National Investor Relations Institute
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IRupdate

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the voice of the investor relations profession

IR AND INVESTING ACROSS THE POND

New strategies for European companies to add investors from the United States and what you need to know about new European Union capital market rules.

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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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DEPARTMENTS

Different Perspectives on Climate Change

During a scene in the unforgettable 1934 film, *It Happened One Night*, actor Clark Gable unbuttons and removes his dress shirt. Underneath, he is bare-chested – no undershirt. Over the next year, sales of men's undershirts declined by 75 percent and never have fully recovered.

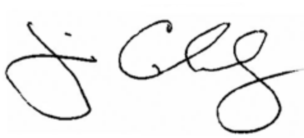
Don't ask me how, but in reading Warren Buffett's recent letter to Berkshire Hathaway investors, I was reminded of Clark Gable and his t-shirt. In the letter, Buffett says: "As a citizen, you may understandably find climate change keeping you up nights. As a homeowner in a low-lying area, you may wish to consider moving. But when you are thinking only as a shareholder of a major insurer, climate change should not be on your list of worries."

Were you to have read only headlines over the next several days without reading Buffett's full letter, you likely would have drawn the conclusion that he was denying climate change, such as *The Wall Street Journal* headline, "Warren Buffett, Climate-Change Denier." If that were the case, it is doubtful that Buffett in the same letter would have touted the fact that his company "has invested $16 billion in renewables and now owns 7 percent of the country's wind generation and 6 percent of its solar generation."

Buffett's point, instead, was that "when you are thinking only as a shareholder of a major insurer, climate change should not be on your list of worries." After recently attending a conference in Germany and spending time with my counterparts at IR organizations around the world, there seems to be some evidence to support Mr. Buffett's suggestion. Compared with Europe, IROs and shareholders in the United States place far less emphasis on the environment and sustainability.

For more on this subject, you should read NIRI's joint research report with MIT on IR views on sustainability and the March 2016 *IR Update* article on global investor interest in ESG. And while shareholders in the United States, at least, appear to be focused nearly exclusively at this point on the "G," governance, in that acronym, it seems certain that will change in the future. You may or may not consider climate change to be a legitimate threat to the world economy. With competition for capital taking place globally, however, it would seem risky for companies in the United States not to start preparing for a new era during which shareholders' viewpoints on "E" and "S" become at least as prominent as on "G."

If that's not enough, how about Buffett's $16 billion investment in renewables?



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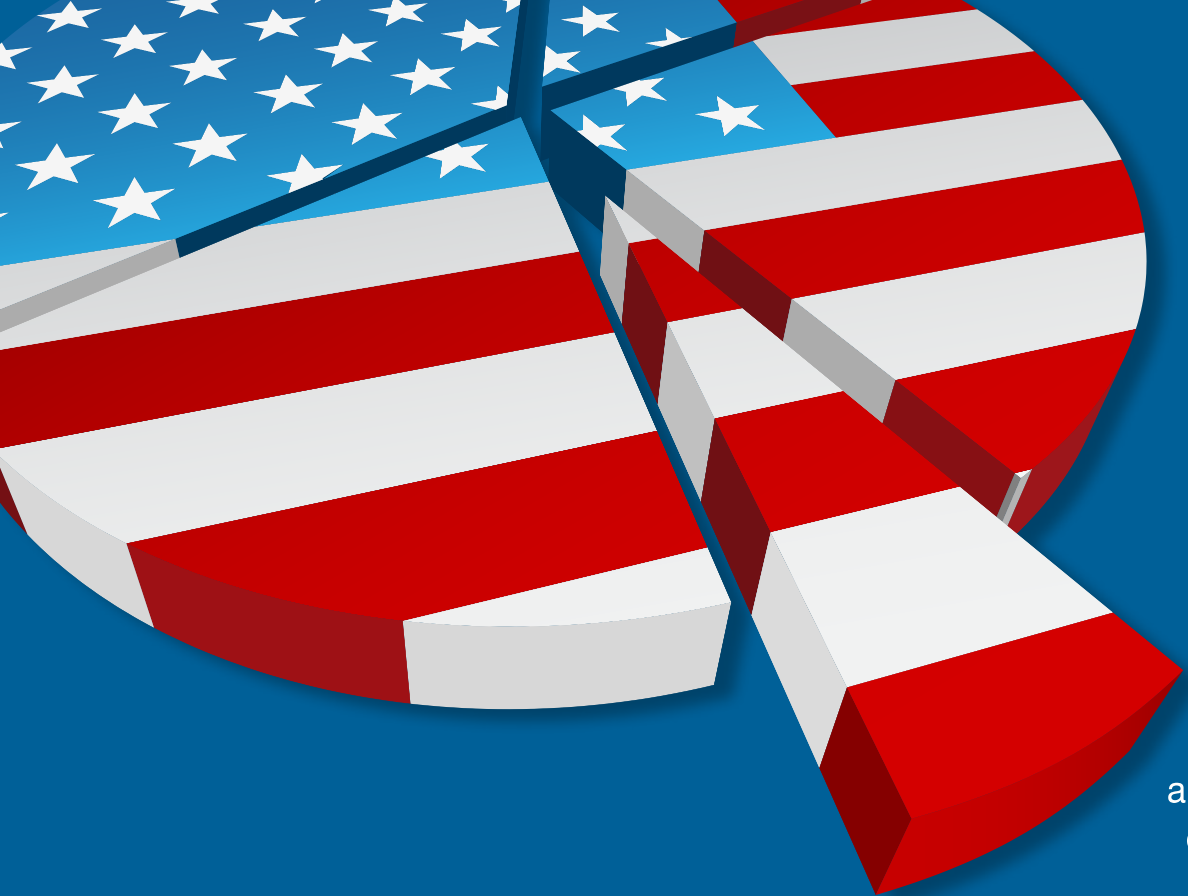


While most European companies have a strong U.S. investor base, there are strategies their IROs can employ to attract an even larger segment of these key investors.

