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## 1 all about Sell-side and Buy-side Analysts

This Regulatory Bulletin focuses on Sell-side and Buy-side analysts, through edited excerpts from the transcription of the Equicom Learning Series panel discussion of Tuesday, September 16th on **How to Attract & Maintain Analyst Coverage** (a complete copy is available at [www.equicomgroup.com](http://www.equicomgroup.com)).

The speakers were:

**Sell-side Analysts:**

Tom Liston – CFA, Director of Research Software & IT Services, Versant Partners  
 David Pryor – CFA, Associate, Equity Research, BMO Capital Markets

**Buy-side Analyst:**

Duncan Stewart, CFA – Researcher and Portfolio Manager, Duncan Stewart Asset Management

**Legal Counsel:**

Dawn Whittaker – Partner, Ogilvy Renault Law Firm LLP

**The Equicom Group:**

Craig Armitage – Vice President

**Moderator:**

Barry Hildred – President, The Equicom Group

Firstly, definitions of what a Sell-side and Buy-side analyst are:

**Sell-side analyst**

Sell-side analysts are employed by a brokerage (Sell-side) firm. A Sell-side analyst generally follows issuers within a particular sector or industry and publishes his or her research for use by the firm’s internal groups (i.e. retail sales people, traders) and its external clients (i. e. retail, institutional, corporate).

**Buy-side analyst**

Buy-side analysts are employed by an institutional or Buy-side firm (i.e. mutual fund, pension fund, insurance fund, portfolio manager) that typically analyzes dozens of issuers usually over a broad range of industries. Buy-side analysts do not typically publish their research but they make it available along with recommendations to their own internal groups.

**Five questions from the Learning Series panel**

■ **Question from Barry Hildred: How long do you follow companies before initiating coverage?**

**TOM LISTON:** On average, for myself, probably 12 months, maybe a little longer than that, but it’s been anywhere from six weeks to six years. Generally, 12 months is enough time to have a bit of a track record to have them come in a few times to really gain that trust, that they’re telling a consistent story and meeting expectations. So probably as a good rule of thumb, 12 months is a good standard.

**DAVID PRYOR:** Yes, for us as well, it’s been anywhere between months and years. And I think the trick is to reach a point when you’ve done adequate due diligence, which you’re comfortable with. At that point, you can initiate coverage, assuming that it’s still a company that you want to cover.

■ **Question: What’s the most important criterion in determining what companies you would follow?**

**TOM LISTON:** You have to have something unique. Technology, certainly, you have to have something that’s different from the competitors, something that has probably some competitive edge in, maybe oil and gas or mining. I assume it’s more the type of political risk and ease of which the assets are drawn out of the ground. And actually, David can better speak on that. But it’s something that looks like a catalyst that will probably move the stock, you know, two or three times in the next two or three years. And then, obviously, it is a stock that will do well for our clients, so what we look for is that upcoming catalyst in the stock that has unique elements to the story.

- **Question: We often get questions from issuers about how they can use the research report from an analyst. What would you say about this Dawn?**

DAWN WHITTAKER: I don't actually think the answer is no, I think that it's yes, you can use it, but with a lot of precautions and a plan in place. Generally speaking, I think the TSX is less keen on its members using analyst reports as marketing. The SEC has just come out with guidelines for a website disclosure which includes an acknowledgement that linking to a third-party analyst report is the reality in the world and that's okay, and they actually use the words that those third-party links can enrich your website and make it more useful, and they can actually provide meaningful information to potential investors, and other analysts, and the media. I think the key thing is, as legal counsel, we're always sort of the negative spin on things, but it doesn't have to be negative, I think that you can use analyst reports in a positive and useful way for your company just as long as you follow the rules.

- **Question: So, for both the buy and the Sell-side here, as an analyst, when you're looking at a company, what are some immediate red flags that come to mind when you first meet a company? Can you just give us an example of immediate turnoffs?**

TOM LISTON: When the company tells you how much they're worth. For example they say, "I don't tell everybody this, but we've got a press release coming out next week." If an issuer is too promotional, provides inconsistent disclosures, or starts talking about how they are going to get bought next week, that their stock is unbelievably undervalued and they provide unrealistic growth expectations... I mean, it's a pretty standard list of things.

BARRY HILDRED: So, a turnoff is those issuers who are trying to be solicitous in their approach, they're trying to sell you guys.

- **Question: Issuers who don't provide guidance are struggling with how to properly manage their analyst, if you will, manage consensus, so helping analysts construct models and in making forecasts. Sometimes analysts have expectations that are much too high, much too low, when they're compared to internal management forecasts. What advice would you give the issuers who are struggling with guiding their analysts?**

DAWN WHITTAKER: Well, I have to emphasize the point that's been made that there may be outliers or there might be differences of opinion. You've got to go to the cause of that, and clearly, part of the cause is it's probably in your own disclosure as opposed to the fact that the analysts are way out in left field somewhere. So, you've got to take a look at your disclosure and make sure that it's clear. I mean, that's something that the securities regulators are constantly on issuers' case about it, the fact that the disclosure, it's not clear enough, it's not wholesome enough, it doesn't cover all the bases. So, that's the practical issue. I guess, from a legal point of view, which everyone should know, is that, clearly, you can't give information to an analyst or anyone outside of the necessary course of business that is not publicly disclosed. So, if you know something that the rest of the world doesn't, you can't go and say, "Hey, Alex, I'm going to tell you a secret and that'll make your models correct." And if there's a real problem with something in terms of an analyst's expectations, then you've got to point them in the right direction in terms of their previously publicly disclosed information. If there's something that they're missing, then you've got to think about either keeping quiet and riding it out, or you're going to have to disclose it to the public generally and then to the analyst. You can't selectively disclose, I know everybody knows that, but that's really important. Something that lawyers get very nervous about, is when there's one-on-one conversations with somebody about financial analyses that, you know, there's all sorts of guidelines, in terms of making sure that there's more than just you at the conversation, that it's a discussion in advance, make sure that you can point to every single place that it's in your public disclosure.