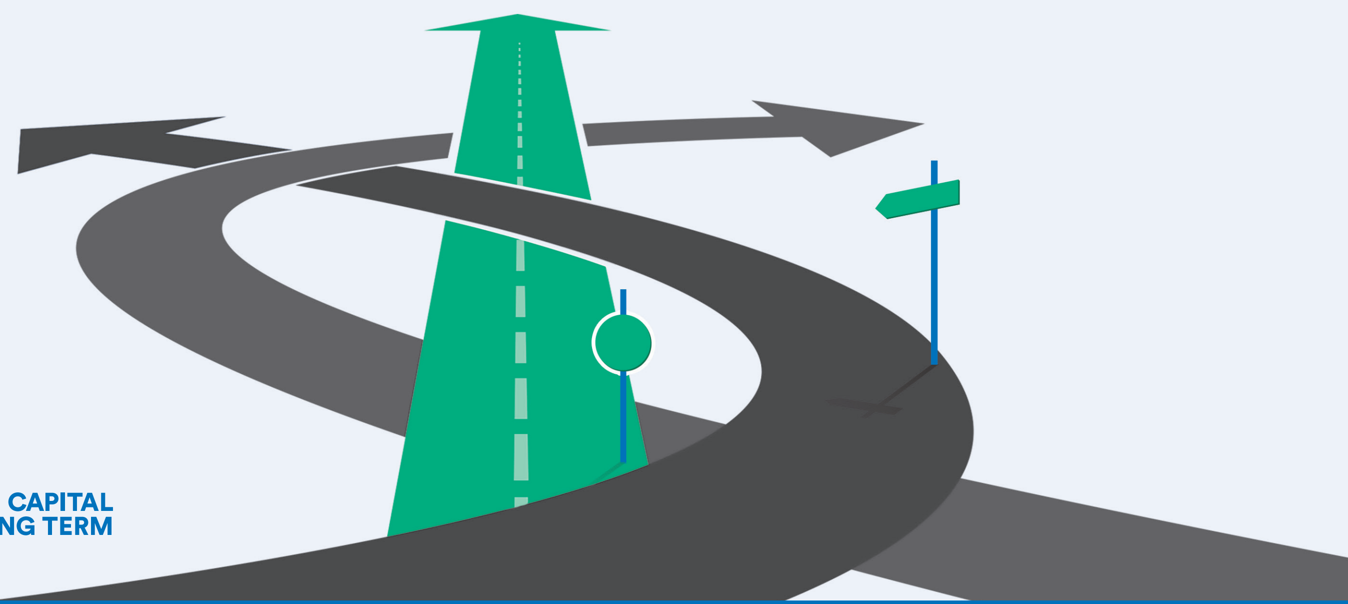
FCLTGLOBAL

Driving the Conversation:
Long-term roadmaps for long-term success



FOCUSING CAPITAL
ON THE LONG TERM

FCLTGlobal is dedicated to rebalancing investment and business decision-making towards the long-term objectives of funding economic growth and creating future savings.

FCLTGlobal is a not-for-profit organization that works to encourage a longer-term focus in business and investment decision-making by developing practical tools and approaches to support long-term behaviors across the investment value chain. We take an active approach to achieving our goals by:

- Conducting research and developing practical ideas based on solid evidence
- Engaging the world's top asset owners, asset managers, and corporations to problem-solve and test capital allocation approaches that create long-term value
- Developing educational resources and actionable approaches that are available and applicable globally
- Generating measurable change in capital markets behavior among savers, investors, corporations and other stakeholders

Focusing Capital on the Long Term began in 2013 as an initiative of the Canada Pension Plan Investment Board and McKinsey & Company, which together with BlackRock, The Dow Chemical Company, and Tata Sons founded FCLTGlobal in July 2016. In addition to our Founders, our Member organizations from across the investment value chain, including asset owners, asset managers and corporations, are committed to accomplishing long-term tangible actions to lengthen the timeframe of capital allocation decisions.

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Driving the conversation:

Long-term roadmaps for long-term success

Despite clear evidence that investors prefer long-term communications focused on a few key drivers of performance, companies remain mired in information demands from all sides. Long-term roadmaps are a form of investor communication that brings together a unified articulation of how a company will create long-term value with the most relevant metrics to track long-term performance. They have a proven record at leading companies, and evidence suggests that the majority of investors (especially long-term investors) prefer this approach. By focusing on key elements of performance such as competitive advantages, long-term objectives, and a strategic plan matched with clear capital allocation priorities, companies can build buy-in among long-term investors who support a focus on long-term value creation.

Why Long-term Roadmaps?

