Company Name: New Research Findings: The Economic Significance of Long-Term Plans
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<<Brian Tomlinson, Research Director>>

Okay, good afternoon, everyone. So one of the great things about being a Research Director is that from time to time one gets to commission some research. And the research project that we're going to talk about today did two separate, but related functions. One was to create an analytical framework through which we can distribute the content of these long-term plans and the second element was to see whether or not we could manage to analyze the capital markets consequences of these long-term plans.

Now we did this for several reasons. As you've all seen in your past, you have the investor letter that we – is the sort of primary basis for our briefing to the companies that present at these CEO Investor Forums. What we wanted to see is how the company is doing in relation to responding to those schematic problems, the seven questions every CEO should be able to answer. Can we see where they're struggling, where they're doing well and then where there are areas where there is not sufficient disclosure, can we then respond with briefing to improve those areas.

Secondly, we're all aware that investor relations and disclosure activity has capital markets consequences. The capital markets respond to information such as earnings releases. We're on that continuum of capital markets impact is the long-term plan. Is it disclosing information that the market does not have? Is it disclosing information that the market feels to be valuable? Thirdly is an element to try to meet the markets where they are. We know short-term is a problem. We think that these long-term plans have long-term kind of signaling and investor segmentation benefits for CEOs. But can we also tell them a story that says if you come and deliver a long-term plan, actually investors in the short-term respond to that information.

We think that would be a very significant proof of concept for us. And just stepping back as Darla said, and many people have said, we want CEOs, every CEO of the listed company to deliver a long-term plan. So let's marshal some arguments to help them to do that. And we think that this is a lot less about reducing reporting frequency as some people have sort of alluded to. And it's a lot more about reorienting the mix of information that companies disclose to the market.

So this project was also featured self promotion alert in Harvard Business Review this morning, coauthored with Professor Serafeim and Christina Rehnberg, KKS Advisors. So that was the sort of broad idea for the project. That's where we started out, huge information to help us with it. So firstly, KKS Advisors. I've been reading KKS Advisors work since there has been KKS Advisors. They've produced some really terrific work. I'd highlight that work on integrated guidance and moving away from our quarterly earnings guidance.

I think that's work along with the work that FCLT has done in this space that has had real world impact. You may have seen National Investor Relations Institute recently said they disfavor

quarterly earnings guidance, which is no small thing and I think the work of KKS and FCLT in that space has actually been really significant. They've also done a range of aligned work on our corporate governance and sustainability and work on corporate purpose, so really, clearly aligned with our work. I wanted to highlight that a lot of the heavy lifting has been done by Christina and Sakis Kotsantonis, just the glamorous interns. If Sakis and Christina could stand up, so people can see who you are.

We actually started this project really relatively early on this summer. So let's say when some of you may have been on the beach, Sakis and Christina were reading long-term plan transcripts. So it's been a busy, but productive summer. And that then brings me to a George. Now for me, the best way to talk about George is, to talk about his seminal academic papers. If you look on SSRN, George has around about 80 scholarly papers, which is just showing of frankly. I personally in my journey in sustainability have found those papers to convey like clear eyed, very practical intellectual architecture of a thinking through sustainability and why it matters, work like how ESG investors – how investors use ESG information, critical difference, indexes the stewards of the commons, corporate sustainability and operational process.

I found those are incredibly useful and practical in my daily work. Not a surprise that George has been identified as a top 10 most influential person in sustainability in the U.S. And I would just briefly say that also George has involved in his own long-term project at the business school, which is that he teaches a course called re-imagining capitalism. That class has gone from being a sort of somewhat esoteric, somewhat marginal part of the Harvard Business School curriculum, should we have an alumni there and it's now the most oversubscribed course at the business school. So if there was a bellwether or some sort of barometer perhaps have changed being a foot about the way we think about firms and corporate purpose that might be quite a good one. So with great pleasure, Professor Serafeim.

