



Investor Relations is a Competitive Advantage

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IHS Markit analyzed how Investor Relations can be a competitive advantage for a public company similar to great products, talent, science, assets or operations. The analysis focuses on best-in-class IR programs, identifying what makes these teams stand above the rest, quantifying their success, and understanding how companies can maximize valuation, thereby creating a lower cost of capital and a competitive business advantage. The key findings of the study are:

- **Highly effective IR maximizes valuation by supporting a premium of 15% and lowering volatility by 5%**, as measured by Beta. (Conversely, ineffective IR leads to a discounted valuation of 10% or more¹.)
- **Valuation has a direct impact on the company's access to (and cost of) capital**, which contributes significantly to sustainable business growth, particularly versus lesser competitors.
- **These 2 factors taken together provide companies with a significant competitive advantage over time**, enabling the firm to invest in business growth for the future.

Companies with highly ranked investor relations programs benefit from an optimal valuation and reduced cost of capital. Any management team wishing to build or enhance its IR function and benefit from these competitive advantages should continue reading...

Competitive Advantage*
(footnote about Oxford Dictionary definition):
“A condition or circumstance that puts a company in a favorable or superior business position.”



¹ Based on recent surveys by IR Magazine & Iridium Advisors, both detailed in this report.

Contents

1. The Power of a Valuation Premium

The best companies in the world trade at a premium, and they can capitalize on their lofty valuation to create a competitive advantage.

2. How Effective IR Impacts Valuation

IHS Markit analyzed IR activity and financial metrics for Award-winning IR programs² versus those of their respective peer groups.

3. Expert Opinions from Best-in-class Investor Relations

The team interviewed 20+ leading IROs and advisors from North America, EMEA, and APAC on issues ranging from the value of investor relations to the traits required to lead the function.

- Effective IR = Premium Valuation & Reduced Volatility
- Great Relationships Drive Success in IR
- Enhancing ROI as a Proxy for Management
- Effective Communication is Key
- Measuring IR is Critical to Success

² IHS Markit's analysis compared 30+ overall IR Award winners from 2018 and 2019 (as designated by IR Magazine) to 100+ peers spanning multiple sectors across North America, EMEA and APAC.

The power of a valuation premium

The first thing that any Investor Relations Officer (IRO) will tell you is that they do not want to be judged based solely on stock price. All the experts surveyed in this study shared this conviction in one way or another. At the same time, a company's valuation is an often-used barometer for IR effectiveness.

Companies issue shares to raise capital (money). This capital is then invested in expansion, marketing, M&A and other activities, with the objective of building upon the firm's competitive advantage. The shares of the best companies in the world trade at a premium to their competitors, and they can capitalize on their lofty valuation by taking advantage of less costly capital versus other companies. If these investments pay off, the stock price goes higher, more opportunities present themselves, and the company continues to benefit from the premium. So, it becomes a virtuous cycle.

Before getting into the analysis of the impact of IR, it is instructive to explore the ways that valuation premiums have enabled two successful companies, Salesforce and Disney, to increase their competitive advantage over time.

- Salesforce's acquisition of Tableau was a \$15.7B all-stock transaction. The company was already the global leader in CRM, and the addition of Tableau rounded out its Salesforce Customer 360 offering by enabling customers to bring data to life by visualizing it.
- Disney's acquisition of Pixar, a \$7.4B all-stock deal, raised eyebrows at the time. However, it is now considered the deal that re-invigorated Disney's animation division, leading to a string of hits which have enabled the company to dominate the category ever since.

Both Salesforce and Disney have consistently traded at premium multiples versus peers and the overall market over a period of years. In both transformational deals listed above, this strong valuation provided the currency required to make acquisitions of leaders in their industries, ultimately driving the values of each of their businesses significantly higher over time, and building upon their competitive advantages in the marketplace.



