Long-Term Corporate Strategic Planning Beyond COVID-19: Emerging Law, Performance Benefits and Practices

4 May 2020 Webinar

Webinar Overview

- Series of 21st century crises show danger of unbridled short-termism
- Post-COVID “New Normal” will present new risks and opportunities
  - Investors positioned to help shape this evolving “New Normal”
- Companies managed to long-term plans outperform - with lower risk
- Delaware courts serve as primary referees of US corporate law
  - Cases imply long-term strategic planning board fiduciary duties
- Webinar will explore investor options to improve company long-term performance and risk management into the “New Normal”

Webinar Presenters

Keith Johnson

- Co-Chair of Reinhart Institutional Investor Services
- Former General Counsel at State of Wisconsin Investment Board
- Co-Editor of Cambridge Handbook on Fiduciary Duty and Investment

Ariel Babcock

- Managing Director and Head of Research at FCLTGlobal
- Former Portfolio Manager at American Independence Financial Services and Calamos Investments
- Prior Director of Investor Relations at Tecogen, Inc.

Ken McNeil

- Litigation Partner at Susman Godfrey
- Lead Trial and Settlement Counsel in numerous US and globally significant disputes
- Former Sociology Professor at University of Wisconsin – Madison

Brian Tomlinson

- Director of Research at CEO Investor Forum
- Prior Managing Director of Coalition for Inclusive Capitalism
- Former Harvard Research Fellow with Committee on Capital Markets Regulation

Full presenter bios are available at https://www.reinhartlaw.com/events/long-term-corporate-strategic-planning-beyond-covid-19emerging-law-practice-and-performance-benefits/

Focusing Capital on the Long Term: A Call to Action

1. FCLTGlobal is a non-profit organization that researches tools that encourage long-term investing. Our Members include leading global asset owners, asset managers, and companies.

2. Effective long-term capital allocation is fundamental for innovating and creating value, but short-termism is pervasive and costly to companies and society, and even the corporate board can be susceptible.

3. Boards of directors wield the ability to meaningfully influence the purpose, culture, and direction of an organization, setting an appropriate long-term tone for both corporate management and shareholders – this activity is essential.

FCLTGlobal is a non-profit organization that researches tools that encourage long-term investing

FCLTGlobal is supported by leading global organizations

AberdeenStandard Investments | BAILLIE GIFFORD | BARCLAYS | BLACKROCK | Bloomberg | bp | BRIDGEWATER | CDPQ | CPP Investments | The Carlyle Group

CISCO | DE BRAUW BLACKSTONE WESTBROEK | Dow | DSM | Edelman | EY Building a better working world | Fidelity Investments | futurefund Australia's Sovereign Wealth Fund | generation | GIC

GLENCORE | gsk | Federated Hermes | Hillhouse Capital | HSBC | Kempen | KPMG | McKinsey & Company | MFS Investment Management

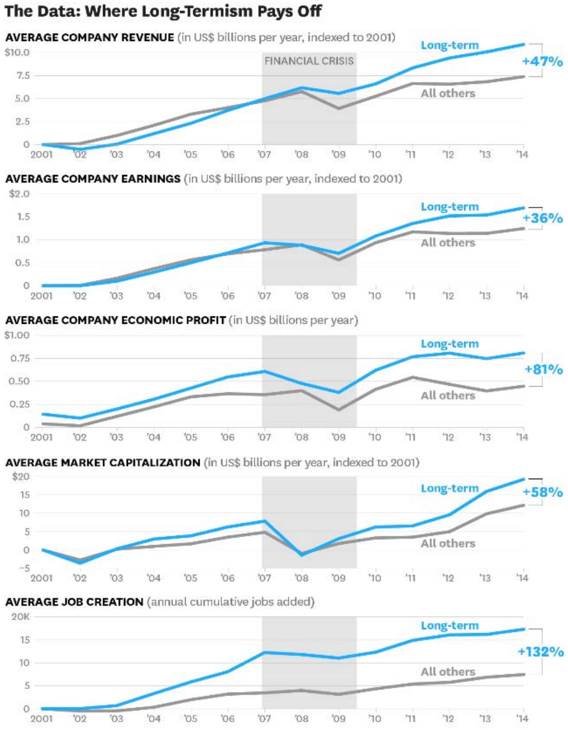
MSCI | Nasdaq | NATIXIS Investment Managers | Neuberger Berman | nuveen A TIAA Company | NZSUPERFUND | Ontario Teachers' Pension Plan | PSP Investissements Investments | Russell Reynolds Associates | Schroders

State Street Global Advisors | Sullivan & Cromwell LLP | TATA | TEMASEK | Trinity Industries | Unilever | Wachtell Lipton Rosen & Katz | Walmart | Washington State Investment Board | Wellington Management

Effective capital markets allocate long-term savings to fuel innovation and growth

Policymakers
shape the regulatory environment within which well-functioning capital markets operate

Long-term companies have delivered significantly stronger financial results and have created more jobs



SOURCE MCKINSEY GLOBAL INSTITUTE
FROM "THE DATA: WHERE LONG-TERMISM PAYS OFF," BY DOMINIC BARTON, JAMES MANYIKA, AND SARAH KEOHANE WILLIAMSON, MAY–JUNE 2017

© HBR.ORG

- Long-term US companies, as defined by five financial metrics, have generated superior growth over time (capex/depreciation, accruals/revenue, margin growth, EPS vs. earnings growth, and narrowly missing EPS targets)
- During the financial crisis, long-term companies were punished by the market but by staying the course staged a stronger rebound in its aftermath
- Had short-term companies been able to achieve similar results, the US would have created an additional five million jobs and added $1 trillion in asset wealth

Long-term behavior delivers superior performance…

From 2001-2015, long-term companies out-earned their short-term peers by

36%

Companies that reinvest greater portions of their earnings back into the company outperform their peers in ROIC by

9%

If companies were more long-term, our model suggests they could boost ROIC by

$1.5T

In the year following engagement with investee companies, investors can average an excess return of

2.3%

Note: Long-term companies defined as those where McKinsey Global Institute's analysis showed performance above their industry media for at least 123 of 15 sample years or above their industry median for three years more in the second half of the sample than the first. Source: *Predicting Long-term Success for Corporations and Investors Worldwide,* FCLTGlobal. *Measuring the Economic Impact of Short-termism,* McKinsey Global Institute*; The Search for a Long-term Premium,* Thinking Ahead Institute, Willis Towers Watson.

