

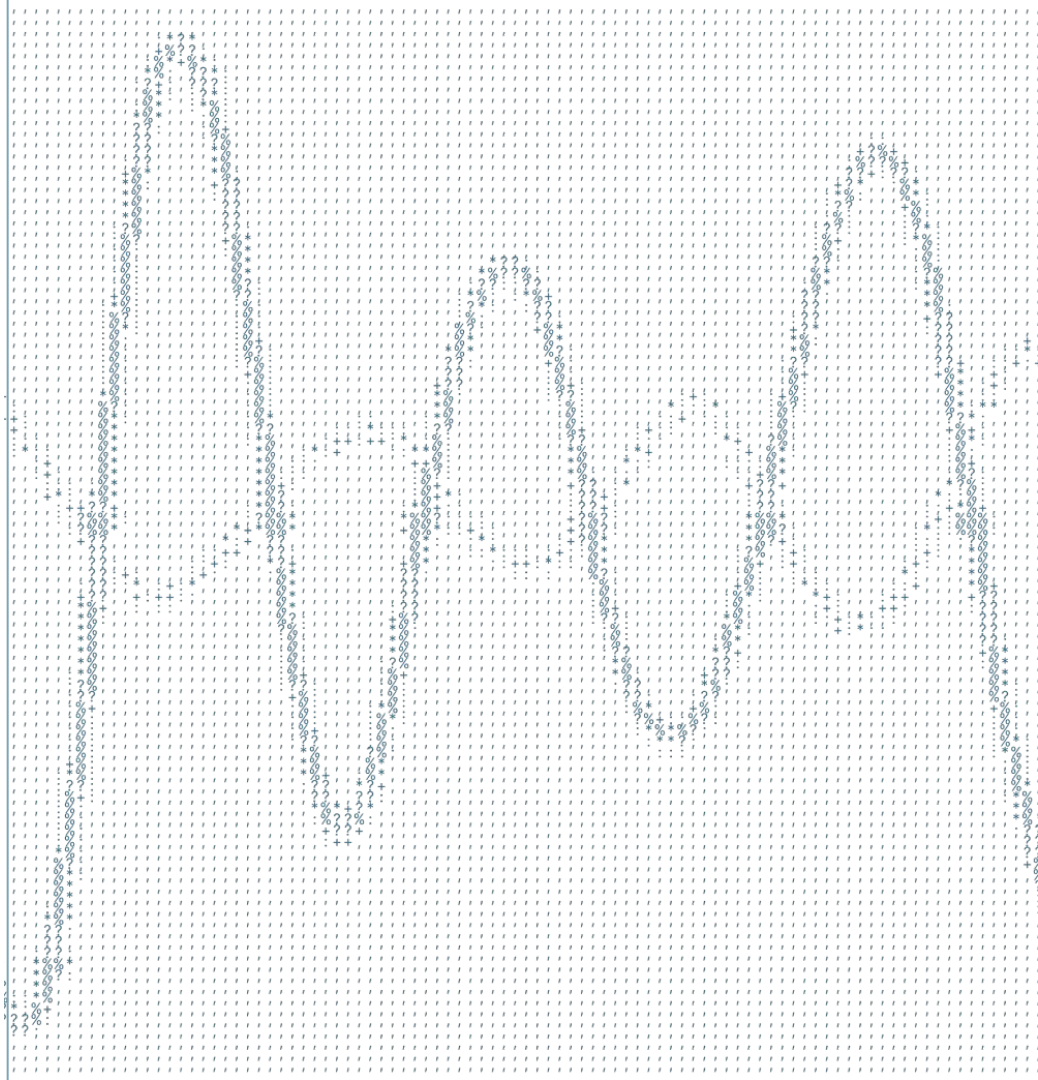


The Interpretation Gap: Markets Hear More Than You Say



Earnings is no longer a reporting event. It is a **market interpretation event.**

The market does not react to numbers alone; it reacts to how you frame the future, answer under pressure, and hold your narrative together.



