Expectations Management and Stock Returns
Online Appendix

June 2019

Abstract

In this online appendix, we provide supplementary results and discussion for the paper "Expectations Management and Stock Returns," including additional tests on earnings management, the robust relation between *EMI* and returns, firms' incentives to manage expectations, and investor learning.

Online Appendix 1. Earnings Management

1.1. Relation Between EMI and Earnings Management

Expectations management and earnings management are separate, but related levers, that firms can use to improve earnings announcement news. We explore the extent to which *EMI* relates to firms' earnings management behavior using i) discretionary accruals and ii) stock repurchases as proxies for earnings management.

Panel A of Table A1 shows that *EMI* has an insignificant, but weakly negative, relation to the Jones (1991) and Dechow et al. (1995) discretionary accrual proxies, suggesting that the link between *EMI* and earnings surprises are unlikely to be driven by accrual-based earnings management.

One plausible explanation is that analysts are striking a balance between their role as external monitors and their incentives to curry favor with managers. In particular, analysts may be curbing managers from manipulating earnings while simultaneously appeasing them by providing more easily beatable earnings targets. This is consistent with prior research that, on the one hand, documents a negative link between analyst coverage (an important input for *EMI*) and discretionary accruals (e.g., Yu (2008), Chen et al. (2015)), but on the other hand, shows analysts are willing to strategically bias their forecasts downward to curry favor with management, especially when doing so can benefit institutional investors (another important input for *EMI*) (e.g., Hilary and Hsu (2013)).

Firms may also manage earnings by repurchasing shares to increase earnings per share. To explore this mechanism, we examine the link between *EMI* and share repurchases. Panel B of Table A1 shows that *EMI* is positively related to repurchases prior to the earnings announcement, which is consistent with firms' buying back shares to increase earnings per share. However, we also find a positive relation with firms' repurchases after the announcement, and that pre-post difference in buybacks do not appear significantly related to *EMI*.

1.2. Earnings Management and EMI's link to Announcement Returns

To gauge whether earnings management could explain our main findings, we also reran our main tests when partitioning our sample based on the sign of discretionary accruals and use of repurchases. Panels C and D of Table A1 show that the positive links between *EMI* and both earnings surprises and returns hold for all subsamples, including those with negative (i.e., income decreasing) accruals and without share repurchases.

The robustness of our findings among firms with negative discretionary accruals and firms without repurchases suggests that earnings management is unlikely to be the main driver our findings. Moreover, the results in Table A1 dovetail nicely with our findings that *EMI* is negatively related to year-over-year changes in earnings, but positively related to analyst-based surprises, which is more consistent with expectations management than earnings management.

Online Appendix 2. Exploring the *EMI* Measure Further

2.1. Dissecting EMI

We examine how each of the three components of *EMI* relate to announcement returns to understand what role each component plays in predicting returns.[1] For each of the three sub-measures, we compute value-weighted four-factor alphas for strategies sorting firms into quintiles by the sub-measure across the return cycle. The results are presented in Table A2.

We find that all three sub-measures positively predict announcement-month returns, with attention and relevance having the strongest effects. Attention appears to drive the negative relation between *EMI* and returns in the pre-announcement month $T-1$, with the other two measures producing no significant relation in that month. The earnings announcement premium (EAP) is large and significant for firms with greater attention (i.e., high ATT), and dimnishes to near zero for firms with lesser attention (i.e., low ATT). While EAP strategy

[1] We measure the attention component, denoted ATT, as the first principal component of analyst coverage (COV) and institutional ownership ($INST$), while the pressure component, denoted $PRESS$, is simply sales growth (SG), and the relevance component, denoted REL, is minus the Altman Z-score.

returns are small and insignificant for firms in the bottom $PRESS$ and REL quintiles and significantly positive in other quintiles, the relations between $PRESS$ and EAP and REL and EAP are far from monotonic.

Overall, the evidence in Table A2 suggests that while all three sub-measures are important, ATT is the most important driver of our overall EMI results. This pattern is consistent with the average weights presented in Panel C of Table 1 in the paper, which show that COV and $INST$ both receive average weights close to 0.5, meaning they combine for around 71% $\left(\frac{0.484+0.486}{0.484+0.486+0.180+0.210}\right)$ of the average composition of EMI. Economically, this suggests that cross-sectional differences in internal motivations for walking down analysts such as earnings growth and default risk are less important in determining expectations management behavior than external factors such as analyst coverage and institutional ownership base.

2.2. Alternative Specifications of EMI: Internal Sales Growth and Insider Trading

We consider two alternative EMI specifications motivated by insights from prior literature. First, Daniel and Titman (2006) note that firms' five-year trailing seasonally adjusted sales growth, as implemented in our paper following Lakonishok et al. (1994), includes internally funded sales growth and externally funded sales growth, and that internally funded sales growth may be a better proxy for unsustainable growth. Based on this insight, we adjust our sales growth measure to only include the internally funded component.

Panel A of Table A3 shows that our main findings are largely unchanged when replacing sales growth with internally funded sales growth, which has a correlation with our original EMI measure above 90%. This high correlation stems from the fact that analyst following and institutional ownership drive the majority of the variation in EMI.

Second, Ali and Hirshleifer (2017) identify opportunistic insiders as those who profitably trade prior to earnings announcements. The V-shaped return pattern induced by expectations management provides a profitable trading strategy for these insiders – i.e., buy during the pre-announcement period and sell during the announcement period – that may augment firms' incentives to manage expectations. To examine this possibility, we test whether the

existence of opportunistic insider traders improves our *EMI* measure. To do so, we first measure insider opportunism using the profitability of pre-announcement insider trading as described in Ali and Hirshleifer (2017):

$$\text{Pre-EA Profit} = r_{i,t-2,t+2}\frac{B_{pre} - S_{pre}}{B_{pre} + S_{pre}}, \tag{1}$$

where $r_{i,t-2,t+2}$ is the five-day market-adjusted announcement return, and B_{pre} and S_{pre} are the total number of insider buys and wells, respectively, during the 21 trading days ending 3 days prior to the earnings announcement. We compute this measure across all insiders to form a firm-level measure of profitability for each earnings announcement in our sample for which we have insider trading data.[2] To match the other four input variables of *EMI*, as described in Eq. (1) of our paper, we compute $Z_{i,m}^{(AH)}$ to equal the cross-sectional percentile of firm i's rolling average of Pre-EA Profit over the prior three years. We then re-compute *EMI* as the first principal component of the five input variables:[3]

$$EMI_{i,m}^{AH} = \mathbf{a}'\mathbb{Z}_{i,m}^{AH} = a_1 Z_{i,m}^{(1)} + a_2 Z_{i,m}^{(2)} + a_3 Z_{i,m}^{(3)} + a_4 Z_{i,m}^{(4)} + a_{AH} Z_{i,m}^{(AH)} \tag{2}$$

As an alternative specification that focuses on opportunistic insider trading behavior throughout the quarter, we employ the definition of firm-level insider trading opportunism developed in Cohen et al. (2012). This definition categorizes all insider trades as opportunistic or routine based on whether the same insider traded in the same direction during the same calendar month of the prior year. We then compute firm-level indicators for whether an insider initiated an opportunistic buy, opportunistic sell, routine buy, or routine sell in each calendar month. To match the other components of *EMI*, we compute $Z_{i,m}^{(CMP)}$ to equal the cross-sectional percentile of firm i's rolling average indicators for whether a firm has

[2]We define an announcement in our sample as having insider trading data if Table 1 of the Thompson Reuters Insiders database has one or more observations for the firm in the 90 days prior to the earnings announcement. If none of these trades occur in the pre-announcement window, we include the announcement in our sample with Pre-EA Profit set to zero.

