IRupdate

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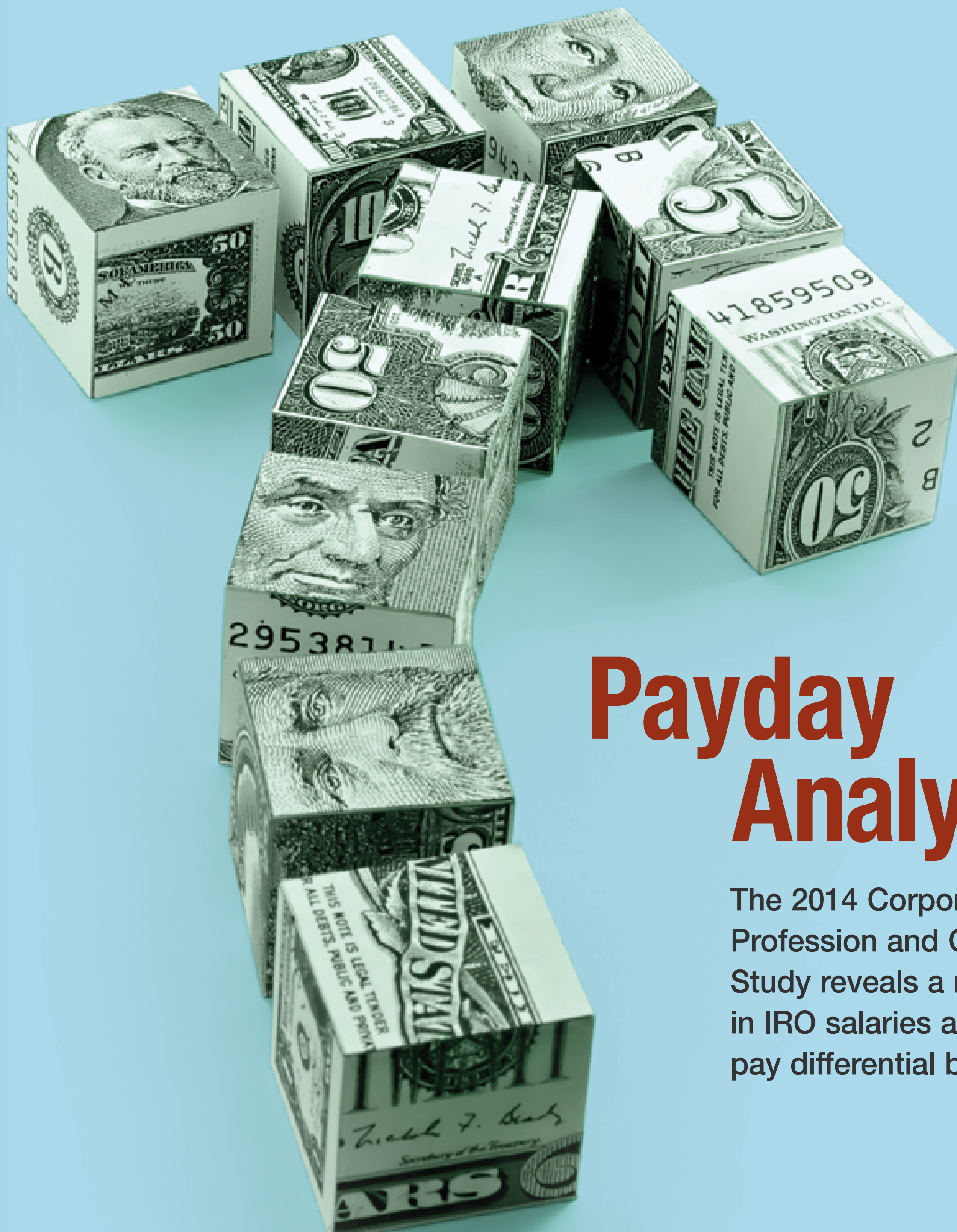
OCTOBER 2014

the voice of the investor relations profession



Payday Analytics

The 2014 Corporate IR Profession and Compensation Study reveals a modest jump in IRO salaries and analyzes pay differential by gender.

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About NIRI

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

About *IR Update*

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

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DEPARTMENTS

Moving Forward With NIRI

Welcome to your October 2014 edition of *IR Update* magazine, NIRI's flagship publication that 96 percent of you said is "valuable" in our 2014 NIRI member survey.

This issue includes a deep dive into the always-popular NIRI/Korn Ferry International compensation survey. Several executive recruiters provide expert analysis of the data, and bring real-world perspective from their clients on the other side of the hiring manager's desk to help IROs understand what it takes to get to the next level.

We're delighted to spotlight Kay Breakstone, president and CEO of Breakstone Group, the first woman chair of NIRI who was named a member of the inaugural class of NIRI Fellows in 2013. Over the coming months, *IR Update* will highlight our many NIRI Fellows, recognized leaders who have contributed so much to our organization and profession. These successful individuals have a wealth of experience to share, and I look forward to this series.

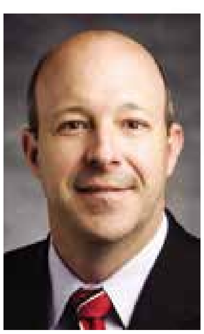
The other feature is an exploration of the nuances associated with communicating your cash position. Considering many activists' intense interest in this subject, effectively articulating your corporate cash strategy may just pay dividends!

Though I write this in the normally slower month of August, you should know that your board and association staff remain very busy. We've accomplished much with our OneNIRI 2012-2015 Vision strategic plan, but several key initiatives remain: our ambitious, industry-first IR Certification program, and the next NIRI.org website redesign. These projects are in various stages of development, and we look forward to launching both in 2015. The board is also working to finalize the next evolution of the strategic plan, OneNIRI 2.0, which we intend to approve by the end of the calendar year.

The board is proceeding quickly and carefully in our search for a new CEO. We have appointed a search committee consisting of current and former board members and NIRI Fellows. The search committee has prioritized the skills and experiences that our next CEO should possess, and is working with an executive recruiter specializing in association management to identify candidates. I look forward to bringing you more information about this important process when it is available.

Finally, I will use this opportunity to say "thank you" to NIRI President and CEO Jeff Morgan for his seven years of exemplary service and leadership. He will be missed, and we wish him all the best as he takes on leadership of the Club Managers Association of America in mid-October 2014.

