

How Does Using a Mobile Device Change Investors' Reactions to Firm Disclosures?

Stephanie M. Grant, *University of Washington*

Research Materials

January 2020

Note: I insert comments on the top of subsequent pages to provide additional details to reviewers. The bottom of each page identifies if the materials are associated with Experiment 1, 2, or 3. Participants did not view this information.

SCREEN 1 – HIGH CHOICE CONDITIONS

Instructions

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 to return to previously-viewed pages
- On the next page you will receive FreshHouse's fiscal year 2015 press release. Please choose the information you want to view by clicking the orange tabs at the top of the press release.

Next Page

SCREEN 1 – LOW CHOICE CONDITIONS

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Next Page

SCREEN 2 – HIGH CHOICE / LARGE SCREEN CONDITION, SCREEN SHOT

NOTES: SEE FULL PRESS RELEASE ON PAGES 6-8

LINKS AT TOP OF PRESS RELEASE ARE CLICKABLE; PARTICIPANTS CAN ALSO SCROLL UP AND DOWN
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Financial Highlights	Company Overview	Industry Conditions	Yearly Changes	Balance Sheet	Income Statement	Financial Ratios
Financial Highlights (BUSINESS WIRE)—January 24, 2016—Earlier today FreshHouse Southeast Asian Kitchen (NYSE: FRSH), reported its financial results for the full year ended December 31, 2015. The Company reported revenues for the year of \$1,759 million compared to \$1,742 million in 2014. Net income for the year of \$102 million, or \$4.27 per share compared to net income of \$95 million, or \$3.96 per share in 2014. "We continue to make significant progress on our important journey to change the way people think about and eat fast food," said Steve Johnson, CEO of FreshHouse. "Consumer trends are changing, which we believe is a great result of people becoming more discerning about where their food comes from, how it was raised, and how their meal was prepared. The continued loyalty we see from our customers, as well as third party research, all point to the relevance of our vision and the impact we are having on food culture. We are delighted to see that this vision, a very lofty goal, is becoming a reality." Company Overview 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 December 31, 2015. 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. Industry Conditions 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						

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FULL TEXT OF PRESS RELEASE INCLUDED ON SCREEN 2

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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.

Yearly Changes

Revenue for the full year of 2015 was \$1,759 million compared to \$1,742 million in 2014. The growth in revenue was driven primarily by an increase in average check. This includes the benefit of new nationwide menu price increase that was fully rolled out during the fourth quarter of 2015.

During the full year, we opened 192 new restaurants.

Food costs in 2015 were 32.5% of revenue, which were flat to 2014 due primarily to relief in packaging costs offset by increased beef costs.

The decrease in General & Administrative expenses in 2015 was due to a one-time gain of approximately \$8 million related to the favorable resolution of an insurance settlement.

Depreciation and amortization expense and interest expense for 2015 remained flat to 2014.

FreshHouse**Balance Sheet (in thousands of dollars)**

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	194,190	175,243
Accounts receivable, net	108,113	102,965
Inventory	33,512	31,916
Prepaid expenses and other current assets	57,817	55,064
Total current assets	393,632	365,188
Fixed assets, net	662,695	631,138
Other assets	213,752	199,768
Total assets	1,270,079	1,196,094
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	37,721	37,533
Accrued expenses	178,292	185,792
Deferred rent	66,304	65,974
Total current liabilities	282,317	289,299
Long-term debt	189,000	210,000
Total liabilities	471,317	499,299
Stockholders' equity		
Common stock	3	3
Additional paid-in capital	146,908	146,908
Retained Earnings	651,852	549,884
Total stockholders' equity	798,763	696,795
Total liabilities and stockholders' equity	1,270,079	1,196,094

FreshHouse**Income Statement (in thousands of dollars)**

	2015	2014
Revenue	1,759,327	1,741,908
Restaurant Operating Costs		
Food, beverage, and packaging	572,409	565,622
Labor	572,242	565,457
Occupancy	150,304	148,816
Depreciation and amortization	127,788	126,523
General and administrative expenses	115,835	123,335
	1,538,579	1,529,753
Operating Income	220,748	212,155
Interest Expense	1,064	1,053
Income Taxes	117,717	116,551
Net Income	\$101,968	\$94,551
Earnings per share	\$4.27	\$3.96
Number of shares used in calculating EPS:	23,870	23,870

FreshHouse Financial Ratios

	2015
Current ratio (current assets / current liabilities)	1.39
Debt to equity (total debt / total equity)	0.59
Return on assets (net income / total assets)	8.27%
Profit margin (net income / total revenue)	5.80%
Return on equity (net income / total equity)	13.64%
Earnings growth	7.84%

SCREEN 3 – ALL CONDITIONS

You have finished viewing FreshHouse's press release. Please click next if you wish to continue the study. Please click the "Previous Page" button if you wish to return to the press release.

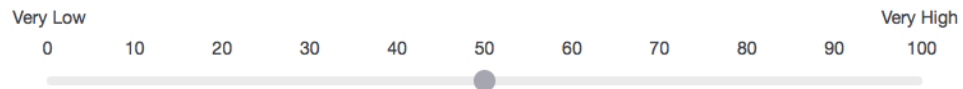
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Click when finished reading press release

SCREEN 4 – ALL CONDITIONS

Directions: For the following questions, please consider the information you have read.

What is an appropriate common stock valuation for FreshHouse?



Next Page

SCREEN 5 – ALL CONDITIONS

How hard did you have to work in your attempt to understand the contents of the press release?