The Invisible Forces Moving Capital Markets

~20%

of **stock price movement** is driven by non-fundamental factors such as sentiment & communication.

■ **Sources:** McKinsey & Co. Valuation Studies (Short-Term Multiples); R. Shiller (Yale / NBER) *Excess Volatility Research*.

3yrs

Time company spends living with a **valuation that was never about its fundamentals**.

■ **Sources:** NBER / Harvard Mean Reversion Studies (Greenwood, Shleifer & You); B. Graham *Voting vs. Weighing Horizon*.

Communications that move capital markets are **too consequential** to be managed by instinct alone.

The Interpretation Gap

Market cap isn't only destroyed by bad numbers alone.

It's lost in the space between what's spoken and what's understood—by analysts, by algorithms, by volatile markets.

That space is undefended.

Adair protects it.



One fumbled earnings-call question cost a streaming company **\$19 billion**

Finding Your Organization's Gap

Why Those Shorting Your Stock are Your Friends

Short interest

Why is it such an important signal?

- **Measures intensity of the bear case:** investors are putting capital behind a negative view.
- **Can move against the broader market:** making it a useful early signal of company-specific concern.
- **Carries real economic cost:** borrow fees and mark-to-market losses raise the bar for maintaining the position.
- **Creates asymmetric upside when the thesis breaks:** short covering can accelerate positive price moves.

Short theses often reveal, what investors don't understand.

Management should listen for recurring questions around:

Expectations	Is the market assuming more than the business can deliver?
Durability	What could cause growth, margins or returns to fade?
Capital allocation	Are returns on incremental investment clear?
Competitive position	What evidence supports the durability of the moat?
Balance sheet	Where could leverage or liquidity become a constraint?

The goal is not to "fight the shorts." It is to understand the unresolved question underneath the position.

Markets move on more than the numbers.

Remove the metric before replacing it

A leading streaming platform

-9.1% | ~\$18B
erased, Q2 FY26

TAKEAWAY

Don't retire the market's scorecard before introducing the next one.

Change the economics without rebuilding the model

A Fortune 500 cybersecurity leader

-28%, ~\$30B
at risk, Q2 FY24

TAKEAWAY

Quantify the duration, drivers and payoff.

Reveal the problem without bounding it

A Mag 7 name

-8% | ~\$70B
erased, Q1 FY19

TAKEAWAY

If you raise a concern, immediately bound it.

Remove the metric before replacing it

A top smart device manufacturer

-7% | ~\$65B
erased, Q4 FY18

TAKEAWAY

If you take away a metric, investors expect something in return.

Get the disclosure wrong

A leading ridesharing service

+67% spike, then reversal ~\$2.9B swing

TAKEAWAY

Disclosure QA now matters to humans and algorithms.

Who's listening now?

The earnings call used to have one audience. It now has several, working on different timelines & tools.

Audience	How They're Reading the Call Today	What They're Listening For
Sell-Side Equity Research	Same-day model updates. Benchmarks tone against peers and prior quarters.	Consistency with guidance. Specificity vs. vagueness.
Buy-Side (Fundamental & Hedge Funds)	Running NLP/LLM tools alongside live listening. Triangulating language against channel checks.	Management credibility over time. Variant perception.
Quant / Algorithmic Desks	Parsing the call as structured data in real time. Trading the signal within seconds.	Sentiment shifts, hedging language, delivery anomalies.
Activist Investors	Mining transcripts to build a public thesis. Cataloguing gaps between what's said and done.	Capital allocation discipline. Defensive or evasive answers.
Credit & Fixed Income	Reading through a liquidity lens rather than a growth lens.	Cash flow durability. Covenant headroom.
Media & Retail Sentiment	Reacting to clipped soundbites and headlines, not the full call.	A quotable moment. Does it confirm or break the story.

Investor attention is scarce. Clarity matters.

Companies that are easier to understand are easier to model, compare and own.

