WILL MIFID II TAKE CORPORATE ROADSHOWS

CO_2 neutral?

Non-deal roadshows are an important platform for managements in their active communication with investors. At the same time, they are a central step in the investment process of many investors. So far, much of the effort and cost of non-deal roadshows were borne by brokers. With the introduction of MiFID II, there is a regulatory need to put a price-tag on these broker-sponsored meetings. Will this lead to an increase in CO_2 neutral events?

By Peter Romanzina

Non-deal investor roadshows and conferences are important platforms for companies and institutional investors alike. For the corporates, they offer an opportunity to ensure that they have a good grasp on the needs, views, and wants of their key shareholders and constitute a key feature in their venture to attract new ones. At the same time, they can also provide management with an outside-in view and thus act as critical checks and balances. For investors, on the other hand, they are a central element of the decision-making process on both current and prospective investments. This stems from the view that the management and leadership of a company are a crucial factor in the generation of shareholder value.

At present, most senior managements visit current and prospective investors in key locations at least twice a year, if not more, and participate in at least a handful of investor conferences. In addition, smaller or lager teams of investor relation officers (IROs) visit other investors in B and C locations. The scope of these efforts depends on a number of factors, but is considerable.

Over the years, the time and effort spent on roadshows has increased substantially, driven by investor demand. This is primarily related to the pressure investors are under to generate alpha in increasingly research-efficient markets. On the other hand, the consolidation and increasing size of their institutional investor base has led managements to step up their efforts to enter into a pro-active dialog with key investors. Associated costs have risen hand in hand with the increased time and effort put into the meetings. These have typically been shared between the company and the broker in charge of organizing the roadshow and responsible for collecting investor feedback. The latter have usually paid for meeting venues outside client premises, local transportation (limousine), and refreshments. Pre-MiFID II, this was not really an issue as clients paid a bundled rate through execution charges or commission sharing agreements. At least in Europe, things have now changed quite drastically with the introduction of the new regulation, given that investors can no longer accept broker-sponsored non-deal roadshows for free. A good two months into adoption of the new regulation, there is still considerable uncertainty about what can and cannot be accepted. Moreover, quite onerous record keeping and recording processes are required. And, given that MiFID II is a European directive, different national regulators may treat and sanction violations in different ways.

In view of general developments and the changes described above, a few attempts to organize so-called CO2 neutral roadshows, i.e. not to travel on site, but organize events via video conference, have recently been attempted. Although there are some strong theoretical arguments in favor of these video conference roadshows, a real trend is not yet discernable. While we believe there are good reasons for a wider adoption of this format, it is still unclear if and when a tipping point will be reached. So, in which areas is change most likely to happen?

One of the biggest hurdles is that both senior management and investors value the personal interaction that is not easily replicated in a video setting. Furthermore, companies are still reluctant to stop meeting investors in person. Who will be willing to be the first to change this? Would that company have a competitive disadvantage in its quest to attract and retain shareholders? From an investors' perspective, as they usually aren't required to travel and attend roadshows, there has been little reason to push for video conferences. A possible solution to the MiFID II issue would be that investors approach companies directly, although this would probably lead to more scattered and elaborate itineraries rather than compact and efficiently organized trips.

We believe that, due of cost, efficiency, and reduced demand, change could start in peripheral regions. Corporates are more likely to experiment where the potential impact is unlikely to be significant. So rather than replacing a core London or Frankfurt roadshow, they might start with locations where it is difficult to fill days efficiently. Scandinavia would be a good case in point. Why should a European company not try to replace a three-day tour from Copenhagen to Helsinki via Stockholm with a one-day CO_2 neutral roadshow? Another example would be the Netherlands, where major investors are typically situated all around the country. An added flexibility this type of event offers is a clear-cut schedule – companies, for instance, wouldn't have to stick to a particular venue on a given day, but would have more freedom in their approach to destinations of this kind. It is also possible that they will emerge not as replacements for on-site roadshows, but rather as alternatives to conference calls given the importance of some elements of non-verbal communication which can only be observed in video conferences. And, as video calls are significantly more complex to set up across firms, it might make sense to bundle several conference calls, post-results into a single CO_2-neutral roadshow.

PETER ROMANZINA has been Head of Brokerage at Vontobel since 2010. His team of 14 analysts and over 20 sales/sales-traders is specialized in Swiss equity research and its distribution to institutional investors worldwide. It is also leader in corporate access for Swiss companies.