Quantifying Investor Pressure*

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Abstract

How do investor preferences translate to changes in firm actions? We develop a firm-, time-, and topic-specific measure of investor preferences and their divergence from firm priorities using earnings call transcripts. This measure, which we call the "focus gap," captures the difference in attention to a given topic between the Q&A, which proxies for investor priorities, and the firm's presentation, which reflects firm executives' priorities. We show that the focus gap predicts firm actions. Specifically, a one standard deviation increase in the dividend focus gap is associated with a 0.4 p.p., or 4%, increase in dividends paid as a percent of firm market value within two years. The analogous repurchase focus gap raises repurchases made as a percent of firm market value by 0.3 p.p., or 2%, within one year, but reverts to zero by two years after the focus gap increase. We then develop a conceptual framework that generates two possible rationales for responsiveness to investor pressure: catering to increase short-term stock prices and learning about long-run value. Variation in incentives to cater to analysts suggests that catering to raise stock prices, as opposed to learning, drives responsiveness to the focus gap for dividend issuance and repurchases. Consistent with this interpretation, we find that focus gap-driven capital allocation decisions are associated with temporary stock price increases followed by subsequent reversals.

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1 Introduction

How do investor preferences translate to changes in firm actions? Milton Friedman summarized the widely held view of the role of the corporate executive as to be an "agent of the individuals who own the corporation...and his primary responsibility is to them" (Friedman, 1970). This perspective implies that, assuming shareholders care about the value of the firm, corporate actions should reflect the preferences of the firm's investors despite investors sitting outside of the walls of the firm. However, measuring investor preferences in a way that is specific to a firm, time, and action is empirically challenging. Conversations between investors and firm representatives are typically private, and the matching of changing investor preferences to firms is endogenous. Without credible measurement, describing which firms are under pressure from their investors, why some firms are more responsive to them, and whether doing so raises long-run firm value remains elusive.

In this paper, we leverage earnings call transcripts to create the "focus gap": a novel publicly available firm- and quarter-specific measure of investor pressure for a given corporate action for U.S. public firms. We use the fact that the public equities market regularly and publicly brings into dialogue the firm and a proxy for its shareholders, equity analysts, on the firm's quarterly earnings call. We measure the firm's priority for a given action using the share of the opening presentation by firm executives spent discussing the action, and we measure the investors' priority for an action using the share of equity analyst questions spent on the action in the open Q&A section that follows the presentation. The "focus gap" for a given action is defined as the difference in the action's priority for analysts and for the firm. For example, if a firm is mum on the possibility of dividend initiation but dividends engender the majority of analyst questions, then the dividend focus gap of the call will be large. While the focus gap can be constructed for any corporate action, we focus our analysis on a set of actions that every public firm frequently undertakes: issuing dividends and repurchasing shares.

For our chosen topics, we show suggestive evidence that the focus gap captures investor pressure. Investor pressure, as suggested by Friedman (1970) and in the model presented in Section 3, should cause firms to act according to investors' preferences. The ideal experiment to show that the focus gap proxies for investor pressure would randomly assign a focus gap across time between firms in order to test whether firms with larger focus gaps act more on a given action. However, such an experiment is infeasible in practice. Consequently, we perform a series of tests consistent with the focus gap reflecting investor pressure by showing, under particular assumptions about endogeneity, that it predicts future firm speech and actions. We show that analyst speech forecasts future firm speech, consistent with analyst

focus reflecting investor pressure. If analyst focus actually represents pressure rather than uninformative noise, then one would expect firms to at a minimum address this pressure in the cheapest way possible: through their speech. Within firm, a one standard deviation increase in analyst focus is associated with a 0.1 standard deviation increase in firm focus on dividends and repurchases, even after controlling for lagged firm focus.

Because this analysis leaves open the possibility that latent factors could drive both analyst and firm discussion and therefore overstate the effect of investor pressure, we turn to the *focus gap* as our intended measure of investor pressure. In reality, analyst focus combines questions that reflect investor pressure with questions that mirror a firm's priorities. In a regime where endogenous factors (such as inflation or technological shocks) change firm and analyst focus by the same magnitude, the focus gap purges this variation while still measuring investor pressure. As expected, a one standard deviation increase in lagged analyst focus predicts a 0.3 standard deviation decline in the dividend focus gap.[1] The negative association of analyst focus and the focus gap is consistent with the idea that firms respond to investor pressure by increasing their own discussion about a topic and thus partially close the gap.

We find that firms seem responsive not only in "cheap talk" but also in their actions. In other words, firms tend to act on priorities emphasized by their analysts. Using Jordà (2005) style local projections, we find that a one standard deviation increase in the dividend focus gap predicts a 0.4 p.p., or 4%, increase in dividends paid out as a percent of firm market value within two years. For share repurchases, the same increase in the topic-specific focus gap predicts a 0.3 p.p. (2%) increase in repurchases made as a percent of firm value within one year. However, this effect weakens to zero by the end of the two-year horizon. We control for lags of firm outcomes, lags of the focus gap, lags of firm speech, and industry by time variation that leaves only the association of an innovation in the focus gap on firm outcomes. The results from this specification, which attempts to limit the effect of any remaining confounding variation, are likely a lower bound because our variation comes from unexpected changes in analyst priorities. While our analysis is limited to capital allocation variables, which are easier to control than "real" variables, future work can apply the same analysis and theory to other firm outcomes such as M&A, off-shoring, or investment in artificial intelligence.

We then present a unifying conceptual framework that incorporates two mechanisms for *why* firms respond to investor pressure in speech and actions: catering in order to increase short-term stock prices or learning and responding to increase long-run value. The catering

[1] In a scenario where firms "pre-wire" analysts with what the firm plans to discuss and act upon in the next period, the focus gap should be constant over time, and analyst mentions should not predict the next quarter's focus gap.

channel is built on the assumption that stock prices can deviate from fundamental value, and more importantly, that external investors and the firm's executive translate firm actions into the firm's value differently. Under this regime, the executive chooses an optimal action that balances maximizing two different quantities: the firm's long-run value and the firm's stock price.[2] The resulting distortion of the executive's chosen action is commonly referred to as pandering (Brandenburger and Polak, 1996) or catering (Baker and Wurgler, 2004). Alternatively, a firm could respond to a focus gap because the analysts, in an uncertain information environment, are able to inform the firm about which actions will maximize long-run value. We model this channel by the firm using both a private signal and its analyst's signal to choose the value maximizing action. Proposition 1 shows that the presence of at least one of the catering or learning channels will induce the focus gap to predict future firm actions. The catering channel predicts that firm responsiveness to the focus gap will vary with measures of incentives to cater. In addition, our framework offers predictions of how a firm's stock price should respond differently to firm actions under catering and learning. Specifically, if a firm's responsiveness to the focus gap is driven by catering, then firm action should result in an increase in stock price, followed by a subsequent reversal. While existing literature has tested the effect of these forces on firm actions in isolation, this framework is the first, to our knowledge, to provide empirical tests that differentiate the two channels.

We unpack responsiveness to the focus gap by first showing that analysts themselves matter for firm actions, which helps validate our framework. Our measure of the focus gap leaves open the possibility that responsiveness could just be driven by analysts "mirroring" firm speech. To test this possibility, we residualize analyst speech on several lags of firm speech to show that even after accounting for this, analyst speech still has predictive power on firm actions. To further show the importance of analysts as a source of pressure, we estimate analyst-specific fixed effects, or propensities to ask about different topics, across all earnings calls in the spirit of Shore (2023). On a given call, firms are then treated by the aggregate "style" of their analyst pool based on whether the analysts present tend to, within call across every other firm they cover, ask more questions about a particular topic relative to other participants. While this estimation introduces some noise into the treatment, we show that an increase in the sum of analyst fixed effects present on a given call is associated with a temporary increase in dividends and repurchases paid as a percent of firm value. In other words, having a pool of analysts who, even within earnings call, tend ask more about dividends (repurchases) than their peers is associated with increased firm dividends (repurchases) in subsequent quarters.

[2]Executives may choose to maximize their stock price for a variety of reasons, including compensation structures (Jensen and Murphy, 1990), or takeover risk (Stein, 1988).

Finally, we use empirical tests from our conceptual framework to help differentiate between catering and learning mechanisms. We provide two pieces of evidence that suggest that catering drives responsiveness to the focus gap. We first show that firms with larger incentives to cater, as measured by the effect of analyst forecasts on excess stock returns, tend to be more responsive to an increase in the focus gap. We then show that taking the desired action when the focus gap, or investor pressure, is high is associated with a temporary increase in cumulative stock returns followed by a reversion, consistent with catering motives as opposed to learning about long-run value.

Related literature. The contribution of this paper is to develop a measure of investor pressure on public firms using quarterly earnings calls, and present a framework that explains how firms respond to this pressure and why they choose to do so. The question of how firms respond to shareholder preferences is investigated frequently for specific topics in isolation. While this work typically considers at most one mechanism for firm responses at a time, we provide a flexible framework to consider multiple. Goldstein *et al.* (2020, 2023) present the learning channel as theory that the market can provide signals to firms. Another literature shows the catering channel can drive firm actions (Baker and Wurgler, 2013). The catering channel can drive a slew of actions, including dividend issuance (Baker and Wurgler, 2004), nominal share prices (Baker *et al.*, 2009), revenue management (Aghion and Stein, 2008), and R&D (Edmans *et al.*, 2017). Our evidence on price revision after taking actions is far more consistent with firms responding to investor pressure due to the catering channel rather than the learning channel.

Next, we present a novel way to measure how firms cater to their investors. Importantly, analysts, as information providers whose reports generate price impact, are a conceptually distinct stakeholder in the firm's operations. They are not shareholders, and they do not have a contracted ability to govern the firm like blockholders, who have explicitly provided voting power and the ability to move prices by their stock sales. The influences of blockholders on firm actions have been previously documented (e.g., Greenwood and Schor, 2009; Cronqvist and Fahlenbrach, 2009; Edmans, 2014; Schmidt and Fahlenbrach, 2017). Our results show that catering can be measured in the sell-side equity analysts – agents that have price impact through reports while owning no stock themselves. This adds to prior work that shows the number of analysts covering a firm has an effect on firm outcomes (Hong and Kacperczyk, 2010; Derrien *et al.*, 2013; Adhikari, 2016; Derrien *et al.*, 2016; Chen *et al.*, 2017; Liu and Du, 2024). However, for dividends and repurchases, we provide suggestive evidence that catering reduces firm value in the medium-term, whereas this prior work suggests that analyst presence maximizes firm long-run value via increased monitoring. Lastly, Bae *et al.* (2022)

and Cortes and Marcet (2023) show that analysts drive firm capital expenditure and M&A choices but interpret this result as the analysts providing information to firms. For dividends and repurchases, we do not find evidence of the learning channel but instead find evidence that preferences expressed by analysts are catered to by firms.

Our paper adds to a fairly limited set of venues in which investor disagreement with internal shareholders is measurable. The existing evidence focuses on shareholder proposals (Aggarwal *et al.*, 2024), shareholder votes (Iliev and Vitanova, 2019), and hedge fund activism (Brav *et al.*, 2015). Our results suggest that external shareholders can exert pressure at high frequency on certain topics regardless of explicit votes.

Methodologically, our largest contribution is in using what the analysts say to represent what they want: an observation that has been made repeatedly by industry experts but that has not been operationalized to study the transmission of shareholder preferences. The idea that information providers reflect the priorities of their customers is well-understood in other settings (e.g., Strömberg, 2004; Gentzkow and Shapiro, 2010). This bias has been shown to manifest in the formation of equity valuation opinions by analysts (e.g., Michaely and Womack, 1999; Cowen *et al.*, 2006). Compared to this work, we allow analysts to have idiosyncratic tastes, similar to Shore (2023) and Bastianello *et al.* (2024), which helps to strengthen our evidence that analyst priorities affect firm actions. But, we also explicitly allow for the possibility that every analyst integrates market-wide sentiment in building their world view. The insight builds on a vast and growing body of work using quarterly earnings calls as a corpus by which to understand corporate functioning (e.g., Hassan *et al.*, 2019; Cohen *et al.*, 2020; Cohen and Nguyen, 2024; Flynn and Sastry, 2024; Hassan *et al.*, 2025).

2 Measuring a "focus gap"

To quantify investor influence, we first must measure investor and firm preferences about a certain topic at a point in time. In this section, we outline the construction of our firm-, time-, and topic-specific "focus gap" measure using a large language model (LLM). We then present descriptive facts about our measure in the cross-section for two topics of interest: dividends and repurchases. Specifically, we provide suggestive evidence that the focus gap is a reasonable proxy for investor pressure, and and that, within industries, there is meaningful variation in the focus gap. While we highlight these two topics of interest, the procedure described below can be applied more broadly to other topics.

