

# Strategic Nondisclosure and Market Feedback\*

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## Abstract

Classical disclosure theories argue that firms that are perceived to strategically withhold information suffer from negative capital market consequences. We revisit this prediction for the case of managerial CAPEX guidance, a disclosure item which recent studies have associated with a firm's desire to stimulate market feedback. Our results indicate that the perception of nondisclosure of CAPEX guidance being strategic is not associated with differences in abnormal returns. Investors still seem to take notice by asking more CAPEX-related questions in conference calls, and by reducing their extent of informed trading. In addition, strategically nondisclosing firms rely less on their own market price, more on internal information, and more on information incorporated in *peer* market prices in guiding their investment decision. Our results provide new insights on the association of strategic nondisclosure, market feedback, and firm outcomes.

**Keywords:** Voluntary Disclosure, Feedback Disclosure, Unexpected Nondisclosure, Informed Trading, Real Effects

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# 1 Introduction

The absence of news often contains important information. Indeed, classical disclosure theories argue that firms that do not disclose information voluntarily suffer from negative capital market consequences, as investors rationally infer that ‘silent’ firms are more likely to strategically withhold bad information.<sup>1</sup> Central to this argument is a firm’s desire to increase its short-term valuation in the market when making the decision to disclose or withhold information. In addition to such a ‘valuation motive’, however, the recent literature has identified another objective of voluntary disclosure: to elicit market feedback. Disclosure of corporate information represents a two-way flow of information as it influences firm-outsiders’ (e.g., informed investors or analysts) information acquisition and revelation strategies (e.g., trading behavior or analysts’ reports), ultimately affecting what the manager can learn from them (Goldstein and Yang, 2017). Specifically, Jayaraman and Wu (2020) and Fox et al. (2021) show that voluntary disclosure in the form of managerial capital expenditure (CAPEX) forecasts elicits the market’s view on firms’ investment plans, which the firms subsequently take into account when making actual investment decisions. Put differently, firms seem to use voluntary CAPEX forecasts as a tool to stimulate market feedback.

The desire to receive market feedback does not necessarily coincide with an immediate valuation motive, which has been extensively studied for earnings guidance.<sup>2</sup> Therefore, if the extant disclosure theories’ assumption of a valuation motive does not apply to managerial CAPEX guidance, what is the consequence of strategically withholding such ‘feedback-stimulating’ information? In this paper we bridge the discretionary disclosure and the so-called feedback literature, by highlighting the associated financial and real consequences for firms that strategically withhold feedback-stimulating information.

While theoretically sound, empirically identifying *strategically* withholding firms is chal-

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<sup>1</sup>Among others, see Grossman and Hart (1980), Grossman (1981), Verrecchia (1983), Dye (1985), or Jung and Kwon (1988).

<sup>2</sup>See, among other, Lev and Penman (1990), Houston et al. (2010), Chen et al. (2011), and Zhou and Zhou (2020).

lenging as one cannot observe all determinants of firms’ disclosure decisions. Our empirical strategy is to identify firms where the market arguably *expected* a CAPEX guidance to be released. This approach follows an intuitive observation illustrated in the tale of ‘the dog that did not bark’.<sup>3</sup> Only because we *expect* a watchdog to bark if a stranger is stealing the item it is guarding, a *silent* dog is informative about the thief’s identity. Applied to our setting, we study consequences of strategic nondisclosure by comparing nondisclosing firms where the market was *expecting a disclosure* to occur with those where the market had no such expectations. In particular, for each nondisclosing firm in each quarter, we use two proxies for the market’s disclosure expectation. Our first proxy is based on a focal firm’s past CAPEX disclosing behavior as contemporaneous disclosure decisions are affected by prior disclosure activities (in line with, e.g., Houston et al., 2010, Allee et al., 2021, Bertomeu et al., 2022). We calculate the *history of CAPEX guidance* as the percentage of guiding quarters relative to all firm-quarters once the firm started to provide CAPEX guidance. In addition, we estimate the probability that a given firm is voluntarily disclosing CAPEX forecasts in a quarter using observable disclosure determinants in a Logit Model. The estimated likelihood of disclosure forms our second proxy for the market’s disclosure expectation.<sup>4</sup> By comparing outcomes for unexpectedly and expectedly withholding firms in the cross-section, we aim to capture the information content of what investors may perceive as *strategic* nondisclosure.

Understanding the consequence of strategic nondisclosure of CAPEX guidance is crucial for at least three reasons. First, the fundamental implication of the feedback effect literature is that financial markets are not a side show, but have real effects (Bond et al., 2012). Therefore, it is intuitive to expect that the consequences of strategically withholding feedback-stimulating information exceed pure financial market outcomes and affect firms’ real decisions. Second, as we demonstrate later, the market’s disclosure expectation and the interpretation of nondisclosure hinges on a focal firm’s own past disclosing behavior and its peers’ disclosure activities. Therefore, while Jayaraman and Wu (2020) and

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<sup>3</sup>See ‘The Adventures of Silver Blaze’ in Doyle (1992).

<sup>4</sup>In support for this proxy, the mean (median) value of *CAPEX Disclosure Prediction* in non-disclosing quarters is 0.116 (0.048) and 0.609 (0.716) when firms provide CAPEX guidance.

Fox et al. (2021) show the benefits of CAPEX guidance for disclosing firms, it also affects the market’s perception of nondisclosure. Consequently, voluntary disclosure may create an externality which is crucial for judging the desirability of such reporting activities from a policy perspective (Leuz and Wysocki, 2016 and Roychowdhury et al., 2019). Finally, a substantial number of firms in our sample can be classified as ‘sometimes disclosures’, making the strategic aspect of nondisclosure particularly relevant to study.<sup>5</sup>

Fundamentally, the market feedback literature is all about the interdependence between how firm actions affect and are affected by information aggregated in financial markets. In the case of this study this implies that the manager’s decision to withhold CAPEX guidance affects traders’ incentives to acquire and trade on private information. In turn, traders’ information gets impounded in market prices, which affects managerial learning and ultimately their investment-making. To organize our investigation we proceed in two steps. First, we investigate what we label the ‘market view’, where we analyze how market participants react to the observation that a firm *unexpectedly* withholds CAPEX guidance. To be clear, in our analyses, we compare outcomes for unexpectedly and routinely withholding firms in the cross-section in an effort to capture the information content of what investors may perceive as *strategic* nondisclosure.<sup>6</sup> In the second step, we focus on the ‘firm view’, where we compare unexpectedly and routinely withholding firms to understand the association between strategic nondisclosure of CAPEX guidance, market feedback, and investment-making.

We investigate a sample of 5,322 firms (120,920 year-quarters) over the period from 2004 to 2019, where we observe whether a firm is providing managerial CAPEX forecasts. Before

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<sup>5</sup>In our full sample of CAPEX disclosing and non-disclosing firm-quarters, 77% make up the latter. While 42% of firms that begin disclosing CAPEX guidance continue to do so in every subsequent quarter, the remainder of firms has a reporting break, that is, stop providing guidance in one of the subsequent quarters. In a similar vein, Bertomeu et al. (2022) find that 80% of public firms in the US strategically disclose or withhold earnings guidance.

<sup>6</sup>Note, however, that this is not the relevant comparison for a firm deciding whether to disclose or withhold CAPEX guidance. At a given point in time, a firm cannot affect how nondisclosure would be interpreted by the market, as investors’ perception arguably depends on the firm’s disclosure history, the contemporaneous information environment, and other disclosure determinants. These factors are largely exogenous for the focal firm at the time of the disclosure decision. Therefore, the relevant comparison is between nondisclosure (given the market’s likely interpretation of it) and disclosure based on the information that the firm intends to reveal.

analyzing the market and firm view, we document that a firm’s decision to disclose CAPEX guidance is strongly associated with its general information environment. In particular, a firm is significantly more likely to provide CAPEX guidance if it frequently did so in the past, if it is disclosing earnings per share (EPS) forecasts, if it has high analysts following, and if its peers also disclose CAPEX guidance.<sup>7</sup> For instance, having provided CAPEX guidance in the previous quarter is associated with an increase in the likelihood of disclosure in the current quarter by 59%.

Our first set of analyses concerns the market view, where we investigate capital market consequences of *strategic* nondisclosure. What capital market effects can be expected upon the strategic nondisclosure of CAPEX guidance? Classical disclosure theory would predict negative valuation implications, as market participants anticipate that the firm may have withheld bad valuation information. In contrast, we find that the abnormal returns over the nondisclosing quarter do not significantly differ between firms with different disclosure expectations,<sup>8</sup> validating the implications of Jayaraman and Wu (2020) and Fox et al. (2021) that CAPEX guidance is likely not driven by valuation, but rather by feedback motives. Is it possible that investors do not take notice of, what we perceive to be, strategic nondisclosure of CAPEX guidance?<sup>9</sup> This seems unlikely as we find that investor questions in quarterly conference calls contain significantly more CAPEX-related mentions for strategically relative to routinely nondisclosing firms. In particular, nondisclosing firms are 12% (4%) more likely to have CAPEX-related questions with a one standard deviation increase in its history (prediction) to disclose CAPEX guidance, relative to the sample mean.

The more recent literature directly considers a feedback motive of disclosure, which implies

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<sup>7</sup>These findings are generally in line with Bertomeu et al. (2022) and Seo (2021), showing that the decision to disclose *EPS guidance* depends on a firm’s past disclosure decision and the decision of its peers.

<sup>8</sup>To strengthen the validity of our empirical strategy, we estimate a focal firm’s expectation to disclose earnings per share (EPS) guidance, a widely studied disclosure item arguably associated with a valuation motive. In line with classical theories’ predictions and prior studies (e.g., Lev and Penman, 1990, Houston et al., 2010, Chen et al., 2011, and Zhou and Zhou, 2020), strategic nondisclosure of EPS guidance is associated with negative valuation implication as indicated by significantly lower abnormal returns for strategically relative to routinely withholding firms.

<sup>9</sup>Indeed, the results by Zhou and Zhou (2020) imply that investors do not fully incorporate the implications of the strategic withholding of earnings guidance.

that managers want to stimulate informed trading with their disclosure decision, which, ultimately, helps them to learn from market prices. Jayaraman and Wu (2020) and Fox et al. (2021) highlight increases in managerial learning upon CAPEX guidance, making the case for CAPEX guidance ‘crowding in’ informed trading. However, as the decision to disclose CAPEX guidance is voluntary, the empirical results may reflect a selection effect, where only managers who expect their disclosure to crowd-in informed trading choose to disclose. In line with this argument, the theory by Lassak (2022) builds upon the assumption that the manager’s private information generally may crowd-in or crowd-out informed trading by investors. In equilibrium, a feedback-interested manager discloses her private information (such as CAPEX guidance) if it stimulates informed trading and strengthens its ability to learn from the market. In contrast, if the manager expects that disclosure would crowd-out informed trading by destroying trading gains for informed speculators, she strategically withholds her private information. After nondisclosure, speculators realize that the firm may have withheld information promising only small gains from informed trading. Thus, the theory predicts that strategically withholding firms should have lower measures of informed trading compared to routinely nondisclosing ones.<sup>10</sup>

Alternatively, to the extent that firms may withhold CAPEX guidance whenever they are associated with high proprietary costs, e.g., by reflecting innovative ideas or new business ventures (Zhang, 2023), strategic nondisclosure may increase the uncertainty about the firms’ future value. As a consequence, potential gains from information acquisition are elevated, predicting higher informed trading measures for strategically withholding firms (e.g., Grossman and Stiglitz, 1980 and Verrecchia, 1982).

