

# CECP

THE CEO FORCE FOR GOOD

STRATEGIC INVESTOR  
INITIATIVE



*Long-Term Plans:  
CEO Presentation Toolkit*

# Introduction to Presentation Toolkit

This toolkit has been produced for participants at **CECP's CEO Investor Forum, on April 19<sup>th</sup>, 2018, NASDAQ Entrepreneurial Center, San Francisco**. Subsequent Forums will be held September 18<sup>th</sup>, 2018 (New York City).

This toolkit provides suggestions to help convey your company's long-term strategic plans, to the providers of financial capital.

We provide a 30-minute presentation format example as a framework for your CEO's consideration, along with investor perspectives on risk management and supplemental information for conveying your company's strategy for long-term value creation. Separately, each company will be provided with key ESG data scorecards from leading sustainability analysts including Bloomberg, Thomson Reuters and TruValue Labs.

[CECP's Strategic Investor Initiative \(SII\)](#) serves as the catalyst to help forward-looking CEOs lead the way as they convey their company's long-term strategies to investors, and unlock the full potential of sustainable earnings growth. **CECP thanks you for your leadership and participation in the CEO Investor Forum.**



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## **Current Context**

Challenge

Solution

Long-Term Plan Presentation

Frame It

Build It

Measure It

Supplemental Information



## Current Context

# Consensus: emphasis on short term detrimental

- General agreement among leading CEOs and institutional investors that over-emphasis on the short-term is detrimental to companies, investors, key stakeholders and society as a whole.
- Traditional focus on quarterly results is suited neither to conveying long-term strategy or sustainable value creation.<sup>1</sup>
- Excessive focus on the short term can come at the expense of long-term value creation:<sup>2</sup>



Increased focus on quarterly earnings targets leads to:



Decreased spending on R&D  
Deferred maintenance  
Reduced brand investment  
Excessive share buy backs  
Delayed hiring of critical employees

1. [\*A Tale of Two Stories: Sustainability and the Quarterly Earnings Call. Robert G. Eccles and George Serafeim, Harvard Business School\*](#)

4 2. [\*R. Edward Freeman, Elis and Signe Olsson Professor of Business Administration, Darden School of Business at the University of Virginia\*](#)



## Current Context

# Consensus: emphasis on long-term advantageous

**BLACKROCK**

“With a better understanding of your long-term strategy, the process by which it is determined, and the external factors affecting your business, shareholders can put your annual financial results in the proper context.”

**Vanguard**<sup>®</sup>

“What’s important to us is that it [the board] engages... and when they engage, boards should be prepared to enter into a dialogue on appropriate issues of interest to significant, long-term investors.”

**STATE STREET  
GLOBAL ADVISORS**

“As stewards we are convinced that addressing [environmental, social, governance] ESG issues is a good business practice and must be part of effective board leadership and oversight of long-term strategy.”

1. [\*Laurence D. Fink, CEO, BlackRock, Letter to CEOs of S&P 500 & European Companies, 2017\*](#)

2. [\*F. William McNabb III, CEO, Vanguard, Open Letter to Company Directors, 2017\*](#)

5 3. [\*Ronald O’Hanley, President & CEO, State Street Global Advisors, Letter to Board Members & ESG Guidance Framework, 2017\*](#)

## Current Context

# Numerous benefits of a long-term focus

- Corporations that report long-term metrics and a consistent, stakeholder-oriented value-creation story tend to have a higher proportion of long-term focused shareholders.<sup>1</sup>
- Companies that take a long-term view, and integrate material ESG risks into those plans, out-perform peers that focus solely on the short term.<sup>2</sup>
- Leading investors want companies to include material impacts from ESG-related aspects of their business, within the context of reporting on progress toward sustained operational excellence.
- Investment analysts who consistently address financially material ESG aspects of long-term strategy during company conference calls, are often top ranked analysts by industry.<sup>3</sup>

Investors believe it is important for material ESG information to be framed in the context of the company's long-term vision, and provided to investors alongside the company's core financial records and projections (preferably looking forward 3-5 years).