<<George Serafeim, Harvard Business School & KKS Advisors>>

Right. Thank you very much, Brian, and thank you very much, Darryl and Mark for actually showing leadership, creating a new institution society and moving the conversation forward. It's very much appreciated not by everybody in this room, but I think everybody outside of this room as well. So I will try while you're eating and I'm hungry to give you a sense of the research that we have done, okay.

So as Brian mentioned, many, many people have contributed this research over the summer, minimizing beach time and maximizing work time including Christina and Sakis and Bronagh and of course Mark and Brian. So this is the fruit of labor of many, many people. Why this project is important? One of the reasons is because there is a lot of discussion about care being short-term disclosures. You hear, for example, earlier today around quarterly reporting, a lot of work that's being done about guidance, which as it was mentioned before, it's quite different. We shouldn't confuse the two concepts. And there is a lot of great work that has been done, for example, by FCLT and by KKS on the guidance side.

But equally important, it is very important to recognize that if you actually don't increase long-term information then you're unlikely to reorient the attention of management towards long-term

management. So the platform here is about creating that long-term information infrastructure in society. And this becomes very important. But of course, when you say that then lots of people will say, well, so what? So we are 200 people in here. Why do we hear? Is anything happening? Is anything changing?

In some sense you can think about this as the impact assessment of CECP a little bit. What is their impact? What are they doing? And I have to say it's pretty actually adventurous and courageous of them to do an impact assessment of themselves a little bit. So, you can think about what we're doing here as understanding whether this is worth your time. And being here and of course whether this is the worth of all the CEOs that are coming and presenting those long-term plans is anything changing here.

So, we'll try to address that question. So, we embarked on understanding two things. The first one, what is a good long-term plan? We did content analysis and we created the framework using the great work that many organizations have done. This wasn't purely created by us. We drew from many organizations to say what is a long-term plan. What those long-term plans actually include? The second piece is understanding market reactions within short embedded windows. That's what we do in research. That's what we do as infrastructure to understand whether announcements have some type of informational content.

Whether anybody cares, so we are looking at price reactions, we're looking at volume reactions, trading volume reactions, we're looking at an analyst forecast issuances, following those long-term plans. And perhaps most importantly what we do is we try to correlate the quality of the long-term plans with the magnitude of the reaction. To try and say, is it the case, at least in the very limited evidence that we have, that there is some correlation between the quality of the long-term plans and the magnitude of the reactions. Okay.

And of course, the first time that Brian contacted me and said we should do some analysis, and I say, okay, how many data points you have? And he's like, 19. I was like, interesting. We did it, let's see, so as I said, what is the long-term plan. We drew it from an excellent work that is already being done. A lot of the work that CECP has already done in terms of the letter to the CEOs and what questions to ask and so forth.

Great work that has been done by FCLT and Ariel is there if you want more information about FCLT work, she can update you about the great work that they're doing, great work by McKinsey and KKS and so forth.

And of course importantly, we also got investor feedback. That has been given on those forums. So, one of the things that both Mark and Brian told me probably 10 times to say to you is give feedback, okay, after this event. Because actually this is informative and it affects what type of information is being presented. And we identified nine things. So, as we were trying to create the framework, we tried to bring together elements and create a framework that kind of makes sense.

So going from financial performance and capital allocation and trends to competitive positioning, risks and opportunities and corporate governance to purpose human capital and

long-term value creation through ecosystem structuring. And those nine categories breakdown to try and assess what is actually in them, in 22 issues. So, we think the nine things.

So, when you're thinking about financial performance, you're thinking about capital efficiency and profitability. We shared great comments and great questions around capital. How are you using kind of the efficiency of your capital revenue growth, leverage and so forth? When you're thinking about capital allocation, how is that capital allocated. Should that be used for M&A, for R&D? Should that be returned to shareholders and so forth? Trends, we've heard a great presentation by NRG Energy in terms of digitalization and so forth.