Following these opposing predictions on informed trading, we investigate differences in nondisclosing firms’ stock price non-synchronicity (SNS) (e.g., Roll, 1988 and Morck et al., 2000) and probability of informed trading (PIN) (e.g., Easley et al., 1996 and Brown

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<sup>10</sup>At first, our previous result on conference call questions may seem to go against this argument. Asking more CAPEX-related questions in conference calls reflects more information acquisition by investors, however, not in the dimension that would be likely new to managers (Goldstein and Yang, 2019), who arguably should know their future investment strategy. Indeed, by asking the manager more questions, investors are likely acquiring less information that may be truly new to managers (e.g., the future competitive situation of the firm’s industry).

et al., 2004), two widely used measures of informed trading. We document significantly less informed trading in quarters of withholding firms with a high expectation of disclosure. In sum, our market view findings suggest that strategic nondisclosure of CAPEX guidance has no systematic valuation implications, and that the disclosure decision is unlikely to be primarily driven by a valuation motive. However, while there is no pricing impact, investors still seem to take note of the unexpected absence of disclosure by adjusting their information acquisitions and trading strategies. In particular, lower level of informed trading measures implies that strategically CAPEX-withholding firms are in a worse position to learn from the market, which we will investigate further in our firm view analyses.

Turning to the ‘firm view’, we document two significant differences in investment-making and learning between strategically and routinely nondisclosing firms. First, lining up with our results on SNS and PIN, strategically withholding firms have significantly lower sensitivities of future investment to current stock market valuation ( $q$ ), a commonly used measure suggesting managerial learning from stock prices (e.g., Chen et al., 2007 and Edmans et al., 2017). In particular, the investment- $q$  sensitivity of nondisclosing firms is 13% lower for one standard deviation increase in the prediction to provide CAPEX guidance.

Second, while firms in strategically withholding quarters learn less from their own stock price, we find that they are using two alternative information sources more intensively in guiding their future investments. We find a higher reliance on internal profitability information as measured by a higher investment-cash-flow-sensitivity (Alti, 2003, Heitzman and Huang, 2019, and Goldstein et al., 2023). In addition, we document a higher sensitivity of investment to peers’ average stock market valuation ( $q$ ) for nondisclosing firms in quarters with high disclosure expectations, especially if peers provided a lot of CAPEX guidance themselves. These results suggest that strategically withholding firms rely more on alternative information sources when making future investment decisions and less on information incorporated in their own stock price

All of our results are robust to using our two disclosure expectation proxies, standard control variables being associated with the respective outcome variables,<sup>11</sup> as well as, industry, and year-quarter fixed effects. As a firm’s CAPEX guidance decision is not random, we perceive that two intertwined mechanisms may explain our joint market and firm view findings. First, a firm may trade off the potential benefit of market feedback upon the disclosure of ‘feedback-stimulating’ information (such as CAPEX forecasts) against potential costs of doing so (e.g., because of proprietary costs Zhang, 2023). Therefore, a firm may choose to forego the opportunity to receive market feedback upon on its *own* CAPEX guidance, if it can substitute it with insightful internal profitability signals and information generated by peers. Based on this view, the availability and quality of alternative information sources determines whether a firm strategically withholds CAPEX guidance.

However, a related relationship is also plausible. Lassak (2022) argues that a firm will disclose or withhold CAPEX guidance depending on which decision leads to more informed trading. Extending this logic, the strategically withholding firm considers alternative information sources precisely because it learns only a little from its own stock price. Based on this mechanism, the driving force of the disclosure decision is the firm’s expectation about how informed trading will be affected by the disclosure of its CAPEX intentions.

We perceive it to be likely that both mechanisms are at play simultaneously and interact with each other. In particular, while the first mechanism ignores the firm’s consideration on how disclosure of its private information will affect informed trading, the latter argument abstracts away from the role of alternative information sources for the disclosure decision. We argue that both considerations should matter for a firm’s disclosure decision. Highlighting associations of strategic withholding of feedback-stimulating information enhances our understanding related to three strands of the literature which we elaborate on in the next section.

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<sup>11</sup>For instance, our tests on abnormal returns control for size, inverse price, return volatility, turnover, and analyst following. See Section 4.2 for details.

## 2 Relation to the literature

Our results contribute to the literature on discretionary disclosure, especially related to the information content of nondisclosure. The literature has identified several reasons why firms provide information voluntarily to the market as surveyed by Beyer et al. (2010). However, to the best of our knowledge, studies on the consequences of *strategic nondisclosure* focus exclusively on a valuation motive (see, e.g., Lev and Penman, 1990, Chen et al., 2011, Houston et al., 2010, and Zhou and Zhou, 2020). Our analysis is based on CAPEX guidance, a disclosure item which has been shown to be mainly driven by with a firm’s desire to stimulate market feedback (Jayaraman and Wu, 2020 and Fox et al., 2021), as opposed to affect its short-term valuation. Therefore, our study provides novel insights about the consequences of a strategic withholding of feedback-stimulating information. Methodologically, we contribute to the discretionary disclosure literature by identifying a strategically withholding firm using two proxies for the market’s expectation of disclosure: its prior disclosing behavior and a formally estimated likelihood of disclosure.

In addition, our study contributes to the feedback literature and how it is affected by corporate information provision (see the surveys Bond et al., 2012, Goldstein and Yang, 2017, and Goldstein, 2023). There is mounting evidence that firms’ learning from firm outsiders depends on voluntary disclosing activities (Jayaraman and Wu, 2020, Bae et al., 2022, and Fox et al., 2021), its reporting quality (Biddle et al., 2009), disclosure mandates (Jayaraman and Wu, 2019, Kim et al., 2022 and Pinto, 2023),<sup>12</sup> and the accessibility of corporate information (Bird et al., 2021, Goldstein et al., 2023, and Godsell et al., 2023). Our study adds the insight that the strength of the feedback effect for nondisclosing firms depends on the market’s perception upon silence. Nondisclosure of CAPEX guidance that is perceived to be strategic is associated with a significantly weaker feedback effect, resulting in capital market and real consequences. Interestingly, we document that strategically

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<sup>12</sup>These papers focus on the impact of disclosure mandates on the feedback effect. To some extent, however, they also contain some insights on nondisclosing firms, as the analyses center around firms which chose to withhold information prior to the specific mandate studied. Thus, these papers highlight the difference between voluntarily nondisclosing and mandatorily disclosing firms, while our focus is on nondisclosing firms with varying disclosure expectations.

withholding firms reduce the reliance on the information in their own stock price while increasing the reliance on peer information and other internal information (Goldstein et al., 2023).

Finally, we contribute to the large literature on spillover effects and externalities of voluntary disclosure (see the surveys by Beyer et al., 2010 and Leuz and Wysocki, 2016). There is substantial evidence of *direct* spillover effects, where a firm’s disclosure activity affects other firms’ financial outcomes (e.g., Shroff et al., 2017 and Kim and Ljungqvist, 2021), disclosure decisions (e.g., Cho et al., 2020 and Breuer et al., 2022), real activities (e.g., Durnev and Mangen, 2020 and Zhang, 2023) or market feedback (Aaron et al., 2022). While our results on the usage of peer information in Section 5.3 features a similar direct spillover effect, our main contribution for this literature is to empirically identify an externality of voluntary disclosure operating *indirectly* through changes in the interpretation of nondisclosure. Voluntary disclosure today may send a precedent to the market that disclosure would continue in the future (Graham et al., 2005 and Grubb, 2011). A potential decision to withhold information in the future will be perceived differently than without the current disclosure, creating an externality of today’s information release. We highlight substantial real effects of such an externality for the case of CAPEX guidance. In addition, Bertomeu et al. (2022) emphasize the importance of dynamic considerations for understanding disclosure patterns. We add the insight that the market’s interpretation and the consequences of nondisclosure depend on all disclosure determinants, not just a focal firm’s past disclosing behavior. This gives rise to novel externalities of peer disclosure, analyst following, and the disclosure decision of other disclosure items (such as EPS guidance).

### 3 Empirical Implementation, Data, and Sample

#### 3.1 Empirical Strategy

Prior empirical work points to the *feedback-eliciting* role of CAPEX forecasts (Jayaraman and Wu, 2019, Bae et al., 2022, Fox et al., 2021), which frames the focus of this

paper. However, we focus on firms that *do not* disclose managerial CAPEX guidance to understand how the withholding of such information affects the feedback channel. The goal of this paper is to investigate the association between *strategic nondisclosure* and the feedback effect. Identifying firms that strategically withhold CAPEX guidance presents a significant challenge, as it requires understanding and observing all possible factors that influence a firm’s decision to disclose or withhold such information. However, market participants face the same challenge of interpreting such ‘no news’. Therefore, our empirical strategy to identify the effects of *strategic nondisclosure* is to compare withholding firms where the market arguably expected a disclosure to occur with those where the market did not expect a disclosure.

We use two proxies to capture the expectation that a firm is issuing CAPEX guidance in a given quarter. Our first disclosure expectation proxy is based on a firm’s past CAPEX guidance behavior. The results by Houston et al. (2010), Allee et al. (2021), Bertomeu et al. (2022) indicate that contemporaneous disclosure decisions are affected by past disclosing activities.<sup>13</sup> If a firm provided guidance in a substantial fraction of previous quarters, it is reasonable to assume that market participants would also expect a disclosure in the given quarter. Our second disclosure expectation proxy intends to capture disclosure determinants more systematically. In particular, we estimate the probability that a firm issues CAPEX guidance using a logistic regression. A higher estimated probability of disclosure when nondisclosure is observed is an indication that the nondisclosure is unexpected, and, in our interpretation, likely to involve a strategic element. We describe the construction of our measures in more detail below after we introduce the data.

### 3.2 Data and Sample

To construct our variables and sample, we obtain data from several sources. We collect information on annual CAPEX forecasts from I/B/E/S Guidance for quarters in 2004

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<sup>13</sup>Our findings on disclosure breaks (See Table 3) support significant variation in firms’ decision to give CAPEX guidance.

through 2019.<sup>14</sup> To define the set of disclosure events, we select annual CAPEX guidance where the forecasting year equals the target year of the forecast (see Bae et al., 2022). Our goal is to identify disclosures that are aimed at stimulating market feedback. Forecasts for the current year and imminent actions are more likely to be issued to obtain market feedback than for periods more than a year away.

We combine the I/B/E/S Guidance universe and our constructed disclosure variables with the sample of U.S. firms that have available information on their product market peers (e.g., Aaron et al., 2022; Kim and Ljungqvist, 2021).<sup>15</sup> Financial information comes from Compustat, stock price and return data from CRSP, analyst following from I/B/E/S Guidance, and the Probability of Informed Trading (*PIN*) by Easley et al. (1996), estimated and made available by Brown and Hillegeist (2007). Furthermore, for a subset of firms, we obtain and analyze their conference call transcripts regarding the existence and the frequency of CAPEX-related mentions (i.e., keyword search for ‘CAPEX’ and ‘capital expenditure(s)’) in both the management presentation section and in the questions from external participants.<sup>16</sup> Following prior literature, we exclude firms in financial industries (SIC code 6000-6999), utilities industries (SIC 4000-4999), firm-quarter observations with less than \$10 million in book value of assets (Chen et al., 2007, Bae et al., 2022, Fox et al., 2021), and observations that contain missing values for variables that are used in our subsequent analyses.

