CEOs Turn Mum About Projecting Earnings

Those Providing Forecasts Fell Last Year to 55% From 72%;
Drawback for Smaller Investors?

By Gregory Zeckerman

MORE COMPANIES are trying to kick the habit of providing earnings guidance, which is injecting a fear of confusion into the markets.

For years, companies pointed investors and Wall Street analysts to their expected quarterly earnings through regular or outright forecasts. The numbers sometimes were public, but other times they were given privately to select analysts and large investors. Companies then tried to beat these estimates, if only by a penny or two at a time, hoping to signal that business was on an upward swing.

Often, companies felt pressure to meet the predictions they provided, so Wall Street eagerly rewarded aggressive accounting to hit them. Disappointments. In the continuing trial of Bernard Ebbers, the former CEO of WorldCom Inc., is accused of using an executive to make sure that the telecom giant "hit our numbers" as a way of suggesting that WorldCom made inaccurate accounting moves to meet its financial forecasts.

But a shift is developing, and more companies are trying to get away from this kind of regular profit forecasting. Just 36% of companies offered earnings and financial guidance to analysts last year, down from 72% in 2003, according to a survey of chief financial officers, treasurers and assistant treasurers at 85 major U.S. companies, conducted by consulting firm Greenwald Associates.

Among the largest 300 companies based on revenue, 78% give earnings guidance to analysts, down from 93% in 2003. Nearly 10% of the companies that continue to give out such guidance say they expect to do so for all or half of their forecasts.

Some say less earnings information could put smaller investors at a disadvantage. "The downside is not sure if investors are not getting some companies could be given away, as a little bit of a funky thing about this information, which is a company will grow and trece," said the company's chairman, a strategist for companies that make them uncomfortable," says Bill Hutton.

Companies that have stopped issuing regular earnings-per-share estimates, or are restricting it to just annual forecasts, include Clear Channel Communications Inc., America Online Inc., Mattel Inc., Sun Microsystems Inc. and PepsiCo Inc. Executives say Google Inc. expects its earnings to have an impact. In a memo dated Sept. 19, Linda Calvert, an analyst at Google Inc., says "The market is a lot more sophisticated and mature. We specifically bought the company with a particular set of earnings, and will use the same earnings to guide our guidance. The market expects us to be able to meet or exceed our expectations, so we will not give earnings estimates.

Louis Thompson, president of the National Investors Relations Institute in Vienna, Va., says "investors' expectations are moving away from predicting quarterly earnings to guiding their companies' earnings, so we are giving other estimates of information, such as revenue predictions. A survey by his group last summer showed that 70% of investors have expectations of a downturn, and 70% expect a downturn in earnings, but 90% expect a downturn in profits."

Some larger investors, like mutual funds and hedge funds, say they have come to embrace an era of less earnings information. "Many of these investors have resources to dig up industry trends and think they can make an educated guess at what profits are going to be," says Moody's Investors' Service, which issues credit ratings to companies.

Says money manager Bill Miller of mutual-fund giant Legg Mason, "We're still a lot of fans of guidance, but we do have a lot of our own research and not have companies focus on quarterly earnings."

"We're looking at companies that are doing well for a year and a half, but not for the whole year," he says. "It doesn't change much further the trend will go. Some major companies, such as General Electric Co. and Wal-mart Stores Inc. continue to regularly update investors about their likely earnings. Even Dell Inc. made an exception last September to be a "no guidance" company, and the company finally gave guidance in the second half of the year, because it was obviously worth the analysts' views. "It was a little bit of an exception, but it worked," says Deutsche Bank, a spokesman for Dell.