By Apryl Motley

Getting More Out of America

Any notion that European companies have trouble attracting U.S. investors is unfounded, according to Anne P. Guimard, president of FINEO Investors Relations based in London and Paris. She says, “U.S. ownership is part of the DNA of European companies.”

Guimard believes U.S. investors have maintained a high level of interest in European companies for decades because of their strong liquidity and consistent returns. However, in recent years, she has observed increased interest from U.S. investors, particularly as they become more agile at targeting small caps in Europe. Although from her standpoint, “it’s a misconception to think they are discovering America.”

In fact, according to the United Kingdom’s (U.K.) Office for National Statistics, U.S. investors owned 24.9 percent of shares in U.K.-listed companies, in terms of value, at the end of 2014. Moreover, the U.S. Department of State’s “France Investment Climate Statement 2015” cites the United States as France’s largest source of foreign direct investment.

Joanne Darlington, head of investor relations for Eutelstat, also headquartered in Paris, concurs with this assessment of French companies’ attraction for U.S. investors. “The United States is by far the biggest holder of French stock,” she observes. “There’s no structural difficulty in attracting U.S. investors.

“We have a reasonably captive audience in the U.S. of U.S.-based fund managers who run non-domestic funds. When we road show in the U.S., we know who our target audience is.”

The key to success for European companies who want to attract an even larger base of U.S. investors is getting in front of the right investor audiences at the right time, which can be challenging for some companies, in particular, small- and mid-caps. “These companies are fighting for the time and attention of U.S. global and international investors,” says Amy Gardner, director of international corporate access for Robert W. Baird & Co.

In Gardner’s newly created role at Baird, she leverages Baird’s equity research and investment banking capabilities to provide Baird’s clients access to international companies. "Historically, our efforts have been focused on U.S. corporates," she explains, "but more of our investors have asked us to include access to international companies.

"For a mid-western financial services firm, we are expanding our equities footprint to include the international peers of the 740+ U.S. companies Baird currently covers. We are providing investors access to companies they may not have had the opportunity to meet with and introducing companies to new investors."

Gardner does what she describes as "serious investor due diligence" for companies. "European IROs have to be able to target the right U.S. investors," she notes.

Elizabeth Saunders, founder of Commodore Intelligence, agrees that there are additional investor markets in the U.S. for European companies to explore. However, before branching out, she says, "they need to start with making sure their companies are a good fit for the U.S. investor. If you're a small-cap with a single product operating in single country, you might not be a good fit."

Further, Commodore Intelligence's recent survey of 200 U.S. portfolio managers of global funds with significant European assets, offered some insight into how European equities may be able to attract more capital. Among the key findings were that 95 percent said their own internal research teams were very important, and less than 12 percent rated sell-side conferences as "very important" or "somewhat important" to the investment process.

The big takeaway: "The onus lies on management teams to find ways to deliver their stories directly to the right investors rather than rely on sell-side conferences and traditional New York City road shows," Saunders emphasizes. Given this apparent trend in how U.S. investors and European companies will build future relationships, here are some strategies these companies can implement to secure an even larger share of the U.S. investor market.

Branching Out Beyond NYC

For some European companies, gaining access to new investor audiences in the United States will be a matter of their willingness to cover more ground. They need to be seen and heard in different places than they have been before, particularly in markets outside of New York. "The size and geography of the U.S. can be a challenge," Gardner believes. "Companies tend to visit New York and Boston and attend the same annual investor conferences and ultimately see the same investors.

"I always recommend visiting other cities, and I point out the large pools of international capital managed outside the Northeast." According to Gardner, companies should make an effort to visit potential investors in smaller markets like Atlanta, Dallas, Kansas City, Milwaukee, and Salt Lake City. Then they can easily follow up via phone.

"If they want to gain more North American assets, companies have to get out on the road more and change the conferences they attend and the cities they visit," she emphasizes.

At Eutelstat, Darlington recognizes the necessity of having some variety in the cities where the company attends road shows. "We roadshow with management twice a year to tier-one cities like New York, Boston, and Baltimore," she explains. "Once a year we got to the West Coast to visit Los Angeles and San Francisco, and we've also attended a few conferences in Chicago and Dallas."

From Saunders' point of view, knowing where to go when visiting the U.S. means engaging in more careful targeting of investors than some companies are able to do because their reliance on third parties.

"They rely on corporate brokers who don't have detailed information about U.S. fund managers," she observes. "They end up with a generic list of targets without knowing who the right investors are and being aware of second-tier opportunities like those in Wisconsin and Kansas, which aren't states your average European company would visit.

"It's important for them to be smarter about making sure they're meeting with the right investors for their companies. Sometimes this could mean going to second-tier cities outside New York. For example, they could travel to Kansas to meet with four portfolio managers who can immediately make million-dollar investment decisions, rather than having a 20-person group meeting in New York that might be primarily attended by analysts who are simply doing the rounds."

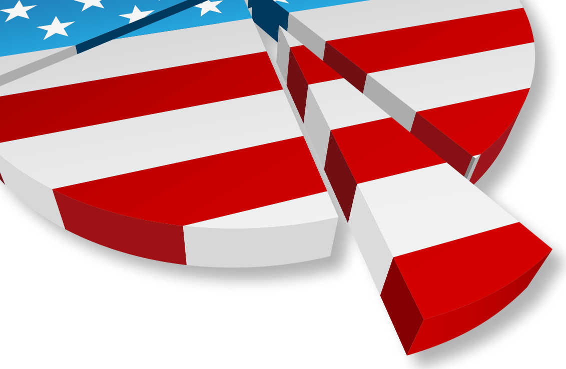
Gardner noted that larger European companies have a greater ability to branch out in the U.S. than small- and mid-caps do. "Smaller companies may not have the luxury of dividing the world and spreading out," she notes. "They may only be able to visit the U.S. a few times a year, and this is where the expertise of a regional sell-side firm can be invaluable in designing a list of investors to target."