ATTENTION IS LIMITED

Portfolio managers cannot go deep on every company.



CLARITY REDUCES FRICTION

Clearer narratives make the forward case easier to model.



VALUATION CAN RESPOND

15x → 17–18x

Illustrative multiple expansion

At 10% annual earnings growth, that represents roughly 1.3–1.9 years of earnings growth.

The implication: communication is one of the few levers management can improve without changing the underlying fundamentals.

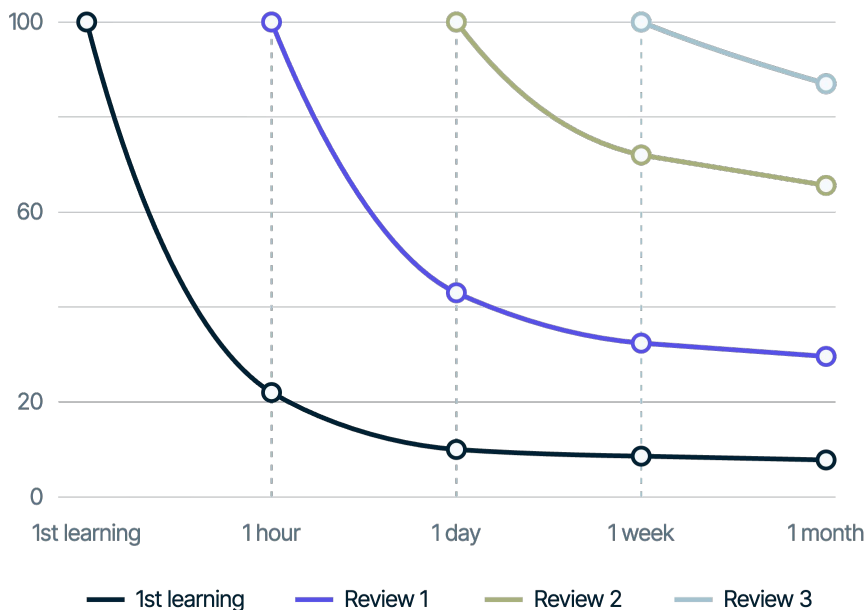
COMMON THREAD = ATTENTION SPAN

The market does not remember an earnings call. It remembers a compressed version of the earnings call.

- 01 First, you have to win attention.
- 02 Then you have to make the information easy to encode.
- 03 Then you have to make the right information retrievable later.

The curve of forgetting

Hermann Ebbinghaus — retention decays fast without review



Market Interpretation

How Information Becomes Understanding and Value

How the market turns information into value.

The market doesn't price everything you say. It prices what survives the journey.



Before the market can interpret information, it has to process it.

Encode

Frame

Compress

Value



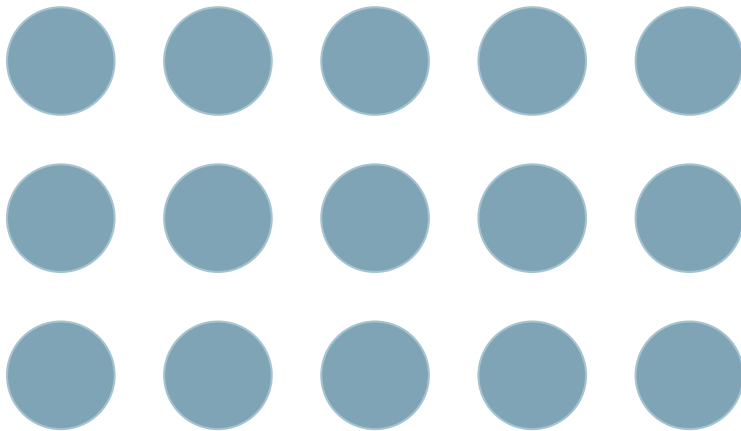
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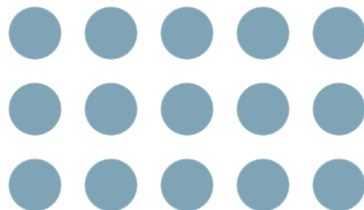
Compress

Value

Unencoded, the same information is costly to process.