How irritated and/or annoyed did you feel?



How much mental and physical activity was required, e.g., thinking, deciding, calculating, remembering, looking, searching etc.?



Next Page

SCREEN 6 – ALL CONDITIONS

WITHOUT referring back to your case materials, please answer the following questions about FreshHouse's press release, to the best of your recollection:

FreshHouse is in which segment of the restaurant industry?

- ☐ quick service
- ☐ fast casual
- ☐ casual dining
- ☐ fine dining
- ☐ I don't know

From 2014 to 2015 FreshHouse's reported total assets:

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

The change in General & Administrative expenses in 2015 was due to a _____ related to the resolution of an insurance settlement.

- ☐ one time gain
- ☐ recurring gain
- ☐ one time loss
- ☐ recurring loss
- ☐ I don't know

From 2014 to 2015, FreshHouse's reported profit margin:

- ☐ increased
- ☐ decreased
- ☐ did not change
- ☐ I don't know

From 2014 to 2015, FreshHouse's reported earnings increased (decreased) by:

- ☐ (\$10 million) to \$0
- ☐ \$1 to \$3 million
- ☐ \$3.1 million - \$8 million
- ☐ \$8.1 million or more
- ☐ I don't know

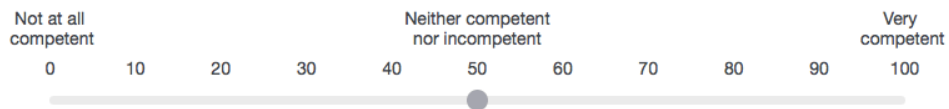
From 2014 to 2015, FreshHouse's reported operating income:

- ☐ increased
- ☐ decreased
- ☐ did not change
- ☐ I don't know

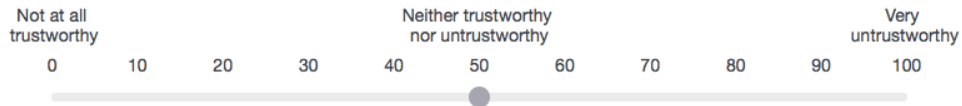
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SCREEN 7 – ALL CONDITIONS

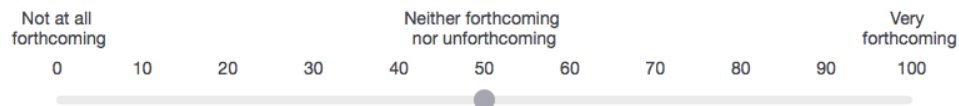
How competent do you believe the management of FreshHouse to be?



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



How forthcoming is FreshHouse in providing information to investors?



The information in FreshHouse's press release felt easy to read:



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



Next Page

SCREEN 8 – ALL CONDITIONS

Please list below the 3 factors that most heavily influenced your valuation judgment.

1.
2.
3.

Next Page

SCREEN 9 – ALL CONDITIONS

How did you view FreshHouse's press release?

- ☐ I could only scroll up and down and did not have choices over the order I viewed information.
- ☐ I could click on orange tabs and had choices over the order I viewed information.

FreshHouse's press release appeared in the following size box on the screen:

- ☐ A large box about the size of a computer.
- ☐ A small box about the size of a mobile phone.

Next Page

SCREEN 10 – ALL CONDITIONS

What type of mobile smartphone do you use?



Apple iPhone 6 Plus
Apple iPhone 6
Apple iPhone 5/5c/5s
Apple iPhone 4s/4
Apple iPhone 3GS/3G/original iPhone
Blackberry
Google LG Nexus 5
Google LG Nexus 4
HTC Desire 816
HTC One/One S
LG G3
LG G Flex 2
Lenovo Vibe Z
Motorola Moto X
Nokia Lumia Icon
Samsung Galaxy S5/S5 Active
Samsung Galaxy S5 mini/S4 mini/S3 mini
Samsung Galaxy S4/S3
Samsung Galaxy S2/S
Samsung Galaxy Grand 2
Samsung Galaxy Note
Samsung Galaxy Ace
Sony Xperia Z2/Z
I do not have a smartphone
Other

Next Page

SCREEN 11 – ALL CONDITIONS

Which of the following tasks do you use your smartphone for? (Check all that apply)

- ☐ Phone calls
 - ☐ Texting/Emailing
 - ☐ Reading
 - ☐ Social Media
 - ☐ Shopping
 - ☐ Banking
 - ☐ Work/School Work
 - ☐ Other
 - ☐ I do not have a smartphone
-

How much time per day do you spend using your smartphone (for all tasks in total)?

- ☐ 0 minutes
- ☐ 1 - 30 minutes
- ☐ 31 - 60 minutes
- ☐ 61 - 120 minutes
- ☐ 121 minutes or more

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SCREEN 12 – ALL CONDITIONS

Which program are you enrolled in at XXXXXXXXXX

- ☐ Master of Accounting Science (MAS)
- ☐ Master of Science in Accountancy (MSA)
- ☐ Master of Science in Finance (MSF)
- ☐ Master of Business Administration (MBA)
- ☐ Undergraduate Program in Accountancy
- ☐ Other

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

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

Next Page

SCREEN 13 – ALL CONDITIONS

How many times have you evaluated a company's performance by analyzing its financial statements?

- ☐ This is the first time.
 - ☐ 1 - 5 times.
 - ☐ 6 - 10 times.
 - ☐ More than 10 times.
-

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
-

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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SCREEN 1—ALL CONDITIONS

DIRECTIONS FOR TODAY’S TASK

Today, you will be deriving estimates of the “fundamental value” of a firm’s shares of common stock and judging how much you would be willing to pay per share for the firm’s stock.