Survey after survey indicates that investors prefer forward-looking, long-term guidance around a company's strategy and expected performance.

This paper, which represents the collective effort and experience of FCLTGlobal's Members, academic experts, and other investment leaders, suggests a way to shift the investor relations conversation from quarterly "hits" and "misses" toward how companies create long-term value.

Today's companies face increasing pressure to respond to information requests from all sides. It is no surprise that managers and investors are frustrated.

Transitioning away from the quarterly treadmill toward conversations centered on the long term can simplify investor communications, while simultaneously strengthening companies' longer-term shareholder bases, alleviating short-term pressure and improving the accuracy of valuations. Long-term roadmaps are the key to this transition.

Long-term roadmaps present a unified view of how a company will create long-term value with the most relevant metrics to track long-term performance. This format provides investors with a distillation of a company's core drivers of growth and competitive advantages, a company's long-term objectives and the strategic plan for achieving them over three to five years, and a company's priorities for capital allocation and investment. A long-term roadmap also offers investors a current snapshot and forward-looking trajectory of the company's performance on the operational and financial metrics most closely tied to growth. It focuses on the information that investment decision makers actually need.

Two additional factors distinguish long-term roadmaps from traditional investor communications. First, a roadmap's forward-looking estimates all focus on objectives one year out, at a minimum. The point is to help investors keep the company accountable to its plan for long-term value creation, not to provide fodder for short-term traders and the media. Second, these roadmaps are intended to foster dialogue between companies and long-term shareholders, rather than serving as press releases for transient traders. Long-term roadmaps provide the right kind of shareholders the information they need to engage with and support corporate managers, thus facilitating the types of long-term investments that enable ongoing growth.

The voices of leading investors and business leaders are clear and underscore the strong demand for a reorientation toward the long term. For example, 93 percent of global buy-side investors want guidance from companies on metrics longer than one year.[1]

Our research shows that public companies can take simple, initial steps to begin the transition to investor communications oriented toward the long term. As companies gain experience and comfort with this approach, these early steps can be easily expanded into a full long-term plan. Many of the world's leading companies already employ these approaches today, and their experience offers an example and path for others to follow.

The transition to long-term roadmaps has already begun. Long-term investors can hasten it by calling on companies in which they invest to provide long-term roadmaps and by setting an example for how shareholders engage. With the backing of major institutional investors, companies will be able to move forward and pursue long-term roadmaps today.

> "Short-term guidance is not important for our evaluation for new or existing investments because it does not relate to our long-term investment horizon. Rather, we evaluate companies positively when they refrain from this short-term practice, particularly when they share a long-term roadmap instead."
>
> *– Chuon-Yi Ong, Senior Vice President, Public Equities, GIC Private Limited*

What Do Investors Want?

Corporate managers have good reason to feel frustrated by ever-increasing demands for additional information. As Mozaffar Khan, George Serafeim, and Aaron Yoon[2] have shown, firms that perform well on immaterial metrics do not significantly outperform firms with poor ratings on the same issues. Disclosure of these immaterial metrics adds little to no value for investment decision makers.

According to a study from McKinsey & Company,[3] long-term investors own more than 70 percent of the shares of US companies. For these investors, short-term guidance does little to inform their investment choices; they simply distract companies and their investors from the metrics that truly matter.

The UN-supported Principles for Responsible Investment, whose signatories represent more than $80 trillion in investable assets,[4] urge companies to "focus on communicating issues and metrics that are relevant to the long-term success of the business."[5] In addition, a survey of investment decision makers conducted by FCLTGlobal[6] indicated that 86 percent of respondents would like companies to use a minimum three-year time horizon for forward-looking targets.[7]

Notable business leaders voice the same sentiment. "Clear communication of a company's strategic goals—along with metrics that can be evaluated over time—will always be critical to shareholders," wrote Warren Buffett, chair and CEO of Berkshire Hathaway, and Jamie Dimon, chair and CEO of JPMorgan Chase, in an editorial for the *Wall Street Journal*.[8] BlackRock chair and CEO Larry Fink echoes this point. In his 2018 annual letter, he wrote, "I want to reiterate our request, outlined in past letters, that you publicly articulate your company's strategic framework for long-term value creation."[9] Harvard professor and former US Treasury Secretary Larry Summers agrees, "Wise corporate leaders should give a sense of their long-term vision on at least an annual basis. Investors who insist on such information are only being reasonable."[10]

Investor relations organizations also acknowledge that long-term plans with long-term metrics are an essential investor relations tool. In fact, the US National Investor Relations Institute (NIRI) recently amended its policies to respond to this investor preference. As its policies now state, "NIRI believes that an undue focus on short-term, single-point guidance is undesirable and that all relevant audiences—primarily investors, financial analysts, and the news media—are better served when public companies focus their guidance on their long-term strategy and business value drivers."[11]