Encoded, same information, instantly processable.



Same information, different cognitive load.

Structure isn't cosmetic. It determines how easily the market absorbs the message.

The same facts can produce different takeaways.

Encode

Frame

Compress

Value

Headline 1

"Growth remains resilient."

Growth that remains

Headline 2

"Growth begins to slow."

Momentum being lost

The facts were identical. The interpretation frame was not. → **Structure changes interpretation.**

"Growth remains resilient."

Revenue grew 8% year over year. Gross margin was unchanged from the prior quarter. Operating expenses grew in line with revenue, and full-year guidance was reaffirmed.

"Growth begins to slow."

Revenue grew 8% year over year. Gross margin was unchanged from the prior quarter. Operating expenses grew in line with revenue, and full-year guidance was reaffirmed.

The market compresses every quarter. What survives shapes the story.

Encode

Frame

Compress

Value

Full quarter

facts + context + qualifications

Compression

prioritize + simplify

Market
takeaway

What gets
repeated

Compression is inevitable. Distortion is not. → **Interpretation determines what enters the market.**

Six facts. One text.

Encode

Frame

Compress

Value

You're an analyst. Your portfolio manager texts: "What's the quarter?" Read these six facts. Then you have 30 seconds. One sentence, no more than 20 words.

Revenue grew 8% year over year, above analyst expectations of 6%.

EPS was \$1.10, above analyst expectations of \$1.05.

Earnings included an unexpected, one-time tax benefit of \$0.08 per share.

Order backlog increased 18% year over year.

New order declined 5% year over year.

Management maintained its full-year revenue and earnings outlook.

Three Possible Summaries

Each selects from the same facts. But the first emphasizes delivery and visibility; the second emphasizes earnings quality and weaker incoming demand; the third preserves the tension.

Upbeat

Revenue and earnings beat, backlog is up 18%, and full-year guidance is intact.

Skeptical

The earnings beat came from a tax benefit, new orders fell 5%, and management did not raise guidance.

Mixed

Revenue beat, but earnings upside was tax-driven; backlog grew, new orders fell, and full-year guidance was unchanged.

Source: The AI Journal, "Ears of the Algorithm"

What disappears can change the story.

Encode

Frame

Compress

Value

"Earnings beat expectations."

Reported EPS	\$1.10
Consensus	\$1.05
Beat	+\$0.05

"Beat included a one-time tax benefit."

Reported EPS	\$1.10
One-time tax benefit	-\$0.08
Operating EPS	\$1.02
vs. consensus \$1.25	-\$0.03

What must survive for the market to understand your quarter fully and correctly?

What the market understands, gets valued.

Encode

Frame

Compress

Value

MARKET TAKEAWAY

What survives



INVESTOR BELIEF

What does this imply about durability, risk and management credibility?



THE MODEL

Forecasts, ranges, assumptions, conviction



VALUE

Position size, relative multiple, valuation

The market does not price language directly.
It prices what the language causes investors to believe about the business.

How You Are Being Interpreted

Interpretation at Machine Speed

From counting words to modeling meaning.

1990s–2010s

Word-list scoring

Positive and negative word counts (Loughran-McDonald) flag tone from the transcript alone.

2010s–2020s

Voice and behavior

Pitch, pace, and hedging patterns (Mayew-Venkatachalam, Larcker-Zakolyukina) add how something is said.

NOW

Full-call models

Large language models read transcript, audio, and Q&A dynamics together, in near real time.

Adair's own scoring is built on this same academic base.

Source: S&P Global Market Intelligence, "From Lexicons to LLMs," 2025

Machines listen across three channels.

None of it requires a human to read a transcript after the fact.



Language

Sentiment, hedging phrases, and shifts in jargon versus prior quarters.



