

IRupdate

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WELCOME TO THE STREET!



Introducing your new CEO to Wall Street is a unique opportunity. But make sure you have the right strategy before diving in.

15 Engaging With Proxy
Advisory Firms

20 Manage
the Media

22 Today's Reality
of Activism

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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.

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6

Welcome to the Street!

Introducing your new CEO to Wall Street is a unique opportunity. But make sure you have the right strategy before diving in.

By Margo Vanover Porter



10

Transportation Moves IROs Forward

Viewed as a leading economic indicator, the transportation industry promises an exciting ride for IROs.

By Alexandra Walsh



15

Engaging With Proxy Advisory Firms

Understanding how proxy firms operate and when and how to engage them is critical.

By Ted Allen

DEPARTMENTS

4 At the Bell

Setting Priorities for 2014

By John Chevalier

20 Webinar Report

Manage the Media

How to assess, prepare, and execute your dealings with the media.

By Tammy K. Dang

21 NIRI Now

- NIRI eGroups Offers Chapter and National Event Calendar
- James Taube Joins NIRI Staff
- Professional Development Calendar

22 Chapter Spotlight

Today's Reality of Activism

The NIRI New York chapter hosts a panel of experts to discuss strategies for dealing with activists.

By Theresa Molloy

Setting Priorities for 2014

When I moved into the investor relations department at Procter & Gamble, I fully expected the assignment to be a 2-3 year learning experience followed by a move back into one of our many product lines. Little did I know what an exciting and fulfilling career was ahead of me in IR.

I credit NIRI, at both the national and local levels, with opening my eyes to what is possible in our profession. I appreciate the opportunity to serve as board chair for the coming year, and I'm excited by all the opportunities ahead.

We have accomplished a great deal during the three years I have served on the NIRI Board. As part of the OneNIRI analysis and strategic plan, we have updated the IR Standards of Practice; developed new corporate and international membership models and dues structures; implemented a plan to drive global awareness of NIRI; improved the content and services the national organization provides to NIRI chapters; and completed a strategic evaluation of an IR certification program.

My top priority for 2014 is to complete the remaining items on the OneNIRI action plan, including an overhaul of the NIRI website, improvements to our global awareness program, and starting the hard work of developing the IR certification program.

In addition, we will focus on the next phase of NIRI strategy – call it OneNIRI 2.0 – that will be a guide for NIRI staff and future boards to follow. One major theme we need to address is the growth in the number of new publicly listed companies outside the United States. As the landscape changes, we need to ensure NIRI remains the authoritative source on the practice of investor relations around the world.

A second theme is the need to closely examine our organizational structure to ensure all participants are getting the most value possible from their membership. Only through critical self-examination will we identify the changes needed to keep NIRI a vibrant, thriving professional association.

I appreciate the leadership and dedication of my fellow board members and NIRI staff, and I thank the outgoing board members, Hulus Alpay (former chairman), Mary Beth Kissane, Andy Kramer, and Michelle Levine Schwartz for their service to NIRI. Please contact me or any of the board members with comments or questions, and please consider how you might be able to serve NIRI in the future. It's a very rewarding personal and professional experience.



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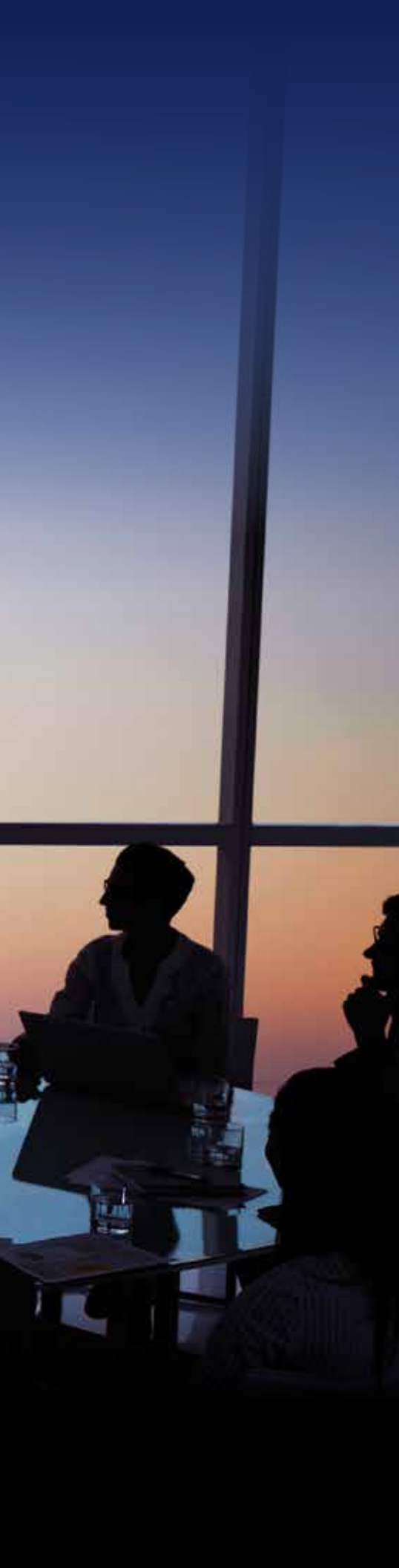
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WELCOME TO THE STREET!





Introducing your new CEO to Wall Street is a unique opportunity. But make sure you have the right strategy before diving in.

By Margo Vanover Porter

To introduce your company's new leader to Wall Street and establish his or her credibility, you need a "well-thought-out plan of proactive engagement," says Hala Elsherbini, senior vice president and COO, Halliburton Investor Relations.

"You should start by prepping the CEO or CFO with the key message points you want to portray on Wall Street," she says. "You also have to provide background on the shareholder base, helping him understand the nuances of the top shareholders, [as well as] who the more vocal shareholders are and their objectives. The more knowledge he has, the greater his ability to eventually address issues and objectives."

While the executive is settling in, Elsherbini suggests that the IRO initiate a telephone campaign to analysts and top shareholders to spread the word about the new leader's background, industry knowledge, and credentials before an initial meeting takes place. The script for the phone conversation might go something like this, she says:

"I'm sure you saw the press release announcing we brought on a new CEO. I would like to help you understand his background. Formerly, he served as the CEO of _____ and helped it to achieve _____. His in-depth industry knowledge is demonstrated by _____. We hope to be able to meet with you soon. Do you have any questions that I might be able to answer at this time?"

WELCOME TO THE STREET

When Less Is More

For that first, critical face-to-face meeting between your new leader and the investment community, Marjorie “Marj” Charlier is a proponent of the “less is more” theory. “The danger zone is covering too much too early, talking about specific strategic initiatives before the CEO and the board have come to an agreement,” emphasizes the owner and founder of Sunacumen Investor Relations.

Charlier recalls the two-year period in which she introduced three new CEOs or interim CEOs to Wall Street. “I have some experience in what works and what doesn’t work,” she says. “Taking three new CEOs out on the road gave me a pretty good feeling for some do’s and don’ts. The goal of the first road trip is to establish personal relationships and build credibility.”

It’s essential for the IRO and CEO to reach a private agreement beforehand on that first conversation. “If you don’t, it’s like watching a train wreck,” she observes. “Once you’re in that meeting, there’s not much the IRO can do but throw yourself in front of the locomotive.”

