

IRupdate

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In his new book, finance and accounting researcher **Baruch Lev** presents new—and sometimes controversial—ideas about how to improve investor loyalty and build long-term shareholder value.

SURPRISING WAYS TO WIN OVER INVESTORS

4 Long-Term Focus in a Short-Term Environment

10 Creating a Do-Good Report

15 Courting the Retail Investor



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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

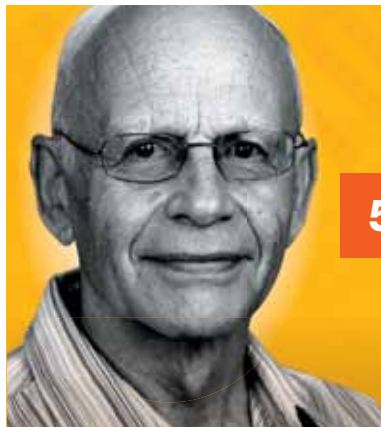
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5

Surprising Ways to Win Over Investors

In his new book, finance and accounting researcher Baruch Lev presents new – and sometimes controversial – ideas about how to improve investor loyalty and build long-term shareholder value.

By Matt Brusch



10

Creating a Do-Good Report

While not yet a “must-have,” corporate sustainability reports are growing in importance to investors and other audiences.

By Apryl Motley



15

Courting the Retail Investor

Increasing your share of retail investors can be an effective move. Learn how American Water Works successfully executed this strategy.

By Muriel S. Lange

DEPARTMENTS

4 At the Bell

Long-Term Focus in a Short-Term Environment

By Derek K. Cole

20 Webinar Report

IR's Role in the Governance Process

It's your job to stay informed and collaborate on corporate governance issues.

21 NIRI Now

- The New NIRI Office: All About Location
- NIRI Staff Contact Information
- Professional Development Calendar
- Quick Takes
- On the Move
- 2012 Member Survey Coming Soon

Long-Term Focus in a Short-Term Environment

Besides the opportunity to be intimately involved with every aspect of our companies and industries, I find one of the greatest thrills of investor relations to be that most days are never the same. We constantly juggle priorities to maximize the productivity of not only our time and efforts, but also the time our management teams and boards spend on IR, all in an environment that requires immediate response to external data and events. This usually leads to the classic trade-off of focusing either on what is important or what is urgent.

The Pace Accelerates

As capital markets have become global, the pace of our activities and responsibilities has accelerated. The markets have evolved dramatically – the often-quoted statistic is that about 70 percent of the daily equity volume is due to trading rather than fundamental investors. Average institutional holding periods have dropped precipitously.

In this type of environment, it is easy to focus on the urgent, short-term item. Several hot topics du jour are risk management, use of corporate cash, and exposure to the European debt crisis – issues that must certainly be addressed to investors' satisfaction.

However, I believe we must concentrate on what is important in the long term for our companies and guide our constituencies of management, the board, investors, analysts, and media to share that focus. It is too easy and common for these audiences to focus on short-term issues that in the future will not be as significant as they seem today, to the detriment of strategic issues that will impact shareholder returns. In this role, IROs can demonstrate the knowledge and leadership that make IR a strategic partner for all our constituencies.

Turn to NIRI

Fortunately, NIRI can be a terrific resource. Our more than 3,500 members representing 2,000 publicly held companies are a wealth of knowledge, experience, and IR best practices. I encourage you to reach out to your peers, whether you have questions about daily IR practice or you can provide answers to those seeking information.

NIRI's members are its greatest strength and most potent resource. Tap into the knowledge base available through NIRI educational programs, local chapters, eGroups, and of course, the NIRI Annual Conference this June in Seattle.

With the support of our community, we can better utilize three traits common to all successful IROs: flexibility, the ability to prioritize under pressure, and, most importantly, a sense of humor – especially during earnings season.

Please contact me or any of the NIRI board members with your thoughts, suggestions, questions, or comments.



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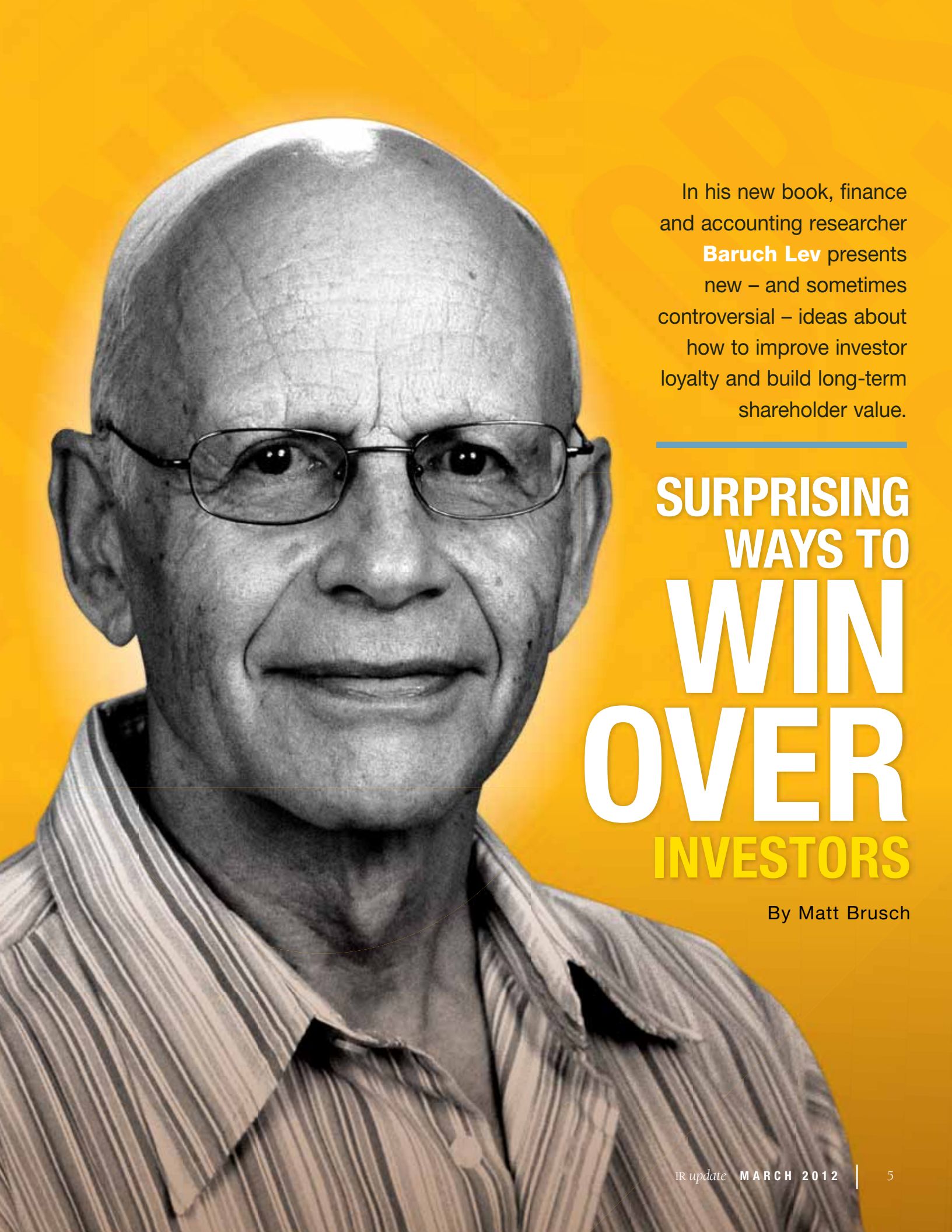
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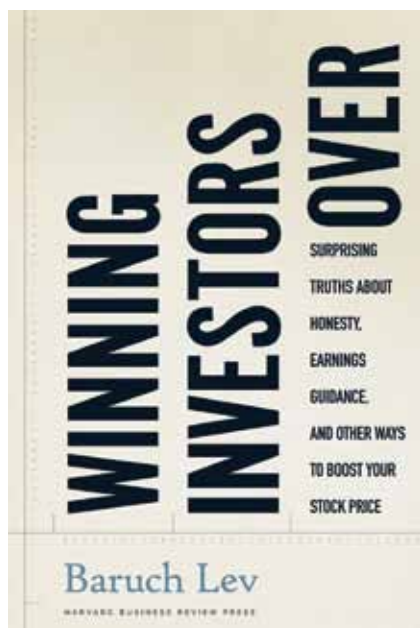


