# INVESTOR RELATIONS AND ACCOUNTING'S RELEVANCE LOST

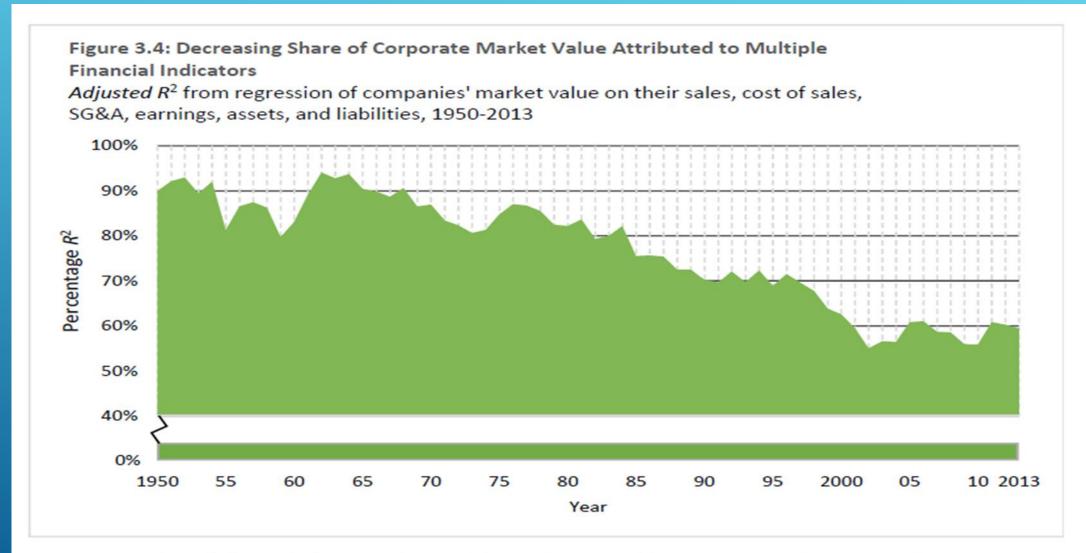
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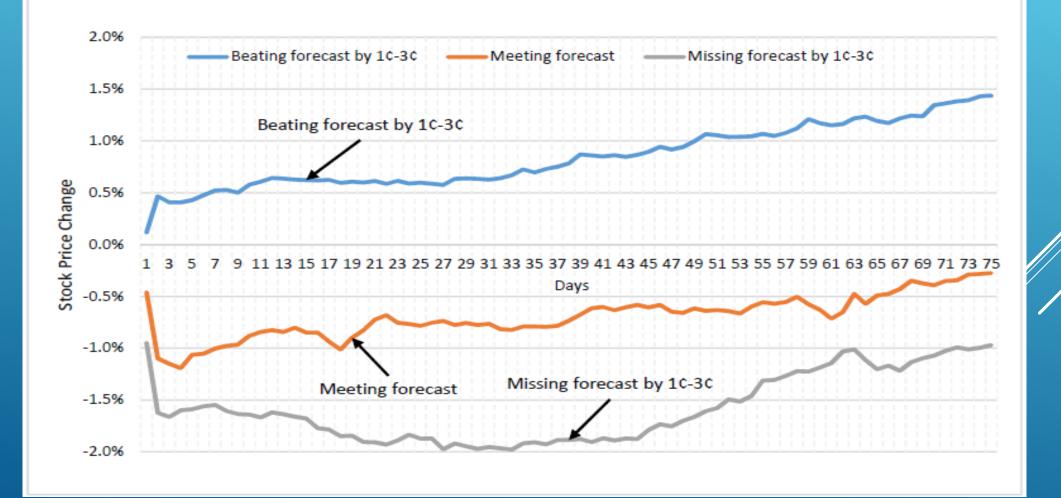
# Disclosing and Clarifying Financial Information Is a Major Activity of IROs, But...



