

EVALUATE NEWSLETTER

MARCH 2018

Welcome to Evaluate Research's Newsletter for March 2018!

This newsletter talks about our New Coverage on China-based Ozner Water [2014_HK], New Regulations which make the need for small/mid-cap research greater than ever and Evaluate's value proposition as compared to other research providers.

New Coverage on China-based Ozner Water International [2014_HK]

We have recently initiated coverage on Ozner Water International Holding Ltd., one of the leading water purifier manufacturing companies in China which has a strong focus on technology. After China Renewable Energy [987_HK], this is our second Chinese stock in the green tech/environment-friendly space. We have had several one-on-one calls with their management before publishing our Initiation Report. Our Initiation Report is a detailed 48-page analysis of the company's growth opportunities, catalysts, risks, competitive positioning, etc. with complete 5-year forecasts of their financial statements and a specific price target. Please see the report on our website [www.evaluateresearch.com] / Bloomberg / Thomson Reuters for your reference.

New Regulations: Need for Small/Mid-Cap Research Greater than Ever!

With the advent of the U.K.'s new regulations, Markets in Financial Instruments Directive, known as MiFID II, the landscape for research coverage of all equities has changed on a global basis. To summarize, investment managers and Mutual Fund companies can no longer pay for research coverage of equities via brokerage commissions and trading, but rather through their own P&L. This has led to sharply lower payments to traditional sell-side brokerage companies, and hence sharply lower budgets for research analysts and stock research. Thus more dropped coverage, especially for small and mid-cap stocks globally.

In response to these developments, according to Bloomberg: London-based Toscafund Asset Management wrote a letter this month to about 30 small and mid-sized companies urging them to pay for independent research on their own stocks, or else face being abandoned by the investment community once the new regulation MiFID II kicked in from January, 2018. The \$3.5 billion asset manager said it's been a significant investor in small-caps since its founding in 2000.

"The impact of MiFID II on listed small and medium-sized companies has the potential to be devastating if independent research coverage ceases or is significantly diminished," according to the letter, which was seen by Bloomberg News and confirmed by Toscafund. Losing analyst coverage will result in "a lack of liquidity in a company's stock and discourage investors from investing," it said.

According to Bloomberg, after MiFID II, McKinsey & Co. forecasts banks will reduce spending on research by 30 percent as hundreds of analyst jobs disappear. Bank of America Corp. has

warned that coverage of firms valued at less than 2 billion euros (\$2.4 billion) is particularly vulnerable. The importance of analyst coverage may be seen in market barometers like Britain's FTSE SmallCap Index -- where about a quarter of the 286 stocks get none at all. Stocks in the benchmark covered by 10 analysts or more post a 30-day average trading volume that's almost 12 times that of companies with no coverage, according to data compiled by Bloomberg. In the U.S., a Jefferies study of small-caps this year found those with no analyst coverage tend to underperform the overall stock universe by 4.2 percent annually.

While paying for research “will lead to a moderate expense for you, we are firmly of the opinion that the increased visibility will deliver a stronger and better informed shareholder base.” Toscafund isn't the only voice calling for small companies to act. “At least five independent research firms are needed to ensure fair valuations and an orderly liquid market,” Toscafund wrote to the 30 small companies, which were picked by its fund managers due to their perceived vulnerability after MiFID II.

“The onus is likely to fall more on the C-suite [CEOs and the Board] of the businesses themselves to raise their profiles, undertake their own roadshows and proactively engage with their shareholders or potential shareholders to keep their share prices healthy and improve news flow,” said Richard Philbin, chief investment officer of Wellian Investment Solutions, which helps clients invest about 1 billion pounds (\$1.3 billion).

Evaluate's Value Proposition As Compared To Other Research Providers:

Our edge as compared to other research providers:

- 1] High quality and depth of our research:** Our research work is not outsourced and we have dedicated analysts for all of our stocks, which help maintain the quality of our reports.
- 2] Global distribution:** Our wide distribution on various global platforms like Bloomberg, Thomson Reuters, FactSet, SmartKarma, Harvest Exchange; along with our report dissemination through emails to global fund managers, institutional investors etc.; helps companies to reach out to all kinds of investors globally.
- 3] Free unrestricted access to our reports:** Whereas reports from sell-side brokerage firms can only be accessed by their select client base, all our reports have unrestricted access and are free of cost to all investors.
- 4] Nominal Fees:** Our charges are only about 40% of the fees that other issuer paid firms in the US, UK and elsewhere are charging.