

**Financial Analyst Report on Publicly Traded Companies: Does the number of Analysts' Have Any Influence on Earning per Share?**

**Alhassan Ndekugri**

**Webster University, USA**

[andekugri37@webster.edu](mailto:andekugri37@webster.edu)

**Abstract**

37 companies were examined to determine if the number of analysts following a company necessarily translate to a higher earning per share of those companies. In this research, I used a quantitative methodology and data was collected from yahoo finance at the early part of January 2019. I chose publicly traded companies because of the data availability and companies consisted of different industries including but not limited to oil and gas, automobiles, aviation, technology, restaurants, and pharmaceuticals, I also examined the beta, or the riskiness of those companies. Upon careful observation and analysis, I concluded that several factors such as time of the year, information, investor confidence, economic condition, company life cycle and other events could be a driving force and not just the number of financial analysts following the company.

**Key words:** Publicly traded companies, financial analysts, beta, Earning per share

**Introduction**

Corporate performance does not only depend on prudent leadership such as the role of CEO, CFO, sales Managers, inventory managers and human resource managers, but how well the Corporation is made known to the public through efficient communications. Research showed that financial analyst had contributed positively to positioning publicly traded Companies on a higher pedestal, for instance, Rowbottom and Lymer(2009) defined a financial analyst as sophisticated users of Corporate information using sophisticated financial software and specialized financial data bases including but not limited Reuter and Bloomberg to gather information about firms for the consumption of investors.

According to the London Stock Exchange (LSE, 2010) Corporate websites are the first point of call for many investors, as a result, firms depends largely on the internet to communicate with investors, customers, government and other stakeholders. Several studies have made attempts to understand how technology would impact analyst behavior, (Aerts et. al., 2007; Liu et al., 2014; Bagnoli et al., 2014). However, in all those attempts, not much emphasis has been placed on the number of analysts following a Company and how that affects the corresponding earning per share of those companies.

In this research, I investigated 37 Companies from the various industries including but not limited to the pharmaceuticals, groceries, oil and gas, restaurants, automobiles, electronics, airlines, hospitality and the internet services.

### **Purpose Statement**

The purpose of this research was to investigate whether the number of analysts following a publicly traded Company do have any effect on the earning per share of that Company.

### **Hypothesis Statement:**

1. *“The analyst could do a more dependable and professional job of passing judgement on a common stock if he were able to determine some objective value, independent of the market quotation, with which he could compare the current price. He could then advise the investor to buy when the price was substantially below the value, and to sell when price exceeded value”.*  
(Graham and Dodd, 1951: 404-405)

### **Research Questions**

1. How does the number of financial analysts following a Company make significant difference in the earning per share performance?

### **Literature Review**

Many questions have been asked about the validity, rigor and objectivity of financial analyst and the company they follow, and report performance of those companies, however,(Salzedo et al., 2018) applied content analysis and natural language processing methods to study the activities of US sell side analyst, they form prediction, based on the cognitive processing literature, that analyst are more likely to undertake rigorous research when the firms they follow received un expected , for instance, unexpectedly poor earnings news or expectedly high earning news. They provided an empirical evidence from conference call questions and research notes consistent with their predictions and demonstrated that analyst often confront and challenge management, particularly when earning performance is lower than expected. Contrary to the findings of Salzedo et., another school of thought were of the view that analyst research tends not to be neutral and is institutionalized by material conflicts of firms' management (Fogarty and Rogers, 2005; Kothari et al., 2009; Huang et al., 2014). As a result of the fact that analyst reports have an effect on the firms, this directly or indirectly create excessive pressure on managers by setting external performance bench mark that firm managers usually agree with as target to achieve(e.g. He and Tian, 2013; Allen et al.,2016 and Oesch, 2016).

Many could not deny the fact that financial analyst serves as information intermediaries between firms and outsiders, financial analyst can help capital providers and investors gain more insights about the firms' future prospects and real investment decision, this process inhibits managers from undertaking value –destroying activities (Bowen et al., 2008; Kelly and Lyungqvist,2012) which is referred to as “information intermediary role” of financial analyst. Apart from serving as information intermediaries between firms and outsiders, financial analyst performs other roles such as researching firms and

making earning forecast involving interfacing with management directly which allows financial analyst to directly monitor the firm and influence decision making(e.g., Yu, 2008; Chen et al., 2015), thereby helping to make an informed decision making involving investors and other stakeholders.

Financial analysts add value to capital markets by disseminating information on firms [38]. They reduce information asymmetry between firms and investors, increasing the efficient allocation of capital market resources [39,40]. It is a fact that analyst reports often include long- term growth forecast, as well as short-term growth forecast for firms they evaluate. Long term growth forecast by financial analyst have received a growing attention of late in the field of academia and practical field of corporate business, as a result, long term forecast has become imperative because of their influence on valuation estimates [41]. Defond and Huag [46] reported that financial analyst reacts to market-based incentives to provide investors with value-relevant information. For instance, analyst tend to forecast cash flow for firms whose accounting operating, and financing characteristics suggest that cash flows are useful in interpreting earning and assessing firm value.

