MARGO HAPPER NAMED NIRI FELLOW 6 | THE END OF ACCOUNTING 20 | BENCHMARKING YOUR IR PROGRAM 30

IR UPDATE

THE VOICE OF THE INVESTOR RELATIONS PROFESSION | JUNE/JULY 2017

IS THE INFORMATION MORASS UNDERMINING YOUR IR EFFORTS?

National Investor Relations Institute
www.niri.org

IRUPDATE

President and CEO
Gary A. LaBranche, FASAE, CAE

Vice President, Strategic Communications
Ted Allen
tallen@niri.org

Editor
Al Rickard, CAE
arickard@assocvision.com

Art Direction
Thor Design Studio
colby@thor-studio.com

Contributing Staff
Michael C. McGough, CAE

Letters to the Editor
IR Update welcomes letters to the editor. Please send feedback to arickard@assocvision.com.

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

About *IR Update*
IR Update is published 11 times a year by the National Investor Relations Institute as a service to its members.
ISSN 1098-5220

For change of address, contact:
NIRI–IR Update
225 Reinekers Lane, Suite 560
Alexandria, VA 22314-2875 USA
Phone: (703) 562-7700
memberservices@niri.org
www.niri.org

JUNE/JULY 2017 | **CONTENTS**

Chasing information is an essential but time-consuming task for IROs. But there are ways to improve efficiency to deliver even better IR services more quickly.
READ MORE ON PAGE 14

Gary A. LaBranche, FASAE, CAE
President and CEO
National Investor Relations Institute
glabranche@niri.org

What's the Big Deal?

June marks the IR community's largest annual gathering – the NIRI Annual Conference. But why do a thousand busy IR professionals make this annual pilgrimage? They have plenty of other things to choose from – many networking and learning options throughout the year. For that matter, why do more than 100 million convention-goers gather at their respective associations' annual gatherings? Why do conventions continue to grow in the age of digital connection? What is the big deal?

The answers are as varied and diverse as the attendees themselves. Often, like NIRI's Annual Conference, conventions offer high-level speakers and experts, the likes of which are rarely gathered under one roof. The chance to learn from them, and even meet them, is compelling for both the upwardly ambitious as well as the most experienced veteran. The opportunity to network with the "best and brightest" in the profession is often cited by attendees.

Efficiently identifying the best service providers in the field is a major convention benefit for many. And many attendees say that such gatherings are an effective way to identify emerging trends and ideas, the kind that gives top performers a special advantage. And doing all these things over a cold beverage and a tasty snack isn't a bad way to spend a few days.

But, down deep, maybe after that cold beverage (or two), attendees will admit that an annual trip to the annual convention is a renewal of community and a freshening of the spirit. It allows us to check in with our peers whose relationships carry us along in good times and bad as we experience the arc of our careers. And it gives us a chance to celebrate the profession that we have chosen and the professionals who have helped to build it.

Congratulations to all of those who are lucky enough to get to the NIRI 2017 Annual Conference in Orlando. And while I have you, please take a moment to mark your calendar for the next NIRI Annual Conference, June 10-13, 2018, in Las Vegas, NV. That conference is certain to be a big deal.

Say hello to my little friend.
Alexa, ask Q4 what the market is doing.
Q4
Search
Company ABC Corporation · ABC
27.35 USD
OVERVIEW
Ownership Quality Rating
73
Q4 Consensus Estimate
amazon
Q4 Desktop | Intelligence | Websites | Webcasting
q4inc.com | sales@q4inc.com

Margo Happer Named NIRI Fellow

Margo C. Happer, senior vice president, investor relations at Wyndham Worldwide, has been named as a 2017 NIRI Fellow. She joins a select group of only 24 individuals who have earned the prestigious Fellows designation.

The NIRI Fellows Recognition Program honors NIRI members who have distinguished themselves through their leadership within NIRI as well as the professional standards to which they have abided and their involvement and contributions to the IR profession throughout their careers.

"Margo represents all that this program is designed to recognize: exemplary leadership within NIRI and in the IR profession, a long-term commitment to selfless volunteer service throughout our organization, recognized thought leadership, and more," says Gary A. LaBranche, FASAE, CAE, president and CEO of NIRI.

NIRI Board Chair Valerie Haertel, IRC, global head of investor relations at BNY Mellon, commented, "Margo has been a NIRI member since 1991 and has contributed extensively to NIRI and the IR community. Among her accomplishments, Margo served as president of the New York chapter in 1997, as a NIRI Annual Conference co-chair in 2002, as a NIRI Board member from 2002 to 2006, and as chair of the Senior Roundtable in 2016. When I served as NIRI's Board liaison to the Senior Roundtable in 2016, I observed Margo's incredible leadership skills, dedication and drive for excellence which resulted in one of NIRI's most highly-rated and well-attended conferences. As a well-established thought leader in our profession for many years and someone who has given back to the community throughout her career, it is my honor to welcome Margo to the distinguished group of NIRI Fellows."

She will be honored as a Fellow at the NIRI 2017 Annual Conference in Orlando, June 4-7, 2017. Visit www.niri.org/fellows for more information about the NIRI Fellows program. IR

IR PROFESSIONALS EARN IRC CERTIFICATION

NIRI congratulates 11 IR professionals who received their Investor Relations Charter (IRC) certifications in April 2017:

Jennifer R. Almquist, IRC

Deborah L. Belevan, IRC

Barron S. Beneski, IRC

Brian G. Campbell, IRC

Jacqueline R. Cossmon, IRC

Rebecca A. Herrick, IRC

Laura P. Kiernan, IRC

Richard J. Lund, IRC

Sara E. Pellegrino, IRC

Paul Surdez, IRC

Lisa D. Wilson, IRC

irc INVESTOR RELATIONS CHARTER™

June 29, 2017 is the deadline for IRC applications for the September 9-16, 2017 testing window. Learn more at **www.niri.org/certification** or email certification@niri.org.

SPOTLIGHT ON ADVOCACY

New SEC Chair Takes Office

SEC Chair Jay Clayton plans to advocate for more IPOs and improve the attractiveness of U.S. public capital markets.

In early May, Wall Street deal lawyer Jay Clayton was sworn into office by U.S. Supreme Court Justice Anthony M. Kennedy as the 32nd Chairman of the Securities and Exchange Commission (SEC).

Clayton, who was a partner with Sullivan & Cromwell, has represented financial firms and issuers in mergers and acquisitions, initial public offerings, and other transactions. During his confirmation hearing in March, he voiced concern about the significant decline in IPOs over the past 20 years said the SEC should do more to improve the attractiveness of the U.S. public capital markets.