– [Six Reasons Why Companies Should Start Sharing Their Long-Term Thinking With Investors](#)  
*MIT Sloan Management Review*

1. [Integrated reporting and investor clientele by George Serafeim. Journal of Applied Corporate Finance, Volume 27, Number 2. Spring 2015](#)

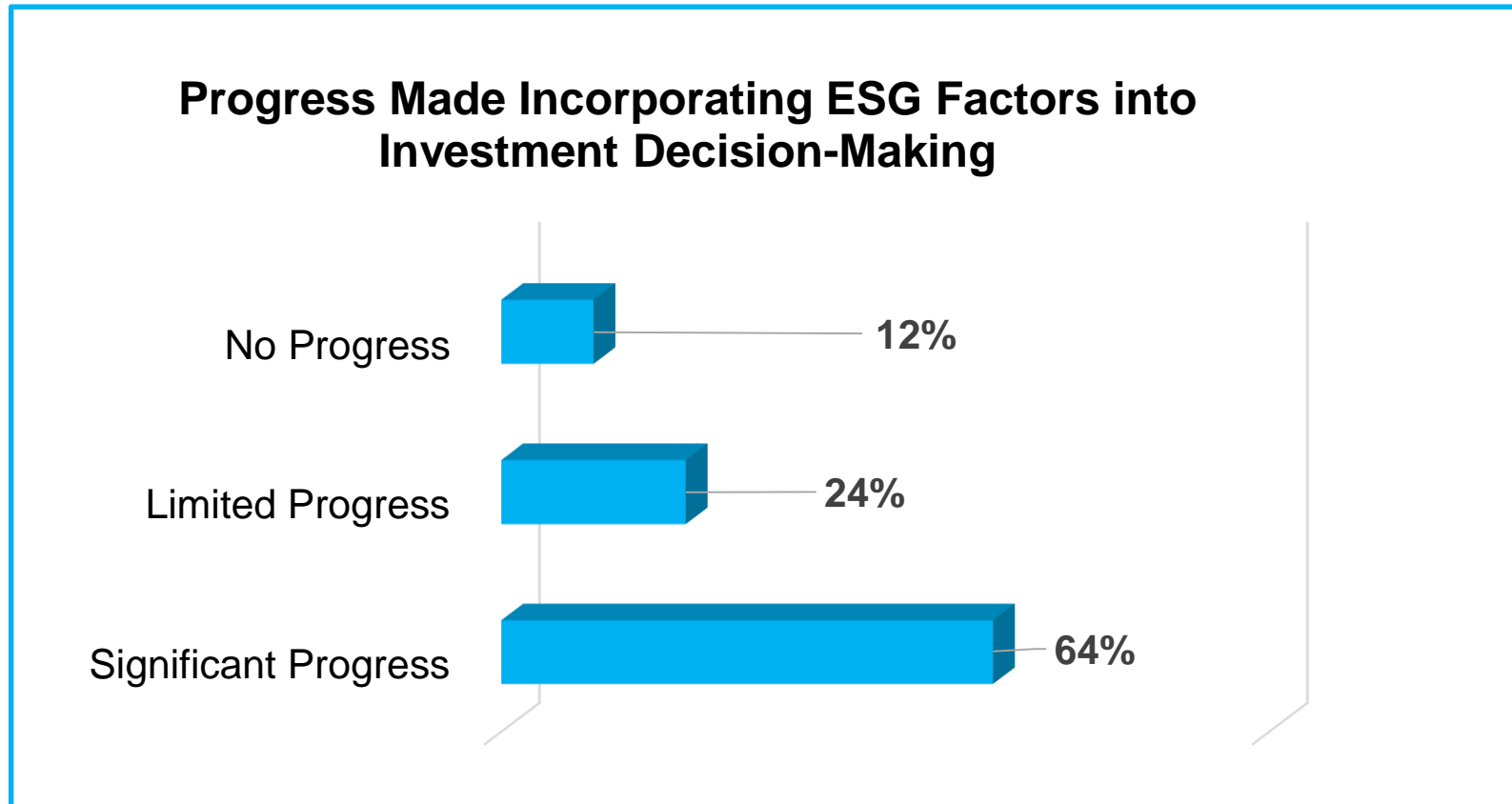
2. [Measuring the Economic Impact of Short-Termism, McKinsey Global Institute, 2017](#)

3. [Harvard Business Review. If CEOs Care About the Long-Term, Why Don't They Talk About It, Sakis Kotsantonis, Shalini Rao, Daniela Saltzman, George Serafeim](#)



## Current Context

# Investors increasingly integrating ESG factors into investment decisions



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Current Context

**Challenge**

Solution

Long-Term Plan Presentation

Frame It

Build It

Measure It

Supplemental Information



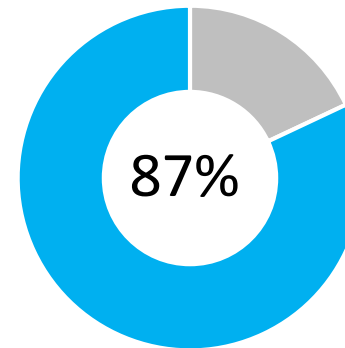


## Challenge

# Lack of common language to communicate longer-term plans & ESG

Lack of common language and platform to communicate longer-term plans & financially material environmental, social and governance (ESG) factors