[3]As a reminder, the four components of our main *EMI* measure are analyst coverage, institutional ownership, past sales growth, and the negative Altman's Z-Score, all of which we retain when computing $EMI_{i,m}^{AH}$.

opportunistic insider buys in the prior 36 months. We then re-compute *EMI* as the first principal component of the five input variables:

$$EMI_{i,m}^{CMP} = \mathbf{a}'\mathbb{Z}_{i,m}^{CMP} = a_1 Z_{i,m}^{(1)} + a_2 Z_{i,m}^{(2)} + a_3 Z_{i,m}^{(3)} + a_4 Z_{i,m}^{(4)} + a_{CMP} Z_{i,m}^{(CMP)} \tag{3}$$

Panels B and C of Table A3 present results using the two alternative implementations of *EMI*. Specifically, Panel B contains results corresponding to $EMI_{i,m}^{AH}$ and Panel C contains results corresponding to $EMI_{i,m}^{CMP}$ as defined above in Eq. (2) and (3).

Table A3 show these alternative implementations yield qualitatively similar results, which is not surprising given that each has a Spearman correlation in excess of 90% with our main *EMI* measure (correlations untabulated). This is again consistent with the high correlations stemming from the *EMI* loading most heavily on our two proxies for attention: analyst coverage and institutional ownership.

Online Appendix 3. Additional Robustness Tests for *EMI*'s link to Returns

3.1. Concentration of Returns

The evidence in Tables 2, 3, and 4 of the paper indicate that some of the High-Low *EMI* return spread in announcement months ($M = T$) is due to firms in the Low *EMI* quintile significantly underperforming. Given that *EMI*'s link to earnings announcement premia is an important part of our paper, we examine the robustness of the underperformance of low *EMI* firms, and assess whether our results are driven by this phenomenon. We find that the low *EMI* firms' negative announcement returns are not robust to alternative specifications.

Specifically, Table A4 shows a variety of time-series and Fama MacBeth regression results. Specifically, Panel A shows that the equal-weighted EAP strategy has slightly negative performance among the lowest *EMI* quintile, reflecting the same underperformance noted in Table 2 of the paper. However, Panel A also shows the negative performance disappears in raw returns, characterstic-adjusted returns, and alphas when using value-weights.

Moreover, we use Fama-MacBeth regressions predicting the full panel of firm days, with an indicator for whether the firm is expected to announce earnings (*EA Month*) as a predictor that captures the earnings announcement premium. We interact *EA Month* with dummies for each *EMI* quintile, omitting the first quintile. We can therefore interpret the coefficient estimates on *EA Month*, presented in Panel B of Table A4, as estimates of the EAP among firms in the lowest *EMI* quintile. Like our time-series results, the evidence in Panel B indicate low *EMI* firms have slightly negative EAP that is insignificant when controlling for other characteristics, while high *EMI* firms have substantial EAP, exactly as our expectations management story predicts. Panel B of Table A4 also shows these differences in EAP across *EMI* quintiles are distinct from the broader return cyclicality pattern captured by the *Synced-Nonsynced Spread*, as discussed in Section 2.6 of the paper.

3.2. EMI and Returns as a Function of Share Price

We next examine how our results vary as a function of share prices. Cheong and Thomas (2017) study the variation of analyst forecast walkdowns across share price deciles and note that "beginning nine months before quarter-end, the walkdown is only about 2 cents per share for share price decile 1 but increases with share price to about 6 cents per share for decile 10." (See Table A3 of the online appendix to Cheong and Thomas (2017)).

The economic importance of such walkdowns to equity investors depends on the size of the walkdown relative to firms' equity value per-share.[4] The same table in Cheong and Thomas (2017) shows the highest price decile firms have a median prior-year share price of \$66.00, while the lowest decile's median share price is \$4.88. Relative to these per-share starting prices, the walkdown for low price firms is $\frac{\$0.02}{\$4.88} = 41bps$, while the walkdown for high price firms is $\frac{\$0.06}{\$66.00} = 9bps$. Our hypotheses, combined with the results in Cheong and Thomas (2017), therefore suggest the relative impact of the walkdown, and its relation with returns, will be greater for low-price firms compared to high-price firms.

[4]For this reason, we scale the walkdown measures, earnings surprises, and other per-share measures in our paper by lagged price per share or lagged assets per share.

We test this prediction by examining the relation between *EMI* and announcement-month returns as a function of beginning-of-quarter share price terciles. Table A5 confirms the relation between *EMI* and announcement-month returns is economically stronger among firms with low beginning-of-quarter share price. Panel A shows that *EMI* strongly predicts equal-weighted announcement month returns in all price terciles, with low price having the largest economic magnitude but marginal statistical significance. Panel B shows that *EMI* strongly predicts value-weighted announcement returns among low price firms, but insignificantly predicts announcement returns among medium and high price firms.

Online Appendix 4. Firms' Incentives to Manage Expectations

We evaluate two important explanations, in addition to opportunistic trading incentives discussed in the paper (see Section 3.4), for why firms manage expectations posited by the literature – full-quarter valuation effects and CEO career concerns. Our main empirical result, the V-shaped cyclical pattern in returns for high *EMI* firms, on its own does not allow us to distinguish among these motivations. If analysts and investors go along with the walkdown and subsequent earnings 'surprise,' we would expect the same basic return cycle regardless of why firms manage expectations. We therefore provide additional tests to assess these relative importance of these potential motivations.

4.1. Valuation Effects

The first category of motivations relate to the hypothesis that full-quarter stock returns are an increasing function of analyst-based earnings surprises even after controlling for the fundamental earnings news.[5] We assess full-quarter price effects as a function of *EMI* using similar regressions to those estimated in Kasznik and McNichols (2002), specifically:

$$r_{i,q} = a + b \cdot Walkdown_{i,q} + c \cdot Surprise\ BOQ_{i,q} + d \cdot EMI_{i,q} + e \cdot Walkdown_{i,q} \times EMI_{i,q} + \epsilon_{i,q}, \quad (4)$$

where,

[5]See Kasznik and McNichols (2002), Bartov et al. (2002), Richardson et al. (2004), and Versano and Trueman (2017) for detailed explanations about why this could be the case.

$$Walkdown_{i,q} \equiv \frac{Beg\ Forecast(e_{i,q}) - End\ Forecast(e_{i,q})}{SharePrice_{i,q-1}},$$

$$Surprise\ BOQ_{i,q} \equiv \frac{e_{i,q} - End\ Forecast(e_{i,q})}{SharePrice_{i,q-1}},$$

$r_{i,q}$ is firm i's cumulative market-adjusted return in the three month period ending on the announcement of earnings for quarter q, and $EMI_{i,q}$ is firm i's *EMI* quintile.[6]

Table A6 shows the results from estimating Equation (4) in our sample, with each independent variable standardized within each fiscal quarter to make the coefficients comparable. We find that *Walkdown* is positively related to contemporaneous full-quarter stock returns after controlling for various measures of realized earnings news, indicating the evidence in Kasznik and McNichols (2002) and Bartov et al. (2002) extends to a longer sample period. However, this pattern only suggests that the average firm benefits from successfully walking down analysts' forecasts, meaning it alone cannot explain why high *EMI* firms have a stronger incentive to walkdown forecasts. Instead, we find no significant interaction between *EMI* and *Walkdown*, indicating forecast walkdowns are no more effective in increasing full-quarter returns among high *EMI* firms than among low *EMI* firms. We therefore conclude that cross-sectional differences in price incentives across *EMI* portfolios are unlikely to be driving our main results.