Driving the conversation: Long-term roadmaps for long-term success

> "Good businesses that are managed well deserve a premium. We want to invest in companies that set long-term goals and targets and demonstrate transparent progress toward those long-term metrics."
>
> *– Maarten Vankan, Portfolio Manager, Kempen Capital Management*

Roadside Attractions: The Benefits of a Long-term Plan

Implementing a long-term approach to investor communications offers tangible benefits, both financial and otherwise, for participants on both sides of the investor–corporate dialogue.

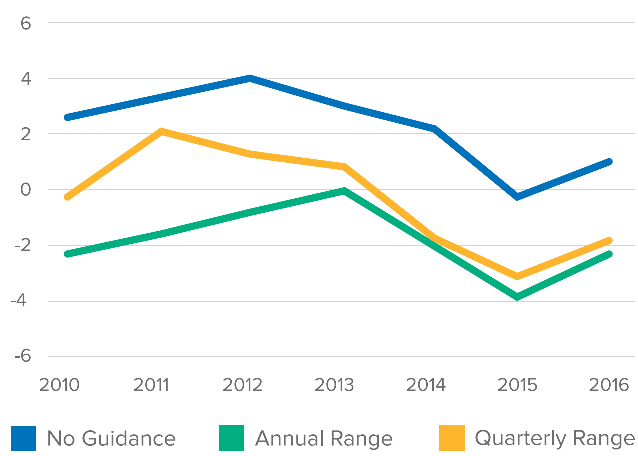
Chiefly, a long-term approach attracts long-term investors. As professors François Brochet, Maria Loumioti, and George Serafeim[12] demonstrate, focusing on short-term metrics attracts transient shareholders. By contrast, companies that focus on long-term topics in their investor communications attract and build a long-term investor base. Building that long-term investor base is important, as it reduces a company's cost of equity, encourages greater fixed investment, and is ultimately associated with higher returns.[13]

These plans can also help management respond in the face of short-term pressure (e.g., from activists). Investors that understand and believe in management's strategy and plan for execution are more likely to support the company through ups and downs, serving as a buffer or even potential deterrent to activist attack. As FCLTGlobal's research on quarterly guidance demonstrates, longer-term guidance (in this case, annual) does a better job muting share price volatility than short-term guidance, alleviating one source of potential short-term pressure.[14]

At the analyst level, a long-term roadmap can ensure a more accurate valuation. According to McKinsey & Company, 70 to 90 percent of company value is related to cash flows three or more years out.[15] Investor communications that don't speak to that horizon leave markets to fill in the blanks, often incorrectly. For example, the 2° Investing Initiative (2°ii) found that even though financial analysts and data providers produce forecasts for five to 10 years, companies typically only provide forecasts for the next quarter to one year.[16] This disclosure gap increases the uncertainty of stock valuations by analysts, making it more likely that the market could get a company's future earnings potential—and stock market valuation—very wrong.

The benefits aren't all financial. In addition to freeing investor relations departments from addressing the short-term "noise" that doesn't help their investors, research published by Timothy Youmans and Brian Tomlinson in *MIT Sloan Management Review* suggests companies that use long-term plans have also reported better success at attracting and retaining personnel.[17]

Volatility of S&P 500 by Guidance Policy



Similarly, managers from 66 organizations in the International Integrated Reporting Council reported that developing and communicating a long-term strategy delivered meaningful benefits internally: 79 percent of managers reported that business decision making had improved, and 78 percent experienced better collaboration between the board and management.[18]

Speed Bumps: Overcoming the Points of Resistance

Although seemingly a simple and powerful tool, long-term roadmaps can face resistance for both internal and external reasons. Fortunately, some of the world's leading companies have proven that such resistance can be overcome. When it is, change can happen quickly, especially when investors themselves join the effort to promote long-term planning and communications.

Interviews with FCLTGlobal's Members and others offer a perspective on how to address common sources of resistance. For example, many management teams are concerned about revealing their "secret sauce" by sharing too much information on their future plans. British pharmaceutical company GlaxoSmithKline's (GSK's) vice president of investor relations, Mel Foster-Hawes, acknowledged this tension in her approach: "When sharing long-term information, companies need to balance the benefits of disclosure with the risks of sharing competitive insight. At GSK, we manage that tension by signaling key inflection points in the business and sharing detail around those to build credibility for the strategy."[19]

Others are worried about having their feet held to the fire if reality doesn't line up with the forecasted plan, particularly for reasons that are outside the company's control. While some of this is inevitable—and responding to events is a reality—a well-communicated long-term roadmap typically includes a frank discussion of the company's assumptions and any risks that might upend them.