Voice

Pitch, pace, pauses, and filler words such as "um" or "ah."



Q&A dynamics

How closely an answer matches the question, flagging evasion or pivots.

Source: The AI Journal, "Ears of the Algorithm"

Beating the estimate is no longer the whole story.

The sentiment delta

The gap sits between two things algorithmic models score separately: the strength of the reported numbers, and the confidence of the language used to describe them.

When the two disagree, algorithms tend to trade the tone, not the table.

45–50%

of companies that beat consensus earnings-per-share estimates still trade lower the next day.

Small narrative signals can have measurable market impact.

Word Choice

Sentiment + emotional intensity

+35 bps reaction to extreme positive, +26 bps realized analyst-expectation effect from positive sentiment

Clarity

Complexity + processing friction

~9 bps / 1σ from lower language complexity

Repetition

Reinforcement + consistency

Strategic repetition reinforces the thesis, repetitive adjectives lose signal

Role Ownership

Who owns the answer

-21 bps for misalignment across speakers

Voice + Language Together

Adair academic research finds that the combined language and vocal signal carries materially more information than either channel alone.

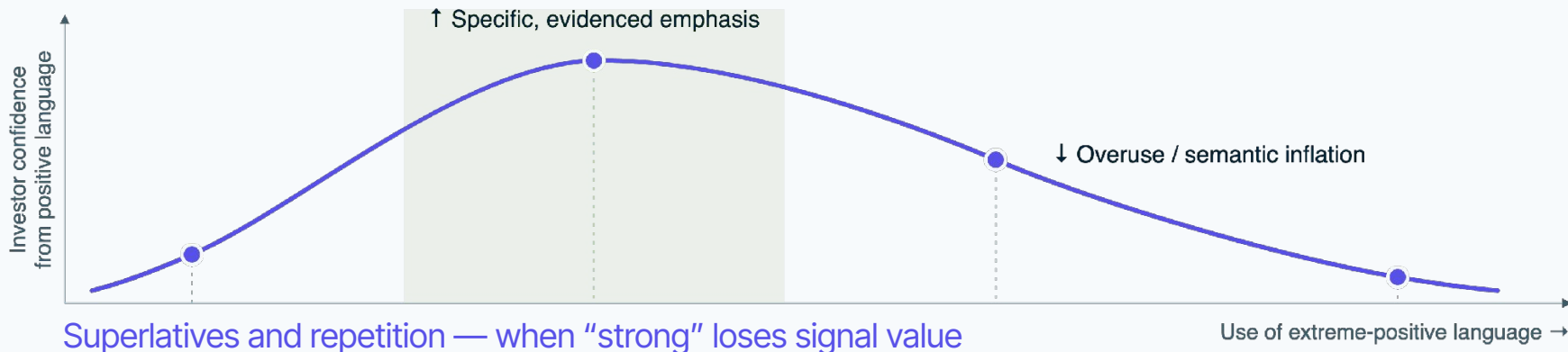
~40 bps of market impact

Word Choice: Same meaning, different signal

Why similar words can produce very different sentiment

INSTEAD OF THIS	CONSIDER THIS	WHY IT MATTERS
Problem	Constraint	Problem sounds broad and unresolved. Constraint is more operational: it identifies a limiting factor that can be managed, mitigated, or removed.
Complicated	Multifaceted	Complicated often suggests avoidable friction, confusion, or too many moving parts. Multifaceted acknowledges several drivers while preserving a sense of analytical order.
Volatile	Variable	Volatile implies instability and potentially uncontrollable swings. Variable is more neutral and describes movement within an expected range.

Word Choice: The credibility curve



01 Underemphasis

Neutral language despite clearly favorable evidence.

02 Productive emphasis

A few strong claims, tied to specific metrics and comparisons.

03 Saturation

“Strong” and “record” recur across unrelated topics.

04 Inflation / reactance

Every result and initiative is characterized as exceptional.

