

# BETWEEN THE LINES

December 18, 2020

## 2020 Wall Street Analyst All-Stars Review

### Introduction

Another year has passed. As we look back on 2020, we thought we would examine some of the questions asked by Wall Street's top-rated analysts during quarterly earnings calls. Even the best analysts don't always ask the best questions, and we believe they could benefit from our question formulation expertise. At BIA, we coach and advise our clients how to interview executives and determine the completeness, accuracy and reliability of the information they provide using our proprietary Tactical Behavioral Assessment® (TBA™) methodology. In this edition of *Between the Lines*, we break down questions from a randomly selected sample of top analysts to show how BIA's approach to asking questions could have helped them gain more insight from management teams.

### A Buckshot Approach Won't Hit the Broadside of a Barn

*"And my other question is more about the mobile side. And what I'm wondering is where are we with the awareness factor of consumers on mobile? Meaning, I'm sure that some of your customers are buying it as part of a package that they buy for the home or for personal use, and then they also apply to mobile and then you have also channels. Where are we with penetration? What drives more awareness to similar solutions that we have on PCs and laptops to mobile? And on a stand-alone basis, could it be a big market that drives up revenues?"*

- Tal Liani, BofA Securities. McAfee Corp., Q3 2020 Earnings Call

Questions are most effective when they are simple, direct, and have a single meaning. Compound, or multi-part, questions like the one above dilute the intended inquiry, create confusion and cause management to miss, or intentionally avoid, addressing parts of the question in their response. In this example, while all somewhat related to consumer demand for McAfee's mobile solutions, Mr. Liani asks four slightly different questions in a row, making it more likely that management will fail to address each individual component. It is best to ask each question separately. Leading off by informing management that you have multiple questions, asking the first one, and letting management respond before posing the next question is a more effective method for getting the desired information.

#### How management exploits the poorly phrased question:

Management responds to Mr. Liani's question by broadly speaking about the rise of cybercrime to give the impression there is demand and several times says that they "feel good" about expanding into the market. But they do not provide any specific insight into consumer uptake of the service, how they are marketing to mobile users or what the potential growth could be.

#### How BIA would rephrase the question:

- What marketing initiatives have you implemented to reach consumers on mobile?
- Based on your experience so far, what changes will you make to improve the effectiveness of those Marketing initiatives?
- What are your assumptions about the total addressable market for your mobile solutions for consumers?
- What percentage of that TAM have you already gained?

## Guidance on No Guidance

*“You guys have been very clear about the challenge really coming from Continental Europe. And I know that you historically don’t give guidance for yields by brand or by region. But I wonder if -- just to -- for -- to make it easier for investors to compare sort of across the industry, can you give us a little bit more insight into what your North American yield expectations are? Just because I think we probably see some positive underlying yield performance there that maybe we can’t see with the Continental European drag, and it just might be helpful if you can put some color around that.”*

- Robin Farley, UBS Investment Bank. Carnival Corp., Q4 2019 Earnings Call

Gaining insight into management’s expectations can be a challenge when they do not or will not provide guidance. Nevertheless, there are ways to garner useful information. We recommend using what BIA calls a question prologue. A question prologue is a statement or series of statements that comes before the question and is designed to make a management team more psychologically receptive by putting the question in a sympathetic, uncritical context. On the surface, Ms. Farley’s lead-up to her request for regional expectations may appear to fit this description, but she is ultimately unsuccessful in getting the information she wants. The key to using a question prologue is to make sure the prologue is followed by a carefully crafted direct question, which is not the case in this example. By rephrasing the actual question in a more strategic way, Ms. Farley is more likely to successfully gather relevant information.

### **How management exploits the poorly phrased question:**

Management responds by reiterating that they do not provide guidance and merely makes an unsubstantiated claim that they expect North American brands to do better than the European brands.

### **How BIA would rephrase the question:**

- Understanding that you cannot provide specific guidance, it seems that positive yields in North America are overshadowed by performance in Continental Europe right now. Help me understand what factors could realistically hamper your yields in North America next year.
- What factors that have caused the drag on yields in Continental Europe do you anticipate occurring in North America next year?

## If You Do Not Ask, You Shall Not Receive

*“Ritch, you talked a couple of times about service and service opportunities and, obviously, challenges in the business. I wasn’t sure if that was a comment about you saw some service slipping for some reason or this is just a work-in-progress company. But can you just talk about it, have there been unique challenges that have created service delays, for example, in the business?”*

- John Glass, Morgan Stanley. Domino’s Pizza Inc., Q3 2020 Earnings Call

Analysts often use phrases like “talk about” or “how are you thinking” or “any additional color” when requesting information. Open-ended questions can prove useful in certain situations, but when used in situations like in this example, they allow management teams to focus only on the most positive aspects of an issue and avoid addressing any negative aspects. Here, Mr. Glass seems to want specifics about whether Domino’s has experienced service delays and why. However, by asking if management can “talk about” the topic, Mr. Glass gives management a great deal of leeway in how to respond. BIA’s question formulation strategy teaches that interviewers should craft questions that specifically target critical pieces of information they need.

