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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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Growing Through Disruption and Change



Melissa Plaisance

NIRI Chair
Group Vice President,
Treasury & Investor
Relations
Albertsons Companies

There is one constant in our lives – and that is change.

Over the last 30 years, I have witnessed a tremendous amount of change in our profession and have seen the NIRI organization evolve and grow with the times.

Today, the speed of change is far faster than ever before, and we are dealing with changes in technology including artificial intelligence, regulations governing disclosure and proxy rules, and changes in public sentiment including heightened interest in sustainability from the investment community. NIRI is there to help us all learn, grow, and prosper through this changing landscape.

When I joined Safeway in 1990 as director of investor relations, little did I know that NIRI would become an organization that would provide a tremendous community and learning platform for me throughout my career. I progressed at Safeway from director to vice president of investor relations, then took on responsibility for public affairs and treasury and became senior vice president, finance and public affairs, and later senior vice president, finance and investor relations, with responsibilities in strategic development. We later merged with Albertsons, and my role has involved several changes. All through those changes, NIRI was an anchor for me, and my NIRI colleagues were there to support me.

I was honored to be elected to the NIRI Board of Directors, and even more honored when I was elected NIRI chair. I am very happy to have the opportunity to give back to an organization that has been there for me for almost 30 years. I enjoyed experiences along the way – as a San Francisco chapter officer, a speaker at chapter and national conference events, Annual Conference Committee member and co-chair, and as a Senior Roundtable Steering Committee member – and I encourage NIRI members to step up to leadership roles to learn and grow and give back to this special organization.

I would like to thank all the board chairs who have come before me, from whom I have learned and been inspired. I also want to thank the board members who retired in December 2019 – Lee Ahlstrom, IRC; Julie Dewey, IRC; Hala Elsherbini; Shep Dunlap; and Michael Becker. And finally, I would like to thank NIRI President and CEO Gary LaBranche and his staff for guiding us the last few years and setting us on a path for continued success.

In closing, I hope you will reach out, get involved, form friendships, and learn from colleagues, speakers, and experiences through NIRI in the years to come. [IR](https://niri.org)

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SEC Unveils Proxy Reforms

BY TED ALLEN

In a pair of significant victories for public companies, the U.S. Securities and Exchange Commission voted in November 2019 to propose new restrictions on proxy advisory firms and shareholder proposals.

However, the proposed rules, which were approved in separate 3-2 votes, are facing considerable opposition from governance activists and some institutional investors. The SEC, which could retreat on some of these reforms, likely won't approve final rules until the summer of 2020.

The proxy advisor proposal includes a new draft review process for all issuers, a safeguard that NIRI has long sought. In NIRI's 2018 advocacy survey, more than 95 percent of respondents agreed that the SEC should require proxy advisors to provide a draft review opportunity to all public companies.

Under the SEC's proposal, issuers that file their definitive proxy materials at least 25 days before their annual meeting would receive a three-business-day period to review proxy advisor report drafts. If an issuer files its proxy materials more than 45 days in advance, it would receive a five-business-day review period. In addition, issuers would have the opportunity to provide a written response that would be hyperlinked to the proxy advisor's final report. These provisions should greatly help companies during proxy season and give their IR teams more time to develop their messaging and engagement strategy in response to an adverse proxy advisor recommendation.

Proxy advisors also would be required to disclose material conflicts of interest, another reform that NIRI has sought.

Shareholder Resolutions

The SEC went further than many agency observers were expecting and addressed a variety of corporate concerns about the shareholder resolution process. The SEC's proposal includes several notable reforms:

New economic requirements that reflect ownership duration. An investor who holds a company's shares for at least a year would have to own at least a \$25,000 stake to file a proposal, while an investor holding shares for at least two years would have to own a \$15,000 stake. The current \$2,000 ownership threshold would be maintained, but only for investors who could show that they held their shares continuously for at least three years.

Higher support thresholds for the resubmission of proposals at the same company. A proponent would have to earn at least 5 percent support the first time that his or her resolution appeared on a company's ballot in order to resubmit it the following year. That threshold would rise to 15 percent in year two and 25 percent in year three and thereafter. The current resubmission thresholds, which are 3, 6, and 10 percent, respectively, have not been updated since 1954. This reform should reduce the number of special-interest resolutions that reappear on proxy ballots each year despite low support.

The SEC draft rules also would bar activists from presenting multiple resolutions from family members and allied investors at the same meeting. Resolution proponents also would have to indicate their availability for engagement, which should make it easier for companies to negotiate with these investors. [IR](#)

Ted Allen is the NIRI vice president, communications and member engagement; tallen@niri.org

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Brook Wootton, MBA, IRC

Rich Yerganian
Cerence Inc.

NIRI Members Elect Five New Board Members

NIRI members elected five new directors to the NIRI Board of Directors.

They include:



Darin Arita, CFA, IRC, senior vice president and head of investor relations at Prudential Financial, Inc. He is a board member of the NIRI New York chapter.



Katie Royce, CFA, global head of IR at Cognizant Technology Solutions. She is a member of the NIRI Senior Roundtable Steering Committee and is president of NIRI New York.



Brook Wootton, MBA, IRC, former vice president for IR for InfraREIT, Inc., until the company was sold in May 2019. She serves on the board at NIRI Houston and is a member of the NIRI Senior Roundtable.



Rich Yerganian, vice president of IR at Cerence Inc. He has served as president of NIRI Boston, as a committee member for two NIRI annual conferences, and as an IRC Certification Committee member. He also is a member of the NIRI Senior Roundtable.



Tim Quast, president of ModernIR. He is a frequent speaker at NIRI chapter events on modern equity trading and served as vice chair for the 2019 NIRI Annual Conference.

NIRI President and CEO Gary A. LaBranche, FASAE, CAE, said, “I am pleased to welcome these highly regarded IR practitioners to the NIRI Board of Directors. They will play a crucial role in helping the Board ensure the future of NIRI as we embark on our next 50 years.

“I also would like to thank the directors who are stepping down after their dedicated service to NIRI: Hala Elsherbini; Shep Dunlap; Julie Dewey, IRC; Michael Becker; and Immediate Past Chair Lee Ahlstrom, IRC. We are grateful for their contributions to the IR profession.” [IR](#)

Thirteen IR Professionals Earn IRC Credential

Thirteen investor relations professionals recently received the Investor Relations Charter (IRC®) credential awarded by the Certification Council of NIRI.

Representing the 11th class of IRC credential holders, there now are 191 IRC holders worldwide. The latest class of successful candidates completed the IRC examination offered in November 2019.

They include:

- Aly Bonilla, IRC
- Bill Cimino, IRC
- Melanie Dambre, IRC
- Rebecca P. Gardy, IRC
- Thomas Kiehn, IRC
- Christopher C. King, IRC
- Traci Mangini, IRC
- Ricardo Martinez, IRC
- Jennifer I. McNealey, IRC
- Christian Pikul, IRC
- Ramesh Shettigar, IRC
- Matt Tractenberg, IRC
- Ruth E. Venning, IRC

“Congratulations to the IR professionals who recently passed the IRC exam,” said NIRI President and CEO Gary A. LaBranche, FASAE, CAE. “They should be commended for their commitment to the IR profession and for making this investment in their careers.”

The IRC program is dedicated to advancing the practice of investor relations and the professional competency and stature of IR professionals. 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 for the June 20-27, 2020, testing window. Information and applications are available on NIRI’s website: www.niri.org/certification. April 25, 2020 is the initial application deadline for the June exam. [IR](#)

Ruth Venning, IRC, Named NIRI Chair-Elect



The NIRI Board of Directors elected Ruth Venning, IRC, as chair-elect of NIRI for 2020.

She is executive director, investor relations at Horizon Therapeutics and a longtime NIRI volunteer leader who has extensive experience in investor relations, corporate

communications and crisis management.

Before joining Horizon Therapeutics, she was director of investor relations for 10 years at Hospira, Inc. She launched the company's proxy outreach program in 2010 and spearheaded Hospira's adoption of the notice-and-access distribution model in 2009, ahead of the adoption curve for practices that now are standard in investor relations.

Earlier in her career, Venning was director of corporate relations for Telephone and Data Systems, Inc., worked at United Airlines in financial communications and investor relations roles, and directed corporate communications for Calamos Asset Management.

Venning began her career in Japan, working primarily for the Japanese government in Japan.

She holds an MBA in finance from Lake Forest Graduate School of Management, a master's degree in corporate communications from Northwestern University, and a bachelor's degree in Japanese studies from Earlham College. She is an adjunct instructor in Northwestern University's Integrated Marketing Communications graduate program.

Venning has served on the NIRI Board of Directors since 2018. Long active in the NIRI Chicago chapter, she also served on the NIRI Chicago Board of Directors for many years, including as the NIRI Chicago president in 2007 and chairman in 2008. She also is a member of the National Association of Corporate Directors (NACD) and Women in Bio.

She succeeds Melissa Plaisance, group vice president, Treasury & IR, at Albertsons Cos., who has assumed the role of NIRI Board chair. [IR](#)



NIRI Forms Strategic Partnership with Taiwan Investor Relations Institute

NIRI and the Taiwan Investor Relations Institute (TIRI) announced a new strategic partnership that will bring the programming and education initiatives of both organizations closer together.

This partnership is not only designed to promote awareness of the IR profession and improve the standard of IR excellence in Taiwan, but also make it easier for TIRI members to access key educational and informational resources, including the IR Competency Suite and the IR Body of Knowledge, which are the primary reference tools for the NIRI Investor Relations Charter (IRC®) credential.

This collaboration will also allow Taiwanese IR practitioners to earn Professional Development Units (PDUs) at NIRI and TIRI educational events, including forums, conferences, and webinars. The PDUs are used to quantify approved learning and professional service activities required to maintain the IRC credential.

"TIRI has hosted more than 70 courses and lectures since its establishment last year, and actively engaged with NIRI and IR organizations in the Asia-Pacific region," TIRI Chairwoman Fu-Fu Shen said. "We are honored to work with NIRI in IRC promotion and NIRI knowledge translation to provide international IR vision for local IR practitioners."

"Our partnership with TIRI will benefit IR professionals and elevate standards of practice," said NIRI President and CEO Gary A. LaBranche, FASAE, CAE. "Together, NIRI and TIRI will advance the development of the IR profession in Taiwan for years to come." [IR](#)




NIRI Forms Strategic Partnership with Mexican National Investor Relations Institute

NIRI and the Mexican National Investor Relations Institute (INARI) announced a new strategic partnership that will bring the programming and education initiatives of both organizations closer together.

This partnership is not only designed to promote awareness of the IR profession and improve the ever-increasing standard of IR excellence throughout North America, but also to facilitate NIRI's Investor Relations Charter (IRC®) certification in Mexico, the most recognized IR certification worldwide. INARI members are now able to earn Professional Development Units (PDU) used to quantify approved learning and professional service activities required for IRC renewal at NIRI and INARI educational events, including forums, conferences, and webinars.

INARI Founder and President Maximilian Zimmermann, IRC, said, "We are excited to be strengthening our relationship with NIRI, which is not only a bastion for the IR professional in the United States but is respected around the world. In many respects, NIRI served as inspiration for the creation of our own IR association and we are proud to be ambassadors for the IRC certification in Mexico."

"Our strategic collaboration will benefit IR professionals and elevate standards of practice," said NIRI President and CEO Gary A. LaBranche, FASAE, CAE. "Together, NIRI and INARI will advance the development of the IR profession for years to come." 

