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How to Discuss the Impacts of COVID-19 With the Investment Community

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As corporate leaders scramble to communicate the effects of COVID-19 to investors, it's important finance leaders understand how other companies are structuring that conversation. Learn best practices in crisis communication, including revising earnings guidance and risk mitigation.

Overview

To mitigate concerns among the investment community related to COVID-19, finance leaders must take a pragmatic approach to their messaging. This should involve partnership with internal stakeholders, explicit risk mitigation and thoughtfulness in selecting the appropriate dissemination channel.

Key Findings

- S&P 500 companies made 313 mentions of COVID-19 between 1 January and 4 March in press releases and during earnings calls and other investor events.
- Most companies take one of three approaches when discussing COVID-19's impact on their earnings. They claim it's too early to tell, they give a range of the potential impact or they revise guidance entirely.

Recommendations

Finance leaders can take several steps to ensure a more effective dialogue with investors. These include:

- Establish credibility with investors by directly acknowledging the headwinds facing the organization.
- Restore investor confidence by discussing risk mitigation plans.
- Highlight the stability of your business by emphasizing long-term objectives.

The new coronavirus strain (COVID-19) was first detected in Wuhan, China, in December 2019. [1] By early March 2020, the virus had been detected in 60 locations internationally, including the United States. The rate of fatalities among all infected people was 2.3%, but among the elderly (aged 80 and older) that rate is closer to 15%. [2] As of 3 March, there are 3,118 confirmed deaths resulting from COVID-19, nearly 3,000 of which took place in mainland China. [3] Although it is not certain how widespread the pandemic will become, the World Health Organization (WHO) does expect the number of infections to continue to grow for the foreseeable future.

In addition to COVID-19's impact on lives, it has also begun disrupting financial markets. The Dow Jones Industrial Average plummeted four days in a row beginning 24 February as investors signaled fears stemming from the outbreak. During this period, the index fell more than 4,000 points — its worst four-day performance since the 2008 financial crisis. And although virtually all stocks are feeling the negative impacts of this pandemic, some are faring worse than others.

