

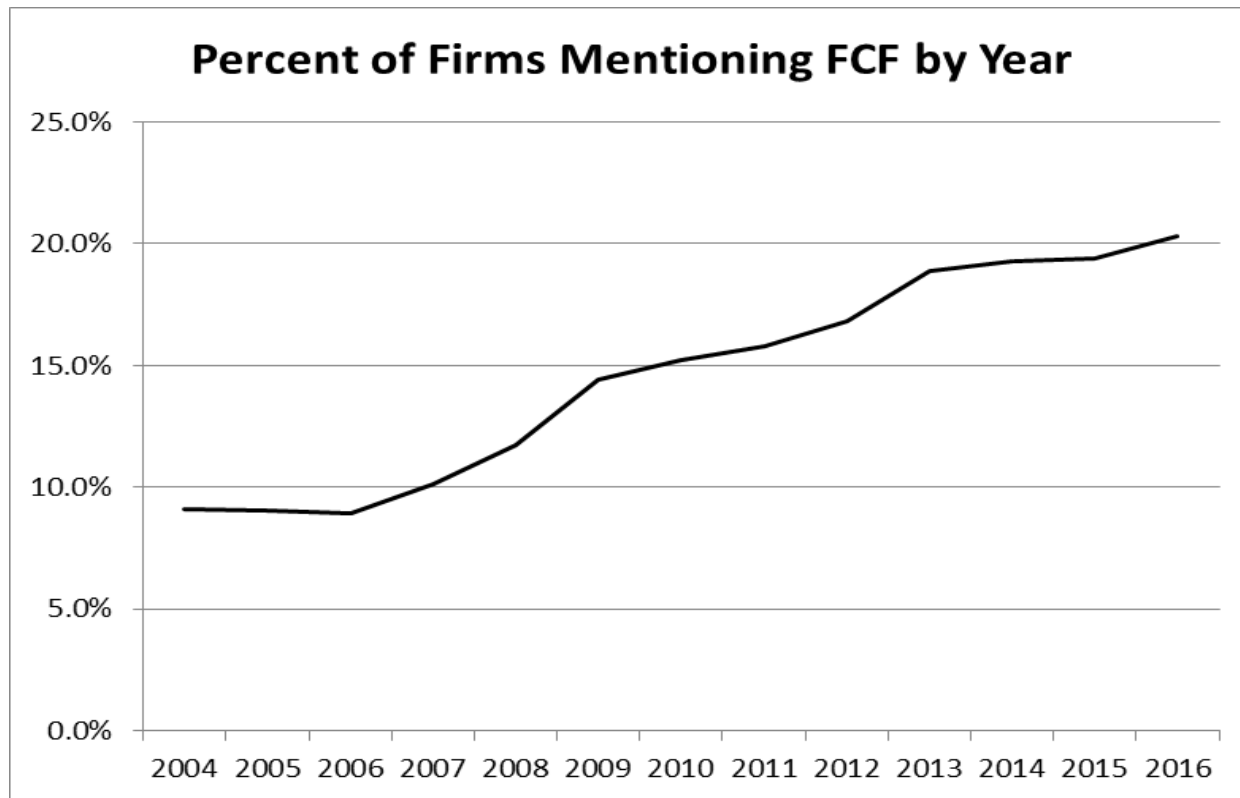
FREE CASH FLOW DISCLOSURE IN EARNINGS ANNOUNCEMENTS



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University of Washington

Background

In recent years, more companies have been disclosing free cash flow in their earnings announcements.



“While GE is a serial tweaker of financial disclosure, the company is *doing the right thing by shifting its focus to more transparent free cash flow*. Unfortunately, it paints an unflattering picture.”

Spencer Jacob, Heard on the Street,
The Wall Street Journal, Jan. 25, 2018, p. B14

The Big Picture

Does free cash flow disclosure provide incremental information to the market?

- Free cash flow is a critical input for valuation.
- But, it is not a required part of financial statement disclosure.
- There is no standard accounting definition of “free cash flow” under GAAP.
- The company must provide a definition and reconciliation with reported financial statements.

Is free cash flow a redundant repackaging of information readily available in financial statements, or does it provide new value-relevant information?

Research Questions

Which companies choose to disclose free cash flow, and why?

- Information vs. opportunism?

How does the stock market react to free cash flow disclosure?

- Free cash flow
- Free cash flow disclosure
- Choice of definition

Free Cash Flow- Overview

(Unlevered) free cash flow is often defined as

$$\begin{aligned} \text{FCF} = & \text{EBIT}(1-\text{Tax Rate}) \\ & + \text{Depreciation (and Other Non-Cash Charges)} \\ & - \text{Net Capital Expenditures} \\ & - \text{Change in Net Working Capital} \end{aligned}$$

- Berk and DeMarzo (2017, Chapter 8)
- Higgins (2016, Chapter 9)
- Welch (2009, Chapter 13)

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Free Cash Flow- Overview

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- CFA Exam Review Materials

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- + **Depreciation (and Other Non-Cash Charges)**
- Net Capital Expenditures
- **Change in Net Working Capital**

= Operating Cash Flow

Free Cash Flow- Overview

(Unlevered) free cash flow is often defined as

$$\text{FCF} = \text{Operating Cash Flow} + \text{Interest Expense} (1 - \text{Tax Rate}) \\ - \text{Net Capital Expenditures}$$

This definition corresponds most closely to the components as they are reported on publicly available GAAP financial statements.

Challenges Estimating FCF in Practice

Marginal tax rate is not directly observed.

Difficult to identify Net Capital Expenditures.

- Lack of disclosure of distinct values for purchases and sales of capital assets?
- Capitalized software?
- Capital expenditures financed using leases or installment notes?

Excess (versus working) cash?

Transitory (cash) charges?

Sample

S&P 1500 firms from 2004-2016.

Use Python to identify earnings announcements that mention “free cash flow.”

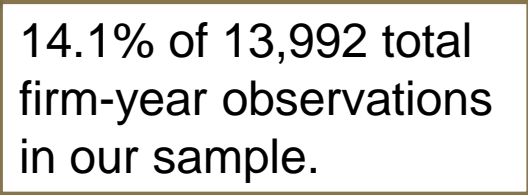
Hand collect data for 1,975 earnings announcements that disclose annual FCF number.

