



Benchmarking Guidance in the Technology Sector

Summary and Key Findings

Two years ago, limited visibility and an unstable macro-economic environment essentially mandated that companies across all industries review their guidance practices. Executives were challenged in forecasting out one quarter, let alone a full year, while uncertainty compelled analysts and investors to rely even more on management teams to guide their expectations.

Over the past year, there has been significant improvement in terms of visibility, predictability and accurate forecasting. Against the backdrop of an abatement of macro fears, it is now time for companies to once again revisit their guidance practices ahead of the fourth quarter earnings season.

In an effort to help companies within the technology sector identify how their guidance policies compare with peers in a period following the Great Recession, FD reviewed the guidance practices of 408 companies in the Technology sector with a market capitalization greater than \$500 million. This follows our survey in December 2009 in which we performed a similar analysis of the guidance practices of 277 technology companies.

Key findings of this year's survey are as follows.

- Eighty-four percent of technology companies provide quantitative guidance, representing a slight increase over last year of 81%.
- As one would expect, when compared to our 2009 study, companies are increasingly providing forward-looking guidance. Companies providing annual guidance increased from 26% a year ago to 35% in our 2010 survey. Similarly, companies providing both annual and quarterly forecasts increased to 38% in the 2010 survey compared to 27% last year.
- Given the increased visibility, large-cap companies, often led by industry leaders, provide more guidance than their smaller counterparts, with 100% of large-caps providing some level of forward-looking quantitative guidance compared to 81% of mid-caps and 84% of small-caps.
- Not surprisingly, companies with less visibility into future trends and those that are sensitive to the economic cycle, such as distributors, provide less forward-looking information. They tend to either forecast one quarter out or refrain from providing quantitative guidance altogether.
- As operational discipline continues to be top-of-mind for investors and analysts, we found that operating and bottom-line metrics were the most frequently disclosed quarterly guidance metrics. Revenue continues to be the most commonly disclosed annual metric.

Methodology

FD reviewed the guidance practices of U.S.-listed Technology companies with a market capitalization greater than \$500 million to understand how companies are adjusting their guidance practices to developments in the macroeconomic environment.

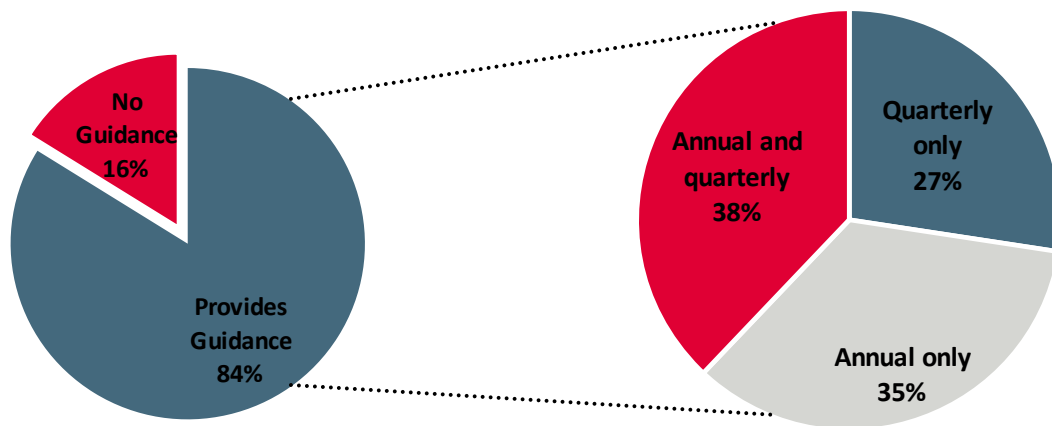
We identified a total of 408 companies across the Technology sector: Software (118 companies / 29% of sample), Hardware Distribution (9 companies / 2% of sample), Hardware OEMs (96 companies / 24% of sample), Semiconductors (86 companies / 21% of sample) and Technology Services (99 companies / 24% of sample). Of the 408 companies in the sample, 56% were small-caps (market capitalization less than \$2 billion), 31% were mid-caps (market capitalization between \$2 billion and \$10 billion), and 13% were large-cap companies (market capitalization greater than \$10 billion).

