

IRupdate

FEBRUARY 2013

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Relations
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GETTING TO “YES” ON EXECUTIVE PAY ✓

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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 3,300 members representing over 1,600 publicly held companies and \$9 trillion in stock market capitalization.

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The Power of the NIRI Community

I can easily trace back all of the great moments in my career to the very special network of IR professionals, counselors, and service providers that make up the NIRI community. Whether it was a volunteer, chapter leader, national board member, or a chairman, there are so many NIRI members who have always been there to lend an ear, share an experience, or direct me to my next big adventure in IR. So it is with great pleasure and excitement that I assume the role of NIRI chairman. I truly look forward to giving back to this great community of professionals over the next 12 months as chairman of NIRI.

My key priorities for NIRI in 2013 are simple. It begins with building upon all of the successful efforts over the last few years to elevate the awareness and stature of the profession in the minds of senior executives, board members, regulators, and investment professionals. In particular, I want to make sure that the contributions IR professionals make at their organizations are looked upon through the same lens other key executives are viewed and rewarded accordingly. In turn, this will ensure that the IR profession continues to be viewed as a place for the best and brightest to call home for generations to come.

Next, the world is not getting any smaller thanks to globalization, advances in technology, and social media. Information is traveling faster than anyone could have imagined a decade ago. Therefore, we need to invest in and keep pace with this new global framework.

Most importantly, we must stay focused on our mission for OneNIRI, which is to build an even more inclusive, networked, global organization – with core competencies of information, practice, advocacy, and community – throughout NIRI to lead the investor relations profession.

What's ahead in 2013? No one has a crystal ball, but the one thing I am sure about is that I do not know everything. At the same time, I also know that through the power of the NIRI community I can easily gain access to the knowledge and individuals I need to help guide my company through the ever-changing landscape of being a public company and excel in my career.

I want to conclude by thanking the former NIRI chair and my fellow board members for their leadership. Please always feel free to e-mail me with any questions, comments or concerns you have about NIRI and how we can better serve your needs.




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To access the library, visit <http://tinyurl.com/nirilibrary>. A sampling of topics and articles includes:

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- ▶ NIRI Annual Meeting Practices Survey Results, March 2012
- ▶ John C. Wilcox, Sodali, "Rethinking the Annual Meeting," Nov. 2012

ATTRACTING AND RETAINING INVESTORS

- ▶ 2012 NIRI Investor Targeting Survey Results, June 2012
- ▶ David H. Solomon and Eugene Soltes, "What Are We Meeting For? The Consequences of Meeting With Investors," Sept. 2012 working paper

CORPORATE GOVERNANCE AND PROXY SEASON TRENDS

- ▶ NIRI Briefing Paper: 2012 U.S. Proxy Season, IR Advisor, July 2012
- ▶ ISS, 2013 Corporate Governance Policy Updates: Executive Summary, Nov. 2012

DISCLOSURE

- ▶ NIRI, Use of Corporate Websites for Disclosure - 2012 Survey Results, Oct. 2012 report
- ▶ Gibson Dunn, "Conflict Minerals: Understanding the Final SEC Rules," Sept. 2012 report

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- ▶ NIRI Survey: Guidance Practices and Preferences, Sept. 2012
- ▶ Merrill Associates, "The Guidance Effect: Improving Valuation," Aug. 2012 report

ECONOMIC TRENDS AND CAPITAL MARKETS

- ▶ Eaton Corp., "NIRI 2012 Luncheon: Economic and Market Overview," Presentation to the Cleveland/Northern Ohio Chapter, March 2012
- ▶ NYSE & Nasdaq, "State of the Markets," Presentation to the Atlanta Chapter, Jan. 2012

ENVIRONMENTAL AND SOCIAL ISSUES

- ▶ The Conference Board, "Director Notes: Charting a Path to Sustainability Leadership," Nov. 2012
- ▶ Sustainability Accounting Standards Board, Public Launch Press Release, Oct. 2012

FINANCIAL REPORTING/AUDIT COMMITTEE ISSUES

- ▶ National Association of Corporate Directors, et al., "Audit Committee Annual Evaluation of the External Auditor, Oct. 2012 report

- ▶ Ilia Dichev, John Graham et al., "Earnings Quality: Evidence from the Field," Sept. 2012 paper

INTERNATIONAL INVESTORS

- ▶ "Creating Value Through an Internationally Diversified Shareholder Base," 2011 NIRI Annual Conference Panel
- ▶ BNY Mellon, "Eighth Annual Global Trends in Investor Relations," 2012 report
- ▶ Ipreo Special Report: International Roadshows, 2011

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- ▶ 2012 NIRI-Korn/Ferry International Corporate IR Profession and Compensation Study, June 2012
- ▶ NIRI Survey: Measuring Investor Relations Programs, Nov. 2011

SECURITIES OFFERINGS

- ▶ David Stickney, "Creating an Enduring Perception: How to Capitalize on the Long-Term Value of Your IPO Best Practices," IR Update, Oct. 2012
- ▶ "Mastering IR in the IPO Process," 2011 NIRI Annual Conference Panel

SOCIAL MEDIA

- ▶ The Conference Board, "What Do Corporate Directors and Managers Know About Social Media?" Oct. 2012 report
- ▶ Q4 Web Systems, "Public Company Use of Social Media for Investor Relations (YouTube and SlideShare)," Nov. 2012

www.niri.org/NIRILibrary







By Ted Allen

One of the biggest

success stories of 2012 was how IR professionals and their companies effectively engaged with investors after receiving low support during their 2011 Say-on-Pay votes.

Of the 30 companies with failed compensation votes in 2011 that faced investors again during the spring 2012 proxy season, all but four received majority approval. These firms averaged 38 percent greater support, according to Semler Brossy, a compensation consulting firm.

Among the firms that posted significant gains in support were Superior

Energy Services, Curtiss-Wright Corp., Masco Corp., Beazer Homes USA, Penn Virginia Corp., SHFL entertainment, and Intersil Corp.