2.1 Data

Our primary data source is the corpus of earnings calls for firms that ever appear in the Russell 1000 from StreetEvents. Our sample includes over 160,000 quarterly calls from approximately 4,000 firms between 2004 Q1 and 2023 Q4. This data includes the names and affiliations of all participants on the call along with the text transcript of everything said on the call. Market participants appear in the transcript only if they ask a question. Each call begins with a presentation of prepared remarks from the firm's C-suite executives about the status of the firm. On average, these presentations are 139 sentences or about 15 minutes long. For approximately 60 percent of the calls in our sample, the presentation is followed by a Q&A portion where equity analysts and other market participants ask questions on a range of topics to firm executives.

Conditional on having a Q&A section, the median call has 6 analysts or market participants who ask a question. But, as Figure 1 shows, the distribution of the number of analysts on a call, conditional on having analyst coverage, is right skewed. Over the past decade, the average number of analysts on each call (conditional on having analyst coverage) has been decreasing, however the proportion of calls with analyst coverage has been increasing (Figure 2). On the average call with at least one analyst, there are 20 questions asked by analysts, making the Q&A section an important source of information transmission for analysts and the broader market.[3]

In order to quantify investor influence on firm actions, we use Compustat for quarterly firm-level outcomes on dividends and repurchases. These are our main outcome variables for testing predictions from our conceptual framework. We also use firm stock returns and market valuations from CRSP.

2.2 Measuring firm and analyst priorities

Our measure of the "focus gap" is the difference in priorities between analysts and the firm for a given topic. We measure priorities as the share of sentences or questions that are related to a given topic, which we identify using an LLM. For analyst priorities, we extract all sentences that analysts say from earnings call transcripts. For each of these sentences, we ask the LLM to determine: (a) whether or not the sentence is a question (as opposed to pleasantries or other discussions); and (b) whether the sentence or question is related to dividends, repurchases, or neither. Details on the prompts used in the LLM can be found in Appendix B. For firm priorities, we separate the presentation portion of the call into

[3]Existing literature has documented that there is informative information in the Q&A section of earnings calls. For example, see Mayew *et al.* (2013), Rennekamp *et al.* (2022), Allee and Do (2022).

four sentence blocks, and then ask the LLM to determine if the sentence block is related to dividends, repurchases, or neither. For identifying both analyst and firm priorities, we run each topic using a separate LLM prompt to allow for sentences to be about multiple topics.

We define the focus of firm j on topic k at time t as

$$Z_{jkt} = \frac{\text{Count of presentation sentence blocks on topic}_{jkt}}{\text{Total number of presentation sentence blocks}_{jt}} \cdot 100 \tag{1}$$

And we define the focus of all analysts present on the firm's earnings call as

$$T_{jkt} = \frac{\text{Count of analyst Q\&A questions on topic}_{jkt}}{\text{Total number of analyst Q\&A questions}_{jt}} \cdot 100 \tag{2}$$

where the total number of analyst Q&A questions excludes the firm's responses to the questions.

Figure 3 shows how the average analyst and firm priorities vary over time. For dividends, shown in Panel (a), analyst priorities tend to be more cyclical compared to firm priorities. For repurchases, on the other hand, shown in Panel (b), analyst and firm priorities are cyclical and tend to move together. Table 1 presents summary statistics for these measures. Interestingly for dividends, both analyst and firm priorities correlate only weakly with the "market beta" for dividend issuance. A negative correlation indicates that high analyst priority corresponds to low future returns for dividends (or a high "dividend premium").[4] The dividend premium could be one coarse, market-wide measure of investor preferences for dividends. However, across time, the rise and fall of dividends as an analyst and firm priority has, on average, not mirrored this phenomenon (correlations are -0.09 and 0.06, respectively). Analyst and firm priorities on repurchases are more meaningfully *positively* correlated with the market beta for repurchases (correlations are 0.38 and 0.29, respectively). In other words, high priority is correlated with stock price rising in the future consistent with firms market timing (Baker and Wurgler, 2002).

The focus gap for firm j on topic k at time t is then defined as

$$\text{FG}_{jkt} \equiv T_{jkt} - Z_{jkt} \tag{3}$$

In words, the focus gap is simply the percentage point difference in how much the analysts on a given call ask about a certain topic and how much the firm talks about a certain topic. While our analysis focuses on a few specific topics, a focus gap can be defined over any

[4]Details on how we define our proxy for the market premium by topic can be found in the footnote of Table 1.

given topic, with two conditions. First, the topic must be talked about on earnings calls sufficiently frequently. In the spirit of Hassan *et al.* (2025), we plot the topic "exposure," or the percentage of analyst questions about a given topic in Figure 4. About 50 percent of all analysts questions are about revenue, and a little less than 20 percent of questions are related to cost reduction. While dividends and repurchases are talked about less frequently, these topics are a non-trivial percentage of analyst questions.

Second, the topic must have an applicable outcome variable. The capital allocation topics chosen have clear outcome variables or can be clearly connected to a firm action. For dividends, our primary outcome variable is the level of dividends paid as a percent of the firm's market value. However, we also show results for two extensive margin dividend outcomes: whether or not a firm issues a dividend; and whether or not a firm initiates a new dividend. We define a firm as initiating a new dividend if they issue a dividend in the current quarter after not issuing a dividend in the previous year. For repurchases, our primary outcome variable is the value of repurchases made as a percent of the firm's market value. Similar to dividends, we use whether or not a firm makes a repurchase and whether or now a firm initiates a new repurchase greater than 1% of their market value as additional outcome variables.[5]

2.3 Why measure investor pressure using the focus gap?

To interpret the focus gap as a reasonable proxy for investor pressure, we first analyze the interaction between firm and analyst communication on earnings calls. Table 3 shows that in the cross-section, firm presentation and analyst mentions about dividends are correlated. This correlation is persistent after including firm and time fixed effects (shown in columns 1, 2, and 3). Specifically, a standard deviation increase in analyst mentions is associated with a 0.3 standard deviation increase in firm mentions. When controlling for cross-sectional variation between firms with firm fixed effects, this correlation falls to 0.1. Firm mentions are autocorrelated. But importantly, past analyst mentions are also positively associated with current firm mentions (column 5). This is robust to time fixed effects, industry-time fixed effects, and firm fixed effects.

This positive association is not necessarily due to analyst focus driving firm focus. For example, factors such as changing macroeconomic conditions could drive both firms and its analysts to discuss dividends without analysts and the market attempting to "pressure" firms. Consider instead the dividend focus gap: that is, the difference in relative focus on dividends. To the extent that confounding factors change analyst and firm focus by the

[5]We only consider repurchases that exceed one percent of the firm's market value to avoid standard repurchases related to things like employee compensation.

same amount, the regression of the focus gap on analyst focus "differences out" these factors and is suggestive that firms respond to their analysts. Table 4 presents the results of this regression in our sample for dividends. Column (2) shows that a standard deviation increase in analyst focus in the prior quarter predicts a 0.3 standard deviation decline in the current focus gap. This column suggests that the association between firm and analyst focus is partially due to firms communicating more in response to investor pressure. The negative effect of analyst mentions in the prior period on the current quarter focus gap remains when you control for additional lags, as shown in column (4). Importantly, the interpretation also rests on the assumption that, if analyst and firm focus are auto-regressive processes, the processes operate with the same persistence as one another over time and so the negative coefficient does not reflect that wedge and instead reflects the systematic response of firm focus to past analyst focus.[6] We present further suggestive evidence that firms respond to analysts, without relying on this assumption, in Section 4.1.

The suggestive evidence that firms attempt to minimize the focus gap makes innovations in the focus gap a feasible proxy for unexpected investor pressure. Since the Q&A section happens after the firm presentation, the innovations in the focus gap will be unknown ex ante to firms, making this metric a good proxy for unexpected investor influence. Consequently, our baseline empirical specification will regress firm outcomes on several lags of the focus gap and report coefficients for the current quarter focus gap.

2.4 Measure descriptives

We now present summary statistics of our focus gap measure. Figure 5 plots the four-quarter rolling average of the focus gap for our sample, normalized by the standard deviation, and shows that time trends vary substantially across topics. For example, the focus gap for dividends, shown in Panel (a), is less cyclical than that for repurchases, shown in Panel (b). Table 2 shows the average focus gap by topic across the entire sample, along with the standard deviation across and within firms. There are a few observations. First, for both dividends and repurchases, the average focus gap is below zero. That is, analysts, on average, talk less about these topics than firms. Second, there is substantial variation in the focus gap within firms and within industry and time. Third, the correlation between the quarterly average focus gap and a proxy for the market premium of the related actions is economically large and negative. In other words, a positive dividend (repurchases) focus gap is correlated with overpricing of dividends (repurchases). In this sense, our measure of the focus gap is correlated to a measure of market premium associated with catering as in Baker and Wurgler

[6] Analogous tables for repurchases can be found in Appendix Table A.1 and A.2.

(2004).

Next, we show additional correlates of the focus gap. Table 5 shows the relationship between the focus gap and various firm-level and earnings call-level variables, controlling for differences across three-digit NAICS industries and time. For both topics, there is some persistence in the level of the focus gap. For example, a one standard deviation increase in the focus gap in the previous quarter is associated with a 0.3 to 0.4 standard deviation increase in the current period focus gap. The number of analysts on a call has a small but significant effect on the focus gap. Specifically, a one standard deviation increase in the number of analysts on the call is associated with a 0.05 to 0.08 standard deviation decrease in the focus gap. Intuitively, this suggests that when more analysts participate on the call, the share of questions devoted to capital allocation variables declines slightly. However, the number of analyst questions has no significant impact on the focus gap, suggesting that there aren't strong mechanical factors driving changes in the focus gap. Finally, presentation length is positively correlated with the focus gap for capital allocation variables: longer presentations dilute the share of firm discussion on a given topic, which increases the focus gap. However, the effects are small: a one standard deviation increase in presentation length is associated with a 0.03 standard deviation increase in focus gap. In the cross-section, the explanatory power of various firm-level variables on the focus gap is relatively low.

2.5 Focus gaps & firm actions

Our primary question of interest is how investor preferences impact firm actions. We use our measure of the focus gap to empirically answer this question. Specifically, we estimate whether a positive focus gap predicts firm actions. In our main specification, we use Jordà (2005) style local projections, estimating the following model for firm j in industry i at time t:

$$Y_{j,t+h} = \gamma_h \, \mathrm{FG}_{j,t} + \rho_0 Y_{jt} + \tau_0 Z_{jt} + \sum_{\ell=1}^{4} (\rho_\ell Y_{jt-\ell} + \gamma_\ell \mathrm{FG}_{j,t-\ell} + \tau_\ell Z_{j,t-\ell}) + \alpha_{it} + \delta_j + \varepsilon_{jt} \quad (4)$$

Our coefficient of interest is γ_h: the effect of the focus gap at time t, $\mathrm{FG}_{j,t}$, on future firm outcomes, $Y_{j,t+h}$. We control for four lags of the outcome variable, the focus gap, and firm speech (Z_{jt}); and include firm, δ_j, and three-digit NAICS by time fixed effects, α_{it}. The regression is estimated for horizons $h = 0$ to $h = 8$. For dividends, the firm outcome (or action) variable is dividends paid between quarter t and $t+h$ as a percentage of firm market value at quarter t. For repurchases, the outcome is the value of repurchases made between quarter t and $t+h$ as a percentage of firm market value at time t. To mitigate the effect

of confounding factors that could lead to both a systematically larger focus gap and firm actions, we intentionally use a rich set of controls so that the identifying variation comes from within firm innovations, controlling for the firm's own focus on the topic, Z_{jt}. After such a set of controls, the effect of investor pressure on firm action could be greater than γ_h, as pressure indicated by the focus gap could accrue over multiple periods and could also spur increases in firm focus that would not be captured in the coefficient.

Figure 6 shows that across topics, a positive topic-specific focus gap tends to predict an increase in firm outcomes related to that topic in the short- to medium-term. Panel (a) shows that firms with a one standard deviation increase in the dividend focus gap at quarter t increase their dividend payout by about 0.4 p.p. of firm market value (4%) by two years after the shock. This effect remains persistent over the two-year period likely because dividend payouts tend to be persistent over time. Repurchases, on the other hand, exhibit a different pattern. As shown in Panel (b), a standard deviation increase in the repurchases focus gap at quarter t is associated with a 0.3 p.p. increase in repurchases made as a percent of firm market value (2%) within one year after the shock. However, that effect quickly dissipates in the medium-term, and is approximately zero by the end of the two-year period. Our results show that a positive focus gap has a positive effect not only on the level of dividends and repurchases, but also on the extensive margin likelihood of issuing a dividend or making a repurchase. We explore this more directly in Figures A.1 and A.2.[7,8]

These results suggest that the focus gaps, or investor pressure about a certain topic, are predictive of firm actions. These results alone do not establish a casual relationship. A range of mechanisms could generate and rationalize a firm's responsiveness to a focus gap, including executives catering or learning about long-run value, both of which could have a causal interpretation and are formalized in Section 3. Alternatively, the observed relationship could be driven by correlated unobservables that affect both investor focus and firm actions. In Section 4.1, we address some of these concerns by showing that investor, or analyst, focus isn't just "mirroring" firm speech or actions.

