

## Corporate Broker

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### Remit of the corporate broker

Historically, brokers were the principal corporate advisers to a company, with long-standing relationships that originated when the company first floated. Traditional broker arrangements were relatively informal; brokers provided advice on a broad range of issues through the life of the relationship and derived fees mainly from relatively infrequent security issues. The brokerage model today includes both the traditional broking firms with a specialist focus on equity-related activities, as well as the full-service broking firms, usually comprising a banking and brokerage component.

Today, the single most important aspect of the broker function is to monitor the company on an ongoing basis, acting as the conduit between the company and the markets. Brokers are responsible for identifying potential issues and opportunities and working with the company and the market to propose solutions that are in line with the core objectives of the company.

The key services that brokers provide quoted companies with include:

- Pure broking services, which comprise all market making and equity-raising activities for quoted company clients, such as successfully issuing equity (company shares) and supporting the equity issues with the broker's in-house underwriting capabilities
- Providing support services such as disseminating market intelligence to clients, supporting them during results announcements, assisting with investor relations and performing shareholder analysis
- Serving as the interface with regulators, e.g. AIM Regulation (in a Nominated Adviser capacity), the UK Listing Authority (UKLA) and the Takeover Panel, as appropriate
- Advising the company on the market aspects of transactions, such as the likely market response to an M&A transaction

More recently, there has been a trend towards a full-service brokerage model, where banks with corporate finance and debt market capabilities offer a broader spectrum of services to clients. A typical full-service specialist would also offer M&A financial advisory services, financial advice concerning capital structure, assistance with corporate governance issues, compliance with the Combined Code and, in some cases, additional services such as electronic processing and trust dealing.

The table opposite provides an in-depth description of the core activities and services that a corporate broking house typically undertakes on behalf of quoted companies.

## Description of a corporate broking house's core services for quoted companies

### **Equity capital markets**

The broker is responsible for advice on the structuring, sizing, timing and pricing of any capital raising, including Initial Public Offerings, rights issues, placings and open offers, vendor placings, cash placings and block trades. In addition, the broker's role will include investor education, marketing to domestic and international institutional investors and the provision of advice to the company in the allocation and pricing of offerings. The broker will organise a marketing programme to support an issue and secure sub-underwriting or placing arrangements with a spread of institutions. The broker is also the key liaison on the client's behalf with the UK Listing Authority (UKLA), the London Stock Exchange and other exchanges. In addition to regular equity-related services, full-service brokers also provide active capital management programmes, involving for instance, share buyback programmes and other returns of capital to shareholders.

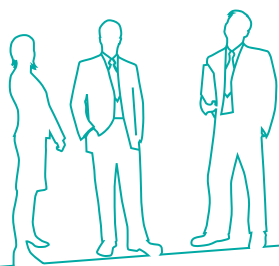
### **Sales**

Sales teams have a duty to advise their institutional investor clients on the merits of a range of stocks. The clients will include institutions and hedge funds in both the UK and overseas. Sales teams are often involved in meetings with the companies to which the firm is broker and develop a deep knowledge of these companies, strengthening their dialogue with institutional clients. As a result, sales teams have a very good understanding of investors' views on a particular stock.

### **Research**

Brokers provide a range of research for institutional clients. Research includes daily, weekly and monthly commentaries, sector reports and stock-specific analysis. Research teams provide a good understanding of market and sector trends, and their insights are supplemented by their frequent interactions with a range of sector specialists and fund managers amongst the broker's institutional clients.

(continued overleaf)



## Description of a corporate broking house's core services for quoted companies (cont.)

### **Shareholder analysis**

Shareholder analysis is typically the foundation for the investor relations function. Brokers are responsible for providing integrated shareholding information including details on the history of a share register, current shareholding patterns and the breakdown of beneficial holders. Further, brokers will typically analyse the weighting of an institutional holding relative to the sector and market, helping to identify the 'over' and 'under' weights. Most brokerage firms provide an extensive shareholder analysis report which includes changes in shareholdings, details of buyers and sellers, identification of investment styles of the investing institutions, explanations of movements within shareholdings and value-added knowledge on the identities of nominee holders. Ideally a quoted company should be able to use the shareholder reports to monitor institutional changes, to understand better the trading in their stock, reconcile institutional notifications against underlying shareholdings and as a tool to assist in monitoring proxy votes at EGM/AGMs.

