

IRupdate

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RIDING THE CURRENCY ROLLERCOASTER

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

About IR Update

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Watching Politics and the Economy

With the U.S. presidential election now entering the early primaries, the economy – as always -- is sure to play a central role in determining who will occupy the White House a year from now.

Taking a glance at recent macro-economic news as 2016 arrived shed little light on what that narrative will be. For instance, oil was trading at or below \$40 a barrel, which might make consumers happy at the gas pump, but which, as we have seen, wreaks havoc on the energy sector. The dollar continued to surge and the Federal Reserve raised its benchmark interest rate for the first time in nine years, as unemployment dipped below pre-recession figures for the first time. So, how did the stock market react? The Dow Jones Industrial Average had its worst year since 2008.

Since the substance of presidential campaigns rarely go beyond sound bites, it will be interesting to see how the narrative surrounding the economy takes shape. I hope for some deep discussions that bring real ideas to the surface, but I won't hold my breath. I remember attending a conference many years ago where a presidential candidate was the keynote speaker. When the Q&A period arrived, an audience member asked the candidate about "IMF policy." I listened to the candidate intently as he skillfully worked his way through a non-answer. When he concluded, I was 100 percent convinced that he had absolutely no idea what "IMF" meant. Yet, somehow, the audience seemed content with the answer. For what it is worth, that candidate did not even come close to earning his party's nomination.

I won't attempt to prognosticate on the outcome of the election, but I hope that NIRI and your fellow members can provide you some discussion and analysis of candidates' positions on issues that might be of interest to the IR community.

As we wait for the economic narrative of 2016 to play out, many of you will try to determine the impact on your company (or clients) and how you can present your own narrative to investors.

With that, we have some great content in this edition of *IR Update*, including two features that may help you meet communication challenges:

- Riding the Currency Rollercoaster: IROs offer advice on how to communicate about the impact of foreign currency fluctuations.
- Visualizing IR: Telling a business story through graphics is an art essential to investor relations.

As always, I welcome your suggestions about content that you want to see in *IR Update*.



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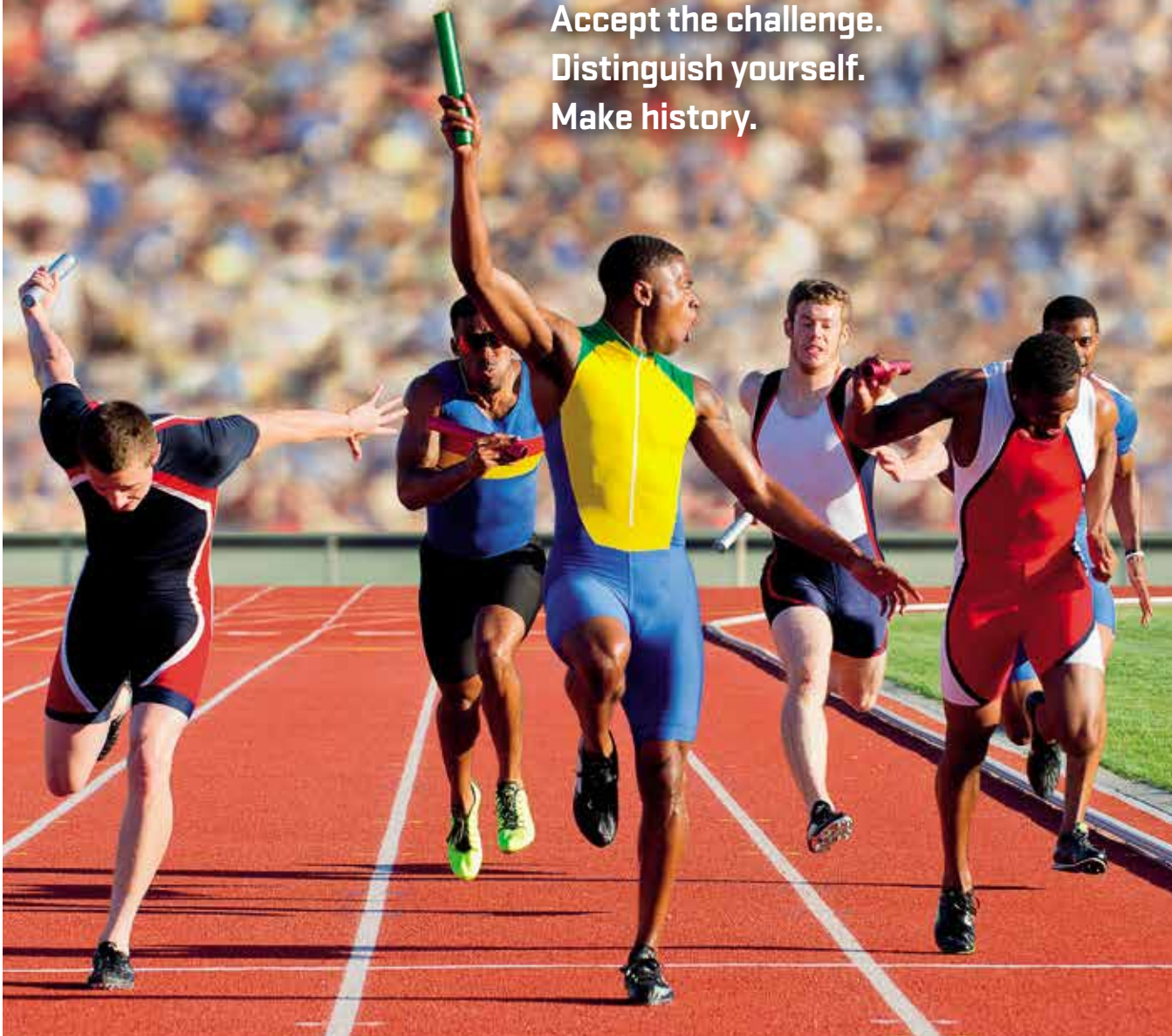
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RIDING THE CURRENCY ROLLERCOASTS

IROs offer advice on how to communicate about the impact of foreign currency fluctuations.