Despite the evolution of ESG reporting standards, leading institutional investors believe many corporations are not effectively conveying their long-term strategic vision for sustainable value creation.



of CEOs believe they are too short-term focused.<sup>1</sup>

*“One reason for investors’ short-term horizons is that companies have not sufficiently educated them about the ecosystems they operate in...with clearly communicated and understood long-term plans in place, quarterly earnings reports would be transformed from an instrument of incessant short-termism into a building block of long-term behavior.”*

**LAURENCE D. FINK, CEO, BLACKROCK**

Current Context

Challenge

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**Solution**

Long-Term Plan Presentation

Frame It

Build It

Measure It

Supplemental Information

# CECP's Strategic Investor Initiative (SII) CEO Investor Forum



Photo: CECP

Martin Schroeter, CFO at IBM, at inaugural CEO Investor Forum, Feb 2017.

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- **Encourage innovation** in corporate-investor dialogue
- **Extend & rebalance** the regular schedule of shorter-term CEO-investor communications
- Catalyze **coalitions of influential investors** supporting long-term, multi-stakeholder, value-oriented CEOs

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**3 priorities** to support CEOs in delivering **annual communications of their 3-5 year strategic plans** in addition to shorter-interval corporate communications with investors:

- Investor targeting
- Identification of key stakeholders
- Presentation development support

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The **CEO Investor Forum** is an invitation-only session where CEOs tell their longer-term value creation story. Select leading CEOs present their long-term business plans to 100+ long term-oriented institutional investors & asset owners (US\$25T+ AUM).

Current Context

Challenge

Solution

**YOU ARE HERE**



**Long-Term Plan Presentation**

Frame It

Build It

Measure It

Supplemental Information



## Long-Term Plan Presentation

# Three Simple Requirements

1. Plans must be **focused on a time frame of more than 1 year**, preferably 3-5+ years
2. They must **integrate financially material ESG factors**
3. Presentations will be **webcast live\***

\* *to ensure that material information is disclosed to all investors at the same time, in accordance with the rules under [Regulation Fair Disclosure](#).*

### Other specifications:

- CEO/Investor discussion lasts 40 minutes – 30-35 minutes CEO presentation, 5-10 minutes general Q&A.
- Audience: ~ 150 representatives of mainstream investment firms, typically investment analysts and portfolio managers.
- [Wall Street Webcasting](#) will be streaming the webcasts at the CEO Investor Forum. Presenting companies will receive their own personalized webcast link for sharing with key stakeholders, such as employees.

# Success Factors – Content & Team Choice

CECP has established success factors to help you structure the content of your 30 minute presentation. Generally, successful presentations are able to fulfill these criteria:<sup>1</sup>

- ✓ Shows the capital allocation plan
- ✓ Discuss measures and plans 3-5+ years forward
- ✓ Targets 20 minutes talking about the future
- ✓ Explains how a small set of ESG factors are core to business strategy
- ✓ Identifies significant stakeholders beyond shareholders
- ✓ Inspires with visionary statements

Successful presentations result from a team effort. When preparing yours, consider involving colleagues from areas such as:

- Office of the CEO
- Investors Relations & CFO
- Accounting & Corporate Reporting / Corporate Secretary
- Communications
- Sustainability / Corporate Citizenship / Corporate Responsibility



Current Context

Challenge

Solution

Long-Term Plan Presentation

**YOU ARE HERE**



**Frame It**

Build It

Measure It

Supplemental Information

## Long-Term Plan Presentation: Frame It

# Questions to Help You Frame It

1. What is **the long-term strategic vision** for your company?
  - a. What is your time frame?
  - b. How will your business model allow you to get there?
  - c. What choices are you going to make, and what are the factors that drive them?
    - i. What are the **long-term material risks** for environmental and social impacts?
    - ii. What **key initiatives** is the company undertaking to address major risks or opportunity?
    - iii. How is **capital being allocated** to support these initiatives? Is this process being led at the board level?
2. Who are your **significant stakeholders** and what are their long-term expectations of your company?
3. How will you present the **metrics** to be used in **tracking long-term progress** of organizational health, financial and operational performance, and for the mitigation of material ESG risks?
4. How are the company's **corporate governance structure** and **incentive systems** aligned to support these long-term initiatives as well as manage short-term performance?





