Raising Your Share Price and Winning Investors' Confidence in Difficult Times

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The Challenge

- If you are Google, Apple, American Express, or Airbus, you have no problems with shareholders: share prices are high and investors don't interfere with management.
- But if you are a smaller, no-growth company, or operating in a struggling economy, your shareholders are not happy:
  - Low share prices
  - Difficulties raising money with stocks or bonds
  - Attacked by hedge funds and activist investors
  - Management compensation voted "no."

What can you do?

Forget About Capital Markets: Go Private, Or Ignore Investors Altogether

- Some managers do that, but this is not an option if:
  - You need to raise funds for investments, R&D, etc.
  - You wish to compensate, or attract employees or directors with stock.
  - You acquire companies (M&A) with stock.
  - You use stock for loan collateral.

- Almost every company does some, or all of the above.

So, there must be a better way.

First, and Foremost: Don’t Retreat From Capital Markets

- The natural reaction of managers under stress is to distance themselves from investors:
  - Stop earnings guidance
  - Limit voluntary information disclosure (same-store-sales, churn rate)
  - Cancel conference calls and investors’ meetings
  - Refuse to meet with analysts and investors (“they don’t understand us anyway”)

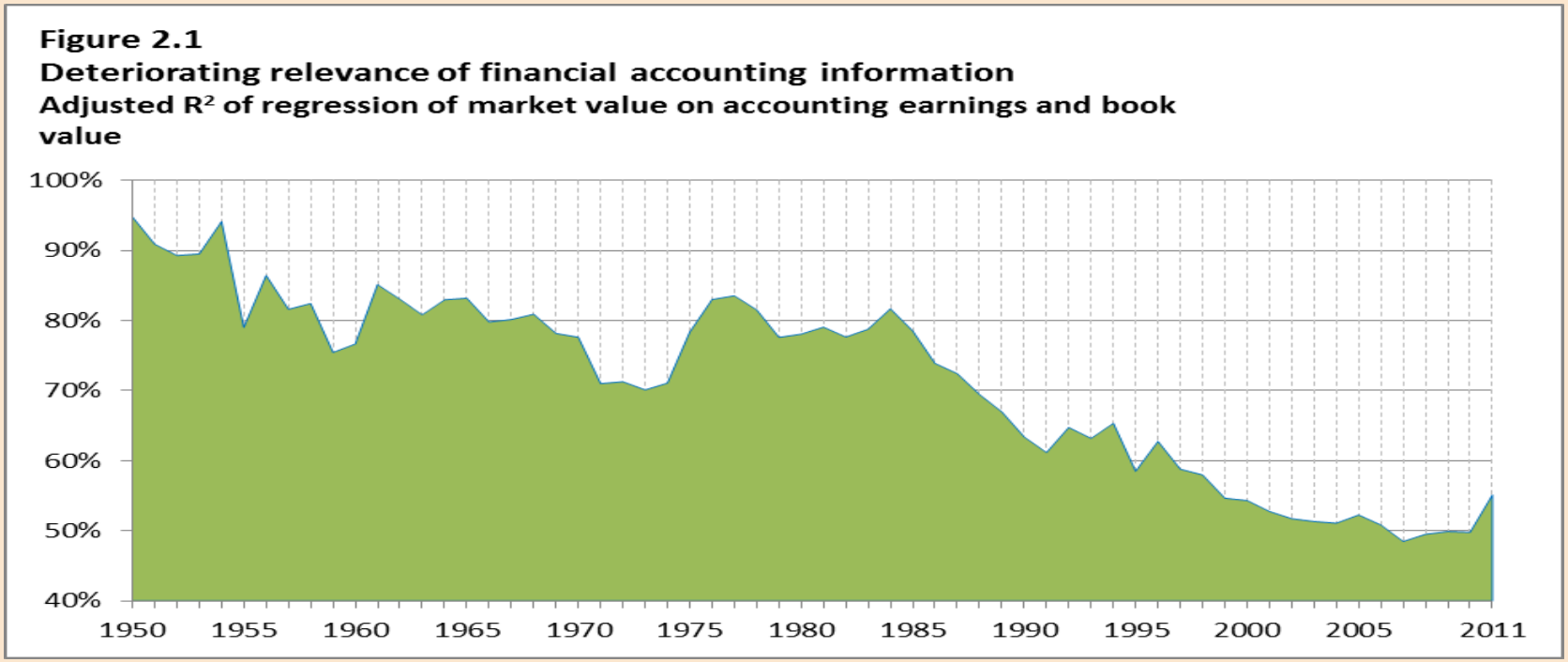
On the contrary, you should enhance interaction with investors

OK, But What Exactly Should I Do?

