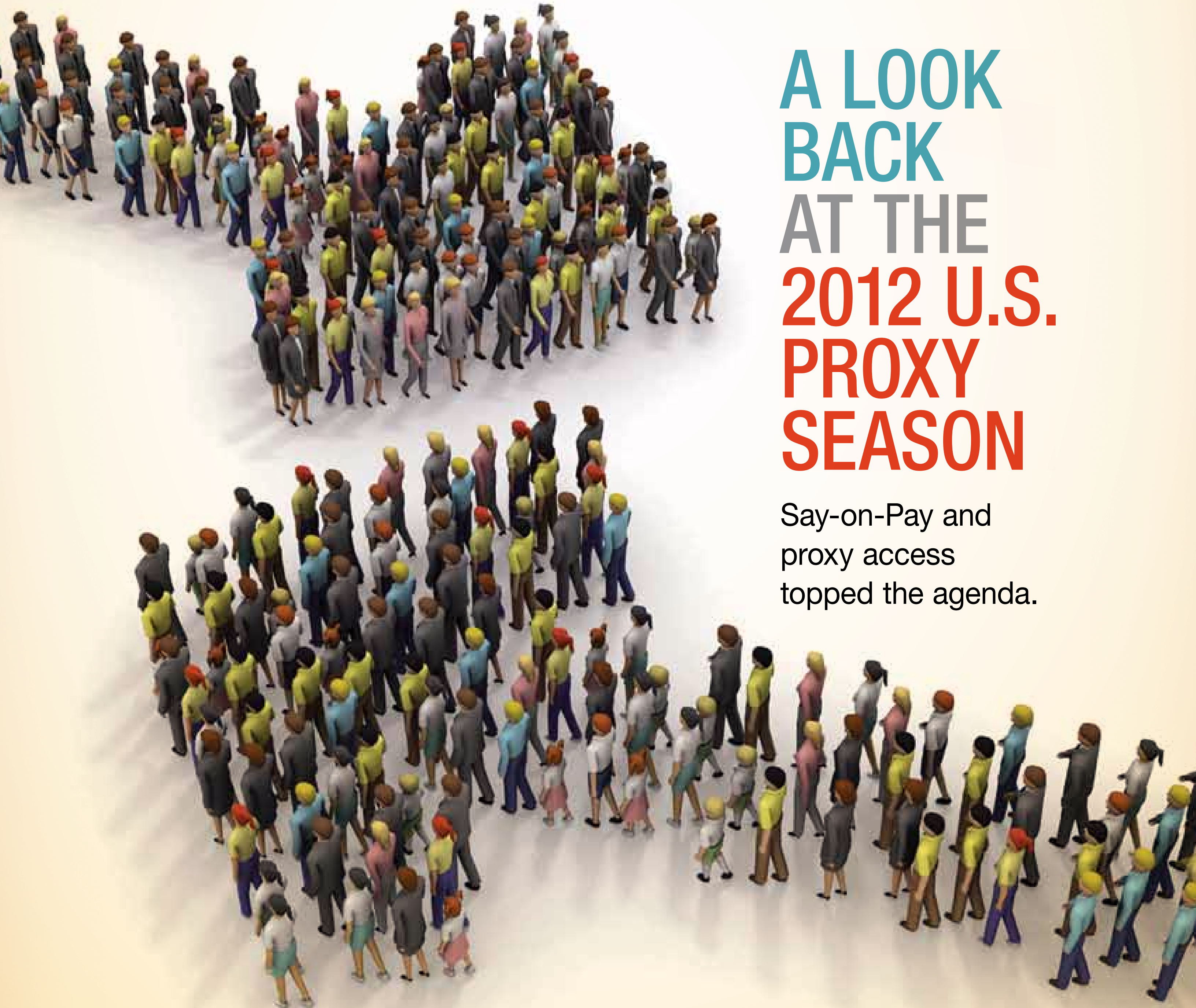
IRupdate

SEPTEMBER 2012

the voice of the investor relations profession

National Investor Relations Institute
www.niri.org



A LOOK BACK AT THE 2012 U.S. PROXY SEASON

Say-on-Pay and proxy access topped the agenda.

President/CEO and Publisher
Jeffrey D. Morgan

Vice President, Communications & Editorial Director
Matt Brusch

Editor-in-Chief
Al Rickard
arickard@associationvision.com

Advertising Sales
Mike Hyatt
Coordinator, Professional Development
703-562-7684
mhyatt@niri.org

Art Direction
Thor Design Studio
colby@thor-studio.com

Contributing Editor
Linda Daily

Production Manager
Angela Mumeka
amumeka@niri.org

Contributing Staff
Tammy K. Dang
Michael C. McGough

Letters to the Editor
IR Update welcomes letters to the editor. Please send your questions, suggestions and feedback to arickard@associationvision.com.

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 3,500 members representing 2,000 publicly held companies and $5.4 trillion in stock market capitalization.

About *IR Update*
IR Update is published monthly by the National Investor Relations Institute as a service to its members.
ISSN 1098-5220

For Change of Address, Contact:
NIRI–*IR Update*
225 Reinekers Lane, Suite 560
Alexandria, VA 22314-2875 USA
phone: (703) 562-7700
fax: (703) 562-7701
amumeka@niri.org
www.niri.org

DEPARTMENTS

Making Global IR Connections

In the United States, September signifies a farewell to summer and a re-energized focus on the final months of annual corporate IR plans. The comparable plan at NIRI is the "OneNIRI 2012-2015 Vision" (www.niri.org/OneNIRI), which includes a greater emphasis on global IR practices. In this regard, I spent part of my summer listening to and sharing investor relations knowledge with IR professionals outside the United States.

I traveled to Canada, China, Taiwan, Hong Kong, and Brazil, the regions (plus Japan and the United Kingdom) with the highest concentration of non-U.S. NIRI members. Nearly 10 percent of NIRI practitioner members (representing almost 50 countries) are now from outside the United States.

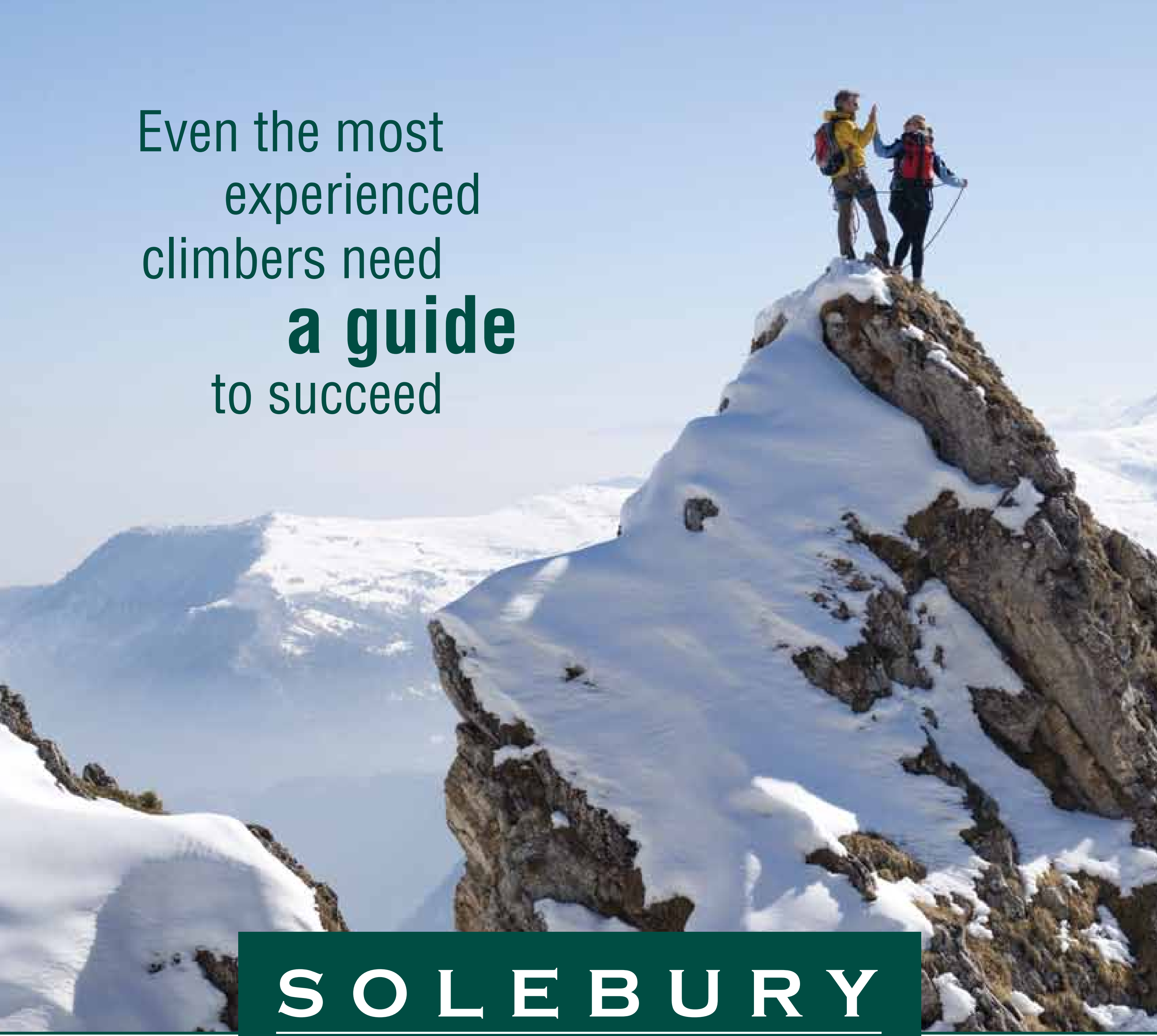
These trips, plus NIRI's growing global membership and the growth in non-U.S. attendees at the NIRI Annual Conference and other NIRI programs, demonstrate the global nature of investor relations. It explains the strategic importance NIRI places on global IR practices.

