Experimental instruments for

How Do Disclosure Repetition and Interactivity Influence Investors' Judgments?

Notes: The experiments were conducted on Qualtrics. This document shows each screen viewed by the participant. Headers indicate whether the screen changes based upon experimental condition. Information identifying the authors has been blacked out.

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EXPERIMENT 1 INSTRUMENT

All Conditions

INFORMED CONSENT

This research is being conducted by [redacted]. Its purpose is to better understand investors' judgments and decisions. Thank you for taking time from your busy schedule to assist us. You must be at least 18 years of age or older to participate. If you agree to participate in this study, you will be asked to read information about a company, view a company's financial and non-financial information, provide several judgments about the company's financial performance, and answer brief questions about your judgments and your experience. You should be able to complete this study in approximately 30 minutes.

PURPOSE: The purpose of this study is to better understand investors' judgments and decisions.

BENEFITS & COSTS: Your participation is valuable in helping us learn more about how individuals make investment decisions. At the end of the study you can request a summary of the results, which may help you individually by facilitating discussions with others about the types of information used in making investment decisions. There are no known risks or costs to participation beyond those encountered in everyday life.

COMPENSATION: In return for your participation, you will receive extra credit as arranged by your instructor. If you elect not to complete this study after you have begun, no prorating will be made for partial participation.

CONFIDENTIALITY: In general, we will not tell anyone any information about you. When this research is discussed or published, no one will know that you were in the study. However, laws and university rules might require us to disclose information about you. For example, if required by laws or University Policy, study information may be seen or copied by the following people or groups: a) The university committee and office that reviews and approves research studies, the Institutional Review Board (IRB) and Office for the Protection of Research Subjects, and b) University and state auditors, and Departments of the university responsible for oversight of research. Faculty, students, and staff who may see your information will maintain confidentiality to the extent of laws and university policies. Personal identifiers will not be published or presented.

VOLUNTARY PARTICIPATION: Your participation in this study is strictly voluntary. There will not be a penalty beyond loss of the extra credit if you decline to partake. You may decline to answer any questions or discontinue participation at any time. Discontinuing participation will result in forfeiture of extra credit. You can choose to complete an alternative research activity as arranged by your instructor to earn the extra credit if you prefer. Your decision to participate, decline or withdraw from this study will not affect your current status or any future relations with [redacted].

CONTACTS: Please contact [redacted] for questions about the study.

If you have any questions about your rights as a participant in this study or any concerns or complaints, please contact the [redacted]

By clicking "Next Page", I understand the provided information and I voluntarily participate in this study.

Please enter the number on your packet to continue.

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Which program are you enrolled in at [redacted]

Master of [redacted]

Master of [redacted]

Master of [redacted]

Master of [redacted]

Undergraduate Program in Accountancy [redacted]

Undergraduate Program in Finance [redacted]

Other

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YOUR ROLE

Please assume the role of an investor evaluating the common stock of a firm in the restaurant industry. The firm you will be analyzing is FreshHouse.

The information on the following pages is not intended to be fully representative of what would be available to you if you were undertaking a detailed evaluation. Nevertheless, please base your judgments only on the information provided.

As you work through the materials, please **do not** use your browser's back button.

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CRITICAL FINANCIAL MEASURES

Industry experts consider the following measures to be critical to the financial performance of firms in the restaurant industry (*lower* percentages indicate *better* financial performance):

1. Food efficiency (food expenses / revenue)
2. Labor efficiency (labor expenses / revenue)
3. Occupancy efficiency (occupancy expenses / revenue)

As you work through the materials, you will develop your best estimates of each of the measure inputs (numerators and denominators) for FreshHouse.

When developing your best estimates, you may choose to use the amounts reported in the financial statements, or you may choose to adjust the reported amounts. Companies often report nonrecurring (or one-time) items when reporting results. Industry experts advise that the measure inputs should be your best estimates of recurring amounts. Thus, you may wish to exclude any nonrecurring (or one-time) items when providing your best estimates of the measure inputs.

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CRITICAL FINANCIAL MEASURES (CONT'D)

Please answer the following questions about the information you just read.

For each measure input, I should use _____. (Click all that apply.)

- the amount reported in the financial statement, regardless of whether it is my best estimate
- the amount reported in the financial statement, if it is my best estimate
- an adjusted amount (e.g., for nonrecurring or one-time items) when the amount reported in the financial statement is *not* my best estimate
- none of the above

Example 1: A firm reports expenses of $100 million. If I believe that expenses included a one-time decrease of $5 million, then I should insert _____ into the input box for expenses for the firm.

- $100 million
- $105 million
- $95 million
- None of the above

Example 2: A firm reports expenses of $100 million. If I believe that all $100 million is recurring, then I should insert _____ into the input box for expenses for the firm.

- $100 million
- $105 million
- $95 million
- None of the above

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ADDITIONAL INFORMATION

As you work through the materials, you will use the *spreadsheet template* to insert your best estimates of the inputs for FreshHouse.

For example, you will insert your best estimate of food expenses in Input 1, and your best estimate of revenue in Input 2. The spreadsheet will then automatically calculate food efficiency for you in Output 1. You will follow the same process for calculating labor efficiency and occupancy efficiency for FreshHouse.

After you finish working through the materials, you will be asked to copy the inputs and outputs *from the spreadsheet template* for FreshHouse *into the survey*. You will also be asked to provide your judgments about FreshHouse as a potential investment and respond to other questions.

