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Chapter Newsletter

Spring 2015

## ANALYST DAY Q&A WITH MICHAEL MCGUIRE, SENIOR DIRECTOR OF INVESTOR RELATIONS AT CVS HEALTH

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### How frequently does CVS hold an Investor/Analyst Day?

We find an Analyst Day to be the most effective means of presenting our strategy. Additionally, it provides us with the opportunity to highlight our bench strength, showcasing other members of senior management who don't typically meet with investors. With the exception of one or two years during which we were busy

digesting a merger or acquisition, we have held an Analyst Day annually and continue to believe that an annual event is best.

### Can you describe the objectives and format of your Analyst Days?

There are three objectives for us when holding an Analyst Day:

1. Update the investment community on our strategy and outlook while providing a deeper dive into our business,
2. Collect feedback from our largest shareholders while giving them an opportunity to meet with management, and
3. Clear up questions and misconceptions that may have arisen after the event by meeting with the sell-side analysts.

The main meeting is a half-day affair, typically running from 8am to roughly 12:30pm, including presentations and Q&A. This is followed by a lunch hosted by our senior management team with our top holders, which is then followed by an hour-long Q&A with sell-side analysts late in the afternoon.

## WANTED: NIRI Boston Board Nominees & Volunteers

Are you interested in becoming more involved in your local chapter? The NIRI Boston Board is now recruiting new directors for the 2015-2016 programming year. This is an opportunity for in-house practitioners to influence chapter programming while working closely with other high-caliber professionals.

The Board also is looking for volunteers to help with various tasks, including writing summaries of our monthly events. If you are interested in getting more involved with the Chapter, email [info@niriboston.org](mailto:info@niriboston.org).

## Upcoming Events

**April 14** - [Benchmarking your IR Program](#)

**May 21** - Activism Panel

**June 29** - [NIRI Golf Outing](#)

**NIRI Boston welcomes**

We are located in Rhode Island, but we choose to host the event in New York City each year in order to attract the greatest number of investors.

We typically have five or six speakers, including the CEO, CFO, heads of our business units and sometimes our Chief Medical Officer. We hold our Analyst Day late in the year (mid-December) and use the meeting as a way to introduce our guidance for the following year. As a result, we have split the meeting informally into two sections - a financial review and guidance with its own Q&A session (30 minutes), and a strategy discussion followed by another Q&A session (30 to 45 minutes). This allows the analysts and investors to digest the guidance at the beginning and get their reports out early. It also removes distractions from the strategy presentations. This approach has been well-received by the analyst community.

#### **Can you describe your approach to presentation preparation and rehearsals?**

Our approach has matured over time, especially over the last decade or so. The presentation planning typically begins four to five months in advance, although the hotel needs to be booked at least a year in advance. It begins with Investor Relations sitting down with our CEO and CFO to draft a rough outline of the day and agree upon speakers.

It is important to us that senior management presents itself effectively, so we have always worked with a speech coach. While some members of our team have been through this several times, they still manage to learn something from the coach each year that makes them more effective. We've recently also worked with a consultant to help us sharpen the messaging. This individual has assisted various presidents of the United States with their speeches and has made our process and the resulting product much more efficient and effective. We also work with a presentation consultant who has helped us to build slides that meet the Street's specific needs while improving our process.

As for the prep itself, the speakers and their point people take part in a series of four or five meetings over the course of the three months leading up to the Analyst Day. The initial meetings include a review of the draft slides and direction of the day. About a week before the event, we hold a full dress rehearsal. It's important that all speakers attend every meeting so everyone knows the content and direction of all of the presentations. The speakers typically engage in a robust discussion of our strategies, and we find that these meetings typically provide them with their only opportunities to discuss as a team how to best present our strategy to the public. It's time well spent, even if we didn't have an Analyst Day.

We also require the presentations to be finished about week before the main meeting. This allows us time to:

- Discuss Q&A, to which we dedicate a half-day for all the speakers,

#### **new members:**

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- Properly prepare for speaking without the distraction of edits being made, and
- Most importantly - print the books.

