



## Fall 2008 Earnings Season: Much Has Changed Since Last Quarter

Earnings season is now upon us and it's important to recognize that the market has rapidly transformed from one that is focused on sizing up growth prospects and margin enhancement opportunities to one that is focused on risk mitigation and access to capital.

During this earnings season, investors will look to public company CEOs and CFOs to fill the current information void with clues about how the financial market turmoil affects their businesses and what this implies for the larger economic picture. We suggest transparent and forthcoming communication that helps the Street better understand how current economic conditions impact your business and what the worst case scenario could be if difficult economic conditions and limited access to capital persist. Against this backdrop, we offer the following recommendations as you prepare for earnings:

- ◆ Show the market that you “get it” by addressing the issues Wall Street cares about most. Craft your prepared remarks keeping in mind three key themes – visibility, transparency and flexibility.
  - ▶ **Visibility** – Visibility to sustainable revenue and cash flow. What gives you comfort that your company will continue to sustain reasonable growth in revenue and cash flow? For example, if you have backlog, what gives you confidence that the backlog is real and will translate into future revenue?
  - ▶ **Transparency** – Transparency about risk management, access to capital and liquidity. Take risk off the table whenever possible. For example, if you can fund working capital with cash flow from operations, highlight that upfront. If you have bank debt, talk about the terms and how you'll be able to meet debt maturities.
  - ▶ **Flexibility** – Flexibility and resiliency to weather the storm. How much is available under your bank lines? Are there items in your cap-ex budget that can be postponed? What are your company's distinctive attributes, capabilities and technologies that give it a competitive advantage even in tough economic times?
- ◆ Avoid broad generalizations and provide specific information. For example, if you are talking about cost cutting, talk about the measures you are taking and the associated timeframes.
- ◆ Present a balanced view of your opportunities and risks. Investors will be looking for a SWOT (strengths, weaknesses, opportunities and threats) analysis that considers current economic and market conditions.

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- ◆ Maintain credibility at all costs. While the government has taken some important steps to shore up the economy, there are still many unknowns. Avoid offering opinions on factors that are out of your control or making statements that you may later have to change or retract.
- ◆ Monitor peer company earnings announcements closely. It's important to know what other industry leaders are saying. This will help you fine-tune your earnings communication and prepare for questions you'll be asked.
- ◆ Be considerate of the tremendous pressure investors and analysts currently face. They are paid to be right and that's a tall order right now. Don't take their relentless focus on risk and downside to heart.
- ◆ Prepare answers to the questions you are likely to be asked:
  - ▶ What is the impact of the credit crisis and deteriorating economy on your business?
  - ▶ How much debt do you have? What are the terms and maturities? How much capacity do you have under existing bank lines? Who are your lenders and how would you characterize your relationships with them?
  - ▶ How much cash do you have? What steps are you taking to reduce the amount of cash needed to run the business?
  - ▶ Under what scenario would you need to change your previously stated growth plans and outlook? What visibility do you have to YE08 and early 2009?
  - ▶ What does the credit crisis mean to your customers and suppliers?
  - ▶ How would you characterize the financial health of your customers? Do you anticipate any problems getting paid by them?
  - ▶ How did your company fare in the last downturn?
  - ▶ In navigating through the current environment, what factors are in your control and what factors are out of your control?
  - ▶ Would you consider a stock buyback given your current valuation?

Financial Profiles is available to talk to you about any of these recommendations. Please feel free to call Moira Conlon, Jonathan Destler or Kristen McNally at 310-277-4711.

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