How investor relations impacts valuation

The benefits of a higher valuation are clear in the case of Salesforce, Disney and countless others. Therefore, IHS Markit performed an analysis to determine what the impact of IR is on stock price and resulting valuation. The following results were discovered using IR Magazine's IR award winners:

- **Higher Valuation** - Award-Winning IR programs³ trade at an average 15% premium valuation to their peers.
- **Lower Volatility** – Award-winners on average experience a 5.2% reduction in beta-implied volatility versus peer groups.

At IHS Markit, the Perception Analytics team conducts perception studies for companies around the world. As part of these studies, the team asks a number of questions about the strength of the IR teams within each. For this analysis, the team looked at the best and worst performing IR teams in these studies. The top 10 and bottom 10 were selected from a sample of approximately 300 companies over the past 3 years, and the results are telling:

- The highest-rated companies traded at an average 8% premium and experienced less volatility, with 8% lower beta versus their peers.
- Lowest-rated companies trade at a discount of 16% and had increased volatility of 12%.

So, companies with the best IR teams (as rated by investors and analysts) trade at premium prices and experience reduced volatility. The opposite was true for companies with the lowest-ranked IR teams.

Additionally, a recent case study by IR Magazine ("The Value of IR"), using surveys, points to the valuation premium for strong programs:

- "Nearly 9 times out of 10, members of the investment community will assign a premium to the share price of companies with a well-run IR program..."
- "...substandard IR can be responsible for an even larger discount: 25% of respondents would apply a discount of more than 15 percent."
- "In Asia, where the more nascent IR scene means an overall lower level of investor relations, 10 percent would gratify good investor relations with a premium of 20 percent or more. The Asian investment community places more importance on, and assigns a far higher premium to, good investor relations than counterparts in the rest of the world."

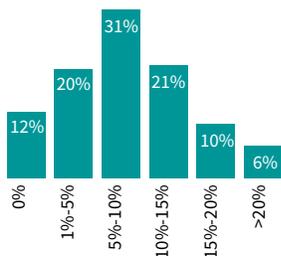
³ IHS Markit's analysis compared 30+ overall IR Award winners from 2018 and 2019 (as designated by IR Magazine) to 100+ peers spanning multiple sectors across North America, EMEA and APAC.

This seems likely driven by investors' thirst for transparency and information from Asian Companies which typically don't provide as much. This notion represents a great opportunity for Asian Companies to differentiate themselves to the investment community.

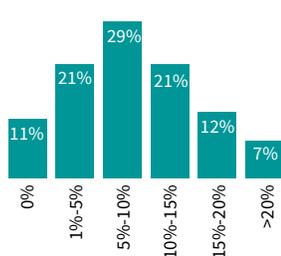
How much of a premium would you be willing to pay a company with more credible IR practices?

(Source: IR Magazine "The Value of IR", March 2018)