Our full sample consists of 120,920 firm-quarter observations for 5,322 unique firms. Nondisclosure accounts for approximately 80% of firm-quarter observations in our sample.<sup>17</sup> We refer to a firm which is (not) disclosing a CAPEX forecast in a given quarter

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<sup>14</sup>We choose 2004 as starting year, because the data coverage of CAPEX forecasts shows a significant increase from 2003 to 2004 with an increasing but relatively stable frequency from 2004 onward.

<sup>15</sup>The Hoberg and Phillips (2016) Text-based Network Industry Classifications (TNIC) matrix provides a product-market similarity score using firms’ product descriptions in 10-K filings for every pair of Compustat firms, which is updated annually and time-varying. We take the annual definition of peers and break it down to quarters because our main tests are at the firm-quarter level.

<sup>16</sup>The data on conference calls is limited to a subset of firms (we are working on extending the sample for the next version). The data on PIN is limited to the years 2004-2010 (made available by Brown and Hillegeist (2007)). Therefore, our sample size is reduced in the respective analyses.

<sup>17</sup>If firms are covered by the TNIC matrix with available data in Compustat and CRSP but are not covered by I/B/E/S Guidance, we set CAPEX forecasts and earnings forecasts to zero. Including these firms as nondisclosers increases the number of observations of nondisclosing quarters. However, we see

as a discloser (nondiscloser). Therefore, a single firm may alternate between being a discloser and nondiscloser in our description, forming the basis of our empirical proxies for the disclosure expectation.

In particular, for a given firm-quarter, we calculate the percentage of prior quarters in which the focal firm issued annual CAPEX guidance, starting with the first quarter observation of guidance (*CAPEX Disclosure History*). For estimating the *CAPEX Disclosure Prediction*, we use the full sample of disclosure and nondisclosure firm-quarters. We consider the following determinants for our estimation model as discussed in prior studies (see e.g., Lu and Tucker, 2012). Bustamante and Frésard (2020) indicate that CAPEX spending is correlated within industries and Seo (2021) shows a positive within-industry correlation of disclosing earnings forecasts. Therefore, we include the percentage of product market peers which issued CAPEX guidance in the previous quarter as a disclosure predictor for the focal firm-quarter (*Peer CAPEX Disclosure<sub>t-1</sub>*). Disclosing CAPEX guidance is likely associated with providing other information voluntarily to the public. Therefore, we include a dummy whether a firm provided earnings guidance in the previous quarter (*EPS Disclosure<sub>t-1</sub>*).

We include an indicator variable, *CAPEX Decline*, that equals to one if firms' capital expenditures are less than in the prior quarter. A decrease in CAPEX does not necessarily imply poorer performance, but may require extra explanation as it could be indicative of decreases in investment opportunities. Next, *CAPEX Intensity* suggests a high importance of CAPEX and availability of information to provide guidance. While *CAPEX Volatility* may complicate the issuance of forward-looking information, it may also emphasize the need to provide additional explanations. We further include the Herfindahl index, *HHI*, to account for the competitiveness of firms' operating environment. Higher competition may deter or encourage the disclosure of proprietary information in form of CAPEX

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this approach as more conservative and should, if anything, work against our findings. We hypothesize that peer disclosure and/or a firm's prior disclosures raise the markets' disclosure expectation and is the driver behind our documented market view results. These 'never-disclosers' should therefore attenuate our findings. Indeed, our results are robust to excluding firms not covered by I/B/E/S Guidance and even become more significant.

guidance (Zhang, 2023). Finally, *Analyst Following* and *Size* are determinants of demand for corporate transparency and should be correlated with the decision to issue CAPEX guidance.

[Insert Table 1 about here.]

Panel A of Table 1 reports summary statistics of our disclosure determinant variables, while Panel B depicts the estimation results of our disclosure prediction models. The decision to issue CAPEX guidance is negatively associated with a decline in CAPEX and volatile investment-making, while positively associated with CAPEX intensity, analyst following, size, the issuance of previous CAPEX guidance, peer CAPEX disclosure, and own EPS guidance. The results are largely consistent across our four specifications varying in the estimation model and fixed effect structures. Our estimation is generally successful in predicting the decision to provide CAPEX guidance. Indeed, based on model (2), the average predicted likelihood of disclosure is 11.6% for nondisclosers while 60.9% for disclosers. In subsequent analyses we utilize the estimated likelihood of disclosure of model (2) as our second proxy for the market’s disclosure expectation. Note, in our main analysis we focus exclusively on nondisclosing-quarters (71,820 firm-quarter observations for 4,197 unique firms), but differentiate according to the expectation of disclosure.

### 3.3 Summary Statistics

Table 2 presents the descriptive statistics of the main variables in our analyses for nondisclosing firm-quarters. We start with describing various disclosure variables. The average *CAPEX Disclosure History* is 0.097, indicating that a nondisclosing firm in a given quarter has on average provided CAPEX guidance in 9.7% of all prior quarters in the sample. A nondisclosing firm’s estimated likelihood of issuing guidance in a given quarter (*CAPEX Disclosure Prediction*) is 11% on average. 18.7% of firms are issuing earnings guidance (*EPS Disclosure*) in a CAPEX-nondisclosing quarter. Finally, *CAPEX Q* (*CAPEX P*) indicates that 16.2% (13.3%) of nondisclosing firms’ quarterly conference calls

feature CAPEX-related mentions in the Q&A part (presentation part) of the call.

[Insert Table 2 about here.]

In addition, Table 2 highlights summary statistics of the dependent and control variables used in our analyses. For instance, the nondisclosing firm has cumulative abnormal returns (*CAR*) of about 1.2% over the nondisclosing quarter, has a ratio of investment to total assets of around 4.9% (*INV*), and approximately three analyst following it (*Analyst Following*).<sup>18</sup>

The last set of variables considers the behavior of nondisclosing firms' product market peers. For instance, *Peer CAPEX Disclosure* indicates that, for the average nondisclosing firm-quarter, 16.7% of its product market peers issue CAPEX guidance contemporaneously. Appendix A1 provides further details on the measurement and data sources of each variable.

Table 3 provides further insights about CAPEX (non)guidance practices, especially regarding the dynamics of disclosure decisions. In particular, we identify the number of consecutive nondisclosure quarters (disclosure breaks) after a firm disclosed CAPEX guidance in a given quarter.<sup>19</sup> Once CAPEX guidance is issued in a quarter, 41.6% of firms continue to do so in the next quarter. 14.75% of firms have one, 8.5% have two, and 6.16% have three consecutive nondisclosure quarters. Almost 60% of firms that disclose at least one CAPEX forecasts in our sample have a reporting break, that is, stop providing guidance in one of the subsequent quarters. The average number of consecutive nondisclosures after a disclosing quarter is approximately 2.3 quarters (untabulated). Thus, the average

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<sup>18</sup>While not the primary focus of our paper, a comparison to disclosing firm-quarters may be insightful. Disclosers are on average larger, have more analysts following them, lower return volatility, and higher turnover. In addition, firms providing CAPEX guidance are also more likely to issue EPS forecasts than non-CAPEX guiding firms. Thus, the information environment of CAPEX disclosing firms is generally more transparent.

<sup>19</sup>For instance, suppose a firm disclosed CAPEX forecasts once in our sample, in Q3-2010. The firm will appear in this calculation the first time in Q4-2010, the quarter following the first disclosure quarter. As it did not disclose in Q4-2011, the firm-quarter is counted as having one consecutive non-CAPEX-guidance quarter. In Q1-2012, the number of consecutive non-CAPEX-guidance quarters is two, in Q2-2012 three, and so on.

firm discloses CAPEX forecasts about twice a year.

[Insert Table 3 about here.]

## 4 Nondisclosure of Feedback-Stimulating Information: Market View

### 4.1 Empirical Model

Our goal is to identify the effects of strategic nondisclosure by comparing withholding firms where the market arguably expected a disclosure to occur with those where the market did not expect a disclosure. An advantage of this empirical strategy is that we focus on nondisclosing firms only and do not compare them to disclosing firms, as their underlying economics should be different (Zhou and Zhou, 2020).

We estimate variations of the following ordinary least squares (OLS) regression model for nondisclosing firms:

$$Y_{i,t} = \beta_0 + \beta_1 \text{DisclosureExpectation}_{i,t} + \gamma X_{i,t} + \alpha_i + \lambda_t + \epsilon_{i,t}, \quad (1)$$

Our predictions and respective outcome variables of interest ( $Y_{i,t}$ ) will be outlined in the following sections. However, across our analyses, our main coefficient of interest is  $\beta_1$  representing variation in the expectation of CAPEX guidance for nondisclosing firm-quarters (i.e., *CAPEX Disclosure Prediction* and *CAPEX Disclosure History*). Including  $X_{i,t}$  as a vector of control variables, industry ( $\alpha_i$ ), and year-quarter ( $\lambda_t$ ) fixed effects, the estimated effect is based on within-industry variation in the respective outcome variable.

### 4.2 Abnormal Returns

Classical theories of discretionary disclosure (see, Grossman and Hart, 1980, Grossman, 1981, Verrecchia, 1983, Dye, 1985, Jung and Kwon, 1988, and the large literature that

follows) argue that firms that do not disclose information voluntarily suffer from negative capital market consequences, as investors rationally infer that *silent* firms are more likely to strategically withhold bad information. Implicit in this central prediction of the disclosure literature is the comparison between strategic and nonstrategic nondisclosure. In particular, suppose that there is a ban on voluntary disclosure. Of course, nondisclosure in this case is no news, as every firm withholds information *nonstrategically* due to the disclosure ban, be it good or bad. In contrast, whenever disclosure is voluntary, the manager acts *strategically* and discloses good and tries to withhold bad information. Nondisclosure is substantially worse news in the latter than the first case, as the manager may have deliberately withheld negative information while in the former case any type of information is not disclosed. This observation motivates our empirical approach in analyzing *unexpected* nondisclosure as a proxy for *strategic* nondisclosure.

The empirical literature is generally in line with the negative valuation implications of strategic nondisclosure (see, among others, Lev and Penman, 1990, Houston et al., 2010, Chen et al., 2011, and Zhou and Zhou, 2020), however, for the case of earnings guidance. To what extent does this also apply to CAPEX guidance? In contrast to earnings information, guidance about future investment-making has an ambiguous relation with firm value. Indeed, while higher earnings are always preferable and monotonically increase firm value, the relationship of the investment scale and firm value is likely inverse U-shaped: too low investment levels may reflect under-investment, while a too high scale may represent over-investment; both decreasing firm value.

In addition to the non-monotone relation of investment levels and firm value, a more fundamental issue is the underlying reason why a manager discloses or withholds CAPEX guidance. Classical theories assume a *valuation motive* of disclosure in the sense that the manager discloses her information if she expects a higher price upon disclosure than after nondisclosure.<sup>20</sup> Recent evidence, however, shows that soliciting market feedback can be

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<sup>20</sup>The summary statistics by Jayaraman and Wu (2020) show that, on average, CAPEX guidance disclosure is associated with a negative announcement return. While this is at odds with the implications of classical disclosure theory, this result is only indicative as it is based on simple summary statistics.

an important managerial motive for disclosure for the case of CAPEX guidance (Jayaraman and Wu, 2020 and Fox et al., 2021). Lassak (2022) revisits the insights of classical disclosure theory by studying the discretionary disclosing behavior of a manager whose main motive of disclosure is to stimulate market feedback. In equilibrium, the manager discloses her information if she expects that she will be learning more information upon disclosure than after nondisclosure. While this disclosing behavior has crucial implications for our further tests related to the feedback mechanism (see 4.4 and following section), it is generally silent about direct pricing implications upon strategic nondisclosure. Intuitively, if a manager does not care *directly* about the immediate price response to her disclosure (as she wants to stimulate market feedback instead), strategic nondisclosure should not be perceived by investors to reflect negative *valuation* information.

