Projecting Performance in the Age of COVID-19

April 3, 2020

With over 150 publicly traded companies withdrawing annual guidance during the month of March and dozens suspending or reducing dividend payments, it is obvious that the COVID-19 outbreak has made it extremely challenging for companies to project their future performance. In addition, the outbreak and its economic fallout have made liquidity issues a focus of increasing attention. These are both board-level concerns, and they operate at some tension: concerns about liquidity make a company's ability to project future performance more important, not less. How should directors and management navigate these shoals?

First, it is worth remembering that a company's decision to withdraw guidance is not necessarily momentous, nor is it tantamount to an admission that no meaningful projections can be developed. Companies are not legally obligated to provide guidance to the market. Those that do so believe that by better informing investors they will increase investors' confidence in the company and its management, thus increasing value and reducing volatility. These are undermined if any guidance provided contemplates a very broad range of outcomes or is unusually heavily caveated—as would be the case for many companies whose businesses have been affected powerfully, and perhaps durably, by COVID-19. Another reason companies withdraw guidance during times of uncertainty is to reduce liability exposure: guidance misses are a frequent ingredient in stockholder litigation.

At the same time, protecting a company's liquidity requires that directors and management have some idea of what the future may hold, even if there is a wide spectrum of possible results. Most companies produce, for internal purposes, base cases, upside cases and downside cases using different assumptions about business performance and market conditions. Now is the time for companies to focus on their downside cases to evaluate what may happen under various assumptions about the duration of a national or global shutdown as a result of COVID-19, as well as resultant changes in consumer behavior, supply chain reliability and capacity issues. This, in turn, invites an inquiry as to whether and how the company can address these effects through cost-cutting, whether through reductions in force or otherwise, and the short-term and long-term costs of doing so. Companies should also focus on other steps that may be taken to mitigate or respond to the effects of COVID-19 disruptions, some of which may require additional investment. Directors and management need to focus on these questions with an eye on what they mean for the company's liquidity position, and what steps can be taken to improve that position, whether through husbanding resources, tapping external sources of financing or both.

What directors and management cannot do is simply throw up their hands and decide that the future is so uncertain that projections are meaningless. Most companies will need to revisit their existing projections, and some will need to rebuild them from the bottom up. Navigating in a storm is always difficult, but doing so blindly risks catastrophic outcomes.

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For more information regarding the coronavirus, please visit our Coronavirus Resource Center.

Please do not hesitate to contact us with any questions.


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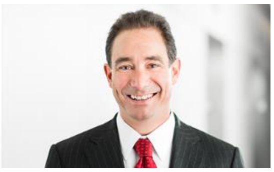
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