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Access to management and the informativeness of analyst research[☆]

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ABSTRACT

We examine whether access to management at broker-hosted investor conferences leads to more informative research by analysts. We find analyst recommendation changes have larger immediate price impacts when the analyst's firm has a conference-hosting relation with the company. The effect increases with hosting frequency and is strongest in the days following the conference. Conference-hosting brokers also issue more informative, accurate, and timely earnings forecasts than non-hosts. Our findings suggest that access to management remains an important source of analysts' informational advantage in the post-Regulation Fair Disclosure world.

1. Introduction

A large literature establishes the important informational role that brokerage research analysts play in financial markets. Analysts' earnings forecasts have been found to be generally more accurate than statistical models (e.g., Brown and Rozeff, 1978; Bradshaw, Drake, and Myers, 2012), and another line of research shows that analysts' stock recommendations tend to be profitable (e.g., Womack, 1996; Jegadeesh, Kim, Krische, and Lee, 2004). Although analysts' expertise could arise from skillful processing of public information, another common explanation for analysts' forecasting skill relies on superior access to management. Brokerage analysts interact with firm management through visits to company headquarters, investor office meetings, and broker-hosted investor conferences. Despite the widespread nature of these costly activities, relatively little is known about the extent to which access to management provides analysts with value-relevant information.

Regulation Fair Disclosure (Regulation FD), enacted in 2000, requires that management disclose material information to all investors at the same time, which likely diminishes the value of private meetings with management. Koch, Lefanowicz, and Robinson (2012) survey the academic literature and conclude that Regulation FD has largely eliminated the benefits of management access. This calls into question analysts' supposed continued

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emphasis on seeking and cultivating access to management. However, other recent studies rely on indirect measures of management access based on geographic proximity (Malloy, 2005; Bernile, Kumar, and Sulaeman, 2012), the timing of earnings announcements (Ivkovic and Jegadeesh, 2004), analyst optimism (Gintschel and Markov, 2004; Chen and Matsumoto, 2006), or educational ties (Cohen, Frazzini, and Malloy, 2010), leaving open the possibility that subtle variants of management access continue to be a source of analysts' informational advantage.

In this paper, we focus on an institutional mechanism that potentially enhances access to management and explore whether analysts using this mechanism produce more informative stock recommendations and more accurate earnings forecasts. Broker-hosted investor conferences are organized to provide analysts and select investing clients with opportunities to interact with senior corporate managers. The typical conference format includes formal company presentations followed by question-and-answer sessions, often moderated by the analyst-host, and sometimes a series of one-on-one meetings between management and select clients, also often led by the analyst-host [see Bushee, Jung, and Miller (2011) and Green, Jame, Markov, and Subasi (forthcoming) for institutional details]. Since other analysts are generally excluded from these events, investor conferences present an excellent opportunity for identifying variation in management access and evaluating the extent to which management access is a source of analysts' informational advantage.[1]

We thus hypothesize that a conference relation between a broker's analyst and a followed firm leads to greater access to management, and we investigate whether such a tie generally leads to more informative analyst research. Conferences provide specific opportunities for acquiring value-relevant information, and we examine whether the host analyst's informational advantage is stronger after the event. We measure the information content of analyst research primarily as the two-day buy-and-hold abnormal return following stock recommendation changes. Our methodology involves regressing the market reaction to recommendation changes on indicator variables related to the source (host or non-host) and the timing of the report relative to the conference, as well as various recommendation, firm, analyst, and broker characteristics to control for factors influencing the informativeness of analyst research (Loh and Stulz, 2011).

We find markets respond strongly to the research of conference hosts. Our analysis of 2,749 investor conferences hosted by 107 brokerage firms reveals that host upgrades (downgrades) have two-day (0,1) abnormal returns that are 1.09% (−1.07%) larger than recommendation changes by non-hosts. This difference is amplified for recommendations made in the quarter (63 trading days) following the conference. Specifically, host upgrades (downgrades) have two-day abnormal returns that are 1.85% (−1.37%) larger than non-host upgrades (downgrades). We also examine the difference in market response between host and non-host recommendation changes over the subsequent two to 63 trading days following recommendation changes and find no significant evidence of drift or reversal.

Conference-hosting analysts do differ systematically from non-host analysts. For example, host analysts are more likely to be designated as all-stars, tend to work at larger brokerage houses, and issue recommendations on smaller firms. After including controls for the recommendation, analyst, broker, and firm characteristics known to influence the informativeness of analyst research, we find that host recommendations outperform on average by over 0.40% and the difference grows to about 0.80% in the post-conference period. The estimates are robust to the inclusion of analyst-firm fixed effects, and they are stable over time.

Intuitively, we find that the informativeness of conference hosts' research increases with hosting frequency. Specifically, recommendations by analysts that host a firm only once during the sample period incrementally outperform by roughly 0.25%, and recommendations by analysts that host a firm more than five times outperform by roughly 0.75%. We also find that hosts' incremental informativeness is strongest in the period immediately following the conference. The difference in price impact between hosts and non-hosts peaks in the first three-day period of the post-conference quarter and persists for at least three quarters after the conference. The increased informativeness immediately following the conference suggests that conferences provide specific opportunities for gathering information, and the persistent incremental informativeness of hosts' research supports the view that conferences signal an ongoing relationship between host analysts and firm management.

We also study the effects of investor conferences on host analysts' earnings forecast accuracy and timeliness. Consistent with the market impact results, we find evidence of increased forecast accuracy for conference hosts but not for other analysts in the post-conference period. Specifically, in the three months following the conference, the hosting analyst issues forecasts that are 5% more accurate than non-hosts. We also find that conference hosts issue more timely research than non-hosts, with host analysts' earnings forecasts being significantly more likely to lead rather than lag those of non-hosts.

Taken together, the greater market response to conference-host recommendation changes as well as host analysts' more timely and accurate earnings forecasts suggests that broker-hosted investor conferences are a mechanism for hosts to gain an important informational advantage. Our findings are also generally consistent with alternative explanations. For example, the larger market impact of host analysts' recommendations could reflect overreaction. However, the evidence that host analysts also issue more accurate earnings forecasts and the absence of a return reversal help mitigate this concern. More generally, analysts could choose to invite firms to conferences for which they have a comparative advantage

[1] Discussions with market participants suggest that it is rare for non-host analysts to attend investor conferences. While other analysts could have access to webcasts or transcripts of the formal company presentations, they are generally not privy to the information host analysts gather during the breakout sessions with select investing clients, as well as the informal interactions with management at conference events such as golf and dinners.