Sample

S&P 1500 firms from 2004-2016

Use Python to identify earnings announcements that mention “free cash flow”

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14.1% of 13,992 total firm-year observations in our sample.

Sample

S&P 1500 firms from 2004-2016

Use Python to identify earnings announcements that mention “free cash flow”

Hand collect data for 1,975 earnings announcements that disclose annual FCF number.

The most common definition of disclosed FCF (in 38% of disclosures) is

Operating Cash Flow – Gross Capital Expenditures

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Use Python to identify earnings announcements that mention “free cash flow”

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The most common definition of disclosed FCF (in 38% of disclosures) is

“Simple FCF”



Operating Cash Flow – Gross Capital Expenditures
(OCF) (Gross CapEx)

Free Cash Flow Disclosure: Example

3M Company and Subsidiaries
SUPPLEMENTAL FINANCIAL INFORMATION
NON-GAAP MEASURES
(Dollars in millions)
(Unaudited)

Free Cash Flow	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Net cash provided by operating activities	\$ 2,338	\$ 2,183	\$ 6,420	\$ 6,626
Purchases of property, plant and equipment	(446)	(490)	(1,461)	(1,493)
Free Cash Flow (e)	\$ 1,892	\$ 1,693	\$ 4,959	\$ 5,133
Free Cash Flow Conversion (e)	182%	144%	103%	104%

(e) Free cash flow and free cash flow conversion are not defined under U.S. generally accepted accounting principles (GAAP). Therefore, they should not be considered a substitute for income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. The Company defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The Company defines free cash flow conversion as free cash flow divided by net income attributable to 3M. The Company believes free cash flow and free cash flow conversion are useful measures of performance and uses these measures as an indication of the strength of the company and its ability to generate cash.

Free Cash Flow Disclosure: Example

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$$\text{FCF} = \text{OCF} - \text{CapEx}$$

“Simple FCF”

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What is 'Free Cash Flow - FCF'

Free cash flow (FCF) is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. FCF represents the cash that a company is able to generate after spending the money required to maintain or expand its asset base. FCF is important because it allows a company to pursue opportunities that enhance shareholder value.

BREAKING DOWN 'Free Cash Flow - FCF'

FCF is an assessment of the amount of cash a company generates after accounting for all capital expenditures, such as buildings or property, plant and equipment. The excess cash is used to expand production, develop new products, make acquisitions, pay dividends and reduce debt. Specifically, FCF is calculated as:

$$\text{EBIT} (1 - \text{tax rate}) + (\text{depreciation}) + (\text{amortization}) - (\text{change in net working capital}) - (\text{capital expenditure}).$$

Definition of Disclosed FCF

Another 21% of firms report some variation of Simple FCF.

The remaining 41% report another definition, with very little consensus.

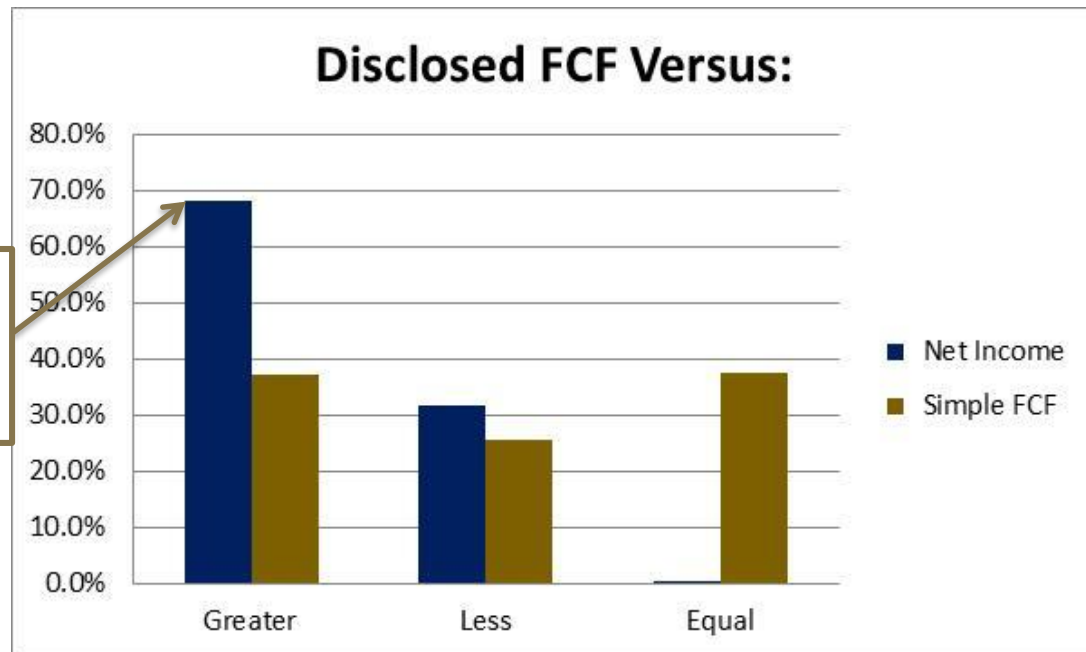
No sample firms disclose FCF as defined by finance theory.

