

On the Information Role of Analysts' Cash Flow Forecasts

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Abstract

This study examines whether analysts' cash flow (CPS) forecasts and earnings (EPS) forecasts jointly provide information to users about firm performance. Building on economic theory, we study whether the *relative magnitudes* of the CPS and EPS forecasts provide information about firm life cycle and earnings persistence, and whether they affect the market's reaction to the quarterly earnings surprise. Our results show that firms are more likely to be in the introduction and decline phases (growth phase) of life cycle if the magnitude of the CPS forecast, relative to the EPS forecast, is low (high), and that moderate levels of the CPS forecast are more likely to indicate the mature phase. We also find that earnings persistence increases monotonically from low relative levels of the CPS forecast, to moderate levels and then declines again as the CPS forecast becomes high, relative to the EPS forecast. Finally, we note that the market's response to the earnings surprise is the strongest for moderate levels of the CPS forecast.

Speaker Profile

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