LHA Perspective

The Return of Sell-side Research

After nearly two years of paring back equity research staffs and companies under coverage, banks and brokerages appear to have begun to reverse the trend. In the first four months of 2010, the financial industry data provider Ipreo tracked 2,027 net additions to sell-side staffs worldwide. While data specific to the U.S. are not available, this momentum certainly has positive implications for domestic small- and micro-cap companies that either lack research sponsorship or have relatively few analysts covering them.

In addition to the growth in research departments, there is evidence of resource reallocations that might create further opportunities. Specifically, we are seeing situations where one or more of the 10+ analysts following a particular small-cap company drop coverage to focus resources elsewhere in that sector – presumably on companies where he or she can make a difference and play a more valuable role with institutional clients.

LHA is well-positioned to exploit this improving environment, as our professionals enjoy long-standing relationships with equity analysts covering many sectors. In fact, more than 160 analysts publish research on our client companies, with about 55 associate and junior analysts also named on their reports. Our contacts are particularly extensive among those who cover small-cap companies, and several such analysts cover up to a half-dozen LHA clients. We have seen an uptick of interest in small-cap names, with certain clients making good business progress adding three or more analysts in the past six months, independent of banking transactions and relationships.

The more positive sell-side environment is also reflected in the number of opportunities for executives of small-cap firms to present at investment conferences. Some recent and upcoming conferences have added days or presenter “tracks” compared with the last year or two, and several banks are planning to move their conferences to larger venues beginning next year. We also cite the recent MDB Capital 1st Annual Bright Lights Conference, which featured companies with disruptive and market-changing intellectual property, as an example of themed gatherings. We expect to see more banks differentiating their offerings or expertise.

Through regular contact with the analyst community on behalf of covered companies and new ideas, we oftentimes hear of research staff appointments, expected changes to coverage or conference presentation opportunities before that information is widely known. This translates into “being first” in presenting analysts with new coverage ideas and providing a tangible benefit to our clients.

We look forward to speaking with you about how LHA can incorporate sell-side outreach into your investor relations program.

To unsubscribe, click here or send an email to: ndarbinyan@lhai.com