What did these companies and IROs do before their 2012 annual meetings to win over more investors? In most cases, the issuers reached out to more shareholders, made changes to their pay practices, met with proxy advisory firms, and provided better disclosure (through an executive summary or more charts and tables). Some companies posted better share returns that helped mitigate concerns over pay-for-performance alignment.

As 2011 was the first year of Say-on-Pay votes mandated by the Dodd-Frank Act, some companies were caught by surprise when they received majority (or significant) opposition to their pay practices. In most of those cases, company officials did not fully realize that they were in trouble until several weeks before their meetings when they received a negative recommendation from Institutional Shareholder Services (ISS) or Glass Lewis & Co., the two largest proxy advisors.

Institutional investors also were unfamiliar with this new agenda item, and it took them some time to develop procedures to consistently evaluate the pay

practices of the hundreds (or thousands) of companies in their portfolios.

Start Early on Engagement

As companies prepare for the 2013 proxy season, most IR professionals now know that winning this vote may require engagement with major institutional investors throughout the year. In most cases, an IRO cannot wait until the proxy statement is filed or the company receives a negative proxy advisor recommendation to start lobbying shareholders. By late March or early April, most large institutions are swamped with other proxy voting decisions and won't be available to speak with issuers.

"You need to maintain your credibility and always be open in your communication with institutions." – **Greg Rosenstein**, executive vice president of corporate development, Superior Energy

Since its 2011 failed vote, Superior Energy has increased its outreach activities and has found institutional investors to be more receptive, especially during the fall, says Greg Rosenstein, the company's executive vice president of corporate development. "You want it to be ongoing, and not just when there's an issue," he notes. "You need to maintain your credibility and always be open in your communication with institutions."

Penn Virginia, which hadn't heard any investor complaints about its executive pay before its 2011 vote, also responded by expanding outreach, recalls Nancy Snyder, the company's general counsel. Starting in December 2011, Penn Virginia contacted its largest institutional investors, which held about 80 percent of the oil company's stock, and invited them to talk with the compensation committee chairman about

the company's changes, which included a significant reduction in long-term incentives and stricter performance hurdles.

These calls were held in January and February, and the chairman invited investors to call back with any questions after the proxy statement was released, Snyder says. Her advice to other firms with failed votes: "Line your pay up with performance and explain it to your shareholders."

IR consultant Rob Berick urges companies to start early when talking about compensation with investors. "This conversation needs to take place long before the proxy is mailed so that you have enough time to properly delineate the rationale behind

the pay plan, as well as to give your investors the chance to provide feedback and, if appropriate, input to your compensation committee," he observed in a blog posting.

Know Your Audience

When engaging with institutional investors on compensation issues, IR professionals should talk to the institution's proxy voting/corporate governance team in addition to the portfolio managers with whom they normally deal. That was one of the lessons learned by Intersil, which lost its 2011 Say-on-Pay vote by a few percentage points after getting a negative ISS recommendation.

Brendan Lahiff, director of IR at SanDisk Corp., who was Intersil's senior IR manager during the 2011 and 2012 proxy seasons, recalls that he spoke regularly with portfolio managers before the 2011 annual

meeting and heard no concerns about the company's pay practices. However, he learned that many institutional proxy voting managers have a different set of priorities and don't talk regularly to their portfolio manager colleagues, nor will they proactively reach out to issuers with concerns before casting votes. "We were completely blindsided," Lahiff remembers. "We thought we were talking to the right people on this issue."

Following the 2011 vote, Intersil utilized its proxy solicitor to help identify proxy voting managers at the company's 20 largest institutional investors, which held a majority of Intersil's shares outstanding. Before drafting the next proxy statement, Lahiff, the CFO, and the director of human resources held phone calls with these institutions to learn more about their views. After the proxy statement was filed, Intersil followed up with its institutional voting contacts to see if they had any additional concerns.

The company also hired an independent compensation consultant to advise on pay-practice changes.

Lahiff says proxy voting managers were "very appreciative" of the company's outreach. The company received 98 percent support at its 2012 meeting, and the Say-on-Pay effort was "well received" by management. "It's a noteworthy addition to the IR function," he observes.

It's also important to know your institutional investors' voting policies and whether they are clients of ISS and Glass Lewis, and how closely they follow those recommendations. While proxy advisors' views are significant, the good news is that not all their clients will follow their Say-on-Pay recommendations.

Some institutions use advisors' reports as an initial screening mechanism to cull their proxy season workloads and then will take a closer look at the issuers that received nega-

tive recommendations. In addition, most large mutual funds have their own customized policies that differ from advisors' benchmark guidelines.

During the spring 2012 proxy season, ISS recommended against the pay practices at about 14 percent of Russell 3000 companies (Glass Lewis recommended against 16 percent), but just 2.6 percent (53) of those issuers had failed votes. In other words, just 18 percent of the companies with negative ISS recommendations failed to win majority support.

Responding to Proxy Advisors

As these numbers suggest, a company can certainly overcome a negative proxy advisor recommendation if it engages effectively with shareholders -- both before and after filing its proxy statement. Early engagement can help blunt the impact of a negative recommendation, and make an institution more receptive to a company's arguments.

During the spring 2012 proxy season, more than 100 companies filed supplemental proxy materials that took issue with proxy advisors' Say-on-Pay methodology or conclusions and reiterated the issuer's defense of its pay policies. While there is some debate over the effectiveness of these materials, this trend appears likely to continue. (For more details, see "Supplemental Proxy Filings Trend Upward" in this issue.)

In addition to a supplemental filing, ExxonMobil held a well-received audio webinar on compensation that discussed the company's long-term pay-for-performance approach and mentioned the oil giant's engagement with investors. Curtiss-Wright Corp. held a webcast in October 2011 to outline its proposed pay changes, and then did individual follow-up calls to get investor feedback. Intersil is considering holding a "fifth analyst" call on compensation to reach more investors and proxy

voting managers. For a company without a concentrated shareholder base, that "may be a necessity in the future," Lahiff observes.