[7]Figure A.1 shows that an increase in the focus gap is associated with an increase in the likelihood of issuing a dividend (Panel (a)) and the likelihood of issuing a new dividend (Panel (b)), where we define a dividend as new if the firm hasn't issued one in the pervious four quarters. Although the results are similar in magnitude, the focus gap has a larger effect in percentage terms on firms that haven't yet issued a dividend (7.0% vs 0.9%). This suggests that a positive focus gap has its largest impact on firms that are not yet or infrequent dividend payers.

[8]Figure A.2 shows that a positive repurchase focus gap is associated with a positive but temporary increase in the likelihood of repurchasing shares (Panel (a)). We only consider repurchases greater than 1% of firm market value to avoid repurchases associated with things like employee compensation. Similar to dividends, the extensive margin effects are similar in magnitude, but the immediate effect is larger in percentage terms for firms that don't regularly repurchase shares (3.5% vs 3.0%). However, the effect dissipates faster for new or infrequent share repurchases by the end of the two year period.

3 Conceptual framework

In this section, we present a simple conceptual framework to rationalize how the "focus gap" between analyst and firm priorities influences firm actions. The model presents a setting in which the future is uncertain. With this uncertainty, stock prices can deviate from fundamental value, and shareholders situated outside the firm can be helpful in providing information or exhibit preferences on which to cater. The combination of these factors explains why a firm should respond to a focus gap between a firm and its analysts and provide empirical tests for the relevance of each mechanism.

3.1 Setup

Consider a three-period setting where firms are indexed by j. For simplicity of exposition, all quantities are implicitly indexed by j. The firm's value, $V(a, S)$, is a function of a firm's action a and an affine function of an unobserved input to firm value, the state S.[9] In $t = 0$, the firms, investors, and analysts collect their independent signals of S. In $t = 1$, the analyst communicates its signal to the firm, the firm communicates its intended action, and the stock market clears at price P_1. In the final period $t = 2$, the value of the firm is realized due to the realization of the state S, and the market clears at price P_2. This setup allows the analyst's signal to serve two purposes: (1) informing the firm's efforts to raise their short-run stock price by catering to analysts; and (2) guiding its long-run value maximization.

Signals

Each agent receives an independent signal about the state, S. They are drawn from distributions with different variances to add flexibility in which agent is more (or less) informed about the state of the economy and different means to reflect biases, b.

The signals of informed investors are drawn from a normal distribution,

$$U_1, U_2, ..., U_N \sim \mathcal{N}(\mu, \sigma_U^2) \tag{5}$$

Analysts also receive an independent signal with variance σ_T^2:

$$T \sim \mathcal{N}(S + b, \sigma_T^2), \tag{6}$$

[9] The input can be a state of the economy, such as the interest rate next period, that would determine the value-maximizing level of investment a. The affine simplification removes the possibility that agents and firms would wish to be risk averse in updating behavior using their private signals of S.

and the firm draws an independent signal Z,

$$Z \sim \mathcal{N}(S, \sigma_Z^2) \tag{7}$$

Market prices

Investors have linear demand, Q_i, for the asset according to

$$Q_i(P) = \gamma(\mathbb{E}_i[V] - P). \tag{8}$$

Analysts and informed investors use the information available to them to price the stock. So, for informed investors, $\mathbb{E}_i[V] = V(a, U_i)$. Uninformed investors follow analysts, and thus use the valuation $\mathbb{E}_i[V] = V(a, T)$. The analysts do not trade wealth directly, but have an impact on prices through the uninformed investors. A proportion β of wealth is held by uninformed investors and a proportion $1 - \beta$ is held by informed investors. With the asset in zero net supply, the price of the firm's stock is

$$P_1 = \beta V(a, T) + (1 - \beta)V(a, \bar{U}) \tag{9}$$

$$P_2 = V(a, S), \tag{10}$$

where the sample mean of informed investor signals is denoted as $\bar{U}$. The stock price reflects fundamental value in $t = 2$, but in $t = 1$, P_1 can deviate from the firm's expectation of long-run value due to investor and analyst beliefs, $\bar{U}$ and T. The deviation implies that actions that maximize P_1 will not necessarily maximize long-run value, P_2.

Firm objective

The firm's manager maximizes expected utility by balancing stock price and long-run value. A catering parameter, λ, represents the firm's tradeoff between its long-run value, $\mathbb{E}_f[V(a, S)]$, and its interim, $t = 1$, valuation in the market, P_1. As $\lambda \to 1$, the manager cares only about the firm's stock price (or is "short-termist"), whereas as $\lambda \to 0$, she cares only about maximizing long-run value, $V(a, S)$, just like the objective function suggested by Baker and Wurgler (2004). All together, action a^* satisfies the expression

$$\begin{aligned} a^* &\equiv \arg\max_a \ \mathbb{E}_f\left[\lambda P_1 + (1 - \lambda)V\left(a, S\right)\right] \\ &= \arg\max_a \ \lambda P_1 + (1 - \lambda)V\left(a, \mathbb{E}_f[S]\right) \end{aligned} \tag{11}$$

Information transmission

We can then write the firm's expectation of the state, $\mathbb{E}_f[S]$, in terms of the analyst signal (T) and firm's signal (Z).[10]

$$\mathbb{E}_f[S] \equiv \mathbb{E}\left[S|T,Z\right] = \theta(T-b) + (1-\theta)Z, \qquad \theta \equiv \frac{\sigma_T^{-2}}{\sigma_Z^{-2}+\sigma_T^{-2}}. \tag{12}$$

Equation (12) captures the firm's prediction of its long-run value. When $\theta = 0$, the firm uses only its own information to predict the expected value of the signal. When $\theta > 0$, the high precision of aggregated investor signals filtered through the analyst makes the analyst's signal useful to the firm's prediction.

3.2 Solving the firm problem

With long-run value, prices, and $\mathbb{E}_f[S]$ specified, we can now solve for how the firm chooses a^*. The first order condition for Equation (11) is

$$\underbrace{V'(a^*,Z)}_{\text{isolated firm f.o.c.}} + \frac{1}{1-\theta}\underbrace{\frac{\lambda}{1-\lambda}\left[V'\left(a^*,T\right)+(1-\beta)V'(a^*,\bar{U})\right]}_{\text{catering}} + \underbrace{\frac{\theta}{1-\theta}V'(a^*,T-b)}_{\text{learning}} = 0 \tag{13}$$

In a frictionless world, the firm could maximize long-run value with perfect information about the state S, and it would set an action a^* such that $V'(a^*,S)=0$. When it cannot observe state S but chooses a^* in isolation ($\lambda = 0, \theta = 0$), the expression simplifies to $V'(a^*,Z)=0$.

Interacting with external investors and analysts yields two new frictions (e.g., when $\lambda > 0$ and $\theta > 0$). First with $\theta > 0$, the firm may use additional signals besides its own, Z, to build its expectation of the state S. As a result, the choice of a^* using Z is distorted by the degree to which the firm uses T to update $\mathbb{E}_f[S]$. It is this way that analysts can play the role of information providers. Second, firms may not maximize long-run value and instead cater to increase near-term stock prices ($\lambda > 0$). Catering alters the choice of the optimal a^* by accounting for the ways that analysts and investors value the firm ($V'(a^*,T_t)$ and $V'(a^*,\bar{U}_t)$, respectively).

Proposition 1 uses comparative statics of the model to show what we have already established empirically: the focus gap is predictive of future firm actions.

[10] The firm could plausibly know something about investor signals, U_i. In this case, the firm's signal, Z, could be considered the posterior expectation of the firm's partial information about U_i before seeing the analyst's signal, T.

Assumption 1. *Long-run value is parameterized by*

$$V(a, S) = Sa - \frac{\eta}{2}a^2.$$

Proposition 1. *Under Assumption 1 and* $\{\beta, \lambda, \theta\} \in (0, 1]$*, a positive focus gap predicts an increase in a firm's action.*

$$\frac{\partial a}{\partial \Delta} = \eta^{-1}((1-\lambda)\theta + \beta\lambda) > 0 \tag{14}$$

where the focus gap $\Delta \equiv T - Z$*.*

The derivation is left to Appendix C. Concretely, the framework identifies the two drivers of why a focus gap shapes firm actions: (1) catering to analysts and (2) learning about long-run value from analysts. A focus gap will predict firm actions whenever at least one of these drivers is present in the data.

Corollary 1. *If actions are forecasted by the focus gap, then at least one of these parameter restrictions for investor influence hold:*

1. $\beta > 0$ *and* $\lambda > 0$*: Firms cater to analysts because analysts move prices*
2. $\theta > 0$*: Analysts inform the firm about analyst and investor perceptions of long-run value*

3.3 Testable predictions for firm actions

The first driver of firm actions is catering to analysts: if firms cater to analysts, then firm actions should respond more strongly when analysts are more influential. This prediction is formalized in Corollary 2.

Corollary 2. *If* $\lambda > 0$*, the effect of a positive focus gap is larger for firms where analyst influence is larger.*

$$\frac{\partial^2 a}{\partial \beta \partial \Delta} = \eta^{-1}\lambda > 0 \tag{15}$$

Corollary 3 shows that the bias in the analyst pool moves firm actions under a case where $\beta > 0$ and $\lambda > 0$. This comparative static can be tested using analyst fixed effects described in Section 4.1 and directly tests that $\beta > 0$.

Corollary 3. *With $\beta, \lambda > 0$, a change in the bias of a firm's analyst pool certeris paribus predicts firm actions.*

$$\frac{\partial a}{\partial b} = \eta^{-1}\beta\lambda > 0 \tag{16}$$

The other driver is learning from analysts. When firms have more to learn from their analysts, their responses to the focus gap should be stronger. If θ for a given topic is positively correlated with how much the analyst speaks about the topic, this effect works in the same direction as a change in bias b.[11] Given this potential confound, we elucidate additional tests using stock prices to separate the catering and learning channels.

3.4 Testable predictions for stock prices

Stock prices could provide additional identification described below in Corollary 4. Specifically, we show that the firm's stock price increases when it takes the actions requested by analysts.

For concise notation, define $\mathbb{E}_m[S]$ as the market's expectation of the signal's realization in $t = 2$,

$$\mathbb{E}_m[S] \equiv \beta T + (1 - \beta)\bar{U} \tag{17}$$

and K as the firm's weighted average of its own expectation, $\mathbb{E}_f[S]$, and the market's, $\mathbb{E}_m[S]$:

$$K \equiv (1 - \lambda)\mathbb{E}_f[S] + \lambda\mathbb{E}_m[S]. \tag{18}$$

Corollary 4. *If $\beta > \theta$ and $\lambda > 0$, then the stock price reward for action is more positive when the focus gap is larger.*

$$\begin{aligned} \frac{d}{da}\frac{dP_1}{d\Delta} &= \frac{d}{d\Delta}\frac{dV(a^*, \mathbb{E}_m[S])}{da} \\ &= (1 - \lambda)(\beta - \theta) > 0 \end{aligned} \tag{19}$$

Similarly, the model implies that price reversion between period 1 and 2 if and only if $\beta > 0$:

[11] The model also predicts that variation in λ should predict variation in the focus gap. Typical measures of λ, such as CEO compensation packages, are often relatively persistent over time within firm. To avoid using cross-sectional variation to identify the effects empirically, we focus our empirical results on b and β.

Corollary 5. *Declines in price between period 2 and 1 indicates $\beta > 0$.*

Proof.

$$\begin{aligned}\frac{d}{d\Delta}\frac{dP_2}{da} &= \frac{d}{d\Delta}\frac{dV(a^*,S)}{da} \\ &= \frac{d}{d\Delta}(S-K) \\ &= -\frac{d}{d\Delta}(\lambda E_m[S] + (1-\lambda)E_f[S]) \\ &= (1-\lambda)(\beta-\theta) - \beta \end{aligned} \tag{20}$$

Hence, the object of interest is negative if and only if $\beta > 0$.

$$\frac{d}{d\Delta}\frac{dP_2}{da} - \frac{d}{d\Delta}\frac{dP_1}{da} = -\beta \tag{21}$$

□

4 Unpacking responsiveness to a focus gap

We now test some of the factors that drive responsiveness to a positive focus gap outlined above. In our conceptual framework, we assume that analysts have an effect on firm actions through either catering or learning about long-run value. A key concern, however, is that focus gaps reflect correlated unobservables that jointly affect analyst focus and firm actions. In Section 4.1, we begin to address this concern by showing that analysts matter, even when controlling for firm speech and when constructing analyst fixed effects across earnings calls, in the spirit of Shore (2023). We then provide suggestive evidence in Section 4.2 on whether responsiveness to the focus gap is primarily driven by catering or learning about long-run value using empirical tests outlined in our framework.

