
# Observations on outlook disclosure and profit warnings during the COVID-19 crisis

**The uncertainty surrounding the COVID-19 pandemic has left companies in the dark. This has not least affected companies' financial outlooks. The challenge of reporting to a market gasping for information is monumental when companies themselves are uncertain about the future. In this article, we look back at the disclosure trends in 2020 as a means to understand how to best keep the market informed in a continued state of turbulence and uncertainty**

Despite the Finnish market hopefully heading into a year of more normality and peace in 2021, significant uncertainties remain. Providing clarity on outlook under these circumstances may continue to be difficult. We can now look at how the pandemic affected companies' reporting of outlook in the exceptional year of 2020 and provide some reflections and guidance for the times ahead.

## Regulatory framework in a nutshell

### Outlook disclosure

The basis for disclosing a company's outlook lies in the Finnish Accounting Act (1997/1336), according to which the management report included in the annual financial statements must include an estimate on the probable future development of the reporting entity. Additionally, according to the EU Prospectus Regulation (2017/1129), a prospectus needs to contain necessary information which is material to an investor for making an informed assessment of the prospects of the issuer. In practice, companies voluntarily disclose the outlook for the ongoing financial year or for a shorter or longer period in connection with their quarterly reporting disclosures.

The Finnish Financial Supervisory Authority (the "FSA") and the Nasdaq Nordic Main Market Rulebook for Issuers of Shares provide further guidance as to the form in which future prospects should in such case be presented. To the extent possible, forecasts and forward-looking statements must be presented in a clear and consistent manner. Under normal circumstances, the FSA recommends providing an outlook in the form of a profit forecast regarding the entire financial period. If an issuer discloses a forecast, it must also provide information regarding the assumptions or conditions underlying the forecast provided.

**Obligation to issue a profit warning**

If it appears that a company's financial results or position differ unexpectedly and significantly from what could be reasonably expected based on the financial information previously disclosed by it, information on such deviation may constitute inside information. Inside information must be disclosed to the market as soon as possible. Delaying a profit warning – whether positive or negative –is generally considered to mislead the public and thus not allowed.

When deciding whether a change in financial results or the financial position of the company is significant enough to constitute inside information, the company should evaluate the deviation based on the last known actual financial performance, forecasts or forward-looking statements. The information disclosed by the company itself and what can be justifiably concluded from such information is decisive, not market expectations (such as analyst estimates).

## Observations from outlooks and profit warnings in 2020

**What happened in the spring?**

When the Covid-19 crisis started escalating in Finland in February-March 2020, the Nasdaq Helsinki market saw the first profit warnings resulting from changes in market circumstances. Around the time when Finland declared a state of emergency on 16 March 2020, the European Securities and Markets Authority and the FSA published statements reminding companies that the obligation to issue a profit warning if their previously issued prospects are no longer probable and valid prevails even under exceptional circumstances. The FSA further stated that where the prospects and their underlying fundamentals involve significant uncertainties, companies may refrain from issuing prospects in order to avoid giving misleading information.

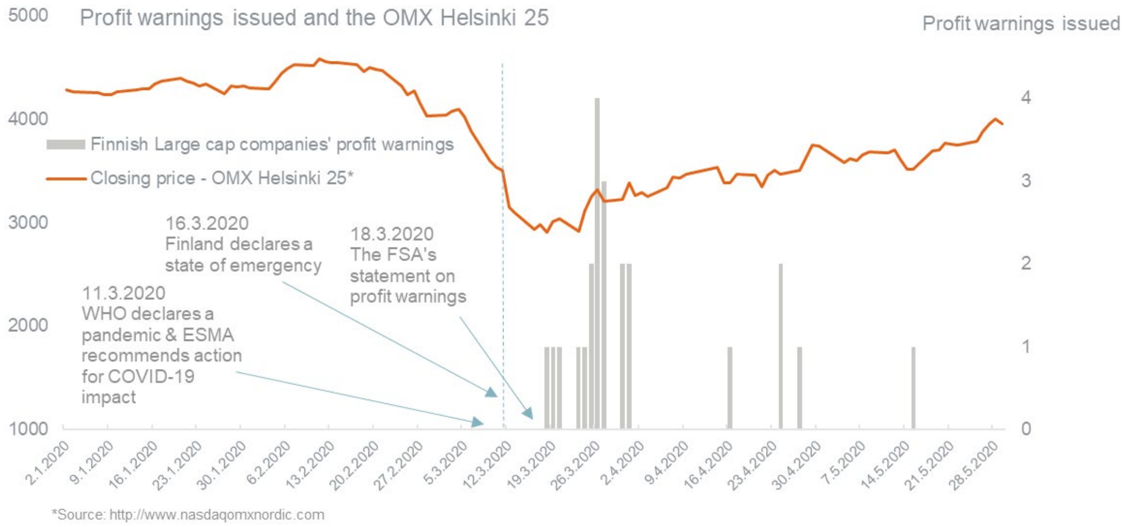
The FSA's statement was followed by an exceptional phenomenon on the Finnish market: a large number of stock exchange releases being published (during the first week, by almost 30 companies listed on the official list), most of them indicating that the company in question was withdrawing its outlook until further notice. Some of these releases were titled "profit warnings", whereas others only referred to amending or just cancelling the outlook previously given, often leaving it open whether the possible effect of the pandemic could be positive or negative compared to the earlier outlook. Also, effects on dividend distribution and possible adjustment measures were announced by many companies. Eventually, approximately half of the companies listed on the official list of Nasdaq Helsinki and First North altogether withdrew their outlook or profit forecast during spring 2020.