Presenting the Big Picture

When European companies are in the U.S., they need to make the most of their time by giving investors the information they want the most. While U.S. and European investors have some similar concerns about the companies in which they invest, there are some nuances of which companies should be aware when telling their stories to a U.S.-based audience.

"I would never recommend telling a different story to one group of investors versus another, but there are some differences in how U.S. investors perceive certain aspects of our business," Darlington acknowledges.

For instance, generally speaking, U.S. fund managers take a more strategic view



of the company's performance and are less interested in "news-triggered" performance. "The dialogue we have with them is bigger picture rather than focused on short-term events," Darlington says.

This has also been Gardner's experience. "The U.S. investor needs to understand the long-term investment strategy and how those goals will be achieved," she says.

"Actions speak louder than words," Gardner explains. "They want to see that the company executed on its plan from four quarters ago, or understand why it didn't. There should not be any surprises. Overall, the U.S. investor needs clear and concise communication, responsiveness to inquiries, and a high level of transparency."

Providing the expected level of transparency may mean European companies have to implement and report on additional performance measurements than they have in the past so that U.S. investors can compare apples to apples, so to speak. Saunders cites the telecommunications industry as one example.

"U.S. companies in this industry tend to report on gross margin range, which companies in the European telecommunications industry had not traditionally done," she notes. Saunders believes that companies that want to increase their U.S. investor base need to be open to "providing a new performance measure that's used by their U.S. peers and trying to make their reporting consistent with what these investors get from better-behaving, better-performing U.S. companies."

In addition to presenting their business models in a slightly different manner, European companies should also be aware of other areas that may require more emphasis for U.S. investors. In Darlington's experience, shareholder return and governance sometimes require more discussion than usual.

"They are more focused on shareholder return," she says of U.S. investors. "We adapt our dialogue with them to discuss our use of cash, buy-backs, and special dividends, whereas European investors take the company on trust in terms of use of cash.

"U.S. investors are also more wary about governance in Europe. Where large family or government-related shareholders exist, there may be suspicion about whether these larger shareholders' interests are aligned with their own."

According to her, it's important to be aware of these "preoccupations" and anticipate the kinds of questions that will be asked in the U.S. versus in Europe: "Make sure management understands that different audiences have different priorities."

Changing Communications Strategies

Understanding that U.S. investor audiences may have different priorities is a first step toward ensuring that companies' collateral materials and overall communications style are well-suited for outreach to this group. From distributing earnings releases to coordinating meetings, European companies may need to make some adjustments to their normal method of operating.

For example, FINEO's Guimard notes that a large number of European companies have adopted quarterly earnings reporting even though it's not required in Europe. To her thinking, this is one way they are "adapting how they present their business models as they are perceived by U.S. investors."

Potential U.S. investors' perception of a company's website is also a factor. "Some companies need to rethink their website content," Saunders asserts. "They need to understand what information potential U.S. investors want and to communicate with them more, report differently, and add more content to their websites." For example, she suggests adding FAQs after an earnings release statement or the last five years of financials.

"The average U.S. money manager is used to getting access to more information in a timelier manner than what they get from European companies," Saunders says. "European companies need to change their mindset about providing more information and giving equal access to all investors, as this is not their natural orientation."

When it comes to face-to-face communication, there may be a disconnect in terms of how often potential U.S. investors expect to meet with a European company. "A U.S. investor expects to meet with company management at least once or twice in addition to follow-up calls before making an investment," Gardner says. She estimates that most investment professionals interact with a company three to four times before making a decision. Results from the Commodore Intelligence survey bear this out. Eighty-five percent of portfolio managers indicated that they expect to meet with management two-to-four times on average before making an investment.

Companies also need to know when less is more. "In Europe, people tend to be less concise," Darlington says. "When we roadshow in the United States, we want to be sure management understands what the question is and gives people the information that's relevant.

"We want them to appreciate the time constraints of the analyst who only has 45 minutes to ask several questions. Don't spend 20 minutes answering an unimportant question. Your cultural intelligence antenna needs to be up." IRU

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

Girding for New EU Capital Market Rules

Rule changes in Brussels could impact IRO relationships with analysts and investors.

By J.T. Farley

If you don't work in the capital markets sector, chances are you have never heard of a pending set of European rules with an unwieldy name: the Markets in Financial Instruments Directive II, or MiFID II for short. According to the European Securities and Markets Authority (ESMA), the pan-European agency overseeing capital markets, MiFID II intends to "improve the functioning of financial markets making them more efficient, resilient, and transparent." These rules were originally set to go into force in January 2017, but due to delays in the labyrinthine drafting and approval process, they will now take effect one year later in January 2018.

Why should investor relations officers, particularly those outside of Europe, care about MiFID II? Among the many rules are two key provisions which will impact corporate issuers: First, a requirement that asset managers separate the payment of investment research from the payment of trading commissions, a practice known as "unbundling"; and second, rules which could prevent, or at least significantly hinder brokers from explicitly collecting

trading commissions to pay for corporate access (i.e., meetings between asset managers and company executives).

Not Just Europe

These rule changes may seem minor, but they could have repercussions well beyond the relationship between European asset managers and the brokerages who serve them. "This is not just a European event, it is something which doesn't require massive change to have significant impact given the generally low margins of the equity research business," says John Colon, managing director at Greenwich Associates, a financial services advisory firm. Colon notes that 30 percent of asset managers globally account for 70 percent of total commissions paid, and so these firms are likely to react to the new European rules in a way that changes the research landscape beyond the European Union. "These large, sophisticated firms are likely to pursue globally consistent practices, so there is likely to be impact in other markets, including the U.S."