- First, recognize that accounting-based financial reports don't provide useful information anymore.
  - The depressing fall in accounting's relevance
  - Comprehensive research shows that in the U.S., financial reports provide only 4–5% of investors' information needs.
  - Analysts' Questions in quarterly conference calls hardly touch on accounting information
  - Accounting gets farther and farther from major corporate value changes (drugs passing clinical tests, new or cancelled contracts, M&As, restructuring, etc.)

You should provide information investors really need

Correlation Between Stock Prices and Earnings and Book Values

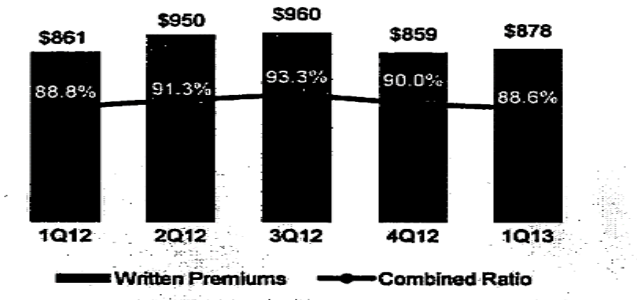


Start by Presenting Your Value–Creation Model

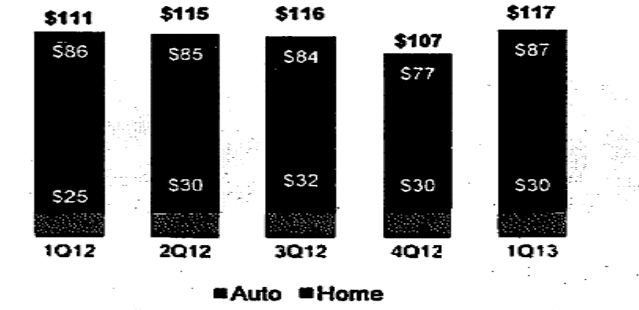
1. Strategic resources
   - Customers (new, total, renewing, growth)
   - Patents/trademarks/brands
   - Legal rights (radio spectrum, mining, landing)
   - Oil and gas reserves
2. Investments in resources:
   - R&D, information technology, advertising, M&A
3. Deployment of resources:
   - Product development
   - Patent Licensing
   - Alliances/joint ventures
   - Big data
4. Value created
   - Revenue minus economic (not accounting) costs and cost of equity capital.
5. Major business challenges and corrective steps

Consumer Markets Achieved Top Line Growth in 1Q13

Written Premiums and Combined Ratio[1]
($ in millions)



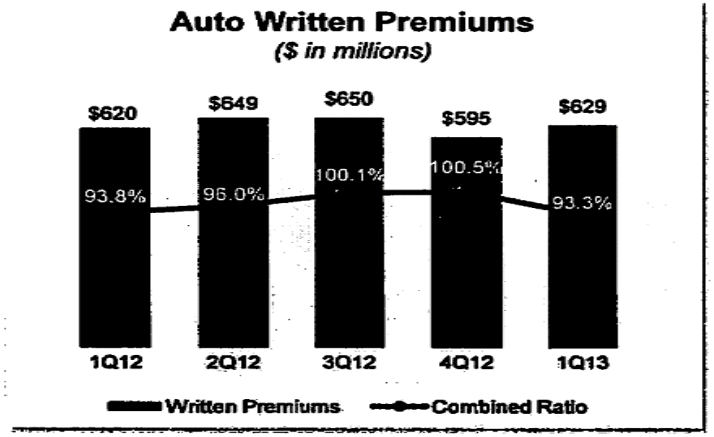
New Business Premium
($ in millions)