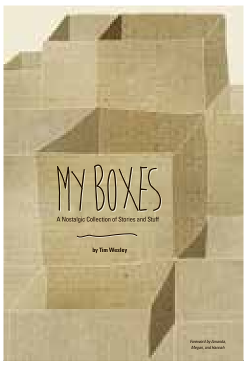
One of his first priorities as chair will be to hire senior staff to oversee the SEC's key divisions. Clayton has named William Hinman, a deal lawyer from Silicon Valley, to lead the Corporation Finance Division, which reviews issuer disclosures.

"NIRI stands for full and fair disclosure, sound corporate governance, fair and efficient capital markets, equity ownership transparency, and proxy advisory reform," NIRI President and CEO Gary A. LaBranche, FASAE, CAE, said after Clayton was confirmed. "We look forward to working with Chair Clayton, the entire Commission, and other financial market constituents to modernize SEC regulations to align with these principles. We believe the SEC can protect investors while also enabling capital and information to flow more freely to fuel innovation, new public offerings, and economic growth."

With Clayton taking office, there still are two commissioner vacancies at the SEC. As of press time in early May, President Donald Trump had not yet announced his nominees for those seats. IR

Unpacking Boxes: One IRO's Story

Ever considered writing a book? Tim Wesley, vice president of investor relations for Wabtec Corporation, did just that.



Tim Wesley with his grandson, Mason, who he dedicated his book to.

Titled "My Boxes: A Nostalgic Collection of Stories and Stuff," the book unpacks the "boxes" of his life, including memories from growing up, celebrity stories from his early career as a sportswriter when he interviewed stars such as Joe Namath and Lyle Alzado, the tale of how he attended Elvis Presley's last great concert on New Year's Eve 1976, and the highlights of his career as an IRO.

IR Update asked Wesley to talk about this remarkable project.

What was your inspiration for the book?

I've always loved to write, starting in 4th grade when I actually started writing a book about the Super Bowl (never finished that one). I was a journalism major in college and a reporter for the first five years of my career, before moving into corporate communications and IR for the past 30 years. Every writer thinks they have a book in them, and I was no different, but the dream was dormant for a long time.

How did you come up with the topic?

I've always loved sports and history, especially family history. Over the years, I've kept mementoes in boxes in the basement and did a lot of family history research. Now and then, I would rummage through the boxes and reminisce. A few years ago, I started to think that some of the stories might be interesting to others, and I really wanted to put them down on paper so generations of my family would know the significance of the stories and stuff. My goal was to tell the stories in a way that would make readers think of their own memories and mementos, because I know we all have boxes and we all have stories.

How does a busy IR professional like you find the time to write and a book?

I started writing the book about six years ago. There's no way to find the time; so I just had to make the time. I wrote late at night, early in the morning, weekends, on planes, in hotel rooms, whenever and wherever I could. I sometimes went weeks without making much progress – funny how those times seemed to correspond to quarterly earnings announcements, conference season, and board meetings. And there were times when I wasn't sure I would ever finish, but early in 2016 I completed the "Paper and Bronze" chapter, and that really got me over the hump.

Tell us about the Paper and Bronze Chapter.

This chapter traces my career. It includes my first trip to the New York Stock Exchange, which was a dream come true; a section about 9-11, where I tell the story of a work colleague whose mother and sister were on the first plane that hit the WTC; and my battle with cancer, during which the same work colleague shaved his head with me during my chemo treatments. So it's a mix of triumph and tragedy, I guess you could say.

How did you publish the book?

In October 2016 I spent a couple months putting it together using Amazon's self-publishing arm (CreateSpace) and held my first printed book in hand in late December 2016. We have three grown daughters, and I won't say it was like holding one of them for the first time, but it was quite a thrill.

Note: The book is available on amazon.com.

CALENDAR

These upcoming events provide excellent professional development opportunities for NIRI members. Learn more at www.niri.org/full-calendar.

JUNE 3

FINANCE 101: INTRODUCTION TO CAPITAL MARKETS AND FINANCE FUNDAMENTALS SEMINAR

Orlando, FL

Learn the basics of Financial Markets, Corporate Finance, Financial Statements, and Valuation. This course will give you the confidence to participate in financial discussions and enable you to engage with investors, analysts, the business media and the C-suite.

JUNE 3

WRITING WORKSHOP FOR INVESTOR RELATIONS

Orlando, FL

Whether you are new to IR or a veteran, this interactive session will help you express your thoughts with impact. Learning principles and techniques of clear, efficient financial writing. Through examples and practical exercises, you will learn to recognize good writing and what to look for when you edit copy.

JUNE 4

THINK LIKE AN ANALYST SEMINAR

Orlando, FL

Learn to look through the eyes of one of your key target audiences. Find out how analysts think, how they build their models and what pushes their buttons. This course will put you in the shoes of an analyst so that you can see things from their perspective. Exercises include interpreting how guidance affects an analyst's model and identifying the key assumptions in consensus.

JUNE 4-7

NIRI ANNUAL CONFERENCE

Orlando, FL

The premier global IR education and networking event helps you stay relevant with interactive sessions, industry breakouts and insight from today's thought leaders.

SEPT 11-13

FUNDAMENTALS OF INVESTOR RELATIONS SEMINAR

Boston, MA

The comprehensive IR seminar offers a structured overview of all aspects of investor relations, including marketing, communication, and finance.


"The IRC validates the knowledge and skills that are required to be excellent in the practice of investor relations. It sets the standard of practice for the advancement of the profession."
Valerie Haertel, IRC
INVESTOR RELATIONS OFFICER
BNY MELLON
INVESTOR RELATIONS CHARTER IRC
IRC Certification is
VALIDATION
irc INVESTOR RELATIONS CHARTER™
Learn more about the new IR global standard.
www.niri.org/certification
niri

IS THE INFORMATION MORASS **UNDERMINING YOUR IR EFFORTS?**

IR teams need to unblock information flows, swiftly access the most relevant data, and unearth their company's most powerful stories.

BY REGINALD CASH

Speed kills. This is true in sports, in startups, and in tech. From Amazon to Facebook and Bezos to Zuckerberg, the formula is to move fast and break things – in a good way. The need for speed is also true in capital markets. Investors yearn for speed – from faster trade execution to speedier first-takes from the sell side. Investors want faster responses from investor relations officers as well. Responsiveness to investors is perennially mentioned as the key performance metric for IR when evaluated by the buy side.

Every IRO I've met wants to be fast, responsive, and communicative, but even most well-intentioned IR teams find those goals difficult to achieve. What's slowing the pace?

The culprit slowing investor relations is as pervasive as it is it is unlikely: information. More specifically, the time it takes IR officers to find the information they need. McKinsey & Company, analyzing data from International Data Corporation, estimates that knowledge workers, across industries, spend three out of every five days searching for, gathering, and distributing information. This could potentially amount to more than 600 hours that a single IR team spends each year searching for information.

For investor relations, the challenge is compounded by compliance and regulations, which increase the stakes for not only finding the information, but ensuring its accuracy and consistency with corporate messaging – before it is escalated to senior management and sent out to the market.