4.1 Do analysts matter?

In how we have constructed the focus gap, we have left open the possibility that analyst speech could just mirror firm speech. In particular, analysts could talk about topics in precisely the periods before or after firms do. If this were to be the case, then after control for firm speech, there should be no predictive power of analyst speech on firm actions. Tables 4 and A.2 show that the focus gap shrinks after analysts talk more, but this still leaves open the possibility that this is just demonstrating that both the firm and analyst focus are unrelated mean-reverting processes of differing persistence. We create a stronger

test by estimating the effect of analyst speech, T_{jkt}, on firm actions, when controlling for firm speech, Z_{jkt}. Specifically, we residualize analyst speech on several lags of firm speech for a given topic, as shown in Equation (22).

$$T_{j,t} = \eta_0 Z_{jt} + \sum_{\ell=1}^{6} (\eta_\ell Z_{jt-\ell}) + \varepsilon_{jt} \tag{22}$$

Table 6 shows that past firm speech about dividends or repurchases is a significant predictor for analyst speech. Using the residuals from this regression, $\hat{\varepsilon}_{jt} = T_{j,t} - \hat{T}_{j,t}$, we then run a specification similar to that in Equation (4):

$$Y_{j,t+h} = \gamma_h \, \hat{\varepsilon}_{jt} + \rho_0 Y_{jt} + \sum_{\ell=1}^{4} (\rho_\ell Y_{jt-\ell} + \gamma_\ell \hat{\varepsilon}_{j,t-\ell}) + \alpha_{it} + \delta_j + \varepsilon_{jt} \tag{23}$$

where γ_h is our coefficient of interest: the effect of variation in analysts speech that is not explained by firm speech on firm actions. Figure 7, Panel (a) shows that a standard deviation increase in analyst speech is associated with a 0.3 p.p. increase in dividends paid out as a percent of firm market value within two years. Figure 7, Panel (b) shows that an increase in analyst speech is associated with a positive, but temporary increase in the repurchases made as a percent of market value. Repurchases as a percent of firm market value tend to increase by 0.2 p.p. within one year. Relative to our results with the focus gap shown in Figure 6, analysts speech has a positive but weaker effect on firm actions compared to the focus gap. This provides evidence that analysts themselves matter, and that they don't just mirror firm speech.

An alternative test to show that analysts matter is to estimate analyst-specific fixed effects, or propensities to discuss different topics across calls, in the spirit of Shore (2023), across earnings calls. The motivating idea behind the fixed effects is that analysts have distinct styles (reflecting the different investors they represent), and those styles can be observed across different firms that they cover. This allows us to estimate an analyst-specific propensity to ask about a certain topic which we can then aggregate to a firm level treatment effect.

We construct analyst fixed effects for topic k as follows. For every analyst a and question q that they ask on earnings calls at time t, we construct a binary variable equal to one if the question is about topic k and zero otherwise. For every firm f that analyst a covers at time

t, we estimate the following regression over T prior quarters:

$$D_{aqkt}^{(T)} = \sum_{i=1}^{j} \alpha_{kti}^{(T)} + \delta_{ak}^{(T)} + \varepsilon_{aqkt}^{(T)} \tag{24}$$

where $D_{aqkt}^{(T)}$ is the binary variable indicating whether the question from analyst a is about topic k in time t; $\sum_{i=1}^{j} \alpha_{kti}^{(T)}$ is the firm-time fixed effect for all firms the analyst covers in time t; and $\delta_{ak}^{(T)}$ is the analyst-specific fixed effect for topic k over all firms the analyst covers.

The key identifying assumption of the fixed effects estimation is that analysts cover multiple firms across time, which appears to be the case given the average analyst covers 4 firms in any given quarter.[12] We then construct a firm-level measure at time t as the weighted sum of the analyst fixed effects that are on a particular earnings call. We denote this measure as B_{fkt} and define it as follows:

$$B_{fkt} \equiv \sum_{a \in \mathcal{A}_{ft}} w_a \delta_{ak}^{(T)} \tag{25}$$

where w_a is the weight assigned to each analyst a; and $\mathcal{A}_{ft}$ is the set of analysts on firm f's earnings call at time t. In our baseline results, we assign equal weight to each analyst, and estimate the fixed effects over $T = 4$ prior quarters. With our firm-level measure, we run the following local projections regression for firm f in industry i:

$$Y_{f,t+h} = \gamma_h \, B_{fkt} + \rho_0 Y_{ft} + \sum_{\ell=1}^{4} (\rho_\ell Y_{ft-\ell}) + \alpha_{it} + \delta_j + \varepsilon_{ft} \tag{26}$$

Figure 8 shows the results of this regression. There are a few things to note. First, these results are more noisy than our estimates using the focus gap. One reason for this could be because estimating analyst fixed effects introduces noise into our regression, and matching analysts across calls is an empirically challenging task given the messiness of the earnings call text data. Despite this, Panels (a) and (b) show a temporary and positive effect of analyst fixed effects on dividends and repurchases made as a percent of firm market value. A standard deviation increase in analyst fixed effects for dividends is associated with a 0.1 p.p. increase in dividends paid within one year. The same increase for repurchases has a 5 basis point increase in repurchases made within two quarters as a percent of market value. These effects are weaker in magnitude than our results with the focus gap. However, this provides evidence that analyst preferences and styles matter for firm actions. Further discussion of

[12] This measure reflects only the number of firms for which an analyst participates in the earnings call by asking a question given our transcript data is limited to analysts who actively ask questions.

the analyst fixed effects can be found in Appendix D.

4.2 Catering or learning?

In our conceptual framework, we outline two reasons why firms would be responsive to a positive focus gap: (a) because they are learning about maximizing long-term value or (b) because they are catering to increase short-term value. In this section, we attempt to provide suggestive evidence on which of these dynamics is strongest.

We first document that strength of responsiveness to a positive focus gap does vary with firm-level incentives to cater, as outlined in Corollary 2. To show this, we estimate a firm-level stock price sensitivity to analyst forecast revisions. We follow methodology from Gleason and Lee (2003), using analyst-level forecasts of one year ahead EPS from I/B/E/S. For each analyst by firm forecast at time t, we construct two variables: (1) the median analyst forecast for that firm and forecast period as of time $t-1$. That is, if an analyst makes a forecast for firm j of the 2020 EPS at time t = June 1, 2020, then we construct the median forecast for firm j 2020 EPS as of time $t-1$ = May 31, 2020. And (2) an indicator variable if the analyst forecast is above the median forecast for that firm by forecast period. We then run the following regression for analyst k who makes a forecast in time t for firm j:

$$R_{j,t+5} = \beta_j^p \cdot \{\text{Above Median Forecast}_{kjt}\} + \mu_t + \varepsilon_{kjt} \tag{27}$$

where $R_{j,t+5}$ is the cumulative return of firm j from period $t-1$ to $t+5$ (i.e. a seven-day cumulative return) over the market return. As described above, $\{\text{Above Median Forecast}_{kjt}\}$ is a binary variable if the forecast is above the median for that firm by forecast target date; and μ_t is a fixed effect for the time of the forecast announcement. β_j^p represents the average additional return firm j receives for an above median analyst forecast. Using our firm-level estimate of β_j^p, we separate firms into terciles based on their estimated stock price sensitivity to analysts' forecasts. For testing this channel, we assume that high-β_j^p firms have a larger incentive to cater to analysts compared to low-β_j^p firms. We run the same local projection regression specification as in Equation (4), now with an interacted categorical variable, W_t,

which represents the β_j^p tercile of firm j.

$$\begin{aligned}\log Y_{j,t+h} = \gamma_h \text{ Focus Gap}_{jt} + \phi_0\big(\text{Focus Gap}_{jt} \times W_j\big) + \rho_0 \log Y_{jj,t} + \psi_0\big(\log Y_{jj,t} \times W_j\big) \\ + \sum_{\ell=1}^{4} \rho_\ell \log Y_{j,t-\ell} + \gamma_\ell \text{Focus Gap}_{j,t-\ell} \\ + \sum_{\ell=1}^{4} \psi_\ell\big(\log Y_{j,t-\ell} \times W_j\big) + \phi_\ell\big(\text{Focus Gap}_{j,t-\ell} \times W_j\big) + \alpha_{it} + \delta_j + \varepsilon_{j,t}\end{aligned} \tag{28}$$

Our coefficient of interest is ϕ_0, which is estimated for each tercile. Figure 9 shows the estimated coefficient for the top and bottom tercile. Panel (a) shows that firms with stronger incentives to cater (red line) tend to issue more dividends as a percent of firm market value compared to firms with weaker incentives to cater (blue line). In Panel (b), we see similar results for repurchases: firms with stronger incentives to cater tend to repurchase more shares compared to firms with weaker incentives to cater.[13]

Next, we test whether the stock price reaction is consistent with catering or learning, as outlined in Corollary 5 of our conceptual framework. Empirically, if responding to a positive focus gap is associated with a temporary increase in stock price that then reverts in the short- to medium-term, then that suggests that responsiveness to the focus gap is driven by catering. On the other hand, if responsiveness to the focus gap leads to a persistent change in stock price, then that suggests that responsiveness is driven more so by learning about long-term value. To test this empirically, we run the following local projection regression:

$$R_{t,t+h} = \gamma_h \, \text{FG}_{j,t} + \lambda_h \, \text{Outcome}_{j,t+h} + \kappa_h \, (\text{FG}_{j,t} \times \text{Outcome}_{j,t+h}) + \alpha_{it} + \delta_j + \varepsilon_{jt} \tag{29}$$

where κ_h is our coefficient of interest: the effect of initiating a dividend (share repurchase) when there is one standard deviation increase in the dividend (repurchase) focus gap on cumulative stock price returns from period t to $t+h$ for $h = 1, ..., 8$. We interpret $h = 8$ (two years) as sufficient to characterize the long horizon. Our identifying variation comes from comparing the cumulative stock price reactions to initiating a dividend (repurchase) in periods with high versus low focus gaps, controlling for differences across firms and time. In addition, although we control for level differences in stock returns across periods with high and low focus gaps, our specification doesn't rule out the possibility of unobserved shocks

[13] Prior research has shown that firms tend to repurchase more when they believe their stock is undervalued (e.g., Ikenberry *et al.*, 1995; Jagannathan *et al.*, 2000; Brav *et al.*, 2005). If catering to analysts or to the market tends to be associated with higher market values, firms may be less likely to repurchase stock. This effect could weaken the difference in repurchasing behavior for firms with differing catering incentives.

that increase both the focus gap and how markets react to firm actions.[14]

Figure 10, Panel (a) shows that initiating a dividend when the focus gap is high results in an increase in cumulative returns for the first few quarters but then reverts to zero. The point estimates in quarters $h = 1$ to $h = 3$ are consistent with the catering story of responsiveness ($\lambda > 0$). As predicted by Corollary 4 with $\lambda > 0$ and $\beta > \theta$, stock prices one, two, and three quarters after a focus gap are differentially higher when the requested action has been taken. However, the large standard errors at the end of the estimation window don't rule out that there is no change in cumulative stock returns in the longer-run, or that the analyst price impact, β, is equal to zero. Prices at longer horizons are not significantly higher, and there is not a statistically significant revision between quarters 1 and 8. Under Corollary 5, the trend is consistent with the analyst's effect on prices $\beta \approx 0$. However, combined with the results at short horizons, the Figure 10 suggests $\lambda > 0$ with $\beta > \theta \approx 0$.

Figure 10, Panel (b) shows the same results but for stock repurchases. We see that there is a slight increase in the short-term followed by a decline in cumulative stock price, but no coefficient is significant at the 95% confidence level. For repurchases, since the prices are not significantly higher at the short horizon, we cannot conclude $\lambda > 0$ or $\beta > \theta$, but the trend of price revisions at longer horizons is still suggestive that $\lambda > 0$. The trend is noisy but more suggestive of the catering channel due to the price revision than of the learning channel. The potential price revision in stock repurchases is all the more surprising given that stock repurchases are most profitable for firms when stock prices are low. If firms had learned from the focus gap that it was an advantageous time to repurchase shares, it is because they had learned that their stock price would rise in the future. Instead, the fact that stock prices may have fallen is more consistent with catering: the firm taking an action that was long-term detrimental to value. The evidence in this section suggests that, under the hypothesis that investor pressure explains the forecasting power of focus gaps on firm actions, catering is the dominate mechanism driving firm responsiveness.