By Margo Vanover Porter

International currency fluctuations always present challenges when reporting earnings, and the recent rapid rise of the U.S. dollar relative to world currency markets is making an unwelcome appearance on some company spreadsheets, requiring IROs to explain the negative impact.

Depending on their revenues from non-U.S. markets and the reporting practices of industry peers, companies have taken different approaches in how they talk about the impact of currency swings on earnings and guidance.

Although foreign exchange can be a complex subject, IROs recommend keeping messaging consistent – and as simple as possible – so it doesn't distract from a company's overall investment story.

"Generally, all of our revenues and approximately three quarters of the cost base are denominated in local currency in each of the six countries where we operate, which includes both Euros and currencies that trade in sympathy with the Euro," explains Mark Kobal, head of investor relations, Central European Media Enterprises, Ltd, in Prague, Czech Republic. "So the significant appreciation of the U.S. dollar over the last 12 to 18 months has had a very visible impact on the translation of our results."

Revenues for the nine months ended September 30, 2015, were down 12 percent year on year at actual exchange rates but increased 7 percent when compared at constant exchange rates. "U.S. dollar costs, which relate primarily to programming acquired from the major studios, have become more expensive in those local currencies," Kobal explains.

This financial scenario has also placed a particular focus on the company's leverage ratio due to its debt load. "The translation impact of revenues, not completely offset by the corresponding translation of costs, reduced our Operating Income Before Depreciation and Amortization (OIBDA) and caused our leverage ratio to be higher than it otherwise would since much of our debt was denominated in dollars," he says.

As a result of this sequence of events, the company's leaders are taking two actions:

- After it matured in November, a U.S. dollar-denominated debt was replaced with a Euro-denominated bank facility to better align the currency of debt and operations. "Now, over half of our debt is denominated in Euros," Kobal says.
- To reduce exposure to foreign-exchange moves on a cash basis, management opted to enter into a series of forward contracts to buy dollars each month in an amount corresponding to anticipated dollar payments.

An Outlier Year

Currency headwinds in the first quarter of fiscal 2014 had a ripple effect on 2015 results for Ciena Corporation, according to Gregg Lampf, vice president, investor relations. Fluctuations in the Canadian dollar, Brazilian real, Indian rupee, and Euro ended up lowering 2015 company revenues by an estimated \$50 to \$60 million. On the flip

side, those same swings reduced operating expenses by \$30 to \$40 million.

About 45 percent of Ciena's business is outside the U.S., with a large presence in Canada, India, and Europe. However, most contracts are written in U.S. dollars.

Although senior executives have talked informally about constant currency reporting as it relates to revenue growth, they believe it is an unnecessary move. "Currency fluctuations are not something that typically affect us, so we don't have to normalize for it," Lampf says.

Another U.S. company that has decided against constant currency reporting is BGC Partners Inc./Cantor Fitzgerald. "We have a high dividend payout ratio in actual dollars, not constant currency dollars," says Jason McGruder, managing director and head of investor relations. "We pay our bondholders and stockholders dividends based on the amount we actually earn, not what would have been. At the end of the day, you earn what you actually earn."

He indicates that third-quarter revenues

would have been 3.5 percent higher if not for the strengthening dollar. "The vast majority of our non-U.S. revenue comes from Europe, so we have been particularly impacted by the declining Euro."

The company reports as an absolute dollar amount a currency swing of 2 percent or more of revenue in its earnings report, earnings release, earnings PowerPoint presentation, conference call, and 10-K and 10-Q filings.

"We just report as reported, but we give analysts the amount of money we would

EXPLAINING CURRENCY HEADWINDS

During a March 5, 2015, earnings call, analysts got an earful about the effect that a strong U.S. dollar was having on Ciena Corp. The following are edited remarks by Jim Moyland, senior vice president and CFO, that could serve as an example for other companies trying to explain this complicated subject in simpler terms:

As you have seen from other companies, both within and outside of our industry, our financial metrics were impacted by the rapid strengthening of the U.S. dollar against a variety of foreign currencies, particularly in January [2015]. In our case, changes in foreign exchange rates, particularly the Canadian dollar and the Euro, did affect virtually every income statement line in some way, but the net impact on Q1 adjusted operating income was minimal for reasons I will explain....

Q1 revenues came in lower than expected at \$529 million. The strength of the U.S. dollar was a factor in our revenue for the quarter, reducing revenue by approximately \$10 million. Revenue also was affected by the timing of orders from the U.S. government.

Q1 operating expense was significantly lower than expected at \$197 million. The strengthening dollar reduced operating expense by roughly \$4 million. Operating expense also was affected by the timing of certain real estate and R&D projects, which we now expect to occur in subsequent quarters.

The combination of this lower operating expense and strong gross margin allowed us to overachieve on operating profitability, despite this extreme volatility in the foreign exchange markets....

As you have seen in our Q1 results, we are not immune to volatility in foreign exchange rates. Given the dramatic effects that we saw in Q1, we want to help you understand the impact that the recent strengthening of the U.S. dollar has on our expectations for the full fiscal year.

When we reported our Q4 results, we said that we expected 2015 revenue growth to be in the range of seven percent to nine percent

for the full year. If the U.S. dollar had not strengthened as it did, we would continue to expect our revenue to be in that same range for the year. However, we now expect that the current foreign exchange rates will reduce our 2015 revenue expectation by approximately \$50 million to \$60 million.

After considering this impact, we now expect an overall revenue growth rate in fiscal 2015 in the range of 5 percent. Of course, that expectation could change depending in part on what happens to foreign exchange rates as we move through the year. That said, it is important to note that we are taking market share and we continue to believe that we are growing faster than the market, despite these foreign exchange rate effects.

In addition, at current spot rates, foreign exchange will also reduce our operating expense this year.... We also expect the change in foreign exchange to reduce our cost of goods sold for the year.

When all these changes are taken together, we continue to expect that we will achieve our previous guidance of 8 percent to 9 percent in adjusted operating margin for fiscal 2015. In fact, when combined with our improved gross margin performance, we also believe that our adjusted operating income for 2015 will be in line with our previous expectations. We also continue to expect to generate in fiscal 2015 roughly double the cash from our business that we did in 2014, excluding any repayment of outstanding notes.