As always, feel free to call or e-mail with any comments or questions.



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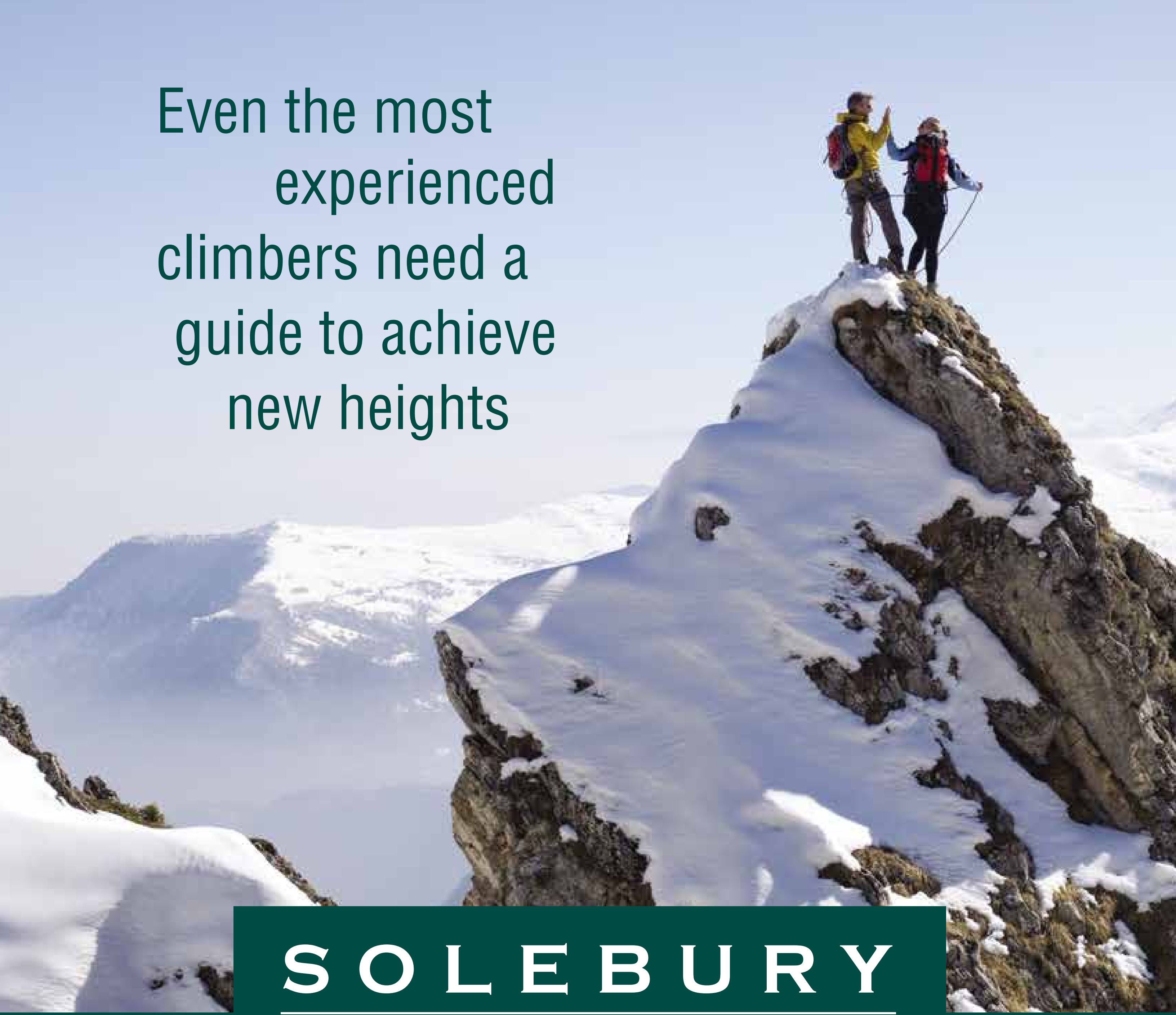
Even the most
experienced
climbers need a
guide to achieve
new heights

PAYDAY

The 2014 Corporate IR Profession and Compensation Study reveals a modest jump in IRO salaries and analyzes pay differential by gender.

By Margo Vanover Porter

ANALYTICS

IROs are getting a payday increase, albeit a relatively modest one, according to the 2014 Corporate IR Profession and Compensation Study.

"The compensation increase, which is an inflation-adjusted rate of about 2 percent, is pretty close to what we're seeing in other functional areas across different sectors," says Richard S. Marshall, managing director, corporate affairs practice, Korn Ferry. "It's an improvement, but probably not as much as folks would like."

The survey, sponsored by NIRI and Korn Ferry International, indicates the base salaries of corporate IROs rose for the second consecutive survey year to an average of $187,691 in 2014. The total cash compensation increased to $256,760, up from $251,094 in 2012.

The upward trend reflects the increasing value IROs offer to the C-suite, insists Smooch Repovich Reynolds, executive vice president, global investor relations management group, DHR International.

"I don't think the salaries moving up are necessarily a reflection of the economy and where it's going," she says. "I think it's a reflection of the continuous value that management teams place on the investor relations function. That function serves as a steward of the brand and, ultimately, a company's valuation in the financial markets."

According to Fred J. Clayton, the modest bump in paychecks supports a movement he has noticed by companies across the nation that want to flatline base salaries, except for cost-of-living increases.

"Companies are keeping salaries fairly stable and instead rewarding people with variable pay, meaning annual bonuses and long-term incentive compensation," advises Clayton, who is chief executive officer, Berkhemer

REYNOLDS POINTS OUT THAT MANY FACTORS MAY CONTRIBUTE TO THE COMPENSATION DISPARITY, ONE OF WHICH IS THE FIVE-PLUS YEARS THAT WOMEN SOMETIMES TAKE OFF FOR CHILDBEARING.

Clayton. "By not getting tied to an increase in pay, they're keeping their general administrative expenses in check. Then, when the company has a good year, it can afford to pay a larger bonus."

He points out that 92 percent of the survey respondents received a bonus, compared to 82 percent two years ago. "That's further evidence that companies would much rather give a bonus than they would give a large salary increase," he says.

Gender Pay Disparity

One survey result that has compensation experts shaking their heads in disbelief is the continuing pay disparity between genders. In 2014, the median base salary for men was $195,00, while women received $159,010. Although continuing to decrease from a 1995 high of 67 percent, the pay gap still represents a 23 percent difference.