In his new book, finance and accounting researcher **Baruch Lev** presents new – and sometimes controversial – ideas about how to improve investor loyalty and build long-term shareholder value.

SURPRISING WAYS TO WIN OVER INVESTORS

By Matt Brusch

For any IR professionals considering reading his new book, “Winning Investors Over: Surprising Truths About Honesty, Earnings Guidance, and Other Ways to Boost Your Stock Price” (Harvard Business Review Press, 2012), **Baruch Lev has a message: Prepare to be surprised.** Some might ask, “How can there be surprises in an academic book about investor relations?”



Lev responds by noting that he himself is “continuously surprised about what I see in research,” and there are plenty of new research findings in the book, which has led him to make many recommendations including some that may seem controversial.

Moreover, Lev had plenty of real-world business experience before he became the Philip Bardes professor of accounting and finance at the New York University Stern School of Business and director of the Vincent C. Ross Institute for Accounting Research. He was an accountant, an investment banker, a partner in a consulting firm, and has served on public company boards.

I recently interviewed Lev about his book and his views on the IR profession.

MATT BRUSCH: What led you to write this book?

BARUCH LEV: Over the years, listening to corporate executives and observing what they do, I have concluded that many are captive to a web of misperceptions about the workings of capital markets. They think that investors are short-term oriented and obsessed with quarterly earnings; shareholder lawsuits are on the rise and are very costly to the company; the higher the stock price the better; activist investors are a nuisance; share buybacks are a great way to close valuation gaps, and many, many more. In fact, all are misconceptions. Solid research convincingly proves these are myths.

The problem is that these misperceptions shape management’s actions and communications and render them to a large extent ineffective. Based on extensive experience and research, I set out in the book to do two things – clear up the myths and misperceptions, and outline a capital markets strategy to regain the trust of investors, which I think is incredibly important today. We have just concluded one of, if not, *the* worst decade in stock market history which, in addition to investors losing lots of money, saw a parade of corporate accounting scandals, compensation abuses, and stock option manipulations. Investors worldwide are resentful and disillusioned, and it’s time for companies to regain investors’ trust, which can only be done by understanding their motives and the workings of capital markets.

BRUSCH: Each chapter of your book is thought provoking. For example, regarding your suggestion to correct overvaluation – we all know that when the stock price is high, everyone’s happy. How does an IRO realistically make a case to management that it should take action to lower the stock price? I also imagine the Street simply writing these efforts off as company

management trying to lower the bar. How do you suggest IROs go about addressing these issues?

LEV: I agree that when shares are overpriced people are happy. When you take drugs, you are also happy, for a while. I admit that it is not easy to make the overvaluation case; it's also not easy to convince an addict to change. How do you start? This is a major theme throughout my book – you start by collecting evidence. You have to make a convincing case that share price overvaluation is large and protracted.

To see if you have a problem, look at your price/earnings ratio relative to peers. Examine the price earnings/growth ratio, analyst forecasts compared to internal forecasts, and other evidence of mispricing. Prepare a solid case. If the overvaluation is small or temporary, don't bother about it. If it is large and protracted, it is your duty to discuss it with executives and if they wish, the board. Even if they don't listen, you will be on record as warning them.

Begin presenting your case by hammering the message that an overpriced share is bound to fall to earth, usually on the first earnings disappointment. Otherwise, the share isn't overpriced. When it falls dramatically, all hell breaks loose and then you, the IRO, will have to face the consequences with investors and even the board. It is a calamity in the making.

Many executives know when their shares are seriously overpriced. And what is further damaging is what managers usually try to do. Some exploit the overpricing by acquisitions, paying with cheap currency (overpriced shares). My recent research shows that these acquisitions were often disastrous for companies and investors. The second thing some executives try to do when shares are overpriced is justify the price by earnings manipulation, and this is equally damaging.

A classic example for the first case of buying companies with cheap currency is the AOL acquisition of Time Warner. An unmitigated disaster. An example of the second case is the large Indian company Satyam. It almost fell apart in 2009 when the CEO wrote a letter to the board admitting that he manipulated the financials for years. His motives were essentially to justify overpricing. He ended the letter by saying, "I rode a tiger I could not dismount."

So, if you don't have a strong case you will clearly look foolish trying to tame the share price. But if the case is strong and the overvaluation is protracted, you have a duty to be on record warning managers.

In general, I would like to see the IR function be more evidence-based. Once a year prepare an "earnings call checkup," like the one you get from your doctor.

BRUSCH: You take a relatively controversial position in support of non-GAAP information. Companies are often criticized for providing this. Could you shed light here, and is non-GAAP data right for all companies?

LEV: Not every company has to provide non-GAAP information. It depends on the nature of the business and its life cycle. For example, in mature, non-growth companies with easy-to-understand business models, such as real estate, retail, and transportation, GAAP does a reasonable job.

But for early-stage or growth companies with complex business models, such as pharmaceuticals, telecommunications, high-tech, health care, and finance companies,

GAAP has been shown to do a poor job providing investors' information needs.

Think about pharmaceutical and biotech companies – their most important development is what happens to the product pipeline – the state of clinical tests, FDA approvals, and so on. This is what creates or destroys value for these companies, but pipeline information is not required by GAAP.

Or take telecom and Internet companies. It is the number of new customers, customer acquisition costs, churn rate, and so forth, which create value, but all of these are not GAAP-required disclosures.

In such cases, companies clearly ought to provide additional information. It is good for shareholders and management alike. Sharing information is not a zero-sum game. When you share relevant information, studies have shown, the volatility of share prices decreases significantly. Regularly sharing information means there are fewer surprises. The cost of capital goes down, too. It is good for everyone.

Pro forma earnings get a bad rap in the media, but studies have shown that investors pay close attention to them. "Street" earnings (where analysts adjust for different factors) have been found to be more correlated with share price changes than GAAP

earnings. So my message to IR people is that if you think your earnings number doesn't reflect reality due to unusual expenses or gains, then by all means provide pro forma earnings. Despite what pundits say, they are not ignored by investors.

BRUSCH: Your findings regarding earnings calls will certainly be comforting for NIRI members who sometimes struggle within their companies to effect the types of rec-

volume around the call isn't above average, then the conference call was a waste of time. It didn't provide new information. Third, look at analyst response to the calls – how many analysts revised their earnings after the call compared to peers? This way, I would create an annual scorecard for the conference call. If everything is OK compared with your peers, then don't fix it. But if not, then most likely your conference calls are uninformative.

