Measuring IR Effectiveness

& How Investor Perception Research Can Help

Bruce Connery

Senior Investor Relations Professional

&

Gene Rubin

Senior Vice President Rivel Research Group

January 17, 2017

An Age Old Problem….

- How to measure IR effectiveness

- Two primary challenges:

    – Internal (annual review – compensation)

    – Is the program delivering?

- There is always some subjectivity

Thoughts about Internal IR Review

- What doesn't work:

    – Stock price performance

    – Sell-side ratings

    – Number of investor meetings

- What's better:

    – Performance against goals

    – Grounded in strategy (refreshed annually)

    – Measureable, but still subjective elements

Potential Goals (Cont.)

- Deliver and execute targeting strategy

  - Combine with roadshow strategy

- Impactful conference schedule

  - Appropriate number/quality of meetings

- Maintain accuracy of sell-side research

- Internal support

  - Investor feedback/recommendations

  - Intel on customers/competitors

- Dealing with the unexpected

  - Biggest area of opportunity for IR

Example: Investor Relations Calendar

INVESTOR RELATIONS 18-MONTH CALENDAR

2011 - 2012

	2011													2012								
	DEC 2010	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT
Planning				3/28 2+10 Forecast			6/13 Early View LRP / 6/27 Final View LRP	7/7 5+7 Forecast			10/10 8+4 Forecast / 10/13 1st LRP Review	11/10 2nd LRP Review	12/19 11+1 Forecast		TBD 2+10 Forecast				TBD Early LRP	TBD 5+7 Forecast		
Board Meetings	12/2-3 2011 Plan Approval		2/7-8 Annual Results	3/29-31 Strategy Offsite		5/16-17 BOO & Share Holder Meeting		7/13-14 Regular Meeting			10/5-6 Regular Meeting		12/8-9 2012 Plan Approval		2/22-23 Regular Meeting		4/3-5 Strategy Offsite	5/22-23 BOO & Share Holder Meeting		7/6-7 Regular Meeting		
SEC Filings				3/1 2010 10-K		5/6 1Q 2011 10Q			8/8 2Q 2011 10Q			11/4 3Q 2011 10Q			2/29 2011 10-K Deadline			5/10 1Q 2012 10Q Deadline				
Business Events		Project Magellan	Shift to Oil PL backlog almost done							Free Cash Flow in 3Q												
Pipeline	CIG Ration 2010 in service / SSIII in Service	Rest of backlog on track	Update Outlook for Ruby		FGT8 in service			Ruby in Service			Gulf LNG in Service	TGP Line 300 in Service										
E&P		Add rig in Eagle Ford	Oil programs dominate activity / Frio Well Test	Eagle Ford JV (Internal) / Wolfcamp Update at Howard Well		Wilcox Oil in 1Q Call	Clarity on Egypt					Clarity on Brazil										
Financial / Debt			2/10 Rating Agency Meetings	3/8 MLP Drop #1					MLP Drop #2			MLP Drop #3				MLP Drop #1			MLP Drop #2			
Midstream	Midstream Partner				Clarity on MEPS & EF																	

Companies Have Differing IR Needs

- El Paso

  – Rebuilding the company - 3-year plan

- BG Group

  – Reestablish credibility - quickly

- Columbia Pipeline Group

  – Deliver growth (assets triple in 5 years)

  – Significant capital markets needs

Measuring IR Program Effectiveness

- Investor feedback (about IR) always import

- Third-party review provides significant intel to management and board

  - How is company perceived?

  - What makes investors buy or sell?

  - How is IR effort viewed?

  - How is management viewed?

  - Above is predictable, but good consultant can deliver quantifiable results

  - Management needs to be receptive…

Perception Studies Can Be Valuable

- Every 18-24 months
  - Establish baseline
  - Monitor change
- El Paso experience
  - Only pipeline/E&P hybrid left
  - Perceived discount in share price
  - Debatable which drivers were most responsible
  - Rivel study very enlightening

WHO IS RIVEL RESEARCH GROUP?