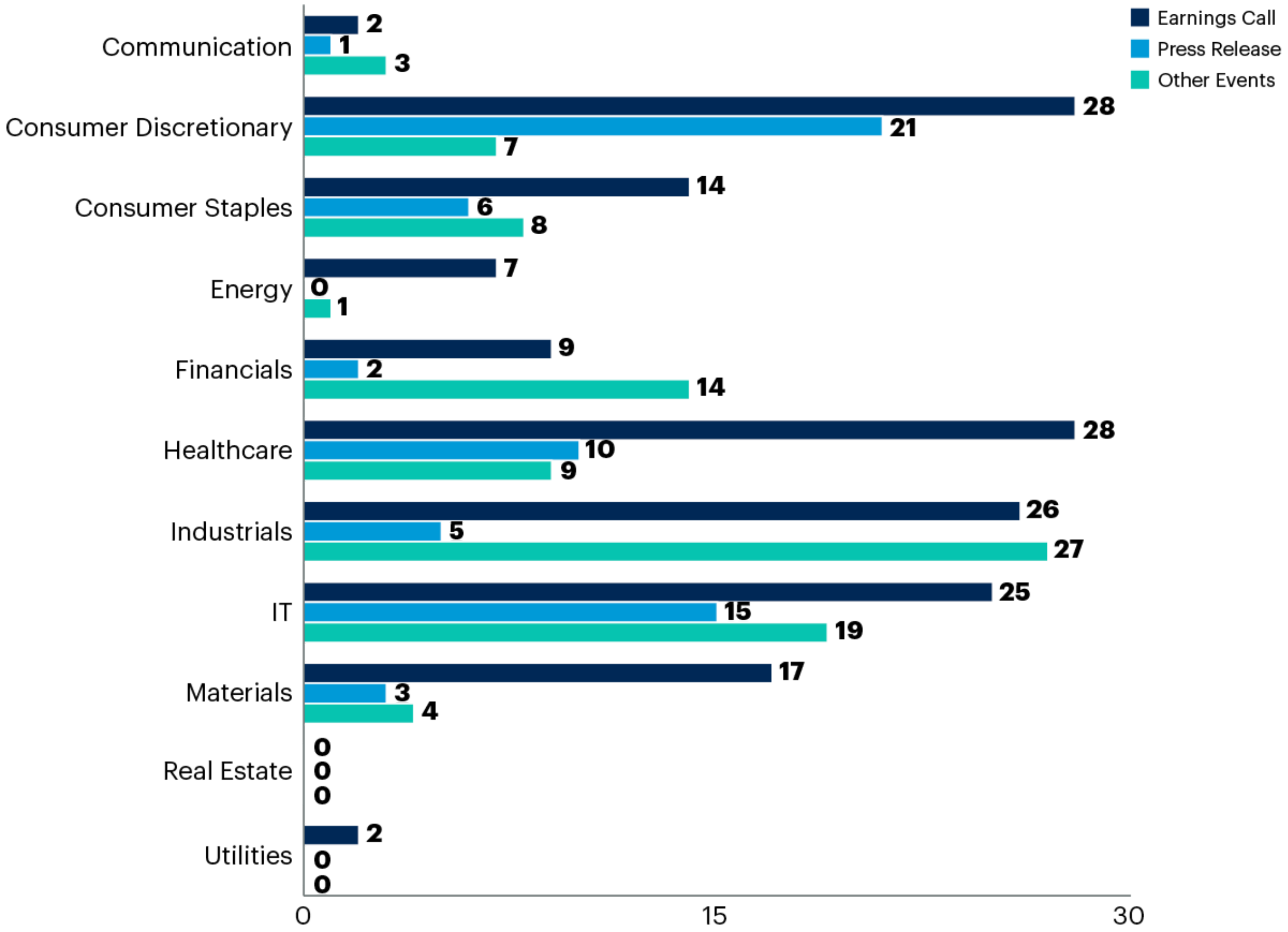
Apple, for instance, announced it would not meet its second-quarter financial guidance due to production limitations in China. Carnival Corp. has been forced to suspend cruise operations from Chinese ports and has begun halting voyages to other parts of Asia. Microsoft announced it would miss its fiscal third-quarter guidance targets as a result of COVID-19. And United Airlines Holdings has stated it is experiencing "an approximately 100% decline in near-term demand to China and an approximately 75% decline in near-term demand on the rest of the company's trans-Pacific routes." [4]

How Companies Are Talking About COVID-19 With Investors

While all companies are seemingly affected by COVID-19, not all corporate leaders are talking about its impacts in the same way. In fact, as of 4 March, just 250 companies of the S&P 500 have mentioned COVID-19 during earnings calls or other investor events, while another 63 have brought it up in press releases (see Figure 1). In the same time frame, 429 companies hosted earnings calls.

Figure 1: Mentions of COVID-19 in Investor Disclosures by Sector, 1 January Through 3 March 2020

Mentions of COVID-19 in Investor Disclosures by Sector, 1 January Through 3 March 2020



n = 1,429

Source: Gartner (March 2020)

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Among these 313 mentions, messaging strategies tend to fall into one of the following three categories.

1. Too Early to Tell

Many companies have begun to acknowledge the obstacles associated with the ongoing outbreak but feel it is currently too early to accurately forecast the impact on their bottom line. Some examples include the following.

Ford Motor Co., 4 February

“Now let me briefly talk about what we are seeing and doing relative to the coronavirus. As you would expect, our Ford team is proactively monitoring the situation on several fronts, including the safety of our employees and their families. This is paramount. Business continuity, including our JV partners in China as well as customers, supply chain management, logistics and, of course, where we can, we want to be part of the solution, so we are donating money and equipment where we can be most effective. Thus, my strong instinct is to want to tell you what the impact of this virus may be on our business and our guidance for this year. However, it's simply too early. China is only now starting to come back from an extended New Year holiday, and many companies, including Ford, are currently hoping to resume large parts of their industrial operations next week. And that is most experts are already saying, and we agree, that it will take weeks to begin to understand the implications of the outbreak." [5]

