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# Goncalves' abuse counter-productive

Cleveland-Cliffs chief executive Lourenco Goncalves' UFC-style trash talk and neo-Trumpian character aspersions gave his quarterly earnings call the prominence he craved. But could his style prove counterproductive?

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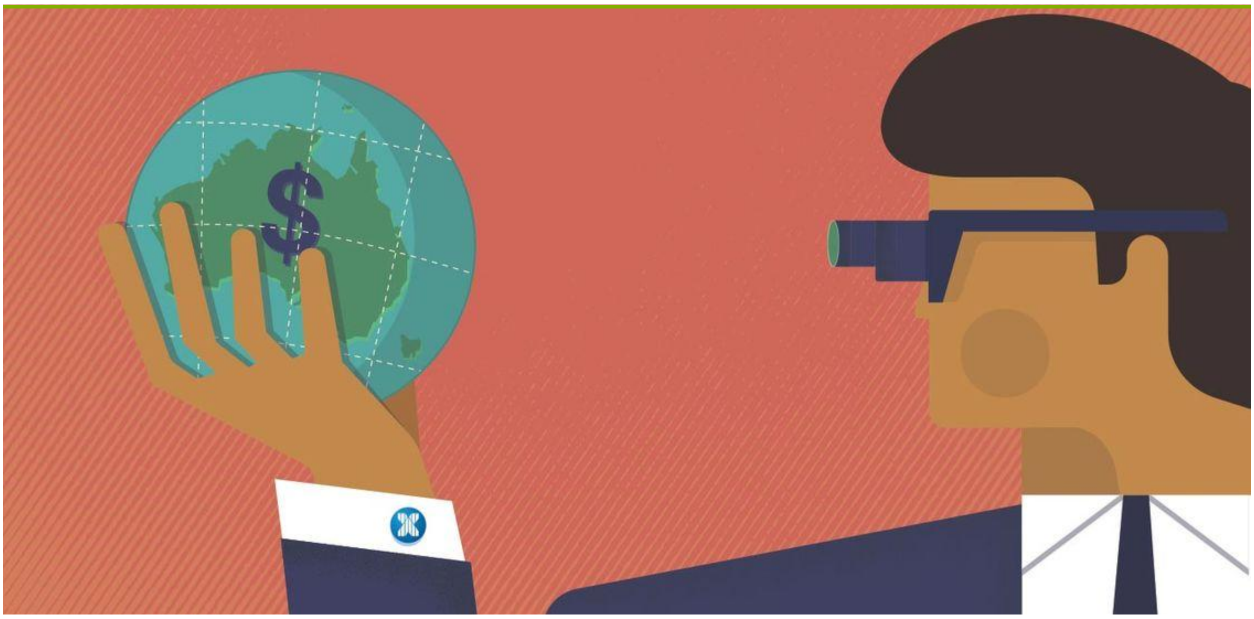

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Goncalves stunned market observers with a no holds barred attack on stock analysts during an earnings briefing on Friday.

Goncalves and his chief financial officer had been matter-of-factly running through the company's third quarter earnings results for nearly 30 minutes when, out of the blue, the chairman and chief executive began laying into analysts about the quality of their work.

He started out referring to an enquiry, from earlier in the morning, about why the balance sheet had shown no change in debt despite the company having announced early redemption of US$211 million in notes due in 2020. If that was the question, the answer was simple enough and, surely, well within the expected skill base of professional analysts: the redemption had occurred after the balance date.

Anyway, Goncalves seemed in no mood to let even the slightest analytical misstep pass. He described as "unbelievable" the willingness of "the big banks" to still employ "this type of people" and referred to them as "an embarrassment to your parents".

There was more. The first question - about capital management policy - became a catalyst for an unbridled attack on short sellers or, as Goncalves put it, "kids that play with computers and somebody else's money". The company, he said, would buy back stock and, in doing so, "screw these guys so badly ... they will have to commit suicide ... that it will be fun to watch".

Goncalves hinted at more than a mild obsession when he confessed to thinking about the short sellers when going to bed each night and waking up in the morning.

He added, as if the first part of the answer had been too equivocal, that the buyback strategy would be designed "to inflict maximum pain".

For another half an hour, Goncalves parried questions about iron ore contract negotiations, pellet-price premiums and political leadership in Minnesota, home to Cliffs' Iron Range properties. President Donald Trump's tariffs were given a strong endorsement.

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The analysts asking questions seemed well on side, congratulating Goncalves on the company's capital management initiatives and praising his market insights. Whether or not their deference was a sign of genuine respect, necessary commercial obsequiousness or intimidation, they seemed unperturbed by the unusually belligerent style.

In any event, Goncalves still had more shots to fire. Before closing the hour-long briefing, he specifically called out the Goldman Sachs analyst who seems to have riled him the most, asking the call operator whether he was on the line, challenging him to ask a question and warning him threateningly that "you can run but you can't hide".

The prize for Goncalves' inelegant, insensitive and incendiary use of language was 10 minutes for Cliffs on the widely watched CNBC 'Closing Bell' programme later in the day.

There was no hint of contrition or regret when Goncalves was interviewed. Nor did he offer any substantive reason for his out of the ordinary aggression, simply stating the obvious - "I'm different" - while still angry at analyst Matthew Korn for, he claimed, using an incorrect number of shares to conclude that the company's third quarter earnings had fallen below expectations.

At the same time, Goncalves was adamant that Cliffs has been treated unfairly when companies like Tesla, Google (sic) and Facebook are given so much airtime despite inferior investment returns over the past year.

In an era fascinated with growth stocks, Cliffs is quintessentially cyclical. A $100 share price in early 2011 had halved within 12 months and ended a full 99% lower. The share prices of BHP, Rio Tinto and Cliffs bottomed within a few days of one another at the start of 2016. Since then, Rio has added 111%, BHP has put on 128% and Cliffs, more highly leveraged to improved business conditions, has climbed 850% - still leaving it 90% below its best and without a net gain since early 2017 despite a 75% rise through the first nine months of 2018.

In the immediate aftermath of the earnings release, the Cliffs share price had dropped 10%. A good result, a commitment to an ongoing dividend and promises of share repurchases helped it claw back 7.4 percentage points quickly and another 1.4 points during the following day's trading.

The company under Goncalves, who joined in 2014, has achieved an impressive financial turnaround. Earnings before interest and tax have increased from $143-147 million during 2014-2016 to an annualised rate of $838 million over the first nine months of 2018. Net debt of $2.86 billion has halved and is set to shrink further.

The market is paying around five times anticipated 2018 earnings for a company whose fortunes depend heavily on price premiums for iron ore pellets, not a mainstream investment topic in the US and, even among the cognoscenti, subject to fears over cyclicality.

Goncalves is not unique in feeling frustrated by seemingly influential analysts. He is, as he says, simply different. Irritable chief executives, of which there are plenty, are more inclined to call an analyst's boss, shout abuse and threaten withdrawal of potential corporate business unless they are treated more deferentially.

Some observers will have seen Goncalves as being pointlessly preoccupied with markets beyond his control. Others will recognise, in his candour, a breath of fresh air and a willingness to elbow his way through a crowded investment marketplace to address investors directly.

The professional investment community will have the last word. Fund managers are inclined to equate hostility toward analysts' opinions with poor temperament, inadequate focus and insufficient respect for markets. They worry about misguided strategic decisions motivated by animus and they price stocks accordingly.

Badmouthing analysts may help grab 10 minutes of fame but is no substitute for repetition of financial results reflecting sound business strategies. Market support for a repairing company usually takes a succession of convincing annual results not just a few quarters.

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