Fundamental Value

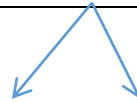
There are several popular ways of deriving a firm’s “fundamental value” such as *discounted cash flow analysis* and *discounted residual earnings analysis*. In this case, you will use discounted residual earnings analysis facilitated by an **Excel template on your computer**.

Each year, a firm’s “residual earnings” (or “abnormal earnings”) is the excess of its total earnings minus its “normal earnings”.

$$\begin{array}{rcl} & \text{Total Earnings} & \\ \text{Minus} & \underline{\text{Normal Earnings}} & \text{(i.e., Beginning book value of equity x cost of capital)} \\ \text{Equals} & \text{Residual Earnings} & \end{array}$$

A firm’s “fundamental value” is the SUM of its current book value of equity and discounted future residual earnings, as follows:

$$\text{Fundamental value} = \text{Current Book Value of Equity} + \boxed{\text{Present Value of Future Residual Earnings}}$$



$$\boxed{\text{Present Value from Short-Term Residual Earnings} + \text{Continuing value}}$$

That is, the present value of future residual earnings has two components, one for short-term future residual earnings and one for long-term future residual earnings.

The latter component is commonly called “continuing value”. “Continuing value,” is based on the rate of long-term growth in residual earnings, and, for a firm with a sustainable competitive advantage, this growth rate equals or is slightly above the overall inflation rate (The 5 year average inflation rate in the USA is around 2%). If a firm lacks a sustainable competitive advantage, a lower long-term growth rate would be appropriate.

A firm’s cost of capital affects the present value of both short-term residual earnings and the present value of “continuing value”. Riskier firms generally have higher costs of capital compared to safer firms. A firm that poses average risk would tend to have an industry average cost of capital.

SCREEN 2—ALL CONDITIONS
SAMPLE FIRM A

Step 1: Develop your best estimate of Firm A's net income (in Excel, enter values in the box shown).

When you use the residual income model to estimate **Firm A's** fundamental value, you want to start with your **best estimate** of net income for the current year. You can use net income as reported or you can adjust it.

- So, if you think the financial accounting policies and estimates used by **Firm A** management to derive its **reported** net income constitutes your best estimate of **Firm A's** true net income, you do not need to adjust reported net income.

Net income as reported for **Firm A** this year (ending 12/31/2014, in thousands): \$ 2,088

My "Adjusted" Net income for **Firm A** this year (ending 12/31/2014, in thousands):

Note: if you think net income as reported above is the best estimate, you do not have to adjust net income.

\$ _____
(Box 1)

Step 2: Forecast future net income for the next 4 years for Firm A (in Excel, enter values in the boxes shown).

Net income forecast for **Firm A** next year (ending 12/31/2015, in thousands): \$ _____
(Box 2)

Net income forecast for **Firm A** year ending 12/31/2016 (in thousands): \$ _____
(Box 3)

Net income forecast for **Firm A** year ending 12/31/2017 (in thousands): \$ _____
(Box 4)

Net income forecast for **Firm A** year ending 12/31/2018 (in thousands): \$ _____
(Box 5)

Step 3: Estimate cost of capital and growth in residual earnings (in Excel, enter values in the boxes shown). Note: A firm's long-term growth rate in residual earnings cannot exceed its cost of capital.

Firm A's cost of capital (industry average is 7.00%): _____
(Box 6)

Firm A's Long-term growth rate for residual earnings:
(industry average is 2.00%) _____
(Box 7)

Step 4: Record estimate of Firm A's fundamental value per share from Excel template

Estimated fundamental value per share of **Firm A** = \$ _____

SCREEN 3 – ALL CONDITIONS

Please answer the following questions

1) In Box 1, the amount I enter for net income this year is

a) net income as reported, or

b) my "adjusted" net income, which is net income plus one-time losses or minus one-time gains.

- ☐ True
☐ False
-

2) In Boxes 2 - 5, I forecast future net income for the next 4 years by using my best guess of future earnings growth, which could be based on the past earnings growth rate.

- ☐ True
☐ False
-

3) In Box 6, I estimate the firm's cost of capital as the industry average if I believe the firm:

- ☐ has average risk compared to other firms in the industry.
☐ is riskier than the industry average.
☐ is less risky than the industry average.
-

4) In Box 7, I estimate the firm's long term growth rate for:

- ☐ Total Earnings
☐ Residual Earnings

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Company Overview

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 December 31, 2014. 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,

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SCREEN 5 – LOW CHOICE / SMALL SCREEN CONDITION, SCREEN SHOT

NOTES: 'COMPANY OVERVIEW' TAB SHOWN; SEE FULL PRESS RELEASE ON PAGES 9-11

LINKS AT TOP OF PRESS RELEASE ARE **NOT** CLICKABLE;

MUST CLICK NEXT AND BACK BUTTONS TO MOVE THROUGH TABS;

BOX APPEARS 5.44 INCHES WIDE X 2.64 INCHES HIGH ON THE SCREEN IN THE LAB

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Previous Tab

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FULL TEXT OF PRESS RELEASE INCLUDED ON TABS ON SCREEN 5

Company Overview

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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.

Industry Conditions

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 quickservice 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.