ON THE MOVE



DiRaimo

Carol DiRaimo retired as chief investor relations and corporate communications officer at Jack in the Box. She joined the company in July 2008 as vice president of investor relations and corporate communications and was promoted to her most recent role in April 2017. She also spent 14 years at Applebee's International, where she held several positions including vice president of investor relations.

DiRaimo spent time mentoring Rachel Webb, Jack in the Box's director of investor relations and strategic analysis, for the last year. Webb is now the company's primary IR contact following DiRaimo's retirement.

DiRaimo was recognized by *IR Magazine* as the best investor relations officer (small to mid-cap) in 2004, 2005, 2006, 2007, 2011 and 2017 (shared with Julie Dewey). The IR programs at Applebee's and Jack in the Box were also recognized numerous times during her tenure. Di Raimo also served on the NIRI Board of Directors from 2007-2011.




Loxam

Teri Loxam is the new chief financial officer at SQZ Biotechnologies. She has more than 15 years of experience in the pharmaceutical industry and most recently served as senior vice president of investor relations and global communications at Merck & Co. Before that she was vice president of investor relations at IMAX Corporation. Loxam also spent 11 years at Bristol-Myers Squibb.



Kroll

Centene Corporation Senior Vice President, Finance and Investor Relations Edmund Kroll will retire from the company effective April 30, 2020. Since joining Centene in May 2007, he has managed the company's relationships and interactions with analysts and investors. Kroll has also served as president and a member of the board of directors of the St. Louis chapter of NIRI.

Lambert & Co. acquired Casteel Schoenborn Investor Relations & Corporate Communications. The deal marks Lambert's seventh transaction and second since November 2019. The transaction advances Lambert's strategy to be a leading integrated investor relations and public relations firm for emerging and established market leaders through organic growth, acquisitions, and innovation. The Casteel Schoenborn team is joining Lambert as part of the transaction, with principals Lynn Casteel and Jeffrey Schoenborn named managing directors. 

SENIOR ROUNDTABLE PROFILES

NIRI Members Speak About Value of Senior Roundtable



Many experienced investor relations professionals are members of the NIRI Senior Roundtable (SRT).

The NIRI Senior Roundtable was formed in November 1994 to respond to the needs and interest of NIRI's growing number of senior-level members. SRT membership is capped at 250 members to maintain an informal, small group atmosphere requested by this group of leading IR professionals who each have at least 10 years of experience in the profession.

Benefits include:

- Annual SRT Meeting in late November or early December to discuss trends and issues in the profession mixed with engagement time with other senior-level IROs.
- Local networking opportunities held in cities across the United States.
- Senior Roundtable-only eGroups forum where SRT members can post questions to peers, share documents, and connect one-to-one or one-to-many.
- Special rates on NIRI education programs, including a discounted registration rate for the NIRI Annual Conference.
- Special programs at the NIRI Annual Conference that offer more networking time with peers.

If you have at least 10 years of experience in the IR profession as an IRO and/or IR counselor, visit www.niri.org/niri-community/collaborate/roundtables to learn more about the benefits and application process to join SRT.

To provide more insight into SRT, *IR Update* interviewed two Senior Roundtable members to learn more about the value they derive from participation and some of their professional experiences.



Rich Yerganian

**Vice President of Investor Relations,
Cerence, Inc.**

Years in Investor Relations: 20

Years as NIRI Member: 19

Years as SRT Member: 5

What have you found most valuable about your membership in the SRT? The opportunity to network with

some of the most experienced professionals in the field of IR. For most of my career I've worked for a company with a market cap of less than \$600 million. While there are different challenges specific to being a small-cap company, there are many issues that arise in IR that cut across all size market caps. Having a diverse network of colleagues to discuss these issues, bounce off ideas, seek advice, or learn from has been an invaluable part of being in the SRT.

If you could have had another career what would it have been? While in IR I commented about the lack of

sales coverage in a specific geographic area to our CEO. He agreed and then asked me to add that to my IR responsibilities! Three years later I was running our North American sales team. Two lessons came from that: one, don't complain unless you are prepared to do something about it; and, two, always be open to new opportunities to expand your experiences. Versatility adds to your value. The transition from IR to sales and then back to IR was seamless because when you get right down to it, both revolve around engaging with people and that is the part of IR I enjoy the most. If not for IR I would have enjoyed a career in sales.

What advice would you give a person starting out in IR? First and foremost, take advantage of all NIRI has

to offer. Always be ready, willing and able to take on new responsibilities, you never know where they may lead. Finally, don't be afraid to innovate and take risks. Even if you try something new and it doesn't work out, you learn from the experience.

What is something surprising about you that no one knows? I've been playing basketball on Friday nights for 25

years and at 61 years old I am probably a better player now than I was at age 20. The age range of the group I play with is 35 to 73 years old!



Jenny Kobin

Partner, Investor Relations Advisory Solutions

Years in Investor Relations: 27

Years as NIRI Member: 24

Years as SRT Member: 14

Why did you join Senior Roundtable? To attend the yearly Senior Roundtable Conference in December.


What have you found most valuable about your membership in the SRT? Valuable interactions with highly experienced, engaging peers and access to programs on emerging IR and capital markets issues.

If you could have had another career what would it have been? I love to travel and visit new places, so I think it would be interesting to be a travel show host or plan group yoga retreats - except I'm not eating any weird foods! And I would never go to New York City again. Apologies for those who live there, but after having traveled there 100+ times for work, I'm ready for some new places!

What is the best/worst thing to happen in your career? Being an active participant in NIRI has been the best part of my career. As my career progressed through different companies and various industries, the one constant was always NIRI. I can count on NIRI to keep me updated on the always-changing regulatory and investment environments and I know my

NIRI colleagues are there for me during good and bad times. I recently went through treatment for breast cancer, which involved 12 months of surgeries, chemotherapy, radiation, and 80+ doctors' appointments. During that time, I was overwhelmed and humbled by the support that my NIRI friends provided during a challenging time. NIRI is a professional network and personal support system.

Is there a memorable moment you've experienced as part of the SRT? I have so many great memories from years of attending the SRT Annual Meeting. In addition to the interesting programs, perhaps learning to two-step with SRT colleagues at the Marriott Camelback Resort in Scottsdale, mixing margaritas for a SRT team competition, or wine tasting with instructions from one of our members who owns a winery! As you can see, there are a few themes that stick out for me: fabulous friends and fun!

What do you believe is the biggest opportunity for IROs today? IR executives can be valuable members of the senior management team by providing input and advice on key areas such as capital raising, messaging, strategic planning and risk management. I look forward to the continued evolution of our profession in which the IR role is not stuck under the finance function. I want to see the role viewed as a "market cap creating asset" rather than a "non-revenue producing cost center." 

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Cannabis on the Market

Some might say it's high time for cannabis companies to develop IR programs to handle growing investor interest. Well, it's happening and professional IROs are dealing with critical issues in this unique sector.

BY EVAN PONDEL



To understand the full scope of the cannabis industry from an investor relations perspective, it is necessary to go directly to the source, or shall I say, local dispensary. After all, the frenzy surrounding the industry is a result of consumer interest in the product.

Full disclosure: I did not eat, smoke, or vape any cannabis to conduct interviews for this story. I did, however, peruse the aisles of Atrium, a cannabis dispensary in Woodland Hills, California, to understand how cannabis products are going the way of wine, beer, or any mainstream substance that people consume recreationally.

After all, the legal cannabis market in the United States is projected to reach more than \$23 billion in consumer spending by 2022, according Arcview Market Research and BDS Analytics.

In many ways, visiting a dispensary parallels the excitement and challenges the industry and its investor relations professionals are facing. There are significant barriers from a legal perspective, which coincide appropriately with the Fort Knox-like security at the front door of Atrium.

Then there is the kid-in-a-candy store adrenaline rush of entering the dispensary, which is similar to the euphoria investors have likely felt with certain cannabis stocks.

One such stock was Medbox, which supposedly manufactured vending machines that dispensed marijuana products. The California-based company's stock ranged between \$2 to more than \$200 per share between 2012 and 2014. The Securities and Exchange Commission (SEC) took notice and charged the company in 2017 with falsely touting "record" revenue numbers to investors.

Much has changed since the initial contact high from Medbox. Individual investors are more discriminating when it comes to investing in cannabis-related stocks, mainstream investment banks are writing research on marijuana companies, and more institutional investors are taking the industry seriously.

To provide insight on the cannabis industry from an investor relations perspective, *IR Update* magazine spoke with Joshua Schneiderman, an attorney with Snell & Wilmer in Los Angeles, and Lynn Ricci, director of investor relations for Florida-based "seed-to-sale" Trulieve Cannabis Corporation.

The Legal Perspective

IR UPDATE: What risks do you see from an investor or general communications perspective for U.S.-based cannabis companies?

SCHNEIDERMAN: For now, there is value in focusing on not making yourself a target in this industry. As far as we've come in terms of a shifting regulatory landscape, there are still many lawmakers, regulators and law enforcement personnel who are strongly opposed to the cannabis industry. While public relations is important to promote your brand, it's important to balance the desire for attention with the risk of making yourself a target.

Cannabis remains illegal at the federal level, and when a company puts itself out there (either by aggressively advocating for policy change

or pushing boundaries with advertising and PR generally), it runs the risk of making itself a target for a federal prosecutor looking to reinforce what is, in fact, the bottom line: Under federal law, this is an illegal industry.

IR UPDATE: What types of communications or PR would be useful for cannabis companies?

SCHNEIDERMAN: Over time, having a crisis communications team in place is going to be critical for cannabis companies. I believe we are going to see a significant uptick in the number of product liability claims targeted at cannabis companies. These claims could stem from any number of circumstances, including contaminated product, malfunctioning devices such as vape pens, or mislabeled products.

When these claims hit, they may be followed by product recalls. In any event, there will be a flurry of negative publicity, and effective and strategic communications with vendors, consumers and the general public will be a key component to weather the storm.

IR UPDATE: How would you classify the current business environment for cannabis companies? Is it still a “Wild West” mentality or are you seeing more tenured management teams surfacing?

SCHNEIDERMAN: I can generally only speak to California, where I have a good deal of familiarity, but I would say it is becoming much more tame. When commercial cannabis became legal in California at the start of 2018, there was a race for companies to procure coveted licenses and the regulators largely seemed overwhelmed and playing catch up.

As that process continues to normalize and those operators who desire to comply with the regulations have generally taken meaningful steps to do so, regulators have been able to shift their attention to enforcement against the black market.

While there is still a significant black market in California, it is starting to dwindle as this process unfolds. We have a long way to go, but it's moving in the right direction. That being said, I would describe the business environment generally as highly competitive with many players trying to enter. I think a lot of that is fueled by the sky-high

valuations we are seeing for some of the more prominent brands, often in companies that are far from profitable, and that's leading other investors to jump on the bandwagon out of fear of missing out, often without conducting adequate diligence or having any meaningful basis to justify the valuation they are buying in at.

At the high end we are definitely seeing more tenured management teams surfacing, but there's still no shortage of nascent businesses run by young entrepreneurs who know a lot about marijuana but are still figuring out how to run a business.

Cultivating Credibility

IR UPDATE: How do you think the role of investors relations officer is different for cannabis companies versus companies in older industries?

RICCI: While the cannabis industry is on an incredible growth trajectory overall in the United States, there is still significant fragmentation on a state-by-state basis. Currently, state legislatures and regulatory agencies are operating independently of the objectives and considerations of either the federal government or other states.

