

A Call to Action Series
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“Justifying a Visibility Investment”

Author: Henry W McCusker

Research coverage is paramount for a company's stock performance.

In a recent article (27 April 09), Henry McCusker comments: “As a result of the recent market many investment banks have decided to exit equity research altogether based purely on economic rationale. Since the ties were broken between investment banking and research; there are now few incentives for Wall Street firms to cover less liquid and emerging healthcare small - cap stocks”.

Who is going to pay for coverage – it isn't commissions! Company-paid coverage enables CEO's and CFO's to structure their visibility to the rhythm of the market.

As the market rebounds, **uncovered** companies will be less **visible** than their analyst covered peers and suffer higher financing costs. Take a hard look at the benefit of Scimitar's company-paid research coverage.

“Justifying a Visibility Investment” is the first in a series of papers written by Scimitar's Henry McCusker, Founder and Director of Research. No BS, smoke or mirrors just hard facts!

Henry enters his seventh year at Scimitar Equity with past experience in sell-side analysis, buy-side management and due diligence which defines his unique ability as a research provider post ... H&QCM (investment research) concurrent with LifeScience Economics (healthcare analytics) and Curis (VP Strategic Planning and Communication).

In this new series, Henry draws on the current status of analyst research from his recent article, “Updating the Definitions of Equity Research” which provides insight into the changing demographics of I-Banks, analysts and asset managers.

Regards,

A handwritten signature in cursive script that reads "Henry".

Invisibility is No Longer an Option in this Market!

Those companies that continue to hide as investors begin to analyze their portfolios will be too late! The time is now for capital efficient strategies to build visibility!

Market-savvy CEO's will take advantage of those passive companies who sit and hope – someone – will notice them. Will your company be noticed?

Paraphrasing an economic principle by Adam Smith's "The Invisible Hand"; the greatest benefit to a company is brought about by executives leading, not waiting or following in the pursuit of their own valuation enhancement.

I listen to the laments of depreciated valuations, lack of access to the capital markets and feel like Tom Sawyer covertly present at his own funeral; knowing that the I-Bank/analyst model is broken inhibiting companies and investors from accessing research to further their financing needs.

Each week, Scimitar is receiving more calls from asset managers, institutional advisors and retail brokers looking for investment candidates.

There is still a lot of money (estimated at \$1.6 T versus \$1.3 T in equities) sitting on the sidelines with an eager audience of asset managers, retail brokers and individual investors who want insightful research and timely intelligence.

Bottom Line:

- Research coverage is still the starting point where the eventuality of an investment decision begins.
- The good news is that company-paid equity research investment can be justified in a tangible way - VISIBILITY - in this market.
- Quarterly coverage legitimizes sustainability and positions your company to be prepared for the market uptick and needed financing.

New Demographics

Money managers are experiencing multiple rounds of job losses as redemptions show no signs of slowing. Capital Group is in the third round of cuts and freezing pay with 6% of their staff already cut. Fidelity has cut 7% of their staff with Franklin Templeton, MFS, BlackRock, Alliance-Bernstein, State Street, LeggMason, Janus, Pimco, Boston Company Asset Management, Putnam and many, many more reducing staff.

Hedge funds and private equity firms have also been hammered by depreciation, redemptions, closures and mass investor exits leaving many escapes from the investment and research side left by the side of the road. Close to 1500 hedge funds (15 %+)- closed in the past year.

Wall Street research departments have followed by dramatically downsizing resulting in an estimated 50-60% reduction in analysts lost over the past year. Wall Street research isn't driven by the best investment ideas and opportunities; lately, it's driven by getting get paid by trading volumes. Analyst head count is driven by trading volume; particularly at firms that don't have investment-banking businesses. These firms earn fees based on whether the stocks on which they produce research generate trades.

Bear Sterns' demise doomed the financial market putting many analysts on the street pre and post being acquired by JP Morgan and Lehman Brothers Holdings Inc's bankruptcy upended the Wall Street investment banking model (although some analysts were picked-up by Barclays). Merrill has suffered dramatic turnover since being acquired by B of A whether by forced or voluntary terminations. Smith-Barney (Citicorp) has been spun off with a pending merger with the brokerage unit of Morgan Stanley. Cowen & Co reduced analyst headcount. Even, Goldman Sacks laid-off a number of analysts. UBS is reducing staff again amounting to 20% amid mounting losses and customer defections. Nomura has cut banking and analyst staff, including many who were part of the contingent acquired from Lehman (mainly in Asia). Rodman & Renshaw has laid-off analysts and 20% of staff upon the demise of the PIPES market for which their research was based.

Almost all firms have retrenched, reduced analysts and institutional traders. The list of I-Banks reductions continue as trading volumes dramatically decrease with many small and mid-size brokerage firms will continue to cut overhead.

