

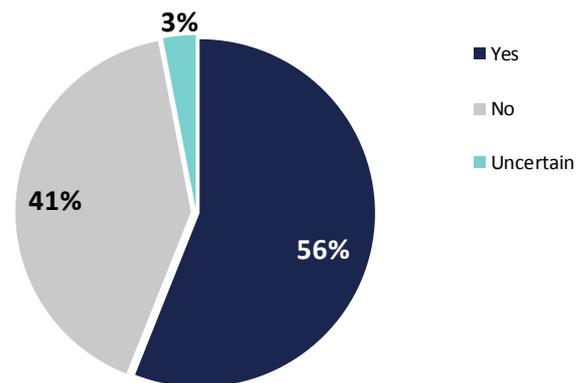
GUIDANCE IN DIFFICULT TIMES

Forward-looking guidance is at the very best an imprecise science. Issuers are caught in the middle. On the one hand, the buy-side usually calls for guidance as a means of judging a company's performance, management's prowess and the efficacy of its business strategy. But on the other hand, and despite widespread awareness of its inherent difficulty, the buy-side punishes companies that struggle with consistency and accuracy in forecasting results. It doesn't seem fair but it is a cost of doing business with the investment community. Prudence is essential.

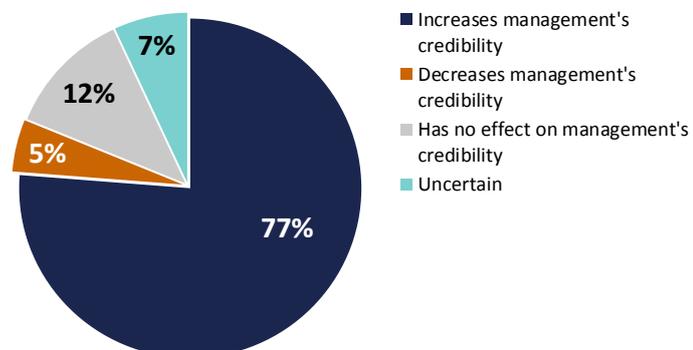
Today, investor uncertainty has accelerated in response to the seemingly contradictory signals of ramping economic unrest juxtaposed against record-high equity markets. Guidance's importance as a means of helping reassure investors about companies' capacity to navigate market corrections has never been higher. Indeed, in our September survey of global buy-side sentiment, buy-side confidence in the strength of the equity markets was at a new low – haunted by a three-headed hydra (the trade war, slowing growth in China and the threat of a global recession). So, it perhaps is not surprising that just this past July a majority of investors around the world (56%, top chart at right) believed that companies that do not provide some kind of guidance merit a lower multiple.

Moreover, in that July study, the large majority of buy-side professionals (77%) asserted that management credibility (the single most important driver of investment decisions today) increases when a company resolutely continues to provide guidance over the cycle. Portfolio managers and buy-side analysts have repeatedly told us over the years that they believe company-supplied guidance is routinely more insightful and accurate than that gained through a review of the consensus estimates of the sell-side.

Does NOT Providing Guidance Warrant a Lower Multiple?
(Total Global Buy-side: July 2019)



Impact of Providing Guidance Over the Cycle on Credibility
(Total Global Buy-side: July 2019)



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