…but short-term pressures are hard to avoid

87%

of executives and directors feel most performance pressure within the first two years of assuming the role

74%

of directors say short-term pressures have compromised management's focus on strategic goals

55%

of CFOs would delay net-present-value positive projects to hit quarterly earnings targets

86%

of executives agree that longer time horizons for business decisions would improve performance

Source: *Rising to the Challenge of Short-termism,* FCLTGlobal and McKinsey & Company; McKinsey analysis; FactSet; S&P; NACD Public Company Governance Survey

A short-term approach to investment puts future economic growth at risk

- The G20's Global Infrastructure Outlook forecasts a **$15T global infrastructure investment gap**
- A Boston Consulting Group survey of ~7,000 large, global firms, found **capital expenditure levels relative to revenues at a 20-year low**
- Global **R&D investment** relative to GDP stood at **just 2.2%** in 2017 according to the World Bank (the most recent year for which data is available)
- A recent survey found **CEOs prefer investment projects with shorter time horizons**, saying investors fail to properly value long-term projects

SOURCES: G20 Global Infrastructure Hub https://outlook.gihub.org, The Boston Consulting Group 2016, The World Bank, https://data.worldbank.org/indicator/gb.xpd.rsdv.gd.zs, Aspen Institute, ILR Review

Evidence tells us the boards of successful long-term companies do things differently

Long-term boards…

- ***Spend more time on strategy.***
- ***Communicate directly with long-term shareholders.***
- Ensure that directors have a stake in the long-term success of the business.
- Maintain and cultivate a diverse board.

Spend more time on strategy

- We know strategy is a key area where Boards add value
  - McKinsey found high impact boards spend ***20+ extra days*** per year on board related work and ***8+ extra days on strategy alone*** when compared to average
  - Nordic companies consistently outperform over long horizons and are managed by Boards that take a clear prioritization approach to strategy – the board drives strategic direction and management consults and executes
- But many Boards struggle to prioritize strategic work
  - Board time is increasingly spent on compliance and risk related work in contrast to directors' desire to focus more on strategic issues
- Despite having access to sufficient information to inform strategic conversations
  - 93% of Directors agree they are getting the information they need from management to evaluate the company's strategy

SOURCE: "Toward a value-creating board." McKinsey & Co. Feb. 2016. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/toward-a-value-creating-board ; L. Faeste et. al. "How Nordic Boards Create Exceptional Value." Boston Consulting Group. June 2016. https://www.bcg.com/publications/2016/strategy-value-creation-strategy-how-nordic-boards-create-exceptional-value.aspx; 2017-2018 NACD Public Company Governance Survey

Communicate directly with long-term shareholders

- Director-Shareholder engagement is becoming more common
  - Directors are more willing to engage – 77% of directors agree direct engagement impacts proxy voting (vs. 59% in 2016)
  - Director engagement is improving – 25% of S&P 500 companies disclosed their directors had engaged with investors over the prior year vs. just 10% in 2015
- And some companies are making it easier to engage with the Board
  - Microsoft includes a “Contact the Board of Directors” section on their IR website with a dedicated email address (AskBoard@Microsoft.com) alongside phone numbers and a mailing address
- But few directors view regular dialogue with shareholders as necessary
  - In response to the question “Under which of the following circumstances is it appropriate for directors (other than the CEO) to meet with shareholders?”
  - Only 22% of directors thought regular engagement with shareholders was appropriate

SOURCE: EY Proxy Season Review 2018 - https://www.ey.com/Publication/vwLUAssets/EY-cbm-proxy-season-review-2018/$FILE/EY-cbm-proxy-season-review-2018.pdf; PwC 2017 Annual Corporate Directors Survey, Oct. 2017. 823 individual director responses. https://www.30percentcoalition.org/images/PDF/NON_Coalitions_Documents/pwc-2017-annual-corporate--directors--survey.pdf

Most current investors are already focused on the long-term

70% of shares of U.S. companies are owned by long-term investors according to McKinsey & Co

93% of buy-side investors want guidance from companies on metrics longer than one year according to Rivel Research Group

68% of investors say long-term guidance positively impacts their view of a company according to Edelman research

Representing **$80T** in investable assets, UN PRI signatories urge companies to focus their communications on issues and metrics relevant to the long-term success of the business

SOURCES: "How to build an alliance against corporate short-termism." McKinsey & Co. 2017. "Evolving Guidance Preferences: Attitudes and practices of the global buy-side." Rivel Research Group. 2017. "2017 Edelman Trust Barometer Special Report: Institutional Investors." Edelman. 2017.

Communication of long-term strategy benefits companies, and speaks to the time horizon most relevant to a majority of investors

- Effectively communicating long-term strategy can lower a company's cost of capital, help decrease stock price volatility, attract a longer-term investor base
- The presence of long-term investors is positively associated with long-term value creation
- Serves as an activist defense – companies who have well-articulated long-term plans have shareholders that are more likely to stand by them in the face of short-term attack
- Ensures a more accurate valuation of the company – 70-90% of value is related to cash flows 3+ years out, speaking to that horizon helps frame the value proposition
- Delivers internal benefits for an organization – the IIRC found
  - 79% of managers said business decision-making had improved
  - 78% reported better collaboration and alignment between the board and management

SOURCES: Brochet, Loumioti, and Serafeim (2012 & 2015). FCLTGlobal "Moving Beyond Quarterly Guidance: A Relic of the Past." D. Barton, "Capitalism for the Long Term," Harvard Business Review, March 2011. 2^0 Investing Initiative, "Limited Visibility: The Current State of Corporate Disclosure on Long-term Risks." International Integrated Reporting Council, "Realizing the Benefits: The Impact of Integrated Reporting."

