

Snyder's Wall Street Blitz

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During the Boom, Pressure on Analysts Was Part of Many CEOs' Playbooks

In the spring of 1998, Morgan Stanley research analyst Adam Waldo decided to lower his stock rating for Snyder Communications Inc., the marketing firm founded by Daniel M. Snyder, now majority owner of the Washington Redskins.

Waldo believed that the company's stock, then trading around \$50 per share, was overvalued and that after stripping away gains achieved through multiple acquisitions -- largely made possible by the firm's high stock price -- revenue was stagnant and profit margins were shrinking.

Following common Wall Street practice, Waldo dutifully informed Snyder Communications officials of the impending downgrade. They were furious. According to two sources familiar with the exchange, both of whom spoke on the condition that they not be identified, Snyder demanded a meeting with Waldo's bosses.

In that meeting, according to one source who was there and a second source who was briefed on the meeting afterward, an enraged Snyder made it clear that if Morgan Stanley ever wanted to do investment-banking work for Snyder Communications it would have to replace Waldo with an analyst who was bullish on the company.

"They were clearly interested in [Morgan Stanley] hiring a different analyst," the source in the meeting said, referring to Snyder and his business partners. "They were clearly indicating that it would be worthwhile to do so," the source added, referring to possible future banking work for Morgan Stanley.

The person briefed on the meeting said of Snyder's alleged pressure: "Did he explicitly link banking fees to a positive rating? No. Was it implicitly pretty clear? Definitely."

Morgan Stanley received very little of the \$27.6 million in underwriting fees that, according to Thomson First Call, Snyder Communications had generated for Wall Street firms since going public in September 1996.

Snyder declined several requests to discuss the exchange but said through a spokesman that he did not remember the meeting. The spokesman, Karl Swanson, said Morgan Stanley was never a candidate for banking business with Snyder Communications.

No one is accusing Snyder of illegality in pressuring for positive ratings. But the sources' accounts help shed light on the extent to which, during the boom years of the late 1990s, analysts were pressured to give glowing investment ratings not only by bankers within their firms but also by company executives themselves.

The ratings often moved stock prices, directly affecting the wealth of stock-holding executives and companies' resources for making acquisitions. But since the stock bubble burst, many investors who relied on analysts' recommendations have lost millions of dollars, unleashing a torrent of lawsuits, arbitration claims and multiple regulatory efforts to eliminate some of the apparent conflicts of interest in the system.

Research directors on Wall Street acknowledge that a chief executive demanding a meeting to talk about a proposed rating change, as Snyder is alleged to have done, is not rare or improper -- as long as the discussion revolves around the company's finances.

"They can ask, 'Have you looked at this, have you looked at that?' That's perfectly legitimate," one research official said. But many firms in the late '90s, allegedly including Snyder, used these meetings not to pore over balance sheets but to demand enthusiastic ratings in return for banking fees, the research official said.

Analysts at other firms who rated Snyder Communications said they believed there was a connection between maintaining bullish ratings on the stock and doing banking business with the company, which Snyder sold for \$2 billion in 2000 to Paris-based Havas Advertising Group.

"He was the kind of guy where you were either on his team or you were not on his team," said Michael Moe, an analyst who covered Snyder Communications for Montgomery Securities, an investment bank that worked on Snyder's initial public offering in 1996 alongside lead underwriter Merrill Lynch & Co. and several other firms. "He liked to do business with people who were on his team."

Moe also said he did not believe there was a direct quid pro quo between banking fees and positive ratings. He said that he truly believed in Snyder Communications and that his recommendations provided good returns for investors.

"Mr. Snyder had a track record of being very aggressive with a number of banks in not permitting a whole lot of analyst independence," said another analyst who covered Snyder Communications for a major Wall Street securities firm and who requested anonymity.

In Morgan Stanley's case, the pressure for a strong rating was so intense, two sources said, that the firm simply decided to stop covering Snyder's company after the 1998 meeting. A Morgan Stanley spokeswoman declined to comment on the meeting.