4.2. CEO Career Concerns

We next apply a similar approach to test whether CEO career incentives, a potential motivation for expectations management posited in Puffer and Weintrop (1991), Matsumoto (2002), and Graham et al. (2005), drive some of the differences in walkdown incentives across *EMI* quintiles. Following Puffer and Weintrop (1991) and Farrell and Whidbee (2003), we

[6]This analysis produces qualitatively identical results when scaling surprises and walkdowns by lagged total assets per share rather than share price.

assess this possibility using regressions of the form:

$$\begin{aligned} \textit{CEO Retention}_{i,q+1} = a + b \cdot \textit{Mean Surprise EOQ}_{i,q} + c \cdot \textit{Past-Year AR}_{i,q} + d \cdot \textit{EMI}_{i,q} \\ + e \cdot \textit{Mean Surprise EOQ}_{i,q} \times \textit{EMI}_{i,q} + \epsilon_{i,q},, \end{aligned} \tag{5}$$

where $\textit{CEO Retention}_{i,q+1}$ is an indicator equal to one if firm i does not announce a change in CEOs during the three months following their earnings announcement for quarter q.[7] We use CEO retention rather than turnover as our outcome variable to make the predicted coefficient signs positive, and use quarterly rather than annual retention so that our independent variables are non-overlapping. Our right-hand side variables are all rolling annual averages ending in quarter q, with $\textit{Mean Surprise EOQ}_{i,q}$ averaging earnings surprises relative to end-of-quarter forecasts and $\textit{Past-Year AR}_{i,q}$ being the past-year market-adjusted return inclusive of the announcement.

To the extent that boards and investors evaluate CEOs based on their ability to maximize shareholder value, past abnormal returns should be a sufficient statistic for any recent "news" affecting the probability of CEO turnover, making the coefficient on *Past-Year AR* significantly positive, but the coefficient on *Mean Suprise EOQ* indistinguishable from zero. Consistent with the evidence in Puffer and Weintrop (1991) and Farrell and Whidbee (2003) using earlier sample periods, Panel B of Table A6 indicates CEO retention is higher when analyst-based earnings surprises are higher, even when controlling for past stock returns and innovations in accounting performance.

We add to this evidence by showing the relation between earnings surprises and CEO retention is substantially stronger among firms with high *EMI*. Specifically, the positive interaction effect between *Mean Surprise EOQ* and *EMI* suggests that, consistent with the career concerns hypothesis, high *EMI* firms engage in more-aggressive expectations management at least in part because their analyst-based earnings surprises have a stronger relation

[7] We measure CEO turnover dates using COMPUSTAT-Capital IQ Key Developments code 101, which indicates the date on which firms file Form 8-K informing investors of a CEO change. This dataset covers the period from 2000–2015.

with CEO retention.

Combined, the evidence in Table 10 of the paper, and Table A6 indicate that managers at high *EMI* firms are incentivized to manage analyst expectations by career concerns and profit from the resulting return cycle using opportunistic insider trades.

Online Appendix 5. Learning

We next examine whether there is evidence of learning by investors as a firm repeatedly manages expectations. To test this, we use Fama-MacBeth regressions of announcement-month returns on *EMI*, the number of consecutive quarters a firm has been in the same *EMI* quintile (*Qtrs in Quint*), and an interaction between the two. The coefficient on the interaction term indicates how much the *EMI*-return relation increases or diminishes when a firm has been in the same quintile for a longer period of time, which is intended to measure the extent to which investors can potentially learn and thus reduce return predictability associated with expectations management. As an alternative measure, we also use an indicator variable for *Qtrs in Quint* being above 12, meaning the firm has been in the same *EMI* quintile for over 3 years, which is only common in the extreme quintiles.

The results, in Panel B of Table A7, show no evidence investors learn in a linear fashion about expectations management behavior when a firm is in a given *EMI* quintile for a longer time. There are at least two potential reasons for this apparent failure to learn. One possible explanation is that investors are generally poor at processing and rationally pricing repeated cyclical patterns, including the walkdown effect we study and other related patterns discussed in Hartzmark and Solomon (2018).

A second possible explanation for why the *EMI*-return relation does not weaken as a firm spends more time in the same *EMI* quintile is that there is a confounding effect: firms in the highest *EMI* quintile for longer may increase their expectations management due to a combination of experience at communicating with analysts, stronger incentives due to accumulating attention and pressure, and closer relations with analysts or institutional investors.

These patterns by themselves would result in the relation between *EMI* and announcement month returns increasing, rather than decreasing, in *Qtrs in Quint*, potentially offsetting any decrease caused by investors' learning. Consistent with this possibility, Panel C of Table A7 shows that the longer firms stay in the highest *EMI* quintile, the stronger their earnings surprises get. These increasing surprises are accompanied by increases in analyst coverage and institutional ownership, our measures for investor attention, suggesting that incentives and opportunities for expecations management continue to grow the longer firms remain in the high *EMI* quintile. This pattern appears to offset any learning by investors, resulting in no clear change in the *EMI*-return relation as a function of *Qtrs in Quintile*.

Online Appendix 6. Placebo Test

We run a quasi-placebo test based on firms' sales forecasts to see if we observe a similar discontinuity around zero. We compute, for each firm-quarter, the "sales surprise" defined as the announced quarterly sales minus the median sales forecast immediately prior to the announcement, scaled by lagged total assets per share.[8]

Because firms' sales are a key component of their earnings, we predict that firms will have a similar impact on analysts' expectations of sales when managing expectations of their earnings. Thus, we expect sales and earnings forecasts surprises to display similar patterns. We test this prediction by producing plot analogous to the ones in Figure 5 of the paper, but using sales surprises instead of earnings surprises.

Figure A1 shows a similar discontinuity pattern occurs for sales forecasts errors, which reinforces the findings in our paper and is consistent with firms engaging in expectations management. Specifically, we find high *EMI* firms are significantly more likely to realize small positive sales surprises relative to low *EMI* firms, while significantly less likely to realize negative surprises.

The observed discontinuity in Figure A1 could be explained by firms managing earnings

[8]Specifically, we compare the ACTUAL and MEDEST values for the last entry in IBES with measure equal to SAL for each earnings announcement.

expectations and analysts proportionally downgrading sales forecasts when downgrading earnings forecasts, such that the two values remain logically consistent. Consistent with this story, we find a 35.7% Pearson correlation (48.3% Spearman correlation) between sales and earnings walkdowns.[9]

Online Appendix 7. Persistence of Announcement Returns and News

We examine whether there is more autocorrelation in earnings announcement returns for firms with high values of *EMI*. We assess the autocorrelation in announcement returns using a regression of the form:

$$\begin{aligned} r_{i,q+1} =& b_1 \cdot (Q\_EMI = 1) \cdot \overline{r}_{i,q} + b_2 \cdot (Q\_EMI = 2) \cdot \overline{r}_{i,q} + b_3 \cdot (Q\_EMI = 3) \cdot \overline{r}_{i,q} + \\ & b_4 \cdot (Q\_EMI = 4) \cdot \overline{r}_{i,q} + b_5 \cdot (Q\_EMI = 5) \cdot \overline{r}_{i,q} + \epsilon_{i,q+1}, \end{aligned} \tag{6}$$

where $r_{i,q+1}$ is firm i's return in their announcement month during quarter $q+1$, and $\overline{r}_{i,q}$ is the average announcement-month return in quarters $q-7$ through q. To assess how this autocorrelation varies with *EMI*, we interact $\overline{r}_{i,q}$ with indicator variables for each *EMI* quintile. We include announcement-month fixed effects to adjust for market-wide trends.

Table A8 shows our estimates of the coefficients $b_1 \ldots b_5$, which indicate there is a strong positive autocorrelation in announcement returns among firms in the highest *EMI* quintile, but little autocorrelation in other *EMI* quintiles. This is consistent with the cyclical return patterns being driven by expectations management.

