MiFID II is making IR more difficult for smaller companies

A new survey shows that, under MiFID II, for smaller companies, research is declining, broker contact is falling, and communication is harder. **Alex Schlich** reports on the findings.

Yellowstone Advisory has followed up its earlier survey of fund managers to see how MiFID II was impacting the asset management business now that we are nine months into the new regime. This new survey specifically tried to understand the impact of the new regulations on smaller companies and small company fund managers.

The first slightly worrying survey response is that fund managers think that the management of smaller companies don't do a particular good job communicating the investment proposition. If this was a school report for the management of smaller companies the commentary would definitely include "room for improvement" and "could do better". Only 23% of respondents think management do a good job helping investors make an informed investment decision.

MiFID II has clearly not helped the process with 68% of respondents thinking it has had a negative or very negative impact on smaller companies. According to our respondents 23% have seen a lot less research and 51% have seen less research. This is consistent with separate research from Canaccord that indicates that analyst coverage has declined by 0.16 analysts per company. Hardman and Co also report that analysts per mid-cap stock have declined by 4.7% in 2018 YTD. These may be only small changes but the direction of travel is clear. Looking ahead, our survey indicated that 49% believe that small company research will decrease a lot and a further 29% believe that it will continue to fall.

A decline in broker contact

In parallel with a decline in analyst research on smaller companies, contact by analysts and brokers at stockbroking firms with fund managers has also fallen. A staggeringly large 63% of fund managers report a decline in broker contact with only 6% reporting an increase in broking contact. Talking to a number of different broking houses it is clear that smaller company conferences, historically a good way for fund managers and companies to meet each other in a time efficient way, are more difficult to organise and are seen as costly events. Those broking firms that are still putting on conferences report a significant fall in conference attendance. With the overall squeeze on research budgets analyst meetings and conference attendance is often seen as a luxury that no longer is the most effective way to spend precious research funds. Previously fund managers could attend the conferences they wanted to attend but now it seems that CIO or team head sign off is required and given infrequently.

> **SMALLER COMPANY IR**
> - **Management should be prepared to become more proactive in its approach to IR and have a plan in place to engage with investors.**
> - **It should consider taking on a second broker or specialist investor relations firm.**
> - **Ensure the IR section of the company website is fit for purpose.**

What companies can do, though, is still meet fund managers in one-to-one or group meetings. Most respondents reported that meeting management is no more difficult in a post MiFID II world than before. However, making the process easier would be well received. When asked how smaller companies could improve their investor relations to deal with the impact of MiFID II, the most popular response was making access to management easier so there is some work to do here. The second most popular response was providing site visits or arranging capital market days and improving the IR section of the website was the next most important.

> ‘ In conjunction with fewer pieces of analyst research being written and less contact from brokers, smaller companies have experienced a decline in liquidity ’

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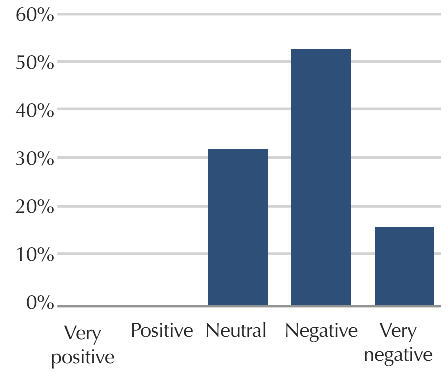
Engage with investors

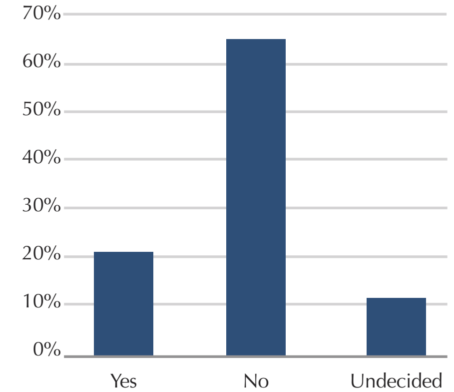
Investors value meeting company management and so companies should think about and plan how they engage with investors. In a piece of analysis, Yellowstone Advisory carried out earlier this year we found that almost 50% of FY results roadshows were in March and a further 15% were in June. If you want to meet new investors it is probably worth planning a roadshow specifically for them outside of these busy times. Some other simple steps to make engagement easier include:

- Be proactive. Look at those subscribers to your RNS announcements and offer non-holders an introductory meeting.
- Invite investors/institutions to attend the AGM and hold a general presentation about the company at the start or at the end.
- Include an option on the IR section of your company website for institutions to request a meeting.
- Make a video or audio recording of the results presentation and post it on your website to be viewed at any time. Alternatively make a video that explains your business and post in on your website. PI World and Five Minute Pitch TV could help with these and do a good job.