Her road map, which is targeted to small-to-midsize companies, may not be the right navigational compass for a large firm, she admits. “The strategy that we employed was to make the required public announcement, which was an opportunity to introduce the name to Wall Street. Within three or four months, we would take that individual on a road trip to meet investors and analysts. Three to six months after that, we made a second trip.”

For the first outing, she suggests that the new executive talk about the company without revealing a definitive plan for the future. “I want the CEO to talk about the competitive strategic strengths of the

company that drew him or her to the job. It helps investors and analysts get a perspective on what the individual saw when pursuing the CEO job. Was it intellectual property? Financial assets? A strategic focus? Growth potential?”

Charlier also asks the executive to touch on a few of the challenges he or she has identified thus far, again without getting too specific. Discussing “broad operational, strategic, financial, competitive, and industry challenges will give the investment community an idea of what this guy is going to work on,” she says. “He doesn’t have to talk about all of them – just the ones where he can truly make a difference.”

Next, she advises the executive to deliver a timetable for accomplishing strategic, operational, or financial goals – without identifying actual goals – by saying something like this: “In the next six months, I expect to have a definitive strategy for what products and services we are going to provide to our customers and how we are going to compete in those areas.”

“You can’t give them the strategy now,” she insists. “What they want to know is

‘How long do I have to wait?’ Then, of course, you will actually have to deliver on that. By setting concrete milestones or deadlines, these guys know they can check in at a time in the future and you will be able to delineate your goal, whether strategic, financial, or operational.”

Finally, Charlier expects the new CEO or CFO to talk about his or her management style, experience, and background. “What successes has she had that are relevant to the current situation?” she asks. “What challenges has he overcome, and how did he do it? This give analysts and investors a picture of the talent set.”

IROs Play a Leading Role

During this rollout period, IROs play a leading role, says Bob Burton, managing director, financial communications, Lambert, Edwards & Associates. “You are a facilitator,” he says. “You hold the institutional knowledge. It’s important, therefore, for you to be seen as enough of a partner to be able to influence timing and strategy.”

Your CEO or CFO may be skeptical of a road trip before having a chance to develop

“Usually, IROs experience a fair amount of uncertainty when either the CFO or CEO turns over because they got hired by one of the guys who is now gone. There’s a natural defensive instinct of ‘Let’s not make a lot of ripples. I’ll just see where things fall out and pick up a more aggressive program in a little while.’ That’s rolling over on your responsibilities. Rather than take the path of least resistance, you need to get to it.”

— Bob Burton, managing director, financial communications,
Lambert, Edwards & Associates

a robust program, he notes. “That’s entirely understandable,” Burton explains, “but sometimes very capable executives need six months to a year to put a program in place. You literally can’t go six months or a year without speaking to investors.”

He urges IROs not to go along to get along. “Usually, IROs experience a fair amount of uncertainty when either the CFO or CEO turns over because they got hired by one of the guys who is now gone. There’s a natural defensive instinct of ‘Let’s not make a lot of ripples. I’ll just see where things fall out and pick up a more aggressive program in a little while.’ That’s rolling over on your responsibilities. Rather than take the path of least resistance, you need to get to it.”

Unfortunately, he says, some CEOs seem to have a knack for making the IRO job harder than necessary. “I have seen executives who don’t like doing investor relations and don’t really think they have an obligation to get out and speak to investors,” he says. “They think their job is to run the company, and the investor’s job is to buy or sell the stock, and the two very seldom overlap.” In that environment, IROs have to politely and diplomatically explain the new leader’s pivotal role in the investor relations program.

Burton encourages IROs to make the most of this opportunity. “You’ll be able to bring a new program to the Street and watch it play out,” he says. “As the new person begins to make changes, key shareholders and analysts will ask you ‘How’s it going?’ and ‘What do you think?’ They will want your opinion.

“Quite frankly, they’ll want their hands held a little bit by someone they’ve been working with and they trust,” Burton says. “This is your chance to build relationships with Wall Street. Do yourself a favor by putting together a great investor relations package.” **IRU**

Margo Vanover Porter is a freelance writer based in Locust Grove, Virginia; m.v.porter@comcast.net.



YOU ONLY GET ONE “GET OUT OF JAIL FREE” CARD

When rolling out your new executive to the investment community, you should consider three factors, says Bob Burton, managing director, financial communications, Lambert, Edwards & Associates.

- **The candidate’s background.** Has he been directly engaged in investor relations work before? Is she familiar with Wall Street and how it works?

“I was the investor relations officer at a company where the incoming CEO had experience with the investment community but never as the point person,” Burton says. “He was always included along with the CEO or CFO but he was not the primary person taking questions. There’s a difference. You have to judge whether the person you are bringing out is truly seasoned, has a little experience, or has no experience in dealing with investors.”

- **The company’s circumstances.** Is this a smooth transition? Is the company’s business strategy well understood? Are results consistent? Or will something emerge in the foreseeable future that would require a repositioning or explanation on the part of the company?

“If you are in a quiet environment, you really have an opportunity to use the ‘get out of jail free’ card,” he says. “What I mean by that is the incoming person can legitimately say, ‘Listen, I’ve only been here a month. There’s still a lot I have to get my hands around. I’m not really prepared to lay out a full program for you, but I wanted to give you a chance to ask me about my background and to take the opportunity to ask you, the investment community, for your perspective.’”

According to Burton, this is your leader’s opportunity to have a conversation that is not fully loaded with “What’s your strategy?” and “What are the next metrics you will hit?” The conversation, he explains, tends to be more about getting acquainted and understanding how this new businessperson approaches the CEO or CFO role and thinks about success. “That can be very helpful in setting the stage for what happens next because you begin to establish personal relationships, which are really important.”

However, if your company is mired in controversy, your CEO or CFO will have to hit the ground running. “You won’t have a chance to establish credibility in terms of consistent results or long-term plans fulfilled,” he says. “You have to be honest, straightforward, and direct and be very clear about what the business is dealing with.”

- **The first audience.** Who’s on the receiving end of the first meeting? Sell side or buy side? “The buy side doesn’t necessarily like having the sell side have the first meeting,” he says. “They’re the people who own the stock, after all. Why wouldn’t they have gotten the phone call first?”

Burton advises IROs to handle the politics of this process carefully. “A lot of different constituencies will want to meet with the incoming CEO or CFO,” he says. “You have to try to get those meetings held without playing favorites. You don’t want to start the new guy’s ledger with any black marks because ‘He didn’t see me first’ or ‘He didn’t see me promptly.’”

A phone call to a potentially ignored party may do the trick, he says. “That can mean calling some people up and saying, ‘Look, John, we’re sorry we can’t get to you right now, but this is a New York meeting. If you want to come down to New York, fine. We’ll get to Boston as soon as we can. I think we’ll be there in the next two to three weeks.’”

“The call will often go a long way, just to let them know you aren’t overlooking them and that you respect their position.”

TRANSPORTATION MOVES IROs *FORWARD*



Viewed as a leading economic indicator, the transportation industry promises an exciting ride for IROs.

By Alexandra Walsh

The transportation sector of the economy is constantly evolving and immensely fast paced. It's comprised of industries that a broad array of analysts turn to as leading indicators of the health of both the domestic and world-wide economy.

Whether in good times or bad, one thing is for sure: The planet's products and people would come to a standstill without these industries. It's one of the many reasons why analysts, investors, and the general public pay so much attention to transportation.