Financial Highlights

(BUSINESS WIRE)--January 24, 2015—Earlier today FreshHouse Southeast Asian Kitchen (NYSE: FRSH), reported its financial results for the full year ended December 31, 2014. The Company reported revenues for the year of \$1,759 million compared to \$1,742 million in 2013. Net income for the year of \$102 million, or \$4.27 per share compared to net income of \$95 million, or \$3.96 per share in 2013.

"We continue to make significant progress on our important journey to change the way people think about and eat fast food," said Steve Johnson, CEO of FreshHouse. "Consumer trends are changing, which we believe is a great result of people becoming more discerning about where their food comes from, how it was raised, and how their meal was prepared. The continued loyalty we see from our customers, as well as third party research, all point to the relevance of our vision and the impact we are having on food culture. We are delighted to see that this vision, a very lofty goal, is becoming a reality."

Performance Changes

Revenue for the full year of 2014 was \$1,759 million compared to \$1,742 million in 2013. The growth in revenue was driven primarily by an increase in average check. This includes the benefit of new nationwide menu price increase that was fully rolled out during the fourth quarter of 2014.

During the full year, we opened 192 new restaurants.

Food costs in 2015 were 32.5% of revenue, which were flat to 2013 due primarily to relief in packaging costs offset by increased beef costs.

The decrease in General & Administrative expenses in 2014 was due to a one-time gain of approximately \$8 million related to the favorable resolution of an insurance settlement.

Depreciation and amortization expense and interest expense for 2014 remained flat to 2013.

FreshHouse

Income Statement (in thousands of dollars)

	2014	2013
Revenue	1,759,327	1,741,908
Restaurant Operating Costs		
Food, beverage, and packaging	572,409	565,622

Labor	572,242	565,457
Occupancy	150,304	148,816
Depreciation and amortization	127,788	126,523
General and administrative expenses	<u>115,835</u>	<u>123,335</u>
	1,538,579	1,529,753
Operating Income	220,748	212,155
Interest Expense	1,064	1,053
Income Taxes	<u>117,717</u>	<u>116,551</u>
Net Income	<u><u>\$101,968</u></u>	<u><u>\$94,551</u></u>
Earnings per share	\$4.27	\$3.96
Number of shares used in calculating EPS:	23,870	23,870

FreshHouse

Balance Sheet (in thousands of dollars)

ASSETS	2014	2013
Current assets		
Cash and cash equivalents	194,190	175,243
Accounts receivable, net	108,113	102,965
Inventory	33,512	31,916
Prepaid expenses and other current assets	<u>57,817</u>	<u>55,064</u>
Total current assets	393,632	365,188
Fixed assets, net	662,695	631,138
Other assets	<u>213,752</u>	<u>199,768</u>
Total assets	1,270,079	1,196,094
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	37,721	37,533
Accrued expenses	178,292	185,792
Deferred rent	<u>66,304</u>	<u>65,974</u>
Total current liabilities	282,317	289,299
Long-term debt	<u>189,000</u>	<u>210,000</u>
Total liabilities	471,317	499,299
Stockholders' equity		
Common stock	3	3
Additional paid-in capital	146,908	146,908
Retained Earnings	<u>651,852</u>	<u>549,884</u>
Total stockholders' equity	798,763	696,795
Total liabilities and stockholders' equity	1,270,079	1,196,094

FreshHouse Financial Ratios

	2014
Current ratio (current assets / current liabilities)	1.39
Debt to equity (total debt / total equity)	0.59
Return on assets (net income / total assets)	8.27%
Profit margin (net income / total revenue)	5.80%
Return on equity (net income / total equity)	13.64%
Earnings growth	7.84%

SCREEN 6—ALL CONDITIONS

You have finished viewing FreshHouse's press release. Please click next if you wish to continue the study. Please click back if you wish to return to the press release.

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RESIDUAL INCOME MODEL TEMPLATE

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1	Residual Earnings Model for FreshHouse												Cells will accept your estimates		
2													Cells will compute automatically		
3			2014		2015		2016		2017		2018				
4															
5													Cost of capital (assume industry average is 7.00%)		
6	Net income (in millions)		Box 1		Box 2		Box 3		Box 4		Box 5			Box 6	
7															
8	Opening book value of equity	696,795		696,795		696,795		696,795		696,795			Long-term growth rate for RESIDUAL earnings (assume industry average is 2.00%)		
9	Closing book value of equity	696,795		696,795		696,795		696,795		696,795				Box 7	
10	Residual earnings	0		0		0		0		0					
11	PV of residual earnings	0		0		0		0		0					
12															
13															
14			696,795		+		0		+			=			
15			Current				Present				Continuing				
16			book value				value from				value				
17							short-term							+ 23870	
18							future								
19														Estimated fundamental value per share (Please record this value on your worksheet)	
20							residual earnings								

SCREEN 7—ALL CONDITIONS

To compute the firm's fundamental value, provide your best estimate of the following values below (where possible, industry averages are provided to assist you in making your estimates. Please use your excel template to fill in these values. Once you have completed your spreadsheet, please copy the values for each box below.

Step 1: Develop your best estimate of FreshHouse's net income (in Excel, enter values in the box shown).

In estimating FreshHouse's fundamental value, you want to start with your best estimate of its net income for the current year. You can use net income as reported or you can adjust it. So, if you think the financial accounting policies and estimates used by FreshHouse management to derive its reported net income constitutes your best estimate of FreshHouse's true net income, you do not need to adjust reported net income.

BOX 1

Net income as reported for FreshHouse this year (ending 12/31/2014, in thousands): \$ 101,968

My "Adjusted" Net income for FreshHouse this year (ending 12/31/2014, in thousands):

Note: if you think net income as reported above is the best estimate, you do not have to adjust net income.