Focusing Capital on the Long Term: A Call to Action

1. FCLTGlobal is a non-profit organization that researches tools that encourage long-term investing. Our Members include leading global asset owners, asset managers, and companies.

2. Effective long-term capital allocation is fundamental for innovating and creating value, but short-termism is pervasive and costly to companies and society, and even the corporate board can be susceptible.

3. Boards of directors wield the ability to meaningfully influence the purpose, culture, and direction of an organization, setting an appropriate long-term tone for both corporate management and shareholders – this activity is essential.

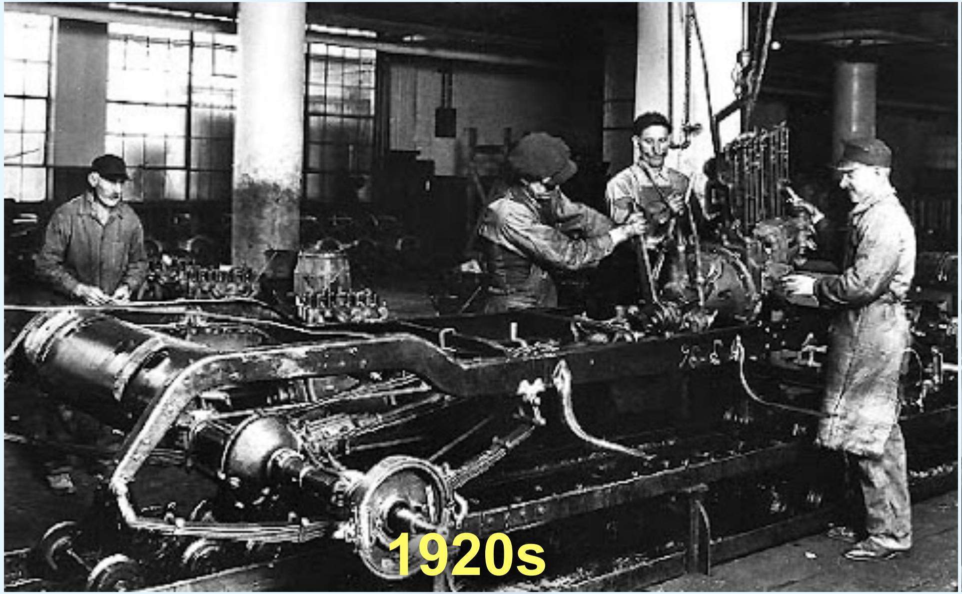
The corona virus emergency has given long-term investors the perfect opportunity to pressure corporations into long-term strategic thinking – but it will be a tragic time if this is not done

"**There is a tide in the affairs of men, which taken at the flood, leads on to fortune**. Omitted, all the voyage of their life is bound in shallows and in miseries.

On such a full sea are we now afloat. And we must take the current when it serves, or lose our ventures."

William Shakespeare
Julius Caesar, Act-IV, Scene-III

Crisis has always been the time when "new thinking" – and new types of corporate strategic approaches – are created



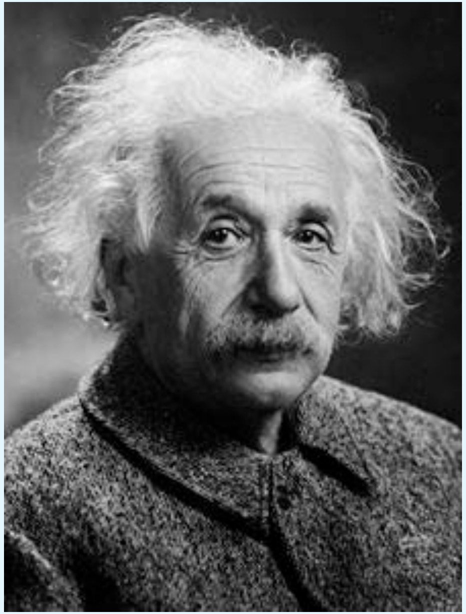
Automobile industry post-World War I

Rise of short-term accounting systems designed by Alfred P. Sloan of General Motors

Automobile industry after Japanese invasion in late 1970s–early 1980s

Introduction of longer-term accounting measures of customer satisfaction

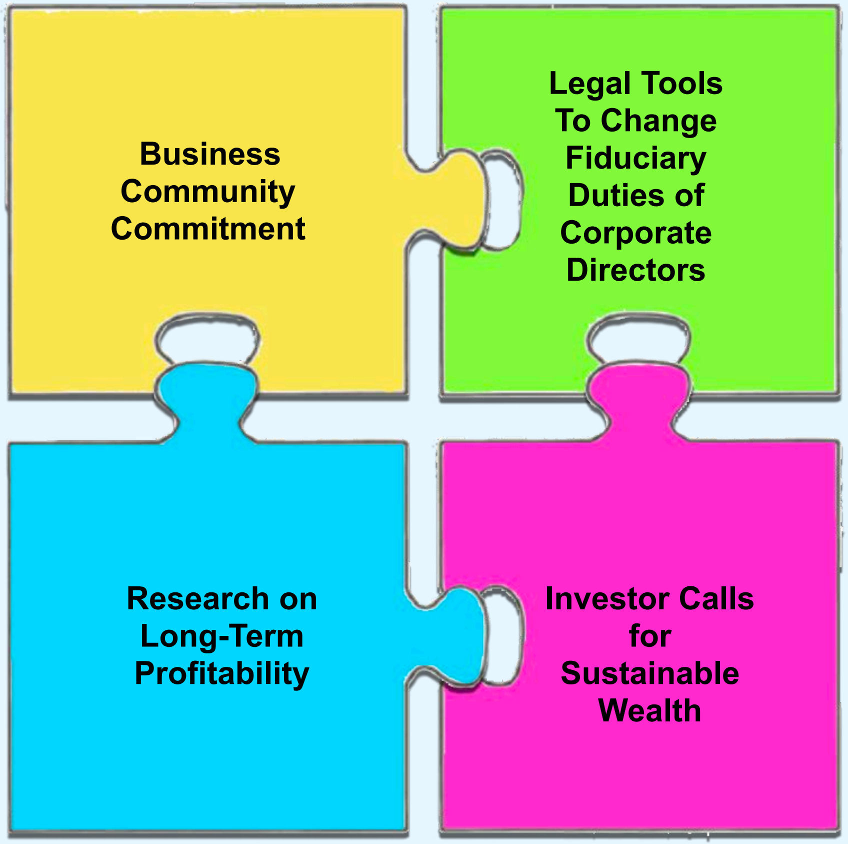
But **this** crisis can become a massive tragedy and not an opportunity – unless we abandon the old ways of thinking that go us into the crisis