Identify Risk Factors

To be fully prepared, a company needs to know if it may be at risk for getting a negative proxy advisor recommendation. However, advisors don't typically issue their recommendations until 14 to 21 days before the annual meeting, which is too late to start planning a response.

Nevertheless, IROs should be aware of some warning signs. Of the 53 Russell 3000 companies with failed votes during the spring 2012 season, almost all were criticized by proxy advisors for having a pay-for-performance disconnect.

In addition, almost half of those firms reported double-digit, negative, three-year total shareholder return (TSR), according to ISS' 2012 Postseason Report. While many companies use financial metrics besides TSR to set their executive-pay incentives, most institutions still view share return as the most important metric.

A key part of the pay-for-performance analysis by proxy advisors is a company's performance relative to its industry peers. However, a company won't know what all of the peers' advisors are considering until their reports are released. In 2012, many issuers criticized ISS' peer group methodology, which was based primarily on Global Industry Classification Standard codes, but sometimes included firms with unrelated businesses.

Marriott International, J.C. Penney, and United Technologies Corp. were among the well-known companies that took issue with ISS peer groups last season. Most issuers would prefer that a pay-for-performance analysis be based only on the company's self-selected peers, but investors have expressed skepticism about relying solely on those peers.

MORE STEPS TO TAKE

Investor relations professionals interviewed for this article also shared these tips for securing compensation votes:

Develop a broad-based team. At most companies, the Say-on-Pay effort should include the IRO, the CFO, the corporate secretary, legal, human resources, and the compensation committee. While your company's legal advisors may view the proxy statement as primarily a compliance document, it also needs to effectively explain your firm's compensation policies. The IR team needs to be involved in preparing (or reviewing) the CD&A, executive summaries, and supplemental filings.

Encourage board involvement. Some institutions, such as TIAA-CREF, have said they prefer to talk to the chair of the compensation committee (or another director) instead of management officials. If directors participate in these investor calls, they need to be ready to answer detailed questions about pay. Some hedge funds and other institutions view a board's compensation decisions as a lens into the board's overall oversight of management, and directors who are poor stewards of pay may face a proxy fight in the future.

Know your message and make sure it gets through. "Know your audience and what you're trying to communicate," advises Brendan Lahiff, Intersil's senior IR manager during the 2011 and 2012 proxy seasons. "Approach it in a structured manner and concentrate on your largest shareholders. That really moved the needle for us."

In response, ISS plans to incorporate more company-selected peers, subject to size constraints, into the analysis for its 2013 reports. Glass Lewis has adopted Equilar's market-based peer methodology that considers companies that have selected each other as peers. As a result, companies should see a greater overlap between their own selected peers and those used by the proxy advisors. In any case, company officials should be prepared to explain why their peers are superior to those selected by proxy advisors.

The other major contributor to negative recommendations and shareholder dissent are so-called "problematic" pay practices,

expect to see disclosure on engagement and any changes that were adopted. Even without this scrutiny, it's a good exercise to include some discussion of engagement efforts.

More Effective Disclosure

Since the arrival of Say-on-Pay votes, many issuers have improved their compensation disclosures by adding more plain English, executive summaries, colorful charts and tables, and specific sections that highlight their compensation changes.

As noted in a recent report by AST Phoenix Advisors, "many companies have made significant strides in transitioning their proxy from the traditional 'SEC compli-

explanations, earned 96 percent approval during its latest advisory vote.

In addition, more companies are responding to investor concerns by using alternative metrics to explain their executive pay. As many corporate advocates have pointed out, the SEC-required summary compensation table in the proxy statement, which reflects the "grant date" value of equity awards, can greatly overstate what a CEO actually earns.

Corporate advocates have argued that "realizable" pay (what an executive likely will earn) or "realized" pay (compensation actually received) are more appropriate ways to measure the true cost of compensation. According to *The Wall Street Journal*, at least 228 issuers mentioned "realizable" or "realized" pay in their proxy materials or supplemental filings in 2012.

One of those firms was Intersil, which included a table that detailed the actual cost of the CEO's compensation over the past four fiscal years and compared that to the firm's TSR and the summary compensation table figures.

Finally, a company that has faced significant Say-on-Pay opposition needs to make an effort to explain the *why* behind the compensation committee's decisions. "Without that context, many decisions and resultant pay outcomes may seem unwarranted to investors," according to AST Phoenix Advisors. "Since you will not speak with every investor prior to their voting, your best opportunity to explain why is to do so clearly in the CD&A."

For more on Say-on-Pay votes, please visit NIRI's Presentation and Report Library, and review these recent articles: "Lessons from a Failed Say-on-Pay Vote," *IR Update*, April 2012, and "Say-on-Pay Prompts Year-Round Dialogue," *IR Update*, December 2011. [IRU](#)

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Proxy advisors may also object to one-time grants to retiring executives, a concern that contributed to the dissent at Superior Energy and Penn Virginia in 2011.

such as tax gross-up payments on severance payments, discretionary bonuses, and "inappropriate" peer benchmarking, according to ISS.

Proxy advisors may also object to one-time grants to retiring executives, a concern that contributed to the dissent at Superior Energy and Penn Virginia in 2011. Before the next proxy statement is drafted, IROs should know whether their company has any pay practices to which advisors object.

Finally, a company will face additional scrutiny from ISS and some investors if it received less than 70 percent support during the most recent Say-on-Pay vote (Glass Lewis and other institutions have a 75 percent threshold for greater scrutiny).

If your company is in this "red zone," proxy advisors and some shareholders will

ance document' to a more communicative 'selling piece,' which investors may find more helpful and compelling."

For instance, the first page of Intersil's most recent proxy statement has a short letter to shareholders that lists (in bullet-point format) five major compensation policy changes. More details on these changes are included in the Compensation Discussion & Analysis (CD&A) section. Likewise, Beazer Homes USA's proxy statement had a new table that lists all the new pay practices (such as a new "clawback" policy and additional performance conditions for equity incentives) that were adopted since the firm's 2011 Say-on-Pay vote.