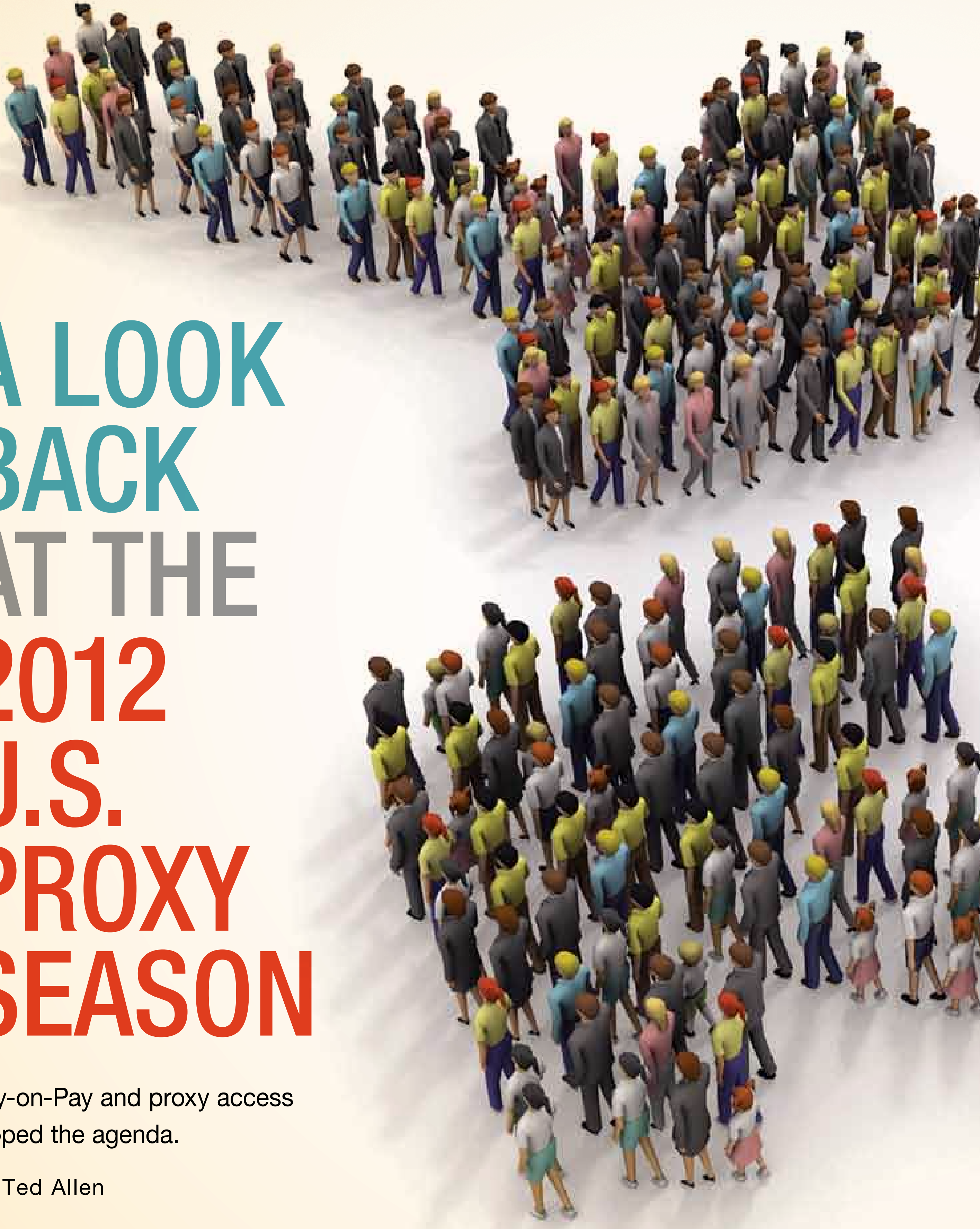
As I interacted with these global IR professionals, I learned that much of their interest revolved around best practices and IR program benchmarking. While every country has unique challenges defined by regulations, the local economy, and other regional factors, the desire to compare IR programs is universal and something that is core to NIRI. It isn't surprising that some of the highest-rated NIRI 2012 Annual Conference sessions were about practice and "how to be most effective."

NIRI research is a great way to compare IR programs. NIRI's member research is provided in the form of regular Executive Alerts (www.niri.org/executivealert). A highly rated member benefit, whether the topic is guidance, annual meeting practices, targeting practices, or IR compensation results, NIRI research is a valuable benchmarking tool. I encourage you to use NIRI research reports to help your C-suite understand how your company's IR program compares.

In the coming decade, I believe global investors will continue to push IR programs toward common practices in order to standardize the information access necessary for making good investment decisions. And, as the largest member-owned IR organization in the world, NIRI will work with you and for you to help identify, discuss, and share these developing global IR practices.

Jeffrey D. Morgan
President/CEO & Publisher
NIRI
jmorgan@niri.org


Even the most
experienced
climbers need
a guide
to succeed



A LOOK BACK AT THE 2012 U.S. PROXY SEASON

Say-on-Pay and proxy access topped the agenda.

By Ted Allen

At most U.S. companies this year, the ballot item that commanded the most attention from IR professionals once again was the "Say-on-Pay" advisory vote on executive compensation.

While Say-on-Pay votes have increased the workloads for IROs, directors, and other corporate officials, most companies succeeded in their efforts to win majority support from investors this year. Seventy-two percent of firms received more than 90 percent approval, according to a report by Semler Brossy, a compensation consulting firm, which included vote results from 1,907 companies in the Russell 3000 index as of July 17, 2012.

There was also, however, a significant increase in the number of companies that fell short of majority approval. So far, 51 companies in the Russell 3000 index – or 2.7 percent of the companies that held votes this year – failed to win majority support, up from 37 in 2011, Semler Brossy reported. Twelve of these votes occurred at S&P 500 issuers in 2012; Citigroup and Chesapeake Energy were among the highest-profile displays of investor dissent.

In addition to the 51 failed votes, another 120 companies this year received between 50 and 70 percent support, and thus will face heightened scrutiny from proxy advisors and some institutional investors next year. IR professionals at these companies should start planning now about how they will respond to this year's vote. Proxy advisors will expect to see detailed disclosure on engagement efforts with institutional investors, and any changes the company makes in response to investor feedback.