5 Conclusion

In this paper, we construct a firm- and time-specific measure of analyst and firm priorities about a given corporate action using quarterly earnings call transcripts for public firms. Using the difference in these priorities, we construct the "focus gap": a novel publicly available measure of investor pressure for U.S. public firms. We show that the focus gap for a given

[14] We use a binary outcome variable instead of dividend and repurchase levels to isolate firms' payout decisions on the extensive margin and to avoid confounding effects with differences in payout intensity. In Figure A.3, we use as our outcome variable whether or not a firm issued a dividend or made a repurchase. These results show a similar pattern.

topic is predictive of firm actions related to that topic. Our robustness suggests what the timing already implies: since the presentation occurs before the Q&A, the firm cannot completely accommodate the analyst's preferences leading up to the call, and the divergence in the call between the Q&A and the firm presentation is predictive of future updates in speech by the firm and in firm actions.

We use the focus gap to study how investor pressure drives two common actions by public firms: dividend issuance and share repurchases. We show that a standard deviation increase in the dividend focus gap predicts a 4% increase in dividends paid as a percent of firm market value within two years. In addition, we show that the same increase in the repurchases focus gap is associated with a 2% increase in repurchases made as a percent of firm market value within one year. We then provide a conceptual framework that outlines two reasons why a firm would respond to a positive focus gap: catering and learning about long-run value. Using cross-sectional variation in incentives to cater to analysts, we show that dividend payouts and share repurchases in response to the focus gap are consistent with catering to analysts rather than learning about the optimal dividend or repurchase policy that would maximize long-run value. In addition, we show that additional cumulative returns increase in the quarters after dividend issuance when the focus gap is high, but revert to around zero after two years. This evidence suggests that catering, as opposed to learning about long-run value, drives responsiveness to a positive focus gap. Future work could expand this analysis to other topics that firms and analysts regularly discuss, including actions the firm can take to raise cash flows.

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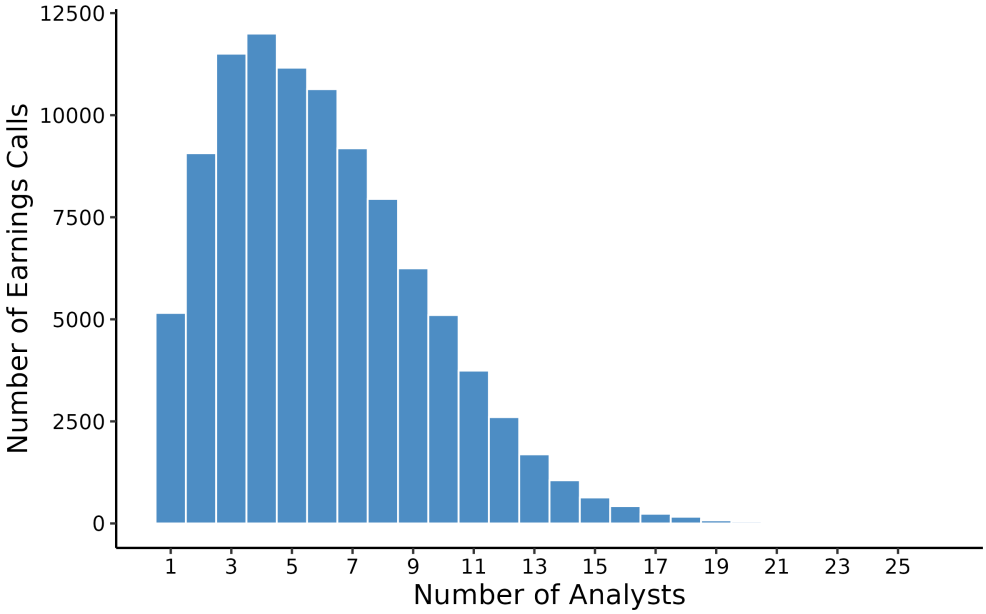
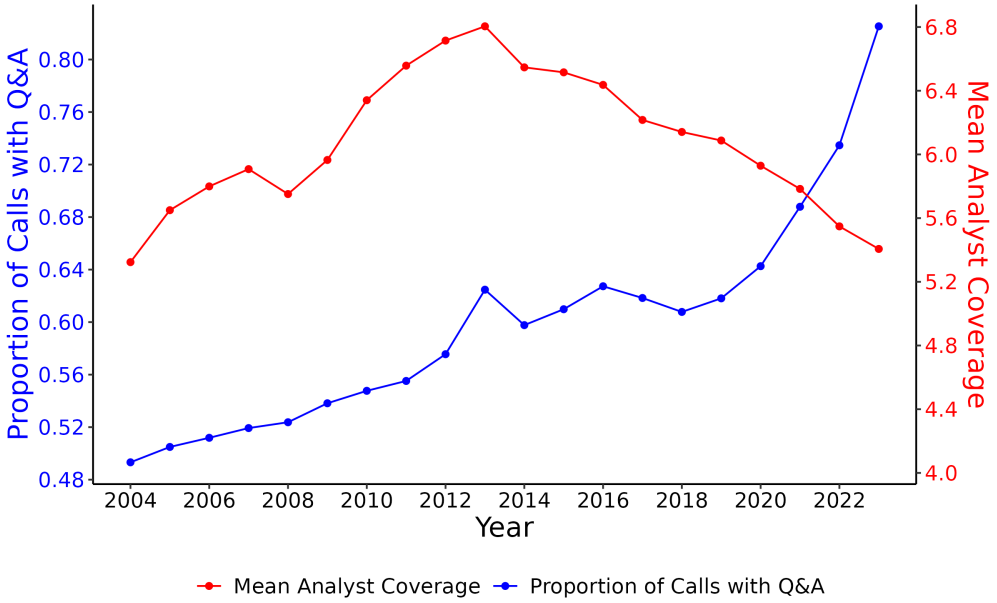
Figures

Figure 1: *Distribution of the Number of Analysts Per Earnings Call*



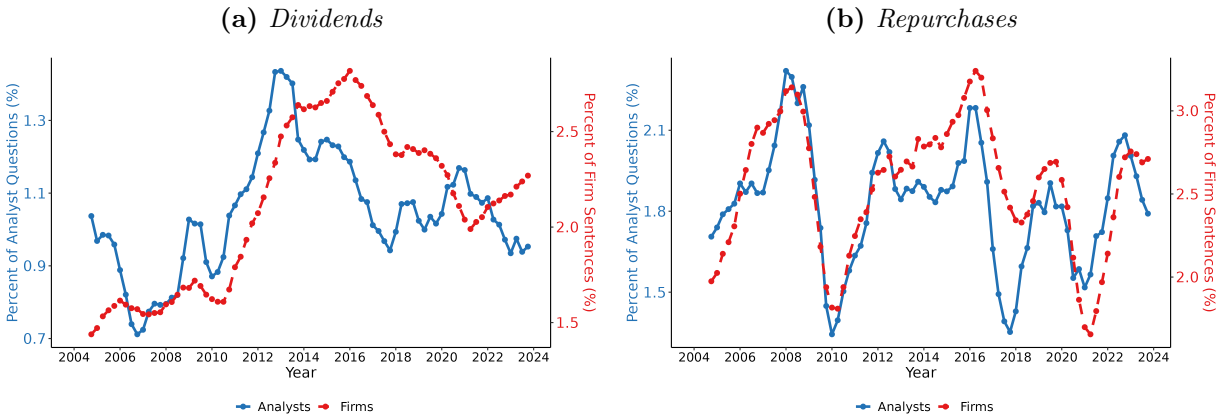
Note: Figure shows the distribution of the number of analysts per earnings call, conditional on at least one analyst being present. Analysts include all market participants who ask a question on the call. The sample covers earnings calls from 2004Q1 to 2023Q4. Data Source: StreetEvents.

Figure 2: *Analyst Coverage Over Time*



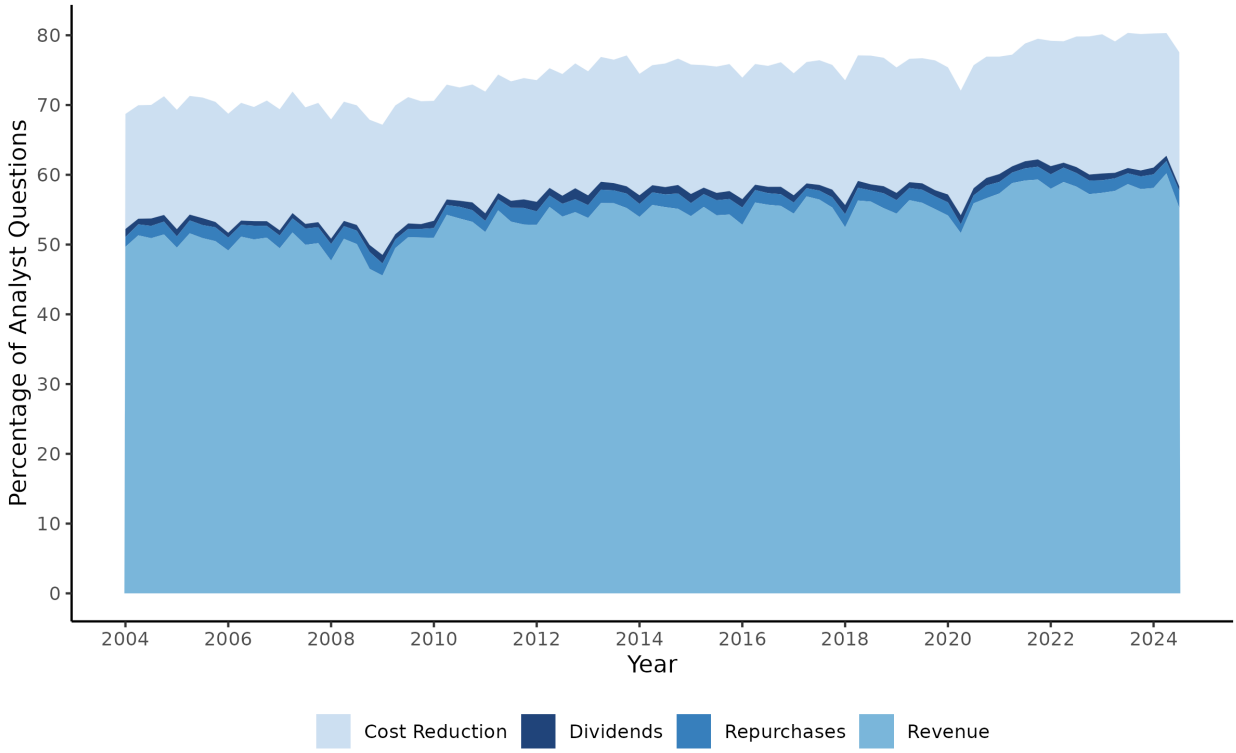
Note: Figure shows the annual average number of analysts per call, conditional on at least one analyst asking a question, and the proportion of calls with a Q&A over time from 2004 to 2023. The blue line (left axis) corresponds to the annual proportion of calls with a Q&A, and the red line (right axis) corresponds to the average number of analysts per call. Only analysts who ask questions are included. Data Source: StreetEvents.

Figure 3: *Variation in Analyst & Firm Priorities Over Time*



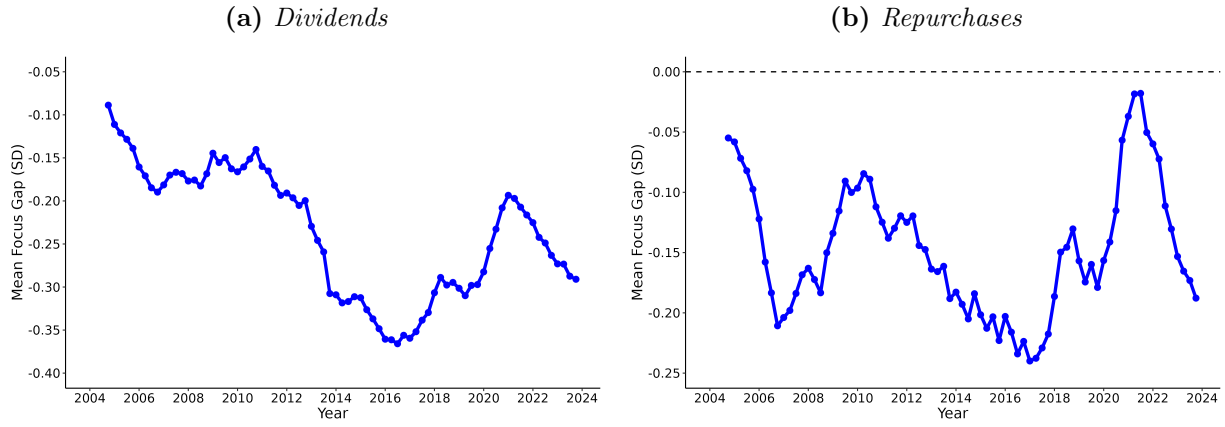
Note: Figure plots the quarterly average analyst (left axis, blue line) and firm (right axis, red line) priorities over time by topic from 2004Q1 to 2023Q4. Panel (a) plots the average for dividends, and panel (b) plots the average for repurchases at the quarterly level. For details on how our measure of priorities is constructed, see Section 2.2. Data Source: StreetEvents.