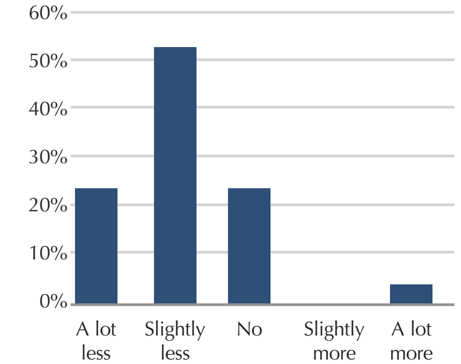
What is your overall view on how MiFID II has impacted smaller companies?



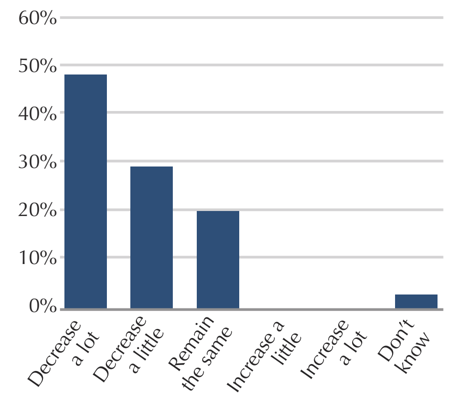
Do smaller companies do enough to help investors make an informed investment decision about their company?



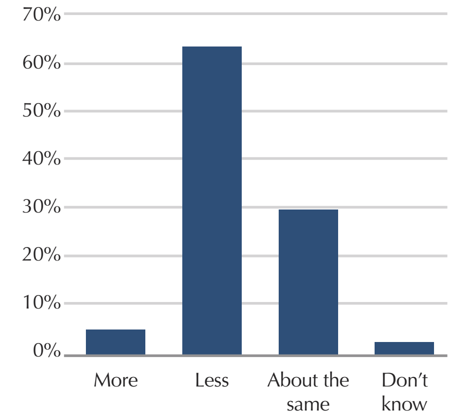
Since the beginning of 2018 have you seen any change to the amount of research produced?



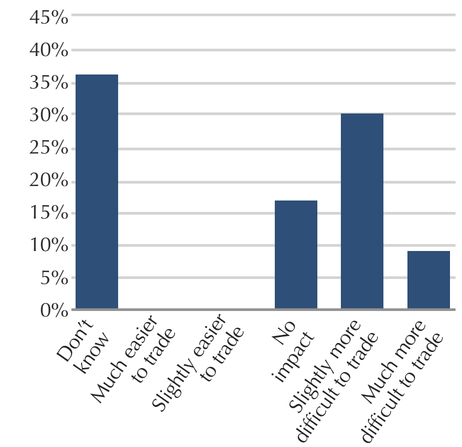
Looking forward, do you think the amount of research published on smaller companies will...



Less broker/analyst contact on smaller companies



What impact has MiFID II had on the liquidity of smaller company shares



Putting a recording of the results presentation onto the IR section of the company website also opens up a completely new audience in addition to the traditional institutional investor. This is an important part of widening engagement with the investment community. Wealth managers and private investors are an important capital pool for smaller companies and can be targeted too. The conferences and group meetings that Mello and the Share Society organise have reported increased attendance this year.

Small-cap shares more difficult to trade

In conjunction with fewer pieces of analyst research being written and less contact from brokers, smaller companies have experienced a decline in liquidity. From our survey 40% of respondents report that trading in smaller company shares has become more difficult this year and 11% report that small company shares are much more difficult to trade. This is supported by data on trading volumes from the London Stock Exchange. On the main market companies with a market cap of less than £600m have seen an 8.9% reduction in average daily volumes. On the AIM market companies sub £200m have seen a 5.4% reduction in ADV's and those with market caps between £200m and £600m have seen ADV's decline 25.2%.

This is another reason to increase engagement with private investors as they can have a positive impact on liquidity. ■

Yellowstone Advisory is an IR consultancy that helps companies with all aspects of their investor relations. As an independent consultancy, MiFID II does not restrict their ability to contact any fund managers. If anyone is interested in a copy of the full survey results please email him on alex@yellowstoneadvisory.com