Recap

- Break-out session B: *Integrated reporting*
  - "Reporting to understand and demonstrate value creation," *Forbes*, Sept 24, 2014
  - IR = Internal + external
  - Foster internal discussions at board level
  - Stronger focus on key value drivers/KPIs
  - Shareholder value is dead (stakeholder)
  - To be successful, standardization among users (analysts, rating agencies, SRI crowd)

Recap (C'd)

- Plenary session: *Sell-side under pressure*
  - "Sell-Side Analysts: The Many and the Few," *IR Magazine*, July 2013
  - "Lazy," "no original thought," "ill-informed," "out-of-date earnings models," …
  - Maybe IR can help? Providing information in easily accessible format (e.g., Excel sheet)
  - Pressure on sell-side → ask more questions → extra opportunity to bring your messages

Recap (C'd)

- Plenary session: *Backroom tales*
  - Each geographic market a different understanding of your industry, unique do's and don'ts
  - Different type of investor, different approach (fixed income: B/S, FCF, multiples; equity: story, management)
  - IR credible if internally close connected (operations, management, globally integrated)
  - "Rumors start and end in London" (kick-off your events, roadshows, … here)

A Little History

- Earnings calls: "Gadgets" *NYT*, Sept 24, 1989

On July 18, 1989, at 6:30 AM, Joseph A. Grazione, CFO of Apple Computer, Inc. in Cupertino, California began one of the first earnings conference calls in history

"The others on the line: 100 stock analysts from around the country … When the telephone 'floor' was opened for questions and discussion, an analyst asked for figures on the shipment of various computer models … For some analysts the information was crucial. When the call was over, they studied the numbers and decided to reduce their estimates of fourth-quarter earnings; then they began to spread the news among their firms' biggest clients"

- Recent *NIRI* survey: 98% hold earnings calls

Growing Pains

- GP#1: Technology
  - Advances in technology (e.g., "webcasts"), from "closed" (i.e., invitation only) to "open" (i.e., allowing unlimited access)
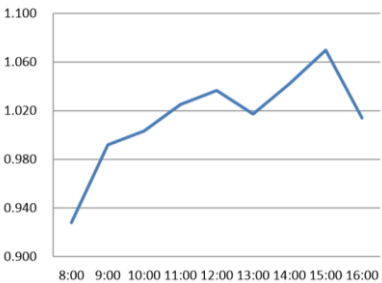 - Small trades increase and higher price volatility during the call period (Bushee et al. 2003)

Growing Pains (C'd)

- GP#2: *Reg FD*
  - Pro: "level the playing field"; con: "reduce information quality or quantity"
  - Amount of individual investor trading and price volatility increase (Bushee et al. 2004)

Growing Pains (C'd)

- GP#3: Analysts
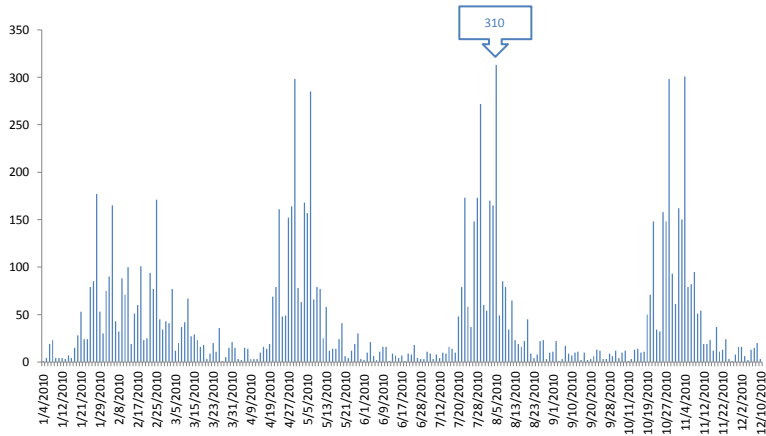 - "O, what a beautiful morning" (Chen et al. 2013)

