

IRupdate

AUGUST 2014 the voice of the investor relations profession

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SKIN IN THE GAME



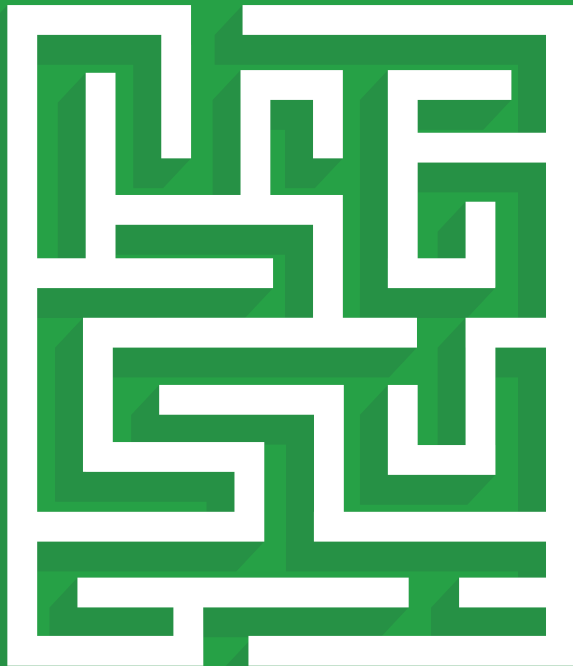
Strong equity
holding policies can
help a company
attract long-term
investors.

10 EXTREME-ly
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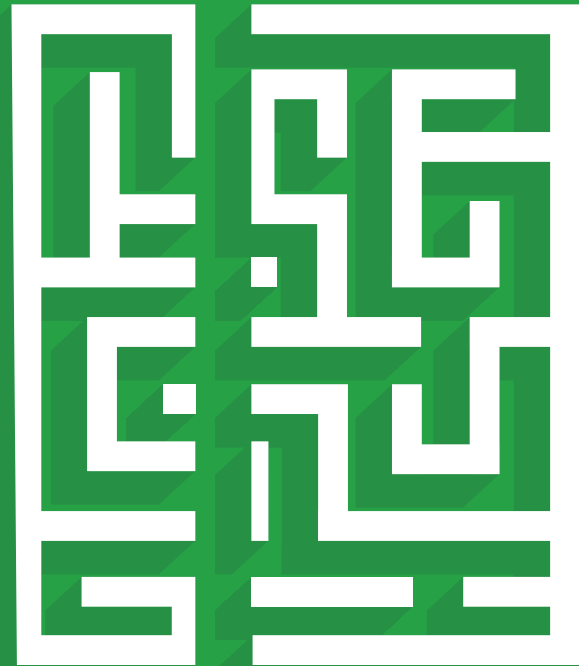
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Corporate Strategy

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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

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Celebrating the 2014 Annual Conference

Welcome to your August 2014 issue of *IR Update*. I write this message just a week after the completion of the 2014 NIRI Annual Conference in Las Vegas.

By all accounts, the conference was a tremendous success. The quality of the programming, service provider showcase, logistics, and facilities were outstanding. Having served as co-chair of the NIRI Annual Conference last year, I know the creation and production of this event is no easy task.

I give credit to this year's co-chairs, Mark Donahue and Laura Graves, for their leadership and creativity. I also thank the Annual Conference Committee, which develops the majority of the programs, as well as the NIRI staff for their tireless efforts to make this a productive event for IR practitioners and service providers.

Looking Ahead to Next Year

The 2015 Annual Conference will be in Chicago at the Hyatt Hotel, June 14-17. I have already blocked these dates on my calendar, and I encourage you to do the same. Better yet, volunteer for the Annual Conference Committee and be on the "inside" of this important event. It's a great experience!

If you weren't able to attend the conference, this issue of *IR Update* includes a feature article recapping the highlights of the week. One notable event for me was the induction of five new members to the NIRI Fellows recognition program. Find out more about these leaders in this issue's conference summary article. This issue also includes an article on Don Allen, a member of the inaugural class of NIRI Fellows. Don has made numerous contributions to NIRI and the IR profession over the years, and we can all learn from his experiences and wisdom.

Our third feature article explores the connection between executive stock-holding policies and the attraction of long-term investors. How much does it matter if your senior team has more "skin in the game?" Read on, and find out.

Finally, I offer two brief updates from the NIRI Board of Directors. First, the NIRI IR certification program is progressing well, and we are on track with our goal of launching the program in early-to-mid 2015. Second, the board has approved funding for a revamped NIRI website, which is the face of NIRI to both current and prospective members. We are pleased to undertake this important project.

Feel free to call or e-mail with any comments or questions.



Have a great summer,

John Chevalier

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Director of Global Investor Relations

The Procter & Gamble Company

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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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SKIN *IN THE G*





**Strong equity holding policies can help
a company attract long-term investors.**

By Muriel S. Lange

Investors making a financial commitment to own a company want to find one whose interests are aligned with their own. When a significant part of executive compensation is tied to equity awards, and personal wealth hangs in the balance, there is a stronger incentive for management to achieve and maintain success.

As IROs, we are often frustrated by the lack of investors with long-term commitment, and it stands to reason if the company's equity guidelines promise a long-term insider ownership, executives' "skin in the game" will attract investors with similar philosophies.

Many boards at large-cap companies agree that the most effective way to align the interests of executives with those of investors is to adopt strong equity ownership and retention guidelines. More than 89 percent of Fortune 100 companies disclosed equity ownership and retention guidelines in 2012, up from 86 percent in 2011, according to Equilar, an executive compensation data provider.