Finally, due to the cost of hedging, we again expect the charge in other expense of about \$4 million. I know all of this foreign exchange discussion has been a lot to absorb, but I do want to emphasize that even after the impact of the fluctuations in foreign currency exchange rates to date, we expect our bottom lines, both at the operating profit line and at the net income line, to be about the same as the numbers we expected at the beginning of the year. In other words, foreign exchange changes to date have affected the income statement at certain lines, but the net effect of all of these changes is minimal for the full fiscal year.

have had so they can do their own constant currency if they choose,” he explains. “We give them the information they need to do an apples-to-apples comparison vs. our peers.” He adds that the company’s peers in the commercial real estate brokerage and financial brokerage arenas report in constant currency.

What About Guidance?

Because of the recent currency roller coaster, Central European Media Enterprises is breaking with tradition and not issuing guidance in terms of absolute dollars, according to Kobal.

“Heading into 2015, management recognized that foreign exchange would be a significant unknown over the course of the year,” he says, “so we changed the way we gave guidance to avoid a likely situation where we might be forced to update guidance because foreign exchange rates moved even though operations continued to perform as expected.”

In 2015, the company guided to an OIBDA growth rate at constant rates and simultaneously provided an estimate of the impact on OIBDA from a one percent movement in the EUR-USD exchange rate. “This allowed investors to make their own assumptions for growth at constant rates as well as foreign exchange, and deducting the impact of foreign exchange from their view of operations allowed them to arrive at an estimated USD figure for the year.”

To avoid guidance glitches, BGC Partners Inc./Cantor Fitzgerald takes a two-fold approach. “We only give guidance one quarter out,” McGruder explains. “If there is a huge swing in the Euro or [Japanese] yen, we don’t expect to miss our guidance because we hedge one quarter out. What we don’t do is hedge a year out or longer.”

Ciena guides as reported, though it uses non-GAAP (Generally Accepted Accounting Principles) numbers. “We do, however, say what the currency impact on our results is,”

Lampf clarifies.

Novozymes, a Danish company with an extensive global business that handles all kinds of currencies, provides only annual guidance, in terms of organic growth rates and also-reported growth rates, according to Martin Riise, senior manager, investor relations. For guidance, the company uses the currency exchange rates from the previous day.

“We assume these rates will remain fixed for the duration of the remaining year and guide under that assumption, even if it plainly never holds,” Riise explains. “If you do anything else, you are essentially speculating in the currency markets – even if you use forward rates – and you might be criticized for doing that, as that is probably not your core business. We then have a guidance of the annual EBIT impact, if our key foreign currencies – the U.S. dollar and Euro – change by 5 percent.”

Advice for IROs

If the dollar stays strong, as McGruder expects, “this year-over-year problem will go away.” Meanwhile, IROs offer this advice for dealing with currency fluctuations.

- **Be prepared.** Since currency has not factored prominently during his five-year tenure at Ciena, Lampf held lengthy discussions in 2014 with the treasurer, controller, and CFO to get a firm understanding of what was going on with foreign currency and to help develop a communication plan. (See the sidebar: “Explaining Currency Headwinds.”) “Ask a lot of questions internally of your team who are responsible for understanding this,” Lampf advises. “I had to jump in with both feet. It does get technical very quickly.”

- **Analyze currency swings.** “You might want to compile a sensitivity analysis that



shows how earnings change if the dollar goes up or down, particularly if your company gets a big percent of earnings overseas,” McGruder suggests. He thinks a chart of this sort could help your management team provide instant answers during a Q-and-A session.

- **Examine reporting.** Determine whether constant currency is right for your company. Central European Media Enterprises includes constant currency reporting in the annual report’s management discussion and analysis “so that commentary on operations can focus on how the businesses are actually performing irrespective of movement in foreign exchange rates, whether those movements were favorable or unfavorable,” Kobal explains. McGruder believes the practice of constant currency reporting is more prevalent in Europe because countries are smaller and generally get more of their revenue from outside their home countries. “On that side of the Atlantic, it makes more sense than it does for American investors,” he says.

- **Stay consistent.** “It is important to identify when foreign exchange has helped the financials, not only when it has a negative impact,” Kobal emphasizes. “And as with anything else, keep the message as simple as possible without sacrificing clarity. It is useful to outline the potential foreign exchange impact on future periods, but also make sure to save airtime and investor headspace for the key messages about the underlying business.” **IRU**

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IR COUNSELOR SALARY ON THE RISE



ARIES

A NIRI survey shows that companies value IR expertise. Experience and credentials count and the gender gap has narrowed.

By Alexandra Walsh

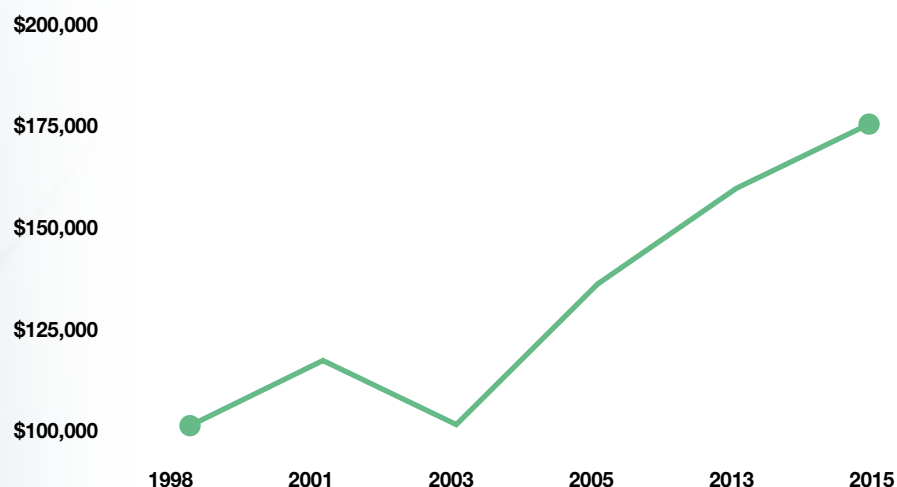
After experiencing a dip in median base salary in 2013, IR counselor practitioner compensation is on the rise again, according to an IR Counselor Compensation Study released recently by NIRI. The median base salary for investor relations counselors increased 10 percent in the past two years to \$175,000 (the inflation adjusted increase was closer to 9 percent).