This entire information-gathering process is also taking place simultaneously with the pendulum swings of daily market volatility and the need for IR teams to be responsive to analyst and investors in response to market activity.

Justin Moisio, vice president of investor relations at Impac Mortgage Holdings, observes, "The development and sharing of quantitative results is a defined process at most companies, driven by accounting and finance departments with compliance as the main driver and offering investor relations people little opportunity for any kind of impact. The role investor relations can play is to add a narrative – defined and supported over many quarters of quantitative results – that brings the information to life and turns data into a coherent investment thesis."

Sadly, it's the most vital, qualitative, supportive information for such storytelling that gets bogged down – and sometimes even lost altogether – in the information morass.

The opportunity cost of those 600 hours per year an IR team might spend searching and gathering information – and often scrambling to do so – is high. For example, one of the truly pernicious effects of this inefficiency is a decreased level of investor engagement. If allocating an inordinate amount of time for such information gathering comes at the expense of an IR team's investor interactions, then problems increase exponentially.

To succeed, IR teams need to unblock information flows, swiftly tap into quantitative information, and unearth their company's most powerful – and frequently hidden – stories.

Here are some tactics that can improve information flow and responsiveness to investors:

Stir – Don't Shake – the Corporate Culture. The bedrock of timely information exchange is corporate culture. There aren't any rules, processes, or technology that can overcome a corporate culture where timely and free-flowing information isn't the norm.

It's very difficult to overcome people's natural desire to control information. Oftentimes, a culture of hoarding valuable information is subtly reinforced when lone wolf and hero behavior are rewarded with promotions and executive titles.

There aren't any rules, processes, or technology that can overcome a corporate culture where timely and free-flowing information isn't the norm.

Obviously, investor relations can't change an entire corporate culture on its own. However, when it comes to working with the most important information centers at a company, investor relations can establish a protocol of information exchange. Even the most ardent information bottleneckers are often willing to share information if they feel like there's something in it for them.

Investor relations can broker relationships with internal colleagues who only want to share advantageous information with the C-suite or direct-line managers by providing these colleagues with access to market information that – while not proprietary – is not being widely circulated within the company. By proactively sharing an analyst report or industry white paper that contains information that can help to amplify a potential source's function, value to the firm, and access is a powerful way to establish a channel for mutually beneficial information exchange.

Another behavioral tactic is to ask for someone's opinion on a subject, instead of asking for information directly. Sometimes simply changing the wording of the request from "Can you send me…." to "What do you think about...?" can dramatically improve responsiveness and quality of response.

When all else fails. network. Investor relations should be proactive in creating relationships based on information exchange. Sometimes doing so internally is just as necessary as it is with analysts and investors. Networking is low-tech and nothing new, but still incredibly effective. Information is often available to those with connections or access to informal networks throughout the organization. It's hard to overstate the value of social capital or equity that well-networked professionals bring to their organization. Sometimes proximity to just one individual is enough to foster entrée to these networks. For investor relations officers

LEVERAGING INFORMATION FOR BETTER MARKETING

Achieving better information flow across a company frees up time and also reveals content that can be used to more effectively market a company to investors.

IR Update checked in with Patrick Van de Wille, chief communications officer at InterDigital – a mid-cap mobile research-and-development company – on how he manages information flows, which enables InterDigital's investor relations, marketing, and public relations teams to leverage internal content more effectively across a broad spectrum of platforms and collateral materials.

Reginald Cash (RC): What's the role of "soft" properties (such as non-mandatory collateral materials) in your investor relations program and how do you use them to engage your investors?

Patrick Van de Wille (PV): A lot of people in our business like to think that investment decisions are primarily numbers-driven, but I don't think that's the case. In our daily life we routinely make financial decisions that balance financial sense with personal goals, self-image, or a need for self-expression. Investment professionals make those decisions, too; they pay more for a car because they like the styling or the ads, or they pay more for a watch that's only marginally better at telling the time. In investing, many, many decisions are driven not based on the pure metrics, but on whether someone believes "the story" – witness Tesla's growth as a stock! So at the top end, those "soft properties" – if they align with the information you're providing investors elsewhere – validate the story. At a minimum, they can be a strong differentiator if an investor is examining a number of investments that, based on screens, look similar.

RC: How do you ensure your communications department is in the information mix of the company, in order to create your "soft" properties?

PV: At InterDigital it's relatively straightforward because I run both investor relations and communications and have oversight over marketing. I strongly and teams housed in a satellite office location, the payoff of spending a few days or weeks on the "front line" is invaluable.

Lastly, if all else fails, consider tapping into hierarchy as your break-glass-in-case-of-emergency scenario for obtaining critical information. In the most challenging corporate environments, pulling rank might be the only means of establishing a protocol. In particularly large organizations, where people are in disparate offices and divisions without a lot of overlap, this might the most effective way to persuade employees to be more forthcoming with information.

Embed IR into the formal information flow. The most straightforward process solution to stalled information flows is to bring IR directly into the formal information flows of the company.

Investor relations departments that are embedded into the natural flow of information in and out of the c-suite have an advantage, versus those who rely primarily on second-hand information. Most IROs report directly to the CEO or CFO, but this alone is not enough.

It is critical to be included on monthly business-progress calls and other routine financial planning and analysis activities. This streamlines the flow of information and makes the need for the CFO or other finance manager to relay the information to investor relations redundant. If possible, investor relations shouldn't stop at just attending finance meetings. Attending strategy, business continuity, and other standing business update meetings can make investor relations feel more like a partner than a constant source of information demand.

The downside to this approach is that IR teams only benefit from the formalized information that's already widely shared and understood within the organization's top tiers. The real prize for investor

believe in the integration of the investor relations and communications departments at some level in the company. At companies where that isn't the case, I suggest holding recurring meetings anchored in peer respect and a spirit of collaboration, and even, if possible, physical proximity of offices to maximize informal interaction.

RC: How do you work within the organization to extract the insights necessary to drive your investor relations program?

PV: Since we're a research-and-development company, a lot of our "soft materials" need involvement from our engineering team. We have recurring weekly joint communications and marketing team meetings to ensure a pipeline of content, and we reach out to subject-matter experts internally. We also have an integrated public relations and content-marketing program, and that program drives a lot of the soft properties that anchor into our investor relations program and structures our interaction with internal subject-matter experts. Our communications, investor relations, and corporate marketing teams are really just one team.

RC: Are there additional best practices around information flows or investor engagement – which run contrary to traditional practices – that you would like to share?

PV: Just to be clear, the single most important aspect of investor relations is compliance – nothing is more important. That's why, even though I'm a very digital IRO, I nonetheless avoid any tools that increase our compliance risk, like Twitter or Facebook. But once you feel like you've got compliance effectively managed, I encourage people to understand that our role is sales: we're selling awareness and a positive understanding of our company. The more efficient we are at turning our corporate content into useful assets, the more effective our respective investor relations practices are going to be.

relations is to insert itself into the tacit information market that exists in every company. A deeply embedded investor relations team benefits from employee watercooler culture that happens outside formalized meetings. Casual business information is often where the *secret sauce* of any organization resides. Understanding the narrative of business process through this informal lens is often the difference between an average investor relations team and a great one.