To examine whether the return autocorrelation results are driven by repeated expectations management or earnings management, we also examine the persistence of analyst-based surprises ($SURP$) and innovations in earnings relative to a random-walk model (SUE). We find that $SURP$ is persistent across all firms, but much more persistent among high *EMI*

[9]We compute sales and earnings walkdowns as the difference between the first and last forecasts of each variable, respectively, within the quarter leading up to the announcement. We scale earnings per share forecasts by lagged share price and total sales forecasts by lagged market capitalization to make them comparable.

firms, consistent with analysts' expectations being repeatedly walked down leading up to the announcement and being positively surprised at the announcement. We, however, find that SUE is not persistent among any subset of firms, and there is no difference between high and low EMI firms in SUE persistence. This result makes it less likely that repeated earnings management is responsible for the persistence in returns documented above.

Online Appendix 8. Communication via Press Releases

In this section, we corroborate our earnings guidance tests in Table 8 of our paper by exploring firms strategic press release behavior. In addition to earnings guidance, firms regularly communicate with investors by issuing press releases, suggesting that press releases may provide an alternative venue to manage expectations. We investigate this link by examining the textual sentiment of firms' press-releases from Ravenpack prior to their expected announcement dates.

We first compute $SENT$ as the difference in the number of positive versus negative press releases and a scaled version, $\%SENT$, that is scaled by the firm's total number of press-releases.[10] Additionally, to control for variation in press-release sentiment prompted by firms' fundamentals, we also calculate $RSENT$ and $\%RSENT$ as the residuals from regressing $SENT$ and $\%SENT$ on contemporary changes in firms' profitability (ΔEPS).

Table A9 shows that high EMI firms are more likely to issue negative press releases prior to announcing earnings. Moreover, the negative relation between EMI and residual sentiment indicates that the more negative tone of press releases for high EMI firms does not appear to be explained by contemporaneous changes in their quarterly profits.

[10] A positive (negative) press release is one with a Ravenpack ESS sentiment score above (below) 50.

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Figure A1. Difference in Sales Surprise Distribution (High *EMI* - Low *EMI*)

The figure below presents differences in the scaled distributions of analyst-based sales surprise (*SALE SURP*) across High *EMI* versus Low *EMI* firms. We scale all firms' surprises by the standard deviation of surprises for their respective *EMI* quintile, which makes across quintile differences in the distribution of sales surprises easier to interpret by ensuring that each quintile has a distribution with a standard deviation of one. *SALE SURP* is defined as the difference between actual sales per share and the median analyst forecast of sales per share divided by lagged total assets per share. *EMI* is a composite proxy for firms' expectations management incentives, as outlined in Eq. (1) and discussed in Section 2 of the paper, where higher values indicate greater incentives to report positive earnings surprises. The sample consists of 105,016 firm-quarter observations spanning 1985 through 2015 with non-missing analyst-based sales surprises.

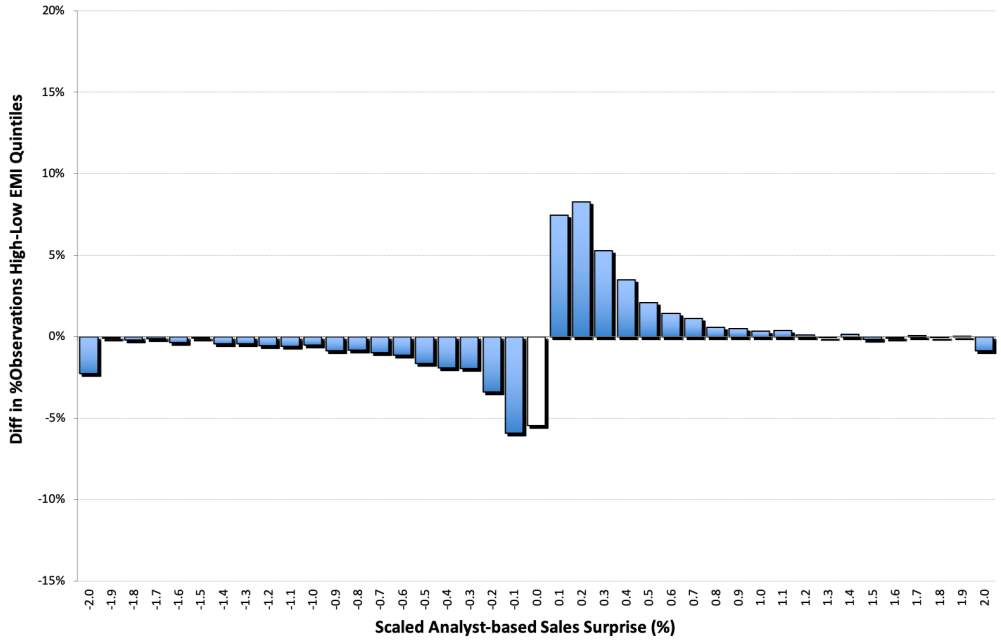

Table A1. Earnings Management Tests

Panel A contains results from regressing discretionary accruals proxies on *EMI* and additional controls. *Discretionary Accruals* is based on the Jones (1991) discretionary accruals model and *Modified Discretionary Accruals* is based on Dechow et al. (1995)'s modified Jones discretionary accruals model. The regressions control for firm's log market capitalization (*SIZE*), log of one plus a firm's book-to-market ratio (*LBM*), and lagged twelve-month momentum (*MOMEN*). *VLTY* is defined as the standard deviation of monthly returns over the twelve months ending in month M. *EMI* is a composite proxy for firms' expectations management incentives, as outlined in Eq. (1) and discussed in Section 2, where higher values indicate greater incentives to report positive earnings surprises. *EMI* is expressed in quintile ranks ranging from zero to one to facilitate economic interpretation. Panel B contains results from regressing firmsâĂŹ quarterly share repurchase behavior on *EMI* and additional controls. *Repurchase* is defined as ln(0.001 + *Repo/MarketCap*) where *Repo* is the total expenditure on the purchase of common and preferred stocks (computed from Compustat quarterly item *prstkcy*) minus any reduction in the redemption value of preferred stock outstanding (Compustat item *pstkq*). Pre-EA *Repurchase* is measured over the quarter leading up to the expected earnings announcement, Post-EA *Repurchase* is the subsequent quarter after, and Post-EA - Pre-EA *Repurchase* is the difference between the two. Panel C presents results from monthly Fama-Macbeth regressions of raw announcement month returns on *EMI* and additional controls. The regressions in columns (1) and (2) are split by below and above median values of *Discretionary Accruals*, respectively (*Low Discretionary Accruals* vs. *High Discretionary Accruals*). The regressions in columns (3) and (4) are split by firm-quarter observations with no repurchase activity (*Repo* = 0) and with some repurchase activity (*Repo* > 0), respectively (*No Repurchase Quarter* vs. *Repurchase Quarter*). Panel D presents results from monthly Fama-Macbeth regressions of *SURP* on *EMI* and additional controls, where *SURP* is defined as the difference between actual earnings per share and the median analyst forecast of earnings per share divided by lagged total assets per share. The sample splits are the same as Panel C's. Panels A and B include firm and quarter fixed effects and the parentheses contain *t*-statistics based on standard errors clustered by firm and quarter. The sample for Panel A and B consists of 320,171 firm-quarter observations spanning 1985 through 2015. For Panels C and D parentheses contain *t*-statistics from the Fama-Macbeth regressions after Newey-West adjustments for autocorrelation up to 10 lags. The number of observations for the subsamples in Panels C and D are displayed in the panels. The notations ***, **, and * indicate the coefficient is significant at the 1%, 5%, and 10% level, respectively.