Figure 4: *Topic "Exposure" Over Time*



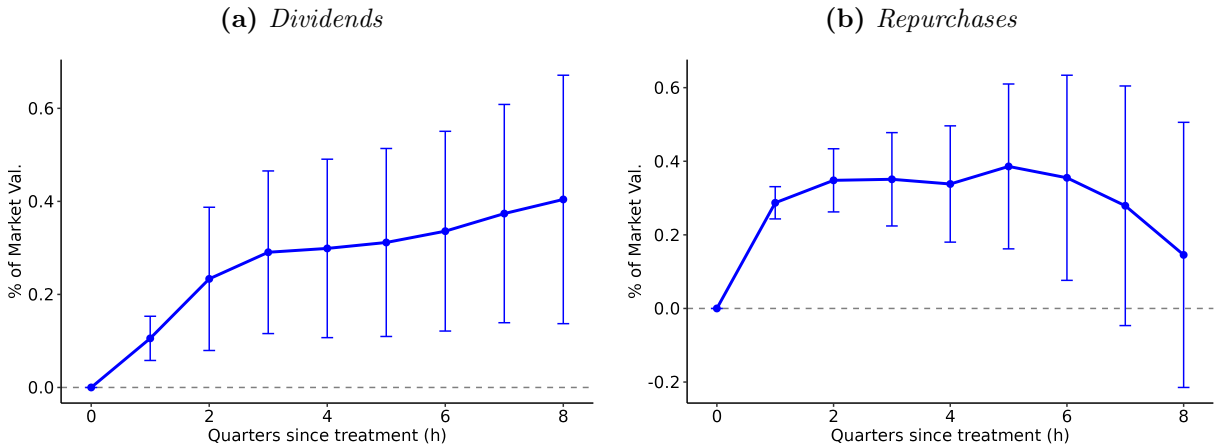
Note: Figure shows the "topic exposure" or the percent of analyst questions about selected topics over time in our sample from 2004Q1 to 2024Q2. The data is at the quarterly level, and only includes analyst questions. For details on how our measure of priorities is constructed, see Section 2.2. Data Source: StreetEvents.

Figure 5: *Variation in the Focus Gap Over Time*



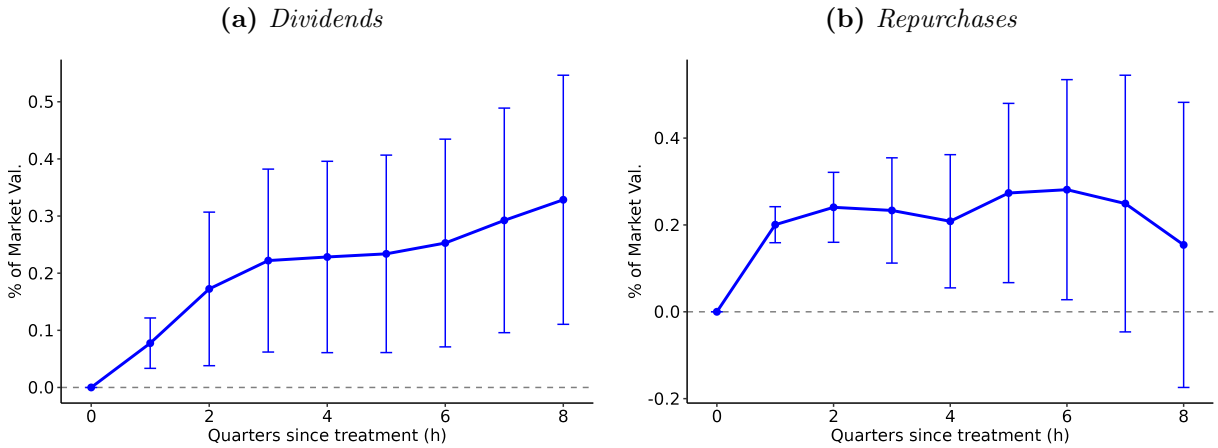
Note: Figure plots the four-quarter rolling average focus gap by topic from 2004Q1 to 2023Q4. Panel (a) plots the average focus gap for dividends and Panel (b) for repurchases. All values are normalized by their standard deviation. For details on how the focus gap is constructed, see Section 2.2. Data Source: StreetEvents.

Figure 6: *Effect of Focus Gaps on Firm Outcomes*



Note: Figure shows local projection estimates of the effect of a one standard deviation increase in the focus gap on firm outcomes. Panel (a) shows the results for dividends, where the outcome variable is dividends paid between quarter t and $t+h$ as a percentage of firm market value at quarter t. Panel (b) shows the results for repurchases, where the outcome variable is repurchases made between quarter t and $t+h$ as a percentage of firm market value at time t. For details on how the focus gap is constructed, see Section 2.2. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP.

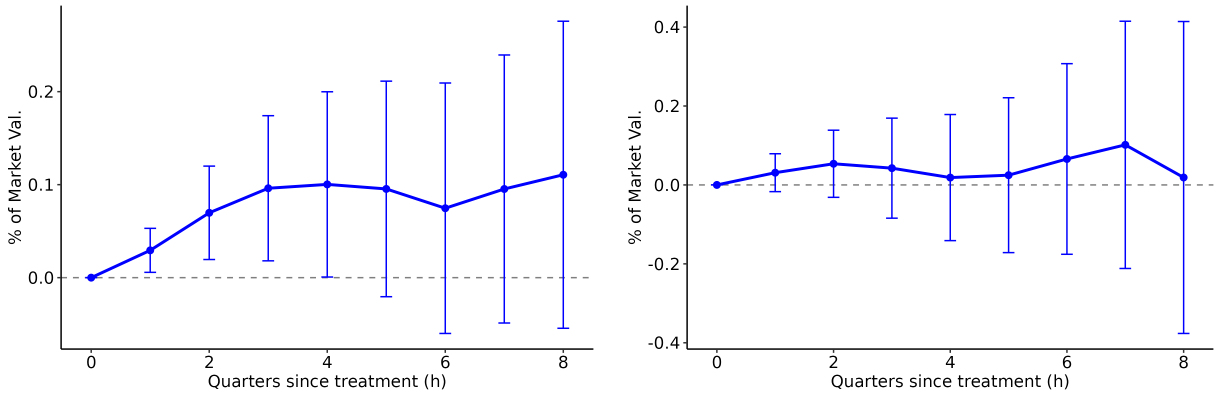
Figure 7: *Effect of Analyst Focus on Firm Outcomes*



Note: Figure shows local projection estimates of the effect of a one standard deviation increase in analyst speech (that is not explained by firm speech) on firm outcomes. Analyst speech is residualized according to Equation (22). Panel (a) shows the results for dividends, where the outcome variable is dividends paid between quarter t and $t+h$ as a percentage of firm market value at quarter t. Panel (b) shows the results for repurchases, where the outcome variable is repurchases made between quarter t and $t+h$ as a percentage of firm market value at time t. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP.

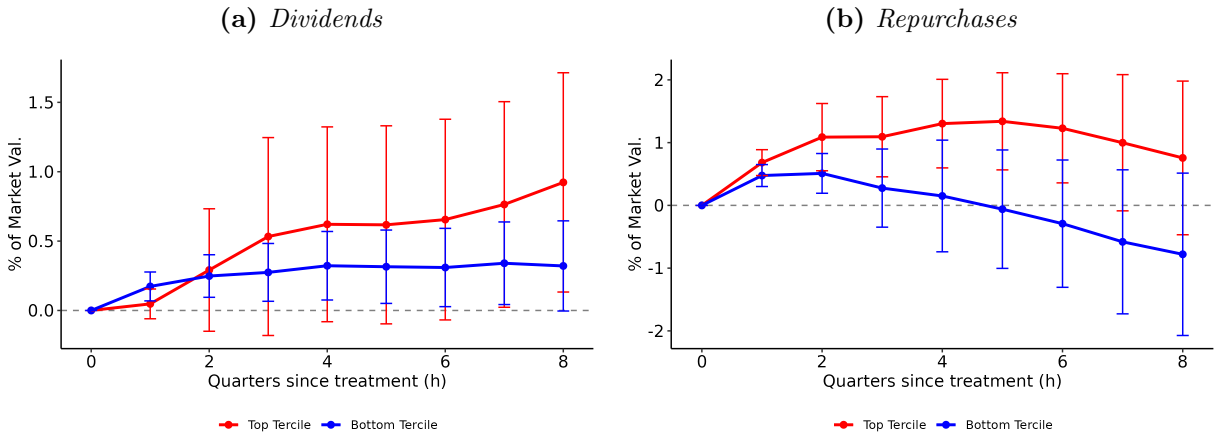
Figure 8: *Effect of Analyst Fixed Effects on Firm Outcomes*

(a) *Dividends* **(b)** *Repurchases*



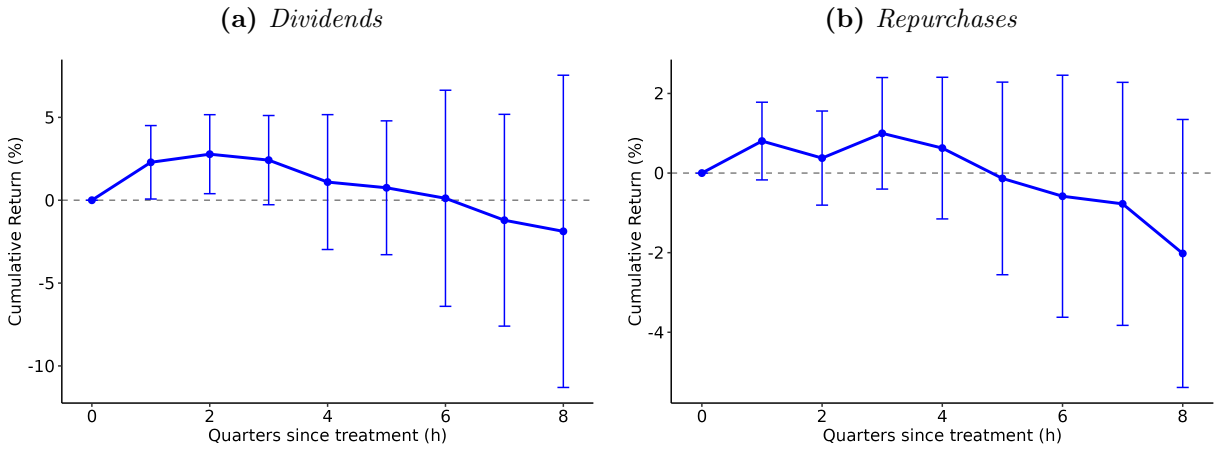
Note: Figure shows local projection estimates of the effect of a one standard deviation increase in analyst fixed effects on firm outcomes. Analyst fixed effects are estimated by Equation (24) and described in Section 4.1. Panel (a) shows the results for dividends, where the outcome variable is dividends paid between quarter t and $t+h$ as a percentage of firm market value at quarter t. Panel (b) shows the results for repurchases, where the outcome variable is repurchases made between quarter t and $t+h$ as a percentage of firm market value at time t. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP.

Figure 9: *Focus Gap Responsiveness With Differing Catering Incentives*



Note: Figure shows how the local projection estimates of the effect of a one standard deviation increase in the focus gap on the level of dividends and repurchases varies by incentives to cater. The red line corresponds to firms with larger incentives to cater, and the blue line corresponds to firms with smaller incentives to cater. Details on the construction of catering incentives can be found in Section 4.2. Panel (a) shows the results for dividends, where the outcome variable is dividends paid between quarter t and $t+h$ as a percentage of firm market value at quarter t. Panel (b) shows the results for repurchases, where the outcome variable is repurchases made between quarter t and $t+h$ as a percentage of firm market value at time t. For details on how the focus gap is constructed, see Section 2.2. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP; I/B/E/S.

Figure 10: *Stock Price Response to Focus Gap Responsiveness*



Note: Figure shows the stock price reaction of the firm taking an action when the focus gap is high. The specification estimated is Equation (29) and described in detail in Section 4.2. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP; I/B/E/S.

