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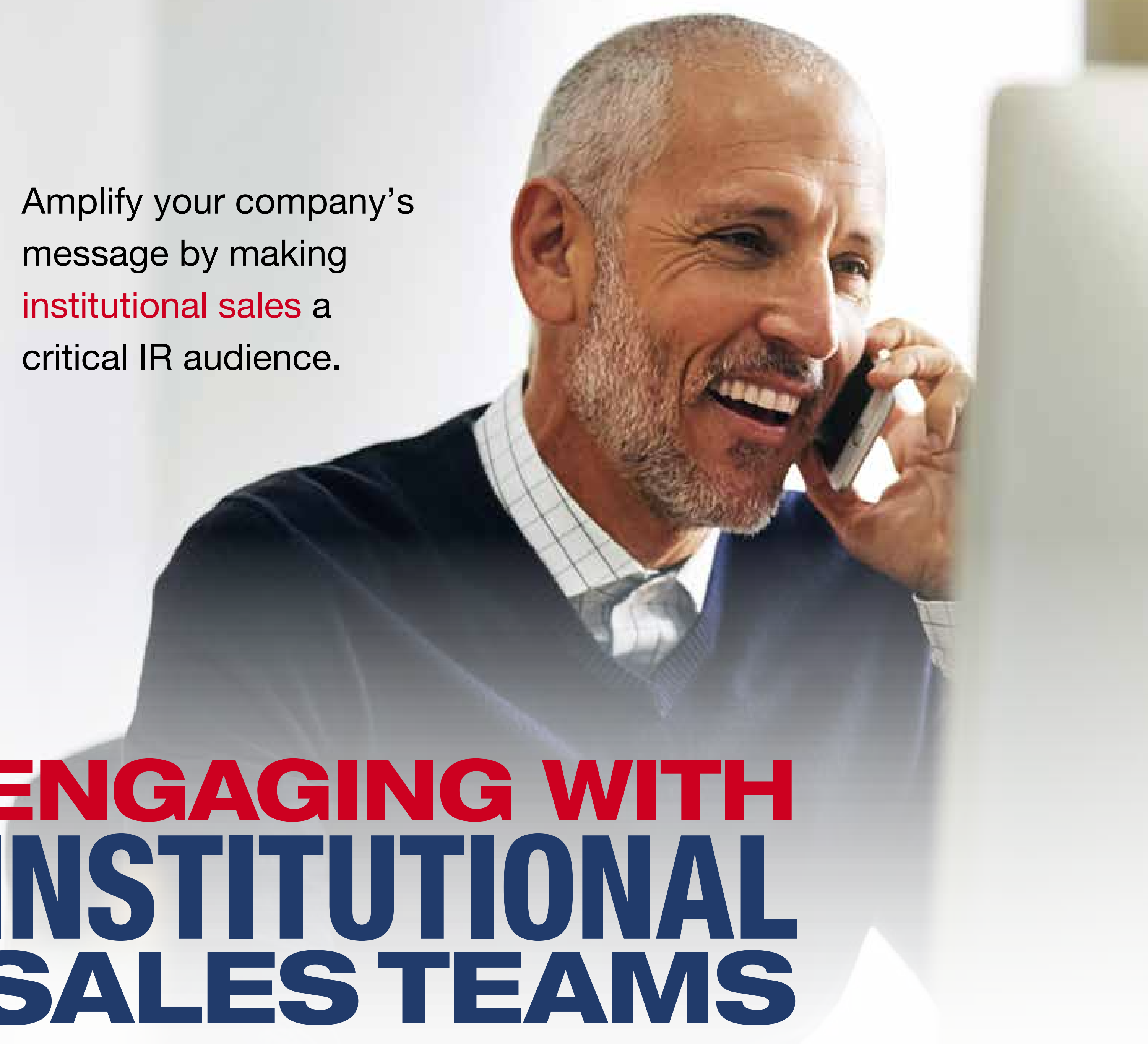

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ENGAGING WITH INSTITUTIONAL SALES TEAMS

A LIST FOR LIST

CONSIDERATIONS WHEN

BY J.T. FARLEY

On any given day, most investor relations officers in the United States probably do not give much thought to the venue where their company's stock is listed. It is a decision made during the process of preparing for an initial public offering and only infrequently considered beyond that.

There are currently approximately 5,700 listed companies – down from more than 9,000 two decades ago – while there have been an average of approximately 150 IPOs each year for the past decade, according to Renaissance Capital. Post-IPO, most companies choose to remain listed on the same exchange for decades and often for their entire life as a publicly traded company.

A small number of listed companies (generally less than 1 percent of the total universe) either choose to switch listings every year or are required to do so by differences in listing requirements, but it is rare enough that it is often considered newsworthy by the financial news media when it does happen.

The low turnover is perhaps not surprising given the importance of the decision. "Choosing a listings venue is a decision which goes all the way to the board and it is not one which companies take lightly," notes Nelson Griggs, executive vice president for global listings at Nasdaq.

The typically low turnover among listings companies is also due in part to the limited options available to corporate issuers. For four decades, there were only two listings venues in the United States – the New York Stock Exchange (NYSE) and Nasdaq. A third exchange group, Bats, chose to list its own IPO in April 2016, but other than that single listing, it has only pursued listings for exchange-traded products, not corporate issues. However, a new competitor has emerged: Investors Exchange (IEX) launched as a full-fledged stock exchange in August 2016 and it is in the process of building out a new corporate listings business.