Marian Briggs, executive vice president of PadillaCRT, recounts that while the crisis side of the business remained strong during the Great Recession, there were some very dark days for many IR counselors in the fall of 2008 and into 2009, which the very slow recovery in 2010 did little to offset. She points out, “It takes a while to climb out, but climb out we have, and rising salaries are, in part, a reflection of that.”

“It’s true that the capital markets are healthy and there are more opportunities for IR professionals, but I also think that because of the turmoil of the recession, public companies value the IR function more than they did 20 years ago, whether that is reflected in a decision to hire internally or use a consultancy or both. The days of just putting out a quarterly news release are over. Most management teams acknowledge you have to do more to tell your story. Most clients will pay some amount of money to get good counsel, and that’s what we’re seeing in the compensation numbers reflected in this survey.”

Similar to corporate IROs, there are location-based differences in median base salary. IR consultants working in the Pacific region reported the highest median base salary (\$195,000)

Median Base Salaries for Counselor Member IROs by Year



Source: NIRI IR Counselor Profession and Compensation Study (various years). Compiled by NIRI January 2016.

when they were surveyed in 2015. That's a change from 2013, when counselors working in the Mid-Atlantic region reported the highest median base salary (\$187,000). And, for counselors working outside the United States, base salaries continued to climb to a median of \$100,000.

"We are located in the San Francisco Bay Area and I think what is happening here shows the market for all IR practitioners has improved – there's a strong demand for IROs and consultants that can deliver real strategic value to the function across messaging and targeting. Increasingly, consultants are hired in tandem with internal IR staff as companies expand the IR function and budget," says Nicole Noutsios, founder, NMN Advisors. "Salaries reflect supply and demand – it's a good market right now; we are going through a period of strong economic growth in the Bay Area and that's reflected in more hiring and expanded IR budgets. On the consulting side, companies are recognizing the need for senior and strategic IR counsel and are allocating budgets for true value-add consulting expertise."

While the majority of respondents did not receive a cash bonus (excluding long-term incentive plan payouts) in 2013, 71 percent did in 2014, according to the survey. Similar to corporate IR where large companies are still more likely to award bonuses than smaller ones, those working as independent consultants or in an agency with 25 IR professionals or fewer, were most likely to not receive a bonus. For those receiving a cash bonus in 2014, the average was approximately \$31,700. In addition, 71 percent of counselors do not receive equity.

"We are such an agency, with fewer than 25 employees," points out Hala Elsherbini, senior vice president and COO, Halliburton Investor Relations. "But, we believe you have to compensate competitively and have some kind of stock benefit, 401(k) plan, and a whole benefit package to retain key

staff and to service accounts."

The most popular additional benefits indicated by the survey are health insurance (72 percent), with other benefits significantly trailing. The second most frequently-cited benefit was club membership (27 percent) followed by automobile (19 percent), medical exams (17 percent), life insurance plan (11 percent), and special officer pension plans (2 percent).

Experience Pays

The most important drivers for IR counselor compensation continue to be the number of years of valuable IR experience a counselor brings to the table, as well as geographic region.

"In a field in which there is a high level of change as companies and jobs come and go, consultancy is increasingly attractive for very senior people," notes Bob Burton, managing director, financial communications, Lambert, Edwards & Associates. "And with their deep knowledge and years of experience, they expect to be compensated at a higher level."

For 2015, the average number of years of IR experience for counselors was 18. The two largest populations of IR work experience are those with 21 to 30 years (32 percent); those with 16 to 20 years (26 percent); and those holding 31 or more years of experience a close third (17 percent). Comparing 2013 data with 2015 shows a movement of counselors toward brackets with greater IR experience (16 years or more).

"That the experience level of IR counselors is skewed very deep along with tenure in IR reflects the fact that for a management team to trust you as a consultant, it's important that you've been through a few market cycles and have done enough work across many companies and industries to know what works and what doesn't," suggests Briggs. "To have a long-term view,

and be able to message that way, is very helpful for IR."

Similar to their counterparts in corporate IR, the number of different industries a counselor will work in during their career is increasing. More than 76 percent of the IR counselor population reports having worked in three or more different industries.

"Lambert, Edwards bears out this statistic," says Burton, who began his career as a journalist covering politics, among other beats. "For example, I've also worked in several industries in IR, but most of us have a specialization. Mine happens to be retail so I know the analysts and buy sides who invest in retail. I have deep knowledge of the industry and the investment community that focuses on that."

The MBA continues to be the most popular degree among those who attained advance education and are in IR counseling. However, the percentage of counselors attaining the Chartered Financial Analyst (CFA) credential has remained flat. Additionally, the percentage of the counselor population holding the advanced certification of Certified Public Accountant (CPA) has decreased by over 50 percent.

On the other hand, both Elsherbini and Burton believe NIRI's first-ever IR certification program, the Investor Relations Charter (IRC) – which will be available for the first time in 2016 – will prove to be a very useful tool for counselors. The IRC program not only establishes a framework for what defines the profession of investor relations, but also provides IR practitioners the opportunity to demonstrate their knowledge, their expertise, and their commitment to answering to the high standards required within the profession.

"I think NIRI's IRC IR certification coming online is of huge significance and will help the profession on both sides," Elsherbini says.

Burton agrees and adds, "IRC certification

will be very helpful when launching your own consultancy – it will be very beneficial to have that IR charter hanging on the wall.”

