CPA Research Speaker Series (Accounting)

Alberta School of Business
Department of Accounting, Operations, and Information Systems

Presents:

Stephannie Larocque
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Topic:

Filling in the GAAPs in Individual Analysts' Street Earnings Forecasts

Friday, November 3, 2017
2:00pm – 3:30pm
BUS Room 4-16 (Banister Conference Room)

ABSTRACT

This study investigates cross-sectional variation in the earnings that individual analysts include in their GAAP EPS forecasts but exclude from their Street EPS forecasts. Prior research presents mixed findings regarding the purpose and usefulness of analysts' exclusions, but generally focuses on firm-level exclusions. We find that, for many firms, forecasted exclusions are not uniform across analysts following the firm. We also find that within-firm variation in forecasted exclusions is more strongly associated with a firm's income-decreasing than income-increasing GAAP earnings items and with recurring than non-recurring GAAP earnings items. Across analysts, we observe that analysts with greater experience and resources appear to exclude less from their Street EPS forecasts than do other analysts and that exclusions are less likely to be income decreasing and recurring items. Finally, we find that the accuracy of individual analysts' GAAP EPS forecasts is positively associated with the magnitude of their forecasted exclusions and that this association increases in analysts' experience and resources, but decreases in busyness. Future research relying on earnings forecast errors and on the dispersion of analyst forecasts, as well as research attempting to understand earnings exclusions, should consider the significant within-firm variation in analysts' exclusions.

(Copies of the paper are attached)