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Corporate & Financial

# Earnings Guidance in a Downturn

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Throughout these challenging times, companies have to consider how best to share information with its investors. The real nub of the matter is how much should one divulge during a period of uncertainty and indeed is it better to keep one's powder dry and not give anything away.

Attempting to guess what lies ahead for a company is hard at the best of times but in this turbulent market is nigh on impossible.

So, why bother? Managers and Investor Relations Officers are reminded ad nauseam by the old adage that 'shareholders don't like surprises'. This presumes, therefore, that they do like guidance.

Shrewd companies are those that under-promise and over-deliver. This, at least, avoids the nightmare scenario of missing targets, resulting in downgrades. Furthermore, as has become the market norm, downgrades tend to come in threes. However, if targets are exceeded to easily, investors will soon become wise to this and criticise management for adding in too much fat.

But the real point is whether it is relevant to make forecasts at all. A number of major UK companies have decided that issuing such forecasts in 2009 is futile. Given the fragile and topsy-turvy nature of the economy and consumer confidence, any financial projection could soon become obsolete as soon as it is issued. When companies fail to meet these projected forecasts, the share price is hammered. So, to prevent this, often companies will make radical short-termist decisions such as slashing capex and R&D. It's a moot point as to whether this is in the best long-term interests of the company but it is in the interests of meeting short-term financial targets and appeasing certain investors.

This is why, therefore, companies have considered foregoing forecasts altogether. If they themselves have no visibility on external factors such as interest rates, taxes, government regulation and the effect these factors may have on customer behaviour, many have stated that there are too many imponderables at play that any guidance would be tantamount to guesswork. The market is simply too volatile.

However, just because market conditions are less predictable and there is generally more bad news than good news to report, this should not lessen the importance of transparent disclosure. And because forecasting is more difficult than it was, it does not mean managers should stop the flow of information to its owners.

Earnings guidance is a key aspect of IR. The ranges may be broader and the caveats may be longer, but some kind of guidance is quintessential for investors who have a right to know about their companies' prospects.

Indeed, it is precisely because it is harder to predict the future outcome of this year's results, that companies should be more obliged to explain the risks and uncertainties it faces.

The modus operandi will always vary between companies: some give precise forecasts, some prefer to issue a range, some hint to the analysts that "you'll not be far wrong if you apply x% growth to last year's". There is no blueprint for the correct way to share information. Nevertheless, being mum is not an option.

More so than ever before, companies should be accountable for setting goals and explaining, for example, what remedial action is being taken to cut costs – in what time period and by which means.

The companies that continue to communicate with its shareholders, even through difficult times, will emerge from the downturn quicker and stronger.

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