▶ **Founded in 1991**

▶ **Exclusive focus on investor perception research**

▶ **150+ <u>custom investor perception</u> studies annually**

▶ **Research-based IR best practices - <u>Rivel Intelligence Council™</u>**

▶ **Work with over half of the S&P 500**

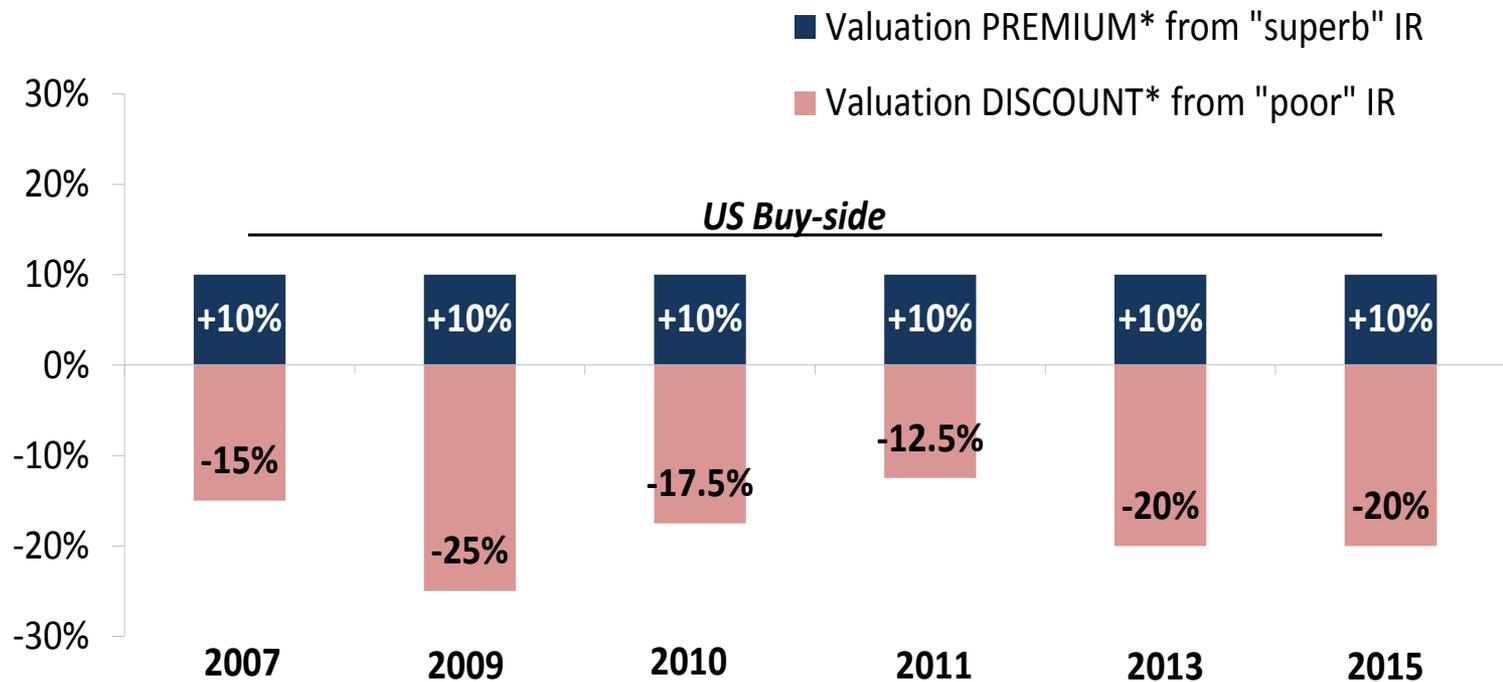▶ **8,500+ telephone interviews annually with buy-side and sell-side**

▶ **Representative**

The Value of IR

RIVEL
THE VALUE OF GLOBAL INSIGHT

GLOBAL BUY-SIDE SAYS:
ONLY 31%
OF COMPANIES
HAVE "SUPERB IR"

Believe Good IR Affects a Company's Valuation - Tracking
(Among Total Global Buy-side)

