How MiFID II is impacting consensus management

IROs can mitigate the impact of MiFID II on the availability of estimate data for use in their published consensus summaries, explains **William Chapman**.

All listed companies maintain some form of consensus to keep tabs on market expectations, avoid surprises and the need for ad hoc announcements; and ultimately to reduce share price volatility. Some distribute their consensus data only to close capital market partners, but wider publication is quickly being seen as a best practice in investor relations. Publication promotes the use of one single set of data by the key stakeholders (management, the sell side and the buy side) and helps diversify share ownership by accessing wider capital markets.

So, as publishing a sound consensus becomes more important, how secure is the supply of the data needed to compile that consensus?

Selling estimates restricts their availability

One impact of MiFID II, which forces brokers to demand fees for their analysis, is that brokers are developing more and more into sellers of data. This process is currently ongoing; and while we have not yet seen the final outcome, it is clear that it may result in even more incomplete and conflicting consensus data on the market. As brokers seek ways to monetise their analysis they may restrict the availability of data to financial terminal providers. As such, if not all brokers participate in a consensus, or not all the KPIs are shared, then the quality of terminal consensus data will probably suffer further.

Selling data can be done over a cooperative platform like Visible Alpha; giving direct access to their end consumers (the investors – not IR). Each data provider to a platform can have their own approach on how to utilise the platform, for example some brokers exclude quarters or segment KPIs with a hope to entice direct enquiries. Then it will be hard to guarantee the quality of the consensus, as a by-product based on heterogeneous input.

William Chapman is commercial director at Vara Research. chapman@vararesearch.de

> IROs are taking responsibility for accurate consensus data on their company

CONSENSUS MANAGEMENT

- **Brokers are developing more and more into sellers of data.**
- **IROs should take control of how the markets see their company.**
- **Publishing consensus data via the company website, means users don't have to rely on third-party platforms.**
- **Outsourcing consensus management allows more focus on core IR tasks.**

So as brokers sell their data, they will often not provide all platforms or terminal suppliers with all their data. Then it seems we will have an even greater diversity of consensus figures on the market. No platform will be able to offer high quality consensus data consistently, as they are unable to secure all the data from analysts covering the stock.

High quality consensus to the fore

IROs will not have time to track and demand corrections from all the various consensus solutions. This is yet another reason why it is important to define which is the most faithful data set and ensure investors have easy access to this. For their quarterly updates, sell-side analysts too rely on consensus data in which they have confidence.

In the future, one sustainable route to high quality consensus data is using a company-compiled consensus.

Indeed, there is a trend on the markets, whereby IROs at many European blue chip and mid-cap companies are now taking responsibility for the data published about their company. Rather than expecting investors to rely on data they may find on platforms and terminals, they are publishing a company-compiled consensus on their own company website.

At the same time, modern technology (digitalisation) offers interesting opportunities for companies to communicate with global capital markets, and ensure they have the benchmark consensus estimates to consult. Direct access tools allow IROs to ensure the most accurate consensus is reaching the target users – investors and sell-side analysts. Through managing novel events recently, like virtual capital market days during the corona virus pandemic, IROs have gained valuable new experience. This will have opened their eyes to new opportunities that they can develop further going forward.

About half the FTSE 100 companies are publishing their consensus and overall we estimate this applies to around 300 European stocks. Two thirds really 'do-it-themselves', while over 100 outsource the task to a third party.

The ones using internal IR staff for compiling and publishing the consensus, are collecting and checking the data

> ‘ About half the FTSE 100 are publishing their consensus and overall we estimate this applies to around 300 European stocks ’

themselves. They prefer this approach as it allows them to dig into the data and understand how the analysts have modelled their business; but it is time-consuming. The opportunity costs of maintaining systems for this infrequent task are high. One can also imagine the potential for conflict, when confronted by an estimate out of step with company estimates and goals.

It is worth noting, that it is also possible to outsource consensus collection to a third party. The advantages are manifold; amongst others the neutrality and 'quality stamp' of the supplier, greater credibility with sell- and buy-side, and that liabilities are mitigated. Outsourcing can also deliver access to a wider range of media for publication than can be supported internally by most companies. In this way you can outsource the number crunching and focus on more value-adding core IR tasks like communication with the capital markets.

Take control and publish your consensus

In conclusion, MiFID II is changing the way analysts' estimates are distributed to capital markets and the final situation in this respect has not yet been reached. The quality of consensus data from traditional sources will probably continue to deteriorate, and one response from IR is to take control of how the markets see their company, and publish their own sound consensus data. ■