The Sentinel

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Interview by BRETT JOHNSON, CEO of OneMedMarket
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D. Weild, founder and CEO of IssuWorks

This is Brett Johnson with OneMedRadio in New York City. Today we are with David Weild, founder and CEO of IssuWorks, a new firm that develops strategies to help corporate issuers of equity securities reach a vast number of institutional investors that are not currently being reached by traditional means. Weild was formerly head of equities at a major Wall Street investment bank, former vice chairman of NASDAQ, and more recently conducted primary research on capital markets, which has led to a wholesale reevaluation of capital markets culminating in the JOBS Act. He's widely recognized as an expert on market structure issues globally. Thanks for joining us today, David. Thanks, Brett, I appreciate it.

Okay. So, you've spent a career on Wall Street, with a lot of issuers over a long period of time. What would you say is the problem for issuers of equity securities in the public market today?
Well, as markets became efficient (lower transaction costs) and catered to high-frequency traders, it collapsed the economic model to pay for the distribution system to get companies in front of the broader cross section of the institutional marketplace – especially long-term investors.

So, we have public companies telling us that Wall Street's taking them to see the same 20 institutional investors, or worse, they're putting them in front of accounts that just are really not likely long-term investors.

So, the net of it is that companies are chronically undermarketed unless they have a large and visible brand. Wall Street, because of the economic incentives of a low commission market, is focused on less than 60 institutional investors that generate over 90 percent of their commissions. These investors tend to be very large cap and high-turnover (high-frequency trading) in nature. A poor fit for most public companies

What companies must do to compensate is to take every event and fully market themselves to the right institutional investors, which for every company is a different group of institutional investors from every other company. Just to give you an idea of how complicated that problem is, there are actually over 7,000 institutions in the world that we have data on their ownership patterns, and 40,000 funds – more than 40,000 funds and more than 200,000 investment professionals.

So, what you end up doing is, it's an exercise in sort of finding needles in haystacks to match make companies with the right subset of institutional investors. And it is a massive data mining and technology problem, and Wall Street, which is commission based, and relationship based, just can't do that. This becomes a cold calling exercise. So, for the average public company, they end up missing 80 percent of their total addressable institutional market.

So, just to back up a little bit for our readers, what basically changed? Why did this – how did it used to be?

Well, two things. We had a lot more friction [higher commissions and higher trading spreads] in the market. So, it didn't cater to trading interests, 'cause you'd eat yourself out of house and home through higher commissions and higher trading spreads. And when we collapsed spreads and commissions in the interest of saving investors' money, what that did is it created an explosion in trading oriented kinds of investors, and it collapsed essentially the subsidy to Wall Street sales.

So, we had a hundred thousand retail stockbrokers at one point that broadly marketed stocks, even to small institutional investors and they (retail stock brokers) were chased out of the business, and now they are compensated based on assets under management. They don't market stocks any longer.

So, if you think about it, we had a huge infrastructure in the United States that systematically marketed stocks and in what we used to call the "competition of ideas." The market was characterized by a lot more sell-side research, equity sales support and capital commitment to support institutional liquidity - all of this stuff went the way of the dodo bird because we [Wall Street] lost the ability to pay for it.

So, it doesn't mean that there aren't just as – matter of fact, there are more institutional investors in the market today than there were twenty years ago. It just means that Wall Street can't afford to reach most of them the way it once did.

And so what IssuWorks is doing is we've created a technology-enabled sales, distribution and marketing competency to reach those investors that fit the specific needs of our clients. We use data mining, data science, direct marketing and communications technologies to crash the cost of providing that service and filling that gap, which currently is isn't being filled by Wall Street.

So, what kind of firms are this most appropriate for this services?

Well, it's a great question, Brett. We thought originally that it was – it's definitely critical to smaller companies, and by that I mean anything under two billion dollars in market value. For small cap or smaller companies, it has the potential to drive huge benefits. But we've actually had clients come to us that are much larger who complain about the narrowness of Wall Street distribution based on their experience with "corporate access" and non-deal roadshows.

A senior executive at a $4 billion market value company told us that he has equity research coverage from a number of the largest Wall Street firms but, "Wall Street is taking us to see the same 20

institutional investors over and over again." And so, we're beginning to believe that it's a chronic problem for all public companies.

The big brand companies, because of the visibility, they can kind of get to the broader cross section of the market because they have the name recognition. But if you're a company that doesn't have huge name recognition in the marketplace, then the approach at IssuWorks is really the only way to systematically work on broadening your penetration of the broader – what we call the long tail of the distribution curve - cross section of institutional investors that Wall Street is not reaching.

And is it in part they're not reaching them because these are long-only or buy-and-hold type investors/ non-traders? Or, is it just they're too small, or – you know, why are they not –
Yeah, if you think about it, what Wall Street – the Wall Street economic model depends on scale and scale commissions. And so, there's two types of scale that drive commissions. One is assets under management. So, the largest institutional investor in this country has about a trillion dollars in equities under management, but they skew very large cap because they're liquidity constrained [they can't buy enough of a small cap stock to make enough of a difference to their portfolio returns].

