

Company Name: JANA Partners LLC  
Event: CECP 2018 Investor Forum  
Date: April 19, 2018

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

Next, I'm going to welcome back to the stage Alan White, who's going to introduce kind of our next panel as we get the chairs out. Thank you for your help on that.

<<Alan White>>

Okay, thanks again Mark. Next conversation we'll have there is a chat between Mark and Charles Penner. So, Charles, I am looking for Charles, Thank you Charles. Inappropriately in the back row. Charles, or is it Charlie I'll say Charlie if I may is responsible for communications and legal strategy for activists investments at JANA Partners LLC.

Prior to joining JANA Partners LLC in 2005, he was a Senior Associate at Schulte Roth & Zabel focusing on Mergers & Acquisitions and contests for corporate control including proxy contests. Before that he was an M&A Associate, that is Mergers & Acquisitions Associate in the business development group at General Electric focusing primarily on NBC. And before General Electric, he was an Associate at Cravath, Swaine & Moore, which is you may know is one of New York City's leading law firms focusing on transactions in media, telecom and the entertainment industries.

Before law school, Charlie worked as Deputy Communications Director for U.S. Senator Max Baucus, a Communications Aide for U.S. Senator Barbara Mikulski, and a White House intern as well. So we have expertise in legal matters, we have expertise in political matters and now in the investment field, welcome Charlie.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

Thank You. Well it's great to have you here today. This is an issue that is personal to me actually, because I have a fifteen year old son, who's addicted to technology and while it may seem like a something that the parents need to control and I'm not saying parents don't have a role in this but if you've actually seen kids that are so addicted to technology that it impacts their personal life. It's not a fun issue, it is a real serious issue, and it's a serious topic here. 78% of teens check their phones at least hourly and 50% report feeling addicted to their phones, this is the next frontier JANA Partners is really taking a leadership position in addressing this issue.

And we're great to have grateful to have Charles here to help us explain this, and you go into little depth on this. So why don't you first start by talking about JANA partners and provide a view of the firm. Why would you and then second part of that, so why did you – why did the firm decide to take this course?

<<Charles Penner, JANA Partners LLC>>

Sure, thank you. So thanks, Mark. So, yes JANA Partners we are investment manager in New York. We've been around since 2001. We are known as kind of traditional shareholder activists. It's, not all we do, but it's one of things we do once and it's what you are known for. We typically take positions in public companies and at least in our activist subset of what we do, push them to make changes that will benefit shareholders.

So, historically that has meant, whether it's changing a CEO or bringing a new board members, recapitalizing the company restructuring the company, things that will create value in the near-term. We think that value will be sustained over the long-term but they are kind of near term corporate events.

As part of that we've been drawn in a lot to kind of a debate about short-term versus long term, which I'm sure everyone hears and some are familiar with. The thing that dawned on us was that, as the world gets to be a more complicated place, the kind of supposed divide between kind of traditional shareholder concerns and the concerns of whether it is SRI crowd or ESU crowd or whatever label you want to use that kind of supposed the divide was really kind of narrowing. So you know the obvious one is climate change, where you know last year you have three hurricanes forming the [indiscernible] (0:05:59) at the same time for the first time ever.

Companies like Mars I think they just spent a billion dollars to reduce their Carbon footprint, shows Exxon Mobil of all places last year giving majority support to enhance climate change disclosure.

Obviously an income inequality, I've seen a lot of retailers now saying it's in their interest to pay a living wage, you see the benefits that the research, would tell you that you would see. And to Mark's point, we also think there's an opportunity in the tech space to really ask companies to focus not so much, on what may make sense from quarter-to-quarter but to really kind of taking a step back and looking at their business for the long term.

So the pile you heard, isn't totally up to date, so what we're doing now, is we've launched NESG impact funds, we'll be taking the tool kit that we applied to – we've historically applied, it has created change, using that same tool kit but applying it to impact objectives and I'll be helping to run that fund with someone else we hired I know Alan knows Dan Hanson one of the people who ran one of the first social responsible investment funds. Merrill and BlackRock one of the founding board members of the SASB.

So that led us into the Apple investment, we think Apple is an incredibly socially responsible company. We think they're a leader in the field. And we thought this was an issue that they would be responsive to us raising and they very much, they very quickly responded and kind of embraced it and said this is something they take seriously and they plan to do even more.

So that's kind of the story.

