The Optimal Time to Announce a Bond Sale to Maximize Investor Interest

Municipal Market Insights Report

February 2019
Published by BondLink

BONDLINK

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Published in the USA. 02/19

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I. Abstract

Two hallmarks of the municipal bond market are its size and fragmentation. These features translate into a high volume of bond sale activity in the new-issue market. For example, on average over the last five years, more than 225 separate bond sales representing nearly $7.6 billion in par amount of bonds took place in the primary market on a weekly basis[1].

Given this volume, bond investors have for years recommended to issuers that they provide greater notice of an upcoming bond sale. The market convention, in general, is for issuers to provide notice of a bond sale with the publication of the preliminary official statement (or POS) which typically occurs about a week before a financing.

For the first time, BondLink has measured the level of investor interest generated with a typical 7-day notice of an upcoming bond sale and quantified the benefit of providing earlier notice to the bond market. The benefits to issuers, in the form of greater investor interest and engagement, are significant.

II. Research Overview

The municipal bond market is large in size, complexity and fragmentation. An estimated 50,000 to 60,000 issuers aim to raise low cost capital from investors in the marketplace. With nearly $4 trillion in total municipal debt outstanding and hundreds of new-issue bond sales occurring every week[2], there is a high research burden on investors to complete surveillance and analysis for such a fragmented credit pool. This process is also complicated by the fact that most municipal bond sales are announced just days before their sale date, further compressing investors' available research window.

BondLink, the sole provider of Investor Relations (IR) software solutions in the municipal bond market, conducted a first-of-its-kind research project analyzing hundreds of municipal bond sales to determine if there was an optimal pre-sale announcement period. The goal of the research was to determine if an earlier announcement drove higher levels of investor engagement prior to the sale. The findings of this landmark analysis are presented here.

III. Municipal Bond Market Background

Over the last five years, the municipal bond market has experienced more than 225 separate bond sales in the primary market on an average weekly basis, representing nearly $7.6 billion in par[1].

Even though an internal authorization to issue bonds may have been given months in advance, the standard practice for municipal issuers is to announce a bond sale to the market when a preliminary official statement (or POS) is released through various market wires. This typically occurs about a week before a bond financing. Anecdotally, we observe that most issuers do not make an announcement or issue a press release announcing the bond sale themselves.

In general, the primary market for municipal bonds - where interest rates on bonds are determined for issuers financing their public infrastructure via the sale of fixed-rate bonds - is covered by mostly large institutional investors (measured by assets under management or AUM). This includes mutual funds, insurance companies, banks, and separately managed accounts.

Since the Financial Crisis, most of these large institutional investors are conducting more credit research internally and relying less on the opinion of third-party rating agencies. Despite the change in the approach to credit evaluation, however, these investors generally operate with small credit staff and are responsible for evaluating thousands of different issuers seeking capital. It is not unusual, for example, to hear that one analyst at a large buy-side firm is responsible for credit evaluation on 300 or more different issuers. Not only is this challenging over the course of a year, but in-depth credit evaluation can be extremely difficult for the credit analyst if some number of these issuers were to release a POS at or around the same time. The analyst may be comfortable with the name and be able to conduct a high-level evaluation, but the volume of different deals can prevent the investor from deeply understanding the credit trends of a particular issuer to allow for a better order for bonds.

As part of its market research, BondLink holds regular conversations with buy-side professionals including credit analysts, traders, and portfolio managers. One of the more common requests we hear in our meetings is: ***"Investors need more time. We need more than a week. Issuers could help themselves by helping investors if they provided more notice of their upcoming bond sale."***

IV. Research Findings

After more than a year of receiving this feedback, BondLink set out to answer a question: ***"Does earlier notice of a bond sale in fact drive better investor engagement?"*** A logical follow-on question is ***"If earlier notice is beneficial, what is the optimal notice period for announcing an upcoming financing to the bond market?"***

To research these questions, BondLink looked at the activity of bond investors accessing the IR websites for its issuer-clients who provided notice of a future bond sale to the market through their websites. BondLink has issuer-clients in nearly every sector and in 25 states across the country. Thousands of investors are accessing a BondLink platform every day. From September 2017 through January 2019 (the analysis period), we analyzed every bond sale by BondLink clients and measured how bond investors engaged and interacted with that issuer's information on their IR website.