"I honestly don't have a good rationale for that [survey finding]," Marshall admits. "Based on the search work we've done, I haven't seen an appreciable difference in the pay for men and women in the top IR role."

He cites the example of a woman his firm recently placed as the head of investor relations for a large, high-profile Internet company. He reports her final compensation package was well above the industry standard portrayed in the survey.

Clayton, who labels the pay gap between genders as "unfortunate" and "wrong," believes that pay equalization will continue to evolve and that the current disparity may exist primarily among IROs who have been in the profession for decades. "It wouldn't surprise me to see the gap much smaller between genders in the younger population."

Reynolds points out that many factors may contribute to the compensation disparity, one of which is the five-plus years that women sometimes take off for childbearing. In her years as a professional recruiter, she has encountered many women who have temporarily interrupted their careers to begin raising families.

"When that woman reenters the marketplace, theoretically she's five years behind in compensation," Reynolds says. "Because she's missed five years of regulatory climate changes and five years of shifts in the capital markets, she may enter employment again at a lower compensation. Her desire to be back in the game may supersede her expectation of compensation, which may be skewed lower."

Another factor that can negatively influence compensation for both sexes is an internal promotion. Reynolds has seen a number of Fortune 1000 companies move a director of finance into the IR role. Since it's considered a lateral move, the individual may get a pat on the back and a 3, 4, or 5 percent increase. "Moving externally would generate a much larger increase," she declares. "This happens [everywhere], not just in IR. It's just the way compensation works."

Reynolds has learned not to place too much emphasis on a candidate's salary if internal promotions have caused it to fall below market. "I work with clients who understand the compensation aspect of careers," she says. "When I explain a candidate is being paid under market value, they will construct an offer for that candidate that makes up for it."

She cites a recent example of an IRO who worked for a company in the industrial sector for 18 years, steadily progressing up the food chain through financial and operations roles and eventually ending up in IR. "After 18 years with one company, the first thing he and I discussed was that he felt he was being paid under market value. He and I worked together to find the appropriate marketplace value for him, given his background and how that would fit with a new employer's compensation plan."

She reports that the company that eventually hired him did offer a "significant" jump in his salary. "IROs need to know their own marketplace value," she insists. "If you don't know your realistic marketplace value, you cannot negotiate with your own employer or a prospective employer."

Other Survey Highlights

Besides learning their own marketplace value, IROs can benefit from additional survey insights. Among them:

For the first time since 2008, IR budgets across all market-cap sizes saw slight shifts downward in 2014. Clayton believes cost-conscious companies are doing their best to hold down the cost of the internal IR function. "That trend will continue," he predicts.

Marshall concurs. "A lot of companies are just coming through the recovery," he says. "The last few years, everybody has been reluctant to add to headcount or to increase compensation across the board. Primarily, companies have been investing in anything that generates revenue growth, such as product innovation. But we're seeing only moderate growth, if any, in the budgets of staff functions, like investor relations, communications, legal, and HR."

The MBA remains the most common advanced education attainment, and base salary positively correlates to a certification or an advanced degree. "For IROs, having an advanced degree is valuable, but which one is less important," Marshall says. "The C-suite is largely agnostic about it – they are looking for professionals who have a deep understanding of business and how it operates; are good at problem solving; and can think, manage, and operate creatively."

Reynolds acknowledges that candidates with an MBA or Chartered Financial Analyst (CFA) credential have increased credibility and stature, but adds that hiring executives place an even greater priority on leadership skills, which don't come with a degree.

"Just as CFOs are now being hired for their leadership and management abilities, rather than financial acumen, a similar evolution is happening with IROs," she says.

"You need to be viewed by management as a peer who is an advisor when it comes to the financial markets, a steward of the messaging and relationship that allows your company to be viewed as highly credible with the financial markets. You need to be perceived by the management team as a leader."

Only 7 percent of IROs are in rotational positions, a 3 percentage point decrease from 2012 data. This statistic does not surprise Reynolds. "I don't think it's wise to have a rotational head of IR," she says. "The financial markets expect a consistent conversation."

According to Marshall, the challenge with having a rotational IR position is the loss of connectivity to investors and analysts. "The IRO needs to provide continuity of relationships and of the voice for management," he says. "If you bring someone into the top position who is interfacing with analysts and rotating him or her out every three years, your company has to restart those relationships. It's important to have continuity and consistency."

Clayton believes that CEOs now prefer their IROs be permanently in place. "In this world of specialization, large sophisticated companies want their IROs to be a destination, not a roll through or a segue to another corporate position," he says. "They want and need career IROs who know their stuff."

Over the past 14 years, the number of IROs with investment banking backgrounds has increased 400 percent; IROs with securities analyst experience have risen 366 percent. Reynolds attributes part of this jump to economic conditions. "Every time there is a recession or a slow economy, analysts and investment bankers decide they want out," she says. "They feel they know everything about IR and want out of their initial chosen profession, and this is the easiest bridge to something different."

She quickly adds, however, that the trend of hiring IROs with an in-depth financial background is here to stay. "I don't think that will ever shift back to corporate communications," she admits. "The capital markets have become too complex."

A CANDID CONVERSATION ABOUT COMPENSATION

If you want to know what it takes to move up the ladder and what factors will influence your salary along the way, tune in to the new compensation-related segment of NIRI's web video series *IR Today*.

In it, NIRI President & CEO Jeff Morgan reviews key IR compensation trends and drivers with Richard S. Marshall, managing director, corporate affairs practice, Korn Ferry.

This and other videos in the *IR Today* series are available on the NIRI YouTube channel: www.youtube.com/NIRINational.

According to Clayton, the increase in Wall Street types reflects the need for specialization. "All indications are that everyone wants a specialist. If you think about it, it makes good sense to consider an investment analyst who knows your industry cold and maybe even knows your company because [he or she has] been covering you."

Marshall agrees that companies may find it appealing to hire an analyst who understands the marketplace and competitive set for an IRO position, but points out such a hire usually comes with limitations and a steep learning curve. "While they bring knowledge about the sector and have the financial analytics, they may not understand the internal dynamics of the investor relations function and the cadence of how information flows through the organization."

In 2014, 55 percent of respondents indicate they have responsibilities outside of IR. Marshall is seeing "more blurring of functional roles in investor relations and corporate communications." He believes CEOs and CFOs are looking for investor relations officers who can distill information and communicate it internally and externally; listen to and interpret the opinions of the market and Street; and anticipate how shareholders will react to new organizational strategies.

