

Broadridge's broad appeal

BY MATTHEW SCOTT

- ❑ Company has significant reach in several market areas
- ❑ Key acquisitions and new technologies keep it ahead of competitors
- ❑ Proxy service dominance allows it to change industry almost by default

Corporations will always have a need to communicate with their shareholders, but changing regulations, new technologies and evolving shareholder needs are making it harder to do that without adding costs. The key considerations issuers face include choosing methods of communication that are most efficient and cost-effective, as well as deciding which vendor is going to help them provide the variety of shareholder services that are needed.

Broadridge, the largest provider of proxy distribution and tabulation services, has made a series of recent acquisitions and product launches that have positioned it to wield significant influence over how issuers, brokers and share-

holders will communicate with each other in the future. In fact, the company's dominance in the area of proxy distribution and voting puts it in the middle of ongoing discussions about whether or not to overhaul the current proxy system.

A \$2.9 billion powerhouse, Broadridge has a significant footprint in several areas of the corporate issuer market. It has always been an industry leader in investor communications services, raking in \$1.6 billion in annual revenues for the year ending June 30, 2011, providing a variety of services including technology services for proxy and mutual fund information, brokerage transaction communications, transfer agency business, and virtual shareholder meetings and forums, as well as other segments. The company also pulled in another \$600 million in revenues during the same period from its securities processing services business.

Having such tremendous resources and wide reach across many segments within the industry gives Broadridge the ability to set the agenda on some issues, but it also gives it the responsibility to make sure its agenda is good for the industry and for

shareholders. Robert Schifellite, president of investor communications solutions at Broadridge, says the company is pushing the issuers and brokerage companies it serves to move away from paper mailings to electronic communications because it is faster and more cost-effective.

NIRI estimates the median cost of printing a full

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package during proxy season is \$4.82 plus 98 cents for the mailing. About 57 percent of all paper documents are now converted into electronic documents. When you eliminate those expenses with electronic delivery, Schifellite says, 'it results in more than \$500 million in paper and postage cost savings.'

Mobile appeal

Of course, getting issuers, brokerages and shareholders to consent to electronic delivery requires great patience and strategic planning. As issuers are interested in improving the number of overall shares voted, Broadridge introduced a number of products aimed at boosting shareholder voting. In March it unveiled its Mobile ProxyVote product, which allows shareholders to vote their proxies over mobile devices such as the iPad and an array of smartphones and tablet platforms. Schifellite says close to 150,000 votes were taken through mobile platforms, and there is evidence that 30 percent of those who voted using the mobile product were first-time voters.

There is a digital mail product in development that may also increase voting: Broadridge is planning an 'electronic mailbox' that would provide all investment

actions on one screen, so shareholders would have access to account statements, proxy materials, proxy voting, consumer accounts and bills from various vendors at the same time on the same screen without having to enter different control numbers. The idea is to combine Volly – a digital mail collaboration with Pitney Bowes that allows consumers to receive, view, organize and manage bills, statements, marketing catalogs, coupons and other content – with the electronic mailbox design.

Broadridge already has an investor mailbox product: the 12 brokerages offering it have seen a 500 percent increase in the number of clients that also consent to e-delivery of proxy materials. Given that proxy voting increases from 4 percent to 14 percent when people move from receiving paper Notices to electronic delivery, overall voting rates are expected to increase.

Communicating with shareholders through virtual shareholder meetings and virtual shareholder forums is also creating a lot of enthusiasm about increasing voting. At the 40 companies that opted to use the virtual shareholder meeting option this past proxy season, participation rates at the meeting increased – and shareholders that attend shareholder meetings generally vote their shares. Additionally, the use of virtual shareholder forums to allow shareholders to ask questions prior to the meeting is also providing benefits.

‘The issuers are using these forums to pose questions to the shareholder base prior to the meeting, getting a sense of shareholder sentiment and also allowing shareholders a chance to pose questions to the firms,’ notes Schifellite. ‘You are starting to create two-way dialog between companies and shareholders.’

Award-winning ways

Broadridge’s ability to continually adapt and implement new technologies that benefit issuers and shareholders won it recent praise from a number of respected technology services organizations.