Bottom Line

- As the market rebounds, don't depend on Wall Street coverage.
- Wall Streets' economic model is broken, funds and asset managers are - unwilling - to pay for research.
- Companies will subject to higher financing costs when compared with their analyst-covered peers.

Coverage Value Drivers

Research coverage is still the starting point of an investment decision. It's extremely time consuming for the "buy-side" to do primary research on large numbers of stocks that may well end up being 'passed' on in this period of downsizing.

Attracting institutions and shareholders is a critical investor activity for share price appreciation. Ultimately, the acid test of any company-paid research performance is the quality of the research product that - opens - doors to investors.

Investors need to be reassured and enlisted. Small cap emerging healthcare companies' valuations and access to investors have been squeezed by the current market turbulence.

Investors and shareholders need independent verification and review analyst reporting as one major source of verification that companies are meeting milestones and reaching established goals.

Outreach must be integrated as press releases present one part of a factual event but do not articulate the effect upon valuation catalysts.

Asset manager's compensation is adjudged by appreciating portfolio holdings while retail brokers' selling commissions are based on volume metrics but, they each - still need - analyst input and quarterly reviews - to generate, monitor and justify investment.

When capital market access becomes available, difficult times will be over for visible companies who have appreciating, even if slowly ... valuations.

Investors have short memories so any positive developments should spark the markets.

Bottom Line

- There is a lot of money on the sidelines ... there is no quick fix or investment; but, consistent, quarterly coverage builds confidence, legitimizes sustainability and positions your company for the market uptick and needed financing.
- Analyst coverage must articulate an - actionable - Investment Thesis - defining all aspects of valuation from platform strategy, catalysts and regulatory initiatives to give share pricing greater visibility and pricing behavior.
- Visibility efforts through research coverage must articulate platform differentiation, comparable alignment, and definitions of risk as well as current market dynamics to measure performance through valuation enhancement.

Market Optimism is Building

Federal Reserve Chairman Ben Bernanke told Congress, 5/5/09 that the U.S. economy should start growing again later this year. "We continue to expect economic activity to bottom out, then to turn up later this year".

However, financial markets remain under considerable strain. Equity underwriting is totally erratic. "Globally underwriting rose 10.0% year-over-year, and 97.0% month-over-month to roughly \$74.0 billion In the U.S., underwriting fell 92.0% year-over-years, but rose 250.0% month-over-month to \$22.4 billion.

Healthcare companies have been beat down but shows signs of coming back ... in the near term (Q4/09-Q3/10).

It is difficult to identify the train or engines of share price appreciation as funding for emerging healthcare small-caps is trapped by toxic financings in I-Banks countrywide.

The risk factors for healthcare are as real as ever: political uncertainty, the impact of never ending market events, clinical trial results, FDA decisions that have effect on sector stock prices and the emergence of a national healthcare plan.

The industry has navigated through troubled times and big issues before but, never in times of a financial meltdown. As the industry restructures, the stage is being set for a rebound. But, indicator is ... financing availability to emerging growth healthcare companies

Bottom Line

- Even if the economy continues to spiral downward; the current economic environment has favored holding depreciated biotech, medical-equipment and life-sciences stocks.
- The criticality in targeting is defining the "right" constituency of asset managers, high-net worth individuals, institutional and retail brokers that will "listen, purchase and hold" recommendations for a defined period of time.
- Companies covet meetings with fund executives; Scimitar's investing audience opens their doors delivering access to our deserving clients.

About Scimitar Equity, llc

Scimitar Equity is an independent equity research and advisory firm without banking and trading conflicts. Our vision is to provide investors with time sensitive intelligence and our mission is to define the short, near and long term catalysts to facilitate share price discovery and recovery by defining actionable investment analysis and benchmarked valuation models.

Now approaching our seventh year, we have become a major alternative for analyst coverage and access to the investor population.

Bottom Line

- Scimitar improves investor communication and capitalization by analyzing and disseminating insightful, objective, thought-provoking research to the numerous asset managing classes.
- We host investor meetings and "non-deal" road shows - providing access for senior and executive management. Through long-standing relationships with asset managers, hedge funds, private-equity firms and institutional investors, we have become a trusted source of intelligence on emerging healthcare companies for investment professionals.
- Writing equity research is a very consuming job and our intensity to "get it right" reflects our [personal commitment](#), ethics as well as our [SEC certification](#).
- It is about timely, credible, and insightful analysis; not a regurgitation of public information.
- In order to meet our clients' needs, we constantly upgrade our research capabilities by employing new methodologies, including fundamental, technical and qualitative approaches.
- We consistently strive to improve our company comparable analysis, valuation and quantitative models to provide timely and accurate value drivers' of share-price performance.
- We bring extensive experience in finance, capital markets, investment analysis, corporate operations and due diligence defining our unique ability as research providers.
- We are known by the company we keep and proud of our long-standing relationships.

For further information: www.scimitarequity.com

Request a call or to ask a question, go to: hwm@scimitarequity.com