Panel A: Link Between *EMI* and Abnormal Accruals

	Discretionary Accruals		*Modified Discretionary Accruals*	
	(1)	(2)	(3)	(4)
EMI	-0.1360	-0.0939	-0.2675	-0.2397
	(-0.33)	(-0.23)	(-0.65)	(-0.58)
SIZE	-0.1892	-0.2338	0.4139	0.3428
	(-0.64)	(-0.79)	(1.32)	(1.08)
LBM	-3.2969***	-3.1337***	-3.5250***	-3.3364***
	(-4.79)	(-4.61)	(-4.76)	(-4.56)
MOMEN		0.3166*		0.3543*
		(1.68)		(1.82)
VLTY		-0.0141		-0.0318
		(-0.58)		(-1.23)
Adj. R^2 (%)	0.143	0.143	0.150	0.150

Panel B: Link Between *EMI* and Repurchases

	Pre-EA *Repurchase*		Post-EA *Repurchase*		Post-EA-Pre-EA *Repurchase*	
	(1)	(2)	(3)	(4)	(5)	(6)
EMI	0.0587***	0.0387***	0.0745***	0.0448**	0.0151	0.0052
	(3.94)	(2.69)	(3.43)	(2.13)	(1.48)	(0.54)
SIZE	0.1059***	0.0978***	0.1777***	0.1667***	0.0718***	0.0689***
	(10.87)	(10.86)	(13.00)	(13.24)	(13.45)	(13.46)
LBM	0.2650***	0.2443***	0.3599***	0.3265***	0.0910***	0.0785***
	(13.56)	(13.45)	(13.18)	(13.03)	(6.75)	(5.99)
MOMEN		-0.0482***		-0.0749***		-0.0275***
		(-9.41)		(-8.75)		(-4.74)
VLTY		-0.0091***		-0.0131***		-0.0039***
		(-13.42)		(-14.31)		(-8.19)
Adj. R^2 (%)	0.229	0.233	0.306	0.310	0.085	0.086

Table A1. [Continued] Earnings Management Tests

Panel C: Fama-MacBeth Regressions of Announcement Returns

	Subsamples			
Sample:	*Low Discretionary Accruals*	*High Discretionary Accruals*	*No Repurchase Quarter*	*Repurchase Quarter*
	(1)	(2)	(3)	(4)
EMI	0.461***	0.311***	0.450***	0.243***
	(6.05)	(4.42)	(6.39)	(3.34)
SIZE	-0.260***	-0.254***	-0.405***	-0.077
	(-3.02)	(-2.99)	(-4.80)	(-0.87)
LBM	0.302**	0.288***	0.353***	0.059
	(2.44)	(2.76)	(3.30)	(0.55)
MOMEN	0.449***	0.292**	0.382***	0.352***
	(3.91)	(2.43)	(3.51)	(2.63)
VLTY	-0.382***	-0.231	-0.339**	-0.034
	(-2.69)	(-1.59)	(-2.50)	(-0.19)
Intercept	1.425***	1.363***	1.267***	1.747***
	(4.13)	(3.98)	(3.54)	(5.52)
R^2 (%)	5.847	5.905	5.153	7.605
Sample obs.:	160,008	159,105	230,616	88,497

Panel D: Fama-MacBeth Regressions of SURP

	Subsamples			
Sample:	*Low Discretionary Accruals*	*High Discretionary Accruals*	*No Repurchase Quarter*	*Repurchase Quarter*
	(1)	(2)	(3)	(4)
EMI	0.091***	0.066***	0.076***	0.055***
	(8.88)	(7.33)	(8.32)	(3.87)
SIZE	0.042***	0.042***	0.059***	0.021**
	(5.59)	(6.02)	(7.77)	(2.48)
LBM	-0.010	-0.008	-0.011	-0.004
	(-0.93)	(-0.72)	(-1.23)	(-0.24)
MOMEN	0.145***	0.140***	0.136***	0.152***
	(14.60)	(16.49)	(18.65)	(11.83)
VLTY	-0.106***	-0.083***	-0.097***	-0.068***
	(-7.71)	(-6.03)	(-7.79)	(-3.89)
Intercept	-0.213***	-0.167***	-0.199***	-0.127***
	(-9.29)	(-8.76)	(-10.45)	(-4.13)
R^2 (%)	11.194	9.940	8.952	14.787
Sample obs.:	88,194	88,070	117,117	59,147

Table A2. Attention, Pressure, Relevance, and the Return Cycle

This table presents monthly four-factor alphas across quintiles of Attention (ATT), Pressure ($PRESS$), and RELEVANCE (REL) and months in the earnings cycle. The 'All' row presents average returns for all stocks, the $T-2$ row only for stocks two months prior to the expected earnings announcement date, $T-1$ one month prior, and T the month of. The EAP row presents average returns to an earnings announcement premium strategy consisting of a long position in all announcement-month stocks and a short position in all other stocks. ATT is the first principle component of analyst coverage and institutional ownership. $PRESS$ is trailing five year sales growth. REL is negative one times the Altman Z-Score measure of default risk. The High-Low column presents alphas for a strategy long firms in the High quintile and short firms in the lowest quintile of each measure. The sample consists of 320,171 firm-quarter observations spanning 1985 through 2015.

Panel A: Attention

	ATT Quintiles					
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)	High - Low
All	-0.084	-0.021	0.066	0.205***	0.171***	0.255**
	(0.099)	(0.089)	(0.098)	(0.069)	(0.060)	(0.123)
$T-2$	-0.22	-0.057	0.117	-0.03	0.036	0.256
	(0.186)	(0.187)	(0.186)	(0.143)	(0.107)	(0.206)
$T-1$	0.301	-0.174	-0.107	0.064	-0.149	-0.450**
	(0.195)	(0.154)	(0.161)	(0.134)	(0.102)	(0.224)
T	-0.045	0.061	0.291	0.626***	0.666***	0.712***
	(0.174)	(0.184)	(0.184)	(0.130)	(0.123)	(0.213)
EAP	0.042	0.160	0.310	0.716***	0.708***	0.666***
	(0.197)	(0.216)	(0.243)	(0.169)	(0.139)	(0.228)

Panel B: Pressure

	PRESS Quintiles					
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)	High - Low
All	0.084	0.051	0.202***	0.003	0.231**	0.147
	(0.105)	(0.083)	(0.062)	(0.076)	(0.106)	(0.154)
$T-2$	-0.098	-0.261	0.238**	-0.2	-0.06	0.038
	(0.153)	(0.162)	(0.116)	(0.131)	(0.174)	(0.222)
$T-1$	-0.185	-0.023	0.029	-0.201*	-0.033	0.153
	(0.181)	(0.141)	(0.117)	(0.112)	(0.163)	(0.224)
T	0.060	0.620***	0.483***	0.388***	0.513***	0.453**
	(0.169)	(0.148)	(0.123)	(0.140)	(0.179)	(0.231)
EAP	0.282	0.822***	0.408***	0.622***	0.409**	0.127
	(0.202)	(0.174)	(0.148)	(0.161)	(0.204)	(0.242)

Panel C: Relevance

	REL Quintiles					
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)	High - Low
All	0.035	0.079	0.034	0.159**	0.231**	0.196
	(0.102)	(0.090)	(0.074)	(0.077)	(0.091)	(0.155)
$T-2$	-0.125	-0.186	-0.138	0.028	0.113	0.238
	(0.193)	(0.128)	(0.146)	(0.135)	(0.138)	(0.249)
$T-1$	0.021	0.211	-0.156	-0.166	-0.1	-0.121
	(0.169)	(0.144)	(0.131)	(0.127)	(0.130)	(0.214)
T	0.022	0.429***	0.464***	0.528***	0.694***	0.672***
	(0.179)	(0.136)	(0.132)	(0.145)	(0.178)	(0.258)
EAP	0.050	0.557***	0.671***	0.553***	0.679***	0.629**
	(0.203)	(0.145)	(0.154)	(0.168)	(0.193)	(0.254)

Table A3. Augmented *EMI* - Internal Sales Growth and Insider Trading

This table presents robustness tests of our main findings. Panel A contains results from substituting our sales growth input to *EMI* with a proxy for internally funded sales growth from Daniel and Titman (2006). Panels B and C contains results from adding the three-year rolling average level of profitability and amount of insider trading as a fifth component of our *EMI* factor.

