Reading between the Lines

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Abstract

Prior research shows that underwriter affiliation leads to inflated report recommendations from sell-side analysts, but it omits the fact that underwriter affiliation grants access to issuer-specific information. I study how these forces coexist within the same report. Using Large Language Models (LLM), I extract broker-specific headline recommendations and score rating-blind report narratives using an archive of 97,425 post-IPO reports. Affiliated analysts tilt recommendations more than narratives, creating a within-report wedge. The margin is stronger near the IPO day and among lead underwriters. In joint regressions, investors react to the narrative rather than the recommendation, and the stronger response to affiliated narratives persists when other quantitative signals are included. When the narrative deteriorates, affiliated analysts are less likely to translate that deterioration into a formal downgrade, and the attenuation is stronger when a positive offer-price revision is accompanied by relatively weak prospectus revision. I conclude that underwriter affiliation protects formal recommendations while preserving value-relevant narrative information.

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1 Introduction

An IPO is the first sale of a firm's shares to public investors. When a firm goes public, investors must value a company with no public trading history and less information than insiders possess. Issuers therefore rely on underwriters as information and certification intermediaries: underwriters conduct bookbuilding, help set the offer price, and market the issue to investors (Booth and Smith, 1986; Benveniste and Spindt, 1989; Ritter and Welch, 2002). However, high uncertainty remains after trading begins. Many IPO firms are young, growth-oriented, and difficult to value because their prices depend heavily on expectations about future cash flows. Analyst reports are an important part of this process because they provide early public assessments of the newly listed firm's business prospects, valuation assumptions, and risks.

Analyst reports contain multiple components. The headline recommendation provides a formal rating, while the narrative explains the analyst's assessment of the firm's businesses, valuation, and risks. Prior IPO analyst research shows that underwriter-affiliated analysts issue more favorable and less credible recommendations because of investment-banking conflicts (Lin and McNichols, 1998; Michaely and Womack, 1999; Degeorge, Derrien, and Womack, 2007). More recent evidence shows that these conflicts remain relevant in the modern IPO market, especially after regulatory changes that increased analyst involvement in the IPO process (Weber, Willenborg, Wu, and Yang, 2024). However, the existing literature leaves open what happens to the narrative component of the same report. This distinction matters because analyst-report studies show that narratives can contain information beyond summary outputs such as recommendations, forecasts, and target prices (Asquith, Mikhail, and Au, 2005; Huang, Zang, and Zheng, 2014; Hu, Zhang, and Chi, 2026). Thus, optimism in the recommendation does not by itself reveal whether the narrative is also inflated, whether it remains informative, or whether investors interpret it differently. This open question is especially important for underwriter-affiliated analysts because affiliation not only creates incentives to keep the formal recommendation favorable, but also gives affiliated analysts issuer-specific information from participating in the IPO process.

Affiliation may therefore create competing incentives within the same report. A favorable recommendation provides a public endorsement of an issuer that the analyst's employer helped bring to market. The narrative, however, is also part of the analyst's research product. Credible,

high-quality research affects the analyst's standing with institutional investors and the brokerage value of the bank's research franchise (Groysberg, Healy, and Maber, 2011; Brown, Call, Clement, and Sharp, 2015). Analysts also have external career opportunities, including transitions to the buy side (Guan, Li, Lu, and Wong, 2019; Zhang, 2026). These incentives do not necessarily eliminate optimism, but they can make unsupported inflation of the entire narrative costly. The formal recommendation may consequently absorb the pressure to support the issuer, while the narrative remains comparatively qualified and useful to investors.

This possibility motivates a component-level view of analyst conflicts. The relevant alternatives are not limited to an entirely unbiased report and a uniformly inflated report. Affiliation can shift both components while shifting the formal recommendation by substantially more. The same distinction also has a dynamic implication. An affiliated analyst may communicate a worsening assessment through the narrative without immediately taking the discrete adverse action represented by a formal downgrade. The empirical questions are therefore where within the report the affiliation-related difference appears, which component investors price, and whether unfavorable narrative information is incorporated differently into subsequent formal rating actions.

To answer these questions, I compare the headline recommendation with the narrative within the same post-IPO analyst report, separately for underwriter-affiliated and unaffiliated analysts. Within each report, the two components share the same analyst, issuer, release date, and public information event. The affiliation comparison then relies on reports written about the same IPO firm in the same calendar month while controlling for persistent broker differences. I first extract the stock-level rating system disclosed in each report and map the formal recommendation to a common 1–5 scale. I then construct a rating-blind narrative corpus by removing recommendation labels, target prices, and forward EPS projections from the report text. The remaining narrative is evaluated along ten prespecified dimensions that capture the report's fundamental assessment and linguistic presentation, and the resulting overall narrative stance is placed on the same 1–5 support as the formal recommendation.

The report archive contains 97,425 PDF reports, and the main estimation sample contains reports issued during the first year after an IPO for firms receiving both affiliated and unaffiliated coverage. The report-level specifications compare affiliated and unaffiliated reports on the same IPO firm in the same calendar month, absorb persistent broker differences, and control for days

since IPO. This design does not randomly assign affiliation, but it avoids relying on comparisons across different issuers or broad time periods. The estimates are instead identified from variation across reports written about the same newly public firm during the same month.

I find three main results. First, affiliated reports exhibit a larger recommendation–narrative wedge. Affiliation is associated with a 0.223-point increase in the formal recommendation but only a 0.046-point increase in the narrative. The resulting wedge increases by 0.178 points. Affiliated reports are also 8.22 percentage points more likely to have a recommendation above the narrative, and affiliation increases the unconditional positive part of the wedge by 0.094 points. The result is therefore not that affiliated narratives are unaffected by the underwriting relationship. Affiliated narratives are somewhat more favorable, but the affiliation-related shift is substantially larger in the formal recommendation.

Second, investors distinguish the two report components. When entered separately, both the recommendation and the narrative are associated with three-day report-announcement returns. When entered jointly, however, the recommendation loses its incremental pricing relation, while the narrative remains strongly associated with returns. The market response to the narrative is also stronger for affiliated reports. These results remain in a true one-observation-per-firm-date design and when the realized recommendation tier is held fixed. The stronger affiliated narrative loading also survives controls for near-report Recommendation revisions, EPS-forecast revisions, and Target Price revisions matched within two calendar days of the report date, the exclusion of earnings-announcement dates, and standalone-report-date restrictions. Investors therefore distinguish between more and less favorable narratives even among reports carrying the same formal recommendation.

The narrative result is not confined to linguistic style. When I decompose the narrative into the report's fundamental assessment and residual linguistic presentation, both components are associated with release-window returns. The additional affiliated loading is present for the fundamental assessment, showing that the affiliated narrative result is not driven solely by tone, sentiment, or other features of presentation. The stronger response to affiliated narratives is consistent with affiliated analysts possessing more issuer-specific context or with investors perceiving them as having greater access or credibility. The return regressions do not distinguish actual information precision from investors' beliefs about analyst access.

Third, affiliation affects how unfavorable narrative information is translated into a formal rating

action. A decline in the narrative increases downgrade probability by 5.57 percentage points among unaffiliated analysts. The increase is 2.05 percentage points smaller among affiliated analysts, an attenuation of approximately 37%. The result also holds when I use the magnitude of the narrative decline and when I define deterioration using only the report's fundamental assessment. In a separate at-risk comparison that requires room to downgrade, affiliated reports are also 1.82 percentage points less likely to downgrade on average. Affiliation therefore lowers the average downgrade rate in the at-risk sample and additionally weakens the mapping from a worsening narrative assessment into a discrete formal downgrade.

I then examine the institutional anatomy of this component-specific pattern. These tests are not separate, unrelated channels. They characterize when the formal margin is economically strongest and when a downgrade may be especially consequential. The affiliation effects on the recommendation, narrative, and wedge are economically larger during the first 180 days after the IPO than during days 181–365. A significant wedge nevertheless remains during the second half of the first post-IPO year, and narrative value-relevance persists in both periods. The timing evidence is therefore consistent with the incentives to support the issuer being more valuable closer to the offering, but not with the narrative ceasing to matter as time passes.

The bank's role in the underwriting syndicate provides a more direct comparison. Analysts affiliated with lead underwriters issue more favorable recommendations and substantially larger wedges than analysts affiliated with other syndicate members. Lead affiliation also increases the narrative, but by much less than it increases the recommendation. Moreover, lead- and other-affiliated narratives receive nearly identical incremental market loadings. The larger lead wedge is therefore more consistent with a deal-specific formal-rating effect than with an additional lead-specific narrative information advantage. General underwriter rank or reputation provides no support for a generic bank-brand explanation of either the wedge or the affiliated narrative loading. Together with the lead-underwriter evidence, this pattern is more consistent with deal-specific responsibility than with general underwriter prestige.

Finally, I examine an offering-stage disclosure state based on the potential-material-omission framework of Hanley and Hoberg (2012). The measure combines a positive offer-price revision with relatively weak issuer-driven prospectus revision. In this state, affiliation further attenuates the conversion of bad narrative news into a downgrade. A 10-percentage-point increase in the measure

makes the affiliated–unaffiliated difference in the bad-news-to-downgrade slope 2.02 percentage points more negative. The indicator specification is statistically significant, whereas the continuous magnitude specification is not; I do not treat this difference in significance as a formal threshold test. The measure does not establish that an actual omission occurred, that litigation was filed, or that legal concerns causally determined the analyst's action.

The paper makes three contributions. First, it provides a component-level view of analyst conflicts. Prior research establishes that affiliated recommendations are optimistic. I show that the affiliation-related shift is not distributed uniformly across the same report. It is concentrated in the formal recommendation relative to the accompanying narrative, and it also appears in the decision to convert narrative deterioration into a formal downgrade. The relevant question is therefore not only whether analyst research is affected by conflicts, but where within a bundled public information product the effect appears.

Second, the paper contributes to research on analyst narratives and market pricing by comparing the narrative with a co-released formal output rather than treating text as a separate return predictor. Investors place little incremental weight on the recommendation level after observing the narrative, but continue to distinguish narratives within the same recommendation tier. The formal summary and the richer narrative are therefore not interchangeable, even when they are issued by the same analyst about the same firm at the same time.

Third, the paper documents selective formalization of information. Unfavorable narrative information is less likely to be incorporated into a formal downgrade when the analyst is affiliated, and this attenuation is stronger in the offering-stage disclosure state captured by Potential Omission. Complementary lead-underwriter evidence shows that deal-specific responsibility is associated with a larger recommendation–narrative wedge rather than an additional lead-specific narrative loading. Together, these results extend the analysis from differential optimism across report components to both the allocation of communication and the dynamic decision of whether a worsening assessment becomes a formal adverse action.

The measurement design makes these comparisons possible. By standardizing broker-specific recommendations and constructing the narrative only after removing recommendation labels, target prices, and forward EPS projections, I reduce mechanical overlap between the two components. The resulting narrative measure is not an objective measure of firm quality or the analyst's unobserved

true belief. It is a structured measure of the stance communicated by the rating-blind report text. The conclusions therefore concern the allocation, pricing, and formalization of public communication rather than direct observation of private information or internal bank decision making.

The remainder of the paper proceeds as follows. Section 2 reviews the related literature. Section 3 develops the institutional setting and testable predictions. Section 4 describes the data and construction of the report components. Section 5 examines how affiliation affects the recommendation, narrative, and wedge. Section 6 studies the market pricing of the two components. Section 7 examines how narrative deterioration is translated into formal downgrades. Section 8 presents the potential-omission, lead-underwriter, and supplementary characteristic tests. The final section concludes.

2 Related literature

This paper relates to four strands of research.

First, the paper builds on the literature on sell-side analyst incentives, career concerns, and underwriter affiliation. Classic and recent IPO evidence shows that analysts affiliated with underwriters issue more favorable and less credible recommendations than unaffiliated analysts (Lin & McNichols, 1998; Michaely & Womack, 1999; Weber, Willenborg, Wu, & Yang, 2024). Optimistic recommendations can benefit issuers and investment banks by increasing visibility and supporting investment-banking-related business (Hong & Kubik, 2003; Dambra, Field, Gustafson, & Pisciotta, 2018). At the same time, affiliated recommendations tend to underperform comparable unaffiliated recommendations, and sophisticated investors discount recommendations that they perceive to be affected by conflicts of interest (Michaely & Womack, 1999; Malmendier & Shanthikumar, 2007, 2014).

The analyst-career literature shows that these incentives do not all point in the same direction. Optimism and issuer support can matter for internal advancement and investment-banking relationships, especially when the analyst's employer has underwritten the covered firm. However, analysts also accumulate career capital through credibility, industry expertise, research quality, and recognition by institutional investors (Hong & Kubik, 2003; Groysberg, Healy, & Maber, 2011; Brown, Call, Clement, & Sharp, 2015; Lopez-Lira, Tang, Wang, & Zhu, 2026). These attributes affect

All-Star recognition, standing with buy-side clients, and the analyst's external career opportunities, including the possibility of moving to the buy side (Guan, Li, Lu, & Wong, 2019; Zhang, 2026). A purely promotional narrative can therefore weaken the analyst's outside option even when a favorable formal recommendation benefits the analyst within the investment-banking organization.

The same tradeoff exists at the brokerage level. Buy-side clients evaluate the quality and usefulness of analyst research, and those evaluations affect brokerage commissions and the value of the bank's research franchise. A bank may therefore benefit from a favorable formal recommendation while still wanting the accompanying analysis to remain credible and useful to outside investors. Career concerns and research-franchise incentives discipline the report, but they need not discipline every component equally. The formal recommendation can provide public support for the issuer, while the narrative allows the analyst to demonstrate expertise, preserve credibility, and protect external career opportunities.

This paper contributes to this literature by examining how affiliation-related incentives are allocated across components of the same report. Prior work establishes that affiliated recommendations are optimistic, but a favorable recommendation does not reveal whether the accompanying narrative is equally favorable, whether it remains informative, or whether investors treat it differently. I compare the formal recommendation with the rating-blind narrative produced by the same analyst, about the same firm, in the same document and at the same time. The results identify a component-specific pattern: affiliation shifts both components, but the shift is much larger in the formal recommendation. This interpretation does not require the narrative to be unbiased or to reveal the analyst's unobserved true belief. It requires only that the costs and benefits of distortion differ across the two public components.

Second, the paper relates to research on analyst-report narratives and the information contained in qualitative analysis. Analyst reports contain information beyond recommendations, earnings forecasts, and target prices (Asquith, Mikhail, & Au, 2005; Huang, Zang, & Zheng, 2014). Recommendations, forecasts, and supporting analysis convey related but distinct information (Francis & Soffer, 1997; Bradshaw, 2004; Loh & Mian, 2006; Frankel, Kothari, & Weber, 2006). Research on financial text further shows that readability, tone, sentiment, and uncertainty affect how investors process corporate and analyst communication (Li, 2008; Loughran & McDonald, 2011, 2014; Twedt & Rees, 2012; De Franco et al., 2015; Hsieh, Hui, & Zhang, 2016).

Related work also emphasizes that analyst reports reveal issuer knowledge and the reasoning underlying summary outputs. Repeated interaction with management and institutional investors can improve analysts' issuer-specific knowledge (Chen & Matsumoto, 2006; Green, Jame, Markov, & Subasi, 2014; Soltes, 2014). More recent work uses textual and language-model methods to recover the qualitative information, industry knowledge, and reasoning contained in analyst reports (Hu, Zhang, & Chi, 2026; Lopez-Lira, Tang, Wang, & Zhu, 2026). This work demonstrates that the written report is not merely boilerplate supporting a recommendation; it is an economically meaningful research product evaluated by investors and buy-side clients.

My contribution is not simply to construct an additional textual measure. I use the full narrative as a comparison component against the formal recommendation within the same report. Before scoring the narrative, I remove recommendation labels, target prices, and forward EPS projections, reducing the possibility that the measure mechanically recovers conventional summary outputs. I then place the recommendation and overall narrative stance on a common support and examine how affiliation affects each component, how investors price them jointly, and whether narrative variation remains relevant within the same realized recommendation tier. I further separate the report's fundamental assessment from residual linguistic presentation. The empirical object is therefore the allocation of communication across report components, rather than text considered as a stand-alone return predictor.

The stronger market response to affiliated narratives is consistent with affiliated analysts having more issuer-specific context from participating in the IPO process. It is also consistent with investors perceiving affiliated analysts as having greater access or credibility. The return tests cannot distinguish actual information precision from investor beliefs about analyst access. Accordingly, the paper provides reduced-form evidence that investors differentiate between the two report components, not a structural estimate of the analyst's private information.

Third, the paper contributes to the literature on strategic communication and distortion across multiple outputs. Sender-receiver and disclosure models show that conflicts of interest can make communication coarse, partial, or strategically distorted (Crawford & Sobel, 1982; Verrecchia, 1983; Dye, 1985). Morgan & Stocken (2003) apply this logic to stock recommendations, showing that a recommendation can be a strategic categorical message rather than a fully revealing signal.

Within the analyst literature, Malmendier & Shanthikumar (2007, 2014) show that strategic

incentives can affect recommendations and earnings forecasts differently. Recommendations are attractive instruments for optimism because they are coarse and salient, whereas forecasts are more readily evaluated against subsequent realizations. Hirshleifer, Shi, & Wu (2024) examine a related separation between optimistic public recommendations and information communicated privately to institutional investors. These studies establish the broader principle that one sender can distort different outputs by different amounts because each output serves a different audience or carries a different cost of bias.

The present setting differs in two respects. First, both components are public and released simultaneously. The comparison does not cross analysts, firms, release dates, documents, or audiences. It compares a coarse formal summary with a richer narrative contained in the same public report. Second, the paper studies not only different levels of optimism across outputs, but also selective formalization over time. When the narrative becomes less favorable, affiliated analysts are less likely to convert that deterioration into a formal downgrade.

This form of component-specific communication does not require either issuers or investors to be fooled. Sophisticated investors can understand that an affiliated recommendation contains a support component and discount it when valuing the firm. The issuer can still value a favorable recommendation as a public action by the underwriter's research arm. At the same time, the analyst preserves the credibility and career value of the report by presenting a more qualified narrative. The coexistence of a favorable recommendation and an informative narrative can therefore arise even when the relevant audiences understand the analyst's incentives.

Fourth, the paper relates to the IPO information-production, certification, disclosure, and litigation literatures. IPO investors face substantial uncertainty because newly public firms lack a trading history and outside investors know less than insiders (Ritter & Welch, 2002). Underwriters help manage this uncertainty by producing information during bookbuilding and by placing reputational capital behind the offering (Booth & Smith, 1986; Benveniste & Spindt, 1989; Chemmanur & Fulghieri, 1994; Hanley, 1993). The relationship can continue after the offering through analyst coverage: issuers value coverage by lead underwriters and prominent analysts, while post-IPO reports provide early public assessments of business prospects, valuation assumptions, and risks (Cliff & Denis, 2004; Asquith, Mikhail, & Au, 2005).

This literature implies that affiliated analysts can face both an information advantage and a

conflict. Participation in the underwriting process can provide issuer familiarity, bookbuilding information, and knowledge of investor demand. At the same time, an adverse formal recommendation by the underwriter's own research department can be viewed as a public repudiation of an offering that the bank helped price and certify. The lead-underwriter comparison is especially informative in this respect. James & Karceski (2006) show that analysts affiliated with lead underwriters issue more favorable recommendations than analysts affiliated with other syndicate members. I extend this comparison to the narrative and ask whether the larger lead-affiliated wedge is accompanied by a larger lead-specific narrative loading.

The paper also relates to research showing that expected litigation costs affect IPO pricing and disclosure choices (Tinic, 1988; Hughes & Thakor, 1992; Lowry & Shu, 2002; Hanley & Hoberg, 2012). Underpricing can reduce expected investor losses, while prospectus revision can reduce the likelihood that price-relevant information is viewed as omitted from the registration statement. These offering-stage tools are relevant to my setting because the bank's post-IPO research department may later communicate information bearing on the same issuer and offering.

I use this literature to motivate institutional boundary conditions rather than to claim that litigation is the uniquely identified mechanism. The post-IPO timing tests examine whether the component-specific pattern is economically stronger when the report remains more closely connected to the offering. The lead tests examine whether deal-specific responsibility matters beyond general affiliation and bank prestige. The potential-omission tests ask whether unfavorable narrative information is especially unlikely to be formalized as a downgrade when a positive offer-price revision is accompanied by relatively weak prospectus revision.

Analyst reports do not have the same statutory status as registration statements or prospectuses. A downgrade does not establish that a material omission occurred, and the potential-omission measure does not identify an actual lawsuit or an internal legal motive. The narrower point is that a discrete adverse recommendation by the research arm of an underwriter may be more institutionally consequential than qualified discussion in the surrounding narrative. The timing, lead-role, and potential-omission tests are therefore boundary conditions for the component-specific pattern rather than proof of a single organizational channel.

Taken together, the four literatures usually emphasize either conflicts in analyst outputs or information contained in analyst research. This paper connects the two perspectives. Affiliation

can create pressure to keep the formal recommendation favorable while simultaneously providing issuer-specific information and strengthening the value of credible research. Analyst career concerns also pull in both directions: issuer support and banking relationships reward optimism, while investor reputation, the buy-side outside option, and the bank's research franchise reward credible analysis. The resulting prediction is neither no distortion nor full-report inflation. It is component-specific communication in which the formal recommendation carries more of the affiliation-related pressure, while the narrative remains a qualified and value-relevant information channel.

3 Institutional setting and testable predictions

The introduction motivates a component-specific account of underwriter affiliation in which the formal recommendation and the narrative respond differently to the underwriting relationship. This section maps that account to the empirical tests. I classify an analyst as affiliated if the analyst's employer leads or participates in the IPO underwriting syndicate. The empirical analysis compares two components of the same public report: the formal recommendation and the rating-blind narrative.

The key distinction is between a formal rating action and a qualified narrative assessment. The recommendation is a discrete, salient, and readily quoted summary judgment issued by the research arm of a bank connected to the offering. The narrative is a richer and more qualified discussion of the issuer's prospects, risks, assumptions, strategy, and uncertainty. An analyst can communicate a weakening assessment through the narrative without making the same categorical adverse statement represented by a downgrade or an unfavorable formal recommendation.

The recommendation–narrative wedge is the main communication-allocation object. It asks whether affiliation shifts the formal recommendation more than the stance communicated by the narrative. The narrative loading is the main pricing object. It asks whether the rating-blind narrative conveys value-relevant issuer-specific information after the recommendation is observed, and whether the market response differs when the analyst is affiliated.

These tests distinguish two broad accounts. If affiliation shifts the entire report uniformly, affiliated analysts should make the recommendation and the narrative similarly more favorable. If affiliation affects the formal summary more strongly than the accompanying analysis, the recom-

mendation should shift more than the narrative, creating a larger within-report wedge, while the narrative may remain value-relevant.

The underwriting relationship also varies across institutional settings. Its connection to the IPO transaction should be economically stronger closer to the offering. Lead underwriters bear more direct responsibility for bookbuilding, offer-price formation, marketing, allocations, and certification than other syndicate members. At the same time, both lead and other affiliated banks may share issuer familiarity acquired through participation in the offering. Comparing lead and other affiliated reports therefore helps distinguish a deal-specific formal-rating effect from an explanation based only on additional narrative information.

The offering-stage disclosure environment provides a related setting. Prior research emphasizes that a positive offer-price revision accompanied by relatively weak prospectus revision may create a potential material-omission concern. A later downgrade by the research arm of a connected bank does not change the offering documents or establish that an omission occurred, but it does create a new, discrete adverse statement about the issuer. The potential-omission tests therefore examine whether the conversion of bad narrative news into a formal downgrade is especially weak in that disclosure state.

