

# OTC Markets Advisor Insights Podcast

Zacks SCR

Season 2 | Episode 5

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OTC Markets Group: From OTC Markets' global headquarters in New York City, you are listening to Advisor Insights, where we feature professionals that will address the issues that affect the small cap companies that trade on the OTC Markets.

OTC Markets Group: Joining us today is Rich Hantke of Zacks Small-Cap Research. Rich, how are you?

Rich Hantke: Good, Matt, how are you? Thanks for having me on.

OTC Markets Group: Absolutely. Thanks for joining. Rich, before we get started on our topic today, which is topic eight, as old as time, sponsored research in the small-cap and micro-cap space, something that a lot of our companies probably don't really take advantage of. But before we get started on that, can you tell us a bit about yourself and Zacks Small-Cap Research?

Rich Hantke: Sure, sure. Yeah, I've been in this line of work for most of my career, and I'll call the line of work connecting investors and companies together somehow, in some way, in some form fashion. I've done it in different ways. And I've been with Zacks now for four or five years doing that sort of thing.

Rich Hantke: Our parent company is Zacks Investment Research based in Chicago, founded by Len Zacks, MIT PhD. It's been around for 40, 45 years. Very successful business model, providing information to companies on investors and on investors to companies, both sides of the coin. We are the small and micro-cap focused fundamental research division of Zacks. We got our start, frankly, with the, if folks on the podcast here remember, the Global Settlement about 15 years ago, that's where we got our start.

Rich Hantke: And since that time we've probably written research on 350 so companies, we currently have 90 or so companies under coverage. Again, it's real fundamental research using real analysts, they're all former buy and sell siders, and that have been there, done that, let's put it that way. So we've got the experience and we cover pretty much most sectors. A lot in the bio space, a lot in the technology space, a lot of mining companies up in Canada, a lot of tech companies over in Asia. So we cover a lot of ground.

OTC Markets Group: And can you give us an idea on your OTC experience, versus exchange-listed experience?

Rich Hantke: Yeah, I mean, frankly, we do a lot of work ... We are a preferred research provider in the OTC network, and it was a big vetting process to go through that as a matter of fact and we passed, thank you.

Rich Hantke: And so, yeah, we cover quite a number of OTCQB and OTCQX companies, as well as NASDAQ companies and a few NYSC, NYSC American companies, but quite a ... Because of in the micro-cap space you tend to have a lot of OTC companies. So we're very familiar what their needs are. And we're very familiar with the types of investors that follow and invest in OTC companies. Yes.

OTC Markets Group: Got it. Rich, let's start with the why. Why do companies need third-party research in the first place?

Rich Hantke: Well, I guess the shorter answer is, do you want investors or do you want traders? All right. If

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---

you don't have research, third-party research, yeah, people are going to trade in your stock but that's exactly what they do. They're going to trade in your stock. If you want real investors with real money, you've got to have some level of third-party independent research, because it makes you discoverable to most real investors, if you will. It gives them a CFA general perspective on a company. And most brokers are not going to recommend, like retail brokers in particular, they're not going to recommend a company to their client if there's not some third-party research they can get their hands on.

Rich Hantke: And on the institutional side, institutions are not even going to bother with a company if there's not any third-party research. So you've got to start with some level of third-party research.

OTC Markets Group: Yeah, but this is something that companies pay for. Why are they going to pay for it if they can get it for free from an analyst at a big firm, big bank?

Rich Hantke: Well, let's put it this way our tagline is not, but it should be, you get what you pay for. And free research from the investment banks, they're in it not for you, for the company, they're in it for themselves. And number one is, what they're looking for is some sort of volumes trading liquidity, so they can get some brokerage fees related to the company so they can get some investment and service, those kinds of things.

Rich Hantke: And frankly, in the micro-cap space, and I think most companies are seeing that, the sell-side research is just not interested in micro-cap or even small-cap names. There's just not enough business there for them. It was always tough and now it's a lot tougher to get free sell-side coverage in smaller cap names, particularly since MiFID II kicked in a few years back, that just makes it that much harder.

OTC Markets Group: You say it's so tough and a lot of these small cap companies can't get it. Is this considered a last resort, is this a last resort for some of these smaller companies?

Rich Hantke: Honestly, sponsored research at its inception was, frankly, viewed as a last resort. I have not been in the business for the 15 years that we've been there, but in the last four or five years, there's really been a step up in the terms of the quality and things like that. Particularly after, as I mentioned before, MiFID II, where there's a lot more availability of good analysts and things like that.

Rich Hantke: Yes, at the start it was considered research of the last resort. I think we've segued to a nice compliment in a number of cases to the sell-side coverage. And I think frankly, our goal is it's a better alternative. And if you really dig into sponsored research, other firms but including ourselves, Zacks Small-Cap Research, it frankly is a better alternative to sell-side research. Again, under the caption of you get what you pay for.

OTC Markets Group: And when you talk about you get what you pay for, and we also mentioned before that you are a member of OTC Markets' Premium Provider Directory, I mean, the research marketplace. And we have a couple of other research firms listed there too.

OTC Markets Group: How does a company differentiate between all these firms? How do they assess the quality of the sponsored research that they are looking to pay for and looking to get?

