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# IR UPDATE

THE VOICE OF THE INVESTOR RELATIONS PROFESSION | **MAY/JUNE 2018**

**The explosion of Regulation A+ offerings is generating opportunities for creative IR professionals.**

National Investor Relations Institute
www.niri.org

iris™

# IRUPDATE

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**About NIRI**
Founded in 1969, the National Investor Relations Institute (www.niri.org) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts, and other financial community constituents. NIRI is the largest professional investor relations association in the world, with more than 3,300 members representing over 1,600 publicly held companies and $9 trillion in stock market capitalization. NIRI is dedicated to advancing the practice of investor relations and the professional competency and stature of its members.

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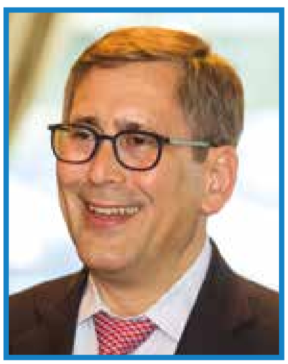
Hundreds of private companies are utilizing the JOBS Act Regulation A+ to raise millions of dollars with securities offerings that are exempt from traditional SEC filings and don't trade on the open market. Even so, the issuing companies still need investor relations programs to keep investors informed. **READ MORE ON PAGE 8.**

# This Bell Tolls for You



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Few of us now rely on the striking of a town-hall bell to mark the time of day. Yet, even in our hectic, digitally driven world, bells still play a role. I was reminded of this in March, when NIRI Board Chair Lee Ahlstrom and I helped to close the New York Stock Exchange to celebrate the *IR Magazine* US Awards. The old-fashioned ringing of a bell and the whack of a gavel still mark the official close of trading at the Big Board, as it does at Nasdaq and other exchanges.

We grow up with bells. In J.M. Barrie's "Peter Pan," Tinker Bell communicates with a bell. We heard that bell when she served as hostess of "Walt Disney's Wonderful World of Color" and other TV shows. Bells ring out in literature, in poems by Alfred, Lord Tennyson and Edgar Allen Poe, and take a title role in "For Whom the Bells Toll," by Ernest Hemingway.

Bells play a role in eastern, western, and other cultures and call many to worship still today. Bells call children to class and alert us when someone is at the door. Many have sung along to Bob Dylan's "Chimes of Freedom" and "Ring Them Bells." No December in the United States would be complete without the jingling of bells, and Zuzu Bailey uttering her wonderful line. Recently, bells tolled 76 times in honor of Dr. Stephen Hawking, one for each of his remarkable and productive years on this planet.

Bells mark beginnings and endings, call us to attention, and sound alarms. And so it is appropriate that the name of this column is "At the Bell." This name has never been as apt as it is with this issue.

Chime! Evan Pondel calls our attention to the growing opportunities for investor relations professionals in Reg A+ companies (see page 8). You can literally hear the bell in J.T. Farley's article on the SEC's tick-size pilot program on page 28. And Victoria Sivrais awakens us to the buy-side's growing use of non-GAAP numbers on page 22. Ring!

Clang! Your attention is called to the NIRI Annual Conference preview on page 14. The conference in June summons you not just to learn and network, but to experience. (As this column is written, registration is the highest that it has been in several years). We look forward to seeing you in Las Vegas on June 10-13.

A-ring-a-ding-ding! IR


NIRI Board Chair Lee M. Ahlstrom, IRC, and NIRI President and CEO Gary LaBranche wielded the gavel to close trading on the New York Stock Exchange (NYSE) on March 22, 2018. The NIRI Board of Directors met at NYSE in New York and attended *IR Magazine's* annual U.S. awards event.

# NIRI Leadership Week Scheduled for September 13-14, 2018

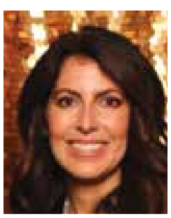
## NIRI chapter representatives will gather in Washington, D.C., to meet with lawmakers and regulators.

NIRI launched Leadership Week in September 2017, when NIRI National Board members, chapter presidents, and advocacy ambassadors gathered in Washington to meet with Congressional staffers and Securities and Exchange Commission officials and to mobilize grassroots support for NIRI advocacy priorities, which include proxy advisor reform, short-selling disclosure, and 13D modernization.

More than three dozen members from around the country attended a legislative briefing on Capitol Hill that featured an SEC commissioner and key congressional committee leaders. The NIRI delegation also visited SEC headquarters and met with senior staffers with the agency's Corporation Finance Division.

To learn more about Leadership Week, please visit https://www.niri.org/advocacy/call-to-action. IR

### ON THE MOVE



**Isabel Janci** is returning to The Home Depot to succeed Diane Dayhoff as vice president, investor relations. Dayhoff is retiring after a nearly 40-year career that includes executive leadership at Continental Airlines in addition to her 15 years leading investor relations and stock administration at The Home Depot.

Janci previously served at The Home Depot as a member of Dayhoff's team and returns to the company after leading the IR functions at Novelis Inc., Intercontinental Exchange, and most recently, Global Payments, Inc., where she was vice president. IR

### CALENDAR

These upcoming events provide excellent professional development opportunities for NIRI members. Learn more at www.niri.org/full-calendar.

**JUNE 2018**

**JUNE 9**
LAS VEGAS, NV
UNDERSTANDING EARNINGS SEMINAR

**JUNE 10**
LAS VEGAS, NV
THINK LIKE AN ANALYST SEMINAR

**JUNE 10**
LAS VEGAS, NV
BEST IN CLASS INVESTOR PRESENTATIONS AND INVESTOR DAYS SEMINAR

**JUNE 10-13**
LAS VEGAS, NV
NIRI ANNUAL CONFERENCE

**JUNE 16-23**
IRC EXAMINATION TESTING WINDOW

**JULY 2018**

**JULY 9**
NEW YORK, NY
UNDERSTANDING CAPITAL MARKETS SEMINAR

**JULY 10-11**
NEW YORK, NY
FINANCE ESSENTIALS SEMINAR

# Ten IR Professionals Earn IRC Credential

NIRI congratulates 10 investor relations professionals who earned the Investor Relations Charter (IRC®) credential. Representing the sixth class of IRC credential holders, there are now 143 IRC holders worldwide. These latest IRC holders include:

**Michele Backman, IRC**
**Christopher A. Chaney, IRC**
**Loren J. Dargan, IRC**
**Lisa M. Goodman, IRC**
**Gregg M. Lampf, IRC**
**Angeline C. McCabe, IRC**
**David L. Mordy, IRC**
**Lori K. Owen, IRC**
**Timothy R. Sedabres, IRC**
**Miranda Weeks, IRC**

To be eligible to earn and maintain the IRC credential, candidates must meet educational and professional experience requirements, adhere to the IRC Code of Conduct and the NIRI Code of Ethics, pass the IRC exam, and participate in ongoing professional development activities.

NIRI is now accepting applications to sit for the June 16-23, 2018 testing window. Program information and applications are available on the NIRI website at www.niri.org/certification. The initial application deadline for the June testing window is April 27. The IRC exam also will be offered during November 13-20, 2018.

