



Executive ALERT

Updates on issues vital to the practice of investor relations

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Public Company Forward-Looking Guidance Practices in 2009

Despite the extremely difficult economic environment, comprehensive annual NIRI study finds only slight declines in guidance across financial and non-financial measures.

Key Findings

- 60% of respondents provide *earnings guidance** compared to 64% in 2008.
- 82% provide *other financial guidance** (or "*financial*") versus 86% in 2008.
- 55% provide *non-financial guidance** compared to 57% in 2008.
- 25% provide guidance in all three of the measures defined in the survey — earnings, financial and non-financial guidance (* see pg. 5, **About the Survey**, for definitions).
- Earnings guidance is provided as a range of greater than 5% for the largest proportion of respondents (42% in 2009, 38% in 2008), a shift from 2008 when the most popular response was a range of less than 5% (32% in 2009, 45% in 2008), possibly attributable to the difficult economic and, thus more challenging, forecasting environment.
- Responses for other financial guidance displayed greater heterogeneity, with a range of less than 5% still the most popular response, but at only 26% versus 38% last year. Twenty-two percent selected a range of greater than 5% this year, versus 24% in 2008.
- Of those respondents who do not provide earnings guidance at this time, 45% have done so in the past. Of that 45%, 43% have discontinued guidance within the past six months. For other financial guidance measures, 40% of those who don't currently provide financial guidance did so in the past, with 45% of that population having discontinued the practice in the last six months. The most common reason cited was a change in visibility/forecasting ability of the business (64% for earnings guidance stoppers and 76% for other financial guidance stoppers).
- Overall, the respondents whose companies discontinued all types of guidance did not favor a particular industry or market cap segment.
- Large cap companies were less likely than all other segments, except micro-caps, to provide financial guidance (Figure 1). Those large caps that do not provide earnings guidance currently were the least likely market cap segment to ever have done so. And those large caps that formerly provided earnings guidance were more likely to have discontinued their guidance in the past six months than any other market cap segment.

Discussion

Guidance practices are difficult to distill into a set of across the board “best practices.” The NIRI Board enunciated this concept in an August 2008 [Executive Alert](#), essentially encouraging companies to define their guidance practices in the context of their own unique circumstances. Nevertheless, given the central role that guidance plays for the IR profession, it is imperative for NIRI to provide as complete a picture as possible of *current practice* as well as trends over time. Important nuances clearly exist and help to differentiate companies from one another, but there are nonetheless commonalities and noting them here will permit the creation of a lingua franca for forward-looking guidance. The core components of a guidance policy are:

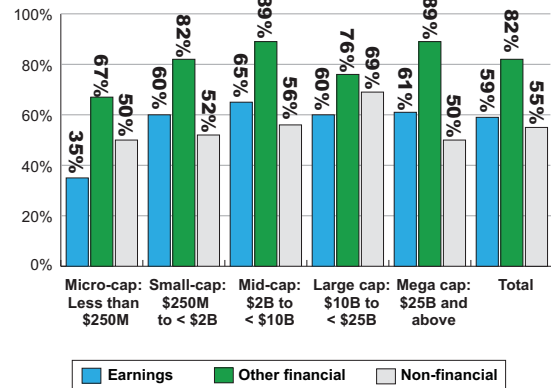
- *Measures* on which the company chooses to provide guidance.
- *Periodicity* of guidance, or the timeframe the estimates cover.
- *Frequency* of guidance communications, or how often guidance, updates or reiterations are provided.

Additionally, the media and methods employed for communications as well as industry-specific variations and other critical minutiae are part of the art of providing guidance. Further, recent changes such as the [SEC’s 2008 interpretive guidance](#) regarding the use of a company’s IR Web site for disclosure and the current challenging economic environment are also important factors potentially impacting guidance policy.