Literature discovered two main effects through which analyst coverage influences firms' ability to innovate, the formation effect captures the impact of analyst coverage may increase a CEO's incentive to innovate as it decreases both the possibility of market undervaluation of the investment in innovation and the firms' exposure to hostile takeovers (Stein, 1988; He and Tian, 2013). The pressure effect is related to the potential disciplinary actions against managers when they miss the earning forecast periodically issued by analyst. Missing analysts' earnings forecast is usually punished by investors, which leads managers to focus on activities that increase earnings in the short run (Bartov, Givoly, &Hayn, 2002). Since investments in innovation do not usually generate short-term income, managers who are followed by market specialist may have an incentive to cut expenses related to innovation (Hazarika, Karpo & Nahata, 2012; He and Tian, 2013)

David, et al. (2018) noted that forecasting provides a context for studying decision fatigue; first, they said that analyst errors can be directly measured, creating room to test for degradation of decision quality. Secondly, analyst often make forecast of multiple firms in a single day, as a result, it was feasible to test how the forecasting behavior of analyst varies with the number of forecast they have already issued that day. Finally, they said that firms were often followed by several analysts and this allowed them to measure the forecast accuracy for the analyst relative to the consensus forecast.

### **Methodology**

In this research a quantitative method was used, and data was collected using online financial tools such as yahoo finance. The data collected were mainly the average number of analyst reporting revenue earnings, the three-month beta which showed the volatility, or the riskiness of the companies involved and finally the earning per share of the companies under investigations. The companies under our investigations were selected at random. Data was collected at the early part of January 2019.

### **Data analysis**

Understanding the data that was collected helps to make it easy to understand, in this research, excel software was used to analyze the data. The tables and graphs below show the analysis.

Fig 1 financial analyst, beta and EPS analysis

Company Name	Ave no of analyst	3month b	EPS	bsum	EPSsum	Aveanasu	maxb	maxEPS	Highest ana
VLO	53	1.33	7.29	18.47	64.4	756	2.31	25.22	80
SUN	25	1.31	-3.37				minb	minEPS	Lowestana
MUR	36	2.31	2.36				0.46	-3.37	0
SHLDQ	0	1.21	0						
AT&T	74	0.46	2.85						
CVS	47	1	-0.57						
MAR	64	1.4	5.38						
HLT	67	1.53	2.5						
BAC	80	1.73	2.61						
CFG	72	1.57	6.69						
JPM	72	1.12	9						
WFC	74	1.13	4.28						
Goldman S	73	1.08	25.22						
RCII	19	1.29	0.16						
F dollar	N/A	N/A	N/A						
Dollar G	N/A	N/A	N/A						

Source: Data was from yahoo finance and analyzed by the researcher

Fig 2, financial analyst, beta and EPS analysis continued

Company Name	Ave no of analyst	3month b	EPS	bsum	EPSsum	Aveanasu	maxb	maxEPS	Highest ana
J&J	16	0.31	5.61	19.73	129.85	1362	1.94	43.7	122
Merck&co. Inc.	33	0.6	2.32				minb	minEPS	Lowestana
Pfizer Inc.	12	0.73	1.86				-0.08	-15.74	0
Intel Corp	34	0.8	4.48						
CSCO	89	1.12	2.74						
ORCL	106	1.05	1						
IBM	61	1.84	9.52						
WMT	81	0.47	2.26						
XOM	49	0.69	4.88						
CVX	41	0.91	7.74						
COP	47	1.51	7.74						
Google Inc.	91	1.3	43.7						
Procter&Gamble	66	-0.08	4.11						
Apple Inc.	115	1.21	12.12						
FB Inc.	119	0.62	7.57						
NFLX Inc.	117	1.81	2.68						
TSLA Inc.	63	0.52	-5.72						
AMZN Inc.	122	1.94	20.14						
SHLDQ	0	1.21	-15.74						
GM	50	0.93	7.15						
FM Inc.	50	0.24	3.69						

