Journal of Accounting and Economics 58 (2014) 142–166

Contents lists available at ScienceDirect

Journal of Accounting and Economics

journal homepage: www.elsevier.com/locate/jae

Broker-hosted investor conferences ☆

T. Clifton Green [a], Russell Jame [b], Stanimir Markov [c,*], Musa Subasi [d]

[a] Goizueta Business School, Emory University, GA 30322, USA
[b] Gatton College of Business and Economics, University of Kentucky, KY 40506, USA
[c] Cox School of Business, Southern Methodist University, TX, USA
[d] Trulaske College of Business, University of Missouri, MO 65211, USA

ARTICLE INFO

Article history:
Received 16 July 2012
Received in revised form
16 May 2014
Accepted 23 June 2014
Available online 2 July 2014

JEL classification:
G14

Keywords:
Investor conferences
Brokerage research
Institutional trading
Corporate disclosures
Investor relations

ABSTRACT

We examine the determinants and consequences of broker-hosted investor conferences. We find the number of brokers hosting a firm at conferences is positively related to institutional ownership and intangible assets, consistent with greater client demand for management access among hard-to-value firms. Younger firms and those that issue equity in the future attend more conferences, suggesting firms view conference participation as a means to enhance investor recognition. Hosting brokers are rewarded with increased commission revenue. Commission share increases by 0.61% during the conference week, with larger increases following more informative conference disclosures. Firms also benefit from conference participation. In the subsequent year, conference firms are followed by an additional 0.34 analysts, undergo a 6% reduction in bid-ask spread, and experience a 0.03 increase in Tobin's *q*.

1. Introduction

Institutional investors allocate billions of dollars in commissions each year as a payment for brokerage research (Greenwich Associates, 2011). Conventional wisdom equates brokerage research with the distribution of stock recommendations and earnings forecasts, and these forms of research have been thoroughly examined in the literature. Academics have largely overlooked other types of research services, yet abundant anecdotal and survey evidence about their importance exists. For example, institutional investors routinely rate "access to management" over published research in rankings of brokerage analysts.

In this paper, we study a widespread yet relatively unexplored brokerage activity: investor conferences. Broker-hosted investor conferences are invitation-only events where formal company presentations and private meetings with management take place. We examine the factors that influence a broker's decision to host a firm at investor conferences and investigate whether investors incrementally reward brokers that host informative conferences.

☆ We thank Phil Berger, Paul Irvine, Narasimhan Jegadeesh, Zach Kaplan, Marcus Kirk, David Lesmond, Miguel Minutti-Meza, Edward Owens, Darren Roulstone, Tjomme Rusticus, Doug Skinner, Eugene Soltes, Jerry Zimmerman, Dexin Zhou, and workshop participants at the 2011 UT Dallas Corporate Governance Conference, the 2012 FARS Midyear Meeting, the 2012 AAA Annual Meeting, University of Chicago, Erasmus University, University of Georgia, National University of Singapore, Southern Methodist University, Tilburg University, and the University of Rochester for comments. We are especially thankful to S.P. Kothari (editor) and Scott Richardson (referee), whose insightful comments helped us improve the paper greatly.
* Corresponding author. Tel.: +1 214 768 2547.
E-mail addresses: clifton.green@emory.edu (T.C. Green), russell.jame@uky.edu (R. Jame), smarkov@mail.smu.edu (S. Markov), subasim@missouri.edu (M. Subasi).

http://dx.doi.org/10.1016/j.jacceco.2014.06.005
0165-4101/

From a firm's perspective, conferences provide an opportunity to increase investor recognition. Survey evidence suggests broker-hosted investor conferences are a significant channel for investor outreach, ranked ahead of investor visits to company headquarters and below non-deal roadshows (Gedvila, 2010). In our analysis, we explore firms' incentives to attend conferences and examine the consequences of firm participation on investor recognition and firm value.

The central feature of investor conferences is connecting select institutional clients with firm management. We hypothesize that investor demand for access to management will be greater for firms that are hard to value based on publicly available information. Consistent with this view, we find that the number of brokers that host a firm at conferences is increasing in a firm's recognized intangible assets and advertising and R&D expenditures, whereas a much weaker or opposite relation holds for the number of brokers covering a firm with published research. The notion that brokers host conferences to meet client demand for management access is further supported by our finding that firms that only attend broker-hosted conferences (without published research) are smaller but have greater institutional ownership and intangible assets than firms that only receive published research.

