

A middle-aged man with a beard and short hair, wearing a dark blue sweater over a light-colored collared shirt and a tie, is smiling broadly while talking on a black mobile phone. He is looking slightly to the right of the frame. The background is a bright, out-of-focus office setting.

Throng of sales professionals are thirsting for investment ideas to provide their institutional clients. Amplify your company’s message by making **institutional sales** a critical IR audience.

# ENGAGING WITH INSTITUTIONAL SALES TEAMS

**By Christopher L. Symanoskie, IRC**

Investor relations practitioners compete with one another and countless other distractions for investor attention and, ultimately, for investment – at least theoretically.

To an IRO, beating the competition means maximizing the effectiveness of an IR program through the delivery of a winning message that reaches all relevant audiences. An IR program’s success requires leaving *no stone unturned* with respect to identifying target audiences, including underappreciated audiences, such as retail investors,

investment clubs, and institutional sales.

IROs have traditionally paid close attention to the buy side, sell side, and financial media – “the big three” among target audiences. In a recent report by Rivel Research Group, 66 percent of IROs surveyed reported that marketing to institutional sales teams was at least “somewhat important” to their investor relations efforts.

However, in the same survey, only 44 percent of respondents indicated that they directly market their story to institutional sales teams. Thus, many IROs may be

missing out by failing to engage with institutional sales – a broad, influential audience that has great potential for increasing investor awareness and driving investment.

Institutional salespersons are primary conduits of information between the sell-side and the buy-side. They provide value to their clients by offering investment ideas, facilitating conversations with analysts, and arranging meetings with corporate management teams.

An institutional salesperson must be extremely well-informed about issuers,

the industry and markets to be effective in helping their busy clients distinguish between what is relevant and what is extraneous. That makes reaching out to them well worth the effort.

“Salespeople develop a deeper understanding of the company and can in turn present that story to clients with additional confidence having just heard it from management,” says Craig Christensen, senior managing director of institutional sales at Barrington Research. “Anytime a management team can meet with a salesforce and pitch their story directly, it is very valuable for all parties.”

## Seeing the Entire Picture

Institutional salespeople are more than just conduits of information and a means to corporate access. They play an integral role in helping investors see the entire picture, and their reputations and track records are extremely important to institutional clients.

“Our job includes taking all the information coming from our veteran analyst team, determining what is relevant to each of our clients, and presenting it in a way that is useful in making investment decisions,” Christensen explains. “We provide a critical service on Wall Street. Given the vast amounts of information in the market and the rapid nature of its dissemination, institutional sales serves as a filter between its research analysts and clients.”

Professors Baruch Lev and Feng Gu argue in their book, *The End of Accounting*, (2016) that there is an ever growing need for corporate managers to report non-financial information as the relevance of accounting-based financial information declines and the valuation of intangibles and other strategic assets rises as a tool for investment decision making. To that end, institutional sales professionals are particularly well-suited to help investors understand the value of an issuer’s strategic resources, in

addition to understanding information contained in financial reports.

Although their numbers have decreased in recent years due to declining commissions and other structural changes, institutional sales teams remain a large potential target audience that is highly professional, readily accessible, and open to interacting with corporate management and IROs. As well-informed and respected members of the financial community, they possess a unique ability to gather and relay accurate information that may otherwise be lost.

Expanding outreach to include institutional sales in effect creates a high caliber, de facto marketing team that can increase the depth and breadth of your company’s IR communications.

“Although the success of marketing to institutional sales is difficult to measure, IROs tell us it can be especially helpful in driving new research coverage and/or in developing strong relationships with sell-side analysts,” says Brian Rivel, president of Rivel Research Group.

## Sylvan’s Success Story

Driving more analyst coverage is particularly important when re-engaging the Street or when there are new developments or a significant change in corporate strategy.

In my own career, I encountered this principle in action more than once. At Sylvan Learning Systems, I was hired to help the company re-engage with the financial community after several years of quietly retooling as a public company. I worked with Sylvan’s CEO and management team to compose a compelling message that resonated well with the sell side. At the time, analyst research reports accurately depicted our strategy, key drivers, and financial metrics, but our stock price remained within a narrow trading range and at a low valuation – causing management to scratch their heads.

In a conversation with an institutional

sales representative, I discovered that he (and by extension the entire institutional sales community) had no idea that Sylvan had reinvented itself and was poised for growth. It turned out that while the sell side was paying attention to recent developments, the institutional sales community (and as a result, the buy side) was not aware of such developments.