Please carefully review the information as you proceed. On the next page, you will receive FreshHouse's fiscal year 2018 annual report.

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High Repetition / High Interactivity condition only

(Initial display)

FRESHHOUSE FY 2018 ANNUAL REPORT

You can click on the boxes below to expand / close each section of FreshHouse's Annual Report.

Business

Competition

Management's Discussion and Analysis

Independent Auditors Report

Balance Sheet

Income Statement

Financial Accounting Policies

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(after participant clicks to expand each section)

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Depreciation and amortization expense increased 1% in 2018 from 2017, general and administrative expenses decreased 6.5% in 2018 from 2017, and interest expense in 2018 was flat to 2017.

Financial Accounting Policies

Accounts receivable

Accounts receivable are stated net of an allowance for doubtful accounts equal to approximately 1% of sales. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable.

Inventory

Inventory, consisting of food, beverages, and supplies, is stated at the lower of cost or market value. Cost is determined using a weighted-average method.

Property, plant, and equipment

Property, plant, and equipment are recorded at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is estimated to be 20 years. Other property and equipment are depreciated using a declining balance method that ranges between 20% and 30%.

Goodwill and intangible assets

Intangible assets are recorded at cost. Goodwill represents the excess of aggregate consideration transferred over the net assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite lives are tested annually for impairment.

Revenue recognition

Revenue is recognized, net of discounts and incentives, when payment is tendered at the point of sale. The Company also sells gift cards, which do not have an expiration date. The Company recognizes revenue when the gift card is redeemed by the customer or when the Company determines the likelihood of the gift card being redeemed is remote.

Restaurant operating expenses

Restaurant operating expenses are all operating costs related to food, labor, and occupancy incurred in the operation of the Company's restaurant locations. Any costs incurred prior to the opening of a restaurant are included in restaurant operating expenses. In 2018, occupancy expenses included a one-time decrease of $20 million due to a drop in rental costs in the Company's central region.

General and administrative expenses

General and administrative expenses consist of all operating costs not otherwise included in restaurant operating expenses. These include the net effect of both expenses and income unrelated to the Company's primary line of business.

Income taxes

The Company follows the liability method with respect to accounting for income taxes. The Company's effective tax rate was approximately 33% in 2018 and 2017.

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Independent Auditors Report

To the Board of Directors and Shareholders of FreshHouse.

We have audited the accompanying balance sheets of FreshHouse (the "Company") as of October 31, 2018 and October 31, 2017, and the related income statements for each of the two years in the period ended October 31, 2018. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FreshHouse as of October 31, 2018 and October 31, 2017, and the results of their operations for each of the two years in the period ended October 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

/s/ BIG-FOUR ACCOUNTING FIRM

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Balance Sheet

(in millions)

	FY 2018	FY 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 194	$ 175
Accounts receivable, net	110	103
Inventory	32	32
Prepaid expenses	58	55
Total current assets	394	365
Fixed assets, net	663	631
Other assets	214	200
Total assets	$ 1,271	$ 1,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 38	$ 38
Accrued expenses	178	185
Deferred rent	66	66
Total current liabilities	282	289
Long-term debt	189	210
Total liabilities	471	499
Stockholders' equity		
Common stock	3	3
Additional paid-in capital	144	144
Retained earnings	653	550
Total stockholders' equity	800	697
Total liabilities and stockholders' equity	$ 1,271	$ 1,196

Income Statement

(in millions, except per share amounts)

	FY 2018	FY 2017
Revenue	$ 1,759	$ 1,742
Restaurant operating expenses		
Food	572	566
Labor	565	565
Occupancy	151	149
Depreciation and amortization	128	127
General and administrative expenses	115	123
Total operating expenses	$ 1,531	$ 1,530
Operating income	228	212
Interest expense	1	1
Income taxes	116	116
Net income	$ 111	$ 95
Basic earnings per share	$ 4.63	$ 3.96
Number of shares used in calculating EPS	24	24

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

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High Repetition / Low Interactivity condition only

FRESHHOUSE FY 2018 ANNUAL REPORT

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(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

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To the Board of Directors and Shareholders of FreshHouse.

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/s/ BIG-FOUR ACCOUNTING FIRM

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(in millions)

	FY 2018	FY 2017
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 38	$ 38
Accrued expenses	178	185
Deferred rent	66	66
Total current liabilities	282	289
Long-term debt	189	210
Total liabilities	471	499
Stockholders' equity		
Common stock	3	3
Additional paid-in capital	144	144
Retained earnings	653	550
Total stockholders' equity	800	697
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(in millions, except per share amounts)

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Interest expense	1	1
Income taxes	116	116
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Low Repetition / High Interactivity condition only

(Initial display)

FRESHHOUSE FY 2018 ANNUAL REPORT

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Our food highlights the food culture of Thailand, Vietnam, Malaysia, and Singapore. We pay tribute to the region's flavors by balancing fresh, responsibly sourced ingredients that take hours to prepare and just seconds to come together in any combination you like. When selecting ingredients, we source the absolute best we can find. We buy organically grown produce whenever practical. Whether from Thailand or local to our restaurants, all of our farmers and suppliers operate with respect for animals and the environment. The end result is food offerings that are entirely gluten-, wheat-, and dairy-free, a selection of meats free of antibiotics and growth hormones, and a colorful array of market fresh vegetables.