And it (size of assets under management) drops off very quickly. The 50th largest investor only has about 1/20th that amount of equity assets under management. It's still 50 billion, so still very skewed large cap and very liquidity constrained. So, they really can't create a specialty or core competency around small cap investors.

And what you find is the smaller and smaller institutions don't have the liquidity constraints, so they can be very, very important to small-cap companies, public companies, but they just don't get reached [by Wall Street]. They don't get marketed to; they don't get prioritized, 'cause Wall Street just doesn't have the – it can't afford to put an institutional equity salesperson to cover that account 'cause they'd stave. They just – because they have lower turnover (lower commission) rates and lower assets under management, they [Wall Street] would starve trying to cover those accounts.

So, now, we pick 'em up. It's a different subset of institutional investors for every company that is relevant. So, essentially, if you will, it's a science of cold calling. It's a science of account targeting. It's the science of getting out to people and knocking on their door, making sure that when there's an idea that is relevant to that particular account [institutional investor], that they're hearing about it because we sure know that Wall Street is not doing that job any longer.

So, can you talk a little bit about how IssuWorks does that, how it executes that strategy?
Well, sure. We think like institutional investors. We first try and understand which institutional investors can actually own a company– it's a matchmaking service, if you will, using quantitative techniques and data science.

And then once we agree with our clients and our corporate clients who the right subset of investors is, then we put a plan in place to reach out to those investors, using a variety of systems and technology.

And we don't spam people. We'll actually reach out to investors with a targeted, customized email communication. For instance, that communication might say, "This is the reason why you're getting this call from us, this outreach from us, because we've done the following work on your portfolio, and this company is a fit for you, Mr. or Ms. Portfolio Manager or Buy-side Analyst." And they appreciate that work.

And we follow up with phone calls. We do a range of things to improve the penetration rates into the targeted investor base. We do this for corporate clients before, during, and after offering, so we actually integrate IR firms into the deal process. And it's actually very well received by book-running managers who see us as improving their productivity, because most of these long-tail, broader, fragmented calls will hurt their salesforces productivity.

We'll sit down with a book-running manager of the company's choice, and the syndicate manager, and we'll bring great information to them. We'll make their lives a heck of a lot easier, so that they'll make better allocation decisions, but also so that accounts, which are clearly not cost effective for them to reach, can be lifted off their plate. They can tell us t which calls they want to make and which calls they'd prefer us to make.

And the net of it is, is that you end up getting a lot more qualified marketing calls made. You penetrate a lot more accounts. In most transactions we think that we can more than double the amount of quality institutional investor interest on an offering. Everyone wins. The Syndicate Manager. The Head of Institutional Equity Sales. The Investors. The Company.

We're just going to where people [Investment Banks] don't go. And it just turns out that because markets have become so trading oriented, everybody's heard about high-frequency trading, for example. This is a new paradigm that exists because there's low commissions and low trading spreads, that the net of it is that the vast majority of institutional investors are just not systematically reached by Wall Street any longer. They can't afford to make those phone calls the way they're currently set up.

Interesting. Now, is this for initial public offerings or secondary offerings, or just ongoing support for issuers or –?

All of the above. We get paid by corporations. We get monthly retainer fees, but then we also credit companies back these retainers when they put us into transactions. So, it becomes incredibly cost effective. I would say that the total cost of owning an IssuWorks relationship for the CEO ends up being pretty trivial, given the amount of benefit that can be derived.

And to answer your question, we worked with companies before, during, and after IPOs. We don't turn off like a traditional investment back in the aftermarket; we really want to help issuers manage those investor lists and to broaden those investor lists.

And when they start acquiring account names, we want to be able to vet that list of names so that they understand what the risks are with certain names, "Is this a good institutional investor, or is it a good fit, or is it somebody that's just taking a research meeting, for example, and wasting management's time?" Those are the kind of things that we do, but we do it before, during and after an offering.

So, for example, because we don't have – we don't take commissions from institutional investors so that we have no conflict - institutional investors will share with us information that they wouldn't share with a traditional Wall Street firm. For example, if XYZ Company wants to do an offering, and it's going to be done in a "wall-crossing" fashion (confidentially), that investor can tell us that if and when a deal comes that they would like to be taken "over the wall."

And so, IssuWorks can warehouse that information [Indication of interest from the institutional investor], and then when the company chooses its book-running manager, we can take all the information that we've learned working with a management team before the offering, and make sure that the equity syndicate manager, who's in charge of marketing the deal for the book-running manager, has the benefit of that intelligence and can make better allocation decisions.

And so, it ends up being a win/win. It's a win for the company; it's a win for the book-running manager. It's a totally unique model. It bridges the gap between traditional investor relations and investment banking. If you will, we call ourselves the "unbank." We are the first company-aligned, capital markets-oriented investment bank and you'll see us performing a needed role working with and for investment banks and IR firms on behalf of corporate clients

It is important to understand that we're not challenging book-running managers to be the book runner. We don't want to replicate what's already done in the marketplace. We're trying to bring something which is unique, hugely value added, and we believe is missing from the market so that our corporate clients end up performing the best that they possibly can in public markets.

Interview has been edited

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