2009 (US only) (232)	2012 (395)	2013 (402)	2014 (357)	2015 (355)
74%	62%	73%	73%	88%
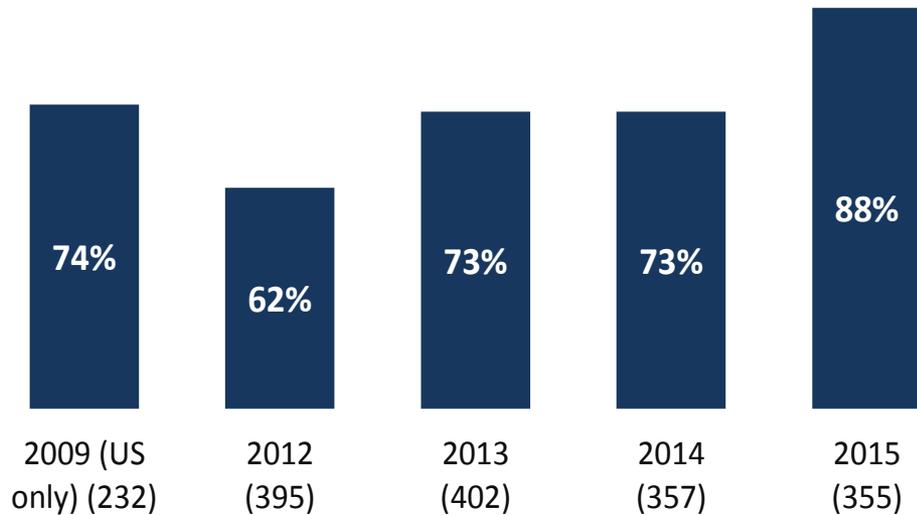
Impact on Valuation of Superb versus Poor Investor Relations (Unaided)
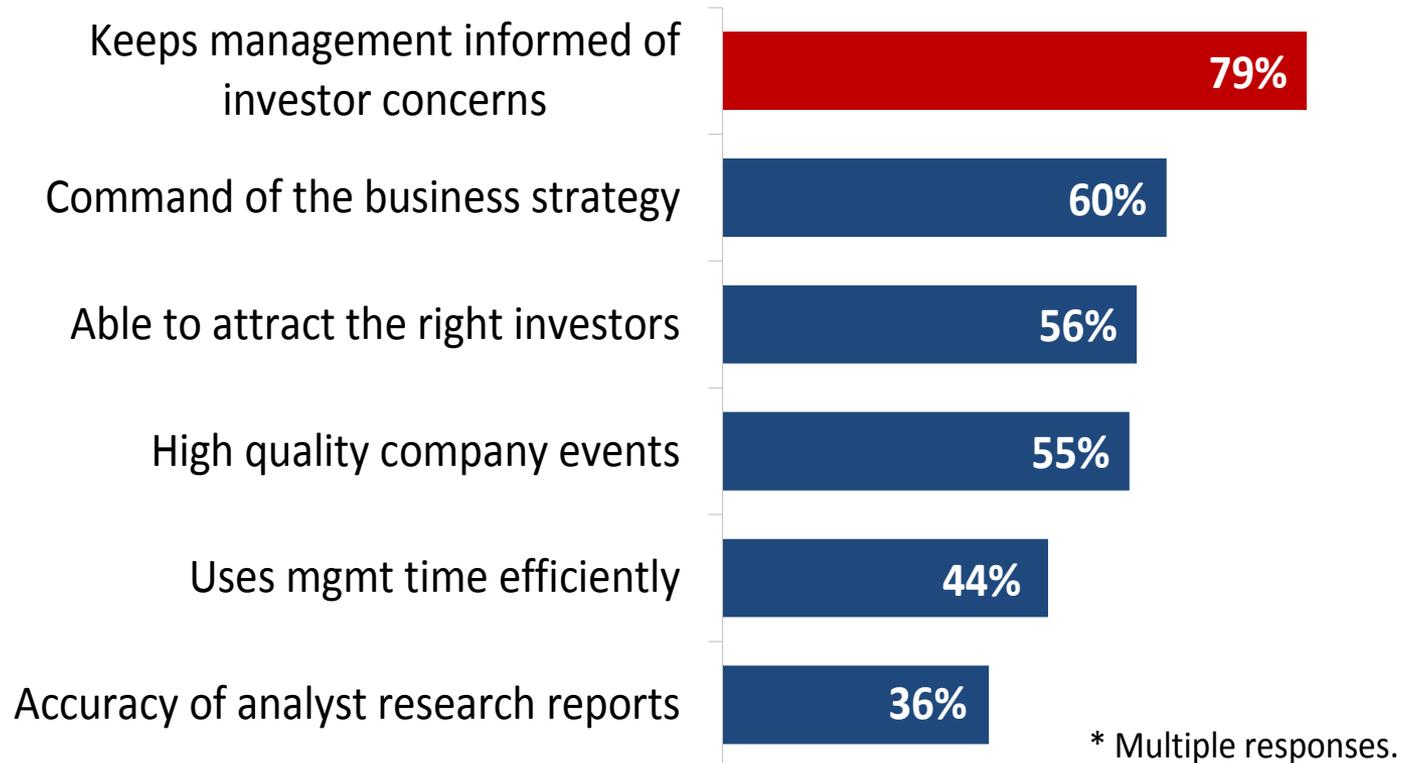(Among US respondents who believe IR affects a company's valuation)

