PAN-EUROPEAN IR CONFERENCE

Brussels - 11 & 12 June 2012

The buy-side view on company guidance and valuation in today's volatile markets

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Why do investors need guidance? Is it useful?

- Guidance captures the insider's view on the company
- Of the 200 largest companies within the STOXX Europe Large 200, only 77 have offered specific, quantitative guidance for 2012 (…) many companies are making a virtue of not offering specific guidance
- 93% of respondents rate specific guidance as helpful or very helpful but cannot be relied upon as the only source of information in constructing the market's view of a company's likely performance (Smithfield)

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Is it just about numbers? Which metrics?

- It is less important to see an absolute number for revenue or EBITDA than to see predicted growth rates, margins and how the guidance was formulated
- Management should focus on factors over which it has control and provide a risk assessment of those it cannot
- Respondents rated guidance on the income statement over cash flow or balance sheet metrics and give more importance to the top end of the income statement than to EBIT or EPS

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How do investors look at guidance?

- Investors apply a premium or a discount to the relevant number depending on the track record of the company
- A significant minority (39%) felt that analysts' forecasts were more reliable predictors of company performance while a similar percentage thought the company guidance was simply not timely enough
- 51% of respondents disagreed with the notion that company specific 12 month guidance is always too conservative

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How does missing guidance affect management?

- Whenever guidance is revised downwards, there is a disproportionate impact on company's valuation
- Corporate guidance was born in the bull market but died in the bear market

The boundaries of guidance

- How to avoid manipulating the market?

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- **Should DCF based models be applied in volatile markets?**
- **Are market multiples back?**
- **What is the appropriate risk-free rate?**
- **Should IRs comment on valuation issues if solicited?**