"We can't solve problems by using the same kind of thinking we used when we created them."

– Albert Einstein

Fortunately, a host of factors are coming together to **shake up "business as usual"** thinking – allowing you to **shape the "new normal"** for corporations to focus on long-term strategic thinking for sustainable wealth



The August 2019 Statement from 181 Business Roundtable CEOs includes commitment to the following:

Business Community Commitment

Chief executives who are members of the Business Roundtable, include, left to right, front row: Julie Sweet of Accenture North America, Brian Moynihan of Bank of America, Tim Cook of Apple, Robert F. Smith of Vista Equity Partners of Austin. Back row: Jeff Bezos of Amazon, Mary Barra of General Motors and Larry Fink of BlackRock.

Statement on the Purpose of a Corporation

We commit to:

- Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.

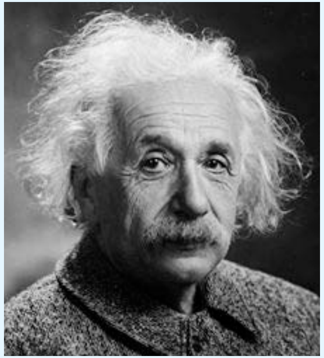
This failure of long-term strategic planning and risk assessment is the "elephant in the room" that overshadows our current dilemma

Even with the best of intentions, a corporation cannot address internal issues which adversely affect broader society – without adequate long-term risk assessment and strategic planning

PEARL HARBOR
VISITORS ★ BUREAU

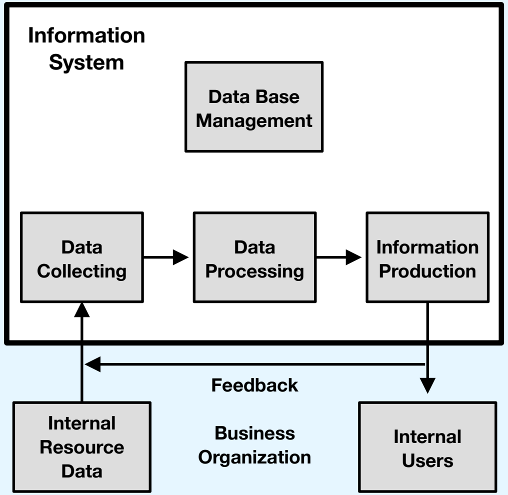
"**Short-termism in corporate decision-making is as problematic for long-term investors as relying on a three-mile radar on a supertanker. It is totally inadequate for handling the long-term risks and opportunities faced by the modern corporation**. Yet recent empirical research shows that up to 85% of the S&P 1500 have no long-term planning. This is costing pension funds and other long-term investors dearly."

"The Elephant in the Room: Helping Delaware Courts Develop Law to End Systemic Short-Term Bias in Corporate Decision-Making" Kenneth McNeil and Keith Johnson, The "**radar**" for corporations are accounting systems: what they **measure** or **don't measure** has everything to do with the **choices** directors make in a bureaucracy

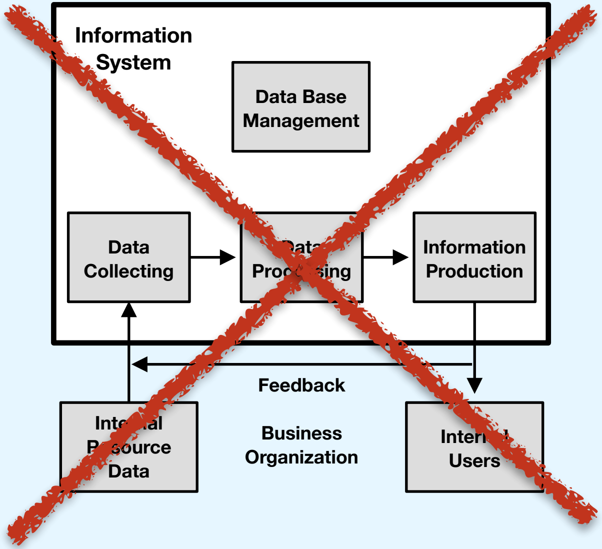


"We can't solve problems by using the same kind of thinking we used when we created them."

