Show and tell
We investigate how companies can make their disclosures more effective

Judy Brown
The CFO of Perrigo on mergers, acquisitions and hostile takeover bids

Law in action
What will the new EU audit legislation mean for audit committees?

Seeds of growth
How important is the role of the CFO in growing a business?
Dear readers,

There are few better feelings for a Chief Financial Officer than announcing that your company has hit or exceeded growth targets. It confirms that the organization is making the right progress, reassures the CEO and keeps shareholders happy.

But is recording and announcing growth performance enough? The modern CFO wants to go much further – for instance, to be the one helping to drive the expansion, whether it be organically or through acquisition. As CFOs become better business partners, their role in the growth agenda has moved center stage.

In this issue of Reporting, we speak to a range of CFOs who have been at the forefront of their company’s growth initiatives. Our cover feature, “Sowing the seeds of growth” (page 4), talks to five CFOs, each with a different story to tell but a similar mindset.

They see the CFO’s role as one of sparring partner for the CEO, a co-architect of corporate strategy, a critical communicator and the conscience of the organization. Our interviewees are all these things and more. One thing they are not, as Jeff Uttz from Shake Shack tells us, is “typical numbers guys.”

We also have an extended interview with Judy Brown, the CFO of Perrigo, who has overseen 27 M&A transactions in her 10 years at the company. In “The deal-maker” (page 22), she explains that not every deal is right for the organization, and that “saying no is sometimes as important as saying yes.”

Whatever the final decision, the goal is to develop the business in the best interests of the shareholders. That benefits both the company and the CFO. Brown explains it perfectly. “To take the business to the next level? I can’t think of anything more fun to do. That’s the best part,” she tells us.

Fun, somewhat surprisingly, also gets a mention in our feature on disclosure effectiveness. In “Full disclosure?” (page 10), Jan Hauser of General Electric tells us that the company’s restructuring of its reports turned out to be a “lot of fun.” She adds that it made the reporting team more engaged because they felt that it made their work more relevant.

Improving communication and the relevance of financial information are themes that come through strongly in Patrick Sun’s “My wish list” (page 26) and Ramesh Swaminathan’s “5 things I’ve learned” (page 14). They also give us an Asian perspective on corporate governance and financial reporting.

Meanwhile, in Europe, we look at the expected impact of the European Union’s audit legislation in “A legal challenge for audit committees” (page 16). Although the legislation comes into effect in June 2016, many of the changes have already been implemented in the Netherlands. We speak to audit committee chair Petri Hofsté about her experience there.

I hope you enjoy reading this issue of Reporting, and that you find it stimulating and useful. We welcome your views and comments, so please get in touch with your EY contact to continue the discussion.

FELICE PERSICO
Global Vice Chair, Assurance

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The role of the CFO has changed radically over the years, with today’s finance chiefs playing a major part in the strategic growth of their companies. Roshan McArthur speaks to five CFOs who are leading the way.

While the debate around the changing role of CFOs continues, their involvement in enabling growth is one area that is definitely increasing. In a 2015 EY report, Partnering for performance: the CFO and the CEO, 64% of CFOs surveyed said collaboration with their CEO had increased in the past three years and 76% reported greater involvement in corporate strategy, driven by a focus on growth.

This shouldn’t come as a surprise, says Jose-Luis Álvarez, Senior Affiliate Professor of Leadership and Organisational Behaviour at INSEAD business school in France. The role of the CFO has been steadily evolving since the 1950s, when finance directors emerged to take the place of accountants.

“In the late 1970s in the US, new, complex tax regulations gave finance directors even more power,” he continues. “Companies needed someone to deal with complex reporting to public authorities. This was the CFO.”

In the 1990s and 2000s, CFOs became the interface between companies and shareholders, as well as investor groups. “Instead of just being inward-looking chiefs focusing on cost and control,” Álvarez says, “they became outward-looking, keeping suppliers of financial resources informed. In that role, they have been considered by some as being as important as CEOs.”

Following the global financial crisis, many CFOs found themselves center-stage, partnering with CEOs on cost reduction and financial management strategies. Álvarez says, “The economic troubles have emphasized the need for growth, to complement the original cost-control function of CFOs with a more strategic orientation.”

The role of today’s CFO is not always easy to define. Can they continue to focus on their traditional roles as well as these new strategic functions? Álvarez believes they can and should. “CFOs – like any other ‘chief’ – have to go beyond a unidimensional, specialized view of their role and consider themselves general managers who should contribute to the development of the organization’s business model,” he says.

Reporting spoke to five CFOs to find out how they work with their CEO and to what extent their roles encompass a strategic focus on growth.
especially if you have the right finance team in place. His first priority at Yard House was hiring the right people to support growth. “Once I got a small core team in place,” he remembers, “and got them to the point where they didn’t need my guidance on the basic financial reporting, I could get more involved in strategic development.”