Until a single regulatory body is established at the federal level, U.S. cannabis companies will continue to operate under this layer of complexity, having to consider the varying degrees of medical and recreational acceptance, regulatory infrastructure, and political and social stances when executing business and strategic objectives.

This dynamic and ever-evolving cannabis landscape also adds many unknowns for the IR professional, such as when cannabis-related legislation will be passed at a state level and the amount of education required for investors as they try to understand a quickly changing and expanding market.

IR UPDATE: How would you describe the investors you interface with? Are they mostly individual investors or institutional investors?

RICCI: Today, it is split between the two. Canadian investors are more traditional institutional investors that do not face the same legalization issues we have here in the United States. On the U.S. side, I spend a fair amount of time with individual



Schneiderman



Ricci



retail investors, as well as small family offices and hedge funds. It's a higher percentage spent with smaller and retail investors than in my past roles where most of my time was spent with institutions.

The smaller firms or retail buyers are in a better position to buy stock since the bigger, traditional U.S. firms are often blocked by their compliance offices. That's not to say that the larger firms are not actively educating themselves and preparing for a change in the United States. We see that work being done today where there are some U.S. firms finding ways to participate early in this exciting new market.

IR UPDATE: How do regulations governing the cannabis industry affect your role as IRO?

RICCI: Primarily, it is U.S. federal law around marijuana and its designation as a Class 1 controlled substance. This has an effect on how banks and financial institutions interact with cannabis companies. In the U.S. capital markets, for instance, cannabis companies with U.S. operations are unable to list on the Nasdaq or NYSE.

As a result, they need to look to Canada to raise the funds needed to continue fueling the incredible growth necessary to address demand. As an IRO, this creates instances where we are cautious on marketing, disclosures, and communications. In addition, as a company traded on the Canadian Securities Exchange (CSE), Trulieve reports in IFRS vs GAAP, and has slightly different regulatory filings to be aware of than what we have in the United States. Because of this, awareness of Canadian practices and requirements is vital.

IR UPDATE: What is the biggest lesson you've learned as an IRO in the cannabis industry and what would you say to people pursuing IR careers in the cannabis industry?

RICCI: The principles are the same: Building good relationships with investors, shareholders, and analysts and delivering clear, transparent communications. Setting correct expectations

in the market and maintaining credibility. Not jumping into the industry just to ride the wave but maintaining your integrity and professionalism by looking toward cannabis companies with good operational strategies that will deliver shareholder value.

Trulieve is the leader in the Florida market and is expanding into six states by year-end, and we are achieving this while remaining profitable. We are proud of our ability to bring good business sense and financial discipline to what has been described as the wild, wild west of cannabis.

Our shareholders are happy to see that we are building a good strong foundation for future growth, which we have achieved by applying these basic principles to the industry and not being a cowboy.

IR UPDATE: What challenges do you face as an IRO in the cannabis industry?

RICCI: One of the biggest challenges facing the industry is what impacts IROs the most: legalization. I personally believe that it is when, not if, federal decriminalization happens. Given the state-by-state public support, industry growth, and capital markets enthusiasm to participate in this new market segment, the financial benefits are too significant to ignore.

Opening the banking and capital markets, establishing laws and infrastructure, improving financial expectations of U.S. publicly traded companies, and leveling the playing field state by state will allow IROs to effectively face the market and establish IR programs that will help shareholders understand and participate in the cannabis industry. [IR](#)

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Using Your Proxy to Tell a Compelling Story

**Proxies have come of age
as effective communication
tools to influence investor
perceptions in a positive way.**

BY MOLLY DORAN

Proxies have become sexy. Once considered just another perfunctory compliance document, proxy statements today are an opportunity for companies to show they are listening to and acting on investor concerns.

Beyond satisfying SEC disclosure requirements, companies are using their proxies to clearly explain where they are going and how they are going to get there.

What is our vision and our strategy to achieve it? How do we decide how we will pay top executives? Who sits on our board and why? How do we manage people? What are we doing about climate change and increasing gender equality?

To respond to these and other critical issues, leading companies are spending more time and effort to turn their proxy statements into a vehicle to tell their story and build confidence and trust with investors.

As regulators and investors demand more transparency, corporate messages are attracting the scrutiny of a growing number of audiences. To address these challenges and meet the demands of all stakeholders, corporate investor relations and legal teams are tasked with developing communications that cater to a diverse readership in a way that is both clear and accessible.

An annual review of the top U.S. publicly traded companies' proxy filings shows the recent changes in how companies are approaching corporate disclosure and how they have evolved to provide greater transparency for readers. There has been significant progress in the topics being addressed, the depth of detail provided, and the design and structure of reports to ensure clarity.

Let's explore some best practices for creating an impactful, reader-centric proxy statement that addresses stakeholder expectations.

Using Structure for Simplified Reading

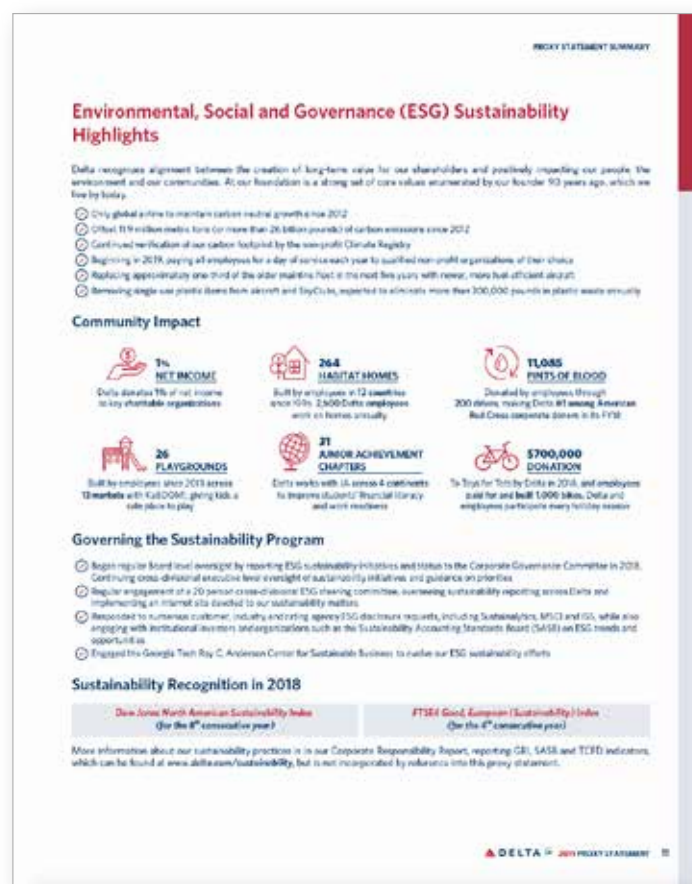
Labrador's 2019 proxy trend report found that the proxy statements of the S&P 250 companies averaged 86 pages in length, up three pages from 2018. With investors pressed for time, it is crucial to have a well-structured document that allows

them to quickly locate the information they need and digest the content.

Document Cover Design

The cover is the most important page of the proxy statement, as it is the first thing the reader sees. It is the earliest opportunity to present brand identity or allow company leadership to engage with readers. It is also good practice to utilize the inside of the front cover instead of leaving it blank. Design this space to effectively offer an easy-to-find table of contents or highlight the company mission and values. Out of the top S&P 250 companies, 13 percent capitalized on this space in 2019.

Companies are also increasing the inclusion of a designed back cover to their proxy that notes important information, including directions to the annual meeting, sustainability highlights, or links to additional publications.



Delta 2019 Proxy Statement (page 11) - ESG Highlights

To address increased public interest in board makeup and responsibilities, companies are providing additional details in their disclosure and often rely on graphics to make the information digestible and easy to locate.

Summaries

In 2013, only 36 percent of companies included a proxy summary. That number has grown over the years to 73 percent, which reflects a significant commitment to providing more understandable and transparent proxies, as well as supporting readers who prefer to skim the document.

A well-thought-out summary should focus on the key information a company wants readers to retain without providing too much detail. To minimize unnecessary details in this short section, companies can include page references where additional information is available, when appropriate. The summary should highlight major themes and notable company updates such as changes to the compensation program, governance practices, or the board. For example, Delta Air Lines, Inc. highlighted environmental, social and governance (ESG) sustainability issues within its 2019 proxy statement summary (see sample in this article).

It is also good practice to include company background and corporate strategy details in the summary, as not all investors have a strong understanding of the overall company. This information can outline how and why the company was founded, how and why board members were chosen, and how the compensation program is aligned with company performance.

Letters from Leadership

Whether on the cover page or near the front of the document, positioning a letter here from company leadership is an easy way to engage shareholders on specific topics of relevance for the year and sets the tone for all information thereafter. Of the companies reviewed in the 2019 proxy study, 39 percent included a letter with substantive information from the chairman or CEO as an easy way to connect with readers and update them on company performance and news.

Headers & Footers

While providing identifiers at the top or bottom of a page may not seem relevant to the structure of a proxy, identifiers' impact for readers can be significant. Having details to show what they

are reading and where they are in the document can limit confusion and help the reader to better navigate the document.

Using Graphics to Highlight Key Information

It has become a standard best practice to add visual elements to proxy statements, including the use of graphics, charts, and images. Again, readers often lack time to thoroughly review lengthy documents, and graphics are essential for helping them to easily locate the information and metrics they need.

As the interests and demands of investors evolve, so will the number and types of required graphic information. In the Labrador 2019 proxy study, four key areas revealed increased use of visual support:

- Board breakdown and accountability
- Compensation
- ESG issues
- Human capital management (HCM)

The rise in graphic usage for these areas reflects the heightened investor scrutiny of these topics in recent years.

Corporate Governance

To address increased public interest in board makeup and responsibilities, companies are providing additional details in their disclosure and often rely on graphics to make the information digestible and easy to locate.

- **Board photos.** Of the S&P 250 companies reviewed in the 2019 proxy study, 87 percent included director photos in their document. This is a simple yet effective way to make a document more attractive while also wordlessly highlighting diversity.
- **Diversity.** The SEC now requires disclosure of how diversity factors into the board nomination process. Companies with a diverse board composition should look to highlight this information with graphics. The 2019 proxy study found that 34 percent of companies included a graphic highlighting age diversity on their board (up from 20 percent in 2018), and 50 percent of companies added a visual noting

BOARD ATTENDANCE

	NUMBER OF MEETINGS HELD	AYOTTE	CALHOUN	DICKINSON	GALLARDO	MULLENBURG	OSBORN	REED-KLAGES	RUST	SCHWAB	UMPLEBY	WHITE	WILKINS
Board	6	5	6	6	6	6	6	6	6	6	6	6	6
Audit	10			10		9	10						10
Compensation & Human Resources	6		6					5				6	
Public Policy & Governance	6	6			5				6	6			

97%

Attendance for incumbent directors for 2018

Caterpillar 2019 Proxy Statement (page 10) - Board Attendance Table

gender diversity (up from 41 percent in 2018).

- **Meeting attendance.** Companies are required to disclose the number of board members attending at least 75 percent of board meetings. The 2019 proxy study found that 36 percent of companies, including Caterpillar Inc., through the use of a chart (see chart in this article), went beyond disclosure requirements by providing a visual showing the exact meeting attendance for each board member. Going beyond disclosure requirements to offer a precise figure grants better transparency and inspires investor trust.