– Albert Einstein



Short-Term Accounting (risks/profits)



Long-Term Accounting (risks/profits)

"Right Thinking" or "Wrong Thinking" is embedded in the accounting/infomation system

Only 15% of American corporations are doing any long-term strategic planning – **driving the economy and society from one crisis to another**

No Strategic Plan	No Method of Measuring Long-Term Capital Efficiency	No Method of Measuring the "Future Value" of the Company	No Long-Term Incentive Plans
85% of listed companies longest strategic planning horizon is less than 5 years (McKinsey / CPPIB Survey)	75% of S&P 1500 companies have no long-term measures of capital efficiency (Equilar)	85% of investee companies have no disclosed Future Value metrics for issues like innovation (IRRC Study)	85% of listed companies in the S&P 1500 have Long Term Incentive Plan performance periods of less than 3 years (IRRC Study)

Evidence now shows the extreme systemic nature of this short-term bias in decision making – in over 80% of U.S. corporations

Future value is the net of enterprise value minus current value – yet **most corporations have no long-term plan** to meet those future value expectations or identify risks

"An Expectations Pipeline Without A Plan"

Enterprise Value/EBITDA valuation multiple for the World = 11.7 X

(Median Company valuation worldwide is the equivalent of 11.7 yrs. of forward EBITDA earnings)

Enterprise Value – Current Value = Future Value

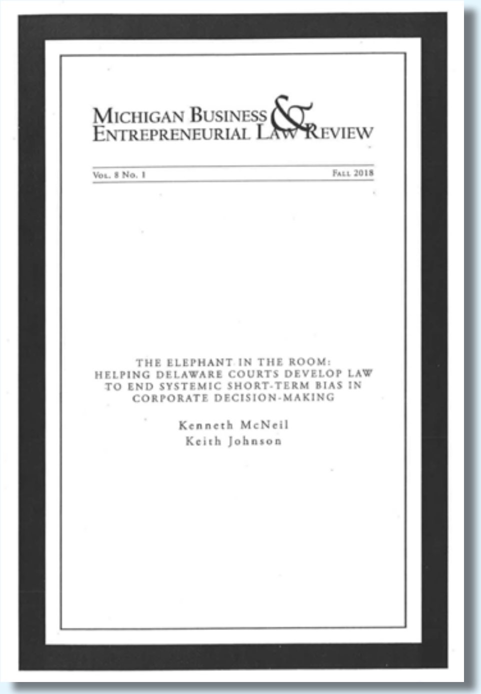
Enterprise Value	Current Value	Future Value
Number of Shares Outstanding x Stock Price + Market Value of Debt	Net Operating Profit After Tax (NOPAT) from Current Operations / Cost of Capital	Future NOPAT BEYOND Current Ops / Cost of Capital

The Enterprise Value / NOPAT valuation multiple median is 24.3X and is equivalent of 24 years of After Tax Profits

Where are the 10 – 20 year strategic, investment & C-Suite Succession plans to live up to these levels of company valuation expectations for future EBITDA, NOPAT, ROIC and cash flows?

For further details on Enterprise Value , Future Value, ROIC and Economic Profit, their measurement implications and how to calculate see:
https://irrcinstitute.org/reports/deep-misalignment-between-corporate-economic-performance-shareholder-return-and-executive-compensation/

A continuum of investor legal actions for addressing the **problems of corporate short-termism – by changing the rules of the game** – is set forth in the "Elephant in the Room" law review article



MICHIGAN BUSINESS & ENTREPRENEURIAL LAW REVIEW

VOL. 8 NO. 1 FALL 2018

THE ELEPHANT IN THE ROOM: HELPING DELAWARE COURTS DEVELOP LAW TO END SYSTEMIC SHORT-TERM BIAS IN CORPORATE DECISION-MAKING

Kenneth McNeil
Keith Johnson

The Covid-19 Crisis sets the stage for rebalancing short- and long-term strategic planning]

The new "rules of the game" urged by the "Elephant in the Room" article is based on two simple principles:

When directors make an investment choice, it should be an **informed choice** – and that requires systematic information on **both short-term and long-term risks and profits**

From a market efficiency perspective, corporations should at least **disclose** whether or not they have such **long-term strategic accounting beyond 3-5 years**

The “Elephant in the Room” legal approach provides the **perfect bridge** between the two major schools of thought on corporate decision-making

Maximization of Shareholder Profits

A strictly profit maximization model

Emphasis on long-term strategic planning and disclosure to investors of that planning

Minimizing of Societal Risks and Costs

Build societal wealth through sustainable integration of material ESG factors

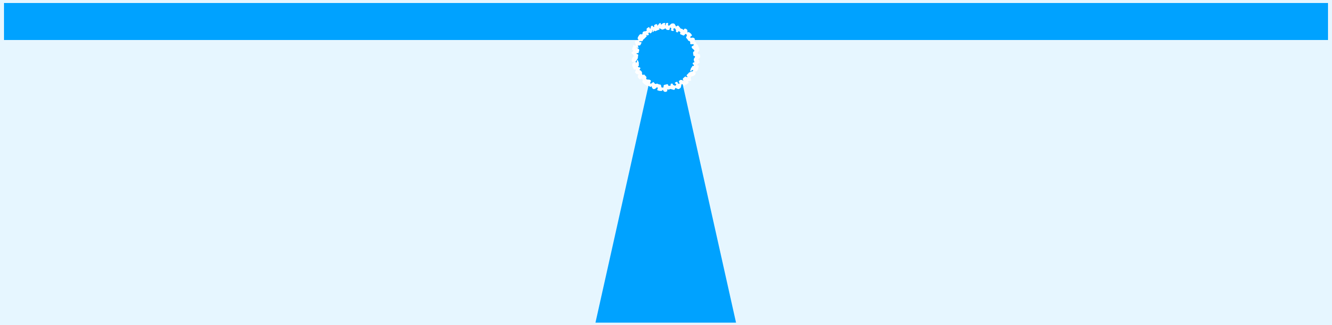
The “Elephant in the Room” strategy empowers investors to change the systemic rules of corporate law and corporate culture to **improve portfolio returns, risk management and company sustainability**

Maximize

the long-term financial returns for their shareholders

Minimize

the social harm done to their shareholders by the corporations in which they invest



Delaware courts make clear that **long-term** value should be the cornerstone of corporate decision making

In a 2017 case, the Delaware Chancery Court stated, "the fiduciary relationship requires that the directors act prudently, loyally, and in good faith **to maximize the value of the corporation over the long-term**…

The fact that some holders of shares might be market participants who are eager to sell and would prefer a higher near-term market price likewise **does not alter the presumptively long-term fiduciary focus**."

