2020 Corporate Access Survey Series

Effects of MiFID II, Two Years Later

-By Andre Little and Brendan Fitzpatrick

In this report, IHS Markit presents Part 4 of our 2020 Corporate Access findings. Based on a survey of over 300 global IROs conducted in January of this year, below we present our findings on the effects of MiFID II two years after its implementation.

MiFID II Impact Stronger than Anticipated

- Sell-side research declines broadly for European and Small-cap issuers
- Investor participation in sell-side sponsored investor conferences weakens
- Two-thirds of IROs expect or have already experienced increased direct outreach from investors

In a Covid world, it's easy to forget how focused the IR community was on MiFID II, not only in Europe but globally, two years ago ahead of its implementation. In the fall of 2017, the consensus was that the law would render unprofitable to the publisher much of the analyst research on smaller companies. Further, banks and issuers alike worried that after implementation, investment centers, especially in Europe, would fragment due to investors having fewer MiFID II compliant relationships with brokers compared to the number of investors a broker might previously have invited to participate in an NDR with a visiting management team.

In January 2018, MiFID II went into effect. The fuse on this giant cannon aimed at the heart of corporate access had sizzled down to the chamber, while everyone waited anxiously for the explosion. At the apex of uncertainty, a flag inscribed with "bang!" emerged from the tube…which is to observe that, relative to the hype, MiFID II was a non-event for most IROs in most parts of the world. But slowly, progressively, by the end of 2019, IROs sensed that the corporate access world had indeed changed.

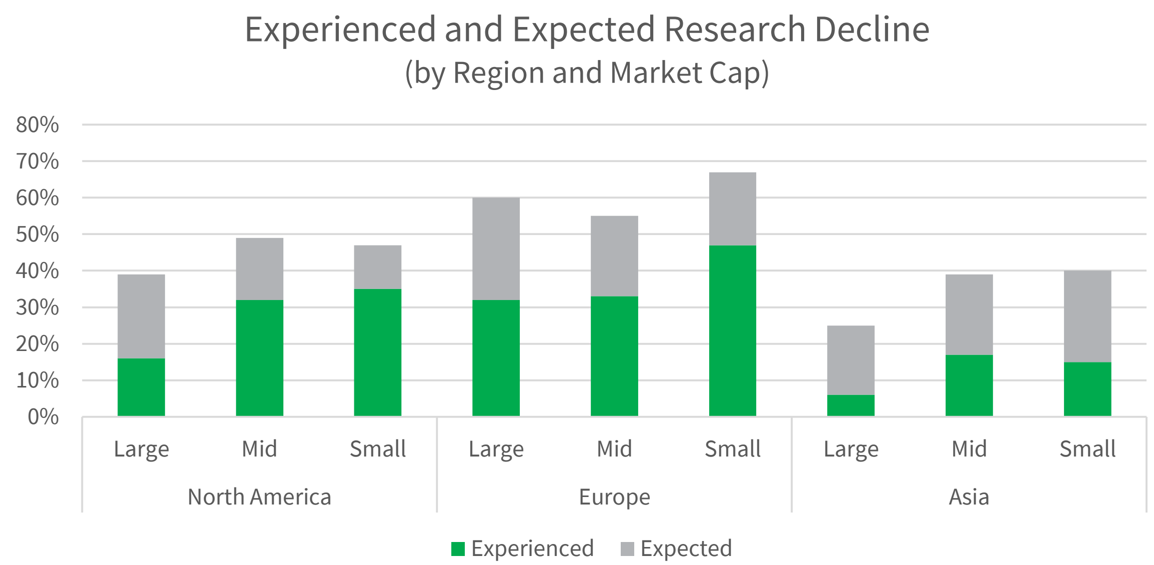
In January 2020, we released our bi-annual corporate access survey covering IROs' experiences during calendar 2019 (the "reference year'). We closed our survey at the end of February, so we have a clear picture of where MiFID had taken us before the pandemic hit and changed everything. In the pages that follow, we share a few observations with you.

