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Small Time, in Big Demand

Quiet Period After Facebook IPO Gives Low-Profile Analysts a Chance to Shine

By ALEXANDRA SCAGGS

Ben Rose is used to doing about three television interviews a year. After he rated Facebook Inc.'s FB -4.12% stock a "sell" last month, the analyst had three in one week.

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Dominick Reuter for The Wall Street Journal

Analyst Ben Rose says he had three TV interviews in one week, compared with about three in a typical year.

"No one was really calling before," says the 51-year-old Mr. Rose, who started Battle Road Research Ltd., a four-employee firm based in Waltham, Mass., in 2001.

Facebook's initial public offering has caused lots of headaches for the investment banks who worked on the deal—and then watched the social-networking company's shares sink more than 25% since their debut May 18. In Monday afternoon trading, the stock was down another 1.6% to $27.33.

But for research analysts like Mr. Rose who follow Facebook and work at small firms, the company's headline-grabbing IPO has been a boon. With analysts at many large financial firms squelched by the mandatory quiet period because their companies were involved in the stock sale, Mr. Rose and his below-the-radar brethren are basking in newfound attention.

Under a Securities and Exchange Commission rule, managers and co-managers of an

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offering aren't permitted to publish opinions on a stock for 40 calendar days after an IPO. For Facebook, that disqualifies analysts at 33 firms from commenting before June 27, according to Dealogic.

The first analyst to issue a rating on Facebook stock was Michael Pachter of Wedbush Securities, a unit of Wedbush Inc. Two weeks before the IPO, he released a report claiming Facebook was worth $44 a share—or $6 more than the eventual offering price of $38.

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The Facebook IPO

Early Views on Facebook

Review their ratings, read highlights from their comments, and see links to the commentary.

Analyst	Firm	Rating at Initiation	Target Price ($)
Carlos Kirjner	Sanford C. Bernstein	Underperform	25
Ben Rose	Battle Road Research	Sell	29
Brian Wieser	Pivotal Research Group	Sell	30
Scott Kessler	Standard & Poor's Capital IQ	Sell	30
Rick Summer	Morningstar	Neutral	32
Colin Sebastian	R.W. Baird & Co.	Outperform	37
Laura Martin	Needham Research	Buy	40
Victor [illegible]	Topeka Capital [illegible]ts	Buy	40

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Michael Pachter of Wedbush Securities

Mr. Pachter rated Facebook an "outperform" and has blamed the Menlo Park, Calif., company's underwriters for the stock's slide. His comments have led to an uptick in media-appearance requests, not just for him but for the rest of Wedbush's research division as well, he says.

A longtime analyst, Mr. Pachter is used to making high-profile calls, even if he isn't always correct. He issued a widely publicized "sell" rating on Netflix Inc. NFLX -1.28% when the stock was below $40. The shares ended Friday at $62.95—and hit $295 in July 2011.

"The more often our firm is on television, the better," Mr. Pachter says.

Brian Wieser of Pivotal Research Group slapped a "sell" rating on Facebook the day its shares began trading. Since then, the New York firm has gotten more calls from potential clients outside its core areas of telecommunications, media and technology.

"On the margin, it definitely helps, even with existing clients," says Jeff Wlodarczak, Pivotal's chief executive. The "sell" rating on Facebook, he adds, has raised the firm's profile "since Facebook became somewhat of a national obsession."

Of the 13 U.S. analysts who initiated coverage on Facebook, seven issued "buy" ratings, two went with "neutral" and four urged clients to "sell." Since the stock began trading, it has fallen below nearly all of the price targets. Analyst Carlos Kirjner of Sanford C. Bernstein & Co., AllianceBernstein LP's AB +2.72% research division, was the most bearish and on Monday assigned the stock a $25 price target and an "underperform" rating.

On Thursday, Pivotal's Mr. Wieser upgraded Facebook to "hold," saying the risks are now reflected in the stock price.

The publicity is worth more than just bragging rights. One way that research analysts get paid is the so-called vote system. A chunk of the commissions brokerages earn from trading business is divvied up and sent to the analysts who provide portfolio managers with research.

Portfolio managers decide by a vote which analysts and firms receive that money. The more votes an analyst receives, the more money is likely to flow from the brokerage, so recognition of an analyst helps. For an independent, boutique firm, the payments could make up the entire revenue stream.

And timely, provocative or prescient research calls can attract new clients to firms that rely on subscriptions to help finance their research.

Under a recent change to the SEC rule, managers and co-managers of an offering could immediately offer research on companies with revenues of less than $1 billion before their stock sales. Facebook wouldn't have qualified for the exemption, having brought in more than $3.7 billion in 2011, according to the company prospectus.

With the underwriters due to start chiming in within three weeks, Mr. Pachter of Wedbush acknowledges his time in the spotlight may be drawing to a close. Still, "it's better to be first than to be out there saying something that looks like you're following everyone else," he says.

Corrections & Amplifications

Ben Rose is an analyst at Battle Road Research. A previous version of this article gave his name as Brian.

Write to Alexandra Scaggs at alexandra.scaggs@dowjones.com

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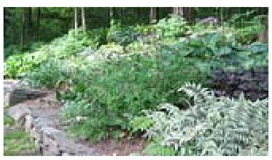

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