Frederick Hsu Living Tr. v. ODN Holding Corp., No. CV 12108-VCL, 2017 WL 1437308, at 18 (Del. Ch. Apr. 14, 2017), as corrected (Apr. 24, 2017).

Former Delaware Chief Justice Strine in a recent 2019 interview continued to emphasize the need to **balance** long-term wealth creation with minimization of societal risks

Boards Can Balance Profit & Social Purpose

By Eve Tahmincioglu, *Directors and Boards*, Q2 2019

"[Strine:] A lot of my focus has been on what the obligations of institutional investors are to align their behavior with the interests of the people whose money they have. If you can get more of that thoughtful thinking, then perhaps the incentive structure for boards is less moment to moment. Things like environmental shortcuts, product safety shortcuts, treating workers unfairly tend to get caught out over the long term. So some of the tensions really are resolved, and create a more productive incentive structure for boards and the managers, if the people who are voting the stock actually adopt the perspective of the people whose capital they control."

•••

But I think it's been healthier to have Mr. Fink saying, 'We hold people's money for the long term for long-term investors, and companies behaving in a responsible way and creating wealth that's sustainable is important to our investors. And we understand that we need to take that into account.' I viewed that as a very constructive step."

One can also **combine both non-legal and legal tools** to maximize **tailored incentives** for corporations to adopt long-term strategic planning and risk assessment **to define the new normal**

Percentage of Enterprise Value Which is Future

Focus Company Scenarios

	Low Return on Capital	High Return on Capital
High Future Value	**A Potentially Undervalued Company That May Particularly Benefit From a Litigation/Collaboration Approach**	**More Vulnerable to Long-Term Loss If No Strategic Planning**
Low Future Value	**“Losers” That Need Total Long-Term Reform**	**More Traditional Mature-Industry Companies**

One need only look at recent headlines to understand the lessons we are learning from coronavirus

February 8, 2019

Facebook's troubles continue to grow: What you need to know

The social network is under fire for how it collects user data.

BY QUEENIE WONG, RICHARD NIEVA | FEBRUARY 8, 2019 2:58 PM PST

Facebook CEO Mark Zuckerberg
Christophe Morin/Getty Images

Facebook can't seem to get through a week quietly.

This week, Germany's antitrust regulator ordered the world's largest social network to stop combining data from the Facebook accounts of its German users with information it collects about them from other sites unless they give their OK. The Federal Cartel Office's order covers not only Facebook's site, but Instagram,

September 15, 2019

The New York Times

Purdue Pharma, Maker of OxyContin, Files for Bankruptcy

The filing is a centerpiece of an agreement to settle thousands of cases against the company for its role in the opioids crises. But it is expected to be vigorously contested by many states.

Purdue Pharma's headquarters in Stamford, Conn., on Thursday.
Frank Franklin Ii/Associated Press

By Jan Hoffman and Mary Williams Walsh

And this problem is only getting worse

April 2019

abc NEWS

In the middle of the coronavirus crisis, some hospitals fear financial ruin

"If we don't bail out the hospitals, we're going to lose ... the front lines."

By Olivia Rubin and Soo Rin Kim
March 30, 2020, 3:04 AM • 10 min read

As officials scramble to supply hospitals with much needed protective equipment for doctors and nurses fighting the novel coronavirus on the front lines, hospital leaders around the country warn that they are running low on another critical supply: money.

Hospitals have taken a significant loss of revenue as they cut back lucrative elective procedures to free up resources to treat COVID-19 patients. At the same time, they are pouring money into efforts to fight the virus like buying personal protective equipment (PPE) supplies, providing child care for staff and overtime pay, transforming units to COVID-19 wings for treatment and setting up drive-thru testing sites, hospital officials told ABC News.

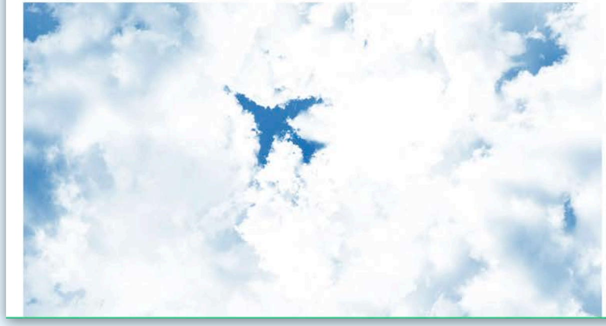
FORTUNE

MAGAZINE NEWSLETTERS VIDEO PODCASTS CORONAVIRUS CONFERENCES

MAGAZINE • AIRLINES

For airlines in freefall, the return route will be long and bumpy

BY VIVIENNE WALT
April 19, 2020 5:00 AM CDT



Investors have a spectrum of choices for engaging with corporations using in a "carrot and stick" approach

Engaging with corporations to encourage long-termism strategic thinking

Litigating to confirm that corporate directors have fiduciary duty to engage in long-term planning

Collaborative Engagement

Shareholder Resolutions

Books and Records Actions

Suing for Breach of Fiduciary Duty

Investors have a continuum of steps focused to get Business Roundtable CEOs to deliver on their affirmations on the subject of long-term strategic planning

- **Publicize** the issue through investor policies and collaborative communications demanding long-term strategic planning by directors
- **Engage** corporations around long-term strategic planning and transparency
- **Vote proxies** to promote improved reporting, addition of directors with long-term planning expertise and aligned incentive compensation
- File **shareholder resolutions** requesting reports on board oversight and implementation of long-term strategic planning
  - The SEC approved a shareholder resolution requesting improved reporting on long-term strategic planning at Motorola in 2002
- **Use books and records inspections and enforcement actions** to test reliability of planning and accuracy of disclosures
- **Develop a litigation strategy** to establish clear corporate law strategic planning duties drawn from the "Elephant in the Room"
  - Turn board legal counsel, insurers and advisors into advocates

A small number of investors are all that are needed –

to be the **catalyst** for this **“new normal”** in
long-term strategic corporate thinking

We are clearly at a "point where things will change" – but to change them for the better demands "new thinking" and "new rules of the game"

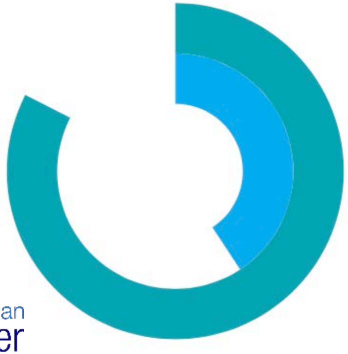
危機

The Chinese dictionary definition: "the point at which things change."