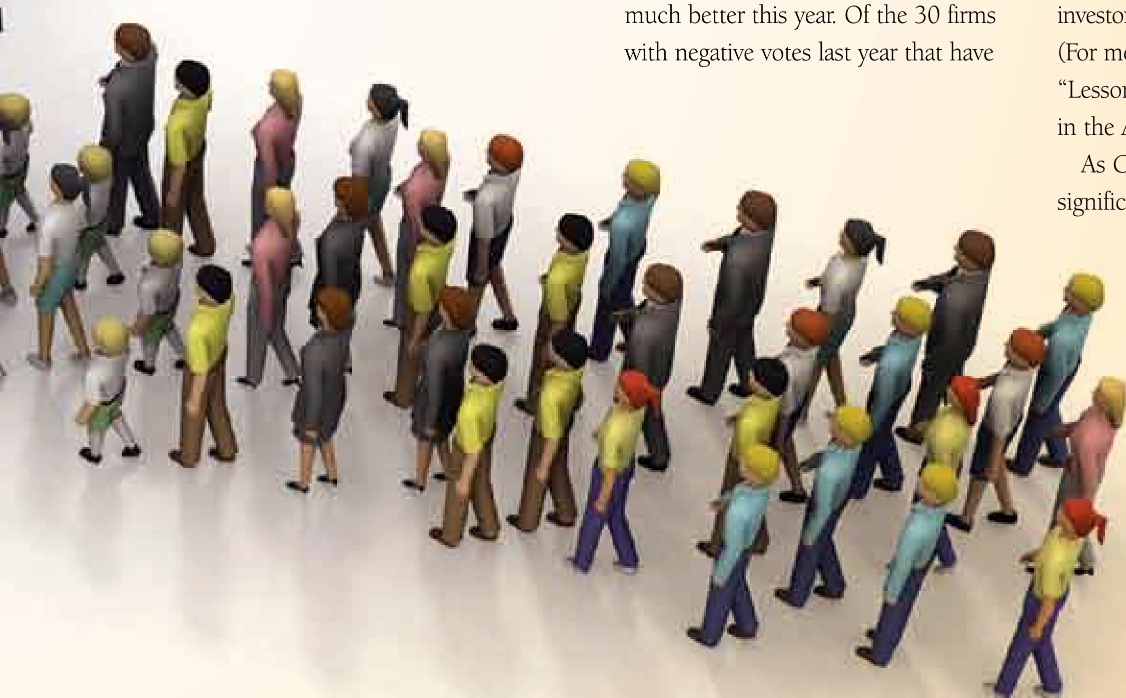
Notably, most of this year's non-majority votes occurred at companies that received majority support in 2011, the first year of advisory votes under the Dodd-Frank Act. Conversely, most of the companies with 2011 failed votes fared much better this year. Of the 30 firms with negative votes last year that have faced investors again, 26 have received majority support. Many of these companies reached out to investors, engaged with proxy advisors, improved disclosure, and made changes to their pay practices.

One example is Curtiss-Wright Corporation, which received just 41 percent support in 2011. After overhauling its pay-for-performance guidelines and compensation philosophy, improving disclosure, and expanding communications with investors, Curtiss-Wright won 96 percent approval this year. The company's efforts included a Say-on-Pay webinar in October, outreach to the firm's largest investors, and face-to-face meetings with proxy advisors.

"We're pleased with the outcome, but there is a lot of work to be done to make sure that this never happens again," Jim Ryan, the company's director of investor relations, said during a Say-on-Pay panel at NIRI's 2012 Annual Conference in June. He urges other companies (or IR professionals) to "become fully engaged" with investors and "be proactive all year round." (For more on Curtiss-Wright, please see "Lessons From a Failed Say-on-Pay Vote" in the April 2012 edition of *IR Update.*)

As Curtiss-Wright illustrates, another significant trend this season was an increase in corporate engagement over pay issues. "We have seen a doubling of engagement," Robert Zivnuska, director of corporate governance at BlackRock, said during NIRI's Say-on-Pay panel.

Companies also have improved their pay-related disclosures, Zivnuska and other NIRI panelists said. As part of this improvement, more



A LOOK BACK AT THE 2012 U.S. PROXY SEASON

companies included an executive summary of their Compensation Discussion and Analysis (CD&A) that succinctly explained in plain English the reasons for the company's executive compensation decisions. Institutions and proxy advisors have welcomed this trend, saying the summaries helped with their heavy proxy season workloads.

However, IROs should remember that strong votes during the first two years of Say-on-Pay won't guarantee broad support in the future. Issuers that lag their industry peers this year should be prepared for more scrutiny in 2013 and will need to explain how their compensation policies are aligned with performance.

"You can't stand still," Ron Schneider, a vice president at AST Phoenix Advisors, said during the Say-on-Pay panel at NIRI's 2012 Annual Conference. "Investor expectations are rising; the quality of company disclosure is rising. Of the companies that failed this year, most of them did not adopt poorer practices, rather they didn't up their games."

Understanding the Role of Proxy Advisors

Almost all of this year's failed Say-on-Pay votes stemmed from pay-for-performance concerns and the negative recommendations from proxy advisors. At many of those companies, the proxy advisors alleged that performance goals were not sufficiently rigorous, or objected to grants of non-performance-based equity incentives. Nearly all of these firms suffered negative share returns, or poor stock

> **"Investor expectations are rising; the quality of company disclosure is rising. Of the companies that failed this year, most of them did not adopt poorer practices, rather they didn't up their games."**
>
> – **Ron Schneider,** a vice president at AST Phoenix Advisors

performance relative to their peers.

Institutional Shareholder Services (ISS), the largest U.S. proxy advisor, issued negative recommendations for 14 percent of companies that conducted pay votes this year, up from about 12 percent in 2011. Glass Lewis & Co., the second-largest advisor, issued negative recommendations for about 17 percent of companies that it reviewed this year. According to Semler Brossy, companies receiving a negative ISS recommendation averaged about 64 percent support this year.

While these numbers certainly suggest that proxy advisors' recommendations have a significant impact on Say-on-Pay vote results, issuers should not assume that their institutional investors will follow these recommendations in all cases. Of the 268 companies that received negative ISS recommendations this spring (and where vote results were available), just 19 percent failed to win majority support from investors, according to Semler Brossy. While proxy advisors may have a greater influence at smaller institutions, which have less staff to analyze hundreds of proxy statements, there are large institutions, such as BlackRock and TIAA-CREF, that have publicly stated that they don't blindly follow the advice of proxy advisors.

Proxy Access on the Ballot

The focus on Say-on-Pay votes this year partially obscured another contentious governance issue – proxy access. A federal court struck down the SEC's marketwide access rule (Rule 14a-11) in July 2011, and Chairman Mary Schapiro has indicated that the SEC doesn't have the staff resources currently to rework the rule.

While a federal access rule is on hold, another SEC rule change took effect late last year that permits shareholders to file company-specific access proposals. Investors submitted more than 20 proposals this year; nine went to a vote and averaged almost 36 percent support (based on votes cast "for" and "against").

This year's most successful proposals were based on Rule 14a-11 and called for a 3 percent ownership stake for three years, with a 25 percent cap on the board seats available to access candidates. Public pension funds filed these non-binding proposals at Chesapeake Energy and Nabors Industries, where they both received majority support – the first time this has happened at a large-cap company. However, both issuers faced high-profile governance controversies, and thus it remains to be seen whether proxy access can consistently win majority support at firms without such issues.

Perhaps the biggest surprise this year was the respectable shareholder support for another variation on proxy access – the binding proposals filed by Norges Bank Investment Management. Those bylaw proposals called for a 1 percent stake for one

Continued on page 10

Continued from page 8

year, which was less rigorous than most activists have supported in the past. Nevertheless, the Norges resolutions averaged 33.6 percent support at four large-cap companies.

While the votes at Chesapeake and Nabors have encouraged activists, it appears that most companies won't see a proxy access proposal at the ballot next year. Based on past filing patterns, public fund and labor proponents likely will submit a limited number of well-targeted proposals in 2013 to increase their chances of winning majority support. However, companies may see more resolutions from retail activists, who have prevailed in recent corporate no-action challenges. The most probable targets will be companies with continued negative share returns, failed Say-on-Pay votes, majority-opposed directors, or those that have not responded to investor concerns.

