

| **HOW TO TALK TO WALL STREET**

Talking To Wall Street

CIOs have a vested interest in getting to know the money people who cover their companies. Verizon CIO Shaygan Kheradpir has learned that knowing what to tell financial analysts can help boost a company's fortunes—and a CIO's career.

BY MERIDITH LEVINSON

Reader ROI

- ▶ How investors' views can help CIOs be more effective
- ▶ What CIOs should tell investors and analysts about IT operations
- ▶ How to prepare for a Wall Street conference call

Shaygan Kheradpir doesn't know when his next big meeting with the "money people" (his collective noun for venture capitalists, research analysts and investors) will be. It could be a dinner two nights from now, or an industry conference next month. For the time being, he's relieved to have a break. In March 2004, the 43-year-old CIO of Verizon Communications completed a breathless tour of the financial and consumer electronics worlds that began in December 2003 at Credit Suisse First Boston's (CSFB) Media and Telecom Week conference in New York with the unveiling of a new service that synchronizes the address books and coordinates calls on customers' PCs, mobile phones, pagers and handheld devices. A month after the conference, he was in Las Vegas for the Consumer Electronics Show. There, he made sure that his boss's live demonstration of the service called Iobi (pronounced *eye-oh-bee*) worked flawlessly (it did) before attending a conference call with investment analysts to answer questions about Iobi, as well as the new Verizon One phone and a new high-speed wireless service. That event, positioned by Verizon as part of a \$3 billion capital investment in broadband networking for the masses, was followed by a blitz of informal calls from analysts and investors who wanted more information from Kheradpir on these new products.

Kheradpir's spree ended at a Manhattan restaurant with a roundtable discussion hosted by an investment bank, where he talked more about the Iobi service and the telecom industry.

The purpose of these conferences and conversations was as much to trumpet Verizon's products as it was a chance for Kheradpir to heighten his company's profile and show himself to be an industry thought leader. It was the culmination of an 18-month-long campaign by the CIO to convey the significance of his company's investments in IT and networking capability to both cut costs and attract new business.

His long hours on tour, it seems, were worthwhile. On Dec. 12, the day after Kheradpir gave his presentation at the CSFB event, Verizon's stock closed nine cents higher (at \$33.43 per share) than it did the day before. The day of the investor conference call that accompanied his boss's live demo of Iobi at the Consumer Electronics Show in Vegas, Verizon's stock closed at a high of \$37.12, up 56 cents from the day before and up \$3.69 since his presentation at CSFB on Dec. 11.

Kheradpir says his encounters with the investment community's power brokers are part of being a Fortune 10 CIO. And he thrives on them. The questions that analysts and investors ask him about Verizon's cost structure, its customer-retention strategies and growth plans help him focus on IT initiatives that will achieve the quarter-over-quarter increases in earnings per share (EPS) that Wall Street seeks—and that differentiate winning businesses from the also-rans.

"It's very important for CIOs to get a deep understanding of what the investor is looking for," says Kheradpir, who retains a slight accent from his native Iran. "This group that has influence on your company's future is another stakeholder that you need to be very

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close to. I get their reaction to what we say, and that really helps me in fine-tuning the IT strategies here."

A Vested Interest in Investors' Views

Having spoken with investors on a regular basis since he became Verizon's CIO in 2002, Kheradpir is at ease addressing this audience. He's learned to focus on topics that interest analysts (such as costs and customer-retention strategies) and he knows to whet their appetites by focusing on the financial impact that long-term IT initiatives will have on the company. And most important, he understands how crucial Wall Street is to his \$67.8 billion company's fortunes, and how critical it is for him to be plugged in to their interests. Kheradpir says of investors, "'OK, we're investing in you Shaygan, partially too, so what are you going to give us for a return?' So I really feel that it's my job to be able to invest in IT projects that deliver one quarter at a time."

Reaching out to analysts and investors is important because doing it well is a way to inspire their confidence, says Hans C. Brechbuhl, an adjunct associate professor of business administration at Dartmouth College's Tuck School of Management. "Markets are all about confidence or lack of same," he says. If a CIO can articulate his company's strategy and relate it to business results (for example, a consumer goods maker using IT to meet supplier specifications at Wal-Mart), Wall Streeters will feel more comfortable recommending the stock. Building confidence, says Brechbuhl, "leads to a much better evaluation by the analysts, and that inevitably has an effect on the stock price."

So the stakes are high, Brechbuhl says. If an executive fails to tell financial analysts what they're interested in, he risks shaking the market's perception of his company's investment value.