While some activists have called for “hold until retirement” provisions and stricter ownership policies, many companies have adopted equity guidelines on their own. Julie Tracy, senior vice president and chief communications officer at Wright Medical Group, recalls that when the company’s board adopted its guidelines in 2009, “none of this was activist driven, and it had the full support of the board and management.”

Likewise, Barbara Gasper, executive vice president and group executive for investor relations at MasterCard, says her company “has had ownership guidelines since going public – I’ve never worked for a company that didn’t have them.”

Different Companies, Different Policies

Equity ownership and retention guidelines are as diverse as the companies that write them, as seen in proxy statements or compensation committee charters. These policies use a variety of measures such as direct stock

or dollar-valued holdings, coupled with at-risk variable compensation based on defined performance results. Some companies’ methodologies consist of a multiple of base salary, a fixed number of shares, a mixture of both, or a target based on a fixed number of shares or a dollar value, according to a 2013 Equilar survey report.

A common formula uses a multiple of the sum of an executive’s base salary and annual bonus. For example, Safeway’s 2013 proxy statement reported a series of targets that are based on multiples of the officer’s annual base salary – with the CEO at 10 times, the president and executive vice presidents at four times, and senior vice presidents at two times. Walgreens’ policy commits its CEO to either own 230,000 shares or equity worth five times his or her salary.

Another key issue is how much time a newly hired (or promoted) executive has to accumulate the required equity holdings. These target accumulation periods are of growing interest to investors as well, and in 2012, more than 68 percent of companies responding to a survey conducted by Equilar now include such requirements in their policies.

Of those, approximately 85 percent set a mandatory timeframe of five years to reach the target. Pre-target and post-target stock holding guidelines may specify a percentage of net shares that must be held until the target is met, as well as a percentage of net shares to be held after the target is achieved. American Express, Bank of America Corporation, and Mondelez International are examples of companies with such policies.

Another variable is the number of participants covered by the ownership guidelines. Company policies typically include the CEO, board chairman, named executive officers, and non-executive directors at varying commitment levels.

While the diversity of variables may help a company closely tailor its executives’

holding practices, the lack of uniformity among issuers may confuse some investors and contribute to demands for greater consistency. To help educate shareholders, Equilar suggests that companies provide an easy-to-read report card that indicates the goals for each executive officer and his or her progress toward those targets.

Activist and Institutional Views

In recent years, there has been an increase in activism on equity ownership issues. In 2013, compensation consultant Towers Watson reported more shareholder proposals seeking “hold until retirement” policies and stricter change-in-control vesting requirements than on all other compensation topics combined. During the spring 2013 proxy season, investors filed 38 equity retention proposals, up from 24 in 2012, according to Institutional Shareholder Services (ISS).

As Gasper recalls, “We have seen some recent shareholder proposals related to requiring executives to hold shares “for life” and only their estates can liquidate, but we have nothing like that.”

IROs who have faced shareholder activism know that some investors pay close attention to both equity ownership and retention policies. Last year, Wal-Mart Stores’ proxy included a shareholder proposal that called on senior executives to hold a significant percentage of shares obtained through equity compensation plans until they reach retirement age. The proposal did not pass. In recent years, equity retention proposals have been highlighted on the AFL-CIO’s annual scorecard of “key” votes that it uses to grade investment managers. It is reasonable to expect we will see more proposals.

The AFL-CIO and other labor activists generally are willing to negotiate on equity ownership issues, and they may be willing to withdraw (or refrain from filing) these

proposals after discussions with a company about tightening its policies.

While few shareholder proposals on equity retention come close to earning majority approval, these resolutions do attract support from labor funds as well as SRI-oriented investors such as Calvert Investments. Most major mutual fund managers, including BlackRock and Fidelity, have opposed these proposals.

IROs also should be aware of the views of the major proxy advisors. Under its benchmark proxy voting policies, ISS considers the rigor of a company's ownership guidelines when assessing whether to support

for many investors. Although concerns like high-speed trading, volatility, and macro-economic trends may hold buy-side attention now, many investors still place a value on fundamentals and look to see if management has skin in the game.

As noted investment manager Peter Lynch once observed, "Insiders might sell their shares for any number of reasons, but they buy for only one: They think the price will rise."

Currently, companies' Securities and Exchange Commission disclosures and proprietary subscription tools make it easy for advisors and investors to monitor insider

ownership holdings would deliver annual abnormal returns of 4 percent to 10 percent over firms with low CEO ownership.

Commenting on the research, Seeking Alpha's Jacob Steinberg observes: "CEOs are the most valuable employees of a company. Oftentimes, CEOs will be the ones who save or end a company's life with their day-to-day decisions. Other times, a CEO's existence alone will calm the markets and gain trust of the investors, which is very important in a market driven by emotions such as greed and fear." Ownership in their companies entrenches CEOs with a vested interest in enhanced shareholder value, notes Steinberg.

Among analysts, inside ownership still is important. "Certainly, insider holdings are still relevant – as a matter of fact, I would say there's a renewed interest lately," comments Ryan Connors, a Philadelphia-based sell-side utilities analyst with Janney Montgomery Scott.

OVER THE YEARS, A NUMBER OF STUDIES HAVE ATTEMPTED TO CORRELATE HIGH MANAGEMENT OWNERSHIP WITH BETTER STOCK PERFORMANCE.

a shareholder proposal that would require executives either hold their equity past retirement or for a significant period of time.