Investors informed by a long-term plan are prepared for a shift in guidance, strategy, and performance when real-world conditions require a change from initial plans. Indeed, this is an area where professional investors excel, incorporating new information into their investment thesis and rapidly adjusting to market change. In this way, long-term investors follow the example often attributed to famed economist John Maynard Keynes: "When my information changes, I change my mind. What do you do, sir?"

American multi-national chemical company Dow Chemical's Vice President of Investor Relations, Neal Sheorey, finds that his investors routinely assess how future real-world conditions could impact his company's performance. He tackles the problem of forecasting conditions by providing a vision of what could be possible based on historical market swings. In other words, rather than trying to guess the future, he establishes scenarios based on past outcomes. This provides a framework for investors to understand the inherent risks in the company's long-term strategy and to understand how performance will naturally adjust if and when real-world conditions shift.

Some points of resistance can even be turned into opportunities. Managers may be concerned that discussing their company's risks in a direct way may scare away investors. But experience shows that long-term companies can use frank, balanced conversations about risk as an opportunity to enhance investors' understanding of what goes into achieving the company's strategic vision. They accomplish this by discussing downsides and areas of potential upside. For example, Dave Huizing, vice president of investor relations at Dutch health, nutrition, and materials company DSM, uses his conversations about climate risk to highlight the company's sustainability mind-set. He emphasizes how DSM's investments in sustainability offer the company an attractive set of longer-term growth opportunities while lowering their overall risk.

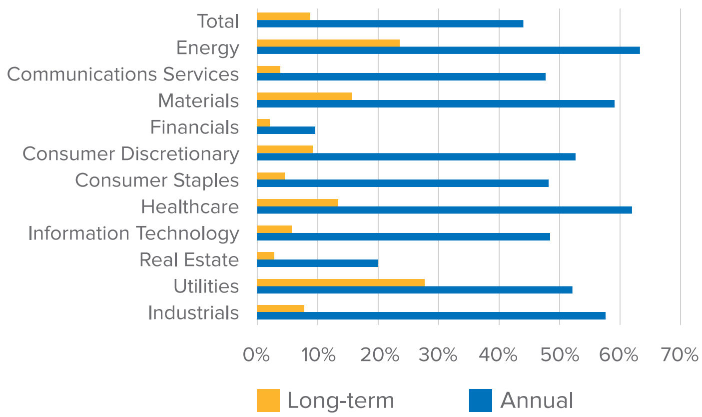
Driving the conversation: Long-term roadmaps for long-term success

Long-term investors also have an important role to play. Too often, demands from short-term investors or undue focus on short-term performance take center stage. Why, companies ask, should they bother developing or disseminating long-term plans or roadmaps when short-termism is so pervasive? The answer is that investor surveys overwhelmingly indicate that money managers want long-term information. Emerging evidence indicates that markets more broadly do react to long-term plans. CECP, in conjunction with the research firm KKS Advisors, analyzed the content of long-term plans shared by corporate managers at CECP's CEO Investor Forums, as well as the stock market reaction following these presentations. Their research suggests that investors do trade on long-term information: "The results show abnormal reactions for both stock prices and trading volume for three and five days after the [long-term plan] presentation. ... The stock price and share turnover findings imply that the long-term plans presented at the CEO Investor Forum contain information that investors find relevant and meaningful [to their investment decisions]."[20]

While reorienting investor communications can sometimes seem like turning a supertanker, change, once initiated, can happen quickly. Take the issuance of guidance—forward-looking, numerical forecasts of a company's anticipated performance. Short-term quarterly earnings guidance peaked in popularity in 2003, when 75 percent of US firms issued quarterly forecasts.[21] As the harm caused by short-term guidance became better understood (described in our earlier work *Moving Beyond Quarterly Guidance: A Relic of the Past*), there was a significant reversal in trend—just 27.8 percent of S&P 500 companies gave quarterly earnings guidance in 2017.

The same shift can happen for long-term guidance. On a global basis, long-term forecasts have a small following: 8.7 percent of MSCI All Country World Index (ACWI) constituents issued longer-term guidance in 2017 (guidance for periods greater than one year into the future), far fewer than the 44 percent of constituents that issued annual guidance. If long-term investors spoke as loudly as their shorter-term counterparts, these numbers could rapidly rise.

Annual and Long-term Guidance Prevelance
(MSCI ACWI Constituents, 2017)



8.7% issued long-term guidance (forecasts for periods longer than one year).