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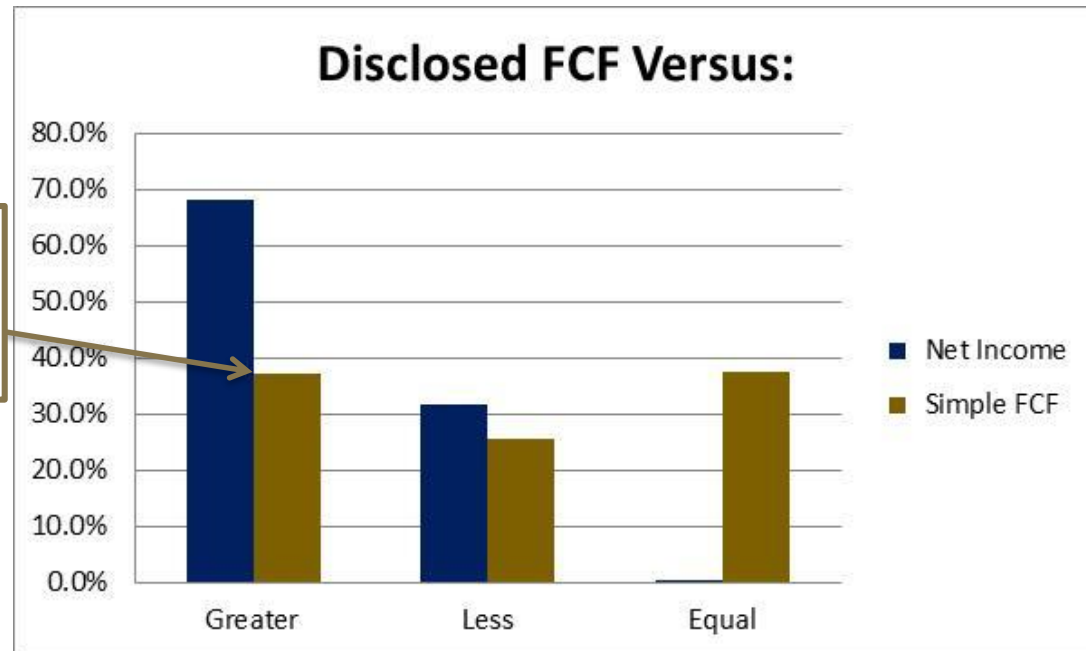
A majority (68%) disclose FCF greater than net income.

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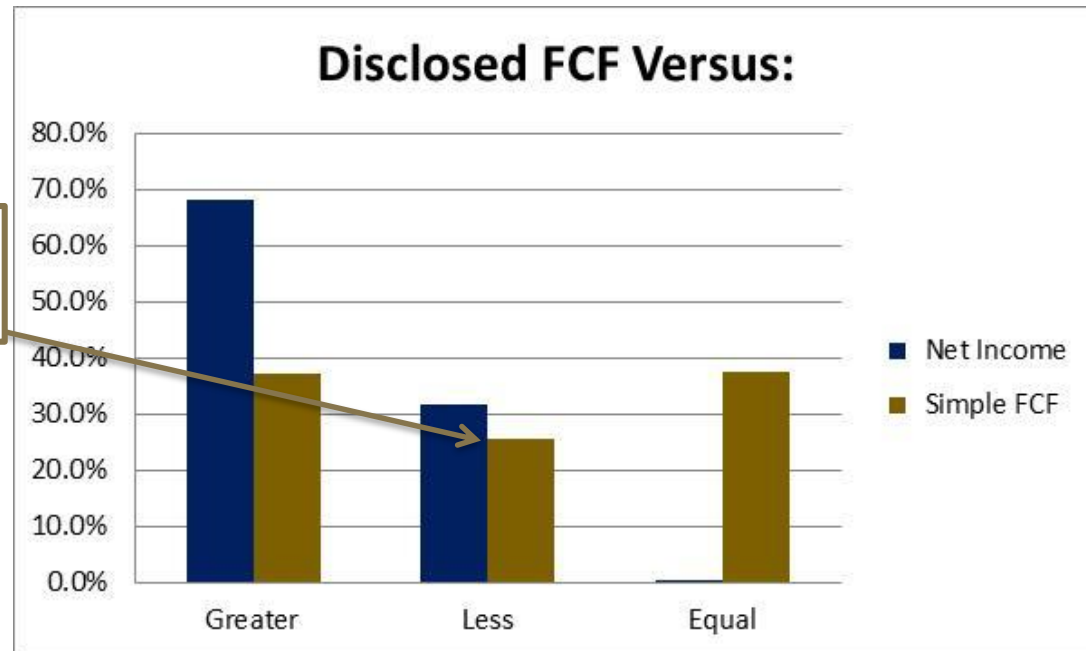
37% disclose FCF greater than Simple FCF

Definition of Disclosed FCF

Another 21% of firms report some variation of Simple FCF.

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No sample firms disclose FCF as defined by finance theory.



25% disclose FCF less than Simple FCF.

Which companies choose to disclose FCF, and why?

We explore two alternative hypotheses

- Information
- Opportunism

We estimate a logit regression:

- Dependent variable equals 1 for FCF disclosers (initial versus ongoing).
- Explanatory variables include
 - Firm characteristics that proxy for
 - information and
 - opportunism.
 - Control variables.

Determinants- Information

FCF is likely to be incrementally more informative for firms with:

- Larger accruals: **capital intensity** and **deferred revenues**
- Higher **leverage**
- Less **volatile** free cash flow
- An interest in attracting an **acquirer**

Non-GAAP earnings tend to be disclosed when GAAP earnings are less informative (Loguee and Marquardt (2004)).

- **Growth** firms
- Firms with higher **market-to-book** ratios
- Firms with more transitory **one-time events**

Determinants- Opportunism

Disclosure is more likely to be opportunistic when

- Earnings are **negative** and/or **decreasing**.
- FCF is **positive** and/or **increasing**.
- Firms have more **leases**.

Control variables:

- Firm size (**assets**)
- **Analyst following**
- **Institutional ownership**
- Firm **age**
- **Industry** disclosure
- Year fixed effects

Which companies disclose FCF and why?

		Variable	Initial Disclosure	Ongoing Disclosure
Information	}	FCF volatility	(-)	(-)
		Sales growth		(-)
		Market-to-book		(+)
		One-time event		(+)
Opportunism	}	Earnings decrease	(+)	
		Positive FCF	(+)	(+)
		Increase in FCF	(+)	
Controls	}	Firm size	(+)	(+)
		Firm age	(-)	(-)
		Industry average	(+)	(+)

Which companies disclose FCF and why?

Initial disclosure is more strongly related to proxies for opportunism.

