



COMPANY-SPONSORED RESEARCH

ABOUT SIDOTI



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- Sidoti & Company, LLC, founded in 1999, is Wall Street's preeminent provider of equity research generally focused on companies with market capitalizations under \$3 billion.
- Sidoti's approach affords institutional investor clients:
 - a combination of high-quality research
 - a small- and micro-cap company focused nationwide sales effort
 - broad access to corporate management teams
 - extensive trading support
- Sidoti's experienced sales force and trading desk serve nearly 500 institutional clients in the U.S., Canada and the U.K., including many leading managers of portfolios with \$200 million to \$2 billion of assets.
- While licensed to do so, Sidoti does not generally engage in traditional investment banking activities, with most investment banking revenue in recent years derived from participation in syndicates.
- Sidoti has become the host of a well-regarded NYC fee-based micro-cap convention held biannually. The event features upwards of 100 presenting companies and is attended by hundreds of prominent institutional and high net-worth investors, family controlled investment groups and investment banking professionals.



WHY OBTAIN COMPANY-SPONSORED RESEARCH?



MARKET FORCES HAVE “ORPHANED” THE MICRO-CAPS

The Situation

- Market forces and regulatory changes have made it extremely difficult for broker-dealers to finance research through trading commissions. The situation is particularly acute in the “micro-cap” sector where the level of institutional interest in stock ownership is relatively low.
 - The commission business has become “commoditized,” even for illiquid names and small lots.
 - ETFs, index funds, quantitative funds and other passively traded vehicles are becoming dominant, leaving managed funds with a smaller base of revenue to “allocate” to broker-dealers providing research support.
 - Far fewer companies are trading on public exchanges than several years ago, meaning fewer shares trade each day.
 - As managed funds have gotten bigger, it has become inefficient to expend resources trading in micro-cap stocks, as there is not enough liquidity to:
 - › take sizable positions that will enable them to put enough money to work.
 - › trade without moving markets.

The Micro-Cap Company Dilemma

- Many micro-cap companies currently have no truly viable means to increase their visibility.
 - Generally unprofitable for any quality broker-dealer to pick up research coverage.
 - Information deficit leads to greater difficulty raising capital to vault them to the next level and presumably a higher cost of capital.
 - Lack of earnings estimates makes it impossible for quant funds to take a position.
 - Market makers must keep spreads wide, exacerbating liquidity concerns.
 - As it has become easier for institutions to do internal research, high net worth and retail investors are devoid of independent analysis.
 - The costs of being public company could far outweigh the benefits.



THE SIDOTI SOLUTION



COMPANY-SPONSORED RESEARCH FILLS THE VOID

- Sidoti believes that many companies will elect to subsidize the cost of obtaining independent research coverage so broker-dealers will re-engage in what have become unprofitable activities.
- As the preeminent securities research firm covering the small and micro-cap market for nearly two decades, Sidoti is well positioned to be at the forefront of this anticipated trend.
- Company-sponsored research is not a new idea: Moody's, S&P and Fitch all provide debt research used by institutions world-wide to evaluate debt investments. In addition, a small number of firms already provide company-sponsored research, but (unlike Sidoti) few are registered broker-dealers.
- The benefits of company-sponsored research for companies in the public markets should be meaningful:
 - Quality independent third-party information from a reputable firm would be available to institutional, high net worth and retail investors, leveling the playing field
 - Enhanced investor interest and liquidity/trading, and potentially tighter spreads
 - The number of brokerage firms able to cover companies should remain adequate, as they will not necessarily be forced to consolidate or shutter due to prevailing market forces
 - With estimates, quant funds can trade the micro-cap stocks
 - Companies may find a more robust capital raising market, potentially lowering their cost of funds



COMPANY-SPONSORED RESEARCH: *AUTHORITATIVE SUPPORT*

“In order to address the need for more independent research for smaller public companies, we recommend that the Commission....[m]aintain policies that allow company-sponsored research to occur with full disclosure by the research provider as to the nature of the relationship with the company being covered. Entities providing such research should disclose and adhere to a set of ethical standards that ensure quality and transparency and minimize conflicts of interest.”