Therefore, we do not expect to find significant differences in market valuations between strategically and routinely CAPEX-withholding firms. We follow Eq.1 and use quarterly cumulative abnormal returns as outcome variable. Indeed, if investors perceive strategic nondisclosure as a negative *valuation* signal, we would expect to measure significantly lower abnormal returns for strategically than for routinely nondisclosing firms. In addition to examining the effect of our two CAPEX Disclosure Expectation proxies, *CAPEX Disclosure History* and *CAPEX Disclosure History*, we intend to validate our empirical approach to capture strategic nondisclosure by also investigating the association between abnormal returns and strategic nondisclosure of earnings guidance, in line with the above mentioned literature. In particular, we redo the calculation of our disclosure expectation proxies for the case of EPS guidance (*EPS Disclosure Prediction* and *EPS Disclosure History*) . Therefore, for this test, we use the sample where firms do not disclose both CAPEX and EPS guidance.

We include standard control variables being associated with abnormal return: firm size (*Size*), the inverse of the quarter-end stock price (*Inverse Price*), the variability of stock returns (*Return Volatility*), trading activity (*Turnover*), the number of analysts following a firm (*Analyst Following*), the market surprise to quarterly earnings announcements by

the firm in a given quarter (*Earnings Surprise*), and a firm’s history of issuing annual earnings guidance (*EPS Disclosure History*).

[Insert Table 4 about here.]

The results in Table 4 indicate that there is no statistically significant association between quarterly abnormal returns and strategic nondisclosure of *CAPEX guidance*. In contrast, and in line with the empirical literature on *earnings guidance*, there is a statistically negative association between strategic nondisclosure of *EPS guidance* and cumulative abnormal returns. Overall, these findings suggest that investors do not perceive the strategic withholding of CAPEX guidance as a negative valuation signal; in contrast to the strategic withholding of earnings guidance.<sup>21</sup>

### 4.3 Conference Calls

Our previous non-result on abnormal returns indicates that investors do not perceive strategic nondisclosure of CAPEX guidance as a systematically relevant valuation signal. However, it raises the questions whether i) investors actually notice the unexpected withholding of CAPEX guidance, and/or ii) whether our proxies actually capture investors’ CAPEX Disclosure Expectation. To answer these questions, we turn to the content of a firm’s quarterly conference call in the quarter where it withholds CAPEX guidance. In particular, our indicator variable *CAPEX Q* is equal to one if at least one question contains CAPEX-related keywords in the Q&A part of the call, while  $\log(\# \text{ CAPEX } Q)$  captures the natural logarithm of the count of CAPEX-related keywords in the raised questions. If investors and analysts fail to notice strategic nondisclosure or our disclosure expectation proxies are imprecise, we would expect no association between our disclosure expectation measures and the occurrence of CAPEX-related questions in conference calls.

In Section 3, we highlight several firm characteristics being associated with the decision

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<sup>21</sup>Our results when examining the expectation of CAPEX disclosure independently, without considering EPS disclosure expectations, or without limiting the sample to quarters without EPS guidance, confirm that the unexpected absence of CAPEX guidance does not significantly affect firms’ quarterly cumulative abnormal return.

to disclose CAPEX guidance. Arguably, many of these characteristics (e.g., *CAPEX Decline*, *CAPEX Intensity*, etc.) should also be correlated with investors’ and analysts information’ demand, and, ultimately, with the extent of CAPEX-related questions in conference calls. Therefore, we use the same set of control variables as in the analysis on disclosure determinants.

One could expect that conference call questions depend on the insights provided by the firm in the presentation part of the call. Also, to capture for the case that our nondisclosing firms are disclosing CAPEX guidance verbally, we include the indicator variable *CAPEX P* which is one if the firm mentions CAPEX-related topics during the conference call.<sup>22</sup> Including *CAPEX P* as a control variable, therefore, alleviates the concern that CAPEX-related questions are prompted by CAPEX mentions by the firm, independent of our disclosure expectation proxies.

[Insert Table 5 about here.]

Table 5 indicates that nondisclosing firms with high disclosure expectations receive significantly more CAPEX-related questions in quarterly conference calls. These results hold both at the extensive margin (models (1) and (3)), as well as at the intensive margin (models (2) and (4)). In particular, a nondisclosing firm is 12% (4%) more likely to be asked CAPEX-related questions with a one standard deviation increase in its history (prediction) to disclose CAPEX guidance, relative to the sample mean.

These findings suggest that investors, despite no systematic valuation implication, seem to take note of the unexpected absence of disclosure by adjusting their information acquisition strategies in the form of raising more CAPEX-related questions in conference calls.

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<sup>22</sup>Including *CAPEX P* aids alleviating the concern mentioned by Call et al. (2023) and Mayew et al. (2023) who highlight that the I/B/E/S Guidance data set may miss (mostly non-numeric) guidance cases. Their insights raise the possibility that our I/B/E/S-nondisclosing firms are actually providing (potentially verbal) CAPEX guidance which may be picked up by our question variables. To further validate our I/B/E/S Guidance data, we regress *CAPEX P* and  $\log(\# \text{ CAPEX } P)$  on a dummy that is one if the given firm-quarter is classified as nondisclosure, using the full sample of disclosure and nondisclosure firm-quarters. Indeed, being classified as nondisclosure is significantly negatively associated with the extent and amount of CAPEX-mentions by firms in the nondisclosing quarter’s presentation part of the conference call. The results are presented in Table A2.

#### 4.4 Informed Trading

A necessary condition for the feedback effect, where market prices affect corporate investment-making, is that stock prices contain information that is new to corporate managers. While empirically challenging, the literature has predominantly considered measures of informed trading as a proxy for the ‘usefulness’ of the market in informing corporate investment-decision. Indeed, Chen et al. (2007), Bakke and Whited (2010), and the large literature that emerged subsequently, indicate that corporate investment is more sensitive to market prices whenever informed trading measures are elevated. We will therefore consider the association between strategic nondisclosure of CAPEX guidance and two widely used measures of informed trading: nondisclosing firms’ stock price non-synchronicity (SNS) (e.g., Roll, 1988 and Morck et al., 2000) and probability of informed trading (PIN) (e.g., Easley et al., 1996 and Brown et al., 2004).

However, whether we should expect higher or lower informed trading measures for strategically relative to routinely nondisclosing firms is up to debate. A standard deterrent to voluntary disclosure are proprietary costs (Verrecchia, 1983). CAPEX guidance may, among other things, reflect information relevant for expansion plans and new innovative products, creating substantial proprietary costs upon disclosure by informing competitors about the firm’s future business strategy (Bhattacharya and Ritter, 1983 and Zhang, 2023). Despite the potential benefit of market feedback upon disclosure, therefore, a firm manager may withhold CAPEX guidance in an effort not to reveal crucial internal information to competitors. Anticipating such proprietary cost considerations from the *unexpectedly* withholding firm, investors may perceive that the firm likely enters an expansion phase, is about to launch new innovative products, or change its corporate strategy. All of these cases indicate elevated uncertainty about the firm’s future value, making investors’ (private) information acquisition more profitable (e.g., Grossman and Stiglitz, 1980 and Verrecchia, 1982). Consequently, one may expect to find a positive association between informed trading measures and strategic nondisclosure of CAPEX guidance.

Jayaraman and Wu (2020) and Fox et al. (2021) highlight elevated managerial learning

from prices after the disclosure of CAPEX guidance, suggesting a potential positive association between CAPEX guidance and measures of informed trading.<sup>23</sup> However, as the decision to disclose CAPEX guidance is voluntary, the empirical results may reflect a selection effect, as feedback-interested managers would only choose to disclose CAPEX guidance if they would expect a crowding-in of informed trading. Indeed, if a feedback-interested manager expects her disclosure to crowd out informed trading and limit her ability to learn new information from the market, she would rationally withhold her information. This builds upon the assumption that the manager’s private information generally may crowd-in or out informed trading by investors, and suggests that a feedback-interested manager discloses (withholds) her private information if it creates (destroys) incentives for investors’ private information acquisition, stimulates (discourages) informed trading, and, ultimately, strengthens (weakens) the manager’s ability to learn from the market (Lassak, 2022). After nondisclosure, speculators realize that the firm may have withheld information promising only small gains from informed trading. Thus, the theory predicts that strategically withholding firms should have lower measures of informed trading compared to routinely nondisclosing ones. This prediction bears significant relation to the prediction of classical discretionary disclosure models. Indeed, in both cases, investors perceive strategic nondisclosure (relative to routine nondisclosure) as ‘bad news’. Classical disclosure theory assumes a valuation motive, where the manager wants to increase the immediate stock price with her disclosure decision, implying that investors perceive strategic nondisclosure as a negative valuation signal. In contrast, if the disclosure decision is based on feedback considerations, where the manager wants to increase informed trading and her ability to learn from the market with her disclosure decision, strategic nondisclosure is perceived as a negative signal for traders’ potential gains from acquiring information and informed trading. As a consequence, this theory predicts lower levels of informed trading for strategically relative to routinely CAPEX nondisclosing firms.

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<sup>23</sup>To be clear, neither Jayaraman and Wu (2020) nor Fox et al. (2021) claim that informed trading raises causally upon CAPEX guidance, as they do not feature direct tests of this relationship. Rather, they deduce the association between informed trading and CAPEX guidance as the likely driver behind their results on managerial learning upon CAPEX guidance. Indeed, in Table 3, Jayaraman and Wu (2020) show that managerial learning is more pronounced whenever CAPEX guidance elevates bid-ask spreads, while also documenting that it does not always do so.

One may argue that our previous results on conference call questions would be more in line with strategic nondisclosure being associated with higher informed trading levels. However, while more CAPEX-related mentions in questions by participants in conference calls indeed reflects more information acquisition, this type of information acquisition is public and should not create substantial trading gains, ultimately leading to a potentially minuscule impact on informed trading measures. In addition, depending on the specific question asked and information provided by the manager’s answer, it is unclear whether this type of *public* information acquisition creates further incentives for *private* information acquisition. Similar to the discussion above, the interaction in the conference calls may trigger more (less) information acquisition if investors perceive that potential trading gains are higher (lower) at strategically withholding firms.

Following these opposing predictions on informed trading, we investigate differences in two informed trading measures: stock price non-synchronicity (SNS) and probability of informed trading (PIN). The empirical literature supports the interpretation that SNS and PIN are associated with trading activities by informed investors (Easley et al., 2002, Vega, 2006, Kacperczyk and Pagnotta, 2019, and Ahern, 2020). However, what type of information these investors possess is up to debate (Aktas et al., 2007, Collin-Dufresne and Fos, 2015, and Ahern, 2020). We therefore perform our analyses on both of these two measures in an effort to alleviate the concern of the validity of each individual proxy.

