Uncertain or Under Fire? Ask the Experts

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Participants:

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Sally Curley, senior vice president of investor relations, Cardinal Health

Bradley Wilks, managing director and Chicago office CEO, Sard Verbinnen; 2010 chairman of the NIRI national board of directors

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Lisa Ciota: Good afternoon. I'm Lisa Ciota, and I'm pleased to welcome you to today's "Ask the Experts" webcast. This event is being sponsored by both the Chicago and Virtual NIRI chapters. Talkpoint Communications is graciously providing the webcast services.

Now, we've all been there. You're faced with a difficult situation, and there's no clear answer or path to choose. You wish you had someone to talk to – someone who's been there, done that – someone who can help you think through the issues. So today's your chance. Here to help you on this webcast are three highly respected experts in the investor relations field.

Brad Allen is the founder and executive editor of the online publication Risk/RewardNews.com. Previously, Brad led the investor relations function at Imation Corporation, Cray Research and Digital Equipment. Brad has been very active in NIRI both locally and nationally, including serving as chairman of the NIRI national board of directors several years ago. Brad is currently the chair of NIRI's Ethics Council.

We also have with us today Sally Curley, who is senior vice president of investor relations for Cardinal Health. Previously, Sally headed up investor relations for Genzyme Corp. Now, the majority of Sally's experience has been in the healthcare field, although she has held investor relations and corporate communications positions in companies in a variety of industries. Sally has also been active in NIRI, both locally and nationally, and is currently serving on the NIRI national board. Something of interest in today's world, Sally's company, Cardinal Health, has just executed one of the largest healthcare spinoffs in recent history. They spun off the $4 billion medical technologies division of CareFusion Corp.

Finally on today's webcast, we have Brad Wilks. He is the 2010 chairman of the NIRI national board of directors and managing director and Chicago office CEO of Sard Verbinnen. In his more than 20 years of agency and corporate experience, Brad has advised companies during mergers and acquisitions, proxy contests, litigation and crisis communications, as well as product recalls and senior executive changes. Prior to joining Sard, Brad held senior positions at

Ogilvie Public Relations Worldwide, Fleishman-Hillard, and headed the investor relations function at Ball Corporation.

Now, before diving in, I have a few details on today's webcast to cover. First, it will run about an hour long. I will pose questions to our guests, just to start things off. But then we'll open up to questions from our audience. And I hope you have lots of them. We definitely welcome your questions and will take them both via the phone and via the Web. I will give you instructions on how to submit your questions at that time. Please be assured that you can ask your questions anonymously if you so like.

Today's format is going to be purely Q&A, and I have a number of questions. I just can't wait to dive in.

First, I want to start with Brad. Then Sally and Brad Wilks can join in after this. Brad Allen, what would you do if you were at a company and you knew you were going to miss earnings guidance? Would you prerelease as soon as you know? What would be your thought process on that?

Brad Allen: Great question. I've had a lot of experience with that. There's sort of a decision tree that you need to go through. First of all, say that you know and have a level of certainty that you're going to miss, but you don't know by how much. The worst thing you can do is say, ‘Well, we know we're going to miss, but we don't know by how much.’ You've got to be able to bound the damage here. So you have the opportunity to take more time to, at least, bound the damage.

There are two factors that compel you to want to [preannounce], even if you don't have an obligation to disclose or a duty to disclose. If you haven't put out any previous guidance, then you don't have an obligation, per se, but you certainly have a best business practice that you want to do it. If you have put out previous guidance, you do have an obligation to update.

One [factor] is, you want to limit the possibility of some leak. When the information is out internally, you want to get that [information] out as quickly as you can. The other is – particularly for large-cap companies that often are the target of shareholder lawsuits – you want to limit the shareholder class potential as well. And so, those are arguments for wanting to get out as quickly as possible. The gating factor is being able to limit the damage in saying by how much you're going to miss, or bounding the downside, if you will.

Lisa Ciota: Sally, have you ever had this experience, and how did you handle it?

Sally Curley: Unfortunately, yes. And I totally agree with Brad's comments, so I won't echo them here. The only thing I would say is it always is a very, very difficult decision as to whether or not you prerelease or whether or not you wait. I think dealing with the legal team and making that determination in a moment in time when you don't run across that situation is important. You can set some parameters around what – under what circumstances you think you should prerelease. Find a moment in time, a quiet moment in time when your company is not in that situation and try to regroup with your legal team put some parameters in place. It's almost like a crisis communications plan. It's actually helpful when the moment comes.