In terms of increasing investor engagement, here are our observations:

- There is a measurable increase in investor engagement when an issuer announces their bond sale early, that is to say, earlier than the typical 7 days notice
- Investor engagement increases directly with the length of time of the pre-sale announcement window up to nearly two months prior to the sale date
- The minimum early notice period an issuer should announce their sale to the market in order to heighten investor engagement over standard levels is 2 weeks before the sale date
- The optimal time period to achieve the highest levels of investor engagement is announcing approximately 2 months prior to the issuer's bond sale
- The median issuer drove more than 8x new engaged investors who had not previously visited the issuers website and a greater than 87x increase in "*high-value*" engagement among users with a 2-month versus a 7-day announcement window (to 698 "*high-value*" investor actions)

RESEARCH HIGHLIGHT

The optimal time period to achieve the highest levels of investor engagement is announcing **2 MONTHS PRIOR** to the issuer's bond sale.

CHART 1

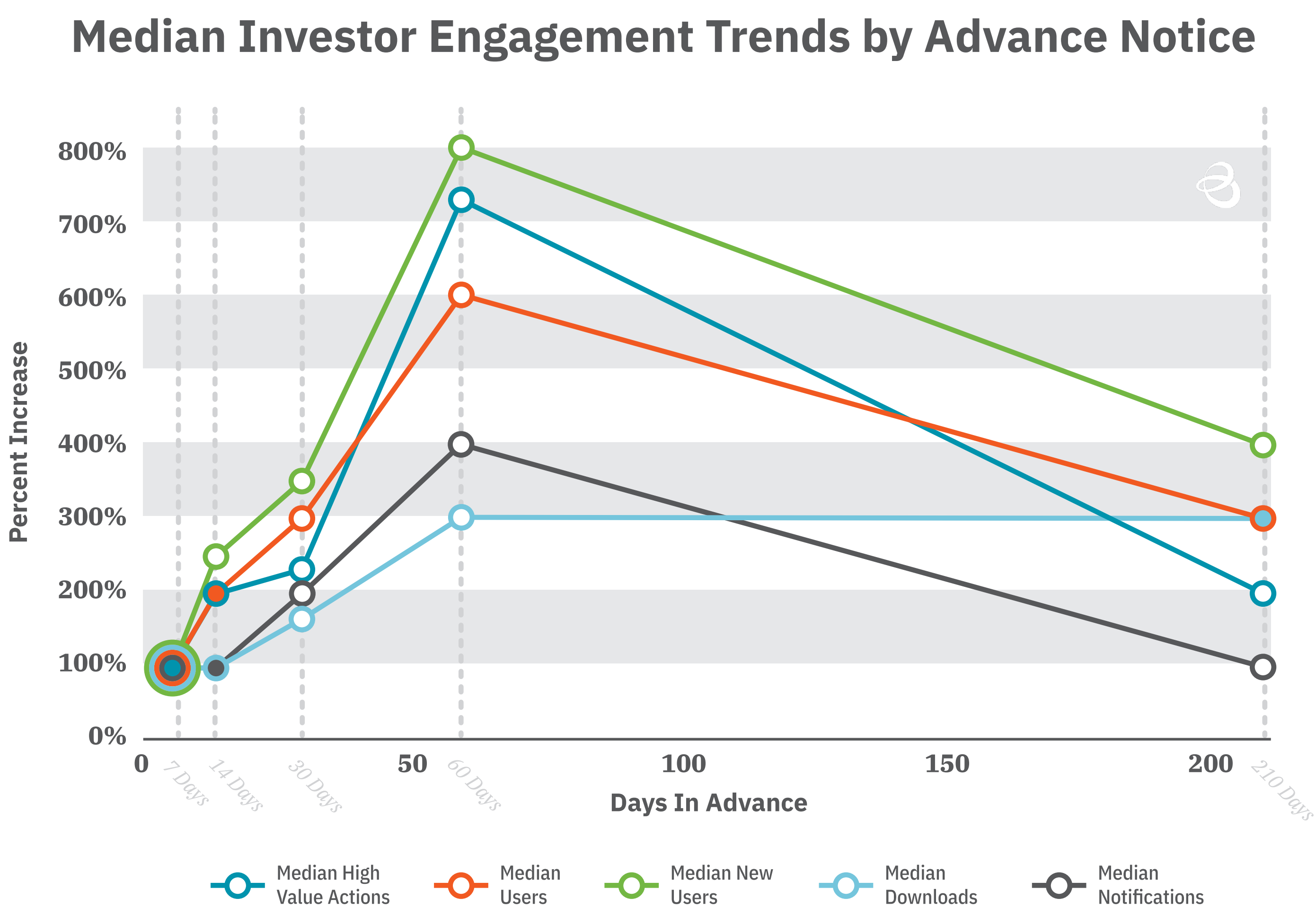


Chart 1 illustrates the clear benefit to issuers who announce their bond sale nearly 2 months before the sale date. This is the optimal window for driving the highest levels of investor engagement and interaction.