Current Context

Challenge

Solution

Long-Term Plan Presentation

Frame It

**YOU ARE HERE**



**Build It**

Measure It

Supplemental Information

## Long-Term Plan Presentation: Build It

# BlackRock Content Suggestions

- BlackRock recommend that the CEO lays out for shareholders each year a strategic framework for long-term value creation, that should include the elements listed below:
  - ✓ How is the company navigating the competitive landscape? How is it innovating, adapting to technological disruption or geopolitical events?
  - ✓ Is the company attuned to the sustainability of the business model and its operations; external and environmental factors that could impact the company; its role as a member of the communities in which it operates?
  - ✓ What are your company's priorities for investing for long-term growth, such as research, technology and, critically, employee development and long-term financial well-being?
  - ✓ How will excess cash be used? Will it be used simply for more share buybacks? Or is it a part of a capital plan that appropriately balances returning capital to shareholders with prudently investing for future growth?
- Board must approve plans for the future – board review.



## Long-Term Plan Presentation: Build It

# Vanguard Content Suggestions

- Vanguard considers four pillars when evaluating corporate governance practices:
  - ✓ The board: A high-functioning, well-composed, independent, diverse, and experienced board with effective ongoing evaluation practices. Gender diversity is one element of board composition that we will continue to focus on over the coming years – there is compelling evidence that boards with a critical mass of women have outperformed those that are less diverse.
  - ✓ Governance structures: Provisions and structures that empower shareholders and protect their rights. Thorough disclosure of relevant and material risks— including consideration for climate change risk. The SASB can help identify material risks.
  - ✓ Appropriate compensation: Pay that incentivizes relative outperformance over the long term.
  - ✓ Risk oversight: Effective, integrated, and ongoing oversight of relevant industry- and company-specific risks.
- “These pillars guide our proxy voting and engagement activity, and we hope that by sharing this framework with you, you’ll have a better perspective on our approach to stewardship”



## Long-Term Plan Presentations: Build It

# State Street Global Advisors Content Suggestions

- SSGA's framework for evaluating a company's approach to sustainability:
  - ✓ Has the company identified material environmental and social sustainability issues relevant to the business?
  - ✓ Has the company assessed and, where necessary, incorporated those issues into their long-term strategy?
  - ✓ Has the company communicated its approach to sustainability issues and the influence of these factors on strategy?
- Sustainability encompasses a broad range of environmental, social and governance (ESG) issues that include, for example, effective independent board leadership and board composition, diversity and talent development, safety issues, and climate change.
- Boards can play an important role in strengthening a company's approach to sustainability and that it is for the board, as part of its oversight of strategy, to ensure that management consider, and communicate, how these issues affect long-term strategy, if at all.

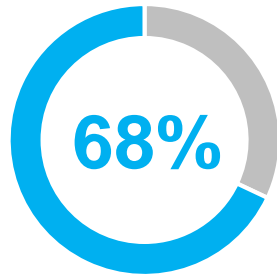


# Long-Term Plan Presentation: Build It

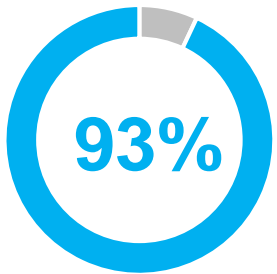
## Edelman Institutional Long-Term Investor Survey

### Investor Survey Findings – Trust Drives Valuation

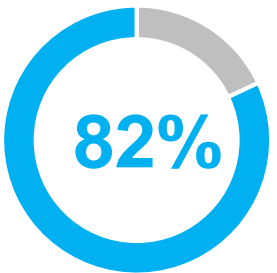
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Say providing **long-term guidance on financial performance** impacts trust



Say that **keeping investors consistently well-informed** impacts trust



Say “**my trust in the company**” is important when considering a company to invest in

### What actions can management take to earn investor trust?

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*“I would like to see more use of qualitative, forward-looking disclosures when evaluating an investment.”*