So, what are the market trends and mega trends? What is the competitive positioning, long-term value creation, medium-term value creation and short-term value creation. What are the drivers, risk and opportunities? How are you managing emerging risks, but also opportunities from ESG issues, but also outside of these ESG issues? Corporate governance, what is the role of executive compensation? Again, we heard some of that today as well. Board composition, something extremely important to me that it was said this morning was how boards are actually trying to find capabilities to fit their emerging customer needs, right?

So, some of that information a lot about corporate purpose, what is the purpose and how importantly it is aligned with long-term strategy. Human capital, how is this human capital being managed? If you are trying to become a digitized provider, if you are trying to compete on the basis of technology, how are you going to attract the human capital to allow you to provide solutions for that? I don't think anybody 22-year-old graduating from MIT in engineering is dreaming about working at NRG Energy to begin with. Probably they are thinking about Facebook and Google, right?

So, as you're building your business, how do you attract those people, long-term value creation? How do you build strategic partnerships? We shared a little bit from GSK around strategic partnerships and so forth. So, this is our framework, this is our content framework, when we're creating this analysis. And then of course, we had to create a disclosure scoring thing.

So, we bought it from the great work that the Sustainability Accounting Standards Board has been doing in terms of scoring disclosures on their own material issues. So we created this – we modified it a little bit and we created this four point framework in terms of there's no disclosure about a specific issue or there is boilerplate, some generic disclosure, somebody mentions around corporate purpose and some general statements, but there is nothing specific. And then we created a category around that there is specificity, but it's mostly backward looking. And the fourth one, that there's specificity and the metrics are forward looking.

And here is a summary of the results that we found. Again, take a lot of what we're saying here as the first building blocks of understanding and building an infrastructure of what this platform is actually achieving. The data is still very limited, only 19 observations, but we want to create this infrastructure. So, moving forward we can have 100 observations, and 1000 observations and we have created a new institution in society that then we can actually study and understand the consequences on how we are refocusing capital markets.

So, the first finding is that we do find some evidence, to my surprise, to be honest with you. I didn't expect it. We do find some evidence of abnormal market reactions primarily around trading volume. Some evidence as well in terms of prices, but primarily at around trading volume. The second thing that we find is, a no finding.

Basically, we find that, no abnormal activity in terms of new forecasts from self-side analysts within a window. So, it seems that there is investor activity but self-side analyst for whatever is being presented here it doesn't seem that it's relevant in terms of like how they make forecasts.

The third thing is that we find that especially around competitive positioning, trends and financial performance, you find a lot of good disclosure activity on those things. But then in terms of corporate governance especially you find very little disclosure in the long-term plans.

And the fourth thing is that you find tremendous variation across their long-term plans in terms of their quality. And maybe that's not surprising for the people that have been repeatedly in this room. And they have seen many long-term plans. There are long-term plans that are really, really good and there are long-term plans that they are less so, okay. And according to the framework, some really good examples, because we'd need to have best practices to understand how we can improve some of the really good examples have been in our analysis, Becton Dickinson, Medtronic and PG&E. So as a result, I think, it's really worth going back to those plans and understanding what kind of information they provided.

So this is a concise picture of their three best plans according to the content framework and the methodology that we gave, in terms of BD, Medtronic and PG&E. And these are some statistics. And I can barely see them from where I stand. So there is no way that you can see them. But basically what they're trying to give you is a sense of what companies are disclosing. So the top five issues with the most forward-looking metrics were around capital efficiency and profitability, around trends in terms, of future marketplace and sources of competitive advantage, these are the so-called traditional trends and then a lot around competitive positioning.

Actually their long-term plans provide a lot of information in terms of the drivers for strategic health, commercial construction and asset health, and sales operating cost and capital productivity. And more than 50% of the companies do not disclose on any of those issues that I'm going to mention, leverage and the leverage strategy of the company, revenue growth, investments in R&D, assessment of financially material ESG issues, and how they're relevant to the business. And as I mentioned, corporate governance issues around executive compensation, alignment with long-term strategy, Martin [ph] (0:18:43) made a joke about that, he was right about the joke. CEO's don't like to talk about their comp. And corporate governance, how will composition of the Board guide long-term strategic goals? Extremely important topic, very rarely mentioned in any of their long-term plans.