Observations

Guidance Horizon

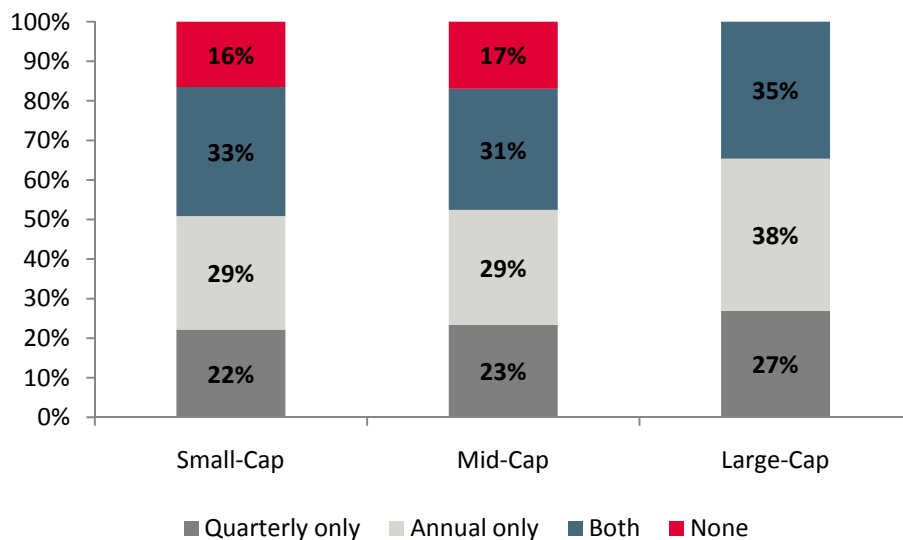
Of the 408 companies examined in the study, the vast majority (84%) provide financial guidance. Additionally, the guidance horizon appears to be lengthening for those companies that do provide guidance. Twenty-seven percent of the sample provides guidance on a quarterly basis, down from 47% last year. Thirty-five percent do so on an annual basis, up from 26% last year, and 38% provide both annual and quarterly guidance, compared to only 27% a year ago.

Guidance Horizon



Small-cap and mid-cap companies had similar guidance horizon profiles, with approximately 13% of small- and mid-cap companies refraining from disclosing guidance altogether. All large-cap companies across the technology sector, however, provided some form of guidance.