This ISS policy calls for "rigorous stock ownership guidelines, a holding period requirement coupled with a significant long-term ownership requirement; or a meaningful retention ratio." ISS defines "rigorous" to be at least 10 times the base salary for a CEO, a lower multiple for other executives, and a meaningful retention ratio comprised of at least 50 percent of the stock received from equity awards (on net proceeds basis) held on a long-term basis.

Does Insider Ownership Matter to the Street?

Amid recent media revelations about high frequency trading, the term "securities" has become an oxymoron

equity ownership and retention for aligned interests. Certain service providers offer real-time services that monitor for non-routine buying activity.

Over the years, a number of studies have attempted to correlate high management ownership with better stock performance. A new working paper, "CEO Ownership, Stock Market Performance, and Managerial Discretion," examines the relationship between significant CEO ownership in the company and stock market performance – suggesting there is a positive, measurable correlation between the two. The authors, Ulf Von Lilienfeld-Toal of the Swedish House of Finance and Stefan Ruenzi of the University of Mannheim Department of International Finance, conclude that an investment strategy based on companies at high CEO

Advice for IROs

For many analysts and investors, equity ownership can help illuminate whether executives have a shared confidence in a company's fundamentals. If your company doesn't already have retention and holding guidelines in place, you might want to advise your management and board to take action. Implementing a rigorous policy can help instill investor confidence and long-term support.

If your company is comfortable with its current plan, consider offering an easy-to-read chart to help investors better understand your policies. If the company currently has strong insider holdings, inform your buy- and sell-side analysts routinely in conversations, meetings, and presentations that your insiders' interests are aligned with those of your investors. **IRU**

Muriel S. Lange is a consultant with Lange Ventures LLC of Huntingdon Valley, Pennsylvania; Lange2@comcast.net.

EXTREME SUC

NIRI 2014 delivers on promise to push the profession to the limit.

By Matt Brusch

One-third of all NIRI members representing all market caps, multiple industries, and 26 countries met in June for the 2014 NIRI Annual Conference to: **EXTEND their knowledge, **EXCHANGE** and share experiences, and **EXCITE** their careers. The world's largest and most comprehensive IR professional event offered peer-developed sessions, exceptional networking, and extensive service discovery.**

Held for the first time at the beautiful Bellagio Hotel in Las Vegas, the conference was lauded by corporate IROs, counselors, and service providers alike. In fact, in post-event surveys, 100 percent of NIRI Senior Roundtable attendees said they would recommend attending the conference to well-respected peers.

This year's event was the product of a highly engaged Annual Conference Committee of NIRI members headed by co-chairs Mark Donohue, vice president, investor relations & corporate communications, IMPAX Laboratories; and Laura Graves, vice president, investor relations, Polycom.

Session materials and replays are available free to attendees, and for purchase to non-attendees at www.niristream.org. And for those who want a quick visual recap of what they missed, a video is available on the NIRI YouTube channel at www.youtube.com/NIRINational.

Highlights

Sunday workshops helped some get a jump-start on the learning with deep dives including case studies or simulations on analyst day practices, preparing for shareholder activism, and understanding valuation. These were followed by the always well-attended Global IR Summit Program, which this year delved into global benchmarking practices.

Co-chairs Donohue and Graves set an upbeat tone with a light-hearted skit to kick off the new Sunday evening official conference reception in the Experience Showcase. And they kept the mood fun throughout, with more Vegas-inspired intros and interludes tied to the Rat Pack and movies like "Ocean's Eleven."



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Monday Learnings

The conference moved into high gear on Monday morning with the first general session devoted to the impact of activism as experienced from a variety of viewpoints including the corporate secretary's and director's seats as well as institutional investors BlackRock and the California State Teachers' Retirement System, which generally own long-term and indexed holdings. This was a great opportunity to hear directly from influential investors about how they respond, and expect companies to respond, to activists.

The investors offered a welcome behind-the-scenes look at how they think about activism in their shareholdings. They noted, for example, that they generally pay attention to activist activities in

companies they own; that they want to see a detailed, informed response from management before deciding which side to support; and that it helps to develop relationships with them before an activist situation. The panel also pointed out that the rise in activism has increased the importance of the IR professional, especially in the eyes of board members.

► "High-caliber speakers. Great panel!"

► "Extremely interesting discussion and very impressive panel."

In keeping with the "Extreme" conference theme, the Annual Conference Committee placed special emphasis this year on ensuring sessions were tight and fast-paced, a strategy that attendees embraced. So rounding out Monday morning were more than 15 Table Topic interactive discussions, rapid dialogue breakout sessions that were successfully launched at the 2013 Conference.



4

1. and 3. Annual Conference Co-Chairs Mark Donohue and Laura Graves kept the mood light and entertaining with Las Vegas-inspired movie clips and skits. **2.** NIRI members and guests enjoy a reception in the Experience Showcase – right to left: L. Dee Littrell, director, investor relations, Cash America International; Jason Alexander, managing director, Georgeson; Jennifer LaGrow, senior vice president, sales, Computershare; Joel Charron, vice president, sustainability assurance, iCompli Sustainability; guest. **4.** Monday general session panelists weigh in on shareholder activism – left to right: Matthew Miller, managing editor, Bloomberg News; Michelle Edkins, managing director, head, corporate governance and responsible investment team, BlackRock; Margaret 'Peggy' Foran, chief governance officer and corporate secretary, Prudential; Anne Sheehan, director corporate governance, California State Teachers' Retirement System.

