

## **IRF Communications report on the financial guidance practices of listed Swiss companies**

### **An uncertain economic outlook, volatile financial markets and the threat of protectionism stand in the way of longer-term projections**

- **Every company in the SMI Expanded universe gives some financial guidance when presenting annual financial results, albeit at differing levels of detail.**
- **Approximately two-thirds of the companies provide quantitative guidance.**
- **Regarding time frames, more than 80% of the companies base their guidance on a one-year time frame.**

**Zurich, January 3, 2017 – Switzerland's largest listed companies recognize the strategic value of financial guidance and provide estimates of their future operating performance when reporting on their annual results. A study conducted by IRF Communications in December 2016 finds that a clear majority of the companies provide financial guidance over a one-year period. All companies in the SMI Expanded provide qualitative guidance in their outlook for future reporting periods; approximately two-thirds also give quantitative guidance.**

A clear majority of Switzerland's largest listed companies provide qualitative and quantitative guidance when reporting their full-year results. The share of companies that provide both quantitative and qualitative financial targets stands at 64%. A slight difference in the guidance practices of SMI companies and their counterparts in the SMI MID has been observed. SMI companies tend to provide more information on their qualitative projections while the SMI MID companies tend to focus more on quantitative projections.

#### **Uncertain external factors**

The quantitative guidance given most frequently pertained to sales and operating profits (EBIT/EBITA/EBITDA), followed by net income/earnings per share (21%). A growing share of companies is providing guidance for other financial metrics such as cash flow, return on equity or the dividend.

With respect to qualitative guidance criteria, the internal parameter mentioned most frequently pertains to the future performance of individual business areas or product groups, which is discussed by 53% of these companies. This was followed by general guidance on sales and earnings trends, without providing precise estimates. Companies have become more reluctant to make forward-looking statements regarding their geographic sales mix (26%), market position or their rates of growth relative to the underlying market (13%).

A description of market developments is the most frequently given guidance with respect to external factors, provided by 40% of the companies in this group. Mentions of macroeconomic factors such as economic or exchange-rate developments are less common, which may reflect the uncertain economic outlook arising from protectionist pressures and other factors. It is not surprising that the SMI companies are more restrained in their discussion of external factors. Due to their larger size, these companies usually operate in a greater number of markets, which further complicates such guidance.

### Short-term forecasts are predominant

More than 60% of the companies mention additional, non-financial Key Performance Indicators (KPIs) in their discussion of strategy. 38% report on social indicators and 36% on environmental criteria. Approximately every fourth company refers to quality-related criteria and standards.

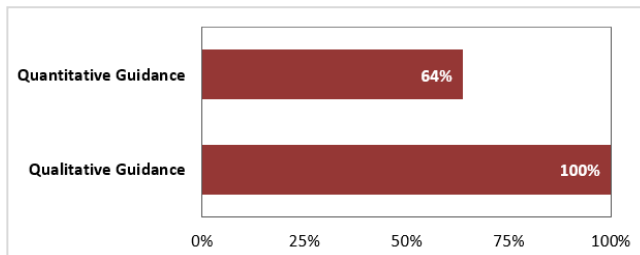
Uncertainty and lower predictability also have an impact on the forecast period. 83% of the companies analyzed provide financial guidance for the next 12-month reporting period. Far fewer companies issued projections of operating results over a longer time frame. Mid-term forecasts were given by less than 30% of the companies, while only every fifth company commented on its long-term expectations.

### Method

In December 2016 IRF Communications conducted its third study of the financial guidance practices of Swiss companies. Whereas the two previous studies were based on a survey of SPI companies, the data for this most recent study was gathered through content analysis. The analysis drew on the sections and chapters in annual reports and the presentations of annual results 2015 that contained information on company strategy or management's outlook for future reporting periods. The 47 companies in the SMI Expanded constituted the basis of the study. The SMI Expanded comprises the SMI and SMI MID indices and represents the 50 most highly capitalized stocks on the Swiss stock exchange.

### Results of the study

#### Do SMI Expanded companies provide financial guidance when reporting on full-year results?

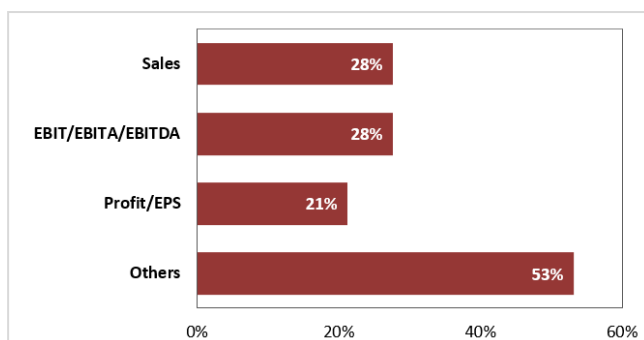


Every company in the SMI Expanded provides qualitative financial guidance when reporting on annual results. Approximately two-thirds of these companies also provide quantitative financial guidance.

The level of detail varies somewhat depending on which index a company belongs to. SMI companies are more likely to give qualitative projections. SMI MID companies are more likely to focus on quantitative guidance.