Don't always pull information – train employees to push it too. The best way to establish the informal networks of information exchange is to ask these deep pockets of rich knowledge to come and explain the processes of both their business lines and their individual role in facilitating business. Asking an employee who doesn't normally have an opportunity to present such information outside of his or her corporate silo is a powerful way to tap into the corporate narrative.

For example, asking someone from the customer-service department to present to the investor relations team what a typical day looks like in his or her role will surely unearth aspects of the business that often go overlooked, but are powerful pieces of information for investor relations departments and investors to get a nuanced, grass-level view of business operations.

The benefits are twofold: Having someone present details about their business line, and role, to investor relations is a great way for the team to do a deep dive on a specific area of the business. Simultaneously, this information-exchange session will train the manager who has made a presentation about his or her department on just what type of information investor relations is most frequently interested in.

In his experience, Moisio noted, "These internal roadshows (as they are sometimes called) is a practice that codifies informal networks and facilitates information exchange. Investor relations should go to internal content experts proactively and clue them in on the type of information that's needed – and valuable. Oftentimes, managers aren't sure what type of content is relevant to investor relations – especially the qualitative kind. Assisting them can be helpful on both sides."

Companies that circulate information easily can change the investor relations paradigm from reacting to analyst and investor concerns to proactively shaping the conversation, by introducing thought-provoking corporate context on their organization.

Often companies build organizational awareness of investor relations by using IR as a training ground for managers and new employees. One of the perks of using investor relations as a rotational position is that a broad array of senior managers throughout the organization have exposure to and understand the importance of investor relations and can facilitate these natural avenues of information exchange.

Break down technological silos. Let's face it, even the best practices can be undermined by faulty technology. If IROs become silos of information themselves, then the task of democratizing information has just shifted from an organizational problem to a departmental one. The most basic information exchanged via emails can unintentionally end up trapped in inboxes. Especially in larger organizations the problem of intra-team communications that's overly reliant on email is a constant source of frustration.

Adopting technology that fosters true collaboration, where content experts can share what they find important about their businesses – and investor relations officers can share in real time the insights they've gleaned from the market – is the holy grail of information management.

Companies that circulate information easily can change the investor relations paradigm from reacting to analyst and investor concerns to proactively shaping the conversation, by introducing thought-provoking corporate context on their organization.

"Our goal in investor relations is to understand and complement an investor's decision-making process," Moisio says. "We are always conscious that when the right information is delivered to the right user – not only at the right specific time but also consistently over a long period – the outcome is an optimally informed decision-making process."

After all, the best kind of investor-analyst responsiveness is to give the answer before the question is even asked. How's that for speed?

REGINALD CASH is founder and CEO of www.GatekeyIR.com, a blog dedicated to investor relations; **reginald@mrkrs.co.**

National Investor Relations Institute
www.niri.org

NIRI PROFESSIONAL DEVELOPMENT
FALL 2017 SEMINARS

FUNDAMENTALS OF INVESTOR RELATIONS

SEPTEMBER 11-13, 2017
BOSTON, MA

This comprehensive IR seminar offers a structured overview of all aspects of investor relations, including marketing, communication, and finance.

BEST IN CLASS INVESTOR PRESENTATIONS AND INVESTOR DAYS: COMMUNICATING YOUR COMPANY'S STORY

SEPTEMBER 14, 2017
BOSTON, MA

A hands-on one day workshop that combines theory with small group breakouts and focuses on all the key elements for a successful investor presentation.

WRITING WORKSHOP FOR INVESTOR RELATIONS: CRAFTING A COMPELLING MESSAGE FOR INVESTORS

SEPTEMBER 15, 2017
BOSTON, MA

This interactive session will help you express your thoughts with impact. Learn principles and techniques of clear, efficient financial writing.

FINANCE 101: INTRODUCTION TO CAPITAL MARKETS & FINANCE FUNDAMENTALS

NOVEMBER 6-7, 2017
NEW YORK, NY

Gain a grounding in all aspects of finance needed for IR and corporate communications. In addition to accounting essentials and how to understand earnings releases, learn about capital markets, key financial audiences, economics essentials, valuation, and the concept of shareholder value.

FINANCE ESSENTIALS: CAPITAL STRUCTURE, ACCOUNTING, FINANCIAL ANALYSIS AND CORPORATE VALUATION

NOVEMBER 8-9, 2017
NEW YORK, NY

Covers accounting and analysis and key corporate finance concepts – shareholder value, cost of capital, evaluating M&A, dividend and buy-back policy – everything you need to communicate your company's financial story effectively and participate fully in C-suite discussions.

For more information and to register: www/niri.org/learn

The End of Accounting

Professor Baruch Lev discusses his new book on the declining relevance of financial reports and the implications for IR professionals.

BY AL RICKARD, CAE

"FINANCIAL REPORTS ARE NOT USEFUL IN CONDUCTING VALUATIONS."

"TANGIBLE ASSETS ARE GOING DOWN AND DOWN, AND INTANGIBLES ARE RISING – THEY ARE NOW DOUBLE COMPARED TO TANGIBLE ASSETS. WHILE THIS HUGE TRANSITION HAPPENED, ACCOUNTANTS AND ACCOUNTING REGULATORS WERE AND ARE ASLEEP AT THE WHEEL. ALL THESE ASSETS WHICH REALLY CREATE VALUE ARE NOT ON THE BALANCE SHEET."

"EARNINGS NO LONGER MOVE MARKETS. ALL THIS OBSESSION WITH EARNINGS CONSENSUS IS A DISTRACTION."

These provocative comments – delivered by Baruch Lev, professor of accounting and finance at the New York University Stern School of Business, during the December 2016 Senior Roundtable – were part of his thought-provoking speech that described the tenets of his new book, *The End of Accounting*.

While he noted that accounting still has its place in corporate finance, he proposed an alternate set of metrics not found in financial reports that he believes would be more useful and relevant to analysts.

IR Update interviewed Professor Lev to learn more about his views.

The title of your book – *The End of Accounting* – is provocative. Explain what you mean by it.

We provide in our new book extensive empirical evidence that the usefulness of financial report information to investors is fast deteriorating. Various reasons caused this unfortunate development, primarily the failure of the Financial Accounting Standard Board to adjust accounting to the most dramatic business development of recent decades – the surge of intangible assets (R&D, technology, brands, human resources) as the major driver of corporate value and success. Consequently, these highly valuable assets (intangibles) are missing from the balance sheet, and seriously distort reported earnings because their investments are mixed in the income statement with regular expenses. This is a double whammy for leaving out relevant information.