Competition

The fast-casual, quick-service, and casual dining segments are highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location, and the ambience and condition of each restaurant. Our competition includes a variety of restaurants in each of these segments, including locally-owned restaurants and national and regional chains. Many of our competitors offer dine-in, carry-out, and delivery services. Many of our competitors in the fast-casual and quick-service segment of the restaurant industry also emphasize lower-cost, "value meal" menu options, a strategy we do not currently pursue.

We believe we are well-positioned to continue to grow our market position in existing and new markets given current consumer trends, including increasing awareness and concern among consumers about what they eat and how it is prepared as well as the increasing prevalence of the fast-casual segment.

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Management's Discussion and Analysis

Revenue for the full year of 2018 was $1,759 million compared to $1,742 million in 2017. The growth in revenue was driven primarily by an increase in average customer check. This includes the benefit of a new nationwide menu price increase that was fully rolled out during the fourth quarter of 2018.

Net income was $111 million in 2018, an increase of 16.8% from 2017.

During the full year, we opened 192 new restaurants.

Restaurant operating expenses were $1,288 in 2018, an increase of 1% from 2017. Food expenses in 2018 included a one-time decrease in beef costs of $25 million.

Depreciation and amortization expense increased 1% in 2018 from 2017, general and administrative expenses decreased 6.5% in 2018 from 2017, and interest expense in 2018 was flat to 2017.

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Independent Auditors Report

To the Board of Directors and Shareholders of FreshHouse.

We have audited the accompanying balance sheets of FreshHouse (the "Company") as of October 31, 2018 and October 31, 2017, and the related income statements for each of the two years in the period ended October 31, 2018. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FreshHouse as of October 31, 2018 and October 31, 2017, and the results of their operations for each of the two years in the period ended October 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

/s/ BIG-FOUR ACCOUNTING FIRM

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Balance Sheet

(in millions)

	FY 2018	FY 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 194	$ 175
Accounts receivable, net	110	103
Inventory	32	32
Prepaid expenses	58	55
Total current assets	394	365
Fixed assets, net	663	631
Other assets	214	200
Total assets	$ 1,271	$ 1,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 38	$ 38
Accrued expenses	178	185
Deferred rent	66	66
Total current liabilities	282	289
Long-term debt	189	210
Total liabilities	471	499
Stockholders' equity		
Common stock	3	3
Additional paid-in capital	144	144
Retained earnings	653	550
Total stockholders' equity	800	697
Total liabilities and stockholders' equity	$ 1,271	$ 1,196

Income Statement

(in millions, except per share amounts)

	FY 2018	FY 2017
Revenue	$ 1,759	$ 1,742
Restaurant operating expenses		
Food	572	566
Labor	565	565
Occupancy	151	149
Depreciation and amortization	128	127
General and administrative expenses	115	123
Total operating expenses	$ 1,531	$ 1,530
Operating income	228	212
Interest expense	1	1
Income taxes	116	116
Net income	$ 111	$ 95
Basic earnings per share	$ 4.63	$ 3.96
Number of shares used in calculating EPS	24	24

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Financial Accounting Policies

Accounts receivable

Accounts receivable are stated net of an allowance for doubtful accounts equal to approximately 1% of sales. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable.

Inventory

Inventory, consisting of food, beverages, and supplies, is stated at the lower of cost or market value. Cost is determined using a weighted-average method.

Property, plant, and equipment

Property, plant, and equipment are recorded at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is estimated to be 20 years. Other property and equipment are depreciated using a declining balance method that ranges between 20% and 30%.

Goodwill and intangible assets

Intangible assets are recorded at cost. Goodwill represents the excess of aggregate consideration transferred over the net assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite lives are tested annually for impairment.

Revenue recognition

Revenue is recognized, net of discounts and incentives, when payment is tendered at the point of sale. The Company also sells gift cards, which do not have an expiration date. The Company recognizes revenue when the gift card is redeemed by the customer or when the Company determines the likelihood of the gift card being redeemed is remote.

Restaurant operating expenses

Restaurant operating expenses are all operating costs related to food, labor, and occupancy incurred in the operation of the Company's restaurant locations. Any costs incurred prior to the opening of a restaurant are included in restaurant operating expenses. In 2018, occupancy expenses included a one-time decrease of $20 million due to a drop in rental costs in the Company's central region.

General and administrative expenses

General and administrative expenses consist of all operating costs not otherwise included in restaurant operating expenses. These include the net effect of both expenses and income unrelated to the Company's primary line of business.

Income taxes

The Company follows the liability method with respect to accounting for income taxes. The Company's effective tax rate was approximately 33% in 2018 and 2017.

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All Conditions

ADDITIONAL INFORMATION

You have finished viewing FreshHouse's annual report. Next, you will be asked to compute FreshHouse's financial measures and provide investment-related judgments for the firm.

Please click "Next Page" if you are ready to proceed. Please click "Previous Page" if you wish to return to the annual report.

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All Conditions

Please insert your best estimates of each of the financial measure inputs for FreshHouse below.

You should copy the values from the input / output boxes in your spreadsheet template into the boxes below.

Recall that the measure inputs should be your best estimates of the recurring amounts for FreshHouse. You may choose to use the amounts reported in the financial statements, or you may choose to adjust the reported amounts.