We asked IROs at transportation companies how they survive in an environment where the competition between companies – both within the same modes of transportation as well as in different transportation sectors – can be cutthroat. The consensus is that these IROs don't just survive, they thrive. And, they all think they have the best job they could ever imagine.

A Rail Renaissance

The rail industry, like many other freight industries, is not only recovering from the financial crisis of 2008, but also from a freight recession that began in 2006 with the collapse of the housing bubble. Plus it had the added challenge of a newly evolved energy environment that favored natural gas over coal. Maximum economies are typically realized with bulk commodities, especially when hauled over long distances, and coal was the biggest of them all.

“However, the rail renaissance is alive and well,” affirms David Baggs, vice president of capital markets and investor relations for CSX Corp. “Despite these challenges, we focused on things we control the most – running a safe operation, providing an excellent service product, becoming more efficient, and remaining focused on inflation-plus pricing for the value we are providing our customers.”

He explains that in doing so, CSX has driven earnings growth in six of the past seven years and margin expansion in each of those seven years. “As a result, CSX has differentiated itself, versus some of its peers, as a company with a management team that can overcome significant challenges and still create value for shareholders.

“Railroad companies in general provide an excellent service product, which is allowing us to grow our non-coal business faster than the general economy and create value for long-term investors over and above the average S&P 500 company,” explains Baggs. “We deal with a fundamental equation – as the population grows, more people consume more things, those things have to be moved, and more of those things are starting to move by rail.”

Bill Galligan, vice president of IR at Kansas City Southern (KCS), adds that another unique aspect of rail is that the company’s assets can’t be duplicated or rep-

licated for the foreseeable future. “No one’s going to be building a railroad to compete with you. And, the railroads only continue to grow in importance as U.S. bridges and highways continue to deteriorate.”

Galligan also points out that as a mode of transportation, rail has a great carbon footprint. “Steel wheel on steel track is one of the cleanest and environmentally efficient ways to move.”

Yet another plus, one that reflects on the entire transportation sector according to Baggs, is how integrated modes of transport have become. “Over the years, the global supply chain has become more integrated from origin to market for the sake of efficiency. Today, trucking, logistics, air freight, and container shipping companies are all customers of our company,” he explains. “And that’s also how investors see this sector to a degree. They’re more concerned about what goods are moving rather than how they’re moving since more goods moving means the economy is doing well.”

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Airlines Restructure

“Warren Buffett once said something to the effect of, ‘whoever witnessed the Wright brothers would have done capitalism a huge favor by just shooting them down,’ which pretty effectively sums up the airlines’ long history as being an incredibly volatile industry,” says Daniel Cravens, managing director of investor relations for US Airways Group (now part of American Airlines Group).

Before the global recession hit a devastating blow to the airline industry causing a 17 percent drop in industry revenue, the massive fuel spike in 2008 nearly bankrupted US Airways and many other airlines, he points out. “Those two years were extremely difficult for just about everyone in the industry, and to be able to navigate through that as well as we did speaks volumes about our management team.”

But Cravens is also quick to point out that the industry has structurally and fundamentally changed and is much healthier today.

“No question, airlines were highly cyclical – losing lots of money when the economy was bad and making a little money when the economy was good. Because of that volatility, we didn’t have many of the long-term, long-only types of investors that companies want. However, the industry has restructured itself and is now more financially sound,” explains Cravens.

“We’ve had three profitable years and the sell-side analysts have recognized the change, but it takes time to prove to investors that things really are different this time. What’s really encouraging,” he adds, “is that we’re seeing more and more interest from longer-term investors, and they’re investors we would never have seen five years ago – they’re the type of investors you want to have.”



Hitting the Highways

In the ground/truck transportation sector, very significant and worrisome secular trends are impacting that mode of transport – but that’s all good news for Bob Brunn, vice president of corporate strategy and investor relations for Ryder System. And, this is not the same Ryder many remember – the familiar yellow “one-way” consumer rental business. That business was sold in the ‘90s and the company then focused solely on commercial customers.

The Ryder of 2013 is a leading provider of commercial transportation, logistics, and supply-chain management solutions throughout North America, Europe, and Asia, whose products and services encompass everything from fleet management to large-scale supply chain and turnkey transportation solutions.

Impacting ground transportation, reports Brunn, is a series of EPA-mandated emission standard changes for commercial highway vehicles that’s increasing the cost and complexity of operating and purchasing trucks. Piling on top of that are greater regulatory requirements related to the Department of Transportation’s Compliance Safety and Accountability initiative as well as hours of service rules limiting the number of hours drivers can operate. All good news for Ryder as companies are more likely to outsource, and Ryder passes the increased costs through, plus return on higher capital investment generates more revenue for investors.

A Leading Economic Indicator

Is the life of transportation industry IROs similar to those of their peers in other industries? Maybe, if their peers work in an industry that is a leading economic indicator for the U.S. economy and a window into the overall health of both the domestic and global economy.

“Because what and how much we move is an indication of how well the economy is doing, there’s a lot of interest in transportation stocks. Here, the typical transportation company is covered by 20 to 30 analysts and we have 31 that cover CSX,” explains Baggs.

“When you look across the other major industries we serve – steel, chemical, automotive, grain, housing, and utility – the number drops to between 10 and 20 analysts.”

He adds that what makes the rail IRO’s job unique is the huge amount of data that is available to investors. “Not many other sectors deliver weekly traffic data and operating statistics to investors. These are all dimensions of our business,” continues Baggs, and they provide more transparency to investors than most other sectors. That transparency gives us the opportunity to continually refresh our story and we constantly extrapolate the current environment in order to provide a long-term perspective for investors.”

The day-to-day duties of an IRO in the airline industry are similar in many ways to any other IRO – what’s different is the industry itself, Cravens points out. “Every industry has its own nuances, but no other industry that I know of is quite as complex.

“So many different systems and groups have to work in perfect sync to operate efficiently and yet every day you’re dealing with challenges such as scheduling, maintenance, fuel, crew planning, logistics, weather, air traffic control congestion, and security – most of which are out of your control,” he says. “Given these challenges, if you deliver your product 82 to 85 percent successfully as measured by on-time performance – you would be the number-one carrier in the industry.”

The key, observes Cravens, is establishing good relationships and having a reputation for transparency with Wall Street. “Relationships really do matter. The airline

industry is highly visible and from the IR standpoint, it’s all about being able to effectively communicate to shareholders and analysts what’s really going on, in both good times and bad,” He adds, “It helps to have a thick skin.”

Brunn says that because of Ryder’s sizeable commercial truck business, it also receives a lot of attention from analysts looking for indicators about the macro-economic environment going forward. “We hear from many analysts who don’t cover our sector and we have to be able to distinguish folks who are serious about our own company from those looking for more general information.

“But even with the latter, you can start relationships and get them in the door, teach them about the business and let them get to know management. We take every opportunity to talk to everyone interested in talking to us.”

Another aspect of being in an industry considered a leading indicator, says Brunn, is that various dynamics in the market can impact the whole sector. “For instance, if fuel prices go up, it might reduce investor exposure to the sector but for no particular reason to do with Ryder. Fuel for us is generally a pass-through to our customers so cost changes don’t typically impact our earnings.”

