

The Risky Business of Earnings Calls

Earnings Call adoption is increasing in the GCC but remains extremely low, posing significant regulatory risks

Introduction



"Iridium advances the science and practice of investor relations to help organizations and leaders unlock their potential."

Oliver Schutzmann, CEO

For the past 100 years, the equity research and investment process has remained fundamentally unchanged. Analysts and investors typically start by screening the market for investment opportunities. Once they identify an idea, they will proceed by conducting an initial review and analysis of the target company, after which they will want to listen to - and form an opinion of - the executive management team. This can be done by dialing into Earnings Calls, reading Earnings Call transcripts, or utilizing AI-powered tools to automate Earnings Calls analysis.

If the management team convinces them, serious analysts and investors will perform substantial analysis of available company information and create forecast models. As a next step, they will want to meet with senior management face-to-face to either confirm or discredit their investment view. Should they decide to acquire a shareholding in the company or initiate research coverage, they will require regular updates from management on the company's progress; again, this can be achieved by tuning into Earnings Calls.

Therefore, it is no surprise that analysts and investors consistently cite Earnings Calls as the most essential and efficient avenue through which they can obtain quantitative and qualitative insight into a business and its management team.

For listed companies, Earnings Calls are an opportunity to inform analysts and investors about how their business creates value, give an honest assessment of their performance, and provide guidance on the most critical strategic, financial and operational metrics that illustrate their value creation in the short, medium and long term.

Many times though, company leaders are concerned that a public discussion of challenges facing their business could reveal sensitive information to peers, generate too much transparency among retail investors, or create pressure to report information that is not available in their financial statements. Another primary concern is that journalists can dial into Earnings Calls and scrutinize management commentaries.

As a result, some executive teams decide to limit access to Earnings Calls to professional analysts and investors via private invitations, excluding retail investors, employee shareowners and other stakeholders altogether, or they elect not to host any Earnings Calls at all - leaving market participants to wonder what the company is hiding.

This is the subject of focus for this report.



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Key Findings

Earnings Call adoption is rising in the GCC region, but their public availability is meagre at 7.4%

- Availability of Earnings Call transcripts has increased significantly
- Surprisingly, only 7.4% of Earnings Call transcripts are publicly available
- This could pose significant regulatory risks for certain companies

Earnings Call adoption by GCC listed companies has increased significantly in the last five years

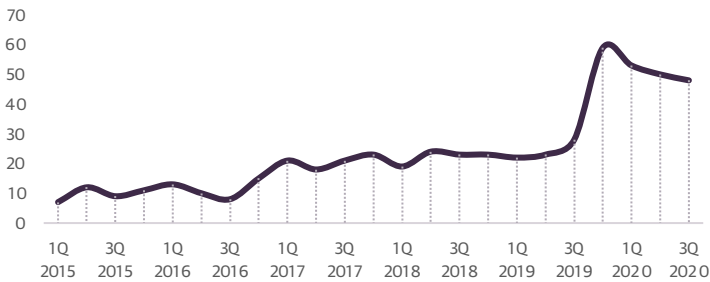
In August 2020, Iridium Quant Lens NLP was launched, which quantifies language sentiment of company Earnings Calls with natural language processing algorithms ([Iridium Quant Lens: Sentiment Quantified](#)).

A significant finding that emerged from our analysis is that the number of Earnings Call transcripts, which are available for companies in the GCC region, has increased strongly over the last five years. Overall, this is a positive sign. Companies are starting to embrace Earnings Calls as a core component of their analyst and investor engagement efforts and, more generally, is indicative of maturing investor relations practices across the region.

Exhibit 1: Number of available transcripts of GCC Listed Companies

GCC Countries

Total Number of Earnings Call Transcripts per Calendar Quarter



However the adoption rate remains extremely low at 7.4%

Nevertheless, the number of companies conducting Earnings Calls, for which transcripts were available from July to September 2020, remains extremely low at only 7.4% of the 645 publicly listed companies in the GCC region.

Qatari companies have the highest rate of adoption, followed by the UAE

Additionally, the use of Earnings Calls has not been adopted equally across countries. In this respect, Qatar leads the region in their use with 50% of transcripts being available, following the introduction of regulations in 2019, making Earnings Calls mandatory for listed companies. This also explains the spike in overall transcript availability in the October to December 2019 period in Exhibit 1. By comparison, the adoption rate in the UAE (8.5%) and KSA (4.3%) is low, while Bahrain, Kuwait and Oman are laggards at less than 3%.

This could expose companies to significant regulatory risk

In our view, the low availability of Earnings Call transcripts to the general public exposes a potential regulatory risk. Failure to announce Earnings Calls, or to make their replays and transcripts publicly available could result in regulatory sanctions, potentially risks breaching selective disclosure and, by extension, insider trading regulations.

