CFO Insights

Effective IR: Lessons from the trenches

Public companies are engaging with shareholders in dramatically different ways these days, and demands from stakeholders are high. Meanwhile, regulatory scrutiny has intensified, as has shareholder activism. Against that backdrop, investor relations (IR) departments must continually strive to serve the interests of their organizations, as well as shareholders.

But what does it take to have a truly effective IR team, and how can IR provide value to CFOs and management, as well as investors?

To answer those questions, we've asked five leaders of large-company IR departments to share their views on some of the most difficult aspects of IR. And in this issue of *CFO Insights*, those leaders—Rob Binns, former VP of IR at Hewlett-Packard (HP), who currently serves as CFO and VP of HP Software; Dexter Congbalay, VP of IR at Mondelez International; Chris Jakubik, VP of IR at Kraft Foods; Regina Nethery, VP of IR at Humana; and Charles Triano, SVP of IR at Pfizer–discuss IR excellence in the following areas: working with the C-suite, addressing "value gaps" between management and analysts, communicating strategic changes, disclosing bad news, and dealing with activist shareholders.*

Working with the C-suite

"One of IR's most valuable roles is demystifying Wall Street for our executives. We spend a lot of time internally with different groups talking about what the value drivers are in terms of how shareholders are viewing Pfizer. We explain what the investment community measures, what they are most interested in, their criticisms, and the areas of the business where we think the company is least understood. It helps our executives in the business understand how their day-to-day work connects to the Street's perception of shareholder value, and what we do in IR to make sure investors really understand our story."
Charles Triano, Pfizer[1]

"IR's responsibility is [also] to triage the many requests received from investors, analysts, and others. The CEO and the CFO have a tremendous number of responsibilities on their plates, so it's important that IR engages them only when we need to so that they can most effectively use their time. At the same time, we have to ensure that they stay in close touch with the Street, and that they're still available for investors on a regular basis—although perhaps not daily." **Regina Nethery, Humana**[2]

"With respect to new CFOs and finance professionals, I've found that unless you make a conscious effort to understand the shareholder perspective, it doesn't always align with what you might think. For instance, business finance people tend to focus on the P&L and the balance sheet as they support their business. However, investors can often focus on other things, such as cash flow and capital allocation, and so it is key to address these issues. For example, some of our investors gave us feedback on HP's return on invested capital. Working with the CFO and the finance teams, a lot of work has been done on improving the process around return on invested capital." **Rob Binns, HP**[3]

Addressing "value gap" issues

"As a former analyst, I know that dialogue is key, but it's the type of dialogue you have that makes the difference. For example, management arguing valuation with analysts is like analysts telling management how they should change the way they run their business; it generally falls on deaf ears. Instead, a dialogue that focuses on identifying the gaps in perspectives on fundamentals and opportunity sets—the things that drive valuations—and discussing them directly, in a fact-based, well-supported manner, is very effective. There are appropriate guardrails from the SEC, such as Reg FD [Regulation Fair Disclosure] on how far you can go, but I think engaging analysts and investors on the subject is wholly appropriate." **Chris Jakubik, Kraft**[4]

"To the extent there is a gap, we try to proactively address it in the prepared remarks during the earnings calls or in any other kind of forum where information is publicly disseminated. When we don't fully understand what we're hearing back in terms of the view from the Street, we will proactively do outreach to the sell side. If we have a major shareholder that has a question or a concern, again, we will proactively reach out to better understand the view. We may not agree with it, but we're at least trying to see where they're coming from." **Regina Nethery, Humana**

"It can be hard to avoid a value gap because management is working with much more complete information than analysts on valuing the company. Some value-creating actions the company is taking may be too nascent to communicate externally. IR can, however, point investors toward those nascent areas by saying, 'Here's what we're looking at in terms of the broad opportunities.' It's a balancing act, because you have to make sure you don't cross that material disclosure line." **Dexter Congbalay, Mondelez International**[5]

Communicating strategic changes or initiatives

"If you're introducing a change in corporate strategy, think about the company's ability to deliver consistently against that plan and execute on it. Be realistic about nonlinear progress; if it's going to be three steps forward, two steps back, say so. Then help investors understand how you're measuring your progress against your goals. Explain the metrics and signposts investors should use to monitor your progress against the plan. You build credibility first with transparency and then by consistently delivering and executing." **Rob Binns, HP**

"The key is having clear, straightforward answers to their questions queued up, and being able to succinctly explain the context behind the shift: 'Here's why we did it, here's why we think this creates more value, here's who has ownership of the strategy, here's how we're measuring ourselves.' It's important to understand the background and thought process behind the shift: Did the facts change, did the markets change, were we counting on a new product that didn't work? If IR is at the table when these discussions are occurring, the team can contribute to the discussion by explaining to leadership how shareholders and the Street might react to the shift before it's out there, and whether that merits an adjustment." **Charles Triano, Pfizer**

"Number one: you have to provide context for your audience, whether it's the analysts who generally look within your industry for a benchmark, or for your ultimate audience, the portfolio managers, who look across industries. It also comes back to doing a lot of listening. We listen to what our broader consumer-staples peers say and how they define themselves. We listen to analysts and investors to understand how they define what they're seeing as good or bad, or value-building or value-destroying. Number two: you've got to provide a thread of logic over time. So you map things out based on what you know or expect to unfold over the coming months and make sure that the construct of your communications and presentations today can accommodate the future." **Chris Jakubik, Kraft Foods**

