

: If Not Quarterly EPS Guidance, Then What? Vol. 1

INTRODUCTION

By issuing *The Aspen Principles on Long-Term Value Creation* in June of 2007, The Aspen Institute and its partners took a stand against business practices that promote an overly short-term view. One particular practice highlighted was the issuance of quarterly earnings per share (EPS) guidance. The Aspen Principles encourage companies and investors to “avoid both the provision of, and response to, estimates of quarterly earnings and other overly short-term financial targets.” They advise companies instead to communicate about future performance using metrics of long-term success.¹

This *In Focus* spotlights **Johnson & Johnson**, a company that does not provide quarterly earnings forecasts. Future editions of *In Focus* will highlight other companies.

DEFINING BETTER PRACTICES

Better practices in investor communications are defined both by the quality of the information and how it is conveyed.

- **Getting on the same page:** Companies articulate the value drivers for their company and industry and define important industry-specific terminology. They communicate company prospects using the financial and non-financial metrics tied to these long-term value drivers.
- **Creating a full picture:** Companies provide information on the geographic and industry contexts in which they operate and the factors within the company that will affect long-term performance. This might include:
 - “Qualitative statements on market conditions,
 - Industry-specific information,
 - Trends information that may impact the business of the company,
 - Qualitative statements about high-level performance measures,
 - Estimates of forecasts or factors that may drive earnings, and
 - Quantitative information on business measures and/or assumptions.”²
- **Delivering the message:** Companies communicate in different formats and make information easily accessible by posting materials online. Financial filings, annual and quarterly reports, transcripts or recordings of quarterly investor presentations and supplementary written materials give analysts and investors multiple opportunities to learn about the company’s operations and long-term prospects.

¹ The Aspen Principles on Long-Term Value Creation were created by The Aspen Institute Corporate Values Strategy Group (CVSG). Convened by The Aspen Institute, CVSG is composed of influential CEOs, business organizations, institutional investors, labor unions, corporate lawyers, accountants and consultants. By signing the Principles, the group commits to encouraging and implementing long-term management and value creation strategies. The release of *The Aspen Principles* was the culmination of a two-year process spearheaded by the Business and Society Program in collaboration with the Council of Institutional Investors and the Business Roundtable. The Aspen Principles are available online at <http://www.aspeninstitute.org/atf/cf/{DEB6F227-659B-4EC8-8F84-8DF23CA704F5}/FinalPrinciples.pdf>

² These categories are drawn from that National Investor Relations Institute’s 2007 Earnings Guidance Practices Survey. Survey results are available online at http://www.niri.org/news_media_center/ea070604data.pdf

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INDUSTRY APPROACHES

Johnson & Johnson competes in both the health care (pharmaceutical/medical devices) and consumer goods industries. Many of its major competitors including Abbott Laboratories, Merck, and Procter & Gamble, provide quarterly EPS guidance.

JOHNSON & JOHNSON: CLEAR COMMUNICATION

Johnson & Johnson (J&J) supplements required financial releases by articulating value drivers, providing substantial forward-looking information and describing the market and geographic contexts in which it operates. This gives company observers a more complete picture of the company's long-term prospects. J&J provides this information in formats readily understandable to the average investor.

Johnson & Johnson uses written materials, earnings calls and an annual Analyst Day to communicate key measures of corporate performance to analysts and investors.

- **Articulating value drivers:** Product innovation is a significant value driver for a company like J&J. To demonstrate its innovation potential, J&J must share more than just what it expects to spend on R&D in the coming year. Toward this end, a "Pharmaceutical Pipeline" document is available on J&J's investor relations website. It provides information on new drugs, their planned uses and stages in development. The company also posts a yearly "Investor Fact Sheet" that summarizes past performance and highlights why J&J believes its future is strong. Collectively, these provide information on important indicators of J&J's long-term health and make the denser content of annual reports more user-friendly.
- **Sharing strategy:** Like many other companies, J&J holds quarterly earnings calls during which senior executives discuss the prior quarter and future plans. J&J's 2007 fourth quarter call provides information on the company's core business model, a detailed discussion of its planned response to changes within the healthcare industry and its strategy for taking advantage of synergies between its pharmaceutical and non-pharmaceutical units. Because localization is crucial to J&J as a consumer goods company, the call also includes J&J's plans to address different consumer needs and preferences within the distinct geographic regions where it operates.
- **Communicating with analysts:** Johnson & Johnson holds a yearly Analyst Day where the head of each segment speaks on his or her yearly results and future plans.

CONCLUSION

EPS forecasts are only one data point among a wealth of context-setting and company-specific information. Before a company can stop issuing quarterly EPS, it must first determine what alternate information tells the most complete story about its business, and increase the information it provides accordingly.

The growing trend away from quarterly EPS guidance offers companies the opportunity to develop new and better practices in investor communications. Johnson & Johnson is just one example of many companies providing detailed, forward-looking information in a variety of different ways. The Aspen Institute applauds the efforts of *all* companies that are developing new ways of providing rich information to analysts and investors.

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Questions for companies to consider:

- What can I learn from the process and content of investor communications practices outside my industry? For example: If innovation is key to value creation for my company, should we highlight new products in the pipeline as J&J and many of its pharmaceutical competitors do?
- Would an “average Joe” investor understand how my business is creating value based on available company information? For example:
 - Does my company clearly articulate value drivers?
 - Does my company convey both the “big picture” of its strategy, and detailed plans to accomplish that strategy?
 - Does my company communicate information in a variety of formats that are easily understandable and accessible?

With questions or comments, or to share exemplary practices in the use of long-term metrics in company management, investor communications (especially companies not providing quarterly earnings guidance) or executive compensation, please contact Rachel Shattuck at Rachel.Shattuck@aspeninstitute.org



The Corporate Values Strategy Groups is managed by the Business and Society Program of the Aspen Institute. For more information, please visit www.aspenbsp.org.