

# Communicating Long-Term Plans

Illustrative concepts & emerging practices

# The CEO Investor Forum

In collaboration with Professor George Serafeim (Harvard Business School), CECF has developed our proprietary Long-Term Plan Framework leveraged by more than 40 CEOs to share their sustainable value creation business strategy with institutional investors.

**CECF** is a coalition of companies, institutional investors and professional services firms committed to reorienting the capital markets toward the long-term. Through leading research, we assist companies in developing and communicating Long-Term Plans that help inform the decisions of institutional investors.

The CEO Investor Forum, Reg FD platform, enables a corporation to present the key elements of its long-term strategy over a three to seven-year time horizon. Over the past few years, the CEO Investor Forum has shifted its focus from a multi-sector Forum to one that is sector-specific to better serve companies and institutional investors.

To date, over 40 CEOs (representing ~ \$3 trillion in market cap) have delivered Long-Term Plans to audiences of institutional investors each exceeding \$25tn AUM.

For more information please visit:

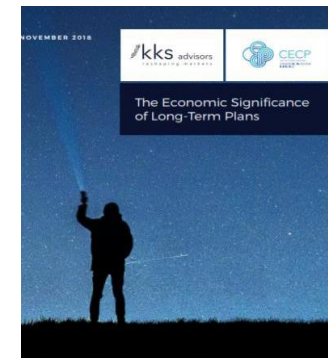
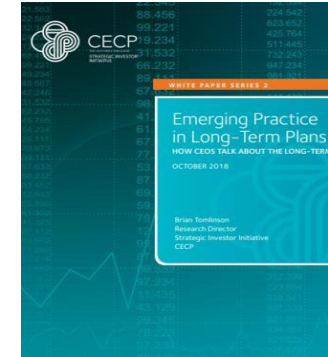
[cecf.co/home/resources/esg-sustainable-business/](https://cecf.co/home/resources/esg-sustainable-business/)

**George Serafeim** is the Charles M. Williams Professor of Business Administration at Harvard Business School, where he co-leads the Impact-Weighted Accounts Project and the Climate and Sustainability Impact AI Lab. He is currently teaching the course "Risks, Opportunities and Investments in an Era of Climate Change" that he designed for the elective curriculum of the MBA program and the course "Financial Reporting and Control" in the required MBA curriculum. Previously, he taught, with Professor Rebecca Henderson, the elective course "Reimagining Capitalism: Business and Big Problems", which received the Ideas Worth Teaching Award from the Aspen Institute and the Grand Page Prize. He has presented his research in over 60 countries around the world and ranks among the top 10 most popular authors out of over 12,000 business authors on the Social Science Research Network. [Email](#)

# CEO Investor Forum

## GUIDANCE AND RESEARCH ON LONG-TERM PLANS (LTP)

- CECF and its coalition of companies, institutional investors and professional services firms are committed to reorienting our capital markets toward the long-term. **We provide a Reg FD platform for CEOs to share Long-Term Plans to an audience of long-term investors.**
- Our leading research and feedback from institutional investors informs the guidance we provide to enable CEOs to develop and communicate effective long-term strategic plans that help inform investment, voting and engagement decisions. A long-term plan enables a corporation to set out the key elements of its **long-term strategy over a three to seven-year time horizon.**
- Key research publications on Long-Term Plans:
  - **WHY:** Reorienting Capital Markets Toward The Long-Term overview of the context for our work (white paper); Six Reasons to deliver a Long-Term Plan (MIT Sloan Management Review)
  - **WHAT:** Letter to CEOs from Institutional Investors signed by Bill McNabb and nine other institutional investors setting out Seven Questions for CEOs
  - **HOW:** Emerging Practice in Long-Term Plans examples of and guidance for effective long-term disclosures; The Method of Production of Long-Term Plans guidance for corporations on key collaborations for building a Long-Term Plan (white papers).
  - **VALUE:** The Economic Significance of Long-Term Plans setting out early evidence that Long-Term Plans disclose decision-relevant information to the capital markets, summarized in Harvard Business Review (white paper and article).



# Communicating Long-Term Plans is a Key Motivation for Executives and an Action of Interest to Investors

# Why Deliver a Long-Term Plan?

## Key motivations of CEOs

- Frustration about an overly short-term focus on the earnings call
- Wrap a coherent narrative around an expanded disclosure ecosystem
- A long-term vision reinforces industry leadership
- Increase long-term shareholders in investor base
- Prepares companies to engage with activist investors

Source: Method of Production of Long-Term Plans



## Eight Reasons Why Companies Should Start Sharing Their Long-Term Plans with Investors to:

1. Demonstrate that there is an effective long-term strategy
2. Show that the company can anticipate and capitalize on mega-trends
3. Help investors understand ESG issues “through the eyes of management”
4. Enable the C-Suite to reflect on the corporate ecosystem, including a consideration of its stakeholders
5. Help inspire – and retain – both employees and investors over the long-term
6. Foster leadership in long-term focused disclosure
7. Cultivate a long-term investor base
8. Create a favorable context for the company to execute short-term actions in the effort to achieve long-term objectives

# When to Deliver a Long-Term

**Listed companies should have a long-term strategic plan that is subject to annual review and periodic refreshment.** A Long-Term Plan is an opportunity to communicate with the capital markets about a longer time horizon and broader set of themes than are often addressed in investor-facing disclosures.



**Annual** - A company can deliver and annually update its Long-Term Plan with the capital markets. This is consistent with the call-to-action in Blackrock's recent series of annual letters to CEOs requesting that companies present annually updated "strategic frameworks for sustainable value creation."