Panel A: Alternative Implementation with Interally Funded Sales Growth

Description:	Equal-Weighted			Value-Weighted		
	High	Low	High-Low	High	Low	High-Low
Raw Returns	1.725	0.751	0.973	1.665	0.953	0.712
	(5.64)	(2.26)	(4.98)	(6.17)	(3.30)	(3.38)
Analyst-based Surprise	-0.002	-0.333	0.331	0.066	-0.146	0.213
	-(0.30)	-(5.31)	(5.33)	(11.50)	-(2.35)	(3.46)

Panel B: Alternative Implementation with Insider Sales Profitability

Description:	Equal-Weighted			Value-Weighted		
	High	Low	High-Low	High	Low	High-Low
Raw Returns	1.693	0.791	0.901	1.677	0.886	0.791
	(5.53)	(2.42)	(4.77)	(6.22)	(3.14)	(3.63)
Analyst-based Surprise	-0.001	-0.337	0.336	0.065	-0.176	0.241
	-(0.14)	-(5.87)	(5.93)	(11.44)	-(2.98)	(4.09)

Panel C: Alternative Implementation with Insider Sales Frequency

Description:	Equal-Weighted			Value-Weighted		
	High	Low	High-Low	High	Low	High-Low
Raw Returns	1.636	0.873	0.763	1.586	0.965	0.621
	(5.41)	(2.59)	(3.79)	(5.95)	(3.35)	(2.79)
Analyst-based Surprise	0.000	-0.333	0.333	0.064	-0.138	0.202
	(0.05)	-(5.72)	(5.78)	(11.09)	-(2.49)	(3.68)

Table A4. Earnings Announcement Premia and *EMI*

This table presents estimates of the earnings announcement premium across quintiles of Expectations Management Incentives (*EMI*), a composite proxy for firms' expectations management incentives, as outlined in Eq. (1) and discussed in Section 2, where higher values indicate greater incentives to report positive earnings surprises. Panel A uses time-series tests based on earnings announcement strategies consisting of long positions in all announcement-month stocks and a short positions in all other stocks within each *EMI* quintile. We compute equal- and value-weighted versions of each strategy, and present each strategy's average monthly strategy return ('Raw'), four-factor alpha ('Alpha'), and characteristic adjusted return ('Char-Adj'). The High - Low row represents the difference betweeen strategy returns in the highest and lowest *EMI* quintiles. Panel B uses Fama-MacBeth regressions predicting monthly stock returns using indicators for whether the firm is expected to announce earnings this month (*EA Month*), each *EMI* quintile (*Q2*, *Q3*, *Q4*, and *Q5*, with Q1 omitted as a benchmark). *Synced-Nonsynced Spread* is defined as the decile assignment, ranging from zero to one, based on the difference in firms' cumulative returns in synced (M-3, M-6, M-9, M-12) and non-synced (M-2, M-4, M-5, M-7, M-8, M-10, M-11) month returns. The regressions include controls for firm's log market capitalization (*SIZE*), log of one plus a firm's book-to-market ratio (*LBM*), lagged twelve-month momentum (*MOMEN*), the standard deviation of monthly returns over the twelve months ending in month *M* (*VLTY*), share turnover (*TURN*), and past-month returns (*RET(-1)*). All control variables are standardized each month to have a zero mean and unit standard deviation. The sample consists of 320,171 firm-quarter observations spanning 1985 through 2015.Parentheses contain *t*-statistics from the Fama-Macbeth regressions after Newey-West adjustments for autocorrelation up to 10 lags. The notations ***, **, and * indicate the coefficient is significant at the 1%, 5%, and 10% level, respectively.

Panel A: Time-Series Tests

	Equal-Weighted			Value-Weighted		
	Raw	Alpha	Char-Adj	Raw	Alpha	Char-Adj
Q5 (High)	0.699	0.671	0.612	0.722	0.731	0.628
	(6.66)	(6.23)	(6.50)	(5.19)	(5.14)	(4.39)
Q4	0.530	0.521	0.568	0.570	0.621	0.476
	(5.33)	(5.08)	(6.36)	(3.76)	(3.96)	(3.29)
Q3	0.161	0.162	0.295	0.333	0.282	0.348
	(1.56)	(1.52)	(2.93)	(1.48)	(1.23)	(1.77)
Q2	0.160	0.104	0.321	0.330	0.184	0.236
	(1.33)	(0.84)	(2.72)	(1.48)	(0.81)	(1.01)
Q1 (Low)	-0.311	-0.370	-0.222	-0.009	-0.087	-0.220
	(-2.36)	(-2.72)	(-1.76)	(-0.05)	(-0.45)	(-1.02)
High - Low	1.010	1.041	0.834	0.731	0.817	0.849
t-statistic	(6.64)	(6.61)	(5.43)	(3.26)	(3.53)	(3.36)

Table A4. [Continued] Earnings Announcement Premium and *EMI*

Panel B: Fama MacBeth Tests

	(1)	(2)	(3)	(4)	(5)	(6)
EA Month	0.339***	-0.216*	-0.129	-0.121	-0.120	-0.120
	(5.48)	(-1.70)	(-1.11)	(-1.08)	(-1.07)	(-1.07)
EA Month X Q5	–	0.928***	0.900***	0.850***	0.838***	0.835***
	–	(6.24)	(6.31)	(6.21)	(6.14)	(6.11)
EA Month X Q4	–	0.808***	0.740***	0.678***	0.672***	0.672***
	–	(5.82)	(5.59)	(5.31)	(5.26)	(5.22)
EA Month X Q3	–	0.626***	0.573***	0.547***	0.542***	0.549***
	–	(4.12)	(3.86)	(3.78)	(3.76)	(3.81)
EA Month X Q2	–	0.409***	0.359**	0.341**	0.340**	0.343**
	–	(2.67)	(2.46)	(2.38)	(2.36)	(2.37)
Synced-Nonsynced Spread	–	–	–	–	0.296***	0.071
	–	–	–	–	(3.38)	(0.46)
Synced-Nonsynced Spread X Q5	–	–	–	–	–	0.427**
	–	–	–	–	–	(2.24)
Synced-Nonsynced Spread X Q4	–	–	–	–	–	0.357**
	–	–	–	–	–	(2.11)
Synced-Nonsynced Spread X Q3	–	–	–	–	–	0.186
	–	–	–	–	–	(1.05)
Synced-Nonsynced Spread X Q2	–	–	–	–	–	0.153
	–	–	–	–	–	(0.83)
Q5	–	0.206	0.435***	0.456***	0.462***	0.252*
	–	(1.43)	(3.97)	(4.58)	(4.65)	(1.86)
Q4	–	0.288***	0.354***	0.351***	0.353***	0.175
	–	(2.67)	(3.70)	(3.95)	(3.97)	(1.47)
Q3	–	0.313***	0.262***	0.258***	0.259***	0.163
	–	(3.55)	(2.95)	(3.21)	(3.25)	(1.37)
Q2	–	0.167*	0.142	0.138*	0.141*	0.060
	–	(1.87)	(1.64)	(1.67)	(1.70)	(0.53)
SIZE	–	–	-0.173*	-0.169**	-0.164**	-0.166**
	–	–	(-1.91)	(-2.27)	(-2.22)	(-2.23)
LBM	–	–	0.244***	0.150***	0.147***	0.149***
	–	–	(3.83)	(2.96)	(2.91)	(2.97)
MOMEN	–	–	0.341***	0.359***	0.375***	0.375***
	–	–	(4.04)	(4.88)	(5.17)	(5.17)
VLTY	–	–	–	-0.059	-0.061	-0.064
	–	–	–	(-0.76)	(-0.81)	(-0.84)
TURN	–	–	–	-0.169**	-0.172**	-0.173**
	–	–	–	(-2.16)	(-2.21)	(-2.24)
RET(-1)	–	–	–	-0.427***	-0.430***	-0.431***
	–	–	–	(-6.08)	(-6.14)	(-6.16)
Intercept	0.979***	0.773**	0.738**	0.753**	0.605**	0.719**
	(3.28)	(2.42)	(2.41)	(2.47)	(1.99)	(2.33)
R^2 *(%)*	0.116	0.838	2.790	4.964	5.080	5.283