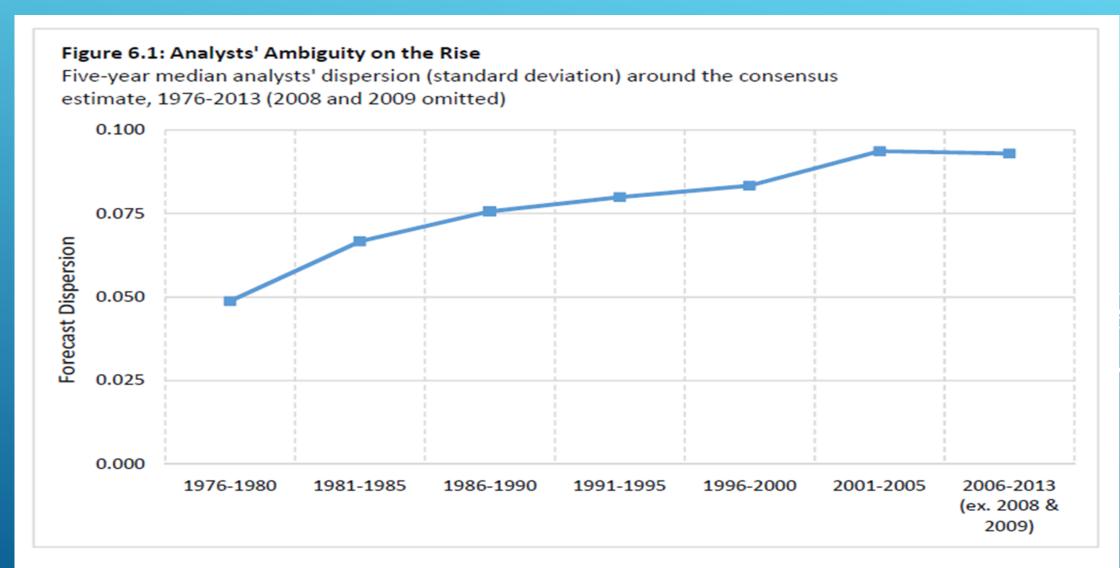
From: Lev and Gu, "The End of Accounting and the Path Forward for Investors and Managers," 2016.

## But What About "Earnings Moving Markets"? No Longer

Figure 2.3: The Consequences of Missing or Beating the Consensus Earnings Estimate 75-day average stock price changes (returns) from the earnings announcement for companies that missed the consensus EPS or beat the consensus by 1-3 cents, 2011-2013