As a percentage of sector constituents, **long-term** guidance is most popular for **utilities** (27.6%), **energy** (23.3%), **materials** (15.4%), and **healthcare** (13.1%) companies.

Rules of the Road: What Makes a Good Long-term Roadmap

Long-term roadmaps are about cutting through the short-term frenzy and focusing on what matters. Companies that successfully implement long-term communications—whether roadmaps alone or a full suite of long-term investor communications approaches—focus on the information that really drives decision making for long-term investors. In 2015, the Focusing Capital on the Long Term initiative introduced a suggested framework for long-term investor communications. The report, *Straight Talk for the Long Term*, highlighted 10 elements that institutional investors, corporate strategy experts, and CEOs recommend companies include when formulating their long-term communications plans.[22] These 10 elements constitute a complete plan for long-term investor communications. Collectively, they represent what investors view as the "gold standard."

Companies are typically comfortable with the first few elements. Expressing their purpose, mission, and vision; explaining their business model and core drivers of growth; and sharing management's market view are all familiar talking points for management teams in informal conversations. But taking the leap to sharing a complete long-term plan in a formal way seems more challenging. Discussing strategic goals, laying out a detailed execution plan, providing metrics and targets that track strategic progress, and tying that progress to capital allocation priorities and likely risks require careful consideration and a coordinated approach.

Going from zero to 10 is understandably daunting, but a long-term roadmap offers an achievable first step. To help companies determine how best to start, FCLTGlobal surveyed investment decision makers to identify their priorities for long-term communication.[23]

Although the overwhelming preference remains for a complete long-term plan, respondents were in broad agreement that a good long-term roadmap lays out a clear vision for the future based on the company's competitive advantages and core drivers of growth—the underlying determinants of a company's success; it then links these to long-term objectives and capital allocation priorities. These elements, combined with a strategic plan to achieve those objectives and a set of key performance indicators (and long-term guidance for them), constitute the backbone of a good roadmap.

1 REASON FOR BEING
A clear statement of purpose, mission, and vision

2 CORE DRIVERS OF GROWTH
How the company's business model creates long-term value

3 MARKET VIEW
Management's perspective on the market

4 COMPETITIVE ADVANTAGES
The company's unique strengths and assets

5 LONG-TERM OBJECTIVES
Strategic goals with three- to five-year targets ultimately tied to core drivers of growth

6 STRATEGIC PLAN
A detailed execution roadmap that defines short-, medium-, and long-term actions in support of achieving long-term objectives

7 CAPITAL ALLOCATION PRIORITIES
An explanation of how investments will create long-term value (including sources and uses of cash)

8 KEY PERFORMANCE INDICATORS
Medium- and long-term metrics and targets that track progress of the strategic plan

9 RISKS
An overview of risks and their mitigation plans

10 COMPENSATION
A description of how executive and director compensation ties to long-term value creation and objectives

Driving the conversation: Long-term roadmaps for long-term success

Many leading global companies, including British energy firm BP, GSK, Japanese motor manufacturer Nidec, North American home improvement retailer The Home Depot, DSM, and British-Dutch transnational consumer goods company Unilever, have adopted long-term roadmaps (or, in some cases, complete long-term plans) to aid in their investor communications. Their examples demonstrate that the shift to long-term communications is achievable and desirable, even for the largest, most scrutinized companies in markets across the globe.

Companies that have implemented this approach find aligning investor communications with long-term objectives allows them to speak to the horizon that a majority of their investors find most relevant. But how can companies best achieve that combination of information? As a start, they can think about where the business is likely to be several years down the road. A good roadmap explains how a company will get there and establishes specific, interim goals that track the achievement of this vision. From there, they can elaborate on the key elements identified as most important by long-term investors. These elements include the following:

Competitive Advantages and Core Drivers of Growth:

These can be identified by considering the questions: “At what do we excel?” or “What differentiates us?” In the same vein, companies need to identify the sources of current and future growth: “What will drive revenues in the future?” and “What trends are we positioning the company to take advantage of?”

Some companies include details on the competitive landscape, key customer segments, primary technologies and products, and internal factors such as intangible assets and organizational structure. Most investors suggest a focus on the input factors (what drives the company and its strategy) and less attention on output factors (what the earnings are now, next month, and next quarter).

Nidec clearly defines management’s view of the four major core drivers of growth for the motor manufacturing company: automotive electrification driven by a push for decarbonization of the transportation sector; the expansion of robot applications, particularly in the food, logistics, and service industries; continued demand for power-saving motors for home appliances; and the rising

Investment decision makers in FCLTGlobal’s Investor Guidance Preferences Study were in broad agreement about the top elements most important for inclusion in long-term roadmaps:

62% wanted company commentary around **competitive advantages**.