"It's one of the best times to be in this role because there is opportunity in the blurring of the lines," Marshall says. "The IR role has never been more important to the C-Suite and to the board.

"Today, IROs not only have the front-line ability to advise the C-suite in terms of how investors and analysts perceive the company," he points out, "but have the opportunity to broaden their mandate if they can bring additional strategic and leadership skills to their roles." IRU

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What's Your Cash Position?

Investors seek clear, consistent communication about cash management strategies.

By Apryl Motley

How much cash does your company have on hand? This question can be complex for IROs. Most significantly, some companies pay dividends, and others do not. Either action–or inaction–can be met with criticism from analysts and others on the Street.

However, in both instances, these companies are probably meeting their investors' expectations, especially if their communication about their cash positions has been clear and consistent. Consider these general statements from IROs about how their companies manage cash:

- "Spending means progress," says Alan R. Engbring, executive director, investor relations and corporate communications, Conatus Pharmaceuticals.
- "In a cyclical business, we want to maintain reasonable liquidity that reflects that cyclicality," explains Laura Gagnon, vice president, investor relations, The Mosaic Company.
- "We consistently return capital to shareholders through dividends," notes Alexandra Deignan, vice president of investor relations, Schnitzer Steel.

Their statements indicate somewhat different, but workable, approaches to communicating about your company's cash.

The Science of Spending

"We're like most development-stage biotechnology companies in that we are net users of cash, not net generators," Engbring explains. "We use some portion of our cash balance each quarter, and have to replenish that balance from time to time."

The company's focus is the development and commercialization of medicines to treat liver disease, specifically the development of Emricasan, which it believes has the potential to slow progression of the disease.

Conatus is projecting a year-end balance of cash, cash equivalents, and marketable securities between $28 and $32 million. According to Engbring, investors are interested in this metric. "Our investors typically are not earnings focused," he says. "They care about cash uses and balances projected for the year."

How much cash does the company have, how fast is it being spent, and how long is it going to last? Will there be enough to reach the next milestones in the development of the drug? These are questions Engbring believes are top-of-mind for Conatus investors.

"They are buying our stock now because they believe the technology we're developing is appropriate and think the management team will turn it into a product that will be successful," he explains.

Once the company gets to that point, there will be potential for generating cash from commercialization and out-licensing opportunities. For example, Emricasan could be used to treat fatty liver disease. Conatus could potentially find a partner and out-license the drug for that application.

Currently, cash use is spared by reducing expenses from outsourcing operational needs such as the outsourcing of specific clinical trial functions to research groups both nationally and internationally. A primary source of cash is selling stock, which the company does periodically.

Given its focus, to effectively communicate its cash position, "We spend a lot of time talking about science," Engbring says. "It's a science story." In fact, Conatus has a section of its website devoted to scientific publications and research, which is unique.

While investors expect that available cash will be expended toward development efforts, they do look at trends quarter over quarter and year over year, according to Engbring, who offers an example: "Perhaps, research and development spending was up because the company had more clinical trials going on. If we spend cash faster or slower than expected, investors want to know why. They really want to understand our management process and how we see our product advancing to the market."

Going for Growth

"Our preference for deploying excess cash would be for growth with an emphasis on making organic investments first, for example, to improve manufacturing capability," Mosaic's Gagnon says. "We've seen growth through acquisitions and strategic joint ventures as well."

A publicly traded company since 2004, Mosaic is the world's largest combined producer of potash and phosphates, two important crop nutrients. In May 2011, the company was spun off from Cargill, which remained a private company. Mosaic had accumulated cash in anticipation of this transaction and being able to do stock repurchases at the end of November 2013.

As indicated in Mosaic's August 2014 investor presentation, making investments to drive organic growth and sustaining assets and recurring dividend are among the company's "unchanged cash priorities."

"We've set cash and liquidity targets," Gagnon notes, "and for the most part our cash is available." As of June 30, net cash returned to shareholders was $2.3 billion, the company spent $1.4 billion on acquisitions, $489 million in capital expenditures and used $152 million of cash in other investing activities, resulting in total cash and cash equivalents of $2.4 billion and long-term debt of $3 billion.

Gagnon characterized the company's business as cyclical and explained that its overall fiscal philosophy is to offer a reasonable dividend. "We expect to grow the dividend with business growth," she explains, adding that the company's dividend went from $0.05 per share per quarter to $0.25, resulting in a dividend yield of about 2 percent.

"Our expectation is that dividends will grow along with acquisitions," Gagnon says. "We communicated that expectation to investors, and it's been well-received."

Mosaic also explains that while it has non-U.S. cash, this is the most expensive cash for the company to access. Gagnon offers the following scenario as an example:

If cash in Canada were pulled back into the United States for stock repurchases, this might cause a higher non-cash U.S. tax expense. "Whenever our decision to repatriate cash has a profit-and-loss impact, we make sure to communicate what that impact is and how long it will last," Gagnon says.

In general, she says consistent communication about cash position and not losing sight of its impact is important to maintaining long-term relationships with investors: "It's a very old IR standby: We're repetitive. We talk about it very frequently, what it means to us, and how we're executing against it."

Dividends Declared

"Schnitzer's ability to generate strong cash flows has enabled the return of capital to shareholders while continuing to invest in growth and preserving balance sheet strength," Schnitzer's Deignan says.

In July, the company's board of directors declared a cash dividend of $0.1875 per common share, payable on August 25. A leading processor of scrap metal as raw material for new steel production, Schnitzer has paid a dividend every quarter since going public in 1993.

Deignan describes the company's fiscal strategy as "a combination of many different gears turning in the same direction: increasing earnings through productivity initiatives, decreasing leverage, and consistently returning capital to shareholders."

To that end, Schnitzer continues to successfully execute on its $40 million productivity initiatives and cost-savings program, approximately 70 percent of which are expected to be achieved by the end of fiscal 2014. The company has also generated $73 million in operating cash flow during the first nine months of fiscal 2014.

"We're in a cyclical industry," Deignan explains. "We point to the cash that we continue to generate throughout the ups and downs of the cyle as an indicator of our operational performance and strength as a company."

"We're able to generate a lot of cash even as market conditions contract," she continues, "and we wanted to reflect that consistency through our dividend strategy."

