EARNINGS PRESS RELEASE

THE TEN BEST WAYS GUARANTEED TO RUIN IT
(AND HOW TO AVOID THEM)

FINEO INVESTOR RELATIONS ADVISORS
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EARNINGS PRESS RELEASE

10 Best Ways To Really Ruin It

Earnings releases are the backbone of the financial year of a listed company and much more than just another disclosure requirement.

They play a critical role in supporting your valuation over the long term.

I have written over 500 earnings press releases for companies of all sizes and industries across the world. I identified at least 10 common but deadly mistakes that are guaranteed to ruin your next results announcement:

1. Ignoring the power of sequential analysis
2. Kicking it off with Word instead PowerPoint
3. Starting the process too late
4. Putting Accounting in the driver's seat
5. Snubbing the media and individual shareholders
6. Burying the bad news
7. Neglecting the outlook section
8. Disregarding cyber security
9. Failing the customer service test
10. Thinking you can go it alone.

These are common but deadly mistakes. Avoiding them will be mission critical.

If:

- ✓ you are struggling with your first results announcement as the Chief Executive Officer or the Chief Financial Officer of a company that just went public,
- ✓ you have never been confronted with corporate earnings reports in your professional career before,
- ✓ you are keen to inspire investor confidence and optimize your valuation,

Then this guide is for you.

Read on!

Anne Guimard

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#1

Ignoring the Power of Sequential Analysis

Sequential analysis is about comparing your financial and operational performance in the fourth quarter to that of the third quarter, or the earnings of the first half year to those of the second half in the previous year.

Yet most companies all around the world still focus on the year-on-year analysis, that is looking at their latest quarter and comparing it to the same period in the prior year.

While companies are legally required to ensure the comparability of data, nothing prevents them from looking at their numbers the way analysts and investors do and commenting on what these numbers are saying.

I discovered the power of sequential analysis the hard way, twenty years ago: one of my clients in the automotive industry was reporting what management thought was a good set of full year numbers, bang in line with analyst consensus. We had put a lot of work in the press announcement that had been dutifully released before market hours. But, as the analyst meeting was in progress, with the CEO and CFO on stage, a whisper ran through the room: the shares were tanking despite the good announcement, taking us by surprise. In these early days of the internet, it took us a few minutes to find out the reason behind the sell-off: the leading sell-side analyst on the company had just issued a report focusing… on the second half of the year that was being reported upon. Indeed, the company's results for the full year were in line with the objectives previously set, but they were made of two very different-looking semesters. The analyst wrote that a poor second half indicated a weak beginning to the new financial year. Management and the IR team just had not seen it coming.

In times of crisis, the sequential analysis allows you to emphasize resilience in only a few quarters. While management is most certainly aware of the gradual recovery, the glitch often comes from the fact that internal reporting systems are usually not geared towards producing it automatically. They are structured to assess the performance against the prior year period and budget. A limited understanding of disclosure requirements may also cause companies to miss the communication opportunity: as far as we know, there is no jurisdiction that actually bans sequential analysis, as long as the year -on - year metrics are provided and the comparability of data effective.

Two examples come to mind: a NYSE-listed company was looking for recommendations on how to improve their Investor Relations presence. It had just reported a 7.0% decrease in third quarter 2020 net sales versus the prior year. A quick number crunching exercise quickly revealed that these very third quarter earnings were actually up 7% versus the second quarter and were showing growth for the third consecutive quarter. Had the IR teams used these lenses, the message could have been more positive.

The second example comes from one of FINEO's clients in sub-Saharan Africa that was reporting first-half results for the period ended 31 December. The first draft that was sent us mentioned a 30% decrease in revenue versus the year ago period and heavy after-tax losses. We took a deep dive into the financials and suggested to highlight the 1.5% revenue increase over the second half of the previous year, including a gradual recovery in the second quarter over the first, the double-digit EBITDA margin, and much lower losses compared to the previous 6-month period. Three months after the interim results announcement, tthe company's share price had gained 33 %...

FINEO maintains excel spreadsheets with the quarterly and semi-annual KPIs for its clients to supplement their internal reporting, showing year-on-year and sequential comparisons, in percentage terms and absolute values.

This allows us to save a lot of management time by spotting messaging opportunities early on in the earnings release production process, while creating the graphs that will best support the narrative.

Which leads us to the next pitfall you will want to avoid.

#2

Kicking It off With Word Instead PowerPoint

Starting from a blank Word page may result in costly missed opportunities.

As a follow up to the first mistake in this guide, and assuming you maintain your spreadsheets accordingly, sequential analysis is best supported with graphs and charts.