Don't sugarcoat poor results. Investors want the truth. Studies have shown that after poor earnings, conference calls that have more negative terms are actually more effective at changing investor's perceptions. It shows that managers face reality. Don't be cryptic, evasive, or impatient.

Speak mainly about the business model. Explain what didn't work and why, and what corrective actions you will take. Put targets on the table – that way you will be

credible. When you feel comfortable with it, give forward-looking guidance. These are the characteristics of conference calls that work. I know that for executives there is some risk in forward-looking information, but if you want to make the call informative and interesting, you have to take some risks.

It is clear that analysts and shareholders want guidance. A recent study looked at stock price reaction upon the announcement of the cessation of quarterly guidance. The study showed significant stock price declines upon the announcement.

ommendations outlined in your book. What guidance would you give to an IRO who is challenged by corporate counsel or C-suite as he or she attempts to implement changes designed to improve earnings calls?

LEV: Once more, start with evidence. In general, I would like to see the IR function be more evidence-based. Once a year prepare an "earnings call checkup," like the one you get from your doctor. For example, look at how many investors and analysts attend your calls compared to competitors. There is a message in a low number. They won't come if they don't get new information.

Second, how much "buzz" is created by the calls? Look at the volume of trade during the call and the rest of the day. If the

When I listen to CEOs on many of these calls, I often get the impression that their major objective is to finish the call unharmed – get out in one piece. A CEO after one recent earnings call was overheard saying, "Thank God it's over." That is the wrong attitude. In sports, defense is always important but it doesn't win games. Conference calls are a great opportunity to change investors' perceptions, and companies should not miss these opportunities.

Research suggests that managers shouldn't waste much time in earnings calls on so-called "big issues" that management loves to speak about – strategy, economic trends, environmental issues, and so forth. Most analysts are not interested in these issues.

BRUSCH: Throughout the book, you make a number of comments about the effectiveness of public company investor relations programs. Based on your extensive research, what are your opinions on the profession, and what is your advice to our readers as they seek to be as effective as possible?

LEV: I have always believed IR is an extremely important function. It is really indispensable. Regarding my advice to readers, it would be presumptuous of me to counsel IR professionals how to conduct their affairs. But if I were an IR practitioner, I would perform, in addition to the routine tasks, a comprehensive "IR checkup" about once a year. I would closely examine the major areas in the "IR space": the share valuation gap (under- or overpriced); the effectiveness of the company's disclosures

and communications (beyond-GAAP information, earnings calls); the quality and accuracy of company-related information disseminated externally by analysts, bloggers, and short sellers; and the consequences of actions aimed at changing investors' perceptions, such as share buybacks, stock purchases by managers and directors, or stock splits and special dividends.

Based on this evidence-based examination, I would develop an "IR scorecard," determining the state of affairs (e.g., a significant share undervaluation, ineffective earnings calls, etc.) and propose a detailed action plan to address the problems. I would then closely follow the execution of the remedial plan, and provide before-and-after measures to gauge its progress (such as the change in the number of analysts attending the calls). Such a periodic "IR checkup" will not only elevate the IR function to the top managerial and board level, it will also be exciting and fun to do.

BRUSCH: You come down on the side of providing guidance (with certain caveats). Could you explain your rationale, and what would you say to those who are stridently against guidance?

LEV: Frankly, I've never understood those who are against guidance. Guidance is now given by close to 30 percent of public companies. Some 600 companies out of the 5,500 registered public companies in the United States give regularly quarterly guidance. The rest give annual guidance. If executives are comfortable with this, why should outsiders complain?

My position on guidance is, again, based on research. It is clear that analysts and shareholders want guidance. A recent study looked at stock price reaction upon the announcement of the cessation of quarterly guidance. The study showed significant stock price declines upon the announce-

ment. How can one argue that guidance is not useful when investors clearly tell you that they want it?

My study shows that when guidance is given, within a day or two most analysts revise their earnings forecasts. Clearly guidance is important to those "shapers" of investors' opinions. I looked at companies that stopped guidance and compared them with those that continue quarterly guidance. When they stop guidance, bad things happen. Analysts desert them, the volatility of share price increases, and there is enhanced uncertainty of investors regarding future earnings. The variance or dispersion of analyst forecasts around the consensus increased significantly.

To me it is a no-brainer. If you can predict earnings better than analysts, why not provide guidance? You have all the safe harbor protections from the Securities and Exchange Commission. You are not going to be sued unless you lie to investors. Why not share your views about the future? Of course, if you are not comfortable, don't do it. But I cannot understand the venom of people against quarterly guidance. It is nonsense that guidance increases "short-termism." Analysts will continue forecasting your quarterly earnings whether you provide guidance or not. Doesn't Google, a no guider, try to beat the consensus?

BRUSCH: You have studied capital markets and the interaction of public companies and their shareholders for many years. Is there anything in this book – research findings, recommendations, and so forth – that surprises even you? Similarly, anything that will surprise tenured IR professionals?

LEV: I have a good life because I am continuously surprised by what I see in research.

For example, just a few days ago, I got the preliminary results from one of my current research studies that show that the tone of


executives and the tone of the questions on conference calls changes during the day. In the morning it is more positive, optimistic, and cheery, and later in the day it becomes more negative, testy, and combative. We have a sample of 32,000 quarterly conference calls and use sophisticated language tracking programs that identify the tone of the discussion and the Q&A, and we found that as the day wears on the negativity, aggressiveness, and impatience increases (fatigue, hunger). And this is detrimental to the share price. You asked me about surprises – I was astounded!

In the book, IR professionals will find lots of surprises. For example, how many of them know that for the companies in the S&P 500, the overall correlation between return-on-assets (company performance) and CEO compensation is zero? Many people will be surprised by that.

How many know that targeted corporate social responsibility programs boost sales more than advertising? Most executives pooh-pooh corporate social responsibility but some activities are very effective not only in doing good, but in boosting sales.

There is also a perception that shareholder litigation always increases. I bet that many IR people will be surprised that shareholder litigation actually decreased from 2001-2006, and only increased slightly thereafter because of the impact of the financial crisis on financial institutions.

And how many know that intruding, active hedge funds in most cases improve the operations of companies?

There are many more surprises in the book, even for veteran IR people who have seen it all. Some will be controversial, but I welcome the discussion. 

Matt Brusch is vice president, communications and editorial director, for the National Investor Relations Institute (NIRI); mbrusch@niri.org.



FLUOR

Office DEPOT
2010 Corporate Citizenship Report

**We All
Contribute**




CREATING A DO-GOOD REPORT

While not yet a “must-have,”
corporate sustainability reports
are growing in importance to
investors and other audiences.

