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Opinion

The Case for Better Bondholder Communications

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Communicating with the corporate ownership base has evolved: An integrated equity holder and bondholder approach has come to be considered a best practice. So if you're not already engaging your bondholders, you may be ignoring a key constituency of strategic and financial value.

Bonds are a relatively inexpensive way for companies to raise capital, even if the U.S. Federal Reserve has recently raised interest rates. U.S. corporate debt levels continue to reach historic heights as corporations take advantage of the protracted period of low interest rates and strong investor demand for risk-averse yield.

With companies issuing more corporate debt and seeking to manage it more proactively, bondholder communications are on the rise, too. In this environment, strategic investor relations programs are increasingly including an ongoing bondholder communications component, in addition to the usual equity owner component.

Before 2008, most companies rarely engaged in meaningful communications with bondholders unless the company was issuing new debt, redeeming or buying back bonds, or in need of bondholder support.

The two primary types of bondholder communications historically have been laissez-faire, with no direct communication with bondholders, and Goldilocks, which includes posting details about specific debt instruments on the company website and directing investors there.

With the laissez-faire approach, the only communications with bondholders happen through the underwriter at inception and the trustee bank going forward. Generally, the company is not concerned about how the bonds trade in the secondary markets and it prioritizes access to capital over managing the cost of debt.

Under the Goldilocks model, bondholders can find information in the investor relations section of a company's website. This approach can support a strong focus on placing debt while also providing information to address ongoing demand for the bonds post-issuance in the secondary markets. But this is still a passive, rather than a proactive, strategy and many firms still cling to these passive approaches.

Over the past decade, however, many companies have discovered the benefits of cultivating bondholders through targeted communications. The goal is to lower borrowing costs by creating more investor interest in new debt issues. By creating investor interest in a bond ahead of placement, companies find they can influence the subscription rate for new bonds. It's been a win-win situation that makes the debt raise much easier

There are a few specific, actionable steps you can take to put a robust program in place. First, know your customer. Engage and work with an ownership intelligence provider that can regularly furnish you with the necessary bondholder identification and analysis to support your program. Once the investors are identified, you are well positioned to develop a bondholder communications strategy based on the specific actions you seek to motivate in your bondholders. This strategy will determine the specific tactics your investor relations team will employ to drive these actions.

Next comes the outreach portion of your program. Contacting bond investors will often depend on the communications standards at your firm as well as the availability of the bondholders' contact information. The ascent of digital communications means e-mail is generally the first choice, and it offers advantages for monitoring engagement. For some investors, though, a hard-copy mailing marked "Important Information" will draw more attention. Whichever medium you choose, remember that successful outreach always considers both frequency of communication and ability to monitor response.

The final step is monitoring, which not only allows the company to measure its communications efforts but also provides valuable feedback that can be used to enhance your strategy and tactics. Listening to your bondholders and potential investors, and understanding their needs and concerns, can positively impact your bondholder communications program.

Again, if your approach to shareholder communications neglects your bondholder base, you are missing out on a group that holds both strategic and financial value for your company. Being proactive can support capital growth strategies, and it can enable your company to establish a positive, mutually beneficial relationship with its bondholders.