



The BestCalls Guide to Listening to Conference Calls

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► **Reading the Conference Call Tea Leaves: A BestCalls Guide to Benefiting from the Call**

by Mark Coker, BestCalls founder

Conference calls provide investors a wealth of timely information that simply can't be found in press releases, 10Ks, 10Qs or annual reports. Back in 1999, most discussion about conference calls focused on how individual investors were being excluded. Today, nearly all calls are open to the public. This guide provides a simple checklist to help investors gain the most benefit from their conference call attendance:

1. Attend every earnings conference call - Conference calls help you gain an in-depth understanding of a company. The more familiar you become with a company and its calls, the better you'll be able to read the tea leaves. Over time, you'll be able to detect sometimes subtle, yet significant, shifts in fundamentals.

2. Did earnings meet or exceed expectations? - If there were any disappointments, does management have a decisive plan to remedy the disappointments? Was the disappointment really that bad? For example, did one big order from last quarter fall into this quarter? If they exceeded expectations, were there any shifts in business conditions that might signal accelerating earnings or revenues in the future?

3. Pay close attention to revenues - Did revenue growth keep pace with earnings growth? As the economy slows, this becomes an increasingly important consideration, because companies will be tempted to "window-dress" their earnings to meet earnings forecasts, but revenues are difficult to manipulate. Revenue growth is the most important engine of future earnings growth.

4. Mood of management - Is management upbeat or downbeat? More importantly, how has mood changed compared to previous calls?

5. Mood of analysts - Are analysts upbeat or downbeat? More importantly, how has mood changed compared to previous calls? Do analysts preface their questions with congratulatory remarks, or not? Also pay attention to who makes the comments. Congratulatory remarks from a sell-side analyst carry more weight than remarks from the buy-side, because it could signal a potential upward earnings estimate revision the next day. Also, many of the buy-side analysts already have a position in the stock, so they have a vested interest in placing a positive "spin" on the results.

6. Listen closely to the analyst Q&A - This is the most important part of the call. This is where information comes out that you won't find in press release, 10K, 10Q, etc.

7. Is management in command of the facts? - Does the management team have answers at the tip of their tongue for every question, or do they fumble through papers and struggle to provide answers to even simple questions? Do the CEO and CFO pass

questions to one another in a seamless manner, or are both unsure of answers?

8. Does management articulate a clear vision of the future, and do the results of the quarter demonstrate that they're executing on that strategy? - Successful management teams can often articulate a clear, simple vision for the future, and they execute every quarter like clockwork. Cisco is a great example of this.

9. Does management inspire you? - If a management team doesn't inspire you, they can't inspire their employees. A company without inspired employees is often tomorrow's rudderless has-been.

10. How is the company performing in terms of recruiting and employee retention? - Employees are the growth engine for every company. If the company is having trouble recruiting or retaining skilled staffers, future growth will be threatened.

11. Listen for forward guidance - Thanks to Regulation FD, management is no longer allowed to selectively disclose forward looking earnings guidance. As a result, many companies now present prepared remarks on anticipated sequential growth rates, earnings forecasts, comfort with current analyst estimates, etc.

12. Trade at your own risk - Conference calls are best used as a research tool for long term investors. Nevertheless, with today's access to real time information and after-hours trading, many brave traders are attempting to trade after hours based on conference call information. Be warned that after hours trading does not provide the same liquidity as normal trading hours, so volatility can be extreme. And price movements after hours aren't always an accurate predictor of the next day's trading.

13. Sequential growth rates - Pay attention to sequential growth rates to determine if revenue growth is accelerating or slowing. Compare the sequential quarterly revenue increase with the same quarter over quarter performance from one year ago (i.e. Q3 2001 vs Q2 2001, and then compare against Q3 2000 vs Q2 2000). This will tell you if the company is growing faster this year than it was last year. For an even more accurate picture, calculate the sequential quarterly growth rates over the period of 2-3 years, then analyze the trend using both sequential comparisons and year over year comparisons. This will help you factor out seasonal influences.

14. Listen, Listen, Listen - The more calls you attend, the more sophisticated investor you will become. You'll learn to understand the underlying fundamentals of a business, learn to form an opinion of management, learn to identify subtle nuances and learn how to sift winners from losers.

About the author - Mark Coker is founder and president of BestCalls.com (<http://www.bestcalls.com>), the Internet's leading directory of investor conference calls and events. Coker is credited with launching in 1999 what many now call the "open conference call movement," which was a grassroots campaign aimed at opening earnings conference calls to all investors. The campaign, which gained widespread media coverage and endorsement, shined a bright light on the problem of selective disclosure and served as a catalyst for the SEC's Regulation FD.

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