This disclosure, along with greater outreach, helped Beazer win more than 95 percent support in 2012. Superior Energy, which included more tables, charts, and

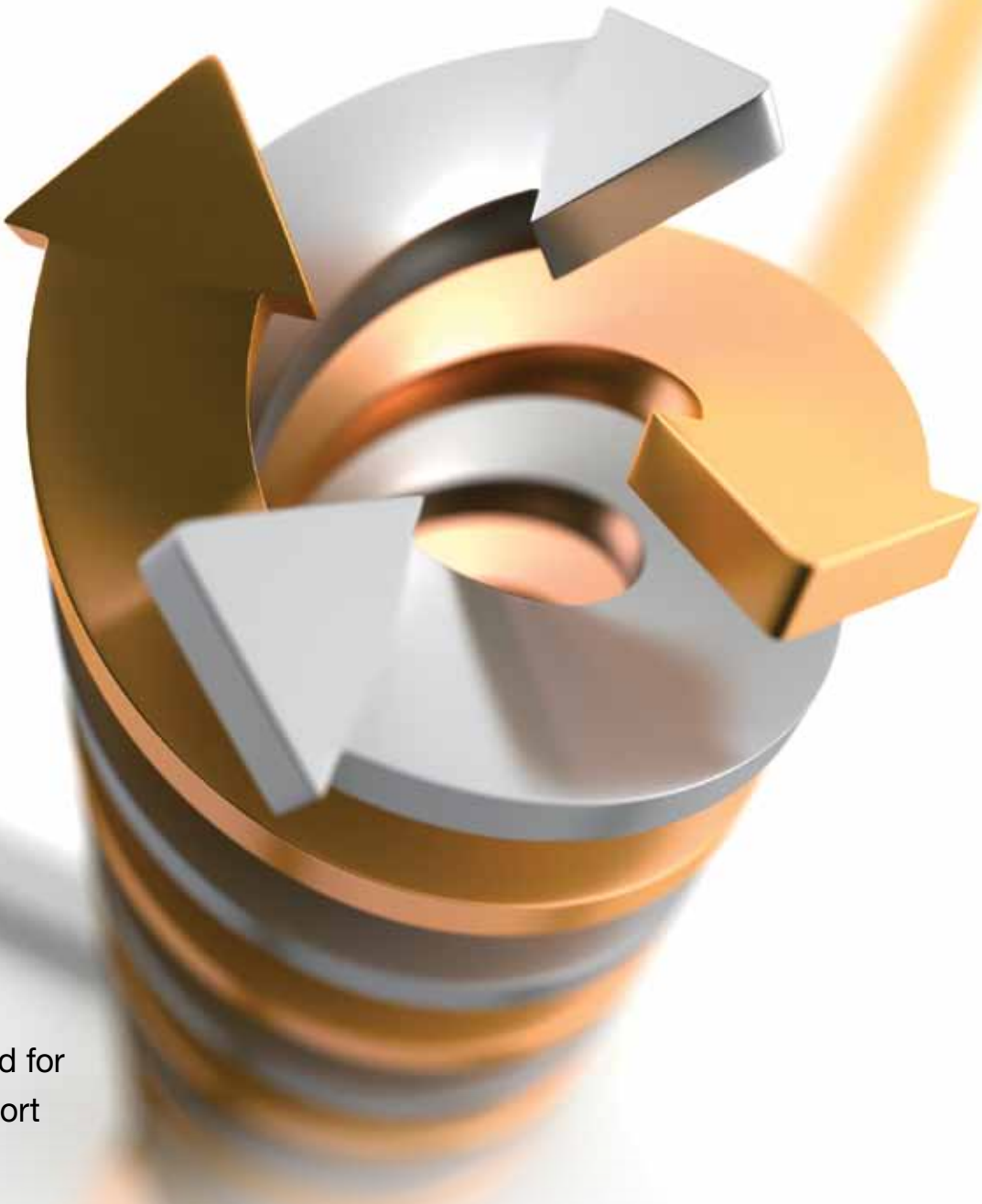


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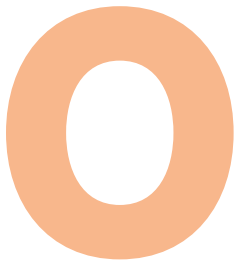
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Companies favor
additional filings in bid for
greater investor support
on executive pay.

By Ted Allen

SUPPLEMENTAL **PROXY FILINGS** TREND UPWARD



One notable trend during 2012 was the almost two-fold increase in supplemental proxy materials filed by companies.

During the traditional spring proxy season, companies made 112 supplemental filings in support of their Say-on-Pay votes, according to Semler Brossy, a compensation consulting firm.

Most of the filings were in response to proxy advisor recommendations. Many filings questioned Institutional Shareholder Services' (ISS) peer group methodology or the advisor's reliance on total shareholder return (as opposed to other metrics) as its primary screening mechanism to determine pay for performance alignment. Other companies sought to address concerns over equity incentives by including estimates on "realized" or "realizable" pay, rather than the grant-date option values that are found in a proxy statement's summary compensation table.

Ideally, according to activist investors and corporate advisors, a company should try to make its best case in the Compensation Disclosure & Analysis (CD&A) section of the proxy statement, rather than in an additional filing that some investors may not read. Jon Lukomnik, executive director of the Investor Responsibility Research Center (IRRC) Institute, said the 2012 supplemental filings were "so much better" than the original proxy statements, in part because companies were more focused on making a compelling argument to investors.

Mixed Views

There are, however, mixed views among corporate advisors over whether it makes sense to do a supplemental filing. Compensation consultant Semler Brossy has questioned the effectiveness of this

approach, noting that the average support levels were no higher at firms that filed supplemental proxy materials.

The average support level at the 99 issuers that responded to adverse ISS recommendations during the spring 2012 season was 60 percent, as compared with 64 percent for all companies with a negative ISS recommendation, according to Semler Brossy. ISS reversed its recommendations just four times after a supplemental filing in 2012; in each case, the company made a late change to its pay practices, the company noted. At the same time, it's certainly possible that investor support might have been even less at some of those companies without these additional filings.