Lisa Ciota: Brad Wilks, do you have anything to add to that?

Brad Wilks: The only other thing I would add is that – one piece of information that I think is critical to the decision is the length of time between when you know this information and when you would historically have announced earnings because, if it's two weeks, you probably want to prerelease. If it's a matter of a few days, you may want to hold off and just build it into your regular earnings announcement. It depends on how limited that amount of time is.

Lisa Ciota: Thank you, all.

Brad Allen: Lisa, can I throw in one other thing?

Lisa Ciota: Yeah.

Brad Allen: Brad Wilks reminded me. You also should ask yourself by how much you're missing by, too, because you don't want to create a threshold sort of situation, whereby you set a precedent. 'Well, we missed by 2%,' and so next time you miss by 2%, you're going to have to do something too. It is a judgment call at some level. Sally was right. You need to do it collaboratively with the legal team as well.

Lisa Ciota: Sally, I think it's fascinating that you handled the recent spinoff of CareFusion Corp. Any thoughts on the lessons you learned from that? And how did you reposition Cardinal Health for the post-spinoff world?

Sally Curley: Boy, there were a lot of lessons learned. And, actually, this was my – If you count tracking stocks that we launched, which were essentially spinoffs, this actually was my fourth spinoff. They're pretty rare, and I hadn't expected that there would be a dramatic difference [between them]. I think the biggest lesson learned is, never assume that you know the process or the financial implications because every spinoff is different. The tax implications are complex and different based on the spinoff and how it's actually aggregated – how it's viewed by the IRS.

Something that we did well as a group and I'm proud of is we formed a team right away, of the right departments, and we met weekly. We not only were able to share data back and forth, but it really gives you an incredible appreciation of what others in other functions are doing. We actually were able to tease out some questions and avoid some possible pitfalls down the line because there was this very collaborative group that, essentially, met every week for a 12-month period of time. It was longer than giving birth!

The third thing is to be flexible. We as a company – as a management team went through three different variations of how the spinoff actually would be executed before we settled on spinning off 80 percent of the shares and retaining a 20 percent stake. Each one of those variations required different investor relations plans and policies and processes. Flexibility and the ability to keep your humor and roll with the punches was really key.

I think your second question was on repositioning. We treated both companies – both the RemainCo, if you will, and the NewCo – as IPO launches. So we were not just focused on the NewCo but also focused on the existing company. We took it as an opportunity to re-launch our brand. We hit the road hard with the CEO – basically, on day one and even a bit before that, months before that. I think it's really paid off. We hadn't anticipated that our stock price would do as well, frankly, as it has done. The feedback from investors is that it was because we got out there and really hit the road hard meeting with them.

So those are the lessons learned.

Lisa Ciota: Did you change your targeting practices because, then, you rebranded your company?

Sally Curley: We did, and we're actually – I didn't know how much time and how much detail you want to get into. But just briefly, as part of this, we actually hired Boston Consulting Group at the beginning of the calendar year to evaluate a total shareholder return model. There's a small working group of us that are essentially rolling that out through the organization now. As part of that, we came to a conclusion that, with the new Cardinal Health "NewCo," we would want to increase our dividend, which is something we announced a couple of months ago. So it positioned the company well ahead of the actual execution date, which was September 1 for the spinoff. It positioned the company well with GARP and growth and income investors, which we were targeting for, again, the NewCo.

Lisa Ciota: Brad Allen, I know you had a similar experience when you were at Imation and you were the new company from the spinoff.

Brad Allen: Right.

Lisa Ciota: Any thoughts on how you handled it?

Brad Allen: It was a parallel sort of thing but on the other side of the transaction, if you will. Two thoughts come to mind, being a part of the spinee as opposed to the spinner, if you will.

One is that, similar to Sally, Imation was spun off from 3M – which you know is a huge DowJones 30 company in everybody's portfolio, widely held. I knew there was going to be tremendous turnover of the stock because they paid a dividend, and we didn't. They were mega-cap, we were small-cap/mid-cap, et cetera, et cetera. One of the things we needed to do was go out and create some demand because there was going to be tremendous supply. It was really marshalling that and doing the targeting in terms of who should be owning the stock and accepting the fact that there was going to be a lot of turnover and volatility.