By Apryl Motley

2010 Corporate Responsibility Report

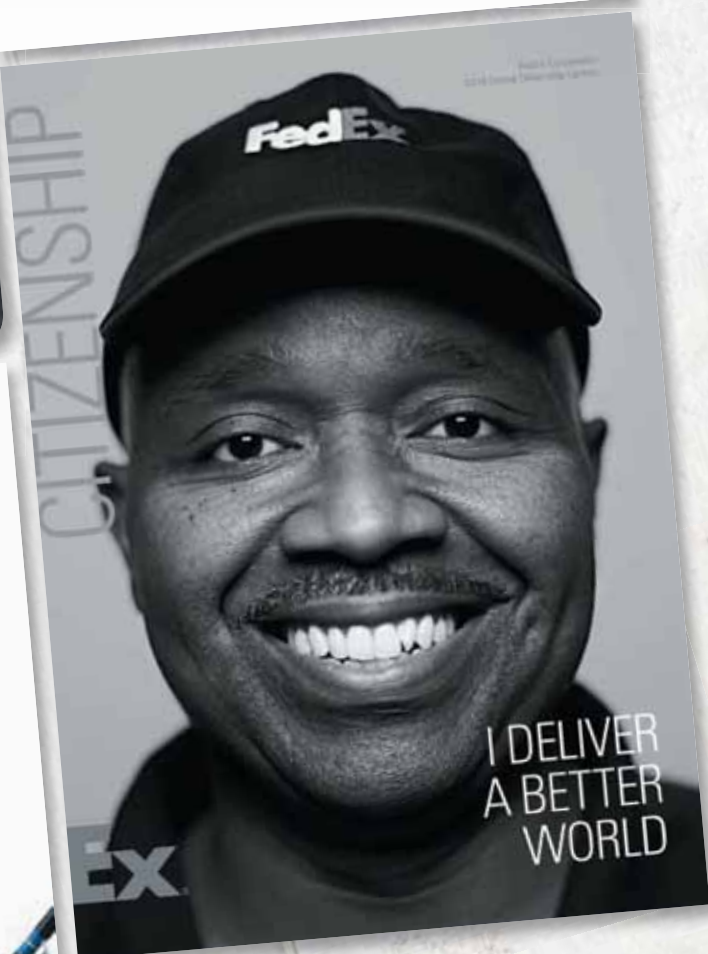
 **Pitney Bowes**

Taking it personally

“We take corporate responsibility personally
at Pitney Bowes. Innovation, integrity, and service
are fundamental to our success. I know they are
for me.”

Oscar
Latin America & Caribbean Operations





Report themes like “We All Contribute” (Office Depot 2010 Corporate Citizen Report); “Taking It Personally” (Pitney Bowes 2010 Corporate Responsibility Report); and “Insight Onsite” (Fluor 2010 Sustainability Report) are indicative of public companies’ efforts to present their sustainability efforts more formally and in the best light possible.

“Interest in sustainability and corporate social responsibility issues is accelerating and public companies that are committed to transparency, like Heinz, are responding with more detailed reports on our progress and initiatives in these critically important areas,” says Michael Mullen, vice president of corporate and government affairs for the H.J. Heinz Company.

“Heinz has a good story to tell because our company has been committed to corporate social responsibility for more than a century, but how we’re reporting on our progress is evolving and becoming increasingly sophisticated, with a focus on stakeholder engagement,” Mullen says.

Heinz has published a CSR report every two years since 2005. The company published its first online CSR report in 2009. “The focus of its award-winning 2009 report was to establish more formal reporting of the sustainability goals that Heinz aims to achieve by 2015,” Mullen says.

Those goals include reducing greenhouse gas emissions, solid waste, energy consumption, and water usage by 20 percent. Heinz documented its progress in the 2009 report and provided a further update in its 2011 CSR report, which is again available online.

The Heinz report focuses on three areas: the company’s environmental performance, its commitment to social responsibility, and its economic performance.

Meg Nollen, Heinz’s vice president, investor relations, welcomed the addition of the report to the company’s communication vehicles. “It gave us a common reference point and minimized angst around sustainability issues,” she says.

Similar concerns led Ryder System to issue its first corporate responsibility report in 2008. “We had a lot to say, but we hadn’t put all the content in one place,” says Bob Brunn, the company’s vice president of corporate strategy and investor relations. “The company has a long history of progress in sustainability, but we weren’t doing a great job of communicating that externally to stakeholders, investors as well as consumers.”

As interest in sustainability issues has grown, so has the trend of public companies issuing progress reports on their efforts to

be greener. "As sustainability issues became more prominent, we knew that we needed to tell our story from a reputation management standpoint," says Jeff Smith, director of investor relations for FedEx, which published its first corporate sustainability report four years ago. "When it became clear that this was a platform companies were using to communicate about these issues, we knew that we were going to as well."

Comparability with companies of similar size is definitely a consideration as these reports are produced. As a result, many companies have established their metrics for reporting based on indicators issued by the Global Reporting Initiative, a nonprofit organization that provides companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world.

According to GRI, in 2010, 1,859 organizations reported using its guidelines, compared to 1,000 in 2008. "After the release of new guidelines in 2005-2006, there was a rise in GRI reporting," notes Yalmaz Siddiqui, senior director, sustainability strategy, for Office Depot, which published its first corporate citizen report in 2006. "Companies recognized the value in creating one comprehensive report to cover traditional 'nonfinancial' metrics."

As this type of reporting becomes almost as prevalent as annual reporting on companies' financial performance, here are some of the strategies companies are using to make sure their reports make the grade.

Determining Core Content

Generally, sustainability or corporate responsibility reports are made up of multiple sections based on the specific areas companies have identified as important

and measurable. These sections often include business practices, the environment, safety, security, people, community, governance, ethics and compliance, and diversity. Who decides the content of these reports and how is the information gathered? Here are examples of how some companies get the job done.



Pitney Bowes. A core content committee develops a road map for Pitney Bowes's report. "Then we distribute that template to a widening

circle of staff as we get into planning content for specific areas of the report," explains Kathleen Ryan Mufson, the company's director of corporate citizenship and philanthropy. "Our goal is to present one unified company message."



Fluor. Jason Landkamer, director of investor relations for Fluor, is one of several employees throughout the company who

serve on its sustainability committee, which meets at least quarterly. In addition to coordinating the development of Fluor's sustainability report, the committee's scope includes the advancement of sustainability best practices, advice to the company on sustainability issues/strategy, and serving as a clearinghouse for the involvement in sustainability-related organizations.

"The committee has been in place for three years," Landkamer says. "As a group, we decide on themes for the report." Specific committee members next solicit

data and metrics from different divisions within Fluor. Once the report is written, the entire committee reviews the draft.

"I weigh in more on whether we're disclosing information properly, but it's mostly fact-checking," Landkamer explains. "I am always double-checking to see that the numbers are accurate."



Ryder. Desire for even greater accuracy in communicating about sustainability helped drive the development of Ryder's report. "We do not

have a centralized sustainability function," says Cindy Haas, the company's director of corporate communications. "We needed a consistent document for staff to refer to."

In the past, Brunn would get numerous requests from the various organizations that evaluate companies on sustainability, but he wasn't able to be as responsive as he would have liked. "Because all of the information wasn't available in one concise format, it left a lot of work for us to do," he explains. "I had to partner with six or seven different departments to coordinate responses to these requests, which was very time-consuming."

"In today's world, you can't really isolate conversations with different groups of stakeholders," Haas adds. "Whatever you say to investors, you have to say to employees and consumers as well. Everyone feels much better knowing that we're all on the same page."

"Most of the information in the report doesn't rise to the level of materiality based on the definition of Regulation FD," Brunn says. "I am more focused on the messaging and consistency with other communications in the company."

Heinz. “With the advent of social media and the Internet, all communications reach all audiences,” Heinz’s Nollen offers. “It’s hard, but we have to be one voice.”

When she reviews the company’s social responsibility report, Nollen focuses on the consistency of the message and concerns about emphasis. “For example, analysts are keenly interested in energy usage because that’s a potential cost savings,” she explains. “I am always looking for ways to highlight things that would save costs.”