### **How management exploits the poorly phrased question:**

Management admits that early in the pandemic they saw delivery times slip, but does not explain why. Instead, they say that delivery times improved in subsequent quarters and emphasize that they will always work to improve service. This gives the impression that problems with delivery times have been resolved without actually saying so.

### **How BIA would rephrase the question:**

- What factors that caused service delays in the past three quarters are unique to Domino’s?
- To what extent will these factors persist into next quarter? Next year?
- What changes to your operations are you making to improve delivery times?

## Offense Brings on Defense

*“And then I'm sorry for the ridiculous specificity of this follow-up, but you're striking a tone of cautious optimism on holiday bookings. Did you write that script last week? I mean, do you -- because it feels like things got maybe a little bit worse over the last few days here over the weekend, at least. Is that -- obviously, you've had the opportunity to edit that, of course, knowing what we know, but I just want to make sure we're not sort of like top ticking demand commentary to set expectations for the fourth quarter that maybe things are sort of worsening a little bit around the periphery?”*

- Hunter Keay, Wolfe Research. JetBlue Airways Corp. Q3 2020 Earnings Call

Mr. Keay's question is intended to gauge management's confidence in their holiday booking outlook, but the phrasing could inadvertently generate a psychological barrier that discourages them from answering. By challenging the credibility of their assumptions, Mr. Keay puts management on the defensive. BIA recommends delivering questions in a neutral and objective manner to avoid appearing judgmental or critical and thereby encouraging management's cooperation in obtaining information.

### **How management exploits the poorly phrased question:**

Management pushes back on Mr. Hunter, questioning the source of *his* assumptions, before offering a broad, qualified response to vaguely outline their rationale.

### **How BIA would rephrase the question:**

- What developments during the past several weeks have caused you to pull back on your bookings outlook?
- Of the factors on which you are basing your outlook, which is most likely to get worse next quarter?
- What factor is most important to driving an improved outlook?

## Tricky Holiday Questions and How to Answer Them

This time of year, many children ask adults some questions that are difficult to answer, such as whether Santa is real. From BIA's perspective, a parent's desire to preserve excitement for their children – while not committing an outright lie – is both timely and instructive. Accordingly, answering these questions often involves a careful strategy of deception. Here are some ways that CEOs this year have responded to questions they seemingly did not want to answer, hopefully providing inspiration in case one of these holiday questions comes your way.

When asked how much of their sales come from e-commerce...

“I don't think we're ready to share that yet, but I'll pause and maybe I'll defer to Paul here.”

- Michael D. Hsu, KMB

“Dad, is Santa real?”

“I don't think we're ready to share that yet, but I'll pause and maybe I'll defer to Mom here.”

When asked what gives them confidence that they will hit their EPS target for the year...

“That's an expected question, obviously. Let me just give you a little bit of context on the first quarter...”

- James Kehoe, WAB

“I know we'll have a lot of cousins over, but can I light the kinara tonight?”

“That's an expected question, obviously. Let me just give you a little bit of context on Kwanzaa...”

Asked if anything gives them confidence that demand won't drop off in the near term...

"We really have no – like everyone else, we really have no idea. I don't think we've ever seen anything like this and – in a very, very long time. So we're like everybody else, we're hoping for the best. But we know that it's very uncertain out there, and we can't predict what's going to happen."

- Edward Stack, DKS

→

"Aunt Joan and Uncle Bob, do you think I'll get extra Hannukah gelt this year?"

"We really have no – like everyone else, we really have no idea. I don't think we've ever seen anything like this and – in a very, very long time. So we're like everybody else, we're hoping for the best. But we know that it's very uncertain out there, and we can't predict what's going to happen."

When asked for more detail about 501(c) payments...

"With all your respect, Shar, I'm going to stay away from that question."

- Charles Jones, FE

→

"Can reindeer really fly?"

"With all your respect, Shar, I'm going to stay away from that question."

**About this Report:**

This report represents the application of BIA's Tactical Behavior Assessment® methodology and reflects BIA's assessment of the completeness and responsiveness of statements made during earnings conference calls, television interviews and other presentations. In each case, our assessment represents the opinion of BIA applying the Tactical Behavior Assessment® methodology and does not purport to indicate that any individual is in any specific instance being truthful or deceptive. BIA does not make stock recommendations. Under no circumstances is BIA's analysis intended to be a recommendation to buy or sell the securities of the company which is the subject of this report.

**About BIA:**

Business Intelligence Advisors (BIA) is the leading Intelligence Solutions research and advisory firm. Founded in 2001 on the principle that Intelligence techniques originally developed for the national intelligence community could be powerfully applied to the private sector, BIA has developed a ground-breaking suite of service offerings to provide clients with an edge in collecting and evaluating information critical to their success – whether that means making a more informed investment decision, identifying hidden risks, or enhancing due diligence efforts. BIA's services, which include proprietary Behavioral Intelligence Research, Expert Advisory, Investment Intelligence, and Learning & Development Solutions, are delivered by a team of in-house experts from the national intelligence and finance fields.

[www.biadvisors.com](http://www.biadvisors.com)