That's kind of obvious. I mean, that's IR 101. But the second thing that I discovered, sort of by trial and error, was that there was a legacy identification of the company because it came out of 3M . . . first of all, in the research coverage but also in all kinds of databases, where it was listed as, in some instances, industrial equipment and, in some instances, consumer leisure products because of some of the businesses. We weren't a single business. We were a collection of businesses that 3M didn't want. So it required tremendous effort to go through and go into all of these databases and correct some of them, because we were not showing up on screens or being misidentified.

I started explicitly putting SIC and NAICS codes in our 10-K to that there would be no mistake when I finally figured out what the problem was, or identified that particular problem as a way to really position the company wherever we wanted to position it. But for a spinoff, and a complex spinoff, you really can't take for granted that people just know who you are because you did a road show. I mean, it gets down into the databases that are all over the place.

Sally Curley: If I could add just one thing . . . I think that's a great point, and it triggered a thought. One other great thing that happened was, really, outreach to peers. Don't be afraid of doing that. And, in fact, I want to send a shout out to Cole Lannum at Covidien in Boston. He actually reached out to me. He had just executed the Tyco – Covidien was a spinoff from Tyco about three or four years earlier. He was extremely helpful in terms of lessons that he had learned that he passed along to me, one of which I would like to share.

And that was to ensure, given the timing – and it depends on the situation with each company – but the timing of our upcoming fiscal year guidance happened to coincide with the effective date for the spinoff. One of the things that we needed to do was to make sure that when we gave our guidance, it was far enough from the effective date of the spinoff that, for both entities, we had the sell side up to speed and ready from a modeling perspective with the new guidance. When you spin off a company, obviously you're adjusting your guidance – usually downward and for RemainCo, in particular. You needed to make sure that on day one of the effective date of the spinoff, you didn't have this massive disconnect between First Call and what your guidance was.

Lisa Ciota: Great point. Great point. Brad Wilks, a new topic. What can the investor relations officer do to navigate C-suite politics? I think we've all experienced it, where we need to be very judicious in our handling of C-suite occupants. What happens when all the C-suite occupants aren't aligned, and how do you navigate that?

Brad Wilks: I think corporate politics are an unfortunate fact in a number of companies, and we've all, as you say, been there. Our advice, if you get in a situation where that dynamic is at work, is to, number one, focus on making yourself so incredibly useful to all of the C-suite occupants that you can stay above the fray. I mean, the most important thing is to continue to build relationships independently with every one of the C-suite members, demonstrating that you are highly competent and a valued member of the team, have a seat at the table, and have a strategic mindset.

You need to have individual relationships with everyone. You need to avoid getting caught up in the sniping and all of that stuff and taking sides with your boss but, again, sort of staying on the sidelines, staying above the fray, and demonstrating your value to the enterprise and just not getting caught up in it.

Lisa Ciota: Brad Allen or Sally, do you have any thoughts on that as well?

Brad Allen: I certainly would echo what Brad says. I think one thing that – just an observation. One thing is that investor relations folks, almost by definition, are outside looking in at least half the time of their day. And so we tend to stand apart, if you will – not stand apart, but look at the management team sometimes a little bit more objectively because we're having to look at it through the eyes of an outsider. I think that is valuable, but it also can be somewhat risky as well. You need to be careful about that and how you communicate evaluations or comments of management team members that come to you from the Street back in. You need to be a judicious filter of that. I think you have an obligation to let senior management know what the thinking of the Street is, but I think that you also need to be – to play an ambassadorial role, if you will. It can sometimes be quite a challenge and challenge all of your diplomatic skills.

Lisa Ciota: I have another question for Brad Wilks. With the gaining prominence of blogs and social media, there are so many more opportunities for commentary about your company, moving negative or even being totally inaccurate. Now that social media is so much more prominent, as an IRO, how concerned should I be about bad talk spreading, about the potential inaccuracies in some of that information that's being blogged or Twittered about?

Brad Wilks: Well, I think that one of the value-adds of strategic investor relations is that you are constantly keeping your ear to the ground relative to all of your stakeholders and what they're saying about the company and its management. I think it's important to monitor what's out there in the chat rooms and blogs and et cetera. I actually have some clients that spend a lot of time talking to Yahoo to remove offending commentary on some of these things. I think you have to understand that in public markets, there are a lot of agendas that are at work with those kinds of commentaries. I think that the most important thing is to make sure that that kind of information, to Brad's point, gets filtered up to the appropriate people within the organization so that people are aware that that kind of commentary is out there and that those perceptions exist. Where I would draw the line is reacting in some public, proactive way to some of that kind of commentary because I think, then, you set yourself up for an obligation to constantly be responding to it, et cetera. So my view is, at least for most companies, using it as a tool to gauge what's out there and filter it back to management so that it can be informed in terms of how you communicate.