Research Impact

Traditionally, full-service brokers such as large investment banks, charge their institutional clients for trading services and then "bundle" the cost of equity research into that price. The price paid depends on either the volume or the value of the shares traded. Under the MiFID II rules, such bundling will not be permitted. While the rules have not yet been finalized, it appears that asset managers will have to make separate payments for trading services and equity research. While asset managers will still be able to charge their clients for both trading and equity research, they will have to unbundle the payments and designate how much will be used for trading and how much will be used for research.

Many asset managers do some form of this unbundling now through mechanisms called Commission Sharing Agreements, or CSAs. (Disclosure: My firm, ITG, is an equity brokerage that also provides CSA services). However, under MiFID II, asset managers will be required to unbundle all of their commissions and they will also be required to define research budgets in advance as opposed to the current volume-driven method used to pay brokers. "Asset managers will probably have to be more discerning in how they choose research providers since they will have to go to their end clients to get them to agree to how much they will spend on research," says Anish Puaar, European market structure analyst at Rosenblatt Securities. Puaar notes that larger brokers may also be choosier about their clients. "Some major banks will likely adopt a more tiered approach, providing equity research to their clients depending on how much they pay, so smaller buy-side firms will have to look elsewhere for their research."

Overall, this budgeting requirement could give brokers less financial incentive to broaden their research coverage. "If commission volumes dramatically increase, the budgeting process will act as a ceiling on research payments to brokers," says Sanford Bragg, president of Integrity Research, a consultancy focused on investment research. "Budgeting will probably tend to dampen growth in the research market in the longer term," he adds. While Bragg considers the MiFID II rules "more evolutionary than revolutionary," he notes that requiring European asset managers to separate out research payments from trading will likely result in them paring back the number of trading relationships they maintain. This could, in turn, have a negative impact on the amount of equity research provided by mid-tier and regional banks.

Although mid-tier research providers and smaller asset managers could feel the squeeze, and smaller capitalization companies may see less equity research coverage, Rosenblatt's Puaar thinks the rules could prove to be a boon for independent research providers. "Investment banks have always provided research as a bundled service, so it's tough for them to put a price on it, while independent firms price research on their own. We're already seeing new technology platforms that aggregate this

While MiFID II is not coming fast, it is definitely coming and will probably resonate far beyond the shores of Europe.

independent research and offer easier access for asset managers. But it remains to be seen how much and how quickly additional independent research firms will step up to the plate," he said.

Corporate Access Impact

The final MiFID II provisions on payment for corporate access are still somewhat unclear, but most observers expect that the U.K. Financial Conduct Authority's ban on using commissions to pay for corporate access will remain intact. On paper, that rule has had a significant impact – Greenwich's Colon notes that U.K. asset managers now report allocating less than 5 percent of their commissions for corporate access, down from over 20 percent before the rule change. Despite that, many brokerages in the U.K. continue to provide corporate access, particularly arranging meetings between large-capitalization companies and larger asset managers, often with only a modest direct non-commission payment (so-called "hard dollars") from their clients for this service. Colon notes that larger brokerages tend to view their relationships in terms of holistic "client wallets," so even under MiFID II, they are likely to provide corporate access for larger institutional clients who generate a lot of revenue overall without an explicit quid pro quo, but smaller institutions may find their access reduced.

Similarly, banks think holistically about the "wallet" of their corporate clients and provide a richer array of services, including research coverage and corporate access, to those larger or growth companies that are more active in financing, M&A, and transaction services as well as companies that are of greater interest to asset managers. Smaller companies, whether they are based in Europe or elsewhere, are likely to have a tougher time in Europe with the bulge-bracket firms under MiFID II, in Colon's view.

While the new rules could prove a hindrance to smaller cap companies in terms of attracting equity research coverage, Rosenblatt's Puaar suggests that these same companies could actually find themselves more in demand on the road. "Corporate access could be much more important to asset managers in a world with less research coverage for each individual company." It is possible that new entrants to the market will attempt to fill any gap left by brokerages in providing corporate access for small and mid-cap companies. "Technology will have an impact on corporate access and tech firms will make inroads on the investment banks, but it is a slow process to build up the critical mass to where it is convenient for both sides [asset managers and corporate issuers]," says Integrity's Bragg.

Navigating Unbundling

While MiFID II is not coming fast, it is definitely coming and will probably resonate far beyond the shores of Europe. Sixty percent of large U.S. asset managers surveyed by Greenwich Associates believe that it is somewhat, or very likely, that global markets will all be unbundled within the next five years. If you work for a smaller capitalization company likely to be most impacted by this shifting landscape, the good news is that many of the prescriptions for handling the changes come straight from your IR best practices playbook: cultivate a broader range of analyst relationships, do investor targeting to complement the efforts of your corporate access providers, and look into new independent research and corporate access services.

And keep an eye on Brussels. IRU

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NIRI CONFERENCE BUSINESS CONNEC

Professional development opportunities await at the 2016 NIRI Annual Conference, where a new group of NIRI Fellows, the inaugural class of Investor Relations Charter holders, and volunteer leaders will be honored.

By Al Rickard

To succeed in investor relations, IROs need to continually develop and hone their skill sets. This is especially true in today's era of heightened activism, proxy battles, and a social media environment where every bit of news and corporate statements are delivered instantly to an audience eager to comment and criticize.

In the face of these and other pressing issues, the NIRI 2016 Annual Conference will again provide the learning opportunities, networking, and business connections needed to refocus, learn, and develop the new solutions needed to meet today's IR challenges.

Targeted at IR practitioners, counselors, and service providers, it is an opportunity to hear from the industry's foremost experts, network, and share experience by industry, experience level, and IR discipline.