NIRI is also rolling out a series of enhancements to the IRC program to increase the value of the credential, create more awareness, and improve the overall experience for IRC applicants. Among these new features is a digital badge, which will list the competencies demonstrated to earn the IRC credential. This digital badge allows IRC holders to easily share their accomplishment with their social and professional networks on more than 200 online platforms including LinkedIn, Facebook, and Twitter.

# MAKING THE GRADE WITH REG A+ OFFERINGS

**The explosion of Regulation A+ offerings is generating opportunities for creative IR professionals.**

BY EVAN PONDEL

What does reality television star Scott Disick have to do with investor relations? Nothing, unless you consider his call to action on Twitter to get people to invest in a recent stock offering from ManiaTV a form of investor relations.

"No risk, no reward," said the star from "Keeping Up with Kardashians" in a video he tweeted. The federal Jumpstart Our Business Startups (JOBS) Act passed in 2012 allows such solicitations, giving companies the right to raise money without going through traditional Securities and Exchange Commission (SEC) requirements when selling securities to the public.

The net result: Hundreds of private companies are utilizing the JOBS Act to raise millions of dollars with securities offerings that are exempt from certain filings and don't yet trade on the open market. Even so, the issuing companies still need investor relations programs to keep people informed about what they are investing in.

Perhaps the most popular exemption under the JOBS Act is the Regulation A+ offering, which took effect in 2015. Nearly 18 months later, 147 Reg A+ offerings were filed by companies seeking a total of approximately $2.6 billion in financing, according to the SEC.

There are two different options for Reg A+ offerings. A Tier 1 Reg A+ offering allows companies to raise up to $20 million in a 12-month period, and Tier 2 offering allows companies to raise up to $50 million in the same period. Companies may target accredited and non-accredited investors, which are defined as follows:

- Accredited investors must have a net worth of at least $1 million, excluding the value of a primary residence, or have annual income of at least $200,000 for the last two years (or $300,000 combined income if married) and expect to earn the same amount during the year the investor invests.
- A non-accredited individual investor is one who has a net worth of less than $1 million (including spouse) and who earned less than $200,000 annually ($300,000 with spouse) in the last two years.

IR for Reg A+ offerings requires targeting retail investors. The challenge is that while the JOBS Act eliminates certain hurdles to help small companies raise money faster, management teams and their investor constituents don't always understand the rules of engagement from an IR perspective.

Anna Pinedo, a partner at law firm Morrison Foerster who focuses on securities and derivatives, said in an email that it would be prudent for companies undertaking Reg A+ offerings to consider implementing communications policies that are consistent with Regulation Fair Disclosure (Reg FD).

**The same securities liability of a public company applies to the offering materials used in a Reg A+ offering.**

### Significant Learning Curve

That means all investors should be informed at the same time when there is news or other material information issued by the company. Reg A+ companies primarily use digital media channels to reach investor audiences, including Twitter, Facebook and YouTube. It's important that IR executives managing these channels set protocols and expectations with management teams when communicating with investors. Combine this with the fact that many Reg A+ management teams have never led publicly traded companies, and a significant learning curve begins to take shape.

"Often, there is no financial intermediary (underwriter or placement agent) in a Regulation A+ offering," Pinedo explains. "Accordingly, entities that are not regulated may be assisting the Reg A+ issuer with marketing and IR, so there may not be an organization serving the traditional 'gatekeeper' function. It will be essential for management teams to remain focused on the need to review all communications and approve any marketing or IR materials used."

The same securities liability of a public company applies to the offering materials used in a Reg A+ offering. That's why Richard Perl, chief administrative officer for recycling company TerraCycle, did significant homework on disclosures and enhancing transparency for investors before his company launched its Reg A+ campaign.

TerraCycle has a "frequently asked questions" section on its website that provides information on how Reg A+ offerings work. The company has a direct link to its "circular," which is the Reg A+

# NIRI ORANGE COUNTY ANALYZES MICROCAP FUNDING TRENDS

New regulations passed under the JOBS Act have ushered in a new age of fundraising options for microcap companies.

At the NIRI Orange County chapter meeting in Newport Beach, CA in February 2018, a panel of experts in the area of Reg A+ and crowdfunding gathered to share insights into these investment opportunities and the rapidly growing ecosystem of law firms, banks, accounting firms, and market makers poised to get money into the hands of growing businesses.

The event drew NIRI members and a large audience of local entrepreneurs, incubator staff, bankers, advisors, and others interested in the potential of Reg A+.

Moderated by Mark Collinson of Compass Investor Relations, the panel discussed whether Reg A+ could be the “better, cheaper, faster” version of the IPO that smaller companies desperately need.

Amit Singh, an attorney at Stradling Yocca Carlson & Rauth who specializes in securities law for fast-growing companies, explained what Reg A+ makes possible.

Dan McClory of Boustead Securities, one of the pioneers in Reg A+ offerings expanded on Amit’s framework. He pointed out Reg A+ “allows a company to get primed and ready to eventually do an IPO.”

Boustead’s focus on the micro-middle market, vetting and migrating companies through the fundraising process, has put McClory at the forefront of Reg A+ as an option for his clients. He loves the fact that, by using an “S-1 lite” form 1-A, Reg A+ allows for a faster SEC approval process.

He also applauds the fact that Reg A+ allows companies to “test the waters” for investor interest both via conventional investor meetings and by advertising their fundraising efforts directly to individuals through social media.

While companies do not have the conventional underwriting process bringing in institutional investors, they do have the opportunity to reach out to individual investors and offer them a stake at the “IPO” stage. Individual investors get a chance to directly invest in small, leading edge firms -- many already generating revenue at the initial offering stage, something they would not be able to do in most standard IPOs or in late-stage venture capital funding rounds.

Panelists David Gosselin of accounting firm dbbmckennon and Joe Oltmanns from OTC Markets Group rounded out the panel of providers and added their views of this important new market. Gosselin said, “In the end, we may need a hybrid approach (core investors and crowdfunding) to make it work long-term.”

Oltmanns, whose exchange has seen the trading of several Reg A companies, added, “it is important to have investor relations professionals in place telling the story, as that’s part of being a public company.”

Mota Group, Inc. is one of several California businesses currently going through the Reg A+ IPO process. The company makes specialized consumer and professional drones. CEO Michael Faro said, “The JOBS Act, has tried to open the door to let the company manage the fundraising process themselves. Before, there was no real way for a small company to go public. Now, you can raise money, then when ready, apply to an exchange to start trading.”

He cautioned, though, that “It’s good to have a year of cash on the side so you don’t gamble the company on an IPO.” Even with Reg A+, he noted that going public is still the “most difficult project you’ll do in a lifetime” and not to expect this new market – while it may be a new frontier in funding for companies like his – to be better, faster, and cheaper at every stage.

equivalent of an S-1 document for initial public offerings. TerraCycle also has a section on its website that breaks down investment details.

"Part of the appeal of this type of offering is to provide access to people who previously didn't have access to early stage investing in companies," says Perl, also noting that TerraCycle offers a dividend to investors that is a minimum of 50 percent of the company's after-tax profits, provided it meets state law conditions for paying dividends.

Reg A+ offerings are unique from traditional IPOs in that marketing these offerings is incumbent on the issuer, since there is not usually an investment banker involved. In some ways, Reg A+ has cultivated a niche for IROs who are more creatively inclined, forcing them to think more like marketers.