Table A5. *EMI* and Returns as a Function of Share Price

This table presents average announcement-month returns to the Expectations Management Incentives *(EMI)* strategy across terciles of beginning-of-quarter price. Panel A preseents equal-weighted average returns, while Panel B presents value-weighted average returns. Returns are measured in the expected announcement month T, where *EMI* is calculated and assigned into quintiles in month T-12. *EMI* is a composite proxy for firms' expectations management incentives, as outlined in Eq. (1) and discussed in Section 2, where higher values indicate greater incentives to report positive earnings surprises. The final column presents t-statistics for the High-Low quintile difference calculated using the monthly time-series distribution. The sample consists of 320,171 firm-quarter observations spanning 1985 through 2015.

Panel A: Returns Sorted by *EMI* and Price (Equal-Weighted)

	EMI Quintiles						
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)	High-Low	t-statistic
Low Price	0.915	1.475	1.620	2.139	1.801	0.955	1.827
Mid Price	0.806	1.273	1.363	1.680	1.533	0.727	3.024
High Price	1.071	1.185	1.387	1.517	1.740	0.666	2.932

Panel B: Returns Sorted by *EMI* and Price (Value-Weighted)

	EMI Quintiles						
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)	High-Low	t-statistic
Low Price	0.428	0.723	1.278	2.220	1.950	1.535	2.795
Mid Price	0.929	1.455	1.433	1.563	1.289	0.359	1.144
High Price	1.233	1.184	1.278	1.334	1.633	0.396	1.475

Table A6. Price Effects and Career Concerns

This table presents regressions explaining contemporaneous stock returns (Panel A) and predicting CEO retention (Panel B). In Panel A, the dependent variable is a firm's market-adjusted cumulative abnormal return in the three calendar months ending with the expected monthly of their earnings announcement. *Walkdown* is the difference between the beginning of quarter median earnings per share forecast and the end of quarter forecast, scaled by lagged share price. *Surprise BOQ* is the difference between actual earnings per share and the beginning of quarter median earnings per share forecast, scaled by lagged share price. *EMI* is a composite proxy for firms' expectations management incentives, as outlined in Eq. (1) and discussed in Section 2, where higher values indicate greater incentives to report positive earnings surprises. *SUE* is the difference between actual earnings per share this quarter and actual earnings per share 4 quarters prior, scaled by lagged share price. ΔROA is the year-over year change in return on assets, defined by total earnings divided by total assets. In Panel B, the dependent variable is an indicator equal to one if there was no change in CEO announced in the quarter following the earnings announcement, and zero if a CEO change was announced. *Mean Surprise EOQ* is the average over the prior eight quarters of analyst-based earnings surprise, defined as the difference between actual earnings per share and analysts' final consensus forecast scaled by lagged share price. *Past-year AR* is the stock's cumulative abnormal return in the twelve month period up to an including the expected earnings announcement month. *Mean EMI* and *Mean SUE* are the average *EMI* and *SUE* for the firm over the prior eight quarters. *SG* is the firm's five-year cumulative sales growth. The sample for Panel A consists of 320,171 firm-quarter observations spanning 1985 through 2015, while the sample for Panel B consists of 140,875 firm-quarter observations spanning 2001 through 2015 for which we have CEO turnover data.

Panel A: Explaining Contemporanous Stock Returns

	(1)	(2)	(3)	(4)
Walkdown	0.702***	0.716***	0.684***	0.596***
	(6.082)	(6.250)	(3.370)	(2.941)
Surprise BOQ	4.584***	4.040***	4.639***	4.098***
	(35.852)	(30.410)	(36.218)	(30.729)
EMI	-	-	-2.827***	-2.355***
	-	-	(12.171)	(10.264)
Walkdown X EMI	-	-	0.025	0.199
	-	-	(0.098)	(0.765)
SUE	-	0.067	-	0.075
	-	(0.390)	-	(0.432)
ΔROA	-	1.773***	-	1.721***
	-	(10.925)	-	(10.642)
R^2	3.00%	3.60%	3.10%	3.60%

Panel B: Predicting CEO Retention

	(1)	(2)	(3)	(4)
Mean Surprise EOQ	0.781***	0.692***	0.389**	0.353**
	(9.651)	(8.168)	(2.185)	(1.973)
Past-year AR	0.158***	0.158***	0.157***	0.155***
	(2.704)	(2.705)	(2.686)	(2.663)
Mean EMI	-	-	-0.138**	-0.290***
	-	-	(2.158)	(4.213)
Mean Surprise EOQ X EMI	-	-	0.194**	0.177**
	-	-	(2.487)	(2.270)
Mean SUE	-	0.173**	-	0.143*
	-	(2.113)	-	(1.747)
SG	-	0.395***	-	0.487***
	-	(5.934)	-	(6.826)
R^2	0.20%	0.20%	0.20%	0.20%

Table A7. Quarters in Same *EMI* Quintile

This table presents statistics and regressions pertaining to the *Qtrs in Quint*, defined as the number of consecutive quarters a firm has been its current quintile of Expectations Management Incentives (*EMI*). Panel A displays the fraction of firm-quarter observations meeting five different requirements for ranges of *Qtrs in Quint*. Panel B presents results from Fama-Macbeth regressions of raw announcement month returns on *EMI*, *Qtrs in Quint*, an interaction between the two, and additional controls. To facilitate interpretation, all independent variables in this regression, aside from *Qtrs in Quint*, are standardized each month to have a zero mean and unit standard deviation. The regressions control for firm's log market capitalization (*SIZE*), log of one plus a firm's book-to-market ratio (*LBM*), and lagged twelve-month momentum (*MOMEN*) and share turnover (*TURN*) . *VLTY* is defined as the standard deviation of monthly returns over the twelve months ending in month M. *RET(-1)* is defined as raw monthly return in month M-1. *Log(COV)* is defined as log of one plus the number of analysts covering a firm. ΔEPS is change in earnings per share scaled by lagged total assets per share. *ACC* is the difference between net income and cash flows from operations scaled by lagged total assets. The sample for consists of 320,171 firm-quarter observations spanning 1985 through 2015. Parentheses contain *t*-statistics from the Fama-Macbeth regressions after Newey-West adjustments for autocorrelation up to 10 lags. The notations ***, **, and * indicate the coefficient is significant at the 1%, 5%, and 10% level, respectively. Panel C reports sample averages among 64,180 firm-quarters in high EMI quintile after partitioning the subsample by *Qtrs in Quint* quintiles. *SURP* defined as the difference between actual earnings per share and the median analyst forecast of earnings per share divided by lagged total assets per share and *PSURP* defined as a dummy variable that equals one when *SURP* is positive. *COV* is defined as the number of analysts covering a firm. *INST* is the percentage of shares held by institutions.