Much like Nollen, specific groups of stakeholders are each looking for something different from the report. To that end, the company surveys stakeholders -- from investors and analysts to consumers and activists -- to determine which areas garner the most interest.

“With [each of Heinz’s social responsibility reports], we have surveyed key audiences and asked about areas they would like for us to report on,” Mullen says. “We believe it is very important to solicit feedback and suggestions from stakeholders before and after each report, so we can continue to improve our reporting and identify their concerns.

“The group that we interview as part of the process has expanded with each report,” Mullen continues. “Heinz recognizes the importance of engaging stakeholders in the corporate social responsibility process.”

Impact on IR

As the depth and distribution of sustainability reporting increases, what will be the impact on investor relations? Most IROs see this type of reporting as complementary to their efforts.

“We had different portions of this information in different places,” FedEx’s Smith says. “Pulling it all together and documenting it under one theme freed up more space in our annual report, allowing it be more focused on operational and financial issues.”

“The two reports [annual and corporate responsibility] were built to work well together,” adds Joana Clayton, a senior advisor in the company’s communication and reputation management group. “We wanted them to be partners so that they fit well together when people looked at both.”

Similar thinking went into producing Pitney Bowes’ annual and corporate responsibility reports. “The theme of our annual report was ‘Making It Personal’, and we

tion. This makes these tools more meaningful and helps ensure that we get as much return on our significant investment of the time, money, and resources needed to produce it,” says Ryder’s Haas.

Landkamer says that while both Fluor’s annual and sustainability reports are geared towards a similar audience, he acknowledges that the latter are “nice-to-have rather than must-have for U.S. investors.” However, he expects that sustainability issues will become

“You must be willing to recognize that at the corporate social responsibility level, IR is not the priority – you are a constituent.”

– MEG NOLLEN, VICE PRESIDENT, INVESTOR RELATIONS, H.J. HEINZ COMPANY

were able to carry that concept into our CR report with a look at how our employees are ‘Taking It Personally’ when it comes to our commitment to corporate responsibility,” Kathleen Ryan Mufson says. “This helped us achieve a cohesive company message.”

Because the two are so closely related, Mullen works closely with Heinz’s IR team from start to finish in completing the company’s corporate social responsibility report. “The IR team reviews the text and gives us guidance about what’s most important to cover. We consider them a partner in this process,” he says. “The report has to serve many audiences, and we want to make sure the information covered meets IR’s needs. You’ve got to be a partner with your IR team to make this effort successful because investors are such a key audience for public companies.”

“While IR may not be the predominant audience for the corporate sustainability report, we want all of our communication tools to be leveraged across the organiza-

tion. This makes these tools more meaningful and helps ensure that we get as much return on our significant investment of the time, money, and resources needed to produce it,” says Ryder’s Haas.

“It helps investors get a better idea of how we operate as a company,” he says. “The more investors read, the more informed decisions they can make about a company.”

By the same token, most IROs, including Heinz’s Nollen, say they have not seen a significant increase in requests from investors for this kind of information. “It doesn’t factor into mainstream decision making for portfolio managers who buy our stock,” she explains. “They like goals and milestones.

“To a certain extent, sustainability reporting is milestone reporting that shows that we can execute corporate strategy, but it is still a feel-good,” she continues. “It’s not bottom line to Wall Street. They want cash and sales.”

In fact, when investors were asked to provide feedback about Ryder’s first report, they requested that information be quanti-

fied where possible, so more metrics were included in the second report.

"I wish more investors were focused on sustainability than are," Ryder's Brunn says. "We have 96 percent institutional investors, and it's very rare for someone to engage me about sustainability other than how it pertains to compensation or governance. It doesn't come up in investor dialogue in the U.S. I hear it more in Europe; it's more actively focused on there."

Devil Is in the Data

However, everyone involved in the sustainability reporting process seems to agree that the devil is definitely in the data. It's no small task to generate and gather the data needed to report on specific metrics.

"Sustainability measures are new, and companies do not necessarily have processes or IT systems to track them," Office Depot's Siddiqui says. "While it does become easier over time, it can still be very complex information to gather."

"The information-gathering piece is a challenge because we do not have a centralized function," Ryder's Haas acknowledges. She and others at the company are building key performance indicators so that they can "put processes in place by department for tracking specific information on an ongoing basis."

According to Ryan Mufson, Pitney Bowes's functional groups have centralized their information gathering, and then that information is leveraged in the report.

For many companies, the detailed nature of the data needed for the reports has weighed significantly on their decision to produce them biannually and electronically. "The amount of data analysis is extensive," Heinz's Mullen says. "We

spend a full year doing research and analysis, which would be difficult to do annually. He observes that the best practice of competitors and peers has been to publish a report every other year.

While companies are still publishing their reports in the traditional sense and making

of sustainability. The trend is to start converting qualitative, non-financial stories to quantitative and financial metrics.

"For example, when a company uses less energy or reduces waste in its operations, it saves money and becomes more efficient," he continues. "A lot more emphasis will be

“Sustainability measures are new, and companies do not necessarily have processes or IT systems to track them.”

— YALMAZ SIDDIQUI, SENIOR DIRECTOR, SUSTAINABILITY STRATEGY, OFFICE DEPOT

print copies available on demand or in small quantities, much greater emphasis has been placed on building websites or electronic versions of the reports, which can be updated as specific sustainability milestones are reached.

Ryder's primary report vehicle is a Web-searchable PDF. Both Haas and Brunn see this evolving into a Web-based report, which would allow them to keep content fresher and make it easier for people to digest.

"We only produce our report online," Pitney Bowes's Ryan Mufson says. "Our aim is to produce a report that is dynamic and accessible to all. Throughout the year, we include updates on relevant topics."

A Dynamic Link to IR

It is this trend toward dynamic data points that may ultimately tie sustainability reporting more closely to investor relations. "The traditional view of sustainability was things companies did to do good, and maybe that's why they were labeled 'non-financial' reports," Office Depot's Siddiqui says. "Now there's recognition that companies are not just doing them to be good, but because they help capture and clarify the economic benefits

placed on thinking about how these themes contribute to the economic stability of companies. The fact that economics is a core dimension of sustainability is unclear to many practitioners and investors, but as we're able to solidify that connectedness, there will be much greater interest from investors."

In the meantime, IROs should be open to letting the sustainability reporting process evolve at their companies. "I am one of the people in the room who have a say about what we can disclose, but in this arena, I see the IRO's role as one of moderator," Fluor's Landkamer says.

"You must be willing to recognize that at the corporate social responsibility level, IR is not the priority – you are a constituent," Heinz's Nollen emphasizes. "It's not all about Wall Street, which is hard for IROs because we live, sleep, and breathe it."

"While there is the opportunity for milestones and proof points, it has a broader purpose and use," she continues. "We're not just stewards of our own audience; we are stewards of the entire brand and voice." **IRU**

Apryl Motley is a freelance writer based in Columbia, Maryland; amotley27@aol.com.



Courting THE RETAIL INVESTOR

Increasing your share of retail investors can be an effective move. Learn how American Water Works successfully executed this strategy.

By Muriel S. Lange

WHAT'S THE PERCENTAGE OF RETAIL INVESTORS AMONG YOUR COMPANY'S STOCKHOLDERS? DO YOU HAVE A GOAL OF WHAT THIS PERCENTAGE SHOULD BE?

