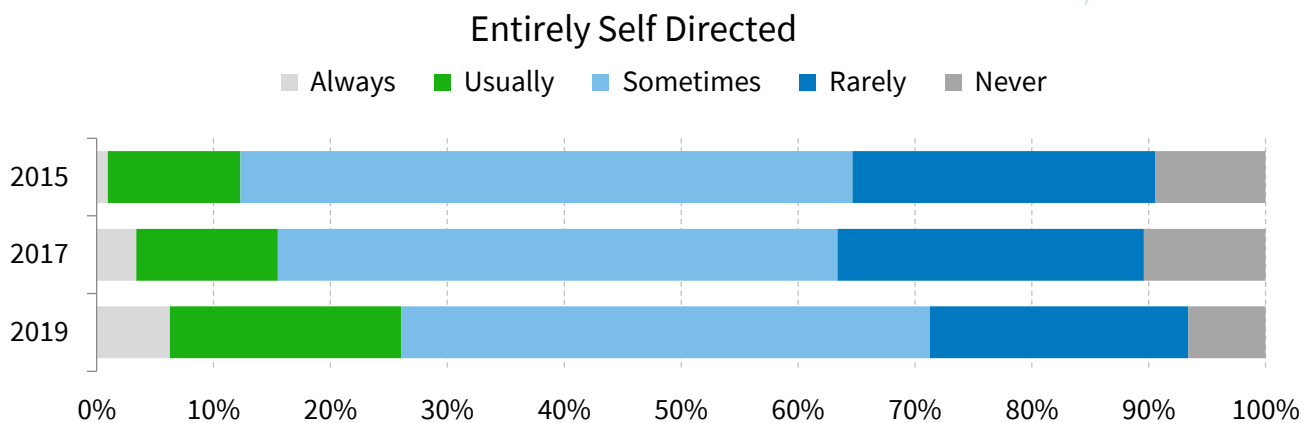
But the arrangement is showing its age and needs revitalization.

“The quality of the local sales force is key to getting good meetings with the right PM's at the appropriate firms.

- Mid-cap, North American Consumer Goods

IROs Hosting More Events That are Entirely Self-Directed

IROs have persistently relied on the sell-side to broker interactions with investors, and indeed that's still the case. Over the years, approximately 80% of IROs have always or usually engaged the sell-side to organize investor meetings. But this percentage has declined somewhat over the past four years, from 83% in 2015 to 77% in 2019, while the percentage of IROs who state they always partner with the sell-side has declined by a third from 19% to 12%. In contrast, just over one out of four (26%) IROs reported that they always or usually executed their events on their own in 2019, up 68% relative to 2015. The 26% who are comfortable flying solo may seem like a small figure compared to 77% who prefer having a partner, but another round of 68% growth in the fly solo crowd would result in nearly half of IROs preferring to arrange their own meetings with investors. Two additional years of similar growth and the script is flipped.



The Three Rules of Corporate Access: Audience, Audience, Audience

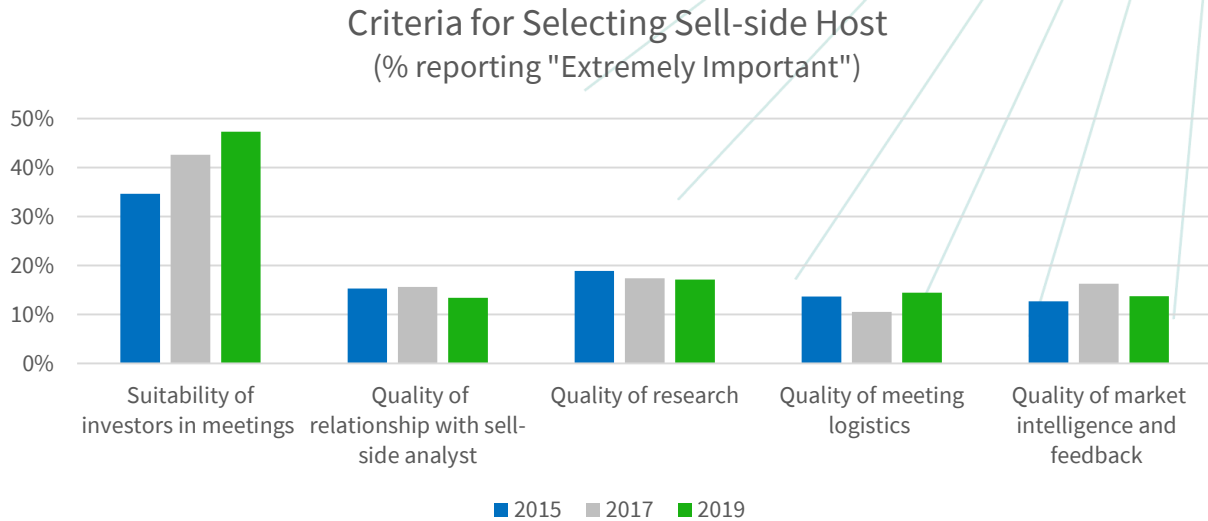
When it comes to investor events, no sin can't be forgiven if the audience is high quality. On the other hand, no amount of lipstick will make a room full of hedge funds attractive to a CFO. IROs have made no secret of their desire – insistence – to be matched with highly suitable investors in conferences and on roadshows. It is by far the most decisive factor in determining the selection of a sell-side partner to host an event. 47% of respondents rank Suitability of Investors as “Extremely Important” in the selection decision, a 34% increase over 2015 survey findings compared to just 19% who

reported quality of research as the most decisive factor (see chart, next page.)