52% identified **capital allocation priorities**.

52% look for companies to share their **long-term objectives**.

48% cited company-identified **core drivers of growth**.

They also were clear about what is less relevant for their decision making, including macroeconomic trends or outlooks, shareholder engagement framework or plans, and commentary on human capital requirements.

Source: FCLTGlobal Investor Guidance Preferences Study, 2018 demand for further automation in the agriculture and logistics sectors, driven by increasing labor constraints. These core drivers of growth are clearly linked to the company's five-year plan, and management offers an annual review and update on how they see each developing.[24]

Long-term Objectives:

A good roadmap provides a clear picture of where the company is going in the next three to five years and beyond, including specific targets at both the enterprise and business unit level. These objectives tend to include a mix of operational and financial goals, as well as related assumptions.

> "When companies present a vision for the future and discuss how they are positioning the strategy to achieve that, this is the most believable sort of guidance. In our view, a two- to three-year outlook tied to a longer-term vision is the gold standard for investor communications."
>
> – *Felix Lanters, Head of Equities, PGGM*

For example, to ensure simplicity and clarity, DSM focuses on two high-level, long-term financial objectives: sharing target ranges for EBITDA (earnings before interest, taxes, depreciation and amortization) and average, annually adjusted net operating free cash flow. DSM's investor relations team communicates its value proposition, while also building credibility for the strategy, by sharing a detailed annual Factbook[25] that includes a review of past performance against guidance metrics, segment milestones toward achieving group targets, the details of key projects contributing to core growth initiatives, and the company's long-term objectives.[26]

Strategic Plan:

In our interviews with institutional investors, we found broad agreement that a good roadmap also articulates the company's high-level strategic plan and the set of actions management plans to take to achieve their long-term objectives. The strategic plan can also be used to frame discussions of critical risk factors, both upside and downside, that could impact strategy, especially those related to core business drivers. Using scenario analyses where appropriate can also be helpful to illustrate risks and assumptions and explain forecast ranges.

Tata Motors clearly lays out its business model and strategic priorities in its roadmap, identifying long-term opportunities and listing key risks. The company presents its strategic framework, detailing objectives by segment, as well as segment-level key initiatives and actions taken, and spotlighting future areas of focus for each segment. By highlighting risks alongside the business model, the company elevates the risk conversation from one buried in legalese to one related to business strategy, potential impacts, and mitigation tactics.[27]

Capital Allocation Priorities:

Discussions of a company's strategic plan go hand-in-hand with how the company allocates capital (both its sources and its uses of cash). Laying out specific capital allocation priorities lends credibility to the strategy and helps illustrate how the company expects to finance its path forward. As GSK's CEO Emma Walmsley emphasizes, "Until you put the money where you say your strategy is, it's not your strategy."[28]

Many companies have recognized the value of communicating their capital allocation priorities to investors. In 2017, 21.8 percent of MSCI ACWI constituents[29] offered annual or longer capital expenditure (capex) guidance. Perhaps unsurprisingly, companies in capital-intensive industries, or industries where investing in long-lived assets or projects is common, tend to use capex guidance most frequently. In 2017, 59.4 percent of ACWI energy sector companies, 38.8

percent of materials companies, and 36.2 percent of utilities companies provided annual or longer capex guidance.

The Home Depot shares its planned approach to capital allocation with investors and explains how this allocation supports its long-term objectives. Alongside its strategic framework, the company issues three-year targets, updated annually and rolled forward at periodic, company-hosted investor conferences (for example, 2018 targets were first introduced at its 2015 Investor Conference, while 2020 targets were first issued at the 2017 Investor Conference).[30]

The Home Depot's capital allocation detail includes total forecasted spend, a breakdown by spending category, and an outline of the return on invested capital guidelines the company uses to inform its investment decisions—including its target mix of debt to equity, targeted debt/ EBITDAR (earnings before interest, taxes, depreciation, amortization and restructuring) ratio, and benchmarking criteria. Return of capital to shareholders is also included in the capital allocation plan, highlighting the target payout ratio and preference for use of cash to buy back shares only after meeting the needs of the business (and only if the buybacks are deemed "value creating").