We re-estimate Eq.1 with SNS and PIN as dependent variables and include the set of control variables as described in Section 4.2. Furthermore, to alleviate concerns that our informed trading measures capture information that the manager already knows, we follow Chen et al. (2007) and add *Earnings Surprise* as a proxy for managerial private information as a control variable. Arguably, a manager has knowledge about earnings prior to its public announcement. Thus, the market’s earnings surprise reflects superior managerial information at the announcement date. Therefore, a remaining effect on informed trading would likely reflect information that is new to managers.

[Insert Table 6 about here.]

Table 6 reports the results of this analysis. One standard deviation increase in *CAPEX Disclosure History* is associated with a statistically significant (at the 5 percent level) decrease in SNS by approximately 1.23% and in PIN by approximately 1.12% relative to their respective sample means, indicating that nondisclosers have lower informed trading in their stock when the market was expecting the release of CAPEX guidance. The estimates are comparable across both disclosure expectation proxies.

Taken this section’s results together, while strategic nondisclosure of CAPEX guidance is not perceived as a systematic negative valuation signal, investors still seem to take notice. Indeed, the results suggest that investors adjust their information acquisition strategies by more CAPEX-related mentions in conference calls, and reduce their extent of informed trading.

## 5 Nondisclosure of Feedback-Stimulating Information:

### Firm View

#### 5.1 Empirical Model

In the previous section we have analyzed the relation between market outcomes and *strategic* nondisclosure, which we captured with our two disclosure expectation proxies. The disclosure decision is exogenous and the underlying reasoning unknown for capital market participants, making our analyses on the ‘market view’ substantially cleaner compared to the upcoming ‘firm view’. While the withholding decision is somewhat exogenous for capital market participants, it is not for the withholding firm. Therefore, any results presented in this section should be interpreted as associations between firm outcomes and strategic nondisclosure.

The results in Section 4.4 suggest that nondisclosers have lower informed trading in their stock when the market was expecting the release of CAPEX guidance. A large literature shows that less informed trading in a firm’s stock may have real effects (Bond et al., 2012). Thus, do the differences in informed trading between strategically and routinely nondis-

closing firms translate to differences in real activities? In this section, we address this question using variations of investment- $q$  sensitivity analyses (Chen et al., 2007, Edmans et al., 2017).

We estimate the classical investment- $q$  regression Model (e.g., Chen et al., 2007, Foucault and Frésard, 2012, and Edmans et al., 2017) by including our disclosure expectation proxies and further extensions in the following sections.

$$\begin{aligned} Investment_{i,t+1} = & \beta_0 + \beta_1 q_{i,t} + \beta_2 DisclosureExpectation_{i,t} + \\ & \beta_3 DisclosureExpectation_{i,t} \times q_{i,t} + \gamma X_{i,t} + \alpha_i + \lambda_t + \epsilon_{i,t} \end{aligned} \quad (2)$$

Our dependent variables are next quarter’s investment,  $CPX_{t+1}$ , defined as next quarter’s capital expenditures plus R&D expenditures, and  $INV_{t+1}$ , additionally including acquisitions minus cash receipts from sales of property, plant, and equipment, scaled by total assets at the beginning of the quarter (see e.g., Biddle et al., 2009, Durnev and Mangen, 2020). As standard, we employ Tobin’s  $q$ , as the price-based measure of investment opportunities, measured as the ratio of quarter-end market value of assets (market value of equity plus the book value of debt), scaled by the book value of total assets. Our coefficient of interest is on *CAPEX Disclosure Expectation  $\times q$* , which captures the marginal impact of our disclosure expectation proxies (*CAPEX Disclosure History* and *CAPEX Disclosure Prediction*) on the investment- $q$  sensitivity of nondisclosing firms. In addition, we include *Size* and *Cash Flow* as control variables associated with firm’s investment decisions (Foucault and Frésard, 2012, Foucault and Frésard, 2014), and use industry and quarter-year fixed effects.

## 5.2 Learning from own price

Bond et al. (2012) highlight that two notions of price efficiency have to be considered. First, forecasting price efficiency (FPE) which reflects the extent to which prices are informative about future cashflows of the traded assets. Second, revelatory price efficiency (RPE) which reflects the extent to which prices are informative for real decision-makers, for

instance, a firm manager. In order to study how a potential decrease in informed trading may affect nondisclosing firms' real activities, we have to evaluate the implications for both the FPE and RPE channel.

The traditional accounting and finance literature studies the implications of measures of informed trading on FPE. Less information acquisition and trading by sophisticated investors is associated with lower bid-ask spreads (Glosten and Milgrom, 1985), higher liquidity (Diamond, 1985), and a reduction in the cost of capital (Diamond and Verrecchia, 1991, Easley and O'hara, 2004). Thus, under the FPE view, a reduction in measures of informed trading is associated with easing of financial constraints, making the manager more flexible to react to investment opportunities. Under the FPE view, we would predict that lower levels of informed trading lead to a *stronger* investment- $q$  sensitivity in strategically withholding firms.

The opposite association prevails under the RPE view. Less information acquisition and trading by firm outsiders decreases the likelihood that the manager may learn information that is new to her. Thus, less informed trading is undesirable through limiting the manager's ability to extract decision-relevant information from the stock market (Edmans et al., 2017). Given that the stock price is less informative, the manager relies less on price variations to guide her investment decisions (Chen et al., 2007), ultimately predicting a lower investment- $q$  sensitivity for strategically withholding firms.

[Insert Table 7 about here.]

We report the results of estimating Eq. 2 in Table 7. In both the *Disclosure Expectation proxies* and investment variables, the coefficient on *CAPEX Disclosure Expectation x q* is significantly negative, suggesting that strategic nondisclosure is negatively associated with lower investment- $q$  sensitivities. In economic terms, investment- $q$  sensitivity decreases by 13% for one standard deviation increase in the *CAPEX Disclosure Prediction* of nondisclosing firm-quarters (model (1)).<sup>24</sup> In comparison, Jayaraman and Wu, 2019 show that

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<sup>24</sup>-13% = (-0.111)/0.804.

investment- $q$  sensitivity decreases by 18% after segment reporting becomes mandatory in the U.S. Chen et al., 2007 show that investment- $q$  sensitivity increases by around 20% if a firm’s stock price informativeness increases from the 25th to the 75th percentile.

Overall, these results are in-line with the RPE implications of strategic nondisclosure: Firm that seem to withhold their CAPEX guidance strategically are associated with lower investment- $q$  sensitivities. In combination with the previous results on informed trading, this suggests that strategically withholding firms learn less from the market relative to routinely nondisclosing firms.

### 5.3 Learning from alternative sources

Our previous results suggest that strategically nondisclosing firms rely less on information incorporated in market prices in guiding their investment decision. In this section, we examine the possibility that strategically withholding firm instead rely more on other sources of information for their investment-making.

Alti (2003) highlights that contemporaneous cash flow shocks provide firms with new information about the quality of their existing projects and operation, leading to significant adjustments in the form of future investment. Indeed, Heitzman and Huang (2019) find that manager rely more on cash flow as internal profitability signals as their internal information quality increases. In line with this reasoning and amid the highlighted differences in information provided the market prices, we would expect that strategically withholding firms rely more on internal investment signals, e.g., cash flows, relative to routinely withholding ones.

We extend the investment- $q$  sensitivity regression framework from Eq. 2 by adding the interaction of *CAPEX Disclosure Expectation* with *CF*, and include an interaction with *Size* as an additional control variable. Our prediction is to find a positive coefficient on *CAPEX Disclosure Expectation*  $\times$  *CF*, capturing a higher investment-cash flow sensitivity for strategically withholding firms. Table 8 reports the result.

[Insert Table 8 about here.]

As hypothesized, strategically withholding firms' future investment is more sensitive to cash flow as evidenced by a positive and statistically significant coefficient on *CAPEX Disclosure Expectation*  $\times$  *CF*. This suggests that strategically withholding firms rely more on internal profitability signals in guiding their future investments than routinely nondisclosing firms.

In addition to internal profitability information as an alternative to the information incorporated in its stock price, a firm may consider information generated by its peers (e.g., Aaron et al., 2022; Bernard et al., 2020; Décaire and Wittry, 2021). One can therefore expect that a focal firm may use the information contained in peer's voluntary CAPEX disclosures.

To test this prediction, we extend the investment- $q$  regression from before by adding two extra predictors (*Peer  $q$*  and *Peer CAPEX Disclosure*) and the interactions with our previous variables of *CAPEX Disclosure Expectation*. *Peer  $q$*  is defined as the average Tobin's  $q$  of all product market peers of firm  $i$  in a given year. Among these peers there is variation in whether they provide CAPEX guidance (or not). *Peer CAPEX Disclosure* is defined as the prevalence of peer disclosure, i.e., the % of peers providing CAPEX guidance in quarter  $t$ , as well as an indicator variable equal to one if there is above-median peer CAPEX disclosure in quarter  $t$ . Hence, we are interested in whether nondisclosing firms with a higher expectation of disclosure capitalize more on peer firms' information in their market valuation, specifically conditional on peer firms' CAPEX disclosure.

[Insert Table 9 about here.]

First, the positive coefficient on *Peer  $q$*  suggests that in addition to learning from own prices, firms also learn from the market signals incorporated in peers' stock prices. In fact, the sensitivity of firm's  $i$  future investment on the average peer  $q$  is about 30% of the

sensitivity to its own valuation.

More important for our study, however, is how the tendency to learn from peer valuation information differs across strategically and routinely withholding firms, which is captured by the coefficients on *Peer qxCAPEX Disclosure Expectation* and *Peer qxCAPEX Disclosure ExpectationxPeer CAPEX Disclosure*.<sup>25</sup> Nondisclosing firms with high disclosure expectations are associated with a significantly higher sensitivity to peer valuation signals. Indeed, the positive coefficients on *Peer qxCAPEX Disclosure Expectation* are comparable to the coefficients on *Peer q* alone, indicating that peers' *q* are incrementally more influential for strategically nondisclosing firms' future investments. Furthermore, the positive coefficient on the triple interaction *Peer qxCAPEX Disclosure ExpectationxPeer CAPEX Disclosure* highlights that the importance is even stronger whenever a lot of peers are providing CAPEX guidance.<sup>26</sup>

Taken together, the results of this section suggest that strategically nondisclosing firms rely significantly more on internal information and information incorporated in *peer* market prices in guiding their investment decision.

## 6 Conclusion

The implications of strategic nondisclosure is a central theme in the accounting and finance literature, as classical theories predict negative valuation implications. While this has been studied intensively for earnings guidance, the goal of this study is to understand the differences between apparently strategically and routinely withholding firms for the case of CAPEX guidance. Rather than representing *just another* disclosure item, recent evidence suggests that the decision whether to disclose CAPEX guidance is driven by

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<sup>25</sup>We do not derive much insights from the coefficients on *Peer CAPEX Disclosure* and *CAPEX Disclosure ExpectationxPeer CAPEX Disclosure*, as *Peer CAPEX Disclosure* is defined as the prevalence of peer disclosure, not the content of it. Indeed, the negative coefficients suggest that a nondisclosing firm chooses lower investment levels if more peers provide disclosures and this effect is stronger for strategically withholding firms which is qualitatively comparable to Aaron et al. (2022)).

