

EVALUATE NEWSLETTER

February 26, 2021

Welcome to Evaluate Research's Newsletter for February 2021! This newsletter focuses on:

- Sharp Decline Continues in Sell-side Analyst Headcount Globally
- As Sell-side Research Shrinks, More Companies Pay to be Covered
- In-Process Evaluate's New Coverage: Aspiring Top Tier Chinese Mining Company

Sharp Decline Continues in Sell-side Analyst Headcount Globally:

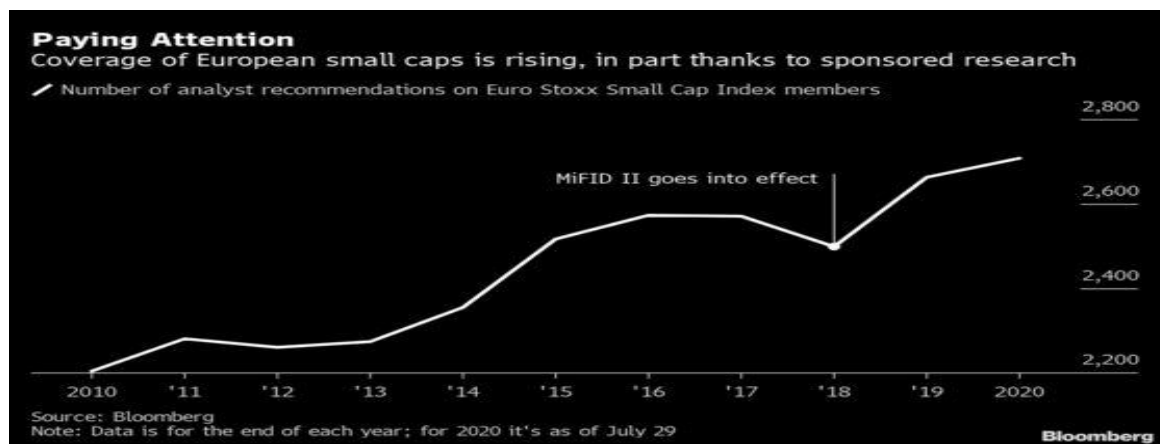
According to financial services consulting firm Crisil Coalition, **research analyst headcount at 12 of the largest global investment banks**, including Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan, Morgan Stanley, Societe Generale and UBS **plunged 12%** from 3,500 analysts at the end of 2019 to around 3,000 analysts at the end of June 2020.

The decline seen in 2020 is the continuation and acceleration of a longer-term trend in shrinking analyst headcount. **Since 2012** when Coalition started collecting this data, analyst headcount at the 12 largest investment banks has **dropped 30%** from 4,400 analysts to just over 3,000 in mid-2020. While some of this drop could be attributed to the implementation of MiFID II, clearly the weakness in analyst headcount started way before the MiFID II unbundling mandate.

Most market analysts link this **hiring downtrend and shrinking sell-side research** to a couple of factors like **falling equity commission volumes, lower commission rates, and mandated unbundling**, which has driven down the profitability of most equity research franchises at large banks/brokerages.

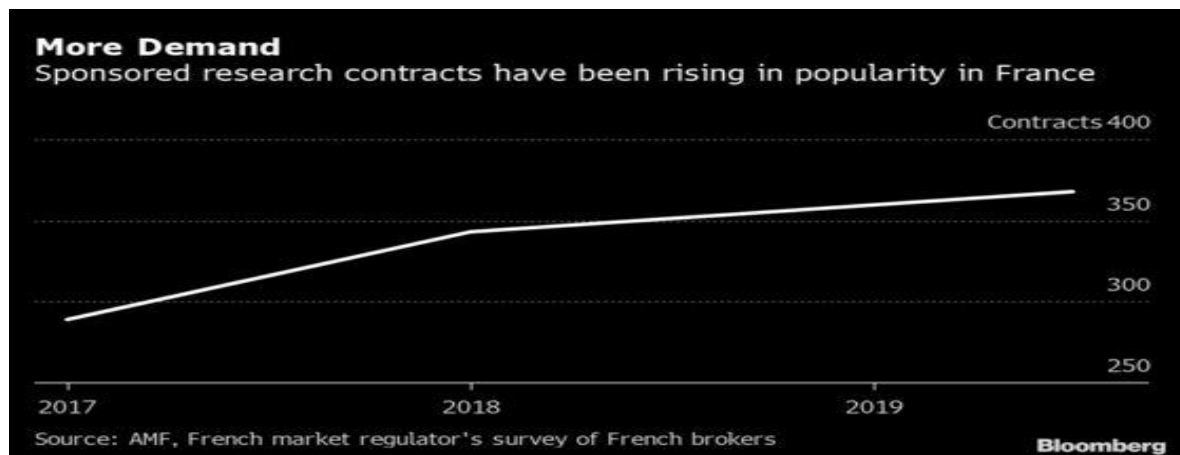
As Sell-side Research Shrinks, More Companies Pay to be Covered:

According to Bloomberg, in this incredible shrinking world of brokerage research, one niche is holding up: the one where companies pay directly for analyst commentary. Dismissing conflict of interest concerns, even global institutions like Exane BNP Paribas are expanding a service that charges firms to be analyzed.



As seen in the above Bloomberg chart of Euro Stoxx Small-cap Index members, there is a rise in the number of analyst recommendations on its member companies, driven by smaller companies that are typically ignored by sell-side analysts and yet face an urgent need to reach investors, which is **being furnished by sponsored-research providers**.

Data from French market regulator AMF, which tracks the sector, showed 368 sponsored-research contracts in France as of June 2019, up 27% in two years. [See below chart]



About 80% of French companies with a market value below 500 million euros paid for financial research last year, compared with 60% in 2018, according to a survey by Cliff, the French investor-relations society.

It is “a good opportunity for us to highlight small, higher-quality companies that are not visible in the markets,” said Paul Schneider, deputy head of research at Exane BNP Paribas.

Against the conflict of interests doubts, the global sponsored research firms stand by their work, pointing to the **bond market**, where Moody's, Fitch Ratings and S&P Global Ratings are **paid by the companies, and even governments, for their credit ratings.**

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In-Process New Coverage: Aspiring Top Tier Chinese Mining Company

We are currently in the process of writing a new Initiation Report on a Chinese company, which is aspiring to be amongst top tier international non-ferrous metal mining companies, with particular emphasis on copper, cobalt and nickel. The usage of copper, cobalt and nickel has been rising with an increase in the use of electrical and electronic components in varied applications across several industries, which paves the way for growth of this mining company. We look forward to publishing our report on this company soon on all platforms.