GCC Transcript Availability

Earnings Call adoption is increasing in the GCC

Earnings Call adoption by GCC listed companies has increased significantly in the last 5 years

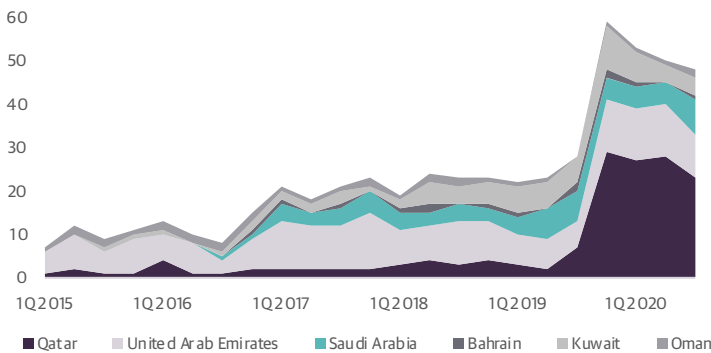
A total of 550 publicly available Earnings Call transcripts were gathered for the period from January 2015 to September 2020, sourced from leading data platforms and company websites.

A notable insight that emerged from this analysis is that the number of transcripts available for companies in the Gulf has increased strongly over the last five years, from 7 transcripts during the January to March 2015 period to 48 during the July to September 2020 period. A significant factor contributing to this rise was the introduction of regulations by the Qatar Stock Exchange, making it mandatory for listed companies to conduct Earnings Calls, effective from 1 October 2019.

Exhibit 2: Number of available transcripts of GCC Listed Companies

GCC Countries Breakdown

Number of Available Earnings Call Transcripts per Country



We view it as a positive sign that regulators are increasingly focused on prescribing more active analyst and investor engagement, and that companies are embracing Earnings Calls as a communications channel. More generally, this is indicative of slowly maturing investor relations efforts across the region.

Transcript availability has however declined during 2020

While the longer-term trend in transcript availability is positive, a declining trend was evident during first nine months of 2020, declining from 59 transcripts made available during the October to December 2019 period to 48 during the July to September 2020 period. This lower number of transcripts is particularly concerning because of the ongoing Covid-19 disruption. It appears to indicate that some companies may have skipped and deferred Calls in these difficult times during which analysts and investors have a much higher need for information and dialogue with senior management.

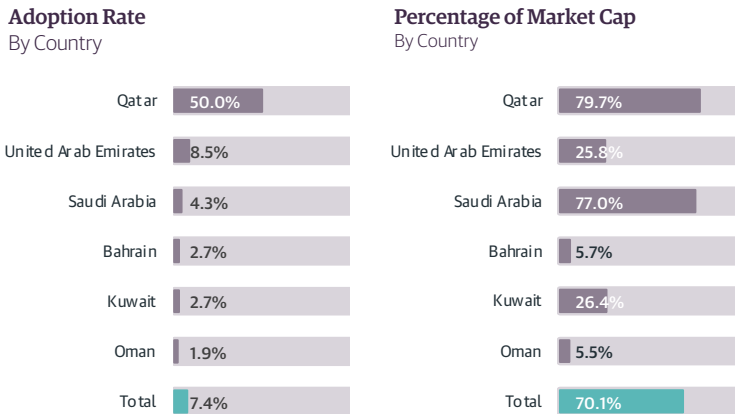
Adoption Rates

Low availability of Earnings Call transcripts is alarming

The adoption rate remains extremely low at 7.4%

Despite the better longer-term availability, the rate of Earnings Call adoption remains extremely low, with only 48 of the 645 listed companies in the region providing transcripts for their Earnings Call from July to September 2020.

Exhibit 3: Earnings Call Adoption Rates of GCC Listed Companies



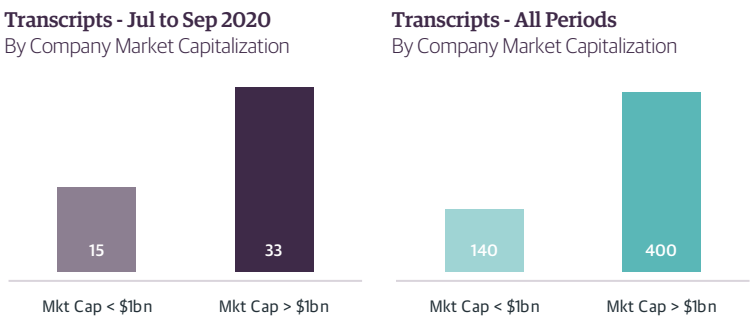
Qatar leads the way in adoption

Additionally, the use of Earnings Calls has not been adopted equally across countries. In this respect, Qatar leads the region in their use with 50% adoption, following the introduction of regulations making Earnings Calls mandatory for listed companies.