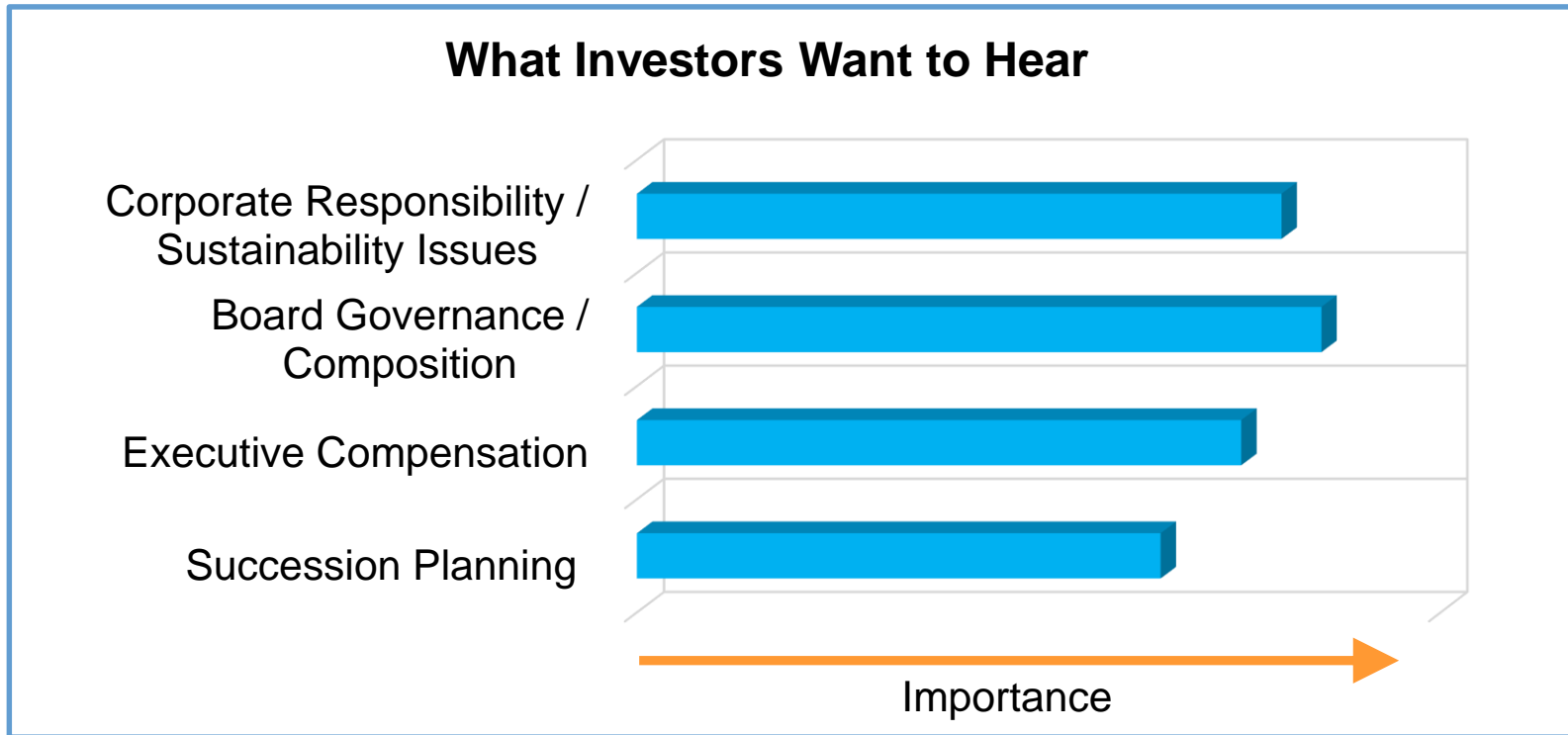
*“Clear and frequent communication on strategy, targets to meet and how they will and how they have delivered on stated goals.”*

*“Clarity in strategy and purpose, adopting a true long-term perspective that is articulated to all stakeholder[s]...”*



# Long-Term Plan Presentation: Build It

## CECP Long-Term Investor Survey



## Long-Term Plan Presentation: Build It

# FCLT – 10 Elements of a Long-Term Strategy

- 1 **Express a clear statement of purpose, mission, and vision**

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- 2 **Management’s view of the market:**
  - Major trends impacting the market
  - Potential for growth
  - The company’s relative positioning
  - Underlying assumptions, e.g., macroeconomic factors
  - Stakeholders and material factors

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- 3 **How does your business model create long-term value?**
  - Identify key value drivers at the reporting unit level

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- 4 **Identify the Key Issues:**
  - What must be addressed over the horizon of the plan?

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- 5 **Disclose strategic goals tied to drivers of value creation:**
  - Returns on invested capital
  - Organic revenue growth
  - Position within the context of current and future market trends, and the company’s competitive advantage

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- 6 **Detailed execution roadmap** that defines short-, medium-, and long-term actions linked to key milestones and strategic goals targeted at long-term value creation.