He admits it can be frustrating when it has nothing to do with his company, as much as he might try to explain that. “You have to be patient and at the end of the day, explain the story.”

Point of Embarkation

The back story of how and when these transportation executives embarked on their IRO journeys is pretty similar – with a notable exception.

Brunn has worked in every financial capacity in his 25-year career at Ryder, but one of the most valuable, he believes, was

as a regional CFO. This allowed him to spend years in the business working on a lot of different activities such as customer sales calls and building new facilities. “It gave me a firsthand view of the business, which,” Brunn says, “is what investors want to hear from you.”

“Also, looking back, it was invaluable for me to have the role of assistant treasurer. It gave me experience in building and managing relationships with banks and credit agencies and telling our story to external audiences.”

In fact, earlier in his 10-year IR career, Brunn also handled public relations, the company’s charitable foundation, and community relations. “IR and PR both have external facing, yet totally different, audiences,” he notes.

Today Brunn manages both corporate strategy and investor relations. “These double roles allow you to bring the thought processes of investors, analysts, and other key communities to bear both on IR and corporate strategy.”

On when to make the career move to IR, Brunn believes that “Twenty-three-year-olds should not have a job in IR. If they think they’d really like IR, they should be getting the skills they need to position themselves to get that job mid-career.”

Baggs started his career 25 years ago in an economic analysis group at CSX providing financial and economic support for the sales and marketing and operating departments. “It was a tremendous window into the business of our company and it gave me a broad sense of the direction of both CSX and the overall industry,” he explains.

“Regardless of the sector, a young person going immediately into IR is not the right career path. You graduate into IR after gaining broad-based experience within the company. You get exposed to what’s driving the success of the business, and you take

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— **Bill Galligan, vice president of IR,
Kansas City Southern**

on positions to better understand your competitors and to get a macro view of the factors that influence the growth and strategy of the business.”

He also believes it’s essential for the aspiring IRO to build relationships across the company. “You need to establish a pipeline of information to keep analysts and investors reliably informed. At the same time, IR is not a one-way communication panel – you must be able to bring the Wall Street perspective back to the company so everyone understands what investors are expecting.”

Proving that every rule must have an exception is Ashley Thorne, director of investor relations at KCS and Galligan’s associate.

“I’m closer to the beginning than the end of my career,” says Thorne. After getting an MBA in finance, and with a couple other jobs under her belt, Thorne started at KCS five years ago in the treasury department. Then Galligan heard about her and recruited her for IR.

Galligan describes her as very bright and literate. “If I had to choose someone who could write and communicate or be a numbers whiz, I would take the communicator.

Ashley is strong in both areas, which is a powerful asset,” says Galligan. “Plus she gets things done, she has vision, is very determined, and I never met anyone who didn’t like her.”

Members of Generation X are described as possessing a natural self-sufficiency and are resourceful enough to work their way out of any problem. On meaningful challenges, they will relentlessly work to achieve a solution and eagerly pursue any skill that can increase their marketability.

“It takes all types to make a business run and while I believe our profession benefits from experience, I also believe one can do things to move up the line quickly,” says Galligan. “You have to read a balance sheet and be a good communicator and you have to know who to go to to get information and be able to trust those sources. It also helps to like your company and believe in the story.”

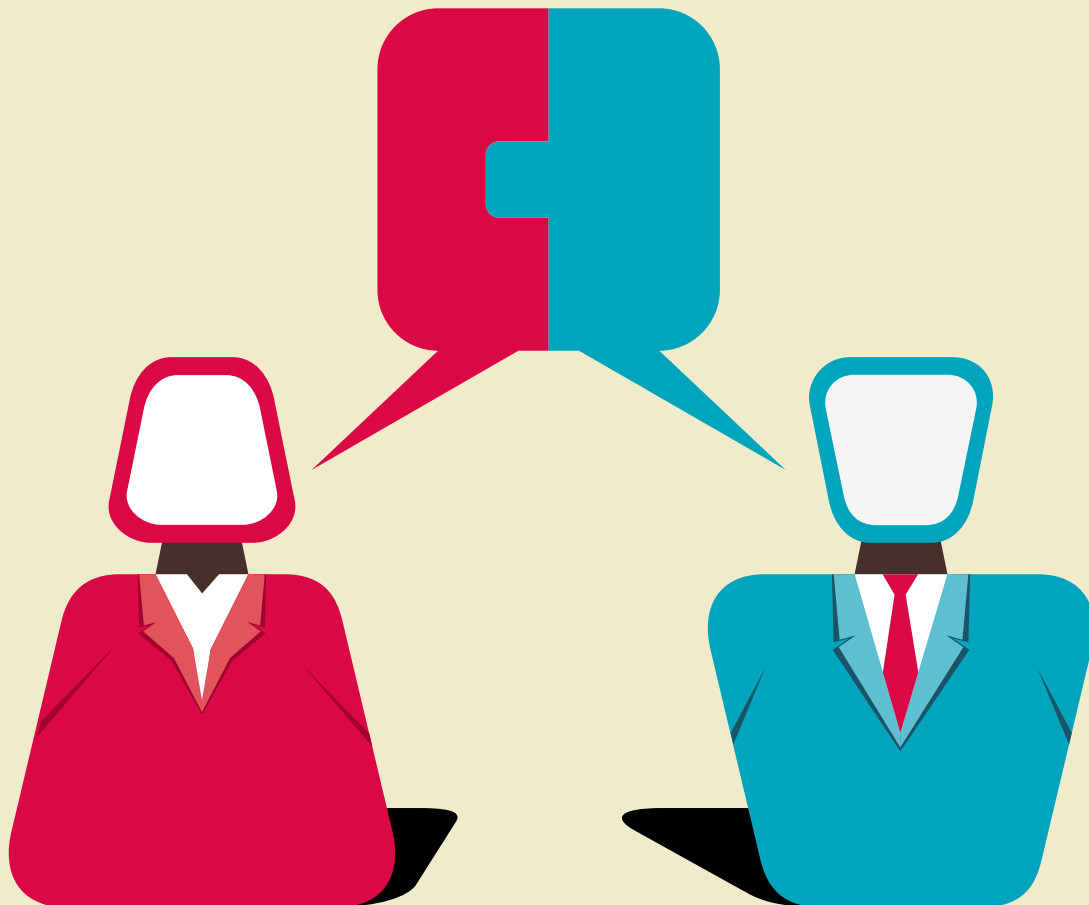
Thorne says she thinks for someone such as herself, the best way to learn is to get out there and do it. “Go to conferences, talk to investors, do road shows, and most importantly, listen carefully when you travel with your C-suite, then work on developing your own voice.

“This is the most unique job I’ve ever had. I can’t imagine another situation where you get to communicate with such a wide variety of smart people on a daily basis,” says Thorne. “It’s extremely challenging, no day is ever the same, and you have to take the good, the bad, and the ugly with a grain of salt.”

Thorne adds, “Relationship-building is incredibly important and I learned from a master. Bill’s always taught me it’s hard to not like a company when you like everyone you work with.” **IRU**

Alexandra Walsh is vice president of Association Vision, the company that produces IR Update; awalsh@associationvision.com.

Engaging With Proxy Advisory Firms



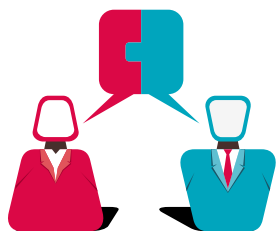
Understanding
how proxy firms
operate and
when and how
to engage them
is critical.