<sup>26</sup>Our focus in these tests is on the differential role of peer information in guiding the investment decision of strategically relative to routinely withholding firms. In contrast, Aaron et al. (2022) shows that a firm's sensitivity of investment with its *own q* increases, whenever peers provide guidance.

a different motive: to stimulate market feedback. Therefore, in this paper we bridge the discretionary disclosure and the feedback literature, by highlighting the associated financial and real consequences for firms that strategically withhold feedback-stimulating information.

Our empirical approach to identifying *strategically* withholding firms is to identify nondisclosing firms where one could *expect* disclosure. In particular, for each nondisclosing firm in each quarter, we use two disclosure expectation proxies. Our first proxy is based on a focal firm's past CAPEX disclosing behavior and the second proxy is the estimated likelihood of disclosure given common firm characteristics associated with disclosure decisions.

The first set of results concerns differences in financial market outcomes for strategically relative to routinely withholding firms. Our *market view* findings suggest that strategic nondisclosure of CAPEX guidance has no systematic valuation implications, which is at odds with the prediction of classical disclosure theory. However, while there is no pricing impact, investors still seem to take note of the unexpected absence of disclosure by adjusting their information acquisitions and trading strategies. In particular, lower levels of informed trading measures suggest that strategically CAPEX-withholding firms are in a worse position to learn from the market.

Next, we investigate future investment-making among strategically and routinely withholding firms. We document two main differences. First, lining up with our results on informed trading, strategically withholding firms have significantly lower sensitivities of future investment to current stock market valuation ( $q$ ). Second, while strategically withholding firms seem to learn less from their *own* stock price, we find that they are using two alternative information sources more intensively in guiding their future invest-making: internal profitability signals measured by a higher investment-cash-flow-sensitivity and *peers'* stock prices measured by a higher sensitivities of investment to peer  $q$ . These results suggest that strategically withholding firms rely more on alternative information sources when making future investment decisions and less on information incorporated in their own stock price.

The decision to withhold CAPEX guidance is not random and may reflect unobserved firm characteristics which are also associated with the observed firm outcomes. Therefore, one should interpret our results in an associative way. However, we think that two related and not mutually exclusive channels may explain our joint results. First, a firm may trade off the potential benefit of market feedback upon the disclosure of strategic information against potential costs of doing so (e.g., because of proprietary costs). Therefore, a firm may choose to forego the opportunity to receive market feedback upon on its own CAPEX guidance, if it can substitute it with insightful internal profitability signals and information generated by peers. Based on this view, the availability and quality of alternative information sources *determines* whether a firm strategically withholds CAPEX guidance.

Alternatively, a firm may fear that the revelation of its investment plans may crowd-out informed trading and choose to withhold such information. Indeed, Lassak (2022) argues that a firm will disclose or withhold CAPEX guidance depending on which decision leads to more informed trading. Even though withholding may result in more informed trading than disclosing, investors are not fooled in equilibrium and anticipate that the withholding decision likely reflects that information acquisition about the nondisclosing firms would generate only low gains from informed trading. As a consequence, a strategically withholding firm considers alternative information sources precisely because it learns only a little from its own stock price. Based on this mechanism, the driving force of the disclosure decision is the firm’s expectation about how informed trading will be affected by the disclosure of its CAPEX intentions, but not alternative information sources.

We perceive it to be likely that both mechanisms are at play simultaneously and interact with each other. In particular, while the first mechanism ignores the firm’s consideration on how disclosure of its private information will affect informed trading, the latter argument abstracts away from the role of alternative information sources for the disclosure decision. We argue that both considerations should matter for a firm’s disclosure decision, however, have different implications for the direction of causality. We leave these crucial investigations to future research.

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**Table 1: Determinants of CAPEX Disclosure**

This table presents the summary statistics and results of the determinant analysis of providing CAPEX guidance (disclosure). Panel A summarizes below ‘Model Input’ the variables used in the analysis. Additionally, below ‘Model Output’, we report the summary statistics of the variable, *CAPEX Disclosure Prediction*, which is the predicted value of Panel B, Column (2). Panel B reports the estimation results of the probability to disclose CAPEX guidance based on several observable determinants. See Appendix A1 for detailed variable definitions and data sources. Columns (1) and (2) use a logistic regression analysis, whereas Columns (3) and (4) use a linear probability regression model with the inclusion of different fixed-effects as reported below. The sample period covers 2004 to 2019. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by industry. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

**Panel A: Summary Statistics of Variables**

Variable	N	Mean	Median	Std.
<u>Model Input</u>				
CAPEX Disclosure	120,920	0.229	0.000	0.420
Peer CAPEX Disclosure	120,920	0.223	0.154	0.204
EPS Disclosure	120,920	0.229	0.000	0.420
CAPEX Decline	120,920	0.293	0.000	0.455
CAPEX Intensity	120,920	0.245	0.141	0.252
CAPEX Volatility	120,920	0.023	0.014	0.026
HHI	120,920	0.113	0.078	0.112
Analyst Following	120,920	1.175	1.099	0.958
Size	120,920	6.487	6.445	2.005
<u>Model Output</u>				
Non Discloser:				
CAPEX Disclosure Prediction	93,241	0.116	0.048	0.183
Discloser:				
CAPEX Disclosure Prediction (Discloser)	27,679	0.609	0.716	0.290

Panel B: CAPEX Disclosure Prediction Model				
	(1) Logit	(2) Logit	(3) OLS	(4) OLS
Dependent Variables:	CAPEX Disclosure	CAPEX Disclosure	CAPEX Disclosure	CAPEX Disclosure
Constant	-3.275*** (0.210)	-4.209*** (0.244)	0.072*** (0.002)	0.127*** (0.002)
CAPEX Decline	1.018*** (0.032)	-0.083** (0.041)	0.023*** (0.002)	0.024*** (0.002)
CAPEX Intensity	0.470*** (0.033)	0.469*** (0.033)	0.039*** (0.003)	0.040*** (0.006)
CAPEX Volatility	-0.047*** (0.016)	-0.051*** (0.017)	-0.001 (0.001)	0.001 (0.002)
HHI	0.054* (0.030)	-0.011 (0.031)	0.002 (0.003)	-0.001 (0.004)
Analyst Following	0.053** (0.022)	0.065*** (0.024)	0.008*** (0.002)	-0.000 (0.003)
Size	0.387*** (0.025)	0.387*** (0.027)	0.028*** (0.002)	0.023*** (0.004)
CAPEX Disclosure <sub>t-1</sub>	3.043*** (0.044)	3.103*** (0.046)	0.565*** (0.007)	0.311*** (0.007)
Peer CAPEX Disclosure <sub>t-1</sub>	0.213*** (0.020)	0.162*** (0.024)	0.015*** (0.003)	0.008*** (0.003)
EPS Disclosure	0.832*** (0.049)	0.823*** (0.049)	0.085*** (0.006)	0.103*** (0.008)
Industry FE	Yes	Yes	Yes	No
Year-quarter FE	No	Yes	Yes	Yes
Firm FE	No	No	No	Yes
Pseudo R <sup>2</sup>	0.432	0.447		
Adj. R <sup>2</sup>			0.481	0.552
Obs.	120,920	120,920	120,920	120,329

**Table 2: Descriptive Statistics**

This table presents the summary statistics for the main variables used in our analyses. All continuous variables are winsorized at the 1<sup>st</sup> and 99<sup>th</sup> percentile. See Appendix A1 for detailed variable definitions and data sources.

Variable	N	Mean	Median	Std.
<u>Disclosure Variables</u>				
CAPEX Disclosure History	71,824	0.097	0.000	0.193
CAPEX Disclosure Prediction	71,824	0.110	0.046	0.175
EPS Disclosure	71,824	0.187	0.000	0.390
EPS Disclosure History	71,824	0.194	0.000	0.318
EPS Disclosure Prediction	71,824	0.195	0.036	0.325
Log(#CAPEX Q)	29,487	0.133	0.000	0.319
Log(#CAPEX P)	29,487	0.098	0.000	0.254
CAPEX Q	29,487	0.162	0.000	0.368
CAPEX P	29,487	0.133	0.000	0.340
<u>Market Variables</u>				
PIN	31,751	0.179	0.150	0.109
SNS	71,824	0.731	0.801	0.252
CAR	71,824	1.216	1.099	0.588
<u>Investment Variables</u>				
INV	71,824	4.887	3.026	5.860
CPX	71,824	4.141	2.713	4.508
Q	71,824	2.149	1.550	1.783
CF	71,824	1.683	2.433	6.017
<u>Control Variables</u>				
Size	71,824	6.171	6.034	1.967
Inverse Price	71,824	0.230	0.081	0.412
Analyst Following	71,824	1.093	1.099	0.934
Earnings Surprise	71,824	0.028	0.022	0.028
Return Volatility	71,824	0.033	0.028	0.018
Turnover	71,824	2.062	2.083	0.788
<u>Peer Variables</u>				
Peer CAPEX Disclosure (Percentage)	71,824	0.167	0.111	0.170
Peer CAPEX Disclosure (Indicator)	71,824	0.506	1.000	0.500
Peer INV	71,824	5.362	5.020	2.708
Peer CPX	71,824	4.596	4.097	2.643
Peer Q	71,824	2.242	2.098	0.851
Peer CF	71,824	1.749	2.256	2.529
Peer Size	71,824	6.422	6.285	0.795
Product Similarity	71,824	7.339	1.485	14.179

**Table 3: Disclosure Breaks**

This table presents the distribution of CAPEX disclosure breaks in the full sample of disclosing and nondisclosing firm-quarters. *Quarters* denotes the number of consecutive non-CAPEX-guidance quarters once a firm starts to issue CAPEX guidance. For brevity, we exclude the remaining 5% of observations in which consecutive non-disclosure persists for more than 20 quarters (5 years). Additionally, we provide the averages for both our *Disclosure Expectation* variables and the investment variables. See Appendix A1 for detailed variable definitions and data sources.