Lisa Ciota: Thank you. I have a question for Sally, and then, of course, both Brads could comment on it. Many companies are facing legislative or policy risk, and healthcare has certainly been top-of-mind in the news a lot lately. What repercussions are you seeing relative to healthcare reform? And how are you handling the questions from investors?

Sally Curley: Well, Cardinal's really in the thick of it. As a healthcare services company, we service or have some sort of a partnership with suppliers, with pharmacy benefit managers, with group purchasing organizations, and with the various customers on both the medical and the pharma sides. We like to say we're really a healthcare services company that's at the intersection of healthcare. It's tricky, though, with this healthcare legislation because it's tough to take too public or too broad a stance because you always risk upsetting these relationships because we have them in all different corners. So it's got to be thought through. Any comments really have to be thought through very carefully. I actually meet at least weekly – and, lately, it's been about three to four times a week – with our head of government relations, who's based mostly in D.C. We share a lot of information on the changes in healthcare so that, for one thing, I don't get blindsided by any questions. We try to manage that as best as we can with the rapidly changing environment right now, but also to make sure that publicly, we don't get ahead of ourselves or ahead of legislation until a final bill is signed.

So, generally speaking, I have one of two responses to investors when they ask me about healthcare right now. If I know them really well, I'll kiddingly say, ‘You tell me what the final bill looks like, and I'll tell you what the impact is on us.’ If I don't know them so well that they don't know that that I'm joking when I say that, I'll basically just say, ‘Generally, we support healthcare reform broadly, but we're declining to comment on the specifics until something more firm is realized within the healthcare bill.” Basically, I’m punting the question until we have something that we can actually concretely respond to.

Brad Wilks: This is Brad Wilks. I would totally concur with that. One of the dynamics I've seen is [investor] attempts to get management to opine about one proposed piece of legislation or another. I think that the correct response is exactly what Sally said.

Lisa Ciota: Okay. Well, it seems I've got a number of questions starting to come in from our webcast viewers. But, just in case anybody needs a refresher on how to do this, we'll be taking questions via the webcast. You can do that by typing your question into the Q&A box, which appears in the lower left corner of your webcast screen, and then simply clicking send, and we'll see that question come across to us.

For those of you on the phone, we're certainly open to taking your questions as well. I'm going to ask Patty, our operator, to give the instructions on that.

Operator: Certainly. If you'd like to pose an audio question, you will be answered anonymously. Please press star, then one, on your touchtone telephone. You will then be called by your number.

Lisa Ciota: Thank you. Just to remind everybody, we won't be using your names when you submit your questions, so, please, feel free to ask whatever questions you like.

The first question that came in from our audience is related to the very first question that we had for today's conference call. At what percentage point on the upside do you alert the Street that you will be exceeding their consensus? I think we always worry about missing consensus, but what about exceeding consensus? I'd like Sally and Brad and Brad to comment on that.

Brad Allen: This is Brad Allen. That gets to the follow-on point that I made about setting a precedent. While there's no hard-and-fast rule, you will live with the consequence of whatever tripwire you cross. So, if you're 15 percent above what your guidance was, then, by not issuing any sort of update, people will assume you're not 15 percent up or you're not 15 percent down. They'll triangulate that way.

The other point on this whole discussion is you really need to ask yourself if you do have a duty to update in the absence of recent guidance or recently having reaffirmed your guidance. Even if you have issued guidance, if your guidance is now out of date, one argument would be that you don't have a duty to update, even if you are going to exceed. Now, there's a cost to that. And that's the key discussion point. There's a cost to that in terms of credibility. I mean, the Street doesn't like surprises up or down. So you have to factor that cost in as to whether or not you have either an obligation or a desire to update the Street. But there's no hard-and-fast line or rule, none that I can come up with in terms of a percentage.

Sally Curley: Brad, this is Sally. I agree with you, and I think it really depends on the industry. And that's why I was mentioning my recommendation would be and what we do here is to – in a quiet moment – I'm a member of the disclosure committee. And I think many IR officers are. So, to raise it as a disclosure committee meeting or raise it – if you're not a member of that group, to raise it with your attorneys. In a quiet moment when you're not dealing with this issue, identify what the thresholds are, both up and down, and the circumstances under which you would prerelease and get buy-in so that, when the time comes and you have to make that decision, you've already gotten the buy-in on it instead of scrambling.

