

Truth Creates Light

# The Edison Group

The Future of Equity Research



# Edison at a glance

“An investment research and advisory company”

## Two operating brands:

Edison Investment Research  
Edison Advisors

## Established 2003

Regulated across all key territories, offices in London, Frankfurt, New York, Sydney, Tel Aviv

Corporate client base of 400+ companies across 40+ countries

Preferred partner with leading stock exchanges around the world

Deep sector expertise – multiple sectors

Market-leading investment research platform

Different advisory offering, fully leveraging our research platform



Edison Investment Research is authorised and regulated by the Financial Conduct Authority

People

110+

Analysts & support

80+

Reports published last year

2,500+

Investor meetings  
(per annum)

2,000+

Countries research read

100+



# MIFID 2 overview



# The importance of equity research

1. **Price formation and the evaluation of the cost of capital by:**
  - Establishing market context
  - Context allows for relative valuations
  - Capturing operating leverage
2. **New issuance and capital formation**
  - Market efficiency
  - Liquidity
  - Valuation and lower cost of capital
3. **Public/policy awareness of capital markets' function**

## Means of assessing impact:

Assistant Professor Mark Kirkpatrick

Determinants and consequence of paid-for analyst research, 2011



# MIFID 2: Significant changes to the equity research landscape

“Member states shall ensure that the provision of research by third parties providing portfolio management and other investment or ancillary services to shall not be regarded as an inducement if it is received in return for any of the following:

(a) direct payments by the investment firm out of its own resources

(b) Payments from a separate research payment account controlled by the investment firm, provided the following conditions relating to the operation of the account are met....

Article 13, Delegated Directive

Written material from a third party commissioned and paid for by the corporate issuer to promote a new issuance by the company, provided the material contains appropriate disclosures and is made available to any investment firm wishing to receive it or to the general public, is also a minor and non-monetary benefit.

Article 12 (3), Delegated Directive



# MIFID 2: An easy way of understanding it



## MIFID 2: Buy side responses we are seeing

1. A sense of urgency to be compliant – FCA thematic visits expected
2. Review of how inputs are procured
  - a. Leading to a cut in the number of providers fund managers are prepared to pay for by c.50%
  - b. A cut in the total commissions paid for research by c.30%
3. Building of in house analyst teams
4. Sourcing new inputs outside of the sell side
5. Firewalls starting to be put up – demonstrate that PMs not being induced
6. Decisions on how to pay for research: RPA or own P&L
7. Direct engagement with corporates



# MIFID 2: Sell side responses we are seeing

1. Pricing strategies:
  - a. Take it or leave it – typically bulge bracket
  - b. Aspirational pricing
  - c. Price takers
2. Business model/strategy changes
  - a. Market share gains
  - b. Adoption of models compliant with Article 12(3)
  - c. Head in the sand
3. Threat of cutting of buy side in not being enforced
4. Making it harder to access research and withdrawal from consensus
5. Looking for new revenue streams/clients through aggregators e.g ResearchTree





# MIFID 2: Considerations for corporates/IROs

1. What was once free is no longer – analogy of newspapers
2. Buy-side is going to be less supported
3. Make it easy to follow/understand your company
  - a. Elevator pitch/investment thesis
  - b. IR website/presentations
  - c. Discovery presentations
  - d. Downloadable models
  - e. Accounting policies
4. Where do you focus your time – firewalled analysts
5. Role of the corporate broker and their business model
6. New stakeholders for IR communications – buy side/consultants
7. Feeding consensus estimates
8. Investor targeting
9. Feedback from investors



# MIFID 2: Has a global impact

## Why does a European piece of legislation have impact in the US?

1. Harmonization of operational procedures at global managers.
2. Need to treat clients equally/manage to the most conservative compliance geography in which the firm operates.
3. Shifting expectations of asset owners – *they increasingly understand the impact of research costs on returns*



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