<<Mark Tulay, Director, Strategic Investor Initiative, CECF>>

So why, why Apple and I mean a lot of technologies out there. And why specifically Apple and why now and say a little bit more about the people that are involved in the letter that is should be required reading for anybody that's trying to engage a company in a thoughtful way, really kind of thoughtful and balanced the way you put that together didn't hurt that you had sting on there too, that can hurt.

<<Charles Penner, JANA Partners LLC>>

Yeah, so, yeah if you want to read the letter, it is at [thinkdifferentlyaboutkids.com](http://thinkdifferentlyaboutkids.com). So you know, we've got this question a lot why Apple because as I said they're a very socially responsible company. And I think a lot of people kind of confused us raising the issue with us kind of accusing Apple or calling them bad corporate actors, or a kind of saying you are culpable for this and we don't really think that at all.

I don't think it's, really a big debate that a lot of the functions for which, smartphones are used and mobile devices are kind of inherently designed to be, addictive is a medical term we should debate whether or not that applies but I think people certainly feel that in a lot of cases.

And that's very much by design and even Tim Cook has said that if he had young kids he wouldn't be letting them use social media. So, I think that, it was not pointing a finger at Apple and saying you're doing something wrong it was saying Apple you're a great company, you're uniquely positioned to help parents and again this is really the parent's ultimate responsibility, we've never suggested

<<Mark Tulay, Director, Strategic Investor Initiative, CECF>>

So, it's all my fault?

<<Charles Penner, JANA Partners LLC>>

What's that?

<<Mark Tulay, Director, Strategic Investor Initiative, CECF>>

It is all my fault?

<<Charles Penner, JANA Partners LLC>>

No the issue is that the research shows there was a survey that the American Psychological Association did. I think a couple years ago and they said 90 plus percent of

parents take at least some action trying to modulate their kids' smartphone usage but the issue is that people say well isn't this like a comic book or this is like TV.

No I mean, it's all of those things you can carry around in your pocket that has a bionic chip that has basically changed the way that the world communicates. It's an incredibly powerful tool, so think about a bike. A bike comes with training wheels right, that's not that you hand your kid the bike and say have that it, but it helps you do your job better. And again, this is the responsibility that Apple has embraced. So this is again it is not an accusation at all, but they there are uniquely positioned about three quarters of the U.S. teenagers, who have a smartphone have an Apple, an iPhone.

So they're uniquely positioned to say to parents we can really help you do your jobs better. So imagine if you rather than handing your kid the same phone that you hand a forty year old, it had really dynamic controls. I mean the issue that the research has kind of shown with the set of kind of binary controllers is it doesn't give parents enough kind of functionality. And actually the research shows that people who take a kind of on or off approach to monitoring kids smart phone usage, actually those are suboptimal means of controlling it.

So there's a researcher that we partner with at San Diego State, Jean Twenge and her research shows and it's not just her a lot of research shows and also just common sense would tell you like most things moderation is kind of the key. So the kids who have the best mental health outcomes are actually not the ones who don't use smartphones at all but are the kids use them in a moderate dose. So about an hour a day on average.

You start seeing problems at least risk for problems trying to rise after about two hours a day. And even there's research out there, researcher named Alexander Samuel, shows that the parents who have the best results aren't the ones who take a kind of restricting screens approach but guiding their kids usage.

And the kids who just – again have kind of take the screens away, when they get their hands on them, have more problems in terms of you know finding inappropriate content or pretending to be other people online and things like that. So it's really saying Apple you're uniquely positioned to kind of in the same way that you have revolutionized so much of the way that people think about technology in a really customer facing way that people are just delighted with your products.

You have the opportunity to do even more for parents and kind of really help them do their jobs. I mean working parents, they can't father kids around 24 hours a day and when they're at school, you know there's research out there that shows that you know more kids now these days in the lunch hour just kind of sit there and scroll through their phones rather than engaging with their friends face to face.

You know imagine if when they went to school it became kind of a dumb phone, right or Apple just released this new iPad where you know you could do all these wonderful

educational things which again the research shows have tremendous benefits but really guide that usage in a much more user friendly kind of way so.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

How did the company respond and what's the current kind of state of play?

