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PHILEQUITY CORNER

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Numbers have a story

Companies that explain the numbers in their financial statements along with a context of the direction and strategy behind them understand that numbers by themselves do not always present a coherent narrative. The company can present a narrative that connects the dots in a positive way.

Do companies that win the best annual report awards also perform better in the market? And conversely, do those that prefer to let rumors swirl around them uncorrected or even enhanced receive the proper valuation in the market?

The task of explaining the numbers and how they compare with the previous quarter is delegated to the CEO or the now-established investor relations head. These company officials are expected to be comfortable with financial ratios and even the broad economy and competitive picture. They can field questions from investors and research units of financial institutions.

But can they tell the story behind the numbers?


The narrative that emerges is supposed to make sense of the numbers. That this function by default ends up under the finance group, which often oversees the investor relations function, means that the one in charge of making sense of the metrics tends to have a financial or accounting background.

Even with pie charts and ratios, numbers by themselves can be overwhelming. Without a story, the deluge of numbers can be as engaging as a report on the traffic situation at rush hour.

Disclosure rules of the PSE and the SEC are not enough. The innate caution of finance people (That's confidential) as well as their built-in reluctance to explain dips and numbers in parentheses tends to obviate the need for a compelling narrative for the company. (The numbers speak for themselves).

Even investors with assets under management in the tens of billions and a fully staffed research function tend to characterize companies that they track, buy or hold with some narrative tag. These headline phrases in the report can give the plot of the company's situation: too highly leveraged; uncoordinated acquisitions without clear strategic fits; increasing competitive challenges; or rising revenues from growing new business.

Without a functioning communications program, numbers on their own can be overwhelming. They need context when related to other numbers. A high debt level, for instance, needs to account for the maturity of the loans, the cash flow to service them, and the comparison of the leverage ratios to peer companies.



The skill set for the right communicator (or spokesperson) needs to veer away from mere glibness and a cozy relationship with the media. It must include familiarity, and even comfort, with numbers so that a compelling narrative supported by data can be credibly promoted. The numerate individual who is also literate and can quote Shakespearean sonnets is best suited to extract a narrative from the numbers. Okay, this is not necessarily rendered in iambic pentameter. (Shall I compare thee to a summer's day)?

The importance of putting a narrative behind the numbers is underrated. It seems that only in a crisis, when financial firemen and bomb squads are on the scene, are narratives found necessary. Crisis PR practitioners take over and explain the valuation of the property being booked as revenue. They too need to present a data-driven narrative.

Sometimes, external factors like oil price hikes from recent conflicts in the Middle East or their impact on the exchange rate can be a bigger narrative than what the company is doing internally. These other stories affect all the companies being monitored.

A numbers-driven narrative for investor relations is really directed at a very small and knowledgeable audience of researchers and portfolio managers of large funds, maybe even an online business program.

The “theory of efficient markets” states that even if the market is uninformed, it is still going to find its own proper price points. Giving the market a storyline and a strategic handle can help make sense of the numbers.

Selling a marketable story supported by selected numbers is not the same as letting the numbers explain themselves. It's not selective data but the total financial picture that needs to be rendered as the plot of a short story.