NIRI FELLOWS RECOGNITION

For the second year, NIRI used its Annual Conference as an opportunity to honor its new class of NIRI Fellows, recognized leaders who represent the ideals of the IR profession.

The NIRI Fellows Recognition Program recognizes members who have distinguished themselves on the basis of their leadership in NIRI as well as their integrity, involvement, and contributions to the IR profession throughout their careers. Those selected as a “NIRI Fellow” are highly engaged individuals whose commitment has led to continued service as content leaders, selection committee participants, authors, and thought leaders in the Institute and field of investor relations.



The 2014 class of NIRI Fellows includes:

David K. Erickson, Vice President, Investor Relations, Edwards Lifesciences Corporation

Barbara Gasper, Executive Vice President/Group Executive, Investor Relations, MasterCard

Carol Murray-Negron, President, Equanimity

Matthew Stroud, Senior Vice President, Investor Relations, Darden Restaurants

Maureen Wolff, President and Partner, Sharon Merrill Associates



After lunch in the Experience Showcase, attendees were presented with two rounds of one-hour sessions, the popular industry breakout discussions, and NIRI’s well-attended “Extremely Happy Hour” to cap off Day One.

In a sign of the times, activism and shareholder engagement were on the agenda again in the afternoon including a new “Shark Tank” type session. One hedge fund panelist pointed out that the management argument that hedge fund activists are short-term investors is a “huge red herring.” He noted that the average holding period for mutual funds has shrunk to 11 months, whereas his fund and other activists typically hold a company’s shares for three to five years. So be willing to engage: They’ve often done a great deal of homework on your company prior to making contact, and often have well-developed ideas.

Representatives from BNY Mellon and Capital Research and Management Co., both said they are having greater engagement with companies and more conversations with directors, and that they value director engagement as long as board members don’t appear to be reading from a script.

Social media remains a hot-button topic, despite NIRI survey findings that the vast majority of members don’t use it for work. Social media panels typically lead to standing-room-only sessions, and this year was no exception. In a useful session for taking advantage of social media, panelists provided many excellent suggestions including:

- Monitor what is being said about your company and competitors on social media

because journalists are sometimes using this in their reporting.

- There is often a great deal of info discussed months in advance on social media before it hits the media – not listening is a risk.

- Establish baselines for the number of conversations; this will tell you if there is a spike in conversations, which may signal a problem.

- Become familiar with the variety of paid and free social media monitoring services.

- Social media is fundamentally another communication channel that can be used to reach a targeted audience.

Look up “bugaboo” in the dictionary, and you’re likely to find non-GAAP earnings given as an example. Considering that some surveys show more companies than not reporting non-GAAP metrics, this panel used its time less as a debate of the merits, and more as an opportunity to offer various viewpoints and pointers about this sensitive topic, such as:

- Non-GAAP information is additive to the GAAP numbers that all companies are required to report.

- It helps the Street understand how management thinks about and forecasts its business internally.

- Non-GAAP should be used very carefully – not simply to paint a rosy picture.

- One panelist summed it up well, noting that all any IRO has to sell is credibility, and too much “cute” accounting will have a negative effect, a theme explored in-depth in Tuesday’s



5. Extensive service discovery in the Experience Showcase. 6. Members and guests take advantage of networking opportunities – left to right: Ruth Venning, director, investor relations, Hospira; guest; Elizabeth Higashi, president, Higashi Advisors.

“Reputation – Protecting Your Personal Credibility” session.

Participants in the guidance session, another timeless and equally vexing topic, gave attendees helpful insight into their companies’ guidance philosophies. One panelist related a personal experience of working for a company that saw its short position drop significantly after instituting guidance, a story that brought home the significance of the guidance decision.

An IRO panelist mentioned that, in his former position as a sell-side analyst, he found that guidance changes tended to switch the focus from what happened with the company’s business in the period, to why the company decided to change its guidance practice. The panelists seemed to agree that guidance allows a company, rather than a third party, to drive its own story.

Tuesday Teaching

NIRI Chair John Chevalier and NIRI President and CEO Jeff Morgan began Day Two of the conference by addressing the state of NIRI. The efficient overview included a Q&A on the financial strength of the organization, the next NIRI strategic plan, strategic initiatives such as the board-approved IR certification program, and NIRI’s advocacy efforts in Washington DC.

Tuesday general session and prior NIRI Senior Roundtable speaker, Christopher Probyn, chief economist with State Street Global Advisors, provided a largely optimistic outlook for the global economy. He cited three pieces of good news: accelerating growth, low inflation, and no expected

interest rate hikes by the Federal Reserve until mid-2015. He had a less sanguine view of the prospects for the Euro Zone, where economic competitiveness varies considerably among nations.

▶ “Probyn did an amazing job of simplifying complex concepts and information.”

▶ “Best speaker of the event, hands down.”

The balance of Tuesday included a mix of new “Topic Vignettes,” or very targeted sessions on subjects of high interest such as career planning, high frequency trading, and the shareholder value myth, followed by several sponsored and concurrent sessions, and the always popular Experience Showcase Reception where the Showcase Giveaway winners were announced.