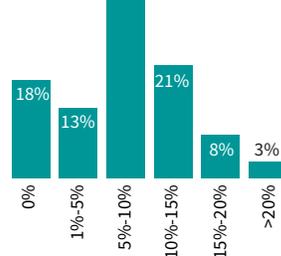
Overall



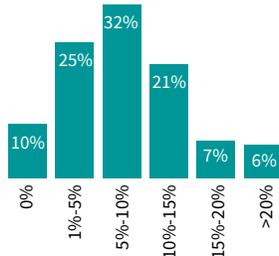
Sell-side analyst



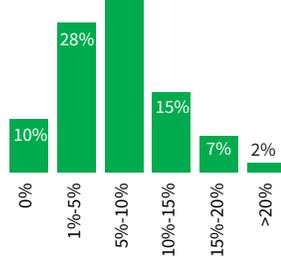
Buy-side analyst



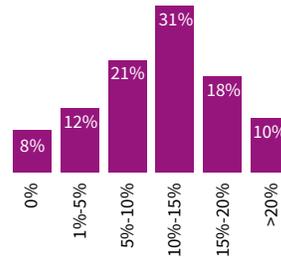
Fund/portfolio manager



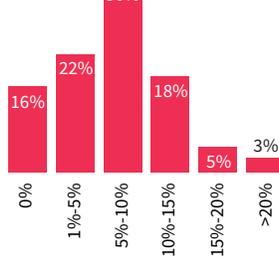
Americas



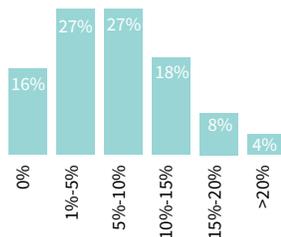
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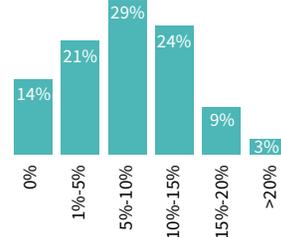
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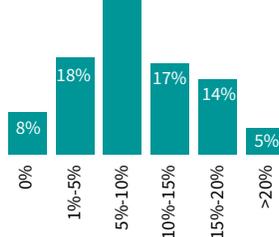
Small cap



Mid cap



Large cap



Expert opinions from best -in-class investor relations

To support the findings from the above two studies, IHS Markit spoke to a number of experts in the field today on the value of IR and impact on valuation. According to the experts, effective IR clearly leads to a valuation premium and competitive advantage over time. There are myriad reasons for this, which are detailed here:

Effective IR = Premium Valuation & Reduced Volatility

Smooch Repovich-Reynolds, one of the best-known and most highly-respected executive recruiters in investor relations circles, provided this insight, **“Over 10 years, \$500B of market cap has resulted from IROs who I have placed. Another interesting statistic I like, which comes from an interview with former Harvard Business School professor John Kotter, is that 70% of a company’s valuation is a direct result of management’s leadership attributes and credibility.”** Smooch knows the IR profession extremely well, has placed some of the most sought-after IROs in key roles, and she is able to quantify the intrinsic value of investor relations and leadership overall.

Oliver Schutzmann introduced institutional IR to the Middle East, leading award-winning in-house IR efforts before heading up his own firm. He says: **“IR absolutely does drive valuation, but it cannot mask strategy flaws or mend a broken business plan. But assuming a company is well-run, its finances are sound, and its business model is compelling, then good IR can generate a significant premium. But a great company with poor IR can trade at a discount. Proof of this comes from our proprietary machine learning algorithms which compute 30 risk and return factors and are successful in explaining up to 95% of valuations. The algorithms reveal that IR is a material valuation driver that can add up to 24% to a company’s market capitalization, depending on the maturity level of the IR program. To use real-world examples, Bank A that currently operates at an ‘IR-Advanced’ level adds 0.16 x to its P/B multiple. This in turn, given their market capitalization of around USD 33 billion, translates to almost USD 3 billion of their market value, or the equivalent of USD 220 million in net profits. The converse is true for low IR quality: Bank B operates at an ‘IR-agnostic’ level, which detracts 0.07x from its valuation.”**

Jan Strecker, Head of IR at Deutsche Borse Group, indicates that IR in Germany has evolved by quickly adopting to world standards and is even leading in some ways now. He was not surprised to hear that companies with high-ranking teams have lower trading volatility, and he said the following about his company’s approach, **“Our approach requires very long-term planning as we focus on attracting and building a pipeline of long-term investors. We talk in terms of 3-year plans, and sometimes it takes investors years to feel comfortable pulling the trigger. By taking this approach, we attract mutual funds with a long-only focus and can see through shareholder ID that our core is very long-term oriented. Over the past several years, trading volumes have gone down, and volatility has been reduced significantly as measured by beta.”**

Victoria Hyde-Dunn, Head of IR at 8x8 and a leader in the IR community in San Francisco/Silicon Valley for years, indicated, **“If your IR program has developed the right reputation for being trustworthy, reliable and transparent, it can positively influence valuation and garner a premium in both good and challenging economic times.”** Vic speaks for many of the respondents. Great IR commands a premium regardless of the current economic environment.