  - Management discrimination among analysts (Mayew 2008); "playing favorites" (Cohen et al. 2013)
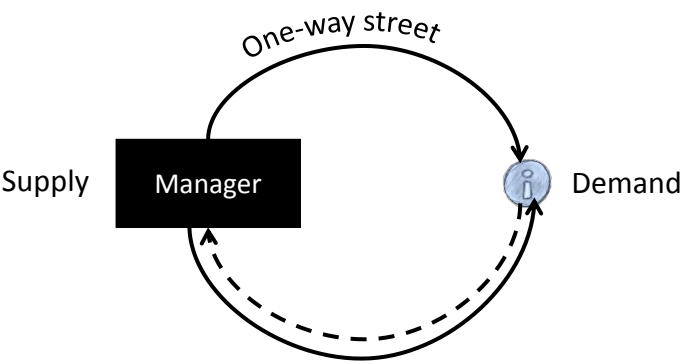
Growing Pains (C'd)

- GP#4: CE/F/OOs
  - "Blundering" executives lashing out with expletives at participants asking tough questions (e.g., *Sallie Mae's* CEO Albert Lord), or giving less-than-coherent answers (e.g., *Legg Mason's* CEO Raymond A. Mason, saying "I'll try to answer you, but you can't put a lot of faith in what I'm going to say")
  - Mayew and Venkatachalam (2012) measure managerial affective states during earnings calls by analyzing audio files using vocal emotion analysis software; pos/neg affects are informative about the firm's financial future
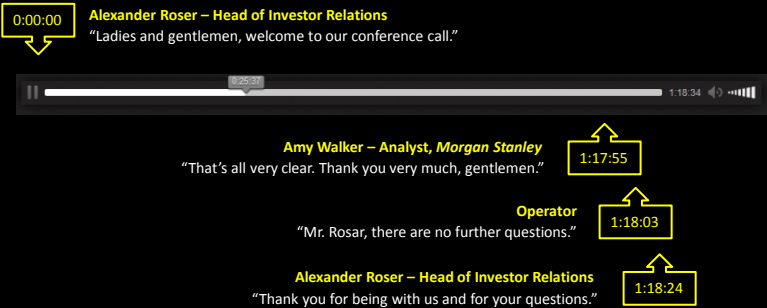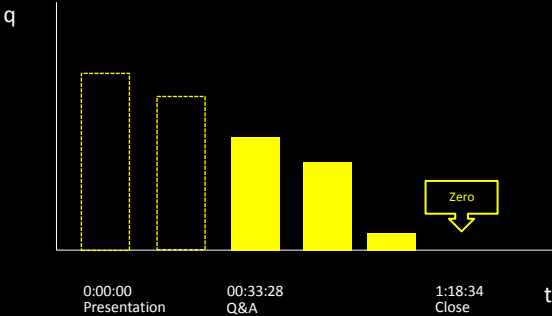
Growing Pains (C'd)

- GP#5: Success

The Times They Are A-Changin'

One-way street

Supply | Manager | Demand

Apple Inc. Q3-2008
"Steve's health is a private matter"
−2.6%
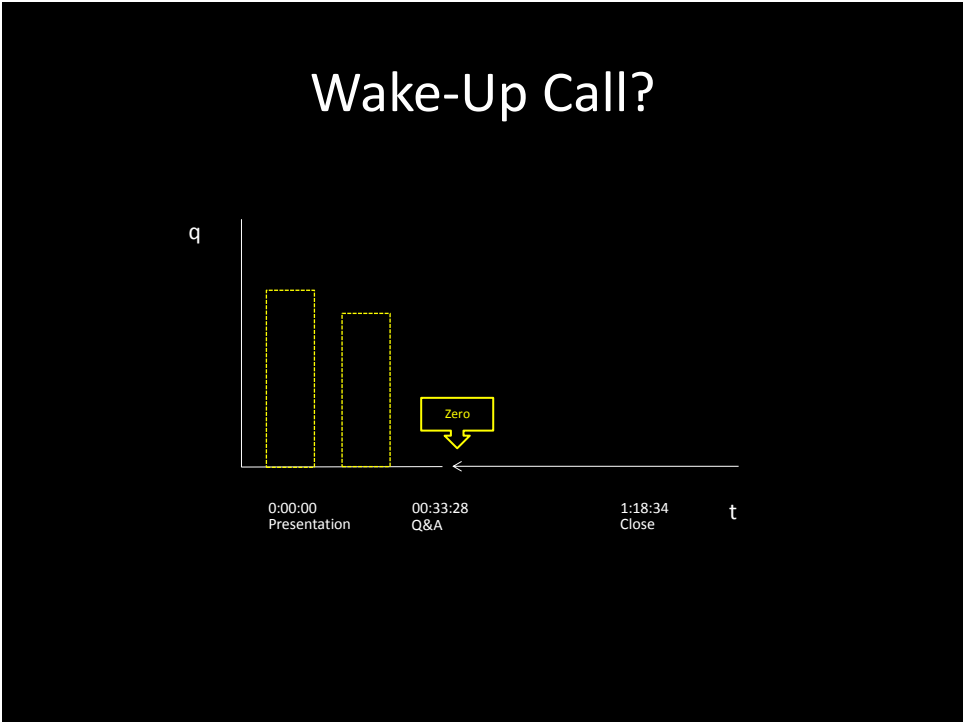
**The Price of Silence: When No One Asks Questions
During Conference Calls**

