

# Strategies

Investor Relations

n e w s l e t t e r

Published by Makovsky + Company

Volume/Number



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## New Challenge for Corporate Chieftains: To Guide or Not to Guide?

**Questions emerge as Coca-Cola and other Blue Chip companies decide to forgo providing securities analysts with quarterly guidance.**

**Whether or not your company provides guidance, this article is for those interested in attracting sell-side coverage and generating institutional interest.**

In the wake of Coca-Cola's decision to stop providing guidance to securities analysts, corporate management, professional and individual investors are pondering just how much of a trend this might become. There is a precedent in Coke's decision as another Dow component, Gillette, decided to stop providing analysts with guidance some time ago. The common thread? Both companies are favorites of noted investor Warren Buffett, a vocal proponent of investing for the long term.

Other companies have jumped on the bandwagon as well. Sun Microsystems's normally outspoken chief, Scott McNeally, has decided that his company would no longer provide analysts with earnings targets citing the uncertain economic environment. McDonald's and AT&T have also announced their intentions to eschew the quarterly estimates game. The following quote best illustrates what appears to be a growing trend among major companies relative to the issue of guidance:

"As we examine our future disclosure practices, the goal will be to provide investors our additional financial and operational metrics to understand the key value drivers of the business and reduce reliance on guidance," said AT&T Chief Financial Officer Tom Horton during a conference call with analysts and investors.

### If you're not Coke...

Such decisions may be perfectly legitimate for Coke, Gillette, AT&T, McDonald's and similar companies that have extensive analyst followings (e.g., Coca-Cola is followed by no fewer than 18 analysts). But, what about the thousands of companies that have little or no analyst coverage to speak of?

Pressed by Wall Street cutbacks, not to mention the controversies surrounding securities analysts and their relationships with their firms' corporate finance departments, managers of small-to-mid-sized companies continue to scramble for analyst coverage. Such coverage is a key entrée into the institutional investment community and fuels their hopes of achieving a fair valuation to facilitate future capital formation efforts. But, is this the right approach? Are too many investor relations budgets being wasted chasing a limited number of opportunities? What to do?

## Guidelines on Guidance

In order to attract institutional and sell-side interest, we recommend that companies, particularly emerging growth and early stage companies, provide some form of guidance to "The Street," be it earnings targets or ranges or a discussion of the company's value drivers which enable analysts to arrive at an earnings estimate. When deliberating the issue, keep the following points in mind:

*“...the Company will continue to provide investors with perspective on its value drivers, its strategic initiatives and those factors critical to understanding its business and operating environment.”*

**- The Coca-Cola Company**

**Provide guidance, however** -- do so only if you are fairly certain that your company will meet or exceed its targets. Many emerging growth companies have difficulty in forecasting results due to inexperience or the fact that their markets are growing so rapidly. If you elect to provide guidance, provide comfortable ranges for your estimates. By providing guidance, your company may begin to show up on the radar screens of your industry's sell- and buy-side analysts. Also keep in mind it will take 12-18 months for analysts to gain confidence in your guidance skills. If you are not confident in your ability to forecast or if the market for your products is in a period of uncertainty, avoid issuing guidance.

**Remember: Good news, bad news, but no surprises!** -- If you elect to provide guidance, typically in the form of a press release, it is your responsibility to update that guidance -- upward or downward -- upon learning of a change in business conditions. “The Street” hates surprises, even good ones, and to maintain your corporate credibility, it is essential to update your forecasts in a timely manner and provide detailed explanations for the changes, as well as the company's plans to remedy problematic situations. It is worth reiterating the fact that Wall Street hates even positive surprises to a lesser degree because it reveals deficiencies in management and the financial infrastructure of the company. Additionally, beating “The Street” guidance consistently also sends a warning signal to the analyst community that financial engineering may be at play.

**No guidance, but** -- Should you decide against providing guidance, your quarterly financial disclosure presentations should include considerable detail on trends and developments in your industry and the assumptions underlying those trends so

that investors and analysts can make reasonably informed investment decisions. Coca-Cola's press release regarding the company's stance on guidance contained the following statement: “...the Company will continue to provide investors with perspective on its value drivers, its strategic initiatives and those factors critical to understanding its business and operating environment.” Without this information consider yourself invisible to the investment community because they have many other options in which to put their money to work.