We provide a book containing the slides to all of the attendees, in addition to posting the presentation on our website. This book, in fact, becomes our bible on roadshows throughout the year. Everyone - CEO, CFO, IR - carries and routinely uses a copy of this bible in our meetings.

### **In your opinion, what are some keys to success for an Analyst Day?**

It is key that your CEO and CFO buy into the process and set the tone with the rest of the team. That ensures their attendance at prep meetings and that they spend the proper amount of time and attention on the actual presentations. It's also key that your presentations leave investors walking away from the meeting incrementally smarter about the company. That doesn't mean having to come up with some new innovation or product each year; it means providing the next layer of detail that isn't normally shared with the Street as well as sufficient access to members of senior management that don't normally speak to the Street. We've had many years in which we went into our event feeling as though we had failed to "come up with something new" only to then receive feedback from attendees who appreciated the amount of information we provided as well as the level of detail we were able to show. That kind of feedback makes the day a success for IR as well as the speakers. Of course, the stock reacting favorably also tends to help make it all worthwhile.

## **ANALYZING OPTIONS ACTIVITY TO GAIN INSIGHT ON INVESTOR SENTIMENT**

By Rob Perle

Analysis of options activity can give IROs insight into the trading strategy and sentiment of investors, particularly hedge funds. As derivatives play a role in the dynamics of equity trading, IROs need to understand how the options market is moving the needle in the underlying equity. However, signals from options trading can be misleading; hence we offer some suggestions about what kinds of data and analysis are best worth attention from the IR chair.

### **Less Useful: Put/call Ratio**

Some market observers place heavy importance on the put/call ratio, which the conventional wisdom suggests is an indicator of investor sentiment. Since puts are contracts that give holders the right to sell stock, an increase in the put/call ratio is seen as a bearish indication. However, this assumption can be misleading, as this ratio only computes the volume of puts traded versus the volume of calls traded, with no insight into whether the contracts are in-the-money or out-of-the-money. For example, let's say that a stock is



### **Recent Events**

The IRO and the IPO

[The Vending Game](#)

[The Need for Speed...Networking](#)

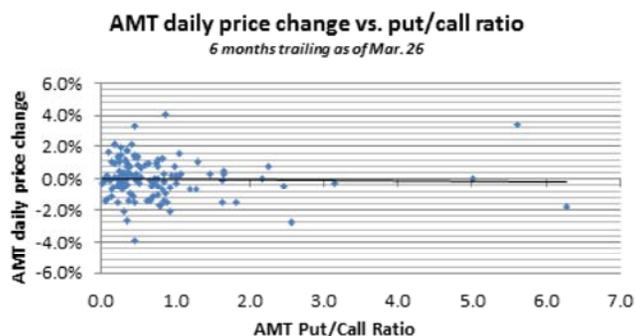
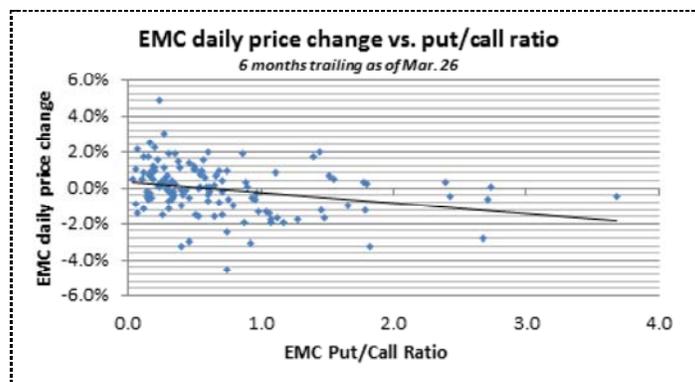
[A Trading Revolt: Market Structure with Ronan Ryan](#)

### **Officers & Directors**

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trading at \$20, and activity in \$23 put contracts suddenly spikes, driving an increase in the contract premium. While the put/call ratio would increase, signaling a bearish market, the true sentiment in the stock is actually very positive, as investors are betting they can book profits even if the stock goes up to \$22.

Here is a look at the put/call ratio versus price performance over the last six months in EMC (EMC) and American Tower (AMT). Note that there is almost no correlation between the stock's session performance and the put/call ratio. These are not isolated examples.