Compensation

The CD&A section is the most read portion of the proxy statement. To maintain stakeholder confidence, companies need to make sure they are explaining the structure and philosophy of their compensation system completely, attractively and truthfully. Using graphics and different colors in this section helps readers to determine the hierarchy of relevant information and understand the big picture quickly. In 2019, the following nine S&P 250 companies broke down compensation in cash versus stock: Accenture, BlackRock, Coca-Cola, Cognizant Technologies, CVS Health, Goldman Sachs, PepsiCo, UPS, and Zoetis. However, this number should start to grow as companies work to improve how they present pay mix structure and reasoning.

ESG and HCM Reporting

ESG issues have become increasingly important to stakeholders. Greater use of graphics related to

sustainability, as well as the increase in standalone sustainability reports likely reflects this interest. The 2019 proxy study found that 25 percent of companies currently include graphics in the ESG section of their proxy, a significant increase from 6 percent in 2018.

While currently unregulated, disclosure of HCM is of growing interest to investors as they look to corporations to help address societal concerns. Only 81 companies in the top S&P 250 addressed HCM in their 2019 proxies. However, this topic is expected to grow in interest in 2020 as workforce diversity, gender pay equity, and employee retention continue to be major topics in the national conversation.

Going Forward

As we move into a new decade, proxy statements will continue to grow in length as investors demand disclosure on a widening range of topics. As the proxy increases in size, companies will need to strive to be innovative in addressing new demands through the use of visuals and strategic organization, making their disclosure more reader-centric and accessible to all. The more transparent the disclosure, the greater its ability to inspire trust. [IR](#)

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The more transparent the disclosure, the greater its ability to inspire trust.

ESG Rating Agencies Are Here to Stay

In today's socially conscious market environment, understanding and working with ESG rating agencies is essential. Learn how to ensure your company is getting the credit it deserves.

BY ALEXANDRA WALSH

“The American dream is alive, but fraying. Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term.”

Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co. and Chairman of the Business Roundtable

Jamie Dimon made this comment in conjunction with the Business Roundtable's late summer 2019 announcement that it had released a new “Statement of the Purpose of a Corporation.”

Each version of the document issued since 1997 had endorsed principles of shareholder primacy – that corporations exist principally to serve shareholders.

The new statement supersedes previous statements and outlines a modern standard for corporate responsibility.

The revised statement was signed by 180 of Dimon's fellow CEOs who committed to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities, and shareholders.

Battling Cynicism

Much of the media coverage following the Business Roundtable's 300-word statement leaned towards the cynical. *The Washington Post* noted the statement offered sparse detail and wondered how success might be measured in a stakeholder-driven approach to capitalism.

One truth is certain and beyond cynicism – there has been a significant development of sustainable and responsible investment during the past 10 years.

Investors, shareholders, government agencies and ratings firms are requesting detailed information about financial performance and about environmental, social and governance (ESG) aspects of companies, which has become part of their competitive strategy.

Rise of ESG Rating Agencies

These factors have given rise to the inevitable appearance, and now growth, of ESG rating agencies.

ESG rating agencies scrutinize businesses and assess corporate sustainability performance by using their own research methodologies. This expertise has turned the agencies into a key reference for companies, financial markets, and academia in terms of corporate sustainability assessments.

Consequently, the sustainability rating market has also grown considerably during the past decade.

Investors Driving Change

At this juncture, it might be considered a moot point how an American CEO really feels about no longer putting profit ahead of all other stakeholder interests because investors are increasingly taking a broader view of what drives corporate success.

Jonathan Bailey, head of ESG investing at Neuberger Berman, notes that in 2015, about 5 percent of inquiries pertained to ESG – last year it was closer to 50 percent.

“We're still getting fewer ESG inquiries from U.S. investors than European or Australian investors, but those markets exist in a different regulatory and political climate,” Bailey points out. “Now most of the investment consultants who advise funds are asking about ESG – there are changing expectations that go far beyond whether a fund is being labeled sustainable or not.”

“There is a fast-growing demand for the product because companies that have ESG integration are asking for it,” says Elizabeth Saunders, partner, Clermont Partners, LLC. “Demand is coming from external clients requesting portfolios be created for them that are sensitive to ESG issues.”

Saunders says if an investor has an option to invest in an ESG fund with the same Morningstar Rating as another fund, they'll pick the ESG fund.

“Those investors believe a company with stern ESG protocol is a safer/lower risk investment and believe returns in these integrated funds are the same as ESG funds,” she notes.

CEO Attention to ESG

Every CEO should be paying attention to ESG, says Dan Nielsen, head of ESG and responsible investing and senior portfolio specialist at Great Lakes Advisors.

Nielsen argues that when ESG ratings are based upon an assessment of material ESG issues – that is, the non-financial issues that might have a financial impact on the company's bottom line – CEOs should absolutely be aware of their company's ESG rating.

“For investors, there is a strong business case for incorporating an assessment of material ESG issues into an investment analysis,” he declares. “Doing so can yield additional insights that help improve investment decision-making with the aim of improving risk-adjusted returns.”

“For CEOs, managing material ESG risks and opportunities can create competitive advantages by lowering costs, improving efficiency and productivity and generating new sources of revenue, all issues that CEOs should be focusing on.”

Competing ESG Rating Agencies

With a proliferation of ESG rating agencies, how does an IRO know which agency to follow or whose data to track?

Beau Daane, a sustainability professional for 15 years, says the ESG rating agency an IRO should follow depends on their own company's industry sector. As an example, he notes that the rating agency CDP is laser-focused on energy and water use.

Daane's list of ESG rating agencies that he considers the most influential data providers is shown in the sidebar in this article.

“Evaluate what your peer companies are doing, what issues they identify as material, and how they are communicating strategies and performance on those issues,” Nielsen recommends.

He also advises that if they haven't already, IROs should familiarize themselves with SASB (Sustainability Accounting Standards Board), founded in 2011 to develop and disseminate

sustainability accounting standards. (See the diagram in this article for SASB sustainability topics.)

“Unlike financial accounting standards, which can be uniform for all companies, sustainability accounting standards need to recognize which ESG issues are relevant, which varies across industries. That is why SASB created a unique list of material ESG issues for each of 77 industries,” Nielsen notes.

Gregg LaBar, senior managing director, sustainability communications at Dix & Eaton, suggests that IROs start by asking their largest investors who they rely on for ESG data and by paying close attention to the what questions are submitted to their IR and corporate governance teams.

Correcting Errors

Saunders points out that two of the most influential rating agencies, MSCI and Sustainalytics, both provide companies they cover with a free full report.

“Start there – get a copy of that report and figure out if there are errors, perhaps updates you provided that the agency didn't catch,” says Saunders. “Identify those ESG areas where the company is weakest and begin an internal dialogue at your company to decide what the fix will be.”

Saunders says that fix might simply be making the right internal report public. “The customer service teams at the rating agencies will correct errors, but they don't always work quickly, so you have to create a space in a public forum that disproves the error.”

Bailey says most ESG rating agencies will send a summary of the information they are working from to determine a company's ratings to the company in question.

“Some aspects of the report might seem a little subjective – is there a safety plan or not, have there been safety incidents or not,” Bailey explains. “But when it comes to elements like products and services aligning with clean technology for instance, your company might be producing a component essential to a product aligned with clean technology but it might not be easy to see that ball bearings can be applied in that way.”

Bailey says you have to show the path and tell the story and ensure that the information is updated in your earnings report and on your website.

Nielsen says most companies are not aware that Sustainalytics and MSCI will make reports available to the company they cover every time the report is updated.

“There are a lot of reasons companies might not know who will see their report: it might not be getting to the right person or isn't being recognized for what it is,” Nielsen suggests.

Nielsen points out that most ESG rating firms rely only on

Beau Daane's List of Most Influential Data Providers

Bloomberg ESG Data Service

www.bloomberg.com/professional/solution/sustainable-finance/

Dow Jones

Sustainability Index
www.robecosam.com/csa/indices/

ISS

www.issgovernance.com/esg/

MSCI ESG Research

www.msci.com/research/esg-research

RepRisk

www.reprisk.com

Sustainalytics

www.sustainalytics.com/esg-ratings/

Refinitiv (Blackstone and Thomson Reuters)

www.refinitiv.com/en/financial-data/company-data/esg-research-data

CDP

www.cdp.net

publicly available information. When information is not available, some raters will penalize a company while others might assign an industry average score. And, there are instances when companies determine that the sought-after information cannot be publicly disclosed.

“The company might disagree with the rating agency’s methodologies, such as what issues the agency thinks are relevant, but the information populating that methodology can be corrected if mistakes are found,” Nielsen says.

LaBar adds, “Ratings organizations are generally doing a good job, but they’re conducting a relatively quick scan of your information and you know your company much better than they do. If you care about your company’s ratings, you should be engaging with the raters to get the information right – or accept the consequences if the information is inaccurate or unavailable.”

“Don’t fixate on errors in the data the agencies are reporting,” Saunders warns. “Typically, if an agency gives a company a failing grade, it’s because the company chose to not make certain informa-

Starbucks Issues Third and Largest Sustainability Bond

In May 2019, Starbucks issued a \$1 billion Sustainability Bond, the largest the company has issued to date. It follows two previously issued Sustainability Bonds in 2016 and 2017.

As with the other two Sustainability Bonds, funds will support Starbucks ethical coffee sourcing and its Greener Retail initiative.

A portion of the funds will also support Starbucks’ partnership with responsAbility Investments AG, an asset manager in development investments, on a \$20 million investment to provide debt financing to coffee producer organizations in Latin America, Africa, and Asia to support the operations of coffee farmers.

Starbucks reported that its latest Sustainability Bond attracted significant investor interest and was oversubscribed.

The company noted the bond illustrates a trend toward heavier interest from investors in its socially and environmentally focused projects – in this case supporting coffee farmers and leading in green retail – and added that Starbucks’ leadership in social and environmental responsibility is a defining element of who the company is.

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tion public. So the first thing companies need to do to improve their ESG rating is to publicly disclose more ESG information.”

The Path to Better Ratings

Nielsen believes disclosure is always the best practice for a company.

“I want to hear from the company what they identify as material ESG issues, how they are impacted by those issues, what initiatives and strategies are underway to manage those issues, and what has been the performance of the company in implementing those initiatives.”

Nielsen notes that when a company doesn’t disclose ESG information that investors think is material, they will go to other sources. “It’s always good for a company to tell its own story. When they don’t, we have to incorporate more assumptions into our analyses, which makes the investment riskier.”

Nielsen warns IROs not to let perfect be the enemy of good. “Not getting it right 100 percent of the time is better than no disclosure at all. I’m looking for evolution in a company’s ESG reporting – a company gains credibility for beginning to report on ESG issues and expanding that reporting over time.”

To ensure the company is fully disclosing all ESG data, Nielsen suggests starting with the company’s sustainability department, if there is one, to see what the company is already doing.

“The relevant data may not be framed in such a way that makes it easily recognizable to investors – the company might be promoting a whole list of initiatives targeted at a large group of stakeholders when, as an investor, I’m only interested in the financial performance of the company and the ESG issues im-

pacting that performance,” Nielsen explains.

Bailey says IROs need to distinguish between what investors are looking for and what ESG rating agencies are looking at. “Many active managers, such as Neuberger, build our own ESG capability evaluation and what we’re looking at might be very different from rating agencies – IROs should ask active managers what are the most important ESG issues to them and what they would like to see disclosure on.”

LaBar recommends starting with a gap analysis that examines what data the company is tracking and what metrics might be missing that could hurt the company’s score. “Make sure you have relevant KPIs that are measurable and that you’re reporting in the correct units.”