During a September 2011 forum hosted by the Middle Atlantic Chapter of the Society of Corporate Secretaries & Governance Professionals, Amy Goodman, a partner with the law firm of Gibson Dunn & Crutcher LLP, said supplemental filings "can be valuable" to help investors switch their votes. She noted that investment fund managers "need to have something in their files" to demonstrate that they had a reasonable basis not to follow a proxy advisor's recommendation.

ISS Special Counsel Patrick McGurn, who appeared at the society's forum, said the advisor's investor clients have indicated that they want to hear a company's explanation of how its executive pay is linked to performance and promotes long-term valuation creation. "They don't want to hear about the flaws of proxy advisory firms," he said.


Supplemental filings can be helpful if "if they provide substantive new information" about your company's pay practices, according to AST Phoenix Advisors. "What many investors do not find helpful is criticism of proxy advisor methodologies without providing substantive new support for your programs," AST Phoenix noted in a client update.

Attracting More Investor Support

However, Alliance Advisors, a proxy solicitor, said that companies should not be reluctant to use supplemental filings to strengthen their case and address any flaws or inaccuracies in the advisors' reports. "While it can be difficult to reverse an unfavorable proxy advisor recommendation – short of modifying a compensation plan – the best way to diminish proxy advisors' influence is for the issuer to make its case directly to major shareholders, both in terms of dialogue and proxy disclosure to help win over their support," Shirley Westcott, senior vice president of Alliance, wrote in a report on 2012 Say-on-Pay votes.

M.D.C. Holdings (MDC) is an example of a company where it appears that a supplemental filing may have helped attract more investor support. After a failed vote in 2011, the home-building company engaged with investors and the proxy advisors and made significant changes to its pay practices. Nevertheless, ISS still recommended against the company in 2012; ISS objected to retirement benefits for the CEO and the chief operating officer, which had been in place since 2008.

MDC responded with a supplemental filing that included a letter from the compensation committee arguing that benefits were justified by the two officers' long service to the company. MDC ultimately received 72 percent support, a 39-percentage-point improvement from 2011.

Of course, making a supplemental filing does not guarantee that an issuer will win its Say-on-Pay vote. Of the 53 companies that reported failed votes during the first half of 2012, nearly half (24) provided supplemental materials. 

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A person is shown from the chest down, wearing a light-colored button-down shirt. They are holding a knife in their right hand, positioned over a white plate. The background is a solid light blue. A dark blue horizontal band across the middle of the image contains white and yellow text. In the top left corner, there is a yellow semi-circle containing the text 'IR series'.

IR
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INVESTORS STAY FOR FOOD STOC



HUNGRY KS

IROs in the food-processing industry explain their unique challenges and share their secrets for whetting investor appetites.

By Margo Vanover Porter

While it isn't recession proof, the food-processing industry can be labeled "recession resistant," claims Barry Sievert, vice president, investor relations, Dean Foods, the country's largest milk-processing company. "Being a consumer staple, like milk is, we tend to see very little impact from a volume or a sales perspective based on the economy," he says. "That's not to say we haven't seen some impact as a portion of the population struggles with the economy."

Sievert, who joined Dean Foods eight years ago after tackling IR for a company in the technology sector during the dot.com bust, figured the food-processing industry would be s-l-o-w by comparison.

"I wrongly assumed that things would be much more consistent," he says. "I have found my experience in the food industry to be quite dynamic and very active on the IR front. We've been through a significant number of corporate actions that are always challenging from an IR perspective. We've had changes in management, which requires additional attention from an investor relations perspective. We have also spun off a division, done an IPO of another division, issued a \$2 billion special dividend, and done two equity offerings and several bond offerings, and made major acquisitions. We've been extremely active on the corporate strategic action front."

With an investor base that is primarily U.S.-centric, Dean Foods attracts investors looking for growth, value, and "growth at a reasonable price" (a hybrid of growth and value investing). "The mix changes a bit from period to period depending on how the stock is behaving and the business is per-

forming,” Sievert explains. “Because we’re not a well-known brand name, we’re institutionally held. We have very little retail investor exposure.”

His strategy for reaching investors is to maintain an active calendar of investor relations activities throughout the year, including sell-side conferences, non-deal road shows, and plant tours. “I try to be as consistent and transparent as possible,” he says.

Growing a Breakfast of Champions

Kris Wenker, vice president, investor relations, General Mills, agrees that the food-processing industry has weathered the recession and lingering economic malaise well.

“Branded food manufacturing and marketing might not be the fastest, most dynamic industry, but we grow in good economic times and bad,” she says. “There’s a reason consumer staples are thought about as a defensive sector. They almost always have a bit of growth. They are very cash generative, which means there is a component of return to investors that is either share buyback or healthy cash dividend—probably both. In our case both.”

General Mills, known for its Big G cereals, such as Cheerios and Chex cereals, also creates Yoplait Yogurt, Green Giant frozen vegetables, Pillsbury refrigerated dough, Nature Valley granola bars, and Fiber One snack bars.

Wenker believes it’s an advantage that most investors become familiar with her company first as consumers. “Chances are they’ve all got General Mills products in their cupboards,” she says. “They’ve grown up with some favorites, and they see first-hand how we market and build our brands. They’re watching our consumer-directed marketing and watching our in-store mer-

chandising every time they go to the grocery store. There’s a knowledge base about our business and our core competencies that I’m not sure every industry would enjoy.”

The company’s investor mix, she says, is split about 75 percent institutional with a worldwide base and 25 percent retail. “An interesting wrinkle in our industry is there are several firms that gather data from grocery store scanners and provide that data to food processors as a way of measuring how you’re doing in terms of consumer purchases of your products.

“Those companies sell that data to Wall Street, too. Every four weeks, I can count on the institutional investment community getting another feed on who’s gaining share and who’s losing share by category. I would argue that for investors that means there is a higher degree of transparency on trends in the food industry than there might be in other industries.”