In addition, regulators' focus in recent decades on "fair value accounting" – striving to present assets and liabilities at current values – increased exponentially the number and impact of largely unreliable managerial estimates in financial reports (asset and goodwill write-offs, marking-to-market non-traded assets/liabilities). All those unreliable – and sometimes manipulated estimates and forecasts – increase the noise and inexactitude of information to investors. The usefulness to investors of this deficient information is nearing its end; hence our book title.

You argue that financial reports have limited usefulness in conducting valuations of companies. Why?

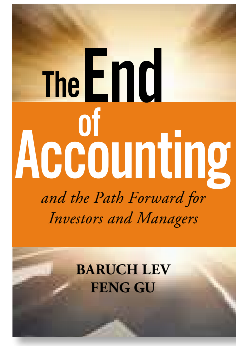
Enterprise valuation is based on measures that indicate real value changes. However, the financial statement main change measure – earnings – is determined by indiscriminately expensing all investments in intangibles, which rather than detracting from enterprise value (expensing) are the major value creators in modern business. For example, is Juno Therapeutics (a leading biotech company) reporting heavy losses because of indiscriminate R&D expensing, a business failure, or great promise? Add to this the multiple subjective managerial estimates and forecasts underlying most income statement items and it becomes clear that GAAP-based earnings are deeply flawed measures of enterprise change, and therefore of little use to investors. This is made clear empirically in the chart, "The Consequences of Missing or Beating the Consensus Earnings Estimates," from our book showing that the much-coveted beating (surpassing) consensus earnings increases share price, on average, by a mere half a percent (left of top curve), while the much dreaded consensus miss detracts only 1–1.5 percent of share price. These are minor price reactions to seemingly important earnings results. Fact: earnings no longer move markets.

Tell us about the six key variables in financial reports that you say have become dramatically less relevant during the past 30 years.

One of our empirical tests of financial reports usefulness reflects the association between public companies' capitalization (total market value) and six key financial report variables: sales, cost of sales (the two reflecting gross margin, a focus of analysts), SG&A (selling, general, and administrative) expenses, net income, assets, and liabilities. If these key financial report variables inform investors about enterprise value and growth potential, they should be highly associated with differences across companies' capitalizations (high capitalization for profitable, asset-rich companies, and vice versa for low profit, asset-poor companies). The chart, "Decreasing Share of Corporate Market Value Attributed to Multiple Financial Indicators," shows that associations between the six indicators and market values were indeed very high in the 1960s and 1970s, but deteriorated fast from the mid-1980s, reflecting recent loss of financial information usefulness. A clue: the mid-1980s witnessed the emergence of intangibles-based sectors, such as software, biotech, telecom, internet-based enterprises, and so forth. The lesson to IROs: to keep investors engaged, provide alternative and more relevant information to investors.

You note that since 1975 there has been a continuous increase in analyst ambiguity about company valuations despite a corresponding increase in FASB and IASB standards and size of financial reports. What does this tell us?

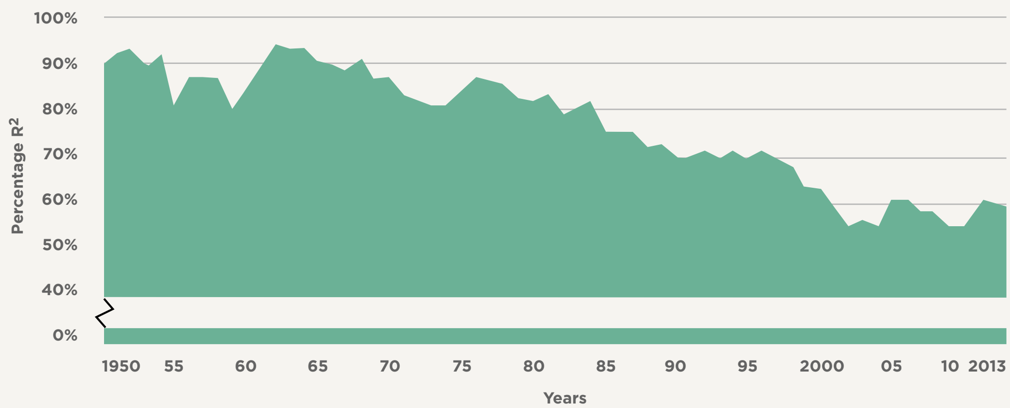
Analysts' estimates of corporate earnings are predicated on clear and relevant financial information, and reliable managers' guidance of future results. The constantly changing rules of accounting and financial reporting (including the new revenue recognition and leasing rules) result in increasingly complex and unreliable (estimation-based) financial indicators, leading to increasingly ambiguous and sometimes biased information set for analysts to form their forecasts. This largely explains our perplexing finding that despite all the improvements in data availability



Disclosing and Clarifying Financial Information Is a Major Activity of IROs, But…

FIGURE 3.4 Decreasing Share of Corporate Market Value Attributed to Multiple Financial Indicators

Adjusted R^2 from regression of companies' market value on their sales, cost of sales, SG&A, earnings, assets, and liabilities, 1950-2013



From: Lev and Gu, "The End of Accounting and the Path Forward for Investors and Managers," 2016.

and information technology, analysts' ambiguity about the future prospects of companies – as reflected by the dispersion of the individual estimates (variance) around the earnings consensus – is on the rise since the mid-1970s. This is yet another manifestation of the fading usefulness of accounting-based reports.

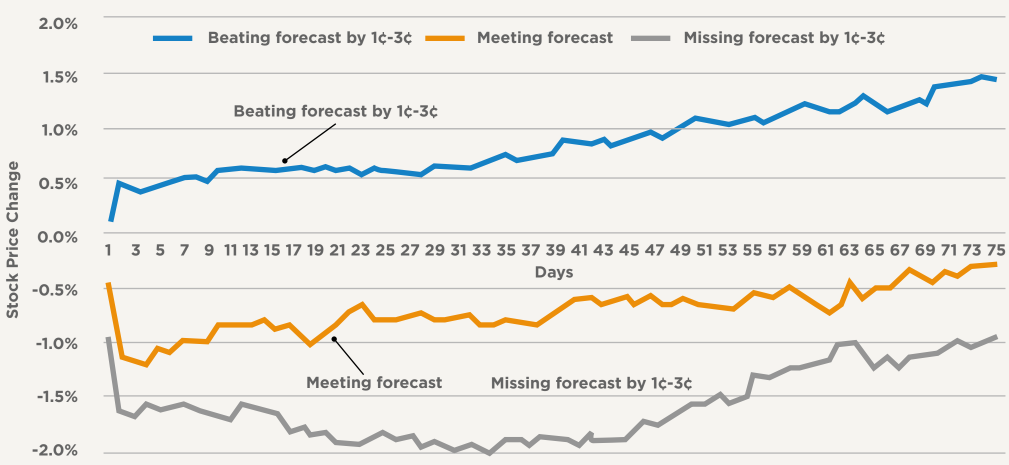
You argue that company investments in "intangible" assets are more relevant than investments in "tangible" assets. Give us some examples of these and why they are important.
Most tangible, physical assets such as plants, machines, equipment, inventory, airplanes, or office buildings are "commodities," in the sense that your competitors have access to the same assets. Therefore, you cannot "best" your competitors and create value with physical assets. At best, tangible assets are enablers in the value creation process. Value is created by unique assets – those assets your competitors don't have – and are difficult for them to imitate. These "strategic assets" are mostly intangible: patents, trademarks, brands, unique human resources and business processes, information technology, etc. The continuous growth of corporate investment in intangibles and the precipitous decline in tangible investment, as shown in the chart, "The Intangibles Revolution," – clearly attest to the overwhelming importance of intangible capital. Lesson to IROs: voluntary disclosure about strategic, mostly intangible assets is vital to investors.