**Event Triggers** - Additionally, there are key triggers for a corporation that make issuing a Long-Term Plan an IR imperative:

- Recovery from scandal
- CEO transition
- Transformational M&A
- Outcome of activist defense

# Successful Long-Term Plans

## Internal Processes for a Successful Long-Term Plan

- Cross-team collaboration
- Developing a shared and holistic understanding of materiality
- Un-soiling ESG
- Building beyond the default IR deck



## Disclosure Principles for a successful Long-Term Plan

**Additive:** builds on existing disclosures; not the default IR deck

**Context:** meaningful contextualized disclosures, expectations and targets

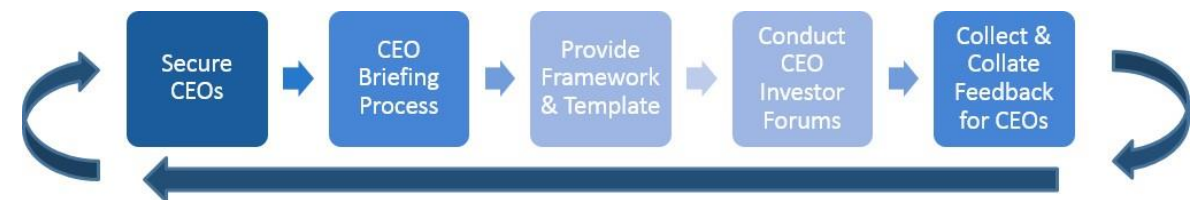
**Materiality:** financially material topics for the relevant industry and business model

**Integrated:** ESG issues and sustainability integrated discussion

**Forward-looking:** provides a three-to-five-year strategic and/or financial look-forward, based on the capital cycle, and is a strategic discussion related to sustainable value creation

**Performance:** the Long-Term Plan must provide a direct connection to financial prospects and operational performance over the long-term

**CEO Investor Forum works with companies to help them optimize their long-term disclosures**



# Illustrative Concepts & Emerging Practices



# Long-Term Plan Framework

CECP's research informs the guidance we provide to enable CEOs to develop and communicate their sustainable value creation business strategy. Our Long-Term Plan Framework, developed in partnership with Professor George Serafeim of the Harvard Business School, and sets out nine themes and 23-line items to build an effective presentation. **Foundational to this presentation is how Environmental, Social and Governance issues underpin all business practices.**



## Corporate Purpose

What is the purpose and is it aligned with long-term strategy



## Competitive Strategic Positioning

Long-term value drivers  
Medium-term value drivers  
Short-term value drivers



## Trends

Market trends  
Mega trends



## Corporate Governance

Executive compensation  
Board compensation  
Role of board Shareholder engagement



