



Blackball an Analyst?

By David K. Erickson

“That’s the last straw,” yelled the CEO as he stormed into Darin Kent’s office and threw the report on his desk. “This guy’s conclusions about the health of our business are just plain wrong. Why doesn’t he get it? Isn’t he listening to what we’re saying? To rate our stock ‘underperform’ is an insult!”

Donald Earnest, the founder and CEO of the Acme Rocket Company, was fuming about the latest research report written by Gary Gogetter, the sell-side analyst from First Merrill Goldwitter. In his six months with the company, Kent, the investor relations director, couldn’t recall seeing his boss this irate.

“I don’t know what else we can do,” Kent shrugged. “You’ve talked to him several times, and I’ve spent hours on the phone with him myself. During his visit here last month, he met with every member of our senior management team, and I’ve even put him in touch with some of our biggest customers. His facts are correct. It’s just his conclusions that are off track.”

“If he won’t listen to us, we shouldn’t waste our time on him,” exclaimed Earnest. “Let’s cut him off. Don’t let him on our conference calls. Maybe that will shake some sense into him. It certainly couldn’t do any more harm.”

Contemplating his boss’s vitriol for a few moments, Kent carefully responded: “I think we’d be making a mistake if we blackballed him. If we want to maintain our practice of being open and transparent with Wall Street, we can’t be selective in whom we deal with. Additionally, Reg FD requires us to let him on our conference calls.”

Earnest considered Kent’s words for a moment and replied, “Well, we certainly shouldn’t treat this guy like he’s one of our favorite analysts. You can maintain a dialogue with him if you want to, but I won’t waste another minute of my time with him. And you’d better not let him ask a question on our call.”

Note: Two new members have joined the Ethics Counsel: Janine Dusossoit and Lynn McHugh. They replace Len Griehs and Karen Warren, who have rotated off. The council wishes to acknowledge all the hard work they contributed to making the council a viable forum for NIRI members facing thorny situations.



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“I’ll figure out a solution and get back to you,” Kent called after Earnest as he marched away.

Kent considered what to do. He knew that cutting off Gogetter completely was not an option. He recalled that the best practice guidelines for companies and analysts recently published by NIRI

and the CFA Institute clearly stated that analysts should not be denied access to information based on their research opinions. And the last thing he wanted was a disgruntled analyst bad-mouthing Acme to investors. Besides, he reasoned, if we’re not the ones providing Gogetter with information about our business, his next report might be even worse.

On the other hand, he wondered whether spending additional time trying to change Gogetter’s mind would be very productive. When drafting his initial research report on Acme, the analyst had made it very clear to Kent that his firm’s policies mandated that its analysts be as independent in their analysis as possible. Only positive financial results would change Gogetter’s opinion, Kent concluded, and that wasn’t going to happen in one quarter.

For those questions that needed the CEO’s input, he would act as intermediary until he could persuade Earnest that completely avoiding an analyst, no matter how “independent,” was not a viable option.

Intuitively, he knew the solution was to keep the lines of communication open and continue educating Gogetter about the company. But in the meantime, how would he handle Earnest’s mandate that the CEO not have future dealings with the analyst?

Kent felt confident he could work with Gogetter in a professional manner and address most of the issues posed by him. For those questions that needed the CEO’s input, he would act as intermediary until he could persuade Earnest that completely avoiding an analyst, no matter how “independent,” was not a viable option. “That’s going to take some delicate maneuvering on my part,” he said to himself.



More challenging and imminent, however, was next week’s quarterly earnings call. During the question-and-answer portion of Acme’s hour-long earnings conference calls, which were open to anyone, Kent always prioritized the queue. And ever since a very nice but long-winded individual shareholder monopolized nearly 10 minutes of time during a previous call, Kent had adopted the habit of removing anyone from the queue whose name or firm he didn’t recognize. He’d always felt a little uncomfortable with the ethics of this practice, but he reasoned that it was more important to ensure the company’s key analysts and investors got a chance to speak to management before time ran out on the call. If time did run out with people still in the queue, he and management always made themselves available immediately after the call.

“If I put Gogetter at the end of the queue, it will certainly make Earnest happy,” thought Kent. “However, we can’t avoid him completely. Maintaining consistency in our communication is more than just the message we’re conveying. Consistency also includes *how* we deal with our audiences, regardless of whether they see things our way. We need to treat Gogetter just like everyone else.”

Satisfied that he could persuade the CEO to reconsider, Kent headed for Earnest’s office. **IRU**

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