

.what investors want

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Five CEOs recently gathered at the NYSE to provide insights into how their companies create shareholder value. They summed up their approach with a few key words: Strategy. Honesty. Clarity. Story.

How does your company measure shareholder value?

GEORGE SAMENUK: The metrics have changed dramatically. Five years ago investors looked at stock price and new growth only, and not as much at EPS and cash flow. With all the scandals the past couple of years, investors look beyond EPS growth. Cash from operations is a good measure of how well a company is operating, how efficient it is and how much market share it has gained.

McAfee is the world's second largest antivirus security provider. Shareholders measure not only our stock price but also revenue growth, EPS growth and cash flow. Lately, value investors are looking at cash

from operations. We're seeing about \$900 million of cash for a \$1 billion revenue company with no debt, so it's a very enviable cash position.

STUART CLARK: A large percentage of Interactive Data's shareholders are value-oriented, so cash flow is of great interest to them. Our investors want to know we have protection for our cash flow — what ultimately will give us consistent revenue growth. We emphasize a clear story that captures those key value drivers. We stick with the things we're experienced and good at. We provide financial data and analytics to mutual funds and individual investors. We think of ourselves as a company that helps solve clients' problems, as opposed to just being a supplier of data.



value metrics are funds from operations-per-share growth and dividend-per-share growth. These two metrics are followed closely by investors, along with property-operating metrics such as occupancy levels and rental-rate growth, as well as key balance-sheet ratios. Our objective at Pan Pacific is to deliver consistent growth and operating results each year while maintaining a conservative, strong financial position.

DEBRA CAFARO: Ventas is similar to Pan Pacific. As a health-care REIT, we operate long-term-care facilities for seniors, as well as hospitals, nursing homes and indepen-

flow and then net asset value. To your point, Stuart, I think shareholders very much value consistency, predictability and reliability.

SCOTT RUDOLPH: Investors want me to be honest, whether it's good news or bad news. NBTY is the world's largest maker and marketer of vitamins and dietary supplements. We see very good long-term growth for our products because of the aging population. But we don't operate in a realm of consistent earnings. We simply tell investors our company story, and they can choose whether to invest. Shareholders don't ever feel the pressure of us trying to sell to them.

Ventas Inc. (VTR)

STUART A. TANZ
Chairman, President and CEO
Pan Pacific Retail Properties Inc. (PNP)

GEORGE SAMENUK
Chairman and CEO
McAfee Inc. (MFE)

CHRISTINE ROMANS
Moderator
Correspondent, CNNFN and CNN Business News

STUART J. CLARK
President and CEO
Interactive Data Corp. (IDC)

SCOTT RUDOLPH
Chairman and CEO
NBTY Inc. (NTY)

Do you spend more time talking to investors now versus five years ago?

SAMENUK: A lot more. I joined McAfee five years ago, when five analysts covered us. Today 30 cover us. They all want to hear the CEO discuss strategy for gaining market share and growing the business. And they want to hear the strategy for the next couple of years, not just short term.

TANZ: Maintaining a strong investor-relations program has always been a priority for us. While the amount of time we commit to communicating with investors has remained consistent, over the past several years we have implemented a broad range of new disclosure initiatives to ensure information on the company continues to be properly disseminated in a clear, efficient and balanced manner that is consistent with current disclosure requirements.

consistently generate solid results, year after year, is based on strictly adhering to a proven, prudent business strategy that focuses on increasing long-term shareholder value.

RUDOLPH: NBTY has gone from about a \$60 million market cap in the 1990s to \$2 billion today. But I tell investors not to expect a straight line. We live with ups and downs and do what's right for the company and shareholders. The pressure on us to give guidance is there all the time, but we refuse to give it. Our P/E ratio suffers a little, but I don't predict the future in our industry.

CAFARO: Real estate is more predictable than some other businesses and doesn't present as great a conflict between short- and long-term goals. We deliver good long-term returns by delivering predictable short-term returns. We want to build a dependable business quarter over quarter and invest to create long-term value. Ventas has delivered a 59 percent five-year compounded annual return over the past five years.

We like to give guidance because otherwise people just get the predictions wrong. I'm very severe. When I feel analysts start to get ahead of themselves, I reprimand them.

“We refuse to give analyst guidance. Our P/E ratio suffers a little, but I don't predict the future in our industry.”

SCOTT RUDOLPH *Chairman and CEO, NBTY Inc. (NTY)*



Have short-term investors changed the environment and your guidance?

SAMENUK: In technology, investors come in and out like they change their socks. But we have some high-quality, long-term investors who understand our strategy and are not just focused on the next hottest trend. Making one or two quarters while sacrificing long-term performance means death to a CEO.