Key Performance Indicators (KPIs):

Successful long-term roadmaps provide a mix of financial and operational metrics (KPIs) tied to the company's core drivers of growth. These metrics allow investors to track progress toward long-term objectives and engage the executive team in dialogue over their progress.[31]

Metrics that help investors understand and follow the company's progress over time are the most helpful. These are typically metrics (1) that the company can comfortably predict, (2) over which the company has a reasonable degree of control, and (3) that are difficult for outsiders to estimate despite their importance to the company's strategy. Companies often contextualize these metrics by connecting them to their long-term goals and by offering a three- to five-year outlook for each (as a range, not a point estimate), as well as to key risk factors and opportunities influencing that outlook. Further detail often includes tying metrics to management incentives and capital allocation plans, which can further help companies build credibility for their strategy among investors.

As an organization focused on developing long-horizon projects and assets, BP takes a similarly long-view with investor communications. The company offers a five-year plan for company performance, together with interim annual targets, and regularly reports against 15 financial and operational KPIs. These KPIs are shared with a five-year history for reference and include clear definitions for how each metric is calculated, a brief discussion of the recent trend and any relevant considerations, and information on how metrics are tied to compensation plans.

BP focuses its metrics and targets on things the company and its employees can influence. Examples include their "Reserves Replacement Ratio," which measures the extent to which that year's production has been replaced by new proven reserves added to the reserve base, and their "Underlying Replacement Cost Profit," which measures the replacement cost of inventories sold in the period. By using a mix of operational and financial targets, BP makes it easy to track progress toward long-term objectives while stripping out the "noise" caused by factors outside the company's control.[32]

Identifying Appropriate Metrics

Which metrics belong in a company's roadmap? Investor relations professionals have found it's important to monitor those that both management and investors consider most important to valuing and evaluating a company. Here are some ideas:

- Get a sense of commonly used industry metrics by surveying peers and competitors.
- Ask long-term investors which metrics they find most helpful.
- Consider the relevance of a company's internal metrics for external stakeholders. If it's important enough to be used as a yardstick for business success, then odds are it should be on the short list of metrics to be publicly shared, particularly if it's tied to incentive compensation.
- A number of organizations, including the Sustainability Accounting Standards Board, and the International Integrated Reporting Council offer various frameworks and metrics for disclosure which can link to long-term roadmaps.

Research by Alex Edmans, Mirko Heinle, and Chong Huang[33] offers cautionary evidence to keep in mind when selecting metrics. The authors demonstrate that as long as stock markets better incorporate "hard" information than "soft," disclosing more hard information will skew managers' real decisions toward improving hard performance measures (such as improving earnings) at the expense of soft performance measures (such as intangible investments).

While the study focuses on the impact of an increase in reporting frequency, this finding is instructive for forming long-term roadmaps as well. Long-term targets could lead to excessive management of those targets, so that companies sharing KPIs could consider including a balanced mix of both financial ("hard") and operational ("soft") metrics as targets. This mix makes it less likely that managers will game one metric over another and will ensure their focus remains on achieving both.

Hitting the Road: Developing and Putting a Long-term Roadmap into Practice

Effectively delivering a long-term roadmap to the market requires companies to lay critical groundwork, both internally and externally. Investor relations professionals interviewed for this project emphasized that roadmaps require internal buy-in and willpower to stick to this approach. For example, for the past 10 years, DSM has prioritized sustainability as its key business driver. The combination of the shifting business portfolio and DSM's sustainability-based growth initiatives required investors to understand the long-term plan and appreciate the company's strategic investment goals. To achieve that understanding, the investor relations and corporate communications departments worked with the board, CEO, and CFO to develop a unified communications strategy focused on the long-term storyline, as well as developing stakeholder buy-in for the long-term strategy.[34] Similarly, GSK's launch of its long-term roadmap followed months of work, which included collecting feedback from numerous stakeholders, both internal and external.[35]

In constructing a long-term roadmap, it helps to keep things simple. Unilever CEO Paul Polman's concluding remarks at the company's 2017 Investor Event consisted of only seven slides. Starting with reviewing the company's strengths, he then summarized how Unilever would build on these strengths to drive the next phase of growth; laid out specific short-, medium-, and long-term priorities; highlighted potential sources of risk; and closed by reconfirming the company's outlook targets.[36]

Driving the conversation: Long-term roadmaps for long-term success

Once the roadmap has been developed internally, it's time to take it on the road. Investors suggest that companies consider launching the plan at a high-profile event, such as an annual meeting, capital markets, or investor day. In fact, 79 percent of the investors we surveyed identified a company-hosted investor or capital markets day as the best venue for sharing a long-term plan or roadmap.[37]

Investor Perspectives on Long-term Guidance Practices

86% of investors want companies to **share targets with a three-plus-year time horizon**.

66% of investors believe **annual updates** to forward-looking targets are frequent enough.