Box 1

Step 2: Forecast future net income for the next 4 years for FreshHouse (in Excel, enter values in the boxes shown).

Net income forecast for FreshHouse next year (year ending 12/31/2015, in thousands):

Box 2

Net income forecast for FreshHouse year ending 12/31/2016 (in thousands):

Box 3

Net income forecast for FreshHouse year ending 12/31/2017 (in thousands):

Box 4

Net income forecast for FreshHouse year ending 12/31/2018 (in thousands):

Box 5

Step 3: Estimate cost of capital and growth in residual earnings (in Excel, enter values in the boxes shown). Note: A firm's long-term growth rate in residual earnings cannot exceed its cost of capital.

FreshHouse's cost of capital (restaurant industry average is 7.00%):

Box 6

FreshHouse's Long-term growth rate for residual earnings (industry average is 2.00%):

Box 7

Step 4: Record estimate of FreshHouse's fundamental value per share from Excel template

Estimated fundamental value per share of FreshHouse =

Box 8

Next Page

SCREEN 8—ALL CONDITIONS

Assume that you have received an inheritance of \$100,000 in cash from a distant relative. Please indicate the **maximum price per share** at which **you** would be willing to invest the following amounts in FreshHouse's stock. The price you should be willing to pay when allocating 50% of your \$100,000 to any single investment ought to be lower than when allocating smaller percentages.

\$50,000, or 50%, of your inheritance:

\$ _____
(1)

\$25,000, or 25%, of your inheritance:

\$ _____
(2)

\$10,000, or 10%, of your inheritance:

\$ _____
(3)

\$5,000, or 5%, of your inheritance:

\$ _____
(4)

Price should be increasing
from (1) to (4)

1) \$50,000, or 50%, of your inheritance:

2) \$25,000, or 25% of your inheritance:

3) \$10,000, or 10% of your inheritance:

4) \$5,000, or 5% of your inheritance:

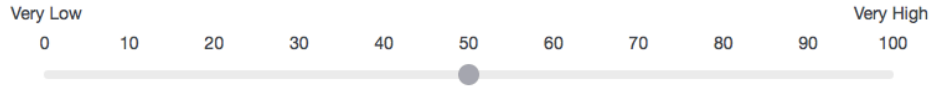
Next Page

SCREEN 9—ALL CONDITIONS

How hard did you have to work in your attempt to understand the contents of the press release?



How irritated and/or annoyed did you feel?



How much mental and physical activity was required, e.g., thinking, deciding, calculating, remembering, looking, searching etc.?



[Next Page](#)

SCREEN 10—ALL CONDITIONS

WITHOUT referring back to your case materials, please answer the following questions about FreshHouse's press release, to the best of your recollection:

FreshHouse is in which segment of the restaurant industry?

- ☐ quick service
 - ☐ fast casual
 - ☐ casual dining
 - ☐ fine dining
 - ☐ I don't know
-

From 2013 to 2014 FreshHouse's reported total assets:

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

The change in General & Administrative expenses in 2014 was due to a _____ related to the resolution of an insurance settlement.

- ☐ one time gain
 - ☐ recurring gain
 - ☐ one time loss
 - ☐ recurring loss
 - ☐ I don't know
-

FreshHouse's earnings growth rate from 2013 to 2014 was:

- ☐ 0% - 6%
 - ☐ 6.1% - 7%
 - ☐ 7.01% - 8%
 - ☐ 8.01% or more
 - ☐ I don't know
-

From 2013 to 2014, FreshHouse's reported earnings increased (decreased) by:

- ☐ (\$10 million) to \$0
 - ☐ \$1 to \$3 million
 - ☐ \$3.1 million - \$8 million
 - ☐ \$8.1 million or more
 - ☐ I don't know
-

From 2013 to 2014, FreshHouse's reported operating income:

- ☐ increased
- ☐ decreased
- ☐ did not change
- ☐ I don't know

Next Page

SCREEN 11—ALL CONDITIONS

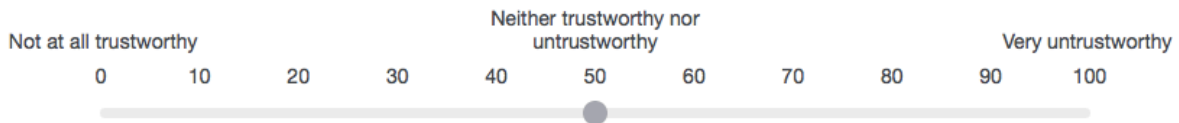
I am confident in my ability to evaluate FreshHouse as an investment:



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



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



How forthcoming is FreshHouse in providing information to investors?



The information in FreshHouse's press release felt easy to read:



Next Page

SCREEN 12—ALL CONDITIONS

Please explain how you estimated FreshHouse's fundamental value (be as specific as possible). For example, why did you or did you not adjust FreshHouse's reported net income when calculating fundamental value?

Next Page

SCREEN 13—ALL CONDITIONS

How did you view FreshHouse's press release?

- ☐ I could only click next and back buttons and did not have choices over the order I viewed information.
- ☐ I could click on orange tabs and had choices over the order I viewed information.

How was the FreshHouse press release formatted?

- ☐ There was a large box on the screen. I could see all the information in the box at one time without scrolling up and down.
- ☐ There was a small box on the screen. I had to scroll up and down to see all the information in the box.