During a panel at the 2012 National Conference of the Society of Corporate Secretaries & Governance Professionals, Donna Anderson, a vice president and corporate governance specialist at T. Rowe Price, said it may take three to four years before most companies face investor demands to adopt proxy access. "Just chill . . . it's too early to make any big decisions on this," she noted.

Demands for Board Accountability

A perennial shareholder proposal topic, board declassification, continues to attract wide support from investors. These proposals, which management usually opposes, averaged 80 percent support at 39 companies this year, according to ISS data. Most of these proposals were filed by public pension funds that were represented by the Harvard Law School's Shareholder Rights Project, an effort overseen by Professor Lucian Bebchuk. In addition, Bebchuk reported that investors withdrew more than 40 proposals after companies agreed to declassify their boards. Staggered board terms are becoming rare within the S&P 500; almost 70 percent of large-cap companies have declassified their boards (or agreed to do so), according to ISS data.

Likewise, shareholder proposals seeking majority voting in uncontested director elections are attracting strong support, averaging 61 percent approval at 36 companies, according to ISS data. Given that almost 80 percent of large-cap firms have adopted majority voting and/or a director resignation policy, activists likely will shift more attention to mid- and small-cap firms in the future. Just 31 percent of Russell 3000 index firms have majority voting provisions, according to Alliance Advisors.

Also this year, labor funds and individual activists stepped up their long-running campaign for independent board chairs. Forty-five resolutions went to a vote and averaged 35.8 percent support, which is comparable to last year's average. However, many mainstream investors remain reluctant to support these proposals, and average support levels have yet to surpass 40 percent.

Also this year, labor funds and individual activists stepped up their long-running campaign for independent board chairs.

Failed Director Elections

Once again, a relatively small number of board nominees failed to win majority support from investors. At 42 companies, at least one director received a majority "against" (or "withhold") vote this year, according to Alliance Advisors. All but three of those issuers have plurality voting, and virtually all of the opposed directors retained their board seats. Among the key concerns that contributed to investor opposition were poor meeting attendance, the adoption of poison pills without investor approval, and the failure to implement majority-supported shareholder proposals. Executive compensation was not a significant factor. Most investors continue to use Say-on-Pay votes solely to express their dissatisfaction over pay, but proxy advisors have indicated that they may recommend against compensation committee members who don't respond to failed pay votes.

While failed director elections are rare, they are contributing to investor demands for more companies to adopt majority voting bylaws and to replace directors who fail to win majority approval. "Majority voting is rising among all sorts of investors as the number one issue," Anderson observed.

"There is no right to have a board seat," Holly Gregory, a partner with Weil, Gotshal & Manges, said during a panel at the Society of Corporate Secretaries' conference. "If you can't win the hearts and minds of a majority of investors, you probably should go." IRU

Ted Allen *is the NIRI director of practice resources; tallen@niri.org. For more on the 2012 U.S. proxy season, please see the* NIRI Briefing Paper: 2012 U.S. Proxy Season, IR Advisor *(July 2012) which is available at www.niri.org/ira072512.aspx.*

SPOTLIGHT ON

SHAREHOLDER ANNUAL MEETINGS

With NIRI survey findings as a backdrop, *IR Update* takes a close-up look at how three companies tailor their annual meetings to meet specific goals.

By Alexandra Walsh

EVERYONE HAS ONE. WELL, ALMOST EVERYONE.

According to the recently released *2012 NIRI Annual Meeting Practices Survey*, 96 percent of NIRI members' companies hold a shareholder annual meeting.

The survey provides a window into the typical annual meeting from the average number of attendees – 11 to 50 – to the length of the meeting – less than 30 minutes. And while it isn't difficult to develop a profile of the typical meeting from statistics, the survey can't capture the nuances of how an effective annual meeting is run. To find out, we interviewed three IROs about what a successful shareholder meeting looks like to them and what best practices they employ.

A Spectrum of Goals

Possibly the greatest variety among annual shareholder meetings, which the survey can't capture, is the underlying philosophy of what the meeting is meant to achieve.

On one end of that spectrum is Comcast's annual shareholder meeting. Bernadette Maffei, the company's director of shareholder services, describes it as a "formal business meeting rather than a marketing meeting."

Then there's Costco Companies. Jeffrey Elliott, Costco's assistant vice president of financial planning and investor relations, says its annual shareholder meeting is commonly referred to as a "love fest." Elliott says the most popular part of the meeting for attendees is that it is held in a very large room that's full of displays of Costco services and the items it sells so that the venue resembles a trade show.

From high-end golf clubs and chocolates to fresh foods, everything is available to attendees to sample. "We try to create meetings that are great fun and lighthearted and very transparent. Shareholders get fed, get a bag full of goodies – and they like what we do." As 82 percent of NIRI companies do not have giveaways at their meetings, Costco's love fest is in the minority on that score.

Meeting at home. One meeting practice all three IROs have in common is that their meetings do not travel. NIRI members are evenly split on this survey topic, with 52 percent responding that their meetings are typically held at company headquarters.

"Three years ago we decided to begin having our meeting on the Allstate campus located in the northwest suburbs of Chicago," says Christine Ieuter, director of corporate finance for The Allstate Corporation. "We were looking to cut costs, time spent traveling and administering the meeting, getting equipment to the site, as well as the logistics of getting the board of directors there."

Ieuter adds that hosting the meeting at headquarters also made it more accessible to employee shareholders. Costco and Comcast meetings are held in their headquarter cities, but at the local convention center.

Attendee policies. Costco stands out again when it comes to the number of attendees at its meeting and how they are admitted. The survey indicates that 67 percent of NIRI members hold meetings attended by up to 50 people. In comparison, Comcast and Allstate hold relatively large meetings with approximately 150 and 200 attendees, respectively. However, typically drawing up to 1,800 people, Costco's shareholder meetings are huge in comparison to the industry standard.

Costco is also in the minority of companies (22 percent) that admit anyone who wants to attend. "Most attendees are shareholders but as this is a local company, we get a lot of people coming in from the street who want to meet the executives," explains Elliott. "We've always tried to create a spirit of transparency from day one." Both Comcast and Allstate have guest lists and require proof of ownership and photo identification to enter the meeting. "Attendees who are not shareholders have to be invited," says Maffei.

Setting the agenda. All three companies have a fairly similar meeting agenda. "It's very efficiently run – the doors open at 8:30 a.m., the meeting begins at 9 a.m., and it never runs longer than two hours," says Maffei. "An executive vice president moderates the meeting, the CEO presents a financial overview of the past year and a review of our products and companies, and then our general counsel performs the call for vote and tabulation." Maffei says this part of the meeting lasts about 45 minutes followed by approximately another 45 minutes of questions and answers.

Like 96 percent of surveyed NIRI members, none of the three companies screens questions in advance. Successfully navigating the Q&A period is not accidental. "To the extent that you can, make sure possible shareholder issues are well vetted and understood by management ahead of time," advises Ieuter. "If you don't, the meeting can take a different route."

Elliott, whose company has an open door policy at its shareholder meetings, says Costco doesn't do a lot of prepping and has no run-through prior to the meeting. "We have some discussion about what issues might come up and what a thoughtful and thorough response might be, but we have a very hands-on CEO who isn't surprised by much."

Organizing Responsibilities

Concerning which functional areas of the company are responsible for the annual meeting, survey respondents indicate that the duties are fairly evenly split between the IR department and the general counsel/corporate secretary with corporate communications taking on a minor role.

"Corporate relations, which is in charge of media and public relations, and IR, which checks people in and ensures the right people are there to present proposals, work in tandem with the legal team, which plays the biggest role," reports Ieuter. She adds that the team starts holding weekly meetings three to four weeks out.

At Costco, Elliot's small IR department of three to four part-time staff and a couple of executives handle all the business elements of the meeting, including preparing the executive team and its presentations. Most of the effort for the meeting – the layout, preparation, and setting up of the displays – is orchestrated by Costco's marketing group, with each individual business group responsible for working on its own display. Decisions about structure and logistics begin four months in advance of the meeting, but Elliot says not much effort is expended until right before the meeting.

As director of shareholder services in Comcast's IR Department, Maffei says her team's responsibility is to coordinate all aspects of a long process, beginning with distributing the proxy, 10-K, and voting card to shareholders of record; overseeing the tabulation of the proxy; and working with legal and other IR team members on meeting details.