But I think it also depends on the industry. Ten percent up or down for my industry right now – for wholesale distributors – would be huge. But in biotech, it's an every-quarter occurrence. So I think it really also depends on your industry.

Brad Wilks: I would say that I would have more of a bias toward pre-announcing on a miss rather than exceeding, simply because I think that, while investors don't like it when you're way off the market either way, they're a lot more willing to forgive beating than they are missing. So that's the premise I would approach it with.

But I also think that, to the point that was made by Brad Allen, it calls to question the whole visibility that management has to its business model. And so, it depends upon whether you're a company that doesn't provide guidance and consensus is just what's out there based on the mosaic, or that you've provided specific guidance and you're missing it or beating it by some percentage. I think that also plays into the decision.

Lisa Ciota: Here's another question that came in from the webcast. I think we've all been in situations like this. How do you handle it when you know the advice of your high-priced, outside legal counsel – or, for that matter, any type of outside advisors – when you think that advice is not in the best interest of the company or its shareholders? Anyone want to take that one?

Brad Allen: I'll jump in. This is Brad Allen. It's situational, but I would say that one approach, generally, is – Well, first of all, it depends on where your internal counsel is. But in my experience, most internal counsels are unwilling or constitutionally unable to go against outside counsel.

It also depends on the situation. It depends on what the issue is. I have, in the past, used shareholders who are well respected by senior management to provide some feedback or input. Not on anything that is material or inside information or anything like that, but just to provide a sounding board and the appropriate forum if you're trying to get some input on something. Sometimes it might be after the fact. It might be you've implemented the foolish advice of outside counsel, and that's just a reality. But then, you can build credibility for yourself by having an external third party that is respected and who supports what you had been arguing for. If you've got a portfolio manager, one of your top five shareholders, who says to the CFO, 'You know what? I think that blah, blah, blah was a better approach than what you guys implemented.' – and that's alsowhat you've been saying, then perhaps the next time around they'll listen to you.

But I'm not sure you can go toe-to-toe with external counsel. If you do, keep your résumé up to date, because in my experience, CEOs and CFOs listen to lawyers first.

Brad Wilks: One of our speakers at the annual conference this year talked about the role of investor relations as being the devil's advocate. And I do think that, to the extent that you are confident in your argument and you've got facts to support it, there are circumstances when it makes sense to challenge outside advice that you disagree with. That being said, I would add that you shoud choose your battles very carefully.

Brad Allen: Absolutely.

Sally Curley: I couldn't agree with both of you more. I would add it's not just outside counsel. Often, you get into circumstances where you have a board member, especially a sitting CEO or a former CEO, who sometimes has different ideas about investor relations. That's also tricky.

Lisa Ciota: Great. Another question that came in through the webcast is: If you don't issue quarterly guidance but current quarter performance will still cause you to miss the full year guidance, does your approach change in any way?

Brad Allen: This is Brad Allen. No, I don't think so. I think that you'll update the annual guidance when you issue the quarterly. When you issue the quarterly results, part of that process will be to update the annual guidance. And the current quarter's results will be incorporated into that revised annual guidance.

Brad Wilks: There's a clear example where you don't have a duty to update because you don't provide quarterly guidance.

Sally Curley: This is Sally. When you do provide the update to annual guidance, you can also provide trends. It's not giving specific quarterly guidance, but you can give an update as to trends and why there may be a seasonality to your quarters or a particular impact in one quarter or a first half versus the second half.

Lisa Ciota: Okay. Thank you. Patty, has anybody queued up for questions on the phone?

Operator: I'm not showing any questions at this time.

Lisa Ciota: Okay. Thank you. Please remember, everybody, that if you dialed in, you can ask a question that way as well.

Actually, I have a question that we had developed a couple days ago in preparation for this call. Management and Wall Street often have greatly different views of how a company can grow and succeed. Each side has valid points, but there doesn't seem to be a meeting of the minds on this. As an IRO, how do you manage these divergent views? I thought, Sally, maybe you could comment on that first.

Sally Curley: Sure. I think the first thing, as an investor relations officer, you really need to believe in your company's strategy and the future prospects. You need to understand that and believe in it from absolutely in your gut. You need to understand the specific details around that – not necessarily to communicate them but really have a strong conviction around it, because, if you don't, it's going to be very hard to be convincing when you get into conversations with investors and try to point out to them opportunities or specific strategic differences and why it's appropriate for your company and your industry versus how the investor might feel.

