

Insights for Executives

Extracting Maximum Value from Your Quarterly Earnings Release

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For a US-registered company there is no better way to show people you have a sound plan and the expertise to execute that plan than by a focused analysis of your recent performance. If your company is in an unfashionable industry, or based in a secondary media market, your quarterly earnings releases may be your one and only regular opportunity to reach all your stakeholders with this vital message. Your company has already incurred the costs of compliance; why not use the transparency and the credibility full compliance confers on your financial results to demonstrate how your company's strategy, values, and expertise make you distinctly better than your competition?

Obviously your shareholders and your creditors are keenly interested in understanding how your company performed and why, as are many of your employees. Depending on the industry, there may be dealers, distributors, franchisees, and even customers whose livelihood is dependent upon your continued success. Important intermediaries are also following your company's performance: journalists and analysts, as well as bloggers and special interest groups in a growing number of industry sectors.

The two-pronged approach.

To reach those audiences the two core tools most public companies employ each quarter are the quarterly earnings press release and the conference call. Your quarterly filings with the SEC may well contain additional detail, and you may well have other ways to deliver your company's message to key audiences, but the core content of your message is defined through these two communications. Treat your earnings release and conference call as if they were a pair of bookends. You can squeeze the maximum public relations value from the money and time your company has expended on the quarterly earnings cycle by exploiting the complementary characteristics of your release and conference call.

The press release.

There are some important things to appreciate about the quarterly earnings press release. It is a one-way, one-size-fits-all communication. It is an historical document, an accounting of the key material events that occurred during the quarter from a single point of view.

It sets the tone for public discussion of your company's performance, the competence of your management, and the likelihood of your success or failure in the months ahead. It is read by all sorts of people with wildly different levels of financial savvy. Some of the

people reading your earnings release cannot read an income statement, much less decipher your balance sheet while analysts may skip your timeless prose and go straight to your statements. And it remains easily accessible in EDGAR and on the internet for a very long time.

Getting maximum value from your earnings press release.

This is your quarterly opportunity to prove that your company has a clear vision, a sound strategy, and a record of solid execution. The proof is in the financials – income statement, condensed balance sheet, cash flow statement, and, of course, the footnotes. The text puts the numbers in perspective – it connects the dots for the reader.

Use your earnings release to tell your basic story simply and clearly, in plain English and standard GAAP (Generally Accepted Accounting Principles) terminology, to a broad, diverse audience. The text can add value to the release to the extent it discusses the causal factors and puts the key material events and issues of the period into context. For clarity, and to keep the message focused, the release should reflect one view – either that of the CEO or the CFO. Either perspective can offer a compelling message regarding the company’s vision, strategy and ability to execute. An unscientific analysis of recent earnings releases suggests CFOs may be a bit too circumspect, but are generally better at staying on message.

A recent release by a telecoms supplier is an example of what not to do: CEO “color” quotes wrapped around four corporate dot points, followed by four dot points for each of four operating divisions, when corporate profitability hangs on the performance of just one division. Aside from the fact that all that blather cost money to produce, adding a lot of non-material stuff puts the core message at risk.

The reason is simple: the vast majority of people interested in you are going to read the wire service story about you before they read your press release, if they read your release at all. Typically the first wire service story will be out within five minutes after your earnings release appears and will set the tone for subsequent coverage. A focused release that says “these are the two or three key things you need to know about the last quarter if you want to understand our results” is far more likely to be understood and reported accurately by an extremely busy journalist than one that resembles a restaurant menu.

If your company is well known, or it is a slow news day, the reporter will try to expand and update your story later in the day, especially if she has time to listen in on your conference call. For most companies, however, that first story of perhaps a hundred words may be all you’re going to see on a major wire. All the more reason to drive home your key messages clearly and unequivocally.

The conference call.

The conference call is completely different. Most importantly, the conference call is live. It is an opportunity for in-depth, two-way communication with a relatively homogenous and informed audience. It may lead to an update and expansion of an earlier wire service story about your results. It will certainly influence significantly what the analysts

write about your company, because the conference call, for all your commentary about the prior quarter, is inherently about predicting the future.

While the press release must address the needs of everyone, the conference call should be aimed squarely at meeting the needs of the top analysts (and journalists) who cover you. The earnings season is a busy time for these people; they probably scanned your press release while the investor relations manager was introducing folks and talking about forward looking statements. They are on the call to learn more than what was in the release so there is nothing to be gained by going over it again.

Getting maximum value from your conference call.

The key thing to keep in mind about the conference call is that it is a discussion about the past undertaken for the sole purpose of predicting the future. Yes, the conference call is an excellent forum for an in-depth discussion of the causal factors impacting your bottom line, your debt, the state of your industry, and any complex financial matters you reported in your earnings release. But across all the prior-quarter specifics, the core question on the minds of your primary audience (that is, those who ask the questions) is simply, “what are the implications for your future performance?”

Fully scripted remarks and the means to answer all likely questions about your company and your industry are the minimum standard for a successful conference call today. Many companies use slides, both to facilitate the discussion and to ensure that all the information presented is available to everyone. Scripts and slides also help control the amount of duplication with the press release and keep roles clear on the call.

If the press release was an opportunity to put your results in the context of your vision and strategy, the conference call is the right forum in which to demonstrate conclusively the management team’s ability to guide your company’s strategy wisely and execute that strategy successfully. If the press release is a solo act, the conference call brings on the chorus. Your CEO and CFO are delivering the message personally. Key operations executives may also participate. The perspectives are different; the message is consistent. It helps to build your commentary around what people want to know; your audience will be more receptive to your overall message if their key issues have been addressed.

The heart of the conference call is the Q&A portion. The give and take with the analysts offers the ideal opportunity to demonstrate the intangibles: judgment, confidence, insight, and credibility across a talented and diverse executive team. Properly handled, their discussion of past actions can offer a far more compelling indication about how they will steer the business in the future than any forward-looking statement.

The bottom line.

Every quarter, public companies registered in the United States expend a great deal of time and money achieving the world’s highest standards of accuracy and transparency in financial reporting. Use this to your advantage. By making your statements clear, complete, and readily accessible while emphasizing GAAP and commonly-used industry measures in your text you are building credibility for your message. By keeping your

message focused on the truly important issues of the period you ensure clarity across the various secondary sources that will carry your message to your stakeholders. By using your text to frame your financial results in the context of your core strategy you demonstrate both the wisdom of your approach and the competence of your management to execute on your core strategy in the months ahead. Transparency builds credibility, boosting the impact a clear and consistent message can have on stakeholder confidence in your future.