Quarters	No. obs.	%	Cum. %	Disclosure Prediction	Disclosure History	INV	CPX
0	20,185	41.60%	41.60%	0.763	0.688	3.11	2.54
1	7,156	14.75%	56.35%	0.670	0.545	3.21	2.42
2	4,115	8.48%	64.83%	0.127	0.434	3.07	2.32
3	2,987	6.16%	70.99%	0.111	0.372	3.35	2.44
4	1,819	3.75%	74.74%	0.132	0.335	3.23	2.41
5	1,514	3.12%	77.86%	0.109	0.292	3.22	2.39
6	1,286	2.65%	80.51%	0.109	0.264	3.27	2.39
7	1,105	2.28%	82.79%	0.105	0.244	3.18	2.44
8	847	1.75%	84.54%	0.126	0.234	3.17	2.51
9	774	1.59%	86.13%	0.102	0.215	3.33	2.53
10	708	1.46%	87.59%	0.101	0.196	3.49	2.54
11	627	1.29%	88.88%	0.101	0.184	3.16	2.54
12	521	1.07%	89.95%	0.124	0.181	3.56	2.50
13	478	0.99%	90.94%	0.093	0.169	3.18	2.51
14	446	0.92%	91.86%	0.097	0.157	3.06	2.50
15	400	0.82%	92.68%	0.100	0.149	3.34	2.72
16	329	0.68%	93.36%	0.118	0.146	3.39	2.63
17	307	0.63%	93.99%	0.092	0.140	3.11	2.65
18	293	0.60%	94.59%	0.095	0.136	3.39	2.78
19	266	0.55%	95.14%	0.098	0.129	3.04	2.66
20	229	0.47%	95.61%	0.109	0.125	3.45	2.59

**Table 4: Market Reaction**

This table presents the results of OLS regressions examining the relation between unexpected nondisclosure of CAPEX (EPS) guidance and quarterly cumulative abnormal returns. The dependent variable *CAR* is the cumulative daily abnormal return of firm *i* compared to the S&P500 market return in quarter *t*. *CAPEX (EPS) Disclosure History* is the percentage of prior quarters in which firm *i* issued CAPEX (EPS) guidance, starting with the first quarter observation of a CAPEX guidance by firm *i*. *CAPEX (EPS) Disclosure Prediction* refers to the estimated disclosure probability CAPEX (EPS) guidance of firm *i* in quarter *t*. See Appendix A1 for detailed variable definitions and data sources. The sample period covers 2004 to 2019. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by industry. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Dependent Variables:	(1) CAR	(2) CAR
CAPEX Disclosure Prediction	0.002 (0.003)	
EPS Disclosure Prediction	-0.030*** (0.004)	
CAPEX Disclosure History		-0.001 (0.003)
EPS Disclosure History		-0.027*** (0.004)
Size	-0.111*** (0.004)	-0.113*** (0.005)
Inverse Price	0.046*** (0.004)	0.046*** (0.004)
Return Volatility	0.458*** (0.018)	0.458*** (0.018)
Turnover	-0.005 (0.005)	-0.004 (0.004)
Analyst Following	-0.008*** (0.002)	-0.008*** (0.002)
Earnings Surprise	0.016*** (0.002)	0.016*** (0.002)
p-value of difference of coefficients	0.000	0.000
Industry FE	Yes	Yes
Year-quarter FE	Yes	Yes
Adj. R <sup>2</sup>	0.865	0.865
Obs.	47,593	47,593

**Table 5: CAPEX-Questions in Conference Calls**

This table presents the results of OLS regressions examining the relation between unexpected nondisclosure of CAPEX guidance with CAPEX-related mentions in the question section of firm  $i$ 's Conference Call in quarter  $t$ . The dependent variable  $CAPEX\ Q$  is an indicator variable equal to one if at least one question contains CAPEX-related keywords.  $\log(\# CAPEX\ Q)$  refers to the natural logarithm of the count of CAPEX-related keywords in questions. We control for the existence of CAPEX-related keywords in the presentation part of the Conference Call with  $CAPEX\ P$ . See Appendix A1 for detailed variable definitions and data sources. The sample period covers 2004 to 2019. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by industry. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

<b>Panel B: Questions about CAPEX in Conference Calls</b>				
Dependent Variables:	(1) CAPEX Q	(2) Log(# CAPEX Q)	(3) CAPEX Q	(4) Log(# CAPEX Q)
CAPEX Disclosure Prediction	0.007** (0.004)	0.006* (0.003)		
CAPEX Disclosure History			0.019*** (0.006)	0.016*** (0.006)
CAPEX Decline	-0.019*** (0.005)	-0.016*** (0.005)	-0.018*** (0.005)	-0.015*** (0.004)
CAPEX Intensity	0.067*** (0.016)	0.064*** (0.016)	0.064*** (0.014)	0.061*** (0.015)
CAPEX Volatility	0.008 (0.005)	0.009** (0.004)	0.008* (0.005)	0.009** (0.004)
Size	0.023*** (0.007)	0.023*** (0.007)	0.020*** (0.006)	0.020*** (0.006)
Return Volatility	-0.001 (0.004)	0.002 (0.004)	-0.002 (0.004)	0.001 (0.003)
Analyst Following	0.001 (0.003)	-0.000 (0.003)	0.001 (0.003)	-0.001 (0.003)
CAPEX P	0.076*** (0.007)	0.071*** (0.007)	0.073*** (0.007)	0.068*** (0.007)
Industry FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.112	0.125	0.113	0.127
Obs.	29,487	29,487	29,487	29,487

**Table 6: Informed Trading**

This Table presents the results of OLS regressions examining the relation between unexpected nondisclosure of CAPEX guidance and two proxies for informed trading. The dependent variable *SNS* denotes firms' extent of informed trading, using stock price non-synchronicity. The dependent variable *PIN* refers to the probability of informed trading, obtained from Brown and Hillegeist (2007). See Appendix A1 for detailed variable definitions and data sources. The sample period covers 2004 to 2019 in Columns (1) and (3). In Columns (2) and (4), the sample period covers 2004 to 2010 due to the availability of *PIN*. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by firm. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Dependent Variables:	(1) SNS	(2) PIN	(3) SNS	(4) PIN
CAPEX Disclosure Prediction	-0.005** (0.002)	-0.002*** (0.001)		
CAPEX Disclosure History			-0.009*** (0.003)	-0.002** (0.001)
Size	-0.088*** (0.005)	-0.047*** (0.002)	-0.088*** (0.005)	-0.047*** (0.002)
Inverse Price	0.006*** (0.002)	0.021*** (0.002)	0.006*** (0.002)	0.021*** (0.002)
Return Volatility	0.001 (0.004)	-0.000 (0.002)	0.001 (0.004)	-0.000 (0.002)
Turnover	-0.012*** (0.004)	-0.038*** (0.001)	-0.012*** (0.004)	-0.038*** (0.001)
Analyst Following	-0.012*** (0.002)	-0.004*** (0.001)	-0.012*** (0.002)	-0.004*** (0.001)
Earnings Surprise	0.004*** (0.001)	-0.002*** (0.001)	0.004*** (0.001)	-0.002*** (0.001)
EPS Disclosure History	-0.005 (0.005)	-0.005*** (0.001)	-0.005 (0.005)	-0.005*** (0.001)
Industry FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.627	0.624	0.628	0.624
Obs.	71,824	31,751	71,824	31,751

**Table 7: Investment-q Sensitivity**

This Table presents the results of OLS regressions examining the effect of unexpected nondisclosure of CAPEX guidance on the investment- $q$  sensitivity. The dependent variable is next-quarter's investment ( $INV_{t+1}$  or  $CPX_{t+1}$ ). Tobin's  $q$  ( $q$ ) is defined as the ratio of quarter-end market value of assets (market value of equity plus the book value of debt), scaled by the book value of total assets of firm  $i$  in quarter  $t$ . See Appendix A1 for detailed variable definitions and data sources. The sample period covers 2004 to 2019. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by industry. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Dependent Variables:	(1) INV <sub>t+1</sub>	(2) CPX <sub>t+1</sub>	(3) INV <sub>t+1</sub>	(4) CPX <sub>t+1</sub>
<i>CAPEX Disclosure Expectation</i>	<i>Disclosure Prediction</i>		<i>Disclosure History</i>	
$q$	0.804*** (0.122)	0.765*** (0.114)	0.793*** (0.125)	0.760*** (0.118)
CAPEX Disclosure Expectation	0.232* (0.130)	0.257** (0.124)	0.146 (0.091)	0.149* (0.087)
CAPEX Disclosure Expectation x $q$	-0.111** (0.049)	-0.107** (0.048)	-0.113*** (0.034)	-0.091** (0.038)
Size	-0.682** (0.286)	-0.881*** (0.291)	-0.651** (0.281)	-0.853*** (0.287)
CF	-0.029 (0.150)	-0.080 (0.139)	-0.027 (0.152)	-0.081 (0.140)
Industry FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.211	0.373	0.211	0.373
Obs.	71,824	71,824	71,824	71,824

**Table 8: Alternative Information Sources**

This Table presents the results of OLS regressions examining the effect of unexpected nondisclosure of CAPEX guidance on the investment- $q$  and investment-to-cash flow sensitivity. The dependent variable is next-quarter's investment ( $INV_{t+1}$  or  $CPX_{t+1}$ ). Tobin's  $q$  ( $q$ ) is defined as the ratio of quarter-end market value of assets (market value of equity plus the book value of debt), scaled by the book value of total assets of firm  $i$  in quarter  $t$ .  $CF$  is defined as net income before extraordinary items plus depreciation, amortization, and R&D expenditures, scaled by total assets in  $t-1$ . See Appendix A1 for detailed variable definitions and data sources. The sample period covers 2004 to 2019. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by industry. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Dependent Variables:	(1) INV <sub>t+1</sub>	(2) CPX <sub>t+1</sub>	(3) INV <sub>t+1</sub>	(4) CPX <sub>t+1</sub>
<i>CAPEX Disclosure Expectation</i>	<i>Disclosure Prediction</i>		<i>Disclosure History</i>	
CAPEX Disclosure Expectation	0.167** (0.083)	0.162** (0.079)	0.124* (0.074)	0.117 (0.073)
$q$	1.417*** (0.210)	1.346*** (0.195)	1.383*** (0.215)	1.325*** (0.202)
$CF$	0.041 (0.126)	-0.001 (0.120)	0.043 (0.134)	-0.013 (0.124)
Size	-0.674** (0.273)	-0.869*** (0.275)	-0.645** (0.272)	-0.845*** (0.276)
CAPEX Disclosure Expectation x $q$	-0.169** (0.073)	-0.180*** (0.067)	-0.178*** (0.049)	-0.160*** (0.049)
CAPEX Disclosure Expectation x $CF$	0.200*** (0.060)	0.217*** (0.048)	0.230*** (0.039)	0.214*** (0.037)
CAPEX Disclosure Expectation x Size	0.148 (0.112)	0.215** (0.100)	0.149 (0.092)	0.185** (0.073)
Industry FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.212	0.376	0.213	0.376
Obs.	71,824	71,824	71,824	71,824

**Table 9: Learning from Disclosing Peers**

This table presents the results of OLS regressions examining the effect of unexpected nondisclosure of CAPEX guidance on a firm's investment-sensitivity to its own and peers'  $q$ , conditional on peer CAPEX guidance. The dependent variable is next-quarter's investment ( $INV_{t+1}$  or  $CPX_{t+1}$ ). Tobin's  $q$  ( $q$ ) is defined as the ratio of quarter-end market value of assets (market value of equity plus the book value of debt), scaled by the book value of total assets of firm  $i$  in quarter  $t$ . In Panel A, *Peer CAPEX Disclosure* denotes the prevalence (average) of CAPEX guidance of all product market peers in quarter  $t$ . In Panel B, *Peer CAPEX Disclosure* refers to an indicator variable equal to one if non-disclosing firm  $i$  observes above-median CAPEX disclosure level of its product market peers in quarter  $t$ , and zero otherwise. See Appendix A1 for detailed variable definitions and data sources. The sample period covers 2004 to 2019. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by industry. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