Given recent changes in the regulatory environment, many companies now have a reason to pay more attention to retail investors and increase their level of stock ownership. For example, a few years ago an amendment to NYSE Rule 452 removed discretionary proxy voting from the hands of broker-dealers without customer authorization, and placed responsibility for voting on non-routine matters directly back to the beneficial owner of the shares – the retail investor.

Because many retail investors do not vote, company quorum numbers for majority proxy votes are threatened as participation in director votes fall off. Now, more than ever, retail investors are needed to offset increased volatility from the Wall Street bailouts, debt crises, and resulting collapse of investor confidence.

However, this is easier said than done, as cultivating retail investors requires staff for research, communication, marketing, and tracking – all in a time when most companies are tightening their budgets. Additionally, many retail inves-

tors are still the traditional “mom and pop” holders of the past, but advancements in technology, cheaper transaction costs, and high-speed connectivity allow more retail investors greater access to the markets and ability to move in and out of stocks seamlessly.

The Strategic Focus

For 14 years, I’ve practiced investor relations at several publicly traded companies in various industries including semiconductor capital equipment, Internet technology, real-estate investment trust, and now utilities, with a primary responsibility to court and nurture relationships with the institutional investor.

At American Water Works (NYSE: AWK), we have developed a bifurcated investor relations strategy for institutional and retail to proliferate our investment message and build shareholder value.

The strategic focus of American Water’s investor relations department is to positively influence investor perceptions, reduce the

cost of capital, and ensure a diversified, long-term investor base. Through an ongoing, proactive dialogue with the investment community, the investor relations team focuses on building positive investor sentiment and understanding market concerns/reactions through prompt feedback mechanisms.

The goal of investor relations is to maintain active, consistent contact, access, and transparency with current and potential investors in American Water, and to achieve the following objectives:

- Maximize the valuation of American Water (achieve a higher multiple).
- Maintain a core base of long-term holders.
- Seek new accounts (new supply) of institutional investors.
- Cultivate interest among sustainability investors.
- Expand retail outreach – elevating retail ownership to a long-term goal of 30-40 percent.

Our three-person IR team collaborates to achieve both institutional and retail investor goals. Because multiple institutional tracking tools are readily accessible, the more challenging initiative is to build and track retail ownership.

We collaborate with external resources for surveillance and planning with Thomson Reuters, Financial Relations Board, AST, and Broadridge to assist in execution, measurement, and reporting of our progress and results.

The key to measurable tracking is setting a definition of retail and holding consistently to that measurement. Our weekly retail

tracking is based on this definition: Retail position is calculated based on broker-dealer position plus all shares held in retail custodial banks. Measuring changes within this defined group is the basis for tracking the program's progress.

Increasing Retail Investors

We began our retail program in 2008 when RWE Aktiengesellschaft, our selling shareholder, took American Water public. At the time, our institutional-to-retail split was roughly 90 percent institutional and 10 percent retail.

Accordingly, trading volatility was higher based on a large percentage of hedge-fund holdings. During the first two years following our IPO, American Water's share price was subject to overhanging legacy issues, and the selling shareholder was constrained by the recessionary market conditions, which delayed its complete divestiture.

Consequently, we retained more hedge ownership with its associated volatility. American Water is a regulated water utility stock which appealed to fixed-income holders as it pays a cash dividend, with a yield (at the time of the offering) close to 4 percent and projected double-digit growth in net income. One other factor that initially slowed retail ownership was that even though American Water is more than 125 years old, due to our 2008 IPO, we are viewed as a "new stock" and many potential investors require a three-to-five year threshold before coming onto their investment radar screens.

Developing a Retail Strategy

In 2008, American Water's retail base was established from the IPO allocations, subject to RWE's urgency to complete the offering as well as the focus of our investment bankers. To determine a retail baseline, we began tracking retail ownership

using stock surveillance from the start.

However, proactive retail cultivation was generally stalled until the RWE ownership overhang was removed and institutional holdings began to shift from hedge to more traditional core growth, and longer-term utility institutional investors.

BROKERS APPRECIATE OUR PERSONAL, HIGH-TOUCH APPROACH, AND GET A MUCH BETTER UNDERSTANDING OF THE COMPANY FROM OUR INTRODUCTORY PRESENTATION AND Q&A PERIOD THAN THEY CAN GET FROM AN INVESTOR FACT SHEET.

Our IR team participated in its first retail exhibit in May 2009 – in advance of a pending secondary offering. In August 2009, the retail segment was allocated 15 million shares in the third tranche, which totaled approximately 38 percent of the secondary offering shares, representing fewer than 10 percent of the total stockholder base post-offering, including employees/registered holders and excluding RWE remaining ownership.

Before defining a long-term retail outreach program, we analyzed the company's trading characteristics and obstacles to adoption. Since 2009, we had seen a decline of the more volatile hedge-fund ownership replaced with longer-term shareholders, including institutional investors that are deemed index investors, benchmarked to S&P, Russell, MSCI, Dow Jones, Wilshire, and the like. This creates a more favorable environment for retail.

After our first full year of dedicated retail focus, our percentage of retail investors was still lower than our peers. However, in 2011, the program increased our overall retail percentage dramatically. During the last six months of 2011, when we visited many retail branches of Bank of America that sold

stock through Merrill Lynch, Morgan Stanley, and Edward Jones, our retail ownership rose from 23.7 percent to 26.1 percent.

Researching our peers and non-water utilities showed us the split we ought to have. At the time, we observed that American Water had a much lower retail ownership than other water companies; it was more comparable to electric and gas utilities.

Dealing With Investor Access

Any IR strategy involves a high degree of focus on institutional ownership, so those with major "skin in the game" get more access to top executives. At the beginning of our IR outreach program, we had devoted approximately 13 days to CEO participation and 16 with the CFO. In 2011, this participation increased to 18 days for the CEO and 20 for the CFO with institutional investors.

However, it was not realistic to devote

RETAIL PROGRAM OUTREACH RESULTS 2010-2011

Retail Events Through End of 2010

MONEY SHOW EXPOS

Money Show Expos	5	
Virtual Trade Shows	2	
Direct Mail	4	
Advertising	1	
Retail Analyst Meeting	1	
Outreach Events		13
Qualified Leads		8,518

New 2011 Retail Initiatives

EVENTS	# OF QUALIFIED LIST ADDS
Retail Bank Branch Visits	8
Number of Cities	12
Broker Conference Calls, Virtual	4
Meetings Direct mailings, Advertising, Tear sheets, Retail Surveys	8
Money Show Expos	4
Outreach Events	36
Qualified Leads	18,495



Measuring Performance

American Water Works' current IR program results are reflected in the chart, "Retail Program Outreach Results 2010-2011" and display our current investor outreach activities. These include attending various Money Shows, biannual advertisements in *Research Magazine*, fact-sheet mailing, distributing S&P tear sheets, and hosting an annual Philadelphia security analyst luncheon.

This chart indicates qualified leads from events where investors ask to be on our quarterly fact sheet mailing list. Very few have opted out since the first event, and when surveyed later on, many state they have since become holders.

Looking ahead, American Water will use the following measurement device and metrics to gauge the progress and success of our retail outreach efforts.

- Number of conferences attended/broker events, investor tours held.
- Number of investors in shareholder registry (database).
- Proxy vote analysis
- Investor meetings/survey feedback.