Tables

Table 1: *Summary Statistics of Analyst & Firm Priorities*

	Topic	
	Dividends	*Repurchases*
Mean: Percent of Sentences/Questions		
Analysts	1.1	1.8
Firms	2.2	2.5
Standard Deviation		
Analysts	3.6	4.3
Firms	4.1	4.1
Correlation w/ Market Beta		
Analysts	-0.09	0.38
Firms	0.06	0.29

Note: Table shows summary statistics of analyst and firm priorities by topic from 2004Q1 and 2023Q4. For details on how our measure of priorities is constructed, see Section 2.2. The market beta for dividends is constructed as follows, in the spirit of Baker and Wurgler (2004): $R_{j,t} = \beta_t^m \cdot \{\text{Issued Dividend}_{jt}\} + \varepsilon_{jt}$. Intuitively, β_t^m represents the additional return in a given quarter for firms that issued a dividend, which we use as a proxy for the market premium for dividends. The market beta for repurchases is constructed as: $R_{j,t} = \beta_t^m \cdot \{\text{Repurchases Shares}_{jt}\} + \varepsilon_{jt}$. We calculate β_t^m using four-quarter returns and using four-quarter rolling windows to reduce noise. Data Source: StreetEvents; Compustat; CRSP.

Table 2: *Summary Statistics of the Focus Gap*

	Topic	
	Dividends	*Repurchases*
Mean Focus Gap	-1.1	-0.7
Standard Deviation of Focus Gap		
Overall	4.5	4.9
Avg. Within Firm	2.7	3.5
Avg. Within Industry–Time	3.3	4.2
Correlation w/ Market Beta	-0.4	-0.4

Note: Table shows summary statistics of the focus gap by topic from 2004Q1 and 2023Q4. For details on how the focus gap is constructed, see Section 2.2. The market beta for dividends is constructed as follows, in the spirit of Baker and Wurgler (2004): $R_{j,t} = \beta_t^m \cdot \{\text{Issued Dividend}_{jt}\} + \varepsilon_{jt}$. Intuitively, β_t^m represents the additional return in a given quarter for firms that issued a dividend, which we use as a proxy for the market premium for dividends. The market beta for repurchases is constructed as: $R_{j,t} = \beta_t^m \cdot \{\text{Repurchases Shares}_{jt}\} + \varepsilon_{jt}$. We calculate β_t^m using four-quarter returns and using four-quarter rolling windows to reduce noise. Data Source: StreetEvents; Compustat; CRSP.

Table 3: *Association Between Firm & Analyst Focus: Dividends*

	Outcome: Firm Focus$_t$ (SD)				
	(1)	(2)	(3)	(4)	(5)
Analyst Focus (SD)	0.323***	0.222***	0.118***		
	(0.003)	(0.008)	(0.008)		
Lag Firm Focus (SD)				0.669***	0.654***
				(0.006)	(0.006)
Lag Analyst Focus (SD)					0.062***
					(0.005)
Obervations	126 056	126 056	126 056	123 247	122 672
R2	0.104	0.299	0.502	0.590	0.593
R2 Within		0.054	0.022	0.446	0.451
FE Controls		3-digit NAICS x Quarter	Firm	3-digit NAICS x Quarter	3-digit NAICS x Quarter

Note: Table shows the effect of analyst focus on current firm focus for dividends from 2004Q1 and 2023Q4. For details on how analyst and firm focus are constructed, see Section 2.2. All variables are normalized by their standard deviation. Columns (1), (2), (3) show the association of the standardized firm focus and analyst focus in the cross-section. Columns (4) and (5) show that firm focus is autocorrelated and positively associated with lagged analyst focus. Standard errors are clustered at the level of the fixed effects indicated in each column. Data Source: StreetEvents.

Table 4: *Association Between the Focus Gap & Analyst Focus: Dividends*

	Outcome: Focus Gap$_t$ (SD)			
	(1)	(2)	(3)	(4)
Focus Gap, Lag (SD)	0.370***	0.544***	0.375***	0.558***
	(0.008)	(0.007)	(0.008)	(0.007)
Analyst Focus, Lag (SD)		−0.335***		−0.356***
		(0.008)		(0.008)
Analyst Focus, Two Lags (SD)			−0.026***	0.060***
			(0.008)	(0.008)
Observations	123 113	122 514	120 241	119 692
R2	0.253	0.316	0.256	0.321
R2 Within	0.139	0.212	0.142	0.217
FE Controls		3-digit NAICS x Quarter		3-digit NAICS x Quarter

Note: Table shows the effect of the lagged focus gap and analyst focus on the current focus gap for dividends from 2004Q1 to 2023Q4. For details on how analyst and firm focus are constructed, see Section 2.2. All variables are normalized by their standard deviation. Following the discussion in Section 2.3, columns (2)-(4) show that increases in past analyst mentions predict declines in the focus gap. Standard errors are clustered at the level of the fixed effects indicated in each column. Data Source: StreetEvents.

Table 5: *Correlation Between the Focus Gap and Explanatory Variables*

	Outcome: Focus Gap$_t$ (SD)	
	Dividends	*Repurchases*
One-Qtr Return (SD)	−0.002	−0.009^{+}
	(0.003)	(0.005)
Lag Focus Gap (SD)	0.371***	0.305***
	(0.014)	(0.011)
Lag Chng Outcome (SD)	0.004	−0.005
	(0.004)	(0.004)
Num Analysts (SD)	−0.045***	−0.084***
	(0.006)	(0.007)
Num Questions (SD)	0.007	0.001
	(0.007)	(0.007)
Total Pres. Length (SD)	0.032***	0.035***
	(0.005)	(0.006)
Observations	93451	88071
FE Controls	3-digit NAICS × Quarter	3-digit NAICS × Quarter
R2 Adj.	0.168	0.131

$^{+}$ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001

Note: Table shows the correlation between the focus gap and various firm and call level measures from 2004Q1 to 2023Q4. For details on how the focus gap is constructed, see Section 2.2. All variables are normalized by their standard deviation. Standard errors are clustered at the level of the fixed effects indicated in each column. Data Source: StreetEvents; Compustat; CRSP.

Table 6: *Effect of Firm Speech on Analyst Speech*

	Dividends: Analyst Speech$_t$		**Repurchases: Analyst Speech$_t$**	
	(1)	(2)	(3)	(4)
Firm Speech$_t$	0.312***	0.230***	0.301***	0.266***
	(0.013)	(0.011)	(0.008)	(0.008)
Firm Speech$_{t-1}$		0.015$^+$		0.041***
		(0.008)		(0.007)
Firm Speech$_{t-2}$		0.025**		0.001
		(0.008)		(0.006)
Firm Speech$_{t-3}$		0.031***		0.007
		(0.008)		(0.006)
Firm Speech$_{t-4}$		0.016*		−0.003
		(0.008)		(0.006)
Firm Speech$_{t-5}$		0.016*		0.005
		(0.007)		(0.006)
Firm Speech$_{t-6}$		0.024**		0.007
		(0.008)		(0.005)
Mean Outcome	0.30	0.30	0.45	0.45
Observations	97340	97340	96943	96943
R2 Adj.	0.101	0.107	0.092	0.093

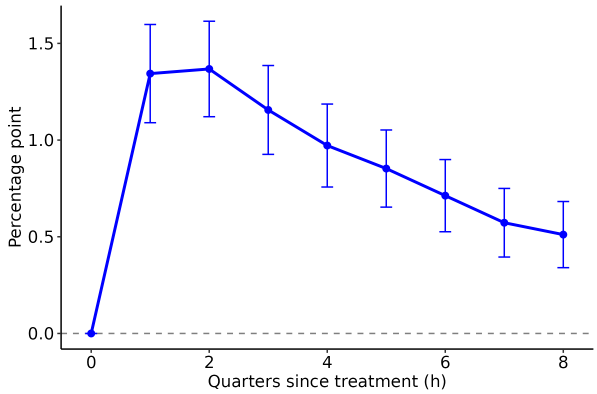
$^+$ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001

Note: Table shows the relationship between analyst speech and lags of firm speech from 2004Q1 to 2023Q4. For details on how analyst and firm focus are constructed, see Section 2.2. Columns (1)-(2) show the relationship for dividends, and columns (3)-(4) show the relationship for repurchases. All values are normalized to their standard deviation. Standard errors are clustered at the firm-level. Data Source: StreetEvents.

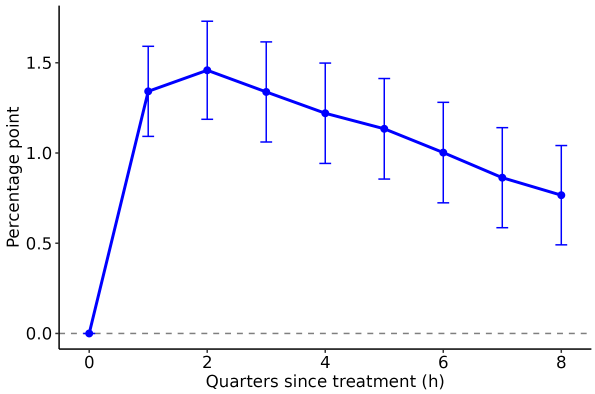
A Additional Figures & Tables

Figure A.1: *Effect of Focus Gap on Other Dividend Outcomes*

(a) *Dividend Issued (0/1)*



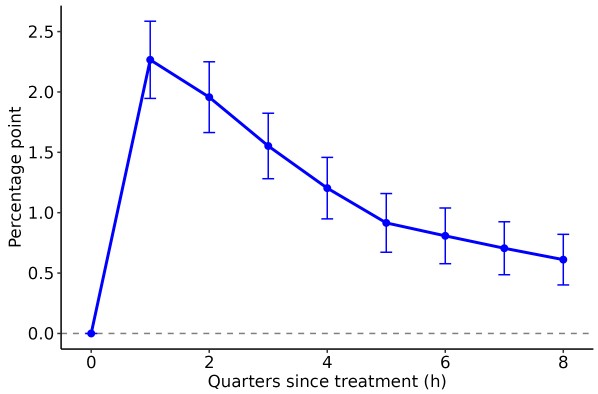
(b) *Initiated Dividend (0/1)*



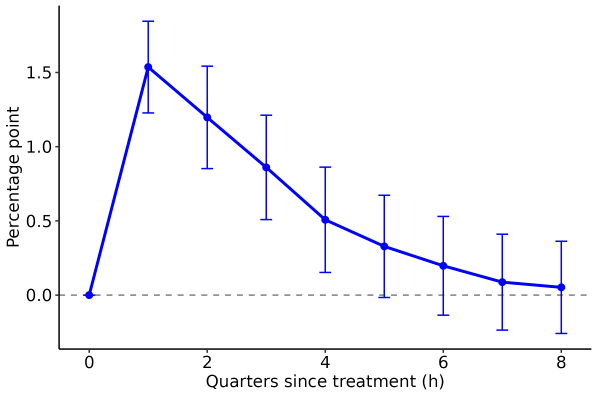
Note: Figure shows local projection estimates of the effect of a one standard deviation increase in the dividend focus gap on other dividend outcomes. Panel (a) shows the effect on the probability of dividend issuance between quarter t and $t+h$. Panel (b) shows the effect on the probability of issuing a new dividend between quarter t and $t+h$, where we define a dividend as new if the firm hasn't issued one in the previous four quarters. For details on how the focus gap is constructed, see Section 2.2. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP.

Figure A.2: *Effect of Focus Gap on Repurchase Outcomes*

(a) *Made Share Repurchase (0/1)*

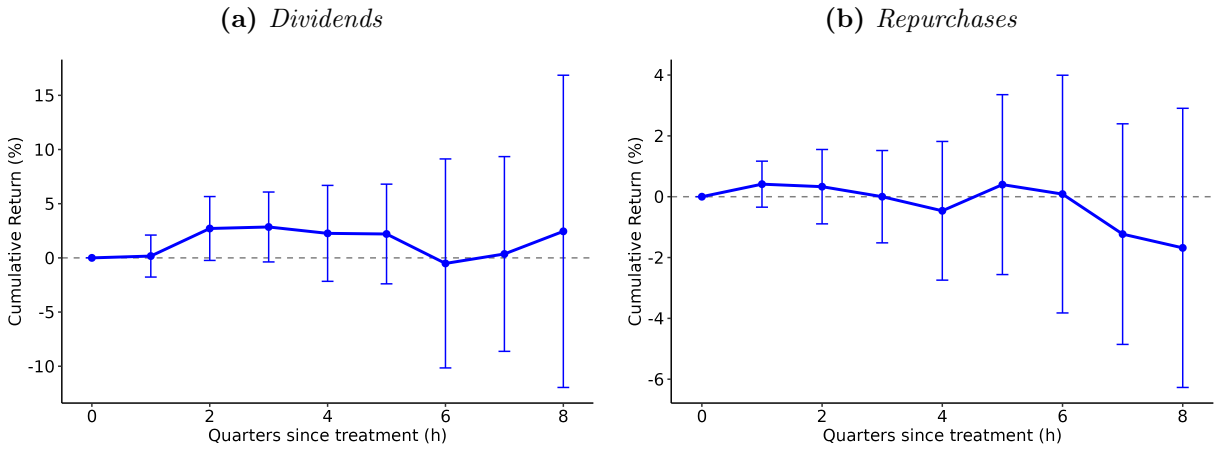


(b) *Made New Share Repurchase (0/1)*



Note: Figure shows local projection estimates of the effect of a one standard deviation increase in the repurchase focus gap on repurchase behavior. Panel (a) shows the effect on the probability of making a repurchase greater than 1% of the firm's market value between quarter t and $t+h$. Panel (b) shows the effect on the probability of making a new repurchase greater than 1% of the firm's market value between quarter t and $t+h$, where we define a repurchase as new if the firm hasn't repurchased shares greater than 1% in the previous four quarters. For details on how the focus gap is constructed, see Section 2.2. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP.