“Also look at what your industry peers are doing and examine how they cover ESG in their annual or CSR report,” LaBar adds. “And make sure you fully understand what institutional investors are looking for and asking about in your space and what it will take to get that information.”

LaBar advises IROs make sure they understand shareholder proposals related to ESG, if there are any. “A lot of governance issues should already be addressed on your website so if that part is missing, just provide links to where investors can find the information.”

Bailey recommends making sure health and safety metrics are right up front on the company website, annual or CSR report. “It doesn’t have to be a 40-page report – it can be one table with the right data points that sends an immediate signal without the need to collect a whole lot of new data.”

Bailey also suggests going to SASB for advice.

“They’re a great team of people, they understand what investors are looking for in terms of ESG best practices, they’ll help companies focus on what’s material and also recommend different approaches to improve disclosure, whether that might be a standalone table, woven into a 10K or in a sustainability report,” Bailey says.

He also urges IROs to join the SASB Standards Advisory Group that pertains to their industry as a way to learn from peers more about framing ESG issues.

LaBar adds, “You need to address the topics that matter most to your company, your investors, and your stakeholders. A materiality assessment, using the SASB or GRI (Global Reporting Initiative) framework, may ultimately be necessary.”

Why It Matters

Daane believes there is more money chasing companies practicing sustainability than there are companies to invest in, and the challenge for IROs is differentiating their company to show they are worthy of that capital.

SASB Sustainability Framework

In developing its standards, the SASB identified sustainability topics from a set of 26 broadly relevant sustainability issues organized under five sustainability dimensions.

Environment: GHG emissions, air quality, energy management, water and wastewater management, ecological impacts. **Leadership and Governance:** Business ethics, competitive behavior, management of the legal and regulatory environment, critical incident risk management, systemic risk management. **Business Model and Innovation:** Product design and life cycle management, business model resilience, supply chain management, materials sourcing and efficiency, physical impacts of climate change. **Social Capital:** Human rights and community relations, customer privacy, data security, access and affordability, product quality and safety, customer welfare, selling practices and product labeling. **Human Capital:** Labor practices, employee health and safety, employee engagement, diversity and inclusion.

As an example, he points to the issuance of Starbucks' recent \$1 billion sustainability bond, which was oversubscribed and brought in dozens of new investors for the company. (See sidebar on page 21).

And, Nielsen adds, "When IROs can articulate to CEOs that investors are making decisions based in part on ESG, it's likely that IRO team will receive additional resources."

"At the end of the day, an investor is going to look at what will move stock and improve company performance. At best, investors are using some of the underlying data from ESG rating agencies but most are concerned more about the substance of what you're doing, rather than the ratings," Bailey says.

The Rating Outlook

Daane notes there is a wealth transfer aspect to the ESG investment movement.

"From the boomers to Gen X to millennials, each generation has become increasingly concerned about companies' environmental and sustainability track records. IROs are only going to see more and more investor questions about ESG."

Daane adds that's also why ESG is such a hot draw in recruiting, retaining and developing young talent in the tight job market. "Increasingly, employees rank the ESG record of a prospective employer as one of their highest priorities."

"Right now, the 'G' in ESG continues to be the most important factor to investors and has been since all the studies came out discussing how important governance is," Saunders says. "And while there's no denying the 'E' and 'S' are becoming increasingly relevant, when, or whether, they become as equally important as 'G,' remains to be seen."

Saunders also notes there are some inconsistencies in data between agencies, which is leading some institutions that have to integrate ESG to become increasingly uncomfortable with their performance being rated out of house. But Saunders warns, "The bar will be higher for institutions than rating companies."

"We conduct our own ESG analysis on companies in our portfolios, and we do our own materiality assessment," confirms Nielsen. "It's a risk assessment tool – if a company gets a low score it reduces how much we're going to invest because it's a riskier investment. And if the score is high, so is our willingness to invest more."

Nielsen says they've been formalizing the company's ESG integration process since 2008, and it has continued to evolve and expand. "Certainly there is increasing interest in the marketplace for ESG, but our primary driver is to incorporate it into our investment analysis because of the impact on risk-adjusted returns."

Purpose and Profit: An Inextricable Link

(Following is an excerpt from the 2019 BlackRock Chairman's Letter to CEOs written by Larry Fink, Chairman and CEO, BlackRock)

Each year, I write to the companies in which BlackRock invests on behalf of our clients, the majority of whom have decades-long horizons and are planning for retirement.

I wrote last year that every company needs a framework to navigate this difficult landscape, and that it must begin with a clear embodiment of your company's purpose in your business model and corporate strategy. Purpose is not a mere tagline or marketing campaign; it is a company's fundamental reason for being – what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them.

Profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked. Profits are essential if a company is to effectively serve all of its stakeholders over time – not only shareholders, but also employees, customers, and communities. Similarly, when a company truly understands and expresses its purpose, it functions with the focus and strategic discipline that drive long-term profitability. Purpose unifies management, employees, and communities. It drives ethical behavior and creates an essential check on actions that go against the best interests of stakeholders. Purpose guides culture, provides a framework for consistent decision-making, and, ultimately, helps sustain long-term financial returns for the shareholders of your company.

"IROs should embrace the opportunity to advance the ball in this ESG space," Daane contends. "In the long run, the company that manages its ESG data well is generally going to be better managed, think beyond quarterly results and be a stronger investment." [IR](#)

INVESTORS CARE ABOUT STRATEGIC RESOURCE ALLOCATION



Making smart decisions about allocating capital to different segments of your business can help drive more investments. An example from a new book, “Curing Corporate Short-Termism,” explains how.

BY GREG MILANO

At the highest level, management teams and boards need to decide between various capital deployment alternatives: debt repayment, cash accumulation, organic reinvestment in the business, acquisitions, dividends and share repurchases, to name a few.

To be successful, more capital should be allocated to business activities where high returns on the incremental investment are expected, and less where it is unlikely to be as lucrative – a process my colleagues and I call Strategic Resource Allocation (SRA).

Many companies underperform due to suboptimal SRA, which often results from too many different, and sometimes conflicting, goals. And few companies have a clear line of sight of where and why long-term value is created and destroyed, which requires the right metrics to clarify market desirability and strategic position.

Markets are desirable when they are growing and participants have an opportunity to differentiate their offering to command attractive levels of growth and rates of return. A company has a strong strategic position when they rank high relative to market competitors on differentiation, which al-

lows them to either command premium pricing or gain market share, or a combination of the two.

Along with this lack of clarity, management decision-making often suffers from an absence of strategic commitment and accountability, and resources end up being “peanut-butter spread” evenly distributed across the organization to play it safe. And since many companies lack confidence in their resource allocation, they avoid delving into too much detail with investors. On top of everything else, they fear being too open, which can tip off competitors about their plans.

But investors understand the importance of this process, and where and how a management team allocates their capital, R&D, and marketing resources informs investors about its priorities. Investors and analysts ask questions at investor presentations and on earnings calls. Even though details may not be published, answers to these questions paint a picture of how well their resource allocation is aligned with the parts of the business where they have the best prospects for earning decent returns.

Many executives consider capital allocation to be an internal matter. But for companies that report segment information, investors can patch together a sense of how well management invests its resources.

Although disclosures vary, it is common to report revenue, operating profit, assets, depreciation and amortization, and capital expenditures. There is rarely much detail on what is included in each amount, so investors are left to make assumptions based on their own understanding of the business, which can sometimes be supplemented by sporadic information acquired through detailed analysis or discussions with management.

For example, say, in the second quarter of 2018, a company acquired a publicly owned company that now resides in one of the segments. If the investor knew the composition of the acquired company's balance sheet at the time of the acquisition, and could also calculate the incremental goodwill and intangibles, they could make estimates of the composition of assets.

This can be supplemented with quantitative

and qualitative information acquired during Q&A with management on earnings calls, at brokerage conferences, and during investor-day presentations. Indeed, many investor relations professionals view part of their role as ensuring analysts and investors get the information they need to build their forecast models of the company.

A Hypothetical Case Study

Consider a company with two operating segments, which we will refer to as Segment A and Segment B. It is fairly straightforward for investors to estimate the rates of return being earned and the reinvestment rates, and they can examine the relationship of these two factors to determine whether management seems to be making the right allocation decisions.

The company reports segment revenue, operating profit, and depreciation and amortization. By adding the depreciation to operating profit, investors can readily calculate an estimated EBITDA and EBITDA margin.

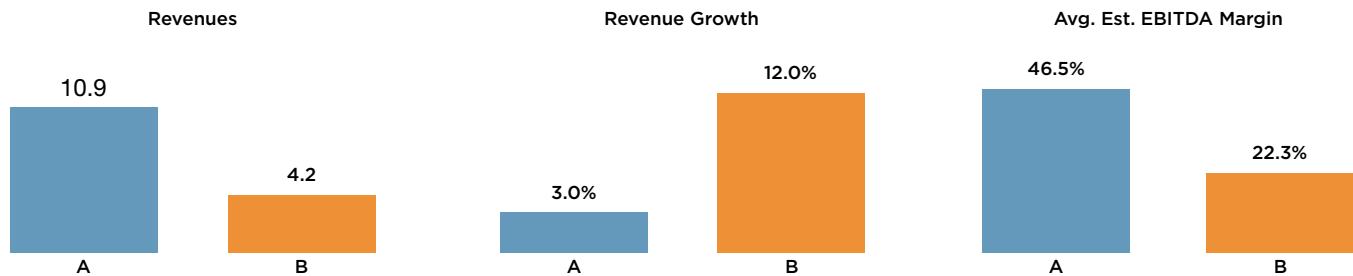
Management generally does not provide tax information, so investors can perform their segment analysis on a pretax basis or estimate taxes to get a general idea of where they earn better after-tax returns. And if there is an “unallocated” line in the segment analysis, investors can choose whether to allocate this somehow to the operating segments – some investors do so, while others may not.

To provide some background on our example, Segment A of our hypothetical company is the original business, and Segment B was acquired about five years ago.

Segment A is more mature than its counterpart, and manufactures, sells, and services equipment and systems used by specialized manufacturing customers. They are the largest player in their market, though they have been losing share in recent years.

Segment B builds and sells equipment, and also rents equipment to customers on an ongoing basis, in a way that is similar to a SaaS business model (in that it involves recurring payments from customers). Management knows the margins of

Figure 1: Segment P&L Analysis (2015-2018)



Segment B are lower, partially because of higher R&D and marketing expenses, but they avoid disclosing this for competitive reasons.

An investor can readily parse the data for the last few years to produce the analysis shown in Figure 1—where we see that Segment A is larger and shows higher estimated EBITDA margins than Segment B, though its revenue growth is meaningfully lower.

On quarterly earnings calls, the CEO and CFO often emphasize the high margins in Segment A, and wax on about cost discipline and lean principles. They avoid questions about how much R&D is allocated to each segment, but it is quite possible that the company's performance and earnings power would be more accurately reflected if its high levels of R&D were treated as an investment (instead of an expense).

In our research at Fortuna Advisors, we found that performance measures tend to explain value better when R&D is capitalized, and this also takes the pressure off short-term earnings and holds management more accountable for earning a return on these investments over time.

But since R&D is not disclosed in the segment data, many investors tend to ignore it. To be fair, some pose questions during earnings calls and conference presentations to get a sense of such things, and a review of investor communication transcripts can hint at this information as well.