Shuping Chen
University of Texas at Austin

Stephan Hollander
Tilburg University

Kelvin Law
Tilburg University

Silence Rattles Managers …

- Jon A. DeLuca, CEO of *FiberNet Telecom* (Q3-2005):

  "Hoping someone asks a question."

- John Richard, CEO of *Hammerson Plc.* (Q2-2008):

  "Quite extraordinary. I have never so completely answered all questions without having to add any supplementary information. Perhaps you should give it a few more moments. But if anybody—we will be disconnecting in a few seconds. If anybody has a question, it would be very good if you asked them now."

Rescuing the Situation

- Bob Whitman, CEO of *Franklin Covey Co.* (Q4-2003):

  "Perhaps maybe what I could do just for a minute then is to raise some questions which I am sure are in some of your minds. And perhaps you have had them asked or answered. And if this is redundant then you'll make a decision whether or not it's interesting to you."

- Random selection of 200 calls w/o questions
  - 34%: Contact us later (e.g., by phone, e-mail)
  - 29%: Reiterate optimistic view on future performance
  - 8%: Explain why there are no questions
  - 3%: Raise (and answer) questions themselves

… and It Rattles Investors

Re: RT: My View Of VSCP Q1 Report And Conference Call
by **loudcld** . May 15, 2012 4:39 PM . Permalink

The results were very disappointing on all fronts. Listen to remarks related to the FDA application about 20 minutes in to the conference call.

http://www.virtualscopics.com/webcasts.aspx

Last time Molly remarked it sounded like they were turning past 3rd base, ready to cross home with FDA approval. However, the FDA just sent them back to 1st base.

Merck investment was a blessing. It is much needed capital as they need to spend much on R&D to remain viable. The need to pass on all contingencies so they can get the next $3M. Their operating losses are only going to grow from here in near future. The FDA approval is probably a year away now. I too was dumbfounded at the lack of questions. VSCP will remain a penny stock for the foreseeable future. I am not selling but the risk in the stock went up dramatically.