“We communicate our goals to our corporate access providers. Those that fail to focus on them are not used again.”

- Large-cap, North American Consumer Services

The table suggests a slight downward drift in expectations across most service categories. One senses sell-side corporate access departments are challenged to differentiate themselves on the basis of the analyst relationship, quality of research, event logistics, or preparation and feedback.



Several respondents volunteered that the quality of the regional salesforce was a critical factor in the selection process but lamented the trial by error nature of identifying such diamonds in the rough.

So...how we doing guys?

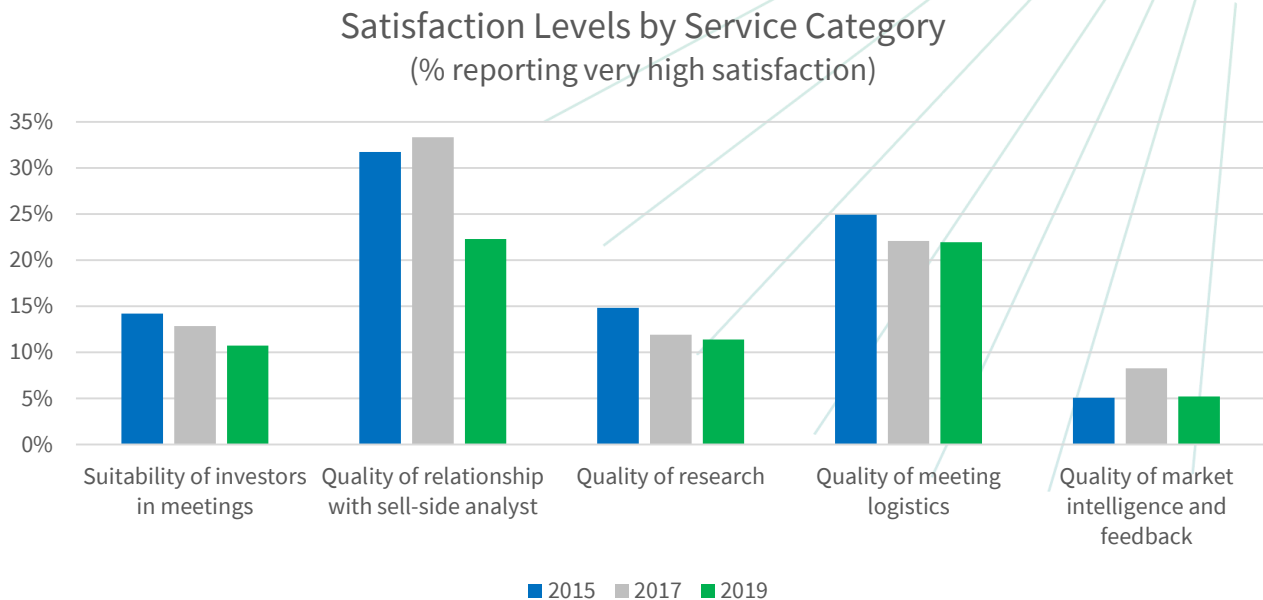
Satisfaction with corporate access support is down across all categories, especially the quality of the relationship with the analyst, a worrisome sign in an industry built on relationships.

Satisfaction with the suitability of investor meetings -- the most important selection criteria for IROs -- also continues its steady decline, now with just one in ten respondents reporting high satisfaction. Finally, satisfaction with market intelligence

and feedback (from the perspective of the CFO, 'why am I here and how did I do?') continues its laggard performance, with a meager one in twenty IROs expressing high satisfaction in the category (see chart, next page.)

“Quality of roadshow services provided by brokers has declined significantly. We receive less help with targeting, we have to ask for pre-briefings, and feedback is late and low quality.”

- Large-Cap, European Real Estate)



In conclusion, we observe strong correlation between the decline in satisfaction with broker provided corporate access services and the tendency for IROs to run investor events on their own. In a previous installment of this series, we referenced that historically the changes in sentiment and behavior that we report to you are relatively minor from one period to next. When we're observant or lucky we identify an emerging trend. What's happening now appears to be not an emerging trend but an actual trend. If (when?) IR departments had (have?) budget to add staff to shoulder more of burden of arranging investor meetings, IRO originated and managed events could become the norm.

“We have been working on investor targeting for quite some time, but we still see that Corporate Access teams don't achieve meetings with the majority of the targets we propose. We sometimes add a day to our NDRS to meet our targets independently.”

“On the other hand, the sell-side's knowledge of the market can be invaluable, such as when they bring is fund or investor that our independent research missed, and we wind up having a good meeting.”

- Mid-Cap, North America Industrials