- Percentage of retail versus institutional ownership.
- Website repeat traffic.
- Ratio of website registrants opting to receive communication directly from the company.
- Private investors accessing quarterly webcasts.
- Investor kit/fact sheet requests.
- Trading/liquidity metrics – the larger retail base will be watched for a stabilizing impact over time.
- Comparison of liquidity statistics.
- Surveillance tracking of retail.
- Shareholder turnover analysis.

During the 2009 and 2010 annual meetings, American Water's proxy reported 38 and 49 holders of record, mostly insiders and employees. A direct stock purchase plan and reinvestment plan were implemented in 2010 and are actively promoted at our retail shows and quarterly mailings. The number of registered accounts, including DSPP/DRIP accounts, increased to about 1,100 accounts by the end of 2011, with about 600 accounts opened in 2011 alone.

more C-suite time to our retail initiative. So, the IR team "owns" the retail program. While clearly there is less overall ownership potential per retail investor, broker dealers and high-net-worth individuals are generally more comfortable with IR representing the company.

Brokers appreciate our personal, high-touch approach, and get a much better understanding of the company from our introductory presentation and Q&A period than they can get from an investor fact sheet. Also, they are more involved and welcome follow-up mailings and investor surveys that rationalize the IR retail portion of our strategy.

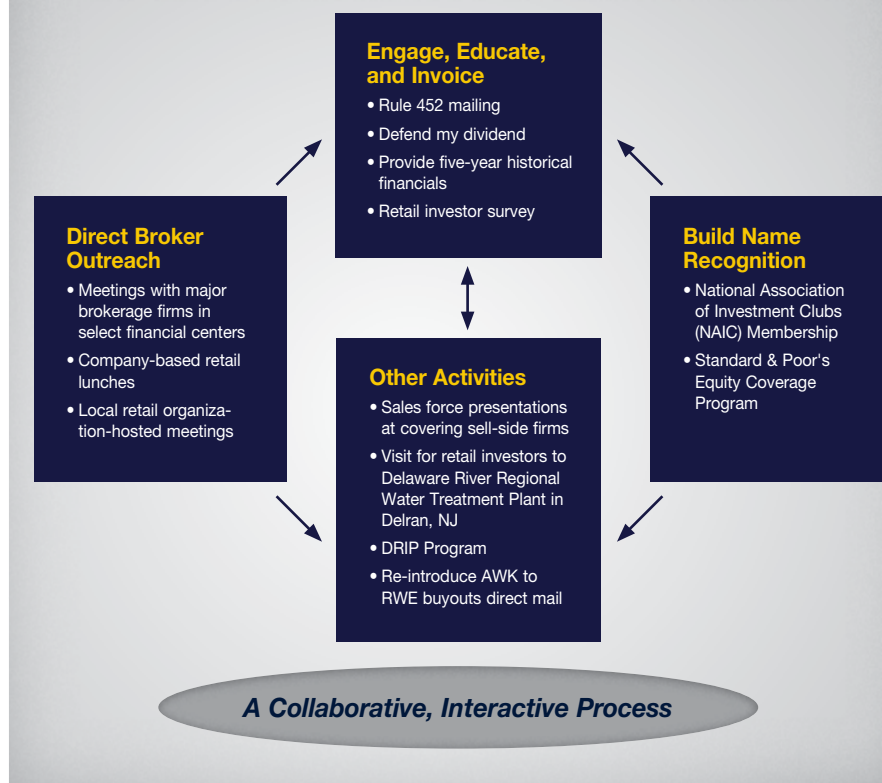
Beyond the more stable ownership base, retail base identification is important in our proxy mailings. In March 2009, and again in 2010, American Water took advantage of a cost-saving opportunity from Notice and Access which, according to Broadridge, typically has the unintended effect of suppressing a certain amount of retail participation.

In 2010, facing Rule 452 and the elimination of broker discretionary voting, American Water reached out to our retail constituents to educate as well as encourage their active participation in the election of directors.

As a result of this direct-mail campaign to American Water objecting beneficial owners (OBOs), our proxy results indicated little impact from Notice and Access hybrid suppressions or from Rule 452 – with 8 percent of the outstanding shares represented at the meeting. American Water along with other public companies will face challenges where non-routine issues are up for proxy vote.

Our efforts to reach retail brokers via virtual meetings and dedicated mailings to investors resulted in an improvement of the broker vote return from approximately 10 percent in 2009 to more than 30 percent in 2010 of shares outstanding, according to the

FIVE-YEAR FORWARD RETAIL STRATEGY



final voting reports from Broadridge, even in the changing regulatory environment.

This year, we plan to repeat the “get out the vote” mailing. However, with our large proportion of investors electing to receive materials by e-mail, Broadridge will distribute “e-mail only” communication to encourage them to vote. The e-mail will drive them to an investor forum for closer access to management and to take a short survey of what management considers key topics, and where they may submit their own questions, and get access to vote live at the virtual stockholder meeting.

The all-electronic mailing will cost significantly less than a paper mailing. This access to real-time investor sentiment will allow us to be better prepared to aid our chairman and board in advance of the meeting.

One of the main tactics we employed in 2011 was developing a specific investor

presentation more focused on total return coupled with lower risk, which proved very appealing to the retail group. As the stock price increased, the yield receded to under 3 percent, but still better than sitting in a checking or savings account. Retail investors often joke, “When was the last time you saw a CD at 3 percent?” We continue to seek new metrics that will communicate this inherent shareholder value to our retail holders.

The five-year retail integrated strategy includes collaborative, interactive processes both to grow and track changes to American Water’s retail ownership through the efforts outlined in the chart, “Five-Year Forward Retail Strategy.”

Leaving No Stone Unturned

Determined to use all available resources, we have mined former stock-

holders (from before the RWE buyout), retired employees, and leads from retail exhibits generated at the Money Shows to create a usable database that will continuously expand the retail universe.

From this, we will implement a direct mailing of clean, fresh interest. Our mailing is generated internally, with our administrative assistant facilitating the mailings and requests from our investor e-mail and hotline. Our assistant also coordinates the quarterly mailings, updating the database and facilitating the e-mail and paper mailing.

In 2010, quarterly mailings included approximately 800 e-mail and 900 paper fulfillment responses. In 2011, we mailed to almost 4,500 interested retail investors. Our retail plan is expanding to include more invitations to broker lunches, additional retail conferences, and new venues.

By incorporating measurable performance metrics (see sidebar on page 18), we can gauge the program’s success and plan future tactics to enhance our outreach initiatives. At the end of 2011, broker-dealer totals increased 2.3 million shares year over year, as reported by Thomson Reuters, validating the time and budget expended.

The more time we devote to this strategy, the closer we get to our targeted retail ownership levels of 30 to 40 percent. Since the end of 2010, we have increased retail ownership of outstanding shares from 21.4 percent to 26.1 percent. Additionally, several new retail firms initiated coverage in 2011, with brokers who welcome interest from companies that fit the profile (such as American Water), and who are confident they will help us continue to grow this longer-term shareholder base. **IRU**

Muriel S. Lange is investor relations manager for American Water Works; muriel.lange@amwater.com.

IR's Role in the Governance Process

It's your job to stay informed and collaborate on corporate governance issues.

“If you think your company is weak in any area, raise your voice, state the concern, take action, and don't hold back when feathers need to be ruffled,” advised Natalie Hairston, vice president of investor relations, chief governance officer and corporate secretary, at ENGGlobal Corporation on a January 2012 NIRI-sponsored webinar entitled “Governance Part I: IR's Role in the Governance Process.”