"You don't want your offering to have 'orphan stock syndrome,'" says Mark Elenowitz, founder and CEO of TriPoint Global Equities, a pioneer in the methodology and structure of Reg A+ offerings. "You need to enhance the visibility of these offerings, and that means there is a significant retail component from a marketing standpoint."

An increasing number of Reg A+ offerings are also serving as a prelude to a traditional IPO. Last summer, the following three Reg A+ IPOs priced: ShiftPixy, which raised $12 million via sole bookrunner WR Hambrecht and listed on the Nasdaq as the first ever underwritten Reg A+ IPO. Reg A+ IPOs Adomani and Myomo raised $13 million on the Nasdaq and $5 million on NYSE-AMEX, respectively, according to financial services firm Dealogic.

### Blurred Lines

The lines between investor relations and marketing are somewhat blurred when it comes to Reg A+ offerings. Whether it is the role of the marketing department or IR representative, companies that choose to raise money through a Reg A+ engage in a comprehensive digital marketing and paid media plan to court investors, according to Darren Marble, chief executive officer of CrowdfundX, a fintech marketing firm that helps issuers acquire new retail investors.

Marble said there are three primary media channels to engage when reaching Reg A+ investors: paid, earned, and owned media. Paid media includes buying advertising on digital media platforms, such as Facebook or sponsored videos and posts on LinkedIn. Earned media are stories that run in a publication like *The Wall Street Journal*, Bloomberg News, or a trade publication. Owned media are channels that speak directly to customers via email lists and company blogs.

It is common for Reg A+ campaigns to spend $100,000 on paid media in a 12-month period, and it can take six to eight touches before a prospective investor actually converts to a shareholder. Most of the offerings are conducted via platforms such as StartEngine, SeedInvest, and Crowdfunder.

"Everything we do is oriented toward investor acquisition," Marble says. "But one of the things that is glaringly missing from the equation is proper investor relations support during and after a fundraising campaign."

When people invest in a Reg A+, they don't always understand they are investing in a private company and the shares do not trade on the open market. This is where more traditional IR programs fit into the Reg A+ ecosystem, including facilitating investor inquiries about a company's progress, or developing outbound messaging on hitting financial milestones.

It is also important to consider finding an IR professional to help handle the messaging when companies transition from a Reg A+ offering to an IPO. Shareholders need to understand that there is now a public market for their holdings.

"Instilling confidence and trust is critical for

**Unlike a traditional IPO, you are marketing to individual investors who may not be used to sifting through a prospectus and building models.**

ensuring success when a Reg A+ company transitions to listing on an exchange," Marble explains.

### Tips for A+ Offerings

Here are additional tips for investor relations professionals to consider when involved in managing a Reg A+ offering:

- **Ensure that you are telling a story that individual investors will understand.** Reg A+ offerings specifically target individual investors, so the more consumer-driven the story the easier for investors to get engaged about the investment.
- **Align with experts in digital marketing and PR.** Unlike a traditional IPO, you are marketing to individual investors who may not be used to sifting through a prospectus and building financial models. Therefore, it is critical to work with people who can create social media channels, videos, and blog posts that tell a dynamic and consumer-friendly story.
- **Millennial themes generate interest.** Many investors who are attracted to Reg A+ tend to favor environmental and social justice issues and skew younger. If these themes are part of your story, be sure to consider tapping into millennial media outlets.
- **Answer investor questions via FAQs, email, and phone.** Similar to a traditional IR program, investor relations professionals should be prepared to answer all investor-related questions in a frequently-asked-questions document, or via direct email or phone correspondence.
- **Exercise patience.** Many investors of Reg A+ offerings are not as financially savvy as institutional shareholders. Questions can range from the mundane to entirely unrelated. Regardless, it is important that the investor relations representative remain calm and collected, or your comments may be used against you on social media.
- **Ensure consistent communication.** As with any publicly traded company, enhancing transparency through consistent communication is key to keeping investors in the know about a company's progress.
- **Align with a competent transfer agent.** Transfer agents help keep track of shareholder information.
- **Under promise and over deliver.** Managing investors' expectations will help develop a loyal investor base.
- **Pull the veil back.** Putting a face to a Reg A+ company is important when attempting to instill confidence in shareholders. Podcasts, webinars, and conference calls are important communication tools for CEOs leading a Reg A+ offering.
- **Behave like a public company.** Reg A+ offerings are similar to IPOs, and Reg FD rules also apply.

Elenowitz believes there will be a proliferation of Reg A+ campaigns in the future, as it enables companies to raise a smaller amount of money before going for a full-fledged public offering. This walk-before-run approach is preferable when getting management teams accustomed to life as a publicly traded company. It also costs less money compared with going straight to an IPO on a major exchange.

Even from a corporate governance perspective, Reg A+ offerings help executives understand how to handle directors and management teams, said Patrick Tracey, a senior vice president at transfer agent service provider Computershare.

"I also believe Reg A+ offerings are a good area for IROs to get experience before landing at a Fortune 500 company," Tracey says. "You get to experience firsthand what it is like to work with investors, and that is invaluable when starting a career in IR."

Stepping into an IR role for a Reg A+ company also provides a ground floor opportunity to wear many hats, including CFO, human resources director, and even underwriter. "Reg A+ allows you to solicit directly to investors, so whoever is interfacing with this group must know how to get investors interested and how to keep them happy," notes Tracey's colleague, Peter Duggan, who is a senior vice president and regional manager of investor services at Computershare.

**Even from a corporate governance perspective, Reg A+ offerings help executives understand how to handle directors and management teams.**

Appealing to investors' interests is something Scott Disick may be trying to tap into. In his tweet to get people interested in the ManiaTV IPO, he mentions "all access celeb passes." While most companies may not have such high-profile appeal, you get the idea. IR

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**EVAN PONDEL** is president of PondelWilkinson Inc.; **epondel@pondel.com.**


# What's Around the Corner?

**Exciting new experiences, high-impact speakers, and unique learning formats await IR professionals at the 2018 NIRI Annual Conference in Las Vegas, making this a must-attend event for professional growth.**

BY AL RICKARD, CAE

The world of IR and the capital markets ecosystem is changing rapidly and dramatically. The 2018 NIRI Annual Conference, to be held June 10-13 in Las Vegas, Nevada, will help investor relations professionals navigate this evolving landscape and stay ahead of the curve.

It's impossible to predict the future, but the "See Around the Corner" theme and the supporting content will help anticipate what may lie ahead.

"The status quo is no longer an option," says NIRI Conference Chair Victoria Sivrais, founding partner at Clermont Partners. "Change is everywhere, and attending this conference is critical to understanding and dealing with it in ways to advance your company's interests."

The conference offers Investor Relations Charter (IRC®) credential holders up to four professional development units (PDUs) per day.

### The Conference Kickoff

The conference leads off with a Saturday-night invitation-only NIRI Volunteer Appreciation Gala Dinner. Sunday morning begins with the NIRI Golf Classic, followed by value-added education, a chapter leadership meeting, and chapter receptions.

This year the Sunday education includes a two-hour IR Strategy & Planning: IRO "Teach In," a two-hour Global IR Summit, and an activism bootcamp that are open to all conference registrants.