3.1 Testable predictions

H1: Affiliation shifts the formal recommendation more than the narrative.

If the underwriting relationship affects the formal rating more strongly than the accompanying analysis, affiliated analysts should issue more favorable recommendations relative to their rating-blind narratives. Affiliation should therefore have a larger effect on the recommendation than on the narrative and should increase the recommendation–narrative wedge. The effect should appear both in the probability that the recommendation exceeds the narrative and in the unconditional positive part of the wedge.

H2: Release-window returns place greater incremental weight on the narrative than on the recommendation, especially for affiliated reports.

If the recommendation is the more protected formal component and the narrative is the richer information-bearing component, the narrative should retain incremental explanatory power for

release-window returns after both components are included. The recommendation may be associated with returns when entered alone, but should contribute little additional explanatory power once the narrative is observed.

If affiliation gives analysts greater issuer-specific context or if investors perceive affiliated analysts as having greater access or credibility, the market response to affiliated narratives should be stronger. This prediction is reduced-form: a stronger affiliated narrative loading is consistent with greater information or perceived credibility, but does not by itself identify private-information precision.

H3: Affiliated analysts are less likely to translate unfavorable narrative information into a formal downgrade.

If affiliation affects the formal rating action more strongly than the qualified narrative discussion, deterioration in the narrative should increase the probability of a downgrade, but the increase should be smaller for affiliated analysts. The same prediction applies to both the occurrence and the magnitude of narrative deterioration. It should also hold when bad news is defined using deterioration in the report's fundamental assessment rather than changes in linguistic presentation.

H4: The formal margin is stronger when the report is more closely tied to the IPO transaction or when an adverse formal action is more consequential.

I examine this prediction along three margins. First, if the underwriting relationship is most salient closer to the offering, the affiliation effects on the recommendation and the wedge should be economically stronger earlier in the first post-IPO year. Narrative value-relevance need not decline at the same rate.

Second, lead underwriters should exhibit a larger formal recommendation effect and a larger wedge than other affiliated syndicate members because their deal-specific responsibility is greater. If the larger lead effect instead reflects only additional information, lead-affiliated narratives should also receive a larger incremental market loading than narratives issued by other affiliated underwriters.

Third, the weaker affiliated mapping from bad narrative news into a downgrade should be more pronounced when a positive offer-price revision is accompanied by relatively weak prospectus revision. This potential-omission test asks whether the formal downgrade threshold is especially protected in the offering-stage disclosure state for which the measure was designed.

The predictions concern the relative behavior and market consequences of the two report

components. They do not require the narrative to equal the analyst's unobserved true belief, do not treat the recommendation as uniformly uninformative, and do not imply that the potential-omission measure identifies an actual omission or a realized legal violation. Analyst experience and general underwriter prestige are examined later as supplementary characteristics and alternative explanations rather than as separate formal predictions.

4 Data and construction of the report components

This section describes the data sources and the construction of the two main within-report components: the formal recommendation and the overall narrative stance derived from the report text. The construction follows a three-step procedure. First, I extract formal recommendations and broker-specific tier definitions at the report level. Second, I create a rating-blind narrative corpus using a two-pass cleaning procedure that removes recommendation labels, target prices, and forward EPS projections. Third, I score the cleaned narrative along ten prespecified dimensions and aggregate the scores into a continuous narrative measure on the same 1–5 support as the standardized recommendation.

The resulting measures need not be integers. Brokers use different numbers of recommendation tiers, and the narrative measure is a rescaled average of the ten dimension scores. Internet Appendix Section IA.A reports the exact recommendation-scale mapping, extraction prompt, regex rules, scrubbing template, scoring prompt, and masking and paraphrasing validation.

4.1 Data sources and sample

The empirical analysis begins with three core data sources. First, I obtain IPO characteristics and underwriting-syndicate information from SDC. Second, I obtain the full-text research reports from Refinitiv (LSEG). The report archive contains 97,425 PDF reports. Third, I merge the report-level dataset with CRSP to construct release-window returns.

I supplement these data for the additional pricing and institutional tests. SEC registration filings and pre-offering amendments are used to construct prospectus-revision measures and the first numeric filing range. I/B/E/S recommendation, EPS-forecast, and target-price histories are used to construct near-report quantitative-signal controls when the corresponding I/B/E/S announcement

date falls within two calendar days of the report date, while I/B/E/S analyst histories are used to measure analyst experience. Historical Carter–Manaster-style rankings are used to measure general underwriter prestige (Carter and Manaster, 1990). The deal-specific syndicate records are also used to distinguish lead-affiliated reports from reports issued by other affiliated syndicate members.

I focus on reports issued about newly public firms and construct a report-level panel by linking report metadata to the IPO universe and to the issuing broker. After the extraction and scoring steps described below, the report-level dataset contains 65,033 reports with both a standardized recommendation and an overall narrative stance. Restricting the sample to reports issued from day 0 to day 365 after the IPO date yields 63,172 reports. The final estimation samples are described in Section 4.6.

4.2 Step 1: extracting and standardizing formal recommendations

A practical challenge in working with sell-side reports is that rating systems vary across brokers. Brokers use different vocabularies and different numbers of recommendation tiers, and the same label can have different meanings across institutions. To standardize recommendations without relying on a hand-built dictionary, I extract broker-specific tier definitions directly from each report and map each report's recommendation to a common scale.

For each PDF report, I use PyMuPDF to extract plain text and send the report text to an LLM extraction routine (GPT-4o-mini, temperature = 0). The extraction prompt asks for a structured JSON output that includes the report recommendation, the broker's firm-level rating-tier labels, the number of tiers, and the position of the reported recommendation within the broker's tier list. It explicitly instructs the model not to infer missing values or use information outside the report.

The extraction prompt returns the broker's raw stock-level tier labels and the reported recommendation's position within that raw list. I then apply a post-extraction canonicalization step that cleans the stock-level tier set, removes duplicated or mixed-scale fragments when necessary, and reorders the retained tiers from the broker's most favorable stock-level stance to its least favorable stance. Using the cleaned tier count and the recommendation's position within that list, I standardize each report's formal recommendation to a common 1–5 scale, where 5 indicates the most favorable stance and 1 the least favorable stance. This transformation preserves within-broker ordering while making recommendations comparable across brokers and over time. Internet Appendix Section IA.A

reports the exact mapping and the extraction prompt.

4.3 Step 2: constructing a rating-blind narrative corpus

The narrative measure is intended to capture the stance conveyed by the report's remaining discussion of the issuer and the way that assessment is presented. A key design requirement is that the input used to construct the measure be as rating-blind as possible. I therefore remove three classes of information before scoring: formal recommendation labels and recommendation changes (e.g., Buy, Sell, Hold, Overweight, Underweight, upgrades, downgrades, initiations, and reiterations), target prices and target-price revisions, and forward-looking EPS projections and EPS-estimate tables. The third category is important because forward EPS can allow an algorithm to infer an implied valuation signal even when explicit ratings are absent, for example by combining earnings forecasts with valuation multiples or stated valuation frameworks.

The design serves both measurement and empirical-comparison goals and follows three principles. First, the scoring procedure should not simply recover the broker's formal recommendation from explicit labels, target prices, or forward EPS disclosures. The objective is not literal statistical independence, which would be impossible because both components reflect the same underlying assessment, but the removal of mechanical overlap so that the narrative measure reflects the stance conveyed by the remaining text. Second, the measure should capture narrative-implied stance rather than ex post forecasting power, so I use a transparent rubric and equal-weight aggregation rather than weights trained on returns. Results involving the narrative should therefore be interpreted as results based on a rating-blind text measure rather than on the investor's full information set. Third, because the paper studies how analysts allocate communication within the same report, the measure is designed to reflect both what the report argues and how that argument is delivered.

I implement the rating-blind construction in two stages on a high-fidelity HTML representation of each report. I first convert each PDF to HTML while preserving page structure and text-span coordinates. This representation supports identification of disclosure blocks, tables, footnotes, and other sections in which recommendation labels, target prices, and forward EPS are most likely to appear.

Stage 1 is a high-recall rule-based cleaning pass. A small set of deterministic rules directly removes boilerplate fragments and table cells that are mechanically identified as recommendation

labels, target-price disclosures, or forward-EPS estimate content. Rule-based regular expressions, geometry-based EPS-table detection, and deterministic line-level trims then identify candidate spans that may contain subtler leakage and are passed to the second-stage LLM scrubber. Internet Appendix Section IA.A reports the exact regex families, deterministic wrappers, and geometry-based EPS pre-pass. The rules are paired with factual guards, including current-price blocks and reported-EPS language, to reduce accidental removal of legitimate historical information.

Stage 2 is a context-sensitive LLM scrub. I pass only the candidate target spans, together with surrounding context lines, to Qwen3:30B (temperature = 0, JSON output enforced). Each candidate line is assigned a stable span ID, and the scrubber is instructed to emit edit operations only for those target IDs. It returns a strict JSON list of operations that either delete a target span or replace it with the prohibited content removed, without introducing placeholders. This constrained edit format limits the model's role to local deletion or redaction rather than free-form rewriting. Internet Appendix Section IA.A reports the exact Qwen prompt and input template.

After these two passes, I transform the cleaned HTML into plain text using a layout-aware HTML-to-text routine. The resulting narrative excludes the standalone recommendation field and is scrubbed of recommendation labels, target prices, and forward EPS projections by construction. These design features reduce hard-disclosure leakage, but they do not establish perfect span-level precision and recall. I therefore interpret the masking and paraphrasing evidence reported below, together with the horse-race tests in Section 6, as reducing rather than eliminating the possibility of residual overlap.

4.4 Step 3: constructing overall narrative stance and its components

I score each cleaned narrative using a structured LLM rubric (GPT-4o-mini, temperature = 0). The rubric builds on the factual-linguistic framework in Hu, Zhang, & Chi (2026), but the input differs because this paper scores only the scrubbed, rating-blind IPO narrative. The prompt requires strict JSON output with fixed keys and integer values, constraining the model to structured evaluation of the supplied text rather than open-ended generation.

The rubric evaluates each report along ten prespecified dimensions. Five dimensions capture the report's fundamental assessment: revenue and earnings outlook, competitive and industry positioning, macroeconomic and sector conditions, risk signals, and management and strategy.

Five dimensions capture linguistic presentation: readability, tone, sentiment polarity, hedging and uncertainty, and linguistic intensity. Table 1 summarizes the interpretation of the ten dimensions, and Internet Appendix Section IA.A reports the exact scoring prompt.

The ten-dimensional design is informed by prior work on analyst reports and financial text. The fundamental dimensions reflect evidence that report narratives contain economically meaningful discussion of firm prospects, risks, and valuation-relevant fundamentals (Asquith, Mikhail, & Au, 2005; Huang, Zang, & Zheng, 2014), and that recommendations, forecasts, and supporting analysis convey distinct but complementary information (Francis & Soffer, 1997; Bradshaw, 2004; Loh & Mian, 2006; Frankel, Kothari, & Weber, 2006). The linguistic dimensions reflect work on readability, tone, sentiment, and uncertainty in financial text and analyst reports (Li, 2008; Loughran & McDonald, 2011, 2014; Twedt & Rees, 2012; De Franco et al., 2015; Hsieh, Hui, & Zhang, 2016).

The dimensions are designed to recover the assessment communicated by the report rather than objective firm quality or the analyst's unobserved true belief. A report can present a favorable economic assessment cautiously, or it can use forceful language without equally strong factual support. The overall measure therefore treats the fundamental and linguistic dimensions as distinct but complementary inputs into the stance conveyed by the narrative.

I aggregate the ten dimension scores using an equal-weight average. This choice avoids training the measure on realized returns, preserves transparency, and keeps the score interpretable as an ex ante summary of the report text rather than an outcome-optimized forecasting index. Let $s_{dr} \in \{1, \ldots, 20\}$ denote the score assigned to dimension $d \in \{1, \ldots, 10\}$ for report r, and let

$$\overline{S}_r = \frac{1}{10} \sum_{d=1}^{10} s_{dr}.$$

I map this average to a continuous 1–5 overall narrative stance:

$$\text{Narrative}_r = 1 + 4 \times \frac{\overline{S}_r - 1}{19}.$$

This transformation places the narrative on the same support as the standardized recommendation and allows direct within-report comparison. The measure should be interpreted as a normalized narrative-implied stance rather than a literal broker rating. Because the ten dimensions are not

all identical in economic meaning, movements along the common support should not be read as exact fractions of a recommendation tier. For brevity, I refer to this measure as the narrative in the empirical sections.

The narrative is an omnibus stance measure rather than a pure fundamentals index. Some dimensions capture the direction of the analyst's economic case, while others capture how clearly, cautiously, or forcefully that case is delivered. In the predominantly favorable IPO setting studied here, the equal-weight measure is intended to recover overall narrative favorability on a common normalized scale. It should be interpreted more cautiously for sharply negative reports because readability and linguistic intensity describe the form of communication rather than its directional favorability.

I also construct two component measures used in the decomposition tests. The fundamental assessment is the 1–5 rescaling of the average of the five fundamental dimensions. Raw linguistic presentation is the corresponding 1–5 rescaling of the average of the five linguistic dimensions. In the common 44,060-report sample, I residualize raw linguistic presentation with respect to the fundamental assessment while absorbing firm-by-month and broker fixed effects. The resulting residual, denoted linguistic residual, captures variation in linguistic presentation not explained by the communicated fundamental assessment under the same sample and fixed-effect structure used in the report-level analysis. The residualization does not use CAR or any other outcome variable. Because linguistic residual is a regression residual, it is not measured on the 1–5 scale and should not be interpreted as noise, bias, or manipulation. Section 6.2 provides the formal construction and reports the associated supply and pricing tests.

To assess whether the narrative measure is materially driven by named entities or surface phrasing, I conduct a masking and paraphrasing validation on a random sample of 100 reports following Engelberg, Manela, Mullins, & Vulicevic (2025). The mean discrete score is 3.53 in the baseline sample, 3.49 under masking, and 3.53 after masking and paraphrasing. Ninety-four percent of masked reports and 90% of masked-and-paraphrased reports receive the same discrete score as the baseline, and all transformed reports remain within one notch. For the continuous overall narrative stance, the correlations with the baseline are 0.936 and 0.926, with mean absolute deviations of 0.116 and 0.128. Internet Appendix Table IA.A1 reports the complete validation statistics. These results indicate that the measure is not materially driven by named entities or superficial surface

phrasing, although no validation can rule out all model-level priors.

4.5 Wedge, sequence, and institutional variables

The central within-report construct is the difference between the formal recommendation and the stance implied by the narrative. I define the recommendation–narrative wedge as:

$$\text{Wedge}_r = \text{Recommendation}_r - \text{Narrative}_r.$$

A positive value indicates that the formal recommendation is more favorable than the narrative, while a negative value indicates the opposite. I also construct an indicator for a positive wedge, $\mathbf{1}\{\text{Wedge}_r > 0\}$, and the unconditional positive part, $\max\{\text{Wedge}_r, 0\}$. The latter equals the size of the wedge when it is positive and zero otherwise.

Because the recommendation and narrative are bounded measures constructed in different ways, I interpret the wedge as a normalized relative position on a common interval rather than as a literal notch-for-notch distance between economically identical units. The paper therefore does not rely on the wedge alone. Sections 5 and 6 report the two components separately, standardized economic magnitudes, within-tier tests, and the fundamental-linguistic decomposition.

CAR$[-1, +1]$ is the cumulative abnormal return from trading day -1 through trading day $+1$ around the report release, computed relative to the CRSP value-weighted market return.

For the sequence tests, I retain one report per IPO–broker–day, keeping the last report issued that day, and order reports within each broker–IPO pair. The preceding report and all change variables are constructed from the complete first-year broker–IPO report history before the final regression restrictions are imposed. Bad narrative news equals one when the narrative declines relative to the preceding retained report. Negative narrative magnitude equals the positive part of that decline divided by 0.10. A downgrade equals one when the formal recommendation declines relative to the same preceding report, and fundamental-assessment deterioration equals one when the fundamental assessment declines. Section 7 describes the sequence design in detail. Appendix Section C and Internet Appendix Section IA.E report the prior-state, subsequent-opportunity, and detailed-horizon diagnostics.

A report is classified as affiliated when the issuing broker participated in the IPO underwriting

syndicate. Lead-affiliated identifies reports issued by affiliated bookrunners or global coordinators, while other-affiliated identifies reports issued by other affiliated syndicate members with known roles. Thirty-one reports with conflicting role matches are retained in a separate unknown-affiliated category. Internet Appendix Section IA.F documents the corrected deal-specific matching procedure and the broader senior-role definition.

The potential-omission measure combines a low-revisor indicator with the positive offer-price revision relative to the midpoint of the first numeric filing range. It is fixed at the IPO level and is used only in the matched sequence sample. Section 8.1 develops the economic motivation and reports the main test, while Internet Appendix Section IA.G documents the filing sequence, cosine-distance procedure, and sample flow.

Finally, analyst experience is the report-level median number of years between the report date and the matched authors' first I/B/E/S EPS forecasts, standardized within the estimation sample. Underwriter prestige is the historical Carter–Manaster-style rank of the report broker, matched by IPO year and standardized within the corresponding sample. These variables are used only in the supplementary tests reported in Section 8.3 and Internet Appendix Section IA.H.

4.6 Final samples and empirical specifications

Before turning to the main regressions, it is useful to clarify how the estimation samples differ from the baseline report archive. The baseline first-year sample contains 63,172 reports issued within 365 days after the IPO. The common report-level sample is smaller for three reasons. First, the pricing tests require nonmissing CAR$[-1, +1]$, which removes 6,853 reports. Second, I restrict the analysis to IPO firms that receive both affiliated and unaffiliated coverage, so that the comparison is made within firms with both types of reports; this restriction removes a further 9,927 reports. Third, singleton observations under the firm-by-month and broker fixed-effect structure are dropped because they do not contribute to identification, removing an additional 2,332 reports. These restrictions leave 44,060 reports in the common sample used in Sections 5 and 6, as well as the post-IPO timing and lead-underwriter tests.

The true firm-date pricing robustness collapses the data to one observation per firm-date by averaging every original right-hand-side term, including the interaction terms, and yields 23,918 firm-dates. The preferred broker–IPO sequence analysis constructs the preceding report from the

complete first-year history and yields 34,157 report updates. Merging that sequence with the potential-omission measure and its constituent filing variables yields 20,115 observations. The directly observed quantitative-signal, analyst-experience, and underwriter-prestige tests use smaller samples because of the availability of the corresponding histories; their sample sizes are reported in the relevant Appendix and Internet Appendix tables.

Table 2 reports summary statistics for the variables used in the main analyses. In the common sample, 71.5% of reports are affiliated, 39.6% are lead-affiliated, and 31.8% are other-affiliated. The mean formal recommendation is 4.426, the mean overall narrative stance is 3.651, and the mean fundamental assessment is 3.643. The linguistic residual has mean zero by construction and a standard deviation of 0.102. The average recommendation–narrative wedge is 0.775 points, and the mean three-day CAR is 0.004, or 0.4%. The sequence sample has a 4.5% downgrade rate, and bad narrative news occurs in approximately 50.7% of usable report updates. Potential omission has a mean of 0.028 in the final 20,115-observation matched sample. Because the table combines variables drawn from the common, sequence, and potential-omission samples, the number of observations is reported separately for each row.

Figures 1 and 2 describe the distributions of the two main report components and their relation within the same report. The formal recommendation is highly discrete and concentrated at the most favorable tier, whereas the narrative varies substantially within a given recommendation category. Section 5 uses these figures as descriptive motivation for the within-firm-month regressions.

The main report-level specifications in Sections 5 and 6 absorb firm-by-month and broker fixed effects, include a linear control for days since IPO, and cluster standard errors at the IPO-firm level. The sequence specifications in Section 7 and the potential-omission test absorb IPO-firm, broker, and report-month fixed effects, include days since IPO, and use the same clustering. The post-IPO timing and lead-underwriter tests retain the report-level fixed-effect structure. Internet Appendix Section IA.B reports incremental specifications, fixed-effect comparisons, standardized economic magnitudes, and model-fit diagnostics for these designs.

5 Affiliation and within-report communication allocation

This section tests whether underwriter affiliation tilts the formal recommendation more than the rating-blind narrative. Each report contains two comparable components: the standardized recommendation and the overall narrative stance. Because both measures are mapped to the same 1–5 support, their responses to affiliation can be compared directly.

Figures 1 and 2 provide descriptive evidence on the two components. Figure 1 shows that the recommendation is a coarse and highly discrete signal, with a large mass at the most favorable score. This mass is greater among affiliated reports. The narrative is substantially more continuous, and the affiliated and unaffiliated narrative distributions overlap considerably.

Figure 2 plots the recommendation and narrative within the same report. The vertical bands reflect the discrete recommendation tiers, while the dispersion within each band shows that reports with the same formal recommendation can communicate substantially different narrative assessments. Many observations also fall below the 45-degree line, indicating that the recommendation is more favorable than the accompanying narrative. These figures are descriptive; the regression analysis below controls for issuer-time conditions and persistent broker differences.

All Section 5 regressions use the common estimation sample described in Section 4.6. The identifying variation comes from comparisons between affiliated and unaffiliated reports for the same IPO firm within the same calendar month. Accordingly, all specifications absorb firm-by-month fixed effects and broker fixed effects; the baseline control is a linear term in days since IPO. With firm-by-month fixed effects, that timing control operates off within-month timing differences rather than broader lifecycle variation. These estimates should therefore be read as within-firm-month comparisons rather than as perfectly occasion-matched comparisons of otherwise identical report events. Standard errors are clustered at the IPO-firm level.

5.1 Does affiliation move the recommendation more than the narrative?

I begin by comparing how affiliation shifts the formal recommendation versus the narrative. For report r on IPO firm f in calendar month m, issued by broker b, I estimate:

$$Y_r = \beta Affiliated_r + \gamma' X_r + \alpha_{f,m} + \delta_b + \varepsilon_r, \tag{5.1}$$

where Y_r is either $Recommendation_r$ or $Narrative_r$, and X_r includes a linear control for days since IPO.

Panel A of Table 3 reveals a sharp asymmetry. Affiliation is associated with a 0.2234-point increase in the recommendation, with a standard error of 0.0318. The corresponding increase in the narrative is 0.0456 points, with a standard error of 0.0096. Both estimates are significant at the 1% level, but the recommendation effect is nearly five times as large as the narrative effect.

The result does not imply that affiliation leaves the narrative unchanged. Affiliated reports also communicate somewhat more favorable narrative assessments. The central result is comparative: affiliation shifts the formal recommendation substantially more than it shifts the accompanying narrative. Because the two regressions use the same sample, controls, fixed effects, and clustering, the difference between the two coefficients is captured directly by the wedge regression in Panel B.

The standardized estimates lead to the same conclusion. Internet Appendix Table IA.B3 shows that the affiliation effect equals 0.316 outcome standard deviations for the recommendation and 0.178 outcome standard deviations for the narrative under the preferred fixed-effect specification. Thus, the recommendation effect remains economically larger after each outcome is scaled by its standard deviation under the preferred fixed-effect specification.