By Ted Allen

For many IR professionals, proxy advisory firms can be a source of great frustration during proxy season.

At most U.S. companies, proxy firms have the power to sway the votes of a significant number of investors. Some issuers get blindsided by negative advisor recommendations, which sometimes include errors, and IROs may be asked to help with a last-minute campaign to try to persuade shareholders.

Unlike portfolio managers and sell-side analysts who usually have a deep understanding of a company, proxy advisors generally rely on marketwide voting guidelines and may have limited knowledge about an issuer and its industry. In response to concerns raised by NIRI and other corporate groups, the Securities and Exchange Commission (SEC) held a roundtable on proxy firms in early December, but it still appears unlikely that the SEC will take any significant action in the near future to closely regulate proxy firms.



Engaging With Proxy Advisory Firms

While corporate secretaries and legal counsel typically take the lead in drafting proxy materials, interacting with proxy firms, and preparing for annual meetings, IR professionals are becoming more involved in investor engagement, and thus they should be aware of how proxy advisors operate, how to communicate with them, and how investors use their vote recommendations.

“You should include proxy advisors in your overall communications effort. You should become familiar with proxy advisors’ voting policies and how they have recommended at your company in the past, so you can assess what their influence may be in the future,” says Shirley Westcott, a senior vice president at Alliance Advisors LLC, a proxy solicitation firm.

Who Are They?

Proxy advisors play a key role in the current U.S. proxy voting system, and their influence has become more significant since the arrival of mandatory Say-on-Pay votes in 2011. Few institutional investors have the resources to thoroughly analyze the executive compensation practices of the hundreds of companies in their portfolios, and thus many investors rely on proxy firms to highlight those issuers the advisors consider to have the most problematic practices.

The largest proxy advisor is Institutional Shareholder Services (ISS). The firm, which was founded in 1985, now has 1,300 institutional clients and produces proxy reports on 5,900 U.S. companies and 35,000 non-U.S. issuers each year. ISS is now owned by MSCI, a public company that offers market indexes and other analytical tools to investors. In late October, MSCI announced it was exploring strategic alternatives for ISS.

The second-largest proxy firm is Glass Lewis & Co., which advises more than 900

institutions that manage more than \$15 trillion in assets. Glass Lewis, which was started in 2003, covers 23,000 meetings each year in more than 100 countries. The firm is owned by the Ontario Teachers’ Pension Plan, which sold a 20 percent stake in the proxy advisor to Alberta Investment Management Corp. in August. In recent years, the Ontario Teachers have embraced activism, joining with a hedge fund to press for change at McGraw-Hill and opposing the terms of Magna International’s recapitalization.

ISS has an estimated 61 percent market share, while Glass Lewis has a 36 percent share, according to several academic papers that cite 2007 data from the U.S. Government Accountability Office. Both major proxy advisors have relatively lean staffs, given the large number of proxy reports that they publish each year.

ISS employs about 200 institutional research analysts worldwide, and its U.S. analysts are based in Rockville, Maryland. To help with its proxy season workload, ISS relies on employees in the Philippines for lower-level research and data work and hires temporary employees in Maryland. San Francisco-based Glass Lewis reports that it has about 200 research employees.

There is a third proxy advisor, Egan-Jones Proxy Services, which is a part of Egan-Jones Ratings Co. The proxy advisor, which was founded in 2002 and based in Haverford, Pennsylvania, doesn’t disclose the number of its clients on its website. Kent Hughes, managing director of Egan-Jones Proxy Services, says his firm doesn’t have a defined-coverage universe, but will cover any meeting that its clients request. A fourth advisor, Proxy Governance, ceased operations in December 2010 and transferred its clients to Glass Lewis.

These firms advise a variety of institutional investors, including mutual fund managers, public pension plans, labor funds, trust companies, religious groups, and socially responsible investors. While proxy firms’ benchmark voting policies receive the most attention from companies, IR professionals should keep in mind that many ISS and Glass Lewis clients have their own specialized voting guidelines. ISS reports that it manages more than 400 custom voting policies for clients, although many of those policies are based on ISS benchmark guidelines. In addition, there are some large institutions, such as BlackRock, that subscribe to both ISS and Glass Lewis.

How Do They Make Decisions?

Proxy advisors all have voting guidelines that shape their voting recommendations. While the advisors object to the “one size fits all” criticism they receive from issuers, the reality is that many of the advisors’ recommendations (such as director elections and most shareholder proposals) are based on the automated application of pre-set policy guidelines, and only certain issues (such as compensation) receive a deeper case-by-case analysis. This approach is not surprising, considering the firms’ small staffs, the pressure from clients to hold down costs, the heavy volume of meetings during the spring, and the limited time to analyze proxy materials.

Over the past decade, proxy advisors’ policies have been influential, especially on emerging governance issues. Consider the history of shareholder demands for a majority vote standard in uncontested board elections.

In 2004, the United Brotherhood of Carpenters filed a series of proposals that called for majority voting; those resolutions averaged just 12 percent approval amid opposition from ISS. The following year,

ISS began supporting those resolutions and the average investor support soared to more than 40 percent and kept growing. This activism prompted a sea change in corporate America, and today, 84 percent of S&P 500 companies have majority voting bylaws in place.

Proxy advisors also played a significant role in bolstering shareholder support for annual Say-on-Pay votes, board declassification, and proxy access. Although the influence of the proxy advisors varies by company and subject matter, academic researchers have found that negative recommendations can lead to a 15 to 30 percentage point differential in support for management.

Among proxy advisors, ISS has the most transparent policy development process. The firm traditionally conducts an online survey of investors and issuers each summer and then holds a brief comment period (usually, two weeks) in October on some of its policy updates. ISS typically publishes its final updates in late November, and those policies take effect for meetings after Feb. 1.

While issuers have an opportunity for input, ISS appears to be more heavily influenced by the views of its investor clients. For example, ISS was not persuaded by issuer arguments in 2011 in favor of triennial Say-on-Pay votes, and ISS has adopted a stricter policy for 2014 on board responsiveness to majority-supported shareholder proposals, despite repeated complaints from corporate groups.

Westcott says that issuers should participate in the ISS policy process if they have concerns about new guidelines that the advisor is considering. While companies probably won't persuade ISS to scrap a new policy that its investor clients support, "input from issuers can help around the margins, and they may provide viewpoints that ISS hasn't considered," she observes.

HELPFUL RESOURCES FOR IROs

ISS: The main contact for engagement is Marc Goldstein, while Kathy Cohen handles questions on policy matters. ISS also maintains a Research Central Help Desk, which can answer questions and make arrangements for company representatives to speak to analysts. The Help Desk's e-mail address is usresearch@issgovernance.com. For more details on engaging with ISS, visit: www.issgovernance.com/policy/EngagingWithISS. For information on voting policies, visit the ISS "Policy Gateway" at www.issgovernance.com/policy/2014/policy_information.

Issuers also should be aware of their ISS Governance QuickScore ratings. While these ratings are not directly factored into vote recommendations, these ratings appear in ISS reports and are included in a company's profile on Yahoo! Finance. This rating system — which scores companies on a scale of 1 to 10 on compensation, board structure, audit issues, and shareholder rights — may seem counterintuitive at first, because "10" is the worst score (which represents the highest governance risk). Companies can verify the information that ISS uses to calculate by visiting www.issgovernance.com/quickscore/dataverification.