Panel A: Summary of Quarters in Quintile of *EMI*

	EMI Quintiles				
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)
Qtrs in Quint = 1	18.5%	35.9%	42.7%	41.3%	20.6%
Qtrs in Quint > 4	56.6%	27.2%	17.8%	18.6%	54.6%
Qtrs in Quint > 8	39.9%	12.5%	6.1%	6.2%	38.0%
Qtrs in Quint > 12	29.7%	6.4%	2.6%	2.4%	27.5%
Qtrs in Quint > 16	24.3%	4.1%	1.4%	1.2%	22.0%

Panel B: Learning Effects

	(1)	(2)	(3)	(4)	(5)	(6)
EMI	0.265***	0.395***	0.277**	0.285***	0.413***	0.296***
	(3.166)	(5.824)	(2.529)	(3.778)	(6.700)	(2.751)
Qtrs in Quint	0.001	0.049	0.036			
	(0.023)	(1.027)	(0.819)			
EMI × *Qtrs in Quint*	0.055	0.065	0.080			
	(0.871)	(1.092)	(1.381)			
Qtrs in Quint > 12				0.005	0.048	0.046
				(0.101)	(1.262)	(1.227)
EMI × *Qtrs in Quint* > 12				0.031	0.042	0.044
				(0.601)	(0.834)	(0.897)
SIZE		-0.150*	-0.220***		-0.142	-0.215***
		(-1.667)	(-2.629)		(-1.592)	(-2.580)
LBM		0.339***	0.234***		0.341***	0.235***
		(3.378)	(2.735)		(3.351)	(2.714)
MOMEN		0.317***	0.367***		0.315**	0.365***
		(2.614)	(3.124)		(2.550)	(3.061)
VLTY			-0.092			-0.092
			(-0.791)			(-0.787)
TURN			-0.235***			-0.231***
			(-2.878)			(-2.841)
Log(COV)			0.094			0.102
			(0.855)			(0.903)
RET(−1)			-0.728***			-0.731***
			(-5.963)			(-5.977)
ΔEPS			0.079			0.074
			(0.878)			(0.808)
ACC			-0.447***			-0.449***
			(-6.920)			(-6.872)
Intercept	1.380***	1.381***	1.383***	1.380***	1.381***	1.383***
	(4.569)	(4.566)	(4.567)	(4.569)	(4.567)	(4.567)

Table A7. [Continued] Quarters in Same *EMI* Quintile

Panel C: Surprises as a Function of Quarters in High *EMI* Quintile						
	Quintiles of *Qtrs in Quint* among high *EMI* firms					
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)	High - Low
Qtrs in Quint	1.553	5.309	8.759	10.345	11.491	9.938
	(53.69)	(85.02)	(101.86)	(94.95)	(117.50)	(112.29)
SURP	-0.053	-0.032	0.015	0.005	0.023	0.076
	-(4.16)	-(2.96)	(1.79)	(0.46)	(3.69)	(6.85)
PSURP	0.601	0.623	0.644	0.672	0.674	0.073
	(62.92)	(69.47)	(70.72)	(55.60)	(77.21)	(9.08)
COV	6.905	8.296	9.674	10.477	13.030	6.125
	(36.41)	(40.19)	(42.02)	(36.19)	(50.95)	(48.55)
INST	0.645	0.673	0.695	0.711	0.720	0.075
	(54.24)	(60.92)	(66.74)	(62.47)	(71.71)	(19.18)

Table A8. Persistence of Announcement Returns and News

This table presents estimates of the persistence of three different earnings surprise measures across quintiles of Expectations Management Incentives (*EMI*). The three measures are R_T, the firm's announcement-month return; *SURP*, the difference between actual earnings per share and the median analyst forecast of earnings per share divided by lagged total assets per share; and *SUE*, the difference between actual earnings per share this quarter and actual earnings per share 4 quarters prior, scaled by lagged per-share price. For each measure, we estimate a regression of next-quarter values on the average value of the prior 8 quarters, interacted with indicators for *EMI* quintile, as in Equation (6). *EMI* is a composite proxy for firms' expectations management incentives, as outlined in Eq. (1) and discussed in Section 2, where higher values indicate greater incentives to report positive earnings surprises. Each row presents the coefficient on past values interacted with each *EMI* quintile, the difference between High and Low quintile estimates, and t-statistics in parenthesis. The sample consists of 320,171 firm-quarter observations spanning 1985 through 2015 for R_T and *SUE*, and 176,264 firm-quarter observations with non-missing analyst-based surprises for *SURP*.

	EMI Quintiles					
	Q1 (Low)	Q2	Q3	Q4	Q5 (High)	High − Low
R_T Persistence	-0.034	0.005	-0.012	-0.022	0.067***	0.101***
	(1.592)	(0.303)	(0.718)	(1.298)	(4.109)	(3.831)
SURP Persistence	0.333***	0.350***	0.492***	0.553***	0.564***	0.231***
	(4.953)	(7.689)	(13.220)	(15.432)	(12.124)	(2.839)
SUE Persistence	0.004	-0.053	-0.058	-0.004	0.088	0.083
	(0.118)	(1.438)	(1.029)	(0.054)	(1.183)	(0.997)

Table A9. Communication with Investors and Analysts: Press Releases

Panel B contains results from regressing firm-initiated press-release statistics on *EMI* and additional controls. Press-release data are from Ravenpack. A news article is defined as a "firm-initiated press-release" if the Ravenpack variable *news_type* equals 'press-release' and *news_group* is not equal to one of 'analyst-ratings', 'order-imbalances', 'price-targets', or 'stock-prices'. Articles are further conditioned to have the Ravenpack variable *relevance* to equal 100, which indicates an underlying news story to be strongly related to the entity. *SENT* is the difference between the total number of positive versus negative press-releases. *%SENT* is *SENT* divided by the sum of positive and negative press-releases. Positive (negative) press-releases are those that have Ravenpack textual analysis scores *ESS* greater than (less than) 50. *RSENT* is the residual from a quarterly regression of *SENT* on ΔEPS, the change in earnings per share scaled by lagged total assets per share. *%RSENT* is the residual from a quarterly regression of *%SENT* on ΔEPS. We measure press-release sentiment in the 50 trading-day window ending 5 days before the expected announcement date. Quarter fixed effects are included throughout. The parentheses contain t-statistics that are based on standard errors clustered by firm and quarter. The sample consists of 77,502 firm-quarter observations spanning 2000 to 2015.

	SENT		*RSENT*		*%SENT*		*%RSENT*	
EMI	-0.380***	-0.379***	-0.379***	-0.379***	-0.033***	-0.032***	-0.031***	-0.031***
	(-4.58)	(-4.57)	(-4.54)	(-4.54)	(-3.01)	(-2.98)	(-2.87)	(-2.87)
SIZE	0.390***	0.432***	0.391***	0.432***	0.027***	0.034***	0.027***	0.034***
	(13.33)	(14.03)	(13.31)	(14.00)	(9.93)	(12.00)	(9.98)	(12.05)
LBM	0.190***	0.158***	0.197***	0.164***	-0.027***	-0.033***	-0.024***	-0.030***
	(3.79)	(3.09)	(3.92)	(3.23)	(-3.21)	(-3.66)	(-2.88)	(-3.41)
MOMEN	–	-0.142***	–	-0.148***	–	-0.025***	–	-0.027***
	–	(-5.16)	–	(-5.28)	–	(-5.33)	–	(-5.59)
VLTY	–	0.024***	–	0.024***	–	0.004***	–	0.004***
	–	(7.48)	–	(7.45)	–	(7.65)	–	(7.66)
R^2(%)	9.759	10.489	9.769	10.501	1.108	1.576	1.115	1.586