5.2 The recommendation–narrative wedge

The level regressions in Panel A indicate that the recommendation and the narrative do not move one-for-one. Panel B therefore turns to the direct within-report wedge,

$$Wedge_r = Recommendation_r - Narrative_r,$$

and estimates:

$$Wedge_r = \beta Affiliated_r + \gamma' X_r + \alpha_{f,m} + \delta_b + \varepsilon_r. \tag{5.2}$$

To separate the extensive margin from the unconditional positive-part effect, I also estimate the same specification using

$$\mathbf{1}\{Wedge_r > 0\} \qquad \text{and} \qquad \max\{Wedge_r, 0\}$$

as dependent variables. The first outcome identifies whether the recommendation exceeds the narrative. The second equals the size of the wedge when it is positive and zero otherwise; it is therefore an unconditional positive-part measure rather than a magnitude conditional on a positive wedge.

Affiliated reports exhibit a larger recommendation–narrative wedge along all three margins. In column (1), affiliation increases the wedge by 0.1778 points, with a standard error of 0.0287. This coefficient is equal to the difference between the affiliation effects on the recommendation and narrative reported in Panel A:

$$0.2234 - 0.0456 = 0.1778.$$

The estimate is significant at the 1% level.

Column (2) shows that affiliation increases the probability of a positive wedge by 8.22 percentage points. Column (3) shows that affiliation increases the unconditional positive part of the wedge by 0.0942 points. Both estimates are significant at the 1% level. Affiliated analysts are therefore not only more likely to issue a formal recommendation that exceeds the stance communicated by the narrative; the positive separation is also larger on average.

Because the recommendation and narrative are constructed differently, the wedge should not be interpreted as a literal notch-for-notch distance between economically identical rating units. The recommendation is obtained from the position of a rating within a broker-specific tier system, whereas the narrative is a rescaled average of ten report dimensions. The common support makes their relative position observable, but it does not require every one-point movement in the two measures to have an identical cardinal meaning. For this reason, the paper reports the two component regressions separately, the direct wedge measures, and the standardized magnitudes.

Appendix Table A1 addresses both the construct and scale concerns directly. Replacing the omnibus narrative with Fundamental Assessment produces an affiliation effect of 0.0449 on the fundamental component and 0.1784 on Recommendation minus Fundamental Assessment. Converting Recommendation and Fundamental Assessment separately to their own pooled empirical ranks still yields a positive affiliation effect of 0.0163 on the rank gap, and the corresponding within-broker-year rank gap is 0.0144. Conditional on Fundamental Assessment deciles, affiliation also increases the probability of the top Recommendation by 6.72 percentage points. The communication-allocation

result therefore does not depend on the linguistic dimensions or on treating one point on the two original scales as having identical cardinal meaning.

The specification checks reported in the Internet Appendix Tables IA.B1–IA.B3 reinforce the main results. The affiliation effects on the recommendation, narrative, and wedge remain positive and statistically significant as the timing control and alternative fixed effects are introduced. The fixed-effect decomposition is also consistent with the two components capturing different dimensions of the report. Firm fixed effects account for a larger share of the additive fixed-effect explanatory power for the narrative, whereas broker fixed effects account for a larger share for the recommendation and wedge. This decomposition is descriptive rather than causal.

The post-IPO timing evidence reinforces this communication-allocation interpretation. Internet Appendix Table IA.F3, Panel A, shows that the affiliation effect on Wedge is 0.2196 during days 0–180 and 0.1617 during days 181–365, with both estimates significant at the 1% level. The cross-period decline is economically meaningful but only marginally significant ($p = 0.082$). I therefore interpret the evidence as showing that the affiliation-related communication shift is economically larger earlier in the post-IPO year but remains present during the second half of the year, rather than as a short-lived effect confined to the IPO date.

Taken together, the results show that affiliation does not shift the entire report uniformly. It is associated with a modestly more favorable narrative, but with a substantially larger change in the formal recommendation. The next section asks how investors price the two components.

6 Market reactions around report releases

Section 5 shows that underwriter affiliation creates a recommendation–narrative wedge: the formal recommendation becomes more favorable than the rating-blind narrative. This section tests the information side of the formal rating-protection mechanism. If the recommendation is the protected formal component rather than a clean information signal, it should have little incremental explanatory power once the narrative is observed. If the narrative is the information-bearing component, it should explain release-window returns. If affiliation also gives analysts issuer-specific context or access, affiliated narratives should receive stronger release-window price responses.

To test these predictions, I examine announcement-window cumulative abnormal returns around

report releases. For report r on firm f in month m issued by broker b, I estimate:

$$\begin{aligned} CAR_r = {} & \eta Affiliated_r + \beta_1 Recommendation_r + \beta_2 Narrative_r \\ & + \beta_3 \left(Affiliated_r \times Recommendation_r\right) + \beta_4 \left(Affiliated_r \times Narrative_r\right) \\ & + \gamma' X_r + \alpha_{f,m} + \delta_b + \varepsilon_r. \end{aligned} \tag{6.1}$$

Here, CAR_r is CAR$[-1, +1]$ around the analyst-report release, computed relative to the CRSP value-weighted return. X_r includes a linear control for days since IPO, while $\alpha_{f,m}$ and δ_b denote firm-by-month and broker fixed effects. With firm-by-month fixed effects, the timing control is identified from within-month timing differences rather than broader post-IPO lifecycle variation. Recommendation and narrative are mean-centered in the interaction specifications. Standard errors are clustered at the IPO-firm level.

Columns (1)–(3) of Panel A in Table 4 report nested versions of equation (6.1): recommendation only, narrative only, and the full horse-race specification. These release-window regressions should be interpreted as reduced-form associations around report releases. Same-day firm news and multiple reports issued for the same firm-date can affect the same CAR, so the coefficients do not structurally isolate the pricing effect of any single report component. In that setting, same-day cross-broker differences in report components do not generate separately observable firm-level returns and may attenuate the estimated slopes.

The regressions use the 44,060-report common estimation sample described in Section 4.6. The sample requires nonmissing release-window returns and both affiliated and unaffiliated coverage of the IPO firm, and it excludes singleton cells under the absorbed fixed-effect structure.

6.1 Report-level horse races and attribution checks

Panel A of Table 4 reports the report-level results. Column (1) includes only the recommendation terms. The recommendation coefficient is 0.0044 and is significant at the 1% level, indicating that more favorable recommendations are associated with more positive release-window returns when the narrative is omitted.

Column (2) includes only the narrative terms. The narrative coefficient is 0.0267 and is significant at the 1% level. The interaction between affiliation and the narrative is 0.0082 and is significant

at the 5% level. Thus, the market response to a more favorable narrative is stronger for affiliated reports.

Column (3) includes both components. Once the narrative is observed, the recommendation coefficient falls to 0.0008 and becomes statistically insignificant. The interaction between affiliation and the recommendation is also small and insignificant. In contrast, the narrative coefficient remains 0.0259 and is significant at the 1% level, while the affiliated narrative interaction is 0.0090 and remains significant at the 5% level.

Panel B re-estimates the joint horse race separately within affiliated and unaffiliated reports. The recommendation coefficient is 0.0001 in affiliated reports and 0.0010 in unaffiliated reports, and neither estimate is statistically significant. The narrative coefficient is 0.0343 for affiliated reports and 0.0327 for unaffiliated reports, with both estimates significant at the 1% level. Because singleton fixed-effect cells are dropped separately within each subgroup, the two Panel B sample sizes need not sum to the Panel A total. These subgroup regressions do not replace the pooled interaction test, but they show that narrative pricing is present within both affiliation statuses.

Appendix Table B4, Panel B, addresses the repeated-use of the same firm-date CAR by collapsing the data to a true one-observation-per- firm-date design. In the full 23,918-firm-date sample, the narrative coefficient is 0.0227 and the affiliated narrative interaction is 0.0239; both are significant at the 1% level. In the direct-valid firm-date sample, which also requires directly observed Recommendation, FPI 6 EPS, and Target Price windows, the corresponding coefficients are 0.0183 and 0.0244 and remain significant at the 5% level. The narrative relation is therefore not an artifact of repeating the same firm-level return across multiple report rows.

Appendix Tables B2 and B3 address near-report quantitative signals matched within two calendar days of the report date and event attribution. In the full sample, adding Recommendation Revision, FPI 6 EPS Revision, Target Price Revision, their interactions with Affiliated, and the associated availability controls leaves the narrative coefficient at 0.0225 and the affiliated narrative interaction at 0.0105, both significant at the 1% level. The interaction also remains positive and significant after excluding earnings-announcement dates, on standalone report dates, and when both restrictions are imposed. Appendix Table B4, Panel A, obtains the same conclusion without zero-filling by requiring directly observed signal windows and adding the corresponding levels and initiation indicators.

Internet Appendix Table IA.D2 separately excludes reports whose source report date falls after

the assigned trading event date. The narrative coefficient and the affiliated narrative interaction remain positive and significant, both in that non-backmapped sample and after also excluding earnings-announcement dates. A strict complete-prior-revision subsample does not reproduce the full-sample affiliation interaction even before the quantitative controls are introduced. I therefore treat that specification in Internet Appendix Table IA.D1 as a selected-sample diagnostic rather than as evidence that the quantitative controls absorb the affiliated narrative loading.

The model-fit evidence leads to the same conclusion. Internet Appendix Table IA.B5 shows that, in the report-level joint model, removing the recommendation block reduces within R^2 by only 0.000023, whereas removing the narrative block reduces within R^2 by 0.012527. Once both components are included, nearly all of the component-level incremental explanatory power comes from the narrative.

The stronger affiliated narrative loading is consistent with affiliated analysts possessing more value-relevant issuer-specific context or with investors perceiving affiliated analysts as having greater access or credibility. The return regressions do not distinguish actual information precision from investor beliefs about information access. I therefore interpret the interaction as reduced-form evidence of a stronger market response to affiliated narratives, rather than as a structural estimate of private-signal precision.

6.2 Fundamental and linguistic components

The overall narrative measure combines five dimensions that capture the report's fundamental assessment and five dimensions that capture linguistic presentation. Because the two blocks are strongly correlated, entering their raw averages together would make it difficult to distinguish the economic assessment from additional linguistic variation. I therefore construct a fundamental assessment and a residual linguistic component.

Let $s_{dr} \in \{1, \ldots, 20\}$ denote the score assigned to dimension d for report r. Let $\mathcal{F}$ contain the five fundamental dimensions and let $\mathcal{L}$ contain the five linguistic dimensions. I define:

$$\begin{aligned} Fundamental_r &= 1 + 4\left(\frac{\frac{1}{5}\sum_{d\in\mathcal{F}} s_{dr} - 1}{19}\right), \\ LinguisticRaw_r &= 1 + 4\left(\frac{\frac{1}{5}\sum_{d\in\mathcal{L}} s_{dr} - 1}{19}\right). \end{aligned} \tag{6.2}$$

Thus, both raw block measures are placed on the same 1–5 support as the standardized recommendation. In the 44,060-report common sample, I then estimate:

$$LinguisticRaw_r = \pi Fundamental_r + \alpha_{f,m} + \delta_b + u_r, \qquad LingResidual_r = \widehat{u}_r. \tag{6.3}$$

The residualization uses the same common sample and absorbs the same firm-by-month and broker fixed effects as the downstream report-level regressions. It does not use returns or any other outcome variable. The resulting linguistic residual captures variation in linguistic presentation that is not explained by the fundamental assessment under this sample and fixed-effect structure. Because it is a residual, it is not measured on the 1–5 scale and its coefficient should not be compared mechanically with the coefficient on the fundamental assessment.

For the joint CAR decomposition, I estimate:

$$\begin{aligned} CAR_r = {} & \eta Affiliated_r + \beta_1 Recommendation_r + \beta_2 Fundamental_r + \beta_3 LingResidual_r \\ & + \beta_4 \left(Affiliated_r \times Recommendation_r\right) + \beta_5 \left(Affiliated_r \times Fundamental_r\right) \\ & + \beta_6 \left(Affiliated_r \times LingResidual_r\right) + \gamma' X_r + \alpha_{f,m} + \delta_b + \varepsilon_r. \end{aligned} \tag{6.4}$$

The recommendation, fundamental assessment, and linguistic residual are mean-centered before constructing the interaction terms.

Table 5 reports the pricing decomposition. Column (1) includes Fundamental Assessment without LingResidual or Recommendation. The Fundamental Assessment coefficient is 0.0230 and its interaction with Affiliated is 0.0065; both are statistically significant. Column (2) includes LingResidual alone. Its coefficient is 0.0294 and is significant at the 1% level, while the affiliated interaction is 0.0022 and statistically insignificant.

Column (3) includes Recommendation, Fundamental Assessment, and LingResidual together. The Recommendation coefficient is 0.0004 and its affiliated interaction is −0.0007; neither is statistically significant. The Fundamental Assessment coefficient remains 0.0225 and its affiliated interaction is 0.0073, both statistically significant. LingResidual remains positive and significant at 0.0265, while its affiliated interaction is 0.0069 and statistically insignificant. Investors therefore respond both to the economic assessment communicated by the report and to residual variation in how that assessment is presented. The additional affiliated loading is present for the fundamental

assessment and is not confined to residual linguistic presentation.

The corresponding supply-side decomposition is reported in Internet Appendix Table IA.C3. Affiliation increases Fundamental Assessment by 0.0449 and LingResidual by 0.0116, while Recommendation minus Fundamental Assessment increases by 0.1784. Because LingResidual is not on the 1–5 scale, its coefficient should not be compared mechanically with the Recommendation or Fundamental Assessment coefficients. The supply and pricing results together show that the main affiliation-related separation remains when the narrative is anchored to the report's substantive economic case.

6.3 Narrative pricing within recommendation tiers

A remaining concern is that the narrative may simply provide a smoother version of the formal recommendation. I address this concern by holding fixed the realized recommendation tier and asking whether narrative variation continues to explain returns within that tier.

Let $Tier_{kr}$ equal one when report r carries realized standardized recommendation tier k, and let k_0 denote the omitted lowest recommendation tier. I estimate:

$$\begin{aligned} CAR_r = {} & \eta Affiliated_r + \beta_1 Narrative_r + \beta_2 \left(Affiliated_r \times Narrative_r\right) \\ & + \sum_{k \neq k_0} \theta_k Tier_{kr} + \sum_{k \neq k_0} \psi_k \left(Affiliated_r \times Tier_{kr}\right) \\ & + \gamma' X_r + \alpha_{f,m} + \delta_b + \varepsilon_r. \end{aligned} \tag{6.5}$$

Column (1) of Appendix Table B1 imposes $\psi_k = 0$ for all k, so the specification includes recommendation-tier fixed effects but a common affiliation intercept across tiers. Column (2) estimates the affiliation-by-tier interactions, allowing the affiliated–unaffiliated intercept difference to vary across recommendation tiers. Narrative is mean-centered using the mean of the full common sample. Consequently, the affiliation coefficient in column (2) is the affiliated–unaffiliated CAR difference for the omitted lowest recommendation tier, evaluated at the overall sample-mean narrative score.

Column (1) shows that the narrative coefficient is 0.0264 and is significant at the 1% level. The interaction between affiliation and the narrative is 0.0083 and is significant at the 5% level. Thus, among reports with the same formal recommendation, more favorable narratives are associated with

more positive release-window returns, and this within-tier relation is stronger for affiliated reports.

Column (2) additionally permits the affiliation intercept to vary across recommendation tiers. The narrative coefficient remains 0.0264, and the affiliated narrative interaction remains 0.0084. Both remain statistically significant at the same levels as in column (1). The result therefore does not depend on imposing a common affiliated–unaffiliated intercept difference across recommendation tiers.

The descriptive matrix in Internet Appendix Table IA.D3 illustrates the same pattern. Among affiliated reports with a recommendation of 5, mean CAR is -0.81% for reports with a relatively low narrative and 2.50% for reports with a relatively high narrative. The corresponding means for unaffiliated reports are -0.63% and 2.12%. Similar separation appears among reports with recommendations below 5.

The pricing relation also persists across the first post-IPO year. Internet Appendix Table IA.F3, Panel B, shows that the Narrative coefficient is 0.0196 during days 0–180 and 0.0296 during days 181–365, with both estimates significant at the 1% level. The corresponding Affiliated $\times$ Narrative coefficients are 0.0072 and 0.0124. Although only the latter estimate is individually significant, the two interaction coefficients are not statistically different from one another ($p = 0.439$). The appropriate conclusion is therefore that Narrative value-relevance persists throughout the first post-IPO year, not that the affiliation-specific Narrative loading increases or decreases over time.

Taken together, the evidence in this section shows that investors place substantial weight on the narrative and little incremental weight on the recommendation level once both components are observed. The narrative and the affiliation-specific narrative loading survive near-report quantitative-signal controls, cleaner event-date restrictions, a true one-observation-per-firm-date design, the fundamental–linguistic decomposition, and conditioning on the realized recommendation tier.

7 From narrative deterioration to formal downgrades

The wedge results are informative about how affiliation affects the relative levels of the two report components, but not about how unfavorable information moves across those components over time. The mechanism developed in Section 3 predicts that affiliated analysts can allow bad information to appear in the narrative while delaying the formal downgrade that would create a discrete adverse

rating action. I first ask whether narrative deterioration is less likely to be formalized through a same-update downgrade. I then examine subsequent report opportunities after a negative update that is not accompanied by an immediate downgrade.

7.1 Do affiliated analysts delay translating bad narrative news into formal downgrades?

For broker–IPO sequence observation s, define $BadNarrativeNews_s$ to equal one if the narrative declines relative to the preceding report issued by the same broker on the same IPO, and define $Downgrade_s$ to equal one if the formal recommendation declines relative to that of the same preceding report. I estimate:

$$Downgrade_s = \beta_1 Affiliated_s + \beta_2 BadNarrativeNews_s + \beta_3 \left(Affiliated_s \times BadNarrativeNews_s\right) + \gamma' X_s + \phi_f + \delta_b + \tau_m + \varepsilon_s, \tag{7.1}$$

where X_s includes days since IPO, ϕ_f denotes IPO-firm fixed effects, δ_b denotes broker fixed effects, and τ_m denotes report-month fixed effects.

The preferred sequence is constructed from the complete first-year broker–IPO report history before the final regression restrictions are imposed. I retain one report per IPO–broker–day, keeping the last report issued on that day, and then construct changes relative to the preceding retained report in that full sequence. After requiring a usable preceding report and the variables needed for the regression, the final sequence sample contains 34,157 observations. I do not use firm-by-month fixed effects in this sequence design because doing so would require multiple sequential broker updates for the same IPO within the same calendar month and would absorb most of the usable variation in downgrade timing. Standard errors are clustered at the IPO-firm level.

Panel A of Table 6 reports the results. Column (1) uses the bad-narrative-news indicator. Bad narrative news strongly predicts a formal downgrade: the coefficient is 0.0557 and is significant at the 1% level. Thus, when the narrative worsens, formal downgrades become more likely.

The key interaction term is negative and highly significant. The coefficient on affiliation interacted with bad narrative news is -0.0205, with a standard error of 0.0060. In economic terms, bad narrative news raises downgrade probability by 5.57 percentage points for unaffiliated analysts,

but by only

$$0.0557 - 0.0205 = 0.0352$$

or 3.52 percentage points for affiliated analysts. Affiliation therefore attenuates the same-update bad-news-to-downgrade relation by approximately 37%.

The Affiliated main effect in column (1) is the affiliation difference when Bad Narrative News equals zero; it is not an unconditional comparison. Internet Appendix Table IA.E2 directly compares reports with room to downgrade and shows that affiliated reports are 1.82 percentage points less likely to downgrade on average. Appendix Table C1 shows that the interaction remains negative after controlling for the exact prior Recommendation tier, the time since the preceding report, sequence position, and prior reporting frequency; it also remains negative when prior-tier-by-bad-news fixed effects are absorbed and when the sample is restricted to observations with room to downgrade.

Column (2) replaces the indicator with Negative Narrative Magnitude, defined as the positive part of the narrative decline divided by 0.10. The coefficient on Negative Narrative Magnitude is 0.0196, implying that a 0.10-point decline in the narrative is associated with a 1.96-percentage-point increase in downgrade probability among unaffiliated analysts. The interaction between affiliation and Negative Narrative Magnitude is −0.0044, with a standard error of 0.0017, and is significant at the 5% level. The corresponding association for affiliated analysts is therefore

$$0.0196 - 0.0044 = 0.0152,$$

or 1.52 percentage points for each 0.10-point decline in the narrative. The indicator and magnitude specifications thus yield the same conclusion: affiliation weakens the same-update mapping from worsening narrative information into a formal downgrade.

7.2 Fundamental-assessment deterioration and subsequent formalization

The overall narrative measure combines the report's fundamental assessment with its linguistic presentation. The preceding findings could therefore reflect changes in the economic assessment communicated by the report, changes in presentation, or both. To separate these possibilities, I repeat equation (7.1) using an indicator for deterioration in the fundamental assessment.

The indicator equals one if the report's assessment of revenue and earnings, competitive and industry positioning, macroeconomic and sector conditions, risk, and management and strategy becomes less favorable relative to the preceding report in the same broker–IPO sequence. The regression otherwise uses the same sample, controls, fixed effects, and clustering as the baseline indicator specification.

Panel B of Table 6 reports the results. Fundamental Assessment Deterioration raises downgrade probability by 5.42 percentage points among unaffiliated analysts. The interaction between affiliation and Fundamental Assessment Deterioration is −0.0193, with a standard error of 0.0060, and is significant at the 1% level. The implied increase in downgrade probability for affiliated analysts is therefore

$$0.0542 - 0.0193 = 0.0349,$$

or 3.49 percentage points. The weaker affiliated mapping from narrative deterioration to formal downgrades therefore appears when unfavorable information is defined using the economic assessment communicated in the report, rather than only changes in linguistic presentation.

Table 6 establishes a weaker same-update formalization relation. Appendix Table C2 then starts the risk clock only after a negative update that has room to downgrade and is not accompanied by an immediate downgrade. Each qualifying event is expanded into subsequent retained report opportunities occurring within 180 days after the focal report and before the end of the first post-IPO year. Conditional on the prior Recommendation tier, future report month, report-opportunity position, and the sequence controls, affiliated reports are 1.66 percentage points less likely to formalize an Overall Narrative Stance deterioration at a subsequent report opportunity and 1.38 percentage points less likely to formalize a Fundamental Assessment deterioration. Both estimates are significant at the 5% level. Internet Appendix Table IA.E1 reports the corresponding next-report and cumulative 30-, 60-, 90-, and 180-day horizons.

Taken together, the same-update, prior-state, at-risk, and subsequent- opportunity tests show that affiliation weakens the formalization of unfavorable narrative information. The evidence is consistent with slower formalization or formal-rating protection, but it does not imply that every unaccompanied negative update is eventually followed by a downgrade and does not separately distinguish strategic delay from internal approval, procedural, or other organizational frictions.

8 Institutional anatomy

The preceding sections show that affiliation shifts the formal recommendation more than the narrative, that investors place greater incremental weight on the narrative, and that affiliated analysts are less likely to translate worsening narrative information into a formal downgrade. They also show that the affiliation-related communication shift is economically larger earlier in the post-IPO year, while Narrative value-relevance persists throughout the year. This section turns to two deal-specific institutional boundary conditions.

First, I examine whether the weaker conversion of bad narrative news into a downgrade is more pronounced when the offering-stage disclosure position is more vulnerable to a potential material-omission concern. Second, I distinguish reports issued by lead underwriters from those issued by other affiliated syndicate members. Supplementary evidence based on analyst experience and general underwriter prestige is reported at the end of the section and in the Internet Appendix.

