memo

GOTHAM research group

GOTHAM RESEARCH GROUP FINANCIAL ANALYST PANEL

How CFOs Build Credibility with the Analyst Community

- As part of our most recent Financial Analyst Panel study (conducted July through September, 2009), analysts were asked to identify the qualitative factors that drive their evaluations of a company's prospects.

- A wide variety of factors were identified, including impressions of CEOs (as outlined in our recent summary report – "Managing Analysts' Perceptions of Your CEO"), as well as perceptions of Chief Financial Officers.

- This memo identifies 7 CFO actions that have a significant positive impact on analysts' assessments of a company's prospects.

Seven Ways CFOs Send Positive Signals

1. Frame the financials in terms of the CEO's strategy and vision for the company.

Analysts are most impressed with CFOs who consistently and explicitly connect the company's finances to the CEO's strategy. Those who fail to do so or simply "refer to strategy without saying what it is" are seen as less capable.

2. Stay visible on earnings calls.

A quiet CEO can be excused under certain conditions, but a quiet CFO (or especially a newly quiet CFO) is always a concern and raises a number of "red flags" for analysts *(Doesn't the CEO trust the CFO anymore? Is the CFO on the way out?)*.

3. Present a united front with the CEO.

Analysts are constantly on the lookout for signs that the CEO and the CFO are not on the same page. Verbal demonstrations of solidarity during an earnings call – i.e., when a CFO explicitly references a CEO's strategy/vision as a part of a response to an analysts' question – send strong signals that the two executives are in sync.

4. Make time to interact with analysts outside earnings calls.

Analysts (a) demand unscripted access to the CFO on the same day a company makes a public statement/material disclosure; (b) expect 1-2 "touch-base" conversations each quarter to ask questions and get "some color" on events/issues that affect the company's financials; and (c) assume the CFO will be the "host" when they make on-site visits.

5. Demonstrate a "customer focus."

Whether a company has a B2C or B2B orientation, analysts believe that the best CFOs are in-tune with their customers. A CFO who has not, in retail industry terms, "been to a store within the last couple of months," is seen as out of touch.

6. Get the tone right – humility is in; big personalities are out.

Given the economic climate, analysts are much more comfortable with (and are much more likely to give the benefit of the doubt to) CFOs who convey a strong sense of caution – an acknowledgement of company shortcomings and challenges, a clear respect for the competition, and restrained optimism when the outlook is positive.

7. Don't make changes to the earnings call format lightly – analysts are always watching.

Any changes to the earnings call format over time are noted and puzzled over by analysts. Even small changes (a shift in CEO/CFO speaking order; a change in the issues covered by the CEO/CFO) can fuel conspiracy theories.

ABOUT

GOTHAM RESEARCH GROUP FINANCIAL ANALYST PANEL

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More on the Gotham Research Group Financial Analyst Panel

The Gotham Research Group Financial Analyst Panel is a quarterly study designed to produce actionable strategy for improving our clients' standing in the analyst community.

The Panel is a rotating group of prominent sell-side financial analysts representing a broad range of industries. Each quarter, our panel members participate in an hour-long, in-depth interview designed to reveal their views of the industries they cover, as well as their assessments of specific publicly-traded companies and their CEOs/senior management teams.

Each quarter, we release a number of publicly-available summary reports. The full results of each study are available by subscription. For more information about Financial Analyst Panel study subscriptions, or customized research reports and services, please contact Jeffrey Levine at 917.374.6704 or jlevine@gothamresearchgroup.com.

Gotham Research Group

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