CHART 2

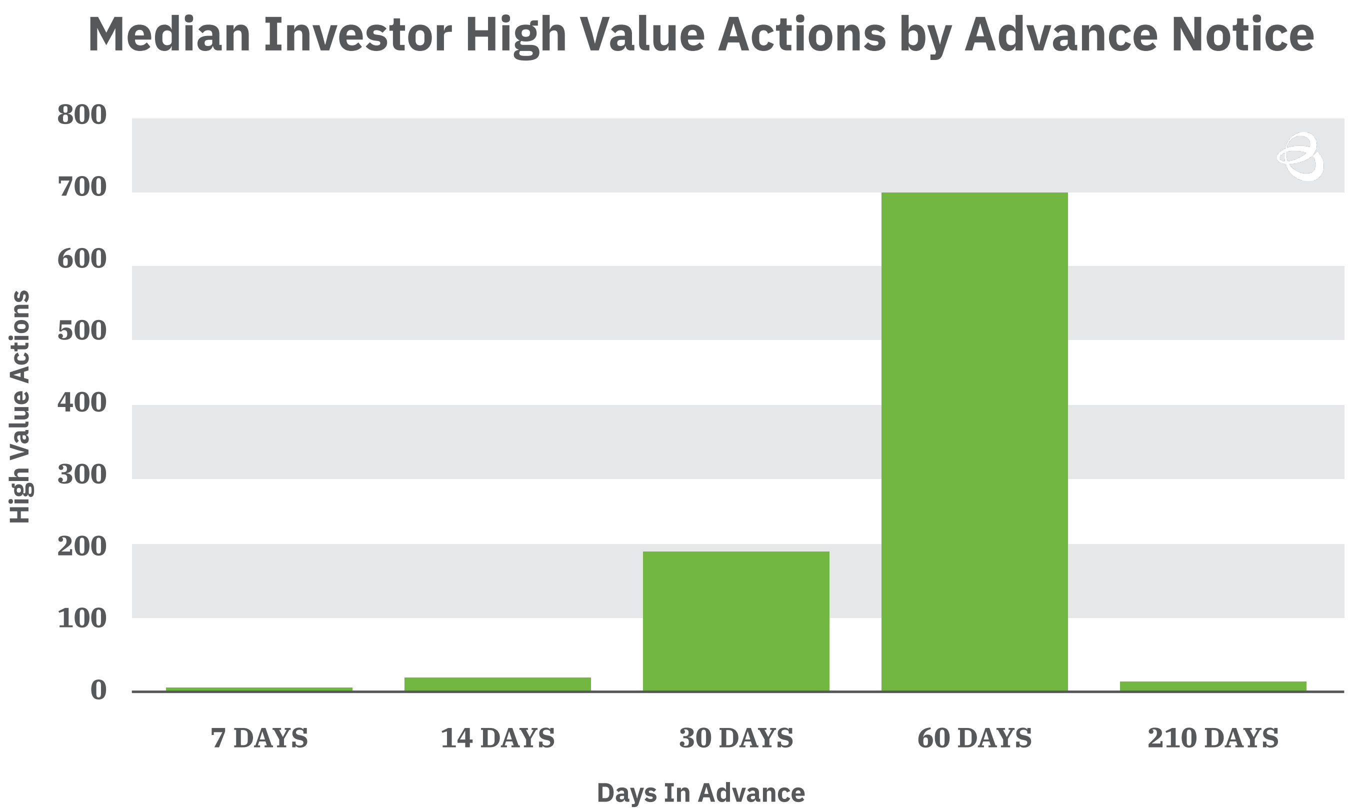