She quickly adds that the monthly statistics are just one piece of a complex puzzle. “It’s not the whole story,” she says. “The challenge on the investor relations side of the equation is making sure people keep data in context and understand what it does and doesn’t say about trends in the business.”

Wenker can pinpoint several current trends in food manufacturing, one of which is being spearheaded by baby boomers who are looking for high-nutrition, low-calorie options that are propelling categories like cereal and yogurt. “Consumers ultimately drive strategy for a consumer product,” she says. “Consumers will drive what new market you think about growing your business in and what kinds of product development work you will do.”

She also cites a trend occurring as time-crunched millennials who grew up on grab-and-go food establish households of their

own. “Cooking skills are in decline, so the kitchen equipment you need to make our products is probably less than it was 40 years ago. The cooking instructions are simpler.”

Hershey Hits Home Run

One of the IR challenges that Mark K. Pogharian, vice president of investor relations, The Hershey Company, faces is trying talk to the investment community in a way that segregates confectionary from the rest of the center-of-the-store products and manufacturers.

“Hershey trades at an approximate 25 percent forward EPS premium to the traditional center-of-the-store food manufacturers,” he explains. “One of the reasons is that confectionary is an advantaged category. There is always turnover in the investment community, and some new investors to the staples sector weren’t around to witness Wrigley’s multiple – similar to Hershey’s – prior to its acquisition by Mars. It is not uncommon for confectionery pure plays like Hershey to trade at premium given the exposure to such an impulse-driven category.”

As a result, Pogharian spends a lot of time reminding investors who get stuck on valuation on why they should look at more than just traditional P/E. “We look at other metrics, such as enterprise value-to-EBITDA, and cash flow. When you get investors to look at these metrics, Hershey’s premium versus other staples is not as big of a hurdle. It’s important to continuously think outside the box for metrics that best describe your business strengths.”

Pogharian attributes his successful investor relations program to consistency, predictability, and achievable targets. “That’s what Wall Street wants,” he insists. “That’s how they model. If they believe in it, you will get a net higher valuation.



We made a decision when we changed our business model back in 2008 that we would discuss certain metrics – good or bad – on a quarterly and annual basis that are the most important to our business. That consistency has served us very well. You can't cherry-pick the data you're going to talk about on a quarterly basis."

By altering its business model from a push to a pull model, Hershey hit a home run, Pogharian says. "Our advertising-to-sales ratio as we exited 2006 was about

her MBA, she sought cross-developmental assignments in the cereal division.

"The core competencies for branded food processors are developing great, high-quality, nutritious products, marketing those brands to consumers, and successfully building the equity of those brands over time," she says. "Of course, you need to have the finance skills that are required of all investor relations professionals and to be a good strategic communicator so you can market your investment proposition. But beyond all that,

CAGNY conference. Following our presentation, we'll get a couple hundred of investors at our breakout Q&A session. Hence, participation at CAGNY is a great way to get a lot of visibility."

In the years it doesn't participate in CAGNY, Hershey usually sponsors its own event. For example, last year the company opted to host an analyst day in New York City on June 25th so leaders could discuss the strategy they're executing to achieve a goal of \$10 billion in net sales by the end

"BRANDED FOOD MANUFACTURING AND MARKETING MIGHT NOT BE THE FASTEST, MOST DYNAMIC INDUSTRY, BUT WE GROW IN GOOD ECONOMIC TIMES AND BAD." - Kris Wenker, vice president, investor relations, General Mills

2 percent. As we exit 2012, it will be slightly over 7 percent. We also increased our sales force and their hours in stores by approximately 30 percent over a three-year period and invested in more merchandising and programming on core products. In 2012, if trends hold, it will be our fourth year in a row of market share gains."

Tips to Savor

With their combined years of experience, these food-processing pros offer three additional tips for investor relations success:

Keep learning. When she started at General Mills 33 years ago fresh out of college, Wenker assumed responsibilities across IR, media relations, and employee communications. "It didn't take me long to fall in love with the IR piece," she says. "It's absolutely the best job in corporate America." She also quickly came to the conclusion that experience on the line side of the business would be helpful. That's why, after completing

you need to speak the language of consumer product marketing. It's what we do."

Maintain visibility. To attract investors, IROs in the food processing industry all regularly participate in the annual conference sponsored by the Consumer Analyst Group of New York (CAGNY). "It's a once-a-year conference that brings together large-cap food, beverage, tobacco, household, personal care, and beauty products all in the space of a week," Wenker explains. "It is held in February so it's early in the calendar year. It's a well-timed event for that broad swath of large-cap consumer staple companies to outline their key growth strategies for a given year. Investors who are interested in that space can really walk away from that conference with a pretty complete perspective on how the largest companies in the space are thinking about the upcoming year."

Pogharian agrees. "There are about 600 or 700 buy-side investors who attend the

of 2017. "We would hope at that point that 20 to 25 percent of our sales would be coming from markets outside the United States and Canada," Pogharian says. "Right now, it's 10 percent."

Strive for clarity. IROs should know their audiences' preferences and pay attention to shifts in the industry, Sievert emphasizes. "You need to understand how much more thinly stretched the sell-side and buy-side analysts are and how many more companies they are covering," he says. "Your sell-side analysts' typical coverage lists 10 or 15 years ago were 10 to 15 companies. It might be 20 to 30 today. It is important to make sure your message is very clear and easily understood. I try to make covering Dean Foods and investing in Dean Foods as easy as possible for our investors by focusing on clarity of communication." **IRU**

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Using Numbers to Tell Your Story

Tailor the financials to tell a meaningful narrative to investors.

“When we talk about telling the story of any public company, the most important part is the investment thesis,” said David Calusdian, executive vice president and partner at Sharon Merrill Associates. He moderated a November 2012 NIRI-sponsored webinar entitled, “Using Numbers to Tell Your Story,” with panelists Bernard Kilkelly, director and past president of the New York chapter, and Felicia Williams, manager of investor relations at Edison International.