Best practices

Long-Term Outlook Critical to Investor Trust

2018
Long-term guidance on financial performance



96% Impacts trust

66% Has a great deal of impact on trust

2019
I trust a company that provides forward-looking guidance but misses occasionally more than I trust a company that provides no forward-looking information

84% Agree

27% Strongly Agree

Edelman trustbarometer 2019 | ANNUAL GLOBAL STUDY

Edelman Trust Barometer Special Report: Institutional Investors
Q6. How much does each of the following disclosure practices impact your trust of a company that you are/may consider investing in or recommend? For each one, please indicate the level of impact using a 9-point scale where 1 means "no impact on trust" and 9 means "a great deal of impact on trust." - Top 4, Top 2 Summary
Q2: Please indicate the extent to which you agree or disagree with the following statements.

CEO Investor Forum

Why Deliver a Long-Term Plan?

Key motivations of CEOs

- Frustration about an overly short-term focus from investors (e.g. on earnings calls)
- Overlay a coherent investor narrative that ties together the multiplicity of company disclosures
- Ensure understanding of the company's long-term vision and strategy to reinforce industry leadership and positioning
- Attract shareholders that are interested in long-term value creation
- Create a favorable context to execute short-term actions in the effort to achieve long-term objectives

Source: Method of Production of Long-Term Plans

Six Reasons Why Companies Should Start Sharing Their Long-Term Plans with Investors

1. To demonstrate that there is an effective long-term strategy
2. To show that the company can anticipate and capitalize on mega-trends
3. To help investors understand ESG issues "through the eyes of management"
4. To enable the C-Suite to reflect on the corporate ecosystem, including a consideration of its stakeholders
5. To help inspire – and retain – both employees and investors over the long-term
6. To foster leadership in long-term focused disclosure

Successful Long-Term Plans

Internal Processes for a Successful Long-Term Plan

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

Disclosure Principles for a successful Long-Term Plan

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

Context: meaningful contextualized disclosures, expectations and targets

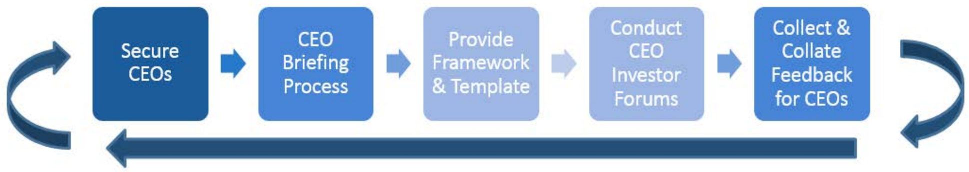
Materiality: financially material topics for the relevant industry and business model

Integrated: ESG issues and sustainability integrated discussion

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

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

CECP's CEO Investor forum works with companies to help them optimize their long-term disclosures



Source: Emerging Practice in Long-Term Plans: How CEOs Talk About the Long Term

CEO Investor Forum

Long-Term Plan Content Framework

Research by CECP's CEO Investor Forum informs the guidance we provide to enable CEOs to develop and communicate Long-Term Plans. Our Long-Term Plan Content Framework, developed with **Professor George Serafeim of Harvard Business School** and **KKS Advisors** and sets out Nine Themes and 22 Line Items for an effective presentation.

Competitive Strategic Positioning
Long-term value drivers
Medium-term value drivers
Short-term value drivers

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

Trends
Market trends
Mega trends

Corporate Governance
Executive compensation
Board compensation
Role of board
Shareholder engagement

Risks & Opportunities
Assessment of financially material ESG issues
Risk management
Opportunities

Human Capital
How is human capital managed over the long-term

Long-Term Value Creation
Value of partnerships/ improving the operational ecosystem

Financial Performance
Capital efficiency
Leverage
Revenue growth

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

Journal of Applied Corporate Finance: “The Economic Significance of Long-Term Plans

Important Attributes for Long-Term Valuation

Percent Selected Top 3 Most Important

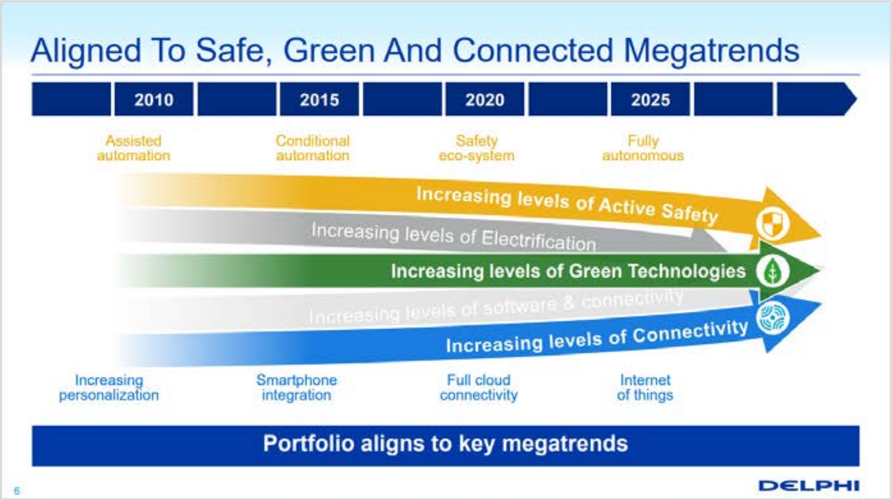
Edelman trustbarometer 2019 | ANNUAL GLOBAL STUDY