This year's conference returns to the Manchester Grand Hyatt in San Diego from June 5-8, 2016. Close to downtown San Diego, the location is also a convenient base to visit investors in Southern California and the West Coast before or after the conference.

Conference co-chairs Karen Fisher, vice president, investor relations and compliance at OneRoof Energy, and Lee Ahlstrom, senior vice president – investor relations, strategy and planning at Paragon Offshore, explain that this year's event will deliver more value than ever before.

Keys to Success

"One of the highlights of the annual conference is always the quality of the general session speakers," Fisher says. "This year, we've got a wonderful variety of engaging individuals who are going to inform, challenge, and inspire us. From Carey Lohrenz,

Carey Lohrenz

John Micklethwait

Andy Goodman

the U.S. Navy's first female F-14 Tomcat pilot, to John Micklethwait, editor-in-chief of Bloomberg News, to master communicator Andy Goodman, who helps organizations understand how to tell stories that matter, our speakers will set the tone and direct the conversation in helping us all to deliver Top Gun IR!'"

Lohrenz is a pioneer in military aviation as the first female pilot to qualify in the U.S. Navy's F-14 Tomcat, the fighter jet of "Top Gun" movie fame. Having flown missions worldwide, she is used to working in fast-moving, dynamic environments where incon-

OFFERS LEARNING, TIONS

sistent execution can generate catastrophic results. Lohrenz is uniquely qualified in the fundamentals of winning under pressure, reducing errors and overcoming obstacles.

Micklethwait has been editor-in-chief of Bloomberg News since February 2015 following a more than 25-year career at *The Economist* magazine. He is the author of numerous books, including his most recent, "The Fourth Revolution: The Global Race to Reinvent the State," as well as "The Company: A Short History of a Revolutionary Idea."

Goodman is a nationally recognized author, speaker, and consultant in the field of public interest communications. Along with "Storytelling as Best Practice," he is author of "Why Bad Ads Happen to Good Causes" and "Why Bad Presentations Happen to Good Causes." Andy is best known for his speeches and workshops on storytelling, presenting, and strategic communications.

Tailored Learning Options

"We're incredibly excited about this year's conference lineup," Ahlstrom explains. "The conference committee itself is full of talented people dedicated to providing content that's going to be valuable to all levels of IROs, from those new to the field to seasoned professionals. Specifically, we're focused on ensuring that our sessions deliver actionable takeaways, allowing attendees to apply what they've learned when they return to the trenches."

Four major tracks and some of the sessions are highlighted below.

Economics and Markets

Sessions will cover today's stock market structure, which certainly isn't what it was even five years ago; help IROs navigate accessing the capital markets, provide insight and best practices on how to understand and message macroeconomic trends' impact on investor perceptions, and inform about the new "wolf pack" in the form of short sellers and their attacks. Sessions include:

- From Takeoff to Landing – Accessing the Capital Markets
- Understanding and Messaging Macroeconomic Trends on Investor Perceptions
- Evolution of Market Structure – Not the Same as Yesterday
- Short Attacks: The New 'Wolf Pack': Best Practices for Preparing and Defending Against a Short Attack

Marketing Outreach and Stakeholder Communications

Sessions will cover the latest trends in earnings reporting, taking your investment story global, the IRO's pivotal role in the success of a transaction, understanding and engaging with today's financial media, and a special "debate" where IROs from companies of various cap sizes and sectors will provide insight into how they approach IR tasks differently based on their corporate profile. Sessions include:

- 24 Hour News Cycle – Winning in the Race to Break News
- Breaking through the Noise: Latest Trends in Quarterly Reporting
- Back Seat or Front Seat? How IR Can Play a Pivotal Role in the Success of a Transaction
- Dichotomy of IR Across Cap Sizes: A Debate

Professional Development

Designed for both new IR professionals and more experienced IROs, this track offers practical sessions to help take their careers to the next level. Sessions will address topics such as improving your CV, identifying and acquiring the skills of the sell-side, considering career options and directions complementary to or beyond IR, and what companies and recruiters are looking for in their next IRO. Sessions include:

- How Old is Your CV? Getting Noticed in the Digital Age
- Nothing's Going to Stop Us Now: Advancing the Multidisciplinary IRO
- Top Gun IR: Taking Your Career to the Next Level
- Sell-side Savvy – Gain it without Playing on the Street

Corporate Governance and Regulatory

Corporate governance and regulatory issues are at the forefront of corporate America. Listen, learn and leverage information gained by attending sessions relative to board interactions, governance roadshows, IR's role in dealing with activists, and other topical governance subjects. Sessions include:

- Three's Company: Directors, Activists, and IR in the Board Room
- Rules of Engagement Have Changed: Are You and Your Board Ready?
- Proxy Scar Tissue: Tales from the Battle Ground of the Good, the Bad and the Ugly Proxy Fight
- Cybersecurity: What You Should Know as an IR professional

Industry Round Tables

The Industry Round Tables at the conference provide a relaxed open forum setting to exchange ideas and network with colleagues in several sectors or market capitalization brackets. Table topics address subjects of current interest and sessions sponsored by NIRI vendor partners and provide a broad view of IR best practice and innovation from their unique viewpoint advising companies across the board.

The Services Showcase

The vast network of service providers in the investor relations arena are essential in today's business environment. All the major players – as well as many new and growing providers – will exhibit in the Services Showcase.

It's a setting where IROs can visit and build relationships with more than 70 companies in a relaxed, professional environment.

Recognition, Networking and More

The NIRI Annual Conference is an opportunity to honor the best and brightest in investor relations, highlighted by inducting several deserving individuals into the ranks of the NIRI Fellows, an elite group devoted to thought leadership and advancing the profession.