Calusdian likes to think of financials as the key plotline to the story. Make sure the metrics you are communicating are in line with the investment thesis. Emphasize those that demonstrate the company’s growth trajectory, margin improvement, or value creation. Pay close attention to your industry’s metrics.

Communicate Metrics Consistently

Consistency is a key to communicating the financials. Some management teams may be tempted to change the metrics they use quarter to quarter. “Management should, instead, determine the relevancy of the metrics in terms of past performance or as a predictor of future performance, and then communicate quarterly on a consistent basis,” Calusdian said.

According to Kilkelly, who was most recently IRO at Delphi Financial Group, an insurance holding company, the key to delivering the appropriate financial information is to understand it inside and out. Think critically about what and why you are disclosing a metric. “Once you start discussing a particular set of numbers and

metrics, it’s not something you can stop presenting,” Kilkelly said. “Build credibility by discussing metrics and performance in a realistic way.” He advised IROs to get investors and analysts to focus on long-term goals, tie financial performance to the business strategy, and to underpromise, but overdeliver.

Know Your Audience

Williams explains her company story by knowing her audience. With a market capitalization of more than \$14 billion and a mix of debt and equity investors,

She emphasizes the company’s core earnings, growth rates, dividend payout, and the regulatory environment when she speaks to equity shareholders. She covers capital needs, the regulatory environment, authorized rates, and power-purchase agreements when she speaks to her investment grade, fixed-income investors.

She tells her high yield, fixed-income investors about liquidity, cash flow, security, covenants, ratios, asset values, and bankruptcy protection scenarios. “The high yield, fixed-income investors are driven by numbers and less on the strategy,” Williams

Equity investors welcome increased capital expenditure investments of the regulated utility side of the business because it translates into more money for shareholders.

Edison International is made up of two subsidiaries. One is Southern California Edison, a regulated utility company with a stable and predictable return set by regulators and earnings driven by infrastructure investments. The other, more risky side of the business is Edison Mission Group, an unregulated power company with a national footprint whose earnings are driven by market power prices, power plant positioning and efficiency, and investment opportunities.

Williams recommends tailoring the financials to the widest range of users, responding in a timely fashion, and adding disclosures based upon user requests. Supplement with details through phone calls and discussions.

said. They want details and look at two to three times the amount of disclosure information in the annual 10-K report as compared to the equity and investment grade, fixed-income investors.

Equity investors welcome increased capital expenditure investments of the regulated utility side of the business because it translates into more money for shareholders. Bondholders are dismayed at too much capital expenditures of the unregulated power company because it means less money available to pay bond debt service.

Equity and investment grade, fixed-income investors want to see the big picture of the company’s liquidity and

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- ▶ Finance 101
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- ▶ 2013 NIRI Annual Conference
 - June 9-12, Hollywood, FL
- ▶ Finance Essentials Intensive
 - June 24-26, New York, NY
- ▶ Finance 101
 - August 12, San Francisco, CA
- ▶ Finance Essentials
 - August 13-14, San Francisco, CA
- ▶ Think Like an Analyst
 - August 15, San Francisco, CA
- ▶ Fundamentals of Investor Relations
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Webinar continued from page 18

dividend payout. The high yield, fixed-income investors are driven by ratio analysis. "They look at it under a microscope," Williams said. "They want to know every single ratio, where it stands, how it's met to determine the financial status of a company."

Adapt to Market Conditions

In the early and mid-2000s, companies in the financial industry focused on growth. Demonstrating strong increases in earnings-per-share (EPS) and cash flows were viewed as a key to achieving high valuations.

However, when the financial crisis hit in 2008, and as banks and insurance companies came under tighter scrutiny by the rating agencies, equity investors began focusing heavily on the balance sheet, debt-to-equity ratio, return on equity (ROE), the security of ratings, and share repurchases. "At Delphi Financial, it changed the conversations we were having with investors and in some ways, our investment thesis," Kilkelly said. "It became less a story about EPS growth and our ability to grow the top and bottom line and instead became more about how we have strengthened our balance sheet."

To sum up, investor relations officers help in translating information from investors to management so that executives can position and effectively tell the company story.

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.

On the Move



Katie Reinsmidt

was promoted to the new position of senior vice president – investor relations and corporate investments at CBL & Associates Properties. She joined the company in 2004 as director of investor relations and was promoted to director – corporate communications and investor relations in 2008 and to vice president – corporate communications and investor relations in 2010.

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



Have you visited www.niri.org/videos lately to check out NIRI videos? There's a lot there to watch, including:

- ▶ A two-part, "This Week in the Boardroom" video, featuring views on IR governance issues in 2013 from NIRI President & CEO Jeff Morgan and Society of Corporate Secretaries & Governance Professionals President Ken Bertsch.
- ▶ Several NIRI "IR Today" video reports, including one featuring 2013 NIRI Chairman Hulus Alpay talking about IR issues facing the profession this year. Another edition includes interviews with Mary Beth Kissane, principal of Walek & Associates and a member of the NIRI Board of Directors, about the NIRI Board's visit with the Securities and Exchange Commission.
- ▶ Members of the NIRI Board of Directors discussing the highlights and value of the NIRI Annual Conference.

Quick Takes

In talking with institutional investors, what are you hearing about?



Karla Kimrey

Vice President of Investor Relations
Cloud Peak Energy

► “What impact will the second Obama administration have on your business?”



Keith Mabey

Vice Chairman
Dix & Eaton

► “Institutional investors are increasingly focused on board succession planning and are looking for greater insight into the process of nominee identification and vetting.”



Michael Steele

Senior Director, Investor Relations
OfficeMax

► “The impact on the business over the next couple of years from implementing Obamacare.”



Melissa Plaisance

Senior Vice President, Finance and Investor Relations
Safeway

► “We get a lot of questions about our multiemployer pension plan obligations. Investors want to learn more about pension obligations.”

“Quick Takes” 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.