Good, Bad, or Noise?
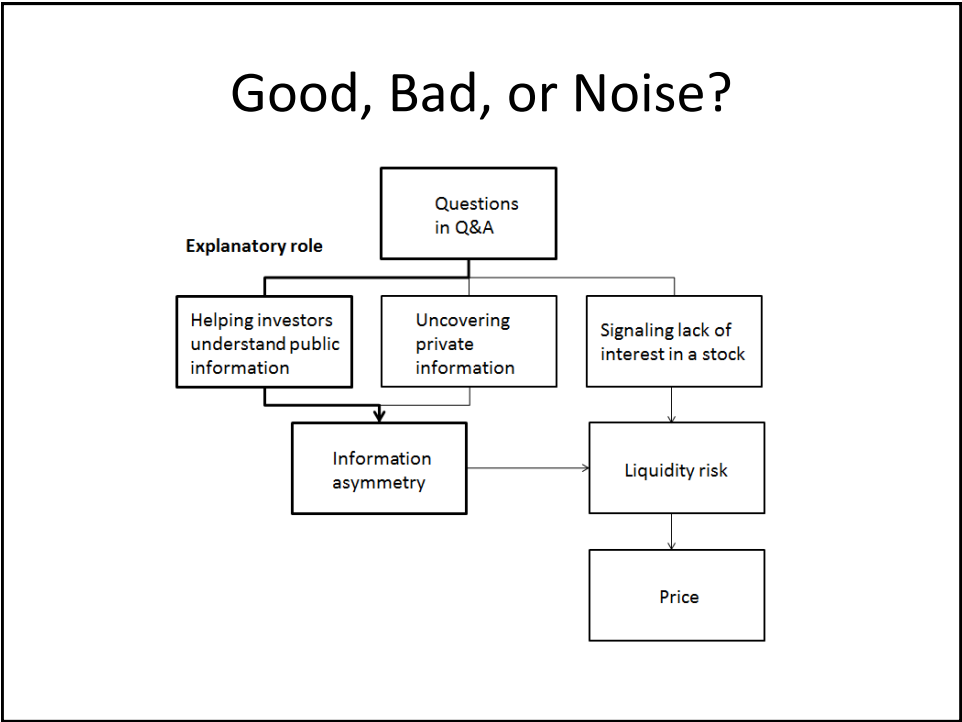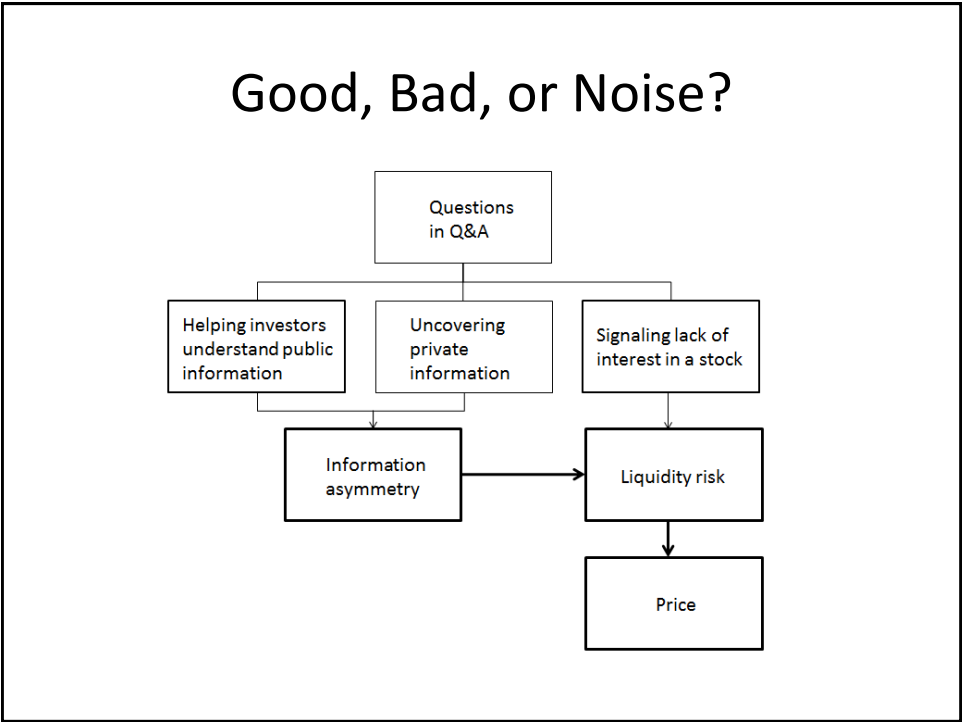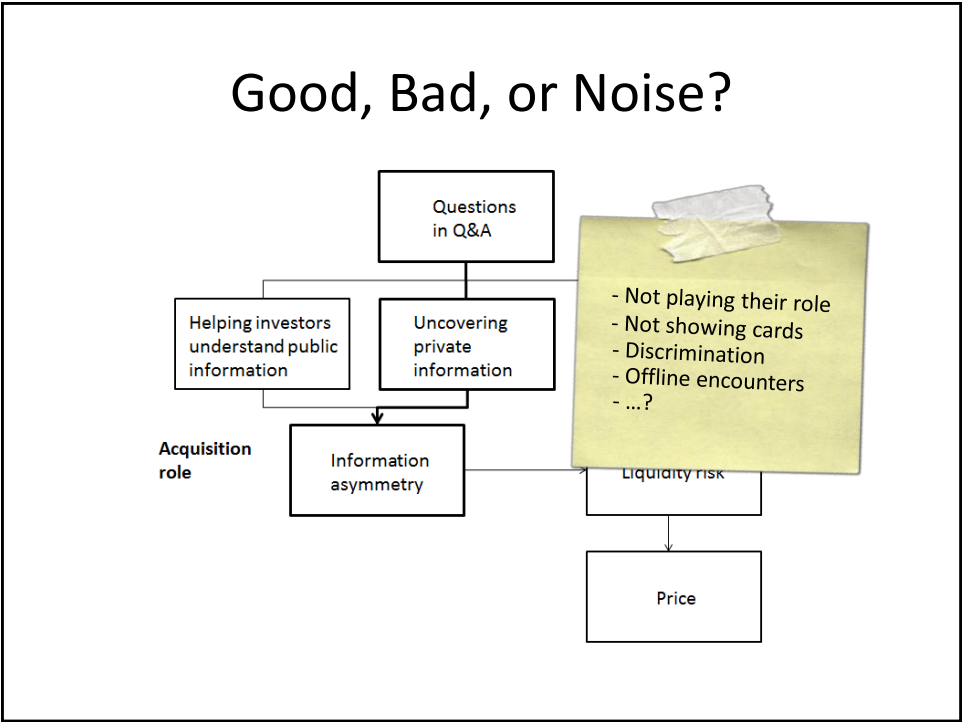
Table IV
Increase in Information Asymmetry