<<Charles Penner, JANA Partners LLC>>

Wonderful, just as we had hoped they would, you know they said, look we think we've done a lot in this regard and that's certainly the case. Most importantly they've embraced, I don't want to say responsibility because again to your point, sounds as if they are culpable but they embrace the fact that it's the right thing to do to help parents with this and they also at least implicitly certainly seen to embrace the fact. This is just good business practice that, when your whole business model is about kind of making people feel comfortable in this ecosystem that they've built. This is kind of an a natural thing for them to do. So less than a day after, the letter that we wrote with The California State Teachers' Retirement System they came out and said we've done a lot. We've embraced this responsibility and we have, we're planning to introduce even more robust functionality, which again would be totally consistent with how they you know whether it's supply chain responsibility or environmental responsibility, you can debate who's at fault and who's not but they said that this is the right thing to do and good this has partners to work on this and that's what they said they'll do.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

Yeah, I think it really is that thoughtful letter that you put together and balanced in that you drew on research and you had CalSTRS involved in it, which is kind of interesting that the mix that you had and one of the things that I liked in the letter had said it would defy common sense to argue that the current level of usage of technology by children whose brains are still developing is not having at least some impact or that the maker of such a powerful product, has no role at all to play in helping parents to insure it is being used optimally. So we can turn the TV on, we can turn the TV off, we've got parental controls on the TV.

Maybe there are people smart, lot smarter than me in the room but when I try to restrict my son's use to certain applications on Apple phone it requires many more brain cells than I think that I have and the thought of children becoming addicted to technology and losing social skills as a result of that is something that is very front of mind and I think just an important cause.

Yeah and it's a balance right, in some ways you could argue that social skills such are enhanced in some ways, it's easier to connect with your friends through Facebook, it's easier to find areas of common interest. There's even arguments that some of the benefits again in small doses of things like texting and things like that that you actually do see benefits there. I think that sentence potentially sounds accusatory but again it wasn't

meant to say Apple, you necessarily take this position but it was one that – there was a minority of people who when the letter came out tried to make the argument as I mentioned earlier that the parents are just falling down on the job. And then again there's not any really evidence to back that up but even if it were the case again its smart business sense they sent the parents worry about this to partner with them on it.

So you mentioned CalSTRS, I mean they made the point that the teachers of California, this is an incredibly important issue. So it was align from them from an investment perspective in the sense that Apple is I think a top 10 holding for them, it was align from mission perspective. And again to your point it's all about norms, right.

So if imagine kids start growing up with the norm that because again it's you get the phone, you set these controls, they're very easy to use at the outset, when you grow up kind of thinking there's a limited amount of time today that I had to spend on social media, after nine o'clock I'm not laying in bed, texting my friends until one o'clock in the morning. A lot of kids now the heaviest users are getting less than the recommended nine hours of sleep on average and then closer to seven that has real health consequences in terms of obesity and depression and things like that.

If you kind of change the norms around that, imagine for kind of the next generation where they're really using these things more as kind of helpful tools and less as kind of the fault activity every time they have to spare 30 or 45 seconds.

<<Alan White>>

So what is success look like, what's a home run look like a year from now if you look through and say everything that you wanted to happen happened, what is success look like for JANA Partners and what is success look like for this issue that you're addressing?

<<Charles Penner, JANA Partners LLC>>

Yeah. So we really more laid out a process, we're not smart enough to tell Apple, here's what you should be doing. We're barely smart enough to do what we do in our day jobs. But what we did try to do is kind of lay out a process that we think made sense, for example, we said work with the experts on this. And you saw for example Facebook launched Facebook Messenger, which was the kind of a service that kids could use. And whatever you think of that and I think there's a dividing kind of the research community about the logic of doing that. But it didn't appear they had kind of great buying because after it was launched like hundred researchers and child development experts sent this letter saying please shut this down.

So first thing is kind of work with the experts at the outset and it'd be probably unsafe for me to kind of criticize Silicon Valley culture where I'm sitting today. But I do think that most people agree that sometimes at least there's a kind of overreliance on kind of taking things in the back with kind of the engineers and saying we can kind of figure this out. So really partner with the experts at the outset, figure out what the research tells you today

and we didn't make the claim that the research today is kind of fully developed, there's a lot more research that needs to be done.

But we do think particularly based on the fact that the research into the component functions of the phone in terms of social media is pretty strong that heavy usage in a kind of passive way can have pretty negative mental health outcomes at least for some people, same thing with videogames as you have to research that and then get your point even just about television.

Again like most things moderation is kind of the key but figure out the research tells you, figure out how you can help kind of develop that research. And then implement controls that are based on the research. And again there's all kinds of different ways they can go but I think some things are pretty basic in terms of more dynamic controls that not just turn things on and off but setting limits on individual usage of certain functions in apps and then overall usage, time of day restrictions, blackout periods based on kind of the specific family's needs.