I also think that you do have to make sure that your management understands the varying viewpoints of Wall Street, so make sure to give that continuous feedback to management. A lot of times I'll do that unattributed. I'll provide a quote, but I won't attribute it so that it can't be easily dismissed by a CEO or CFO who says, ‘Oh, that's just so-and-so being cautious’ or ‘That's just so-and-so. I don't really take their judgment.’ It actually helps them to better understand [the objection].

Again, I'd first make sure that you're aligned, you believe in the strategy, you understand it comprehensively and can communicate it. I would ID the areas of discrepancy between what your management thinks and what the investors think and then try to work through solutions – or at least, if there are no solutions, then recognize the differences and be up-front about them when you're talking to shareholders.

Brad Wilks: My experience is that those companies that are most effective are those that actively listen to the views of their investors. It's been my experience that the area where there's often a disconnect is tha the investor base has one idea about priorities for capital allocation. They want greater share repurchase. They want a higher dividend. They don't want management to make what they view as value-destroying acquisitions. So I think that having the sensitivity to where your large, institutional shareholders fall on that spectrum is really important. And, to the extent that there are areas where there's a fundamental difference where management and the board are taking the company and where some of your large institutional investors would like to see it go, I think that there's always a benefit in sitting down one-on-one and letting both sides present their points of view. If you do that in a very respectful and mutually constructive way, a lot of times you can come out of there and get some alignment.

Brad Allen: This is Brad Allen. I just had one thing. I can't add to what Sally or Brad Wilks said specifically, but it does raise the issue of who your shareholders are and who they should be. I think that a proactive IR program needs to recognize what kind of an investment you are. If you've got growth and momentum investors and you're not a growth and momentum stock, then you need to start changing out your investor base over time. Now, that doesn't deal with the immediate issue, but, long-term, the kind of company you are and, given the kind of investment characteristics you are, it should align with the kind of shareholders that you have.

Brad Wilks: This is Brad. One other point I would add to this is I think that the value in having dialog where you have a disagreement of opinion is that, by doing that, you can nip the bud with those investors who, over time, can become more activist.

Lisa Ciota: Great. Just a reminder to our audience that you can submit your questions. We still have plenty of time for people to ask their questions, so please feel free to do so. And I also want to remind our audience about a couple of upcoming events for NIRI-Chicago. First, NIRI-Chicago will be hosting an informal breakfast roundtable discussion in downtown Chicago on October 30. It will be held at Sard Verbinnen's office. And then we're also hosting a mini-workshop on valuation at the Metropolitan Club on November 12. And then, for those of you who are members of the NIRI Virtual chapter, they're going to have another Alley chat session on October 26, and then a webinar on IR benchmarking is scheduled for November 4. I just wanted to remind our audience of these upcoming events.

I'm seeing a couple of questions coming through soon. But I want to go back to one of my prepared questions from earlier this week that we thought about. This is for Brad Allen, but I thought maybe Brad and Sally can also comment on it. How do you balance the investor's need and right to know with personal or private matters? Particularly, for example, the health of a CEO? How do you manage that?

Brad Allen: That's a tough one. I assume the question comes because I had a situation where our CEO had contracted cancer. When it became known to the management team and then the board, we issued an announcement pertaining to his health. But then, really, it was just a very brief announcement and did not get into any kind of speculation or discussion about the type of cancer or anything like that. He ultimately passed away from it. What we did was to indicate that he was taking a medical leave and who was the management team in place. We emphasized that and focused on that and tried to protect him and his family from any kind of commentary or speculation. To be perfectly honest with you, one of the things I did was I went to the analysts and to our major shareholders and talked to them, very much on a personal basis. They were mostly upset about it and upset for him and not wanting to exacerbate it. But I emphasized with them the family's desire for privacy.

The press was more difficult to deal with. I had reporters wanting to interview him or wanting to interview his doctor and things like that. That was, frankly, more difficult than dealing with the Street on it.

Brad Wilks: I think the fundamental difference between the situation that Brad just described and, say, for example, Steve Jobs at Apple is that, when you've got a company where the individual under discussion is the founder of the company and there's no clear succession plan, you've got a greater obligation to investors to provide more detail, especially with something as draconian as a liver transplant. And so I think, again, it depends on the company, whether the person is the founder of the company and personifies the company, and whether or not there's a clear succession plan. In many other cases, the burden of proof is much lighter because people will respect the privacy of your average management team member.

