

# BETWEEN THE LINES

April 13, 2023

## New Earnings Season? How About a Fresh Approach to Asking Earnings Call Questions?

**With the Q2 earnings season approaching**, this is a good time for BIA to provide tips and reminders on how to ask questions more effectively during earnings calls and meetings with management teams. Below, we examine how some of Wall Street's best-known sell-side analysts asked questions during earnings calls of companies that, by their own admissions (see links), were their least successful stock calls. Then, we show you what BIA would have done differently using our proprietary Tactical Behavior Assessment® (TBA)-based approach to strategic interviewing.

### Please, Just One Question at a Time

**Julian Mitchell**  
*Barclays Bank*

*Johnson Controls International FQ2 2021 Earnings Call, April 30, 2021*

*Q – Maybe a first question around Fire & Security. You've got good sort of recovery trends, very evident on the HVAC side of the house. Fire & Security sales still down mid-single digit. So maybe help us understand how you see the slope of that recovery from here? And perhaps how big of an impact is the sort of retail piece in there as a headwind?*

**BIA's critique:** Positive aspects of how Mr. Mitchell asked this question are his signals of optimism and genuine interest in understanding management's sales outlook for JCI's Fire & Security division which, at the time, were down. These are critical components to what BIA calls a "question prologue," which breaks down interviewees' defensive barriers when discussing unfavorable topics. However, Mr. Mitchell's actual question was not effective in gaining full and useful insight into management's expectations. First, the phrase "how you see the slope of that recovery from here" is vague and invites management to respond in very general terms. Second, Mr. Mitchell asked two separate questions, which gave management latitude to ignore one of them if they chose. In this case, management, in fact, did not provide any information on how significant the retail headwind was on Fire & Security sales. Also, they did not provide a specific outlook, and instead gave the impression that their outlook is good by saying short-cycle business in Fire & Safety "is up nicely...up about low to mid-single digits," and that "we can truly differentiate what we do longer term" to increase recurring revenue. These statements did not shed any light on what management was expecting in terms of sales going forward.

**Question Prologues are two or more sentences that enhance a single clear, concise question.**

**BIA's recommendation:** Tweak the prologue and ask a single clear, concise and direct question. Have follow-up questions ready.

*You've got good recovery trends, very evident on the HVAC side of the house. Fire & Security sales are still down mid-single digit which is understandable in the current market. You've successfully managed through periods of slow growth in the past, and it may take some time to fully recover. When is the soonest you anticipate Fire & Security sales to return to normal levels? Follow up after the answer to the first question: What is the longest it could take? Follow up after the answer to the second question: How much have retail sales negatively impacted overall Fire & Safety sales?*

Source: <https://www.institutionalinvestor.com/article/b20cbklr1qf1fm/Meet-the-New-Stars-of-the-All-America-Research-Team>

## You Can't Presume Too Much

Samad Samana

Jeffries

Workday FQ4 2014 Earnings Call, February 26, 2014

Q – Okay. And then one follow-up question, the sales force is more seasoned and customers are more and more accepting of SaaS and HR and finance at the enterprise. Are you seeing a change in sales cycles? Is it getting easier to sell to enterprise customers? How does the length of sales cycles track for the company?

**BIA's critique:** By asking too many questions at once, Mr. Samana's approach here was confusing, and likely did not get to what he really wanted to know. Furthermore, the way the questions are asked allowed management to merely respond "yes" or "no" without providing useful insight. Essentially, that is what management did, saying, "I don't think the sale cycle length has changed," and that it "hasn't really changed." The qualifications "I don't think" and "hasn't really" changed, however, suggested that sales cycles had changed to some extent. If sales cycles had meaningfully improved, it is likely management would have been willing to share that information. Since they did not take the opportunity to do so, BIA's opinion would have been that sales cycles have not improved or may have even increased as the market had grown. Management then implied that what had improved was the ease of delivering their marketing message and likelihood of sales wins but did not provide any insight into what the sales cycle was, which is additional behavioral evidence that sales cycles may have increased at that time.

**Presuming the interviewee has concerns about a topic can draw out more information.**

**BIA's recommendation:** Re-formulate the question using what BIA calls a "presumptive" question, which makes it harder for management to avoid providing additional, potentially negative information.

*It is great that customers are more accepting of SaaS, HR and Finance products. With so much growth in the market, it would seem reasonable that customers may choose to comparison shop more than they used to. As your sales force and customers have become more sophisticated, to what extent have your enterprise sales cycles lengthened?*

Source: <https://www.institutionalinvestor.com/article/b20cbklr1gf1fm/Meet-the-New-Stars-of-the-All-America-Research-Team>

## Ask The Question You Really Want to Ask

Jamie Baker

JPMorgan

Copa Holdings FQ4 2008 Earnings Call, February 19, 2009

Q – And do you have a schedule of [aircraft] lease expirations for 2010? I am just trying to get a handle on your ability to downsize the plan if conditions require it.

**BIA's critique:** Mr. Baker asks a very specific question about Copa Holdings' aircraft lease expirations for the upcoming year. Management answers "yeah," and then takes the opportunity to enumerate the specific leases that were expiring. From a behavioral perspective, BIA would not have had any reason to doubt the veracity of management's response. Where Mr. Baker could have improved his interview strategy would have been to ask what he really wanted to know – namely, "to get a handle on [Copa's] ability to downsize their plan." By asking for just a single nugget of information without employing a broader line of questioning, Mr. Baker risked missing valuable information – good and bad – to enhance his conviction around Copa's ability to downsize if necessary.

**BIA's recommendation:** Start with a broad, presumptive question before getting into the details.

*If circumstances require you to downsize your current fleet plans, what factors do you need to address to do so?*

Source: <https://www.institutionalinvestor.com/article/b20cc255hfm7dq/The-All-America-Research-Team-Hall-of-Fame-Jamie-Baker>

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