Nikolay Domrachev, Deputy Head of Investor Relations at Russia’s largest airline, Aeroflot, provided some perspective on the evolution of IR in Russia, saying, **“IR has evolved over time. In the 1990s it was enough simply to know English. Today, IR has evolved into a cross section of strategy, finance, and public relations combined with a need to understand the technical side of operations.”** Nikolay has learned a lot over his past 8 years at the company, and he also noted the impact of strong IR at Aeroflot on the company’s stock trading and volatility. **“Once the IR function became well-established and the company developed consistent dialog with investors, we found that trading increased significantly at the same time that volatility was substantially reduced.”**

Ms. Kaori Itagaki, General Manager, IR Group, Santen Pharmaceuticals, is a very well-respected IR professional in Japan, and was previously part of the award-winning IR team at Omron Corporation. She believes that valuation and volatility are important components of what the best IR teams can deliver. She notes, **“IR has an important impact on valuation, because when IR is highly regarded, the company’s brand within the financial community goes up. This essentially leads to lower volatility and that in turn has a positive impact for the company. The importance of IR and how it can impact stock volatility is often overlooked and not fully understood. Providing transparent, consistent disclosures is key. Conversely, if a company hides information, that tends to create surprises, and that leads to more volatility in the stock.”**

Great Relationships Drive Success in IR

Lynn Antipas Tyson is one of the best known and well-respected IROs in the business. She did a nice job of summing up the benefits of top-notch IR from her perspective, as well as from the executives she interacts with, **“When an IR team is at the top of its game it’s an early warning indicator for the company across a variety of areas. IR has tentacles out across different aspects of capital markets. Using the mosaic theory, they can glean things from the investment community. When your team is really humming, people will seek you out... many IROs don’t know what they should be doing and what they could be doing. IR should be an executive first and IRO second.”** When an IRO takes on that level of ownership, there is no doubt that she is adding significant value at her firm.

Many of the experts we spoke with talked about the value of experience and the difference that makes for success in the role. For example, FedEx IRO and industry veteran, **Mickey Foster**, indicated, **“Having experience and long tenure and long solid relationships really helps in good times and bad. Combined, my three directors and I have over 100 years of experience. We know the investors from firm to firm. If the investors know they have access to the company through great IR – folks that answer phone calls and emails and meet once or more per year - they appreciate that...having access and transparency goes a long way, particularly when issues arise.”** IR teams with many years of experience are well positioned with investors to ensure they understand the story and to explain when issues arise. This is clearly an advantage that having an experienced and skillful IR team brings.

Masahiro Nagayasu, General Manager IR & CSR at NIDEC Corporation, has been a top-ranked IRO for the past 8 years in Japan. He outlines the skills required to differentiate yourself in the Japanese IR space, **“First, you must have high language skills. 70% of the investors who trade on the Tokyo Stock Exchange are foreign investors, and most of them cannot speak Japanese. Having the English skills to communicate with foreign investors without interpreters is a must. Secondly, you must be able to construct and deliver a story for each investor. Every investor is different, so you need to be able to customize the company’s story for each investor meeting. You also need to be able to incorporate the company’s key messages as you answer investor questions. You not only must be able to deliver the message but be able to interrelate it to a wide range of industry related or other topics. The amount of information and stories you are able to access during meetings becomes vital when building a good relationship with investors.”**

