



Valuation From the Street's Perspective

April 4, 2013

Panelists:

Jerry W. Ehlinger, CFA, Managing Director, Lead Portfolio Manager, RREFF Real Estate
Jonathan Golub, CFA, Chief U.S. Equity Strategist, Managing Director, UBS Investment Bank
Lisa Micou Meers, CFA, Vice President, Investor Relations, Anixter International

Moderator:

Aaron Hoffman, Vice President, Investor Relations & Corporate Communications, Ingredion

Key Takeaways

As IROs, we work in a world of conflicting views about what drives our companies' P/E ratios. Representing diverse perspectives, our panel offered their insights and experiences about what it takes to influence investor perceptions and market value.

Slow growth ahead.

While the US economy isn't collapsing, this is the weakest post-recession recovery since World War II. Capital investment and M&A are well below what they were only a decade ago, when the economy was climbing out of the hole created by the dot.com collapse. To Jonathan Golub, these facts suggest a deep lack of corporate confidence about long-term economic growth. He also made a convincing argument that earnings don't drive market value. While the audience caught its collective breath, Golub suggested that different financial characteristics influence P/E depending upon where you are in the economic cycle. At this point in the cycle, he said, companies are wise to mind the balance sheet and be careful about leveraging up.

Tell the right story to the right investor.

Aaron Hoffman is driving a long-term plan to achieve higher multiples by shifting Ingredion (NYSE: INGR) to a new industry category that better reflects the company's business model and growth strategy. The company changed its name from Corn Products International to Ingredion to better position it as an ingredients products company rather than as an agricultural business. To capture the higher multiple typical for ingredient companies, Hoffman fine-tuned investor messaging and took the Ingredion story to selectively targeted conferences, specialty analysts and investors who cover the ingredients category. A challenge is that most of these analysts are based in Europe, where many ingredient companies are located.

From the buy-side perspective, Jerry Ehlinger reinforced Hoffman's point that intentional company communication often is required to change investor perceptions of valuation. He further emphasized the importance of investor targeting. Company managements that successfully influence the Street know their audience, tell a clear and simple story, emphasize their firms' strategic advantages – and listen to legitimate issues from long-term shareholders.

Capital is still king.

Lisa Micou Meers is focused on deploying capital to generate returns for shareholders of Anixter (NYSE: AXE), which is deeply undervalued compared to its peers. Confident of its ability to access the capital markets for M&A, Anixter doesn't hoard cash. Over the past five years, Anixter has consistently returned a total of \$746 million in capital to shareholders through repurchases and special dividends as a key element in the strategy to improve AXE's valuation.

– Bess Gallanis