This one of my favorite drafts. It shows that there is a very strong correlation between ice cream consumption and shark attacks. And of course, you can conclude that sharks like ice cream, right? And in the research, this is a big problem. This is the problem of can I really say that A causes B, I don't have like people in labs running around and like I can manipulate them and all this kind of stuff. So we are trying not to say that sharks like ice cream, but basically what is

happening, you know what is happening, right. Like people on those months go to the beach, they eat ice cream, they get attacked. If you don't go to the beach, you don't get attack, right? So it makes sense.

So we are trying to avoid this fallacy by doing the stuff that we do a lot in the research. We try to isolate affects, we try to make sure that nothing else is causing this, we try to market adjust, to strip out other things that are going on. And even beyond that, we try to see inter-temporal patterns over time, and we strip out those effects even before, and so forth. So for the sake of this very limited presentation, I assume that I have stripped out the shark effect and the beach effect, okay. In the longer report you can see all the econometrics and all the statistics.

And here is the overall result that we find again in this very limited sample. We find that within the event window and we use multiple event windows, what I'm presenting here is 3D windows to try and understand. And you might say there is a contradiction here. We're presenting long-term plans and you're looking at short-term reaction. What's going on? There is no way that I can tell you anything about long-term reactions right now, okay. You have to isolate it in a way that you can try and isolate the effect. We can then look at longer term effects. But for now, we are concentrating on what Brian said in the information content.

So about 1.8% abnormal reactions, beyond the market, what the market is doing, around the announcement of those long-term plans. If I am even more conservative and I strip out past history of the same firm, any types of abnormal reactions that they had and I'm super conservative of that. Why? Because within some of those windows there will be major events for companies. So you will have abnormal reactions. They will have earnings calls, and so forth. So I'm throwing out the baby with the bath water a little bit here. Then you get down to 0.5%, but still abnormal reaction.

You find, in terms of trading volume, based on the normal trading volume over the previous 60 days, about a 7.6% increase in trading volume. We think that short event window around the long-term plans. So something is happening. There is information content and investors are reacting to the information. And when you look at analysts forecast issuance, compared to the forecast issuance before the event, we find that actually there is a slight decrease in the number of forecasts within that event window. We don't find actually that there is any abnormal frequency of analysts taking whatever information is in this room and revising their forecast is about.

We think that this is consistent with that segment of the capital market having different information needs and making forecast for different reasons. Perhaps more exciting for me, it is the fact that we find that higher quality disclosures on specific things are correlated with higher market reactions. So we find that in the themes of competitive positioning and corporate purpose, the firms that have better disclosure, they have higher abnormal market reactions. And I'm giving you the difference between the bottom five companies and the top five companies, in terms of quality of disclosure on those themes.

So the difference between the top and the bottom five companies in terms of quality of competitive positioning is an additional market reaction of 1.1%, in terms of returns and an

additional 23.8% in terms of trading volume. And in terms of corporate purpose, you can find the results here. Again, very earlier evidence with limited sample, but we feel that as we build the infrastructure, we'll be able to say more things, we'll be able to do more research, and as a result, we'll be able to create better long-term plans. So we can mobilize capital markets and reorient them for the long-term.

So where do we go from here? The first piece is around evidence, what I'm showing you here and there is a longer report that we're going to produce to disseminate to all stakeholders is providing the first evidence around how market value or how markets react to those long-term plans.

Importantly for me, the analysts also give us a content framework, a content framework that we can do really interesting things then. We can see, for example, over time whether the quality of the long-term plans increases or not. We can understand how it varies across industries. How varies across trends of different size and so forth. And very importantly for me, and this is something that we were all committed right from the beginning is to create a database, to create the database that investors, companies and researchers could use in the future to understand the quality of the information that's been provided and understand how people respond to the information.

And the fourth thing is actually doing more research, start to understanding, once we have the foundation, the baseline of understanding whether there are information. There is information, there are information pieces inside the long-term plans that are useful, start to understanding the longer term effects, which are very much more difficult to actually pinpoint, because many things are happening over time.

