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Ownership Intelligence – A Smarter Approach to Investor Management

▸Louis Cordone, AST's Senior Vice President and leader of its Ownership Intelligence team, talks about the benefits of taking proactive control over shareholder development and how a company can initiate the right strategy by effectively leveraging its ownership data.

As soon as companies go public, they face a pivotal choice about how to manage their shareholders. Some companies utilize ownership intelligence to take proactive control of their shareholder development, growing their investor base by understanding who trades their shares and why. Others choose to be more hands off, trusting that their business models and the efficiency of the market will naturally draw investors to them. While it might be tempting to view both strategies as equal options, it's important for companies to understand the impact of each of these strategies, as well as why the proactive awareness of shareholder data tends to lead to greater opportunities.

The Emergence of a Shareholder Audience Profile

From a public ownership point of view, a company begins to exist as of its IPO date. As a public entity, the company immediately creates a broader shareholder base than that of a private company and generates greater market interest. The circumstances of a company's introduction to the public market include several factors that will shape its shareholder audience, the character of that audience, and the impact that character can make upon the equity's performance. Institutions, activists, registered shareholders, and insiders all contribute to that character, and their behaviors will ultimately drive the character that the ownership audience develops.

These moving parts will determine what the shareholder audience's profile will be by the company's first annual general meeting. As it nears that milestone, the company can take one of two approaches to its shareholder base. It can be passive, relying solely on the market and leaving much up to chance, or it can be proactive and implement a dedicated shareholder engagement strategy. The latter means actively striving towards the company's business goals and objectives for the most positive outcome, but initiating the proper shareholder engagement strategy in a rapidly-evolving shareholder audience profile can be difficult.

Developing a Public Audience

In the first year after transitioning to public-ownership form, a post-IPO company faces a slew of questions that are critical to its development. The new company must make decisions about its fundamental identity, the identity of its current public audience and how it compares to its peers. Without an accurate picture of who is buying and selling its shares, a company could have to make these decisions with little to no sense of the identity of its investors.

To ensure it has this important information, a company can leverage ownership data to help determine the composition of its investors. In addition, a dedicated ownership intelligence team and/or partner can help identify goals that might shape the company's future while providing it with the flexibility to determine its own path. To produce actionable information, the company should look at three key populations: institutional, hedge fund and activist shareholders. By identifying the proportion of each ownership type in its investor base, a company can tailor its investor management approach more accurately.

Ownership Audience Intelligence Can Better Define A Roadmap

Once it understands its newly defined ownership base, a company can move to find the right balance between long-only institutional investors and fast-money investors. Institutional investors want to own a company because they appreciate its story and want to be a part of its future. Fast-money investors, like hedge funds and activists, will only want to be a part of the company as long as it is profitable for them. A company's ability to thrive depends on having a range of ownership distribution that includes both investor types.

Generally, a company will seek to increase long-only institutional ownership after a set period of time, but achieving the level of liquidity needed to do so requires a blend of ownership types. Institutional investors make for high quality, committed ownership that pushes the company to grow, while fast-money investors are important because they provide the liquidity that will attract more long-term investors. From an investment perspective, owners need to be assured that when they take a large position in a company, enough liquidity exists to allow them to sell when they want to without damaging the stock price and hence their own investments.

Louis Cordone is senior vice president at AST and leads the ownership intelligence team. As a senior member of this group, Mr. Cordone consults for companies on securities ownership in regard to regulatory compliance and investor outreach. Before joining AST, he was the head of the advisory services in the Americas division for Thomson Reuters. In that role, Mr. Cordone managed industry-based teams of analysts who provided shareholder identification services to investor relations officers. Reach him at lcordone@astfinancial.com.

Ownership Awareness Informs and Drives a Roadmap

With a thoughtful awareness and strategic use of focused ownership data on current and potential shareholders, a newly public company can limit its exposure to otherwise unforeseen risks that may arise between its listing day and its first annual general meeting. Short-term investors, strategic partners and bankers typically make early exits and turnover begins to churn, leaving the company ill-equipped to handle its new group of longer-term investors. At this critical juncture, it is vital that a company has the fullest ownership data set possible as well as expert guidance to manage its public shareholder base.

It can be easy for a company to believe that its future lies in the hands of the market, but by using the proper tools and information, it can position itself to make the most of its ownership opportunities and forge its own path.

A Strategic Transfer Agent Is a Full Ownership Agent

The new company's transfer agent should be a key partner in understanding its ownership. Most critically, the breadth and the quality of data the transfer agent can provide will fundamentally impact the decisions the company is enabled to make. New public companies should partner with a transfer agent that will serve as a true ownership advisor, someone that can immediately and reliably provide the necessary data sets for understanding the context of a full spectrum of shareholder analytics, as well as consultative services a new company may need to interpret data, create scenarios and manage its ownership.

The transfer agent is the ownership expert needed to provide a new company with complete ownership intelligence. Not all transfer agents are created equal, hence the importance of selecting and establishing a strategic relationship with a full-service, consultative transfer agent who can offer the requisite shareholder data and reveal the insights it holds. Choose a transfer agent carefully, with an eye toward these future needs after going public, and ensure the firm can offer the right combination of shareholder data, analysis and insights.