	Variable	Initial Disclosure	Ongoing Disclosure
Information	FCF volatility	(-)	(-)
	Sales growth		(-)
	Market-to-book		(+)
	One-time event		(+)
Opportunism	Earnings decrease	(+)	
	Positive FCF	(+)	(+)
	Increase in FCF	(+)	
Controls	Firm size	(+)	(+)
	Firm age	(-)	(-)
	Industry average	(+)	(+)

Which companies disclose FCF and why?

Ongoing disclosure is more strongly related to information proxies.

	Variable	Initial Disclosure	Ongoing Disclosure
Information	FCF volatility	(-)	(-)
	Sales growth		(-)
	Market-to-book		(+)
	One-time event		(+)
Opportunism	Earnings decrease	(+)	
	Positive FCF	(+)	(+)
	Increase in FCF	(+)	
Controls	Firm size	(+)	(+)
	Firm age	(-)	(-)
	Industry average	(+)	(+)

Which companies disclose FCF and why?

Effects are material.

Firms with one-time events are 4-5 percentage points more likely to disclose (vs. unconditional mean disclosure of 14.1%).

Opportunism

Controls

Variable	Initial Disclosure	Ongoing Disclosure
FCF volatility	(-)	(-)
Sales growth		(-)
Market-to-book		(+)
One-time event		(+)
Earnings decrease	(+)	
Positive FCF	(+)	(+)
Increase in FCF	(+)	
Firm size	(+)	(+)
Firm age	(-)	(-)
Industry average	(+)	(+)

How does the market react?

Is there information in

- Free Cash Flow itself?
- The decision to disclose FCF?
- The choice of definition?
 - Simple FCF vs. adjusted definition

Does the market react to FCF itself?

Regress three-day *CARs* on earnings surprise and FCF surprise:

$$CAR_i = \beta_0 + \beta_1(\text{Earnings Surprise}_i) + \beta_2(\text{Simple FCF Surprise}_i) + \varepsilon_i$$

CAR is 3-day abnormal return around earnings announcement

Surprise is measured relative to trailing-12-months (ttm) results for the same figure reported as of the prior quarter end.

Simple FCF is defined as (OCF – Gross CapEx) and is computed using Compustat data for all firms.

Estimate this equation for non-disclosers and Simple FCF disclosers.

Does the market react to FCF itself?

Confirm prior research:
Unexpected earnings are
positively related to earnings
announcement returns

	(1)	(2)	
<i>Earnings Surprise</i>	0.0034*** (0.0000)		0.0030*** (0.0000)
<i>Simple FCF Surprise</i>		0.0032*** (0.0000)	0.0028*** (0.0000)
Constant	-0.0143*** (0.0005)	-0.0119*** (0.0021)	-0.0272*** (0.0000)
Fixed Effects	Year & Industry	Year & Industry	Year & Industry
Observations	11,795	11,795	11,795
Observations with FCF disclosure	668	668	668
R-squared	0.0182	0.0170	0.0269

Does the market react to FCF itself?

	Coefficient on <i>Simple FCF Surprise</i> is also significant, similar in magnitude		
			(3)
<i>Earnings Surprise</i>	0.0034*** (0.0000)		0.0030*** (0.0000)
<i>Simple FCF Surprise</i>		0.0032*** (0.0000)	0.0028*** (0.0000)
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Observations	11,795	11,795	11,795
Observations with FCF disclosure	668	668	668
R-squared	0.0182	0.0170	0.0269

Does the market react to FCF *disclosure*?

Indicator variable, *FCF Discloser*, for subset of firms that disclose simple FCF.

<i>Earnings Surprise</i>	0.0030*** (0.0000)
<i>Simple FCF Surprise</i>	0.0027*** (0.0000)
<i>Simple FCF Surprise*FCF Discloser</i>	0.0026** (0.0366)
<i>FCF Discloser</i>	-0.0153* (0.0543)
Constant	-0.0265*** (0.0000)
Fixed Effects	Year & Industry
Observations	11,795
Observations with FCF disclosure	668
R-squared	0.0273

Does the market react to FCF disclosure?

Indicator variable, *FCF Discloser*, for subset of firms that disclose simple FCF.

<i>Earnings Surprise</i>	0.0030*** (0.0000)
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<i>FCF Discloser</i>	-0.0153* (0.0543)
Constant	-0.0265*** (0.0000)
Fixed Effects	Year & Industry
Observations	11,795
Observations with FCF disclosure	668
R-squared	0.0273

The market reacts incrementally when a firm chooses to disclose FCF.

Does the market react to the choice of definition of disclosed FCF?

Examine the subset of firms that disclose FCF, distinguish between those that disclose Simple FCF and those that disclose something different.

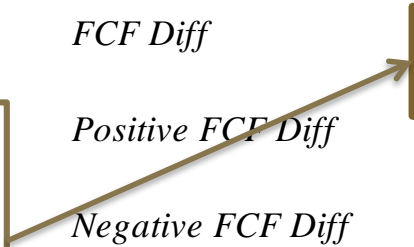
$$CAR_i = \gamma_0 + \gamma_1(\text{Earnings Surprise}) + \gamma_2(\text{Simple FCF Surprise}) \\ + \gamma_3(\text{FCF Diff}) + \varepsilon_i$$

where *FCF Diff* is (*Disclosed FCF – Simple FCF*), the incremental adjustments some firms make beyond *Simple FCF*.

Does the market react to choice of definition?

	(1)	(2)	(3)	(4)
<i>Earnings Surprise</i>	0.0028*** (0.0000)	0.0028*** (0.0000)	0.0028*** (0.0000)	0.0028*** (0.0000)
<i>Simple FCF Surprise</i>	0.0034*** (0.0000)	0.0034*** (0.0000)	0.0033*** (0.0000)	0.0034*** (0.0000)
<i>FCF Diff</i>				
<i>Positive FCF Diff</i>		0.0013** (0.0189)		0.0014** (0.0234)
<i>Negative FCF Diff</i>			0.0019 (0.4616)	-0.0009 (0.7523)
Constant	-0.0468*** (0.0002)	-0.0449*** (0.0002)	-0.0438*** (0.0018)	-0.0426*** (0.0022)
Fixed effects	Year and Industry	Year and Industry	Year and Industry	Year and Industry
Observations	1,955	1,955	1,955	1,955
R-squared	0.0442	0.0451	0.0415	0.0452

The market reacts incrementally to individual adjustments...