> *"We are increasingly being approached directly by fund managers for meetings. We are considering organising meetings and roadshows without a bank's corporate access support."*
>
> \- Large-cap, Asian Basic Materials

MiFID II Contagion Spreads from Europe to North America

More than any other service category, journalists and analysts believed research would decline precipitously under MiFID II, especially research on small-caps. IROs, as well, predicted drops in coverage in our 2018 survey, while not uniformly dreading the prospect. Many large-cap IROs looked forward to tending to fewer analysts. At the other end of the spectrum, many small cap IROs were anxious about losing already thin coverage and began exploring the possibility of contracting third-party research to fill the void.

It turns out IROs are pretty good at forming expectations. In 2018, 43% of IROs expected a decline in research on their company while 11% had already experienced one. Two years later, IROs' expectations were validated: just shy of half of the 43% (19%) of IROs who expected a decline in 2018 experienced a decline in 2020 (going from 11% to 30%), while the other half (22%) continued to expect a decline. Likewise, the sum of "expected" and "experienced" decline has remained roughly constant from 2018 to 2020. Detail on IRO responses for 2020 is shown below.



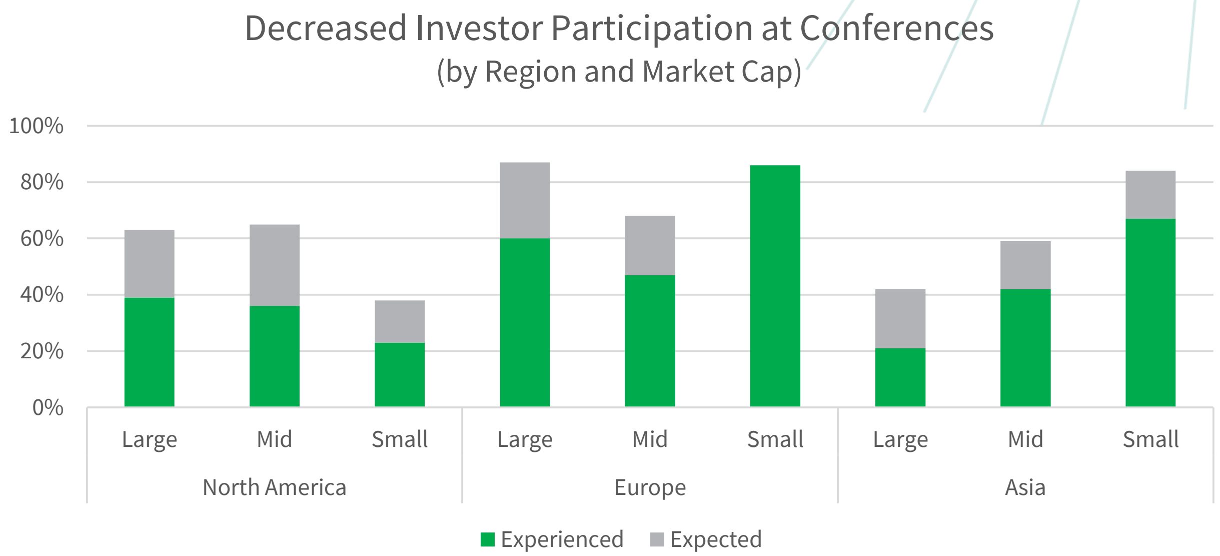
The numbers above speak for themselves. Research coverage is down significantly for European issuers, but also for North American issuers – North American mid-cap and small-cap issuers have experienced roughly the same decline in coverage as European large-cap and mid-cap issuers. Asian issuers experienced significantly smaller declines across all market cap groups.

"Sell-side analysts are following an obnoxious number of companies to the point they can't really follow anyone, but merely provide concierge service for accessing the buyside."

- Small-cap, North American Healthcare

MiFID Delivers Blow to Investors' Conference Participation

Our Corporate Access reports over the years first identified, and subsequently have tracked, declining issuer participation in sell-side sponsored investor conferences. Since 2013, Large-cap issuers have trimmed three conferences off their calendars and now average eight per year. Issuers aren't the only ones losing interest in attending conferences – investors are, too. Below we show IROs' perception of investor participation in investor conferences, together with their expectations going forward.