By comparison, the adoption rate in the UAE and KSA are 8.5% and 4.3% respectively, while Bahrain, Kuwait and Oman are laggards at less than 3%.

Despite these low levels of adoption, those companies for which transcripts were available, represented a relatively high proportion of overall market capitalization at over 70%. This is partly due to larger companies (with over USD 1bn market capitalization) typically conducting more Earnings Calls than smaller companies, and partly due to the disproportional impact of Saudi Aramco, without which the proportion would drop to 15.2%.

Exhibit 4: Number of Transcripts by Market Capitalization

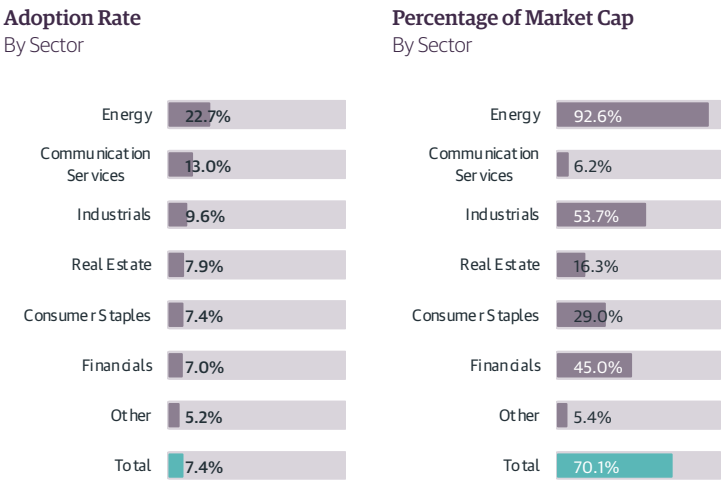


Adoption varies by sector

Additionally, not all sectors have embraced Earnings Calls equally, with the Energy sector showing the highest levels of adoption at 22.7% during July to September 2020, followed by Communication Services at 13.0% and Industrials at 9.6%.

On the other hand, not a single transcript was available for the 20 listed companies in the Healthcare and IT sectors.

Exhibit 5: Earnings Call Adoption Rates by sector



Potential Regulatory Risk

Low Earnings Call adoption rates pose significant risk

Low adoption rates expose companies to significant regulatory risks

In our view, the low level of public Earnings Call adoption and low transcript availability in the GCC region could pose a key regulatory risk for individual companies which can manifest itself in two potential ways:

I. Several jurisdictions in the GCC have already implemented, or are in the process of implementing, guidelines or regulations making Earnings Calls mandatory for listed companies, and failure to do so could result in both regulatory sanctions, fines and public embarrassment.

II. Those companies who conduct private or closed Earnings Calls or do not make Call details, replays or transcripts publicly available, risk breaching selective disclosure and by extension insider trading regulations.

For example, despite regulations mandating listed companies to host Earnings Calls in Qatar, only 50% of company transcripts are publicly available, indicating that the remaining are either not conducting calls, or are doing so with a selective, closed audience.

Final thoughts

Finally, a few closing thoughts on Earnings Calls and transcripts:

- Earnings Calls are widely considered an essential resource for investors and equity analysts in their investment research and decision-making process - not only for the information they convey to support the investment case, but also to assess management strength, depth, credibility, conviction and sentiment.
- For those companies not currently conducting Earnings Calls, Iridium strongly encourages them to start. Without Earnings Calls, they are missing the opportunity to efficiently communicate with the broadest possible audience, correct misconceptions, enhance understanding and instill confidence in management's current and future plans.
- Senior management typically cover and discuss material and non-public information, such as guidance, outlook, targets and future strategic plans. Hence, conducting these calls to a closed, selective audience without publicly available transcriptions or replays could effectively amount to selective disclosure. Aside from the regulatory risk, if a company is already going through the effort of conducting calls, why not make them available to all interested parties?

About Iridium

Iridium is a management consulting firm and the Middle East's leading advisor on investor relations.

Iridium was founded in 2015 on the belief that first-hand capital markets and senior management experience are central to the process of converting business value into shareholder returns.

Our results-oriented experts design, build and operate professional investor relations programs that help organizations and leaders engage, transact and grow - whether they are healthy, challenged or distressed.

Iridium specializes in:

- Delivering a clear picture of what drives company valuations with quantitative and qualitative insights,
- Helping boards and management teams see their companies through the eyes of analysts and investors,
- Identifying and closing internal maturity and capability gaps
- Creating institutional-grade information content and information materials that enable meaningful financial analysis and attract investment.
- Protecting valuation downside and unlocking potential.

Feel free to reach out to us with any questions. We are here to help.



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