I discovered that few people outside the company were communicating the new story to potential investors. Institutional sales teams were focused on other investments because they had no idea that Sylvan had repositioned itself and that there was an attractive opportunity for their institutional clients.

After identifying the problem, I proposed a plan for management to conduct a non-deal roadshow involving only institutional sales teams to open communication channels and better reach key investors.

We took our new story directly to the institutional trade desks of more than five covering brokers in New York, Chicago, San Francisco, and Baltimore. A few days later, after returning from this unique roadshow, the company’s stock came to life, more accurately reflecting recent innovations and the company’s exciting new growth prospects.

In addition, the company received very positive feedback from institutional sales teams and sell-side analysts regarding its investor presentation. Not only did they better understand Sylvan’s new message, they were pleased that management took the time to inform them about recent developments. From an investor relations perspective, it was an eye-opening experience and a lesson that has produced results every time – a proverbial home run.

Similarly, during the IPO of American Public Education, Inc. (APEI), management made it a priority to include institutional sales teams throughout the country during its two-week roadshow. That focus helped make the company NASDAQ’s second-best

performing domestic IPO of 2007. As a result, reaching out to institutional sales teams has become a regular part of APEI's investor relations outreach – not just something reserved for major corporate developments or times of significant change.

## Building Trust

A strong relationship with the institutional sales community can produce benefits that go far beyond the simple dissemination of information. It can help build a deeper trust with the financial community and provide access to a wealth of valuable market intelligence.

“In our surveys, IROs have indicated that well-informed institutional sales teams provide them with additional market intelligence, especially on matters related to buy-side thinking and market perceptions,” Rivel says. In addition, given their proximity to trading and strength of their relationships with the buy side, institutional sales professionals can also help an IRO identify and reach out to potential investors.

“Institutional sales teams can provide very valuable information when targeting potential shareholders, especially if their firm has traction within your industry,” says Dave Spille, vice president of investor relations for Engility Holdings, Inc. “These teams often have already met with the portfolio managers you are likely to visit and can give you insights into perceptions on your industry and company, as well as what drives their investment decisions. This feedback will enable you to customize your presentation for each institution.”

Institutional sales teams work closely with trading – often on the same trade floor – to give their clients the most relevant, up-to-date marketplace information. So they are uniquely positioned at the center of marketplace discussions among professionals engaged in making investment decisions. This where marketplace information is shared and perceptions are formed. This is

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where the “buzz” occurs – their interactions are the “Word on the Street.” IROs can capitalize on this real-time knowledge.

## Valuable Feedback

With a simple phone call to an institutional sales desk, an IRO can gain vital trading and marketplace insights. Although stock surveillance may be more scientific, institutional sales professionals can provide an IRO with a good understanding of what is moving a stock at any point in time and provide insights into the latest perceptions, including details regarding any existing “short thesis.”

While perception studies are invaluable to IR strategy, even a brief discussion with an institutional sales professional can provide a reliable picture of how a company or a management team is perceived or what investors thought about a recent presentation, conference call, or non-deal roadshow.

“After completing a roadshow, it is imperative to obtain feedback from the sponsoring institutional sales team,” Spille notes. “Although this feedback may not be attributed to a specific institution for confidentiality reasons, it will enable you to improve your communication to investors, so they can better understand your company's strategic and financial differentiators.”

“Salespeople won't be shy or pull punches,” says Trace Urdan, a sell-side analyst at Credit Suisse. “Research analysts can be reluctant to share hard truths about how a company is being perceived by investors in order to preserve manage-

ment access, or may themselves not be fully aware of negative opinions held by clients. But salespeople are ... often closer to their investor clients, and as a result can be more objective sources of feedback when there are hard truths to communicate. Salespeople are exposed to hundreds of management teams, vs. the dozens that a research analyst might follow, which means that their perspective on a company's strengths and weaknesses as an investment may be better informed.”

Developing relationships with institutional sales and corporate access teams improves outreach, creates a better informed financial audience, and reduces the risks from misinformation and malicious rumors. “IROs tell us that ‘more is better,’” says Rivel. “The more market participants who hear the company's story, the better it is for volatility, liquidity, and proper valuation.”

Including institutional sales in roadshows and daily communications is key to a strong, integrated approach to building a trusted IR program with broad reach – a program that leaves no *stone unturned*. Engaging this community is a cost-effective method for obtaining valuable, real-time market intelligence that is actionable. And, as history shows, it has the potential to energize and expand your IR strategy – far beyond the typical audiences. **IRU**

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