Does the market react to choice of definition?

...in particular when they are positive.

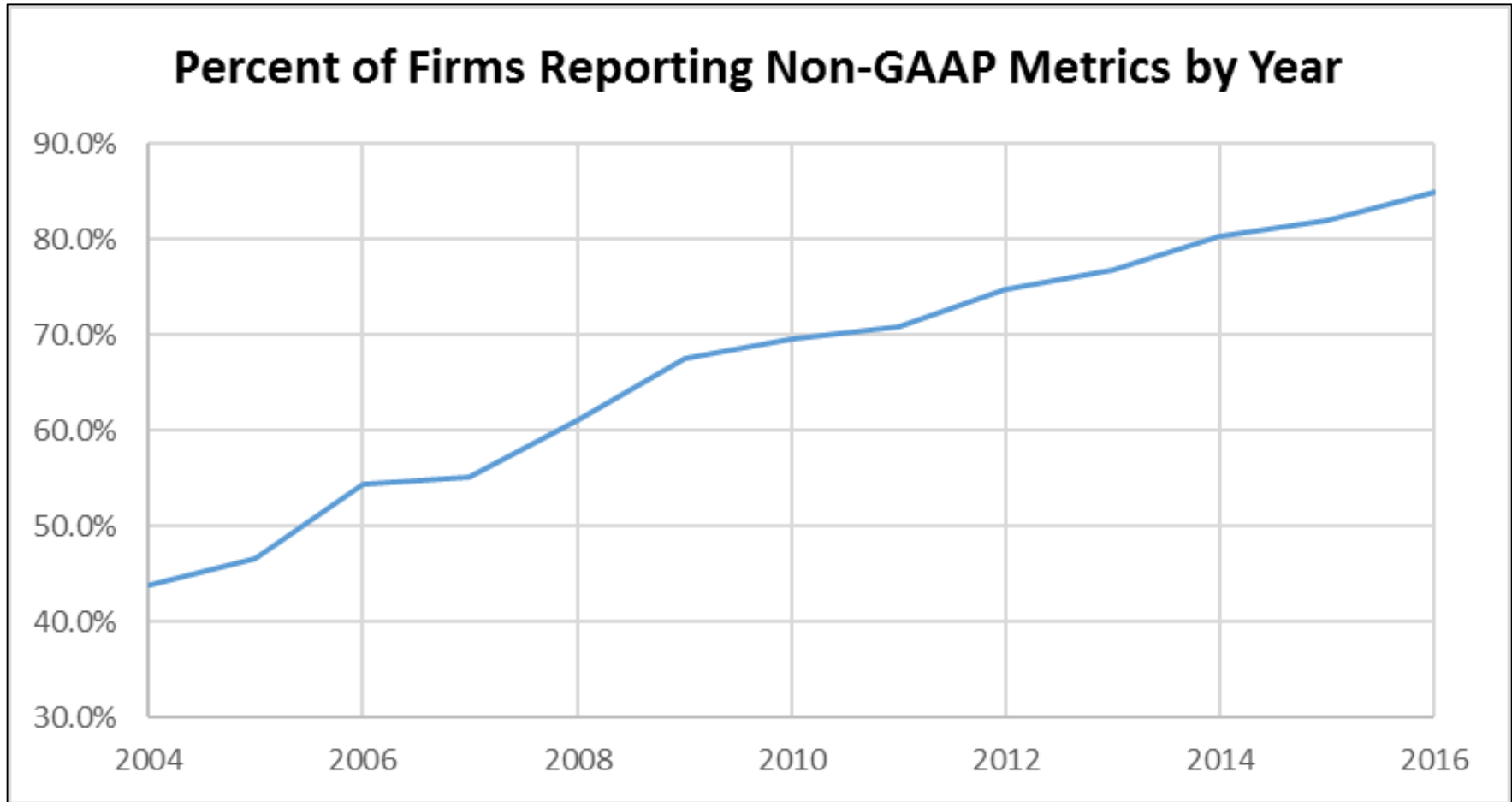
	(1)	(2)	(3)	(4)
<i>Earnings Surprise</i>	0.0028*** (0.0000)	0.0028*** (0.0000)	0.0028*** (0.0000)	0.0028*** (0.0000)
<i>Simple FCF Surprise</i>	0.0034*** (0.0000)	0.0034*** (0.0000)	0.0033*** (0.0000)	0.0034*** (0.0000)
<i>FCF Diff</i>	0.0015** (0.0294)			
<i>Positive FCF Diff</i>		0.0013** (0.0189)		0.0014** (0.0234)
<i>Negative FCF Diff</i>			0.0019 (0.4616)	-0.0009 (0.7523)
Constant	-0.0468*** (0.0002)	-0.0449*** (0.0002)	-0.0438*** (0.0018)	-0.0426*** (0.0022)
Fixed effects	Year and Industry	Year and Industry	Year and Industry	Year and Industry
Observations	1,955	1,955	1,955	1,955
R-squared	0.0442	0.0451	0.0415	0.0452

Summary

- Free cash flow disclosures are increasing in frequency.
- There is considerable variation in the definition of disclosed FCF. (OCF – Gross Cap Exp) is the most common definition. No company uses the definition from theory.
- Determinants suggest the decision to initiate FCF disclosure has an opportunistic motive, while ongoing disclosure is more strongly related to information proxies.
- Markets appear to price free cash flow surprises incrementally over earnings. There is value-relevant information in FCF itself, in the decision to disclose FCF, and in the choice of definition.