How does the track record of questions analysts ask in earnings calls support your views on the importance of reporting on strategic assets?
Our examination of hundreds of earnings calls in four leading sectors – media and entertainment, insurance, pharma and biotech, oil and gas – made it clear that most analyst questions revolve around the companies' strategic assets (changes in customer franchise, development of the product pipeline, restructuring of oil and gas exploration fields), their deployment to create value, and competitive threats to those assets (such as Pandora's intrusion into SiriusXM's customer franchise). Very few analyst questions were aimed

But What About "Earnings Moving Markets"? No Longer

FIGURE 2.3 The Consequences of Missing or Beating the Consensus Earnings Estimate

75-day average stock price changes (returns) from the earnings announcement for companies that missed the consensus EPS or beat the consensus by 1-3 cents, 2011-2013



at accounting numbers, such as sales or earnings, or balance sheet data, except for the few cases of significant company performance deterioration. The importance of strategic assets to analysts was clear, and led us to develop a proposed "strategic resources and consequences" report.

How does this translate into major themes to discuss with investors?

Except for an unusually poor-performance quarter, where the focus of the earnings call should obviously be on what went wrong and how it fix it, the discussion should focus on changes in the enterprise business model and the performance of strategic assets (new subscribers and churn rate changes, changes in policy renewals of insurance companies, new landing rights of airlines, etc.). Most companies discuss these issues in the earnings calls, though in a haphazard and inconsistent manner (one pharma company gives expected clinical trial launches in one quarter, but not in others). This inconsistency isn't helpful to investors. In the *End of Accounting*, we provide and demonstrate a disclosure framework (Chapters 11-15) that will help companies to effectively communicate a comprehensive, relevant, and consistent message, particularly useful for organizing conference call presentations.

You argue that if companies in a given sector can present a consistent set of information about their strategic assets to allow an apples-to-apples comparison, this would provide analysts with the data they need to make intelligent valuations. From a practical standpoint, how do you get a group of companies to agree to provide these, given that some will believe that certain metrics will favor their competitors?

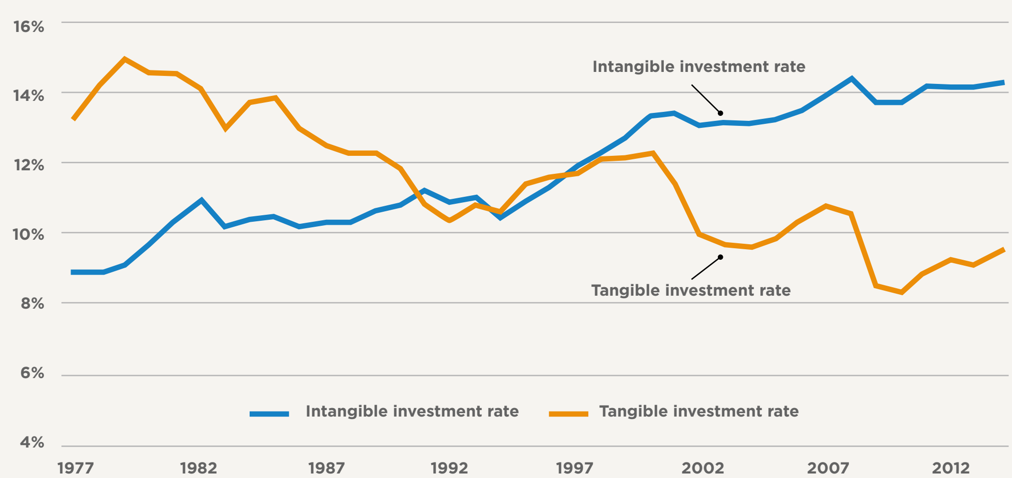
Sometimes industry associations develop uniform disclosure paradigms for members (such as the World Gold Council's work on a uniform cost measurement). Absent this, if one company sets an example of relevant and consistent disclosure, competitors, under pressure from analysts, will soon follow (see our example of Pfizer and the product pipeline in Chapter 16). Regarding information potentially benefitting investors, such information

The oft-heard argument of "competitively sensitive information" in support of restricting disclosure is generally overblown. The fact is, there are very few secrets in today's open business.

Reason 1: Dramatic Change In Companies' Business Models, While Accountants Asleep At The Wheel

FIGURE 8.1 The Intangibles Revolution

US private sector investment in tangible and intangible capital (relative to gross value added), 1977-2014



READ MORE

Join the discussion on these and other related accounting and investment issues at the "Lev End of Accounting Blog" at **https://levtheendofaccountingblog.wordpress.com.**

should, of course, not be disclosed. But these are rare cases. Most company information is known to competitors from employees changing employment, from customers and suppliers, from reverse engineering of competitors' products, and other sources. The oft-heard argument of "competitively sensitive information" in support of restricting disclosure is generally overblown. The fact is, there are very few secrets in today's open business.

You recently presented the concepts in your book to 350 financial analysts. How was it received?

It was received very well, with a few large funds inquiring whether we are open to develop with them new valuation models. But not everyone was convinced. Some analysts still believe in their old valuation models centered around the prediction of corporate earnings. Recent years' poor performance of managed funds, and the mass migration of investors to passive index funds should convince analysts that an overhaul of their valuation models is urgently needed.

You are working with one of the big four accounting firms to develop new disclosure documents to show relevant investor metrics. How is that work progressing and can you provide insight into what these documents may include?

This work is progressing very well. The firm's proposal for future corporate disclosure, focusing on long-term value, prominently features our strategic resources and consequences report (Chapter 11). It was presented by the accounting firm to separate groups of academics, investors, and analysts, and finally to corporate executives. The response was generally positive. Most business people realize that the current, accounting-based financial reporting is flawed and outdated. The major test of this project is whether public companies will adopt the proposed disclosure paradigm. Stay tuned. IR

AL RICKARD, CAE is president of Association Vision, the company that produces *IR Update* for NIRI.