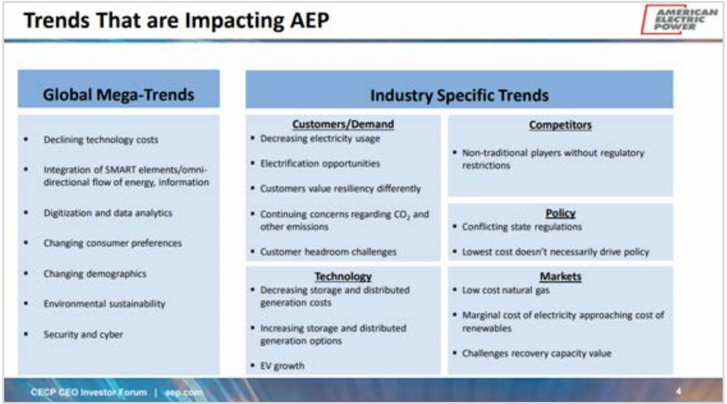
Edelman Trust Barometer Special Report: Institutional Investors
Q14: Beyond financial projections, what other aspects are important to determine a company's long-term (3-5 year) valuation? Please select the 3 most important aspects that you use to determine a company's long-term valuation.

Mega Trends

- Management's view of major trends that broadly impact the planet, people and business operations
- Describe methods or plans for reporting on key trends to investors. For example, TCFD regarding climate change and related "scenario analysis"
- Build on existing disclosures, such as MD&A risk factor disclosures and "known trends and uncertainties"

Mega Trends Example





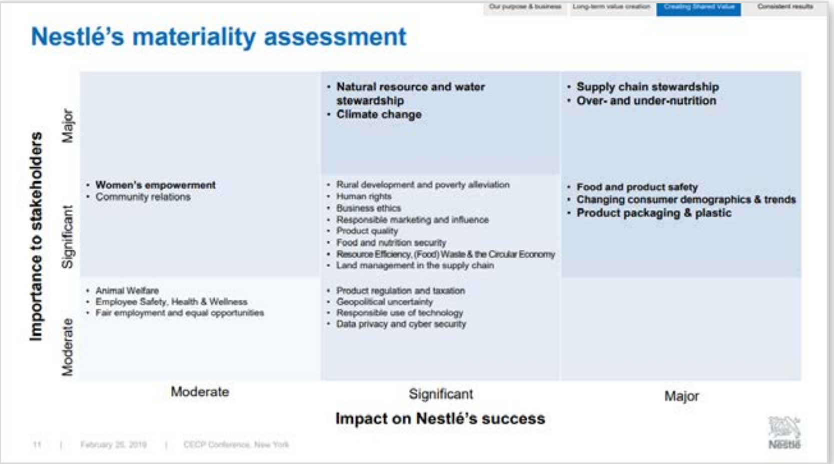
Delphi, September 2017
GlaxoSmithKline plc, September 2018
American Electric Power, May 2019

CEO Investor Forum

Risks & Opportunities

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

Risks & Opportunities Example



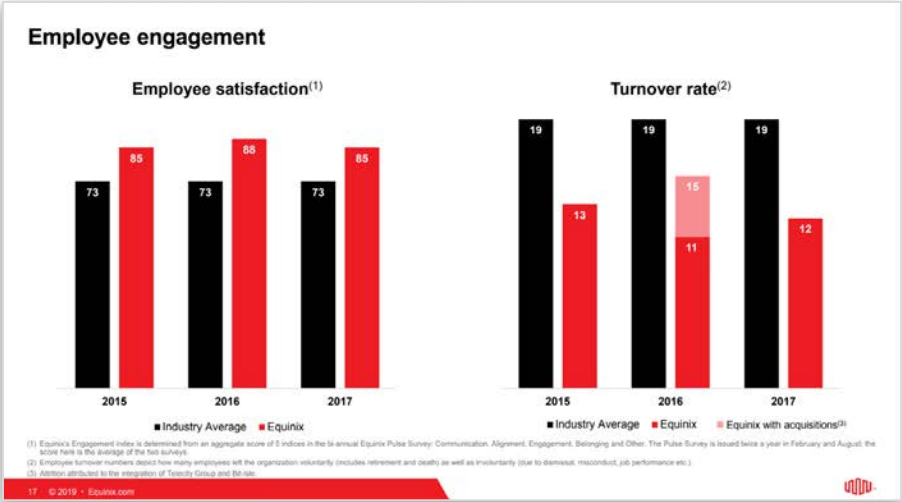
Nestlé, February 2019
Merck, February 2018

CEO Investor Forum

Human Capital

- Describe your human capital management practices in the context of your long-term strategy
- Outline key initiatives and metrics for your industry / business model
- Give salient examples and provide projections of likely impact; connect to financial performance
- Commentary on role of the board in oversight of talent management and succession planning

Human Capital Example



Equinix, February 2019
JetBlue, February 2019
Aetna, September 2017

Takeaways

- Companies that manage to a long-term strategic plan tend to perform better over the long term – with less risk
- Delaware courts seem ready to confirm board duty to consider long-term strategic planning and provide related disclosures
- COVID-19 will generate structural economic and societal changes that present new risks and opportunities
- There are reporting models and a spectrum of investor options to encourage company long-term strategic planning and reporting

Questions?

Thank You!

This presentation provides information of a general nature. None of the information contained herein is intended as legal advice or opinion relative to specific matters, facts, situations or issues. Additional facts and information or future developments may affect the subjects addressed in this presentation.

You should consult with a lawyer about your particular circumstances before acting on any of this information because it may not be applicable to you or your situation.