And then as the phone changes obviously the norms on how parents let their kids use phones will change. So in some respects your life will be easier hopefully. And I've got young kids and I'm hoping that all this stuff is kind of a respect and by the time that they're asking for phones which won't be that long from now to your question what, selfishly that's what – would define success for me. And then keep up with the research just as they do in supply chain reports environmental policy issue reports on it and just get out ahead of it which again I know is and they've publicly stated as their goal.

<<Alan White>>

It's great. So we're going to open up for questions. Question over here.

Q&A

<Q – Emily Kreps>: Thank you very much. Thank you. It's really interesting to hear your perspective. My name is Emily Kreps, I'm from CDP, which is the former Carbon Disclosure Project we do environmental reporting. My question is it's really interesting to see you take this tact especially on – I understand this falls into social of the ESG part, how do you translate that to a financial benefit for use an investor?

<A – Charles Penner>: Yes, sure. It's a great question. That's one of the most frequent questions we've got. And quite frankly if I could write the letter over again I'd probably do a better job articulating it or at least I try. I think that as I mentioned earlier and I don't think Apple falls in this camp, but I do think there's been an overemphasis on kind of quarter-to-quarter type results whether it's user engagement or metrics like that and not kind of stepping back and saying where's the business going to be in five or 10 or 20 years if kind of customer perceptions follow a certain route. So I guess this time last year, you started to see kind of changes in customer perceptions in terms of how they're feeling about the benefit of the bargain that they were getting from technology.

And this wasn't specific to Apple but just kind of in general. And even though Apple's customer satisfaction levels right now are still incredibly high as they should be because again it's a fantastic suite of products that they have mid 90%s. It doesn't take a lot of kind of digging below the surface to see that both with respect to general attitudes around technology and even quite frankly how parents feel about their kids' mobile device usage where about half of them say they feel like it's a constant battle with their kids over their smartphone usage.

And about half of them feel like it's their kids are quite attached to their phones and about half of the kids surveyed felt they're quite addicted to their phones which again is a medical term which maybe doesn't apply but again it's a feeling right that isn't great from a kind of long-term customer perceptions. We've at least think about the social. And my partner Dan Hanson does a really good job articulating this but he basically says that is it predicated, is a company business more predicated on giving customers a good deal or not.

And I don't think it takes lots kind of translate that to the investment case for Apple, their whole business model, it doesn't rely on over usage, right. It relies on people feeling good about the phone that they buy and being excited to buy the next one. And I think there's a very good argument, particularly quite frankly is it seems like at least for now the kind of hardware cycle has played out in terms of form factor changes.

And it's more now about software and services, the more you can make people kind of feel comfortable and supported within that ecosystem, there's a history of companies who make hardware that you stick in your pocket. Eventually falling out of favor whether it's Nokia that for a time people thought it kind of master the game and then Motorola with the Razr and Blackberry and PalmPilot and companies like that, I don't think Apple's could compare with those companies all, I do think they have to stand with us now.

But right now they're valued more like a hardware company right, if you could actually see them being valued as recurring revenue company again kind of it's not about the hardware, new car with bigger fins every year but really about kind of people feeling. As I think they do today but continuing that kind of feeling this is an ecosystem that I feel comfortable and supported and comfortable that I've got the appropriate tools to manage for my kids, we can see them both preserving value and even enhancing valuation in terms of how the companies view.

<Q – Alan White>: Thank you for that.

<Q>: Another question.

<Q – Alan White>: A question over here.

<Q>: Hi, sorry, I'm [indiscernible] (0:25:09) from Generation, we really admire what you're doing and I guess I had two questions, one is have you – didn't think about the



tactics, did you try in any way to engage with Apple before the letter and before making it public and how meaningful was that and what was the response prior to. And then to what extent have you thought about engaging with other major players sort of Google and Samsung?

<A – Charles Penner>: Yeah, thanks. And we admire what you do and we are doing for a long time. So it's typically in our traditional shareholder activists campaigns, our MO is to engage privately first with a company and that just yields better results, you think that if the goal is to kind of have the board of management fully bought into what you're advising them to do, the best way to do that is not to embarrass people or hang a scalp on the wall or things like that. But really kind of bring them in and really let them be the heroes on situation. And then also has repeatability benefits because the next time you show up in a situation people view you as constructive and lot of same people you need in these types of engagements. We didn't do that here for a few reasons.

