

EVALUATE NEWSLETTER

February 2020

Welcome to Evaluate Research's Newsletter for Feb 2020! This newsletter focuses on:

- Challenges faced by small & mid-cap companies – Declining brokerage research and increasing regulations
- New research coverage on US-listed United Bancorp [UBCP_US] with high growth & low valuation levels
- In-process new coverage on a HK-listed global leader in unique and highly specialized products

Challenges Faced By Small & Mid-Cap Companies:

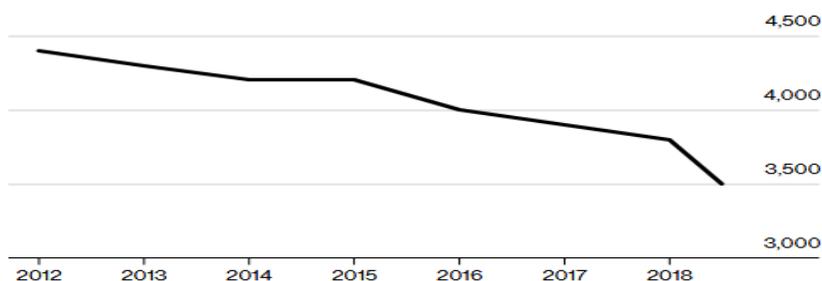
There have been a lot of major structural changes to **analyst coverage and the regulatory environment** over the past few years, and these are having a disproportionately adverse impact on small and mid-cap companies listed on global stock exchanges.

Persistent decline of brokerage research – Global job cuts:

Research has been facing multiple headwinds by the forces crashing into the finance industry: technology, regulation and the demands of the marketplace itself. Machines are doing a lot more of the work and investors are piling into low fee passive funds. But it is the new European law known as MiFID II that is behind the most recent wave of job cuts in the global equity research industry. As the below graph [from a Bloomberg article] indicates, since 2012, analyst ranks shrank 8% to 3,500 across 12 major banks. And this downward spiral is accelerating!

Analyze This

Equity research headcount at major banks has plunged



Source: Coalition Development; data cover Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan, Morgan Stanley, Societe Generale and UBS

Increasing regulations – undesired consequences:

New legislation like MiFID II means that only large companies are economical for brokerages to cover and engage, and thus a small company won't get research coverage by such brokerage firms, until it is large. With that context, one could argue that MiFID II might be creating more issues than its solving, potentially saving investors some small amount of money by unbundling research payments, but in the same stroke, making it more and **more difficult for small and medium sized companies to attract research coverage**. This, in turn, reduces their ability to reach out to investors and also limiting the number of attractive investments available to those same investors, and dampening their returns.

Also, **the declining amount of research coverage**, especially outside the large and mega-cap names, leads to more volatility in the markets. How?

As Blair Livingston of Street Context [research aggregator] explains: “Apple will always have plenty of coverage - but what about everyone else? The number of covering analysts is declining in almost every other corporate segment. What does that mean? There is less ‘information absorption and processing’ happening with those companies. If a company had 10 analysts covering it, and now has 5, that means that there are half the number of people actively absorbing, processing, writing, and sharing insights and information on the company. That means the story won’t be as broadly or deeply understood. It also means that ‘unexpected’ events are more likely to happen. Earnings will surprise, or underwhelm. Numbers will be different than expected, as models become outdated. The markets will react more. What does that mean? More volatility.”

These are the unintended and indirect consequences of increasing regulations and relentless decline in research coverage by brokerages in the global markets.

We, at Evaluate Research, do comprehend these challenges and are dedicated to providing research coverage of small-sized companies. Most of the companies covered by us have been undiscovered gems with unique stories. Please see our list of companies covered from varied sectors and geographies and all our reports on our website page: <https://evaluateresearch.com/all-reports/>

Exciting New Coverage on a High Growth USA Bank – United Bancorp [UBCP]:

Evaluate is pleased to have initiated coverage on United Bancorp [UBCP; US\$14.25], headquartered in Ohio, which is a bank stock in “a sweet spot” in its life cycle. UBCP just reported 45% EPS growth for 2019 with strong internal capital, dividend payout, and quality metrics.

UBCP, whose stock is already up +19% since our report, represents a compelling mix of rapid EPS growth, a strong 17% capital adequacy ratio, low levels of NPL’s, and an experienced management team focused on growth, shareholder return and the stock price. Amazingly, UBCP [including its operating subsidiaries] has had only 5 CEO’s during its entire 117 year operating history, and our multiple discussions with the CEO, CFO and senior management suggests confident optimism. With a strong 36 year history of paying dividends, including occasional 1-time special dividends as well, UBCP’s 4.8% dividend [4.0% today] yield is among the top 10% among all USA equities. We continue to see at least 30% total return potential for investors, supported by double-digit EPS growth going forward. **Please see more details and the Initiation Report on our website.**

In-Process New Coverage: Unique Chinese Global Leader

We are also currently finalizing a new Initiation Report on a Chinese company, which is a global leader in unique and highly specialized products, with high margins and rapid growth driven by its 22 patents and proprietary R&D and production processes. We have met the senior management of the company in Hong Kong and have been researching and writing the report on this company for the past 6 months. We look forward to publishing our report on this company soon on all platforms.