### Less Useful: Implied Volatility

Implied volatility is a forward-looking measurement of market consensus that estimates the likelihood a stock will trade plus-or-minus one standard deviation away from its current price over the next twelve months. The number is simply offering a comment on volatility, but not a specific outlook on the stock, and without necessarily a connection with bullish or bearish sentiment. Further complicating matters is that the implied volatility is different for every single discrete option contract. Implied volatility can be a valuable metric for options traders jockeying to get an edge on short-term contract churning, but for the IRO looking to gain insight on what is driving trading, there is limited value.

### Somewhat Useful: Options Ownership Disclosure

Form 13F requires investors disclose exposure to long positions in exchange-traded options, including both put and

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## Volunteers Needed

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## New to NIRI Boston?

New to IR or the Boston area? Try out one of our [monthly meetings](#). The first one is on us! Use promo code NEWBOSTON when registering.

## Job Bank

We currently have several [open positions posted](#).

## In Between Jobs?

NIRI National and the Boston Chapter proudly offer [Members in Transition Programs](#) to help you stay connected throughout your job search.

## NIRI Webinars

NIRI hosts valuable professional development webinars each month. Be sure to log in to the NIRI National site to view [the list](#)

call options. As is the case with equity positions, the 13F deadline for disclosure is 45 days after the end of a calendar quarter.

[of upcoming and archived webinars.](#)

Since most active options contracts expire in less than 90 days, the 13F disclosure is a stale snapshot of the institution's option exposure. Also, while the disclosure tells us the number of contracts held, there is no detail about the contract strike price or the expiration date, so it is difficult to assess the investor's intent. For example, let's say an equity holder of 1M shares of a \$23 stock at 12/31 holds 50,000 call contracts. If the calls are May \$25 contracts, then we would characterize the investor as bullish, as it might exercise the contract and accumulate another 5m shares if the stock rallied to \$26 in April. Alternatively, the contracts could be in-the-money April \$21 calls, and the investor may look to exercise the contracts and dump the entire position if he thinks the stock has run its course. There are simply too many unanswered questions from just the 13F disclosure.

Still, the data disclosed on Form 13F is better than nothing, and at it does give IROs some possibilities about what players may be involved in options activity in any given session. It may also highlight investors that often use options as leverage (owning both underlying stock and call options) or make volatility plays such as long straddle/strangles (owning both long call and long put options in the same stock).

Investor Name	Single-Security Net Call		Single-Security Net Put		Largest Absolute Position
	# of Positions	Value of Underlying Equity (\$M)	# of Positions	Value of Underlying Equity (\$M)	
Eton Park Capital Management, L.P. (U.S.)	4	1,447.9	1	-98.3	Comcast, \$1.18 net call
Soroban Capital Partners, LLC	3	1,252.6	0	0	UPS, \$1.18 net call
O2 Management, L.P.	13	697.2	57	-1,811.4	Dollar General, \$400M net call
HSC Global Asset Management (U.K.), LTD	26	146.0	24	-620.5	Apple, \$20M net put
Mackenzie Financial Corporation	3	97.4	2	-613.6	Verizon, \$360M net put
Savary Asset Management, L.P. (U.S.)	10	618.8	2	-5.8	Boardwalk Partners, \$300M net call
Chesapeake Partners Management Company, Inc.	20	616.3	0	0	Terra, \$67M net call
BlueMountain Capital Management, LLC	2	79.6	8	-430.2	Rio Tinto, \$28M net put
Nicora Management, L.P.	4	374.3	0	0.0	Apple, \$275M net call
King Street Capital Management, L.P.	8	313.2	1	-21.0	Equinix, \$90M net call