■ Valuation PREMIUM* from "superb" IR

■ Valuation DISCOUNT* from "poor" IR

US Buy-side

Year	Premium	Discount
2007	+10%	-15%
2009	+10%	-25%
2010	+10%	-17.5%
2011	+10%	-12.5%
2013	+10%	-20%
2015	+10%	-20%

* Median

What Is Good IR?

Top Drivers of IRO Credibility to the Buy-side* (Aided)

(Total Global Buy-side, February 2016, n=350)

Driver	Percentage
Responsiveness	95%
Advocating transparency from mgmt	93%
Informing mgmt of investor concerns	91%
Command of the business strategy	86%
Securing mgmt meetings	80%
Proactive investor communication	79%
Accuracy of sell-side research	57%

* Multiple responses.

RIVEL
THE VALUE OF GLOBAL INSIGHT

How the C-Suite Measures IRO Performance* (Aided)
(Total North American CEOs and CFOs, December 2014, n=156)

Category	Percentage
Keeps management informed of investor concerns	79%
Command of the business strategy	60%
Able to attract the right investors	56%
High quality company events	55%
Uses mgmt time efficiently	44%
Accuracy of analyst research reports	36%

* Multiple responses.

Make sure you know what you (the IR Team) can control!

What IR team **controls**:

- Who follows the story

- What they hear

- IRO knowledgeability

- IRO investor outreach

- IRO responsiveness

- IRO Candor

What IR team **facilitates**:

- Management access

- Disclosure

- Transparency

Questions to measure the IR team's effectiveness…

- What would you say are the key elements of our business strategy?

- What drives value for you as you think about our company?

- How would you say we differentiate from our investment peers?

- Would you say that the IR function is

  - Responsive

  - Knowledgeable

  - Candid

Step 1: What do I need to know?

1. Purpose of study?
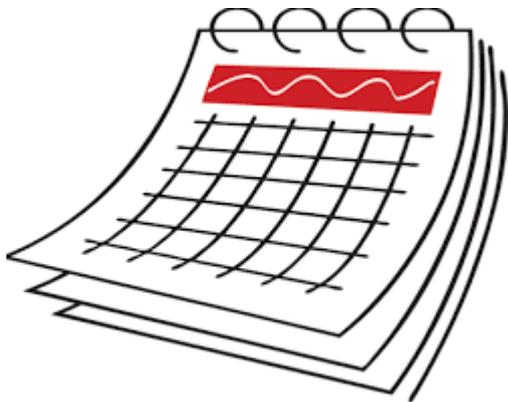

2. Do I have buy-in?

3. Who will see results?

4. What will results say?

5. Is team ready to act?

Step 2: To do list (*hint* – work backwards):

1. Schedule
   a) Presentation date
   b) Interview period
   c) Interview start date

2. People to call
   a) Sell-side analysts
   b) Shareholders
   c) Target investors
   d) Leadership/Board

3. Design questionnaire
   a) Objective
   b) Qualitative
   c) Quantitative
   d) Comprehensive

Questionnaire:

1) Order matters – to avoid bias

      Bad first question: "What is your overall impression of the industry?

      Good first question: "What is you overall impression of the company?

2) Questions must be focused – don't mix ideas

      Wrong: "How clear is the strategy and do you think it will be effective
                          in driving attractive financial performance?"

      Right: "What is (Company) strategy?"
                    "What does attractive financial performance mean to you?"
                    "Will it achieve attractive financial performance (probe)?"

3) Design – mix aided and unaided questions

      Example: "Rate strategic clarity (1-6)"
               If they rate it 1-4 then ask, "Why not higher?