Utzt believes that understanding his customers and all aspects of the company is key to strategic success. “I can’t just sit at my desk with the door closed, looking at P&Ls, to understand where the company is going strategically,” he says. “My value is in getting out – talking to our VP of supply chain, our VP of marketing, understanding their areas of the business and getting to know their teams. I want to understand them all, because they all affect each other – and every single one of them affects the company’s finances.”

“One should also have a desire to stretch the organization, partnering and challenging the CEO.”

Geraldine Matchett, Royal DSM

our VP of marketing, understanding their areas of the business and getting to know their teams. I want to understand them all, because they all affect each other – and every single one of them affects the company’s finances.”

THE RIGHT-HAND MAN: JEFF UTZT

Jeff Utzt has been a CFO for 15 years, initially at California-based sports bar chain Yard House; he joined when it had a team of eight and left just after it was sold for US$585m in 2012. He became the first CFO of New York-based restaurant chain Shake Shack in 2013, and led it to an initial public offering two years later.

Utzt has never considered himself a typical “numbers guy,” instead preferring to see himself as his CEO’s dynamic right-hand man. “I want to insulate him from the day-to-day issues that come up so that he can be strategic,” he explains. “I want to be able to handle as many things as I can, whether it’s development or supply chain or human resources or legal, so that he doesn’t have to. That’s where I see the role of the CFO; somebody the CEO will look to for guidance and advice and see as a business partner.”

Being a CFO, he believes, has become more about people management than money management,
When she says “stretch,” she has a very specific vision. A geography graduate with a Master’s in sustainable development, Matchett believes that growing companies has everything to do with cultivating sustainability. “Short-term thinking can lead us straight into the wall if we’re not careful, because it leads to decisions to not necessarily support employment, innovation, R&D. Things that take more mid-term commitment can quickly get dropped because of quarterly pressures. “If you keep cutting costs, you’re not investing in the future. Don’t be surprised if you don’t get the new technology or the smart ideas. Your company and society is not going to flourish if that is the primary mindset.”

THE CO-ARCHITECT: VINCENT LIEW
Vincent Liew is the Global CFO for Hong Kong-based Aedas International, one of the world’s largest architecture and design companies. He has held the position since 2010.

Over the years, Liew has observed a shift in the CFO’s role from “co-driver,” who monitors operating conditions and steers the board on decision-making, to “co-architect,” the designer of corporate strategies who creates a vision for financial viability and proactively interprets analytical data for risk management.

With recent volatility in the world economy, Liew’s own role has increasingly focused on business sustainability and viability. “Redrawing a balance between good design deliverables, profitability, society and the environment is an increasing focus for us,” he explains. “Another challenge is how to diversify the growth of the business. Overseeing foreign markets involves regional strategic governance, compliance and control, so the accuracy of judgment is important for growth.”

Liew believes today’s CFO should understand the global economy and be attentive to shifts in the market. Emerging markets, he says, represent opportunities, but also uncertainty and complexity. How CFOs understand macroeconomic changes and envisage future shifts will affect the business significantly.

Innovation is also key. “Being technology-savvy is an important factor in this era of data revolution,” says Liew. “Business intelligence has become indispensable for financial reporting and strategic planning.”

THE ALL-ROUNDER: NICK STABLES
After working for many years in large tech companies, Nick Stables left in 2004 for venture capital-backed start-ups. “I wanted to be part of a company where I could have a bigger impact,” he says. “When you’re working for a start-up, you have to be more of an all-rounder. You’ve got to be prepared to do anything, be resilient enough to manage the uncertainty, anticipate what’s around the corner and be strong on managing cash.”

He was CFO of Phyworks, an optical transceiver chip maker that was acquired by Maxim Integrated...
in 2010, and then joined Lime Microsystems, developers of innovative wireless communications systems, based in Guildford in the south of England.

As a CFO, Stables considers himself “more of a business partner. You’re working with the business, as opposed to monitoring and checking. Helping the business to grow, bringing balance, making observations about when we need to make a change or make an investment to maximize an opportunity – that’s all part of being an effective partner. It’s about maximizing the value-add of that information to generate shareholder returns.”

There are, he believes, more unknowns and variables to deal with in strategic planning in start-ups than there might be in larger operations. “We don’t know how much we might spend to develop a product, and we don’t know how much revenue we might get. You need to demonstrate to your investors that you are doing what you said you would. Being able to explain and articulate what has happened is really important, especially when it’s fund-raising time.”

