Giving Financial Guidance During Times of Extreme Uncertainty – a German perspective

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For now, company guidance may seem almost irrelevant in an environment where no-one knows what the future holds. However, even this extraordinary state of uncertainty does not absolve companies completely from trying to at least educate their investors and guide them to the extent that they can. Moreover, let us hope that in a few weeks' time, when there is at least a little bit more clarity, the question will arise again as to what to tell the market.

25 of the 30 DAX constituents in Germany have made no explicit changes to their guidance at this point. This is either because they published FY results and guidance very recently and it already factors in the expected impact of the crisis, or because they have not published their FY19 results and guidance yet. Two of these companies, however, have explicitly reconfirmed their guidance, despite the sharp escalation of the crisis. The remaining five companies have either withdrawn their guidance completely, or qualified it heavily, pointing to the unprecedented nature of the current situation.

On 11 March 2020, ESMA reminded listed companies of its advice with regard to disclosure obligations, as did the UK's FCA in one of its bulletins on 17 March 2020. In an unprecedented move only this morning, the FCA also sent a letter to companies asking them to delay pending preliminary financial results by at least two weeks to give due consideration to the impact of the pandemic. Germany's BaFin has yet to comment in detail.

As an aside, given the restrictions imposed on public gatherings, almost all AGMs in Germany will have to be postponed. Most DAX companies have either already done so, with no alternative date given, or have warned that they will soon have to, given that German law for now insists on shareholders having the option to attend in person. This is not entirely inconvenient as it allows companies to postpone the approval of their dividend proposal, giving them more time to better understand the impact of the pandemic, and potentially to reduce their dividend proposal or suspend it altogether in order to preserve cash.

When it comes to thinking about guiding market expectations, two somewhat conflicting aspects are important to consider from our perspective:

First, neither analysts nor portfolio managers have the luxury of eschewing at least some form of projection for a company's financial development, at least for the coming financial year. So, for a company to give no guidance at all can only be a very last resort, as it would force market participants to come up with their own expectations completely unaided, incidentally by those who still know best. The result invariably would be a very wide consensus range, with obvious consequences on the polarity of the market debate and share price volatility. Second, management credibility is paramount, especially in difficult times, and has to be protected at all cost. Put simply, whatever guidance is given needs to be achieved. Striking the right balance between being as helpful and transparent as possible to the market and preserving credibility, is difficult even in a stable environment. It becomes almost impossible amid instability.

There is a range of alternatives to giving no guidance at all. To companies facing today's enormous challenges, we propose the following mental map, which shows a progression in terms of its granularity:

1) **Give purely qualitative, educational guidance.** Explain what you see from suppliers, inside your company, as well as with customers. Make inferences, to the best of your abilities and judgement, as to what this implies for your business and its ability to cope and recover. Done well, and with a perceptible intention to be as helpful as possible, this approach will help the market gain a better understanding of your difficulties, and foster trust and support.
2) **Give qualitative scenarios.** All of the above, but additionally framed in scenarios. What's the best case, what's the worst? The most likely from your perspective?
3) **Give quantitative scenarios.** All of the above, but with some high-level numbers. What do your qualitative scenarios mean for revenues and margins? Additionally, by all means also divert from the metrics you habitually discuss. You know best what is relevant. For instance, are there economic and/or market metrics that bear a signal effect for you and your industry?
4) **Talk about your strengths.** Your balance sheet, your cashflow, your operational leverage, your ability to adapt your cost base at short notice.
5) **Talk about your ability to accept state support.** There is no shame in it. If banks could do it 10 years ago, so can companies today.
6) **Refer to your strategy and your long-term goals.** The pandemic does not invalidate what you did before it emerged. Your market, your strategy, what differentiates you from competitors, your market position, your long-term opportunities and objectives have not changed. A pandemic is an external shock.

Some tactical advice aside from the guidance itself: don't rock the boat unnecessarily. Avoid alarming regulatory releases (MAR/ad hocs) where you are legally able to. If, in your judgement, your share price has already adjusted to accommodate the new risk/reward profile of your company, a 'soft' press release or media interview with your CEO or CFO may suffice to meet disclosure obligations and retain your all-important credibility. A difficult judgement to make, granted, and it requires thorough legal advice, but it may allow you to publish or modify your guidance in the context of your regular reporting schedule.

Again: your credibility can be destroyed in seconds but requires years to rebuild. Be as helpful as you can while protecting it.

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