One might assume that the recent dramatic economic decline would necessarily result in a meaningful decline of public company guidance. Counterintuitively, NIRI member respondents have not abandoned guidance in large numbers. Rather, as Figure 2 shows, the decline has been modest – from 64% last year to 60% this year for EPS guidance, and from 56% last year to 50% this year for revenue guidance.

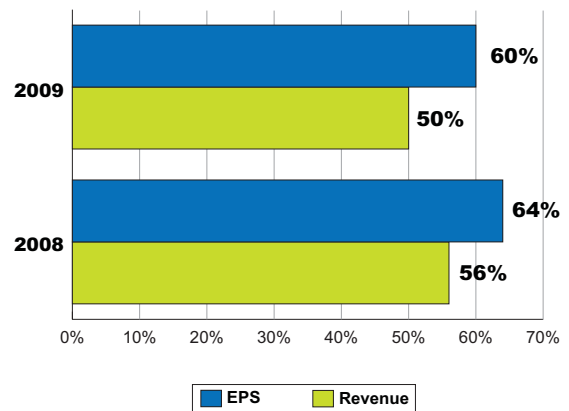
For all measures of guidance, the estimate period (periodicity) most commonly used for guidance is annual, as shown in Figure 3. Although the wording of the question was slightly modified this year to allow for multiple selections (as opposed to simply one choice in previous surveys), the increase in

Figure 1: Guidance by Market Cap



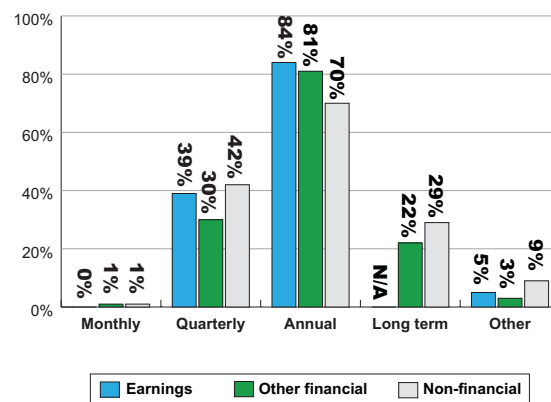
Source: NIRI

Figure 2: EPS and Revenue Guidance Trends



Source: NIRI

Figure 3: Periodicity of Guidance*



*Multiple responses

Source: NIRI

respondents selecting annual is noteworthy (84% in 2009 versus 55% in 2008).

Nevertheless, Figure 4 shows that guidance tends to be *communicated* (frequency) on a quarterly basis. This distinction between guidance periodicity (annual) and frequency (quarterly) is relevant to the public commentary concerning public company forward-looking guidance practices and the increasingly short-term focus of the marketplace.

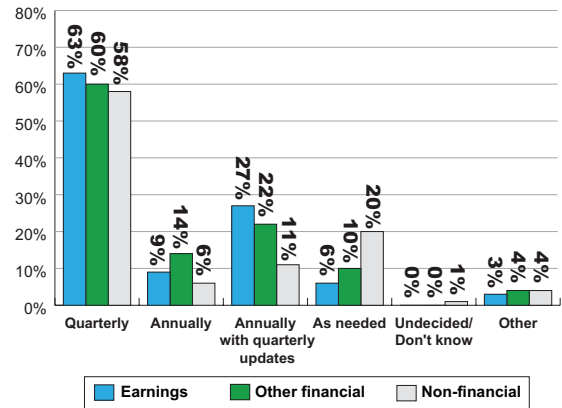
In a new survey question this year, respondents who currently provide financial guidance were asked if they planned to change their guidance policy for those core components identified above (measures, periodicity and frequency) as well as for the range of guidance. Only 18% indicated that they are considering changes to their guidance policy. Of those respondents considering changes, 55% may reduce the number of measures on which they provide guidance. Forty percent are considering less frequent guidance, 53% are planning no change with the balance (7%) considering more frequent guidance. One third of those considering change to guidance are considering expanding their ranges, 26% are considering tightening their ranges and the balance (40%) are not considering changing their range.