She, along with panelist Karen Fisher, managing director of The Shareholder Forum, and moderator Katharine Kenny, vice president of investor relations at CarMax, shared their thought leadership on the importance of corporate governance and how IROs can get involved in the process.

According to Hairston, integrity is one important reason. Good corporate governance establishes credibility and demonstrates how management and the board of directors are carrying out their duties. It also provides a regulatory framework that shines a light on business practices as well as director training on company policies and procedures. Transparency on the bonus structures that companies provide as incentives is another key component.

Stay Informed and Be Prepared

Kenny's experience with activist shareholders who won the proxy battle at her previous and now defunct company, Massey Energy, proves that one can never be too prepared. “IROs really need to be knowledgeable about their company's corporate governance practices and understand where they may be vulnerable to targeting by activists,” she cautioned.



It's more important now than ever for IROs as well as corporate secretaries to collaborate on corporate governance issues.

At CarMax, she has a great working relationship with the deputy general counsel, who not only keeps her up-to-date on what management and the board are thinking regarding corporate governance issues, but solicits her opinion as well.

“It's more important now than ever for IROs as well as corporate secretaries to collaborate on corporate governance issues,” Fisher said. From her experience in building compliance programs and developing governance policies regarding insider trading, disclosure, and corporate communications, she emphasized the education of shareholders, employees, and the board of directors on what it means to be a publicly traded company. “Shareholders vote on and increasingly sue over such topics as director elections and executive compensation,” she said.

Best Practices to Follow

Hairston sees five areas of best practices in managing corporate governance issues:

1. Make ethics a part of the company culture; train employees annually on this matter.

2. Align business goals with stakeholders. Make sure the leadership team is focused on the responsibilities of being a public company.

3. Include stockholders in the strategic management planning sessions of the company.

4. Maintain a structured organization.

5. Implement regulatory reporting systems.

IROs can gain corporate governance experience in various ways. They can help plan the annual meeting, serve alongside legal counsel and the inspector of elections, assist the corporate secretary with the drafting of the proxy, monitor the proxy process, develop checklists for meetings, and help with presentations.

“I advocate that investor relations professionals really take a look at what corporate secretaries and the legal counsel are doing and fill in any void,” Fisher said.

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.

The New NIRI Office: All About Location



The NIRI staff in the new office includes (front row, left to right) Ariel Finno, Anita Joshi, Dave Meisner, and Tammy Dang. In the back row (left to right) are Matt Bruschi, Angela Mumeka, Tarik Habayeb, Robin Kite, Mike Hyatt, Jeff Morgan, Carolyn Wheatley, Sharon Wall, Mike McGough, and Craig Conrad.

THE NATIONAL INVESTOR

RELATIONS INSTITUTE has a new home. In December 2011, NIRI moved closer to Washington DC from the Tysons Corner area to Alexandria, Virginia.

In addition to significant savings on rent, the new office provides a more efficient layout that promotes collaboration among staff members as well as greater proximity to public transportation.

With the Metro subway system

King Street Station across the street, about one-third of the staff now commutes by Metro. This location also provides easy access to both Reagan National Airport and Amtrak's Union Station. The Securities and Exchange Commission, Capitol Hill, the U.S. Chamber of Commerce, and other Washington entities are a short ride away on Metro.

Please consider visiting the new NIRI office the next time you visit Washington, DC.

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Professional Development Calendar

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

March 2012

6 Institutional Investor Award Winners webinar

13 IROs, Transfer Agents, and The Depositary Trust Company webinar

19-20 Finance Essentials:

Banking and Financial Services Industry seminar, New York, NY

21 The New Capital Markets seminar, New York, NY

27 IR Magazine Award Winners webinar

April 2012

10 Global Series Part I: Europe webinar

24 Global Series Part II: Asia & Australia webinar

May 2012

8 Global Series Part III: Latin America webinar

22 Global Series Part IV: The Middle East & Africa webinar

June 2012

2 Writing Workshop for IR seminar, Seattle, WA

3-6 NIRI Annual Conference, Seattle, WA

19 Healthcare Industry webinar

25 Crisis Communications and Media Management seminar, New York, NY

26 Finance 101 seminar, New York, NY

27-28 Finance Essentials for IR seminar, New York, NY

July 2012

10 Financial Services webinar

24 Road Shows Part I: Preparing to Go webinar

Quick Takes

What did you do before getting into IR and how did it help you in your career?



Robert Burton

Managing Director, Financial Communications
Lambert, Edwards & Associates

► “I was a journalist but the appearance of three children on that salary made it apparent a career change was needed. Having a strong communication background has been a key to practicing IR for the past 28 years.”



Christine Hanneman

► “Risk management and insurance – assessing the safety needs of plants. It taught me that I didn’t want to be in that field so when I had the chance to join IR I said ‘absolutely.’”



Matthew Stroud

Vice President, Investor Relations, Darden Restaurants

► “I came into IR from corporate finance and had extensive background in operational finance with our largest brand. This experience was invaluable as it gave me a strong foundation in our company- and brand-level finances including accounting, profit and loss, and balance sheet and cash flow statement financial analysis.”

“Quick Takes” is a new column in *IR Update* that features brief comments from IR professionals in response to a question. If you would like to be featured in this column, contact *IR Update* Editor-in-Chief Al Rickard at arickard@associationvision.com.

2012 Member Survey Coming Soon

Periodically, NIRI sends out a member needs survey to gauge the level of satisfaction within its membership. As a valued member, your input is vital to NIRI to ensure we remain a key resource for all your IR career needs.

This year, NIRI is collaborating with Marketing General Inc. (MGI) to bring you our 2012 Member Needs Survey. When you see an invitation to participate in your e-mail inbox, please take the time to provide us with your feedback.

All participants in the survey will be included in a random drawing to win free registration to the NIRI 2012 Annual Conference, an \$895 value. The results of the survey will be used to help guide the organization.

On the Move



Robin Y. Wilkey has been promoted from vice president, investor relations, to senior vice president, investor and rating agency relations,

at Aflac. She joined Aflac in 1990 as an accountant in the financial department, was promoted to senior auditor in the internal auditing department, and to manager of information systems and payroll in the human resources division. In 1998, Wilkey joined the Aflac investor relations department as senior director, was promoted to second vice president in 2002, and to vice president in 2003 prior to her promotion to senior vice president.

Ashley Thorne was promoted from corporate insurance manager to investor relations director at Kansas City Southern.

Please send “On the Move” announcements to *IR Update* Editor-in-Chief Al Rickard at arickard@associationvision.com.

A Chapter for Your Life

Are you involved in a NIRI chapter?

Located in all major U.S. financial centers, with regional chapters and the Virtual chapter representing broader areas, NIRI chapters provide excellent local education and networking opportunities.

Members who are traveling are encouraged to visit other chapters – for a chapter event calendar, go to www.niri.org/chapters and click on “Chapter Event Listing.”



A portion of the proceeds will be donated to Coalition for the Homeless



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A photograph of the Seattle skyline at night, featuring the Space Needle prominently on the left. The city lights are visible in the background against a dark blue sky.

SAVE THE DATE NIRI Annual Conference

Seattle, WA

June 3 – 6, 2012

[**www.niri.org/conference**](http://www.niri.org/conference)

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