

How are financials reported?

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“With financial information becoming more abundant, transparent and constantly updated, CFOs will need to be able to communicate the meaning of such data [to Wall Street] in an even more adept manner.” (Marcia Vickers, Business Week, August 28, 2000)

Remember that corporate advertising campaign in the late eighties? *“If the market never sleeps, when can the financial director go to bed?”*

We have now entered the 00ies and we are facing -or are caught in- wide-awake markets. In specialized media, on (PC and TV) screens, from your cell phone, up Times Square, down (brick or silicon) alleys: round the clock, round the world has become the norm, applying to financial markets... and information.

In such a hectic context, what and how can you afford (not) to report? How do you effectively use the annual report?

To go further, is there still a need for an annual report, especially when considering the role of the internet? Has financial reporting changed accordingly?

For the better or for the worse? A quick look at the ebb and flow in the financial sections of annual reports gives a somewhat mixed picture. So mixed that one may sometimes question CFO and IR policies, departments and... positions.

Mind the ga(a)ps.

Hundreds of U.S. reports now show an MD&A, and financial statements and notes that, bar the numbers, look and sound almost exactly the same wherever they were originated. Sure compliance is required. But some confusion has arisen between filing for legal/internal purposes and reporting (i.e. communicating) for external audiences. The result? Long and often tedious texts, similar structure in all, absence of pace or support information and helpers. The worst implications of that come to mind:

(a) year changes compared successively instead of simultaneously -who the heck reads the separate past years' comments or doesn't stumble in

the back-and-forth exercise? And why then not applying it all across?

(b) balance sheets displayed over 2 years while income, cash flows and... equity (?) are shown over 3.

(c) risk factors affecting performance -although being a very useful U.S. import section (when shown)- now tend to take more space than both performance analysis itself and the way the company takes risk.

On the whole, calling progress in reporting what is in many cases pure tokenism sounds much inflated!

To make matters worse, and even in the everlasting post-Enronitis that has showed the limits of U.S. GAAP, the rest of the world still seems to follow suit. European reports -as well as growing number of Japanese ones- are either plainly taking a leaf out of American reports or trying to mix (up) local AS, nonexistent EAS, upcoming IAS and U.S. GAAP. A U.S. listing, achieved or planned, is also often the cause for just wrapping an unreadable -and far from perfect- 20-F instead of making an intelligible document towards shareholders.

Even though many continental European reports -and even a few Asian ones- are moving away (sometimes very efficiently: look at Swedish annuals) from bean (ac)counting notes (or stories), the result of following the way of the (western) world is far from optimal. Another related habit is the two-document mania, a British export not that often mastered, more substantiated or more informative.

Accounting standards and reporting duties should not dilute comprehensive analysis and comprehensible financial reviews.

Chartered but less charted.

Statements are published and filed and numbers are audited. Be that as it may, charting company performance is sometimes a real feat. Observe the number of misjudgments arising from an incapacity to chart performance and results: we refrain from citing names this time.

Many reporters have scrapped charts. Displays of ratios and returns (plural here, please!) vary from zero to less than 20, with a majority of U.S. reports in the lower bracket.

Assumption: annual or online report readers are mostly highly educated analysts for computerized investment funds, with a calculator within hands' reach. Wrong assumption. The average stockholder doesn't show such a profile. Besides, investors have the right to relax, too. And by the way, many distinguished analysts and famed investment banks often seem to have left their calculator -we didn't write brains- at home. Conclusion: do the calculations for the reader, for report's sake!

The lack of detail, clarity or even consistency in and between reported and reportable segments is another problem encountered in many reports. Geographical segmentation is often too vague -especially in American reports- to give an insight into market diversification and risk spreading. What's at stake? No less than the fundamental contribution analysis. This must go beyond -we should write earlier- than late-coming tables in the notes to statements and usually unreadable comments in the financial review.

Suggestions? Highlight ratios, go further than sales and earnings, don't inflate "Other" and break down "Rest of the world", make segments appear quickly, show percentage changes at different levels, show returns for more than one year, etc.

Forward-looking? Risk and the city!

It is funny to see how much the financial projections are valued -and demanded- in any start-up, spin-off and IPO business plan, but for large corporations are considered risky for both the company and the stockholder. Not only funny, but unbalanced, unfair and unjust.

Forward-looking statements seem to have generated terrible inhibitions. To such an extent that we could talk of "risk and the city". Consider "factors influencing performance". Take the words literally and you will conclude that at the end of the day management doesn't seem to control anything and doesn't want to commit. Of course it's not the case, but well an impression. What to do then? Sell the stock? Fire the CEO? Move the CFO? Close the factories?

Aren't they a kind of smoke screen, sometimes? A substantiated outlook and nurtured prospects are still a rare commodity in a large majority of annuals. To know where the business and industry are heading for, the reader -i.e. mainly the investor- is, unfortunately, advised to use other sources. But why shouldn't the company help him/her get a broader and more accurate picture of the future according to the leaders, as well as the way they're planning to tackle the challenges -and threats?

In the information society, the annual report should not only look backward -its main job so far- but also forward. It could well become one of its *raison d'être*: perspective, long-term view, quantified projections, objective checkup. With all due caution, of course. But also with the commitment that makes a leader lead.

Safe harbor? *"Past performance does not guarantee future results"* has been a footnote in Intel's annual reports for years. That's just it.

On the dot.

Heard or read: internet reporting is going to replace print annual reports. After a few years of facts, fables and fads, things are now a bit clearer. At least for some.

True: Reports must adapt to the new rules, by being prepared, released and used in other ways.

False: Remember the prediction of a paperless office following the arrival of computers? The Web is complementary -not enemy- to printed reporting. These can interact for the mutual benefit of companies, investors and analysts. How? Web is on-the-spot + Print is insight. It's real-time + long-term. It's stock updates + real fundamentals. It's quick view + perspective. And yes, it's still the touch and feel of paper plus the indispensable cold screen.

And bear in mind, one way or another, report value is a mirror of company value.

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