For the Long Haul

Long-term investors matter to these IROs' companies. "Our strategy is very attractive for long-term value investors," Deignan notes. "It gives them confidence in management's disciplined approach to balanced capital allocation through the cycle."

Similarly, Gagnon indicates that Mosaic's fiscal philosophies are "set up for long-term shareholder returns versus activist shareholders, who want returns in one or two quarters."

On the other hand, according to Engbring, Conatus does not expect to declare or pay any cash or dividends on its common stock. He says the key to communicating effectively about the company's cash position is identifying the right type of investors, in this case, people with long-term perspective.

"For the most part, we are interested in seeking out long-dominated and long-term investors," Engbring says. "We don't stay awake at night thinking about activist investors, but we don't court them either.

"Investors are on a continuum of activism," he continues. "We have engaged investors who talk to us regularly. They are interested in what we're doing and ask lots of questions all the time," Engbring notes, "but if you have a good management team that has outlined specific objectives and executed them well, you're less of a target for activism for investors who look for weaknesses they think they can fix." IRU

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

EXPERIENCE + EDUCATION = IR SUCCESS

KAY BREAKSTONE, THE FIRST WOMAN CHAIR OF THE NIRI BOARD OF DIRECTORS, HAS SEEN A DRAMATIC EVOLUTION IN IR, BUT BELIEVES EXPERIENCE AND A GOOD BUSINESS EDUCATION REMAIN THE KEYS TO SUCCESS.

By Matt Brusch

NIRI FELLOWS© PROFILE

Profiled in this issue of *IR Update* is Kay Breakstone, president and CEO of Breakstone Group, who was inducted in the inaugural class of NIRI Fellows in 2013.

Breakstone founded Breakstone Group, which was formed after the sale of Ludgate Communications New York, a firm she ran, to Interpublic Group. She joined Ludgate from Burson-Marsteller, then the world's largest communication firm. She began her career as a securities analyst with Dean Witter, prior to overseeing financial communication and investor relations for Kennecott Corporation.

Her experience covers a wide range of complex shareholder relations issues involving mergers and acquisitions, corporate governance, initial public offerings, American Depositary Receipt (ADR) programs, annual shareholder meetings, strategic targeting, and above all, positioning domestic and international companies within the North American capital markets.

Breakstone was President and CEO of Ludgate Communications and was instrumental in building a strong international IR practice working with European and Latin American clients. At Burson-Marsteller, she was an executive vice president and managing director responsible for the firm's U.S. investor relations practice. She developed investor relations programs for a variety of global companies, including Dupont, GE, Coca-Cola, Caterpillar, Duke Power, British Telecom, ICI, Reuters, Cemex, and Sandoz.

The first female chair of the NIRI Board of Directors, Breakstone also served as president of the New York chapter. She sat on the board of directors of the First Women's Bank, was elected to the YWCA Academy of Women Achievers, and is a member of the Americas Society and the International Advisory Council. She is listed in "Who's Who in Finance and Business."

Breakstone received her B.S. in economics with honors from New York University and has been a featured lecturer at the American Stock Exchange, New York University, Investment Management Institute, American Management Association, Public Relations Society of America, and NIRI. She is the author of numerous articles for business publications.

What inspired you to enter the field of investor relations?

Actually, it was more about chance than inspiration that brought me to investor relations. I was working on Wall Street as a securities analyst and getting my MBA at night. It was very challenging and left me little time to spare.

One day I received a phone call from a recruiter who had seen my resume and asked if I would be interested in interviewing at Burson-Marsteller, a public relations firm, for a job in their financial division. I said, "What is a public relations firm?" My only experience with public relations firms was answering questions when called to participate in a perception study.

In any event, I agreed to the interview thinking that this might be an easy job to undertake while I finished my MBA and went back to Wall Street. The rest is history. I spent a total of 20 years at Burson-Marsteller firmly entrenched in investor relations.

I joined NIRI early in my career and became active in the organization. I found NIRI to be very valuable, especially in those early years, as I met other investor relations officers, shared information, and made many friends. It was also a challenging organization for women since in those early years, most IROs were men and that was reflected in the NIRI membership. We were probably six to one, men to women. While competitive, it was interesting. And nine years later, in 1981, I became the first woman chair of NIRI.

What do you think is the most important skill an IRO needs and why?

There is no one most-important skill an IRO needs, but many. When you analyze investor relations, you realize that it requires knowledge and skills in several areas: 1) Marketing – to understand the basics as well as underlying values in order to properly position shares to make them attractive to investors; 2) Accounting and Finance – to provide solid analysis of the financial statements of the firms they work with and be able to discuss them with analysts and investors; 3) Law – to recognize the implications and procedures related to the Securities and Exchange Commission, legal, and stock exchange rulings; and 4) Communication – to communicate effectively, both verbally and written, and influence the perceptions of analysts and investors. Equally important is exercising sound judgment, something required every day in this profession.

Another aspect relates to internal communication. I found when I was the IRO for a public company that my job success was strongly based on making friends and developing relationships within the company to assure receipt of the most up-to-date information. And it's essential to collaborate with senior management and develop a relationship with the CEO.

Today, as boards of directors play a greater role in corporate governance and shareholder communication, the IRO may find that, with the permission of the CEO, presenting to the board is also a very important part of the job in order to communicate his or her knowledge of the company and perspective of the markets. In addition, some boards may respond positively to requests to meet with investors – an event that requires training and the presence of the IRO.

Finally, organization, planning, and strategic thinking are essential as the IRO plans for activities for the coming year. While the market's short-term thinking may be frustrating, IROs need to think long term and influence investor thinking in that regard. It's also important to keep management up-to-date on market perceptions and focused on the long-term strategy.

A GOOD FINANCIAL EDUCATION IS A PREREQUISITE, BUT COMMUNICATION, MARKETING, AND AN UNDERSTANDING OF LEGAL ISSUES THAT RELATE TO THE MARKET ARE ALSO IMPORTANT.

What do you like most about your job?

My job is slightly different from that of an IRO at a public company. Except for two and one half years I spent as the IRO at Kennecott, my career has been spent at agencies. Rather than an in-depth knowledge of one company, my work requires knowledge of many different industries and companies, which is one of the things I like most about agency work.