Firms have incentives to solicit and accept conference invitations and more generally to facilitate analyst activities as a means to improve investor awareness. Supporting this view, we find young firms, which typically lack the resources to achieve investor recognition without brokers, attend more conferences and receive more published research. Prospective equity issuers and firms that finance acquisitions using equity, both of whom have increased incentives to bolster their stock valuation, also attend more conferences and receive more published research. For example, when a firm issues stock in a seasoned equity offering in the next two years, the number of brokers hosting the firm during the year increases by 12.34% and the number of brokers publishing research increases by 5.64%. The corresponding figures for a stock acquirer are 6.72% and 2.48%, respectively.

We next explore the benefits of broker-hosted conferences from both the broker and firm perspectives. We expect the host broker to benefit through increased trading commissions. Using a large sample of daily institutional transaction data from Ancerno Ltd. to measure trade commission share across brokers, we document a significant increase in the host's commission share for conference stocks in weeks 0 and $+1$. Moreover, the commission share increase for a conference stock conditional on an informative disclosure being made is approximately twice as large as the increase for a conference stock conditional on an uninformative disclosure. The incremental effect of informative conference disclosures is generally robust to including broker and firm fixed effects, and is comparable to the incremental effect of informative stock recommendations. The variation in commissions around conferences suggests investors reward brokers for providing management access, and that these rewards are greater when management access results in a greater transfer of value-relevant information.

We gauge the economic significance of investor conferences by examining their longer-term effect on commission share. We find that the incremental effects of conference attendance on annual commission share are on par with the effects of research coverage through published research. For example, average firm-specific commission share per broker is 1.11% for firms that do not attend its conferences vs. 5.38% for conference attendees, which is larger than the analogous 3.74% increase for research coverage. After controlling for broker fixed effects, we estimate that the average conference leads to $760,000 in incremental commissions for the brokerage firm.

Potential benefits for participating firms include greater investor recognition, improvements in liquidity, and higher market values. We find strong support for increased investor awareness following conferences. Specifically, conference firms are covered by 0.34 more analysts and experience a 1.24% increase in institutional ownership in the year following the conference. Such affects are particularly strong for infrequent conference attendees, who experience increases in analyst following and institutional ownership of 0.42% and 1.75%. We also find that conference firms experience improvements in liquidity including significant reductions in price impact and bid-ask spreads. Finally, conference attendance is associated with increased valuations and a reduction in a firm's cost of capital. Specifically, presenting firms experience a 0.03 increase in Tobin's q and a 0.87% reduction in cost-of-capital in the year following the conference. We also find that the increases in Tobin's q and the reduction in cost of capital are particularly strong for firms with high idiosyncratic risk, which is consistent with the predictions of Merton (1987).

Our findings extend the equity analyst literature in several ways. The significant effect that investor conferences have on commissions revenues, and the evidence that hard-to-value firms are more likely to attend conferences than receive published research, help to establish investor conferences as a distinct research service provided by analysts to satisfy client demand for management access. Our findings of broker-host benefits in the form of greater commissions revenues complement Green et al. (2014) findings of broker-host benefits in the form of more accurate and informative research.

Further, analyst coverage, defined as the number of analysts publishing research for a firm, is a common measure of a firm's information environment (e.g., Lang and Lundholm, 1996). The differences we document between the types of firms attending conferences relative to those receiving published research suggest a broader view of analyst coverage is warranted, particularly for hard-to-value firms.

By examining the forces shaping a firm's decision to participate at a conference as well as the benefits from participation, our study adds to the emerging investor relations literature, which explores actions taken by firms to increase investor recognition (see e.g., Bushee and Miller, 2012; Kirk and Vincent, 2014). Our findings that firms attend more broker-hosted conferences prior to seasoned equity offerings and before stock-financed acquisitions is consistent with firms having stronger incentives to participate at conferences when the benefits from increased investor recognition are greater. Furthermore, our findings of extensive participation benefits, including improvements in liquidity and market valuation, suggest that broker-hosted conferences are indeed an important mechanism for increasing investor recognition.