"Many people probably don't realize the annual meeting is the last piece of a puzzle that is driven by a two-quarter process," Maffei explains. "Once you have a date for the annual meeting, it drives everything, and you need a tight timeline with all the important dates – such as the broker search, record date, and proxy statement filing date. Then you have to back in the printing and mailing dates," she explains. "When it comes to the timing, there are many regulatory rules that must be followed and you have to understand every component in the timeline, and then build in a little time for unexpected issues."

In the two months leading up to the meeting, Maffei says she leads a working group that meets weekly for 15 minutes and is made up of legal counsel, the transfer agent, a Broadridge representative (a provider of investor communications for proxy mailing and vote processing), and the financial printer. "Working group meetings are really helpful," advises Maffei. "It's important to have the right people around the table so we're all turning left at the same time with agreement from everyone.

Reporting Meeting Results

At the conclusion of their shareholder annual meeting, 81 percent of survey respondents say their company reports the results of the meeting via the 8-K SEC filing, 39 percent also issue a press release, and 33 percent report results on their website. Only 1 percent use Facebook. Comcast, Allstate, and Costco all report meeting results by filing an 8-K that is accessible through the company website.

Only 30 percent of those surveyed report that their company broadcasts all or a portion of the meeting, and of those 30 percent, 95 percent webcast, 21 percent use a conference call, and 5 percent employ video. Maffei says Comcast webcasts the business part of the meeting.

Allstate doesn't currently webcast, notes Ieuter, because the company doesn't use the meeting as an event to communicate information that hasn't already been conveyed. According to Elliott, Costco records the entire meeting and replays it a number of times for employees. In addition, the presentation as well as meeting and proxy materials are posted on the company website.

However, when it comes to any plans to move to a fully or partial virtual meeting, Elliott says it's been discussed but the general consensus is the meeting would become too impersonal. "For now we're opting not to and although we've discussed a combination of both as a way to open ourselves up to a greater audience, it's expensive," she explains. "As we're very cost conscious, we would rather pass savings on to our members." This is in keeping with the consensus of survey respondents, 93 percent of whom said their company had no plans to move to a virtual meeting.

Defining Success

So what does a successful annual shareholder meeting look like to our three IR executives? "My goal for our annual meeting is for the plan that is put in place to be executed flawlessly," says Maffei. "A successful annual shareholder meeting is all about planning, timing, and communication."

For Ieuter, it's simple. Allstate's shareholder meeting is not a public relations or media event. Her goal is for the meeting to accomplish all its administrative and regulatory obligations so she can check the box and know that her company is doing what's required.

As Costco has such an open forum at its meetings, one of Elliott's biggest concerns is security, so a successful meeting for him is one without controversy or protesters. "Our whole board of directors is there, so of course I want everything to go as smoothly as possible," Elliott says. He adds that for Costco, a successful shareholder meeting is an open, state-of-the-union address with no surprises that gives shareholders an opportunity to interact with the management team and ask questions about the business. "Transparency is very important to us, as is keeping the meeting fun and lighthearted. If you're doing business right, your shareholder meeting should be a feel-good story." IRU

Alexandra Walsh *is a freelance writer based in Bethesda, Maryland; awalsh@associationvision.com.*

FROM THEORY TO PRACTICE

Business school academics can lay an important foundation for the practical challenges of investor relations. Learn more about the connection between the two. By John M. Palizza

"It's not all just theory – some of the stuff they teach in business school really has application when dealing with investors."

This is one of the first points I tell my students at the Jones Graduate School of Business at Rice University. Five years ago, I was given the opportunity to create a master's in business administration-level course on investor relations. This included creating the syllabus, lectures, and case studies that bring the reality of the interplay between corporations and investors into the classroom.

The experience has given me the opportunity to step back and consider how business school academic theory applies to the practice of investor relations. Since investor relations touches upon finance, marketing, law, communication, knowledge of your company's operations and industry, and an understanding of how the capital markets operate, it's a rich field for discussion.

This article highlights how two financial and two marketing concepts taught in business school apply to real-life investor relations. The concepts include:

- Net Present Value, Discounted Cash Flows, and Future Earnings
- Efficient Markets and the Role of Investor Relations
- Marketing, Investor Relations, and Corporate Life Cycles
- Marketing, Efficient Investor Relations, and the Pareto Principle

Each of these is addressed in the sections that follow.

Net Present Value, Discounted Cash Flows, and Future Earnings

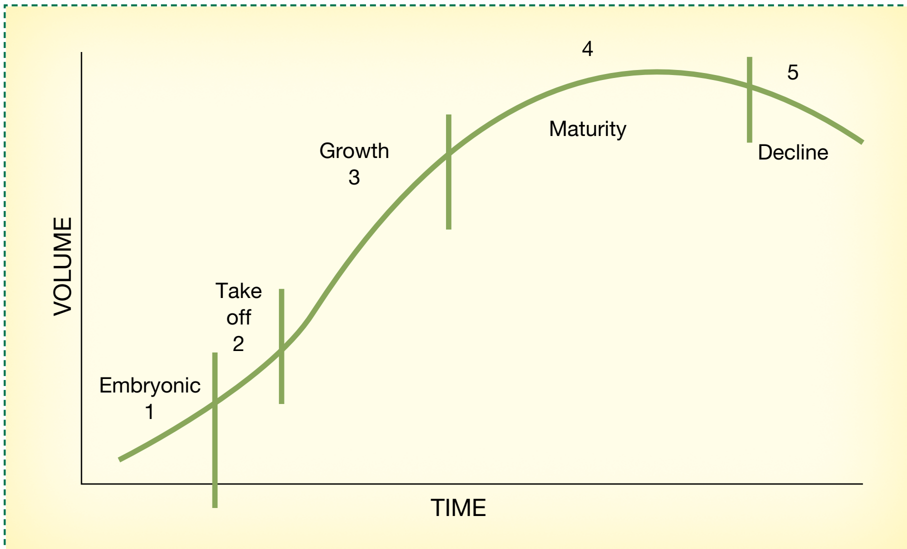
In valuing a company, traditional academic theory states: *"The value of a company is based upon investors' estimates of the sum of its future cash flows, discounted back to their present value."* (Investors will often use earnings-per-share and dividends-per-share as proxies for cash flows in determining the stock price.) The confidence that investors have in those estimates of future cash flows is based largely upon the company's past performance and their view of the economy and the markets as expressed by the discount rate they assign to the cash flows. In other words, investors make estimates about the future, using the past record of the company as a reality check.

The interesting thing here is that the theory is predicated on what will happen in the future, yet much of investor relations is spent explaining what occurred in the past (i.e., last quarter). So it's important that proactive investor relations focus on what the firm is doing to ensure future revenues and where the markets for its products are headed.

If investor relations can't, or won't, explain how the firm intends to grow revenues, earnings, and cash flows into the future, investors will be forced to make their own estimates. These estimates invariably will be accompanied by more uncertainty and greater variance than if the company assists the investor. By lowering or removing some uncertainties, a company can help lower the discount rate assigned to the cash flows, which results in a higher present value for the stock.

A corollary to this is that consistent profitability will be more valuable to an investor than a company with lower profits now but big profits projected for the future. This is because in a discounted cash-flow model, current profits will be discounted less and will help compound earnings in later years. Similarly, consistency will also help investors assign lower discount rates to future cash flows, as they are much more comfortable projecting based on more certain, visible trends than they are if the company's earnings are highly variable.

FIGURE 1: Life-Cycle Curve



The charts in this article have been adapted from an article by Robert T. Davis, "Marketing Management: Becoming a Market-Driven Company," contained in the book, The Portable MBA, Eliza G. C. Collins and Mary Anne Devanna, John Wiley & Sons, Inc., 1990.

To sum it up, smart investors are betting on future success, and that's where the bulk of investor relations communication should focus. And the more certainty they can assign to their estimates, the higher their valuation will be.

Efficient Markets and the Role of Investor Relations

One of the things taught in finance class during the first year of business school is the efficient market hypothesis. In its most widely used version, the semistrong form, the efficient market hypothesis states that security prices fully reflect all widely available public information.