In five years we've gone from a \$500 million market cap to \$4 billion. We tell investors once a year what we're going to do for the following year. We refer back to that guidance often and tell them where we stand.

TANZ: While short-term investors have become more prominent in the REIT industry over the past five years, we have not altered our business plan or our guidance policies. While we understand the importance of short-term performance, and work hard at meeting or exceeding market expectations every quarter, we believe our ability to

CLARK: Interestingly, I've found there has been less shareholder hand-holding in the past year. Investors who have become more comfortable with us have required less contact. Our company is very predictable in terms of revenues and operations. Our sales have tended to grow steadily, so investors can easily measure how we're doing as long as we tell the story consistently. Shareholders don't expect me to talk to them every quarter unless something changes. We also brought investor relations in-house to have a key individual dedicated to the needs of investors.



CLARK: When we went public five years ago, our investor base was 90 percent retail, 10 percent institutional. Now it's the other way around. At the beginning we felt we had to give guidance to encourage institutional investors to come to us. We give guidance now partly because 90 percent of our business is recurring.

SAMENUK: Another area of creating shareholder value is imagining the world in three or five years and what the company's strategy will be then. Long-term strategy takes more and more of my time.

RUDOLPH: I focus to a maximum of about three years out, but I really zero in on a year and a half or two years from now. NBTY has 10,000 employees; they need to know exactly what their mission is.

What philosophies help create shareholder value?

TANZ: Real estate is management intensive. Therefore, the cornerstone of our business is to be very proactive and hands-on throughout the organization in working our portfolio and tenant base.

SAMENUK: I like what [former **GENERAL ELECTRIC CO.** (GE) CEO] Jack Welch said many years ago: "If you can't be No. 1 or No. 2 in a market, get out of it." McAfee's been selling underperforming assets that weren't part of our core strategy. It takes guts to sell businesses and become smaller, but selling businesses has helped our overall strategy.

But if you do what you do best all the time, do you risk missing opportunities?

CAFARO: You need to focus on what you do, which for Ventas is growing earnings while reducing risks and creating a good portfolio. Looking for good risk-adjusted returns for



our shareholders can mean not necessarily taking big steps away from our core strategy but capitalizing on adjacent opportunities.

How much of a role does M&A play in creating shareholder value?

SAMENUK: More than 90 percent of the large tech mergers over the past 10 years did not produce the results promised shareholders. Yet many CEOs feel the need to do the big, once-in-a-lifetime deal. They are trying to make a mark or change the business where perhaps there isn't an opportunity.

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GEORGE SAMENUK
Chairman and CEO, McAfee Inc. (MFE)

RUDOLPH: With 30 acquisitions over the years, including some larger ones, NBTY has created tremendous shareholder value. If the culture didn't mesh with ours, we sold it off quickly. To do an acquisition that risks shareholder value, a CEO must consider it carefully and communicate how it will be integrated, or investors get disillusioned.

CLARK: We haven't purchased quite as many companies as Scott, but our team has done a great job integrating the several we've acquired over the past three to four years. When you demonstrate you can be successful, investors start to encourage you. If you have cash, they ask, "What are you going to do with it?" I'd like to use Interactive Data's cash to bolster our existing business areas and to move into adjacent arenas. More investors are saying, "Would you consider paying a dividend?" That's something we are always prepared to consider, but we'd prefer to use our cash to strengthen our existing business.

SAMENUK: The major question that we've been getting is, How much more stock are we going to buy back? We're looking at expanding our share-buyback program.

CAFARO: We completed the first merger in the health-care space in five years in 2004, which has gone very well. It was small, but I'm an incrementalist. As a capital provider to the long-term-care business, I do think



further industry consolidation is appropriate to reduce general and administrative costs as a percentage of revenues, pool risks and get liquidity premiums.

TANZ: In the past five years we have completed two M&A transactions that have proven to be instrumental in advancing our platform, market presence and stature. Each transaction generated meaningful operating efficiencies and a wealth of leasing opportunities that we quickly capitalized on, greatly enhancing long-term shareholder value.

With globalization and technology, can you deliver shareholder value in new ways?

SAMENUK: McAfee engineers software around the world. It starts in the U.K., moves to India, then to the U.S. That unbelievable productivity aid has enabled us to bring out products faster and with higher quality meeting customers' needs.

TANZ: The past several years we have implemented numerous technological initiatives that have lowered property operating and administrative costs and greatly enhanced our ability to better serve our tenant base.

CLARK: Technology has worked in our favor because costs have come down and

computers are more powerful. But Interactive Data is really a people business. We have large teams of professionals dedicated to maintaining the high quality and reliability of our data. So the pressure has been for us to find ways of managing the human side of business more cost-effectively. We only have about 70 people offshore; we'll gradually add more, but only as we prove it to be effective.