This table reports coefficient estimates and OLS t-statistics (in parentheses). *Spread* is the daily ask high minus closing bid low price divided by the quote midpoint (multiplied by 100). Δ *Spread* [0,+1] measures the change in spread on the call day t to day $t+1$. $\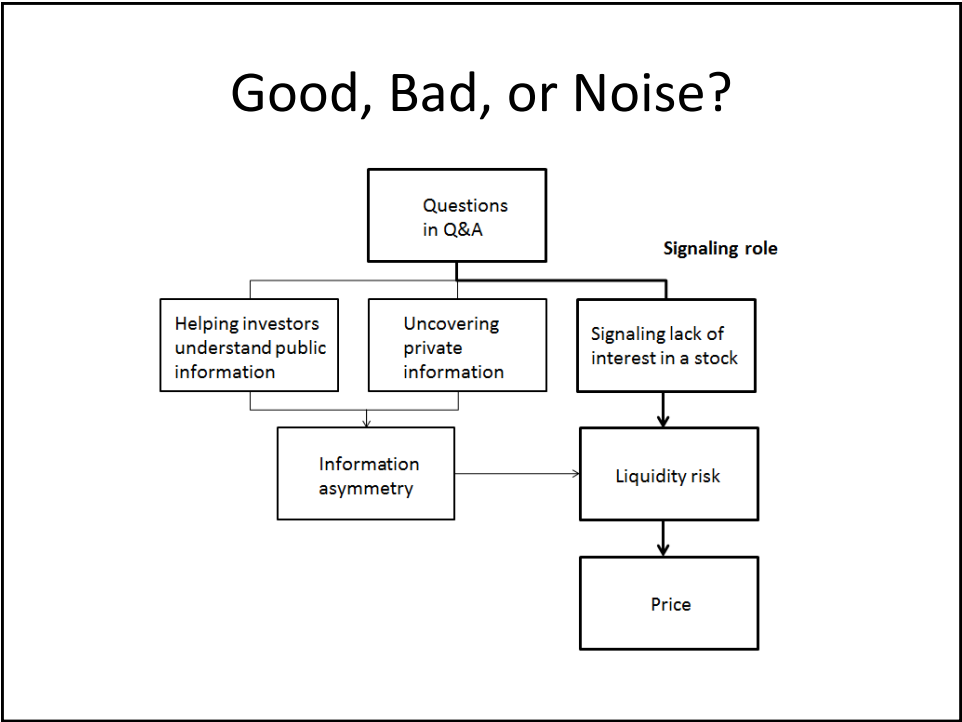Delta$ *Spread* [-1,+1] measures the change in spread from one day before to one day after the call date. *Spread*$^\perp$ is the residual from a first-stage regression of *Spread* on *Volatility* and *Firm size (Ln)*. Following Hong, Lim, and Stein (2000), *Analysts following (Ln)*$^\perp$ represents the residual from a first-stage regression of *Analysts following (Ln)* on *Firm size (Ln)*. *Zero Question* (ZQ) is a dummy variable that takes a value of one if there is no question raised by any participant during a conference call's Q&A session, and zero otherwise. *Low Number of Questions* (LNQ) is a dummy variable that takes a value of one if a call is in the lowest quintile of unexpectedly low number of questions during the call's question-and-answer portion, and zero otherwise. Construction details of various variables are provided in Appendix A. Robust standard errors are clustered at the firm level and two-sided t-statistics are reported in parentheses.