Visa, 11 February

"The coronavirus, too early to tell, but if planes are not flying in and out of China, if hotels are not being filled, which they're not at the moment, and if the supply chains are being impacted, which I suspect they are, there's going to be some impact. It's just going to depend on how long this goes on. And because of the timing of Chinese New Year being earlier this year on January 25 than it was last year on February 5 or 6, I forget, it's hard to even tell in our numbers, because Chinese New Year by itself creates some noise." [6]

Marriott International, 27 February

"Given the uncertainty surrounding the length and severity of the coronavirus situation, we cannot fully estimate the financial impact to our business at this time. So, in our press release and our remarks today, we are providing a 'base case' first quarter and full year 2020 outlook that does not reflect any impact from the outbreak. This base case reflects the 2020 outlook our teams had prepared as part of the company's budget process, based on the pre-coronavirus environment, including hotel by hotel forecasts, group booking trends and expected supply growth. Leeny will frame how first quarter results could be impacted by the coronavirus based on current trends." [7]

2. Impact Within a Range

Most of the time, forecasting the impacts of a major market disruption is more of an art than a science. Companies that want to give an indication of the expected outcome, but with a bit of leeway, are relying on estimated ranges. Examples of these include the following.

Carnival Corp., 12 February

"Since the situation continues to evolve, the company is currently unable to determine the full financial impact on its fiscal year 2020. However, while not currently planned, if the company had to suspend all of its operations in Asia through the end of April, this would impact its fiscal 2020 financial performance by $0.55 to $0.65 per share, which includes guest compensation. In addition, the impact on global bookings will further affect the company's financial performance. The company is currently evaluating contingency plans to mitigate the impact and will provide an update with its first quarter 2020 earnings release in late March." [8]

The Coca-Cola Co., 21 February

"The Coca-Cola Co. — which is presenting today at the Consumer Analyst Group of New York (CAGNY) Conference — is reaffirming its full-year guidance in connection with the presentation, along with sharing the expected impact from COVID-19 on first quarter 2020 results. The company currently estimates an approximate 2- to 3-point impact to unit case volume, 1- to 2-point impact to organic revenue and 1- to 2-penny impact to earnings per share for the first quarter. Based on its latest forecasts, the company still expects to achieve its previously provided full-year guidance.” [9]

Sabre, 26 February

“Now let’s turn to the coronavirus. History shows that health epidemics have a material impact on global travel. Quarter-to-date, GDS industry bookings are down mid-teens, and we have little insight as to when to expect relief. As a result of this uncertainty, we are providing our preliminary estimate for how we believe the coronavirus will impact our first quarter 2020 results. Based on the quarter-to-date booking decline we have already observed, we believe the coronavirus will reduce our first quarter 2020 financial results by the following: approximately $100 million to $150 million lower revenue; $50 million to $80 million lower EBITDA; $0.14 to $0.23 lower EPS; $50 million to $80 million lower free cash flow.” [10]

3. Revised or Missed Guidance

Despite the uncertainty surrounding the coronavirus, some companies have nonetheless elected to revise their earnings guidance or acknowledge outright they will miss the mark. Examples include the following.

Mastercard, 24 February

“The fundamentals of our business remain strong, as our switched volume and switched transaction growth remain in-line with our expectations. However, cross-border travel, and to a lesser extent cross-border e-commerce growth, is being impacted by the coronavirus. As a result, we now expect that if the trends we have seen recently — primarily in our cross-border drivers — continue through the end of the quarter, year-over-year net revenue growth in the first quarter will be approximately 2-3 percentage points lower than discussed on our January 29, 2020 earnings call. Under these circumstances, we would expect year-over-year net revenue growth of 9-10% in the first quarter on a currency-neutral basis, excluding acquisitions.” [11]

Microsoft, 26 February

“On Jan. 29, as part of our second quarter of fiscal year 2020 earnings call, we issued quarterly revenue guidance for our More Personal Computing segment between $10.75 and $11.15 billion, which included a wider than usual range to reflect uncertainty related to the public health situation in China. Although we see strong Windows demand in line with our expectations, the supply chain is returning to normal operations at a slower pace than anticipated at the time of our Q2 earnings call. As a result, for the third quarter of fiscal year 2020, we do not expect to meet our More Personal Computing segment guidance as Windows OEM and Surface are more negatively impacted than previously anticipated. All other components of our Q3 guidance remain unchanged.” [12]