This is particularly true when it comes to illustrating growth or improvement or resilience.

Research has long demonstrated the power of visual communication, but many companies still start by drafting the earnings release, and then, move on to the presentation. In case you do not have a presentation to support your results announcement, the recommendation below remains valid anyway.

While the year-on-year comparison will often result in a percentage that is available in your financial tables, a graph or a chart over several periods will illustrate a positive trend worth highlighting or a difficult question worth anticipating.

So, instead of writing a factual statement like “*sales were up 5% year-on-year*”, you suddenly become able to announce that “*sales rose for the third consecutive quarter*”. I hope you will agree that this is more powerful in so far as it puts emphasis on good, consistent strategy execution.

Starting the earnings announcement process with graphs will not only help you develop compelling key messages, but also decide if and where to use them. For instance, you may want to alert the markets to the fact that a given trend should not be extrapolated to the coming months or quarters.

Or, on the contrary, use the graphs to support confidence in your company’s ability to resume growth, progress on the path to recovery. In that case, graphs will contribute to delivering exactly these messages if they are available in the conclusion or outlook section.

These are also powerful solution to beat writer’s block, as they inherently drive the messaging around your operational and financial performance.

You do not have to first develop your entire presentation and only then start drafting the earnings release. Once you have your key messages ready, both deliverables can easily be built in parallel and in a consistent manner.

#3

Starting the Process Too Late

There are at least three inescapable constraints on the earnings announcement process:

- the existence of reliable financials to work from
- the deadlines set by reporting requirements
- management's availability to review the communications collaterals on time.

Whenever we meet with IPO candidates, we make sure they are aware of these constraints. A large part of FINEO's "Investor Relations and the Initial Public Offering" online course is dedicated to improving their preparedness in this area.

If you spend less than two weeks to prepare your company's earnings announcement, you are putting yourself at risk and this can impact your valuation:

- You could be short of time to gather important proof points or perform additional analysis to support your narrative, thus weakening your investment case.
- You could be unable to wordsmith and massage your announcement (and its potential translation into a different language), leading to a myriad of different interpretations by your stakeholders, which would inevitably increase volatility in your share price.
- Or management could be compelled to forego brainstorming sessions for the sake of complying with the reporting deadline and end up being thrown off-guard by questions from the investment community. Which then becomes a reputation issue.

A good way to measure when your announcement is "good to go" is the number of draft versions: less than 6 makes me worried you have not put enough thinking into it.

More than 12? There could be too many participants in the process, with each of them determined to make a mark.

This means you have not done a good job at narrowing down the key messages in the first place.

#4

Putting Accountants in the Driver's Seat

Accountants or lawyers or corporate secretaries do play an important role in the earnings press release process.

However, the quality and the impact of your announcement will largely depend on one single factor: the familiarity of the owner of the process with analysts' and investors' way of thinking and main areas of concern regarding your company.

In other words, results announcements need to be driven by those with first-hand knowledge of their questions, past and potential, and of their modelling techniques.

Financial statements reflect how effectively the leadership team has executed the company's strategy as it makes the best of endogenous resources at its disposal and deals with exogenous factors over which it has no control. As a consequence, if your announcement fails to link the pluses and minuses of the accounting-based financials with your strategic ambitions, you won't be able to get the credit you deserve for your achievements and your valuation will suffer.

According to the World Federation of Exchanges, there are over 40,000 listed companies in the world. This means, albeit theoretically, that if you are a listed company, you are competing for capital against 39,999 companies at least. If your think that you just need to have a great set of numbers and your valuation will take care of itself, then think again. Investors have little time to figure out what your numbers are saying.

In this context, the quality of Investor Relations is going to be a key competitive differentiating factor, a concept FINEO developed 20 years ago.

It starts with your earnings announcement. Don't let it go to waste.

A good recipe for success is to dedicate one third of the earnings announcement process to perform a thorough number crunching exercise the way analysts and investors do… before they do it. This may lead you to go beyond what is required in terms of disclosure and is therefore available in your financial statements: providing ad hoc ratios, adding more details on the operating performance, for instance. In our Investor Relations Coaching sessions, I often insist on the fact that complying with disclosure requirements is a beginning, not an end in itself. If by disclosing more (and by that, I mean potentially more than before, more than your peers), you increase your chances to pop up on the radar screens of the right investors, then you should carefully consider this opportunity.