NIRI will also recognize its first-ever class of Investor Relations Charter (IRC) certificants. These individuals have passed the first four-hour 200-question IRC exam in March, and have demonstrated knowledge essential to the practice of investor relations.

The IRC program is designed to elevate professional standards, enhance individual performance, and recognize IR professionals who demonstrate their knowledge and expertise through the IRC designation. Conference attendees can learn more about the IRC program at the new NIRI Certification Lounge located outside the exhibit hall, where IRC committee volunteers will share information about exam content and tested areas of practice. NIRI certification staff will also be present to answer questions and assist with the application process.

Others to be recognized at the invitation-only NIRI Volunteer Appreciation Dinner on Saturday night before the conference officially kicks off include the Annual Conference Committee, 2016 NIRI Fellows, certification committees, Body of Knowledge Committee, NIRI Volunteer of the Year, chapter officers, and a "superstar" from each NIRI chapter.

Throughout the conference, social events provide ample opportunities to make new personal connections, share experiences, and learn from others in informal settings.

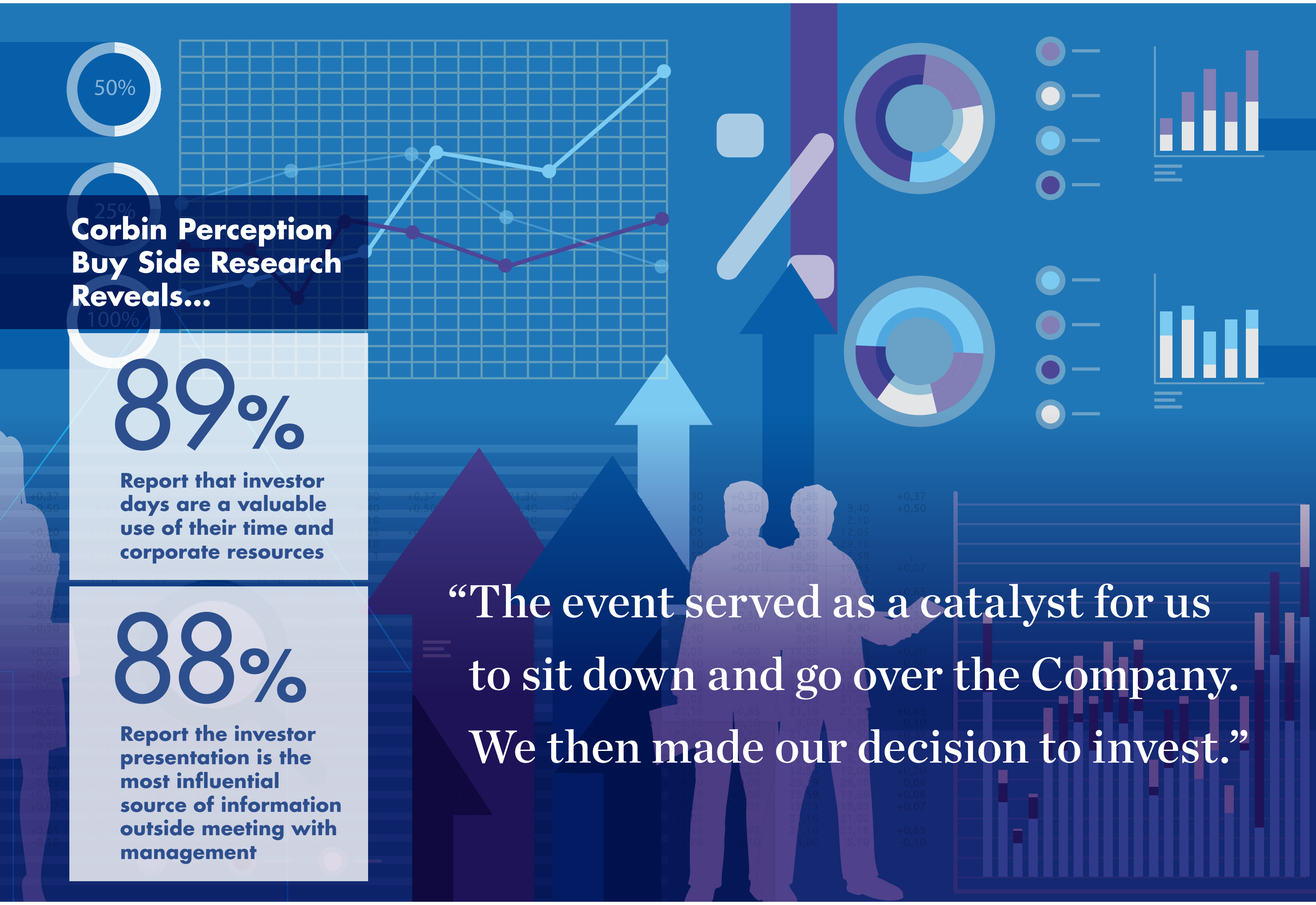
For those looking for some friendly athletic competition, there will be a golf tournament on Sunday morning (June 5; separate registration fee required), a 5K run, and yoga.

Register

Networking and gaining insight into IR best practice are key reasons to attend the NIRI Annual Conference. Time is short to sign up – visit www.niri.org/conference to learn more and register. The room block at the Manchester Grand Hyatt is filling quickly, so don't delay in registering so that you can secure your room reservation. IRU

***Al Rickard** is editor-in-chief of IR Update and president of Association Vision, the company that produces IR Update; arickard@associationvision.com.*

MAXIMIZE INVESTOR DAY RESULTS



Corbin Perception Buy Side Research Reveals...

89%

Report that investor days are a valuable use of their time and corporate resources

88%

Report the investor presentation is the most influential source of information outside meeting with management

"The event served as a catalyst for us to sit down and go over the Company. We then made our decision to invest."

Corbin Perception provides the expertise, hands-on project management and support necessary to maximize your investor day value and impact.