## Risks & Opportunities

Assessment of financially material ESG issues  
Risk management  
Opportunities



## Human Capital

How is human capital managed over the long-term



## Innovation & Operational Ecosystem

Improving the operational ecosystem



## Financial Performance

Capital efficiency  
Leverage  
Revenue growth



## Capital Allocation

Capital allocation plan  
M&A discipline  
R&D investment  
Excess cash

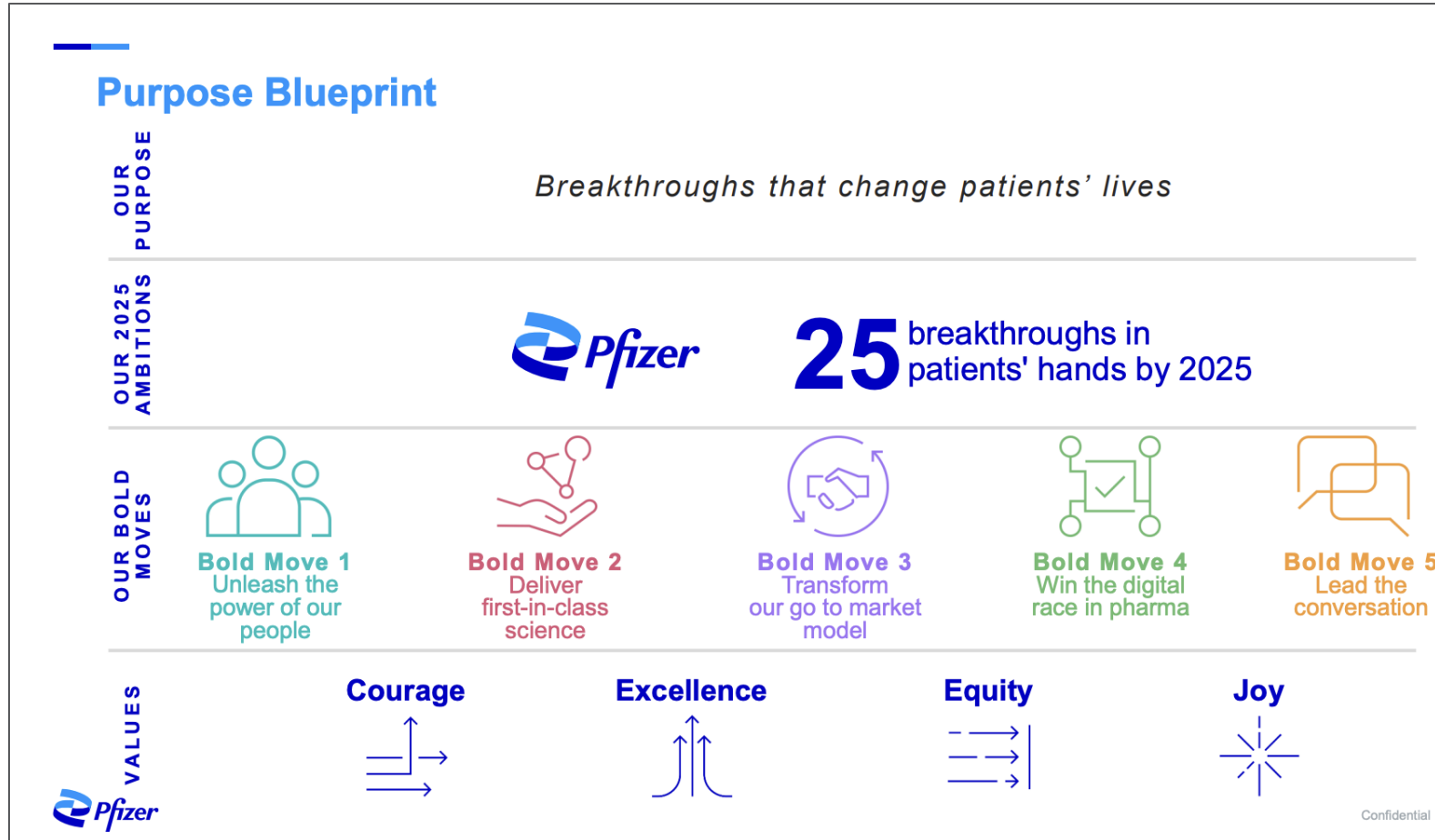
# Components of a Long-Term Plan

- Corporate Purpose
- Business Overview and Key Messages
- Mega Trends
- Risks and Opportunities
- Competitive Positioning
- Innovation & Operational Ecosystem
- Human Capital
- Corporate Governance: Executive Compensation
- Corporate Governance: Shareholders and Stakeholder engagement
- Corporate Governance: Strategy and Board Composition
- Financial and Operational Performance: Forward-looking
- Capital Allocation

# Corporate Purpose

- Describe the **corporate purpose** of your company and how it connects to the long-term business strategy
- Identify how it is “operationalized” with metrics and examples
- Discuss purpose and culture from different levels of the organization, including as a board-level issue

# Corporate Purpose Example




# Business Overview

- Share an overview of content that will be covered in the presentation
- Provide an overview of your **current business**:
  - Briefly provide context and level-set audience to prepare for elements of your sustainable value creation business strategy
  - Outline business model
  - Review portfolio of businesses
  - Overview of segments, sectors, geography, supply chain
  - Views of the business “through the eyes of management”
  - Peer comparison / competitive set
- Outline **key takeaways** that you want the audience to understand about your 3–5-year forward-looking business strategy

# Business Overview Example

## Moderna as of June 2021

Pipeline	<b>Commercial</b> COVID-19 vaccine	<b>Phase 3 preparation</b> CMV vaccine	<b>Phase 2</b> PCV, OX40L, VEGF	<b>13 positive Phase 1 readouts</b> 9 ID vaccine programs PCV, OX40L, VEGF, anti-Chikungunya antibody (repeat dose)	
Programs in development	<b>Infectious Disease Vaccines</b> 9 Vaccines for major unmet needs <ul style="list-style-type: none"><li>• <b>COVID-19</b> launched</li><li>• <b>CMV</b> Positive Phase 2, Phase 3 preparation</li><li>• <b>hMPV/PIV3</b> Phase 1b age de-escalation study ongoing</li><li>• <b>RSV, Zika</b> in Phase 1</li><li>• <b>Flu, EBV, HIV and Nipah</b> in preclinical</li></ul>			<b>mRNA Therapeutics</b> 13 Medicines across 4 therapeutic areas <ul style="list-style-type: none"><li>• <b>5 Immuno-Oncology:</b> PCV, OX40L in Ph 2; Triplet, IL-12, KRAS in Ph 1</li><li>• <b>4 Rare Diseases:</b> PA in Ph 1; MMA, PKU, GSD1a in preclinical</li><li>• <b>2 Cardiovascular Diseases:</b> VEGF in Phase 2; Relaxin in preclinical</li><li>• <b>2 Autoimmune Diseases:</b> IL-2 and PD-L1 in preclinical</li></ul>	
Foundations	<b>&gt;1,500</b> Employees <sup>1</sup>	<b>6<sup>th</sup></b> Consecutive year top employer by Science 	<b>800 million to 1 billion</b> doses to be produced in 2021	<b>8 commercial</b> subsidiaries across North America & Europe Creation of Moderna Japan KK	<b>\$8.2B</b> of cash and investments (unaudited) <sup>1</sup>