Apple, 17 February

“Our quarterly guidance issued on January 28, 2020 reflected the best information available at the time as well as our best estimates about the pace of return to work following the end of the extended Chinese New Year holiday on February 10. Work is starting to resume around the country, but we are experiencing a slower return to normal conditions than we had anticipated. As a result, we do not expect to meet the revenue guidance we provided for the March quarter due to two main factors.

“The first is that worldwide iPhone supply will be temporarily constrained. While our iPhone manufacturing partner sites are located outside the Hubei province — and while all of these facilities have reopened — they are ramping up more slowly than we had anticipated. The health and well-being of every person who helps make these products possible is our paramount priority, and we are working in close consultation with our suppliers and public health experts as this ramp continues. These iPhone supply shortages will temporarily affect revenues worldwide.

“The second is that demand for our products within China has been affected. All of our stores in China and many of our partner stores have been closed. Additionally, stores that are open have been operating at reduced hours and with very low customer traffic. We are gradually reopening our retail stores and will continue to do so as steadily and safely as we can. Our corporate offices and contact centers in China are open, and our online stores have remained open throughout.” [13]

Best Practices for Discussing the Impacts of Unpredictable Events on Earnings

When it comes to these three communication strategies, there is not a universal right or wrong approach. The right approach for your company depends largely on industry, geographic presence and general confidence in forecasts. For example, a manufacturing company with significant operations in China will have a much more difficult time predicting long-term outcomes. Conversely, a mining company based in rural Canada can likely forecast expectations more accurately.

If your organization does need to revise earnings guidance, follow these recommendations:

- Do not rush. Make sure you are confident in the new guidance numbers you provide because a second revision will evoke a much more negative reaction than just one revision that took an extra day or two.
- If it’s intraquarter, make the announcement via press release. If it’s for full-year guidance and the timing is suitable, make the announcement on your earnings call.
- Feel free to use a range or a minimum value. Investors understand corporate leaders don’t have a crystal ball. It’s better to provide a range or say that the impact will be “at least” a certain amount than to give a specific number and miss.
- Be sure to acknowledge all of your guidance numbers. If you guide on both revenue and earnings per share, then explain how both of those metrics will change.

- Avoid unnecessary fluff. Acknowledge the headwind, clarify how it's impacting your business and provide the updated guidance numbers. Investors appreciate brevity.
- Immediately following the announcement, speak with your sell-side analysts and top shareholders to explain the impacts in greater detail.

All companies discussing COVID-19 with the investment community, regardless of the need to revise guidance, should follow these recommendations:

- Partner with your internal marketing and public relations teams to ensure you are all on the same page. A unified, consistent message is incredibly important.
- Do not try to predict the future. Statements like, "We think China will bounce back in the next six months," provide very little upside but a tremendous amount of risk.
- Acknowledge the challenges head-on. This situation is out of your control, so be frank and forthcoming about the obstacles in your way. Investors will appreciate your candor in chaotic times.
- Clarify any mitigation steps your company is taking. Whether it's a work-from-home policy or supply chain changes, be very explicit about what you're doing to reduce the risk and impact posed by COVID-19.This is important to convince your investors you are actively working to address key risks rather than sitting idly by.
- Reorient investors to your long-term track record of performance and emphasize business fundamentals. Crises will come and go, but if you can remind investors of the sustainability of your business and its long-term profitability, they will more easily look beyond the horizon of the pandemic.
- Tailor your message to your audience's priorities. The buy side tends to care most about impact to EPS. Sell-side analysts are usually concerned about how the outbreak is affecting the underlying business. News and media are often most concerned about the human impact (such as the effects on employees and customers).