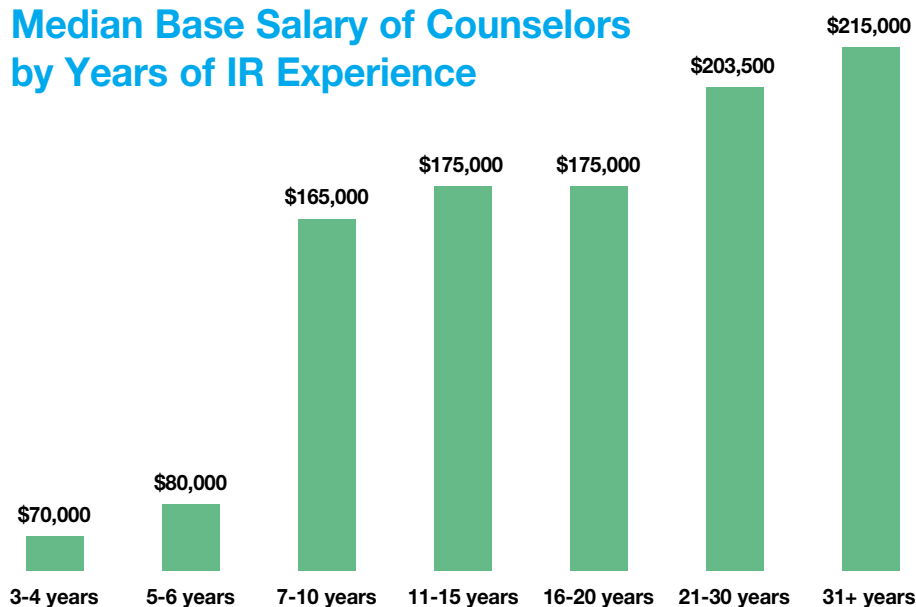
This year, 30 percent of counselors reported corporate IR as the background in which they gained the most professional experience before becoming an IR counselor, followed closely by 25 percent who mentioned a corporate communications background, and 11 percent reporting sell-side experience.

“While the study suggests that high growth is coming from consultants who have a communications background, this may be because crisis and activism work has been a growth area,” Noutsios observes. “And, if you are working on crisis work, having a strong corporate communications background adds great value to ensure you have a seamless approach to your communications efforts. At the same time, my team has expanded with the addition of Wall Street professionals. There are also a number analysts of who are transitioning into the IR function, especially from the sell side.”

“There’s been a push and pull for years over whether it’s better to have an MBA in finance or a communications/journalist background to succeed in IR,” observes Briggs. “Perhaps companies have enough CPAs and MBAs that understand numbers and they’re hiring more people that can interpret those numbers and tell a story on a strategic level.”

Regarding the services that counselors offer to clients, the most common are positioning/messaging (93 percent), writing press releases/scripts (90 percent), and strategic planning (88 percent). The percentages are slightly different when counselors report the array of services offered by the agency they work for – analysts’ meetings/contacts (100 percent), strategic positioning/messaging (96 percent), and crisis communications (95 percent).

Median Base Salary of Counselors by Years of IR Experience



Source: NIRI IR Counselor Profession and Compensation Study (2015). Number of respondents = 54.

“These survey results substantiate trends that have impacted my firm’s growth,” Noutsios reports. “Companies are starting to understand the landscape is changing and companies are looking for senior counselors with the expertise and strategic counsel to handle activism, positioning, and crisis communications. Additionally, we retain clients for more than 10 years and we have found many companies are looking for a long-term senior partner to add value. And, at times, a senior consultant can bring long-term continuity to the function.”

As the average number of years’ experience in IR (the largest percentages being 16 years or more) continues to increase, counselors are now looking to remain where they are, grow their current practice, or permanently retire within the next five years.

“With the proliferation of people getting into IR consultancy, if a senior practitioner on the corporate side is thinking about retirement, or maybe thinking they’ll open their own shop, they better think that through carefully,” advises Burton. “To be a consultant these days requires putting in many hours and needing a number of connections – you

can’t simply get a phone and make a couple of calls and pick up some clients.”

More counselors hail from a variety of professional backgrounds than ever before. Since 2009, there has also been a noticeable (30 percent) increase in the number of counselors who report having worked as a buy-side or sell-side analyst at some point during their career. Although not as steep, this increase is in line with the dramatic (77 percent) increase seen among corporate IROs.

The Jump into IR

“The restructuring of the capital markets and [changing] roles within those markets are leading more sell side analysts to elect to make the jump into IR,” Burton contends. “It might be that they don’t see opportunities in the sell side anymore; there are fewer slots and less seniority in those slots – and, consequently less compensation – so IR can be an attractive alternative.”

Burton believes there are long-term implications to this migration. “As we get more and more people with strong finance backgrounds in the business, there will be greater emphasis and importance placed on finan-

cials simply because the “numbers” people are most comfortable crunching numbers.”

Burton says this tendency to focus on financials may narrow the communications process and might not be healthy in the long run. “It’s always true that numbers are very important in valuation. But, the non-financials that constitute 30 to 40 percent of company valuation – things like market position, management credibility, ability to communicate with the market and investors, and perceived transparency – continue to be extremely important to achieve fair valuation in the marketplace.”

What Gender Gap?

The majority gender in the counselor relations practitioner field has fluctuated over time. For the last two survey years, the percentages have been dramatically different, with near parity in 2013, and a 10 percentage point increase in male counselors (rising to 59 percent) by 2015.

Interestingly, gender was not a factor that affected the average compensation of IR counselors in 2015. Total cash compensation (salary plus bonus) was almost equal for men (\$204,269) and women (\$202,003) counselors.

Elsherbini also has noticed this trend.

“The commission structure within the sell side and certain changes with consolidations and with brokerage firms probably means that the profession is more male-oriented, and that transitions into the IR role – whether corporate or counselor.”

Elsherbini adds, “With one or two person agencies coming on line, you might also find that model is not as accessible or available to women as to men.”

“The gender thing is a surprise, and maybe even a fluke, or more anecdotal than factual,” suggests Briggs. “Most men I know who left the sell side and went to IR are on the corporate side, more than in consultancy. The other way to look at it is – all sorts of people have realized it’s a great career and interesting every day of the week.”