Source: Data was from yahoo finance and analyzed by the researcher

Fig 3, analyst and EPS graph

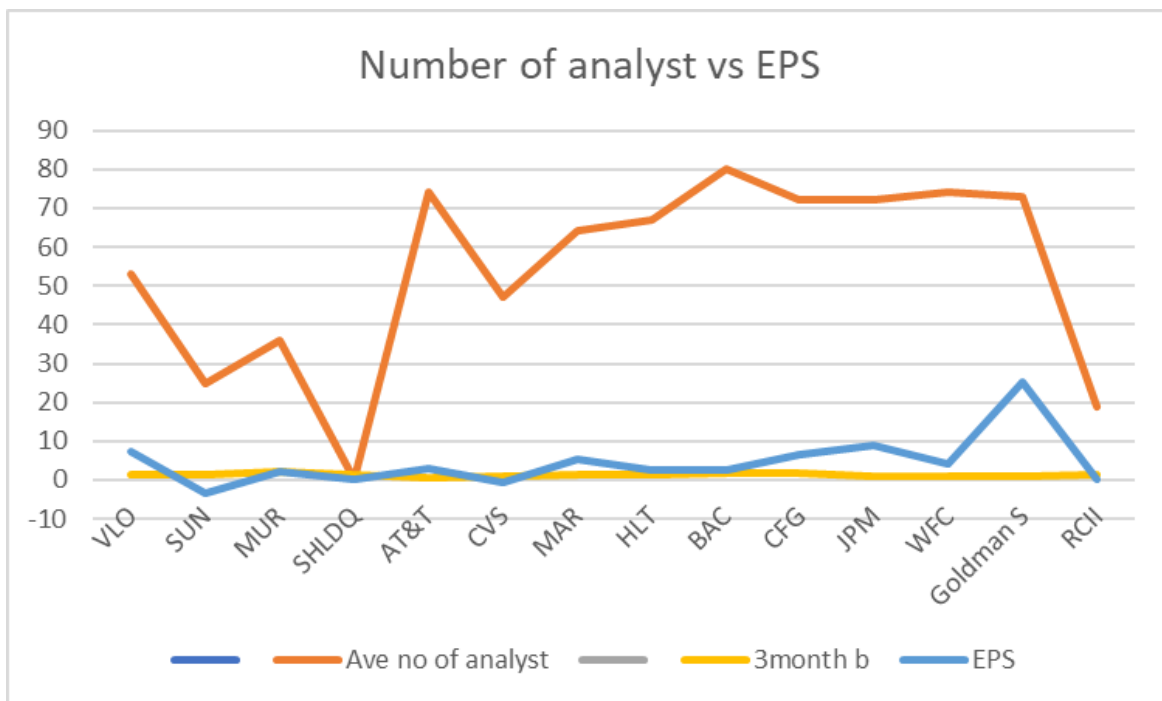
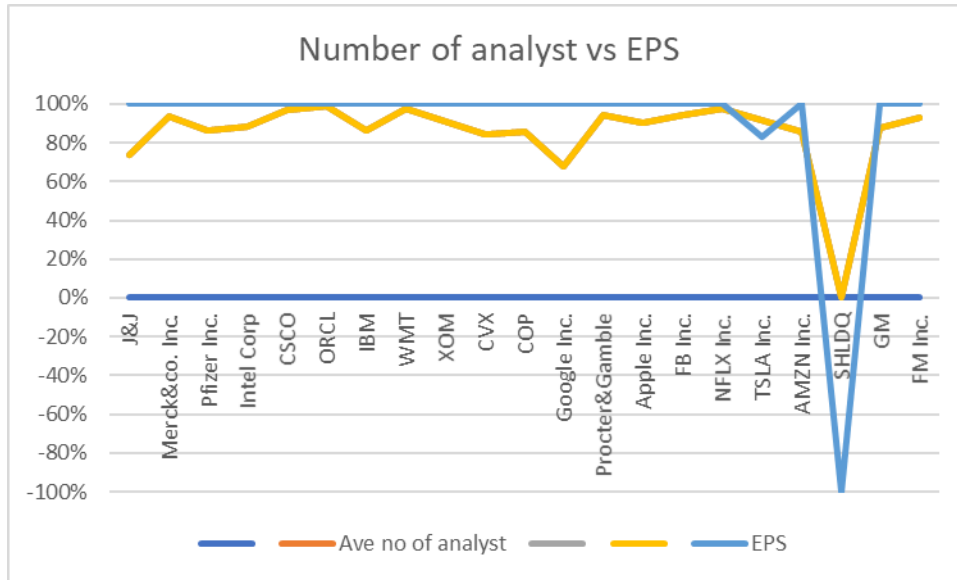


Fig 4, analyst and EPS graph continued



### Discussion and Conclusion

Several factors account for the Earning Per Share performance of publicly traded companies, these include but not limited to economic performance of a country, investor confidence in the economy, competency in corporate management, financial analyst report on the corporation and information entering the market. In this research, I determined that indeed information play a very important role in a corporate performance, earning per share inclusive. On fig 4 of our analysis, one company that proved to the fact that information and not just analyst report that enhances a corporation performance was the case of Sears holdings corporation (SHLDQ). As Sears filed for Bankruptcy chapter 11, the corporation ceased to have financial analyst following it, also, the earning per share swing to negative results. Further analysis showed that the corporation with the highest number of average analysts does not necessarily translate to higher EPS.

Other companies such as CVS, TSLA and Sunoco at the time of our search also reported a negative EPS results, we anticipated that though they were considerable numbers of analyst following those companies, but those companies reported negative earning per share, an indication that other factors including time of the year, shareholders reactions to certain information or operating activities of those companies at the time the data was collected was unfavorable. We also predicted other factors such as the company life cycles, competition within the industry or new year effects as some of the factors that had affected EPS performance of those companies.

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