I've had the opportunity to go through the manufacturing plants of a tractor manufacturer and golf ball producer, spend time on an oil rig, learn about airline scheduling, discover the ins and outs of automobile manufacturing, realize what goes into cement production and use in Mexico, understand banking ratios, gather information on glass manufacturing, as well as delve into many other specialties.

In addition to a working knowledge of a variety of markets and industries, each client situation is different. Some practice very sophisticated investor relations, while others – like those after an IPO – are starting from scratch. Many others just require an outside opinion and direction, while others want the agency to get completely involved in the practice of investor relations for the company as a true partner.

Every situation requires an extensive learning process to really understand the company and a rigorous study to measure financial community perspectives and to truly grasp the company's market position. It also means interacting with a plethora of interesting people.

The diversity continues to create challenges and each new situation poses a different set of issues. New circumstances offer the possibility of solving problems and drawing on my experience from having worked in investor relations for more than 40 years.

How has your membership in NIRI helped you in your career?

Joining NIRI and becoming active in the organization early in my career was one of the best decisions I made. When I joined NIRI, investor relations was not a fully accepted discipline in many companies. It was not considered the strategic discipline that NIRI has helped it become.

NIRI provided a platform for developing the role of investor relations. The organization continues to provide opportunities for networking and meeting other investor relations professionals, exchanging ideas, and learning from each other. It helped my career by giving me access to senior people with new ideas, and a way to get involved in the evolution of IR. In addition to the conferences and seminars, the Senior Roundtable has been extremely valuable for me, offering a forum for exploring the changes in, and the future, of investor relations.

What is the biggest change you have seen in investor relations since your career began?

There has been a dramatic evolution in the role of the investor relations officer from a minor role within a company to a highly valued, strategic member of management, often with access to the board of directors. The scope of knowledge needed has broadened considerably with issues such as risk management, corporate governance, and corporate social responsibility gaining in importance with investors.

The second major change is technology, resulting in an increase in the speed and breadth of available information. IROs no longer have hours to react to a positive or negative event, but minutes. Social media information can appear in myriad sources making it more difficult to control and track what is being said about the company in the marketplace. Technology has created a mind-boggling change in the amount of information easily available to IROs, allowing them to effectively understand the institutional markets and to focus on and reach high potential investors and analysts.

What is the most important professional lesson you learned in your career?

While expertise clearly is essential, I learned early on that investor relations is a people business and the IRO's ability to communicate effectively and develop long-term relationships internally as well as externally among the media, analysts, and investors are keys to success.

What professional development and career advice would you offer to a young person who is considering entering the field of investor relations?

It's useful to get some business experience as a foundation before tackling investor relations. I started on Wall Street, which was excellent experience in that I understood financial analysis, how the markets work, the roles of various professionals, and the need for communication, public speaking, and selling ideas.

Prepare for a varied career, which requires a solid business education. A good financial education is a prerequisite, but communication, marketing, and an understanding of legal issues that relate to the market are also important. Be really interested in, and learn as much as possible about, the equity markets. And most of all, really enjoy doing investor relations.

Please talk about some challenging IR situation you faced in your career and how you dealt with it.

Several years ago, a client came to us with a positioning issue. This was a cement and steel company caught between two different research categories. Steel analysts weren't interested in the cement business and vice versa. A brief perception study resulted in comments like, "We have a steel analyst and I follow building materials. What do I know about metals?" or, "A solid business with no growth opportunities."

What analysts didn't know was that the company was working on a recycling technology that would lower its costs and be available for sale within the next two years that would add a growth element to its future.

Management believed it had solved the problem by calling itself a building materials company and was lining up resources to go after building materials analysts and investors. The company's question to us – "Is this the right positioning and can we become the most highly valued building stock in five years given our repositioning and growth opportunities from the recycling technology?" The challenge was to either confirm or change management's point of view.

While the perception study gave us some answers, we needed hard facts. Our strategy was to conduct a comprehensive comparative analysis to determine the company's fit within the building materials category.

Using analyst reports and our analytical skills learned on Wall Street, we analyzed eight building materials companies. We also reviewed the growth characteristics of the company's steel and cement businesses as well as the cost savings and sales opportunities projected for the proprietary high-tech recycling process. We assessed the financial community's view of each building materials competitor as well as each company's investment message.

In assessing the investment appeal of peer companies versus our client, we looked at such attributes as earnings predictability, quality of earnings, long-term growth prospects, return on equity, strong U.S. market presence, focused business strategy, sound financial structure and performance, perceived management, and product quality. On a relative basis, we found our client company lacking in a number of areas such as earnings predictability, return on equity, focused business strategy, and strong financial performance.

We also calculated financial ratios of the eight peer companies and determined that gross margin was the most consistent operating factor. Our client company had the lowest gross margin of the eight companies.

Our recommendation was to avoid becoming a building materials play on the grounds that it doesn't pay to be the lowest valued stock in a category when there has been little to attract analyst and investor attention to date. We suggested positioning the company as a highly efficient cement and steel producer with a new and attractive growth and profitability outlook, leveraging cash generative businesses to fund high-potential, noncore revenue streams.

Management seriously reviewed our point of view and decided to drop the idea of being a building materials company. We built a new positioning around a five-year investment thesis: recovery of the cement business from an economic slowdown and benefitting from the new recycling technology; new steel capacity coming on stream with lower costs and improved margins due to use of the recycling technology; and finally, in year four and beyond, growth supported by proposed acquisitions plus new revenue streams and profits from sale of the recycling technology. The growth solution, along with an active program, proved to attract the attention of cement and steel analysts and investors. IRU

Matt Brusch *is vice president, communications and practice information & editorial director at NIRI; mbrusch@niri.org.*

Managing Your Relationships With Wall Street

Learn how IROs interact with the sell side and target buy-side investors.

By Tammy K. Dang

"Management access, when appropriate, is the number-one thing that we look for, whether that's quick conference calls, e-mails, [or] road shows," said Ryan Langston, senior equity research associate at Citi covering small- and mid-cap companies in the health care provider space.

"Without that, I think it's very, very hard to get us to really want to engage your company on the coverage side." Langston, along with Robert Brunn, vice president of corporate strategy and investor relations at Ryder System; Kristy Nicholas, director of investor relations and communications at Expedia; and moderator Evan Pondel, president of PondelWilkinson, shared their experiences on a May 2014 NIRI-sponsored webinar titled "Investors Part I: Sell-Side Coverage."