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Season 2 | Episode 5

---

- Rich Hantke: I think that there's three things. Well, there's more than three things that you have to look at. Number one is the analysts themselves. Take a look at the quality of the analysts, where do they come from? Are they new in the field or are they ... Frankly, are they younger or are they older? They've been there, done that. Our analysts, for example, the average securities industry experience is about 25 years. And they're all former buy and sell-siders. So number one, look at the quality of the analysts, who's doing the work.
- Rich Hantke: And the research is out there. And take a look at the research, are the research pieces ... How much of the content is opinion? How much of the content is just facts, just piling on facts that they get from the company. And how much is the analysts opinion? Do the reports have things like full forward-looking financial models? Do they have revenue and earnings estimates? Do they have price targets? Sometimes these third-party sponsored reports are simply awareness campaigns, but they don't include any meat in them that the real investors can get their hands around and use.
- Rich Hantke: And then the really, the biggest advantage of sponsored research, and Zacks in particular, is distribution. If you go back to the sell-side, the sell-side is only distributing their research to their clients. And they don't let the companies distribute, it only goes to their clients. Which is, again, in this smaller cap space, most of their clients are not interested in smaller cap names. Let's face it. But on the sponsored side, it's what we call fully entitled. The company's paid for it, so it can go everywhere. And we post to all of ... In addition to the OTC, our research is on Refinitiv, it's on S&P Capital IQ, FactSet, Bloomberg. 360,000-
- OTC Markets Group: And are those where the companies eventually want to put out their research?
- Rich Hantke: Oh yeah. I mean, yeah. Well, there's two broad investor distribution channels, if you will. There's the retail side of things and then there's the institutional side of things. The reality is in the micro-cap space, the majority of the holdings are on the, quote unquote, retail. And I use that term very loosely. When I say retail, high net-worth, sophisticated investors, the new SCC term, rather than accredited. Zacks, in particular, buttered its bread on distribution to the retail channels, through Fidelity, through all the retail brokers and things like that. LPL, Financial, Interactive Brokers, things like that. So very broad retail distribution.
- Rich Hantke: But then also, on the institutional side, the institutions, you're going to get a lot of window-shop, let's face. It's window-shopping to start. It depends on a particular company's liquidity and trading volumes, whether an institution will really take a position or not. But the point is that they can all see it. They can all see it, and on the retail side they can all see it. And it's much broader than the sell-side is going to offer.
- OTC Markets Group: But when companies are paying for research, isn't there some sort of inherent bias to these research firms, such as Zacks? Isn't that something that an investor can say, "Well, they're paying for it, so you're obviously going to write positive research on them."
- Rich Hantke: Well, that stigma is always a hurdle to get over. The reality is, companies, they pay their auditing firm. They pay the rating agencies too. They pay to attend conferences. They pay their IR firms. I mean, they're paying for services all over the place. There's a lot of protocols we go through to maintain our independence.
- Rich Hantke: And the first thing is, a company is not going to hire us, they're not going to bring us on if

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they don't think that they're truly, truly undervalued and truly misunderstood. And because we, and all reputable sponsored shops, are not going to write research on a company if we don't think there's a good story involved. They're not going to bring us on. It'd be full stop, we wouldn't do it. And in us, in particular, there's a lot of protocols we go through to make sure that we maintain our independence, and truly independent and also have the perception of independence.

Rich Hantke: And one of the things we don't do is buy hold sell. We do not do buy hold sell in our reports. It wouldn't make any sense, it just wouldn't make any sense, in our view, in a sponsored environment. So we're not going to do buy hold sell. We don't sign NDAs. We're not insiders, we're third-party outsiders. Our research, it's stamped, it's sponsored all over the place so investors know exactly where we're coming from. And we only take payments in cash and payments upfront. It's not a situation where, okay, we're going to do all this work. And if they don't like what we write, they don't pay us. No, everything is upfront.

Rich Hantke: And frankly, real investors are using this research to help them make investment decisions. It's one of the tools that they use. We like to think it's a big tool that they use, but they're using it ... A lot of them use it to build a model, use our model rather than have to build it themselves. So they're using it for that purpose. And it's just, it's one of the things that they're using to evaluate a company, because of the quality of the analysts and the quality of the research that's written. We go through a lot of steps, a lot of protocols, to maintain our independence and to avoid the appearance of being promotional in any way, if that makes any sense.

OTC Markets Group: All right, Rich. So I think we touched on everything there. Anything else that you want to add to our companies listening right now?

Rich Hantke: No, think we've covered all the ground that I think we need to cover that your audience can get a feel for really, what are the advantages of sponsored research and Zacks sponsored research in particular. What I come across is, frankly, the companies that have not been interested either don't see the value of third-party research at all. And there are companies like that, and I think in certain cases may be short-sighted. But in the other cases, if they're just happy with traders in and out of their stock all day long, then that's fine. And I think that's one reason.

Rich Hantke: And then the other one is simply companies, they don't want to pay for research. They think it's something that they can get for free. And to me it's really short-sighted, particularly in the small and the micro-cap space. I think with sponsored research, us in particular, you really do get what you pay for.

OTC Markets Group: Great. Thank you very much, Rich. Thanks for providing all that info. If you have any questions for Rich, you can find Zacks Small-Cap Research on our Premium Provider Directory in the Research Providers or at [zacks.com](https://zacks.com). Thanks a lot, Rich.

Rich Hantke: Yeah. Thank you, Matt. Thanks for having me.

*\*This is an autogenerated transcript and may contain typos.*