But then we can start looking at how investor composition might change within companies, as they are reorienting towards the long-term. We can start to see whether management style changes. We can starting to see how corporate culture is being affected and so forth. And these are the plans for the future. I'm not going to show you a lot of the numbers of the appendix because you just had food and you didn't have coffee. Thank you very much.

<<Unidentified Analyst>>

Let's – because of that great presentation, let's put five minutes on the clock, because we're running behind. Well done. Of course, if you were to come back and said, there was no economic significance, then we'll be out of time right now. But anyways, is there anyone has a question here? That's a lot of information. This is a quiet group.

Q&A

<Q>: Great presentations. Good to see you again, George. I was wondering if you'd done some work on the market impact of this more and more talk about divestment programs around companies that either pollute or have poor scores on E or the S side in particular. And I was just curious if you had done some work around divestment or even possibly shorting companies in

order to internalize the pollution externality for example, and other market impact of that type. Are you seeing anything like that? Is there any research being done? Thank you.

<A – George Serafeim>: Thank you for the question. The answer is I take everything that I say with a grain of salt, because I haven't done this work myself. I have been a consumer of that research, myself having read their research evidence and the literature and so forth. So my reading of the literature is that there is very little evidence of price impacts from investment divestments from specific companies, going back in time. So people studied, for example, a really back in time, South Africa divestment.

More recently, there have been some studies around divestment from specific industries such as polluting industries and so forth. My reading of the evidence has been that the cost of capital effect has been really hard to trace. So it seems to be really small, as a result or very volatile and as a result is not statistically significant.

But that will lend my response by saying that, everything that I just said, could change in the future. And it could change as more investors are becoming interested in this domain. So to the extent that you will find more investors doing that, naturally this changes the liquidity in the market and it could generate some pricing effect. The important thing to consider is whether those practicing effects will be permanent or transitory. And I think to the extent that you have lots of investors with heterogeneous preferences out there. My sense is that some of those effects will be transitory. So that will be my assessment of the literature on that.

<Q>: And George, we turn it to the go to the board with the two thumbs up. How will this great research getting into the hands of key decision makers at large companies? What are your next steps? And maybe that could be one for Brian too?

<A – George Serafeim>: This is fantastic question. Brian?

<A – Brian Tomlinson>: So I mean one of the ways that we're thinking about this research is that it kind of expands the motivational set for a CEO thinking about delivering a long-term plan. So as I mentioned, we think that there are sort of long-term signaling and investor segmentation benefits for doing one of these long-term plans, right. The way you disclose effects, who owns your stock, if you signal that you are long-term, if you do a long-term plan, if you move away from quarterly earnings guidance, you will have more long-term investors in your investor base. That's what the literature suggests.

So we have that suite of arguments, which we think is really powerful and very well documented. But we also need to answer the as some people have called it on – no, I think several calls, I've been on the – what's in it for me argument. I came up. I spoke to you at this relatively new but very interesting initiative on a very timely topic, what happened? In conventional terms, what happened? And we think this framework and this economic analysis is part of answering that question. There are all these long-term reasons of why you should do this. But also in conventional terms, people will respond to the information you disclosed. That's how it gets to a key decision makers like CEOs.

<A – George Serafeim>: And if I may add one point, because this is such an important question, we can be doing all this kind of stuff, but if people don't know about them, then nothing changes, right. And I can be running around like [indiscernible] (0:30:50) courses and I'm giving talks and all this kind of stuff. But actually all of you, you don't disseminate the information. You don't have conversations and say, hold on a second, here's something that we need to consider. I saw this evidence. Let's debate about them, right. Let's share them. I think our ability to scale up is okay. But our ability to scale up collectively is huge. So I would say that we were all in some sense information agents here and that's how our society works right now.

<<Unidentified Analyst>>

Thank you. Thank you for that great presentation.

<<George Serafeim, Harvard Business School & KKS Advisors>>

Thank you.