1. As of March 31, 2021; Cash and investments denotes cash, cash equivalents and investments

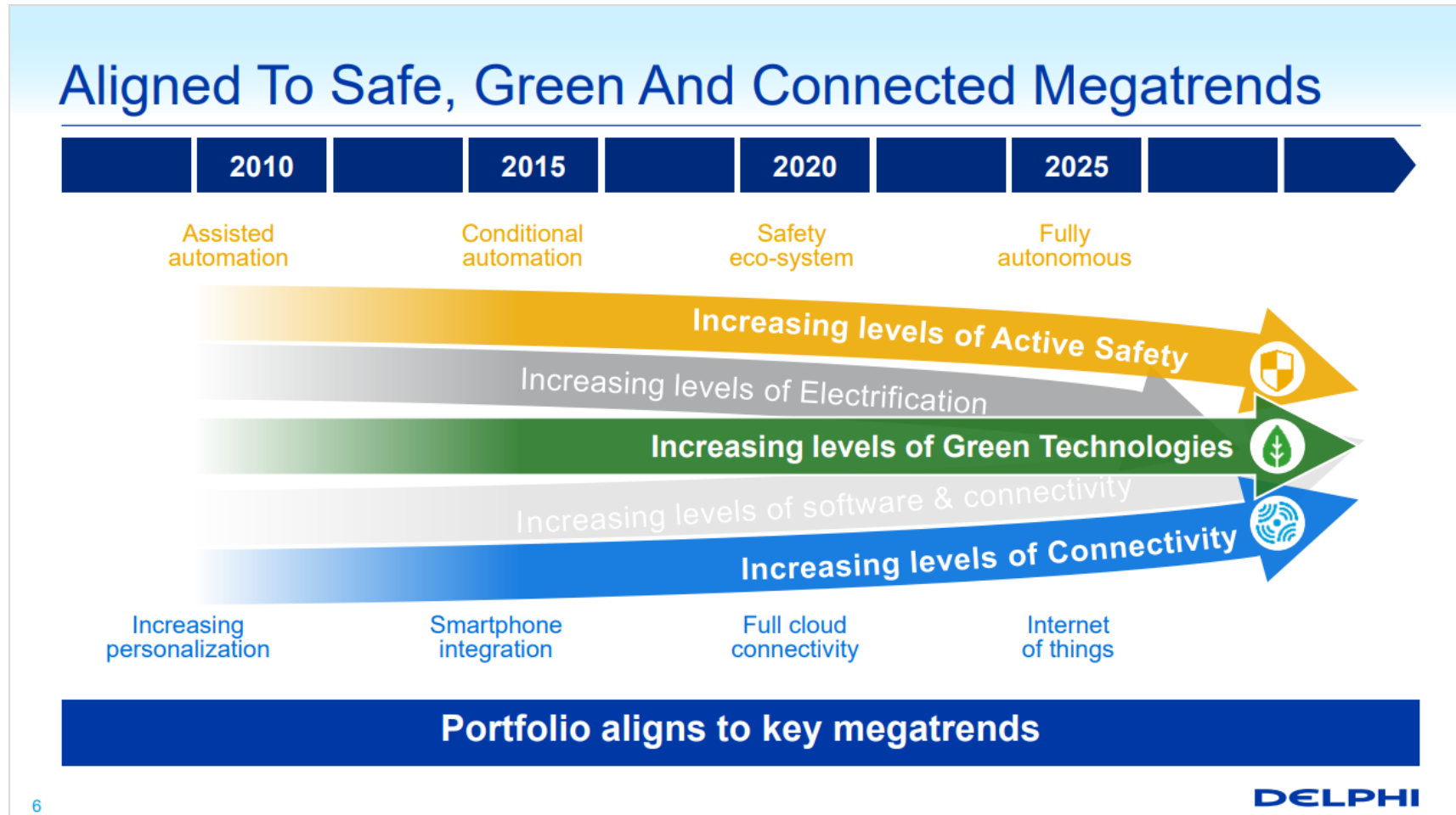
Slide 6

moderna

# Mega Trends

- Highlight management's view of **major trends** that broadly impact the planet, people, and business operations
- Describe methods or plans for reporting on key trends to investors (e.g., TCFD regarding climate change and related "scenario analysis"). While we await SEC required climate disclosures, it would behoove the company to speak to how they are approaching climate-related issues and targets.
- Build on existing disclosures, such as MD&A risk factor disclosures and "known trends and uncertainties"