The stock market has not been kind to the company over the period, and management is somewhat puzzled since they have two healthy businesses and the consolidated company is growing with decent profit margins. What they

may not realize is that investors may be digging deeper and finding out that, although the company is performing well now, management may not be investing in the right areas. To arrive at this conclusion, however, requires the investor to do more homework.

To take the analysis further, an investor can turn to the assets, but information on this subject tends to be limited. Most companies provide one total figure for assets, without any clarity on what is working capital versus fixed assets, and what intangibles might be included.

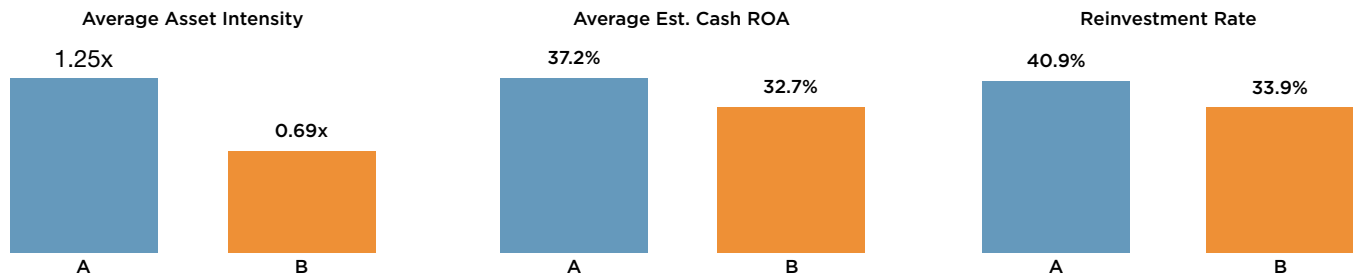
Often the best solution is for investors and analysts who follow a company to dig into other published information and, again, ask questions to get the non-public information needed to build out a more detailed model of business segments.

Although management teams often spend less time discussing rates of return than they should, most investors care deeply about the rate of return the company earns on its investments. They want to invest in companies with management teams that consider such returns when allocating capital.

Management must recognize that in order to achieve the same return on assets, a business with half the profit margin would need to have half the asset intensity (which we define as assets divided by revenue). In a sense, asset intensity tells us the "required margin."

With the segment assets given, investors can calculate asset intensity, as shown in Figure 2, where we see that average asset intensity in recent years has been almost twice as high for Segment A than for Segment B. This, in combination with the estimated EBITDA information, allows investors

Figure 2: Average Asset Intensity, Cash ROA, and Reinvestment Rate (2015-2018)



to estimate an average estimated (pretax) cash return on assets (Cash ROA), which turns out to be slightly higher for Segment A.

Of course, investors can also derive a more traditional rate of return by dividing operating profit by assets. But our research shows cash-return measures better relate to valuation, although ideally we would prefer, for consistency, that the denominator be gross assets, rather than net of accumulated depreciation, but this information is rarely available.

The final graph in Figure 2 shows the “reinvestment rate,” which in this example indicates the estimated amount of capital expenditures and increased working capital, as a percentage of EBITDA. Note that Segment A has generated higher average returns, and management has invested in the segment at a higher reinvestment rate, so on the surface the results may seem acceptable. (Phew!) This may lead management to perceive its sluggish share price as even more of an enigma.

Before going any further, some readers may wonder where in the world investors get data on segment working capital. Such information can be deduced, at least approximately, from the change in assets, capital expenditures, and depreciation. There may be asset retirements, changes in intangibles, or other such items that obscure this analysis, but investors can use their judgment to refine their figures as needed. And if a company doesn’t disclose this information, many investors will simply endeavor to estimate it.

Interestingly, investors can consider how the findings of this analysis relate to the company’s business model. Specifically, in the case of Seg-

ment B, investors can tell that a large portion of the investment is directed at increasing working capital, as more and more equipment is held for rental over time rather than being sold at a point in time.

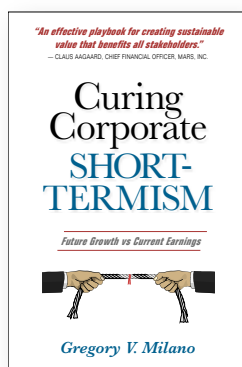
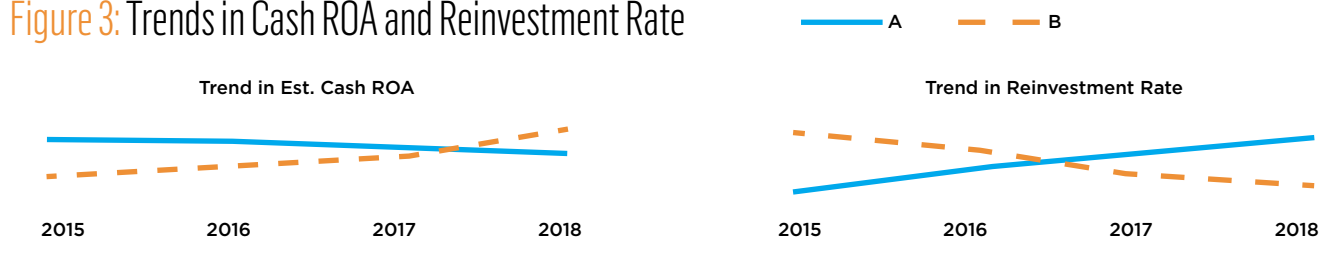
Management of companies that have historically sold equipment are sometimes concerned about switching to a rental model – especially since the immediate impact on revenue and profit is a decline due to the rent payment being significantly less than the sale price that would have been reported in the same period.

But in the rental case, there will be revenues for multiple periods, perhaps as long as five or more years. So the net present value derived from each piece of equipment can be higher than making a one-time sale, although this analysis needs to be conducted on a case-by-case basis.

Again, on the surface it appears management is investing more where the returns have been higher. But when investors examine the trends in these variables, the findings can raise concerns. As can be seen in Figure 3, Segment A has high, but fading, Cash ROA, and the reinvestment rate is rising. In contrast, Segment B’s Cash ROA is on the rise, and was higher than that of Segment A in 2018; but the reinvestment rate has been reduced, and in the last year was substantially lower than that of Segment A.

An incremental Cash ROA can be calculated based on the incremental estimated EBITDA divided by the cumulative investment in capital expenditures and working capital over the period; and this shows a different story compared to the averages presented in Figure 2. Segment A was

Figure 3: Trends in Cash ROA and Reinvestment Rate



Greg Milano is the co-founder and chief executive officer of Fortuna Advisors LLC, a value-based strategic advisory firm. This article is adapted from his forthcoming book, “Curing Corporate Short-Termism.”

barely able to improve estimated EBITDA and earned less than a 1 percent incremental Cash ROA on about \$6 billion in total investment over the period. Over the same period, Segment B delivered about a 70 percent incremental return on less than \$1 billion of investment.

Investors may wonder how much better the results of the consolidated company would be had management increased reinvestment in segment B as its EBITDA skyrocketed, effectively sustaining the reinvestment rate of the segment. Of course, the company could have funded this by investing less, by an equal amount, in segment A, where incremental returns were negligible. They can run “what-if” analyses to simulate such a scenario and can use the results to rally other investors around the idea that management is allocating capital poorly, to the detriment of shareholder value.

What’s more, if they extrapolate this looking forward, they may forecast a meaningful drop in the overall corporate rates of return on capital, as more and more capital is poured into a struggling business, Segment A, rather than into an up-and-coming, and clearly more differentiated, business, Segment B.

This expectation of future bad investments would be the most likely reason for the company’s faltering share price, and it’s quite possible that the company’s management doesn’t even know that investors are performing this type of analysis to come to such conclusions.

Investors will also wonder which segment-related factors led to such results. Perhaps Segment A has been dominant in its product markets, and it is benefitting from inertia – that is, many of its historic customers may remain, but each year a handful walk away, and this is why it is losing market share. To combat this, perhaps the segment’s

management has been cutting prices and thus the business is suffering from a decline in margin.

Or perhaps its aging facilities have required above-average capital expenditures to replace and upgrade equipment. In any case, this “story behind the numbers” will drive the questions investors ask when they meet and communicate with a company’s management.

Companies should do this analysis on their own segments and make sure the signals investors receive are accurate and perceived as intended.

There are, of course, limitations to this type of analysis. Since good and bad businesses can be mixed in the same segments, the business performance details may be quite different from our quick estimates based on segment reporting, and the numbers can become clouded when managements try to influence their interpretation.

For example, in some cases management may be trying to make some segments look better through allocations and transfer pricing – of course within the constraints of accounting rules (for the most part). Perhaps a manager would like a segment that normally attracts a higher multiple to show a bit more profit. This, of course, is spin, and investors are on the lookout for such deceptive tactics and won’t hesitate to downgrade their outlook of a company if they suspect such unscrupulous methods.

But despite the possibility of managerial distortions and the limitations of accounting disclosures, investors do care, and inform themselves, about capital allocation. And investor relations professionals should be aware that investors can do this type of segment analysis and will form judgments on whether they believe management understands and embraces the value of investing more where returns are higher. [IR](https://niri.org)



Steve Hufford, IRC
Director, Investor Relations
Blackbaud, Inc.

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A Recipe for Success

Elizabeth Saunders was recently honored as one of the newest NIRI Fellows. Learn what led to her success and some of her unique culinary talents.

BY AL RICKARD, CAE

Elizabeth Saunders, a partner of Clermont Partners, LLC, is one of three professionals honored as new NIRI Fellows at the 2019 NIRI Annual Conference.

She specializes in building best practices strategic communications programs, has served as senior counsel for business transformation assignments, worked on initial public offerings, pre- and post-merger communications, CEO transitions, and restructurings for Fortune 500 Companies including Coca-Cola, The Dow Chemical Company, and Transocean.

Before joining Clermont, Saunders was the Americas chairman of the Strategic Communications segment at FTI Consulting.

Renowned for her expertise in corporate governance, she has published numerous articles, lectured on shareholder activism strategies, and has been quoted in *Board & Directors Magazine*, *The New York Times* and *The Wall Street Journal*.

Saunders was also named to the prestigious National Association of Corporate Director (NACD) "Directorship 100" and Crain's Chicago Business "40 Under 40" and has spoken to the NACD and Women Corporate Directors.

In 2015, she founded Commodore Intelligence, a platform for market intelligence investor profiles and insights into corporate access strategies on U.S. investment in European equities. This platform is used by European companies and their counselors to better target U.S. institutional investors with the strongest probability of investing in their



public equities.

Earlier in her career, Saunders was a co-founder of Ashton Partners, a leading independent IR firms. FTI Consulting acquired Ashton Partners in 2008.

She holds a law degree from DePaul University with a concentration in securities law and a BBA in finance from the University of Notre Dame. She is on the Executive Board of Big Shoulders, is a former member of the Board of Directors of NIRI and former chair of the NIRI Emerging Issues Committee.

IR Update interviewed Saunders to learn more about her career and what led to her success.

What inspired you to enter the field of investor relations?

I just happened upon it. Ted Pincus – who founded the Financial Relations Board, was a great pioneer in our field, and an important mentor to me – was willing to hire me while I was in law school because he saw a need for his more PR-oriented professionals to understand how the company's financial performance impacted its stock narrative. It was a very lucky break for me and I was able to work very closely with him during the formative early years in my career.

You are an expert in the area of corporate governance, which is a critical topic today as companies look to increase diversity on their boards, improve governance oversight, reflect appropriate transparency, ensure ethical behavior, and deal with other issues. What do you see as the most important issues in this area and the role of investor relations officers in influencing good governance?