Glass Lewis: For information on engagement, visit: www.glasslewis.com/issuer/issuer-faqs. To schedule a meeting, issuers may call 1-888-800-7001 or send an e-mail to info@glasslewis.com. Summaries of the firm's voting guidelines can be found at www.glasslewis.com/resource.

Egan-Jones: To engage with Egan-Jones, companies should use the contact form on the firm's website (www.ejproxy.com/) or contact their proxy solicitor. The firm's voting policies are not posted online, but can be obtained from proxy solicitors.

Proxy solicitors can also help analyze how closely shareholders follow proxy firm recommendations. Equilar, a compensation data provider that has a business alliance with Glass Lewis, offers software tools that can assess a company's pay practices under both ISS and Glass Lewis guidelines. Equilar's website is www.equilar.com.

For more information on proxy advisors, including a link to NIRI's June 2013 testimony to Congress, please visit the "Proxy Advisors and Proxy Voting" section of NIRI's Presentation and Report Library at www.niri.org/resourcelibrary.

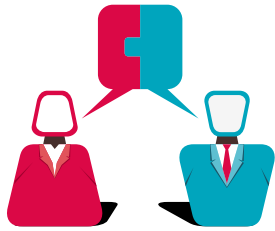
When to Engage and What to Expect?

Like most institutional investors, proxy advisors are less busy during the summer and fall, and thus, are more available for in-person meetings or conference calls. It can be difficult for most companies to get an audience with ISS during the spring U.S. proxy season (Feb. 15 to June 30), unless there is a proxy fight, a contested M&A transaction, or a well-publicized "vote no" campaign.

Glass Lewis generally won't engage during a company's proxy solicitation period. In high-profile cases, companies can ask to

participate in a "Proxy Talk" conference call with Glass Lewis clients. Egan-Jones prefers that companies engage after they file their proxy statements, notes Hughes.

ISS, which has long-standing procedures for engagement, continues to be the most open to hearing from companies both before and during proxy season. Glass Lewis used to resist corporate input in an apparent effort to highlight its independence. "That used to be a source of pride [for Glass Lewis], but that's changing," notes Jim Kroll, director of executive compensation at Towers Watson. "They opened



Engaging With Proxy Advisory Firms

the door to large companies, and my sense is that they found those conversations to be constructive.” At the same time, there still is a perception among small- and midsize companies that Glass Lewis won’t engage, he adds.

Before talking with a proxy advisor, IR professionals should do their homework and be knowledgeable of the advisor’s benchmark policies, and how closely their company’s largest shareholders have followed the advisor’s recommendations, which can vary significantly by governance topic. For instance, ISS and Glass Lewis (as well as most institutions) support virtually all shareholder proposals calling for board declassification, regardless of a company’s financial performance. On this topic, as well as majority voting, advisors take a “hard-line” approach, and “they are unlikely to make an exception for you,” Westcott observes.

However, “on grayer issues, where the proxy advisors have a more nuanced view, issuers should reach out to them,” she advises. One notable example is the separation of the CEO and board chairman, where ISS generally supports shareholder requests for independent chairmen unless a company can show that it has an independent lead director with a robust set of responsibilities.

AT&T, Johnson & Johnson, Lockheed Martin, and other companies took this approach and persuaded ISS to reverse its past support for those proposals. In 2013, ISS supported just 47 percent of independent chairman proposals, down from 75 percent in 2012, according to Alliance Advisors.

In addition, some investors have less strict voting policies and will be more open to a company’s arguments. For instance, BlackRock will be satisfied by a company’s adoption of a director resignation policy,

and not insist on a full majority voting bylaw, notes Westcott. “There are some areas where a company can reach a middle ground with its top holders,” she says.

Engaging on Pay

Over the past three years, the proxy advisors’ Say-on-Pay recommendations have received the most attention from companies and investors. According to compensation consultant Semler Brossy, issuers with a negative recommendation from ISS averaged 65 percent support during the spring 2013 proxy season, about 30 percentage points lower than companies with positive recommendations. While the proxy advisors will point out that their investor clients make the final voting decisions, advisors’ recommendations do have a substantial influence, especially among small and midsize institutions that don’t have in-house proxy voting staffs.

Fortunately, proxy advisors (like many investors) have become more willing to engage with companies since the arrival of Say-on-Pay. Companies that received low support (i.e., less than 70 percent) during their most recent pay vote should not have difficulty getting an audience with proxy advisors.

Ron Schneider, a former proxy solicitor who is director of corporate governance services at RR Donnelley Financial Services Group, advises companies to talk first with some of their investors. When meeting with proxy advisors, “You should talk about your engagement with your institutional investors, what was the feedback, and what you did in response in that feedback,” he advises.

Kroll agrees that companies should talk to their shareholders first. “If you want to have a constructive conversation with the proxy advisors, you should be knowledgeable of the hot-button issues for your investors,”

Kroll observes, adding that your investors may have different concerns than the proxy advisors. In addition, he says the proxy firms have much less tolerance now for corporate representatives who simply ask what the company needs to do to get a positive vote recommendation.

Schneider advises companies to have “modest” and “measured” expectations when they meet with the proxy advisors. “You’re not going to change their policies or their worldview,” he says. At the same time, the company may receive insights about advisors’ concerns that can help in preparing proxy materials.

Even if the company expects a negative recommendation based on advisors’ quantitative Say-on-Pay guidelines, “You should explain your rationale and why your company is unique,” notes Schneider. Some of these company-specific mitigating factors may end up in the proxy advisor’s report and can help an issuer persuade investors to support management, he says. Likewise, Kroll observes: “Large investors are very thoughtful, and their views are not as black-and-white as the proxy advisors, but the only way to really know is to go speak to them.”

If a company’s board does adopt compensation policy changes to attract more investor support, the company should highlight those changes in the proxy statement (and note them in a hyperlinked table of contents) so it’s less likely that the proxy advisors and investors will miss them, Schneider suggests.

Responding to Negative Recommendations

Proxy advisors generally release their reports about three weeks before a shareholder meeting. In proxy contests and contested transactions, advisors will publish their reports closer to the meeting date so the recommendations can reflect the latest arguments (or offers) from both sides.

One of the most persistent criticisms of proxy advisors is that most companies have no opportunity to review advisors' reports before distribution to investors. This practice can be especially frustrating to companies, because some institutions will vote their shares within hours of receiving an advisor's recommendation and may not bother to change their votes later, even if the recommendation is based on inaccurate information or is later reversed.

While ISS provides an opportunity for S&P 500 companies to sign up before proxy season to receive a draft report, those issuers have a limited period (such as 24 to 48 hours) to review the report for any factual inaccuracies. During this draft review, ISS generally won't be swayed by complaints about its policies and how they are applied.

At the same time, this draft review can be helpful to companies and give management a head start in preparing its response and outreach to investors. ISS generally doesn't provide drafts to smaller companies. Glass Lewis and Egan-Jones do not permit any companies to see draft recommendations.

