



Guidance & Consensus[©]

Navigating the Shareholder Landscape

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Background – Chaka Patterson



- Partner at Alston & Bird (and former Partner at Jenner & Block and Jones Day)
- Professor at University of Chicago Law School
- Former General Counsel of a Fortune 1000 Global Education Company
- Former Treasurer & VP for Investor Relations of a Fortune 100 Energy Company
- JD from Harvard Law School
- MBA from University of Chicago Booth School of Business

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Informal report that a public company issues to shareholders detailing the earnings it expects to achieve in the upcoming fiscal quarter or year ahead.



Companies are not legally required to provide earnings guidance, although it is common practice for many of them to do so.



Reg FD and Forward-Looking Statement Warnings.

Consensus

- **Investment banks and other financial institutions hire analysts to “cover” public companies.**
 - These analysts cover companies by writing research reports that detail how well the company is performing, how well it is performing compared to other companies in the industry and predict how well the company will perform in terms of revenue, expenses, profits, earnings per share, among other metrics.
 - Those predictions are accumulated and the mean (average) and the median (the middle number of all of the predictions) are calculated and published for the investment community.
- **If a company falls short of consensus, the stock normally falls.**
 - If a company meets or exceeds consensus, the stock normally increases.
- The analyst reports are an excellent way for lawyers to learn about and get ahead of significant trends in the industry and facing your clients.

Key Takeaways

- ✓ Consensus tells you the financial targets the company has promised the investment community it will achieve
 - Allows lawyers to identify any “red flags” or areas prone to “fudging” in order for the company to meet these commitments---such areas include Income Statement metrics like:
 - Income Statement Metrics like Revenue, Operating Income, Net income, Earnings Per Share.
 - Balance Sheet Metrics like hiding long-term debt commitments through off-balance sheet entities.
 - Cash Flow Statement Metrics like “juicing” cash flow from operations by inappropriately classifying cash flow from investing or financing activities as cash flow from operations.
- ✓ The analyst reports are an excellent way for lawyers to learn about and get ahead of significant trends in the industry and those facing your clients.
- ✓ Analyst reports allow lawyers to “see around corners.”



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