I think IROs have the difficult but important job of educating/informing/reminding corporate boards about how investors view good corporate governance as critical to their investments. Imagine a female IRO having to tell a primarily male board of directors that the company's lack of board and executive diversity was keeping some investors from fully investing in the company's story. Or an IRO delivering perception study findings that investors believe the board isn't keeping a tight enough rein on a CEO's performance and compensation. These are tough moments – but ones that IROs are uniquely suited to handle.

The use of non-GAAP metrics to provide investors with high-quality metrics and insight into public companies has been a topic of discussion for several years. What are your views on this and how can companies provide the best information to their investors and demonstrate its relevance?

I think it is a case-by-case basis and companies need to focus more on the financial metrics that drive their business and provide real and credible

benchmarks that investors can follow. The fact is, whether companies lead with GAAP or non-GAAP in a press release, it really only impacts media headlines. Investors are doing their own analysis, which should be driven by the company's communication of a good dashboard for investors to understand how they are performing.

What are some of the emerging issues facing the investor relations profession?

U.S. issuers are becoming more geographically diverse in their businesses. Consequently, U.S. investors often do not have the experience, research capabilities, or geographic network to fairly assess risks and opportunities in these businesses anymore.

Also, the current ESG ratings system is flawed because the underlying frameworks used by the agencies can be very different and often measure factors that are irrelevant to companies in certain industries. Companies must figure out how to tell their ESG story in an independent and believable way, versus spending their time trying to “fix” their ratings.

Who have been your mentors and what did you learn from them? Have you mentored people in your career and what do you try to impart to them?

Ted was a great mentor for me, and the world and IR community sorely misses him. I hope I can be as inspirational to my own team at Clermont Partners. Ted taught me that it's critical for you to “own” a topic – know it better than anyone, follow it more closely than anyone else, and speak and write about it whenever you can. It has been invaluable advice to me in the 25 years since he shared it with me.

Tell us something most NIRI members don't know about you.

I went to the Cordon Blue Culinary Institute and can carve an ice sculpture and make a mean coq au vin (a classic French chicken stew cooked in red wine and brandy)! [IR](#)

Al Rickard, CAE, is president of Association Vision, the company that produces *IR Update* for NIRI.

Board Engagement and Reporting

The NIRI Virtual Chapter presented three perspectives from the corporate community in a recent online session. BY BRIAN MATT

An increasingly important function within IR teams is communicating with the board of directors to support the board's oversight function. This role generally takes two forms.

First, IROs operate as intermediaries between the investment community and the board in supporting investors' *investment decision* as well as the voting decision function and providing the board the information it needs to make decisions.

Second, over the last several years, IROs have even become involved in facilitating direct engagement between board members and investors.

No matter what, communications with the board are among the highest-impact activities that IR teams conduct, meaning that following best practices (and avoiding the wrong approach) is exceedingly important in every interaction.

The NIRI Virtual Chapter excels at creating the connections necessary to help companies share these types of best practices and experiences with one another. For its session, "Board Engagement and Reporting – Facilitating a Healthy Exchange," NIRI Virtual Professional Development Committee member Melanie Hennessey assembled three perspectives from the corporate community:

- Representing the board, Tony Walsh, director of NOVAGOLD, Sabina Gold & Silver Corp.,

Dundee Precious Metals, and until recently the TMX Group Inc.

- Speaking from both the IR and corporate legal perspective, Sherry Wendt, director of investor relations for Cenovus Energy (previously associate general counsel and assistant corporate secretary)
- For the macro-level view, David Bobker of Rivel Research, who works with a wide range of public companies in both the IR and corporate legal worlds

Here's what we learned from the discussion:

Most IROs interact directly with the board at board meetings. Survey data shows a majority of IROs attend at least one board meeting per year, attending on average three meetings and presenting directly to the board on average twice annually. Further, based on an in-session NIRI Virtual Chapter survey, more than 50 percent of session attendee IROs present data and commentary directly to the board.

Most boards want IROs to interact with them directly. Given the rise of activism and the increased focus from investors in making active voting decisions, board members are looking for IR teams to

provide them unbiased views of the investment community, without the filter of rose-colored glasses. Panelists suggested reporting ownership activity to boards along with the reasons for the activity – 47 percent of session attendee IROs provide comprehensive reporting on more than just basic ownership changes, possibly including fund strategies and policies, opportunities that may arise from changes within the investment community, and market dynamics that help the board think about how its investment story fits into portfolios. Providing investor commentary from both holders and non-holders is also beneficial. Each group is a valuable constituency for the company over time. Boards are also interested in forward-looking information where possible, including consensus metrics.

Investors trust companies whose boards are willing to engage with them, both directly as well as through the IR process. Forty-nine percent of investors in a 2016 Rivel survey rate the importance of issuers proactively engaging with investors to discuss governance issues as “very important.” The inverse is also true – issuers that aren’t proactively communicating with investors may be missing an opportunity to build trust.

Active shareholder engagement programs are becoming a best practice across the issuer community. Panelists noted that directors are becoming more comfortable with communicating directly with investors, and if issues arise that would affect the actions of the board, board members may be the best messenger for the company’s story. Share-

holders cite poor disclosure in some aspects of the company’s corporate governance structure and, in particular, lack of clarity on how compensation aligns with shareholder value, as the two primary complaints about companies. These are part and parcel of the efforts of the nominating/governance and compensation committees, and having those individual directors involved may make sense in certain cases. However, preparation is critical for any program that has board members involved – steps including outreach to the right individuals, providing an agenda in advance, maintaining the “guardrails” during the conversation, and post-meeting follow-up.

Engagement around the investment decision naturally benefits the voting decision as well.

Your ongoing investor communication strategy to drive supportive investment decisions (knowing your existing shareholders and targeting new shareholders) aligns well with offering communication and transparency to voting decision-makers, and can lead to increased voter turnout, a better understanding of investors’ expectations, and opportunities to improve the company’s overall disclosure. In a world where over 60 percent of proxies have the portfolio managers and analysts involved in the voting decisions, it’s an essential and good use of resources to have IR and management able to tell the story to support both types of decisions. [IR](#)

Brian Matt is director and global head, strategy and innovation at IHS Markit; brian.matt@ihsmarkit.com.



The NIRI Virtual Chapter produces programs such as this one on a monthly basis throughout the year. Visit www.virtual.org for more information.





The NIRI Chicago 2019 investor relations workshop focused on the forces shaping the future of IR, exploring economic forecasting, investor activism, ESG issues, corporate access, and more.

BY LISA CIOTA

Where are we going and how do we get there? These were recurring questions at the 2019 NIRI Chicago Investor Relations Workshop - Vision 20/20: The Future of IR. Approximately 100 IR professionals and service providers gathered at this annual event to gain perspective on economic forecasting; investor activism; environmental, social and governance (ESG) matters; the changing nature of corporate access; and the future of the IR profession.

An Optimistic View

The workshop was headlined by Austan Goolsbee, the 2010-2011 chairman of the President's Council of Economic Advisers and professor of economics at the University of Chicago Booth School of Business.

Goolsbee riffed on the notion that while we know the past is not predictive of the future, economic forecasts are still overly reliant on historical data and assume a reversion to the mean. Not surprisingly then, economic forecasts often miss the mark because they don't account for structural changes and uncertainties that may affect future outcomes.

While not predicting the future, Goolsbee is optimistic about the U.S. economy over the long run given key structural factors including positive demographic trends, a highly productive workforce, a deeply entrepreneurial culture and a federal government with a range of fiscal tools to manage future economic headwinds.



Ever-Present Activism

Investor activism will remain an ever-present reality, so the workshop brought together legal, financial market and communications advisors as well as an activist investor to share perspectives and advice.

It should be no surprise the panelists urged IROs to be at the front line of investor intelligence gathering, understand your company's vulnerabilities and risks against the backdrop of your industry and peers, and have an activism defense crisis plan in place.

The panel unanimously urged companies to engage with activists and be receptive if approached privately as it signals the activist is looking to influence, not fight.

"Don't back them into corner or force a proxy fight," advised Keith Gottfried, Morgan, Lewis & Bockius LLP. A company can only lose in the eyes of investors if it goes to a proxy fight. Activists can play the long game and risk nothing in a proxy fight.

When it comes to engagement, Quentin Koffey

TOP LEFT: Susan Beverly, senior director of sustainability and shared impact at Abbott, and Mike Steele, CFA, IRC, vice president, investor relations at Zebra Technologies Corporation were among the panelists offering views on ESG issues. **TOP RIGHT:** Workshop Keynoter Austan Goolsbee is optimistic about the U.S. economy. **BOTTOM:** Ruth Venning, IRC, of Horizon Therapeutics and Heather Kos, IRC, of Univar Solutions are two NIRI Chicago leaders.

of Senator Investment Group said, "In the end, no one remembers one year later who suggested what. All they care about is if it worked and created value."

A final word of advice from the panel: don't lose focus on business and operational strategies. Performance matters if you want to keep and win investor confidence. The same goes for IR strategy: keep meeting and communicating with investors.

The Future of ESG

The future is now when it comes to environmental, social and governance (ESG) factors. With buy-siders

looking to deliver alpha and differentiate themselves plus research indicating companies with good ESG practices are less volatile and risky, there's been an outpouring of attention to ESG recently.

The good news for IROs is that investors using ESG screens often have longer-term investment horizons and are more interested in where the company is heading than where it's been, according to Ross Campbell of Barrow, Hanley, Mewhinney & Strauss, one of the ESG session speakers.

In addition to Campbell, the ESG session featured companies who are early, intermediate, and advanced in their ESG journey including Zebra Technologies, Workiva, and Abbott.

A key theme across all three companies was the importance of dialogue. For those early in the ESG journey, that dialogue is internal, multi-disciplinary and involves deeply understanding the “how” of a company: How does the company set strategy and manage risk (environmental, social or other) and how does the company source/produce/operate and the impacts thereof.

From there, identify and prioritize material ESG key performance indicators (KPIs) that align with the company's vision, strategies and values. Be sure to consider the perspectives of key stakeholders (employees, customers, communities, investors, etc.) as gleaned from research and dialogue with them. Using this as a foundation, it becomes easier to weave ESG into the context of the company's story.

The panelists agreed that while ESG frameworks – such as the Global Reporting Initiative (GRI) or Sustainable Accounting Standards Board (SASB) – are useful starting points, any good ESG effort needs to be unique and specific to each company. In addition, it should evolve as the business, strategies, operating environment and stakeholder perspectives change.

Corporate Access Evolving

Corporate access is another area where the future is already here. Workshop attendees heard directly from Ariel Investments, Keeley Teton Advisors and the corporate access platform provider, CorpAxe, about buy-siders' changing approach as they rationalize sell-side relationships – the historical matchmaker

of investors with companies.

Buy-siders welcome direct outreach from companies and are happy to coordinate meetings as appropriate. However, they ask IROs do their homework first: know how your company compares with its investment peers and fits within the firm's portfolio(s).

Also, be sure to schedule an introductory call with the analyst or portfolio manager before meeting, and stay in touch afterward. As for conferences, both Ariel and Keeley continue to find value in them given the efficiency of seeing many companies over a short period of time. They recommend IROs collect business cards and cross-reference them when conducting investor outreach or scheduling non-deal roadshows.

Future Vision

Structural changes in the capital markets are affecting the purpose and role of IR within public companies. What this means and how we elevate our profession and careers were among the issues raised by the NIRI Think Tank report, “IR: The Disruption Opportunity,” and was the subject of a workshop dialogue with NIRI President & CEO Gary LaBranche.