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- 7 **Provide medium and long-term metrics and targets:**
  - Indicate the company’s ability to deliver on its strategy
  - Customer satisfaction over time
  - Brand strength
  - Product pipeline investment and returns
  - Explain how the selected metrics will be measured and tracked consistently

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- 8 **Capital and non-capital investments:**
  - Mix of resource allocation
  - How will this yield sustained competitive advantage?
  - How will this lead to the creation of long-term value?

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- 9 **Overview of risks and their mitigation plans**, including sustainability challenges (e.g., ESG issues).

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- 10 **How executive and director compensation** ties to long-term value creation and strategic goals.

Current Context

Challenge

Solution

Long-Term Plan Presentation

Frame It

Build It

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Supplemental Information



## Long-Term Plan Presentation: Measure It

# CECP Long-Term Investor Survey on Metrics

Financial metrics considered most important by investors when holding a stock for 3-5 years:

### 1. Revenue Growth

*Will growth be organic vs. non-organic? From increasing market share? Which business units?*

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### 2. Free Cash Flow

*What is the expectation for future use of free cash flow? Plans to reinvest in business?*

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### 3. Return on Invested Capital

*How effectively is the company investing its capital? Benchmarked against industry peers?*

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### 4. R&D Spend

*Investment in R&D sustainability-focused projects as % of budget? Human capital development as proportion of budget?*

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### 5. Debt

*How leveraged will the company be in the years ahead?*

# Long-Term Plan Presentation: Measure It

## Guidance from McKinsey & FCLT on Metrics

The following seven generic metrics for a company's health can be of use in conveying your long-term strategy:

### Short-Term Value Drivers ( $\leq 2$ years)

1. Sales productivity
2. Operating-cost productivity
3. Capital productivity

### Medium-Term Value Drivers (2-7 years)

4. Commercial health (including metrics for product pipeline, brand strength, etc.)
5. Cost structure health (ability to manage costs, vs. competitors, over 3-5 years)
6. Asset health (how well assets are maintained and developed)

### Long-Term Value Drivers (>7 years)

7. Strategic health: ability of an enterprise to sustain current operating activities and identify/exploit new areas of growth.

\* Organizational health metrics are useful to determine whether the company has the people, skills, and culture to sustain and improve the business' long-term performance. (e.g., employee retention, culture).



## Long-Term Plan Presentation: Measure It

# Guidance from McKinsey & FCLT on Metrics

Longer-term companies outperform their shorter-term peers on a range of key economic and financial metrics. Consider the ones below in structuring your long-term plan presentation.

Indicator	Hypothesis	Measurement approach
1 Investment	Long-term firms will invest more and more consistently than short-term firms	Ratio of capital expenditures to depreciation
2 Earnings Quality	Long-term firms will generate earnings that reflect cash flow, not accounting decisions	Accruals as a share of revenue
3 Margin Growth	Short-term firms are more likely to grow margins unsustainably in order to hit near-term targets	Difference between earnings growth and revenue growth
4 Earnings-per-share Growth	Long-term firms are less likely to over-index on EPS rather than true earnings and act to boost EPS (e.g., with buy-backs)	Difference between EPS growth and true earnings growth