## Not Providing Guidance? Some Ideas...

If your company lacks sufficient sell-side coverage and you are not prepared to offer guidance, here are some ways of generating institutional interest and achieving a valuation commensurate with your company's prospects:

**Take your story directly to the buy-side** -- While having the support of sell-side analysts assists in reaching the institutional audience, it is by no means the only way to do so. All publicly traded companies should have an active and aggressive targeting program in place to uncover new buy-side interests. Invite them to meetings or to participate in quarterly conference calls. Additionally, you should update and analyze your institutional shareholding base quarterly to determine trends and new interests based on the performance of the stock and valuation. Makovsky & Company has considerable expertise in this area and has helped countless

companies through effective targeting programs designed to attract institutional investors.

**Remember your existing institutional shareholders** -- While developing new sources of institutional sponsorship is a critical aim of any investor relations program, it is also important to maintain the interest of your existing institutional holders, particularly if your company is not widely followed by the sell-side community. It is recommended that management or your company's investor relations officer reach out to the company's holders at least once per quarter to assess their perceptions of the company and its industry, reiterate key investment messages as well as answer any questions that they may have (of course, keep in mind that only information already disclosed to the public may be discussed).

**Watch the calendar** -- There are probably a number of brokerage-sponsored conferences devoted to your industry each year. Institutional clients of the firm attend these conferences and companies covered by the firm's analysts are usually invited to present. However, opportunities emerge from time to time for the management of companies not currently covered by the firm to present or participate in panel discussions. In addition, there are often last minute cancellations among presenters and many a program chairperson has welcomed a last minute replacement. These conferences are efficient means of reaching institutional investors.

**Host analyst days and Webcast such events** -- Companies, both large and small, can benefit greatly from hosting analyst days and simultaneously Web casting such events. These undertakings afford buy- and sell-side analysts the opportunity to gain a greater understanding of a company, its investment merits and the markets in

which it operates in order to reach investment decisions.

**Make strategic use of the media** --

Obviously time and geographic considerations make it impossible to personally meet with all of your targeted investors and that's where the media factors into the equation. Through a strategic use of the media, companies can deliver key investment messages and discuss trends affecting the business. Corporate transactions, such as acquisitions, provide opportune times for talking to investors through the media, particularly via the wire services such as Bloomberg, Dow Jones and Reuters.

The controversy surrounding the guidance issue is one that promises to be with us for a long time. Some market observers believe that companies will return to the previous practice of providing guidance once the economy improves and they gain confidence in the outlook for their businesses. However, the majority feels that corporate scandals, the scrutiny of analysts by regulatory agencies as well as investor skepticism will put an end to the practice of pinpointed guidance and financial engineering. Whatever the outcome of the current debate, you should carefully weigh the consequences of providing or not providing guidance to analysts as you review your company's policy. Consult with your company's outside investor relations counsel for assistance in developing a policy and in determining best practices in the matter. For nearly 25 years, we at Makovsky have been helping companies successfully navigate the ever changing landscape of IR disclosure and have significant experience in building and maintaining relationships with both the sell- and buy-side communities.

*"As we examine our future disclosure practices, the goal will be to provide investors our additional financial and operational metrics to understand the key value drivers of the business and reduce reliance on guidance."*

**- Tom Horton  
Chief Financial Officer AT&T**

Learn more about how  
**Makovsky's Investor Relations Practice**  
can make a difference for your company.

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#### About Makovsky + Company

Founded in 1979, Makovsky + Company ([www.makovsky.com](http://www.makovsky.com)) is today one of the nation's leading independent global public relations and investor relations consultancies. The firm attributes its success to its original vision: that *the Power of Specialized Thinking™* is the best way to build reputation, sales and fair valuation for a client. Based in New York City, the firm has agency partners in more than 20 countries and in 35 U.S. cities through IPREX, the third largest worldwide public relations agency partnership, of which Makovsky is a founder.

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