If everything is “strong,” nothing is strong. Reserve superlatives for the few results that are both material and externally verifiable.

Repetition: Should build recall, not substitute for evidence

Less Effective

"We saw strong demand, strong execution, strong margins, and a strong outlook."

"We delivered record results and are very excited about our record opportunities."

More Effective

"Demand remains healthy in our priority accounts; the operating focus is converting it into revenue more predictably; and our full-year outlook assumes improvement beginning in the second half."

"We reached a record \$X backlog, but the relevant issue is conversion — we expect roughly Y% to convert within 12 months, subject to the capacity milestones discussed today."

Repeat the message architecture, not the adjectives: thesis → evidence → implication → next proofpoint.

Clarity: The sweet spot

With narrative complexity too simple erodes credibility, too complex reads as evasion.

Too Complex

"The margin outcome **reflects a transitory confluence** of variable cost absorption, mix-related headwinds, and targeted investments intended to **preserve strategic optionality** as we **reposition the operating model** for a more durable, higher-quality growth algorithm."

Sentence length (30+), complexity

The Sweet Spot

"Revenue **was affected by** the timing of a small number of customer implementations near quarter-end. The underlying **customer commitments remain intact**, and the impact is primarily one of revenue-recognition timing rather than a change in demand. We expect **roughly 80% of that delayed revenue** to be recognized in the **third quarter** in second half of year."

Optimal processing length, quantified & contained

Who Speaks Matters: Role Ownership Shapes Investor Interpretation

In Q&A, investors are not only evaluating what is said. They are also evaluating who was needed to say it.

CEO	Strategy, choices, competitive position, path forward	→ Does leadership own the problem and the response?
CFO	Financial drivers, assumptions, guidance, risk	→ Does management understand and control the numbers?
Operating / Business Leader	Execution, customers, capacity, remediation	→ Is the person closest to the issue actually in command of it?

The signal changes when ownership changes: When the expected owner is bypassed, corrected, or repeatedly substituted for, investors can infer gaps in information access, decision authority, or organizational alignment.

Role-Ownership Drift Can Create an Unintended Credibility Discount

Observed Q&A behavior	Possible signal “between the lines”	Better response architecture
CEO & detailed financials: detailed gross-margin, cash-flow, or guidance questions	CFO may not fully own the model, forecast, or investor narrative	CFO leads the bridge; CEO explains strategic implications
CFO & core strategy: answers competitive positioning or long-term strategic questions	Strategy may be finance-led, underdeveloped, or insufficiently CEO-owned	CEO leads the strategic thesis; CFO confirms economics and guardrails
Excessive hand-offs: Difficult question is repeatedly handed off	Ambiguous accountability or avoidance	Designate one accountable executive to open and close the answer
Qualitative bias: Management avoids quantification on a normally measurable issue	Limited visibility, fragile assumptions, or reluctance to establish a benchmark	State available metrics, assumptions, cadence, and next proofpoint

Key Takeaways

KEY TAKEAWAY

Most interpretation losses are unforced errors.

The fix is within your control before the next call. Focus on preventing self-inflicted messaging mistakes rather than attempting complex strategic maneuvers.



"Amateur tennis is not a game of winning points; it is a game of losing points."

Charles Ellis

Winning the Loser's Game

Key Takeaways

What should survive the next 35 minutes of compression

- 01 The market prices what survives, not what you say.**
Every quarter gets compressed by analysts, algorithms, and headlines. Your job is deciding what makes it through.
- 02 Communication is a lever you control without changing the fundamentals.**
Clearer companies are easier to model, compare, and own.
- 03 You are the company's most frequent interpreter.**
These principles apply to your one-on-ones, NDRs, and conference chats, not only the scripted call.

Three things to do before your next call

01 Write The 20- Word Text

Agree as a team on the one sentence that fairly represents the quarter, including the caveat that must survive.

02 Read the first 90 seconds aloud and count.

Tally "record" and "strong."
Flag any sentence over 25 words. Fix both.

