

In a crowded marketplace, companies can struggle to capture institutional attention and investment. William Russell-Smith, Managing Director of AQ Research Ltd, explains how investment research from brokers or specialists can provide an efficient solution.



# The role of research in listed success

Over 1,500 companies are currently listed on London's AIM. Additional small and mid-cap companies maintain a full LSE listing. In this crowded marketplace, companies can struggle to capture institutional attention and investment. Roadshow events, exhibitions and analyst presentations all help companies secure interest from investors, but each of these requires substantial executive commitment, a huge cost to a smaller company. Investment research, provided by brokers or specialist providers, is an efficient solution to the problem. Good investment research provides a neat summary of a company's business activities, a strategic appraisal of the business and the investment case. Broker distribution networks help market a company's shares. The absence of such research can result in a lack of share liquidity and market undervaluation.

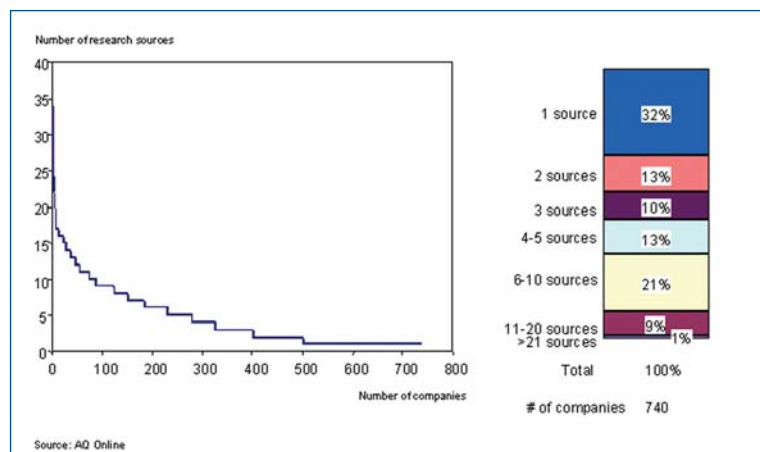


Figure 1

Often multiple brokers are covering the same stock. Figure 1 shows the distribution of coverage that we hold for the UK market. The top company (AstraZeneca) is covered by 34 different sources, whilst at the other end there are about 350 companies (45% of the sample) where there are only one or two

sources of research. Fund managers tell us that they are more confident investing when there are at least three alternative independent views on a stock. Often, broker research will be produced as part of a corporate broking/NOMAD commitment, or commissioned from an independent



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research provider. Fund managers frequently question the objectivity of such ‘sponsored’ research.

The problem for brokers is that producing research is a costly activity. The brokers get paid for the research through a commission on a trade. The more trading there is, the more commission is available. This explains why there is so much research on large cap stocks, but relatively little on small caps.

Industry bodies are aware of the problems caused by the shortage of investment research. PSQ Analytics is a research initiative launched over the summer by the LSE to help secure reliable, high quality research coverage for AIM companies. At an estimated price of £10,000 pa the exchange will ensure companies get professional coverage. One of three independent research providers researches your company, with the intention of encouraging investor attention and better liquidity. This acts to raise the cost of listing, which might deter smaller companies.

An initiative that we’ve been developing, Project AQrex, looks to solve the small

cap research liquidity problem. Fund managers tell us that they value small cap research, while providers are willing to produce it if they can get a return. What has been lacking is the mechanism enabling a ‘clearing price’ to form with which both sides are happy. Recently introduced Commission Sharing Arrangements (CSAs) enable fund managers to choose separately the trading execution partner and the research partner, and so commission can be redirected towards the research partner independent of trading volumes (and liquidity).

Fund managers also value the chance to meet directly with company management. They can ask questions, assess responses and form a view on the strength of the team. Fund managers frequently look to brokers to arrange these meetings, possibly with an analyst available to brief on the issues. Alternatively industry websites such as oilbarrel.com and minesite.com host regular events where companies from the resources sectors present their company to an audience of investors. CF&B Communications run similar events across Europe where small and mid-cap companies can meet efficiently with fund managers.

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William Russell-Smith, Managing Director, is a former strategic consultant with Mars & Co. Over a 12 year period, William managed projects around the world for a range of different industries. William is leading AQ’s development of value added services to meet the specific needs of sell-side, buy-side and corporate customers in a tailored fashion. He holds an MBA from the London Business School and an MA from Cambridge University.

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