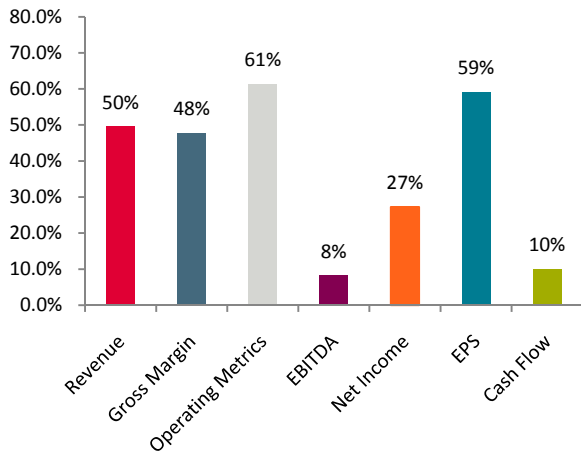
Guidance by Market Cap



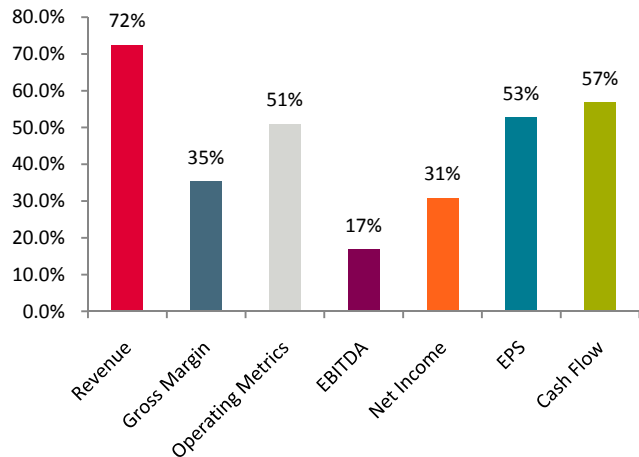
Guidance Content

Over the past year, we have seen a significant shift from the traditional top- and bottom-line guidance metrics to less commonly provided items such as gross margin and operating metrics (operating margin, operating expense and operating profit). This was especially noticeable among companies that provide quarterly guidance. In the most recent survey, 50% of technology companies that provide guidance give revenue expectations, down from 84% in 2009, while 61% provide operating forecasts, compared to only 12% a year ago.

Quarterly Guidance

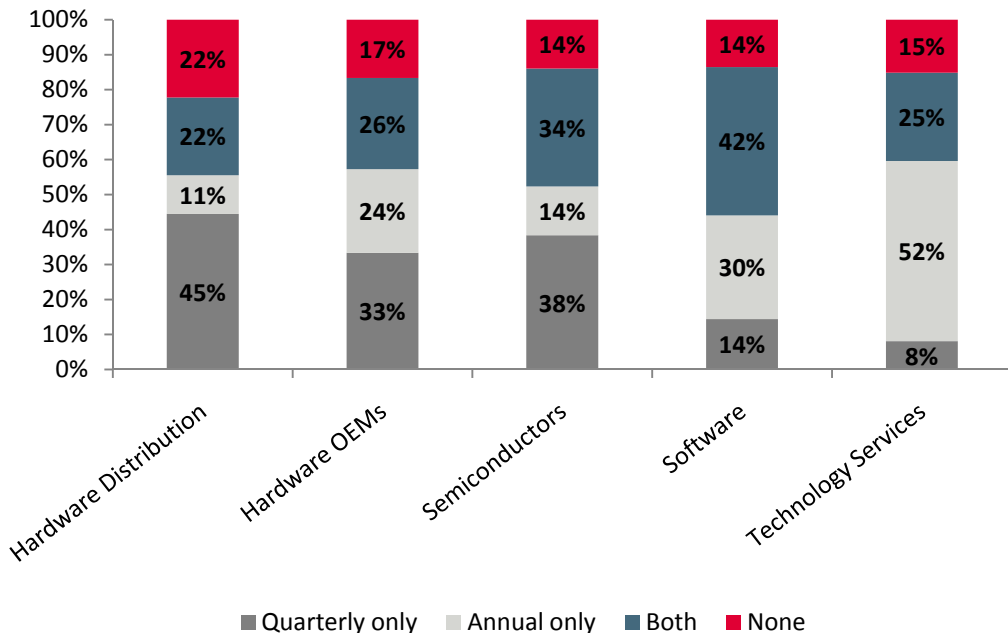


Annual Guidance



Subsectors within the Technology space can vary significantly in terms of visibility, economic sensitivity and metrics relevant to the space. Similar to last year's study, Distributors provide the least amount of guidance, with 22% not providing any financial guidance. Conversely, in both studies, subsectors with a substantial percentage of recurring revenues, including Technology Services and Software, more frequently provide annual guidance than other subsectors.

Guidance by Subsector



Conclusion

It is clear from our research that an increasing number of technology companies are providing some form of guidance; however, the form of that guidance is evolving, and the guidance horizon is lengthening. This makes it more vital for companies to benchmark their peers to ensure that they are keeping up with those evolving trends and are consistent with or at the forefront of information content and transparency.

While there is no universal formula for guidance best practices, we encourage all companies, especially those that changed their guidance practices during the Great Recession, to revisit content, time horizon, and range if they have not done so already. In any environment, guidance should be driven by management's ability to effectively and accurately communicate expectations for a company's performance; not by the demands of the investment community. As we return to a more normalized environment, it is imperative companies adapt to shifting business conditions and revised internal expectations to reshape how the investment community perceives the business and to set the tone for improving market conditions.



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