On the question of periodicity, half of the respondents who are considering any changes may change the periodicity of their guidance, but are roughly evenly split between moving to longer periods (26%) and shortening the estimate periods (25%). This seems to underscore the tension between practical realities of forecasting and the ideals of managing the business for the long term.

Of those that currently provide all types of financial guidance (including earnings guidance), only 12% are considering discontinuing it altogether.

The reasons that respondents gave for providing guidance have been consistent with past years. Companies primarily guide to ensure sell-side consensus and reasonable market expectations. It is interesting to note that 84% of respondents who supply earnings guidance provided this rationale. One might expect that, as a result, companies with the largest analyst coverage would be more likely to issue earnings guidance to ensure analyst consensus. But increased coverage does not strictly correlate to increased rates of earnings guidance.

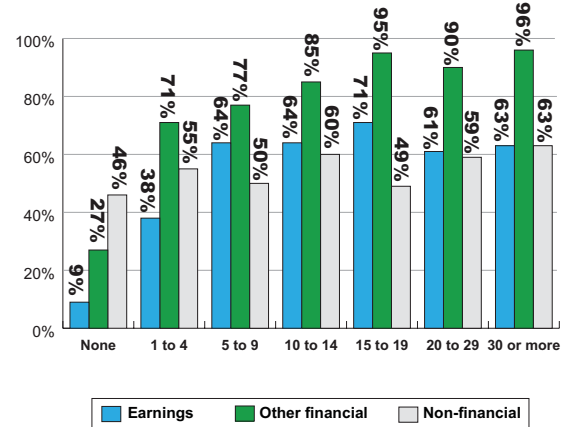
Figure 4: Frequency of Guidance*



*Multiple responses.
Zero respondents indicated Mid-quarterly.

Source: NIRI

Figure 5: Guidance by Analyst Coverage



Source: NIRI

Figure 6: Factors to Consider

Factors to consider in determining guidance policy

<p>Factors <i>encouraging</i> guidance:</p> <ul style="list-style-type: none"> • Desire to attract analyst coverage • Strong internal forecasting ability • Need to "educate" sell-side/wide spread of estimates • Intolerance for stock volatility 	<p>Factors <i>discouraging</i> guidance:</p> <ul style="list-style-type: none"> • Inability to forecast accurately/lack of visibility • Peers who are privately held or do not guide • A well understood industry • Intolerance for stock volatility (if forecasts prove inaccurate)
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Source: NIRI

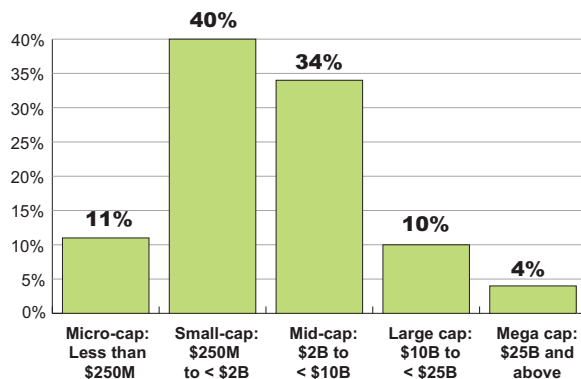
*Some numbers will not add to 100% due to rounding

Conclusion

The data from this year's survey show that despite the recent extraordinary economic downturn, survey respondents' companies have generally made measured changes to their guidance policies, as opposed to dramatic ones. There is, in fact, a surprising degree of consistency through these results, suggesting that while financial communications need to be responsive to changes in the environment, those changes should be thoughtful and balanced against the desire for continuity of message. Moreover, respondents' *personal opinions* on guidance practices, as measured in a series of qualitative questions, were nearly identical to the results from last year. Despite the dramatic macroeconomic changes from one year ago that impact visibility, respondents generally favor longer estimate periods over shorter ones. Consequently, this Executive Alert has attempted to frame the survey results by articulating both the components of guidance policy as well as, in Figure 6, a few of the considerations one might take into account when determining what that policy ought to be. By considering these factors, as well as their unique circumstances and sell-side relationships, companies can craft a guidance policy that best suits their needs and goals.

