

## **When Strategy Meets Uncertainty: Why Scenarios Belong at Investor Days**

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### **The Fragility of Precision**

For decades, investor days have been designed around a single objective: to explain management's plan clearly enough that investors can model the company's future. Executives present long-term targets, outline strategic initiatives, and articulate assumptions intended to reduce uncertainty. Precision has been treated as a proxy for confidence.

That approach is increasingly fragile. Markets today are not destabilized by uncertainty so much as by surprise, and surprise rarely comes from a lack of forecasts. It comes from a lack of shared understanding about how a strategy should be interpreted when conditions change and the ability of the organization to adapt amidst these conditions.

### **The Shifting Purpose of the Investor Day**

As investor communications are increasingly mediated by summaries, excerpts, and secondary analysis, the purpose of the investor day is shifting. In surveys and post-investor day feedback, a majority of institutional investors now report that they rely more on synthesized interpretations of strategy than on full original materials, particularly for companies outside their highest-conviction holdings. In that environment, the role of the investor day is no longer only to communicate what management expects to happen, but to prepare markets for what could plausibly happen.

Scenarios, when used thoughtfully, are becoming central to this task. Not as risk disclosures or contingency plans, but as instruments of valuation discipline.

### **Scenarios and Valuation Management**

Traditional investor days anchor valuation around a single implied path. Management describes a base case, supplements it with sensitivities, and reassures investors that risks are understood. Yet market data show that when companies miss or revise against an implied long-term trajectory, valuation adjustments are often swift and asymmetric. In many sectors, multiple compression following a strategic surprise can exceed 20 percent, even when long-term fundamentals remain intact.

The problem is not that forecasts turn out to be wrong. The problem is that investors have not been given a framework for understanding how the strategy behaves outside

the base case. Without that framework, deviation is interpreted as failure rather than variation, and valuation adjusts accordingly.

### **Why Scenarios Fail, and How They Succeed**

Scenarios offer a way to address this vulnerability, but only if they are understood correctly. In many organizations, scenarios are treated as internal planning tools or downside exercises, developed for boards or risk committees and kept at arm's length from external communications. When they do appear in investor materials, they are often framed defensively, as disclaimers rather than as strategic explanations. Used in this way, they add little value.

When integrated into investor days with intent, scenarios serve a different purpose. They do not attempt to predict the future. Instead, they establish how management thinks about the future. They clarify which assumptions matter most, which drivers are most sensitive, and which decisions would change under different conditions. In doing so, they shape how investors interpret new information as it arrives.

### **Reducing Surprise Through Contextual Framing**

This contextual function is critical. Investors do not reassess valuation from scratch each quarter. Empirical work on market behavior suggests that most valuation updates are incremental, anchored to an existing narrative rather than to a full re-underwriting of the business. Scenarios help define the boundaries of that narrative in advance. They make outcomes recognizable rather than surprising, even when they are unfavorable.

Investor days are uniquely suited to this kind of framing. They are one of the few moments when management has sustained attention, when long-term strategy can be discussed without the compression of quarterly reporting, and when expectations are actively being set rather than incrementally adjusted. In this setting, scenarios do more than explain risk; they reduce contextual shock by giving investors a way to contextualize change. Companies that do this well tend to see lower volatility around subsequent earnings events, particularly during periods of macro or sector disruption.

### **From Forecasts to Drivers: How Scenarios Re-anchor Valuation**

Scenarios also shift the basis on which valuation is formed. Forecast-led communication anchors valuation to specific outcomes. Scenario-led communication anchors valuation to underlying drivers. Instead of focusing on whether a particular target is met, investors are guided to focus on how demand, pricing power, capital intensity, or regulatory conditions influence value across different environments. This distinction matters because investors consistently report greater confidence, and

greater willingness to look through short-term noise, when they understand which levers management can control.

Importantly, effective scenario use does not require exhaustive modeling or probabilistic forecasts. In fact, excessive complexity often undermines the goal. What matters is that scenarios are clearly differentiated, grounded in real strategic trade-offs, and linked to decisions management would actually make. When scenarios are framed this way, they do not weaken conviction. They strengthen it by demonstrating strategic clarity.

### **Scenarios as a Signal of Strategic Competence**

There is also a signaling effect when using scenarios. The use of scenarios in an investor day communicates something about management's competence under uncertainty. It signals that leaders are not only confident in their plan but are prepared to adapt it.