Next Page

SCREEN 14—ALL CONDITIONS

I believe protecting the principal of my investment is more important than the potential for achieving high returns:



Next Page

SCREEN 15—ALL CONDITIONS

What type of mobile smartphone do you use?

- ☐ Apple iPhone 6 Plus
- ☐ Apple iPhone 6
- ☐ Apple iPhone 5/5c/5s
- ☐ Apple iPhone 4s/4
- ☐ Apple iPhone 3GS/3G/original iPhone
- ☐ Blackberry
- ☐ Google LG Nexus 5
- ☐ Google LG Nexus 4
- ☐ HTC Desire 816
- ☐ HTC One/One S
- ☐ LG G3
- ☐ LG G Flex 2
- ☐ Lenovo Vibe Z
- ☐ Motorola Moto X
- ☐ Nokia Lumia Icon
- ☐ Samsung Galaxy S5/S5 Active
- ☐ Samsung Galaxy S5 mini/S4 mini/S3 mini
- ☐ Samsung Galaxy S4/S3
- ☐ Samsung Galaxy S2/S
- ☐ Samsung Galaxy Grand 2
- ☐ Samsung Galaxy Note
- ☐ Samsung Galaxy Ace
- ☐ Sony Xperia Z2/Z
- ☐ Other
- ☐ I do not have a smartphone

Which of the following tasks do you use your smartphone for? (Check all that apply)

- ☐ Phone calls
- ☐ Texting/Emailing
- ☐ Reading
- ☐ Social Media
- ☐ Shopping
- ☐ Banking
- ☐ Work/School Work
- ☐ Other
- ☐ I do not have a smartphone

How much time per day do you spend using your smartphone (for all tasks in total)?

- ☐ 0 minutes
- ☐ 1 - 30 minutes
- ☐ 31 - 60 minutes
- ☐ 61 - 120 minutes
- ☐ 121 minutes - 180 minutes
- ☐ 181 minutes or more

Next Page

SCREEN 16—ALL CONDITIONS

Which program are you enrolled in at XXXXXXXXXX

- ☐ Master of Accounting Science (MAS)
- ☐ Master of Science in Accountancy (MSA)
- ☐ Master of Science in Finance (MSF)
- ☐ Master of Business Administration (MBA)
- ☐ Undergraduate Program in Accountancy
- ☐ Other

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

▼

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

▼

Next Page

SCREEN 17—ALL CONDITIONS

How many times have you evaluated a company's performance by analyzing its financial statements?

- ☐ This is the first time.
 - ☐ 1 - 5 times.
 - ☐ 6 - 10 times.
 - ☐ More than 10 times.
-

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
-

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.

[Next Page](#)

SCREEN 18—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK]

In the last part of this study you will try to memorize letters you see on the screen while you also solve simple math problems. Please **DO NOT use a calculator or scratch paper** for this part of the study.

First, you will have a practice round to get you familiar with how this works.

A math problem will appear on the screen, like this:

$$(2 * 1) + 1 = ?$$

As soon as you see the math problem, you should compute the correct answer in your head (NO calculator or scratch paper). In the above problem, the answer 3 is correct. When you know the correct answer, click next.

You will see a number displayed on the next screen along with answer choices TRUE and FALSE.

If the number on the screen is the correct answer to the math problem, choose TRUE. If the number is not the correct answer, choose FALSE.

For example, if you see the math problem

$$(2 * 1) + 1 = ?$$

and the number on the following screen is 3, choose TRUE.

After you make your decision about the math problem, a letter will appear on the screen for one second. Try and remember the letter. After the letter goes away, another math problem will appear, and then another letter.

At the end of each set of letters and math problems, a recall screen will appear. Type the letters you just saw. Try your best to get the letters in the correct order.

It is important to work QUICKLY and ACCURATELY on the math problems. Raise your hand now if you have any questions. Otherwise, click next for a practice round.

Next Page

SCREEN 19—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK, EXCERPT]

$$(5 * 3) + 4 = ?$$

Once you have solved the math problem in your head, click next to continue.

Next Page

SCREEN 20—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK, EXCERPT]

11

TRUE

☐

FALSE

☐

Next Page

SCREEN 21—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK, EXCERPT]

T

SCREEN 22—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK, EXCERPT]

$$(6 / 2) + 8 = ?$$

Once you have solved the math problem in your head, click next to continue.

Next Page

SCREEN 23—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK, EXCERPT]

11

TRUE

☐

FALSE

☐

Next Page

SCREEN 24—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK, EXCERPT]

P

SCREEN 25—ALL CONDITIONS [INNATE WORKING MEMORY CAPACITY TASK, EXCERPT]

Type the letters in the order presented. The table below lists possible letter choices. Type "blank" to fill in forgotten items.

F	H	J
K	L	N
P	Q	R
S	T	Y

First Letter

Second Letter

Next Page

SCREEN 1 – ALL CONDITIONS

Please open this survey on your mobile device. If you do not have your mobile device, please raise your hand.

>>

SCREEN 2 – HIGH CHOICE CONDITIONS

Instructions

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 to return to previously-viewed pages
- On the next page you will receive FreshHouse's fiscal year 2015 press release. Please choose the information you want to view by clicking the orange tabs at the top of the press release.