We serve as a strategic partner and collaborate with our clients to execute best-in-class investor events. We leverage our deep knowledge of investor communication best practices and relevant experience to elevate your company's investment thesis and thus investment appeal.

OUR INVESTOR DAY SOLUTION INCLUDES:

- Pre-event Perception Study
- Event Strategy & Execution
- Critical Messaging, Positioning
- Presentation Development
- Post-event Survey

To learn more about our advisory services, visit CorbinPerception.com or call (860) 321-7309.

IR IDEAS @ WORK

IROs everywhere have success stories to tell about ideas and unique innovations on best practices that make a difference in their companies. With this this issue, we introduce a new *IR Update* column, "IR Ideas @ Work," that highlight some of these examples.

Our first column features a submission from Jonathan Peisner, who developed a sell-side analyst report card that he finds useful. **To submit your own idea or innovation, send it to *IR Update* Editor Al Rickard at arickard@associationvision.com.**

MAKING THE GRADE

By Jonathan Peisner

My Approach to Allocating Business to the Sell-side

WHEN IT COMES TO INVESTOR TARGETING, an important decision every IRO has to make is what process to use to fairly allocate business to sell-side analysts. For me, the process involves using a sell-side analyst "report card."

Building the report card is easy. I start by listing of all the sell-side firms and analysts that follow my company. I then look at seven factors – four quantitative and three qualitative. The four quantitative measures are Price target, Recommendation, Frequency of written research, and Depth of research. Note that while the price target and recommendation are obtained from your data provider, you need to assign grades for the frequency and quality of the sell-side analysts' research.

For the three qualitative factors, I assign the greatest value to sell-side analysts who work at bulge bracket firms, are ranked by *Institutional Investor* magazine, and who invite my company to at least one industry conference.

I then look at the score for each analyst (0-5) which equates to a grade (D to A+). I use the four quantitative measures to establish a baseline score and then use the three qualitative measures to adjust grades up or down.

While I'm usually able to "feed" all analysts, the report card enables me to have a fair process for allocating "excess" business to those analysts who have provided the greatest value to my company.

Keep in mind there are many reasons that your CFO/CEO may want to adjust your allocation, including such factors as recent or planned capital markets actions or having a favorite firm to which they like to award business.

***Jonathan Peisner** is treasurer and vice president, investor relations at KAR Auction Services; jonathan.peisner@karauctionservices.com.*

Sample Sell-Side Analyst Report Card

Firm Name	Analyst	Firm Prominence	Price Target	Recommendation (1= Strong Buy, 5 = Sell)	Frequency of Research*	II Ranked Analyst?
ABC Research	Analyst 1	Boutique	$40 - $45	1	3	No
Money Bank & Trust	Analyst 2	Bulge Bracket	$46.00	1	2	No
WW&W	Analyst 3	Mid-level	$45.00	1	3	No
MJ Research	Analyst 4	Boutique	$43.00	1.5	3	No
GB Sr Securities	Analyst 5	Boutique	$43.00	1	3	No
Long Short Co.	Analyst 6	Bulge Bracket	$40.00	2	1	No
Dollars & Cents	Analyst 7	Boutique	$50.00	1	5	No
Sunshine Research	Analyst 8	Bulge Bracket	$42.00	1	4	Runner up (4th)
Dirty Rotten Scoundrels	Analyst 9	Mid-level	$45.00	1	n/a	No
Stocks & More	Analyst 10	Bulge Bracket	$45.00	1	4	3rd in Sector
Coast-to-Coast Research	Analyst 11	Boutique	$43.00	1	4	]
No Bull Research	Analyst 12	Mid-level	$42.00	1.5	5	No
No Bear Research	Analyst 13	Mid-level	$47.00	1.5	3	No
Analyst Average		Mid-level / Boutique	$44.20	1.2	3.333	No

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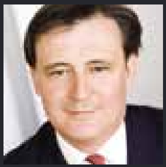
General Session Speakers

Carey Lohrenz
Author, Speaker, and Aviator
First Female F-14 Tomcat Pilot



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Boost Your Valuation with a Sound Capital Allocation Strategy

By Michael Sullivan

The NIRI Silicon Valley chapter recently hosted 60 IR professionals for a panel entitled, "Selecting and Communicating Your Capital Allocation Strategy," featuring:

- Serena Perin Vinton, senior vice president and portfolio manager at Franklin Equity Group, part of Franklin Templeton Investments
- David Morton, Jr., CFO at Seagate Technology
- Kevin Kessel, vice president of investor relations at Flex
- Kevin Kology, managing director of sales, trading and corporate venture services at Jefferies.

Kate Scolnick, vice president of investor relations at Seagate, moderated the panel and asked, "What caused you to evolve your capital allocation approach and message?"

Company Perspectives

Morton explained that Seagate took action based on changes in its business environment and shareholder base. Following consolidation in a relatively mature industry, the business generated strong profitability and modest growth. Two-thirds of the active shares were held by growth-at-a-reasonable-price investors with long investment time horizons. The company worked with credit agencies to achieve an investment-grade rating and committed to return more capital to shareholders.

Seagate considered how much capital could be redeployed in the business to generate attractive returns relative to the cost of capital. The company increased its dividend and bought back shares to reduce the dividend expense. Capital allocation became a regular part of investor communications, and the company's valuation expanded as investors gained confidence in the strategy.

Overall, there has to be a clear vision for how the company's cash will be used and the expected return.

At Flex, communication was key. The company was profitable across business cycles. After the 2009 downturn, it became more explicit about why it was confident in the sustainability of its future free cash flow generation. Considering its own discounted valuation levels and actively listening to its largest shareholders, Flex provided investors with metrics for capital deployment, including a commitment to annually return at least 50 percent of free cash flow. Capital allocation messaging grew, and increased transparency engendered investor confidence and helped to expand the valuation multiples that investors and analysts assigned to the business. The messaging was also aimed at ratings agencies which upgraded the company's debt to investment grade.