The networking and business ramps up quickly on Sunday evening at the IR Showcase Opening and Welcome Reception from 6:00-7:30 p.m. More than 70 vendors will showcase their wide range of products and services to help IR professionals succeed.

On Monday morning the opening keynote speaker is Nasdaq President and Chief Executive Officer Adena Friedman, who will speak on "How Technology Is Shaping the Capital Markets of Tomorrow."

"The capital markets are shifting, the tools IR professionals use to communicate with investors are rapidly evolving, and demands for accountability, transparency, and disclosure from increasingly active investors are forcing IR professionals to consider new perspectives and strategies," NIRI Conference Vice Chair Mike Conway, director, investor relations/corporate communications at The Sherwin-Williams Company, explains. "This opening keynote address and the sessions that follow will provide our members with valuable tools to help us all 'see around the corner.'"

Friedman will be followed by CNBC Worldwide Exchange Anchor and Senior National Correspondent Brian Sullivan, who

## TRACK YOUR LEARNING

With more than 20 breakout sessions, the NIRI Annual Conference covers a wide range of critical topics for IR professionals.

They are organized into the four content tracks shown below and are designed around the 10 domains of the IR Competency Framework.

**Corporate Governance & Regulatory**

- Using the Proxy as a Selling Tool: Getting to the FINISH LINE with Better Outcomes
- The Changing Nature of Activism
- The ABCs of ESG
- What the Board Wants to Know vs. Needs to Know?
- MiFID II and its Impact on Your Investor Relations Program

**Finance & Markets**

- The Evolution of Investing: Staying Active in an Increasingly Passive Investing World
- Blockchain & Cryptocurrency 101
- Raising Coin: Cryptocurrency as an Alternative to Traditional Capital
- A Buy-Sider's View of Valuing Companies
- Earnings Guidance: Value-Creating or Value-Destructive?

**Marketing Outreach & Stakeholder Communications**

- Pitch Your Stock Like a Sell-Side Analyst
- IR Teams in Crisis – How to Build and Maintain Stakeholder Trust
- From Complexity to Clarity – Integrated Messaging Development
- Creating Investor Intimacy: Compelling Site Visits, Trade Shows, Factory Tours & Conferences
- In the Transaction Trenches
- The 'Right' Approach to Investor Targeting

**Professional & Career Development**

- The IR Family Feud
- IR Practitioner Situation Room
- Defining Best in Class IR
- Double Dipping - Combination Jobs for IR Professionals
- From the Sell-Side to IR: Leveraging Wall Street Insights to Enhance your IR Practices
- IRC Overview and Information Session

will share his insights on "Unlocking the Power of Financial Media." Sullivan will discuss the shared mission and unique relationship of investor relations and the financial media, and attendees will learn how to engage top notch reporters, leading television personalities, and digital journalists.

### New Spaces and Experiences

Looking for something new and exciting at this year's conference? NIRI is one step ahead of you with new and innovative programs to educate, entertain, and add value to your experience.

- **IR Situation Room** What's your toughest IR challenge? Bring it to this workshop and join your IR colleagues to collaborate on solutions in a facilitated problem-solving process. Put it on your calendar for Monday afternoon.
- **IR Family Feud** Want to see two "IR Families" compete in a no-holds-barred "Family Feud" as they test their IR knowledge? Then don't miss this new, exciting game-show-style session on Monday afternoon.
- **Career Development Hub** This new area is a unique opportunity for IR professionals of all career levels to interact

## COME EARLY FOR EXTRA LEARNING

As long as you're traveling to Las Vegas for the NIRI Annual Conference, why not arrive a day early and take advantage of three excellent Pre-Conference Seminars? (Each requires a separate registration fee.) Consider bringing one of your staff who may benefit too. Here's the lineup:

**Understanding Earnings**
**Saturday, June 9**
**9:00 a.m. – 5:00 p.m.**

**Best in Class Investor Presentations & Investor Days**
**Sunday, June 10**
**8:30 a.m – 12:30 p.m.**

**Think Like an Analyst**
**Sunday, June 10**
**8:30 a.m. – 1:30 p.m.**

*Each of these pre-conference seminars offers Investor Relations Charter (IRC®) credential holders up to three professional development units (PDUs). More information is available at www.niri.org/certification.*

*For more information and to register, visit www.niri.org/events/.*

niri HEADSHOT LOUNGE

with IR experts in a dedicated space designed to encourage and facilitate networking and reflection around various career trajectories and alternative pathways to professional success. The Hub will feature short talks, informal workshops, and mentoring sessions with NIRI Fellows, IRC holders, and others to provide additional career development opportunities outside of the traditional conference space.

- **Headshot Lounge** Everyone can use an updated headshot, right? Here's your opportunity to get one for free with a professional photographer and a bit of makeup to make you look your best. It's quick and easy – look for the lounge in the IR Showcase.
- **IRC Lounge** Learn all you need to know about the NIRI Investor Relations Charter (IRC®) credential in this informal setting. Do you plan on sitting for the IRC exam this year and have questions on how to prepare? Are you already an IRC holder and need guidance on maintaining your credential? Find the answers here.
- **Live Media Training** Brush up on your interview skills with some live mock interviews with experts at this new NIRI conference addition in the IR Showcase.

### Tuesday General Sessions

Tuesday begins with a keynote address, "Bulls, Bears, Unicorns, and Proxy Wars: The Battle for Clarity and Common Sense in Today's Capital Markets," delivered by Thomas Farley, president, NYSE Group. Attendees will hear an update on the state of play in today's capital markets and have an opportunity to engage in a Q&A with Farley.

Farley will be followed by a panel discussion, "ESG Goes Mainstream," moderated by Elizabeth Saunders of Clermont Partners and featuring a panel of diverse and influential buy-side investors who assess ESG factors in light of how operating decisions impact a company's long-term risk profile. Attendees will gain insights into their "ESG scorecard" - how they assess companies across all industries - and better understand what types of questions and disclosures are critical to attracting and maintaining these investors.

The final session of the day on Tuesday focuses on "Activism in the Boardroom - The Inside Scoop." This panel will provide NIRI members with a rare opportunity to hear directly from one of the world's most respected activists, Mason Morfit of ValueAct, who will offer his perspective on how activism impacts board deliberations – both when an activist is agitating on the outside, and when an activist is on the inside as a director. In addition, two seasoned corporate executives who now serve as public

## THE IR SHOWCASE EXPERIENCE

The IR Showcase, home to more than 70 service providers that will display and discuss their products and services with more than 1,000 IR professionals during the conference, is a center of activity that offers attendees engaging and exciting experiences.

"Our goal is to make the IR Showcase a unique and exciting learning experience in more ways than one," says NIRI Conference Vice Chair Brian Rivel, president of Rivel Research Group. "Our exhibitors always provide valuable resources and learning opportunities, and we've added live media training this year. Everyone will gain a variety of benefits from walking the Showcase in addition to connecting with their industry peers and friends."

The IR Showcase opens during the Welcome Reception on Sunday evening from 6:00-7:30 p.m. and remains open all day Monday and Tuesday. Look for a new silent auction in and around the IR Showcase this year with proceeds benefitting the Las Vegas community. A special Closing Reception on Tuesday from 5:30-6:30 provides a forum to wrap up this year's IR Showcase experience.