Enhancing ROI as a Proxy for Management

Another benefit of skill and experience is the ability of an IR team to serve as a proxy for management. **Peregrine Riviere**, Group IR Director at WPP, believes that an IR team serving as a true proxy for management can add significant value, commenting, **“A strong IRO gives management one less thing to worry about. If the CEO and CFO have total trust in IR, this can be a real competitive advantage for the company. From a time perspective, for example, a CEO or CFO might spend 10 percent of their working days focused on IR-related matters. A great IR team could reduce this by one half or certainly by one third. Also, when IR is properly resourced, this communicates a message to the market that they take relationships with investors seriously, which is an important message.”**

Oskar Yasar, Managing Partner at Broome Yasar, says, **“CFOs don’t have the time to speak with all stakeholders. Consequently, they need people who are comfortable facing investors and acting as their proxy; professionals who can answer detailed and analytical questions without needing to pass them on to higher-ranking company officers. Our latest research, conducted among 150 senior investor relations directors, shows that more than a third are keen to transition into a senior leadership role outside of IR over the next 10 years – a significant proportion which we believe now reflects the seniority and ambition of today’s IRO. Many have already successfully made the transition into business leadership roles with some former high-profile IROs having made the ultimate move to chief executive.”**

Rob Gurner, Head of IR at Plus 500, has spent many years as an advisor and practitioner in the investor relations space. Like many of those interviewed, he views the skill set required of a great IRO as multi-faceted, saying, **“Great IR is really all about client service. People need to know that one is involved and listening and understands the business. It is also important to be fairly autonomous, freeing up your CFO’s time generally and only coming to him or her with the ‘big things.’ The IRO should be entrepreneurial and agile, getting involved in many areas. Finally, it helps to be a nice person. IROs are generally nice people, and it is important to be likeable as you are a salesperson at the end of the day.”**

Lee Ahlstrom, who is a well-known senior member of the industry and current CFO at RigNet, echoes Dan’s sentiment, saying, **“An important IR ability is to be a good proxy for speaking to the CEO or CFO. Great IR people can really talk the strategy, and they will give the same level of information as those top leaders, not just ‘canned’ messages. They are really strong subject matter experts and are so good they could be put in an operational role.”** Lee should know. In addition to running IR at RigNet, he is their CFO.

Effective Communication is Key

Andy Li is Head of IR at Shimao Group Holding, one of China's top property developers. He believes that strong IR can have a significant impact in a number of ways, stating, **“Great IR consistently captures and communicates the core value proposition of the company to current and prospective investors. When an IR team is operating at the highest level, more sell-side analysts will be interested in covering the company, which ultimately leads to the introduction of the story to more investors. Great IR teams are also able to balance different types of meetings - from the efficiency of meeting many investors through roadshows and conferences to the personal connection which can only be established through 1-on-1 meetings between top management and key investors.”**

The **IRO of AAC Technologies Holdings**, a Hong Kong listed company, talks about the importance of understanding market perception and some of the areas which are influenced by this, **“The correctness of the perception of the company, the timeliness of the information to the investor community, the depth and the breadth of the outreach to the investor community, the predictability of the share price behavior, the relative performance of the stock price to the relevant peers, the value added to the senior management in improving the business operations. All these points above combine to make great IR. And all of them are very important as competitive advantages.”** This is often the final ingredient of success and one that came up often in interviews – the perception study.

Once again, **Lynn Antipas Tyson** provides an interesting perspective. She states, **“At the most senior level, an IRO must be capable and have a command of corporate finance and strategy, executive presence, good written and oral communications skills, courage of conviction, an ability and willingness to speak truth to power, a clear sense of what is right, common sense, situational judgment and the ability to make decisions with very little information.”** That is quite an exhaustive list, and if an IRO possesses these skills, it stands to reason that her presence will be felt within her own company and across the investment community.