The Outlook is Bright

Counselors continue to be optimistic about their profession as the worst of the recession is left behind. More than three-quarters of the 2015 respondents said they anticipated greater revenue growth during that year. The majority of counselors predicted moderate (between 10-19 percent) revenue gains, and they reported growth in the areas of staff and client

bases for the second time since 2009.

“I’m optimistic about our profession. IR is an important niche role and becoming a more strategic role, rather than blocking and tackling, and that’s what executives are looking for from internal IR and counselors,” sums up Elsherbini. “This is what is needed today when dealing with

activists or heightened corporate governance – someone to keep their ear to the investment community and be a strategic partner.”

“I think IR has matured in many ways and companies realize IR is a vital function, no matter how they choose to address it from a resource standpoint,” Briggs says. “The economic recovery delivered a strong year for IPOs in 2014, but that was down some in 2015, because of global turmoil more than anything.”

Looking to the future, Briggs believes, “For this industry, we need more IPOs and not too many public companies taken out by other public companies – competition for clients is pretty fierce. But, there’s also lots of work out there and lots of opportunities – and plenty of companies that have been going it alone for a while that might decide they need to up their game and have just enough work to justify turning to a consultancy.”

“What I love about working on the consulting side is that no day is ever the same. It’s very challenging and rewarding. I am always working on interesting projects, solving hard problems, and working with smart and driven people,” Noutsios adds. “The only downside to the job is, at times, you need to handle multiple crises so you need strong multitasking skills and the ability to guide a team to the best outcome.”

Burton says, “I love what I do. I get up every day and look forward to working with a different company and love finding a new idea and helping to shape how that looks and how to present it to the market and investor community. It’s a ton of fun and what has kept me attracted to it for 30 years.” **IRU**

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



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VISUALIZING IR

Illustrating data and telling a business story through graphics is an art essential to investor relations.

By Evan Pondel

It's hard to imagine a world that predates PowerPoint.

The slide show presentation software will turn 26 years old in May 2016, and of all the tools IROs use to tell a company's story in a visually compelling way, it is difficult to find a more practical and efficient solution to present charts, tables, and anything else that helps connect the dots for investors.

Veteran IROs may recall that before the advent of PowerPoint, executives would lug around 35mm slide projectors to convey a company's story. And then, of course, the light bulb in the slide projector would sometimes burn out just before presenting to an influential audience of institutional investors, angering the CEO.

Fast forward to 2016, and there are an abundance of digital tools available to help make good visual sense of business models. The challenge is identifying what aspect of a business story should be told visually, and then finding the right way to illustrate it. It is a conundrum that IROs are increasingly facing, as more data visualization options surface in a world where numbers do most of the talking.

"Companies have infinite access to data, but the question is how do you convert that data into a meaningful form," said Arif Ansari, associate professor of clinical data sciences and operations at the University of Southern California's Marshall School of Business. "The key is understanding how to visualize in a way that nails down a hypothesis."

Of course, that isn't so easy when IROs' lives are often dominated by profit and loss statements that lack a certain *je ne sais quoi* to provoke inspiring visualizations. And unlike the music or film industry, engaging in creativity to tell a story isn't always appreciated by empirically minded investors.

Know Your Audience

An important place to start when framing a visual story: defining the target audience. The Coca-Cola Company's "Annual Review," which highlights the company's achievements for the year, is an example of how to select visual images after narrowing in on a target audience. Retail investors make up the bulk of the beverage company's target audience for its annual review.

"Knowing the audience truly sets the tone for what we want to focus on," said Tim Leveridge, vice president and investor relations officer at Coca-Cola. "We then drill down on what retail shareholders want to see – our people, products, and 'a day in the life of a bottle type of thing.'"

The company's financial performance also plays a significant influence on how Coke portrays its visual persona. If Coke has a challenging year, the company is more inclined to choose more muted colors.

In the company's 2014 annual review, Coke employed the use of red circles to depict snapshots of interesting factoids. One of the first visuals in Coke's annual review is a circle that contains the fraction "1/2+." The company writes below the circle, "More than half the world drank a Coke this month."

A two-dimensional circle in itself isn't a very pro-



Use of the "1/2+" fraction is a way to drive home the message about the level of consumption of Coca-Cola products. (Source: The Coca-Cola Company 2014 Annual Review.)

found visual. However, the fraction in the circle instills intrigue or a hypothesis, which is then proven by the caption. Another effective visualization in Coke's annual review is a timeline broken down in hourly increments that plot a day in the life of the company's products. The timeline starts at 6 a.m. with a picture of an apple juice product from Latin America. An hour

later, it's time for "Georgia," a canned coffee product in Japan. As the timeline unfolds, it is clear the company is telling a visual story about its global presence and diverse portfolio of products.

Overall, Coca-Cola's annual review is clean and easy to read, and the black-and-white photography is contemporary and tells a visual story without getting bogged down in too many tables or charts.

"It's not about going big and complicated," Leveridge said. "A simple shape can be very effective in getting a point across."

Simple, Yet Effective Design

Jonathan Buck, a securities analyst at Orion Capital in Los Angeles, agrees emphatically. "Minimalist visual clues are much easier to grasp than rows and rows of spreadsheet data," Buck said. "Easy explanations and picture graphics that hit on key metrics for an underlying business truly enhance transparency."

Indeed, there are plenty of instances when visual depictions of data mislead investor audiences. Pro forma "hockey sticks," exaggerated circles that represent addressable markets, and charts that utilize smaller scales to achieve more dramatic peaks and valleys are common tricks of the trade that can do harm when trying to establish a credible story.

There is also a tendency to over-populate presentations with different geometric shapes just because they are available on a tool bar. Buck said the red flags go up whenever he sees a chart that doesn't make sense within a couple of seconds, and if a chart requires an explanation that goes beyond a sentence or two, his eyes are likely to glaze over.

Among Leveridge's pet peeves: bubble charts. "Put a bubble chart in front of a bunch of data junkies and you're likely to lose them," he said.