# Mega Trends Example



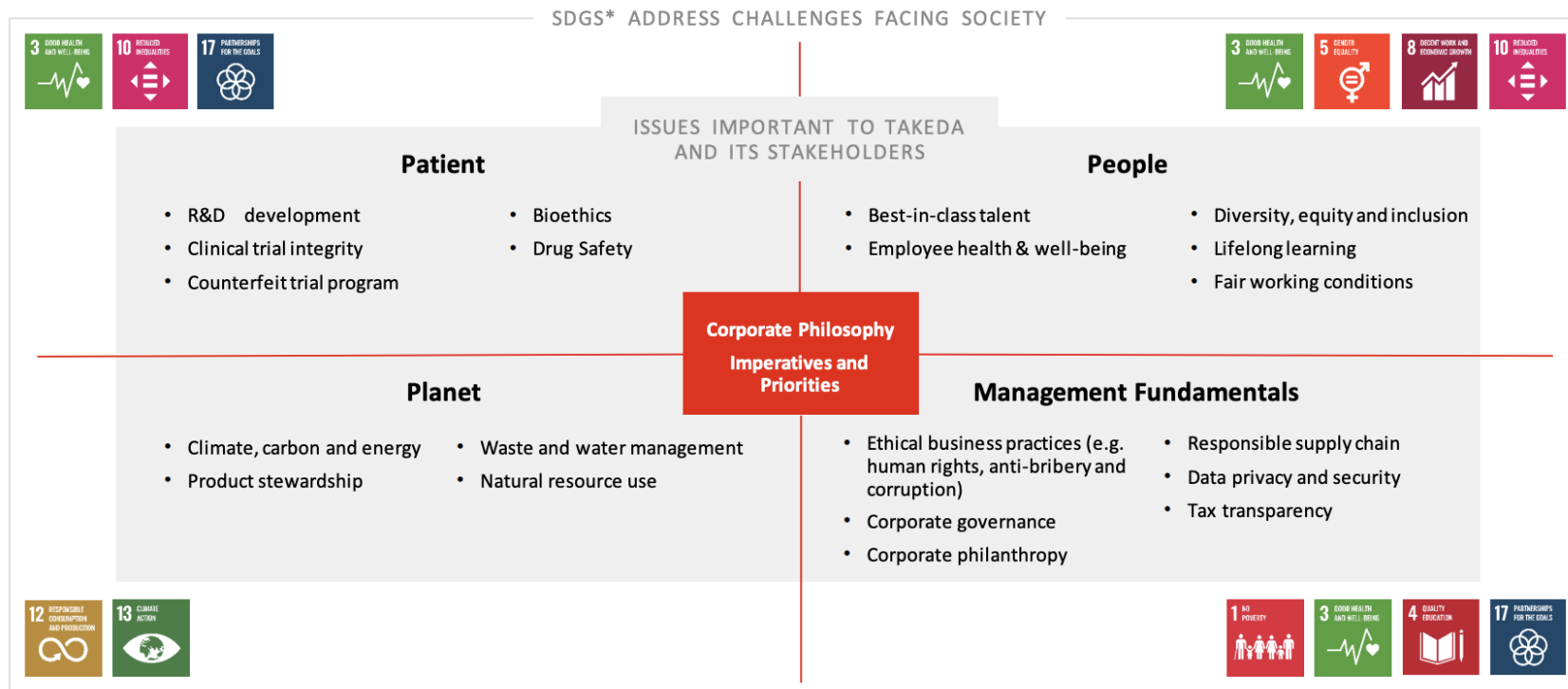


# Risks & Opportunities

- Set out an assessment of **financially material ESG** issues
  - Highlight the framework used for identifying financially material ESG issues (e.g., [Sustainability Accounting Standards Board](#))
  - Set out key metrics, KPIs, forward-looking targets
- Describe how financially material risks are managed and overseen
- Elaborate on how financially material opportunities are seized

# Risks & Opportunities Example

## Materiality Assessment Informed Corporate Philosophy Imperatives and Priorities

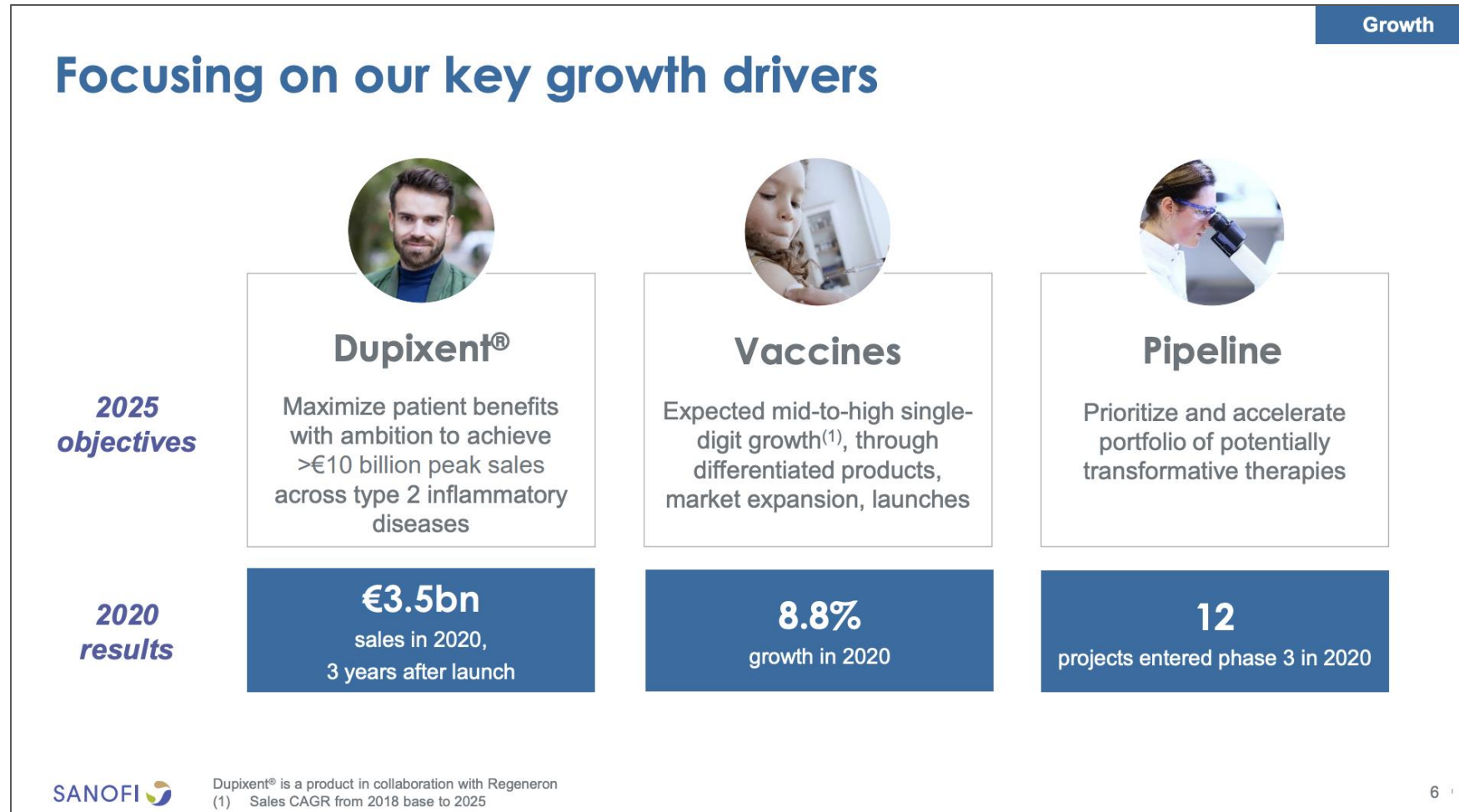


\*SDG = The Sustainable Development Goals are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030 [UN SDGs](#).