These tests do not uniquely identify the organizational channel behind formal rating protection. Their narrower purpose is to examine whether the formalization result varies with the offering-stage disclosure state for which the Potential-Omission measure was designed and whether the lead role matters beyond general syndicate affiliation.

8.1 Potential material omission

The downgrade results raise a related institutional question: whether the weaker conversion of bad narrative news into a formal downgrade varies with the offering-stage disclosure environment.

The IPO litigation literature argues that issuers and underwriters use both underpricing and prospectus disclosure to manage litigation exposure (Tinic, 1988; Lowry and Shu, 2002; Hanley and Hoberg, 2012). Hanley and Hoberg (2012) emphasize the combination of positive price-relevant information learned during bookbuilding and relatively weak revision of the prospectus. They describe this state as presenting a potential material omission.

Building on their two-condition framework, I define the positive offer-price revision as:

$$DP_i^{+} = \max\left\{\frac{OfferPrice_i - FilingMidpoint_i}{FilingMidpoint_i}, 0\right\}. \tag{8.1}$$

The low-revisor indicator identifies IPOs whose issuer-driven prospectus revisions are relatively small after accounting for the initial regulation-driven revision. Potential omission is:

$$PO_i = LowRevisor_i \times DP_i^+. \tag{8.2}$$

A higher value therefore identifies an IPO with a larger positive offer-price revision and relatively weak accompanying prospectus revision. I report $PO_{10pp} = PO/0.10$, so the associated coefficients correspond to a 10-percentage-point increase in the measure. Internet Appendix Section IA.G describes the filing sequence, text-revision procedure, and sample construction.

A favorable post-IPO recommendation does not hedge litigation exposure in the same way as underpricing or prospectus disclosure. It neither lowers losses to IPO purchasers nor changes the offering documents. Its narrower role is to avoid creating a new adverse formal statement by the research department of a bank connected to the offering. A qualified narrative discussion is also not costless or legally immune, but it is less categorical than a discrete adverse rating action.

I augment equation (7.1) with the complete set of interactions among affiliation, bad narrative news, and PO_{10pp}. All constituent lower-order terms are included. Because potential omission is fixed at the IPO level, its main effect is absorbed by IPO-firm fixed effects. The final matched sample contains 20,115 report-sequence observations.

Column (1) of Table 7 reports the indicator specification. Bad narrative news has a coefficient of 0.0577, and the baseline affiliated attenuation is -0.0154. The coefficient on the three-way interaction between affiliation, bad narrative news, and PO_{10pp} is -0.0202, with a standard error of 0.0088. Thus, a 10-percentage-point increase in potential omission is associated with an additional 2.02-percentage-point attenuation in the affiliated bad-news-to-downgrade mapping.

Appendix Table D1 translates the interaction into the bad-news-to-downgrade slopes at economically relevant values of the measure. When Potential Omission equals zero, the affiliated–unaffiliated difference in the bad-news slope is -1.54 percentage points. The difference widens to -2.55 percentage points at Potential Omission of 5% and to -3.56 percentage points at Potential Omission of 10%. The marginal effects therefore show directly that the formalization gap grows as the potential-omission state becomes stronger.

This result is consistent with affiliated analysts being especially reluctant to cross the formal

downgrade threshold when the offering-stage disclosure position is more vulnerable. It does not show that a material omission actually occurred, that a lawsuit was filed, or that legal concerns causally determined the analyst's action. The measure identifies a disclosure state derived from the offering documents and price revision, not an adjudicated legal violation.

Column (2) uses negative narrative magnitude. The three-way interaction is −0.0038, with a standard error of 0.0032, and is not statistically significant. The contrast between the indicator and magnitude specifications is more consistent with an effect on whether the analyst crosses the discrete downgrade threshold than with a smooth response to every additional decline in the narrative. Because the two estimates differ in precision, however, the difference in significance should not itself be treated as a formal test that the two effects differ.

The state-specific tests in Internet Appendix Table IA.G2 further sharpen the interpretation. The relevant four-way interaction is −0.0253 for low-revisor IPOs with positive price revisions. It differs from the corresponding high-revisor positive-revision interaction ($p = 0.020$) and from the low-revisor negative-revision interaction ($p = 0.010$). The result is therefore concentrated in the combination of weak prospectus revision and positive price-relevant information for which the potential-omission measure was designed, rather than appearing for low revisors generally or for price revisions of either sign.

8.2 Lead versus other affiliated underwriters

The role of the bank in the underwriting syndicate provides a complementary way to examine the institutional source of the wedge. Lead underwriters are central to bookbuilding, offer-price formation, marketing, allocations, and certification of the issue. If the conflict is concentrated in the formal rating, the lead role should increase the recommendation–narrative wedge primarily through the recommendation margin.

The lead role may also provide additional information. Lead banks have more direct exposure to issuer interaction, investor demand, and the bookbuilding process. This alternative predicts not only a larger lead-affiliated narrative effect, but also a larger market loading on lead-affiliated narratives. Other affiliated underwriters, however, are also members of the syndicate and may share much of the deal-specific familiarity associated with underwriting participation.

I classify a report as lead-affiliated when the report broker is a bookrunner or global coordinator

for the IPO. Other-affiliated identifies reports issued by affiliated syndicate members with a known non-lead role. The corrected deal-specific match retains a separate category for 31 reports with conflicting role assignments. These reports remain in the regressions, but their coefficients are not tabulated. Internet Appendix Section IA.F describes the matching procedure and reports robustness to a broader senior-underwriter definition.

Panel A of Table 8 compares the report components. The lead-affiliated effect on the recommendation is 0.3138, compared with 0.1831 for other affiliated underwriters. The difference is 0.1307 points and is statistically significant ($p = 0.0001$). The corresponding narrative effects are 0.0648 and 0.0371. Their difference, 0.0277 points, is also statistically significant ($p = 0.0009$).

Although the lead role increases both components, the increase is much larger for the formal recommendation. The lead-affiliated wedge effect is 0.2490, compared with 0.1460 for other affiliated underwriters. The 0.1030-point difference is statistically significant ($p = 0.0008$). Thus, the stronger lead effect is not a uniform upward shift in the entire report. It is concentrated disproportionately in the formal recommendation.

Panel B examines whether the larger lead-affiliated wedge is accompanied by additional lead-specific narrative value. The recommendation coefficient and the two recommendation interactions are statistically insignificant. The narrative coefficient is 0.0259 and is significant at the 1% level. Lead-affiliated and other-affiliated narratives each receive an incremental loading of 0.0090 relative to unaffiliated narratives, and both estimates are significant at the 5% level.

The equality test between the lead- and other-affiliated narrative interactions yields a p-value of 0.984. The corresponding test for the recommendation interactions yields a p-value of 0.240. There is therefore no evidence that investors place more weight on a lead-affiliated narrative than on a narrative issued by another affiliated syndicate member.

This combination of results is more consistent with a deal-specific formal- rating effect than with the view that the larger lead wedge merely reflects more value-relevant lead narrative information. Lead underwriters issue more favorable recommendations and larger wedges, but their narratives do not receive a larger incremental market loading. The stronger affiliated narrative loading appears to operate at the broader affiliation or syndicate level rather than being unique to the lead bank.

Internet Appendix Table IA.F2 broadens the senior category to include joint lead managers, co-lead managers, and lead managers. The results are similar under this definition. Removing the

31 reports with unknown roles also leaves the estimates essentially unchanged.

8.3 Observable characteristics and alternative explanations

Finally, I examine whether the wedge and the affiliated narrative loading vary with analyst experience or general underwriter prestige. These tests are supplementary. Neither characteristic provides the same deal-specific variation as post-IPO timing, the lead role, or potential omission, but each addresses a relevant alternative explanation.

Analyst experience may discipline the separation between the recommendation and the narrative. More experienced analysts have accumulated career capital and may face greater reputational costs from issuing a formal recommendation that is difficult to reconcile with the report's underlying assessment. For each matched report author, I measure experience as the number of years between the author's first I/B/E/S EPS forecast and the report date. For reports with multiple matched authors, I use the median author experience and standardize the resulting report-level measure within the estimation sample.

Internet Appendix Table IA.H1 shows that the interaction between affiliation and analyst experience is -0.0381 in the recommendation regression and 0.0125 in the narrative regression. The former is statistically insignificant, while the latter is marginally significant. The resulting interaction in the wedge regression is -0.0505, with a standard error of 0.0260 and a p-value of approximately 0.052.

This evidence is consistent with experience imposing some discipline on within-report communication, but it should be interpreted cautiously. Experience is a tenure-based proxy rather than a direct measure of reputation or outside career opportunities. Moreover, Internet Appendix Table IA.H2 shows that the three-way interaction between affiliation, the narrative, and analyst experience is -0.0012 and statistically insignificant. Experience therefore does not explain the stronger market loading on affiliated narratives. The evidence is more consistent with discipline on communication allocation than with greater production of value-relevant narrative information.

I also examine the Carter–Manaster-style rank of the report broker. If the lead results merely reflect the greater reputation, scale, or research resources of large banks, the affiliation-related wedge and the incremental narrative loading should vary with general underwriter prestige. The estimated interactions between affiliation and underwriter prestige are close to zero for the recommendation,

narrative, and wedge. The three-way interaction between affiliation, the narrative, and underwriter prestige is 0.0031 and is also statistically insignificant.

The null prestige results do not rule out every effect of bank reputation, but they provide no support for a generic bank-brand explanation of the main findings. Together with the lead-underwriter results, this pattern is more consistent with deal-specific role differences than with general underwriter prestige.

Taken together, the evidence in this section separates the formal recommendation margin from the narrative margin along several dimensions. The affiliation-related communication shift is economically stronger closer to the IPO, while narrative value-relevance persists throughout the first post-IPO year. Lead underwriters exhibit substantially larger recommendation and wedge effects than other affiliated syndicate members, but no additional lead-specific narrative loading. Potential omission further weakens the conversion of bad narrative news into a formal downgrade in the disclosure state for which the measure was designed. Analyst experience provides suggestive evidence of communication discipline, whereas general underwriter prestige explains neither the wedge nor the affiliated narrative loading.

9 Conclusion

This paper examines how underwriter affiliation affects communication within the same post-IPO analyst report. Prior research establishes that affiliated analysts issue more favorable recommendations, but a report contains more than its formal rating. It also contains a detailed narrative in which the analyst discusses the issuer's prospects, assumptions, strategy, and risks. By comparing these two components within the same report, this paper asks whether affiliation shifts the entire research product uniformly or instead affects the formal recommendation more strongly than the accompanying analysis.

I construct a common 1–5 recommendation measure from the stock-level rating system disclosed in each report. I then create a rating-blind narrative corpus by removing recommendation labels, target prices, and forward EPS projections before scoring the remaining text. The resulting overall narrative stance is placed on the same support as the recommendation. The main analysis compares affiliated and unaffiliated reports written about the same IPO firm during the same calendar month

while controlling for persistent broker differences.

The first finding is that affiliation shifts the two report components by substantially different amounts. Affiliation increases the formal recommendation by 0.223 points but increases the narrative by only 0.046 points, producing a 0.178-point increase in the recommendation–narrative wedge. Affiliated reports are also more likely to have a recommendation above the narrative and exhibit a larger positive wedge on average. The evidence does not indicate that affiliated narratives are unaffected by the underwriting relationship. Rather, the affiliation-related shift is concentrated disproportionately in the formal recommendation. The same conclusion survives Fundamental-Assessment, rank-based, within-broker- year, and ordinal specifications that do not require the two original measures to have identical cardinal units.

The second finding is that investors distinguish the two components. When the recommendation and narrative enter separately, both are associated with release-window returns. When they enter jointly, however, the recommendation loses its incremental pricing relation, while the narrative remains strongly associated with returns. The market response to the narrative is also stronger for affiliated reports. The narrative and affiliation-specific narrative loadings remain positive after controlling for near-report Recommendation revisions, EPS-forecast revisions, and Target Price revisions matched within two calendar days of the report date, after excluding earnings-announcement and multiple-report dates, in a true one-observation-per-firm-date design, and when the realized Recommendation tier is held fixed. Thus, investors distinguish more and less favorable narratives even among reports carrying the same formal rating.

The narrative result is not confined to linguistic presentation. Both the report's fundamental assessment and its residual linguistic component are associated with release-window returns, and the additional affiliated loading is present for the fundamental assessment. These findings show that the affiliated narrative relation is not driven solely by tone, hedging, readability, or other presentational features. They do not establish that the narrative reveals the analyst's true belief or that affiliated analysts possess more precise private information. The stronger market response may reflect greater issuer-specific context, investor perceptions of access, or perceived credibility. The evidence is therefore most appropriately interpreted as a reduced-form difference in how investors respond to the two public report components.

The third finding concerns how unfavorable information becomes a formal rating action. A

deterioration in the narrative substantially increases the probability of a downgrade, but the increase is smaller for affiliated analysts. The result holds whether deterioration is measured by an indicator, by its magnitude, or using only the report's fundamental assessment. In an at-risk sample with room to downgrade, affiliated reports are also less likely to downgrade on average. After a negative update that is not accompanied by an immediate downgrade, affiliated reports remain less likely to formalize that update at subsequent report opportunities within the observable horizon. Affiliation therefore affects both the average downgrade propensity in the at-risk sample and the same-update and subsequent formalization of narrative deterioration.

These findings clarify the distinction between the level of a formal recommendation and the decision to take a formal adverse action. The recommendation level has little incremental pricing power once the narrative is observed, but affiliation is associated with a weaker conversion of bad narrative news into a downgrade. The evidence is consistent with slower formalization or formal-rating protection, although it does not separately identify strategic delay, internal approval frictions, or other organizational processes that could produce the same pattern.

The institutional tests further separate the formal and narrative margins. The affiliation-related communication shift is economically stronger closer to the IPO, while narrative value-relevance persists throughout the first post-IPO year. Lead-affiliated analysts issue more favorable recommendations and larger wedges than analysts affiliated with other syndicate members, but lead- and other-affiliated narratives receive nearly identical incremental market loadings. The larger lead wedge is therefore more consistent with a deal-specific formal-rating effect than with an additional lead-specific narrative information advantage. General underwriter prestige provides no support for a generic bank-brand explanation of either the wedge or the affiliated narrative loading. Together with the lead-underwriter evidence, this pattern is more consistent with deal-specific responsibility than with general underwriter prestige.

The potential-omission evidence provides a related boundary condition. When a positive offer-price revision is accompanied by relatively weak issuer-driven prospectus revision, affiliation further attenuates the conversion of bad narrative news into a formal downgrade. A 10-percentage-point increase in Potential Omission makes the affiliated–unaffiliated difference in the bad- news-to-downgrade slope 2.02 percentage points more negative. The marginal- effect gap widens from -1.54 percentage points when Potential Omission is zero to -3.56 percentage points when it equals 10%.

The indicator specification is statistically significant whereas the magnitude specification is not, but the difference in significance is not itself a formal threshold test. The potential-omission measure does not establish that an omission occurred, that a lawsuit was filed, or that internal legal concerns causally determined the analyst's action. It identifies an offering-stage disclosure state in which a later adverse formal rating may be especially consequential.

Taken together, the findings support a component-specific view of analyst conflicts. Affiliation does not need to make every part of a report uniformly optimistic. A favorable formal recommendation can coexist with a more qualified narrative when the two components serve different institutional and career functions. The recommendation provides a salient public action by the research arm of a bank connected to the issuer, while the narrative remains a research product through which the analyst communicates expertise and maintains credibility with investors. The resulting pattern is neither the absence of conflict nor the wholesale inflation of the report. It is an unequal allocation of affiliation-related pressure across report components.

This component-level perspective also changes how the information content of analyst research should be evaluated. Studying only the headline recommendation can overstate the extent to which the entire report is distorted, because the accompanying narrative may remain comparatively qualified and value-relevant. Studying only the narrative can understate the importance of the formal component, because the decision to issue a downgrade remains an institutionally meaningful action even when the recommendation level adds little to the pricing of the report. Understanding the communication product therefore requires examining both what the analyst says in detail and whether the analyst converts that assessment into a formal rating action.

The same logic may apply beyond IPO analyst research. Many public communications combine a coarse and institutionally salient summary with a richer body of supporting analysis. Credit ratings accompany detailed rating reports, management forecasts accompany conference-call discussion, and standardized disclosures accompany narrative explanations. When the producer faces conflicting incentives, the resulting distortion may be concentrated in the component that is most visible, formal, or consequential rather than distributed uniformly across the entire communication.

The broader conclusion is that conflicts of interest can affect not only the average direction of communication, but also where within a communication product pressure appears and whether unfavorable information becomes a formal action. In the IPO setting, underwriting affiliation is

associated with a larger formal recommendation relative to the narrative, continued market pricing of the narrative, and a weaker conversion of narrative deterioration into a downgrade. Looking beyond the headline therefore reveals both the information that remains in the report and the formal action that the intermediary appears most reluctant to take.

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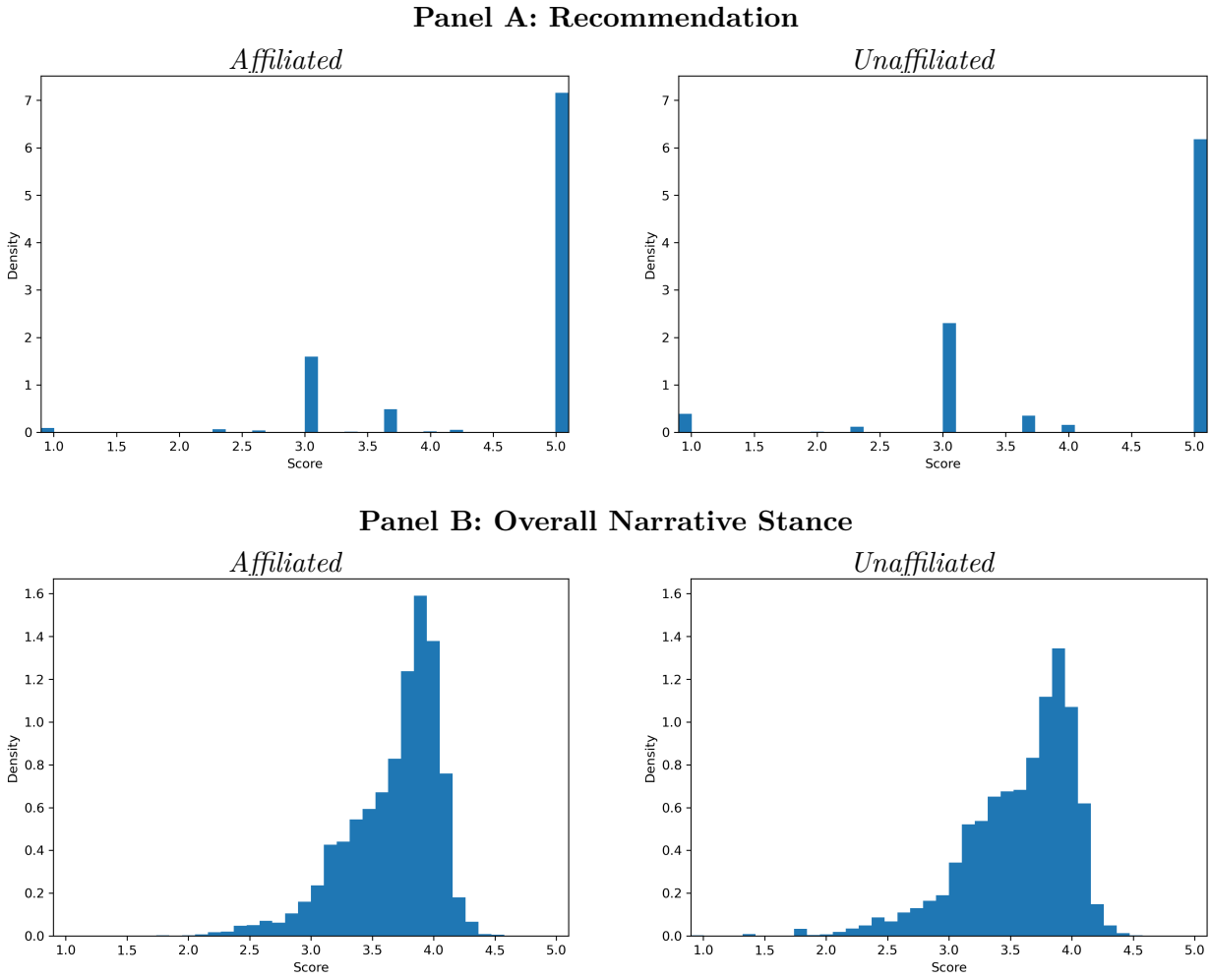


Figure 1: Distributions of Recommendation and Overall Narrative Stance

Notes: This figure presents the unconditional distributions of Recommendation and Overall Narrative Stance for the 64,994 reports matched to an IPO for which the affiliation indicator is coded as either zero or one. Of these reports, 48,510 are coded as affiliated and 16,484 as unaffiliated. Panel A reports the formal Recommendation, mapped from each broker's stock-level rating system to a common 1–5 scale. Panel B reports the rating-blind Overall Narrative Stance on the same 1–5 scale. Each histogram uses 40 equally spaced bins over the interval $[0.9, 5.1]$ and is normalized to integrate to one. The figure uses the broad IPO-matched report universe and does not impose the day 0–365, nonmissing CAR$[-1, +1]$, both-coverage, or fixed-effect singleton restrictions used to construct the 44,060-report common estimation sample for the main report-level analyses.

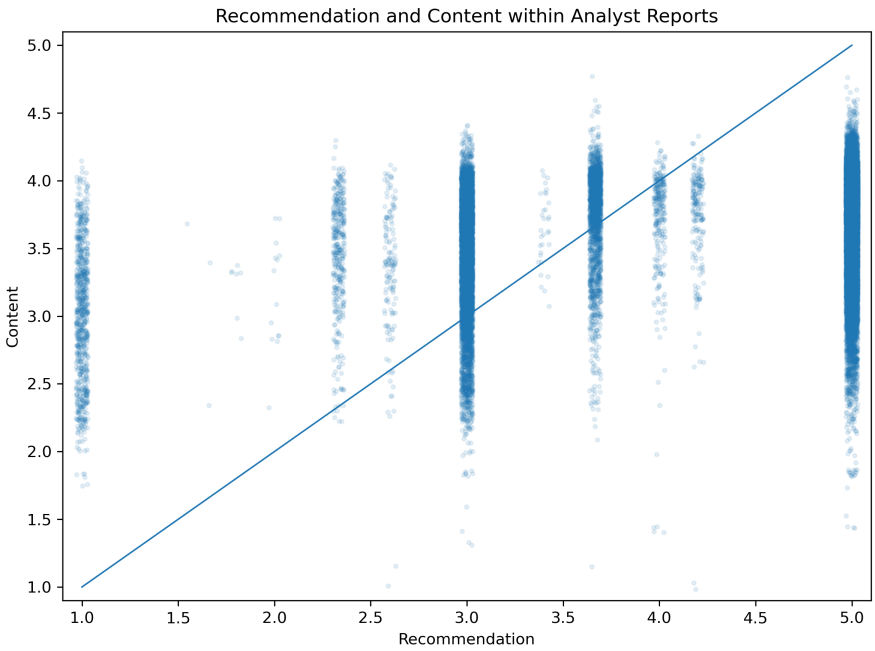


Figure 2: Recommendation and Overall Narrative Stance within Analyst Reports

Notes: This figure plots the standardized formal Recommendation against Overall Narrative Stance for the common estimation sample of 44,060 analyst reports. Each point represents one report. Recommendation is mapped to a common 1–5 scale using the broker's stock-level rating system, while Overall Narrative Stance is constructed from the rating-blind report narrative and placed on the same 1–5 support. The 45-degree line denotes equality between Recommendation and Overall Narrative Stance. Observations below the line have a positive Recommendation–Narrative Wedge.