Next Page

SCREEN 2 – LOW CHOICE / MORE VARIABLE CONDITION

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Next Page

SCREEN 2 – LOW CHOICE / LESS VARIABLE CONDITION

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Next Page

SCREEN 3 – HIGH CHOICE / MORE VARIABLE CONDITION

NOTES: SEE FULL PRESS RELEASE ON PAGES 6-8

LINKS AT TOP OF PRESS RELEASE ARE CLICKABLE; PARTICIPANTS CAN ALSO SCROLL UP AND DOWN

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Click when finished reading press release

SCREEN 3 —HIGH CHOICE / LESS VARIABLE CONDITION

NOTES: 'FINANCIAL HIGHLIGHTS' TAB SHOWN; SEE FULL PRESS RELEASE ON PAGES 6-8

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FULL TEXT OF PRESS RELEASE INCLUDED ON SCREEN 3

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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.

Yearly Changes

Revenue for the full year of 2015 was \$1,759 million compared to \$1,742 million in 2014. The growth in revenue was driven primarily by an increase in average check. This includes the benefit of new nationwide menu price increase that was fully rolled out during the fourth quarter of 2015.

During the full year, we opened 192 new restaurants.

Food costs in 2015 were 32.5% of revenue, which were flat to 2014 due primarily to relief in packaging costs offset by increased beef costs.

The decrease in General & Administrative expenses in 2015 was due to a one-time gain of approximately \$8 million related to the favorable resolution of an insurance settlement.

Depreciation and amortization expense and interest expense for 2015 remained flat to 2014.

FreshHouse**Balance Sheet (in thousands of dollars)**

ASSETS	2015	2014
Current assets		
Cash and cash equivalents	194,190	175,243
Accounts receivable, net	108,113	102,965
Inventory	33,512	31,916
Prepaid expenses and other current assets	57,817	55,064
Total current assets	393,632	365,188
Fixed assets, net	662,695	631,138
Other assets	213,752	199,768
Total assets	1,270,079	1,196,094
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	37,721	37,533
Accrued expenses	178,292	185,792
Deferred rent	66,304	65,974
Total current liabilities	282,317	289,299
Long-term debt	189,000	210,000
Total liabilities	471,317	499,299
Stockholders' equity		
Common stock	3	3
Additional paid-in capital	146,908	146,908
Retained Earnings	651,852	549,884
Total stockholders' equity	798,763	696,795
Total liabilities and stockholders' equity	1,270,079	1,196,094

FreshHouse**Income Statement (in thousands of dollars)**

	2015	2014
Revenue	1,759,327	1,741,908
Restaurant Operating Costs		
Food, beverage, and packaging	572,409	565,622
Labor	572,242	565,457
Occupancy	150,304	148,816
Depreciation and amortization	127,788	126,523
General and administrative expenses	115,835	123,335
	1,538,579	1,529,753
Operating Income	220,748	212,155
Interest Expense	1,064	1,053
Income Taxes	117,717	116,551
Net Income	\$101,968	\$94,551
Earnings per share	\$4.27	\$3.96

Number of shares used in calculating EPS:	23,870	23,870
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FreshHouse Financial Ratios

	2015
Current ratio (current assets / current liabilities)	1.39
Debt to equity (total debt / total equity)	0.59
Return on assets (net income / total assets)	8.27%
Profit margin (net income / total revenue)	5.80%
Return on equity (net income / total equity)	13.64%
Earnings growth	7.84%

SCREEN 4 – ALL CONDITIONS

You have finished viewing FreshHouse's press release. Please click next if you wish to continue the study. Please click the "Previous Page" button if you wish to return to the press release.

Previous Page

Click when finished reading press release

SCREEN 5 – ALL CONDITIONS

Directions: For the following questions, please consider the information you have read.

What is an appropriate common stock valuation for FreshHouse?



Next Page

SCREEN 6 – ALL CONDITIONS

How hard did you have to work in your attempt to understand the contents of the press release?



How irritated and/or annoyed did you feel?



How much mental and physical activity was required, e.g., thinking, deciding, calculating, remembering, looking, searching etc.?



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SCREEN 7 – ALL CONDITIONS

WITHOUT referring back to your case materials, please answer the following questions about FreshHouse's press release, to the best of your recollection:

FreshHouse is in which segment of the restaurant industry?

- ☐ quick service
- ☐ fast casual
- ☐ casual dining
- ☐ fine dining
- ☐ I don't know

From 2014 to 2015 FreshHouse's reported total assets:

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

The change in General & Administrative expenses in 2015 was due to a _____ related to the resolution of an insurance settlement.

- ☐ one time gain
- ☐ recurring gain
- ☐ one time loss
- ☐ recurring loss
- ☐ I don't know

From 2014 to 2015, FreshHouse's reported profit margin:

- ☐ increased
- ☐ decreased
- ☐ did not change
- ☐ I don't know

From 2014 to 2015, FreshHouse's reported earnings increased (decreased) by:

- ☐ (\$10 million) to \$0
- ☐ \$1 to \$3 million
- ☐ \$3.1 million - \$8 million
- ☐ \$8.1 million or more
- ☐ I don't know

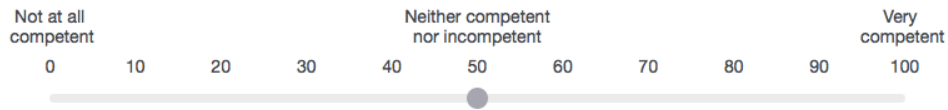
From 2014 to 2015, FreshHouse's reported operating income:

- ☐ increased
- ☐ decreased
- ☐ did not change
- ☐ I don't know

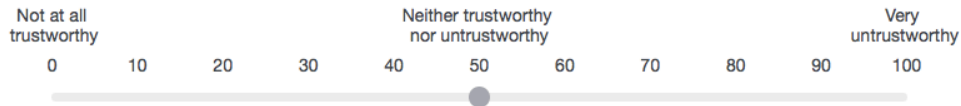
Next Page

SCREEN 8 – ALL CONDITIONS

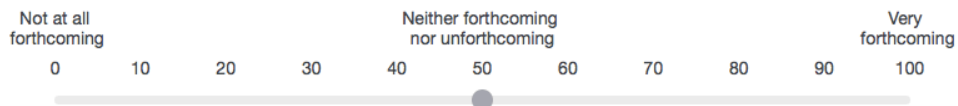
How competent do you believe the management of FreshHouse to be?



