

# BETWEEN THE LINES

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## 2023 Wall Street Analyst All Stars: Even the Best Can Be Better at Asking Questions

### Introduction

As we enjoy the 2023 holiday season and begin wrapping up the year, we take a moment to look back and examine some of the questions asked by Wall Street's top-rated analysts during recent quarterly earnings calls. What we find is that even the best analysts don't always ask the best questions, and we believe they could be even better by leveraging our strategic interviewing expertise. At BIA, we coach and advise our clients to interview executives using our proprietary Tactical Behavioral Assessment® (TBA™) methodology to determine the completeness, accuracy and reliability of the responses and information provided. In this edition of *Between the Lines*, we break down questions from a sampling of top analysts to show how BIA's approach to asking questions could have helped them gain more insight from management teams. Also, we provide some advice on the wrong way to answer tricky questions around the holiday season.

### Interviewing Premise: Presumption of More Information Until Proven Complete

*"I guess first off, just the Services growth rate, there was a tremendous acceleration, I think, in September quarter to 16% growth. And it sounds like it's going to hold there pretty well into December. Can you just talk about what is driving this acceleration? Are there a couple of products that have just stepped up in a very meaningful way? Just maybe flush out like what is driving the acceleration because it's fairly notable compared to what you've been seeing the last few quarters."*

- Amit Daryanani, Evercore ISI Institutional Equities. Apple Inc., FQ4 2023 Earnings Call

**BIA's critique:** Mr. Daryanani asks a reasonably clear, concise set of questions seeking to understand what is driving the acceleration in Apple's Services segment growth rate in Q3. Nevertheless, there is room for improvement in terms of drawing out incremental information through more effectively phrased questions. Mr. Daryanani is looking for insight into the drivers of growth. Management is all too happy to enumerate the various factors that led to the acceleration. However, by only asking for positive factors, Mr. Daryanani inadvertently misses an opportunity to determine if management is worried about factors that are putting, or could put, downward pressure on that acceleration. By taking a more strategic approach to gathering information, Mr. Daryanani could gain a fuller picture of Apple's growth drivers and their sustainability. Indeed, the phrase "because it's fairly notable compared to what you've been seeing the last few quarters" signals that Mr. Daryanani views the acceleration as exceptional and warranting special explanation.

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

**BIA's recommendation:** BIA would suggest exploring what negative factors might be present that management is not mentioning and how sustainable the current acceleration in growth will be – by phrasing a follow-up question as what we call a presumptive question. A presumptive question assumes undisclosed information exists and subtly nudges interviewees to provide incremental, and potentially negative or sensitive, information.

*It's great to see the improving trends in Services growth. What factors are you seeing that could realistically hinder this pace of acceleration?*

- *What concerns do you have that this acceleration is not sustainable?*
- *What has changed over the past three quarters to drive the acceleration?*

## Interviewing Motto: Be Prepared

*“Can you remind us how that works for pricing, the mechanism from the time an order is placed, let's say, at the far end of your order book late 2025? Tell us how what is the expectation that one of Ferrari customer would have for the price paid prior to configuring versus your ability to work with them, including potentially higher prices? Not just because you can because obviously you want to treat the company -- you want the customer to promise of value. But just remind us in during times when there is very-very tight order book and it goes very-very long out, how -- confirm that you don't lock in pricing and kind of historically, how that could move, if you follow the logic of my question?”*

- Adam Jonas, Morgan Stanley. Ferrari N.V. FQ3 2023 Earnings Call

**BIA's critique:** While Mr. Jonas had no doubt thought in advance about the topics he wanted to discuss on the earnings call, his delivery of this question comes across as though he is thinking out loud on the spot. The intended question boils down to whether Ferrari is able to raise prices between the time a car order is contracted and when the car is actually built. However, such a rambling and convoluted question can create pitfalls for obtaining high quality information during an interview. In terms of the Company's ability to raise prices, Mr. Jonas asks first “what is the expectation...a Ferrari customer would have for the price,” but then later asks management to “confirm that you don't lock in pricing.” Management could choose to answer one or both of these questions, which could result in Mr. Jonas not getting the information he really wants. Furthermore, Mr. Jonas ends by asking “during times when there is very-very tight order book and it goes very-very long out, how...kind of historically, how that could move?” Given that this is the last thing the executive hears, it potentially leads him to answer about what has happened in the past – which may or may not be relevant – and not respond at all to the other questions about what level of flexibility the Company has now. When a question is delivered in this way, it can create confusion for the listener, leading him or her to purposely or unintentionally avoid providing requested information or even to respond with irrelevant information. Either way, the interviewer's job of gaining information and insight is made more difficult than it has to be.

**BIA's recommendation:** BIA recommends strategically formulating effective interview questions and preparing for smooth, clear delivery of those questions ahead of meetings with management teams.