Professional Development Calendar

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

February 2013

- 5** Trading Trends – Why Should IR Care? webinar
- 19** IR’s Role and the Board of Directors webinar

March 2013

- 12** Lessons from Institutional Investor Award Winners webinar
- 18** Finance 101 seminar, New York, NY
- 19-20** Finance Essentials for IR seminar, New York, NY
- 26** IR Magazine Awards webinar

April 2013

- 9** Dealing with Fixed Income Shareholders webinar
- 23** Engaging the SEC webinar

May 2013

- 7** Analysts Part I: The Future of the Sell Side webinar
- 14** Analysts Part II: The Buy Side View on Global Equity Markets webinar
- 21** Global Money Flows webinar

June 2013

- 8** Pre-Conference seminars, Hollywood, FL
- 9-12** 2013 NIRI Annual Conference, Hollywood, FL
- 24-26** Finance Essentials Intensive seminar, New York, NY

July 2013

- 9** 2013 Proxy Season: Lessons Learned webinar
- 23** The Deal Road Show webinar

August 2013

- 6** Communicating a Company Crisis Internally and Externally webinar
- 12** Finance 101 seminar, San Francisco, CA
- 13-14** Finance Essentials for IR seminar, San Francisco, CA

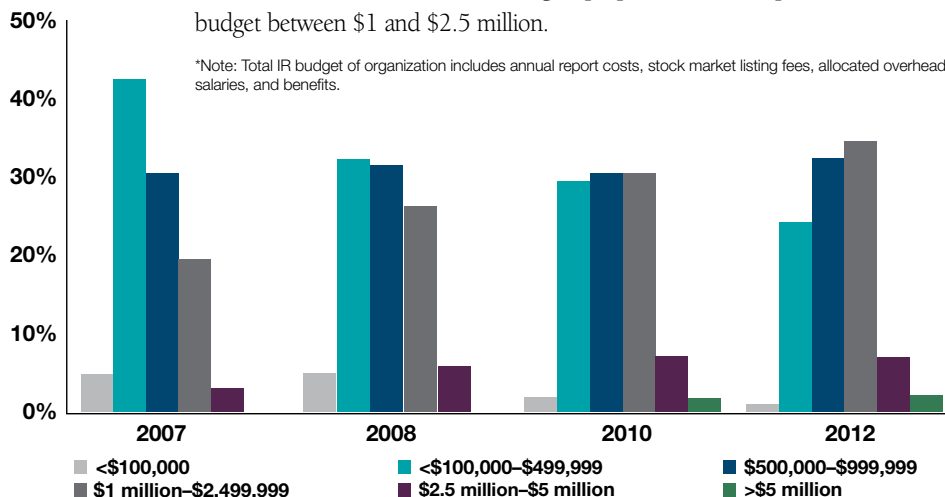
Respect the NIRI Community at the Annual Conference

NIRI APPRECIATES THE support that sponsors and exhibitors provide at the NIRI Annual Conference. Accordingly, only exhibiting companies may engage attendees in the exhibit area. Attendees have been asked not to accept invitations to events from vendors not sponsoring or exhibiting at the conference. Vendors not sponsoring or exhibiting should not promote their products or services. Please respect our community and notify NIRI staff of violations at communications@niri.org.

IR RESEARCH AT A GLANCE

Total IR Budget* of Organizations

In general, total IR budgets have been increasing over the last five years. In 2007 the majority of respondents (42%) reported a total IR budget between \$100,000 and \$499,999, while in 2012 the largest proportion (34%) reported a total IR budget between \$1 and \$2.5 million.



eGroups Buzz

NIRI's member-only eGroups are popular with IROs eager to seek input from peers about current issues. Members value eGroups for the ability to interact candidly and in real time. Here are excerpts from a recent discussion on pre-recorded earnings calls. Check out eGroups at www.niri.org under "Networking."

Subject: Conference Call on Friday?

Question: In the old days, companies would release bad news on Friday to get it in the Saturday newspapers. Now that newspapers no longer drive the news cycle, does it matter whether earnings calls are scheduled on Friday? Do you presume a company's news will be negative if the call's scheduled on a Friday? Have you heard analyst feedback on Friday conference calls? – Vice President, Communications

WE MOVED OUR quarterly earnings calls to Fridays (morning before the open) some time ago. We found this reduced dramatically the phenomenon of having multiple competitors' calls happening simultaneously. The response has been overwhelmingly positive from the investment community. I tend to think the news itself determines whether it is taken positively or negatively as opposed to when it is announced. – Vice President, Investor Relations

TO OFFER A different perspective . . . the timing of our recent quarterly filings happened to fall on Fridays so we held the last two earnings calls on that day. I received negative investor comments suggesting that we were not being shareholder-friendly and the appearance we were giving was that we were trying to bury our results (even though they were positive results). The sentiment was especially strong when our 2Q call was held on a Friday this summer. This quarter, instead of holding the call on Friday, we chose to schedule it for Thursday. Investors were quite happy that we listened to them. – Vice President, Investor Relations & Communications

LOTS OF COMPANIES do earnings calls on Friday morning following earnings releases on Thursday afternoon or earlier Friday morning. What is not okay is Friday afternoon. You should not have a call later than noon Eastern time, because the analysts will hate you if they have to work late on Friday evening. – Head of Investor Relations

LOTS OF GREAT INPUT thus far. Also, if you're not doing it already, I recommend informally polling your buy and sell side by saying something like, "While we've typically held quarterly conference calls on Thursdays, we're considering hosting them more regularly on Friday mornings, as we did for 2Q12, and would appreciate hearing whether you have a preference." Whether you ask the question during normal-course conversations with your sell side and the top 10 holders, during a quick round of calls to specifically address this topic, or in a brief e-mail, you'll gain direct audience input to inform your decision. In addition, the exercise will help signal to this audience that any scheduling change is part of a thoughtful planning process, and not a reaction to actual results in a given quarter (good or bad). – Investor Relations Consultant

Investor Days continue to be a vitally important venue to broadly **communicate** key information and **differentiate** your company as an investment.



The quality of information, as well as the means by which it is conveyed, can positively influence investment decisions, and consequently, valuation.

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