Waldo, who had already dropped the stock one notch, from "strong buy" to "outperform," in February 1998, never made his second downgrade to "neutral." He later left Morgan Stanley and now works at Lehman Brothers Inc.

Analysts and research directors say Snyder's alleged behavior was typical of the hardball tactics employed by many executives, who in the 1990s grew to realize they could pressure Wall Street into providing sometimes overly positive ratings. This was particularly the case among brash young executives at highflying start-ups.

"The classic profile was the 32-year-old Internet entrepreneur who owned half his company," one research director at a major Wall Street firm said. "We would downgrade and it would take his net worth from \$600 million to \$300 million in a day, and he would be outraged, thinking he had bought our sponsorship with his banking fees."

Snyder was 31 when Snyder Communications went public.

Some say the path to the current problems on Wall Street began in 1975, when the Securities and Exchange Commission ended fixed commissions on stock trades. Brokerages had to look elsewhere for revenue and began to focus on helping companies issue stock and bonds and assisting them with merger and acquisition deals.

Wall Street research departments became money-losing units often dependent on sharing in banking fees for survival. The scramble for these fees, Wall Street executives say, led to heavy pressure on research departments not to anger current or potential banking clients with bad ratings.

Since the tech and telecommunications meltdown and revelations about apparent analyst conflicts of interest, industry and government regulators have been moving to clean up the system.

New York Attorney General Eliot Spitzer led an inquiry that in May forced Merrill Lynch to agree to pay \$100 million to settle charges that its analysts derided stocks privately while touting them to investors to win investment-banking fees from the companies that issued the stock. Merrill Lynch agreed in its deal with New York state to more forcefully separate analysts from bankers, and several other firms quickly adopted similar reforms.

The SEC in May approved rules proposed by the New York Stock Exchange and NASD, formerly the National Association of Securities Dealers, governing analyst behavior. The rules expressly forbid analysts from offering a guarantee of positive ratings in return for banking business. They also bar investment bankers from supervising analysts and ban analysts from being paid based on specific banking deals.

A review of research reports on Snyder Communications indicates that at Morgan Stanley, Waldo was almost alone in downgrading the company.

Most other Wall Street firms that regularly covered Snyder's company also performed investment-banking work for the firm, including Merrill Lynch; Montgomery Securities; Donaldson, Lufkin & Jenrette (now part of Credit Suisse First Boston Corp.); and Deutsche Bank Alex Brown Inc.

Moe, of Montgomery Securities, was among Snyder's strongest advocates. After the company reported a loss for the first quarter of 1997, he came to the firm's defense, saying "all aspects of their business were slightly above what we were looking for" and dismissing write-offs taken from two acquisitions as "more or less in line with what we were expecting."

According to Bloomberg News, Deutsche Bank Alex Brown initiated coverage of Snyder Communications with a "strong buy" in December 1998 and later performed strategic advisory work for the company before it was sold to Havas.

Snyder spokesman Swanson noted that Deutsche Bank analyst Christopher A. Feiss lowered his rating on Snyder's company to "buy" from "strong buy" in June 1999 before Deutsche Bank earned the banking fees.

"His downgrade had no impact or effect on the business relationship," Swanson said. Feiss did not return calls for comment.

Snyder Communications stock never performed as well as many analysts predicted it would.

Shares started trading in 1996 around \$20. By March 1998, after a flurry of acquisitions, the stock had risen to more than \$45 a share, and Moe told clients he expected the stock to rise to \$55 a share. Instead, adjusted for splits, it peaked at \$33.78 per share in April 1998, around the time Waldo wanted to issue his second downgrade. The stock sank back to the \$10-to-\$14 range after the firm announced that costs associated with the planned spinoff of its health-care marketing unit would be higher than anticipated.

The stock touched a low of about \$9 a share in October 1999 but rose above \$23 a share before the company was acquired by Havas.