The remaining two thirds you will spend crafting the announcement, weighing words and choosing the right tone, one that is aligned with your corporate culture and your other communications collaterals. Robust writing skills and productive ideation sessions with your colleagues in the corporate communications, Human Resources and Legal departments are required, especially when it comes to selecting titles and key messages. Whenever the draft is quite advanced, one of our clients likes to ask the team: "What is the title we would love to see in tomorrow's Financial Times?". With some practice, you can get close to your desired goal. The objective is to produce an earnings announcement that will speak to all stakeholder groups and target audiences, including the media, not just analysts and investors.

Today, this implies that your earnings release also discusses your company's performance against Environment, Social and Governance metrics in some form. Very few companies are as bold as Arcelor Mittal, the world's leading integrated steel and mining company, and have the first highlight in every quarterly results announcement dedicated to "Health and safety performance". In its "ESG Investing: Practices, Progress and Challenges" report published in 2020, the OECD cited research by Goldman Sachs highlighting "*a 75% increase in the number of companies in the S&P 500 discussing key Environmental and Social terms from 2010 to 2017 on their earnings calls, with a peak of 41% from 2016 to 2017.*"

The global trend towards responsible investing is here to stay. Embrace it.

#5

Snubbing the Media and Individual Shareholders

As a continuation of the previous consideration, we often see CEOs, CFOs and IR teams put all their efforts in drafting their announcement with only analysts and investors in mind: "We don't need to explain more, we've said that before, they'll understand, they know us" usually serves as the excuse not to write in layman's terms or think beyond the investment community.

We are not only referring to the reduction in the legalese that the 1998 US Securities and Exchange Commission's "Plain English Handbook" aimed to achieve, but also to the plethora of technical, industry-specific jargon, acronyms and expressions that most corporates overuse. In the end, they only have themselves to blame if "the media did not get it right", a recurring complaint.

Furthermore, some companies are tempted to provide more content, more color or granularity in the script for the earnings call (the "prepared remarks"), than in the press release. This is particularly the case in the US. Yet, readers of the announcement, whoever and wherever they are, will by far outnumber those who will attend the earnings call or read its transcript.

In so doing, companies miss many opportunities to reach out to audiences that are as important as analysts and investors… and that can add value too.

Indeed, in today's digital age, companies lose control over their target audience as soon as they hit the "Send" button. This means that not only employees, but also potential customers, distributors, suppliers, recruits, or friends, or relatives may unintentionally come across your information because they have been attracted by the headline, for instance. Your announcement has triggered an interest in them that can lead to higher product sales, new partnerships, more job applications, or that can sustain your reputation. Isn't that worth thinking about? But, for them to trust your message and want to find out more about your company, they need to understand what you are saying without having to use a dictionary or an online acronym finder.

As you progress towards the completion of your earnings announcement, we recommend that you test its content: ask your corporate communications, media, HR teams and find out how your messages will resonate with their respective external and internal target audience. Make sure your test strictly complies with the rules governing the dissemination of price-sensitive information, even among colleagues. Look for Legal input too, if, for instance, you are providing an update on certain litigation in your announcement.

Find out how your messages can feature on social media and other news distribution channels.

Your Investor Relations and media advisors can also supply useful insights into how similar messages have been perceived at other companies.

And then, imagine what an individual shareholder would make of your press release, or your social media post, or the way his or her favorite newspaper tells your story… While he or she may be light-years away from your target audience, he or she, too, deserves clear, well-written, engaging and informative communications.

We therefore suggest you use everyone's feedback to tweak and fine-tune your announcement one last time, before submitting to the Board's approval.

#6

Burying the Bad News

A Chief Financial Officer once asked FINEO if we could please move any mention of his company's annual losses to the last page of the results announcement. Much to his disappointment, we recommended against it for the sake of his reputation and because it would be ineffective.

Here is why.

A financial analyst may not instantaneously spot the 75% year-on-year decline in your company's net income, because his or her immediate area of focus is, say, your operating margin. But make no mistake, newswires (the Bloombergs, AP Dow Jones, AFPs, Reuters of this world) will. Within milliseconds. They are programmed to identify keywords without any human (i.e. journalist) intervention as soon as your announcement is out. "Net income" is one of those keywords that will be in the headline of the first dispatch. No matter how hard you try to hide it, your net income (or net losses for that matter) will never go unnoticed.

In 2019, The New-York Times wrote an article on "The Rise of the Robot Reporter", stating that "*Roughly a third of the content published by Bloomberg News uses some form of automated technology. The system used by the company, Cyborg, is able to assist reporters in churning out thousands of articles on company earnings reports each quarter.*"

Artificial Intelligence is impacting financial communications too.