According to Langston, when an analyst has a question for management, being available and attentive to specific needs goes a long way to building a relationship, even if there is a downgrade on a rating. "If we do downgrade the stock or we lower our target or rating, and you keep the same access or maybe increase some access, [or] proactively call us, it might prove that we actually might need to revisit our ratings, our price targets, whatever the case may be," Langston said.

From his experience, some of the best companies provide a pre-earnings call, go over major questions, and do quick follow-up calls with management for extra questions that could not be asked on the earnings call. Langston recommends not skirting questions even if the company cannot specifically answer them. Talk broadly about the company, industry, and market trends.

Pondel has found that sell-side coverage comes in all shapes and sizes. "Consistency, we found, is key in terms of communicating with the sell side," he said.

Gaining Sell-Side Coverage

When Brunn started his career in investor relations a decade ago at Ryder System, a transportation company at the smaller end of the mid-cap range, he was faced with the challenge of increasing sell-side coverage. He started the IR program with four sell-side analysts and built it up to 15.

"There was a clear goal from our CEO at that point to increase research coverage, if only for the reason of wanting to be able to smooth out a consensus estimate," Brunn said. "If you only have four analysts covering you, and you have somebody who is really an outlier, in terms of EPS forecast, it can really skew consensus numbers."

The challenge he faced with getting analyst coverage was of Ryder being a one-off company with no direct public peers. Analysts did not have nice easy comps to compare Ryder with other companies.

So Brunn set off to identify potential analysts and the types of companies they covered in terms of themes, focal points, ideas, and how Ryder would fit into their view of the world. He reviewed the coverage of competitors in his sector using external resources. He developed a contact management tool, approaching it from a sales perspective to keep track of potential analysts and included them on distribution lists. To establish a relationship, Brunn cold-called and sent e-mails to analysts, introducing himself and his company. He even leveraged the buy side to reach out on behalf of Ryder.

Brunn also started meeting sell-side analysts in New York to build relationships. "Generally, analysts are very receptive to taking those meetings, particularly if you offer just to provide a general update on the industry or your company, even if maybe they don't have an initial interest in writing research on you," he said.

He brought his CEO, CFO, and other management teams later on to increase the impact of those meetings. Eventually, the goal was to get the analysts to visit the company's headquarters for a broader view of the management team and facilities to better understand the business. "At the point that they were willing to make that investment of time, that probably always led to actually establishing formal research coverage," he said.

Even though Brunn was successful, companies need to keep in mind that building a relationship with an analyst doesn't always lead to coverage. Coverage depends on market cap, overall trading profile, buy-side ownership, interest, and banking business mandates. "Let us know if there is some competition of ours covering the stock, how does buy side view the stock, favorably or unfavorably," Langston said.

Brunn advises being patient as the sell side is busy and resource-constrained. A company trying to increase coverage must think about what is in it for the sell side and why it might be interested in covering the company.

Make it easy for the sell side to cover you with appropriate disclosures and good historical information for models, especially if you're a one-off company. Be equitable in allocating road shows and meetings. "Making sure that you're building and targeting not just the lead analyst, but building that relationship with the associate analyst to the firm is really key," he pointed out.

Managing Analysts

When Nicholas joined Expedia's IR team almost four years ago, the company already had 25 analysts covering the company that fell into the technology, consumer, and lodging and travel sectors. Their numbers ebbed and flowed based on the market cycle.

Nicholas said she helps analysts by assisting with color during post-earnings reports so that they can be more thoughtful about the company. "If you think about the difference in Wall Street now versus where we were five or 10 years ago, people like Ryan (Langston) are being asked to do a lot more with a lot less," she said. "They don't have a lot of opportunity to make mistakes either, because one bad call can change your career trajectory on Wall Street."

Seattle-based Expedia does its own targeting in soliciting investor meetings. "We tend to not do non-deal road shows with analysts in the U.S.," she said, adding that it does do some outside the United States. If Nicholas knows her CEO and CFO will be in a major money center, she tries to arrange meetings with the buy side. Management is also open with its time to anyone coming to Seattle on a bus tour. Nicholas also recommends partnering with corporate access to see how a company can achieve its goals.

Utilizing Corporate Access

"One of the things that's helpful for us as a corporate access host is to know what the goal of your road show is," said Mark Pellegrino, executive director and head of global access at UBS. "Is it to find new investors; is it to meet with your current investors because maybe you have a new manager, or you have a company catalyst or an issue you want to approach your current shareholders about?" Pellegrino, along with Jeff Smith, director of investor relations at FedEx Corporation, and moderator Neal Goldner, vice president of investor relations at Avis Budget Group, shared their thoughts in May 2014 during a NIRI-sponsored webinar titled, "Investors Part II: Targeting the Buy Side."

According to Pellegrino, targeting is challenging today because more money resides in indexed and exchange traded funds. "You may have a set target list that you get on your own, but a good corporate access team should be able to leverage the sales force. If they have the right relationships, they should be able to find out, not just which firms might be interested in your stock, but which people at those firms," he said.

According to Smith, FedEx relies on sales teams and corporate access with knowledge of the market and a more practical application when getting a list of investors in a city or at conference. With one vice president, two directors, and one manager, the company takes an uncommon approach to targeting and road shows by separating the markets into regions.

"By not traveling with management and having a regional approach, each one of us has the opportunity to deep dive into the areas that they're assigned and probably have a more extensive knowledge, especially in some of those secondary cities, than you would if you had to cover the whole country at one time," Smith said.

Finding the Incremental Buyer

Smith schedules his road shows two to three quarters ahead of time, covering all the money centers in his territory at least once a year and hitting the megacities two to three times per year, while relying more on corporate access in Europe. In addition to support for the company's story, Smith decides to work with sell-side analysts based on the quality of their research, as well as corporate access and sales teams in target cities. He is also not afraid to tell the sell side to set up group meetings with those who have high turnover in their portfolios and save valuable one-on-one time with quality names.

Pellegrino cautions that not all hedge funds are bad because as the current ones get bigger, approaching $20 billion in assets while being leveraged two or three times, they're not whipping the money around as much as they probably did when they were a $100 or $200 million hedge fund.

GOLDNER'S CRITERIA FOR POTENTIAL NEW INVESTORS INCLUDE THOSE WHO OWN AVIS' PEER TRAVEL SPACE AND INVESTMENT FIRMS WITH A DECENT PERCENTAGE OF PORTFOLIOS IN THEIR MARKET CAP.

