

# How Conference Calls Can Help Investors Read the Tea Leaves

By John E. Deysher

One of the primary benefits of Regulation FD (Fair Disclosure), which took effect two years ago, is better dissemination of corporate news. Information that was previously available only to institutional investors is now available to individual investors.

Many public companies have indeed leveled the playing field through:

- Fuller and more transparent disclosure in company reports, proxies and SEC filings;
- Enhanced Web site presentations with links to important affiliated sites; and
- Making conference calls with management available to individual investors.

While most investors are familiar with the first two, many are unaware that they can now obtain information first-hand on conference calls, just like institutional investors.

A few years ago most discussion about conference calls focused on how individuals were being excluded. Now, nearly all calls are open to the public.

Conference calls normally follow a news release (earnings, merger, acquisition, etc.) and provide vital information that's often not available anywhere else. Typically, management will have prepared remarks, followed by a question &



answer session that often elicits information that is not in the official press release.

Individual investors listening in can obtain the same unfiltered information as the institutions, such as guidance on future earnings and insights on important events like new product launches, cost reduction initiatives, share repurchases and corporate transactions.

## How to Listen In

Individual investors can access conference calls in one of three ways:

- 1) Through live Webcast over the Internet.
- 2) By obtaining the dial-in information and participating in the call directly—even if in a listen-only mode. On several recent calls, individual investors have asked questions, indicating that some companies are making interactive participation available to all.
- 3) By accessing completed (archived) calls on the Web or by phone. Most companies will make a recording of calls available for several days.

How do you know when a particular conference call is scheduled?

For starters, you can try the company's Web site or call investor relations. There are also Web site directories (see box) that collect and dispense information on hundreds of calls. You'll need at least a 28.8kps speed Internet connection, and either RealPlayer or Windows Media Player soft-

### Listening in on the Web

#### **BestCalls** ([www.bestcalls.com](http://www.bestcalls.com))

Provides call information on, and access to, hundreds of calls including Webcasts, live calls and replays. It does not make recommendations or endorse the securities of individual companies.

#### **Vcall** ([www.vcall.com](http://www.vcall.com))

Lets you identify and access today's calls or search for past or future calls by company or ticker symbol.

#### **Corporate Web sites**

Some companies prefer you to access their calls directly through their Web site. This usually involves clicking on the Investor/Shareholder Relations portion of the site and registering several minutes before the call.

ware to listen in.

#### **What to Listen For**

Preparation is key. Ideally, you should be fairly familiar with the company before the call. Read a copy of the press release ahead of time so you'll know which areas management is likely to focus on. Press releases are normally available on the company's Web site or through news services like Dow Jones, Bloomberg, Reuters or Businesswire.

Make a list of questions or areas you'd like management to address before the call begins.

Once the call begins, pay attention to how management recaps the news release and looks to the future.

Quantitative "color" or elaboration is as important as qualitative. For example, a statement that "our backlog is \$12 million, up from \$10 million at the end of the previous quarter" is better than "our sales people tell us that orders are looking good." The former shows management has a solid grasp on current conditions, while the latter provides less certainty. Hard facts and figures are always preferable to soft or unspecific answers.

You'll probably learn the most from the question & answer segment. Questions generally come from well-informed analysts and investors who have been following the company for

awhile. They'll ask pertinent questions about the business and its prospects. Some may be detailed questions to help fine-tune their earnings models, such as what tax rate to use. But the best questions address critical issues, like sales and margin trends, cash flow, capital allocation, new business initiatives and changes in management. Listen to how management reacts to tough questions.

You can tell if an analyst sounds very concerned about something. And how the CEO or CFO responds speaks volumes about how the analyst might upgrade or downgrade the stock. If several questions circle back to the same issue—for instance, the expected synergies from a proposed acquisition—listen up. They're generally focused on something important.

Recently, I participated in a call in which a company announced worse-than-expected results. There was a key customer loss, a floundering new business initiative that was eating cash, and lots of red ink. During the Q&A, management got fairly defensive, claiming they'd provide no earnings guidance for the next quarter or year. They wouldn't disclose or offer an opinion on why the key customer left. Nor would they offer any basic metrics on how the new business initiative was tracking. In short, there were lots of issues that should have been addressed but weren't. And you could sense the

analysts' frustration. Individual investors listening in would have a very good idea of the key issues going forward.

#### **Conference Call Etiquette**

Here are some important guidelines on how to participate in a conference call:

- If you attend a live call and the company allows you to ask questions, the conference call operator will provide instructions on how to ask a question. Let the analysts ask their questions first. Chances are any question you want to ask will be asked by the analysts.
- If your question is still not answered, patch in and ask it in a professional and courteous manner. This is your chance for direct contact with management. Think carefully about how to ask your question to elicit the information you're seeking.
- Generally, open-ended questions get better answers. For instance: "What concrete measures are you taking to reduce costs?" is better than "So you think you can reduce costs?"
- Conference calls are not "anything goes" forums like most message boards. Inappropriate language or behavior will result in immediate disconnection and a ban from all future calls. Management keeps records of who participates. ▲

**John Deysher, CFA, is president and portfolio manager of the Pinnacle Value Fund, a newly formed (April 2003) diversified mutual fund specializing in small companies. He is based in New York City and can be reached at [deysher@pinnaclevaluefund.com](mailto:deysher@pinnaclevaluefund.com).**