# Strategic Competitive Positioning

- Describe the **key value drivers** for the firm and the priority initiatives (by theme or example)
- Breakout by **key priorities and initiatives** for each strategy, including ESG factors and measurement system for each, and tie back to Trends, Risks, and Opportunities
- Provide future goals, metrics, and milestones (figures, range, strategic objectives)
- Identify directional or aspirational targets, with supporting commentary, to help establish intent under circumstances of uncertainty

# Competitive Positioning Example



# Innovation and Operational Ecosystem

Describe the **key implementation strategies** for delivering your Long-Term Plan:

- Connect this commentary to the discussion of Competitive Positioning and Capital Allocation
- Give commentary on managing innovation and new technology, both internally and through partnerships
- Discuss balance between M&A and organic growth
- Offer commentary on evolving mix of portfolio businesses (related to underlying mega/market trends)
- Describe headline strategy without disclosing proprietary information or undermining competitive advantage
- Describe key strategic partnerships aligned with delivering long-term strategy
- Provide examples of how such partnerships impact your operational ecosystem (e.g., access to specific product or geographic markets)



# Human Capital

- Describe your **human capital management** practices in the context of your long-term strategy. Note: The SEC is set to provide guidance on HCM disclosures which should be taken into consideration while discussing HCM metrics and measures.
- Outline key initiatives and metrics for your industry / business model
- Give salient examples and provide projections of likely impact; connect to financial performance
- Provide commentary on role of the board in oversight of talent management and succession planning

# Human Capital Example

## ATTRACTING AND RETAINING TALENT

### ALIGNING EMPLOYEES WITH LONG-TERM GOALS

<b>Annual incentive compensation plan</b>	➤ 100% of employees
<b>Annual equity based grants</b>	➤ 100% of employees
<b>Employee Stock Purchase Plan</b>	➤ 100% employees F/T and P/T working at least 20 hours per week
<b>Comprehensive U.S. health insurance coverage</b>	➤ 100% covered for full time employees 95% subsidized for part time employees working at least 20 hours per week



Our ***Innovation at Incyte*** program (I2) promotes innovation by allowing employees of any department to submit any innovative approach, tool or proposal that may be meaningful for Incyte and our patients.





# Corporate Governance

## EXECUTIVE COMPENSATION

- Describe in high-level terms the relationship of **executive compensation** to the long-term strategy outlined
- Explain how incentives maintain alignment to long-term strategy and corporate purpose
- Identify whether the financial and operational long-term goals set out are those used in the executive compensation plan
- Explain whether material ESG metrics are incorporated into compensation arrangements

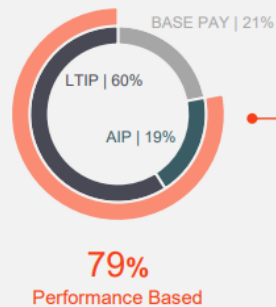
# Corporate Governance Example

## EXECUTIVE COMPENSATION

### Pay For Consistent Long-Term Performance

SUBSTANTIAL COMPENSATION AT RISK WITH METRICS TIGHTLY LINKED TO LONG-TERM SHAREHOLDER VALUE CREATION

#### NON-EXECUTIVE OFFICER PAY MIX



#### ELEMENTS OF COMPENSATION

##### BASE PAY

Cash based, fixed amount, with performance based merit increases

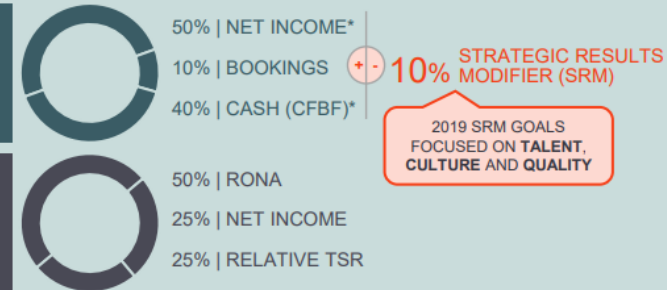
##### ANNUAL INCENTIVE PLAN (AIP)

Incentivize earnings, cash flow and profitable growth. Results modifiers may also be used to drive strategic factors

##### LONG-TERM INCENTIVE PLAN (LTIP)

Reward performance on long-term strategic metrics and attract, retain and motivate participants

#### INCENTIVES ALIGNED TO CREATING LONG-TERM VALUE



\* Note: Segment performance metrics based on Operating Income and Simplified Operating Cash Flow

# Corporate Governance

## STAKEHOLDER & SHAREHOLDER ENGAGEMENT

- Describe your process and framework for **engaging with your shareholders**
- Describe management disposition toward shareholders, how engagements are prioritized; if you do not have one-share-one vote structure, explain why
- Provide examples of where shareholder engagement has resulted in adjusted practice within the business (e.g., climate reporting, board composition)
- Identify **significant stakeholders** and speak to those (e.g., Customers, Suppliers, Communities, Regulators, Civil Society)
- Provide commentary on the process for identifying those key stakeholders and the business objectives it helps to achieve

# Corporate Governance Example

## SHAREHOLDER & STAKEHOLDER ENGAGEMENT

Our ESG priorities are aligned to key stakeholders and the biopharma sector, and approved and monitored by our Board