**Some observations**

When taking a closer glance at the disclosures during 2020 by large cap companies trading on the official list of Nasdaq Helsinki Ltd.[1], we observed some high-level trends. We focused on the profit warnings and the manner in which the outlooks were reported. In the graph below, we have depicted the reaction to the new situation. Curiously, the OMXH25 index consisting of the 25 most actively traded stocks on Nasdaq Helsinki had already fallen some time before profit warnings started being issued (this was the case even outside the large cap category). However, it seems that

[1] The research is solely an approximation e.g. due to changes in the listings during the year. Roschier disclaims liability for any possible inaccuracies.

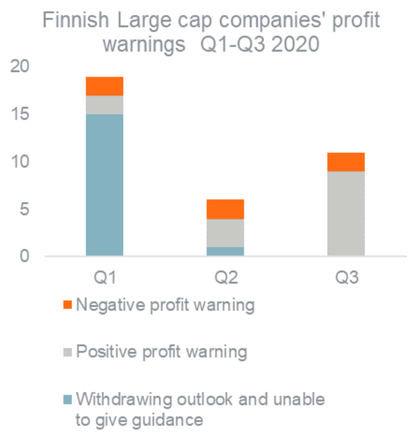
the companies reacted swiftly to the state of emergency and the FSA's statement by informing the market of changes in circumstances in their outlook without delay.




The first quarter was undoubtedly the most disruptive and characterized by a surge in profit warnings. Many of the profit warnings stated merely that the previously issued outlook was being withdrawn without giving further or new guidance – a trend not seen even during the financial crisis of 2008-2009. If companies withdrew their outlook through a profit warning, the majority promised to issue an updated outlook when there was more visibility and the conditions could be assessed more reliably.

The reporting during the second quarter was less dramatic, and more than half of the large cap companies were already able to give more specific guidance on their outlook. In the third and fourth quarters, the trend of issuing negative profit warnings was reversed, and positive profit warnings were issued more widely, in some cases reinstating the previously issued guidance. However, by the fourth quarter, not all large cap companies had yet been able to update their outlook.

As can be seen in the graph below, the turbulence in the first quarter forced companies to withdraw their guidance. Throughout the year, visibility improved and allowed an increasing number of companies to issue profit warnings indicating either a positive or negative outlook.



Some companies also adjusted their outlook in their quarterly reports, or shifted to publishing outlook only for the next quarter.

During the year, a lot of companies reported that the impact of the Covid-19 crisis on their business could not be quantified, as this depended on a number of factors, including the duration and strictness of the measures taken to contain the pandemic. However, most large cap companies did not provide estimates on how their outlook would change if the circumstances got better or worse than expected.

## Outlook and profit warnings under exceptional circumstances – reflections for the times ahead

In November 2020, the FSA hosted a webinar that included topical matters on listed companies' disclosure obligations and instructions for the year 2021. The FSA noted as a general observation that the exceptional number of profit warnings provides an indication that companies have followed the situation actively and have reacted to changes in circumstances.

- The FSA advised that outlook and profit forecasts constitute essential investor information and emphasized the importance of transparency under exceptional circumstances. If a company does not publish its outlook, in the absence of explicit signals by the company or a clear trend in historical performance, investors will struggle to understand whether they should base their expectations on, for example, the company's performance under normal circumstances or the performance during the exceptional year of 2020.

- Market expectations, such as analyst consensuses, are generally not considered a decisive factor triggering the obligation to issue a profit warning. It is, however, generally recommended that if the reason for the difference between the company's own view and the consensus is that the information published by the company is not sufficient or is unambiguous, the company should assess whether there is a need to update the market. Under current circumstances, the FSA urges companies to carefully listen to market expectations.

- The FSA pointed out that, due to weak visibility in the longer term, some companies have only published quarterly guidance, which can be a good solution, and further instructed that if it is not possible to give even short-term guidance, companies should, to the extent possible, strive to describe the market in which they operate.

- The FSA also observed that very few companies have published different scenarios for their future performance, and encouraged companies to assess whether they could do so.

- Further, the FSA observed that the extent to which companies describe uncertainty factors relating to their future prospects varies, and that, in the event of a change in the situation, regular financial reports should include updates on risks and uncertainties – reference to the annual management report is not considered sufficient.

The FSA previously advised companies on providing outlook under uncertain market conditions following the financial crises of 2008-2009 when the situation on the market was still uncertain in 2011.

At that time, the FSA instructed companies to carefully assess whether the outlook they were providing was not misleading, and (similarly to the current situation) to consider whether the period for which the outlook was being given should be shortened. The companies were reminded back then that when they amend their practice regarding outlook disclosure, they should present the reasons for doing so and justify the change. When companies refer to uncertain market conditions, they should explain how the uncertainty is reflected in their own business and outlook.

Further, when reviewing the outlooks issued during the 2008-2009 financial crisis, the FSA highlighted the fact that, to the extent companies refer to unusual uncertainty and challenges in forecasting, they should update the market as soon as their own view of their future performance is materially clarified (in one direction or another).

As the pandemic is still continuing and uncertainty prevails, companies should be aware of and follow the FSA's guidance with regard to publishing outlook and profit warnings. Acting in line with the above will be helpful to avoid any criticism or negative consequences regarding reporting in these uncertain times.

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