As always, look for the NIRI booth in the IR Showcase to ask questions and peruse a wide variety of NIRI resources including past issues of *IR Update* magazine.

company directors will share their experiences and insights on how board dynamics are changed by activism.  Finally, Joele Frank – the financial PR expert whose name is synonymous with activism defense –  will offer her always colorful views on activism, the changing role of corporate directors, and how the tactics and impact of "ankle biter" activists differ from those of activists who have "made their bones."

### Wednesday Sessions

On Wednesday morning, you'll have the option to choose between two exciting breakout sessions. Everyone's talking about Bitcoin and other cryptocurrencies. "Raising Coin: Cryptocurrency as an Alternative to Traditional Capital," is a point-counterpoint session that will explore whether it is a legitimate capital-raising vehicle and if initial coin offerings will outpace IPOs.

Or, attend a panel discussion on "The Evolution of Investing: Staying Active in an Increasingly Passive Investing World," where three major buy-side investors discuss many questions about passive investing. How do large passive investment fund managers interact with IR professionals and what do they expect? Is the growth of passive investing affecting stock valuations? Does capital market structure really work in a world where passive funds are buying an ever-growing percentage of stocks? As passive investing dynamics change, how will corporate activism evolve?

The annual economic outlook will be delivered by Brian Beaulieu, a senior economist and forecaster with a strong record of accuracy. He will provide a uniquely entertaining look at the myriad economic and business cycle factors that will drive the economy and impact your company. His talk is titled "A Bend in the Road - The Global Economic Perspective."

### The Networking Scene

Many conference attendees say the networking and interaction with their peers throughout the event, especially at receptions and other social events, are some their most valuable experiences.

"When I joined NIRI many years ago, one of the most rewarding aspects was getting to know my peers across the country," Sivrais says. "The conference is a wonderful opportunity to share experiences and war stories, as well as learn more about the various paths that we can take in this profession."

The IR Services Showcase and industry breakouts are among the many opportunities to experience strong networking connections.

Other fun networking opportunities are the 2018 NIRI Golf Classic on Sunday (requires separate registration), Yoga on Monday morning (included in registration), and Fitness Bootcamp on Tuesday morning (included in registration).

Let the learning and networking begin! IR

**AL RICKARD, CAE,** is president of Association Vision, the company that produces *IR Update*; **arickard@assocvision.com.**

# PREPARING FOR THE YEAR OF THE "S"

**Social issues are driving the ESG movement in 2018.**

BY MICHAEL FLAHERTY AND JOSH CLARKSON

Guns, addiction, discrimination. While classic shareholder activists remain a front-burner concern for corporate America, companies are also grappling with a wave of environmental, social, and governance (ESG) policy pressures. Within that struggle, the "S" factor is under the microscope.

As of March 2018, 74 percent of all shareholder proposals submitted this year were aimed at environmental and social causes, a percentage nearly double that from five years ago, according to ISS Analytics, the data arm of Institutional Shareholder Services Inc.

Within that "E&S" category, social concerns are increasingly on the minds of investors and employees in a trend that gained momentum last year. Proxy Insight data show that social-related proposals increased 25 percent in 2017 to become the most common variety of shareholder proposals submitted, taking the mantle from proxy access.

"S" types of proposals last year focused on issues including board diversity, gender pay gaps and discrimination, to name a few. This year, investors are putting pressure on gunmakers and pharmaceutical companies.

## Social Investors at the Gate

The pressure is coming not just from pension funds. Individual and socially minded shareholders, index funds, proxy advisors, the U.S. government, and activist investors are all playing a role.

In January 2018, BlackRock CEO Larry Fink publicly urged companies to serve a social purpose in his annual letter. The asset manager's updated guidelines on proxy voting now expect boards to have at least two female directors.

State Street Global Advisors said it will abstain from voting on certain pay packages. On the asset owner side, the Council of Institutional Investors is recommending companies take steps to reduce the risk of sexual harassment, including pay clawbacks, disclosure of all settlements to the Board, and revising corporate policies.

ISS launched a new Environmental & Social QualityScore product for its clients, which will cover 5,500 companies across the globe by the second quarter. This rubric will apply their approach to corporate governance to the "E" and the "S" as well, and grade companies against peers on everything from ethical sourcing, to animal welfare, to product safety. One subcategory includes measuring whether compensation is linked to ESG metrics. While there are many different metrics and many vendors selling their best index, what matters is the substance of a company's efforts.

The government's hand in the "S" argument also comes into play this proxy season, as the SEC pay ratio rule goes into effect. The rule requires the disclosure of the ratio of a CEO's compensation to the median compensation of its employees – the wider the ratio, the more angst anticipated from employees and investors.

Meanwhile, activist hedge funds are digging deeper into their portfolio companies' impact on society – Blue Harbour, Jana Partners, and Trian Partners, to name a few. ValueAct Capital is deploying $100 million to invest in companies addressing environmental and societal problems.

Whether activists view these efforts as engines for shareholder returns or wedges to push their influence remains to be seen. The impact of social factors on returns is also to be determined, putting CEOs in a bind: prioritize long-term goals for the good of the company and broader society while risking short-term gains and their jobs in the process.

While that debate simmers, investors show they're buying into the ESG trend. A Harvard Business School study found that 82 percent of investors surveyed consider ESG information, most often because they find it material to investment performance. In another sign of a heightened "S" focus, a CFA Institute survey showed a 10 percent increase in the number of portfolio managers and research analysts who take social issues into account when making investment decisions.

## Define Your Social Purpose

Employees, investors, and other stakeholders are demanding that companies define their social purpose.

How should companies respond to this relatively new wave of investor demand? Write a letter back to Larry Fink. Articulate your long-term plan and social impact to investors before someone else does it for you.

Such a narrative requires substantive steps to address these issues. Intel is rolling out technical training and education to underrepresented youth groups. Medtronic is using telemedicine to expand access for diagnosing and treating heart attack patients. Dick's Sporting Goods and Walmart are placing restrictions on firearms sales. CVS is addressing the opiate crisis through a drug disposal program and tighter restrictions on painkiller prescriptions. Salesforce is actively working to monitor and close gender and racial pay gaps. Microsoft is revising its sexual harassment policies and ending the use of forced arbitration agreements.

Executing on these IR and communications objectives involves a multifaceted approach. Companies' ability to get on the front foot regarding key social issues helps ensure that they're not on their heels with investors, while providing a mission for employees and being part of the solution in the communities they serve.

Starbucks Executive Chairman Howard Schultz said this about his company's philosophy during a recent "Masters of Scale" podcast interview with Reid Hoffman: "Starbucks is not profit-driven. Starbucks is values-driven, and as a result of those values, we have become very profitable. Not every business decision should be an economic one. . .We're not perfect, we make mistakes, but our financial performance is directly linked to the enduring values and culture that we are constantly trying to enhance and preserve." IR

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"Starbucks is not profit-driven. Starbucks is values-driven, and as a result of those values, we have become very profitable."

- Howard Schultz, executive chairman, Starbucks

# WHAT DO INVESTORS REALLY THINK ABOUT GAAP?

**A new survey sparks discussion and insight about the emerging importance of non-GAAP reporting.**

BY VICTORIA SIVRAIS

Generally Accepted Accounting Principles (GAAP) accounting, for all its good intentions, increasingly misses the mark for many investors, according to the results of a survey by Clermont Partners of active investment managers and a follow-on webinar on the topic.