*How much flexibility do you have to increase a contracted price on an order that will not be delivered for over a year?*

## Moving Head On? Or Creating a Fork in the Road?

*“Great to see the profitability, so much fun stuff to talk about in the quarter. But maybe I'll just hit one topic head on, which is the scrutiny that I think all of us have on the second half net new ARR ramp. And listen, I think we've heard it from you and George for multiple quarters now that the multiproduct pipeline just looks strong. But I was wondering if either of you could help us maybe look at that ramp from another lens to maybe help us get a little bit more confidence, whether that's based on things like net revenue retention or implied new logo business, any other lens that you'd have us look at -- I guess, look through when kind of stress testing that second half net new ARR ramp that you're guiding to?”*

- Saket Kalia, Barclays Bank. CrowdStrike Holdings FQ2 2024 Earnings Call

**BIA's critique:** Questions are most effective when they are clear and concise. Despite the analyst's assertion that he is hitting the topic “head on,” this question is vague and complex. Mr. Kalia asks if management's confidence in the H2 average recurring revenue (ARR) guidance is “based on things like net revenue retention or implied new logo business, any other lens that you'd have us look at.” This implies that Mr. Kalia wants management to share specific information or metrics that would support their optimism for H2 performance. However, he does not specifically ask for this information. The way this question is phrased – i.e. “things like” and “any other lens” – gives management a great deal of leeway to choose what information to provide and how specific they want to be.

**Clear, concise and single meaning questions make gathering complete information easier.**

**BIA's recommendation:** Asking direct questions with a clear, single meaning is more effective in garnering complete, specific information.

*It is good to hear that you are optimistic about the second-half net new ARR ramp...*

- *To what extent is your outlook for net new ARR based on your net revenue retention performance?*
- *To what extent is your net new ARR outlook based on your expectation for new logo business?*
- *Specifically, what other indicators have you factored into your net new ARR guidance?*

## One Bite at a Time

*"I guess just to keep it simple, Jayshree, if you can give us an update on when we think about the last 90 days, how have the 2 sort of verticals, Cloud Titans and enterprise sort of shown up in terms of momentum of orders and demand relative to where your expectations were 90 days ago. I know some of the cloud companies have talked about their CapEx outlook for next year as well. So an update on that would be helpful. And on the last call, you did talk about a target for double-digit growth next year. So how are you thinking on -- in relation to that number still going into the Investor Day."*

- Samik Chatterjee, JPMorgan Chase. Arista Networks Inc. FQ3 2023

**BIA's critique:** Mr. Chatterjee says he is going to keep his question simple, but he goes on to ask three separate questions in a row. Each question, in and of itself, is reasonably clear, concise and simple. However, by asking all three questions in succession, Mr. Chatterjee creates a potential pitfall for obtaining and evaluating information. The problem with asking questions in this way is that it increases the likelihood that management will not answer all the questions. In many cases, not answering all questions could merely be an oversight. But in other cases, such omissions could be deliberate.

**BIA's recommendation:** A better approach is to let management know up front that you will be asking more than one question, then ask each question separately. Allow management to respond to each question before moving on to the next. Not only is this a more effective way to manage the line of questioning, it also makes it easier to ask targeted follow-up questions on the topics where the interviewer needs to dig deeper.

- *What differences do you see in the results for orders and demand for the quarter compared to your expectations from 90 days ago?*
- *Based on what you have heard from your customers so far, how will their CapEx for next year change relative to this year?*
- *Based on what you are seeing now, to what extent will you need to adjust your target for double-digit growth next year?*

## Advice on How Not to Answer Holiday Questions

This time of year, many questions are difficult to answer, and not just those from children. Plenty of adults experience holiday uncertainties, and responding to these types of questions might be tricky. Here are some ways that CEOs this year have responded to questions they clearly did not want to answer, hopefully demonstrating for you how not to answer questions from friends and family!

When asked what percentage of sales done on Macy's proprietary credit card are from higher risk customers...

"[Laughing] Look, Paul, we have a healthy portfolio. We're not deep into subprime if that's the nature of your question."

- Adrian Mitchell, M



"Do you have any sugar free dishes for your Diwali feast this year?"

"[Laughing] Look, Paul, we have a healthy menu. We're not deep into sweets if that's the nature of your question."

When asked about relations between vendor brands and Coupang...

“So at any given point, we are buying some products and not others. And this is a continuous and ongoing process for any retailer in the world. I hope that answers the question.”

- Gaurav Anand, CPNG



“Honey, will I get all the Hanukkah presents I asked for this year?”

“So at any given point, I am buying some gifts and not others. And this is a continuous and ongoing process for any partner in the world. I hope that answers the question.”

When asked if Palo Alto Networks Inc would make a transformative M&A deal...

“If you don’t think we’ve transformed the company in the last five years, I don’t know, man. I don’t know what else to do to make you happy, okay? I’m sorry. It’s Friday night, I’m going home.”

- Nikesh Arora, PANW



“When are we going to update our Christmas decorations?”

“If you don’t think we’ve transformed our decorations in the last five years, I don’t know, man. I don’t know what else to do to make you happy, okay? I’m sorry. It’s Friday night, I’m going home.”

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