Table 1: Narrative-scoring dimensions and aggregate narrative measures

Panel A: Ten narrative-scoring dimensions

Dimension	**What it is intended to capture**
Fundamental dimensions	
Revenue and Earnings Outlook	Whether the report describes stronger near- to medium-term operating performance, including sales growth, profitability, and earnings prospects.
Competitive and Industry Positioning	Whether the report portrays the firm as competitively stronger within its product market or industry environment.
Macroeconomic and Sector Trends	Whether the report frames the broader macroeconomic and sector backdrop as supportive or adverse for the firm's prospects.
Risk Signals	Whether the report emphasizes downside risks, uncertainty, or constraints that weaken the overall case for the firm.
Management and Strategy Quality	Whether the report presents management quality, execution, and strategy as strengthening or weakening the firm's outlook.
Linguistic dimensions	
Readability	Whether the report communicates its case clearly and coherently, making the analyst's stance easier for investors to extract from the narrative.
Tone	Whether the narrative adopts a more favorable or unfavorable overall tenor in describing the firm and its prospects.
Sentiment Polarity	Whether the language used in the report is more positively or negatively valenced.
Hedging and Uncertainty	Whether the analyst expresses the narrative with confidence or instead uses cautious, qualified, and uncertain language.
Linguistic Intensity	Whether the narrative relies on emphatic, forceful, or muted language in presenting the analyst's view.

Panel B: Aggregate narrative measures

Variable	**Definition and interpretation**
Overall Narrative Stance (*Narrative*)	The equal-weight average of all ten dimension scores, linearly rescaled to the 1–5 support of the standardized Recommendation. It is an omnibus measure of the stance communicated by the rating-blind narrative, combining the report's fundamental assessment and linguistic presentation.
Fundamental Assessment	The equal-weight average of the five fundamental-dimension scores in Panel A, linearly rescaled to the 1–5 support of the standardized Recommendation. It captures the substantive economic assessment communicated by the report.
Raw Linguistic Presentation	The equal-weight average of the five linguistic-dimension scores in Panel A, linearly rescaled to the 1–5 support of the standardized Recommendation. It captures how the report communicates its assessment through readability, tone, sentiment, hedging, and linguistic intensity.
LingResidual	The residual from projecting Raw Linguistic Presentation on Fundamental Assessment while absorbing firm-by-month and broker fixed effects in the common 44,060-report sample. The residualization does not use returns or any other outcome variable. LingResidual is not measured on the 1–5 scale.

Notes: Each of the ten dimensions in Panel A is scored from 1 to 20 according to its prespecified dimension-specific rubric. The exact aggregation equations and rescaling transformations are reported in Section 4.4. The construction of LingResidual is described in Section 6.2. The measures capture the assessment communicated in the report and should not be interpreted as realized firm fundamentals or as the analyst's unobserved true belief.

Table 2: Summary statistics

Panel A: Common report-level sample

Variable	N	Mean	Median	Std. Dev.
Affiliated	44,060	0.715	1.000	0.451
Lead-Affiliated	44,060	0.396	0.000	0.489
Other-Affiliated	44,060	0.318	0.000	0.466
Recommendation	44,060	4.426	5.000	0.966
Overall Narrative Stance	44,060	3.651	3.737	0.389
Fundamental Assessment	44,060	3.643	3.737	0.431
Wedge	44,060	0.775	1.074	0.917
CAR$[-1,+1]$	44,060	0.004	0.001	0.114
Days since IPO	44,060	190.355	196.000	106.054

Panel B: Full-history broker–IPO sequence sample

Variable	N	Mean	Median	Std. Dev.
Prior Recommendation	34,157	4.445	5.000	0.956
Bad narrative news	34,157	0.507	1.000	0.500
Negative narrative magnitude	34,157	1.577	0.211	2.517
Fundamental Assessment Deterioration	34,157	0.487	0.000	0.500
Downgrade	34,157	0.045	0.000	0.206
Room to Downgrade	34,157	0.982	1.000	0.134

Panel C: Potential-omission matched sample

Variable	N	Mean	Median	Std. Dev.
Potential Omission	20,115	0.028	0.000	0.072

Notes: Panel A uses the common report-level sample. Recommendation, Overall Narrative Stance, and Fundamental Assessment are measured on a 1–5 scale. Wedge equals Recommendation minus Overall Narrative Stance. Lead-Affiliated and Other-Affiliated are defined using the corrected deal-specific underwriting- role match. Thirty-one affiliated reports with ambiguous underwriting roles are retained in the regressions as a separate category and are not included in either reported role indicator. Panel B uses the full-history broker–IPO sequence sample, in which the preceding report and all change variables are constructed before the final regression restrictions are imposed. Prior Recommendation is the standardized Recommendation in the preceding retained report. Bad narrative news equals one when Overall Narrative Stance declines relative to that report. Negative narrative magnitude equals the positive part of the decline in Overall Narrative Stance divided by 0.10 and therefore is measured in 0.10-point units. Fundamental Assessment Deterioration and Downgrade are defined analogously. Room to Downgrade equals one when the prior Recommendation is above the minimum standardized rating. Panel C summarizes Potential Omission in the matched sample used in the Hanley–Hoberg tests. Potential Omission equals Low Revisor multiplied by the positive offer-price revision. Variable-specific statistics use all nonmissing observations in the indicated estimation sample.

Table 3: Within-report communication allocation

Panel A: Report components

	(1) Recommendation	(2) Narrative
Affiliated	0.2234***	0.0456***
	(0.0318)	(0.0096)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	44,060	44,060
Overall R^2	0.469	0.566

Panel B: Recommendation–narrative wedge

	(1) Wedge	(2) $1\{\text{Wedge} > 0\}$	(3) $\max\{\text{Wedge}, 0\}$
Affiliated	0.1778***	0.0822***	0.0942***
	(0.0287)	(0.0128)	(0.0182)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.479	0.441	0.504

Notes: The unit of observation is an analyst report issued within 365 days of the IPO. Recommendation is the standardized headline recommendation on a 1–5 scale. Narrative is the rating-blind Overall Narrative Stance on the same 1–5 scale. Wedge equals Recommendation minus Narrative. Panel B additionally reports an indicator for a positive Wedge and the positive part of Wedge. All specifications absorb firm-by-month fixed effects and broker fixed effects and include a linear control for days since IPO. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 4: Market reactions around report releases

Panel A: Report-level horse-race regressions

	(1) Recommendation only	(2) Narrative only	(3) Both
Recommendation	0.0044***		0.0008
	(0.0008)		(0.0009)
Affiliated	-0.0013	-0.0018	-0.0019
	(0.0013)	(0.0013)	(0.0013)
Affiliated × Recommendation	-0.0005		-0.0009
	(0.0009)		(0.0010)
Narrative		0.0267***	0.0259***
		(0.0032)	(0.0036)
Affiliated × Narrative		0.0082**	0.0090**
		(0.0032)	(0.0035)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.627	0.632	0.632

Panel B: Joint horse race within affiliation status

	(1) Affiliated reports	(2) Unaffiliated reports
Recommendation	0.0001	0.0010
	(0.0007)	(0.0012)
Narrative	0.0343***	0.0327***
	(0.0033)	(0.0051)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	30,566	10,658
Overall R^2	0.654	0.623

Notes: The dependent variable is CAR$[-1,+1]$ around the analyst report release, computed relative to the CRSP value-weighted return. Recommendation and Narrative are mean-centered in the interaction specifications. Panel A reports the report-level Recommendation-only, Narrative-only, and joint horse-race regressions. The Affiliated coefficient is the affiliated–unaffiliated intercept difference when the included report components are evaluated at their full-sample means. Panel B re-estimates the joint specification separately within affiliated and unaffiliated reports. Because Affiliated is constant within each Panel B subsample, its main effect and interactions are not estimated in that panel. Singleton fixed-effect cells are dropped separately within each subsample, so the two sample sizes need not sum to the Panel A total. All specifications absorb firm-by-month fixed effects and broker fixed effects and include a linear control for days since IPO. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 5: Fundamental and linguistic components of the narrative

	(1) Fundamental Assessment only	(2) LingResidual only	(3) Both
Affiliated	-0.0016	-0.0008	-0.0019
	(0.0013)	(0.0013)	(0.0013)
Recommendation			0.0004
			(0.0009)
Affiliated × Recommendation			-0.0007
			(0.0011)
Fundamental Assessment	0.0230***		0.0225***
	(0.0029)		(0.0032)
Affiliated × Fundamental Assessment	0.0065**		0.0073**
	(0.0029)		(0.0031)
LingResidual		0.0294***	0.0265***
		(0.0082)	(0.0083)
Affiliated × LingResidual		0.0022	0.0069
		(0.0103)	(0.0104)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.631	0.627	0.632

Notes: The dependent variable is CAR$[-1, +1]$ around the analyst report release. Fundamental Assessment is the 1–5 rescaling of the average score across the five fundamental dimensions of the narrative. LingResidual is the residual from projecting Raw Linguistic Presentation on Fundamental Assessment while absorbing firm-by-month and broker fixed effects in the common 44,060-report sample. The residualization does not use CAR or any other outcome variable. LingResidual is not measured on the 1–5 scale, so its coefficient should not be compared mechanically with the Fundamental Assessment coefficient. Recommendation, Fundamental Assessment, and LingResidual are mean-centered before their interactions with Affiliated are constructed. The Affiliated coefficient is therefore the affiliated–unaffiliated intercept difference when the report components included in the column are evaluated at their full-sample means. All specifications absorb firm-by-month fixed effects and broker fixed effects and include a linear control for days since IPO. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 6: Narrative deterioration and formal downgrades

Panel A: Overall Narrative Stance

	(1) Indicator	(2) Magnitude
Affiliated	0.0019	0.0006
	(0.0042)	(0.0041)
Bad narrative news	0.0557***	
	(0.0058)	
Affiliated × Bad narrative news	-0.0205***	
	(0.0060)	
Negative narrative magnitude		0.0196***
		(0.0016)
Affiliated × Negative narrative magnitude		-0.0044**
		(0.0017)
Firm FE	Yes	Yes
Broker FE	Yes	Yes
Report-month FE	Yes	Yes
Controls	Yes	Yes
N	34,157	34,157
Overall R^2	0.093	0.121

Panel B: Fundamental Assessment

	(1) Downgrade
Affiliated	0.0010
	(0.0043)
Fundamental Assessment Deterioration	0.0542***
	(0.0058)
Affiliated × Fundamental Assessment Deterioration	-0.0193***
	(0.0060)
Firm FE	Yes
Broker FE	Yes
Report-month FE	Yes
Controls	Yes
N	34,157
Overall R^2	0.093

Notes: The dependent variable equals one when the formal recommendation declines relative to the preceding retained report issued by the same broker on the same IPO. The preceding report and all change variables are constructed from the complete first-year broker–IPO report history before the final regression restrictions are imposed. Bad narrative news equals one when Narrative declines relative to that report. Negative narrative magnitude equals the positive part of the decline in Narrative divided by 0.10. Fundamental Assessment Deterioration is defined analogously using Fundamental Assessment. All specifications absorb IPO-firm, broker, and report-month fixed effects and include a linear control for days since IPO. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 7: Potential material omission and formal downgrade decisions

	(1) Indicator	(2) Magnitude
Affiliated	0.0087	0.0098
	(0.0062)	(0.0061)
Bad narrative news	0.0577***	
	(0.0089)	
Affiliated × Bad narrative news	-0.0154*	
	(0.0093)	
Affiliated × PO_{10pp}	0.0088*	0.0047
	(0.0046)	(0.0065)
Bad narrative news × PO_{10pp}	0.0081	
	(0.0080)	
Affiliated × Bad narrative news × PO_{10pp}	-0.0202**	
	(0.0088)	
Negative narrative magnitude		0.0218***
		(0.0023)
Affiliated × Negative narrative magnitude		-0.0039
		(0.0025)
Negative narrative magnitude × PO_{10pp}		-0.0001
		(0.0025)
Affiliated × Negative narrative magnitude × PO_{10pp}		-0.0038
		(0.0032)
Firm FE	Yes	Yes
Broker FE	Yes	Yes
Report-month FE	Yes	Yes
Controls	Yes	Yes
N	20,115	20,115
Overall R^2	0.107	0.139

Notes: Potential Omission equals Low Revisor multiplied by DP^+, where DP^+ is the positive part of the offer-price revision relative to the midpoint of the first numeric filing range. PO_{10pp} equals Potential Omission divided by 0.10, so coefficients involving PO_{10pp} are interpreted per 10-percentage-point increase. The IPO-level main effect of Potential Omission is absorbed by IPO-firm fixed effects. Column (1) uses the Bad narrative news indicator; column (2) uses Negative narrative magnitude, measured per 0.10-point decline. All specifications absorb IPO-firm, broker, and report-month fixed effects and include a linear control for days since IPO. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 8: Lead versus other affiliated underwriters

Panel A: Affiliation effects on report components

	(1) Recommendation	(2) Narrative	(3) Wedge
Lead-Affiliated	0.3138***	0.0648***	0.2490***
	(0.0415)	(0.0107)	(0.0374)
Other-Affiliated	0.1831***	0.0371***	0.1460***
	(0.0324)	(0.0102)	(0.0292)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.471	0.566	0.480

Panel B: Joint CAR horse race

	(1) CAR$[-1,+1]$
Lead-Affiliated	-0.0021
	(0.0017)
Other-Affiliated	-0.0017
	(0.0013)
Recommendation	0.0007
	(0.0009)
Lead-Affiliated × Recommendation	-0.0004
	(0.0012)
Other-Affiliated × Recommendation	-0.0016
	(0.0012)
Narrative	0.0259***
	(0.0036)
Lead-Affiliated × Narrative	0.0090**
	(0.0039)
Other-Affiliated × Narrative	0.0090**
	(0.0038)
Firm×Month FE	Yes
Broker FE	Yes
Controls	Yes
N	44,060
Overall R^2	0.632

Notes: Lead-Affiliated identifies affiliated reports issued by bookrunners or global coordinators. Other-Affiliated identifies other role-matched affiliated syndicate members. Recommendation and Narrative are mean-centered in Panel B. Consequently, the Lead-Affiliated and Other-Affiliated rows report the corresponding CAR intercept differences relative to unaffiliated reports when both report components are at their sample means. The corrected role- matching procedure also retains a separate Unknown-Affiliated category for 31 reports. The corresponding main effect and interactions are included in the regression but are not tabulated. All specifications absorb firm-by-month and broker fixed effects and include a linear control for days since IPO. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

A Measurement and Scale Robustness

This appendix examines whether the communication-allocation results depend on combining fundamental and linguistic dimensions in Overall Narrative Stance or on treating Recommendation and Fundamental Assessment as cardinally comparable. All specifications use the 44,060-report common sample and the fixed-effect structure of the main analysis.

Appendix Table A1: Fundamental, scale-free, and ordinal communication-allocation tests

Panel A: Fundamental Assessment

	(1) Recommendation	(2) Fundamental Assessment	(3) Recommendation − Fundamental Assessment
Affiliated	0.2234***	0.0449***	0.1784***
	(0.0318)	(0.0105)	(0.0288)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.469	0.566	0.487

Panel B: Pooled empirical ranks

	(1) Recommendation Rank	(2) Fundamental Rank	(3) Recommendation Rank − Fundamental Rank
Affiliated	0.0460***	0.0296***	0.0163**
	(0.0070)	(0.0066)	(0.0073)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.485	0.552	0.556

Panel C: Broker-year and ordinal comparisons

	(1) Within-Broker-Year Rank Gap	(2) Top Recommendation	(3) Recommendation ≥ 4
Affiliated	0.0144**	0.0672***	0.0696***
	(0.0073)	(0.0122)	(0.0125)
Fundamental Assessment Decile FE	No	Yes	Yes
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.445	0.547	0.539

Notes: Recommendation and Fundamental Assessment are measured on a 1–5 scale. In Panel B, each variable is converted separately into a mid-CDF rank using its own pooled empirical distribution. Panel C column (1) constructs the two ranks separately within broker-year before taking their difference. Top Recommendation equals one when Recommendation is 5. Recommendation ≥ 4 equals one when the standardized Recommendation is at least 4. Controls include a linear term in days since IPO. All specifications absorb firm-by-month and broker fixed effects, and standard errors are clustered at the IPO-firm level. The rank and ordinal tests do not require a one-unit movement in Recommendation and Fundamental Assessment to have the same cardinal meaning. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

B Additional Market-Reaction Evidence

This section provides additional evidence supporting the market-reaction results. Appendix Table B1 holds fixed the realized Recommendation tier. Appendix Tables B2 and B3 add near-report Recommendation, EPS-forecast, and Target Price signals matched within two calendar days of the report date and then exclude earnings-announcement dates or dates with multiple reports. Appendix Table B4 requires directly observed signal windows and separately collapses the data to one observation per firm-date.

Appendix Table B1: Narrative pricing within realized recommendation tiers

	(1) Recommendation-Tier FE	(2) Affiliated × Recommendation-Tier FE
Affiliated	-0.0019	-0.0084
	(0.0013)	(0.0077)
Narrative	0.0264***	0.0264***
	(0.0034)	(0.0036)
Affiliated × Narrative	0.0083**	0.0084**
	(0.0032)	(0.0036)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	44,060	44,060
Overall R^2	0.632	0.632

Notes: The dependent variable is CAR$[-1,+1]$ around the analyst-report release. Both columns absorb Recommendation-tier fixed effects. Column (2) also interacts Affiliated with the complete set of Recommendation-tier indicators, allowing the affiliated–unaffiliated intercept difference to vary across realized tiers. Narrative is mean-centered using the common-sample mean. Controls include a linear term in days since IPO. All specifications absorb firm-by-month and broker fixed effects, and standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table B2: Quantitative-signal controls in the full sample and after excluding earnings-announcement dates

Panel A: Full report sample

	(1) Baseline	(2) With Quantitative Signals
Affiliated	-0.0019	-0.0034*
	(0.0013)	(0.0020)
Recommendation	0.0008	0.0006
	(0.0009)	(0.0009)
Affiliated × Recommendation	-0.0009	-0.0016
	(0.0010)	(0.0010)
Narrative	0.0259***	0.0225***
	(0.0036)	(0.0035)
Affiliated × Narrative	0.0090**	0.0105***
	(0.0035)	(0.0034)
Recommendation Revision		0.0153***
		(0.0049)
Affiliated × Recommendation Revision		0.0146**
		(0.0062)
Recommendation Revision Available		-0.0059**
		(0.0029)
Affiliated × Recommendation Revision Available		0.0059
		(0.0039)
FPI 6 EPS Revision, Price-Scaled		1.6966***
		(0.3294)
Affiliated × FPI 6 EPS Revision, Price-Scaled		-1.1612***
		(0.3568)
FPI 6 EPS Revision Available		0.0023
		(0.0022)
Affiliated × FPI 6 EPS Revision Available		-0.0017
		(0.0033)
Target Price Revision, Price-Scaled		0.0195***
		(0.0044)
Affiliated × Target Price Revision, Price-Scaled		-0.0084**
		(0.0041)
Target Price Revision Available		0.0019
		(0.0027)
Affiliated × Target Price Revision Available		-0.0032
		(0.0029)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	44,060	44,060
Overall R^2	0.632	0.635

Notes: The dependent variable is CAR$[-1,+1]$. Recommendation, EPS-forecast, and Target Price signals are matched when the corresponding I/B/E/S announcement date falls within two calendar days of the report date. Recommendation and Narrative are mean-centered before constructing their interactions with Affiliated. FPI denotes the I/B/E/S Forecast Period Indicator; FPI 6 identifies the first quarterly forecast horizon used in the primary matching procedure. Price-scaled revisions are divided by the matched stock price. In column (2), an unavailable quantitative signal is set to zero and accompanied by an availability indicator and its interaction with Affiliated. Controls include a linear term in days since IPO. All specifications absorb firm-by-month and broker fixed effects, and standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table B2: Quantitative-signal controls in the full sample and after excluding earnings-announcement dates (continued)

Panel B: Excluding earnings-announcement dates

	(1) Baseline	(2) With Quantitative Signals
Affiliated	-0.0032*	-0.0036
	(0.0019)	(0.0025)
Recommendation	0.0020*	0.0018*
	(0.0011)	(0.0011)
Affiliated × Recommendation	-0.0011	-0.0019
	(0.0014)	(0.0013)
Narrative	0.0182***	0.0147***
	(0.0043)	(0.0042)
Affiliated × Narrative	0.0132***	0.0147***
	(0.0049)	(0.0048)
Recommendation Revision		0.0123**
		(0.0054)
Affiliated × Recommendation Revision		0.0179**
		(0.0072)
Recommendation Revision Available		-0.0042
		(0.0042)
Affiliated × Recommendation Revision Available		0.0029
		(0.0062)
FPI 6 EPS Revision, Price-Scaled		2.1722***
		(0.6600)
Affiliated × FPI 6 EPS Revision, Price-Scaled		-1.8455**
		(0.8149)
FPI 6 EPS Revision Available		0.0006
		(0.0033)
Affiliated × FPI 6 EPS Revision Available		0.0035
		(0.0058)
Target Price Revision, Price-Scaled		0.0333***
		(0.0092)
Affiliated × Target Price Revision, Price-Scaled		-0.0134
		(0.0096)
Target Price Revision Available		0.0029
		(0.0043)
Affiliated × Target Price Revision Available		-0.0059
		(0.0046)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	27,337	27,337
Overall R^2	0.603	0.606

Notes: The sample excludes reports issued within one calendar day of either the preceding or next earnings-announcement date. All variable definitions, controls, fixed effects, and clustering follow Panel A. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table B3: Quantitative-signal controls on standalone report dates

Panel A: Standalone report dates

	(1) Baseline	(2) With Quantitative Signals
Affiliated	-0.0029	-0.0010
	(0.0026)	(0.0043)
Recommendation	0.0005	0.0002
	(0.0014)	(0.0014)
Affiliated × Recommendation	0.0028	0.0011
	(0.0021)	(0.0021)
Narrative	0.0182***	0.0165***
	(0.0048)	(0.0048)
Affiliated × Narrative	0.0147**	0.0131**
	(0.0060)	(0.0061)
Recommendation Revision		0.0085
		(0.0061)
Affiliated × Recommendation Revision		0.0353***
		(0.0098)
Recommendation Revision Available		-0.0081
		(0.0063)
Affiliated × Recommendation Revision Available		0.0009
		(0.0111)
FPI 6 EPS Revision, Price-Scaled		0.9577
		(0.8691)
Affiliated × FPI 6 EPS Revision, Price-Scaled		-0.5214
		(1.0429)
FPI 6 EPS Revision Available		0.0045
		(0.0044)
Affiliated × FPI 6 EPS Revision Available		0.0011
		(0.0095)
Target Price Revision, Price-Scaled		0.0223**
		(0.0087)
Affiliated × Target Price Revision, Price-Scaled		-0.0097
		(0.0123)
Target Price Revision Available		0.0042
		(0.0061)
Affiliated × Target Price Revision Available		-0.0031
		(0.0062)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	14,224	14,224
Overall R^2	0.425	0.430

Notes: Standalone report dates contain one analyst report for the firm on that date in the complete first-year report universe. Variable definitions and estimation details follow Appendix Table B2. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table B3: Quantitative-signal controls on standalone report dates (continued)