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CHOOSING A STOCK EXCHANGE.

Given the change in the competitive marketplace, it may be an opportune time for IROs to take a look at their listing venue and assess the value that it provides. “When evaluating listings venues, there are three key points to consider: cost, after-market [post-IPO or switch] service, and branding,” notes Don Duffy, president of ICR, a strategic communications and investor relations advisory firm that works with corporate issuers.

Listing Cost

Costs to list on a stock exchange can vary, but generally the explicit cost is based on the size of a company as measured by the number of shares listed. But there are other factors to consider. “It is important to look beyond the sticker price and focus on value,” says John Tuttle, global head of listings at the NYSE. “If a stock trades with tighter spreads and there is more depth in the order book and lower volatility, this ultimately results in a lower cost of capital for a company.”

In developing its new listings offering, IEX plans to design opening and closing auctions in a way that “is designed to dampen unnecessary volatility, which we believe is bad for issuers,” says Sara Furber, head of listings at IEX. The new exchange also plans to offer a single, flat-fee price for listed companies. “We are focused on eliminating unnecessary complexity for issuers and investors,” Furber adds.

While trade execution quality and cost are important, Nasdaq’s Griggs says companies also “need to define what is important in a listings relationship: how you grow and accentuate your brand, and then after that, cost is a consideration.”

After-Market Service

The after-market service is another important consideration. “The exchange-issuer relationship doesn’t end on IPO day – that is when it really takes off,” says NYSE’s Tuttle.

Nasdaq’s Griggs has a similar view: “Day one is important but it is the many quarters to follow which should be viewed most closely, in terms of investor outreach and support." This support can take many forms: A dedicated client service team, market data and trading color, and event support such as meeting spaces for analyst days or market opening or closing bell ringing opportunities.

Both the NYSE and Nasdaq have invested in the products and services they provide to corporate issuers in recent years. Nasdaq provides offerings from its Corporate Solutions group, acquired from Thomson Reuters in 2013, and the NYSE has teamed up with a number of third-party service providers to enhance its offering, as well as leveraging some content and technology from Interactive Data Corporation, which NYSE parent ICE acquired in late 2015, for its new NYSE Connect platform.

"Generally speaking, Nasdaq pursues more of an owned model of IR services, while NYSE takes a partnership approach," says ICR's Duffy. He also notes that while it is too early to do a direct comparison of IEX with the NYSE and Nasdaq on the basis of after-market service, both NYSE and Nasdaq "generally do a good job providing support and making sure issuers are able to realize value from that." He recommends that IROs consider the consistency and availability of their exchange's support team as an important differentiator.

Branding

Issuers may want consider the brand aspect of the listing decision in two parts, according to ICR's Duffy: "What does affiliating with an exchange's particular brand mean for your own brand, and second, what is an exchange willing to do from a brand standpoint to help its listed partners gain visibility or win business?"

The NYSE is the biggest and oldest U.S. listing venue, starting with the listing of Bank of New York in 1792 and is the home to countless blue chip companies, including more than three quarters of the S&P 500.

Nasdaq has built a reputation since its launch in 1971 as the listing home for many global technology and consumer brands, including the three largest U.S. companies by market capitalization (as of January 2017).

For its part, IEX has developed significant brand recognition since launching as a small dark pool in late 2013, thanks in part to Michael Lewis's 2014 book, *Flash Boys*. It also draws some credibility from its investor base, which includes asset managers such as Capital Group, Franklin Templeton, and Mass Mutual.

In terms of gaining visibility for your company, both the incumbent exchanges, NYSE and Nasdaq have the ability to provide advertising and co-branding support through a variety of channels, including traditional advertising, outdoor advertising, and social media. The nature and the amount of this exchange support, which is usually bundled in a package to attract IPO companies or switching issuers, can vary widely depending on the size and profile of the issuer. According to ICR's Duffy, "how much your firm values an exchange's brand and what sort of package they are able to provide is probably more of a differentiator than the exchange functionality or listing cost."

When it launches its listing business, IEX expects substantial visibility for issuers that choose to list on its exchange, and it is also planning to invest in boosting that visibility, although the exchange is not yet ready to discuss specifics.

Benefits of Competition

While it is unclear how exactly the shift in the listings landscape will play out, all three exchanges believe that there will be a clear winner: corporate issuers. "We think the entrance of a new choice into the market is a great catalyst for companies to revisit their listing decisions," says IEX's Furber. "IROs should ask the question, 'what value are you providing to me for my listing fee and how aligned are our interests?'"

For their part, the incumbent exchanges say the challenge is a healthy one. "The listings business is increasingly competitive but for the corporate issuer it means we will continue to invest more to deliver additional value to them," says NYSE's Tuttle.

Nasdaq's Griggs notes that the U.S. market is already more competitive than most countries that only have a single monopoly listing venue. "We do not shy away from competition. It makes us better; it is better for corporate issuers and better for our end customers." IRU

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J.T. Farley *is managing director, investor relations & corporate communications at Investment Technology Group (NYSE: ITG). Disclosure: as a broker-dealer, ITG is a client of all of the stock exchanges mentioned in this article.*