The Financial Technologies Forum awarded its technology innovation award to Broadridge for its Mobile ProxyVote product, and the FSO Knowledge Xchange named Broadridge as the leading organization for excellence in risk management solutions for its FinancePro front-end trading solution and ClearancePro clearinghouse pre-settlement confirmation tool. Broadridge was also named security services technology provider of the year at International Custody and Fund Administration’s American Service Provider Awards.

When it comes to handling proxy materials, Broadridge believes its size can be a catalyst for changing the system for the better. No one handles the volume of materials it does, and its systems have safeguards that limit voting errors. As proxy communication is its core business, it has developed a reputation for

voting accuracy: Broadridge has procedures that project at least 99.7 percent accuracy on votes of fewer than 50,000 shares and 100 percent accuracy on votes larger than 50,000 shares. Given that around 12,000 issuers use its proxy services, any solutions the company comes up with can become standard.

Chuck Callan, chief regulatory officer for Broadridge, says many people underappreciate his firm’s ability to adjust when new regulations are implemented. When the SEC and the NYSE mandated that brokers deliver voting materials within a five-day window, Broadridge consistently met (and continues to meet) that standard for all of its customers.

‘Turnaround times are quick,’ Callan points out. ‘The rules say materials can be delivered in five days, but we deliver them in just over two, and electronic distributions can go out in one day. We’re giving shareholders the largest window for voting and doing it where we’ve taken significant cost out of the process and maintained good quality.’

Broadridge’s resources and experience also allow it to respond to short-notice customer requests better than most. There was more confusion on proxy forms this year because of changes related to regulations mandating say-on-pay votes. As many firms scrambled to meet the deadline to submit forms for their votes,

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Callan says Broadridge had to change its systems to be able to tabulate forms that gave shareholders the option of voting for annual, biennial or triennial votes on executive pay. ‘That was a project we took on at significant cost, time and effort,’ he notes. ‘That type of effort gets taken for granted.’

Broadridge's size has also allowed it to expand into what it believes are the next growth areas for the business. It recently bought Paladyne Systems, a maker of investment management software used by hedge funds, brokerage firms and asset managers.

'The acquisition of Paladyne will significantly expand Broadridge's position as a service provider to buy-side clients,' says chief executive Richard Daly in a statement. 'Buy-side companies buy nearly 40 percent of capital markets technology and services and represent a segment of virtually untapped opportunity for Broadridge.'

Expanding its reach

The purchase of StockTrans has put Broadridge firmly in the transfer agency business and the company anticipates rising sales. Callan says more than 200 publicly traded companies have now chosen Broadridge services in this area and the company expects a wave of shareholders moving from being registered shareholders to street shareholders.

'The cost of servicing shareholders on the street side is lower than servicing them on the registered side,' says Schifellite. 'We are uniquely positioned to go to a firm, look at its registered shareholder base and create a program to move those registered shareholders to street shareholders. We're going to make it really easy for any shareholder that wants to migrate, so there's significant benefit to the issuer from a servicing point of view.'

Analysts at Zacks Equity Research are mostly positive about Broadridge's future growth prospects. Now that Broadridge has successfully sold its securities clearing business to a subsidiary of Penson Worldwide, Zacks says the firm will be able to 'focus solely on revenue opportunities associated with securities processing and outsourcing services. Moreover, we remain optimistic on Broadridge's strategic acquisitions and potential product launches.'

Zacks also warns, however, that 'weaker market activity during the recession' and 'significant competition from companies such as HD Supply, DST Systems and State Street, which have increased pricing pressure for the company', could cause problems for Broadridge in 2012.



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While some might worry about Broadridge becoming too big and dominating several markets, Schifellite questions what type of proxy system there would be if Broadridge wasn't as big and expert at what it does. 'If you go back 20 years ago, brokers were doing this work themselves individually,' he reminds opponents. When other firms refused to pay for infrastructure improvements to tabulate shareholder votes, Broadridge did it and provided the service to those who needed it. 'We were the first to implement many technologies, and everyone has benefited,' Schifellite adds.

With Broadridge in place, Schifellite reasons future changes in the proxy system are likely to go much more smoothly and be less costly. 'If you are going to break [the process] apart, all I see is that value starting to slip away and costs starting to rise,' he says. ■