Case in Point: Providing Recurring Updates to the Market (Nippon Paint)

NIPPON PAINT

Nippon Paint Holdings is a Japanese paint and paint products manufacturing company. In the wake of increased COVID-19 infections across eastern Asia, Nippon Paint has taken significant measures to protect its employees and its business, establishing a COVID-19 emergency headquarters on 28 January. As their response and mitigation plan has unfolded, leaders at Nippon Paint have provided periodic updates to the market on ongoing initiatives.

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Over the course of February, Nippon Paint released three reports in the form of news releases detailing the steps they're taking to respond to the COVID-19 outbreak, as well as corresponding timelines. These reports outlined the following:

- Measures taken to ensure employee safety
- Plans to ship masks to Chinese subsidiaries
- Monetary donations made to the Red Cross Society of China
- Status of operations and employees
- Teleworking, paid leave and staggered working hours policies
- Travel restrictions for overseas business trips

Additionally, on their 4 March earnings call, company leaders proactively addressed the outbreak and informed the investment community to expect the regular briefs to continue. These steps have demonstrated Nippon Paint has established a well-thought-out plan for addressing COVID-19 impacts and that it is prioritizing market updates to keep the investment community informed.

It's also important that you and your fellow senior leaders keep in mind that this is neither the first nor the last disease outbreak. In just the 21st century, companies have faced Ebola, Zika, SARS and H1N1, all of which disrupted markets and undermined investor confidence. The companies that excelled in investor communications during these previous pandemics did five critical things:

1. Developed a crisis response team early
2. Made a public statement quickly
3. Maintained consistent messaging across the enterprise
4. Closely monitored impacts on operations and supply chain
5. Gave periodic updates to investors to keep them informed through earnings calls, press releases, teleconferences or one-on-one conversations

Organizations that embrace this blueprint will find their communications with investors and analysts succeed.

Conclusion

COVID-19 presents many unique obstacles for businesses across the globe. Unfortunately, corporate leaders have no control over how this outbreak continues to spread. However, they do have control over how they react and, to a degree, how the investment community reacts. By offering prudent, calculated, transparent communications, finance leaders can assuage the concerns of many investors and renew stability and confidence in their stock.

Recommended by the Authors

"Winning in the Turns: A CFO Action Guide"

The most successful organizations take risks in "the turns," those places in the enterprise journey where others slow down. Turns can be economic, geopolitical, environmental, social or competitive. CFOs must prepare and lead in the turns, building agility into systems processes and decision making, within their teams and among their peers.

About This Research

This research is based on analysis of the disclosure practices of nearly 300 companies within the S&P 500. We also drew on qualitative research and best practices in communications collected from dozens of corporate leaders across finance, communications, public relations and more.

Endnotes

[1] "Coronavirus Disease 2019 (COVID-19) Situation Summary," CDC.

[2] "Study of 72,000 COVID-19 Patients Finds 2.3% Death Rate," University of Minnesota.

[3] "Coronavirus Live Updates," USA Today.

[4] "United Airlines Sees an About 100% Decline In Near-Term Demand To China On Coronavirus Outbreak," Reuters.

[5] "Ford Motor Company Fourth Quarter and Full Year 2019 Earnings," Ford Motor Company.

[6] "Visa Inc. 2020 Investor Day," Visa.

[7] "Earnings Reports," Marriott International.

[8] "Carnival Corporation & plc Update on Financial Impact of Coronavirus," Carnival Corporation.

[9] "The Coca-Cola Company Reaffirms Full Year Guidance and Provides Update on Expected Impact From COVID-19," The Coca-Cola Company.

[10] "Sabre Q4 and Full Year 2019 Earnings Conference Call," Sabre.

[11] "Mastercard Updates First-Quarter and Full-Year 2020 Net Revenue Outlook Based on the Impact of the Coronavirus," Mastercard.

[12] "Microsoft Update on Q3 FY20 Guidance," Microsoft.

[13] "Investor Update on Quarterly Guidance," Apple.

Recommended For You

3 Topics Trending on 1H19 Earnings Calls

ICFR Effectiveness & Efficiency Self-Assessment

Mitigate Passive Investing’s Impacts on Investor Relations Teams

What Vanguard’s Voting Power Forfeiture Means for Issuers

Message Absorption Diagnostic