RUDOLPH: Technology puts us in a real-time world. Since our company is focused, we can react quickly. The companies that hesitate will get passed by because everything happens so much more quickly today.

“Entering markets too early can be just like being wrong. You not only have to be right, but you have to be timely.”

DEBRA A. CAFARO
Chairman, President and CEO, Ventas Inc. (VTR)

Many say the future story will be “Chindia” — China and India. Do you have specific global strategies?

SAMENUK: Definitely. Asia-Pacific grew faster than any other region for us last year. Computer usage per capita in Asia is increasing at a breakneck speed, so China is a golden opportunity. India skipped the phone-line generation, and the country now is networked with voice over Internet protocol (VOIP). India's knowledge workers present an amazing opportunity.

RUDOLPH: A third of NBTY's sales are overseas already, and we look at 50 percent to come from overseas in the next five years.

CLARK: There's going to be a huge asset-management industry in both China and India. I don't know what the time frame is, but Interactive Data is already positioned in Asia's capital markets.

CAFARO: But being too early sometimes is just like being wrong. You not only have to be right, but you have to be timely. At Ventas, we're very local. We know that Grandma's not going to be offshored. We aren't looking at India or China, where there's no history of institutional long-term care. Perhaps we would expand into some of the grayer international markets, like the U.K. or Australia, but not economies where everyone is young.

Whom do you rely on as a sounding board?

CAFARO: I never let our investors get away from a meeting without finding out what they think. Or I'll go to the hospital executive on our board and talk about how we can tap into the vast amounts of real estate in U.S. hospital zones. The board members hold my feet to the fire, but I want it that way because it makes Ventas a better company.

CLARK: We receive input from our board more than just once a year; there are frequent updates as well. We also spend a lot of time with our customers. They tell us whether they believe we're doing the right thing.

RUDOLPH: At NBTY everything is open. Any associate can come into my office with ideas and insights at any time.

TANZ: We conduct quarterly strategic seminars involving a broad mix of employees throughout the company. We've found this to be very effective in generating new, instrumental initiatives for advancing our business.

SAMENUK: We're in contact with customers every day. We have 3,000 employees globally, and I personally answer every single one of their e-mails. We heard about a year ago that this new thing called spyware was going to kill computers. So we invested in spyware and are probably the No. 1 anti-spyware company now. Answering e-mail pays dividends. If they know you're listening, employees and customers will bring you ideas.

CLARK: Our most successful product last year came through an idea that an employee championed all the way up to me. Our Fair Value Information Service assists mutual fund families in eliminating market timing in

their funds. This idea was on the table well before the SEC ruled on the subject. We're always looking at the best way to get new ideas to filter through the company.

Do duties to stakeholders ever present conflicts?

CAFARO: Conflicting pressures come from constituencies that have different agendas. The trick is to come up with a strategy that

CAFARO: This year I was able to start a charitable initiative to give back to the less fortunate. I'm careful, though, because I don't feel it's always appropriate to donate our shareholders' money. We've initiated a charitable project in the communities in which we operate, such as Chicago and Louisville. We formed a committee in each office to identify three charities that we could participate in, and tied that to opportunities for employees to work

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STUART J. CLARK *President and CEO, Interactive Data Corp. (IDC)*

meets the needs of all those constituents that can be consistently communicated to vendors, shareholders, employees and customers. When you find something that works for all of them, you create value.

SAMENUK: For us, it starts with the 80 million people who use McAfee. From the small consumer to the world's largest companies, customers all need their IT systems to be reliable 24/7. The modern CEO has to be out with customers, listening, to really understand what it's going to take for the company's long-term strategy.

CLARK: We present the same information, with slight modifications, to our clients, employees and investors. We believe in consistency in all our communications efforts.

SAMENUK: Social responsibility is also built into the fabric of the business. We set up an employee program to donate to Asian tsunami relief and matched it with company funds, which encouraged other companies to do the same.

together, providing pride in the organization. I felt this was a way to balance those two objectives.

TANZ: We have two distinct sets of stakeholders in the company: common-stock investors and bond investors. We have always adhered to a clearly defined, straightforward business plan that we believe works well for all of our investors.

RUDOLPH: A lot of our charitable giving is done in the Long Island area, where we are based. We try to focus on the local community and support baseball, soccer and education programs in the area.

SAMENUK: Being a good corporate citizen and understanding the environments where you work and live are key to success. You can't just focus on shareholder value and ignore social responsibility. They go hand in hand. ▢

Editor's Note: nyse magazine's next planned CEO roundtable involves "Mastering Mergers."