Extra Exhibits

Frequency of Non-GAAP Disclosure



Transitory Cash Charges (Example)

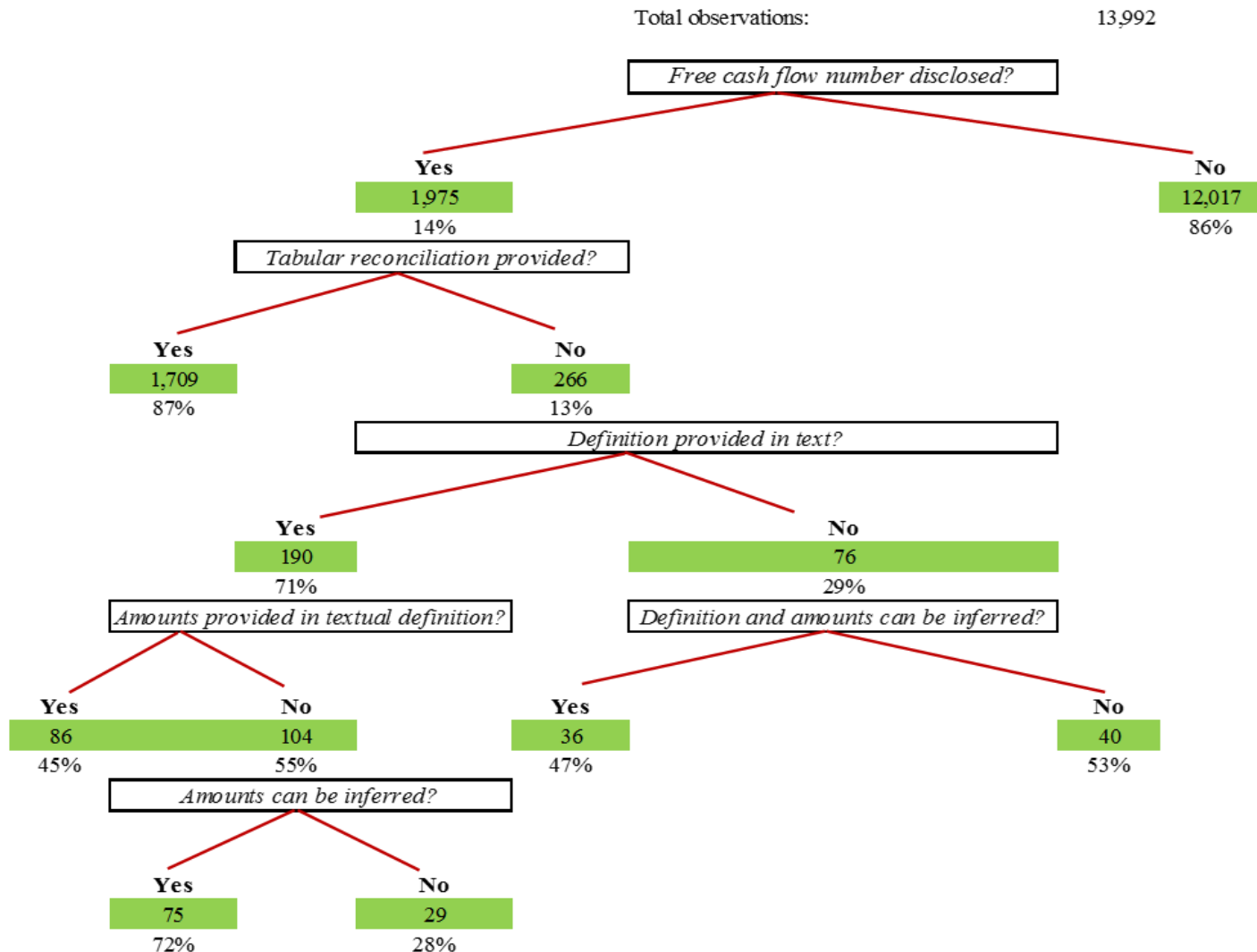
Invacare Corporate reported adjusted net earnings for the year ended Dec. 21, 2006 that excluded \$21.25 million related to restructuring charges.

- Not all of this amount was cash.
- Some portion reflects accruals.

Invacare provided a free cash flow disclosure that added \$9.935 million to free cash flow.

- The remaining amount was non-cash.

Figure 1. (Format of Disclosure)



Amazon.com Inc. Is Losing More Money Than You Think

Amazon's free cash flow doesn't reflect all of the investments that Amazon is making, and it has little bearing on the health of the business.

Timothy Green (TMFBargainBin)
Dec 22, 2014 at 3:00PM

Amazon ([NASDAQ:AMZN](#)) CEO Jeff Bezos has long pointed to the free cash flow, not the net income, as the best way to measure the health of his online retail empire. Even as Amazon's net income has turned negative in recent periods, free cash flow has remained at a seemingly healthy level.

Most [bullish arguments for Amazon](#) ultimately boil down to pointing out this fact -- that Amazon is still managing to generate cash despite the losses that it's reporting on the income statement. But here's the thing: A company that's growing rapidly and investing heavily in its business through capital expenditures should be burning through nearly every dollar that it brings in. How has Amazon been able to do exactly the opposite, recording multibillion-dollar free cash flows despite its heavy investments?

The answer? Accounting gimmicks.

Pulling a fast one with capital leases

A company's free cash flow is simply the operating cash flow, which is all of the cash generated from operating the business, minus the capital expenditures, which is the cash used to buy property and equipment. When a company makes a capital investment, such as building a new distribution center in Amazon's case, the full cost is subtracted from the operating cash flow as it's spent in order to arrive at the free cash flow.

<https://www.fool.com/investing/general/2014/12/22/amazoncom-inc-is-losing-more-money-than-you-think.aspx>

Table 1, Panel A (Sample Selection)

	Number of Filings	Firms
Number of fourth quarter filings identified by Python web crawler	23,659	2,333
Less: filings for firms with missing sequential Python identified earnings announcements	9,667	940
Remaining fourth quarter filings (full sample)	13,992	1,393
Number of earnings announcements with mention of "free cash flow" identified by Python text scraper (hand-collected data for these filings)	2,418	
Less: generic mention of "free cash flow;" no value disclosed	388	
Less: filings with only quarterly "free cash flow;" no annual value disclosed	55	
Number of fourth quarter earnings announcements with annual FCF disclosed (FCF disclosure sample)	1,975	344

Table 1, Panel B (Format of Disclosure)