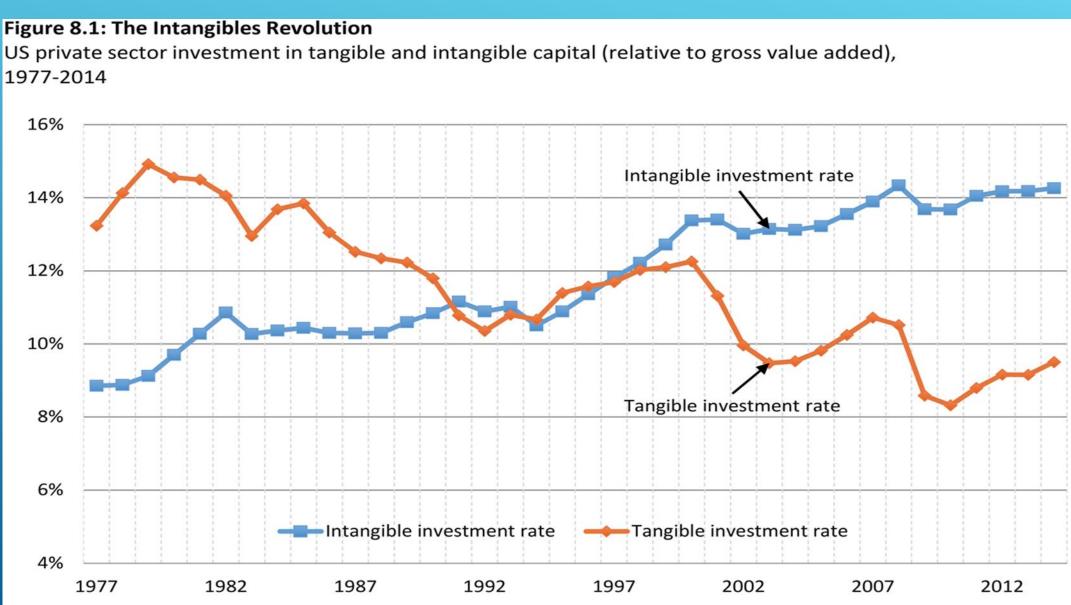


# That's Not Just An "Accountants' Issue": Investors' Uncertainty On The Rise

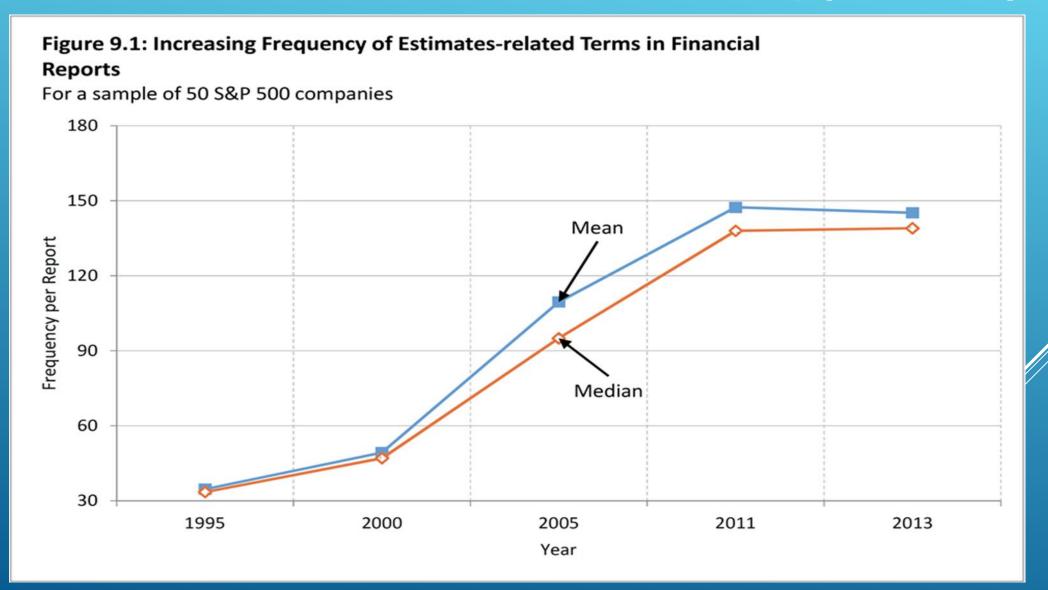


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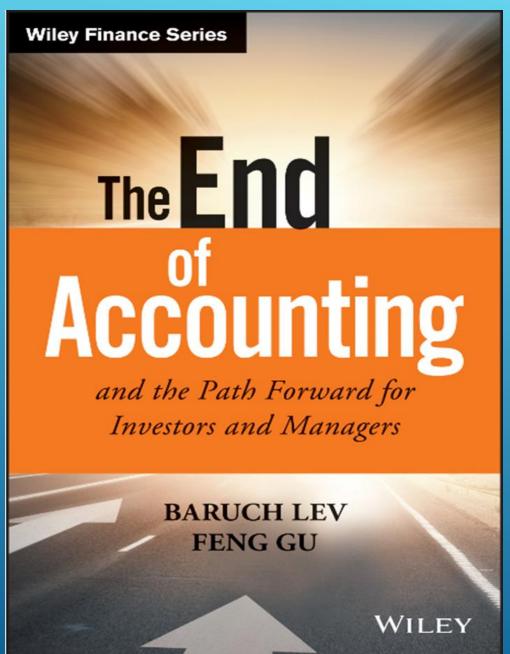
# Reason 1: Dramatic Change In Companies' Business Models, While Accountants Asleep At The Wheel



Reason 2: Accounting Isn't About Facts Anymore: Multiple Managerial Estimates, Projections, Guesses, and Occasional Manipulations Underlying Financial Information Decrease Information Reliability (Relevance)



# Not for nothing did I call the book: The End of Accounting



# So What's An IRO To Do? Disseminate And Discuss Relevant Information

- Enterprise objective: Gaining Sustained Competitive Advantage (Long-Term)
- How? By having and successfully deploying "strategic assets"
- Strategic assets are:
  - Generating benefits (customer franchise, licensed patents)
  - Rare; limited supply (wireless spectrum, airline landing rights)
  - Difficult to imitate (brands, oil & gas properties)

# That's Exactly What Analysts Asked In Hundreds of Earnings Calls In Other Industries

	Q3 2016			Q2 2016	
		- 11 - 11		- 21 (	
•	1	Capital spending guidance	1	Capital spending guidance	
•	2	Portfolio optimization	2	Production outlook	
+	3	Production outlook	3	Portfolio optimization	
<b>1</b>	4	Major projects	4	Cash flow targets	
<b>1</b>	5	Cost reduction	5	Major projects	
•	6	Shareholder distributions	6	Refining margins	
new	7	Working capital	7	Cost reduction	
+	8	Cash flow targets	8	Shareholder distributions	
new	9	Price realizations	9	LNG market developments	
	10	LNG market developments	10	Tax trends	

### Strategic Asset: Example

Figure 3: Product Pipeline (Partial) of Gilead Sciences, Q2 2016

### **Pipeline Product Candidates**

#### HIV

B/F/TAF\*

GS-9620 (TLR-7 agonist)

#### **Liver Diseases**

#### HCV

SOF/VEL/VOX\*\* (pan-genotypic NS3 protease inhibitor)

#### HBV

TAF (nucleotide reverse transcriptase inhibitor)