And so Kheradpir accepts every opportunity his kinetic calendar permits to meet with them.

To Every Meeting, A Purpose

Kheradpir has learned how to rub elbows with the money people. When he attends a conference or a dinner, he doesn't end a meaningful conversation without giving out his contact information. He tells analysts and investors that they can call him for his opinions on the telecom industry. And once he gets a call from them, he then feels free to pick their brains too.

Regular contacts are important, says Kheradpir, because their interests change each quarter, driven by a variety of factors such as world events, government regulations and new business risks. For example, at the CSFB conference last December, the analysts were interested in the impact of voice over IP on Verizon's core business because they had begun to see more and more companies making announcements about the technology. The quarter before, all they wanted to hear about was his company's operating costs. The quarter before that, customer retention was the priority. Kheradpir anticipates their interests: He reads investment houses' reports covering company outlooks, valuations and the hot topics du jour. By staying abreast, Kheradpir doesn't risk alienating his audience by talking about his ERP upgrade when they want to focus on how Verizon will keep customers from switching phone

NEWS ANALYSTS CAN USE

What Verizon's CIO told analysts at CSFB's Media and Telecom Week

- In 2000, Verizon spent 6.4 percent of its revenue on IT. Now it spends about 4.2 percent of its revenue on IT.
- Verizon used to have five control and data centers. Now it maintains just two.
- Verizon has reduced its number of systems by 25 percent.
- In 2001, few transactions were done on Verizon.com, compared to roughly 30 percent now. Verizon expects that rate to hit 40 percent within 18

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months.

And a CIO doesn't have to wait for a meeting or phone call. Kheradpir says that once you've established relationships with the analysts who cover your company, you can pursue them for feedback on IT-based products and services you're developing, and for insights into your industry. "The more you engage, the more focused your message [to them] becomes. And the more it helps you to focus on your work inside the company," says Kheradpir.

These exchanges are promotions for both his IT work and market research. Just this past March, Kheradpir invited a prominent investment banker to his midtown Manhattan office to present the latest version of Iobi. There, the CIO sought the banker's opinion on how to market the service, his views on integrating Iobi with other electronic devices, and whom (and whom not) to partner with on licensing agreements. Kheradpir says he got very direct feedback from this Wall Street insider. He doesn't always heed such feedback, but acknowledges that it's "another input in your decision-making process from the investor who owns the company."

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The Auditors Are Coming, the

Eyes on the Bottom Line

Although investors' passions change, some topics are evergreen, Kheradpir says. Some of these are how IT can lower cost structure, how IT can support customer-retention strategies, and how IT-enabled business changes could alter analysts' models for projecting EPS.

This focus on earnings is critical, and getting the EPS model right is vital for research analysts because it's "what investors base their investment decisions on," says Wayne K. Homren, a research analyst with Parker/Hunter. (Parker/Hunter does not currently own shares in Verizon.)

Homren says that basic EPS models take into account financial fundamentals such as a company's revenue, cost of revenue (what it costs in labor and materials to produce goods and services that bring in money), net profit (profits before taxes and dividends are paid out), depreciation expense (accounting for the use of assets over time) and interest expense. (For more on accounting terms, see "[What CIOs Need to Know About Money.](#)") If analysts fail to take into account the impact a new product or service will have on revenue while making their projections, they risk completely underestimating how a stock will perform. And underestimating (or overestimating) how a stock will perform is not good for investors or the company: It could lead investors to avoid a stock that will earn a lot of money, or (in the case of overestimating) it could lead investors to purchase a stock that earns less than expected, or even loses money.

While analysts are always interested in business changes that will affect their models, they're also often skeptical of them. So Kheradpir advises CIOs to be persistent and repeatedly explain why and how a new product or service will cause revenue to spike.

Simple Sentences Convey IT Alignment

Kheradpir says presentations should follow the simple, declarative structure of a Dick and Jane primer. His presentation at the CSFB conference began just that way: "I'm here to talk to you about our IT efforts for productivity and revenue. From 2000 to 2003, IT costs have come down radically in Verizon. In 2000, 6.4 percent of revenue was spent on IT. Now we're spending about 4.2 percent of revenue on IT. Three things have helped bring down the costs. First and foremost is the natural merger synergies: We've gone from five control centers and data centers to two. We've reduced the number of systems by 25 percent...."