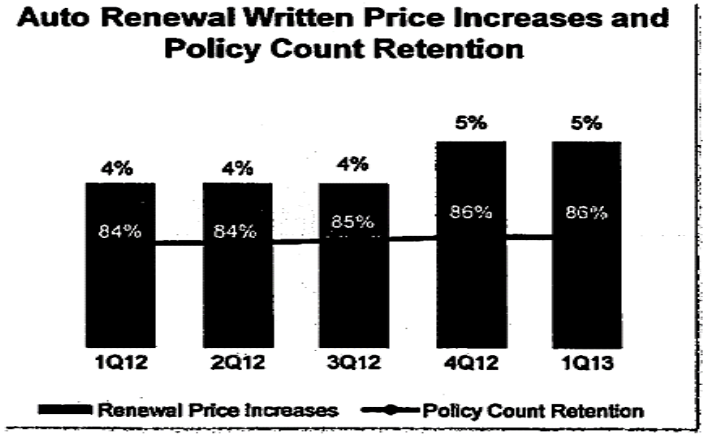


- New business and retention both improved with 1Q13 written premiums up 2% versus 1Q12
  - First quarter of written premium growth since 2009
  - New business up 5%, driven by AARP Direct and AARP Agency
  - Policy retention improved by 2 points to 86% for auto and 87% for home
- Underwriting gain of $72 million, down compared with $118 million in 1Q12 largely due to favorable PYD in 1Q12
- Strong 1Q13 combined ratio ex-cats and PYD of 88.6%, 0.2 points better than 1Q12
  - Auto combined ratio[1] improved 0.5 points versus 1Q12 driven by earned pricing increases and lower underwriting expenses
  - Homeowners combined ratio[1] was up 0.5 points from 1Q12 with modestly higher severity for fire and non-catastrophe weather claims

1. *Excludes cats and prior year development (PYD) and denotes a financial measure not calculated based on generally accepted accounting principles*

AARP Direct and Agency Driving 1Q13 Auto Growth





- Auto written premiums increased 1% from 1Q12 largely due to improved retention and renewal written pricing increases
  - New business up 6% in AARP Direct due to improving conversion rate
  - AARP Agency new business grew 41% reflecting improved issue rates and stronger agent engagement
  - Policy retention was up 2 points over 1Q12 despite 5% renewal written pricing increases

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Provide Forward–Looking Information

- No hype, no wishful thinking
- Just honest, best estimates
- And only if you feel confident about your forecasts
- Give a range of earnings and/or sales ($2.00 –2.20 EPS)
- Important to guide on fundamentals
  - Customer additions
  - Capacity utilization
  - New products

About 1/3 of U.S. companies regularly provide earnings and sales guidance

Don’t Play Accounting Games

- In difficult times, temptation to manage the numbers increases (Satyam)
- There are no “small manipulations”
- Most accounting manipulations are unsustainable and get out of hand
- The personal consequences are very harsh
  (job loss, prison, large fines)
- From a risk−return calculation − it is not worth it
- Don’t acquire companies just to boost short−term earnings

Don’t even think about manipulating information

Demonstrate Your Confidence in The Business

- Buy company stock. Ask directors to do the same.
- Base most of your compensation on operating performance.
- Defer large managerial bonuses in difficult times.

Strengthen Corporate Governance

- Have an independent, but expert board
- All–independent audit committee
- Get people with capital markets experience on board
- Have a reputable auditor
- Listen carefully to investors' concerns
- Maintain Good Investor Relations
  - Assign an executive to respond to investors
  - Understand the sentiment of investors and be proactive

Communicate Regularly With Investors

- Don’t communicate only with good news
- Set up regular investor meetings or conference calls
- Prepare very carefully for the meeting/call
  - tone (positive, resolute) matters a lot
  - get very familiar with your economic situation
  - prepare a good presentation
  - bring impressive executives
  - anticipate questions and rehearse answers
- Learn from questions/concerns (“thank God it’s over”)
- Conduct meetings before noon
- Track consequences of your communications

I Know What You Are Thinking

- I am already very busy, and this is a huge additional burden
- Most of the effort is **one–time** – setting up the systems: value-chain information, strengthening the board, fixing managerial compensation, assign an investor relations executive.
- The rewards of a successful capital markets strategy are high, and clearly demonstrated by research.

Good Luck!