03 Answer the short thesis before it's asked.

Write the bear case in one sentence, find the unresolved question underneath it, and assign one owner in Q&A.



Connect with Me!



Kathleen Perley

Founder and CEO, Adair · Professor, Rice University

A Fulbright linguist quantifying how a company's words move its stock.

Kathleen's team at Adair applies computational linguistics to capital market communication, measuring the distance between what executives say and what the market actually hears. She is a linguist, Fulbright Scholar, technologist and applied AI expert. Before Adair, she founded and exited DECODE. She is the author of "AI Made Simple, Results Made Real" and teaches generative AI and AI strategy at Rice University's graduate and undergraduate business school in Houston, Texas.

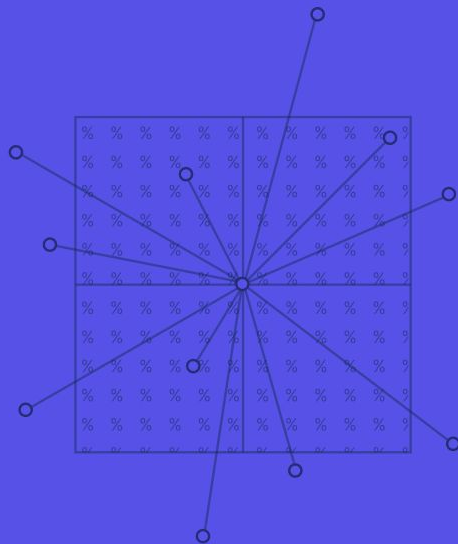
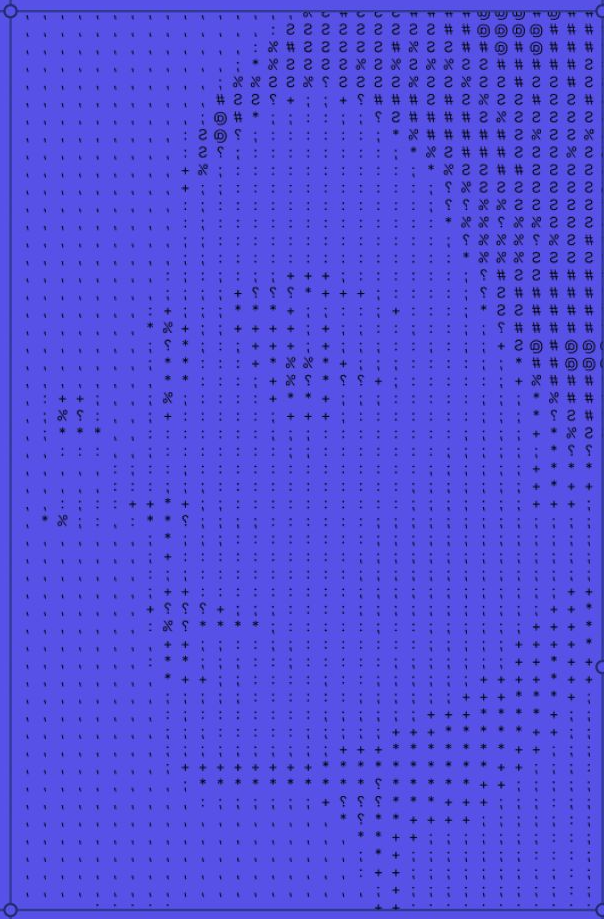
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Resources