If the reported amounts are your best estimates of the true amounts, then you do not need to make any adjustments. However, if your best estimates differ from the reported amounts (e.g., because of nonrecurring or one-time items), then you should adjust the reported amount to arrive at your best estimate.

INPUT 1
Food expenses reported by FreshHouse this year (ending 10/31/2018, in millions): $572

My "adjusted" food expenses for FreshHouse this year (ending 10/31/2018, in millions):

Note: If you think food expenses as reported above is the best estimate, you do not have to adjust food expenses.

INPUT 1

INPUT 2
Revenue reported by FreshHouse this year (ending 10/31/2018, in millions): $1,759

My "adjusted" revenue for FreshHouse this year (ending 10/31/2018, in millions):

Note: If you think revenue as reported above is the best estimate, you do not have to adjust revenue.

INPUT 2

OUTPUT 1

Food efficiency for FreshHouse:

OUTPUT 1 %

INPUT 3
Labor expenses reported by FreshHouse this year (ending 10/31/2018, in millions): $565

My "adjusted" labor expenses for FreshHouse this year (ending 10/31/2018, in millions):

Note: If you think labor expenses as reported above is the best estimate, you do not have to adjust labor expenses.

INPUT 3

(previous screen cont'd; appears continuously on one screen for participants)

INPUT 4
Revenue reported by FreshHouse this year (ending 10/31/2018, in millions): $1,759

My "adjusted" revenue for FreshHouse this year (ending 10/31/2018, in millions):

INPUT 4:

OUTPUT 2

Labor efficiency for FreshHouse:

OUTPUT 2 [ ] %

INPUT 5
Occupancy expenses reported by FreshHouse this year (ending 10/31/2018, in millions): $151

My "adjusted" occupancy expenses for FreshHouse this year (ending 10/31/2018, in millions):

Note: If you think occupancy expenses as reported above is the best estimate, you do not have to adjust occupancy expenses.

INPUT 5 [ ]

INPUT 6
Revenue reported by FreshHouse this year (ending 10/31/2018, in millions): $1,759

My "adjusted" revenue for FreshHouse this year (ending 10/31/2018, in millions):

INPUT 6:

OUTPUT 3

Occupancy efficiency for FreshHouse:

OUTPUT 3 [ ] %

Next Page

All Conditions

Below are the financial measures you calculated for FreshHouse. Recall that *lower* measures mean *better* performance.

	FreshHouse (%)	Industry Average (%)
Food efficiency	OUTPUT 1	32.80
Labor efficiency	OUTPUT 2	32.40
Occupancy efficiency	OUTPUT 3	8.80

If you wish to make any changes, click on "Previous Page". Otherwise, click "Next Page" to move to the next questions.

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All Conditions

What is an appropriate common stock valuation for FreshHouse relative to an average firm in the industry?

Much lower — Same as average firm — Much higher

0 10 20 30 40 50 60 70 80 90 100

Next Page

All Conditions

Please describe three factors below that influenced your evaluation of FreshHouse as a potential investment.

Factor 1:

Factor 2:

Factor 3:

Next Page

All Conditions

How much effort did you have to exert when evaluating FreshHouse as a potential investment?

Very low effort — Very high effort

0 10 20 30 40 50 60 70 80 90 100

Next Page

All Conditions

How confident are you in your ability to evaluate FreshHouse as a potential investment?

Not at all confident — Very confident

0 10 20 30 40 50 60 70 80 90 100

Next Page

All Conditions

How competent do you believe the management of FreshHouse to be?

Not at all competent — Very competent

0 10 20 30 40 50 60 70 80 90 100

How trustworthy do you believe the management of FreshHouse to be?

Not at all trustworthy — Very trustworthy

0 10 20 30 40 50 60 70 80 90 100

How forthcoming is the management of FreshHouse in providing information to investors?

Not at all forthcoming — Very forthcoming

0 10 20 30 40 50 60 70 80 90 100

Next Page

All Conditions

WITHOUT referring back to your notes or any case materials, please answer the following questions about FreshHouse's annual report, to the best of your recollection:

FreshHouse's accounts receivable are stated net of an allowance for doubtful accounts equal to approximately _____ of sales.

- 1%
- 3%
- 5%
- 10%
- I don't know

From 2017 to 2018 FreshHouse's *reported* total assets:

- Increased
- Decreased
- Did not change
- I don't know

Food expenses in 2018 included a _____ in beef costs.

- one-time decrease
- recurring decrease
- one-time increase
- recurring increase
- I don't know

(previous screen cont'd; appears continuously on one screen for participants)

From 2017 to 2018 FreshHouse's *reported* net income increased (decreased) by:

- 18.1% or more
- 10.1% to 18%
- 0.1% to 10%
- (10%) to 0%
- I don't know

From 2017 to 2018 FreshHouse's *reported* operating income:

- Increased
- Decreased
- Did not change
- I don't know

Labor expenses in 2018 included a _____ due to a reduction in rental rates in the Company's central region.

- one-time decrease
- recurring decrease
- one-time increase
- recurring increase
- I don't know

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All Conditions

The information in FreshHouse's annual report felt easy to read:

Strongly disagree — Strongly agree

0 10 20 30 40 50 60 70 80 90 100

Based on the limited information provided, please rate the riskiness of an investment in FreshHouse's stock relative to an average firm in the industry.

Much lower — Same as average firm — Much higher

0 10 20 30 40 50 60 70 80 90 100

Next Page

All Conditions

In order to help us better understand why your responses might differ from those of other participants in this study, please answer the following questions.