Overall, nearly half of IROs (49%) have already experienced (31%) or expect (18%) a decline in Investor Conference Participation. That's a big number – in this business we are normally looking at fractional changes to identify inflection points. This is not an inflection point – we are in the middle of a sea change.

Investor Participation in sell-side sponsored International Roadshows fared only marginally better, with 47% having already experienced (31%) or expecting (16%) a decline. The decline was broad-based across all regions and market cap groups.

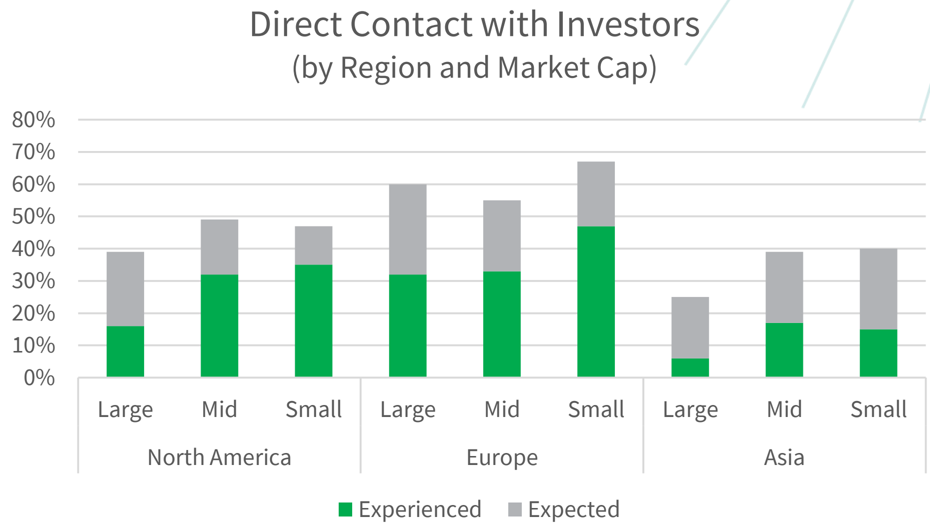
Investor participation in sell-side sponsored Domestic Roadshows also declined, but only by about half as much as participation in conferences and international NDRs. Overall, 27% have either already experienced a decline in Investor Participation in Domestic NDRs (20%) or are a expecting a decline (7%).

"The sell-side is now more limited in setting up quality buy-side meetings, especially where no relationship exists, or where buy-side policy has changed."

- Mid-Cap, European Real Estate)

Direct Contact with Investors Substitutes for Brokered Access

The universe hates a vacuum, so if sell-side sponsored access is diminished, then direct access will naturally fill the void. The chart below reveals that direct access (the IRO contacting investors or investors contacting the IRO, without sell-side intermediation) has increased in proportion to the decline in *investor* participation in sell-side sponsored events. Here, too, we are not dealing with small numbers – overall 61% of IROs have experienced increased direct contact with investors (33%) or are expecting an increase (28%).



Asian IROs consistently reported MiFID II having a weaker effect on their relationships with the sell-side and investors. While our sample of respondents from Asia was relatively small (17% of total respondents) the consistency of responses across topics and market cap segments adds confidence to our findings. That said, we anticipate that Asian IROs will soon share the experience of their North American and European counterparts…if they aren't already.

Covid-19 disrupted Corporate Access, initially in a worrisome way to IROs, but increasingly IROs and investors perceive that some changes are for the better and are likely to prevail after the Covid crisis passes. Among these, the strongest candidates are those that emerged prior to the pandemic, like the trends around investor conferences and direct outreach discussed here.

Final note: the MiFID portion of our survey also covered whether MiFID resulted in more or fewer opportunities for issuers to participate in sell-side sponsored events, and whether IR budgets are expanding to account for the (presumably) heavier burden that IROs shoulder to manage corporate access post-implementation. We are pleased to report that IROs have just as many opportunities to attend sell-side sponsored events as they had pre-MiFID II (though the quality is diminished.) We regret having to report that IROs decisively do not have additional budget to do their jobs, nor do they have any expectation of an increase in the future (don't shoot the messenger).