The first one was that as I mentioned, while we think Apple is a really social responsible company, this the research around this at least in terms of specific smartphone usage and also kind of sense, it was really kind of crystallizing right around the time that we're putting this together last year. And I think that this really needed to be a public debate because while the concerns that we were raising weren't new. And again I think Apple was aware of them and works to address them. I think what was kind of news was drawing the connection between those concerns and really the bottom line.

And there's kind of for lack of a better term I think kind of gadfly channel that company is sometimes can shovel people off to even with the best intentions but because it's not again as I mentioned before there's a supposed divide between you guys have done a great job kind of helping a bridge between traditional shareholder concerns and the ESG type concerns. And we want to make clear that this was going through the front door. This was whether it's State Street or BlackRock, these are mainstream shareholder concerns, I don't think we would have been successful in doing that if we had just approached the company privately. I think that it wouldn't have really changed the debate necessarily.

I think the second thing and again this is not a criticism of Apple but again there's a tendency to in some cases in the tech industry kind of take these things offline and maybe not necessarily deal at the outset with the experts. And I think again you know talking about again Facebook last year in December, they put up this post saying that well, some people think that social media can be bad for you and some people argue otherwise. And I think the research is a lot, argument is lot stronger on the former than the latter. And they announce some things which maybe would have been more robust, shall we say, if they have had the benefit of again kind of shareholder and kind of expert input on it.

And really quite frankly the last thing was that one of the considerations that goes into whether you start out publicly or privately is are you really kind of bashing a company or are you against starting a debate that can be productive. And we don't view our letter as the equivalent of say if we show up in a company and say you guys are horrible capital

allocators and you destroyed value year-after-year and the board is stale and in these refreshment.

I think we at least tried to kind of go out of the way and really start out the letter praising the company and say you've been a leader not just in innovating in a text basically you've been a leader in social responsibility and we see an opportunity for you to kind of to take that to the next level. So those are kind of the considerations I think it was the right decision but going forward we would expect that most of our engagements would be private as they are today.

<Q – Alan White>: One more question.

<Q – Bob Laux>: Thank you. Bob Laux with Integrated Reporting, we're surprised by the way the press picked it up and my perception which could be wrong as was more antagonistic from the press view of it, were you surprised by that if that was the case?

<A – Charles Penner>: That viewing us is being antagonistic, no, that it's that's activism and I don't know, if it's our fault or I think it's maybe we've historically made it to antagonize that we try not to. But I think it's also just a better story line it's kind of boring to say that somebody prefers this good idea company agrees.

I think that I was surprised by the level of attention that it got, I wasn't expecting it to be like the lead story in The Daily Show and really kind of to keep going for like 72 hours. I think that's more just a function of the biggest company in the world and it's one of the kind of sexiest companies in the world.

But one of the things that going back to Mark's original point that I think is exciting about this is that ESG roles, I think are much less kind of controversial in terms of the way shareholders talk now and CEOs and Boards talk now and you've got Larry Fink of BlackRock kind of saying, for most companies where your biggest shareholder and we expect you to be focused on the stuff.

And I think you've got Boards and CEOs whether it's PG&E or any other company's saying, yeah and we think this is where the future lies too. So hopefully over time these things kind of get boring but that's been my hope for activism for a long time too, which is to say that it's more focused on the ideas, it's a good idea or not versus kind of personality clashes or this being viewed as kind of storming the palace gates, which it's really not.

<<Mark Tulay, Director, Strategic Investor Initiative, CECF>>

I'd be curious to raise your hand if you think this is an issue that impacts you or someone in your family. That's pretty amazing. I think that's a powerful proof point. So I think what's exciting about this, what I call it that the new normal is you brought together kind of an eclectic group, you're driving business value, you've indicated a hidden risk for the company that you've kind of unmasked this in some way, not that it wasn't percolating

somewhere but you shined a brighter light on it let's say. And you're going through this in a very constructive methodical way to drive business value.

So with that, we want to see more of that and if I can bring my 15-year-old over your house one day maybe you can show me how to work this technology, is that okay?

<<Charles Penner, JANA Partners LLC>>

Absolutely.

<<Mark Tulay, Director, Strategic Investor Initiative, CECF>>

All right, sounds good. Thank you.

<<Charles Penner, JANA Partners LLC>>

Thank you very much.