Bad news is a fact of corporate life that finance professionals understand and know how to deal with. Under these circumstances, investors expect the issuer to provide an honest, in-depth review of what went wrong and a list of measures, such as a turnaround plan, and a timeline to remedy the situation. While this may look like an oversimplified crisis management technique, it does work to adopt this mindset. Your reputation is at stake, much more than the hasty share price reaction to the news.

In other words, what you disclose and how you disclose it are equally important.

It is also advisable to have a good understanding of what could qualify as "bad news" for your investors. You could be surprised… and miss value-enhancing communications opportunities.

This case study explains how FINEO helped one of its clients survive an 82% decrease in net earnings per share and yet achieve a 10% increase in the share price the same day.

#7

Neglecting the Outlook Section

IPO-candidates and listed companies alike have at least one thing in common: they all want to attract and retain long-term shareholders.

Brian Bushee, Vice Dean of Teaching and Learning of the Accounting Department at University of Pennsylvania's Wharton School, once suggested that "*changes in disclosure practices have the potential to shift the composition of a firm's investor base away from transient investors and toward more patient capital. By removing some of the external pressures for short-term performance, such a shift could encourage managers to establish a culture based on long-run value maximization*." ("Identifying and Attracting the "Right" Investors: Evidence on the Behavior of Institutional Investors" Applied Journal of Corporate Finance, 2004)

Simply put, no investor will accept to be taken blind-folded on your long-term journey with just a 'trust me' and a hug from your part. They need a perspective, a sense of direction that only you, the company's CEO, can give them.

Ditching the outlook section is not an option.

Companies are not legally required to provide earnings guidance, although it is common practice for many of them to do so. What is the alternative if you are loath to commit, for instance, to a set number for your operating margin one quarter, one year (or more) down the road?

It is quite effective to develop the outlook section from the company's business model and strategic directions:

- What is it that you want to achieve? FINEO recommends you avoid the "Profitable growth", "value creation for shareholders" themes that are too commonplace, and be a little bit more specific: increasing market shares, becoming one of the top 3 leaders in your industry, growing the share of specialty products as a percentage of revenue, diversifying your geographic footprint, reducing your exposure to cyclical markets, etc. Each time with a metric to support your goal and allow the investment community to track your progress against it.
- How much is it going to take you to get there? Generating positive free cash flow, lowering your net debt, a combination of organic growth and acquisitions, strengthening your pricing power, raising the R&D spend, disposing of non-performing assets, etc.
- What are your working assumptions? Constant currencies and scope, interest rates, commodity prices, GDP, "barring any unforeseen circumstances", etc.

The outlook section does not have to be wordy or convoluted or confusing. It can be qualitative, yet relevant, informative, instead of dangerously quantitative. With this in mind, you will focus on what is under your control, on the potential progress that investors will be able to measure and that you are prepared to be held you accountable for. It is the quality of your strategic execution in the long run that will drive investor trust and optimize your valuation.

You should take the opportunity of your next investor meeting to ask: "*Do you think we should provide guidance?*" or "*What is your view on the way we discuss our business outlook*"? Visit FINEO's website and download **The Essential Shareholder Engagement Checklist** to find out more on how to make the most of your investor meetings.

All in all, develop your own strategy about the way you articulate prospects and objectives. Some investors expect guidance, others hate it. Just make sure your guidance strategy is consistent over time and is aligned with your business model, corporate culture, strategy and compensation policies.

#8

Disregarding Cyber Security

Earnings hacks are a reality and rank high on the list of Investors Relations' worst fears.

Yet, they usually scream blue murder when we dare suggest that they disable the autocomplete feature in their email system and/or that they encrypt the price-sensitive documents they may share with third parties and/or that they have a secured file-transfer protocols.

Their most frequent excuse is that it is too cumbersome and a waste of time.

Really?

I know several Investor Relations practitioners who sorely regretted not having put these safety nets in place. I can recall frantic calls from several of them who had inadvertently sent out a draft earnings release to the wrong person. One of them was fired on the spot...

If you think that this only happens to others, I suggest you read on.

IR Magazine reports that the first earnings leaks date back to 2011 when "*Four leaks in four months have put IR departments on the back foot*". Then, in April 2015, Twitter lost 18% when disappointing quarterly earnings were released ahead of schedule. IR technology service provider Q4's 2015 blog post "The True Story Behind The Twitter Earnings Leak" is an interesting read that contains useful tips. I hope you will find both articles enlightening, albeit a few years old.

More recently, last January 21, 2021, the share price of chipmaker Intel Corp. dropped 9% after a reported hack forced the company to release its fourth quarter results earlier than planned. The statement was later revised to acknowledge that "an internal error" was responsible for the data leak and that its corporate network was not affected. But the damage was already done. Apparently, the procedures that had been put in place after a similar incident in 2013, did not work.