Says Kheradpir, "If they [the analysts] don't make a direct linkage between what you're saying and this quarter's earnings per share [or a few quarters down the line's earnings per share], they switch off." So,

“ If the analysts don't make a direct linkage between what you're saying and this quarter's earnings per share, they

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if you begin talking about a project that's not going to be completed for two years, don't expect anyone to call you in two years to find out how the project went.

switch off.

”

—VERIZON CIO SHAYGAN
KHERADPIR

John C. Hodulik, a managing director and telecom analyst with UBS, says Kheradpir is a good communicator who has learned to keep his IT-related remarks focused on the bottom line. (Neither Hodulik nor UBS owns Verizon shares.) Hodulik says, "He puts [technology] in terms that nontechnology people can understand."

Persistence Pays Off

When Kheradpir and some of his colleagues first conceived of Iobi (formerly known as digital companion) in 2000, he thought it would differentiate Verizon from the competition and dramatically increase his company's revenue by attracting new customers. For that reason, he wanted to get Iobi on the money people's radar screens. But he knew they wouldn't immediately be interested in it for two reasons: the long time it would take to develop and roll out the service, and because of its highly technical nature. To pique their interest in Iobi, Kheradpir started mentioning plans for the offering in mid-2002, 18 months before its launch at the CSFB conference. Briefly and succinctly, he brought up Iobi each time he spoke with analysts. During discussions of Verizon's operating costs or customer-retention strategies, Kheradpir made sure to drop a line about Iobi's functionality, where it stood in the development pipeline or its impact on the telecommunications industry—just to keep the concept in analysts' minds.

But then it was clear that his strategy worked. After a year and a half of teasing the topic, Iobi was all the money people wanted to hear about during an investor call in January. Analysts wanted to know when it would be released, and what Verizon's marketing strategy would be to lure customers. And, oh, by the way, was there a demo or pilot they could see?

Let a Demo Do the Talking

At the CSFB conference, representatives from more than 60 companies—among them giants from entertainment, media and telecom industries—gathered at New York's Plaza Hotel.

There, Kheradpir let a product demonstration do the talking. He used his cell phone, BlackBerry and a laptop to show the hundreds of journalists and analysts how, with one button click, he can add the phone number of any person who calls him (or whom he calls) into any of his devices, and synchronize his phone books across all of those electronics. And how, by clicking on a bookmark on his phone or PC, he can place a call to his CEO Ivan Seidenberg via his phone or laptop. Using his own gadgets, Kheradpir was also able to drive home the message that Verizon was leveraging its assets—its SuperPages telephone directory, voice and data networks, and its IT infrastructure—to create a service that would attract new customers, retain existing ones and differentiate the company from rivals. Verizon's CIO lent a narrative to the proceedings, but the demo itself was more effective than any verbal explanation.

Doreen Toben, Verizon's CFO who also presented at the CSFB event, says having Kheradpir showcase the product gave their presentation punch. "It was very helpful for me to have him there to show [the analysts] the product and give more examples of how it worked. It was very impactful," she says.

A Clear View of Wall Street

Communicating with Wall Street analysts keeps Kheradpir focused on what's vital at Verizon—a company that went through recession rounds of cost-cutting, layoffs and weak earnings, and is trying to position itself for future growth while paying down its \$45.4 billion debt.

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Since 2002, Kheradpir has implemented IT projects that have been heralded by the company and hailed by Wall Street for reducing costs. He put applications on Verizon.com that allow customers to view and pay their bills online, and change, cancel or order new services. The online customer self-service capabilities have reduced the number of inquiries that hit Verizon's call center by 29 percent. An automated voice-recognition handles 18 percent of calls that in the past went to a call center. Kheradpir peppers his presentations to analysts with such details.

Wall Street has reacted positively to Verizon's efforts: Last March, A.G. Edwards upped Verizon's stock from a hold to a buy, and Morgan Stanley analysts said they expect the total return of Verizon stock to exceed the average total return of other telecom companies they cover. Morgan Stanley attributed its positive rating to Verizon's cost-cutting efforts, "best-in-class network," and one of the company's new broadband wireless services—all of which Kheradpir discussed on his tour of analysts' events.

Had Wall Street not seen improvements enabled by IT, says Kheradpir, he wouldn't be getting many invitations to conferences or exclusive dinners. "They come back, over and over again and they ask more and more [questions] and [their level of] engagement gets deeper because of IT's influence in enabling our business," says Kheradpir. But really, they keep coming back because this CIO makes it worth their time. 

E-mail feedback to Senior Writer Meridith Levinson at mlevinson@cio.com.

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