The implications of this seemingly simple statement are profound, because if current stock prices reflect all relevant information, then prices will change only when new information arrives. By its definition, new information cannot be predicted ahead of time, and therefore stock prices cannot be predicted ahead of time and will be random. Since Eugene Fama initially wrote about efficient markets in 1969 literally hundreds of event studies have been done showing that markets rapidly react to widely available information.

So, you may ask, what has all of this got to do with investor relations? The key here is that investor relations has a fair amount of discretion over what information becomes public and widely available. Forget for a moment what you have to disclose because of regulations and quarterly filings and think instead about other things that make up your company.

For example, if a company has a terrific management team but executives never appear in public so that investors can judge how great they are, that information is not widely available and the market will not react to it. If investors don't know how good the entire management team is, they can't build that into their expectations of future profits and therefore it will not be reflected in the stock price.

Investor relations officers have wide latitude over voluntary disclosures. These are pieces of information that, in and of themselves, do not rise to the level of materiality, but do help investors understand the company. Every company has a particular strength, be it brand management or operations, to name just two. Highlighting information of this nature with investors can help them more efficiently value your stock. The key is that the information has to be widely available. You have to have a consistent effort to disclose those pieces of information to your investors.

Do that and investor relations will have done its part in making the markets more efficient.

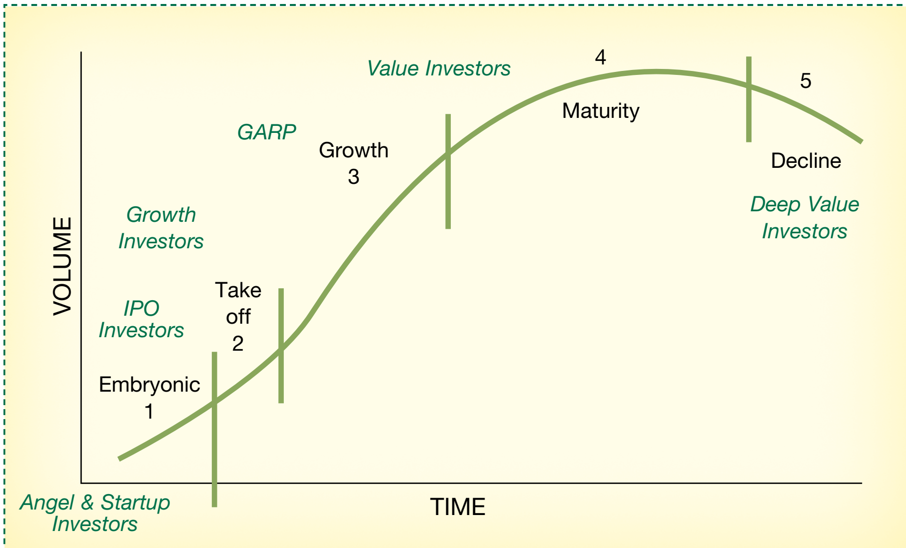
Marketing, Investor Relations, and Corporate Life Cycles

In marketing there is a well-known graph known as the Product Life-Cycle Curve (see Figure 1).

The graph demonstrates how products are first brought to market and purchased by early adopters, then go through a phase of rapid takeoff and growth. Once the product has achieved widespread acceptance, the growth cycle slows down, and after a period of maturity, decline inevitably sets in.

The speed at which all of this occurs depends in large part on the nature of the industry and the aggressiveness of competitors. Tech gadgets, for example, have much shorter product life cycles than say, breakfast cereals.

FIGURE 2: Type of Investors Attracted to Each Life Cycle



Investor relations practitioners should take note that the shape of the graph applies to more than just product life cycles. Stop thinking about products and substitute corporate life-cycle development and the graph doesn't change. Where this is of interest to investor relations professionals is in the type of investors each phase of the cycle attracts (see Figure 2).

One of the interesting things about the graph is that as you move on the life-cycle line from left to right, the price/earnings ratio that investors are willing to pay for a stock declines. This is because investors perceive that the rate at which future earnings will accrue to the company is slowing and they are therefore willing to pay less for that future stream of earnings that are growing more slowly or declining.

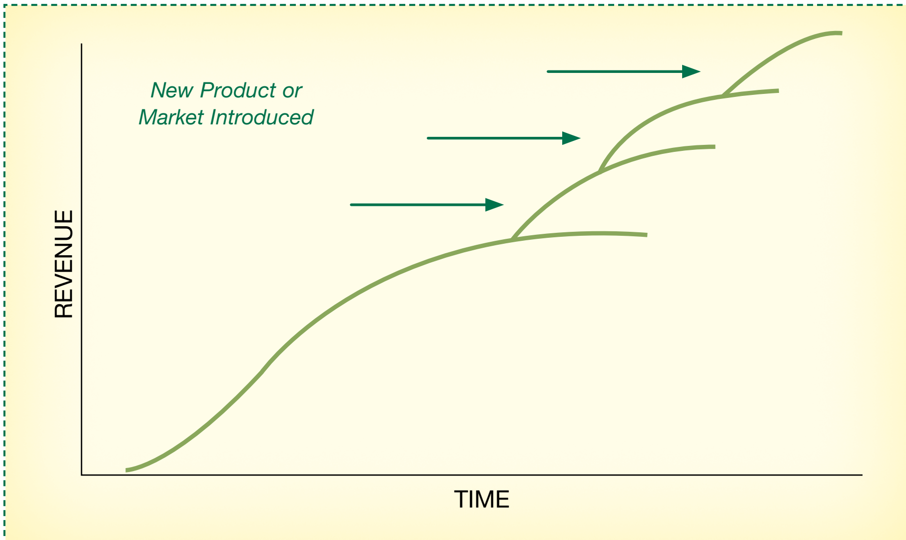
Companies often struggle with this, particularly at the inflection points between stages. Company executives will say, "We're a growth company – look at our record. The market is undervaluing us." Investors, on the other hand, will look forward and say, "Nope, you're a mature company. Your big gains are over and we're not going to pay a premium for a company that is going to grow at the rate of the market." Many an antagonistic relationship has been fostered based on this differing view of the world.

To carry this one step further, when a product threatens to become mature, the marketing people move in and try to rejuvenate and refresh the brand by introducing new product features and formulations or market applications. The idea is to boost sales volume. Nobody wants to get to the point where a product is mature, verging on stale, and headed for inevitable decline. In graphical terms, what they do is represented in Figure 3.

Companies do the same thing. A great example of a company continually reinventing itself via new products and markets is Apple. Initially, Apple was a computer company. Then it introduced the iPod and iTunes. This was followed by the iPhone, Apps, and now, the iPad.

Companies also attempt to extend their progress up the growth curve through acquisitions, entering new markets, going global, re-engineering their work processes,

FIGURE 3: Product Life-Cyle Curve Showing New Products or Markets



expense initiatives, and a raft of other things too numerous to mention. In doing this they hope to extend their growth and the premium investors will pay for their future earnings.

The problem with all of this, from an investor's viewpoint, is that the new products, programs, and initiatives don't have a track record. Therefore, the certainty with which future earnings from these programs can be predicted is less than it is for existing operations. Therefore, the willingness of investors to pay up for the incremental but less-certain earnings is also less.

Unless and until a company can establish a track record for successful entry into new products, markets, or initiatives, investors will discount the future earnings at a greater rate than the old familiar type of earnings. Investors don't like uncertainty. So revenues may go up, earnings may in fact also go up, but price-to-earnings ratios will fall until a company can demonstrate that it has as one of its core competencies the ability to extend its growth with new initiatives.

This is a constant source of tension between investors and company management. A company may have invested millions of dollars in a new initiative through design and engineering, consulting fees, and countless meetings and studies. It is embarking on a bold new strategy to push the company forward for the next millennium. And yet, in its view, the market doesn't get it. In fact, the market does get it, it just doesn't assign as much certainty to the new revenues as company management does.

Investor relations professionals should learn to recognize this type of fact pattern and be ready to explain to management why the stock didn't jump when the CEO's latest initiative was announced. The takeaway here is that companies have to prove themselves to investors on new initiatives to a far greater extent than for existing operations because there are many more uncertainties associated with the new initiatives.