LaBranche suggested using the Think Tank report as a roadmap for beginning conversations about the future of IR. The ultimate vision is that IR is recognized as a multi-disciplinary function, which serves as a trusted strategic advisor to, and a representative of, the C-suite.

This means IROs need to know how to build and lead cross-functional teams, understand and balance multiple stakeholder perspectives, and interpret and synthesize critical business matters to ethically drive business and social value.

To that end, IROs should have a big-picture view of the company's functional and operational areas, develop leadership capabilities, and exhibit executive presence and situational judgement. To make this transition, LaBranche recommends IROs engage in a process of self-assessment and align it with career objectives and personal values. [IR](#)

Lisa Ciota is principal of Lead-IR Advisors, Inc. and an advisory director to the NIRI Chicago Board of Directors; lisa.ciota@leadiradvisors.com.



Chris Toth



Ellen Bancroft

Going Public: The Tales of an IRO

At a Niri Los Angeles Chapter event, a lawyer and an IRO recounted their experiences in launching IPOs and key lessons learned.

BY KIMBERLY ESTERKIN

Ever since the Dutch East India Company introduced the first initial public offering (IPO) in 1602 to raise funds for future international voyages, companies have been launching IPOs.

From 1602 to 1696, the Dutch East India Company paid a regular dividend to shareholders ranging from 12-63 percent. When you look at the average dividend yield of stocks trading on the S&P 500 today of approximately 1.9 percent, an investment in the Dutch East India Company

seems like a no brainer.

If only it were that easy to make money for nearly an entire century!

An IPO Conversation

The Niri Los Angeles Chapter recently hosted an event featuring a conversation entitled, “Going Public: The Tales of an IRO.” Ellen Bancroft, one of the leading corporate attorneys in Southern California and managing partner at Morgan, Lewis

& Bockius's Orange County office, moderated the session. She has closed more than 70 public and private acquisitions, ranging from several million dollars to more than \$1 billion in size.

Bancroft interviewed Chris Toth, vice president, investor relations at The Trade Desk, a cloud-based technology platform that empowers buyers of advertising.

Toth hails from the world of the buy-side, having begun his career as an institutional investor covering the technology industry before leading several successful IR programs for International Rectifier, Newport Corporation, and now The Trade Desk.

A mix of investor relations professionals, lawyers, bankers, and industry experts attended to learn what makes an IPO a good investment and how companies can attract investors to their stock for the first time.

Toth joined The Trade Desk about four and a half months before the company's IPO. By that time, the company had a confidential filing on record with the SEC. He emphasized that the sooner an IRO is brought into the IPO process, the better, for the IRO and the company.

Testing the Water

Toth explained the process of holding test the water (TTW) meetings before the kick-off of the formal IPO. TTW meetings provide companies a chance to try out their story in front of a live investor audience, or as Bancroft phrased it, to "see what gels before hitting the road."

The Trade Desk management team hosted more than 75 TTW meetings and calls. As the process began, Toth recalls the investment bankers forewarning management that "advertising technology [i.e. The Trade Desk] was the most hated sector next to mining" at the time.

Consequently, Toth took the TTW experience as a unique opportunity to manage who The Trade Desk wanted to include in their shareholder base. "Alliance Bernstein was a small-cap growth company that I knew was not just in for the IPO, but the long term," he explained. "Needham Asset Management, I knew would hold at least 200,000

shares." Toth wanted to ensure management was meeting with investors who would not immediately flip their allocations.

IPO Filing Process

Following these initial meetings, if a company believes there is interest in an IPO, the next step is to file publicly. Filings must be on public record at least 15 days before a company begins its roadshow. At this point, the official IPO quiet period begins and lasts for 25 days past the initial listing.

The IPO quiet period, unlike the quarterly quiet period, is regulated by the SEC. Bancroft emphasized that while the quiet period doesn't begin until you are on record, the SEC almost always asks to see the presentation materials used during a company's TTW meetings. It is therefore essential to have in-house and outside legal counsel review these materials before distributing anything to the public.

Bancroft characterized the subsequent roadshow as the time in the IPO process, "where you crystallize your story; where it gets official." For Toth, the roadshow was an arduous but productive process. Mornings started with early calls to Europe. Then his team would transition to group lunches and one-on-one meetings. At the end of the day, working dinners preceded a rush to the airport to catch a flight to the next destination.

Toth played a key role in determining which investors his management team met with during the roadshow. "I was allowed to be as aggressive as possible behind the scenes," he said.

The process succeeded. Throughout the roadshow, Toth saw real-time orders come in on iPads supplied by the company's investment bankers. He noted that at some point during the roadshow, management tends to go on autopilot and it is difficult to remember which investors asked which questions.

Nevertheless, Toth specifically recalled his meeting with Friess Associates. He and his team had not eaten in hours, but when they arrived at Friess, there was a mouthwatering display of Chick-fil-A. They are "the Chick-fil-A folks to this day," Chris laughed.

NIRI Los Angeles Chapter Founder Albert Melrose Passes Away



Albert J. Melrose, who was a founder of the NIRI Los Angeles chapter in 1970, passed away on August 28, 2019, in Sparks, Nevada, at the age of 93. He was the head of IR at Lockheed and other military-industrial companies in the Los Angeles area for many years.

He was instrumental in recruiting technology sector IROs to join the Los Angeles chapter in the early 1970s. Melrose subsequently moved south to Orange County in the 1990s and served as IRO for AST Research, one of the successful personal computer makers in the technology rush of that decade.

Don Allen, a partner with The Allen Group who joined NIRI and the Los Angeles chapter in 1974,

said, “Al was one of my mentors, always willing to provide guidance and answer difficult questions. He also was one of the people in the chapter who urged us to work with UC Irvine to create the first university extension program in investor relations (including six excellent courses) in the country. We later took that program online and it generated great interest overseas. He was a wonderful friend and always had a smile for everyone. He will be missed.”

“We were very sorry to hear about Al’s passing,” said Anne McGuinness, co-president of NIRI Los Angeles. “The Los Angeles chapter of NIRI became the thriving group it is today thanks to our predecessors like Al who helped shape the career path for IROs in Southern California. We thank Al for all he has done for NIRI Los Angeles and know that his memory will continue through the wonderful work our membership continues to conduct today.”

Managing Stock Allocation

For the more than 50 IPOs Bancroft supported during her legal career, she rarely sees a company intimately involved in the allocation process. Rather, the bankers tell management that this investor gets X shares, this investor gets Y shares and so forth.

For Toth, the allocation process was a struggle between those investors the bankers promised shares to and those investors the company wanted in their book. After it was sorted out, The Trade Desk listed on the Nasdaq on September 21, 2016 and since then the stock price was valued at nearly seven times the launch price in late 2019.

Key IPO Lessons

Having survived the IPO process, what advice did Toth have for those looking to go public in the future? He emphasized the following:

- Don’t put all of your eggs into the IPO process to get a high valuation. Show investors your stock can build value over time.
- Develop trust with your management team,

as only through their support can you survive the path to going public.

- Know your company and have an opinion. “It’s why I got into IR in the first place – to be a good resource for investors.”

Bancroft closed by reminding attendees that although the champagne toast and bell ringing on listing day are quite exciting, “the IPO process just gets you to the starting line. The hard part is life as a public company.”

Investor relations officers play an integral role in shaping a public company’s story. We are as crucial to the IPO, as we are to the long-term viability of the stock. [IR](#)

Kimberly Esterkin is a managing director at ADDO Investor Relations. She is a member of the NIRI Los Angeles Board of Directors, sits on the planning committee for the annual NIRI National Conference and is part of the NIRI inaugural class of 40 Under 40 IR professionals. kesterkin@addoir.com



David Erickson



Mike Weisman



William "J.B." Horner



Diane Biagianti

Valuing Corporate Culture

Elvis Presley once said, "Values are like fingerprints. Nobody's are the same, but you leave 'em all over everything you do." They are critical to company reputations.

Corporate values and behaviors that align can create a company's competitive advantage and result in superior performance.

At least that is what WCM Investment Management believes. The firm does extensive research into public companies, opting to invest only in those companies where culture and strategy aligns, culture is a strength, and there is a high level of adaptability.

At a NIRI Orange County event, an expert panel examined the importance of company culture in a firm's success. Moderated by Chapter President David Erickson, the panel included Mike Weisman, founder and CEO of The Values Institute; Diane Biagianti, chief responsibility officer of Edwards Lifesciences; and William "J.B." Horner, business culture analyst at WCM Investment Management.

The common theme among the presentations by each panelist is that culture starts at the top. It must be built and maintained. They believe that strong values and purpose are a recipe for sustainable success, especially with the new millennial workforce.

According to Weisman, from young to old,

Culture
starts at the
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people prefer to work with a company that does not cause them to compromise their own values. What they want is meaningful work and a sense of purpose – something bigger to believe in, not just a pursuit of profits. He concludes that within a corporate culture, trust is not just "nice to have," it is a "must have."

Biagianti explains that trust is a centerpiece of the Edwards Lifesciences corporate credo. The company has patient meet-and-greet days and a global "Titanium Day" to reinforce their purpose and code of conduct.

"It is critical that people trust who we are," says Biagianti. "We want our people to be proud to work for Edwards. We believe in driving shareholder value, but we don't focus there first. Shareholder value is created when everything else is done right."

She notes that the Edwards CEO walks the talk and has led the company with integrity since its inception.

Horner says WCM Investment management looks for companies where visionary management that has stuck around. They did significant diligence on Edwards Lifesciences before investing. Horner suggests a book titled "The Culture Cycle" by Dr. James Heskett, former Harvard Business School, as a good read on the impact of values/culture on business success. [IR](https://niri.org/irupdate)

NIRI PROFESSIONAL DEVELOPMENT

THE BIG I - INVESTOR & ISSUER INVITATIONAL FORUM™

MARCH 24, 2020 NEW YORK, NY

NIRI's annual Investor and Issuer Invitational Forum™ will explore the influence of artificial intelligence on the investor relations profession.

FINANCE ESSENTIALS

MARCH 26, 2020 NEW YORK, NY

This 2-day program is designed to help you understand the essentials of finance that you'll need to communicate your company's financial story effectively.

FINANCE & CAPITAL MARKETS 101

JUNE 13, 2020 MIAMI, FL

(Pre-Conference Seminar) Learn the essentials of capital markets, corporate finance and accounting.

TELLING A GREAT INVESTMENT STORY

JUNE 14, 2020 MIAMI, FL

(Pre-Conference Seminar) Understand what shareholder value really means both to shareholders and for companies.

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Register now for the world's largest investor relations education and networking event – www.niri.org/conference.

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This one-day program is designed to efficiently provide CFOs and financial executives with the necessary concepts to effectively communicate with Wall Street.

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Meet with Congressional staffers and Securities and Exchange Commission officials and to mobilize grassroots support for NIRI advocacy priorities.

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NOVEMBER 16-19, 2020 CHICAGO, IL

Save the date for this regional investor relations event series in Chicago, IL.

2020 SENIOR ROUNDTABLE ANNUAL MEETING

DECEMBER 2-4, 2020 AUSTIN, TX

The NIRI Senior Roundtable addresses leading trends and issues impacting the investor relations profession in a combination of formats featuring expert speakers and member-led discussions.

*Additional course dates available

For the full NIRI calendar visit www.niri.org/learn



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COMMUNICATE. ENGAGE. ELEVATE.

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