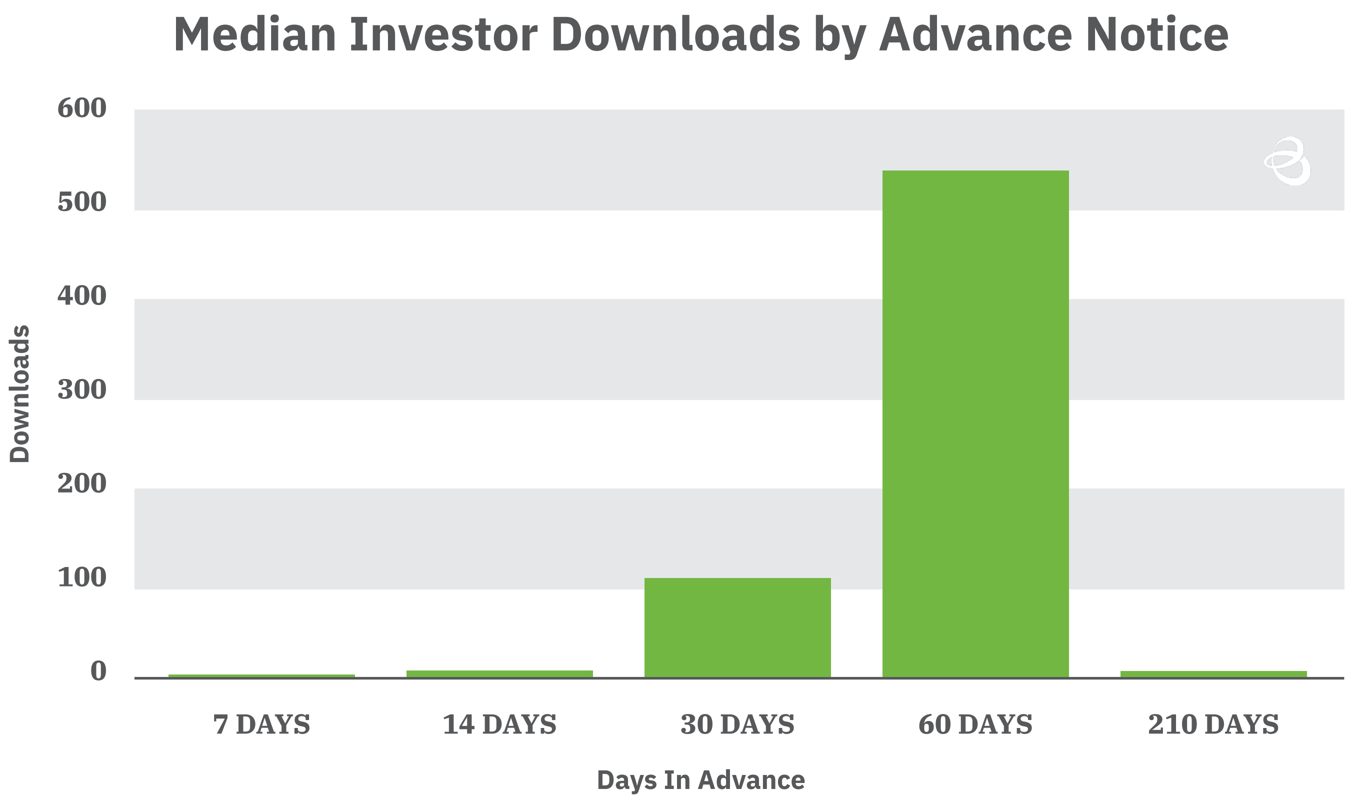