Figure A.3: *Stock Price Response to Focus Gap Responsiveness: Alternative Action*



Note: Figure shows the stock price reaction of the firm taking an action when the focus gap is high. The firm action is a binary variable equal to one if the firm issues a dividend (panel (a)) or makes a share repurchase greater than 1% of firm market value (panel (b)). The specification estimated is Equation (29) and described in detail in Section 4.2. The local projections are estimated from 2004Q1 to 2023Q4, and plotted over horizons h from 0 to 8 (in quarters) after the shock. Standard errors are Newey-West, and error bars are shown at the 95% confidence level. Data Source: StreetEvents; Compustat; CRSP; I/B/E/S.

Table A.1: *Association Between Firm & Analyst Focus: Repurchases*

	Outcome: Firm Focus$_t$ (SD)				
	(1)	(2)	(3)	(4)	(5)
Analyst Focus (SD)	0.314***	0.292***	0.215***		
	(0.003)	(0.007)	(0.007)		
Lag Firm Focus (SD)				0.654***	0.629***
				(0.005)	(0.005)
Lag Analyst Focus (SD)					0.083***
					(0.004)
Observations	125 615	125 615	125 615	122 811	121 818
R2	0.099	0.248	0.337	0.525	0.531
R2 Within		0.089	0.056	0.424	0.430
FE Controls		3-digit NAICS x Quarter	Firm	3-digit NAICS x Quarter	3-digit NAICS x Quarter

Note: Table shows the effect of analyst focus on current firm focus for repurchases from 2004Q1 to 2023Q4. For details on how analyst and firm focus are constructed, see Section 2.2. All variables are normalized by their standard deviation. Columns (1), (2), (3) show the association of the standardized firm focus and analyst focus in the cross-section. Columns (4) and (5) show that firm focus is autocorrelated and positively associated with lagged analyst focus. Standard errors are clustered at the level of the fixed effects indicated in each column. Data Source: StreetEvents.

Table A.2: *Association Between the Focus Gap & Analyst Focus: Repurchases*

	Outcome: Focus Gap$_t$ (SD)			
	(1)	(2)	(3)	(4)
Focus Gap, Lag (SD)	0.288***	0.460***	0.289***	0.479***
	(0.007)	(0.006)	(0.007)	(0.006)
Analyst Focus, Lag (SD)		−0.292***		−0.323***
		(0.006)		(0.007)
Analyst Focus, Two Lags (SD)			−0.015*	0.073***
			(0.006)	(0.006)
Observations	122 673	121 661	119 801	118 849
R2	0.211	0.258	0.213	0.264
R2 Within	0.083	0.137	0.084	0.143
FE Controls		3-digit NAICS x Quarter		3-digit NAICS x Quarter

Note: Table shows the effect of the lagged focus gap and analyst focus on the current focus gap for repurchases. For details on how the focus gap is constructed, see Section 2.2. All variables are normalized by their standard deviation. Following the discussion in Section 2.3, columns (2)-(4) show that increases in past analyst mentions predict declines in the focus gap. Standard errors are clustered at the level of the fixed effects indicated in each column. Data Source: StreetEvents.

B Details on identifying topics using an LLM

Using the corpus of StreetEvents earnings calls, we identify priorities of analysts and firms using an LLM. For analyst priorities, we first separate each sentence spoken by an analyst. We then run the sentence through the LLM using the following prompts for each topic.

Dividends Prompt

You are an advanced AI model assisting economics researchers analyzing the transcripts of earnings conference calls by public firms. You will receive the text of a question asked by an equity analyst on a call. Your task is to extract the following information:

- **Questions asked by analysts:**
  - For each question:
    - Summarize the question.
    - Classify whether the question is **dividend-related** (true or false).
    - Explain why you made the decision you made in one or two sentences.

Definition of Dividend-Related Questions:
A question is dividend-related if it discusses the firm **issuing dividends**. This includes:

- Issuing dividends
- Paying out dividends to investors

Repurchases Prompt

You are an advanced AI model assisting economics researchers analyzing the transcripts of earnings conference calls by public firms. You will receive the text of a question asked by an equity analyst on a call. Your task is to extract the following information:

- **Questions asked by analysts:**
  - For each question:
    - Summarize the question.
    - Classify whether the question is **repurchase-related** (true or false).
    - Explain why you made the decision you made in one or two sentences.

Definition of Repurchase-Related Questions:
A question is repurchase-related if it discusses the firm **repurchasing shares or stock**. This includes:

- Buying back or repurchasing shares or stock
- Accelerated Share Repurchases (ASR)

For identifying firm priorities, we separate the presentation sentences into four sentence chunks. We run similar prompts as above.

C Supplemental material for Section 3

C.1 Prediction derivation

Rearranging equation (13),

$$V'(a^*, Z) = -\frac{1}{1-\theta}\frac{\lambda}{1-\lambda}\left[' (a^*, T) + (1-\beta)V'(a^*, \bar{U})\right] - \frac{\theta}{1-\theta}V'(a^*, T-b) \tag{30}$$

Then note that since V is affine in the second argument, this is equivalent to

$$(1-\lambda)V'(a^*, \mathbb{E}_f[S]) + \lambda V'\left(a^*, \mathbb{E}_m[S]\right) = 0 \tag{31}$$

$$V'(a^*, (1-\lambda)\mathbb{E}_f[S] + \lambda\mathbb{E}_m[S]) = 0 \tag{32}$$

Then taking the derivative with respect to a variable Δ:

$$\frac{da}{d\Delta}V_{aa}(a, K) + V_{a2}(a, K)\frac{dK}{d\Delta} = 0 \tag{33}$$

$$K \equiv (1-\lambda)E_f[S] + \lambda E_m[S] \tag{34}$$

$$E_f[S] \equiv \theta(T-b) + (1-\theta)Z \tag{35}$$

$$E_m[S] \equiv \beta T + (1-\beta)\bar{U} \tag{36}$$

Then we can write the comparative static of a with respect to any parameter Δ as:

$$\frac{da}{d\Delta} = \frac{V_{a2}(a, K)}{-V_{aa}(a, K)}\frac{dK}{d\Delta} \tag{37}$$

Applying this to $\Delta \equiv T - Z$:

$$\frac{dK}{dT - Z} = \theta(1-\lambda) + \lambda\beta \tag{38}$$

$$\frac{da}{dT - Z} = \frac{da}{dT} = \frac{V_{a2}(a, K)}{-V_{aa}(K)}(\theta(1-\lambda) + \lambda\beta) \tag{39}$$

Applying this to $\Delta \equiv T - b$ – the signal of the analyst

$$\frac{dK}{dT - b} = (1-\lambda)\theta \tag{40}$$

Applying this to the actual bias of the analyst holding fixed their signal $T - b$

$$\frac{dK}{db} = \beta\lambda \tag{41}$$

C.2 Special case: quadratic

Suppose $V_j(.)$ is parameterized as

$$V_j(Z_t) = Z_t a_{j,t+1} - \frac{\eta}{2} a_{j,t+1}^2, \tag{42}$$

.

Note:

$$V_a(Z) = Z - \eta a \tag{43}$$

$$V_{aa}(Z) = -\eta \tag{44}$$

$$V_{a2}(Z) = 1 \tag{45}$$

Then

$$\eta a^* = K \tag{46}$$

So the comparative statics of interest are:

$$\frac{da_{jt+1}^*}{dT_t - b} = \frac{\theta(1-\lambda) + \beta\lambda}{\eta} \tag{47}$$

$$\frac{da^*}{db} = \frac{\beta\lambda}{\eta} \tag{48}$$

D Details on analyst fixed effects

D.1 Analyst matching across earnings calls

In order to estimate analyst fixed effects, we have to identify analysts across earnings calls from the transcripts. This is a challenge given that analyst names are often not consistently reported e.g. first names are often slightly different or last names are slightly misspelled. In order to deal with this and match analysts to their forecasts, we match the I/B/E/S recommendations file, which includes first initial, last name, and a brokerage house id variable, to analyst names in the earnings call transcripts. We do this process in three waves. In step 1, we use the analyst last name, first initial, and the CUSIPs of the firms that the analyst covers in the I/B/E/S recommendations file. Then, we find exact matches from the earnings call participants within this set of firms. With these sets of exact analyst and firm matches, we then extract the first names and organizations of the analyst. For example, if Richard Smith works for UBS and is listed as Rich Smith at UBS Research in the transcripts, then we extract the first names: "Rich", "Richard" and the organizations: "UBS", "UBS Research". This enables us to deal with inconsistent spelling of names and organizations for a given analyst which we are able to identify with relative confidence because we are matching only to firms in which the analyst has given a recommendation in I/B/E/S..

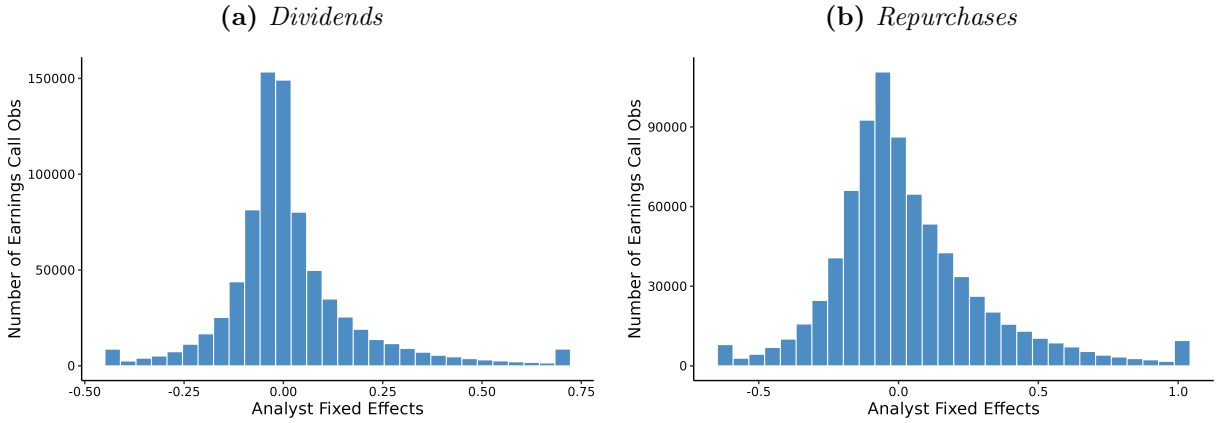
In the second step, within the CUSIPs of firms covered by the analyst in the I/B/E/S data set, we allow for fuzzy matching over the analyst's last name. This ensures that we account for slight misspellings of analyst last names. However, to help ensure accuracy, we require that the first name and organizations of the fuzzy-matched analysts to be one of the first names and organizations found in the exact matches from step 1. So using the example from above, if Rich Smith covers a firm with CUSIP XXY0102, we have identified first names as {Rich, Richard} and organizations {"UBS", "UBS Research"}. Suppose there is an analyst named Rich Smithf covering CUSIP XXY0102 at a particular date. If this analyst's organization is listed as either "UBS" or "UBS Research", then we give this analyst the same analyst id number as above.

Given that the CUSIPs covered in the I/B/E/S data set are only a subset of firms covered by an analyst, step 3 seeks to match analysts across CUSIPs not listed in I/B/E/S. We fuzzy-match last name but require that the first name and organization is one of the ones identified in the exact matches of step 1. This is identical to the process outlined in step 2, however we now place no restriction on the CUSIP of the firm covered. So, the difference between step 2 and step 3 is that we search across all CUSIPs in step 3. Overall, we are able to match 72% of questions across all calls to an analyst ID.

D.2 Descriptives

Figure D.1 shows the distribution of analyst fixed effects across our sample for dividends and repurchases. The fixed effects are approximately normally distributed.

Figure D.1: *Effect of Analyst Fixed Effects on Firm Outcomes*



Note: Figure shows the distribution of analyst fixed effects for dividends (panel (a)) and repurchases (panel (b)). Analyst fixed effects are estimated by Equation (24) and described in Section 4.1. For readability, the top and bottom 1% are capped at the ends of the histogram. Data Source: StreetEvents; I/B/E/S.

However, these estimates are not precise. Approximately 40% of observations are significant at the 10% level, and only about 27% are significant at the 1% level. This lack of precision is one reason why estimating the effects of analyst fixed effects on firm actions is noisy.