In their bid to predict a company's future performance, buy-side investors frequently turn to non-GAAP and intangible assets in their analyses. While many acknowledge a place for GAAP, nearly every analyst, according to the survey, puts their own spin on the numbers in their attempt to evaluate the true performance of a company and gain insight into the assets that drive a company's economic value-creation engine.

The Clermont Partners survey report, "More Active Investors Rely on Non-GAAP vs. GAAP Reporting in Analyzing Stocks," was inspired by the book, *The End of Accounting and the Path Forward for Investors and Managers*, by professors Baruch Lev, Ph.D, and Feng Gu, Ph.D. In the book, Lev and Gu argue that GAAP reporting is no longer a useful tool to predict a company's future performance, primarily because of the evolution of many industries away from asset-based models and the increasing complexity of Financial Accounting Standards Board (FASB) reporting rules, which often involve considerable estimation.

For example, Lev asserts:

- "GAAP-based earnings are deeply flawed measures of enterprise change, and therefore of little use to investors." (IR Update, June/July 2017)
- "Earnings no longer move markets." (IR Update, June/July 2017)
- "…in today's economy you cannot succeed without innovation. And innovation is achieved by intangibles." (CFO.com, October 20, 2016)

Respondents to the survey largely agree:

- 90 percent said they frequently make their own adjustments to GAAP results to get a more accurate picture of the company's performance.
- 74 percent said they rely more on non-GAAP than GAAP reporting when analyzing a company's performance and making buy or sell decisions on a stock.
- 47 percent disagreed that GAAP presentations accurately portray a company's finances, compared with 36 percent who agree.
- 44 percent believe that non-GAAP measures have become more important over time.
- 64 percent said they view intangible assets as "important" to "absolutely critical" in their evaluation of a company.

"We have an acronym here [at GAMCO] called GAPIC, meaning Gather, Array, Project, Interpret, Communicate. That's what the analysts are supposed to do."

- Christopher J. Marangi, portfolio manager, GAMCO Investors

### A Discussion of Non-GAAP

Moderated by Clermont Partners' Elizabeth Saunders, "The Rise of Non-GAAP" webinar posed these findings to a panel featuring:

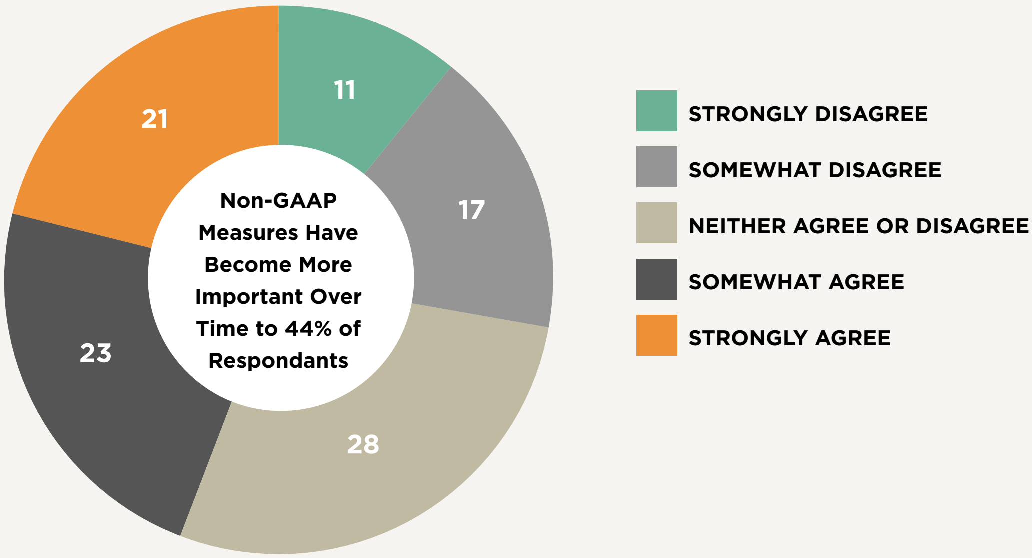
- Baruch Lev, Ph.D, professor of accounting and finance, New York University Stern School of Business.
- Christopher J. Marangi, portfolio manager, GAMCO Investors.
- Elizabeth M. Lilly, founder and president, Crocus Hill Partners.

Lev noted that in writing their book, he and Gu examined hundreds of conference calls in five major sectors of the economy to fully understand what is important to investors. "We found that what matters most are strategic assets that create unique value for each company. For example, a product pipeline of a biotech company, or customer metrics for an internet services company."

Their findings also show that GAAP-based information is fast losing its value to investors. "Thirty years ago, an investor's perfect prediction of companies that beat or meet estimates would have gained an annualized 26-27 percent return above benchmark," Lev noted. "Over time, those gains have all but disappeared. The conclusion is that earnings no longer reflect what they should reflect: value changes and growth prospects of companies."

Corporate investment trends during the past 30 years support this observation. Lev cited one study of private sector companies that found a dramatic rise in *intangible* asset investment and a fall in *tangible* asset investment beginning in the mid-1980s. GAAP rules require, however, that intangibles such as investments in product development must be expensed on the income statement, which puts pressure on profitability and the balance sheet, and thus contributes to the erosion of GAAP financials as a way to value companies. As an example, Lev noted that Tesla reports an accumulated loss of more than $3 billion, but its huge market value means that investors completely ignore the financial reports.

GAMCO's Marangi agreed, observing that the declining relevance of GAAP accounting has evolved over many decades, as the nature of the economy has changed and the financial sector has gotten larger and become more sophisticated. "When we look at a company, we ask: (1) What is the true cash flow power of a company today? (2) How fast will that cash flow grow? And (3) How predictable and how defensible is that cash flow? Those questions are primarily informed by non-GAAP measures, which are strategic assets, intangibles, hidden assets, Q: To what extent do you agree with the following statement: "Over time, non-GAAP measures have become more important to me when evaluating a company's financial performance."




and non-financial metrics that I call key performance indicators, like subscribers, churn and customer trends."

Marangi added, "As fundamental investors, we try to add value in looking at those non-GAAP measures. We have an acronym here [at GAMCO] called GAPIC, meaning Gather, Array, Project, Interpret, Communicate. That's what the analysts are supposed to do." He stressed that while analysts do their own work and make their own adjustments, they like to see transparency and consistency in reporting from different companies.

According to Lev, industries that do a good job in providing relevant information on strategic assets or non-financial information include pharma and biotech, which often report product pipeline data. Most media, telecom, and insurance companies also offer valuation tracking measures such as customer policy renewals, which are much more objective than customer satisfaction surveys. Marangi noted that disclosure in the media industry, particularly among the cable distributors, has gotten much better during the past decade. They provide some very useful key performance indicators, customer trends, churn, and average revenue per user.