How familiar are you with evaluating a company's performance by analyzing its annual or quarterly financial reports?

Not at all familiar — Very familiar

0 10 20 30 40 50 60 70 80 90 100

Have you ever bought or sold an individual company's common stock or debt securities either individually or through a mutual or pension fund?

- Yes
- No

Do you plan to invest in an individual company's common stock or debt securities in the next five years?

- Yes
- No

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All Conditions

How many accounting courses have you taken, including the courses in which you are currently enrolled?

Are you currently taking or have you previously taken [redacted] (financial statement analysis)?

- Yes, I am currently taking [redacted]
- Yes, I have previously taken [redacted]
- No, I am not currently taking nor have I previously taken [redacted]

How many finance courses have you taken, including the courses in which you are currently enrolled?

Please indicate your gender:

- Female
- Male

Which of the following best describes your first language?

- English is my first language.
- English is not my first language.

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EXPERIMENT 2 INSTRUMENT

All Conditions

INFORMED CONSENT

About this research
You are being asked to participate in a research study. Scientists do research to answer important questions which might help change or improve the way we do things in the future.

This form will give you information about the study to help you decide whether you want to participate. Please read this form, and ask any questions you have, before agreeing to be in the study.

Taking part in this study is voluntary.
You may choose not to take part or may leave the study at any time. Your decision whether or not to participate in this study will not affect your current or future relations with the [redacted]

This research is intended for individuals 18 years of age or older. If you are under age 18, do not complete the survey. Additionally, this research is for residents of the United States, if you are not a resident of the United States please do not complete this study.

Why is this study being done?
The purpose of this study is to examine how individuals make judgments and decisions in business contexts. You were selected as a possible participant because you met all qualifications required via Amazon Mturk filters.

The study is being conducted by [redacted]

What will happen during the study?
If you agree to be in the study, you will do the following things:
During the experiment, you will be asked to make some business decisions and answer questions about the decisions you made. You will also be asked to answer a few questions about yourself as well as some general demographic information. This should take approximately 20 minutes to complete.

What are the risks and benefits of taking part in this study?
The risks involved with participating in this experiment are no greater than those involved in daily activities. Answering survey questions and making difficult decisions may cause some cognitive discomfort and there will also always be a risk, despite safeguards listed below, of loss of confidentiality.
There are no direct benefits from participating in the experiment besides the compensation discussed below.

How will my information be protected?
All research includes at least a small risk of loss of confidentiality. Efforts will be made to keep your personal information confidential. We cannot guarantee absolute confidentiality. Your personal information may be disclosed if required by law. Your identity will be held in confidence in reports in which the study may be published.

Organizations that may inspect and/or copy your research records for quality assurance and data analysis include groups such as the study investigator and his/her research associates, the University Institutional Review Board or its designees.

Will I be paid for participation?
You will receive compensation for participating in this study of $3.00.

Who should I call with questions or problems?
For questions about the study, contact the researcher [redacted]

If you have any questions about your rights as a participant in this study or any concerns or complaints, please contact the [redacted]

By clicking next, I understand the provided information and I voluntarily participate in this study.

Click below to confirm you are not a robot.

I'm not a robot reCAPTCHA Privacy - Terms

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All Conditions

YOUR ROLE

Please assume the role of an investor evaluating the common stock of a firm in the restaurant industry. The firm you will be analyzing is FreshHouse.

The information on the following pages is not intended to be fully representative of what would be available to you if you were undertaking a detailed evaluation. Nevertheless, please base your judgments only on the information provided.

As you work through the materials, please **do not** use your browser's back button.

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All Conditions

CRITICAL FINANCIAL RATIOS

Industry experts consider the following ratios to be critical to the financial performance of firms in the restaurant industry (*HIGHER* ratios indicate *BETTER* financial performance):

1. Food efficiency (revenue / food expenses)
2. Labor efficiency (revenue / labor expenses)

As you work through the materials, you will develop your best estimates of each of the ratio inputs (numerators and denominators) for FreshHouse.

When developing your best estimates, you may choose to use the amounts reported in the financial statements, or you may choose to adjust the reported amounts. Companies often report nonrecurring (or one-time) items when reporting results. Industry experts advise that the ratio inputs should be your best estimates of recurring amounts. Thus, you may wish to exclude any nonrecurring (or one-time) items when providing your best estimates of the ratio inputs.

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All Conditions

CRITICAL FINANCIAL RATIOS (CONT'D)

Please answer the following questions about the information you just read.

For each ratio input, I should use _____. (Click all that apply.)

- the amount reported in the financial statement, regardless of whether it is my best estimate
- the amount reported in the financial statement, if it is my best estimate
- an adjusted amount (e.g., for nonrecurring or one-time items) when the amount reported in the financial statement is *not* my best estimate
- none of the above

Example 1: A firm reports revenue of $100 million. If I believe that revenue included a one-time increase of $5 million, then I should insert _____ into the input box for revenue for the firm.

- $100 million
- $105 million
- $95 million
- None of the above

Example 2: A firm reports revenue of $100 million. If I believe that all $100 million is recurring, then I should insert _____ into the input box for revenue for the firm.

- $100 million
- $105 million
- $95 million
- None of the above

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All Conditions

ADDITIONAL INFORMATION

As you work through the materials, you will use the *spreadsheet template* linked below.