Marketing, Efficient Investor Relations, and the Pareto Principle

Almost every investor relations department I know works with constrained budgets and limited staffs. As a result, they need to be efficient with their time and effort, and that's where the Pareto Principle comes in. It's the fancy name academics give to the 80/20 rule, that is, that 80 percent of effects come from 20 percent of the causes, or to put it another way, the few (20 percent) are vital and many (80 percent) are of little consequence.

This principle is important in investor relations because most companies today are 70 percent to 80 percent owned by institutional investors, and within the institutional shareholder base, the 80/20 rule will usually apply. Plainly put, 80 percent of the institutional shares in a company are usually held by the top 20 percent of the shareholders. Therefore, in order to efficiently reach the maximum number of shares in your investor relations efforts, you need to give first priority to the top 20 percent of your shareholders.

This is not to say that you violate Regulation Fair Disclosure in prioritizing your shareholders. Material, nonpublic information should always be released to all shareholders at the same time. Rather, these large investors should never be disappointed because you failed to regularly communicate with them regarding normal, nonmaterial voluntary disclosures.

It's a simple marketing principle: Take care of your best customers.

Insights To Go

I hope this brief foray into academic theory and its relationship to real-world investor relations has offered some useful insights. In the meantime, we on the academic side will continue to work to prepare students for the challenges they will face when they enter the investor relations profession. IRU

John M. Palizza *is a consultant at Three Part Advisors and a lecturer in management at Rice University; john.palizza@gmail.com.*

Planning Your Road Trip

Pay close attention to details and don't leave anything to chance.

"What I've learned is you cannot manage this process too closely, including the folks you're working with on the sell side," Jonathan Peisner, vice president, treasurer, and head of investor relations at KAR Auction Services, said. "You cannot leave anything to chance." Peisner, along with Mark Donohue, senior director of investor relations and corporate communications at Impax Laboratories, and moderator David Olson, senior counselor at The Abernathy MacGregor Group, provided their perspectives on a July NIRI-sponsored webinar entitled, "Road Shows Part I: Preparing to Go."

Peisner develops IR goals, gets buy-in from management, and identifies his target markets at the beginning of the year. It's a three-fold process of targeting current investors, potential targets, and sell-side analysts covering the company. From there, he develops a very detailed calendar.

Focus on the Process

Donohue goes through a similar process. He looks at his company's shareholder base and targets institutional investors. He also likes to share road shows with analysts who either have a buy or neutral rating on his company.

"We're all victims of our experiences in life," Peisner said. He personally will not go on the road with an analyst who has a sell rating on the company after experiencing a terrible trip with one who did.

Donohue recommends going on the road with an analyst who is knowledgeable about the company and has access to the buy side. "Not every one of our analysts is always as in tune with the story as others,"

> **Portfolio managers aren't going to buy the stock unless analysts have it on their lists as a 'buy' or an interesting story.**

he said. Reviewing *The Wall Street Journal* and *Institutional Investor* analyst rankings as well as talking to investors will help identify the respected ones. According to Donohue, you can figure out which analyst's research offers a more in-depth analysis of your company as opposed to just reports on your story.

Advice for Small Caps

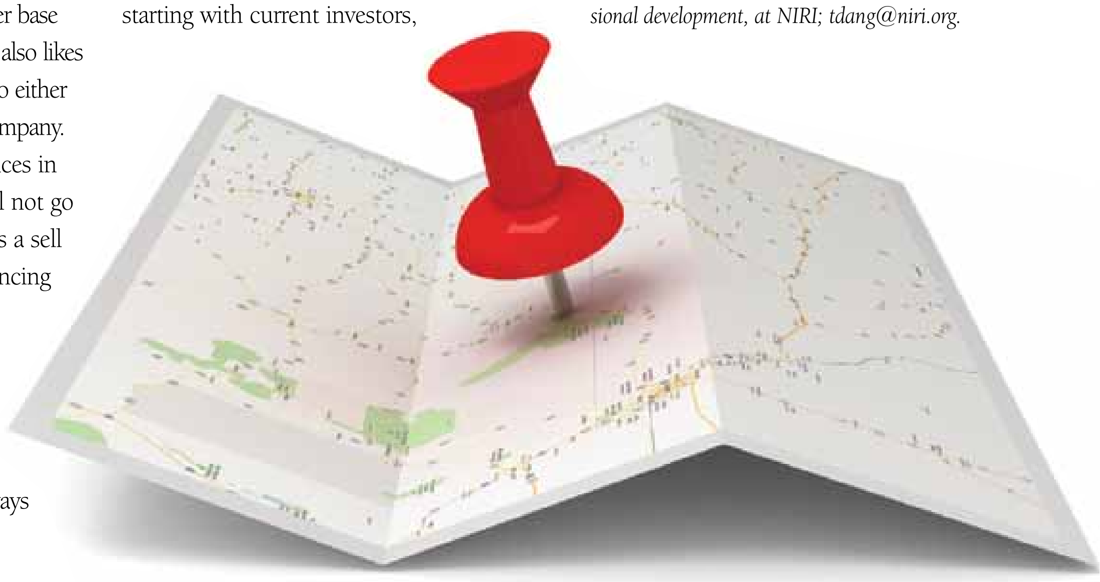
For small-cap companies with little or no analyst following, Peisner recommends starting with current investors, looking at who is invested in their peers, and perusing the 13Fs filed by institutional investment managers. "The point of entry is typically going to be at the analyst," he said. Portfolio managers aren't going to buy the stock unless analysts have it on their lists as a 'buy' or an interesting story.

Peisner warns companies about going on the road before a big event such as an acquisition. "We don't like to be on the road when we're exposed like that," he said, since the company is risk averse. "You need to recognize there's increased risk because these guys don't just listen to your words; they [pay attention] to your tone, nuances, how your eyes move."

Even though it happens, Peisner does not like it when management takes calls or meetings on its own as he is very Regulation FD conscious. Both he and Donohue prefer to have at least two people in meetings on the road.

For more information about future webinars, please visit www.niri.org/webinars.

*Contributed by **Tammy K. Dang**, manager, professional development, at NIRI; tdang@niri.org.*



NIRI Moves Forward With OneNIRI

ONENIRI 2012-2015 VISION: Build an even more inclusive, networked, global organization – with core competencies of information, practice, advocacy and community – throughout NIRI to lead the investor relations practice and investor relations professionals.

NIRI continues to move forward with OneNIRI strategy development in four targeted areas:

- Membership and community
- IR practice
- Technology
- Global IR

Preliminary qualitative and quantitative research has been completed, with results to be discussed at the September NIRI Board meeting. For an update, please visit the OneNIRI web page at www.niri.org/oneniri.

NIRI membership value adds up…

NIRI BENEFIT/SERVICE	VALUE/NON-MEMBER PRICE
INFORMATION	
IR Update magazine	$175
Executive Alerts – breaking issues bulletins	$100 each
Annual IR Compensation Survey	$100
IR Weekly e-newsletter	Member-only links
Archived body of knowledge (website)	Members only
Standards of Practice Volume III	$270
NIRI Ethics Council access	Members only
PROFESSIONAL DEVELOPMENT	
Member benefit webinars	$250 discount each
Seminar and conference registration	$200 - $300 member discount
Career Center job listings, resume posting	Members only
Career Transition Program	$595 (if in transition)
COMMUNITY/NETWORKING	
Online member directory	Members only
eGroup online communities	Members only
Chapter membership	Members only
Networking with other members	Priceless
ADVOCACY	
Advocacy: NIRI is the voice of IR	Invaluable

Total Value to Members: If you take advantage of these benefits, the value of your membership is more than $3,000!

Professional Development Calendar

For program information and registration, visit www.niri.org/calendar

September 2012

9-12 Fundamentals of Investor Relations, Boston, MA

12-13 Energy, Oil & Gas Symposium 2012, Houston, TX

13 Regulations 101 seminar, Boston, MA

14 Creating Powerful Investor Presentations seminar, Boston, MA

18 Media Part II: Managing the Media webinar

25 Senior Roundtable – FASB Liaison Meeting, Norwalk, CT

October 2012

9 Media Part III: IR's Role in Crisis Communications webinar

23 Using Numbers to Tell Your Story webinar

November 2012

12-14 Finance Essentials Intensive, New York, NY

14-16 Global IR Practices Seminar, New York, NY

20 Capital Markets Trends webinar

28-30 Senior Roundtable Annual Meeting, Scottsdale, AZ

December 2012

13 What's Coming in 2013? webinar

Boardroom Bound – Blazing the Trail

Presenting to the board elevates the importance of IR and can offer board members valuable insights.