In interpreted markets, competence under uncertainty becomes a component of credibility, and credibility itself becomes a valuation attribute. Studies of post-event market reactions suggest that companies perceived as "surprised by events" suffer deeper and more persistent valuation impacts than those perceived as having anticipated a range of outcomes.

### **How Scenarios Change Market Dynamics Over Time**

Companies that integrate scenarios effectively into investor days tend to experience different market dynamics over time. They are less likely to see sudden narrative reversals when conditions shift. Their valuations tend to adjust more gradually, and recover more quickly, because investors have already been oriented to the logic of change. This is not because uncertainty has been eliminated, but because uncertainty has been acknowledged and structured.

### **Addressing the Fear of Transparency**

There is a common concern that discussing scenarios publicly invites skepticism or misinterpretation. In practice, markets tend to penalize companies not for acknowledging uncertainty, but for appearing unprepared for it. Surprise erodes trust far more quickly than candor. By addressing uncertainty in a deliberate and strategic way, companies make a credibility investment that pays off when conditions deteriorate.

### **The Evolving Role of the Investor Day**

The investor day, then, is evolving. It is no longer primarily a forum for persuading investors of a single future. It is a moment to align understanding around how strategy creates value across a range of plausible futures. Scenarios are not a substitute for

strategy, but a way of ensuring that strategy remains intelligible, and credible, when reality diverges from plan.

In an environment where valuation is shaped as much by interpretation as by information, that resilience may be one of the most important sources of long-term value creation.

### ***How to Drive Contextual Readiness: Five actions leaders can take now***

Investor days should teach markets how to interpret the future, not just how to model it:

#### *1. Orient before you persuade*

The first job of the investor day is not to convince markets of a single outcome, but to orient them to how the strategy should be interpreted under change. Before presenting targets or timelines, management should establish the logic of value creation and the forces that will most influence it.

When orientation comes first, subsequent deviations are understood as movement within a framework, not as evidence that the framework itself is broken.

#### *2. Frame futures, don't forecast paths*

Scenarios should describe structurally different futures, not incremental variations on the same plan. Their purpose is not to predict which path will occur, but to clarify how the business behaves across conditions that investors already worry about.

Well-framed futures teach markets how to think, not what to expect.

#### *3. Anchor valuation to drivers, not destinations*

Rather than tying valuation to specific outcomes, scenario-led investor days anchor valuation to underlying drivers, demand elasticity, pricing power, capital intensity, regulatory exposure, or execution velocity.

When valuation is anchored to drivers, markets adjust expectations more gradually and with less penalty, because they understand what is changing and what is not.

#### *4. Show decisions, not just resilience*

Scenarios only build credibility when they are linked to real decisions. Investors want to see not just that management has considered uncertainty, but that it knows what it would protect, prioritize, or trade off under different conditions.

Decision clarity is what converts scenarios from risk disclosure into strategic signal.

## 5. Reinforce the logic relentlessly

The investor day sets the contextual frame, but valuation is shaped over time. Earnings calls, guidance updates, and subsequent communications should consistently reference the same drivers and scenario logic introduced at the investor day.

When markets repeatedly hear the same logic applied to new information, credibility compounds and surprise diminishes.

### **Valuation Resilience Through Scenario-Driven Investor Days**

Investor days are most useful when they move beyond point forecasts and engage directly with the drivers of value. Volatility fluency and foresight enable companies to interpret shifting market dynamics and position themselves in ways that translate environmental turbulence into real valuation impact. By employing a scenario-based framework, management can articulate how expected cash flows flex under different operating conditions, how risk and reinvestment needs evolve across the cycle, and where the boundaries of downside protection are set.

This approach demonstrates enduring valuation coherence, showing how strategic decisions and disciplined capital deployment build a repeatable logic of value creation that sustains investor confidence through market cycles. Moreover, companies that consistently provide adaptive proof, evidencing measurable adaptability, learning velocity, and operational discipline, establish a structural advantage over time, reinforcing the credibility of their valuation narrative.

By shifting the discussion from precise predictions to valuation fundamentals, cash flow, growth, and risk, companies help investors form more grounded judgments about intrinsic value, strengthening trust and reducing the likelihood of sharp valuation reversals when assumptions are tested.

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#### *About Breakwater Capital Markets*

*Breakwater Capital Markets is the global capital markets advisory practice of Breakwater Strategy. The firm delivers proprietary solutions for boards, C-suite leaders, and investor relations organizations facing complex strategic, financial, and market environments. Breakwater combines deep capital markets insight with strategic advisory to help clients shape valuation outcomes, command investor confidence, and lead with resilience.*

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