Download the spreadsheet template using the link below and save it to your computer. Later in the study, you will be asked to upload your completed spreadsheet template.

Please download the spreadsheet template by clicking this link.

You should use the spreadsheet template to insert your best estimates of the inputs for FreshHouse. For example, you will insert your best estimate of revenue in Input 1, and your best estimate of food expenses in Input 2. The spreadsheet will then automatically calculate food efficiency for you in Output 1. You will follow the same process for calculating labor efficiency for FreshHouse.

After you finish working through the materials, you will be asked to copy the inputs and outputs *from the spreadsheet template* for FreshHouse *into the survey*. You will also be asked to provide your judgments about FreshHouse as a potential investment and respond to other questions.

Please carefully review the information as you proceed.

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All Conditions

Did you download the spreadsheet template on the previous screen?

Yes

No

On the next page, you will receive FreshHouse's fiscal year 2020 annual report.

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High Repetition / High Interactivity condition only

(Initial display)

FRESHHOUSE FY 2020 ANNUAL REPORT

You can click on the boxes below to expand / close each section of FreshHouse's Annual Report.

Business

Competition

Management's Discussion and Analysis

Independent Auditors Report

Balance Sheet

Income Statement

Financial Accounting Policies

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High Repetition / High Interactivity condition only

(after participant clicks to expand each section)

FRESHHOUSE FY 2020 ANNUAL REPORT

You can click on the boxes below to expand / close each section of FreshHouse's Annual Report.

Business

FreshHouse is a Southeast Asian fast casual restaurant. We opened with a single restaurant in 1993 and now operate more than 1,800 restaurants as of June 30, 2020. We feature food served fast but made from delicious ingredients that are sourced responsibly and prepared using classic cooking techniques.

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Competition

The fast-casual, quick-service, and casual dining segments are highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location, and the ambience and condition of each restaurant. Our competition includes a variety of restaurants in each of these segments, including locally-owned restaurants and national and regional chains. Many of our competitors offer dine-in, carry-out, and delivery services. Many of our competitors in the fast-casual and quick-service segment of the restaurant industry also emphasize lower-cost, "value meal" menu options, a strategy we do not currently pursue.

We believe we are well-positioned to continue to grow our market position in existing and new markets given current consumer trends, including increasing awareness and concern among consumers about what they eat and how it is prepared as well as the increasing prevalence of the fast-casual segment.

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Management's Discussion and Analysis

Net income was $111 million in 2020, an increase of 16.8% from 2019.

Revenue for the full year of 2020 was $1,759 million compared to $1,742 million in 2019, which reflects a new nationwide menu price increase that was fully rolled out during the fourth quarter of 2020. Revenue for 2020 also includes a one-time increase of $120 million.

During the full year, we opened 192 new restaurants.

Restaurant operating expenses were $1,288 in 2020, an increase of 1% from 2019.

Depreciation and amortization expense increased 1% in 2020 from 2019, general and administrative expenses decreased 6.5% in 2020 from 2019, and interest expense in 2020 was flat to 2019.

Financial Accounting Policies

Accounts receivable

Accounts receivable are stated net of an allowance for doubtful accounts equal to approximately 1% of sales. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable.

Inventory

Inventory, consisting of food, beverages, and supplies, is stated at the lower of cost or market value. Cost is determined using a weighted-average method.

Property, plant, and equipment

Property, plant, and equipment are recorded at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is estimated to be 20 years. Other property and equipment are depreciated using a declining balance method that ranges between 20% and 30%.

Goodwill and intangible assets

Intangible assets are recorded at cost. Goodwill represents the excess of aggregate consideration transferred over the net assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite lives are tested annually for impairment.

Revenue recognition

Revenue is recognized, net of discounts and incentives, when payment is tendered at the point of sale. The Company also sells gift cards, which do not have an expiration date. The Company recognizes revenue when the gift card is redeemed by the customer or when the Company determines the likelihood of the gift card being redeemed is remote.

Restaurant operating expenses

Restaurant operating expenses are all operating costs related to food, labor, and occupancy incurred in the operation of the Company's restaurant locations. Any costs incurred prior to the opening of a restaurant are included in restaurant operating expenses.

General and administrative expenses

General and administrative expenses consist of all operating costs not otherwise included in restaurant operating expenses. These include the net effect of both expenses and income unrelated to the Company's primary line of business.

Income taxes

The Company follows the liability method with respect to accounting for income taxes. The Company's effective tax rate was approximately 33% in 2020 and 2019.

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To the Board of Directors and Shareholders of FreshHouse.

We have audited the accompanying balance sheets of FreshHouse (the "Company") as of June 30, 2020 and June 30, 2019, and the related income statements for each of the two years in the period ended June 30, 2020. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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/s/ BIG-FOUR ACCOUNTING FIRM

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Balance Sheet

(in millions)

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Accrued expenses	178	185
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Total current liabilities	282	289
Long-term debt	189	210
Total liabilities	471	499
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Common stock	3	3
Additional paid-in capital	144	144
Retained earnings	653	550
Total stockholders' equity	800	697
Total liabilities and stockholders' equity	$ 1,271	$ 1,196

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Number of shares used in calculating EPS	24	24

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High Repetition / Low Interactivity condition only

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Property, plant, and equipment are recorded at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is estimated to be 20 years. Other property and equipment are depreciated using a declining balance method that ranges between 20% and 30%.