Panel B: Standalone report dates excluding earnings announcements

	(1) Baseline	(2) With Quantitative Signals
Affiliated	-0.0027	0.0004
	(0.0029)	(0.0046)
Recommendation	0.0011	0.0007
	(0.0015)	(0.0015)
Affiliated × Recommendation	0.0010	-0.0005
	(0.0022)	(0.0022)
Narrative	0.0148***	0.0134**
	(0.0053)	(0.0053)
Affiliated × Narrative	0.0174***	0.0155**
	(0.0067)	(0.0069)
Recommendation Revision		0.0086
		(0.0063)
Affiliated × Recommendation Revision		0.0354***
		(0.0105)
Recommendation Revision Available		-0.0086
		(0.0067)
Affiliated × Recommendation Revision Available		-0.0006
		(0.0132)
FPI 6 EPS Revision, Price-Scaled		0.6925
		(1.2616)
Affiliated × FPI 6 EPS Revision, Price-Scaled		-0.2845
		(1.4899)
FPI 6 EPS Revision Available		0.0025
		(0.0049)
Affiliated × FPI 6 EPS Revision Available		0.0062
		(0.0118)
Target Price Revision, Price-Scaled		0.0228**
		(0.0113)
Affiliated × Target Price Revision, Price-Scaled		-0.0092
		(0.0173)
Target Price Revision Available		0.0076
		(0.0067)
Affiliated × Target Price Revision Available		-0.0081
		(0.0061)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	11,928	11,928
Overall R^2	0.406	0.410

Notes: The sample additionally excludes reports issued within one calendar day of either the preceding or next earnings-announcement date. All other variable definitions and estimation details follow Panel A. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table B4: Directly observed signal windows and firm-date designs

Panel A: Directly observed quantitative-signal windows

	(1) Baseline	(2) With Quantitative Signals
Affiliated	-0.0000	0.0011
	(0.0040)	(0.0044)
Recommendation	0.0017	0.0018
	(0.0022)	(0.0019)
Affiliated × Recommendation	0.0011	-0.0009
	(0.0028)	(0.0025)
Narrative	0.0287***	0.0149**
	(0.0075)	(0.0068)
Affiliated × Narrative	0.0127	0.0205**
	(0.0093)	(0.0094)
Recommendation Revision		0.0159**
		(0.0073)
Affiliated × Recommendation Revision		0.0311***
		(0.0120)
FPI 6 EPS Revision, Price-Scaled		1.5970
		(1.3041)
Affiliated × FPI 6 EPS Revision, Price-Scaled		-2.2701
		(1.5195)
Target Price Revision, Price-Scaled		0.0692***
		(0.0210)
Affiliated × Target Price Revision, Price-Scaled		-0.0365*
		(0.0192)
FPI 6 EPS Forecast Level, Price-Scaled		0.4317
		(0.4179)
Affiliated × FPI 6 EPS Forecast Level, Price-Scaled		0.0172
		(0.1705)
Target Price Level, Price-Scaled		-0.0006*
		(0.0003)
Affiliated × Target Price Level, Price-Scaled		-0.0000
		(0.0000)
Recommendation Initiation		-0.0151
		(0.0156)
Affiliated × Recommendation Initiation		0.0105
		(0.0210)
FPI 6 EPS Initiation		0.0072
		(0.0147)
Affiliated × FPI 6 EPS Initiation		-0.0056
		(0.0197)
Target Price Initiation		0.0161
		(0.0138)
Affiliated × Target Price Initiation		-0.0119
		(0.0164)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	7,617	7,617
Overall R^2	0.725	0.736

Notes: The sample requires directly observed valid Recommendation, FPI 6 EPS, and Target Price windows and excludes earnings-announcement dates. Column (2) includes revisions, contemporaneous levels, initiation indicators, and all corresponding interactions with Affiliated. Variable definitions, fixed effects, controls, and clustering otherwise follow Appendix Table B2. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table B4: Directly observed signal windows and firm-date designs (continued)

Panel B: One observation per firm-date

	(1) Full Firm-Date Sample	(2) Direct-Valid Firm-Date Sample
Affiliated	-0.0027*	-0.0002
	(0.0015)	(0.0045)
Recommendation	0.0033***	0.0026
	(0.0012)	(0.0024)
Affiliated × Recommendation	-0.0014	-0.0010
	(0.0016)	(0.0035)
Narrative	0.0227***	0.0183**
	(0.0042)	(0.0078)
Affiliated × Narrative	0.0239***	0.0244**
	(0.0050)	(0.0113)
Recommendation Revision		0.0139**
		(0.0071)
Affiliated × Recommendation Revision		0.0549***
		(0.0140)
FPI 6 EPS Revision, Price-Scaled		2.2629
		(1.7319)
Affiliated × FPI 6 EPS Revision, Price-Scaled		-2.8012
		(1.9327)
Target Price Revision, Price-Scaled		0.0686***
		(0.0211)
Affiliated × Target Price Revision, Price-Scaled		-0.0377
		(0.0244)
FPI 6 EPS Forecast Level, Price-Scaled		0.6424
		(0.6145)
Affiliated × FPI 6 EPS Forecast Level, Price-Scaled		0.0203
		(0.2185)
Target Price Level, Price-Scaled		-0.0005
		(0.0004)
Affiliated × Target Price Level, Price-Scaled		-0.0000
		(0.0000)
Recommendation Initiation		-0.0177
		(0.0181)
Affiliated × Recommendation Initiation		0.0188
		(0.0283)
FPI 6 EPS Initiation		0.0101
		(0.0180)
Affiliated × FPI 6 EPS Initiation		-0.0104
		(0.0259)
Target Price Initiation		0.0131
		(0.0171)
Affiliated × Target Price Initiation		-0.0167
		(0.0215)
Report Count	-0.0002	0.0023
	(0.0005)	(0.0028)
Firm×Month FE	Yes	Yes
Broker FE	No	No
Controls	Yes	Yes
N	23,918	5,121
Overall R^2	0.476	0.633

Notes: The dependent variable is the unique firm-date CAR$[-1,+1]$. The report-level data are collapsed to one observation per firm-date by averaging every original right-hand-side term, including interaction terms, rather than multiplying separately averaged variables. Column (2) requires directly observed quantitative-signal windows and includes the same revisions, levels, initiation indicators, and Affiliated interactions as Panel A. The regressions absorb firm-by-month fixed effects, control for the number of reports on the firm-date, and omit broker fixed effects because a firm-date can contain multiple brokers. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

C Formal-Downgrade Robustness

Appendix Table C1 examines whether the same-update downgrade result is robust to the prior Recommendation tier, the interval and position of the report in the broker–IPO sequence, prior report frequency, and mechanical downgrade capacity. Appendix Table C2 then starts the risk clock only after a negative update that is not accompanied by an immediate downgrade and examines subsequent report opportunities.

Appendix Table C1: Prior rating state, reporting sequence, and downgrade capacity

Panel A: Overall Narrative Stance deterioration

	(1) Full History	(2) Prior State	(3) Tier × Bad-News FE	(4) Downgrade Room
Affiliated	0.0019	-0.0089*	-0.0080	-0.0078
	(0.0042)	(0.0052)	(0.0052)	(0.0053)
Bad Narrative News	0.0557***	0.0504***		0.0526***
	(0.0058)	(0.0054)		(0.0056)
Affiliated × Bad Narrative News	-0.0205***	-0.0184***	-0.0200***	-0.0203***
	(0.0060)	(0.0058)	(0.0060)	(0.0059)
Days Since Prior Report		0.0001***	0.0001***	0.0001***
		(0.0000)	(0.0000)	(0.0000)
Log Sequence Position		0.0009	0.0009	0.0024
		(0.0057)	(0.0057)	(0.0059)
Prior 90-Day Report Count		0.0023	0.0024	0.0027*
		(0.0015)	(0.0015)	(0.0015)
Prior Recommendation Tier FE	No	Yes	Yes	Yes
Prior Tier × Bad-News FE	No	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes	Yes
Report-Month FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
N	34,157	34,157	34,157	33,532
Overall R^2	0.093	0.118	0.119	0.122

Notes: The dependent variable is Downgrade. All preceding-report links and change variables are constructed from the complete first-year broker–IPO history before the final regression restrictions are imposed. Column (2) adds exact prior-Recommendation-tier fixed effects and the displayed sequence controls. Column (3) absorbs the complete interaction between prior Recommendation tier and Bad Narrative News, so the standalone bad-news coefficient is absorbed. Column (4) restricts the sample to observations for which the prior Recommendation is above the minimum standardized rating. Controls include a linear term in days since IPO. All specifications absorb IPO-firm, broker, and report-month fixed effects, and standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table C1: Prior rating state, reporting sequence, and downgrade capacity (continued)

Panel B: Fundamental Assessment deterioration

	(1) Full History	(2) Prior State	(3) Tier × Deterioration FE	(4) Downgrade Room
Affiliated	0.0010	-0.0099*	-0.0088*	-0.0088*
	(0.0043)	(0.0052)	(0.0051)	(0.0053)
Fundamental Assessment Deterioration	0.0542***	0.0497***		0.0518***
	(0.0058)	(0.0055)		(0.0057)
Affiliated × Fundamental Assessment Deterioration	-0.0193***	-0.0175***	-0.0196***	-0.0194***
	(0.0060)	(0.0058)	(0.0060)	(0.0060)
Days Since Prior Report		0.0001***	0.0001***	0.0001***
		(0.0000)	(0.0000)	(0.0000)
Log Sequence Position		0.0016	0.0017	0.0032
		(0.0057)	(0.0057)	(0.0059)
Prior 90-Day Report Count		0.0023	0.0023	0.0026*
		(0.0015)	(0.0015)	(0.0015)
Prior Recommendation Tier FE	No	Yes	Yes	Yes
Prior Tier × Deterioration FE	No	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes	Yes
Report-Month FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
N	34,157	34,157	34,157	33,532
Overall R^2	0.093	0.118	0.119	0.122

Notes: Fundamental Assessment Deterioration equals one when Fundamental Assessment declines relative to the preceding retained report from the same broker on the same IPO. Column definitions, controls, fixed effects, and clustering follow Panel A. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendix Table C2: Subsequent formalization after an unaccompanied negative narrative update

	(1) Overall Narrative Stance	(2) Fundamental Assessment
Affiliated	-0.0166**	-0.0138**
	(0.0068)	(0.0067)
Days Since Prior Report	0.0000	0.0000
	(0.0000)	(0.0000)
Log Sequence Position	0.0080	0.0073
	(0.0066)	(0.0066)
Prior 90-Day Report Count	-0.0004	-0.0006
	(0.0010)	(0.0010)
Firm FE	Yes	Yes
Broker FE	Yes	Yes
Future Report-Month FE	Yes	Yes
Prior Recommendation Tier FE	Yes	Yes
Report-Opportunity FE	Yes	Yes
Controls	Yes	Yes
Report Opportunities	43,689	42,110
Downgrade Events	1,704	1,653
IPO-Firm Clusters	1,052	1,052
Overall R^2	0.131	0.133

Notes: The landmark risk set requires a negative report update, room to downgrade, and no same-update downgrade. The risk clock begins after the focal report, and each qualifying event is expanded into subsequent retained report opportunities occurring within 180 days after the focal report and before the end of the first post-IPO year. The dependent variable equals one when Recommendation declines at a subsequent report opportunity. Column (1) defines the focal negative update using Overall Narrative Stance; column (2) uses Fundamental Assessment. Controls include days since IPO, days since the preceding report, log sequence position, and the number of prior reports during the preceding 90 days. Standard errors are clustered at the IPO-firm level. The estimates identify a lower subsequent formalization rate; they do not imply that every unaccompanied negative update is eventually followed by a downgrade. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

D Potential-Omission Marginal Effects

This section translates the fully interacted Potential Omission coefficient into the economically relevant bad-news-to-downgrade slopes. The table reports the unaffiliated slope, the affiliated slope, and their difference at Potential Omission values of 0, 5, and 10 percent. These are post-estimation linear combinations from the existing main-text regression, not a new regression or a new test.

Appendix Table D1: Bad-news-to-downgrade slopes at different levels of Potential Omission

	Potential Omission = 0%	Potential Omission = 5%	Potential Omission = 10%
Unaffiliated Bad-News Effect	0.0577***	0.0617***	0.0658***
	(0.0089)	(0.0078)	(0.0086)
Affiliated Bad-News Effect	0.0423***	0.0362***	0.0302***
	(0.0039)	(0.0034)	(0.0040)
Affiliated − Unaffiliated Difference	-0.0154*	-0.0255***	-0.0356***
	(0.0093)	(0.0082)	(0.0093)
Firm FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Report-Month FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	20,115	20,115	20,115
Overall R^2	0.107	0.107	0.107

Notes: The table reports delta-method marginal effects from the fully interacted indicator specification reported in the main text. The unaffiliated bad-news effect is the change in downgrade probability associated with Bad Narrative News when Affiliated equals zero. The affiliated effect adds the corresponding affiliation interactions. The final row reports the affiliated–unaffiliated difference in the bad-news slope. Potential Omission is evaluated at 0, 0.05, and 0.10. Controls include a linear term in days since IPO. The underlying regression absorbs IPO-firm, broker, and report-month fixed effects. Standard errors use the full variance–covariance matrix of that regression and are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.A Measurement Implementation and Validation

This section provides the exact recommendation-scale mapping, prompts, regex rules, scrubbing templates, and validation evidence used to construct Recommendation and Overall Narrative Stance.

IA.A.1 Recommendation scale mapping

Let N_i denote the number of retained stock-level recommendation tiers for report i after post-extraction cleaning and polarity standardization, and let $j_i \in \{1, \ldots, N_i\}$ denote the recommendation's position within that cleaned strongest-to-weakest tier list (most favorable tier = 1, least favorable tier = N_i). I standardize the headline recommendation for report i to a common 1–5 scale as follows:

$$\text{Recommendation}_i = 5 - 4 \times \frac{j_i - 1}{N_i - 1}. \tag{IA.A.1}$$

If N_i is missing or $N_i = 1$, I treat Recommendation_i as missing.

IA.A.2 Recommendation extraction prompt

System message:

```
You are an AI assistant skilled in financial analysis and stock recommendations.
```

User message (report text appended after two newlines):

```
You are a financial AI analyst.

Please analyze the following **analyst report** and extract the required investment-related
information strictly based on its content alone.
Do not assume prior knowledge or use information from other reports.

Mission 1a. Extract the following details from the report:

- Issuing Company
- Authors
- Date of the report (format: YYYY-MM-DD)
- Analyzed Company
- Stock Ticker of the analyzed company
- Report Recommendation

Mission 1b: Extract Firm-Level Rating System Tier Labels

Carefully examine the section of the report that explains the brokerage's **firm-level
(stock-level) investment rating system**.
This section is usually located at the end of the report and may appear under headings such as:

- Rating Definitions
- Stock Rating
- Disclosures
- Capital Rating Distribution

We are only interested in the evaluation of **individual listed companies**, not industry-wide
assessments.

From the firm-level section, extract the following:
- The **total number of recommendation tiers** defined by the brokerage
- The **exact name** of each tier (in the order listed)

If the rating system section is missing or ambiguous, return "N/A" for both fields.

Include the following fields in the final JSON output:
- "Number of Recommendation Tiers": an integer or "N/A"
- "Recommendation Tier Labels": a list of tier names, e.g., ["Overweight", "Equalweight",
"Underweight"]

### WARNING Strict Rules for Rating System Extraction
1. **Only extract rating tiers from firm-level (stock-level) systems**, such as sections labeled:
   - Rating Definitions
   - Stock Rating
   - Disclosures
2. **Do not extract or mix in industry-level content** from:
   - Industry Rating Criteria
   - Industry Investment Rating
   - Any section or row describing ratings for sectors or industries
3. If stock-level and industry-level rows appear in the same table:
   - Extract **only** rows under the stock-level label
```

```
   - Ignore all rows related to industry-level evaluation
4. **Do not guess tiers** from words like "buy" in the body text. Only use clearly defined
multi-tier systems.
5. If no firm-level system is clearly defined:
   - "Number of Recommendation Tiers": "N/A"
   - "Recommendation Tier Labels": "N/A"
6. If more than 5 tier labels are found:
   - Re-check that they belong to a single firm-level system
   - Discard industry labels if mixed
   - If unsure, return "N/A" for both fields

Mission 1c: determine and provide the Recommendation Index:
1. First, extract the list of recommendation tiers used in the report (see Mission 1b).
2. Match the original Report Recommendation to its position in the tier list (first = 1, second =
2, etc.).
3. Return that index as an integer. For example, if the report uses ["Overweight", "Equalweight",
"Underweight"] and the original Report Recommendation is "Equalweight", then the index is 2.
4. If the report's recommendation tiers are not explicitly stated, or if the original
recommendation does not match any tier, return "N/A" for Recommendation Index.

WARNING **STRICT RULES for Mission 1:**
1. **Do not infer missing values. ** If the report's recommendation is not specified, return "N/A".
2. If the Report Recommendation is specified, make sure that the extracted Report Recommendation
value exactly matches one of the names in Recommendation Tier Labels. If the Report Recommendation
is not specified, return "N/A" for Report Recommendation and "N/A" for Recommendation Index.

Output the results strictly in JSON format as follows:
{
  "Issuing Company": "Example Corp",
  "Authors": "John Doe, Jane Smith",
  "Date": "2024-02-01",
  "Analyzed Company": "Apple Inc.",
  "Stock Ticker": "AAPL.O",
  "Report Recommendation": "Equalweight",
  "Recommendation Tier Labels": ["Overweight", "Equalweight", "Underweight"],
  "Number of Recommendation Tiers": 3,
  "Recommendation Index": 2
}

Ensure **no additional text** is included before or after the JSON. Return **only** the JSON
object.

<REPORT_TEXT>
```

IA.A.3 Post-extraction canonicalization

The prompt above extracts the broker's raw stock-level tier labels in the order shown in the report and the raw position of the reported recommendation within that list. In post-processing, I treat "N/A" as an explicit exception to the exact-match rule: observations are assigned a non-missing Recommendation only when the report recommendation is non-missing and matches a retained stock-level tier label after canonicalization. Reports with missing recommendations, missing tier systems, or unmatched labels are set to missing before the final recommendation scale is constructed. In addition, I clean the extracted stock-level tier set, resolve duplicated or mixed-scale fragments when necessary, and reorder the retained tiers to a strongest-to-weakest favorability ranking before computing the final recommendation position used in Equation (IA.A.1).

IA.A.4 Regex patterns for first-pass detection

The patterns below reproduce the executed cleaning code. Character classes such as `["]` are intended to match both curly and straight apostrophes, and minor redundant branches in the regexes are retained for reproducibility.

Python regex families are used to flag candidate spans before the Qwen scrubber. Helper functions that combine these patterns are omitted because they are implementation wrappers rather than methodological primitives. In the current implementation, these regex rules, the geometry-based EPS pre-pass, and the associated deterministic wrappers directly produce both a small set of hard deletions and the candidate spans passed to the second-pass Qwen scrubber. No separate trained classifier is used in the production cleaning run.

In addition to the regex families reported below, the first-pass detector applies a geometry-based pre-pass to EPS tables in the HTML representation. When a line is identified as a likely EPS header (e.g., multiple future-period estimate markers or phrases such as "Quarterly EPS" or "Earnings Per Share"), spans containing those header markers are deleted. Numeric cells aligned beneath those x-positions in the following rows are also deleted, and compact EPS rows containing future-period row tokens plus numeric cells are removed. This step is designed to capture future-period EPS table content that may not contain the string "EPS" in every individual span.

The implementation also applies a small number of deterministic line-level rules before the second-pass scrub: rating-system boilerplate headings such as "Ratings Distribution" and "Stock Rating System" are hard-deleted; split "Rating:" labels and adjacent values are hard-deleted; currency-only cells immediately followed by a rating token are hard-deleted; and deterministic EPS rules remove short EPS-estimate headers (including lines that jointly contain "EPS" and "Estimate" or begin with verbs such as "Increasing," "Raising," or "Lowering") as well as fragment patterns such as "EPS ... $x.xx" and "EPS ... estimates" before candidate spans are passed to the LLM. These deterministic rules are part of the implementation but are not repeated below because the methodological primitives are the regex families themselves. This description matches the geometry-based pre-pass and deterministic trims implemented in the scrub pipeline.