Long-Dated Net Call Options Positions, Sep 2014

Source: Ipreo Research

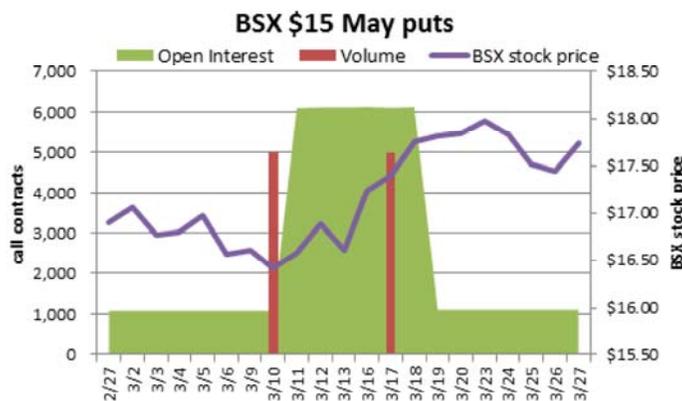
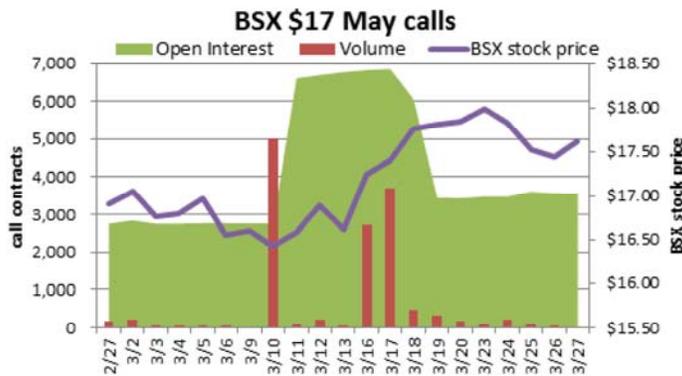
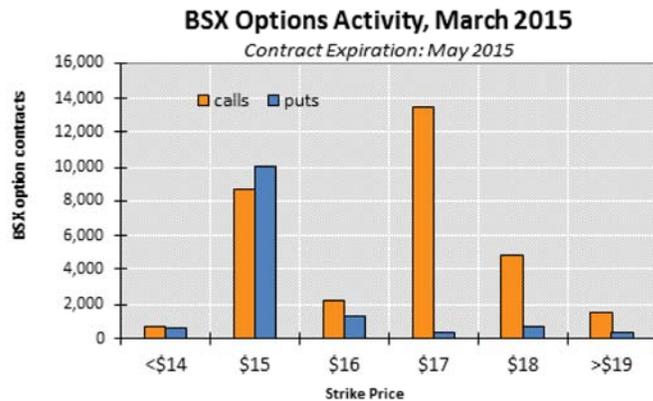
### Most Useful: Comprehensive Analysis of Options Activity

Any effective analysis requires examining all the elements of the contracts being traded, including strike price, expiration, contract volume, and contract open interest. It is simply not enough to say that options volume is elevated, or that there is an unusually large move in implied volatility.

As an example, we review options activity in Boston Scientific (BSX) in March. The most active contracts over the period were the May \$17 calls, and there was also increased activity in the May \$15 puts. Note that open interest in both of those contracts spiked after the increased activity on 3/10, which means that new contracts were being written in that session. With the stock at \$16.42, an investor would write \$15 puts and \$17 calls if he thought that the stock would 1) not go below \$14.75 (\$15 strike less \$0.25 premium), and 2) not go above \$17.55 (\$17 strike plus \$0.55

premium) before May 15. It is likely that this medium bullish investor also bought stock in conjunction with the option play, using a very common "buy-write" strategy, and a surveillance analyst can confirm this activity by analyzing settlement data. The investor used the premiums collected on the contract writing to buy the stock at a discount and is expecting modest gains in the short term.

The subsequent activity on 3/16 and 3/17 in the \$17 calls and \$15 puts also yields some interesting insight. It appears that the contracts that were opened on 3/10 were traded and then redeemed, as the open interest on those contracts sharply dropped. The trading behind the contract conversions was behind the price gain from \$16.61 to \$17.24 and higher.



We believe that analyzing options activity can provide valuable insight for the IRO, provided that the context is

meaningful and specific. The lion's share of options activity is driven by short-term traders with no equity stake. Just as IROs do not go out of their way to offer management time to high-turnover hedge funds, they should not get swept up in the ongoing noise of a volatile and complicated options market. However, proper analysis of this activity can provide IROs with insightful intelligence.

*Rob Perle is a Director in Ipreo's Global Market Intelligence Group.*

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