	Number of FCF Disclosures	Percent of FCF Disclosures	Unique firms
Tabular reconciliation (components explicitly provided)	1,709	86.5%	283
Textual definition (components explicitly provided)	86	4.4%	26
Textual definition (components can be inferred)	75	3.8%	40
No reconciliation or definition (components can be inferred)	36	1.8%	23
Components of FCF are explicitly provided or can be inferred	1,906	96.5%	
Components cannot be inferred given available information	69	3.5%	42
Total	1,975	100.0%	

Table 1, Panel C (Disclosure by Year)

Year	Total firm-year observations in sample	Firm-years disclosing FCF	Percent of firm-years disclosing FCF	First-time Free Cash Flow Disclosures	Percent of First Time Disclosures by Year	Percent of Disclosures that are First Time
2004	999	91	9.1%			
2005	1,336	121	9.1%	19	8.3%	15.7%
2006	1,269	113	8.9%	22	9.6%	19.5%
2007	1,202	122	10.1%	18	7.9%	14.8%
2008	1,161	136	11.7%	20	8.7%	14.7%
2009	1,136	164	14.4%	35	15.3%	21.3%
2010	1,091	166	15.2%	23	10.0%	13.9%
2011	1,058	167	15.8%	20	8.7%	12.0%
2012	1,021	172	16.8%	19	8.3%	11.0%
2013	990	187	18.9%	16	7.0%	8.6%
2014	955	184	19.3%	15	6.6%	8.2%
2015	917	178	19.4%	11	4.8%	6.2%
2016	857	174	20.3%	11	4.8%	6.3%
Total	13,992	1,975	14.1%	229	100%	

Table 1, Panel D (Disclosure by Industry)

GICS Sector (Sector Number)	Number of Observations	Percent of Total Observations	Number of Free Cash Flow Disclosures	Industry Disclosure Proportion
Energy (10)	696	5.0%	26	3.7%
Materials (15)	823	5.9%	160	19.4%
Industrials (20)	2,042	14.6%	533	26.1%
Consumer Discretionary (25)	2,208	15.8%	344	15.6%
Consumer Staples (30)	615	4.4%	138	22.4%
Healthcare (35)	1,774	12.7%	204	11.5%
Financials (40)	1,975	14.1%	30	1.5%
Information Technology (45)	2,571	18.4%	396	15.4%
Telecom (50)	151	1.1%	87	57.6%
Utilities (55)	464	3.3%	13	2.8%
Real Estate (60)	673	4.8%	44	6.5%
Total	13,992	100.0%	1,975	

Table 2, Panel A (Common Definitions)

	Number of Disclosures	Percent of Disclosures	Unique Firms
Simple FCF (operating CF - gross capex)	720	38%	
Modified Simple FCF (modified operating CF or gross capex)	409	21%	
Start from operating cash flows, other definition	665	35%	
Start from version of operating cash flows	1,794	94%	308
FCF starting point is not operating CF	112	6%	23
Total	1,906	100%	

Table 3, Panel A (Descriptive Statistics)

Variable	N	Mean	StdDev	Min	25th	Median	75th	Max
<i>Disclosed FCF</i>	1,975	928	2,324	-3,010	73	210	623	27,282
<i>CF from Operations</i>	1,794	1,676	4,384	-2,360	142	362	1,105	39,300
<i>Capex</i>	1,770	634	2,187	-11	39	108	326	22,400
<i>Other capitalized assets</i>	150	139	261	-9	12	43	115	1,686
<i>Dividends</i>	140	204	511	-51	9	38	159	4,262
<i>Sale of PPE</i>	205	62	184	0	1	4	23	1,562
<i>Special items</i>	138	133	340	-189	5	22	115	2,754
<i>Other Adjustments</i>	466	30	412	-2,306	-37	4	68	2,400
<i>Simple FCF</i>	1,975	910	2,313	-7,944	66	211	643	22,214
<i>Net Income</i>	1,975	710	2,145	-17,462	39	150	529	19,864

Table 4, Panel B (Descriptive Statistics)

Variable	Free cash flow disclosers			Free cash flow non-disclosers			Test of differences	
	N	Mean	Median	N	Mean	Median	Mean	Median
<i>Capital intensity</i>	1,975	0.22	0.16	12,017	0.21	0.12	3.02	12.34
<i>Deferred revenue</i>	1,975	0.04	0.00	12,016	0.05	0.00	-2.00	9.13
<i>Leverage</i>	1,969	0.49	0.24	11,987	0.49	0.20	-0.18	5.77
<i>FCF volatility</i>	1,974	381	114.28	11,919	268	67	6.90	15.31
<i>Acquired indicator</i>	1,975	0.18	0.00	12,017	0.23	0.00	-4.66	-4.65
<i>Sales growth</i>	1,974	0.06	0.05	12,004	0.09	0.07	-5.91	-7.21
<i>MTB</i>	1,964	3.64	2.45	11,978	2.89	2.12	8.69	8.29
<i>One-time event</i>	1,975	0.44	0.00	12,017	0.34	0.00	8.68	8.65
<i>Loss</i>	1,975	0.13	0.00	12,017	0.15	0.00	-1.55	-1.55
<i>Earnings decrease</i>	1,975	0.40	0.00	12,017	0.38	0.00	1.73	1.73
<i>Positive simple FCF</i>	1,975	0.92	1.00	12,017	0.83	1.00	9.57	9.54
<i>Increase in simple FCF</i>	1,975	0.58	1.00	12,017	0.55	1.00	2.88	2.88
<i>Lease obligations</i>	1,975	0.10	0.05	12,017	0.10	0.03	-1.03	14.85
<i>Assets</i>	1,975	14,969	3,809	12,017	12,187	2,185	3.22	13.41
<i>Analyst following</i>	1,975	10.31	9.00	12,017	8.83	7.00	7.67	5.41
<i>Institutional ownership</i>	1,975	0.67	0.77	12,017	0.69	0.77	-3.45	-1.39
<i>Age</i>	1,975	30.75	25.00	12,017	27.08	22.00	9.11	7.96

Table 5 (Determinants Logit)

