



WHAT BOARDS CAN LEARN FROM ANALYST CALLS (6/21)

For U.S. public companies, quarterly 10-Q filings and earnings calls are part of the eternal investor relations campaign, working to put a happy face on company results (For the CEO and CFO – stick to the script; For analysts – Try to get them off script). The tactics, structure and psychology of earnings calls are a specialized field that we won't cover here. However, there is one aspect that's of direct interest to board members – when listening in on a call, what clues and intelligence can you pick up on how results are being presented (and perceived) on the outside?

■ Management's opening comments for the call are surely prescribed (and increasingly, prerecorded), so that means the boards should be able to get a preview on what will be said. Invest some time reviewing the quarterly financials and trends your board signed off on. Note what you consider to have been high points, trending indicators, or potential danger signs. Now, read through the numbers and milestones management highlights in the earnings call script. How closely do the two takes align? What do any differences suggest?

■ During the call itself, "management will stick to its script, so pay more attention to the Q&A," suggests Brad Kostka, president of [Roop & Co.](#) investor communication consultants. "Questions can inform directors on what investors are really interested in and focused on," adds Laura Richman, of counsel with law firm Mayer Brown. How closely do analyst questions track with the items stressed in the Q&A? Is there notable interest in an area management seems to be avoiding?

■ Management problems during the Q&A are not just limited to saying too little or being evasive. Though your CFO and CEO should have sound knowledge of what can and can't be said, it doesn't hurt for directors to listen in for slip-ups. "Directors may think that management is giving more information than they should," warns Richman. Possible Regulation FD or other disclosure rules could be violated, often inadvertently. Board members who bring past savvy in dealing with analysts can be invaluable in coaching young management teams to stay out of trouble.

■ Analyst questions and comments are also good for helping you gain *outside* context on the company. "Analysts are helpful as third parties to give directors an outside feel for the company," says Richman. Pre-COVID, directors "could visit factories or plants, but that's hard to do now." Kostka adds that the analysts are also busy vetting *other* companies in your sector. Their queries and comparisons on "why is your company doing X when this other company is doing Y" gives thoughtful context – so what *is* the difference?

■ Earnings calls are just one end of the disclosure process – what are those analysts saying to their clients after the discussion? Look at the analyst reports for intelligence on how well management addresses company issues, what's really being communicated, and how the company stacks up to competitors. Plus, how consistent are the various analyst's takes – are there any notable outliers among their reports? "You want to know if management is doing a good job of guiding the street," Kostka observes.

RALPH WARD'S BOARDROOM INSIDER is published monthly for directors, CEOs, those who work with corporate and nonprofit boards (corporate secretaries, corporate counsel, support staff, and consultants), and those who are board prospects.

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