Brad Allen: Good point. If I could just share one anecdote from my own experience which highlights the complexity of this: When the CEO left the company, he went on long-term disability. It was his choice – but he decided to go on long-term disability rather than retire because he wanted to retain the viability of his options and vesting of his options, et cetera, This had a clear accounting cost for the company because they were long-term compensation and so there was a cost associated with them that remained on the balance sheet of the company. He passed away after we had announced our quarterly earnings but prior to our filing our 10-Q for the quarter, so we had to adjust earnings as a result of that.

Now, we couldn't file the Q until – We needed to announce that, and we needed to issue a press release announcing that the earnings were being adjusted upwards because this cost had been eliminated. In other words, we had better earnings because the gentleman had passed away. The family had not yet issued any kind of statement or announcement of his death, and so I was trying to get the family to issue a statement or announcement. I couldn't issue a press release about his death without also announcing in that same press release that we had increased earnings. The company wasn't going to issue the press release . . . Talk about getting involved in a very difficult and emotionally draining situation, trying to urge the family to make an announcement when they were distraught and what not, and doing it because I had this disclosure obligation that I needed to fulfill, and I had the lawyers sitting on my shoulder making sure that I didn't issue a press release announcing his death without announcing revised earnings as well.

Very complicated, a once-in-a-career experience, I hope, and something that I would never wish anybody else to go through either. But it just demonstrates kind of the complexities that can evolve in some of these things.

Lisa Ciota: Well, we have two questions that have come in through the Web. How does one get the support of management to allow investor relations to travel and meet with investors alone? This way, it will help reduce both the time commitment of your C-suite officers and some of the costs and obligations for the company. Any thoughts on that? Anybody can answer, please.

Sally Curley: This is Sally. I'll jump in first. You build that [capability] over time. It comes with credibility with the Street but also credibility with your senior management. There are a couple of ways that you could go about it. I've used both of them depending on the situation in my management team and, really, the [corporate] culture. One is to go out and meet with investors in some of the harder-to-reach cities – not the New York and the Boston areas but, for example, Philly, Baltimore, or Kansas City. There are great funds there, as everybody knows, but some of these cities don't necessarily hit first on the radar of the CEO or CFO as they're thinking about going to a major money center in the U.S. Now, we all know T. Rowe is in Baltimore, and there are some top funds there and wonderful funds in some of these areas – but it's really to get out there and prove that you can do it first. That depends, again, on your management team and the culture and the relationship you have with your management team and credibility you have with them and with investors.

The other way to do it is to sit down with your CEO and CFO and explain to them, in a very concrete way, the time commitment that you will require of them during that year and what you believe it will take to get to a full-scale investor relations plan. The difference that you propose making up would be you going out as the investor relations officer and meeting with shareholders. A lot of times, once they see the numbers and the time commitment that's required of them – and they also see that you have an aggressive plan in place and really want to go out and do as much outreach to shareholders as possible for the benefit of the company – then a lot of times that will help them come around.

Lisa Ciota: Thanks. I have a question for Brad Wilks. In today's world, reputation and a speedy response are more important than ever. How do you manage the impact of the media on your IR program, and what advice do you give to people on this?

Brad Wilks: Well, unfortunately, what we've seen on the media side is that the staffs are leaner, and there are fewer reporters who follow companies. And so, especially with regard to wire services, it's almost become more important to be first than necessarily to be right. The first advice, I would say, in terms of being responsive is – You have an opportunity to correct if somebody puts out a report that's just basically and fundamentally inaccurate in some way that could affect the share price, et cetera.

The other thing that I would say with regard to media and reputation is that it's important to have relationships, and not only leverage media when you want to tell your story and then be totally unresponsive when they're calling the other way. Looking at the key individuals who follow your company or your sector and trying to, over time, build relationships will help you in terms of enhancing your reputation and giving you a venue to tell your story.

Lisa Ciota: Another question that, Brad Wilks, I'd like you to address first – but then, certainly, I want Brad Allen and Sally to respond to it as well. Regarding activists. When you know the activists are circling, what do you do to help keep the dialog open, both internally as well as externally? And is there any point that you think it's a good idea to go public, i.e., to the media or to your other large investors, to tell your side of the story and your reason for disagreeing with the activists?