The Montage, Laguna Beach, CA

2017 NIRI SENIOR ROUNDTABLE ANNUAL MEETING

November 29 - December 1 in Laguna Beach, CA

Address your unique challenges and distinct professional needs…

- **CONNECT**—with the member-only online community
- **EXPERIENCE**—the prestigious Senior Roundtable Annual Meeting
  - November 29 - December 1, The Montage, Laguna Beach, CA
- **ATTEND**—special SRT-member in-person events
  - SRT functions and gatherings at the NIRI Annual Conference
  - Networking meetings in U.S. financial centers
- **SAVE**—with reduced rates on NIRI education programs, including Annual Conference

For SRT membership criteria, a sample meeting agenda, and to apply go to www.niri.org/srt

THE CURRENT STATE OF SUSTAINABILITY COMMUNICATIONS

A NIRI webinar explored the latest trends in sustainability reporting and disclosure. Find out why it's essential for your company and IR team to be aware and active in this area.

BY PAM STYLES

Sustainability communications has become an imperative for IROs to understand, because mainstream investors have rapidly begun adopting corporate environmental/social responsibility/governance (ESG) strategies and performance expectations in investment decision-making.

At least 20 percent of U.S. investment capital – $1 out of every $5 of assets under management (AUM) totaling more than $8 trillion – is now interested and seeking information about sustainability performance, according to a latest 2016 semi-annual report by the U.S. Sustainability Investment Forum (US SIF).

More than 130 members recently participated in a NIRI webinar titled, "Sustainability Reporting and Disclosure: How Is This Important for IR?" to learn more about these growing trends. Panelists included Hank Boerner, chairman and chief strategist of the Governance & Accountability Institute; Lou Coppola, executive vice president and co-founder of the Governance & Accountability Institute; Mike Krzus, an integrated reporting specialist and advisor to BrownFlynn/Sustainserv; and Mike Tyrrell, founder of SRI-Connect and a sustainability investment analyst.

"While transitioning to a more mainstream asset owner and management priority today, the evolution of corporate sustainability reporting and development of more market information portals has also aided individual and coordinated actions of numerous shareholder initiatives and investor coalitions," Boerner observed. "Banding together, they form effective coalitions to address climate risk, responsible lending, political spending, and many other issues. These issues shape the very public agenda for the corporate proxy season."

Sustainability Reporting and Disclosure

The Global Reporting Initiative (GRI) – introduced in 1997 – is the most commonly used reporting framework in the world with more than 5,000 companies using it to report on ESG. Coppola noted that the most recent generation of GRI guidance, the GRI Standards, was released late last year. GRI is being written into many global regulations, stock exchange listing requirements, and guidance.

Panelists also highlighted several other reporting frameworks, including the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). IIRC takes into account six different forms of capital, including not only financial but manufactured, intellectual, human, relationship, and natural capital. Coppola explained, "Leading organizations are using this and other frameworks to form more holistic strategies to maximize value generation for the company and shareholders."

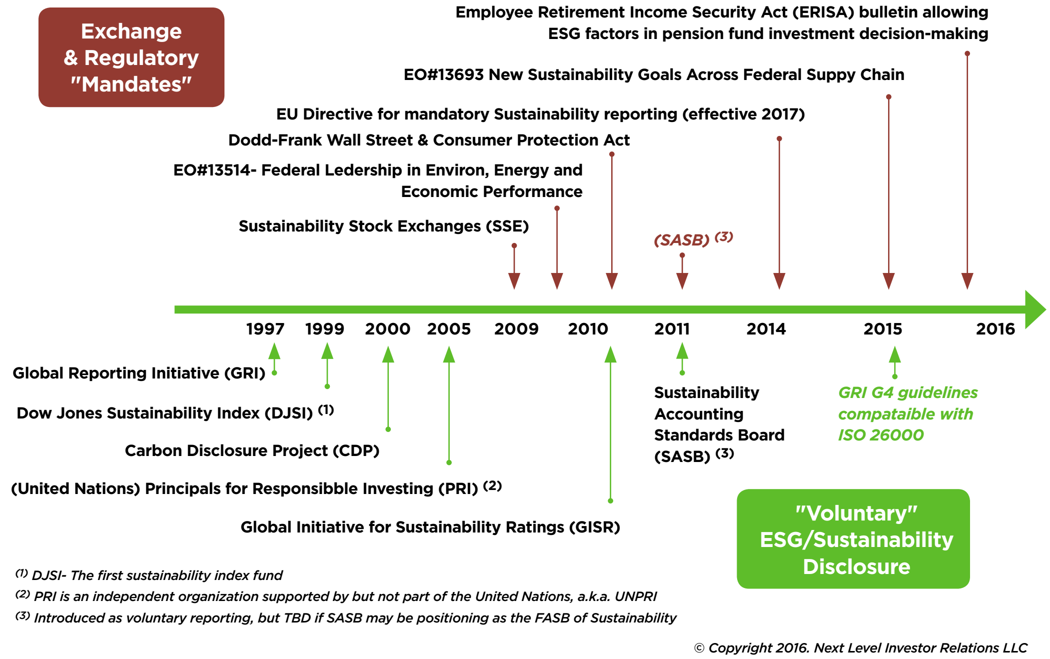
SASB uses the U.S. Supreme Court's definition of materiality and an evidence-based process to identify sustainability topics that are proven to create value or mitigate risk. The organization creates standards on an industry or sector basis and its goal is to have companies report these disclosures in their 10K/annual reports.

By the end of 2015, 81 percent of S&P 500 companies were producing sustainability reports. S&P 500 companies can have resources not accessible to smaller companies, so IROs should understand there are ways to right-size sustainability programs and strategic communications. Besides stand-alone sustainability reports, other ways to publicly present focused sustainability disclosure and discussion include using integrated reporting and/or the spectrum of IR communications platforms.

READ MORE

The IRRI survey of investors, analysts, and listed companies about ESG issues is available at **http://bit.ly/2q3W6sC**

U.S. Public Policy Trends & ESG Disclosure Convergence



READ MORE

The Ipreo report, "How ESG Drives Investment Decisions: Perspective from Buy Side," published in January 2017, can be downloaded for free at **http://bit.ly/2q3Tbjw.**

Integrated reporting is geared toward analysts, asset managers, and investors (as opposed to broader stakeholder groups or other interested parties) to present ESG data as part of the company's long-term strategy discussion. Dispelling a common misbelief, panelists noted that integrated reporting is not a substitute for a sustainability report.

Krzus defined it this way: "Integrated reporting is an approach that can be used to focus on components of a company's sustainability efforts most germane to capital market stakeholders in investment decision-making. It is a business process that results in providing information about an organization's long-term strategy and execution objectives and can be used to address the challenge of 'short-termism.'"

An Investor Relations Imperative

Just in the last few years, the field has suddenly matured with mainstream investors adopting ESG approaches in investment decision-making, such as Goldman Sachs, State Street, Bank of America, UBS, BlackRock, Morgan Stanley, HSBC, and many others.