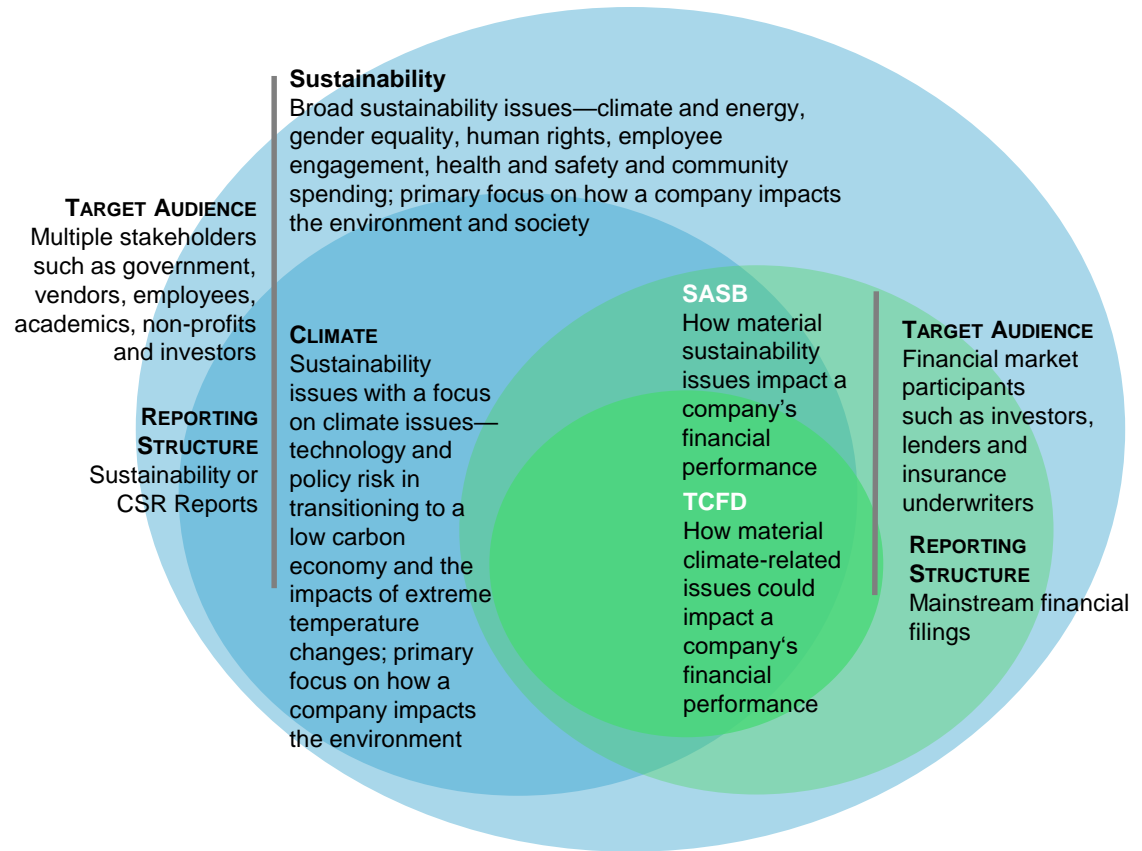


# Long-Term Plan Presentation: Measure It

## Reporting Issues – Overview

In order to develop more sustainable strategies, companies are making efforts to better understand the relationship between financial and ESG performance. While a number of organizations are working in this area, the following are particularly important:<sup>1</sup>

- [SASB](#) (Sustainability Accounting Standards Board)
- [TCFD](#) (Task Force on Climate-related Financial Disclosures)
- [GRI](#) (Global Reporting Initiative)<sup>2</sup>
- [IIRC](#) (International Integrated Reporting Council)



Example Disclosure Framework – Bloomberg 2016 Impact Report

28 1. [CECP](#)  
2. *GRI has a multi-stakeholder approach, while the others focus on reporting to investors*

## Long-Term Plan Presentation: Measure It

# SASB Materiality Disclosures

**SASB**'s framework can be useful when thinking about ESG factors. Its approach is industry-based (11 sectors subdivided into 79 industries) because what is material to investors depends on a company's industry. The table below shows the materiality map for 'Social Capital' across three sectors.

Social Capital	Healthcare	Financials	Transportation
Human rights & community relations	Light Blue	White	White
Access and affordability	White	Light Blue	White
Customer welfare	Dark Blue	Light Blue	Light Blue
Data security & customer privacy	Light Blue	Light Blue	White
Fair disclosure labelling	Light Blue	White	White
Fair marketing and advertising	Light Blue	Dark Blue	White

Note: Dark (light) color means that for more (less) than 50% of industries in the sector the issue is material. White means that the issue is not material. Table is example only.

## Long-Term Plan Presentation: Measure It

# Climate-Related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) has developed four recommendations to help companies disclose the climate-related financial risks and opportunities that matter most to investors.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:



### **Governance**

The organization's governance around climate-related risks and opportunities

### **Strategy**

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

### **Risk Management**

The processes used by the organization to identify, assess, and manage climate-related risks

### **Metrics and Targets**

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Current Context

Challenge

Solution

Long-Term Plan Presentation

Frame It

Build It

Measure It

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**Supplemental Information**



# Supplemental Information

## Long-Term Strategy Examples

[Novo Nordisk Triple Bottom Line](#)

[PepsiCo Business Goals – Performance with Purpose](#)

[Tesla Master Plan, Part Deux, 2016](#)

[Amazon and the Far Horizon](#)

[SAP's Sustainable Strategy](#)

[Dow 2015 Annual Report](#)

[Siemens Vision 2020](#)

[Nike, Letter from CEO on Sustainable Innovation](#)

[Walmart's 2025 Sustainability Goals](#)

[GE 2016 Integrated Summary Report](#)

[3M's Sustainability Innovation Machine](#)

[Unilever Sustainable Living Plan](#)



## Supplemental Information

# Long-Term Strategy Examples (II)

[General Motors 2016 Sustainability Reports Highlights](#)