	(1)		(2)		(3)		(4)	
	Initial Disclosures		Initial Disclosures		All Disclosures		All Disclosures	
	Coeff (p-values)	Marginal Effects	Coeff (p-values)	Marginal Effects	Coeff (p-values)	Marginal Effects	Coeff (p-values)	Marginal Effects
Information Variables								
<i>Capital intensity</i>	0.535* (0.098)	0.011	0.099 (0.824)	0.002	0.072 (0.828)	0.008	0.067 (0.877)	0.007
<i>Deferred revenue</i>	-0.095 (0.856)	-0.002	-0.281 (0.617)	-0.006	0.013 (0.979)	0.001	-0.103 (0.854)	-0.011
<i>Leverage</i>	-0.028 (0.757)	-0.001	0.062 (0.331)	0.001	0.012 (0.810)	0.001	0.074* (0.073)	0.008*
<i>FCF volatility</i>	-0.047 (0.680)	-0.001	-0.208* (0.099)	-0.004	-0.308*** (0.009)	-0.033***	-0.406*** (0.002)	-0.042***
<i>Acquired indicator</i>	0.048 (0.791)	0.001	0.017 (0.928)	0.000	0.049 (0.794)	0.005	0.018 (0.922)	0.002
<i>Sales growth</i>	-0.040 (0.924)	-0.001	-0.115 (0.780)	-0.002	-0.390* (0.092)	-0.042*	-0.450** (0.048)	-0.047**
<i>MTB</i>	-0.014 (0.657)	-0.000	-0.017 (0.603)	-0.000	0.043*** (0.009)	0.005**	0.037** (0.012)	0.004**
<i>One-time event</i>	0.209 (0.164)	0.004	0.197 (0.204)	0.004	0.480*** (0.000)	0.052***	0.408*** (0.000)	0.042***

Table 5 (Determinants Logit, cont.)

	(1)		(2)		(3)		(4)	
	Initial Disclosures		Initial Disclosures		All Disclosures		All Disclosures	
	Coeff	Marginal	Coeff	Marginal	Coeff	Marginal	Coeff	Marginal
	(p-values)	Effects	(p-values)	Effects	(p-values)	Effects	(p-values)	Effects
Opportunism Variables								
<i>Loss</i>	0.023	0.000	-0.105	-0.002	0.007	0.001	-0.070	-0.007
	(0.917)		(0.646)		(0.955)		(0.565)	
<i>Earnings decrease</i>	0.358**	0.008**	0.356**	0.007**	-0.037	-0.004	-0.030	-0.003
	(0.015)		(0.015)		(0.530)		(0.594)	
<i>Positive simple FCF</i>	0.914***	0.019***	0.877***	0.018***	0.557***	0.061***	0.577***	0.060***
	(0.002)		(0.004)		(0.000)		(0.000)	
<i>Increase in simple FCF</i>	0.596***	0.013***	0.584***	0.012***	0.065	0.007	0.053	0.006
	(0.000)		(0.000)		(0.240)		(0.313)	
<i>Lease obligations</i>	0.096	0.002	0.220	0.005	-0.174	-0.019	-0.512	-0.053
	(0.767)		(0.559)		(0.612)		(0.229)	

Determinants Logit (cont.)

	(1)		(2)		(3)		(4)	
	Initial Disclosures		Initial Disclosures		All Disclosures		All Disclosures	
	Coeff	Marginal	Coeff	Marginal	Coeff	Marginal	Coeff	Marginal
	(p-values)	Effects	(p-values)	Effects	(p-values)	Effects	(p-values)	Effects
Control Variables								
<i>Ln(Assets)</i>	0.137** (0.025)	0.003**	0.321*** (0.000)	0.007***	0.351*** (0.000)	0.038***	0.512*** (0.000)	0.053***
<i>Ln(Analyst following)</i>	0.004 (0.971)	0.000	-0.174 (0.120)	-0.004	-0.008 (0.927)	-0.001	-0.138 (0.122)	-0.014
<i>Institutional ownership</i>	-0.166 (0.597)	-0.004	-0.078 (0.820)	-0.002	-0.254 (0.397)	-0.028	-0.234 (0.448)	-0.024
<i>Ln(Age)</i>	-0.049 (0.728)	-0.001	-0.269** (0.041)	-0.006**	-0.345** (0.017)	-0.037**	-0.436*** (0.002)	-0.045***
<i>Lagged industry disclosure</i>	5.256*** (0.000)	0.112***			8.632*** (0.000)	0.938***		
<i>Fixed effects</i>		<i>Year</i>		<i>Year & Industry</i>		<i>Year</i>		<i>Year & Industry</i>
Observations		10,244		10,600		12,553		13,841
Obs. for which DV = 1		229		229		1975		1,975
Pseudo R2		0.0556		0.0855		0.134		0.165

Average marginal effects are reported in columns (2), (4), and (6).

Market Reaction (Table 6, Panel B)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Earnings Surprise</i>	0.0033*** (0.0000)		0.0028*** (0.0000)	0.0028*** (0.0000)	0.0028*** (0.0000)	0.0028*** (0.0000)	0.0028*** (0.0000)
<i>Simple FCF Surprise</i>		0.0038*** (0.0000)	0.0033*** (0.0000)	0.0034*** (0.0000)	0.0034*** (0.0000)	0.0033*** (0.0000)	0.0034*** (0.0000)
<i>FCF Diff</i>				0.0015** (0.0294)			
<i>Positive FCF Diff</i>					0.0013** (0.0189)		0.0014** (0.0234)
<i>Negative FCF Diff</i>						0.0019 (0.4616)	-0.0009 (0.7523)
Constant	-0.0240** (0.0378)	-0.0254** (0.0239)	-0.0380*** (0.0012)	-0.0468*** (0.0002)	-0.0449*** (0.0002)	-0.0438*** (0.0018)	-0.0426*** (0.0022)
Fixed effects	Year and Industry	Year and Industry	Year and Industry	Year and Industry	Year and Industry	Year and Industry	Year and Industry
Observations	1,955	1,955	1,955	1,955	1,955	1,955	1,955
R-squared	0.0261	0.0308	0.0412	0.0442	0.0451	0.0415	0.0452