### OUR PRIORITY AREAS



**PRODUCT  
QUALITY &  
SAFETY**



**HUMAN  
CAPITAL**



**DIVERSITY &  
INCLUSION**



**SUSTAINABILITY**



**RESPONSIBLE  
SUPPLY-CHAIN  
MANAGEMENT**

### GOVERNANCE

BOD regularly reviews ESG performance

We manage ESG via business unit/site scorecard and E&S KPIs for leaders

Since IPO in 2014, we have evolved our corporate governance program to align with current best practices

- Lead Independent Director
- Shareholder proxy access
- De-staggering our BOD

At our next annual meeting, we will propose allowing shareholders to call special meetings and removing remaining supermajority voting requirements

# Corporate Governance






STRATEGY & BOARD  
COMPENSATION

- Describe the **role of the board** in long-term strategy
- Provide commentary on how board practices are structured to enable meaningful strategy development, engagement, and monitoring.
- Provide specific examples of high-quality board oversight
- Describe how the composition of your board (today and in the future) help guide the corporation to its long-term strategic goals
- Identify frameworks and targets for composition and relate those to strategy

# Corporate Governance Example

## STRATEGY

### MAXIMIZING ENGAGEMENT WITH OUR BOARD OF DIRECTORS HOW WE DO IT

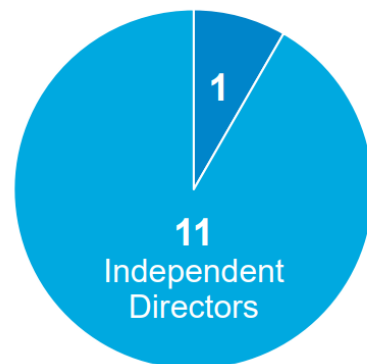
				
STRATEGY OVERSIGHT	GLOBAL CUSTOMER & SITE VISITS	BROAD MANAGEMENT VISIBILITY	COMMITTEES	AGENDA DEVELOPMENT
Review strategies of one of our four <b>Business Groups</b> and one of our four <b>Super Regions</b> at each quarterly meeting	<b>Rotate quarterly</b> Director site visit opportunities with customers, government officials, and to Medtronic and customer facilities amongst our <b>four Super Regions</b>	Bring in <b>managers from across the company</b> , allowing directors to further engage with management and impact overall culture of company	Established <b>committee executive sessions</b> , free of Chairman  <b>Chair rotation</b> approximately every 5 years  Split <b>Technology &amp; Quality Committee</b> for greater focus	<b>Eliminated overlapping Committee meetings</b>  Offer <b>gap sessions</b> where directors can deep dive on topics

# Corporate Governance Example

## BOARD COMPOSITION

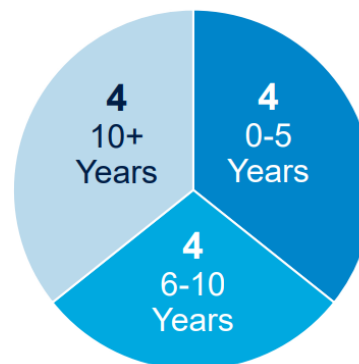
**AN ENGAGED AND DIVERSE BOARD OF DIRECTORS  
HELP BRING A MORE DIVERSE AND AWARE MINDSET**