For many investor relations officers, the journey to the boardroom starts by gaining recognition among their company's board as a peer, business owner, and leader within their organization. The savvy IRO capitalizes on this unique access to learn the skills, experience, and demeanor possessed by respected board members and leverages this knowledge to create his or her own path to the boardroom. The New York chapter hosted a panel of experts recently from the investor relations, governance, and board communities to speak candidly about the opportunities and challenges along the way.

Home-Field Advantage

It is important that your CEO and CFO view the IR role as imperative to the company's long-term business strategy and ensure IR's active participation in board meetings. Barbara Gasper, senior vice president/group executive, investor relations at MasterCard, presents to her board at least once per year. As part of her annual delivery, Gasper keeps the board apprised of significant shareholder demographic changes and provides results of an investor-perception study.

In an effort to offer the board informed, outside expertise, Gasper leverages her Wall Street relationships and has invited a well-respected sell-side analyst and portfolio manager to discuss industry trends and an overall view of the competitive landscape. Her board views the third-party insight as valuable and informative. Gasper honed her board presentation skills at MasterCard, Ford, and Raytheon. Her advice is to "pay attention to the dynamics in the boardroom. Observing behavior and hearing the board's feedback will give you a better appreciation for the role."

Many public company board members and managers are looking for ways to more effectively communicate the corporate message.

Many public company board members and managers are looking for ways to more effectively communicate the corporate message. As a result, a practice that is gaining acceptance is allowing certain board members to speak to outside investors. Peggy Foran, chief governance officer, vice president and corporate secretary at Prudential Financial, recently invited two Prudential board members to attend a Council of Institutional Investors meeting. Selecting the representatives entails careful consideration. Foran noted that not all board members are appropriate; choose those who can articulate your company's strategy, are cognizant about disclosure rules, and feel comfortable engaging with investors.

From the Director's Chair

As a corporate secretary for Prudential Financial and member of Occidental Petroleum's board, Foran understands the rigorous process of selecting qualified board members. Companies are "looking for leaders who bring unique expertise. This can be international business, technical acumen, or proven success managing transactions such as an emergence from bankruptcy." Having prior board experience is essential even if it is with a nonprofit board. Experience working with board committees and having corporate governance training are all accomplishments that make you a more attractive candidate. You should also have knowledge of the company's industry and competitors and the unique challenges the company is facing before you meet with any of its current board members.

Jeff Neuberth, founder and president of Topmark Advisors, noted that there is "a scramble for board talent within the Fortune 1000 companies." For those IROs who aspire to hold a board seat, the time has never been better to develop and market your considerable skills for board leadership.

Contributed by ***Theresa Molloy,*** *consultant; tmolloy@niri.org.*

Advance Your Investor Relations Expertise

Investor Relations Certificate Program

Curriculum developed in collaboration with the National Investor Relations Institute (NIRI)

niri

Features

- University of California— standard of excellence
- 100% Online – delivered by recognized investor relations professionals
- Courses based on the competencies and standards the Institute has determined investor relations professionals need to know and understand
- Exclusive NIRI member tuition discount

Benefits

- Demonstrate competence in the IR field
- Enhance career advancement opportunities
- Learn how to implement a strategic IR program, disseminate appropriate information to the investing community, and gain financial acumen to support valuation of the company by the market
- Understand the investor relations professional's role in corporate governance

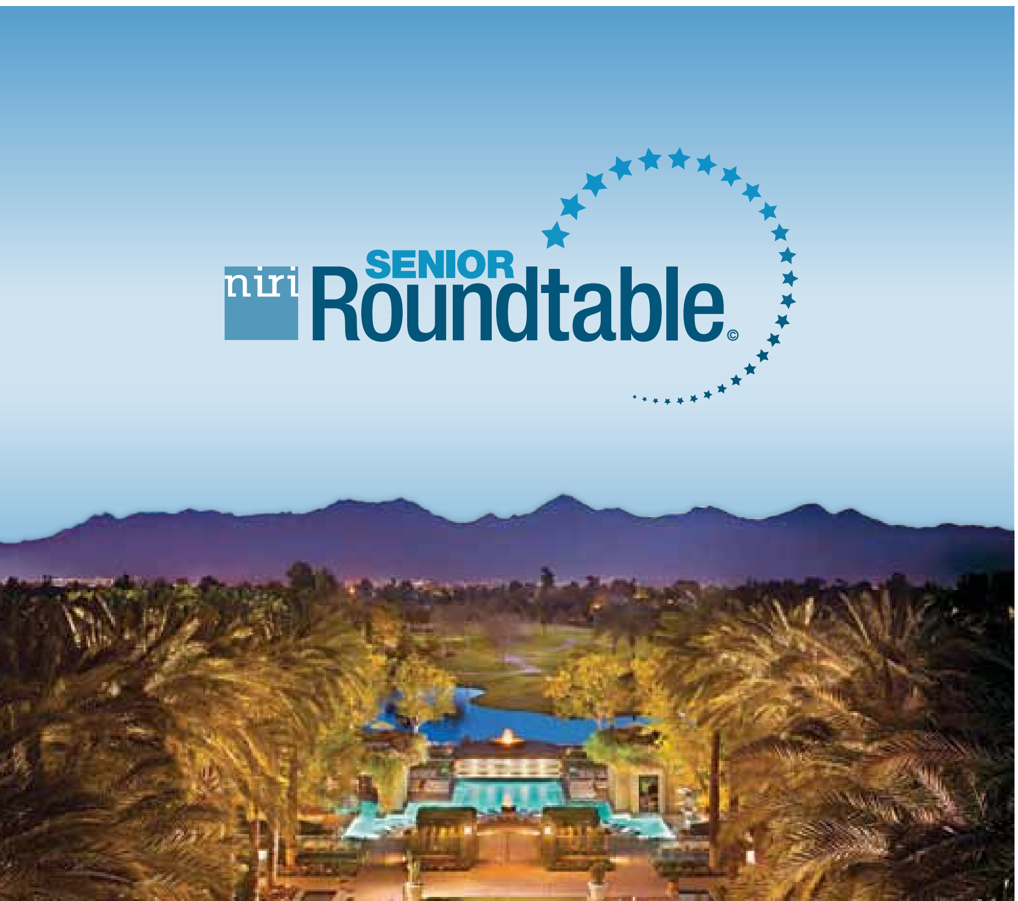
Start valuable networking and educational opportunities to enrich your career today!

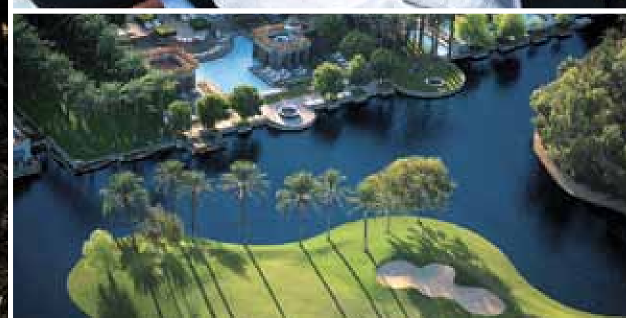
For more information:
Francine Berg, program representative
fberg@uci.edu
(949) 824-4661

UCIrvine | Extension

extension.uci.edu/niri

National Investor Relations Institute
225 Reinekers Lane, Suite 560
Alexandria, VA 22314





Hyatt Regency Scottsdale, AZ Resort and Spa

Address your unique challenges and distinct professional needs…

- **LEARN**—with quarterly peer-driven webcasts
- **CONNECT**—with the member-only online community
- **EXPERIENCE**—the prestigious Senior Roundtable Annual Meeting
  - November 28-30, 2012, Hyatt Regency Scottsdale, AZ Resort and Spa
- **ATTEND**—special SRT-member in-person events
  - SRT gathering at the NIRI Annual Conference
  - Networking meetings in U.S. financial centers
- **SAVE**—with reduced rates on NIRI education programs, including Annual Conference

For membership criteria, a sample meeting agenda, and to apply go to www.niri.org/srt