

# EVALUATE NEWSLETTER

July 2023

Welcome to Evaluate Research's Newsletter for July 2023! This newsletter focuses on:

- Evaluate's New Coverage: Indian Manufacturer – Diamond in the Rough
- In-Process New Coverage: Rapidly Growing Technology Firm
- Landmark Ruling: UK Govt Encourages Sponsored Research

## New Coverage: Indian Manufacturer – Diamond in the Rough

We have initiated research coverage on PPAP Automotive (PPAP: NSE), an Indian auto ancillary manufacturer. Evaluate Research is the only firm covering the stock, which adds significant value to the company, IR, management, all investors, capital market liquidity – and helps ensure a more fair stock price. The company has solid growth prospects, and the stock appears to be at an inflection point, with positive risk-reward. Our Initial Report is attached....

## In-Process New Coverage: Rapidly Growing Technology Firm

We are currently in the process of initiating coverage on another Indian company which is witnessing accelerating growth with multiple catalysts. This unfollowed gem [Evaluate will be the first firm to actively follow this stock] operates in several key niche software outsourcing markets such as Engineering Research & Development and Digital Transformation services. The company helps global OEMs in multiple sectors improve their speed to market, accelerate innovation, and maximize returns on their R&D investments.

Our new report should be out very shortly – please stay tuned!!

## Landmark Ruling: UK Govt Encourages Sponsored Research

In a landmark and seminal ruling by the United Kingdom Regulators and Government agencies, sponsored, or issuer-paid research [whereby public companies pay independent firms for research coverage and stock recommendations] is being proactively encouraged for listed firms, especially for small-cap and mid-caps. After careful study over the course of a few years, the authorities have correctly [in our opinion] concluded that sponsored research is beneficial for all parties: companies, investors, IR, management, etc.

According to the UK authorities, in a world where large-caps increasingly dominate the investment landscape, it is vital that smaller firms have research which makes their equities investable for both retail and institutional shareholders. This makes imminent sense, in our view, given the world's largest marketplace, bonds/fixed income securities [3x the size of the global stock market], is 100% issuer paid, whereby even the largest governments and companies are ALL paying for research coverage!

Here is the relevant recommendation directly from the UK government guidelines on their website:

### **Recommendation 5: Support issuer-sponsored research by implementing a code of conduct**

- (a) Issuer-sponsored research serves an important purpose and should continue to be available over and above what is available on the Research Platform.
- (b) The industry should collaborate to support the creation and adoption of a voluntary code of conduct for issuer-sponsored research, to add structure to the issuer-sponsored research market and enhance the integrity of issuer-sponsored research as a potential useful source of information in its own right.
- (c) The details of the code of conduct would need to be determined, but in our view it should have the following characteristics:
  - (i) The code should apply to all issuer-sponsored research.
  - (ii) The code should be voluntary. It would apply in addition to any legal or regulatory requirements that the signatories are already subject to.
  - (iii) It may be appropriate for any code to be industry-led, but the FCA could consider recognising the code.

Responsibility for implementation: This could be provided by one of the relevant trade bodies.

Timetable: Short-term.

Source: <https://www.gov.uk/government/publications/investment-research-review>

These guidelines stress a universal code of conduct for research providers. Clients of Evaluate Research are aware that we, as a firm and all employees individually, rigorously follow the global CFA Code of Conduct, widely disseminated by the Institute of Chartered Financial Analysts in the USA. Our CEO is a CFA Charter holder as well.

We thus strongly welcome and concur with the UK guidelines. We do believe this will rapidly serve as a model for all countries globally.

By way of background, these new guidelines serve to reverse the European Union's highly controversial and contentious MiFID II unbundling of research mandate, which was opposed to by both sell-side brokers, as well as buy-side investment managers. Small-cap stocks and independent research firms, like Evaluate Research, were quite handicapped under those draconian rules. The USA and SEC, and many other countries, refused to follow along - and everyone now appears to be breathing a sigh of relief that these old regulations are being undone. The new UK guidelines appear to help “level the playing field”, and is a very pragmatic win-win for all, especially smaller companies and the average individual investor.