GS-4774 (Tarmogen T cell immunity stimulator)

GS-9620 (TLR-7 agonist)

#### NASH/Other Liver Diseases

Simtuzumab (monoclonal antibody) - Primary Sclerosing Cholangitis

Simtuzumab (monoclonal antibody) - NASH

GS-4997 (ASK-1 inhibitor) - NASH

Simtuzumab +/- GS-4997 - NASH

GS-9674 (FXR agonist) - NASH

GS-0976 (ACC inhibitor) - NASH

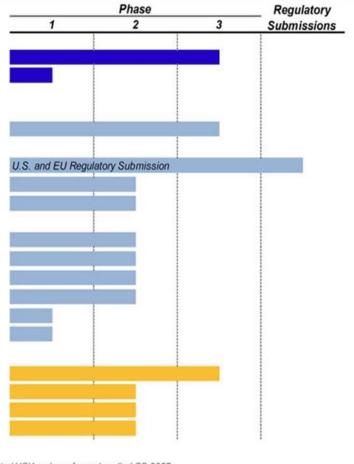
#### Cardiovascular

Eleclazine\*\*\* (late sodium current inhibitor) - LQT-3 Syndrome

GS-4997 (ASK-1 inhibitor) - PAH

Eleclazine (late sodium current inhibitor) - Hypertrophic Cardiomyopathy

Eleclazine (late sodium current inhibitor) - Ventricular Tachycardia/Ventricular Fibrillation



<sup>\*</sup>Bictegravir is abbreviated B and was formerly called GS-9883.

<sup>\*\*</sup>Velpatisivir is abbreviated VEL and was formerly called GS-5816. Voxilaprevir is abbreviated VOX and was formerly called GS-9857.

<sup>\*\*\*</sup>Formerly called GS-6615.

# Strategic Asset: Example

#### **SIRIUS XM**

#### Subscriber Franchise

	<u>Q3 – 2016</u>	<u>Q2 –</u> 2016
Net Edditions (thousands):		
Self-pay	385	507
Paid promotional	-39	80
Total	346	587
Ending Subscribers (thousands)		
Self-pay	25,528	25,143
Paid promotional	5,463	5,503
Total	30,991	30,646
<u>Churn Rate</u>	1.9%	1.6%
Conversion: New Vehicles	40%	40%
New Car Penetration	75%	78%
All Car Penetration	33%	33%
Subscriber Acquisition Costs (\$000)	120,111	128,956

### Major Themes To Be Discussed With Investors

#### Figure 11.1: THE STRATEGIC RESOURCES & CONSQUENCES REPORT

### DEVELOPING RESOURCES R&D (\$) Internal Research Development Acquired technology **Customer Acquisition** Costs (\$) Oil & Gas Exploration (\$) Exploration

- Successful
- Unsuccessful

Rights acquisition

#### TV & Movie Content (\$)

- New
- Sequels

#### Spectrum

- Acquisition (\$)
- Broadband

#### RESOURCE STOCKS

#### RESOURCE PRESERVATION

#### **RESOURCE** DEPLOYMENT

#### VALUE CREATED

#### **Patents & Trademarks**

Quantity

- Applied
- Approved
- Stock

Patent attributes (quality)

#### Customers

- Additions
- Terminations
- Total
- Churn

#### Proven Oil & Gas Reserves (\$)

- · Exploration rights
- No. of rigs

#### **Brands**

- Number
- Market share
- Brand value (\$)

#### Infringement

Detection programs

#### Disruption

Mitigation programs

#### Resources

Decay prevention

#### Knowledge Management

· No. of employees participating

#### Maintaining **Workforce Quality**

- In-house and external training (\$)
- Employee turnover

#### **Patents**

- Developed
- Sold/licensed
- Donated
- Expired

#### Oil & Gas Rights

- % explored
- % producing
- % abandoned

#### Alliances & Joint Ventures

- Investment in alliances (\$)
- · No. of alliances
- R&D
- Manufacturing

#### Movie / TV Content

- No. streams to customers
- Serialization
- International

#### Value Created in Period (\$)

Cash flows from operation

#### Plus:

 Expensed investments

#### Minus:

 Capital expenditure

#### Minus:

 Cost of equity capital

#### Plus:

#### **Resources Value** Changes (\$)

- Lifetime value of customers
- Value of oil & gas reserves
- · Brands value

### Takeaway

- GAAP-based financial information largely outlived its usefulness for investors (and managers)
- Patching the information—Non-GAAP Earnings improves relevance marginally
- Relevant, transparency-increasing information revolves around the business model, value-driving strategic assets, and real value creation.