Core tokens and numeric cells

```
RE_CCY_NUM = r"(?:[$€£]|[A-Z]{1,3}\$)?\s*\d{1,4}(?:,\d{3})*(?:\.\d+)?"
NUMERIC_CELL = re.compile(r"(?<![A-Za-z])\$?\d+(?:\.\d+)?(?![A-Za-z])")
DASH_CELL = re.compile(r"^[---]+$")
```

Rating-related patterns

```
RATING_ACTIONS = re.compile(
    r"\b("
    r"initiat(?:e|ing)|reinitiat(?:e|ing)|upgrade|downgrade|"
    r"maintain|reiterat(?:e|ing)|resume|reinstate|reinstat(?:e|ing)"
    r")\b",
    re.I,
)

RATING_STRONG_LABELS = re.compile(
    r"\b("
    r"accumulate|reduce|outperform|underperform|overweight|underweight|"
    r"equal[-\s]?weight|market\s*perform\w*|sector\s*perform\w*"
    r")\b",
    re.I,
)

RATING_ABBREVS = re.compile(
    r"\b(?:OP|OW|UW|UP|SP|MP|EW)\s+rating\b",
    re.I,
)

RATING_WEAK_LABELS_NEAR = re.compile(
    r"(?is)"
    r"\b(?:rating|recommend(?:ation)?|reco)\b.{0,24}"
    r"\b(?:buy|sell|hold|neutral)\b(?!\s*-\s*side|-side)\b"
    r"|"
    r"\b(?:buy|sell|hold|neutral)\b(?!\s*-\s*side|-side)\b.{0,24}"
    r"\b(?:rating|recommend(?:ation)?|reco)\b",
    re.I,
)
```

Target-price patterns

```
PT_PHRASE = re.compile(
    r"\b(price\s*target|target\s*price|price\s*objective)\b",
    re.I,
)

PT_VALUE_NEAR = re.compile(
    rf"(?is)\b(?:pt|tp|tgt|p\.?\s*o\.?|po|"
    rf"price\s*target|target\s*price|price\s*objective)\b"
    rf"[^A-Za-z]{{0,20}}{RE_CCY_NUM}"
)
```

Forward-EPS patterns

```
EPS_WORD = re.compile(r"\beps\b", re.I)
EARNINGS_PER_SHARE = re.compile(r"\bearnings\s+per\s+share\b", re.I)

FORECAST_WORDS = re.compile(
    r"\b("
```

```
    r"estimat(?:e|es|ed|ing)|forecast(?:s|ed|ing)?|project(?:ion|ed|ing)?|"
    r"expect(?:s|ed|ing)?|assum(?:e|es|ed|ing|ption|ptions)?|"
    r"rais(?:e|es|ed|ing)|lift(?:s|ed|ing)?|increas(?:e|es|ed|ing)|"
    r"decreas(?:e|es|ed|ing)|cut(?:s|ting|cut)?|lower(?:s|ed|ing)?|"
    r"trim(?:s|med|ming)?|revis(?:e|es|ed|ing)?|updat(?:e|es|ed|ing)?|"
    r"guidance|guide|outlook"
    r")\b",
    re.I,
)

YEAR_E = re.compile(r"\b(?:(?:FY|CY)\s*)?['']?\d{2,4}\s*E\b", re.I)
QTR_E  = re.compile(r"\b(?:Q[1-4]|[1-4]Q)\s*(?:['']?\d{2,4})?\s*E\b", re.I)
YR_E   = re.compile(r"\b(?:Yr|Year)[-\s]*E\b", re.I)

MULTI_E_TOKENS = re.compile(
    r"(?:"
    r"(?:FY|CY)?\s?['']?\d{2,4}\s*E|"
    r"(?:Q[1-4]|[1-4]Q)\s*(?:['']?\d{2,4})?\s*E|"
    r"(?:Yr|Year)[-\s]*E"
    r")",
    re.I,
)

PERIOD_NOE = re.compile(
    r"\b(?:FY|CY)\s*['']?\d{2,4}\b|"
    r"\b(?:Q[1-4]|[1-4]Q)\s*(?:['']?\d{2,4})?\b",
    re.I,
)

NTM_EPS = re.compile(
    r"\b(?:NTM\s+EPS|NTM\b|NXT\s*12M\b|next\s+twelve\s+months\b|"
    r"forward[-\s]?looking\b|forward\s+eps\b|fwd\s+eps\b)\b",
    re.I,
)

PREV_WORD = re.compile(r"\b(prev(?:ious)?|prior)\b", re.I)
ROW_EPS_LABELS = re.compile(
    r"\b(year|yr|q1|q2|q3|q4|1q|2q|3q|4q|fy|cy)\b",
    re.I,
)

_EPS_CLAUSE_RE = re.compile(
    r"EPS[^,;.\n]*?\$?\d+(?:\.\d+)?",
    re.I,
)

_EPS_EST_FRAG_RE = re.compile(
    r"EPS[^,;.\n]*?\bestimate(s)?\b",
    re.I,
)
```

Factual guards

```
FACTUAL_PRICE_PATTERNS = [
    re.compile(r"\b(closed|traded|opens?|opened)\s+at\b", re.I),
    re.compile(r"\b(last\s+price|prev(ious)?\s+close|day\s+range|52[-\s]?(wk|week)\s*range)\b",
    re.I),
    re.compile(r"\b(volume|bid|ask)\b", re.I),
    re.compile(r"\b(price|px)\s*(as of|at)\b", re.I),
    re.compile(r"\bas of\s+\d{4}[-/]\d{1,2}[-/]\d{1,2}\b", re.I),
```

```
    re.compile(r"\bcurrent\s+price\b", re.I),
    re.compile(r"\b(closing\s+price|yesterday'?s\s+close)\b", re.I),
    re.compile(r"\b(Eq\.Mkt\.Cap|Market\s+Cap|Sh\.Out|Float|Inst\.Hldgs|Av\.Dly\.Vol|Curr\.\s+Div)
    \b", re.I),
    re.compile(r"\b(TTM|LTM|trailing)\b", re.I),
]

REPORTED_EPS_PATTERNS = [
    re.compile(r"\b(reported|actual)\s+(EPS|earnings)\b", re.I),
    re.compile(r"\b(GAAP|Non[- ]?GAAP).{0,40}\bEPS\b", re.I),
    re.compile(r"\b(EPS|earnings)\s+(was|were|came in at)\b", re.I),
    re.compile(r"\b(1Q|2Q|3Q|4Q)\b", re.I),
]
```

IA.A.5 Second-pass scrub prompt for Qwen3:30B

System message:

```
You act as a compliance scrubber for equity research reports.

Goal: produce a rating-blind document by removing ONLY:
• Formal recommendation labels or changes
(Buy/Sell/Hold/Outperform/Underperform/Overweight/Underweight/Equal-Weight/Market Perform;
Initiate/Upgrade/Downgrade/Maintain/Reiterate/Resume).
• Any mention of target prices (Price Target/Target Price/PT/TP/TGT/Price Objective/PO), including
revisions.
• Abbreviated ratings phrased as ratings (e.g., "OP rating", "OW rating", "UW rating", "SP rating",
"MP rating", "EW rating").
• Forward-looking EPS estimates or projections (e.g., "we estimate EPS...", "FY26E EPS", "Q3E EPS",
"NTM EPS").
• In EPS tables/headers or EPS-focused summaries (i.e., sections clearly about earnings per share):
remove spans that contain future-period estimate markers (e.g., "2025E", "FY26E", "Q3E", "3Q24E",
"Yr E/Year E", "Prev") and remove spans containing the associated EPS estimate values
(numbers/dashes) corresponding to those markers, even if "EPS" is not present in the same span. Do
NOT remove estimate tables for other metrics (e.g., revenue, EBITDA) unless the context is
explicitly EPS.
• Keep actual ("A") periods (e.g., "2007A").

Keep everything else:
• Factual/historical data (current price, ranges, market cap, TTM/LTM metrics).
• Reported/actual EPS results (e.g., "Q2 GAAP EPS was 0.30").
• Valuation multiples, consensus references, company guidance, and other analysis that does not
explicitly contain ratings, target prices, or EPS forecasts.

Editing rules:
• If a span is purely the content above → action=delete.
• If mixed with valid factual analysis → action=replace with only the prohibited content removed
(no placeholders).
• Only emit ops for IDs under "TARGET LINE SPANS". Context lines are for understanding only.

Return STRICT JSON ONLY:
{
  "ops": [
    {"id": "<SPAN_ID>", "action": "delete"},
    {"id": "<SPAN_ID>", "action": "replace", "text": "<new_text_without_forbidden_content>"}
  ]
}
```

User message template:

```
CONTEXT LINES (for understanding only):
L0 (p0, t72.5): <line text>
L1 (p0, t86.0): <line text>
...

TARGET LINE SPANS (emit edits for these IDs only):
s123 | <target span text>
s124 | <target span text>
...
```

IA.A.6 Narrative scoring prompt

System message:

```
You are an AI assistant skilled in financial analysis and stock recommendations.
```

User message (cleaned narrative text appended after two newlines):

```
You are a financial AI analyst.

Mission 2. You are a financial expert specializing in stock recommendations.
Your task is to assign numerical scores based on both the **factual content** and **linguistic
characteristics** of the report.
There are two parts:

**Part I: Factual Evaluation (5 categories * 20 points = 100 total)**
Evaluate the **substantive content** of the report using the following scoring criteria.

### 1. Revenue & Earnings Outlook (1-20 points)
- 17-20: Strong and sustained revenue/earnings growth; exceeding expectations; expanding profit
margins.
- 13-16: Solid growth; meeting or slightly exceeding expectations; stable margins.
- 9-12: Moderate growth with occasional weakness; some pressure on margins.
- 5-8: Weak, volatile, or inconsistent growth; subpar earnings performance.
- 1-4: Negative growth; losses or serious earnings deterioration.

### 2. Competitive & Industry Positioning (1-20 points)
- 17-20: Clear market leader; strong differentiation and structural advantages.
- 13-16: Competitive position strong, but facing mild threats or saturation.
- 9-12: Moderately positioned; mixed strategic signals.
- 5-8: Weak position; struggling with peer comparison.
- 1-4: Losing ground or facing industry decline.

### 3. Macroeconomic & Sector Trends (1-20 points)
- 17-20: Strong external tailwinds (e.g., sector expansion, favorable policy).
- 13-16: Positive macro context with limited headwinds.
- 9-12: Neutral macro trends; balanced risks and support.
- 5-8: Noticeable macro pressures or sector stagnation.
- 1-4: Adverse macro climate; broad economic deterioration.

### 4. Risk Signals (1-20 points)
- 17-20: Minimal risk mentioned; strong operational and regulatory stability.
- 13-16: Low risk, with minor warnings.
- 9-12: Moderate risks mentioned (e.g., compliance, competition).
- 5-8: Frequent or notable risk disclosures.
- 1-4: High uncertainty or severe risk discussed.

### 5. Management & Strategy Quality (1-20 points)
- 17-20: Leadership portrayed as highly competent; strong strategic execution.
- 13-16: Strategic clarity with minor uncertainties.
- 9-12: Adequate governance but mixed signals on execution.
- 5-8: Governance concerns or weak direction.
- 1-4: Poor leadership or strategic dysfunction.

---

**Part II: Linguistic Evaluation (5 categories * 20 points = 100 total)**
Assess the **language style** and tone of the report using these established textual analysis
dimensions.
```

```
### 6. Readability (1-20 points)
- 17-20: Highly structured, clear, and professional writing.
- 13-16: Mostly clear and well-organized with minor complexity.
- 9-12: Moderate clarity; some complexity or jargon.
- 5-8: Hard to follow; fragmented or verbose.
- 1-4: Poorly structured; lacks clarity or coherence.

### 7. Tone (1-20 points)
- 17-20: Confident and assertive tone; strong directional messaging.
- 13-16: Generally optimistic or upbeat.
- 9-12: Neutral tone; minimal direction.
- 5-8: Mildly cautious or reserved tone.
- 1-4: Pessimistic, critical, or defensive tone.

### 8. Sentiment Polarity (1-20 points)
- 17-20: Strongly positive language and framing.
- 13-16: Mostly positive sentiment with minor concerns.
- 9-12: Balanced sentiment.
- 5-8: Mixed but leans negative.
- 1-4: Strongly negative sentiment throughout.

### 9. Hedging & Uncertainty (1-20 points)
- 17-20: Highly confident statements with few hedge words.
- 13-16: Mostly confident; occasional uncertainty.
- 9-12: Neutral; both confident and uncertain language.
- 5-8: Frequent hedging; unclear or non-committal.
- 1-4: High ambiguity; pervasive uncertainty or vagueness.

### 10. Linguistic Intensity (1-20 points)
- 17-20: Strong emotive or assertive language throughout.
- 13-16: Moderate conviction and emphasis.
- 9-12: Neutral/moderate intensity.
- 5-8: Reserved, understated phrasing.
- 1-4: Weak or disengaged tone.

WARNING STRICT: Return the results **strictly in JSON** with exactly these keys and integer values
1-20, and **no additional text** before or after the JSON:
{
  "Revenue & Earnings Outlook": #,
  "Competitive & Industry Positioning": #,
  "Macroeconomic & Sector Trends": #,
  "Risk Signals": #,
  "Management & Strategy Quality": #,
  "Readability": #,
  "Tone": #,
  "Sentiment Polarity": #,
  "Hedging & Uncertainty": #,
  "Linguistic Intensity": #
}

<CLEANED_NARRATIVE_TEXT>
```

IA.A.7 Masking and paraphrasing validation

Following Engelberg, Joseph, Asaf Manela, William Mullins, and Luka Vulicevic (2025), I evaluate whether the narrative measure is sensitive to the identities of the issuer, broker, analyst, or other report-specific entities. I randomly select 100 reports and compare the baseline scores with scores obtained after entity masking and after an additional paraphrasing step.

Internet Appendix Table IA.A1: Masking and paraphrasing validation on a random sample of 100 reports

	Baseline	Masking	Paraphrasing
Mean discrete overall score (1–5)	3.530	3.490	3.530
Exact match with baseline discrete score (%)	—	94.000	90.000
Within one notch of baseline discrete score (%)	—	100.000	100.000
Mean absolute deviation from baseline discrete score	—	0.060	0.100
Total variation distance vs. baseline (discrete score distribution)	—	0.030	0.020
Mean continuous Overall Narrative Stance	3.414	3.371	3.364
Mean absolute deviation from baseline Overall Narrative Stance	—	0.116	0.128
Correlation with baseline Overall Narrative Stance	—	0.936	0.926

Notes: This table reports a masking and paraphrasing validation based on a random sample of 100 analyst reports. "Masking" replaces entity-specific content with masked tokens, and "Paraphrasing" applies an additional paraphrasing step after masking. The discrete overall score is an auxiliary 1–5 validation score constructed from the average ten-dimensional score and used only for the discrete validation comparisons in this table. Overall Narrative Stance is the paper's main continuous 1–5 measure, obtained by linearly rescaling the average ten-dimensional score.

IA.B Specification Transparency and Model Fit

This section reports coefficient stability across increasingly demanding specifications, the explanatory contribution of alternative fixed effects, standardized economic magnitudes, and the incremental within-model fit of the main report components.

IA.B.1 Communication allocation and fixed-effect structure

Tables IA.B1–IA.B3 provide the specification diagnostics for the communication-allocation results. Table IA.B1 adds controls and fixed effects sequentially. Table IA.B2 compares alternative fixed-effect structures and decomposes their explanatory contribution. Table IA.B3 reports standardized economic magnitudes and partial within explanatory power.

Internet Appendix Table IA.B1: Incremental specifications for communication allocation

Panel A: Recommendation

	(1) Affiliated only	(2) + Days from IPO	(3) + Firm, Month, Broker FE	(4) Firm×Month, Broker FE
Affiliated	0.2580***	0.2751***	0.2085***	0.2234***
	(0.0301)	(0.0316)	(0.0307)	(0.0318)
Effect per outcome SD	0.267	0.285	0.268	0.316
Partial within R^2: Affiliated	0.01453	0.01559	0.00640	0.00738
Overall R^2	0.01453	0.01560	0.35365	0.46922
Within R^2	0.01453	0.01560	0.00641	0.00738
Days-since-IPO control	No	Yes	Yes	Yes
IPO-firm FE	No	No	Yes	No
Report-month FE	No	No	Yes	No
Firm×Month FE	No	No	No	Yes
Broker FE	No	No	Yes	Yes
N	44,060	44,060	44,060	44,060

Panel B: Narrative

	(1) Affiliated only	(2) + Days from IPO	(3) + Firm, Month, Broker FE	(4) Firm×Month, Broker FE
Affiliated	0.0954***	0.0718***	0.0354***	0.0456***
	(0.0100)	(0.0106)	(0.0095)	(0.0096)
Effect per outcome SD	0.245	0.185	0.114	0.178
Partial within R^2: Affiliated	0.01226	0.00668	0.00117	0.00233
Overall R^2	0.01226	0.02484	0.37002	0.56600
Within R^2	0.01226	0.02484	0.00122	0.00235
Days-since-IPO control	No	Yes	Yes	Yes
IPO-firm FE	No	No	Yes	No
Report-month FE	No	No	Yes	No
Firm×Month FE	No	No	No	Yes
Broker FE	No	No	Yes	Yes
N	44,060	44,060	44,060	44,060

Panel C: Wedge

	(1) Affiliated only	(2) + Days from IPO	(3) + Firm, Month, Broker FE	(4) Firm×Month, Broker FE
Affiliated	0.1625***	0.2032***	0.1731***	0.1778***
	(0.0273)	(0.0283)	(0.0273)	(0.0287)
Effect per outcome SD	0.177	0.222	0.236	0.268
Partial within R^2: Affiliated	0.00640	0.00947	0.00499	0.00530
Overall R^2	0.00640	0.01313	0.36416	0.47933
Within R^2	0.00640	0.01313	0.00500	0.00531
Days-since-IPO control	No	Yes	Yes	Yes
IPO-firm FE	No	No	Yes	No
Report-month FE	No	No	Yes	No
Firm×Month FE	No	No	No	Yes
Broker FE	No	No	Yes	Yes
N	44,060	44,060	44,060	44,060

Notes: All columns use the same 44,060-report sample. Additive FE denotes IPO-firm, report-month, and broker fixed effects. Preferred FE denotes firm-by-month and broker fixed effects. Effect per outcome SD reports the coefficient in units of the outcome standard deviation under the corresponding specification. Partial within R^2 removes Affiliated while retaining the same controls and fixed effects. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Internet Appendix Table IA.B2: Fixed-effect specifications and explanatory power

Panel A: Affiliation coefficients across fixed-effect specifications						
	No FE	Firm FE	Month FE	Broker FE	Firm+Month+ Broker FE	Firm×Month+ Broker FE
Recommendation	0.2751***	0.1878***	0.2299***	0.2899***	0.2085***	0.2234***
	(0.0316)	(0.0282)	(0.0306)	(0.0368)	(0.0307)	(0.0318)
Narrative	0.0718***	0.0662***	0.0656***	0.0165	0.0354***	0.0456***
	(0.0106)	(0.0083)	(0.0102)	(0.0129)	(0.0095)	(0.0096)
Wedge	0.2032***	0.1216***	0.1643***	0.2734***	0.1731***	0.1778***
	(0.0283)	(0.0242)	(0.0266)	(0.0337)	(0.0273)	(0.0287)
Panel B: Overall R^2						
Recommendation	0.0156	0.2463	0.0605	0.1846	0.3536	0.4692
Narrative	0.0248	0.3058	0.0611	0.0994	0.3700	0.5660
Wedge	0.0131	0.2624	0.0569	0.1804	0.3642	0.4793
Panel C: Within R^2						
Recommendation	0.0156	0.0078	0.0111	0.0125	0.0064	0.0074
Narrative	0.0248	0.0332	0.0201	0.0182	0.0012	0.0023
Wedge	0.0131	0.0087	0.0084	0.0150	0.0050	0.0053

Panel D: Shapley decomposition of the additive fixed-effect R^2 increment			
	Firm FE	Report-month FE	Broker FE
Recommendation	54.7%	6.5%	38.7%
Narrative	75.1%	7.8%	17.2%
Wedge	57.3%	6.4%	36.3%

Notes: Every specification includes days since IPO and uses the same 44,060-report sample. Additive FE consists of IPO-firm, report-month, and broker fixed effects. Preferred FE consists of firm-by-month and broker fixed effects. Panel D allocates the additive fixed-effect R^2 increment using an order-invariant Shapley decomposition. Standard errors in Panel A are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Internet Appendix Table IA.B3: Economic magnitudes and partial within explanatory power

Panel A: Communication allocation

Outcome	Raw coefficient	Effect per outcome SD	Partial within R^2
Recommendation	0.2234***	0.316	0.00738
Narrative	0.0456***	0.178	0.00233
Wedge	0.1778***	0.268	0.00530
$1\{\text{Wedge} > 0\}$	0.0822***	0.258	0.00492
$\max\{\text{Wedge}, 0\}$	0.0942***	0.211	0.00330

Panel B: Market-pricing coefficients

Term	Raw coefficient	Effect per within-SD change
Recommendation	0.0008	0.0077
Affiliated × Recommendation	-0.0009	-0.0088
Narrative	0.0259***	0.0953
Affiliated × Narrative	0.0090**	0.0331

Panel C: Market-pricing blocks

Block	Partial within R^2	Preferred within R^2
Recommendation + Affiliated × Recommendation	0.000023	0.014186
Narrative + Affiliated × Narrative	0.012527	0.014186

Notes: Panel A reports preferred-specification affiliation effects in units of the residualized outcome standard deviation. Panel B expresses the CAR coefficients as CAR standard deviations associated with a one-within-standard- deviation change in the corresponding report component. Panel C reports the reduction in within R^2 when the indicated block is removed from the full joint horse race.

IA.B.2 Incremental specifications for the joint pricing horse race

Table IA.B4 traces the joint Recommendation–Narrative horse race as the timing control and alternative fixed effects are introduced.

Internet Appendix Table IA.B4: Incremental specifications for the joint pricing horse race

	(1) Focal terms only	(2) + Days from IPO	(3) + Firm, Month, Broker FE	(4) Firm×Month, Broker FE
Affiliated	-0.0014	-0.0008	-0.0021	-0.0019
	(0.0015)	(0.0014)	(0.0015)	(0.0013)
Recommendation	0.0008	0.0006	-0.0010	0.0008
	(0.0012)	(0.0012)	(0.0011)	(0.0009)
Affiliated × Recommendation	0.0019	0.0020	0.0010	-0.0009
	(0.0014)	(0.0014)	(0.0012)	(0.0010)
Narrative	0.0489***	0.0490***	0.0560***	0.0259***
	(0.0048)	(0.0048)	(0.0046)	(0.0036)
Affiliated × Narrative	0.0220***	0.0225***	0.0191***	0.0090**
	(0.0047)	(0.0047)	(0.0042)	(0.0035)
Overall R^2	0.0502	0.0503	0.1876	0.6317
Within R^2	0.0502	0.0503	0.0415	0.0142
Days-since-IPO control	No	Yes	Yes	Yes
IPO-firm FE	No	No	Yes	No
Report-month FE	No	No	Yes	No
Firm×Month FE	No	No	No	Yes
Broker FE	No	No	Yes	Yes
N	44,060	44,060	44,060	44,060

Notes: The dependent variable is CAR$[-1,+1]$. Recommendation and Narrative are mean-centered. Additive FE consists of IPO-firm, report-month, and broker fixed effects. Preferred FE consists of firm-by-month and broker fixed effects. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.B.3 Model fit and incremental explanatory power in pricing

Table IA.B5 separates Overall R^2, Within R^2, and the partial within explanatory power of the Recommendation and Narrative blocks in the report-level and within-Recommendation-tier pricing models.

Internet Appendix Table IA.B5: Model fit and incremental explanatory power in the pricing regressions

Panel A: Report-level horse-race regressions

	Recommendation only	Narrative only	Both
Overall R^2	0.6271	0.6317	0.6317
Within R^2	0.0017	0.0142	0.0142
Partial within R^2: Recommendation block			0.00002
Partial within R^2: Narrative block			0.01253
N	44,060	44,060	44,060

Panel B: Within-recommendation-tier regressions

	Tier FE	Tier × Affiliated FE
Overall R^2	0.6317	0.6318
Within R^2	0.01418	0.01433
Partial within R^2: Narrative block	0.01248	0.01252
N	44,060	44,060

Notes: Overall R^2 includes the absorbed fixed effects. Within R^2 measures the fit of the explicitly included regressors after removing those fixed effects. The Recommendation block consists of Recommendation and Affiliated × Recommendation. The Narrative block consists of Narrative and Affiliated × Narrative. Partial within R^2 is the reduction in within R^2 when the indicated block is removed while the remaining regressors and fixed effects are held constant.

IA.C Additional Communication-Allocation and Decomposition Evidence

This section reports the Recommendation-tier conditioning test, the Recommendation-to-Narrative mapping, and the supply-side decomposition of the Narrative into Fundamental Assessment and residual linguistic presentation.

IA.C.1 Recommendation-tier-conditioned communication allocation

Table IA.C1 tests whether the affiliation-related Wedge remains after the realized Recommendation tier is absorbed.

Internet Appendix Table IA.C1: Recommendation–Narrative wedge conditional on the realized Recommendation tier

	(1) Wedge	(2) $1\{\text{Wedge} > 0\}$	(3) $\max\{\text{Wedge}, 0\}$
Affiliated	-0.0167*	0.0023	-0.0097
	(0.0086)	(0.0037)	(0.0072)
Recommendation-Tier FE	Yes	Yes	Yes
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.931	0.881	0.883

Notes: All specifications absorb the realized Recommendation tier, firm-by-month, and broker fixed effects and include days since IPO. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.C.2 Recommendation-to-Narrative mapping

Table IA.C2 examines whether the mapping from the formal Recommendation into the Narrative differs with underwriting affiliation.

Internet Appendix Table IA.C2: Recommendation-to-Narrative mapping

	Narrative
Recommendation	0.1409***
	(0.0046)
Affiliated	0.0179**
	(0.0086)
Affiliated × Centered Recommendation	-0.0277***
	(0.0052)
Firm×Month FE	Yes
Broker FE	Yes
Controls	Yes
N	44,060
Overall R^2	0.617

Notes: Centered Recommendation equals Recommendation minus its sample mean. The Affiliated coefficient is therefore evaluated at the sample-average Recommendation. The specification absorbs firm-by-month and broker fixed effects, includes days since IPO, and clusters standard errors at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.C.3 Supply-side Fundamental and linguistic decomposition

Table IA.C3 decomposes the communication-allocation result into Recommendation, Fundamental Assessment, residual linguistic presentation, and Recommendation minus Fundamental Assessment.