BOARD INDEPENDENCE



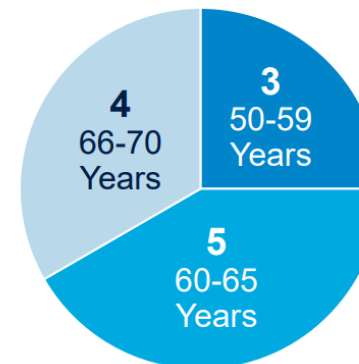
INDEPENDENT  
LEAD DIRECTOR

BOARD TENURE



6 NEW DIRECTORS SINCE 2011  
AVERAGE TENURE 8.6 YEARS

AGE MIX



63 AVERAGE AGE

**25% FEMALE REPRESENTATION | 25% ETHNIC DIVERSITY**

\*2017 BOARD COMPOSITION



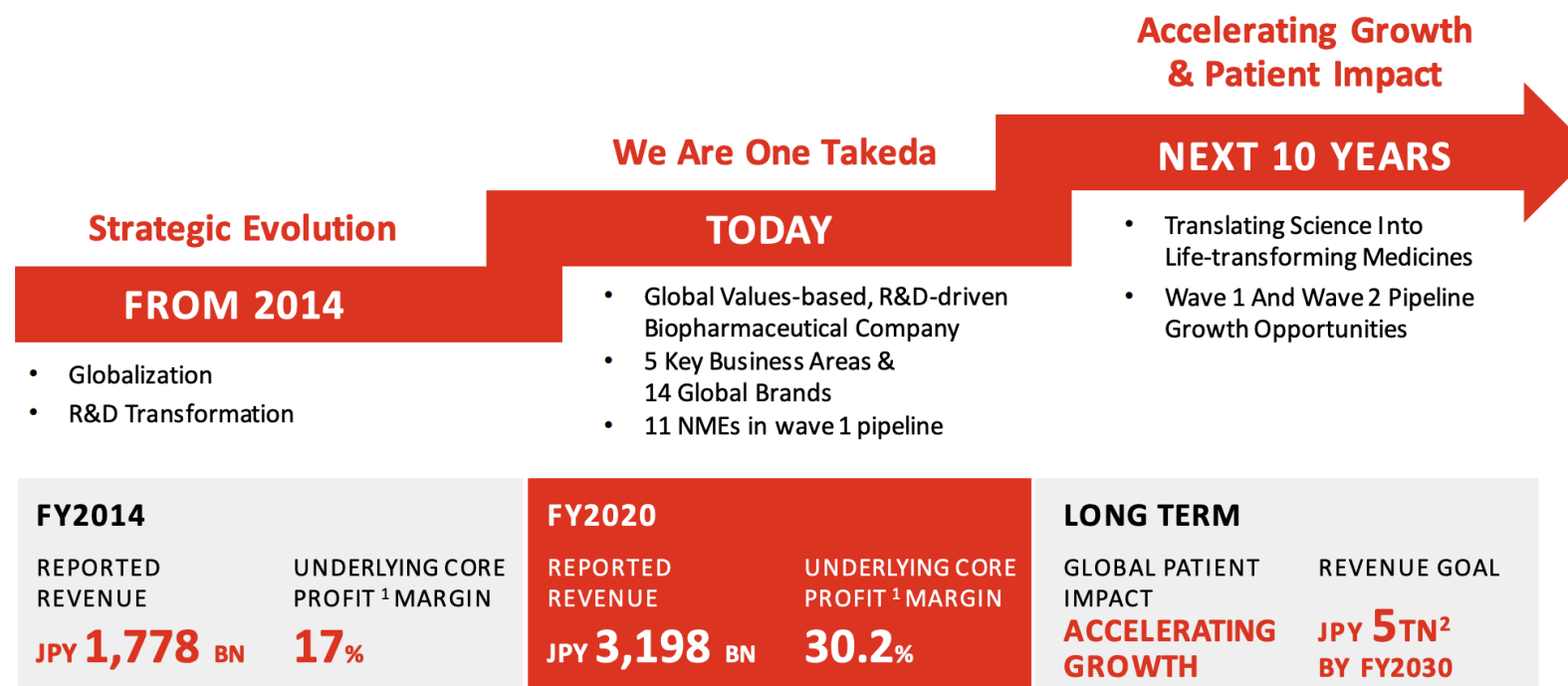
# Financial & Operational Performance

- Share **forward-looking strategic and financial metrics** relevant to long-term strategy
- Key performance indicators can be any of a wide-range of relevant financial metrics and time horizons, including:
  - Revenue, EBITDA growth (Economic Profit, if available)
  - Capital efficiency and profitability (ROIC, ROE, CAGR, RONA)
- Outline how leveraged the company will be in years ahead:
  - Set the stage and explain the trajectory of financial performance
  - Describe how your Long-Term Plan is tracked in short-term reporting (e.g., earnings calls) and indicate frequency with which long-term goals are updated
  - If the company does not provide long-term financial guidance (more than one year) or issues quarterly earnings guidance, explain why



# Financial & Operational Performance Example

## Takeda's Corporate Transformation



1. Underlying Core Operating Profit. Please refer to slide 36 for definition and slides 38-39 for reconciliations

2. Includes incremental revenue not adjusted for Probability of Technical Success (PTS) and is not a "forecast" or "target" figure. PTS applies to the probability that a given clinical trial/study will be successful based on pre-defined endpoints, feasibility and other factors and regulatory bodies will grant approval. Actual future net sales achieved by our commercialized products and pipelines will be different, perhaps materially so, as there

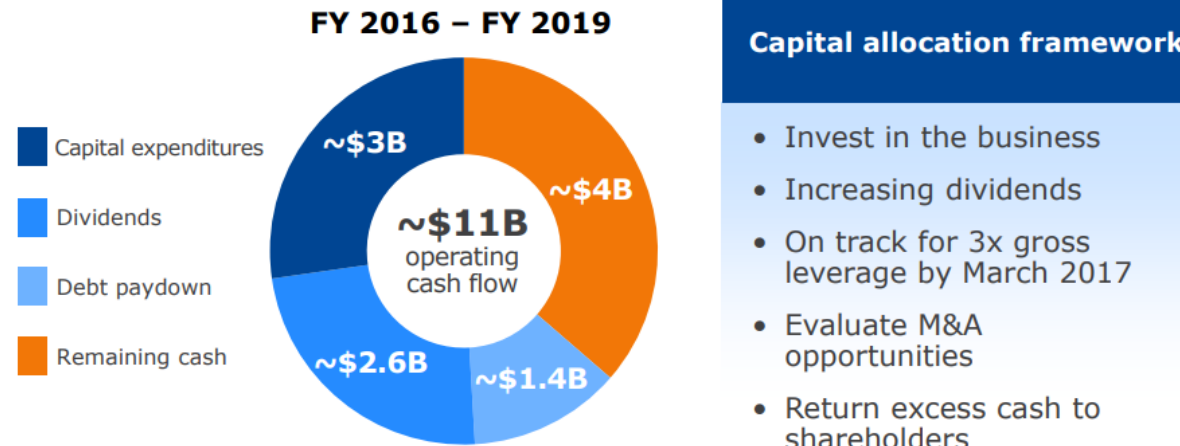
is a range of possible outcomes from clinical development, driven by a number of variables, including safety, efficacy and product labelling. If a product is approved, the effect of commercial factors including the patient population, the competitive environment, pricing and reimbursement is also uncertain.

# Capitol Allocation

- Describe your **capital allocation strategy** and plans:
  - Outline the framework for allocating capital and how the it enables strategy implementation and the initiatives set out in Competitive Positioning
- Supplement with:
  - Long-range capital distribution goals, such as maintaining the historic dividend trajectory and plans for excess cash
  - M&A discipline
  - Investments in R&D as % of budget
  - Capex
- Tie back to Trends, Risks, and Opportunities
- Highlight how the long-term strategy adjusts the capital allocation mix overtime.

# Capital Allocation Example

## Cash flow flexibility and opportunity



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# THANK YOU!