Investor Perspectives

Franklin Templeton's Vinton believes management teams should think and act like stewards of capital. Their job is to reinvest profits in business opportunities likely to generate free cash flow returns above the company's cost of capital. They should be deliberate about the dollars allocated to R&D and capital equipment. They must be stringent about M&A – particularly large M&A – since many investors prefer to diversify on their own. There can be compelling opportunities, such as buying a reasonably priced asset to more quickly enter a growing area of business. In addition, companies should place as much – if not more – importance on the flip-side of M&A: divesting under-performing businesses.

Overall, there has to be a clear vision for how the company's cash will be used and the expected return. The management team should demonstrate a good sense of the intrinsic value of the company and pursue capital allocation strategies that are appropriate for a given period in time.

Sell-Side Perspectives

Kology, who oversees buyback execution at Jefferies, highlighted trends including the proliferation of share repurchase program options available to management teams. He noted that the advent of algorithmic trading has reduced transparency in the markets. Technology also enables management teams to dictate their terms to the sell side to support a stock anonymously, at more favorable price points.

Kology noted that while most investors welcome dividend and buyback announcements, some may worry that the company is running short of growth opportunities. Vinton pointed out that investors can create their own cash dividends by selling a modest amount of growth company shares at regular intervals.

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NIRI NUMBERS

2015 NIRI Annual Conference **Stats**

88% of attendees are investor relations practitioners

26 Different **countries** represented

20 Number of different **industries** represented

3 to 5 Average **number of years IR experience** of attendees

4% **Micro**-cap

27% **Small**-cap

12% **Large**-cap

45% **Mid**-cap

12% **Mega**-cap

2016 NIRI Annual Conference
Session Topics and Tracks **Include:**

- Economics & Markets
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On the Move

Michael Steele was appointed vice president of investor relations at Zebra Technologies. He was previously at Office Depot where he led the investor relations function and fostered relationships with more than 500 institutional shareholders and 16 sell-side analysts. Steele also served on the team that executed an historic multi-billion dollar merger between Office Depot and OfficeMax in November 2013.

Professional Development Calendar

For more information, visit www.niri.org/calendar.

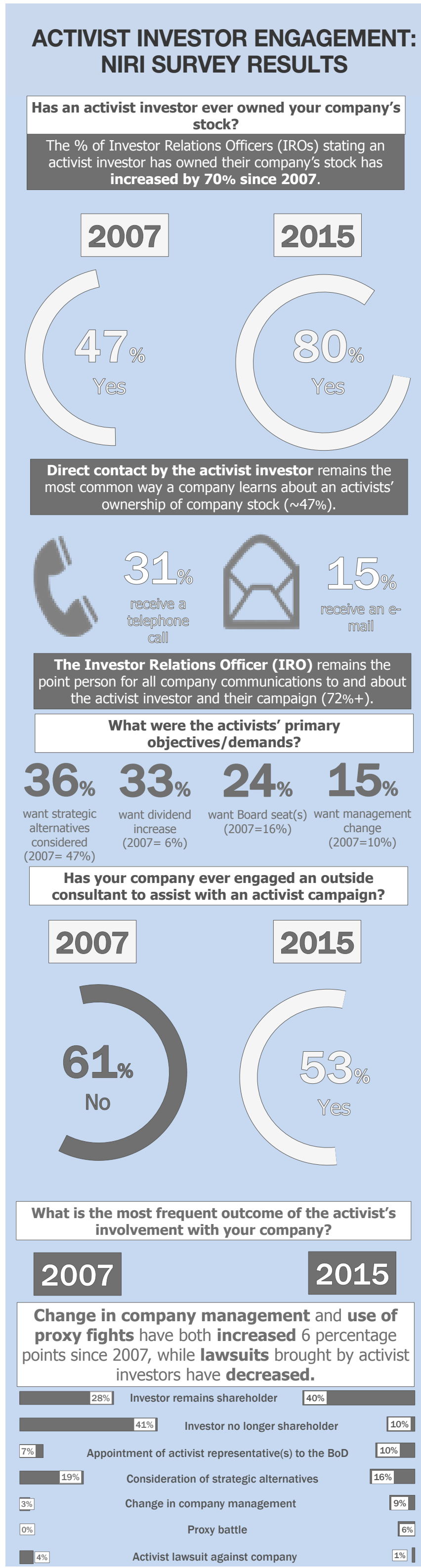
June 2016

5-8 NIRI Annual Conference – San Diego, CA

September 2016

18-21 Fundamentals of Investor Relations – Boston, MA

IR Research At-A-Glance



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What to Avoid

According to the panelists, too many companies make excessive stock buybacks when flush with cash – which tends to be when stock prices are at the high end of the valuation range. Conversely, when stock prices are low due to challenging business environments, companies are reluctant to buy back their shares. Operationally, some companies are too quick to make headcount reductions, which can generate short-term cash returns but hurt future growth.

The Bottom Line

A sound capital allocation strategy starts with communicating how the management team is funding the core business to generate attractive returns. The right decisions here enable reliable profit streams that can be used to reward investors with dividends and/or stock buyback programs. This not only offsets dilution, but also reduces the share count and dividend expense. The importance of retiring debt depends on the particular circumstances of the company. In most cases, M&A remains the most risky option for capital allocation.

Panelists agreed that consistent communication and behavior are key. Companies with clearly articulated capital allocation strategies and predictable patterns of capital returns are more likely to enjoy improved valuations.

Michael Sullivan *is vice president of investor relations at Applied Materials, and president of the NIRI Silicon Valley chapter; michael_sullivan@amat.com.*