Internet Appendix Table IA.C3: Supply-side Fundamental and linguistic decomposition

	(1) Recommendation	(2) Fundamental Assessment	(3) LingResidual	(4) Recommendation − Fundamental
Affiliated	0.2234***	0.0449***	0.0116***	0.1784***
	(0.0318)	(0.0105)	(0.0026)	(0.0288)
Firm×Month FE	Yes	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
N	44,060	44,060	44,060	44,060
Overall R^2	0.469	0.566	0.001	0.487

Notes: Fundamental Assessment is the 1–5 rescaling of the five fundamental dimensions. LingResidual is the residual from projecting Raw Linguistic Presentation on Fundamental Assessment while absorbing firm-by-month and broker fixed effects in the common sample. The raw Fundamental and linguistic block scores have a correlation of 0.936. Controls include days since IPO, and standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.D Additional Market-Reaction Diagnostics

This section reports diagnostics that complement the Paper Appendix's quantitative-signal and event-attribution regressions. It documents signal coverage, event-date mapping, the strict complete-prior selected sample, non-backmapped event-date robustness, and descriptive Recommendation–Narrative pricing sorts.

IA.D.1 Signal coverage, event-date mapping, and strict selected-sample diagnostic

Table IA.D1 reports quantitative-signal coverage, the event-date mapping audit, and the strict complete-prior-revision selected sample.

Internet Appendix Table IA.D1: Quantitative-signal coverage, event-date mapping, and strict selected-sample diagnostic

Panel A: Quantitative-signal coverage in the common sample

Signal	Observed reports	Common-sample reports	Coverage
Recommendation Revision	27,636	44,060	62.72%
FPI 6 EPS Revision, Price-Scaled	16,584	44,060	37.64%
Target Price Revision, Price-Scaled	17,567	44,060	39.87%
All three revisions observed	11,840	44,060	26.87%

Panel B: Event-date mapping audit

Audit item	Reports
Common report-level sample	44,060
Source report date after assigned trading event date	733
Valid non-backmapped event-date observations before singleton removal	43,327
Valid non-backmapped event-date estimation sample	43,253
Valid non-backmapped and no-earnings estimation sample	26,537

Panel C: Strict complete-prior-revision selected sample

	(1) Baseline	(2) With quantitative revisions
Affiliated	-0.0011	-0.0004
	(0.0028)	(0.0028)
Recommendation	-0.0018	-0.0030
	(0.0019)	(0.0019)
Affiliated × Recommendation	0.0006	0.0009
	(0.0025)	(0.0025)
Narrative	0.0470***	0.0426***
	(0.0063)	(0.0060)
Affiliated × Narrative	0.0018	-0.0008
	(0.0063)	(0.0062)
Recommendation Revision		0.0268***
		(0.0062)
FPI 6 EPS Revision, Price-Scaled		0.6918
		(0.5237)
Target Price Revision, Price-Scaled		0.0197***
		(0.0042)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	10,300	10,300
Overall R^2	0.715	0.722

Notes: Panel A reports the coverage of the three near-report quantitative revisions in the common sample. In Panel B, a non-backmapped observation requires the source report date not to fall after the assigned trading event date. The available daily-return data do not permit the 733 flagged reports to be remapped forward, so they are excluded from this diagnostic. Panel C requires an observed prior Recommendation, prior FPI 6 EPS forecast, and prior Target Price for every report. The Affiliated × Narrative coefficient is already close to zero before the quantitative revisions are added. This panel is therefore a selected-sample diagnostic, not evidence that the controls absorb a full-sample affiliation-specific Narrative loading. All Panel C regressions absorb firm-by-month and broker fixed effects, include days since IPO, and cluster standard errors at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.D.2 Non-backmapped event-date robustness

Table IA.D2 re-estimates the market-reaction specifications after excluding reports whose source date falls after the assigned trading event date.

Internet Appendix Table IA.D2: Market-reaction robustness after excluding backward-mapped event dates

	(1) Non-backmapped event dates	(2) Non-backmapped and no earnings
Affiliated	-0.0032	-0.0026
	(0.0020)	(0.0025)
Recommendation	0.0005	0.0015
	(0.0009)	(0.0011)
Affiliated × Recommendation	-0.0015	-0.0015
	(0.0010)	(0.0013)
Narrative	0.0239***	0.0162***
	(0.0032)	(0.0038)
Affiliated × Narrative	0.0090***	0.0129***
	(0.0032)	(0.0045)
Recommendation Revision	0.0149***	0.0117**
	(0.0050)	(0.0054)
Affiliated × Recommendation Revision	0.0149**	0.0178**
	(0.0063)	(0.0075)
FPI 6 EPS Revision, Price-Scaled	1.7266***	2.1197***
	(0.3284)	(0.6813)
Affiliated × FPI 6 EPS Revision, Price-Scaled	-1.1274***	-1.7173**
	(0.3594)	(0.8355)
Target Price Revision, Price-Scaled	0.0190***	0.0339***
	(0.0045)	(0.0093)
Affiliated × Target Price Revision, Price-Scaled	-0.0084**	-0.0140
	(0.0042)	(0.0095)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	43,253	26,537
Overall R^2	0.640	0.609

Notes: The dependent variable is CAR$[-1,+1]$. Reports whose source report date falls after the assigned trading event date are excluded. Column (2) additionally excludes reports issued within one calendar day of the preceding or next earnings-announcement date. Both regressions also include the three signal- availability indicators and their interactions with Affiliated; those mechanical missingness terms are not tabulated here. Recommendation and Narrative are mean-centered. Standard errors are clustered at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.D.3 Descriptive Recommendation–Narrative sorts

Table IA.D3 reports descriptive CAR$[-1,+1]$ means across Recommendation strength and Narrative favorability for affiliated and unaffiliated reports.

Internet Appendix Table IA.D3: Recommendation strength, narrative favorability, and release-window returns

Panel A: Affiliated reports		
	Low Narrative	High Narrative
Recommendation = 5	-0.81	2.50
	(11,070)	(12,262)
Recommendation < 5	-3.77	1.43
	(3,517)	(4,657)

Panel B: Unaffiliated reports		
	Low Narrative	High Narrative
Recommendation = 5	-0.63	2.12
	(4,218)	(3,900)
Recommendation < 5	-2.52	0.98
	(2,644)	(1,792)

Notes: The table reports mean CAR$[-1, +1]$ in percentage points; cell counts appear in parentheses. Reports are divided into Recommendation = 5 and Recommendation < 5. Within each Recommendation group, Low Narrative and High Narrative are defined using the pooled group-specific median. The table is descriptive and does not replace the fixed-effect within-tier regressions in the Paper Appendix.

IA.E Additional Downgrade Dynamics

This section reports the detailed cumulative horizons underlying the preferred subsequent-report-opportunity test. All landmark designs begin after a focal negative update that has room to downgrade and is not accompanied by a same-update downgrade.

IA.E.1 Detailed subsequent-formalization horizons

Table IA.E1 reports next-report and fixed-calendar- horizon downgrade outcomes after qualifying Overall Narrative Stance and Fundamental Assessment deteriorations.

Internet Appendix Table IA.E1: Detailed subsequent-formalization horizons

Panel A: Overall Narrative Stance deterioration					
	Next Report	30 Days	60 Days	90 Days	180 Days
Affiliated	-0.0103	-0.0242**	-0.0335**	-0.0363*	-0.0926***
	(0.0076)	(0.0114)	(0.0151)	(0.0209)	(0.0357)
Firm FE	Yes	Yes	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes	Yes	Yes
Report-Month FE	Yes	Yes	Yes	Yes	Yes
Prior Recommendation Tier FE	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes
N	13,403	12,023	10,824	9,442	6,002
Overall R^2	0.167	0.212	0.272	0.346	0.601

Panel B: Fundamental Assessment deterioration					
	Next Report	30 Days	60 Days	90 Days	180 Days
Affiliated	-0.0058	-0.0220*	-0.0319**	-0.0358*	-0.0859**
	(0.0078)	(0.0114)	(0.0157)	(0.0214)	(0.0359)
Firm FE	Yes	Yes	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes	Yes	Yes
Report-Month FE	Yes	Yes	Yes	Yes	Yes
Prior Recommendation Tier FE	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes
N	12,907	11,591	10,432	9,141	5,863
Overall R^2	0.175	0.216	0.280	0.350	0.604

Notes: The dependent variable in the first column equals one if Recommendation falls at the next retained report. The remaining columns equal one if a downgrade is observed within the indicated calendar-day horizon after the focal report. The landmark risk set requires a negative update, room to downgrade, and no same-update downgrade. Controls include days since IPO, days since the preceding report, log sequence position, and the number of prior reports during the preceding 90 days. All specifications absorb IPO-firm, broker, report-month, and prior-Recommendation-tier fixed effects. Standard errors are clustered at the IPO-firm level. Differences in statistical significance across horizons are not formal cross-horizon equality tests. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.E.2 At-risk unconditional downgrade contrast

Table IA.E2 compares affiliated and unaffiliated downgrade probabilities in the sample with mechanical room to downgrade.

Internet Appendix Table IA.E2: Affiliation and downgrade probability in the at-risk sample

	Downgrade
Affiliated	-0.0182***
	(0.0054)
Downgrade Room	Yes
Prior Recommendation Tier FE	Yes
Firm FE	Yes
Broker FE	Yes
Report-Month FE	Yes
Controls	Yes
N	33,532
Overall R^2	0.114

Notes: The sample retains observations for which the preceding Recommendation is above the minimum standardized rating. The regression therefore compares reports with mechanical room to downgrade. Controls include days since IPO, days since the preceding report, log sequence position, and the number of prior reports during the preceding 90 days. The specification absorbs IPO-firm, broker, report-month, and prior-Recommendation-tier fixed effects. Standard errors are clustered at the IPO-firm level. This average at-risk difference is distinct from the interaction tests that ask whether affiliation changes the mapping from negative Narrative information into a downgrade. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.F Lead Role and Post-IPO Timing

This section documents the report-level role classification, a broader senior-underwriter definition, and post-IPO timing.

IA.F.1 Report-level role classification

Table IA.F1 reports the corrected report-level classification of unaffiliated, lead-affiliated, other-affiliated, and unknown-affiliated observations.

Internet Appendix Table IA.F1: Report-level underwriting-role classification

Role category	Reports	Share of common sample
Unaffiliated	12,554	28.49%
Lead-Affiliated	17,447	39.60%
Other-Affiliated	14,028	31.84%
Unknown-Affiliated	31	0.07%
Total	44,060	100.00%

Notes: Lead-Affiliated identifies reports issued by affiliated bookrunners or global coordinators. Other-Affiliated identifies other affiliated syndicate members with known roles. Unknown-Affiliated identifies reports for which the deal- specific matching yields conflicting role assignments. These reports remain a separate category in the regressions.

IA.F.2 Broader senior-underwriter definition

Table IA.F2 broadens the senior category to include joint lead managers, co-lead managers, and lead managers.

Internet Appendix Table IA.F2: Robustness to a broader senior-underwriter definition

Panel A: Report components

	Recommendation	Narrative	Wedge
Lead/Senior-Affiliated	0.2979***	0.0596***	0.2383***
	(0.0405)	(0.0106)	(0.0365)
Other-Affiliated	0.1825***	0.0382***	0.1444***
	(0.0327)	(0.0103)	(0.0295)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.470	0.566	0.480

Panel B: Joint CAR horse race

	CAR$[-1,+1]$
Lead/Senior-Affiliated	-0.0020
	(0.0016)
Other-Affiliated	-0.0017
	(0.0013)
Recommendation	0.0007
	(0.0009)
Lead/Senior-Affiliated × Recommendation	-0.0002
	(0.0011)
Other-Affiliated × Recommendation	-0.0020
	(0.0012)
Narrative	0.0259***
	(0.0036)
Lead/Senior-Affiliated × Narrative	0.0085**
	(0.0039)
Other-Affiliated × Narrative	0.0098**
	(0.0038)
Firm×Month FE	Yes
Broker FE	Yes
Controls	Yes
N	44,060
Overall R^2	0.632

Notes: The broader definition classifies bookrunners, global coordinators, joint lead managers, co-lead managers, and lead managers as Lead/Senior-Affiliated. The regressions retain a separate Unknown-Affiliated category; its main effect and interactions are included but not tabulated. Recommendation and Narrative are mean-centered in Panel B. Every regression absorbs firm-by-month and broker fixed effects, includes days since IPO, and clusters standard errors at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.F.3 Post-IPO timing

The connection between an analyst report and the IPO transaction should be strongest soon after the offering. I therefore divide the first post-IPO year into reports issued during days 0–180 and days 181–365 and estimate pooled specifications that allow the affiliation effects and pricing coefficients to differ across the two periods. Table IA.F3 reports the period-specific linear combinations from those fully interacted regressions. Differences in statistical significance across periods are not interpreted as formal evidence that the coefficients differ; the relevant equality tests are reported in the accompanying discussion.

Internet Appendix Table IA.F3: Post-IPO dynamics of report components and market pricing

Panel A: Affiliation effects on report components

	Recommendation	Narrative	Wedge
Affiliated: IPO days 0–180	0.3100***	0.0904***	0.2196***
	(0.0430)	(0.0141)	(0.0402)
Affiliated: IPO days 181–365	0.1900***	0.0283***	0.1617***
	(0.0317)	(0.0092)	(0.0287)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	44,060	44,060	44,060
Overall R^2	0.470	0.567	0.479

Panel B: Joint CAR horse race by post-IPO period

	IPO days 0–180	IPO days 181–365
Affiliated	-0.0024	-0.0013
	(0.0020)	(0.0014)
Recommendation	-0.0001	0.0012
	(0.0013)	(0.0011)
Affiliated × Recommendation	0.0008	-0.0021
	(0.0016)	(0.0013)
Narrative	0.0196***	0.0296***
	(0.0048)	(0.0044)
Affiliated × Narrative	0.0072	0.0124***
	(0.0052)	(0.0044)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	44,060	44,060
Overall R^2	0.632	0.632

Notes: The period-specific estimates are linear combinations from pooled, fully interacted regressions. Recommendation and Narrative are mean-centered in Panel B. Every regression absorbs firm-by-month and broker fixed effects, includes days since IPO, and clusters standard errors at the IPO-firm level. Differences in statistical significance across periods are not formal tests that the period-specific coefficients differ. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.G Potential-Omission Construction and Specificity

This section documents the filing-based construction of Potential Omission and reports the saturated state-specific test. The measure is an HH-style potential-material-omission state. It is not an indicator of an adjudicated omission, a filed lawsuit, or a predicted lawsuit probability.

IA.G.1 Construction of Low Revisor and Potential Omission

For IPO i, adjacent pre-offering prospectus versions are cleaned, stemmed, and represented as word-root vectors. Cosine distance is calculated between adjacent versions. The larger of the first two adjacent distances is treated as the regulation-driven revision, RD_i. Each remaining issuer-driven revision is normalized by RD_i. Low Revisor equals one when at least two-thirds of the IPO's normalized issuer-driven revisions fall below the corresponding IPO-year median. Let M_i denote the midpoint of the first numeric filing range and P_i the final offer price. Then

$$DP_i = \frac{P_i - M_i}{M_i}, \qquad DP_i^+ = \max(DP_i, 0), \qquad |DP_i^-| = \max(-DP_i, 0), \tag{IA.G.1}$$

and

$$PO_i = LowRevisor_i \times DP_i^+. \tag{IA.G.2}$$

The reported regressions use $PO_{10pp} = PO/0.10$.

Internet Appendix Table IA.G1: Construction and sample flow for the Potential-Omission measure

Construction step	Number of observations
Panel A: Filing-sequence construction	
Report-based IPO master	1,554 IPOs
Candidate registration-filing records	10,878 filings
Raw SEC filing manifest	9,101 filings
Registration-sequence documents parsed	7,589 documents
Prospectus-like principal documents	7,017 documents
Deduplicated adjacent filing-revision pairs	5,200 pairs
Panel B: IPO-level construction	
Final IPO-level construction sample	1,508 IPOs
IPOs eligible for Low-Revisor classification	1,231 IPOs
Low-Revisor IPOs	470 IPOs
IPOs with nonmissing offer-price revision	1,203 IPOs
IPOs with nonmissing Potential Omission	974 IPOs
IPOs with positive Potential Omission	137 IPOs
Panel C: Report-level regression sample	
Final report-level Potential-Omission sample	20,115 reports
IPO-firm clusters	653 IPOs

Notes: The construction begins with the IPOs represented in the analyst-report sample. Registration filings include the original filing and pre-IPO amendments in the selected registration sequence. Adjacent principal prospectus documents are compared using cosine distance on word-root vectors. Low Revisor is defined only for IPOs with at least two nonmissing adjacent revision distances. Potential Omission combines weak issuer-driven prospectus revision with a positive offer-price revision.

IA.G.2 Price-revision and disclosure-state specificity

The Potential Omission interpretation is state-specific. A positive offer-price revision indicates favorable price-relevant information, while Low Revisor identifies IPOs whose issuer-driven prospectus revisions are relatively small. Table IA.G2 compares the affiliated bad-news-to-downgrade relation across positive and negative price-revision states for Low- and High-Revisor IPOs in one saturated regression.

Internet Appendix Table IA.G2: Potential-Omission specificity across price-revision and disclosure states

	Downgrade
Affiliated	0.0093
	(0.0096)
Bad narrative news	0.0724***
	(0.0147)
Affiliated × Bad narrative news	-0.0348**
	(0.0154)
Affiliated × Low Revisor	-0.0057
	(0.0163)
Bad narrative news × Low Revisor	-0.0326
	(0.0260)
Affiliated × Bad narrative news × Low Revisor	0.0314
	(0.0268)
Affiliated × Low Revisor × DP^+	0.0110
	(0.0068)
Bad narrative news × Low Revisor × DP^+	0.0160
	(0.0118)
Affiliated × Bad narrative news × Low Revisor × DP^+	-0.0253**
	(0.0126)
Affiliated × High Revisor × DP^+	-0.0024
	(0.0038)
Bad narrative news × High Revisor × DP^+	-0.0069
	(0.0045)
Affiliated × Bad narrative news × High Revisor × DP^+	0.0068
	(0.0054)
Affiliated × Low Revisor × $\lvert DP^- \rvert$	-0.0054
	(0.0069)
Bad narrative news × Low Revisor × $\lvert DP^- \rvert$	0.0017
	(0.0112)
Affiliated × Bad narrative news × Low Revisor × $\lvert DP^- \rvert$	0.0092
	(0.0119)
Affiliated × High Revisor × $\lvert DP^- \rvert$	0.0094*
	(0.0052)
Bad narrative news × High Revisor × $\lvert DP^- \rvert$	-0.0020
	(0.0075)
Affiliated × Bad narrative news × High Revisor × $\lvert DP^- \rvert$	0.0049
	(0.0081)
IPO-firm FE	Yes
Broker FE	Yes
Report-month FE	Yes
Controls	Yes
N	20,115
Overall R^2	0.108

Notes: DP^+ and $|DP^-|$ are divided by 0.10, so associated coefficients correspond to a 10-percentage-point price revision. High Revisor identifies eligible IPOs not classified as Low Revisor. Positive- and negative-price-revision states enter one fully saturated regression. IPO-level state main effects are absorbed by IPO-firm fixed effects. The low-revisor positive-price-revision four-way coefficient differs from the corresponding high-revisor positive-revision coefficient ($p = 0.020$) and from the low- revisor negative-revision coefficient ($p = 0.010$). Standard errors are clustered at the IPO-firm level. $^*p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.H Analyst Experience and Underwriter Prestige

This section reports the supplementary analyst-experience and underwriter-prestige tests.

IA.H.1 Communication allocation

Table IA.H1 reports whether analyst experience and underwriter prestige moderate the affiliation effects on Recommendation, Narrative, and Wedge.

Internet Appendix Table IA.H1: Analyst experience, underwriter prestige, and communication allocation

Panel A: Analyst experience			
	Recommendation	Narrative	Wedge
Affiliated	0.2051***	0.0347***	0.1704***
	(0.0360)	(0.0106)	(0.0326)
Analyst Experience	0.0384	-0.0103	0.0487**
	(0.0259)	(0.0071)	(0.0229)
Affiliated × Analyst Experience	-0.0381	0.0125*	-0.0505*
	(0.0292)	(0.0075)	(0.0260)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	34,230	34,230	34,230
Overall R^2	0.493	0.582	0.509

Panel B: Underwriter prestige			
	Recommendation	Narrative	Wedge
Affiliated	0.2417***	0.0526***	0.1891***
	(0.0443)	(0.0111)	(0.0397)
Underwriter Prestige	0.0777	0.0182	0.0595
	(0.0525)	(0.0141)	(0.0467)
Affiliated × Underwriter Prestige	0.0083	0.0014	0.0069
	(0.0376)	(0.0089)	(0.0335)
Firm×Month FE	Yes	Yes	Yes
Broker FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
N	35,576	35,576	35,576
Overall R^2	0.482	0.576	0.497

Notes: Analyst Experience is the report-level median number of years since matched authors' first I/B/E/S EPS forecasts and is standardized within the estimation sample. Underwriter Prestige is the historical Carter–Manaster-style rank of the report broker, matched by IPO year and standardized within the relevant sample. Every regression absorbs firm-by-month and broker fixed effects, includes days since IPO, and clusters standard errors at the IPO-firm level. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

IA.H.2 Market pricing

Table IA.H2 examines whether analyst experience or general underwriter prestige moderates the Recommendation and Narrative pricing coefficients. In each column, the named characteristic enters in levels and in all interactions with Affiliated, Recommendation, and Narrative. Recommendation and Narrative are mean-centered before constructing the interaction terms. These supplementary regressions are reported as descriptive heterogeneity tests rather than as separate formal predictions of the paper.

Internet Appendix Table IA.H2: Analyst experience, underwriter prestige, and market pricing

	Analyst Experience	Underwriter Prestige
Affiliated	-0.0015	-0.0030*
	(0.0014)	(0.0016)
Recommendation	-0.0009	0.0019
	(0.0009)	(0.0015)
Affiliated × Recommendation	0.0001	-0.0028
	(0.0012)	(0.0017)
Narrative	0.0326***	0.0255***
	(0.0040)	(0.0058)
Affiliated × Narrative	0.0070*	0.0093
	(0.0041)	(0.0058)
Z	0.0008	0.0024
	(0.0010)	(0.0021)
Recommendation $\times Z$	-0.0011	0.0016*
	(0.0010)	(0.0009)
Narrative $\times Z$	-0.0033	-0.0009
	(0.0030)	(0.0035)
Affiliated $\times Z$	-0.0014	-0.0017
	(0.0011)	(0.0015)
Affiliated × Recommendation $\times Z$	0.0011	-0.0006
	(0.0011)	(0.0013)
Affiliated × Narrative $\times Z$	-0.0012	0.0031
	(0.0038)	(0.0043)
Firm×Month FE	Yes	Yes
Broker FE	Yes	Yes
Controls	Yes	Yes
N	34,230	35,576
Overall R^2	0.638	0.644

Notes: The dependent variable is CAR$[-1,+1]$. In each column, Z denotes the characteristic named at the top of the column. Recommendation and Narrative are mean-centered. Every regression absorbs firm-by-month and broker fixed effects, includes days since IPO, and clusters standard errors at the IPO-firm level. These supplementary interactions are not treated as formal predictions of the paper. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.