It is widely recognized that the United Kingdom and European institutional investors embraced ESG/sustainability in investment analysis first, but investors in the United States are rapidly catching up.

Ipreo recently published results of a study on the evolving landscape of ESG integration titled, "How ESG Drives Investment Decisions: Perspective from the Buy Side." The study team found that investment professionals largely rely on company reporting for ESG/Sustainability research and recommend that IROs take a larger role in increasing sustainability communications.

Tyrrell shared results of a recent Independent Research in Responsible Investment (IRRI) survey that included 1,000 investors and analysts plus more than 300 listed companies. The survey results show that "companies are increasingly delegating responsibility for SRI communications to their investor relations teams – often supported by CSR teams."

Several additional IRRI survey findings include:

- Asset managers care about sustainability because asset owner clients are putting pressure on them and because these factors have investment impact.
- Over 90 percent of new investment guidelines issued by institutional investors surveyed require sustainability and corporate governance factors to

be integrated into investment decision-making.

- 73 percent of asset managers believe direct contact with companies on sustainability issues is an important part of their research process.
- Annual sustainability-focused webinars and roadshows are valued by both companies and investors as efficient and high-quality ways of communicating.

Big Data for Sustainable Investing

Whether you know it or not, there is likely considerable data out there on your company's ESG performance that institutional investors and analysts are relying on. One of the fastest growing resources is the ESG dashboard on Bloomberg terminals – with thousands of public company data sets and volumes of information about issuers' sustainability efforts. A Bloomberg terminal sits on practically every analyst and asset manager's desk – some 325,000 worldwide. This dashboard is built around the GRI and other frameworks.

There are many other sustainability data and research providers, including but not limited to ThomsonReuters (which owns Asset4), IW Financial, Oekom Research, SustainAlytics, RobecoSAM Group, and MSCI.

Final Word

There is a frequent view in the IR community related to sustainability, something like, "nobody is asking IR about sustainability, so nobody cares." This response couldn't be further from the truth or reality today. Sustainability reporting and disclosure is important for investor relations in the strategic communications story. IR

PAMELA STYLES is principal of Next Level Investor Relations LLC, and an advisory board member for the NIRI Capital Area chapter; **p.styles@nextlevelinvestorrelations.com.** She served as moderator of the sustainability webinar.

READ MORE

Trends Converging!, published in January 2017, authored by Hank Boerner, provides an in-depth look at ESG/sustainability trends for corporate managers. It can be downloaded for free at **www.ga-institute.com** under the "Research" tab.

Benchmarking Your IR Program

The NIRI San Francisco chapter shares insights on the various metrics used by IR teams.

BY NICOLE NOUTSIOS

Benchmarking the success of an IR program can depend on a number of factors, including market cap, industry, stability of financial metrics, and a management team's support of the function. Once aligned with management on the objectives of the program, an IRO needs to ensure that the appropriate qualitative and quantitative metrics are tracked to demonstrate the program's value added.

At a recent NIRI San Francisco event, titled "Benchmarking Your IR Program," panelists discussed the goals and metrics used to benchmark their respective IR programs. Attendees learned about the objectives of best-in-class IROs, as well as the internal metrics they use to benchmark the quality and effectiveness of their IR programs. The panel also covered how IROs communicate these metrics to management and their boards.

The panel's moderator was Victoria Hyde-Dunn, director of investor relations at Visa, Inc. Speakers included Steve Austenfeld, vice president, investor relations at The Clorox Company; Julie Tracy, IRC, senior vice president and chief communications officer at Wright Medical Group N.V.; and Marty Palka, chief intelligence analyst, investor relations at Cisco Systems.

Long-Term Metrics

Overwhelmingly, these IROs focused on achieving long-term valuation targets and on lowering stock volatility compared to their peer groups. All panelists emphasized that valuation and stock price appreciation metrics can span a long period and noted that companies should also monitor unwanted volatility.

"Our primary focus from an investor relations standpoint is assessing whether the company's stock is fairly valued, based on what information is known in the market and versus our internal intrinsic valuation work. This helps shape our external messaging," Austenfeld of Clorox noted. "And, while we monitor short-term stock movement, our focus is always on seeking to be fairly valued over the long term."

Quantitative and Qualitative Measures

Beyond valuation metrics, the panelists all reported having accountability for a variety of other quantitative measures, as well as for qualitative ones. According to a 2016 NIRI research report, 81 percent of IROs use at least one IR metric to measure their program's success. Some of the metrics cited by the

speakers included the number of meetings per year, analyst coverage, quality of the shareholder base, peer valuations, and Wall Street message retention.

Tracy of Wright Medical said that her annual bonus is tied to the IR department's quantitative goals. "My bonus is tracked to the weighted average turnover rate of the top 50 shareholders," she said, "and I am also accountable for whether or not sell-side notes accurately reflect company's current positioning, regardless of opinion."

Communicating IR Success

The panelists said they provide weekly, monthly, and quarterly reports to both their boards and management team. They also participate in weekly executive staff meetings to communicate the IR strategy and performance on key metrics, as well as to provide overall Wall Street feedback on the company and its sector.

"We have constant engagement with all key Wall Street stakeholders, and we are responsible for providing feedback to management on our messaging and whether it is well understood in the market," Palka of Cisco stated. His department also provides daily updates on peer news, market updates, and research on Cisco. "For example, every morning, we send out a daily market update, discussing what analysts are saying about Cisco, our tech peers and competitors, as well as an overview of the market."

Getting Feedback From the Street

While it is important to benchmark your IR program, it is imperative that companies seek feedback from Wall Street on external perceptions of the IR program. Everyone noted that they provide informal investor feedback to the management team and conduct perception studies on an ongoing basis. Further, IR departments follow sell-side research to ensure there is strong message pick up, which acts as a qualitative form of measurement.

"A successful program combines a healthy balance of quantitative and qualitative assessments from proactive engagement, education, and feedback by internal and external stakeholders," shared Hyde-Dunn of Visa. "You want to continually demonstrate IR's value as a strategic business partner and favorably influence the external impression of the organization."

Whether the focus is on qualitative metrics like message uptake or quantitative metrics such as long-term valuation or volatility, it is clear that measuring IR department performance should be a priority for IROs. By aligning with management on goals and objectives, an IRO can identify and track the appropriate measures for their industry and market cap to drive long-term success. IR

NICOLE NOUTSIOS is founder of NMN Advisors; **nicole@nmnadvisors.com.** She is also president of the NIRI San Francisco chapter. To read NIRI's research report on benchmarking practices, please go to: **www.niri.org/analytics**.

SHARE A PHOTO

If you have photos from a NIRI chapter event that you would like to share, please send those photos to: pix@niri.org. We may feature them on the NIRI Facebook page or in *IR Update*.