Disclosing bad news

"CEOs and CFOs work with investors best when they come in with a mind-set of transparency and realism. It allows them to clearly and concisely define the topic and ensure that each external constituent understands what we're going to do about it—with bad news especially, but good news as well. More than anything else, there needs to be a consistent and seamless message across the organization. It's not just what IR or the CEO or CFO says to investors, but what our communications team is saying to the media and how we're conveying news to employees, what the sales and business units are saying to customers and vendors, etc. That takes a great deal of coordination and great partners in other functions of the company." **Chris Jakubik, Kraft Foods**

"One of (HP CEO Meg Whitman's) leadership principles is 'run to the fire': If you've got a tough message to deliver, don't shrink from it. Address it head on, with a frank assessment of the issue, the reasons behind it, and what's being done to address it. You've got to have a plan and really think through the implications of what you're telling people, and make sure that message is consistent across all the audiences you're trying to address. You need to be aware of prior public commentary from the company to bridge any gaps between what you said before and what you're saying now." **Rob Binns, HP**

"When we've had issues in the past, we've tried to be very clear with investors about what happened, why it happened, and how we are addressing the issue, rather than simply saying that we had a problem. We really try to be expansive in terms of ensuring investor understanding and building their confidence that when these things happen, the management team has a plan to get things back on track." **Regina Nethery, Humana**

What makes a leading IR team?

To provide value, IR departments need to communicate to their company stakeholders with consistency, clarity, and candor. But that is just part of what makes an IR department successful.

"It's vital for an IR function these days to have a financial orientation, as well as communications skills," explains Regina Nethery, VP of Investor Relations for Humana. "Fifteen or 20 years ago, you could probably successfully work in IR with a strictly communications background. Now, though, you must have that financial background…."

Moreover, says Chris Jakubik, VP of Investor Relations at Kraft Foods, "it's increasingly important to foster a deep knowledge of your company, your industry, and the other sector constituents within it. That requires a good bit of business acumen. It also requires what I would call constructive dissatisfaction, in the sense that you should never assume that what's worked in the past is appropriate for the present or future."

Knowing who the go-to sources are is also vital. "Don't worry about organizational layers or protocol and deal directly with the people who have the information you need," says Dexter Congbalay, SVP of Investor Relations at Mondelez International.

Finally, there are the three "T's": timeliness, transparency, and trust. Says Charles Triano, SVP of Investor Relations at Pfizer: "The investment community values an IR organization that demonstrates its commitment to building relationships based on trust and candor." Part of that is providing timely responses to investor questions, he says, adding that "fund managers feel more comfortable owning shares at a company where they know that if they have a burning question or if something goes wrong, they have an 'in,' so to speak, at the company." After all, notes Nethery, "the Street is dealing with a dynamic environment…and when they have questions, they really need an answer. They don't want to wait days or weeks before they hear back."

As for transparency, says Rob Binns, former VP of Investor Relations at Hewlett-Packard, who now serves as CFO and VP of HP Software, it is "critical." "In our case, management is executing on a five-year turnaround plan….and helping investors understand what the milestones are and what they can reasonably expect along the way is incredibly valuable." The feedback from investors, he adds, is that "they welcome an honest, straightforward story—they don't want to be sold to, they don't want to be spun to."

Dealing with activist investors

"Just like any other investor, the key is dialogue. If you study the history of the most contentious situations between activists and companies, more often than not, problems arose because management declined to engage in the type of frank, open discussion that they would normally have with a traditional investor. When you look at the people on the investment side, it would be rare to find investors or even activists who truly believe that they know your business better than you do. They may come to the table with some very strong views and convictions; that's understandable because if you think about those on the other side of the table who might be investing billions of dollars in one company, they'd better have conviction. I think the more you embrace and educate activists and others with differing views, the more successful you'll be in pacifying a lot of those views, particularly the ones that are misinformed or off-base." **Chris Jakubik, Kraft Foods**

"First, you've got to engage with them at some level, whether through IR or management, depending on prior interaction or relationships. A mistake many companies make is to ignore activist shareholders for as long as possible. Instead, try to have a discussion with them as soon as possible, to understand how they perceive the company, what they are looking to have the company accomplish that the company isn't doing or is not communicating well to shareholders, and why. If you put off engaging with the activists, it gives the impression you're stonewalling, that you're entrenched and not open to new ideas. Perception becomes reality in a lot of cases and that just emboldens the activists." **Dexter Congbalay, Mondelez International**

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Endnotes

1. "Effective IR: Becoming a Trusted Proxy for Management," October 21, 2014, Deloitte module of *CFO Journal*, CFO Program, Deloitte LLP.
2. "Effective IR: Maintaining a Responsive Dialogue with the Street," September 2, 2014, Deloitte module of *CFO Journal*, CFO Program, Deloitte LLP..
3. "Effective IR: Building Trust with Clarity, Candor and Consistency," July 9, 2014, Deloitte module of *CFO Journal*, CFO Program, Deloitte LLP.
4. "Effective IR: Know Your Audience and 'Tell It Like It Is'," September 23, 2014, Deloitte module of *CFO Journal*, CFO Program, Deloitte LLP.
5. "Effective IR: Engage with Investors, Get Honest Feedback," August 13, 2014, Deloitte module of *CFO Journal*, CFO Program, Deloitte LLP.