Several sessions covered the nuts and bolts of investor meetings, both in the United States and globally, from seasoned IROs, global IR agency experts, and corporate access representatives. Notable advice included:

- Before assuming your company should market overseas, seek advice from experts; not all types of companies are a good fit for certain global investors.
- European investors generally expect a company’s market cap to be a minimum of \$1 billion, and that rises to \$5 billion in Asia.
- Consider going “off the beaten path.” Many companies overlook Toronto, for example, which has a large pool of long-only investors.
- Don’t miss the opportunity to meet the overseas portfolio managers from funds that you may have already visited in the United States.

- Corporate access teams will consider taking non-covered companies on the road if there is sufficient investor interest and they can set up productive meeting schedules.

Wednesday Wisdom


The 2014 NIRI Annual Conference wrapped up with a presentation by a very well-received leadership and communication expert, Steve Smith. He provided an extremely thought-provoking conversation about how confidence, ego, and emotional intelligence play into everyday tasks, and how we can use them to our advantage to become more effective IROs.

▶ “Bravo for including a personal growth component in the conference.”

▶ “Top-notch speaker, very valuable.”

▶ “Thought it was one of the best programs of the conference.”

Finally, the 2014 NIRI Annual Conference ended the way it began with topic-based workshops devoted to a comprehensive, hands-on study of competitive intelligence and crisis preparedness.

Mark your calendars now for the NIRI 2015 Annual Conference, which will be held June 14-17, 2015, at the Hyatt Hotel in Chicago. 

Matt Bruschi is vice president, communications and practice information & editorial director at NIRI; mbruschi@niri.org.

A portrait of Don Allen, an older man with a grey beard and glasses, smiling. He is wearing a dark suit jacket over a blue shirt and a red tie. The background is a solid bright green color.

KNOW YOUR COMPANY INSIDE AND OUT

**A LONGTIME AND TIRELESS NIRI VOLUNTEER, DON ALLEN BELIEVES
IROS NEED TO BE ABLE TO EXPLAIN EVERYTHING ABOUT THEIR COMPANY
TO SUCCEED IN THIS MULTIFACETED JOB.**

In this article, the second in a series profiling NIRI Fellows, we highlight Don Allen, founding partner of The Allen Group, who was inducted as a NIRI Fellow in the inaugural class of Fellows in 2013.



Allen has served in strategic investor relations and corporate communication roles for a variety of public companies and consulting firms including Online Resources Corporation, Incuity Software, Quest Software, FileNET Corporation, Wonderware Corporation, Xerox Corporation, and Digital Equipment Corporation. He began his career as a journalist with United Press International, and later became bureau manager.

He joined NIRI in 1974 and has served on NIRI's Board of Directors and chaired the board's external affairs, professional development, and marketing committees. He was a member of the NIRI board's Executive Committee and the NIRI Senior Roundtable. He is a past president of the NIRI Orange County chapter, and served on the chapter's board of directors for seven years. He now serves on the board and is president of the NIRI Kansas City chapter.

Allen has been a guest lecturer for IR and communication seminars conducted by NIRI, the Canadian Investor Relations Institute, the Nasdaq Stock Market, the American Electronics Association, the Public Relations Society of America, and the International Association of Business Communicators. He is one of the authors of the book, "The New Investor Relations: Expert Perspectives on the State of the Art," published by Bloomberg Press in 2003. He has also written numerous magazine articles on investor relations and corporate communication.

He holds a BA degree from the University at Albany (NY), has studied for his MBA at the University of Southern California, and completed the Advanced Investor Relations Program at the Goizueta School of Business at Emory University in Atlanta.

What inspired you to enter the field of investor relations?

I don't know that it was inspiration as much as it was a career transition over time. After working as a journalist and bureau manager for United Press International, I joined Xerox Corporation in its public relations department in New York City. I apparently was a pretty good writer because one year they asked me to take on the annual report. That went well and I was then asked to help write financial news releases, which led to working with the assistant treasurer. At every subsequent corporate job I've held, I have been responsible for both IR and public relations.

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

I'm not sure there's just one skill that's important. A good IRO needs to be knowledgeable in dealing with finance, and be able to write well and develop good interpersonal relationships with multiple people and audiences.

What do you like most about the IR profession?

A good IRO usually reports directly to the CFO, with a dotted line to the CEO (and perhaps other C-level executives), so the position provides a wonderful overview and broad knowledge of all company operations that most people never get to experience. It's a unique view of any company that is so broad and all-encompassing that the IRO enjoys a special position within the company.

What career and professional development advice can you offer to IROs?

NIRI defines IR as a profession that encompasses marketing, communication, financial, and legal aspects of a company, so no matter what path you take to enter the profession you have to learn the other facets of the job. That simply means that if you're a financial person you need to gain experience and familiarity with writing, marketing, and securities law – and vice versa.

How has your membership in NIRI helped in your career?

I've often said that NIRI is without a doubt the best professional organization to which I've ever belonged. It's a very supportive group of professional colleagues who aren't selfish and who will always be available to help answer questions or provide guidance in areas where one needs a helping hand. The incredible people who make up the NIRI membership, board, and staff have created one of the most valuable resources I've ever encountered in a job. I think a key word is sharing.

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

The magnitude of the job has grown exponentially. There's so much that one now needs to know and do to plan and implement a proactive and creative IR program that it takes very sharp, hard-working people to do it in today's high-speed corporate and financial worlds.

What is the most important professional lesson you have learned?

Be open and honest in everything you do. IR is a difficult profession and it's better to do things right the first time than to try

and correct anything later. This truly helps maintain long-term relationships with the people and audiences with which one has to interact – both within a company and with the Street.

Do you have a funny story about something that happened to you as an IRO or a faux pas that had a happy ending?