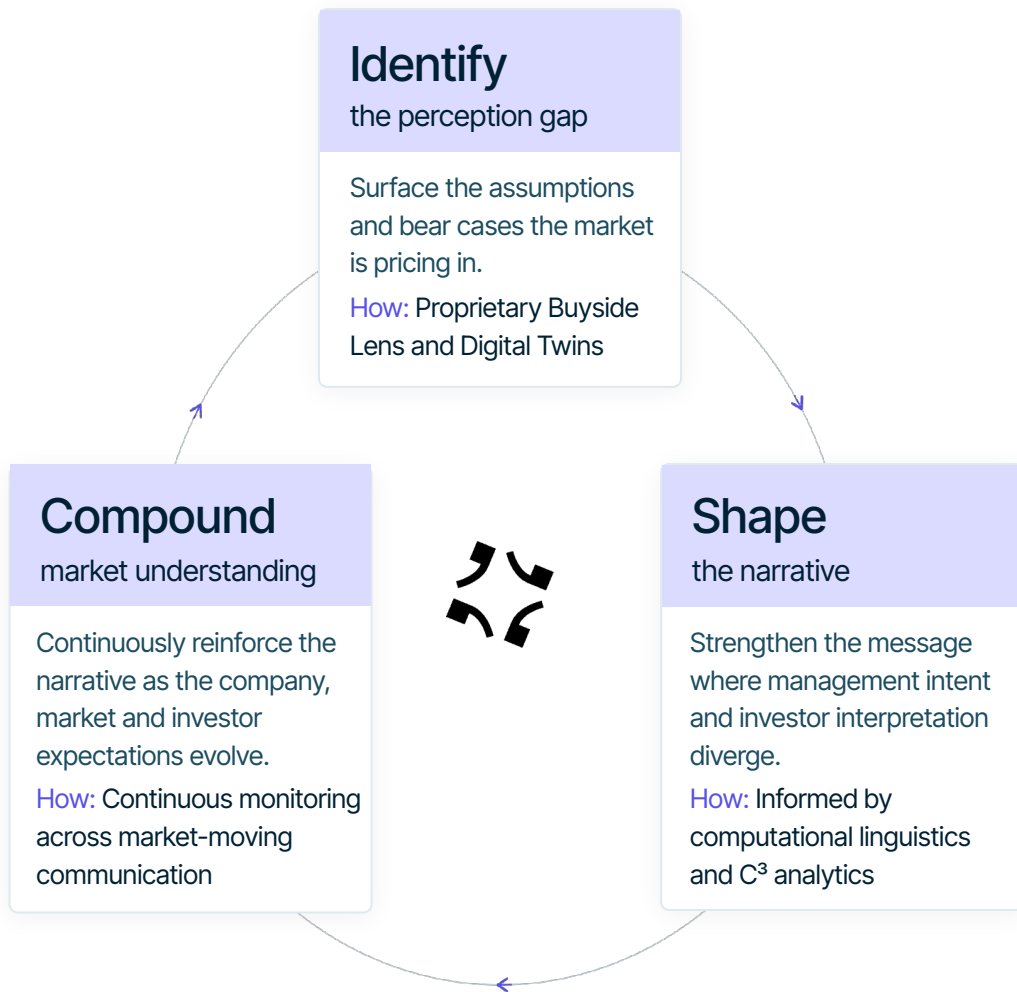
Thank you!



About Adair

The Adair Platform

- Combines machine intelligence with capital markets judgment to give management an outside-in view of what investors understand
- Identifies where the story breaks down, and what to improve so strong performance earns the market credit it should.
- Measures how executive communication is interpreted by the market and strengthens it before it moves the stock.



Stock value premium earned



+17%

Stock increase on earnings — highest in 10+ years

~\$400M

Communication-attributed premium
(2 week relative average)

CASE STUDY

Industrials client \$8B market cap

PREVIOUSLY

- Credibility concerns
- Distrust in guidance philosophy
- Activist engagement
- Vague on timing
- High dispersion, difficult to model

WITH ADAIR

- +17% Stock movement, highest in 10+ years
- Management team praised for improved clarity and modelability
- IR team shared Adair validated clarity and word-count improvements he had advocated for over several quarters
- Activist position reduced

THE QUARTER

Mixed quarter results with full-year guide down, but strong revenue and orders. Expected stock performance: +/-2%. Instead, the stock increased 17% and has held that premium relative to peers for a month.