ISS, Glass Lewis, and Egan-Jones all state that they will publish updated reports if factual errors are brought to their attention, but companies should act quickly before most of their investors vote their shares. However, it's rare to see a proxy advisor reverse a recommendation, unless a company has taken action (such as eliminating a single-trigger severance provision or another pay practice to which the advisor objects). In those cases, the company must disclose that action in a public filing, as proxy firms will only consider public information.

None of the proxy firms routinely release their reports to the SEC or the public. In a 2010 comment letter, Glass Lewis argued that its paying clients should not "subsidize the free public display of proprietary research." ISS will provide an issuer a free copy of its own report upon request, but no

"Companies can minimize the influence of the proxy advisors by telling a more effective story in their proxy statements."

— Ron Schneider, director of corporate governance services, RR Donnelley Financial Services Group

longer permits a company to share its report with its outside advisors.

Corporate Consulting and Conflicts of Interest

ISS is the only firm that provides consulting services to companies, which has prompted significant criticism from issuers, competitors, and lawmakers. ISS offers compensation data as well as software tools that can help a company assess how it would fare under ISS guidelines for equity plans and the ISS pay-for-performance quantitative screens for Say-on-Pay votes. This corporate business accounts for a growing share of the firm's revenue. According to MSCI's most recent 10-K, 25 percent of ISS revenue came from corporate consulting in fiscal 2012, up from 20 percent in 2011.

To address conflicts of interest, ISS maintains a "firewall" between its institutional research analysts and its ISS Corporate Services (ICS) business unit. ICS also tells its corporate clients that they won't receive preferential treatment, and that proxy vote recommendations are prepared independently by ISS institutional analysts, who are not supposed to know the identity of ICS clients.

Nevertheless, some issuers believe that they need to purchase ICS services to get a fair hearing from ISS. "I try to dispel that notion," says Schneider of RR Donnelley. "You're not buying a vote recommendation; you're buying clarity into [its] models and policies."

ISS uses a proprietary methodology to evaluate equity incentive plans, so some issuers will subscribe to ICS software so they will know whether they need to reduce the number of shares available under the plan or make other modifications to obtain ISS approval. Although just a handful of equity plans are rejected by shareholders each year, those votes are binding, and some companies don't want to risk defeat or have to modify their plans right before their annual meetings, notes Kroll of Towers Watson.

Final Thoughts

While proxy advisor recommendations are important, it's worth remembering that investors are responsible for making the final voting decisions. Some large institutions, such as Vanguard and BlackRock, are doing more of their own analysis of governance matters and have expanded their outreach to issuers, according to *The Wall Street Journal*.

Schneider points out that "companies can minimize the influence of the proxy advisors by telling a more effective story in their proxy statements." He suggests that companies employ an ongoing process of "engagement, feedback, and disclosure," and then get investor views on that disclosure.

Likewise, Kroll agrees that most large investors are "a willing and sophisticated audience" who will engage thoughtfully with companies that are well-prepared. "Doing your homework and having great disclosure," notes Kroll, "are really key parts of the process." **IRU**

Ted Allen is director of practice resources at NIRI; he worked at ISS from 2004 to 2012; tallen@niri.org.

Manage the Media

How to assess, prepare, and execute your dealings with the media.

By Tammy K. Dang

Mirrors, pictures, and windows. Marian Briggs, executive vice president at PadillaCRT, says her firm uses these three analogies when helping clients work with the media to develop stories about their companies. Briggs, along with Cynthia Skoglund, senior manager of corporate business development and alliance management at Beckman Coulter, and moderator Laura Graves, vice president of investor relations at Polycorn, shared their insights in an August 2013 NIRI-sponsored webinar titled, “Effective Ways to Work With the Media.”

Mirrors involve walking the reporter up to a mirror and saying, “Look at me, aren’t I pretty?” *Pictures* involve building a relationship by walking the reporter up to a painting and talking about what the artist was trying to depict. *Windows* involve sharing thought leadership. Open up the window; let the reporter look out onto the landscape to see what trends are coming around the corner.

“If you can think about positioning your company in the last two buckets – *pictures* and *windows*, that’s how you’ll ultimately get the *mirror* story at some point down the way,” Briggs said. These steps, along with using embargoes and exclusives, maximize the impact of media coverage for a company.

Assess With a Media Audit

To develop these types of stories, start by conducting a media audit to establish your media needs. According to Skoglund, it’s important to analyze the company’s business goals for engagement in order to align them with the appropriate outlets.

Go to your executive team members and inquire about how to position them as thought leaders in the market space and what they want in terms of publicity. Figure out the company’s plans to respond to current situations, whether they are positive or negative.

Understand the media environment in your market space. Identify the reporters, industry influencers, and bloggers. Understand who can best tell your story by researching recent pieces to learn what type of tone or angle a reporter may take in reporting on the company and market space.

“Invest in a newsroom on your website that is at least as good as your peers,” Skoglund advised. “Have a source for those media reporters to go to do their own research and homework.”

Prep Time Counts

Prepare by thinking proactively and reactively. Understand the basic *do’s* and *don’ts* of media engagements that include not doing an interview just to answer questions, but to provide positive, honest, and brief message points.

Be prepared for questions the media might ask and how the company will answer them. “Anticipate not just what that question is, but what the follow-up question might be,” Graves said. “Think all the way around the question that they’re going to ask you, so that you’re prepared to take off in any direction that reporter wants to go.”

If your strategy is to get national exposure, start with the local media and trade papers so that down the road, a national

reporter can see what else has been written about your company, Briggs advised. It’s also a good way to practice handling the tough questions before going national.

Graves recommended taking the time to pull your executives aside and do media training to put the best foot forward, especially since not every media situation is going to be the same. Engage in media training for yourself and you’ll find that you think like a reporter and can better engage your executives.

“It’s going to be different, whether talking to a local publication in the town where your company is headquartered versus a national audience or certainly *The Wall Street Journal*,” Graves said. Help reporters by sending over background information since they are on deadline. Plan for the “what if” scenario, such as the microphone not working or the camera screen going blank.

Some Key Strategies

Webinar participants also shared other valuable insights:

- Go off the record with someone you would trust only with your first-born child, Briggs recommended. Otherwise, assume everything you say is *on the record*. You may have to be reactive when there are times you are in a story you don’t want to be in, such as a corporate governance issue or scandal. “You have to decide: Are you going to put your executives in any kind of an interview situation? If you can’t win,” she

Continued on page 22





NIRI eGroups Offers Chapter And National Event Calendar

NIRI eGROUPS now offers a resource to keep all NIRI chapters and members informed of upcoming functions across the nation. Through the new eGroups event calendar, NIRI National and chapters can post information on upcoming events including location, descriptions, and contact information.

Members can subscribe to an event to receive e-mail updates. The calendar is accessed easily by logging into eGroups and selecting "Search Event Calendar." Events are organized by date or by chapter.

Chapters can now manage their events through eGroups as well. This new system allows a chapter to set up and market an event, manage speaker submissions, and even manage payments. For more information on event planning through eGroups, contact NIRI Director of Chapter Services Robin Kite at rkite@niri.org.



James Taube Joins NIRI Staff

JAMES TAUBE JOINED THE NIRI STAFF in November as coordinator, membership and marketing. A recent graduate of Susquehanna University in Pennsylvania, James serves as a key contact for your questions related to membership and benefits. He can be reached at jtaube@niri.org and (703) 562-7672.