Dan Brailer, IRO at Evoqua, says, **“One of the keys to effective internal and external communication is to first establish one's credibility internally by developing a thorough understanding of how the company works. This knowledge will assist in the development of the confidence and trust needed to most effectively represent the company. Once in hand, it will ensure that the buy and sell side see you as reliably speaking on behalf of management providing timely insight on a wide range of topics including the company's performance, strategic initiatives and market trends.”**

An award-winning German IRO at a financial services company, spoke about the importance of consistency in approach to valuation and volatility, saying, **“IR should ensure the company is as transparent and honest as possible, manage the company for the long-term with no financial engineering for making things look good. You want to be consistent and predictable and attract long-term investor with the same interests. Avoid negative surprises and realize that in-line with expectations is a good thing; stability is an end in itself.”**

Measuring IR is Critical to Success

In addition to skill, experience, and knowledge, a strong IR team will continually strive to measure themselves and improve upon their success. **An award-winning Swiss IRO** says, “**IR is part art/part science, and IR teams need to track activity. It is not just data on the number of meetings, but also where the gaps are. We can’t just say ‘we are a good IR team because we had 1,000 meetings.’ We also must ensure we are making effective use of our executives and that we are reporting quality meeting notes and commentary.**” Measuring success is important as is knowing what the market thinks.

Jim Lucas, SVP, Treasurer & Investor Relations at Pentair, talks about understanding the various aspects of communicating with investors, saying, “**As I have explained to our Board and management, we have no control over what analysts and investors say or do. What we can control is the delivery of our results. I have a formula that I use to explain how we are viewed by the street: ME + D = C. ME stands for managed expectations; this is what IR owns at a company. D is for Delivery; this is the responsibility of everyone at the company. C stands for Credibility and is the result of successfully managing expectations and delivering on what you say you are going to do. I have found this formula to be a somewhat simple way to communicate how everyone in the company contributes to our credibility and ultimately our success.**” Jim really summarizes it nicely, emphasizing the role of the company, the management team and the IRO in understanding what is under the control of each and ultimately what factors drive success.

An award-winning US IRO at a consumer goods company believes that IR should be measured for effectiveness from both internal and external perspectives. “**From an internal perspective, IR teams should measure things like effective use of executive time and managing expectations to ensure a lack of surprises for senior leadership. Externally, ask these questions: Are you reaching out to the right investors? Do you hear your messages being played back to you? Is your messaging driving your Q&A sessions?**” They also believe that IR can make the difference in the investor’s decision to buy, saying, “**IR can make a difference as people on the buy side think about investability. If they are comfortable with what’s going on, investors are more likely to invest. Investors don’t like uncertainty. If a company is doing great but people don’t fully understand the story, they might not view it as investable.**”

A veteran IRO at a US-based financial services company says, “**It is taken for granted if IR is smoothly running. When it’s not, it really shows. If people aren’t getting the right information there’s a negative effect. I’ve never heard somebody say they have invested because of an IR team. However, if there is poor IR, investors will not invest in stories and there are investors who will avoid a stock due to poor IR.**” The interesting thing here is not only the value of IR, but also that some investors will avoid a stock altogether if the company’s IR is poor. This is an important factor for executives to consider.

Key takeaways

Circling back to the definition of a competitive advantage; A condition or circumstance that puts a company in a favorable or superior business position. Based on this definition, how a stock price can impact a company's financing position, and the content in the rest of this article, IHS Markit believes:

- Equity valuation and the financing options it can afford can be viewed as a competitive advantage for growing companies.
- The best Investor Relations programs in the world have proven to have a meaningful impact on valuation.
- Investor Relations is indeed a competitive advantage and should be treated accordingly by management and the board, with the same investment and vigor as a company's other competitive advantages.