Technology will continue to evolve and so will the sophistication of cyber attacks.

I do not want to pretend that the above practical and proven recommendations will prevent leaks from happening, but I hope they will serve as a healthy reminder or a wake-up call.

Given the strategic role of Investor Relations and financial information, "forewarned is forearmed".

#9

Failing the Customer Service Test

Earnings releases are not only regulatory documents,

they are also part of a company's marketing toolkit.

Would it ever cross your mind not to provide a telephone number, an email address, a website name on your product or corporate marketing copy? I doubt it. No company wants to deter a customer, current or potential. Yet many earnings releases go out with the wrong contact names, or even worse, with no contact name at all.

This gives me, the potential investor, the impression that you do not want to be bothered and / or that you are not equipped to answer my questions.

In both cases, you are sending the wrong signal and are putting your company at a disadvantage in the competition for capital.

How about providing the head office number? Hold on! You will not be able to blame your switchboard staff for not necessarily knowing where to direct my call. This means that I am going to be transferred from one department to another until, hopefully, I can speak to the right person. Or until I give up and focus on a more investor-friendly company.

Among other unsatisfying alternatives, I have seen some CEOs put their contact details on their results announcement. But this is not going to fool anyone since calls will undoubtedly be screened by a personal assistant, and rightly so. Investors consider that a CEO should not devote more than 25% of his or her time to investor relations activities.

Corporate secretaries sometimes appear on corporate announcements. While they may be appropriate contacts when it comes to governance issues, annual general meetings, they may reach their limits if I want to discuss your company's cash flow statement or the working assumptions supporting your guidance for the year's profits.

In some countries such as the United Kingdom or South Africa, corporate brokers or sponsors will appear as points of contact. But they are probably going to be clueless if an investor has questions about your company's operating margin or the rationale behind your latest acquisitions.

Another option consists in outsourcing all or part of your media and investor relations to communications specialists. In certain instances, they can be your spokespersons. This could be helpful, but only if that have been duly briefed before they can feature on your announcements without putting your company at risk.

Some companies go as far as putting together a limited but highly capable combination of spokespeople by region, by stakeholder group. If this is consistent with your geographical footprint, your strategy, the exchanges where your shares are traded, then go for it.

In a nutshell, investors need to be able to find in your earnings release the name and contact details of at least one well identified person in the media or in the investor relations departments. And this person has to be on duty for the all-important after-sales service.

If they cannot find this, chances are they will downgrade your company as a potential investment or strike it off their target list entirely.

#10

Thinking You Can Go It Alone

Let's wrap up this series on the 10 fatal mistakes that can ruin your next earnings press release with one last frequent misconception: thinking you can go it alone.

While they usually have a solid grasp of the numbers, not all CEOs or CFOs or IROs are natural-born communicators. Here is why:

- Their expertise may lie more in the company's products or in accounting than in strategy formulation or capital markets.
- They have a vision for their company, but often lack the time or the ability to articulate it in a compelling manner.
- They are sometimes keen to be challenged but are aware that their direct reports may think twice before they speak, hence preventing them from getting the unbiased analysis of what really needs to be improved, rectified and how.

Greg Miller, Ernst and Young Professor of Accounting and Chair of Accounting, and Brian Bushee found that "*firms initiating IR programs experience significant improvements in market valuation (i.e., reductions in the book-to-price ratio) after hiring an IR firm, consistent with the IR program mitigating potential visibility-induced undervaluation.*" (in: Investor Relations, Firm Visibility, and Investor Following)

Investor Relations advisors like FINEO exist for a reason.

Some of you may fear that we will never know your company as well as you do - to which I would object that as long-standing trusted partners, we sometimes have a much deeper understanding of it than the incoming CEO/CFO/IRO … - But the truth is we do bring measurable value in the form of impartial market intelligence and differentiating skills.

For instance, before you read this guide:

- Did you know about the power of sequential analysis?
- Were you aware that your earnings release can be hacked if you are not careful?
- Had you ever heard about companies that include sustainability metrics in their quarterly results announcement?

A little help can make a big difference.

"Count It Right" and you will never have to struggle with results announcements again.

Our 90-day program will give you all the Investor Relations expert advice and support your company needs to achieve confidence-inspiring earnings announcements. Whatever your results are. Without being locked into a long-term contract.

Only TWO openings available every quarter.

Check Your Eligibility

Next Step.

At FINEO Investor Relations Advisors, we have created a strategic framework to help boards and leadership teams articulate shareholder value, so they can engage and retain the right investors.

Raise your profil in capital markets.

Lead or get left behind.