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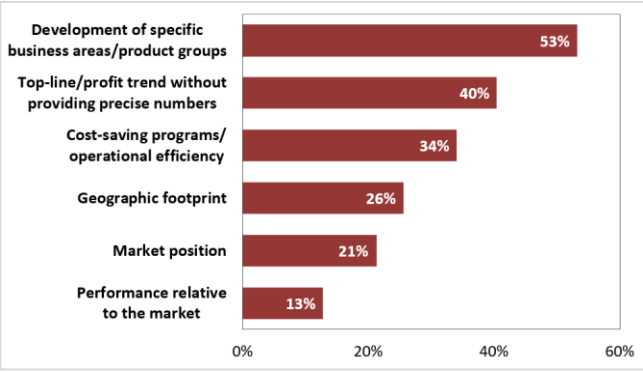
#### What financial metrics does the quantitative guidance refer to?



Companies providing quantitative guidance most frequently guide for sales and EBIT/EBITA/EBITDA (28% in each case). The percentage of companies that provide guidance on bottom-line profit and earnings per share amounts to 21%.

Other quantitative reference points are being mentioned more frequently during the reporting of annual results. These include operating costs, return on equity, cash flow and the dividend.

**What internal performance parameters are included in the qualitative guidance?**

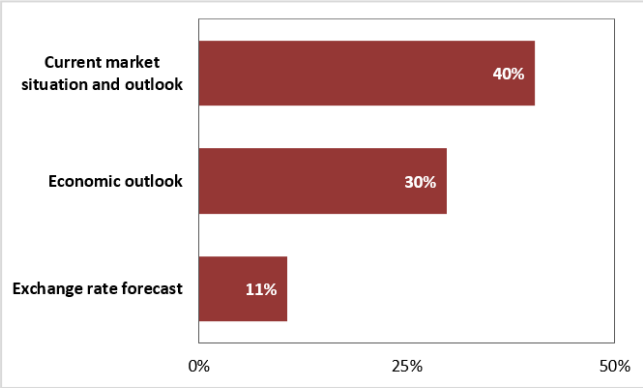


Companies giving qualitative guidance most frequently mentioned the development of business areas or product groups.

53% of the companies analyzed provided such guidance. At 40%, the share of companies that only give a general description of sales or earnings trends is the same as the share of companies that quantify these forecasts. One-third of the companies provide information on cost-savings programs or efficiency improvement plans.

Companies have become more reluctant to make forward-looking statements regarding their geographic footprint (26%), market position (21%) or their rates of growth relative to the market (13%).

**What general external factors are addressed in the qualitative guidance?**

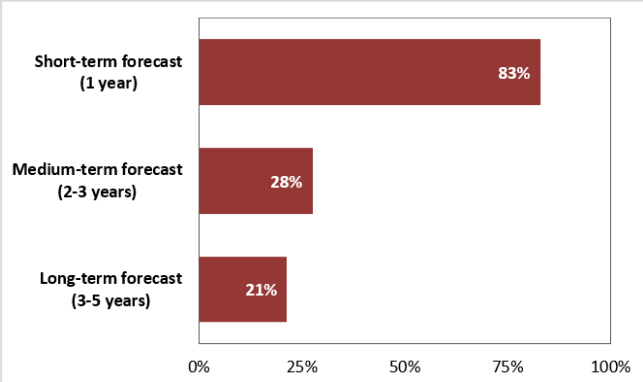


With regard to the general external factors addressed in qualitative terms, the share of companies that provide detailed information on their market outlook is 40%. 30% of the companies comment on their economic outlook. And only every ninth company comments on its exchange rate assumptions.

There are again differing trends depending on the index a company belongs to. A total of 63% of the SMI MID companies give information about at least one external factor, compared to 40% of the

SMI companies.

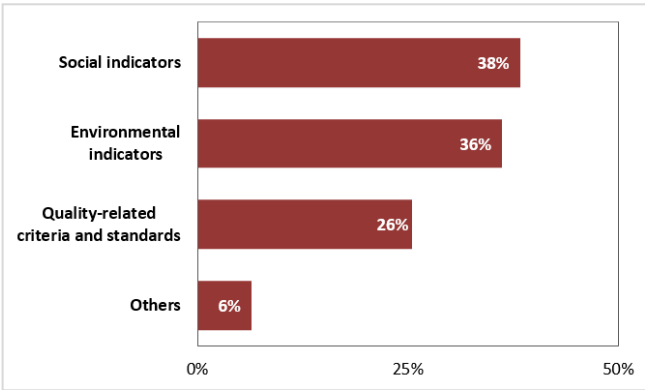
**What time frame is given with the guidance?**



With regard to the time horizon, there is a negative correlation between frequency distribution and the period for which guidance is given.

83% of the companies comment on their expectations of company results or developments in the short term. The percentage of companies that provide a medium-term (28%) or long-term (21%) forecast is much lower.

**Are non-financial KPIs discussed in commentary on strategy or the outlook? If so, in what areas?**



More than 60% of the companies comment on non-financial performance indicators when presenting their annual results.

The most commonly discussed social indicators are employee training or workplace safety (38%). 36% of the companies mention environmental indicators such as the consumption of natural resources and air pollution emissions. And 26% of the companies take quality criteria and standards into consideration when formulating their projections.

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