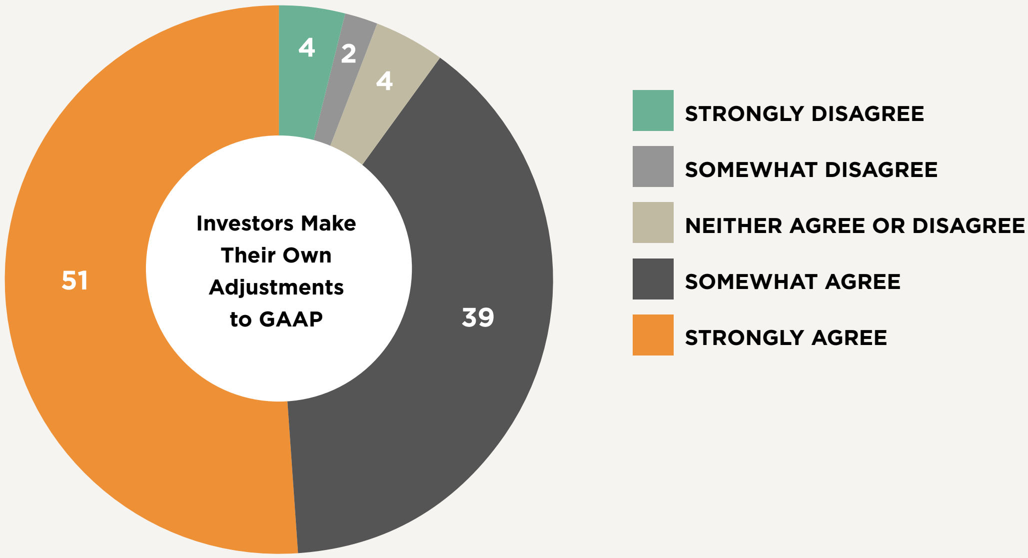
Intangibles come in two forms, according to Marangi. The first type supports the sustainability of a company's cash flow. Such assets include a strong brand that provides a moat, for example, that allows Mondelez to have pricing power over Oreos, or a loyal customer base that sustains revenues. Companies tend to do a better job of disclosing these types of intangibles. The second type is hidden assets that active investors spend a lot of time looking for, such as excess or under-utilized real estate, radio spectrum, and patents. They aren't necessarily visible on the balance sheet, and companies don't generally do a great job disclosing them.

Big data and artificial intelligence will likely change and accelerate the move away from GAAP accounting, Marangi said. With the flood of information becoming available, investors who are investing in solutions driven by big data and artificial intelligence could eventually know more about the state of a company's business intra-quarter than the company itself. Some IROs and their management teams may need to step up their games to stay on top of the industry and company intelligence that is becoming available almost in real time.

GAAP still plays an important role, argues Lilly, by helping to keep managements honest in their non-GAAP presentations of financial performance. While investors make their own adjustments to companies' GAAP financials, companies are increasingly presenting non-GAAP financials alongside the required GAAP information. A survey by Audit Analytics found that in Q4 2016, 96 percent of S&P 500 companies presented at least one non-GAAP metric, compared to a previous finding of 88 percent between July and September of 2015.

"Companies develop their non-GAAP figures, and they're

Q: How much do you agree with the following statement: "I frequently make my own adjustments to a company's GAAP financials to get a more accurate picture of the company's performance."




not always forthright," Lilly noted. "One of the aspects of this that we find fascinating is that, ironically, the non-GAAP restatements are always higher than the GAAP, which is an interesting point. Rarely do you see companies taking their GAAP numbers and adjusting them, and the non-GAAP is lower. They're trying to portray their businesses in a better light. The more correlated the GAAP and the non-GAAP metrics are, the more comfortable we are. It's incumbent upon the analyst to do the math themselves and determine what's non-recurring, what's extraordinary and what's unextraordinary."

Stock-based compensation is a good example, she said. "Tech companies tend to take out stock-based compensation because it's not a direct cash payment, but it does involve an outlay of company shares and it's a transaction that dilutes ownership to other shareholders. Twitter is very famous for this. In 2015, they reported a $520 million loss on a GAAP basis, but they said, 'Hey, what we really want you to focus on is that we reported a net $277 million profit on a non-GAAP basis.' And yet, it excluded $682 million in stock-based compensation."

Serial acquirers are another group to watch for potential abuses, she says. Companies that consistently buy smaller companies and exclude the acquisition-related costs can be problematic, she suggested, because acquisition costs are material expenses and revenues are included. "You never truly know or understand what the ongoing earnings of the organization are because they're obfuscated by these charges, and you never really understand what the top-line growth is. We're very leery of serial acquirers, particularly because they don't deal with the accounting in a very clear and transparent way, and it's very hard to get at the real numbers."

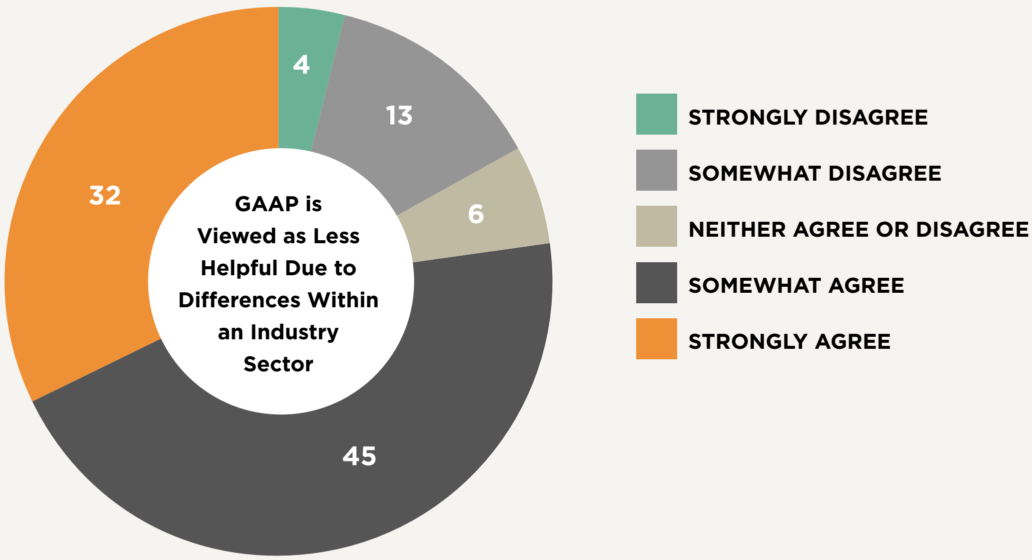
Show the organic growth, such as same-store sales, to provide the transparency investors want, Lilly recommended. If serial acquisitions are part of the company's ongoing business strategy, acquisition-related expenses are really a part of ongoing operations and should be viewed as part of the company's financial performance.

## Intersection of Investor and SEC Demands

Ultimately, the greater reliance on non-GAAP measures has been motivated by investors' desire to uncover economic truth and improve their ability to forecast future performance. As the world changes, driven forward by transformative technologies and the value of intangible assets, GAAP-based accounting is losing favor and relevance with investors.

And yet, the U.S. Securities and Exchange Commission (SEC) has cracked down in recent years on perceived abuse of using non-GAAP financial measures. Since adopting Regulation G in 2002, which covers the use of non-GAAP measures in disclosure, the SEC has issued 40 Compliance & Disclosure Interpretations (CD&Is) on the issue. It brought its first action

Q: How much do you agree with the following statement: "There are significant differences among companies within a given industry sector, which make it less helpful to compare performance using solely GAAP measures."




against a company in 2009 and since 2016 has been increasingly assertive against companies' aggressive use of non-GAAP measures, according to Law 360.