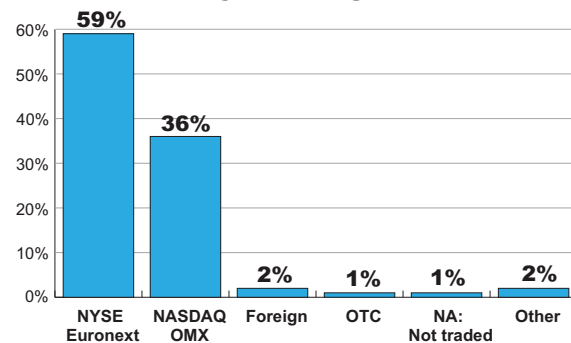
Survey Demographics

Percentage of Respondents by Market Cap*

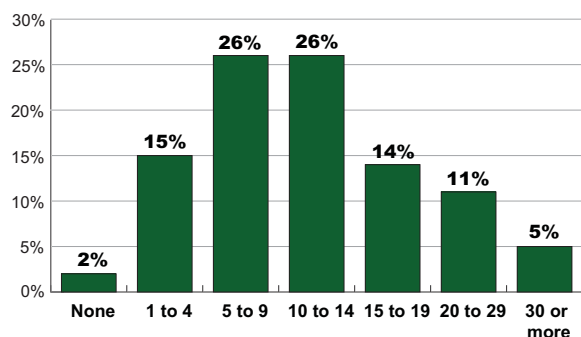


*Multiple responses

Percentage of Respondents by Exchange



Percentage of Sell-Side Analyst Coverage



About the Survey

This NIRI online survey was open to all corporate members from April 2 to April 21, 2009. A total of 515 members participated, yielding an approximately 18% total response.

Members may link to the full survey results:

http://www.niri.org/mem_service_area/surveys/09GuidanceResults.pdf

A complete PowerPoint slide deck is also available:

http://www.niri.org/mem_service_area/surveys/09GuidanceSlides.ppt

NIRI values your feedback. Please send your research-related comments, questions or suggestions to: research@niri.org.

* This survey asked NIRI corporate members about three types of forward-looking guidance:

1. *Earnings Guidance*: Earnings per share or EPS.
2. *Other Financial Guidance*: All quantitative economic measures of a company's performance including revenue, cash flow, EBITDA, operating income, gross margin, expenses, CAPEX, tax rate, etc., excluding EPS guidance unless otherwise noted.
3. *Non-financial Guidance*: Any information about current market or business conditions that have the potential to impact company performance and are not typically reflected in a company's financial statements.

The survey also asked for information on frequency of guidance (i.e. how often guidance is communicated and reiterated or updated) and periodicity of guidance (i.e. the timeframe on which the company is providing forward looking statements, typically in the form of quarterly or annual estimates).

NIRI 2009 Annual Conference – Guidance Session: [Has the Economic Storm Left Earnings Guidance Dead?](#)

The guidance practices dialogue continues at this informative NIRI 2009 Annual Conference session led by Doug Wilburne, Vice President, Investor Relations, Textron Inc. on Monday, June 8. The session will explore the questions of what constitutes good guidance practice and how to make decisions about establishing and changing guidance policy, as well as how guidance is currently perceived by analysts and the role guidance can play in a company's risk perception. For more information and to register for the Conference, visit:

<http://www.niri.org/conferences/index.cfm>.

About the National Investor Relations Institute (NIRI)

Founded in 1969, NIRI (www.NIRI.org) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts and other financial community constituents. NIRI is the largest professional investor relations association in the world with more than 4,000 members representing 2,000 publicly held companies and \$5.4 trillion in stock market capitalization.