

NIRI 2018 Policy Statement – Guidance Practices

Background and Purpose

The purpose of this updated policy statement, adopted by the NIRI Board of Directors in June 2018, is to articulate NIRI's views on guidance. NIRI recognizes that providing quarterly earnings-per-share (EPS) guidance has become less prevalent since 2008 as more public companies have shifted to communicating guidance on long-term strategy and value drivers. According to NIRI's *Earnings Process Practices Research Report* (2016), 67 percent of survey respondents chose to provide guidance that extends across an annual time span, only 29 percent furnished quarterly EPS estimates, and 20 percent provided long-term (greater than one year) EPS estimates.^{1 2}

NIRI has long advocated for companies to provide full, fair, and consistent disclosure of financial information to increase transparency, engender informed investor expectations, and, ultimately, reduce volatility and lower the cost of capital. NIRI believes that an undue focus on short-term, single-point guidance is undesirable and that all relevant audiences – primarily investors, financial analysts, and the news media – are better served when companies focus their guidance on the business' long-term strategy and value drivers.

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If a company chooses to provide guidance, NIRI recommends that it provide long-term guidance (i.e., one year or longer) on a consistent set of financial and non-financial metrics that, together, constitute the key long-term value drivers of its business.

When providing any form of guidance, NIRI encourages companies to provide a range of reasonable potential outcomes for each timeframe and metric (versus a single point or an unreasonably narrow range) to help investors and analysts better understand the inherent variability of its business and to drive discussion related to the strategies management is employing to capitalize on opportunities.

While companies are encouraged to provide longer-term guidance, NIRI acknowledges that there will be circumstances when a company may need to furnish short-term guidance, for example, to address seasonality or an unexpected market development, or to be consistent with the practices of industry peers.

NIRI recognizes that changes in companies' guidance practices alone will not reduce the short-term focus of the marketplace.³ However, NIRI strongly encourages companies to focus on long-term strategy and value drivers when providing guidance to market participants in order to foster and promote long-term perspectives.

¹ NIRI survey respondents were allowed to select multiple responses.

² FCLT Global reports that just 27.8 percent of S&P 500 companies continue to provide quarterly financial guidance. See FCLT Global, *Moving Beyond Quarterly Guidance: A Relic of the Past* (2017).

³ The quarterly compensation targets of many investment managers, the publishing of quarterly EPS estimates by analysts, and the news media's focus on companies "beating" or "missing" these quarterly estimates will continue to place undue emphasis on short-term results.