**Final Report of the SEC
Advisory Committee on
Smaller Public Companies
(April 23, 2006) pp. 73-74**

“Our results suggest that paid-for research offers potential benefits to investors in small and mid-cap equity markets where sell-side coverage has declinedCollectively, these results indicate that the recommendations and forecasts supplied by paid-for research firms provide value-relevant information for the buy-and-hold investor, and they affirm the SEC Advisory Committee recommendations, supportive of paid-for research as a means of filling the void left by declining sell-side analyst coverage.” (p. 928)

**Bruce K. Billings, et. al., *Worth the Hype? The Relevance of Paid-For Analyst Research for the Buy and Hold Investor*,
The Accounting Review, Vol 89, No. 3 (2014)**

“[W]e fail to find significant differences in the quality of paid-for analyst research relative to matched sell-side analyst research in terms of bias, accuracy, or ability to distinguish favorable from unfavorable future performance.” (p. 927)

SIDOTI'S PROPOSED RESEARCH PRODUCT



SIDOTI'S COMPANY-SPONSORED OFFERING

- Sidoti provides a company-sponsored research product that is of the same quality and virtually the same content as its traditional research offering , except that:
 - There is no BUY/NEUTRAL rating system for a stock
 - There is a two-tier risk rating system
- For a fee of \$40,000 per year the Company will receive:
 - An initiation report
 - One report each of the next 3 quarters that the company reports earnings
 - An invitation to present at each of two micro-cap conferences Sidoti will hold each year (additional fee of \$10,000 applies)
 - Periodic note updates, as appropriate, but with an intention of publishing one every 6-8 weeks
 - Potentially non-deal roadshow appointments
- The analysts providing company-sponsored research will be the same Sidoti analysts covering the relevant sector—company-sponsored clients and investors could be assured the analyses were being undertaken by a highly experienced team.
- Research to be distributed widely to institutional and retail investors
 - Immediately made available without charge on Sidoti's website
 - Companies will be asked to post or provide a link to the research on their own websites
 - Made available via leading financial data providers



ADVANTAGES OF SIDOTI AS YOUR RESEARCH PROVIDER

- **Sidoti's Reputation** as Wall Street's small- and micro-cap research authority since 1999
- **Longstanding Relationships** with and **Access** to leading institutional investors and other members of the micro-cap community
- **Proven Research Publishing Standards:**
 - Research will be written by the same analysts who produce our traditional research product
 - Reports will be substantially similar to our traditional institutional research (excluding a BUY/NEUTRAL rating) and include:
 - › Commentary
 - › Earnings estimates and other financial metrics
 - › Price target
 - › Two-tier risk rating system
- **Quality Quantitative and Valuation Analyses** that should increase quant fund confidence in our estimates and enable them to include micro-cap stocks in their portfolios by virtue of algorithmic trading or otherwise
- **Increased Visibility:**
 - Sidoti's willingness to promote wide availability/access to our research on your company
 - By means of our biannual micro-cap conference and other activities
- **Integrity.** Our position as a broker-dealer, measures we take to ensure that only quality companies are covered, and our avoidance of potential conflicts, should enhance the investment community's reception of our company-sponsored offering



SIDOTI'S COMPANY-SPONSORED RESEARCH

Promoting a favorable reception by investors

Sidoti is a registered broker-dealer. It must and will adhere to the highest of standards to promote the investment community's trust in and reception to our company-sponsored offering:

- To assure that only quality companies are covered:
 - All companies to be considered for company-sponsored research will need to obtain the approval of a stock selection committee comprised of at least our Head of Research, Chief Compliance Officer and one outside member that meets the definition of independence
 - Analysts will have the final say on whether they wish to cover a company for sponsored research
- Companies will be contractually obligated to pay the annual fee upfront or quarterly in-advance:
 - regardless of the viewpoints expressed in any report and without being subject to any contingencies
 - under no circumstances will equity be accepted as a form of compensation
- Sidoti will not ask for or accept any revenue from sources such as participating in syndicates or other investment banking fees while the annual contract is in effect
- Sidoti will have the right to drop coverage of a company at any time for any good-faith reason.
- Companies will be required to indemnify/"hold Sidoti harmless" for viewpoints expressed in the reports
- Analyst compensation will not be tied directly to providing company sponsored research
- Disclosure of potential conflicts:
 - No less stringent than those imposed on the traditional research product
 - Disclosures:
 - › sponsored-nature of research
 - › any activities that might impact independence
 - › fact that analyst also covers companies on a traditional research basis
 - › analyst and firm compensation and fees
 - › basis for risk rating



For Further Information

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