Chart 2 illustrates the total investor actions on issuer sites (‘*High Value Activities*’ - see ‘*Research Methodology*’ section for definition). The data shows that a longer notice to investors in advance of the bond sale increases engagement with the issuer’s credit information, with the optimal announcement period starting nearly 2 months before the bond sale date. The total number of investor actions increases to 698 with nearly 2-months advance notice.

CHART 3



One of the higher value investor actions is downloading issuer information for review. This can include a variety of documents that are essential in credit analysis. Chart 3 shows that document downloads from an issuer's IR website are at their highest with nearly 2 months of advanced notice before the sale. The median of the quintiles of issuers providing two months notice of a bond sale experienced 535 investor downloads.

Overall, Charts 1-3 show the 2-month bond sale announcement advanced notice drives optimal levels of engagement and awareness with investors for the municipal issuer.

V. Research Methodology

Here are the summary data points and analysis methodology used to conclude these findings:

The data is based on just under 250 BondLink issuer-client bond sales during the analysis period. The bond sale data is sorted into five groups (quintiles) of issuers, with near-equal distribution of approximately 45 bond sales in each group. The five groups (quintiles) for announcing their bond sale are:

- 7 days before sale
- 2 weeks before sale
- 1 month before sale
- 2 months before sale and
- 4 months or more before sale

For this research, a ***"Bond Sale Announcement"*** is defined as the date the notice of a future bond sale was indicated on the issuer's investor website ('*Bond Offerings*' tab).

The calculation for ***"New Investors"*** is focused, meaning, it calculates the new investor users who had not previously visited that issuer's BondLink site.

"High-Value Activities" by investors are defined as:

- An investor viewing the issuer's Bond Offering or Calendar page on their IR website
- Viewing the issuer's roadshow
- Downloading a document
- Signing up for a notification of future document releases, calendar events or bond sale notices

Findings indicate that optimal investor engagement came with the announcement happening nearly ***"2 Months"*** before the bond sale date

THE FINDINGS ALSO SUPPORT

- Notifying investors nearly 4 weeks before a bond sale can increase engaged users by more than 3x from a 7-day prior announcement and 6x with nearly 2-months advance notice
- Moving from 7-days to 1-month notification in advance of the bond sale leads to greater than 24x more investor engagement on an issuer's website (to 197 investor actions)
- Digital Roadshow views on the BondLink platform also increase for issuers, to 30 with 1-month advance notice, and 60 with nearly 2-months notice

Footnotes 1 and 2: Data is from Refinitiv.

VI. Conclusion

The data analysis presented here supports the conclusion that issuers can benefit from giving investors greater lead time going into a primary market bond sale. With more notice, credit teams at large investment firms have the ability to dig into the details of an issuer's credit in advance of any financing. And with more time, portfolio managers have the ability to position their portfolios – like freeing up cash – in order to be better prepared to place an order for bonds.

We hope this analysis is helpful to issuers of all sizes across the bond market.

VII. About BondLink

Led by founders Colin MacNaught, CEO, and Carl Query, CTO, BondLink's cloud-based IR platform provides efficiencies to issuers and investors in the $4 trillion municipal bond market. Since the launch of its first investor platform two years ago, BondLink has expanded its network across more than 25 states, as well as the District of Columbia and the U.S. Virgin Islands. Headquartered in Boston, BondLink is backed by top investors, including Franklin Templeton Investments, one of the largest municipal bond fund managers in the country. For more information, please visit **www.bondlink.com**.

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