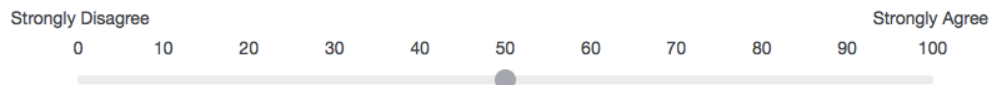
How trustworthy do you believe the management of FreshHouse to be?



How forthcoming is FreshHouse in providing information to investors?



The information in FreshHouse's press release felt easy to read:



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



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SCREEN 9 – ALL CONDITIONS

Please list below the 3 factors that most heavily influenced your valuation judgment.

1.
2.
3.

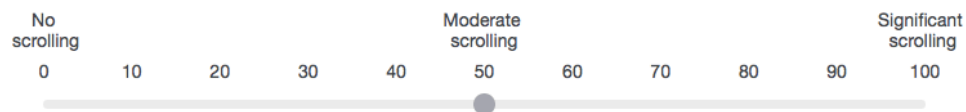
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SCREEN 10 – LESS VARIABLE CONDITIONS

How did you view FreshHouse's press release?

- ☐ I could only click next and back buttons and did not have choices over the order I viewed information.
- ☐ I could click on orange tabs and had choices over the order I viewed information.

How much scrolling (i.e. moving text up and down on the screen to read other text) did you have to complete to read the contents of FreshHouse's press release?



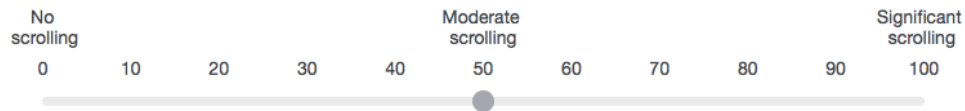
Next Page

SCREEN 10 – MORE VARIABLE CONDITIONS

How did you view FreshHouse's press release?

- ☐ I could only scroll up and down and did not have choices over the order I viewed information.
- ☐ I could click on orange tabs and had choices over the order I viewed information.

How much scrolling (i.e. moving text up and down on the screen to read other text) did you have to complete to read the contents of FreshHouse's press release?



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SCREEN 11 – ALL CONDITIONS

What type of mobile smartphone do you use?

✓

Apple iPhone 6 Plus
Apple iPhone 6
Apple iPhone 5/5c/5s
Apple iPhone 4s/4
Apple iPhone 3GS/3G/original iPhone
Blackberry
Google LG Nexus 5
Google LG Nexus 4
HTC Desire 816
HTC One/One S
LG G3
LG G Flex 2
Lenovo Vibe Z
Motorola Moto X
Nokia Lumia Icon
Samsung Galaxy S5/S5 Active
Samsung Galaxy S5 mini/S4 mini/S3 mini
Samsung Galaxy S4/S3
Samsung Galaxy S2/S
Samsung Galaxy Grand 2
Samsung Galaxy Note
Samsung Galaxy Ace
Sony Xperia Z2/Z
I do not have a smartphone
Other

Next Page

SCREEN 12 – ALL CONDITIONS

Which of the following tasks do you use your smartphone for? (Check all that apply)

- ☐ Phone calls
 - ☐ Texting/Emailing
 - ☐ Reading
 - ☐ Social Media
 - ☐ Shopping
 - ☐ Banking
 - ☐ Work/School Work
 - ☐ Other
 - ☐ I do not have a smartphone
-

How much time per day do you spend using your smartphone (for all tasks in total)?

- ☐ 0 minutes
 - ☐ 1 - 30 minutes
 - ☐ 31 - 60 minutes
 - ☐ 61 - 120 minutes
 - ☐ 121 minutes or more
-

How many mobile notifications did you receive while completing this study (including text messages, emails, social media, and other apps)?

- ☐ None that I know of – I did not have access to my smartphone during today's study.
- ☐ None. I disable all notifications.
- ☐ None. My notifications were enabled but none came through during the study.
- ☐ 1 - 2 notifications.
- ☐ 3 - 5 notifications.
- ☐ 6 - 10 notifications.
- ☐ 11 or more notifications.

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SCREEN 13 – ALL CONDITIONS

Which program are you enrolled in at XXXXXXXXXX

- ☐ Master of Accounting Science (MAS)
- ☐ Master of Science in Accountancy (MSA)
- ☐ Master of Science in Finance (MSF)
- ☐ Master of Business Administration (MBA)
- ☐ Undergraduate Program in Accountancy
- ☐ Other

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

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

Next Page

SCREEN 14 – ALL CONDITIONS

How many times have you evaluated a company's performance by analyzing its financial statements?

- ☐ This is the first time.
 - ☐ 1 - 5 times.
 - ☐ 6 - 10 times.
 - ☐ More than 10 times.
-

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
-

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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