Corporate Investment and Analyst Pressure

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Abstract

This paper empirically investigates whether executives alter capital budgeting decisions to meet or exceed analysts’ earnings per share (EPS) consensus forecasts. I find that (i) firms reduce investment when analyst pressure to increase EPS is high and that (ii) firms increase their likelihood to meet or beat analyst EPS consensus forecasts by reducing investment. Investment has a direct impact on EPS through depreciation expenses and collateral costs. The observed reduction in investment to meet forecast targets occurs primarily within firms with better investment opportunities. This pattern is consistent with the passing up of valuable investment opportunities in response to analyst pressure.