I once worked with a brilliant CFO who waited until later in life to raise a family. We were presenting to a large audience of portfolio and fund managers in New York City on one non-deal road show and his young wife had never been to the city before. So he brought her and their new baby with him. Mother and child sat quietly in the back of the room while the CFO gave his financial presentation.

But when I followed with the forward-looking presentation on the state of our industry and where the company was headed for the remainder of the year, the baby started crying. Naturally everyone turned around to see what the fuss was, since people don't normally bring babies to investor meetings. I simply introduced the child as our youngest investor to date. Everyone had a good laugh and we continued through what could have been a very awkward moment (but wasn't).

What would you say to a young person who is considering entering the field of investor relations? What education and experience should they get, what connections should they make, and so forth?

I'd tell any young person entering the IR field that the key thing is to get to know your company inside and out and be able to explain everything about it, including financials. Ultimately, a major part of your job will be to explain what your company is, give a bit of its history, outline its role and relative position in the industry it serves,

and tell why anyone should be interested in investing in it. The numbers have to be good, of course, but their significance needs to be conveyed in context so that potential investors will have all the information they need to make an investment decision.

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

I was working for a control and automation software company that developed a unique product that grew to dominate its marketplace in just three years. With gross margins in the 93 percent range and net income of 22-25 percent, we were Wall Street darlings. Four years after our IPO and a secondary offering, management decided we needed to be more than a one-trick pony. Its solution was to acquire companies that had products or technology that could complement the original software and expand our offerings in a suite of products.

The problem was that management bought four companies over a 12-month period and had trouble integrating them. At the same time, it brought in a top-level executive to succeed the founding president and CEO – and as the planned succession time approached, the transition got rocky and a boardroom fight ensued over how to manage the new product and technology integration. The successor won the battle, and the founder and all but three vice presidents were carried out feet first.

Six months later, the company reported its first-ever quarterly loss as it tried to accelerate integration of all the new technologies by investing more of our net income. Meantime, we had hired a new CFO and a handful of other C-level people who were now running operations, but none of them had any institutional knowledge of the company.

The CFO advised the Street that we would no longer give out quarterly guidance because our recovery would be bumpy. The

Street reacted extremely negatively – the stock crashed and investors left in droves. We gave annual guidance that we were targeting a revenue increase of 20 percent by year-end, along with a return to net income levels of 11-13 percent. Our message was that we felt we would recover but that we would invest far more of our net income in improving our product offerings (so the days of 93 percent gross and 22 percent net margins were gone).

Fortunately, management succeeded in beating those annual targets and did turn the company around. We regained some credibility, but the uptick in financials and resulting improvement in stock valuation were slow. Therefore, I planned and launched a new IR program to seek long-term holders in the United Kingdom and Europe, and we began making non-deal tours in those markets approximately one year after the management changes and original loss.

We visited the United Kingdom and Europe every six months, reporting on progress. Fortunately, I had been with the company from the beginning, so I could provide the long-term context to show the continuum of our progress and we had a good story to tell. By our third tour, two key funds began buying our stock and other fund managers, seeing that, began jumping in as well.

With this positive activity, U.S. funds and portfolio managers came back into the stock and within 18 months our share price was higher than it had been before the problems occurred. A few months later a large conglomerate in the United Kingdom acquired us (oddly enough). Today, our original company is still the largest and most profitable business unit of that global company. 

Al Rickard is president of Association Vision, the communication company that produces IR Update magazine; arickard@associationvision.com.



Valuation = f (growth, returns, investor perceptions)

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Communicating Corporate Strategy

Learn different avenues to use in the communication process and what to do when the strategy changes.

By Tammy K. Dang

“I look at being in IR as part financial analyst and part marketer,” said Mark Namaroff, director of investor relations and corporate marketing at Analogic Corp. “A lot of what we do in terms of communicating the message and making sure the Street understands your story is probably half if not more of what we do in IR every day.”

Namaroff, along with Matt Sonfeldt, director of investor relations at LinkedIn, and moderator Aaron Hoffman, vice president of investor relations and corporate communications at Ingredion, shared their insights on a March 2014 NIRI-sponsored webinar titled, “Communicating the Company’s Strategy.”

Strategy Shift

About six years ago, Namaroff came to Analogic, a small-cap medical imaging,

ultrasound, and security technology company with a 40-year history. The founder originally led the company and held approximately 65 percent of the stock. Value investors liked its strong balance sheet and there wasn’t much trading.

When the founder retired, the board brought in a new CEO to grow the company as it was stagnating around \$350 million in revenues a year. Namaroff’s job was to re-educate the Street and the market. “We had a very clear objective to grow this company beyond our core markets,” he said. “We embarked on a plan to refresh our brand and our messaging, and refocus the company on its growth, its innovation, and how to communicate that to not only our customers, but also the Street.”

He created a campaign, tailoring the company’s message to customers and investors.

The first part in the process was executing a perception audit. “We really found out that very few investors of ours understood what our strategy was and what our objectives were,” Namaroff said.

The company took the information and revamped the investor and marketing materials. It used a sequence of events leading up to an investor day to tell the new Analogic story. It communicated to the Street a growth plan with specific objectives over the next three years.

After the investor day, the company used the sell side to hit the road and target growth investors with the new story. A few years later, Analogic did another perception study to measure its success. Today, Analogic’s shareholder base has transitioned from 50 percent value to 50 percent growth investors and its market cap grew to

more than \$1 billion with more than \$500 million in revenues.