Not all visuals are created equal. Some graphics simply work better than others,

and it is not always easy to tell which ones will work better until presented in front of a live audience. If an executive has to spend an inordinate amount of time explaining why a particular illustration is relevant, then it probably isn't the right visualization. At the same time, data shouldn't be presented in a visual format just because it fits squarely into a nifty template.

Yale statistician and design professor Edward Tufte opens his book "Beautiful Evidence" with a quote describing Galileo's 38 hand-drawn images of sunspots as "delight[ing] both by the wonder of the spectacle and the accuracy of expression."

A visual depiction of a company's financial performance may not exactly emote the same way a Galileo drawing does, but the impact should be somewhat similar, just on a lesser scale. What is critical is deciding what shapes and colors to use, in addition to the sequence of how the data unfolds visually.

The most basic form of visual storytelling is the "infographic." Infographics have been wildly popular during the last several decades, even though, as Professor Ansari suggests, they are somewhat one dimensional as far as story-telling is concerned.

One of the best examples of the infographic's efficacy is *USA Today's* "Snapshots" feature, which employs bite-size boxes containing numbers and text that attempt to generate an "ah-ha" reaction in readers. As simple as an infographic may be, the brain perceives the information as relevant because the image is reinforced by

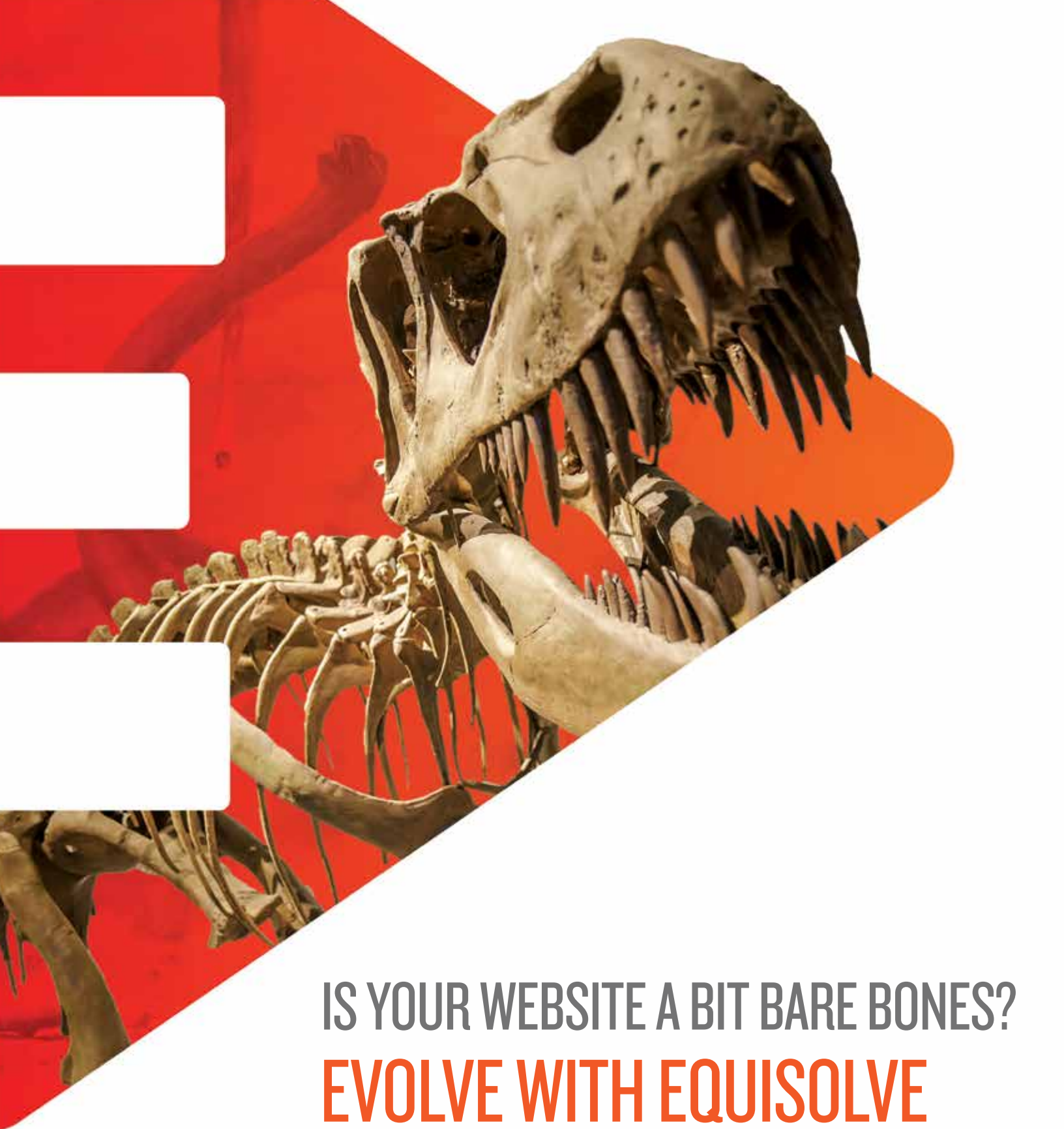


A timeline showing how Coca-Cola products are used during every hour of the day illustrates the range of beverages and how they fit into the lives of consumers. This timeline runs across multiple pages and extends past midnight. (Source: The Coca-Cola Company 2014 Annual Review.)

facts. *USA Today's* Snapshots have been so effective in conveying information that the satirical publication *The Onion* has its own version called "Statshot."

Infographics are often best utilized in isolated instances, such as running alongside text in a news release or blog post. They generally do not work as well when presenting to a group because of how the information is organized. Ansari said when people see a visual piece of information in a group setting, the shapes and colors must tell the story *sans* text.