### **Corporate finance department**

In the case of full-service corporate brokers, the corporate finance department is responsible for providing advice on a wide range of financial matters, including balance sheet structure, mergers and acquisitions and fund raising. Often, the corporate finance department is the key participant in advising on any planned strategic move by the company and, in the case of transactions involving the issue of equity or debt securities, giving advice on market capacity and pricing. The team is also responsible for liaising on the client's behalf with the Panel on Takeovers and Mergers and clearing all related documentation.

### **Other services**

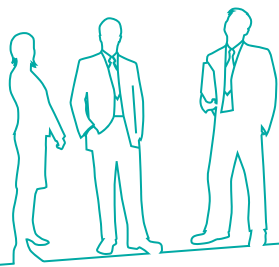
In addition, some brokers have developed electronic processing as client requirements have increasingly focused on a more efficient way of processing exercise and sale information. Brokers may provide quoted companies with custody and trust dealing services. Additionally, full service brokers may provide services such as employee share incentives and director share dealing services, to assist companies during transactions such as IPOs, takeovers and fund raisings.

### Institutional investor access - organising introductions for companies

A key element of the brokerage service involves connecting companies with existing and new institutional investors. This is usually a sequential process which involves, initially, careful targeting of the investor base. This is followed by coordinated roadshows where companies meet investors in a series of one-to-one and group meetings in key investor locations, including the UK and overseas, over a number of days. Typically, brokers will have well-established relationships with key investors and will be able to provide a targeted and focused approach to accessing these investors, after having carefully identified appropriate institutions.

Investor targeting involves in-depth analysis of the current share register, supported by analysis of shareholdings for the company's peers and for the sector in general. The corporate broker's investor relations team also receives input from corporate finance colleagues and the research and sales teams on the 'public side' of the Chinese wall (see [diagram overleaf](#)), whose knowledge and insights are gained from close interaction with institutions. Typically, the broker's investor relations team is the key contact for all investor meetings including the post-results roadshows, site visits, transaction roadshows and other investor meetings.

In terms of logistics, corporate brokers will provide a tailored schedule of meetings and ensure that companies meet all the appropriate contacts. In the case of significant equity transactions, management is often accompanied by a broker representative who knows each of the institutions and the individual fund managers well and can provide in-depth briefings prior to the meetings. Following the roadshow, the broker will provide the company with a feedback report based on conversations with those institutions that met the management.



## The Chinese Wall



### Structure of the company-broker relationship

Corporate brokers aim to bring three elements together for their quoted company clients:

#### Market knowledge

The most important requirement is that the broker provides in-depth market knowledge to the quoted company. In order to select brokers, companies use a varied set of metrics, looking for brokers with a proven degree of experience, often evidenced by the broker's track record of selection by clients or by the level of transaction flow. Further, companies should seek brokers who will offer them a detailed understanding of the potential investor base. Larger companies often appoint two brokers, building a relationship with both on a day-to-day basis, and are likely to use both in the event of a large transaction. This strategy may enable companies, including Mid and Small-Cap companies, in certain situations to access a broader range of investors and thereby help boost liquidity in their own shares.

#### Develop the investment case

The broker should be skilled in developing the strongest and most relevant investment case, alongside the company, based on knowledge of the company, sector and overall investor attitudes towards the company. Further, brokers' sales and research teams, who have close relationships with institutional investors, provide a vital source of feedback for the company.

### **Market making**

In addition to developing the investment case, the brokerage house often performs a critical market making function for their clients. In general, this implies that the equities business of the broker has to quote buy and sell prices, encouraging trade in the company's shares. The market making function provided by the brokerage firm is particularly relevant for smaller companies that tend to have fewer liquidity providers.

### **Conclusion**

Effectively, the corporate broker is the 'eyes and ears' of the Board, acting as the conduit between the market and the company, reporting the views of the shareholders to the Board on an ongoing basis and giving the company a good feel for what investors more generally are looking for at any particular stage in the cycle. The broker (Nominated Adviser in the case of an AIM company), is also responsible for ensuring that a quoted company releases important information to the market on a timely basis, enshrined in a company's 'Continuing Obligations' to the market.

**By quoting buy and sell prices in a company's shares throughout the trading-day, market makers undertake an important function to provide and contribute to the liquidity of individual shares as well as the overall liquidity of the markets that we trade in.**

Having multiple market-making firms quoting prices in your shares can assist in reducing the difference between buy and sell prices, known as the 'spread', which itself can help with increasing the liquidity of your shares.

When deciding whether to register as a market maker in a stock, I will consider a number of factors such as the likely spread, free float and the company's market capitalisation.

In general, market makers welcome companies contacting them directly in order for us to better understand their business activities and help price the security appropriately.

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