Language Refinement

Informing investors on changes can be a challenging feat. When Hoffman joined Ingredion, a leading global ingredient provider with \$6.3 billion in sales during 2013, the company was called Corn Products International and viewed as an agribusiness. To change perception, the company started by changing its name. It stopped attending agribusiness conferences even though those were the types of analysts covering the company.

The company also began changing its language. “Instead of talking about corn costs, we talked about raw material costs,” he said. “It’s constantly getting the language to change to be more in line with an ingredients company and not more of an agricultural verbiage.”

Ingredion simplified its message and pushed for more coverage in Europe due to the increased coverage of the ingredients space on that continent. According to Hoffman, the average agribusiness P/E is 12.4x while the average ingredient P/E is 15.8x. As a result of the change in communication, the company is now trading at a slight premium as opposed to at a discount to the agricultural business. The perception among investors is much clearer.

“The stock price has hit many all-time highs even in some choppy conditions over the last couple of quarters and held the valuation fairly well,” Hoffman said. “I feel that we’ve gotten some traction and value for all this work.”

Namaroff recommends understanding the Street’s perception or misconceptions about your story. Simplify the corporate message to one slide when delivering a presentation. Develop an elevator pitch for the management team, whether team members are on a road show talking to investors or just talking to colleagues.

“The stock price has hit many all-time highs even in some choppy conditions over the last couple of quarters and held the valuation fairly well.”

– Aaron Hoffman, vice president of investor relations and corporate communications, Ingredion

Develop IR collateral to support the message that includes a presentation, fact sheet, website, press releases, and shareholder letter. Repeat. Repeat. Repeat. When the strategy changes, tell your audience – shareholders, analysts, and potential investors – what has changed and how, along with what you are and are not doing. Communicate the execution of the strategy’s progress through metrics.

Education Investment

Education is also an important component of LinkedIn’s strategy. Sonfeldt thinks about everything he does through an educational lens, so much so that his team recently renamed itself “investor education.”

His perspective is to be objective in describing LinkedIn, its business, and future prospects while letting others decide about when to invest and valuation. The company’s mission is to connect the world’s professionals to make them more productive and successful. The vision is to create economic opportunity for every member of the global workforce. LinkedIn executes to that mission and vision daily with a long-term focus.

“It’s at the beginning of every conversation we have with investors, both new people getting up to speed on the story as well as folks who’ve known us for a long, long time,” Sonfeldt explained.

The four pillars driving LinkedIn’s investor education are talent, knowledge, education, and disclosure. The management team pushes the investor relations team to be organizational leaders and get involved

with driving business outcomes. In order to do so, IR should know everything about the company and industry.

“We should be the preeminent analyst on LinkedIn at all times and a resource for anybody inside and outside of the company,” Sonfeldt said.

The education perspective is key given the nuance involved in understanding the company. LinkedIn’s enterprise-focused business is built on a free consumer Web platform. LinkedIn gives away 80 percent of its product for free and creates a powerful dataset that ultimately drives its businesses.

“That, in and of itself, makes us different as a company from probably 99 percent of most for-profit companies in existence, in that most of what we do, we build for free and give it away, and then build a business on top of that,” Sonfeldt said.

Another reason Sonfeldt applies an education perspective is that despite LinkedIn’s prominent professional brand, buy-side investors often are infrequent LinkedIn users given the common desire to keep their profiles close to the vest.

Ultimately, Sonfeldt wants investors to buy the company because of a shared belief in management’s vision, not trade the stock. “My goal in owning investor education at LinkedIn is very much about creating relationships with long-term owners,” he said.

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

Tammy K. Dang is manager, professional development, NIRI; tdang@niri.org.

NIRI Announces 2013-2014 Individual Leadership Award Winners

THE 2013-2014 NIRI INDIVIDUAL LEADERSHIP AWARD winners were presented in June 2014 at the NIRI Volunteer Appreciation Dinner in Las Vegas, site of the 2014 NIRI Annual Conference.

NIRI Chairman John Chevalier, director of global investor relations for The Procter & Gamble Company, said, "These individuals represent the best ideals of NIRI membership. NIRI relies on the tireless efforts of these volunteers, and many more like them, to drive its success. I applaud their spirit of volunteerism, and thank them for their devotion to NIRI's mission."

The 2013-2014 NIRI Individual Leadership Award winners and associated NIRI chapters are: Aurora Krause, Boston; David Dixon, Capital Area; Matthew Schlarb, Central Ohio; Roy Granato, Charlotte; Christine Hanneman, Chicago; Kenneth Lovik, Cincinnati Tri State; Shannon Gaycheck, Cleveland/Northern Ohio; Liz Kline, Dallas-Ft. Worth; Kim Pinyopusarek, Houston; Debbie Hagen, Kansas City; Scott Cunningham, Los Angeles; Theresa Molloy, New York; Cynthia Skoglund, Orange County; John Demming, Philadelphia; Kathleen Marvin, Rocky Mountain; Pete De Spain, San Diego; Brenda Ropoulos, Silicon Valley; Howard Goldman, South Florida; John Hastings, St. Louis; Justin Vieira, Triangle; and Bernadette McCormick, Virtual.

On the Move



Bradley Howes has joined Umpqua Bank as senior vice president and director of investor relations. Previously

Howes was senior vice president and director of investor relations at Flagstar Bank. Before joining Flagstar, Howes was with Comerica Bank.



Lorin Crenshaw was promoted to vice president, treasurer and investor relations, at Albemarle. He

has been with the company since 2009 and previously served in the roles of director, investor relations and assistant treasurer.