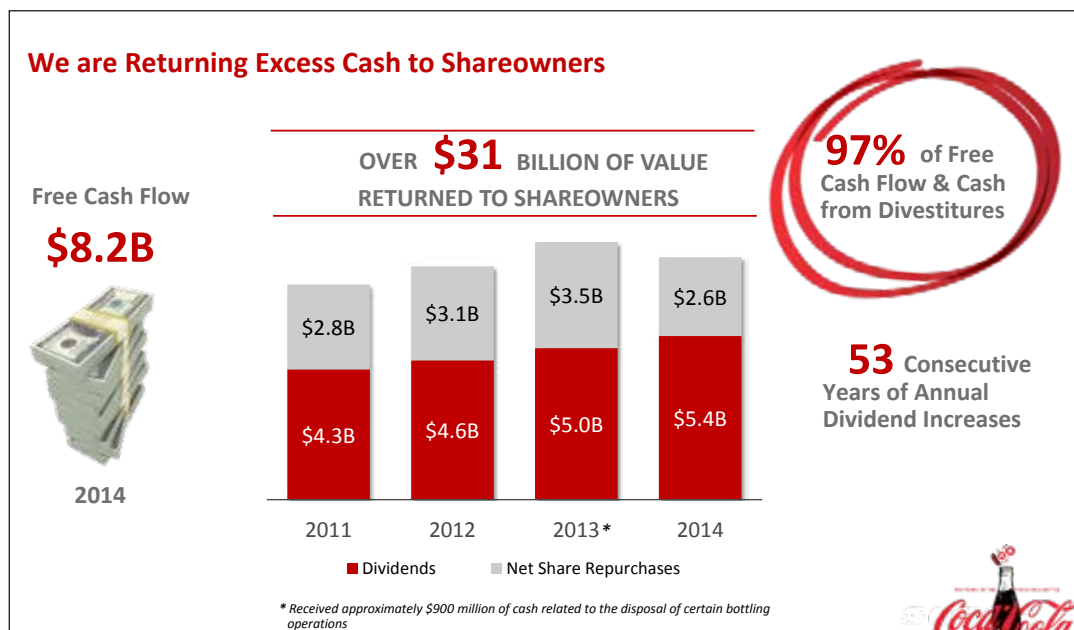
For Leveridge at Coke, that means thinking about and drawing potential charts for investor presentations long before they see the light of day. If Leveridge is trying to convey parts of a whole, he thinks pie



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This page from a Coca-Cola investor presentation shows how multiple visual elements can combine to communicate different aspects of a key message. (Source: The Coca-Cola Company's investor presentation at the Morgan Stanley Global Consumer Conference, November 17, 2015.)

chart; year-over-year comparisons, he thinks column chart; multi-year trends, he thinks line chart. Again, Leveridge stresses simplicity of design, noting that companies like Procter & Gamble and Colgate-Palmolive have done great work explaining their businesses with simple visuals.

Procter & Gamble provides a visual overview of the company on its IR website, including how the company creates value for shareholders, a table that breaks down reportable segments, percent of net sales, percent of net earnings, categories, and brand names, as well as circles that convey parts of a whole for business segments, geographic regions, and market maturity.

The online version of Colgate-Palmolive's 2014 annual report utilizes slide shows and videos to highlight the company's brands, strategies, and growth. The company also provides a visual description of its sustainability practices, in addition to financial charts that are animated when scrolling down the page.

Other companies leading the charge

when it comes to visualization: Yahoo!

Inc., which creates a broadcast news-style earnings report, in addition to publishing an interactive annual report; and General Electric, which incorporates videos, photography, and digital newsletters on its investor relations website.

Visualizing the Future

Among the newer forms of visual storytelling is the combination of geospatial data. Ansari said companies like Uber are using this method to help identify neighborhoods of high crime where it may be difficult to find a cab. Ansari hypothesizes that investors will likely gravitate toward spatial analytics because of the ease of parsing data by looking at a color-coded map versus getting lost in the minutiae of number crunching.

One of the biggest hurdles for conveying visual information to investors: time. By the time an investor presentation has been absorbed, hundreds of millions of trades have already occurred. Securities analyst Buck said as more data visualization is produced in


real-time, it could inspire a new cadre of visually inclined day-traders.

There are also virtual reality implications for how business information may be consumed in the near future. Companies will likely invite investors to take virtual reality tours to receive a better understanding of manufacturing capabilities, technology, or retail strategies. Imagine observing supply-chain technology in action or having a front row seat in an operating room to see how a piece of technology is helping surgeons.

Creating highly effective

data visualization is a function of how well the brain can imagine a visual representation of certain data. Ansari said you need to close your eyes and think about how you would visually depict some aspect of your business. He sharpens his point by using the acronym "OPEN MIND," which stands for identifying an "Opportunity, Pain point or need, Engaging, Nailing down a hypothesis, and Monetizing Insights with New Development."

Unfortunately, many IROs often don't have time to think through these steps when a PowerPoint presentation is needed on short notice. So, how do IROs know if some form of data visualization has been effective in communicating a company's story?

"It's usually a good sign when one of your charts shows up in an analyst report," Leveridge said. That, plus other anecdotal evidence of investor interest in visuals like this, are good indicators that a creative approach to IR visualization is working. 

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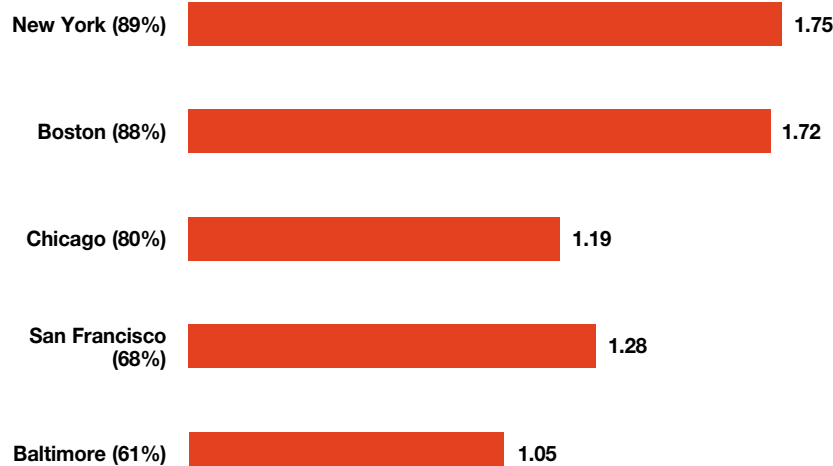
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