<b>Panel A: Product Market Peers: Prevalence of Peer Disclosure</b>				
Dependent Variables:	(1)	(2)	(3)	(4)
	$INV_{t+1}$	$CPX_{t+1}$	$INV_{t+1}$	$CPX_{t+1}$
<i>CAPEX Disclosure Expectation</i>	<i>Disclosure Prediction</i>	<i>Disclosure History</i>		
$q$	1.374*** (0.224)	1.305*** (0.210)	1.358*** (0.233)	1.298*** (0.220)
CAPEX Disclosure Expectation	-0.059 (0.080)	-0.051 (0.063)	-0.104 (0.082)	-0.055 (0.073)
CAPEX Disclosure Expectation x $q$	-0.174** (0.081)	-0.144** (0.073)	-0.151*** (0.043)	-0.100** (0.041)
Peer $q$	0.265*** (0.099)	0.239** (0.099)	0.274*** (0.098)	0.249** (0.097)
Peer CAPEX Disclosure	-0.648*** (0.181)	-0.671*** (0.159)	-0.642*** (0.175)	-0.668*** (0.153)
Peer CAPEX Disclosure x Peer $q$	-0.143* (0.085)	-0.199** (0.081)	-0.166* (0.089)	-0.233*** (0.084)
CAPEX Disclosure Expectation x Peer $q$	0.228** (0.094)	0.261*** (0.095)	0.232*** (0.089)	0.268*** (0.091)
CAPEX Disclosure Expectation x Peer CAPEX Disclosure	-0.088 (0.058)	-0.133** (0.055)	-0.092** (0.043)	-0.101** (0.048)
CAPEX Disclosure Expectation x Peer CAPEX Disclosure x Peer $q$	0.165** (0.074)	0.194** (0.080)	0.173** (0.067)	0.203*** (0.074)
Size	-0.661** (0.283)	-0.842*** (0.283)	-0.633** (0.281)	-0.821*** (0.283)
CF	-0.020 (0.126)	-0.065 (0.114)	-0.016 (0.127)	-0.064 (0.115)
Peer Size	0.148 (0.114)	0.118 (0.090)	0.139 (0.110)	0.108 (0.085)
Peer CF	0.076 (0.192)	0.054 (0.200)	0.086 (0.189)	0.064 (0.196)
Industry FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Adj. $R^2$	0.217	0.383	0.217	0.383
Obs.	71,820	71,820	71,821	71,821

**Panel B: Product Market Peers: Indicator of Peer Disclosure**

Dependent Variables:	(1) INV <sub>t+1</sub>	(2) CPX <sub>t+1</sub>	(3) INV <sub>t+1</sub>	(4) CPX <sub>t+1</sub>
<i>CAPEX Disclosure Expectation</i>	<i>Disclosure Prediction</i>		<i>Disclosure History</i>	
q	1.372*** (0.224)	1.304*** (0.210)	1.358*** (0.233)	1.298*** (0.220)
CAPEX Disclosure Expectation	-0.280*** (0.092)	-0.279*** (0.072)	-0.266*** (0.080)	-0.240*** (0.058)
CAPEX Disclosure Expectation x q	-0.170** (0.077)	-0.140** (0.069)	-0.152*** (0.039)	-0.100*** (0.036)
Peer q	0.378*** (0.085)	0.384*** (0.082)	0.416*** (0.085)	0.431*** (0.082)
Peer CAPEX Disclosure	-0.668*** (0.251)	-0.731*** (0.221)	-0.682*** (0.252)	-0.746*** (0.219)
Peer CAPEX Disclosure x Peer q	-0.040 (0.125)	-0.104 (0.113)	-0.074 (0.134)	-0.154 (0.125)
CAPEX Disclosure Expectation x Peer q	0.411** (0.166)	0.435*** (0.162)	0.301** (0.145)	0.349** (0.140)
CAPEX Disclosure Expectation x Peer CAPEX Disclosure	-0.352*** (0.083)	-0.437*** (0.099)	-0.321*** (0.051)	-0.380*** (0.062)
CAPEX Disclosure Expectation x Peer CAPEX Disclosure x Peer q	0.428*** (0.141)	0.479*** (0.160)	0.346*** (0.085)	0.417*** (0.098)
Size	-0.646** (0.281)	-0.830*** (0.282)	-0.623** (0.280)	-0.813*** (0.282)
CF	-0.016 (0.127)	-0.062 (0.114)	-0.014 (0.128)	-0.062 (0.115)
Peer Size	0.048 (0.103)	0.028 (0.090)	0.042 (0.101)	0.021 (0.088)
Peer CF	0.095 (0.199)	0.070 (0.206)	0.103 (0.197)	0.079 (0.204)
Industry FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.216	0.382	0.216	0.382
Obs.	71,820	71,820	71,821	71,821

**Table A1: Variable Definitions and Data Sources**

Variable	Definition
<u>Disclosure Variables</u>	
CAPEX Disclosure History	Percentage of prior quarters in which firm $i$ issued annual CAPEX guidance to all observed quarters of firm $i$ , starting with the first quarter observation of annual capex guidance Source: I/B/E/S Guidance.
CAPEX Disclosure Prediction	Estimated probability of issuing CAPEX guidance of firm $i$ in quarter $t$ . Source: Own estimation, see Section 3.
EPS Disclosure	Indicator variable equal to one if firm $i$ issues annual earnings (EPS) guidance in quarter $t$ , and zero otherwise. Source: I/B/E/S Guidance.
EPS Disclosure History	Percentage of prior quarters in which firm $i$ issued annual earnings (EPS) guidance to all observed quarters of firm $i$ , starting with the first quarter observation of annual earnings guidance. Source: I/B/E/S Guidance.
EPS Disclosure Prediction	Estimated probability of issuing EPS guidance of firm $i$ in quarter $t$ . Source: Own estimation.
Log(#CAPEX Q)	The natural logarithm of the number of CAPEX-mentions in the question section of the conference call of firm $i$ in quarter $t$ . CAPEX-mentions bases on a keyword search of CAPEX and capital expenditure(s). Source: Own construction.
Log(#CAPEX P)	The natural logarithm of the number of CAPEX-mentions in the presentation section of the conference call of firm $i$ in quarter $t$ . CAPEX-mentions bases on a keyword search of CAPEX and capital expenditure(s). Source: Own construction.
CAPEX Q	Indicator variable equal to one if there is at least one occurrence of CAPEX-mentions in the question section of the conference call of firm $i$ in quarter $t$ , and zero otherwise. Source: Own construction.
CAPEX P	Indicator variable equal to one if there is at least one occurrence of CAPEX-mentions in the presentation section of the conference call of firm $i$ in quarter $t$ , and zero otherwise. Source: Own construction.
<u>Market Variables</u>	
PIN	The probability of informed trading. Obtained from Brown and Hillegeist (2007). Source: <a href="https://scholar.rhsmith.umd.edu/sbrown/pin-data">https://scholar.rhsmith.umd.edu/sbrown/pin-data</a> .
SNS	One minus R2 from regressing daily returns of firm $i$ on value-weighted market (S&P 500) and industry returns over quarter $t$ . Source: CRSP.
CAR	The total of firm $i$ 's daily abnormal returns during quarter $t$ , where each day's abnormal return is defined as the firm's stock return minus the market (S&P 500) return for that day. Source: CRSP.
<u>Investment Variables</u>	
INV	Capital expenditures plus R&D expenditures and acquisitions minus cash receipts from sales of property, plant, and equipment of quarter $t$ , scaled by total assets in $t-1$ . Source: Compustat.
CPX	Capital expenditures plus R&D expenditures of quarter $t$ , scaled by total assets in $t-1$ . Source: Compustat.
q	Tobin's q measured as the ratio of quarter-end market value of assets (market value of equity plus the book value of debt), scaled by the book value of total assets of firm $i$ in quarter $t$ . Source: Compustat.
CF	Net income before extraordinary items plus depreciation and amortization, plus R&D expenditures, scaled by total assets in $t-1$ . Source: Compustat.
<u>Control Variables</u>	
Size	The natural logarithm of the market value of equity. Source: Compustat.
Inverse Price	Inverse of the quarter-end closing price. Source: Compustat.
Analyst Following	The natural logarithm the number of analysts issuing forecasts for firm $i$ in quarter $t$ . Source: I/B/E/S Guidance.
Earnings Surprise	Average of the abnormal returns of $[-1, 1]$ days around the quarterly earnings announcement of firm $i$ in quarter $t$ (i.e. abnormal return is firm return minus S&P500 index return). Source: Compustat, CRSP.
Return Volatility	The natural logarithm of the standard deviation of daily stock returns of firm $i$ computed over quarter $t$ . Source: CRSP.
Turnover	The natural logarithm of the quarterly average of daily turnover of firm $i$ . Source: CRSP.
<u>Peer Variables</u>	
Peer CAPEX Disclosure (Percentage)	Percentage of all product market peers that issue annual CAPEX guidance in quarter $t$ . Source: I/B/E/S Guidance, TNIC matrix (Hoberg and Phillips, 2016).
Peer CAPEX Disclosure (Indicator)	Indicator variable equal to one for an above-median percentage of product market peers with CAPEX guidance in quarter $t$ . Source: I/B/E/S Guidance, TNIC matrix (Hoberg and Phillips, 2016).
Peer INV	Average of INV of all product market peers of firm $i$ in quarter $t$ . Source: Compustat, TNIC matrix (Hoberg and Phillips, 2016).
Peer CPX	Average of CPX of all product market peers of firm $i$ in quarter $t$ . Source: Compustat, TNIC matrix (Hoberg and Phillips, 2016).
Peer Q	Average of Q of all product market peers of firm $i$ in quarter $t$ . Source: Compustat, TNIC matrix (Hoberg and Phillips, 2016).
Peer CF	Average of Size of all product market peers of firm $i$ in quarter $t$ . Source: Compustat, TNIC matrix (Hoberg and Phillips, 2016).
Peer Size	Average of CF of all product market peers of firm $i$ in quarter $t$ . Source: Compustat, TNIC matrix (Hoberg and Phillips, 2016).
Product Similarity	Total of TNIC similarity scores of all product market peers of firm $i$ in quarter $t$ . Source: TNIC matrix (Hoberg and Phillips, 2016).

**Table A2: Validation of Nondisclosure and CAPEX Questions in Conference Calls**

This table presents the results of OLS regressions examining the relation between nondisclosure of CAPEX guidance (EPS guidance) with CAPEX-related mentions in the presentation section of firm  $i$ 's Conference Call in quarter  $t$ . The dependent variable  $CAPEX\ P$  is an indicator variable equal to one if the presentation section contains at least CAPEX-related keyword.  $\log(\# CAPEX\ P)$  refers to the natural logarithm of the count of CAPEX-related keywords in management's presentation section.  $CAPEX\ Nondiscloser$  ( $EPS\ Nondiscloser$ ) denotes firm-quarters without CAPEX (EPS) guidance of firm  $i$ , respectively. See Appendix A1 for detailed variable definitions and data sources. The sample period covers 2004 to 2019. We report standard errors in parentheses adjusted for heteroscedasticity and within correlation by industry. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Dependent variable:	(1) CAPEX P	(2) Log(#CAPEX P)	(3) CAPEX P	(4) Log(#CAPEX P)
CAPEX Nondiscloser	-0.095*** (0.010)	-0.070*** (0.007)		
EPS Nondiscloser			-0.012 (0.011)	-0.009 (0.008)
CAPEX Decline	-0.026*** (0.005)	-0.019*** (0.004)	-0.026*** (0.005)	-0.019*** (0.004)
CAPEX Intensity	0.040*** (0.013)	0.032*** (0.010)	0.050*** (0.014)	0.039*** (0.011)
CAPEX Volatility	0.006 (0.006)	0.005 (0.004)	0.006 (0.006)	0.005 (0.004)
Size	0.032*** (0.008)	0.023*** (0.006)	0.039*** (0.008)	0.028*** (0.006)
Return Volatility	0.013*** (0.005)	0.010*** (0.004)	0.014*** (0.005)	0.011*** (0.004)
Analyst Following	0.008 (0.005)	0.006* (0.004)	0.009 (0.005)	0.007* (0.004)
Industry FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.109	0.110	0.100	0.102
Obs.	46,350	46,350	46,350	46,350