Quick Takes

If investor relations was made into a movie, what would the movie title be?



Jane McCahon
Vice President,
Corporate Relations
and Corporate
Secretary,
Telephone and Data Systems

► "Jaws."



Jim Buckley
Senior Vice President,
Investor Relations
and Corporate
Communications,
Clean Harbors

► "I can think of three movies that could fit the bill: 'It's a Wonderful Life'; 'The Good, The Bad & The Ugly'; and 'Some Like It Hot.' "

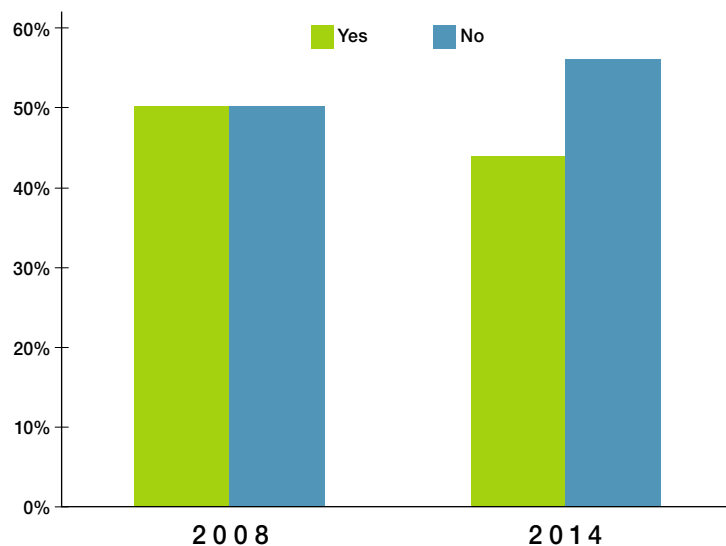


Daniela Peeva
Managing Partner
Investor Relations
Services Chair,
Association of
Bulgarian Investor Relations Directors

► "Lost in the Desert (Bulgarian Version)."

IR Research at a Glance

Are you covered by your company's D&O liability insurance policy?



Source: NIRI-Korn Ferry International Corporate IR Profession and Compensation Study (2008, 2014). Number of respondents: 432.

Professional Development Calendar

August 2014

5 Quarterly Earnings Best Practices webinar

September 2014

14-17 Fundamentals of Investor Relations seminar, Boston, MA

18 Keys to Successful Investor Presentations seminar

19 Writing Workshop for Investor Relations, Boston, MA

22 IR Wisdom Road Show, Beijing, China

24 IR Wisdom Road Show, Taipei, Taiwan

26 IR Wisdom Road Show, Hong Kong, China

30 Crisis Management at the Annual Meeting webinar

SAVE THE DATE

NIRI ANNUAL CONFERENCE JUNE 14-17, 2015 CHICAGO



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NBIM Executive Reviews Sovereign Wealth Landscape

An overview of Norges and SWFs.

By **Christiane A. Pelz**

Hugo Sanders, head of corporate access at Norges Bank Investment Management (NBIM), spoke at a recent NIRI San Francisco chapter meeting by phone from London. He gave participants an overview of the sovereign wealth landscape and specific information regarding NBIM, the largest sovereign wealth fund (SWF) in the world with \$862 billion of assets under management.

With approximately \$6 trillion under management, SWFs represent a substantial asset pool. There are several very large funds in Asia, which accounts for 47 percent of total assets, and the Middle East, which accounts for 30 percent of total assets. Each fund operates differently, so it is good to know something about the fund and its investment criteria before you speak to fund managers.

A Closer Look at NBIM

Haven't heard of NBIM? If your company's market capitalization is more than a \$5 billion market cap and has good liquidity in average daily volume, you

should check your shareholder list as the fund may already be a shareholder! NBIM, unlike some SWFs, reports its holdings once a year – generally within 45 days of December 31. View the fund's holdings online at www.nbim.no.

NBIM was founded in 1998 to invest the proceeds from Norway's oil in the North Sea. Today, it is a long-term, global, and diversified fund, with 61 percent of assets allocated to equities, 38 percent to fixed income, and 1 percent to real estate. The fund has five offices – in New York City, London, Oslo, Shanghai, and Singapore, and employs about 370 people.

NBIM has investments in 82 countries, with 24 percent allocated to the United States across 1,992 companies. BlackRock is one of its largest holdings at about 7 percent of assets, and its holding limit is 10 percent of a company's shares.

Special Features

What makes NBIM special? Several things: It is a long-only fund with average

The fund prefers to speak to companies directly – no need to get brokers involved as is often the case elsewhere.

holding periods of three to five years. It employs active portfolio managers with more than 10 years of experience to oversee stock selection, and it does not have any research analysts. The fund prefers to speak to companies directly – no need to get brokers involved as is often the case elsewhere.

Sanders stressed that NBIM is not an activist investor, although one of the service providers incorrectly lists it as such. However, the fund does consider itself a “responsible investor,” and therefore does not invest in certain types of stocks.

Sanders and his team like to speak directly with management, so if you get a call from them, please don't ignore them. The fund is *not* a broker; it is a real investor with large assets to put to work. Direct any questions to corporateaccess@nbim.no.

Each fund operates differently, so it is good to know something about the fund and its investment criteria before you speak to fund managers.

Christiane A. Pelz is vice president, investor relations for Safeway; christiane.pelz@safeway.com.

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