With the rising use of non-GAAP measures, some companies may push the envelope in presenting their financial performance. According to the panelists, companies should work to present their financial performance with consistency and transparency. Sophisticated investors will make their own adjustments to the numbers to determine the underlying performance of the business. Providing insight into the intangible drivers of the business is essential as well.

## Recommendations

IROs and their management teams should consider the following when disclosing financial performance and insight in their company:

- Be judicious in deciding what to include/not include with non-GAAP numbers. Management will be viewed as more credible if the presentation of positives and negatives is even handed. Consistency is key. For example, do not exclude one-time items one year, then include them the next year to present a more favorable comparison. This approach is also advisable from a compliance standpoint.
- If your non-GAAP measures provide a better fundamental understanding of the business, then make the case for them when you report earnings, rather than simply leaving investors to interpret and calculate the numbers for themselves.
- Provide more alternative information to help supplement the financials. Make it easy for investors to digest and evaluate your company's current fundamentals and opportunities.
- When presenting a road map for future growth and shareholder value creation, include relevant non-financial performance milestones that support your growth plan.
- As you build engagement with current and prospective investors, ask them what metrics matter the most to them in their stock selection process. Consider evolving your reporting and messaging strategies to help accommodate their informational "wish list."
- Know what your channel is saying. Good investors will seek out information about your company from other sources, including channel partners, suppliers and customers. Keep these stakeholder audiences in the loop of publicly available information so they are able to respond effectively to investors' "channel check" questions. With the rise of big data and artificial intelligence, it will become even more essential to stay on top of this information to remain at least one step ahead of your investors. IR

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# THE TICK SIZE PILOT: A COSTLY EXPERIMENT

**The SEC's tick pilot program has posted mixed results while research coverage of small and mid-cap companies continues to decline.** BY J.T. FARLEY

If you work for a small or mid-cap U.S. public company, chances are you have heard about the Tick Size Pilot, a Securities and Exchange Commission-mandated market structure experiment, which kicked off in October 2016 and is scheduled to end in October 2018.

The Tick Pilot affects all stocks with a market capitalization of under $3 billion, a share price greater than $2, and average daily trading volume of less than 1 million shares. This universe of about 2,500 stocks represents about two-thirds of all the companies listed on NYSE and Nasdaq but accounts for only about 11 percent of total trading volume, highlighting the need for more liquidity in these companies.

The tick pilot universe was broken up into a control group of more than 1,200 stocks and three test groups with approximately 400 stocks in each, with issues randomly assigned to each group. Stocks in the control group have a minimum price increment (or "tick") of $0.01, which has been the standard for U.S. equities since 2001.

Group 1 stocks are quoted in minimum $0.05 increments but can still trade in the current minimum price increment of $0.01. Group 2 stocks must be quoted and traded in minimum increments of $0.05. Group 3 stocks, similar to Group 2, are quoted and traded in $0.05 increments. In addition, Group 3 stocks are subject to a "trade-at" rule, which prohibits another exchange or dark pool from matching the price of a displayed order unless it is current showing the same price or a better price, with some exceptions (including an exception for block trades).

Originating in Congress as part of the 2012 JOBS Act, the tick size pilot's original goal was stimulating IPOs and research activity among small-cap companies in order to boost employment. The rationale behind the pilot was that increasing the incentives to make a market in stocks would cause brokers to provide more research and underwriting for small companies.

## Lofty Goals, Mixed Results

The launch of the tick pilot was met with significant skepticism. Capital markets consultancy Greenwich Associates found that very few institutional investors (fewer than 10 percent) thought that the tick size pilot would encourage more capital formation. This skepticism is ongoing: 29 percent of investors surveyed by Greenwich in mid-2017 said the tick pilot should be halted earlier than its scheduled end date.

"The premise of the tick size pilot was that if spreads are widened, it will be more profitable for market making, which will encourage research coverage and spur more capital formation," said Richard Johnson, vice president for market structure and technology at Greenwich. "The problem is that market makers today don't do equity research."

A generation ago, many of the same firms which provided equity research were also market makers for NYSE and Nasdaq-listed stocks. Today the field is dominated by several "electronic market makers," including some of the same high-frequency trading firms, which were vilified in Michael Lewis's 2014 book, *Flash Boys*. These firms are generally able to trade more profit-


ably when spreads widen from $0.01 to $0.05 – and thus are more willing to provide liquidity – but they are not in the business of bringing IPOs to market or offering stock recommendations.

Despite the launch of the tick pilot, research coverage of U.S. companies, particularly less-liquid small and mid-cap issuers, remains in decline, with a number of sell-side firms exiting that business in 2017 and more cutbacks likely in the coming months, given the move by a number of asset managers to pay for global research costs out of their own pockets in the wake of the European MiFID II rules.

From a trading perspective, the tick size pilot has not been a rousing success, notes Johnson. "The results have been kind of lackluster at this point. Liquidity did deepen slightly in the groups with wider spreads, but overall the pilot has increased costs across all three groups as compared to the control group."

Research by my firm, ITG (which, incidentally, is in the tick pilot control group), found that average trading costs, including market impact, for institutional investors for stocks in the three pilot groups have risen by more than 30 percent compared to the control group since the launch of the pilot. This translates into tens of millions of dollars in additional expense for mutual funds and hedge funds – costs which are passed along to their customers in the form of lower investment returns.

From an IPO perspective, 2017 was clearly a much better year than 2016, with the number of offerings jumping more than 50 percent to 160, according to Renaissance Capital. While that is a big increase, 2017 was approximately in line with the average number of offerings since 2009, and it would be hard to definitively ascribe any of the rebound to a temporary change in market structure for a subset of illiquid stock issues. Correlation does not imply causation, as the statisticians say.

### A Feature, Not a Bug?

From an ownership standpoint, there has been a modest uptick in active institutional interest in the stocks in Groups 1, 2, and 3 as compared to the control group, according to analysis by Ipreo. "Looking at ownership data from the first four quarters of the tick size pilot, we see a slight increase in median active institutional shares held in the pilot groups versus the control group, as well as a slight increase in the percentage of companies, which had an increase in number of active institutional holders," says Brian Matt, global head of strategy and innovation at Ipreo.

While these ownership shifts are small (low-single-digit percentages), it is possible they reflect institutional investors' appetite for hard-to-buy small and mid-cap stocks and their willingness to consume additional liquidity even when it is offered at higher prices.

Ultimately, the tick size pilot may be a well-intentioned attempt to address a fundamental characteristic of many small and mid-cap stocks, notes Johnson of Greenwich Associates. "The idea that there is less liquidity in small caps is like saying it's harder to climb big mountains – it's the nature of where they are. If you look at the average turnover of stocks as a ratio of their market capitalization, there is not that much difference between small caps and large caps. They're trading in proportion to their size."

*(In early April,* The Wall Street Journal *reported that SEC officials concluded that the results don't justify expanding tick sizes permanently. SEC Trading and Markets Division Director Brett Redfearn said at an industry conference that he would recommend that the pilot program end in October as planned.)*

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