79% of investors agree that a company-hosted **Investor or Capital Markets Day is the best venue** for sharing a long-term plan with investors.

Source: FCLTGlobal Investor Guidance Preferences Study, 2018

Post-launch, management and investor relations professionals start every conversation, including those with the sell side and the media, by reminding their audience of the company's long-term goals. Companies have also found it valuable to provide investors with exposure to wider senior management, beyond just the CEO or CFO. Demonstrating depth of leadership, backed up by unified messaging, makes investors comfortable that the whole team is on board with the long-term plan and working together to execute it. Finally, companies find being clear about how and when the roadmap will be updated helps investors anticipate the communication cadence. On that question, investors were clear: they prefer annual updates by a significant margin.[38]

Getting to the Destination

Long-term roadmaps offer a potential bulwark against short-term pressures. In our study, 100 percent of investors said they either always or occasionally encourage companies to share their long-term plans.[39] More than 86 percent of investment decision makers say they want metrics oriented toward expected performance at least three years out. Success stories show that the hurdles to adopting long-term investor communications can be overcome.

A long-term roadmap is a manageable first step toward building a complete long-term communications strategy. By sharing core drivers of growth, competitive advantages, long-term objectives, and the company's strategic plan (including capital allocation priorities and interim targets), companies can provide investors with the information they need without getting caught in the frenzy of quarterly targets. Investment decision makers have made it clear what they want: a long-term roadmap to provide a unifying framework and vehicle to communicate.

By transitioning to long-term roadmaps, companies can begin to build the communications foundation for what really matters: creating long-term, sustainable value.

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Endnotes

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38. FCLTGlobal Investor Guidance Preferences Study 2018. Of respondents, 66 percent selected "Annually" in response to the question, "How frequently should a company update their targets?" Multiple-choice answers were presented randomly and included "quarterly," "annually," "three years," "five years," "other."

39. FCLTGlobal Investor Guidance Preferences Study 2018. In response to the question, "In your conversations with companies you cover, how often do you encourage them to share their long-term plan if they have not already done so?", 66 percent selected "Always," and 34 percent selected "Occasionally." No participants selected "Never."

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A CEO Guide to What Investment Decision Makers Really Want: Long-term Roadmaps

Why not give investment decision makers what they really want? A long-term roadmap cuts through the noise by presenting a company's core drivers of growth and competitive advantages, long-term objectives, the strategic plan to achieving those objectives, capital allocation priorities, and a handful of KPIs that allow investors to track progress. Benefits of a long-term roadmap:

- Gives existing shareholders what they want
- Attracts long-term investors by using long-term language
- Acts as a deterrent or buffer against activist attacks
- More accurately shapes a company's valuation
- Provides strategic clarity to internal audiences

	Possibilities include...	Example
Core Drivers of Growth and Competitive Advantages	**How the company's business model creates long-term value** • Patents, trademarks, other intellectual property • Demographic shifts • New market opportunities • Supply chain or sourcing advantages	**Japanese motor manufacturer Nidec Corp. defines core drivers of growth as follows:** • Automotive electrification • Expansion of robot applications • Power-saving demands from home appliances • Labor constraints driving further automation[40]
Long-term Objectives	**Strategic goals with three- to five-year targets tied to core drivers of growth** • Market share targets • Top line growth or revenue targets • Targeted revenue from new products • EBITDA, operating cash flow, net profit	**Dutch health, nutrition, and materials company DSM shares two high-level long-term objectives:** • EBITDA (earnings before interest taxes depreciation and amortization) • Average annual adjusted net operating free cash flow[41]
Strategic Plan	**The set of actions planned to achieve the long-term objectives** • Enter a new geography • Build a new factory • Launch a new product line	**Indian automotive manufacturing company Tata Motors presents its strategic framework detailing the following:** • Objectives by segment • Segment-level key initiatives • Areas of focus for each segment moving forward[42]
Capital Allocation Priorities	**An explanation of how investment will create long-term value, including sources and uses of cash** • ROIC hurdles • Target payout ratio • M&A criteria • R&D and/or capex spending ($ or %) • Target capital structure	**North American home improvement retailer The Home Depot shares the following information:** • Total forecasted spend (in USD billions) • Breakdown by spending category • ROIC guidelines • Target payout ratio • Criteria for buybacks[43]
Key Performance Indicators (KPIs)	**A mix of financial and operational metrics tied to the core drivers of growth** • Growth in headcount • Number of new products launched • Marketing or advertising spending • Margin growth	**British energy firm BP regularly reports against 15 financial and operational KPIs, including:** • Reserves Replacement Ratio • Underlying Replacement Cost Profit • Metrics tied to compensation plans[44]

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