Goodwill and intangible assets

Intangible assets are recorded at cost. Goodwill represents the excess of aggregate consideration transferred over the net assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite lives are tested annually for impairment.

Revenue recognition

Revenue is recognized, net of discounts and incentives, when payment is tendered at the point of sale. The Company also sells gift cards, which do not have an expiration date. The Company recognizes revenue when the gift card is redeemed by the customer or when the Company determines the likelihood of the gift card being redeemed is remote.

Restaurant operating expenses

Restaurant operating expenses are all operating costs related to food, labor, and occupancy incurred in the operation of the Company's restaurant locations. Any costs incurred prior to the opening of a restaurant are included in restaurant operating expenses.

General and administrative expenses

General and administrative expenses consist of all operating costs not otherwise included in restaurant operating expenses. These include the net effect of both expenses and income unrelated to the Company's primary line of business.

Income taxes

The Company follows the liability method with respect to accounting for income taxes. The Company's effective tax rate was approximately 33% in 2020 and 2019.

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Independent Auditors Report

To the Board of Directors and Shareholders of FreshHouse.

We have audited the accompanying balance sheets of FreshHouse (the "Company") as of June 30, 2020 and June 30, 2019, and the related income statements for each of the two years in the period ended June 30, 2020. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FreshHouse as of June 30, 2020 and June 30, 2019, and the results of their operations for each of the two years in the period ended June 30, 2020 in conformity with accounting principles generally accepted in the United States of America.

/s/ BIG-FOUR ACCOUNTING FIRM

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Balance Sheet

(in millions)

	FY 2020	FY 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 194	$ 175
Accounts receivable, net	110	103
Inventory	32	32
Prepaid expenses	58	55
Total current assets	394	365
Fixed assets, net	663	631
Other assets	214	200
Total assets	$ 1,271	$ 1,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 38	$ 38
Accrued expenses	178	185
Deferred rent	66	66
Total current liabilities	282	289
Long-term debt	189	210
Total liabilities	471	499
Stockholders' equity		
Common stock	3	3
Additional paid-in capital	144	144
Retained earnings	653	550
Total stockholders' equity	800	697
Total liabilities and stockholders' equity	$ 1,271	$ 1,196

Income Statement

(in millions, except per share amounts)

	FY 2020	FY 2019
Revenue	$ 1,759	$ 1,742
Restaurant operating expenses		
Food	572	566
Labor	565	565
Occupancy	151	149
Depreciation and amortization	128	127
General and administrative expenses	115	123
Total operating expenses	$ 1,531	$ 1,530
Operating income	228	212
Interest expense	1	1
Income taxes	116	116
Net income	$ 111	$ 95
Basic earnings per share	$ 4.63	$ 3.96
Number of shares used in calculating EPS	24	24

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Financial Accounting Policies

Accounts receivable

Accounts receivable are stated net of an allowance for doubtful accounts equal to approximately 1% of sales. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable.

Inventory

Inventory, consisting of food, beverages, and supplies, is stated at the lower of cost or market value. Cost is determined using a weighted-average method.

Property, plant, and equipment

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General and administrative expenses

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Income taxes

The Company follows the liability method with respect to accounting for income taxes. The Company's effective tax rate was approximately 33% in 2020 and 2019.

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Low Repetition / High Interactivity condition only

(Initial display)

FRESHHOUSE FY 2020 ANNUAL REPORT

You can click on the boxes below to expand / close each section of FreshHouse's Annual Report.

Business

Competition

Management's Discussion and Analysis

Independent Auditors Report

Balance Sheet

Income Statement

Financial Accounting Policies

Next Page

Low Repetition / High Interactivity condition only

(after participant clicks to expand each section)

FRESHHOUSE FY 2020 ANNUAL REPORT

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Business

FreshHouse is a Southeast Asian fast casual restaurant. We opened with a single restaurant in 1993 and now operate more than 1,800 restaurants as of June 30, 2020. We feature food served fast but made from delicious ingredients that are sourced responsibly and prepared using classic cooking techniques.

Our food highlights the food culture of Thailand, Vietnam, Malaysia, and Singapore. We pay tribute to the region's flavors by balancing fresh, responsibly sourced ingredients that take hours to prepare and just seconds to come together in any combination you like. When selecting ingredients, we source the absolute best we can find. We buy organically grown produce whenever practical. Whether from Thailand or local to our restaurants, all of our farmers and suppliers operate with respect for animals and the environment. The end result is food offerings that are entirely gluten-, wheat-, and dairy-free, a selection of meats free of antibiotics and growth hormones, and a colorful array of market fresh vegetables.

Competition

The fast-casual, quick-service, and casual dining segments are highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location, and the ambience and condition of each restaurant. Our competition includes a variety of restaurants in each of these segments, including locally-owned restaurants and national and regional chains. Many of our competitors offer dine-in, carry-out, and delivery services. Many of our competitors in the fast-casual and quick-service segment of the restaurant industry also emphasize lower-cost, "value meal" menu options, a strategy we do not currently pursue.

We believe we are well-positioned to continue to grow our market position in existing and new markets given current consumer trends, including increasing awareness and concern among consumers about what they eat and how it is prepared as well as the increasing prevalence of the fast-casual segment.

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

Management's Discussion and Analysis

Net income was $111 million in 2020, an increase of 16.8% from 2019.