| | Dependent variables | | | |
| | Δ Spread [0, +1] | | Δ Spread [-1, +1] | |
Independent variables	(1)	(2)	(3)	(4)
ZQ	0.257		0.238	
	(3.40)		(2.50)	
LNQ		0.024		0.022
		(2.84)		(2.53)
Intercept	-0.632	-0.631	-0.673	-0.671
	(-7.23)	(-7.25)	(-6.93)	(-6.95)
Number of observations	46,738	46,738	46,734	46,734
Day fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Adjusted R² (%)	28.00	27.94	27.76	27.71

Table V
Negative Market Reaction

This table reports coefficient estimates and OLS t-statistics (in parentheses). The dependent variable is $CAR\ [+j,+k]$ is cumulative abnormal returns from call day $t+j$ to day $t+k$, where abnormal return is defined as firm i's return minus the matching Fama-French (six) portfolio return sorted based on firm size and book-to-market ratio at the beginning of each June following Barber and Lyon (1997). Panel A reports the estimates for ZQ calls. In Panel B, we consider alternative event windows. Panel C reports the estimates for LNQ calls. Construction details of various variables are provided in Appendix A. Robust standard errors are clustered at the firm level and two-sided t-statistics are reported in parentheses. The propensity-matched samples are constructed by matching, ZQ/non-ZQ and LNQ/non-LNQ calls, respectively, on all determinants variables in Table III and conditional on conference calls being held on the same day.

Panel A: Zero-Question (ZQ) Calls				
	Dependent variable: CAR [+1, +1]			
Independent variables	ZQ vs. non-ZQ	ZQ firms: ZQ quarters vs. non-ZQ quarters	First-time ZQ vs. non-ZQ	ZQ vs. propensity-matched non-ZQ
	(1)	(2)	(3)	(4)
ZQ	-0.989	-0.944	-1.349	-1.133
	(-3.67)	(-2.97)	(-3.42)	(-3.52)

Panel B: Zero-Question (ZQ) Calls Alternative Event Windows				
	Dependent variables			
Independent variables	CAR [+1,+2]	CAR [+1,+3]	CAR [+1,+4]	CAR [+1,+5]
ZQ	-1.031	-1.118	-1.246	-1.265
	(-3.44)	(-3.32)	(-3.28)	(-2.99)

Table V
Negative Market Reaction – *Continued*

Panel C: Low Number of Questions (LNQ) Calls					
	Dependent variables: CAR				
Independent variables	LNQ vs. non-LNQ	LNQ vs. propensity-matched non-LNQ	LNQ vs. non-LNQ		
	[+1,+1]	[+1,+1]	[+1,+2]	[+1,+3]	[+1,+4]	[+1,+5]
	(1)	(2)	(3)	(4)	(5)	(6)
LNQ	-0.185	-0.229	-0.211	-0.205	-0.227	-0.193
	(-2.56)	(-2.60)	(-2.50)	(-2.20)	(-2.27)	(-1.82)
Controls/FEs/Intercept	Included and identical to Panel A, column 1					
Num. of obs.	47,420	47,420	47,420	47,420	47,420	47,420
Adjusted R² (%)	1.32	1.36	1.30	1.39	1.46	1.54

Conclusions and Implications

- Silence is "pricey"
  - Information asymmetry ↑ and price ↓
  - Economically significant indirect costs in case of "interactive silence" (i.e., no interaction when interaction is expected)

- A "catch" to increasingly *dynamic* paradigm of corporate communication
  - Interactive tools (e.g., Q&As) need interaction
  - Casting doubt on optimality of IR programs, especially for small firms
  - Ezra Marbach, director of Client Services at *Seeking Alpha*: "some firms are recruiting stand-ins"
  - Alternatives? E.g., face-to-face meetings

Investor Relations
New Times, Ask for New Standards

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Understanding Society