IR industry leaders interviewed for this analysis

This report is a combination of our data analysis along with interviews with over 20 of the top IR practitioners around the globe – a mix of highly ranked IROs and leading advisors from North America, EMEA and APAC. While each of these experts has their own unique experience in IR, there were many common themes which emerged. Many of the experts are named below, and several chose to remain anonymous. Any direct quotes are attributed to the individuals. The general themes and takeaways were derived by taking all the feedback into consideration and arriving at a ‘consensus’ opinion. That said, there are always differences of opinion, so the ultimate conclusions and opinions should be considered IHS Markit’s unless otherwise noted. We are grateful to our expert contributors. It was a distinguished list of professionals, and they provided invaluable insights on the topics at hand. These are the individuals with whom we spoke:



Lee Ahlstrom,
SVP & Chief Financial
Officer at RigNet



Dan Brailer,
Vice President at
Evoqua Water
Technologies



Nikolay Domrachev,
Deputy Head of IR at
Aeroflot



Mickey Foster,
Vice President,
Investor Relations at
FedEx Corporation



Rob Gurner,
Head of IR at Plus 500



Victoria Hyde-Dunn,
Head of Investor Relations
at 8x8 (Board Member NIRI
San Francisco)



Kaori Itagaki,
General Manager,
IR Group at Santen
Pharmaceuticals



Jim Lucas,
SVP, Treasurer & Investor
Relations at Pentair



Masahiro Nagayasu,
General Manager IR & CSR
at NIDEC Corporation



Smooch Repovich-Reynolds,
Managing Director, Global
Investor Relations & Chief
Communications Officer Practice
Group, ZRG Partners, LLC



Peregrine Riviere,
Group IR Director at WPP



Oliver Schutzmann,
CEO at Iridium
Investor Relations



Jan Strecker,
Head of IR at Deutsche
Borse Group



Lynn Antipas Tyson,
Executive Director,
Investor Relations at
Ford Motor Company

Andy Li, Head of IR at Shimao Group Holding
IRO at Hong-Kong listed AAC Technologies
Award-winning IRO of German financial
services company
Award-winning IRO of US consumer goods company
Veteran IRO of US financial services company
Award-winning Swiss IRO

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Jason Oury, Managing Director, leads IHS Markit's Global Issuer Solutions Advisory business, overseeing over \$50M in revenue with a team of over 200 employees and analysts operating in multiple, international locations. This division has become the largest, organically grown investor relations service provider in the history of the industry. Jason's organization services over 1,000 corporate clients, helping them help them turn investor relations into a competitive advantage by providing effective workflow solutions and critical market intelligence. Before being acquired by IHS Markit in 2018, Jason joined Ipreo in November 2006 as a Director in the Global Markets Intelligence group, servicing a diverse mix of clients in several sectors, where he acted as a trusted adviser to senior management and investor relations departments. Before joining Ipreo, Jason was an Associate Director on Thomson Reuters' market surveillance team, providing crucial ownership and investor intelligence to investor relations departments in both the Biotech and Energy sectors. Jason graduated from Fordham University's Master's program in International Political Economy, and earned a BS in Finance from the University of Rhode Island.



Michael Miller, Director, IR Advisory, is an IR veteran with over 20 years of experience in the financial services industry. He is focused on providing innovative solutions and actionable intel to clients through IHS Markit's unique product and service offerings. Additionally, he is responsible for global thought leadership initiatives. Prior to joining IHS Markit, Michael spent 5 years abroad as Head of Investor, Media & Public Relations at National Bank of Abu Dhabi. Before that, he held leadership roles at leading global institutions including BNY Mellon, Dun & Bradstreet, Arthur Andersen and T. Rowe Price. Michael earned his bachelor's degree in Accounting at University of Delaware and an MBA in Finance at University of Maryland. He is a CFA charterholder.



Andrew Schultz, Senior Associate, is a member of the Research & Analysis group at IHS Markit, working in Corporate Investor Relations Advisory. Currently, Andrew counsels Investors Relations and Management teams on industry, sector and markets trends, facilitating informed decision-making and strategic solutions. Andrew serves as a member of IHS Markit's Corporate Activism Committee, as well as a Consumer sector expert. Andrew graduated from the University of North Carolina at Chapel Hill with a BA in Economics and a credential in Quantitative Financial Economics.

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About IHS Markit

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