Professional Development Calendar

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

January 2014

- 6-7** Finance Essentials for IR seminar, Santa Monica, CA
- 7-10** Fundamentals of Investor Relations seminar, Santa Monica, CA
- 14** 2014 Proxy Season: Get Prepared webinar
- 28** IR in the IPO Process webinar

February 2014

- 11** Activists Part I: Your Company is the Target webinar
- 25** Activists Part II: Managing the Activists webinar

March 2014

- 4** Communicating the Company's Strategy webinar
- 11** 2014 Institutional Investor Awards webinar
- 18** Think Outside the IR Box webinar
- 24-26** Finance Essentials Intensive seminar, New York, NY

April 2014

- 8** 2014 *IR Magazine* Awards webinar
- 29** Distinguish Yourself as an IRO in an Extreme Environment webinar

May 2014

- 6** Investors Part I: Sell-Side Coverage webinar
- 20** Investors Part II: Targeting the Buy Side webinar

June 2014

- 7** Seminars Prior to the 2014 NIRI Annual Conference, Las Vegas, NV
- 8-11** 2014 NIRI Annual Conference, Las Vegas, NV
- 17** IR Plan & Budgeting webinar

Today's Reality of Activism

The NIRI New York chapter hosts a panel of experts to discuss strategies for dealing with activists.

By Theresa Molloy

There are a number of reasons why activism has become a mainstream tool to influence corporate policy, including a limited range of lucrative investment opportunities as well as record-low interest rates. But most importantly, many activist hedge funds returns continue to outpace the market.

NIRI New York recently hosted an all-star panel, "Getting Active with Activist Investors." The session featured NIRI Chairman John Chevalier, director of global investor relations at Procter & Gamble Co.; Kevin Daniels, head of activism & defense at Bank of America Merrill Lynch; Larry Robbins, founder and CEO of Glenview Capital Management, LLC; and moderator, Andrew Siegel, partner at Joele Frank. The lively session offered a rare opportunity to hear the issuer *and* investor perspectives.

IR's Influence

Unlike their predecessors, who often pursued takeovers for quick gains, many of today's activists are focused on longer-term objectives – a shift in business strategy, a different use of cash, even a complete over-

haul of a company's board. It's important to remember that activists are shareholders too, and the ones who are serious about making an impact dedicate a great deal of time and resources to understand your business.

When having a dialogue with an activist investor, Chevalier emphasized the need to take "a dispassionate role and not get defensive." The IRO should objectively evaluate the investor's motivations and share his or her recommendations or criticism of management without diluting the investor's concerns. Robbins, who described Glenview's approach as "suggestivist," called this "speaking truth to power."

How can IR play offense? As part of your ongoing strategic review of business opportunities and challenges, Robbins suggested that you take a good look at your "corporate structure, management, and capital allocation." It is critical to evaluate potential areas of vulnerability well in advance and determine the steps a company can take that are consistent with its long-term strategy.

When an activist shareholder surfaces, Daniels observed that "it's imperative that you engage constructively, and that the com-

pany not find itself in a reactive posture." A mistake that some companies make is relying on Regulation FD as a reason to avoid a meaningful conversation. Other companies implement structural defenses, such as a "poison pill." These defenses are of marginal value and may even be perceived by shareholders as overly defensive and a sign of weakness.

Outside Influencers

Many institutional investors, who typically side with management on most issues, are starting to change their tune. This helps the activist investor gain more leverage with target companies, even if the activist has acquired a relatively small position.

The sell side can also serve as a resource for idea generation or validation of an activist's strategy. Siegel said he encourages his clients to "be aware of suggestions or ideas floated by the sell side." Investors pick up on the sell-side's views about a company, and sell-side research notes are often used to source ideas or to help generate momentum for an activist campaign.

As long as activism continues to generate favorable returns and is seen as being analytically based, traditional institutions, including pension funds, will likely continue to invest in activism as an asset class.

Theresa Molloy is vice president, programs, for the NIRI New York chapter; tam363nyc@yahoo.com.

Webinar, continued from page 20

noted, "the answer should be 'no' and you should simply provide a statement."

- Executives can be on the defensive during tough interviews. Don't become irritated, but instead, answer with a positive message. Try the strategy of "stripping and flipping," Briggs recommended. "Strip out the negative – you just don't talk about it. Instead, you answer with a positive."
- Avoid "no comment." Skoglund

advised. IR needs to work with the legal team to figure out a holding statement that says something. "No comment is not an appropriate response and one that a reporter never wants to hear," she pointed out.

- Think about a messaging triangle with your top three messages in each corner to steer the conversation in a direction that positions your company in the best possible way, Graves suggested. "Any question the reporter asks should be able to be answered

with one of your key messages and, in a sense, pulls the question into your triangle by using those three corners," she said. "By preparing this way, it helps you avoid the 'no comment' situation. 'No comment' should never be a key message."

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

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



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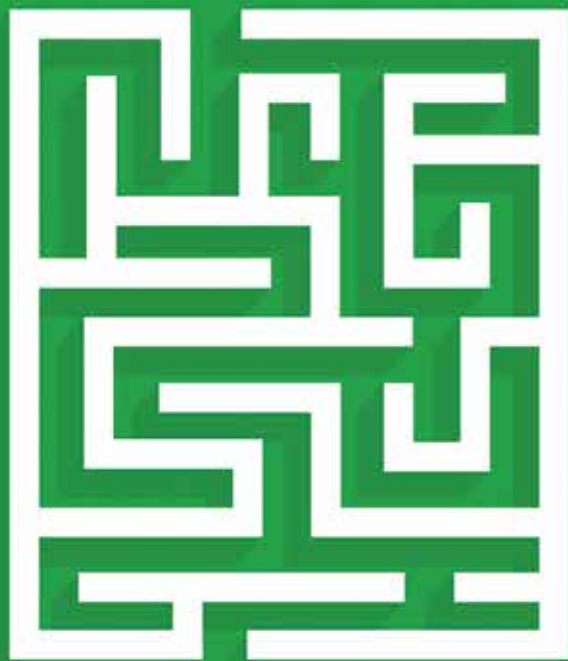
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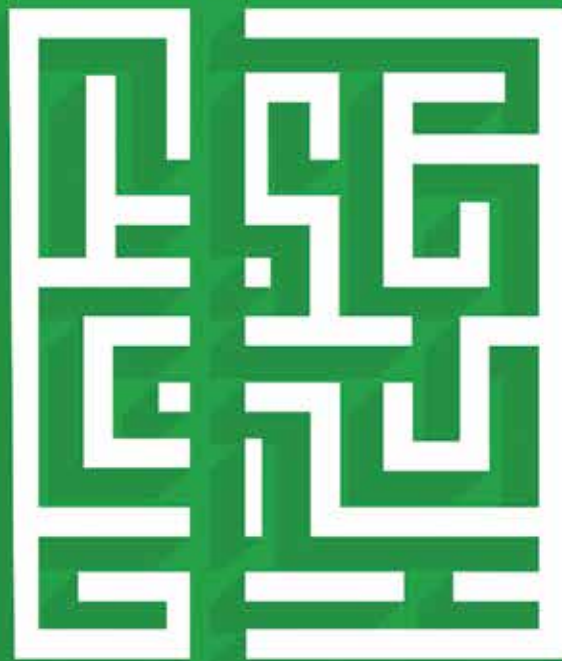
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