"Within their holdings, if you look at them historically, you'll see that they have core positions that they often hold for a very long time and then they have positions that they may trade in and out of," he said. "The question is, really, are you considered to be a core position for this fund or are you someone that they want to trade in and out of?" As a core position, chances are they can take a much bigger position on you.

With his 12 years of experience on the buy side in a long-only fund, Goldner's criteria for potential new investors include those who own Avis' peer travel space and investment firms with a decent percentage of portfolios in their market cap. "For me, targeting and non-deal road shows combined is all about finding the incremental buyer," he said.

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

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NIRI Sample Document Library a Key Resource

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- IR planning

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Professional Development Calendar

October 2014

7 IR as a Career vs. Stepping Stone webinar

November 2014

17-19 Global IR Forum seminar, New York, NY

20-21 Finance Essentials for IR seminar, New York, NY

December 2014

3-5 NIRI Senior Roundtable Annual Meeting, Pelican Hill Resort, Newport Beach, CA

9 What's Coming in 2015? webinar

Quick Takes

What is the most important lesson about IR you have learned in your career?

Mark J. Namaroff
Director of Investor Relations
and Corporate Marketing
Analogic Corporation

"I have learned that if you put yourself in the shoes of your investors or sell-side analysts, you will have a better understanding of their expectations. Be responsive, candid, and transparent and you will develop solid relationships with your constituents on the Street. I have learned from my years in marketing that the customer comes first, and you should treat your investors the same way. Wouldn't you be annoyed if you had to wait 2-3 days before someone got back to you if you had a question? I know I would. In addition, if the answer to your question wasn't clear and left you with more questions, you would be frustrated. Keep your investors and analysts on the top of your priority list and you will be an indispensable resource for them."

Jim Mazzola
Senior Vice President
CareFusion Corporationy

"As Bob Dylan said, know your song well before you start singing."

Maili Bergman
Senior Vice President, Investor Relations
Live Nation Entertainment

"Your skill set is applicable across all industries."

Mark Donohue
Vice President, Investor Relations and
Corporate Communications
IMPAX Laboratories

"Maintain your credibility."

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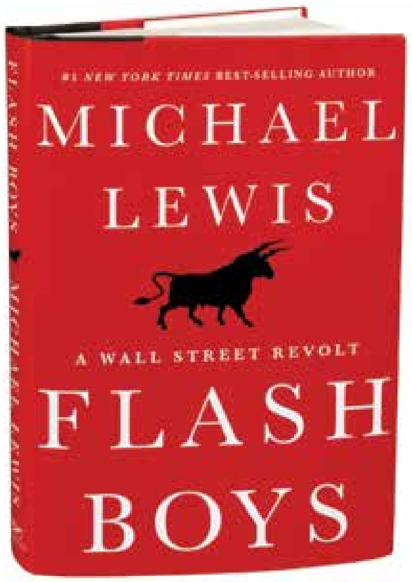

The World of Flash Capitalism

The new book, "Flash Boys," examines how high frequency trading games the system at the expense of investors.

By Evan Pondel

Editor's Note: This is a new occasional column that features reviews of books of interest to IROs. If you have read a book that you think should be reviewed (and especially if you want to review it), contact *IR Update* Editor-in-Chief Al Rickard at arickard@associationvision.com or 703-402-9713.

By the time you have read this sentence, more than 4,000 milliseconds will have likely elapsed, which, in theory, is enough time for a high-frequency trader to buy and sell shares of stock thousands of times.

Such is life in this new world of "flash capitalism," where stocks can trade nearly as fast as the speed of light. Thankfully, best-selling author Michael Lewis slows this world down in his new non-fiction book "Flash Boys," which provides a glimpse of a relatively nascent trading strategy that yields about a billion dollars in annual profits.

Lewis explores the world of high frequency trading (HFT) through the lens of Brad Katsuyama, a former global head of electronic sales and trading at RBC Capital Markets, whose realization of the ill-effects of HFT inspires him to start his own stock market exchange, the IEX. To do this, Katsuyama assembles a team of rebellious technologists and disillusioned Wall Street types to create a trading platform that makes it harder for HFT to game the system at the expense of investors.

A Journalistic Voyage

From a casual reader's perspective, "Flash Boys" is a journalistic voyage to the new Wall Street, where unsuspecting investors get duped by investment banks literally faster than the blink of an eye. The "f-word" is used frequently throughout the book to punch up the characters, but that gets old quickly and is ultimately more of a distraction.

The story of Katsuyama is compelling and admirable in his quest to understand the intricacies of HFT, although the portrayal of his departure from a big investment bank to start an exchange is anticlimactic. There are several different narratives introduced throughout "Flash Boys," and while all intriguing in their own right, the last couple of chapters fail to tie them all together.

The IRO Perspective

Investor relations folks will likely find "Flash Boys" more amusing than helpful from a strategic perspective. Most IROs are focused on managing relationships with sell-side analysts and buy-side investors, with little need to know the traders who are actually buying and selling shares.

However, after reading "Flash Boys," it is difficult to turn an apathetic eye toward those responsible for executing trades. The notion of investment banks helping high-frequency traders gain unfair advantage is disturbing and could certainly influence how much time a company chooses to spend on the road with a more HFT-oriented bank.

Interestingly, RBC, which is described in "Flash Boys" as one of the more ethical investment banks, had its analysts send out the equivalent of a research note about the book. In the note, RBC highlights that it uses technology (that Katsuyama helped develop), which protects investors from high frequency trading.

Of course, the implications of HFT and what it means to institutions, issuers, and individual investors are still murky at best. It is logical that technological advances in society beget faster computers, which beget faster trading on the Street.

The issue is that regulators are not keeping up with the "Flash Boys" that investment banks are employing to game the system. Perhaps that's the biggest lesson that is gleaned from reading Lewis' book, even if the audio version takes a laborious 10 hours to finish.

Evan Pondel *is president of PondelWilkinson; e-mail epondel@pondel.com.*

71%

Percentage of global buy-siders who believe having command of the strategy is what defines a highly credible IRO.

> *"The IRO should be very knowledgeable, and they should attend all the board meetings possible, and should attend executive committee meetings if it is possible. They should be out of the president's or the CEO's office, and know everything. Otherwise, we have to talk to the CEO. If the CEO doesn't want to talk to us, then they'd better keep their IR informed."*
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