[Nestlé Commitments](#)

[Coca-Cola 2015/2016 Sustainability Report](#)

[Qualcomm Sustainability & 2030 Vision](#)

[Bank of America Responsible Growth Strategy](#)

[Campbell Outlines Platforms to Drive Growth over the Next Decade](#)

[Telia Company, Statement of Materiality and Significant Audiences](#)

[Adidas Materiality Analysis](#)

[Novozymes Executive Sustainability Board](#)

[BlackRock, Chairman's Letter, 2016](#)

[DSM Sustainability Vision & Strategy](#)

[JetBlue 2016 Sustainability Accounting Standards Board Report](#)

# Supplemental Information

## Links & Resources

### CECP Strategic Investor Initiative

- [MIT Sloan Management Review, Six Reasons Why Companies Should Start Sharing Their Long-Term Thinking With Investors](#)
- [Thomson Reuters article on Inaugural CEO Investor Forum \(2.27.17\)](#)
- [CIF 1.0 \(2.27.17\) CEO Presentation Videos](#)
- [CIF 2.0 \(9.19.17\) CEO Presentation Videos](#)

### Short-Term Ecosystem

- [Financial Times, Definition of Short-Termism](#)
- [The New York Times, Graphic of Forces Contributing to Short-Term Thinking](#)
- [The Kay Review of Equity Markets and Long-Term Decision Making](#)
- [Harvard Business Review, Yes, Short-Termism Really Is A Problem](#)

### The Case for Sustainable Strategies

- [McKinsey Global Institute, Measuring the Economic Impact of Short-Termism, 2017](#)
- [Harvard Business Review, The Comprehensive Business Case for Sustainability](#)
- [World Economic Forum, Why Companies Need to Think Long-Term](#)



## Supplemental Information

# Links & Resources (II)

### Stakeholders & Materiality

- [EY, How Can Leaders Combat Short-Termism](#)
- [The Conference Board, Corporate Investment in Sustainable Practices](#)
- [Harvard Business School, Corporate Sustainability: First Evidence on Materiality](#)

### Communicating Financially Material ESG Factors

- [EY, Non-Financial Performance Revealing the True Value of Your Business?](#)
- [PwC, Investors, Corporates and ESG; Bridging the Gap](#)
- [BlackRock & Ceres, 21st Century Engagement](#)
- [Deloitte, 2030 Purpose: Sustainable Development Goals \(SDGs\)](#)

### Long-Term Performance Metrics

- [CFA Institute, Environmental, Social and Governance \(ESG\) Survey, 2015](#)
- [MIT Sloan Management & BCG, Investing For a Sustainable Future](#)
- [Bain & Company insights, Achieving Breakthrough Results in Sustainability](#)
- [McKinsey & Company, Focusing Capital on the Long Term](#)



## Supplemental Information

# Links & Resources (III)

### CEO Leadership / Succession / Compensation

- [Harvard Business Review, The Best Performing CEOs in the World](#)
- [The Wall Street Journal, The Do's and Don'ts of CEO Succession Planning](#)
- [Brookings Institute, Curbing Short-Termism in Corporate America, Focus on Executive Compensation](#)

### Strategic Fit of Boards of Directors

- [KPMG, Sharpening the Board's Focus on Long-Term Performance](#)
- [National Association of Corporate Directors \(NACD\), The Board and Long-Term Value Creation](#)

### 3<sup>rd</sup> Party Initiatives

- [International Business Council of the World Economic Forum, The New Paradigm](#)
- [FCLT Global \(Focusing Capital on the Long Term\)](#)
- [Commonsense Corporate Governance Principles](#)

# Appendix

## About CECP

Founded in 1999, CECP is a CEO-led coalition that believes that a company's social strategy – how it engages with key stakeholders including employees, communities, and customers – is a key component of a company's financial success. Founded by leading CEOs & Paul Newman to create a better world through business, [CECP](#) has grown to a movement of more than 150 CEOs of the world's largest companies and institutional investors representing \$7 trillion in annual revenues and nearly \$15 trillion in investor assets under management.

## About this Toolkit

The information in this toolkit is based upon proprietary primary research conducted by CECP, as well as secondary research from leading sources. CECP's research includes: a series of CEO roundtables, individual consultations, and a five month nationwide listening tour. SII is not seeking to be overly prescriptive in providing these suggestions. Rather, this is a starting point for all of us to shape a movement that will result in, over time, hundreds of companies presenting their long-term plans for sustainable value creation for the benefit of trillions in long-term investments.