Brad Wilks: I think that I would say that, number one, the definition of an activist could encompass almost any institutional investor today. I think that you can look at many historic, long-term investors as potential activists in the current environment. I would put that in your thinking cap.

The other thing I would say is that, with regard to when and if to go public in a fight, our view – and I think it's the most constructive outcome – is to have a dialog, listen to what they have to say, give them the ability to get their views readily to both management and the board, if necessary.

I think that you don't win proxy fights or many other kinds of fights in the court of public opinion. That being said, once the decision is made by an activist to go public, then it's an entirely different story. Usually, when you get to that point in the process, you've got a lot of advisors, outside counsel, financial advisors, and, hopefully, communications advisors. When and if you cross that bridge, I think you have that advisor group to rely on and you respond accordingly.

Sally Curley: This is Sally. I've been in two situations recently. From my perspective, we wanted to avoid going public or having them go public at all costs, so we kept the lines of communication open. We treated them with respect. We listened to what they had to say. At the end of the day, I firmly believe because of the active and open dialog that we engaged in and because there was real respect back and forth and we didn't let emotions get in the way of the situation, we actually were able to, in both instances, keep it out of the press.

My lesson learned from that is to go about it and try to treat them – Even though they are "activists," try to treat them as you would any shareholder that comes to you with a request.

Brad Allen: This is Brad Allen. I would echo what Sally said about access – or what Brad and Sally both said about access.

The other tactic – If it's clear that you view something as white and maybe something as black around the competitive dynamic, the business model, whatever, in the dialog before it becomes a full-blown food fight, if you will, start addressing some of those issues in your conference calls or in your 8-Ks and 10-Ks and MD&A and what not, so that the rest of the market is educated on management's viewpoint. It's not just the dialog that you're having or the argument back and forth that you're having with just one institution. The entire rest of the Street [has to know] how management is thinking because, at the point in time when it does become public, if it's irreconcilable, then you're not having to educate them all at once in response to a press release that somebody else issued.

Lisa Ciota: Great. Well, I think we have time for a couple more questions. The first one I want to address to Sally. Are you involved in doing strategic intelligence on your competition? What kind of information do you look for? Who do you provide that competitive intelligence to?

Sally Curley: Both at this organization and when I was at Genzyme, we were involved with strategic intelligence. I'm probably more involved here on a formal basis at Cardinal, because at Genzyme when I was there, for nine years, we actually had a dedicated group that was responsible for that. We fed the information to them.

What we try to do is provide information on the competition, on peers, on market movements and trends that we're seeing. We'll use analyst reports, company presentations, break-out comments at investor conferences, direct shareholder feedback that we get. It's not uncommon to get feedback in a meeting, and for myself or a member of my investor team to e-mail immediately that business unit leader or somebody within the organization that's responsible for a particular area about which we've just gotten some competitive intelligence.

Here, we have a working group that we've pulled together to create an online portal for sharing market trend data. As a healthcare company, we look at hospital admissions, the overall economy, script trends, things of that nature. Actually, we have an online portal that we're going to be implementing this quarter to input that data, so we can track that on an ongoing basis. There's an opportunity for notes in there, so there's a fairly wide group of people in the business units that have access to that information and can take it for what it's worth or however they'd like to use it.

Lisa Ciota: Thank you. Well, I think we're getting close to the top of the hour. I want to make sure I give Brad Allen a chance to plug the NIRI Ethics Council so that our members can be more aware of what you do and how you can help them.

Brad Allen: Sure. Thanks. The NIRI Ethics Council was created by the NIRI board. It's made up of former NIRI national board members. There are currently seven members right now. And we are an advisory group to the board. They're all former board members who are on the ethics council. We're advisory to the board whenever issues come up around questions of ethics, either by NIRI members who have been sanctioned, perhaps, by the SEC or are being investigated or something like that, number one, to advise the board – But second of all, and of more relevance to all of you on this call, if you do have questions, you can reach out to any member of the Ethics Council confidentially, and we will give you our best counsel. You can talk to any or all of us, and we'll give you our thinking in terms of whatever the issue is that you're dealing with.

Lisa Ciota: Well, thank you, everyone. We're now at the top of the hour. We appreciate everybody who dialed in or tuned into this webcast. We appreciate your participation.

I think we had a lot of great discussion this afternoon. I want to thank Brad Allen, Sally Curley, and Brad Wilks for sharing your insights, expertise and experiences. On behalf of both NIRI-Chicago and the Virtual Chapter, I want to thank everybody for participating. Good afternoon.