Revenue for the full year of 2020 was $1,759 million compared to $1,742 million in 2019, which reflects a new nationwide menu price increase that was fully rolled out during the fourth quarter of 2020. Revenue for 2020 also includes a one-time increase of $120 million.

During the full year, we opened 192 new restaurants.

Restaurant operating expenses were $1,288 in 2020, an increase of 1% from 2019.

Depreciation and amortization expense increased 1% in 2020 from 2019, general and administrative expenses decreased 6.5% in 2020 from 2019, and interest expense in 2020 was flat to 2019.

(FreshHouse Annual Report cont'd; appears continuously on one screen for participants)

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(in millions)

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Next Page

Low Repetition / Low Interactivity condition only

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Income taxes

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All Conditions

ADDITIONAL INFORMATION

You have finished viewing FreshHouse's annual report. Next, you will be asked to compute FreshHouse's financial measures and provide investment-related judgments for the firm.

Have you completed the spreadsheet template with your inputs for FreshHouse?

- Yes
- No

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All Conditions

Please insert your best estimates of each of the financial ratio inputs for FreshHouse below.

You should copy the values from the input / output boxes in your spreadsheet template into the boxes below.

Recall that the ratio inputs should be your best estimates of the recurring amounts for FreshHouse. You may choose to use the amounts reported in the financial statements, or you may choose to adjust the reported amounts.

If the reported amounts are your best estimates of the true amounts, then you do not need to make any adjustments. However, if your best estimates differ from the reported amounts (e.g., because of nonrecurring or one-time items), then you should adjust the reported amount to arrive at your best estimate.

INPUT 1
Revenue reported by FreshHouse this year (ending 6/30/2020, in millions): $1,759

My "adjusted" revenue for FreshHouse this year (ending 6/30/2020, in millions):

Note: If you think revenue as reported above is the best estimate, you do not have to adjust revenue.

INPUT 1

INPUT 2
Food expenses reported by FreshHouse this year (ending 6/30/2020, in millions): $572

My "adjusted" food expenses for FreshHouse this year (ending 6/30/2020, in millions):

Note: If you think food expenses as reported above is the best estimate, you do not have to adjust food expenses.

INPUT 2

OUTPUT 1

Food efficiency for FreshHouse:

OUTPUT 1

INPUT 3

SEE INPUT 1 ABOVE. YOU DO NOT NEED TO RE-INSERT YOUR REVENUE ESTIMATE HERE.

INPUT 4
Labor expenses reported by FreshHouse this year (ending 6/30/2020, in millions): $565

My "adjusted" labor expenses for FreshHouse this year (ending 6/30/2020, in millions):

Note: If you think labor expenses as reported above is the best estimate, you do not have to adjust labor expenses.

INPUT 4

OUTPUT 2

Labor efficiency for FreshHouse:

OUTPUT 2

When you are finished calculating and inputting the financial measures for FreshHouse, please upload your completed spreadsheet template below.

Drop files or click here to upload

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All Conditions

Below are the financial ratios you calculated for FreshHouse.

Recall that *HIGHER* ratios mean *BETTER* performance.

	FreshHouse	Average firm in the industry
Food efficiency	OUTPUT 1	3.00
Labor efficiency	OUTPUT 2	3.04

If you wish to make any changes, click on "Previous Page". Otherwise, click "Next Page" to move to the next questions.

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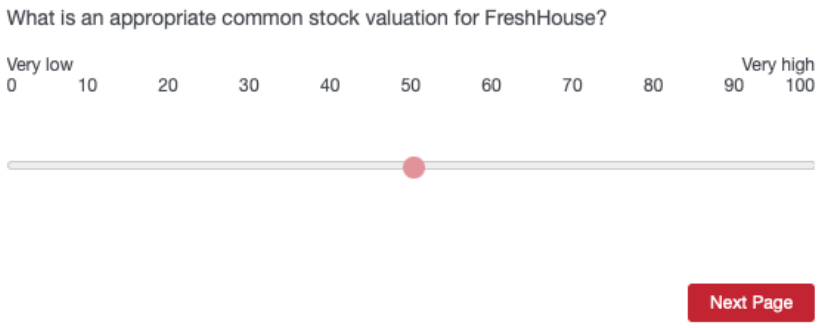
All Conditions



All Conditions

Please describe the factors that influenced your evaluation of FreshHouse as a potential investment.

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All Conditions

How competent do you believe the management of FreshHouse to be?

Not at all competent — Very competent

0 10 20 30 40 50 60 70 80 90 100

How trustworthy do you believe the management of FreshHouse to be?

Not at all trustworthy — Very trustworthy

0 10 20 30 40 50 60 70 80 90 100

How forthcoming is the management of FreshHouse in providing information to investors?

Not at all forthcoming — Very forthcoming

0 10 20 30 40 50 60 70 80 90 100

Next Page

All Conditions

In order to help us better understand why your responses might differ from those of other participants in this study, please answer the following questions.

Have you ever evaluated a company's performance by analyzing its annual or quarterly financial reports?

- No
- Yes

Have you ever bought or sold shares of a company's stock?

- No
- Yes

Do you plan to buy or sell shares of a company's common stock in the next five years?

- No
- Yes

How many accounting courses have you taken?

How many finance courses have you taken?

What state do you live in?

Please indicate your gender:

- Female
- Male
- Other

Which of the following best describes your first language?

- English is my first language.
- English is not my first language.

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