THE ENTREPRENEUR: DYLAN SMITH

Dylan Smith is CFO of content management platform Box, which he cofounded with CEO Aaron Levie at the age of 19. A decade later, in 2015, they took the company public.

As an economics graduate, Smith naturally focused on the business models and metrics, but he was also instrumental in its growth. “As the company has evolved, my role has changed and I’ve embraced that evolution,” he says. “Functionally, I largely focus on a combination of planning and analysis, and investor relations. From a leadership standpoint, I also spend a lot of time recruiting and making sure our team understands the strategy. Finally, as a cofounder, I’m very focused on how our culture evolves over time.”

In the early days, he says, “process didn’t matter, efficiency didn’t matter – it was making sure we were doing everything possible to drive growth. As the company has grown, there has been much more of a need for process, for systems, for making sure that we have a data strategy.”

As a CFO who has grown – and grown up with – his company, Smith stresses the importance of understanding early on the most important metrics the team needs to focus on for the long-term health of the business, and tracking all these things with the systems to measure, report on and deliver insights into what’s going on in the business, in real time.” The other key is building the right team. Smith believes that the CFO will increasingly be called upon to be a critical communicator, and often the face of the company. “One thing I’m starting to see is CEOs who just want to build a great product and stay behind the scenes, and I think we’re going to see a trend of some CFOs taking on more of that spokesperson role.”

7 Drivers of Growth

EY has drawn on decades of experience from working alongside some of the world’s fastest-growing companies to develop the EY 7 Drivers of Growth framework. Our insight into what it takes to accelerate growth points to a need to move the conversation about growth and customer value beyond the traditional focus on people, systems and processes. By focusing on a broader set of capabilities, companies can speed up the pace of growth and make it sustainable. The drivers are:

- People, Behaviors and Culture
- Digital, Technology and Analytics
- Operations
- Customer
- Funding and Finance
- Transactions and Alliances
- Risk

The CFO is clearly critical to enabling growth strategy. But the focus of leading CFOs is across all of the 7 Drivers, not just finance and funding.

“Of course, the right funding and finance strategy is essential to an accelerated growth path,” says Annette Kimmitt, Global Middle Market Leader at EY. “But the CFOs in the fastest-growing organizations typically also focus on a broad range of capabilities, from the technology to support effective reporting and planning, through to the right supply chain.”

“That’s not to say you need to be at the leading edge for all 7 Drivers. The relative importance and maturity level you need to achieve for each Driver links back to your specific growth strategy. But what you do need is a balance across all 7 and complete alignment on that balance between the CFO and their leadership colleagues.”

“**The CFO:** somebody the CEO will look to for guidance and advice and see as a business partner.”

Jeff Uttz, Shake Shack
A RECENT EY SURVEY REVEALS THAT EXECUTIVES SEE CYBER BREACHES AND INSIDER THREATS AS THE FASTEST-GROWING RISKS DRIVING INVESTMENT IN FORENSIC DATA ANALYTICS.

In today's digital world, there are rapidly expanding opportunities for innovation and growth. Unfortunately, these new opportunities have also brought new fraud risks. The mission-critical nature of information and the ease of digital access make organizations particularly vulnerable to cyber criminals and malicious insiders. The increasing regulatory pressure further compounds the need to address these risks with rigor.

On the upside, advanced data analytics tools are becoming mainstream. New technologies and surveillance monitoring techniques are being developed to help companies manage current and emerging fraud risks, and there is growing awareness of the benefits of forensic data analytics (FDA) at the executive and board levels.

Current and emerging risks driving demand
EY's latest Global Forensic Data Analytics Survey of 665 executives from around the world reveals that the fastest-growing threat in the fraud and investigative risk universe is from cyber breaches and insider threats, which include malicious insiders stealing, manipulating or destroying data.

Cyber breach or insider threat is clearly top of mind

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Significantly increased</th>
<th>Slightly increased</th>
<th>Not changed</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyber breach or insider threat</td>
<td>32%</td>
<td>30%</td>
<td>31%</td>
<td>4%</td>
</tr>
<tr>
<td>Bribery and corruption risk</td>
<td>17%</td>
<td>27%</td>
<td>45%</td>
<td>8%</td>
</tr>
<tr>
<td>Internal fraud (travel and entertainment abuse, collusion, etc.)</td>
<td>10%</td>
<td>32%</td>
<td>47%</td>
<td>9%</td>
</tr>
<tr>
<td>Capital projects risk</td>
<td>12%</td>
<td>22%</td>
<td>54%</td>
<td>7%</td>
</tr>
<tr>
<td>Merger and acquisitions risk</td>
<td>9%</td>
<td>19%</td>
<td>59%</td>
<td>6%</td>
</tr>
<tr>
<td>Financial statement fraud</td>
<td>8%</td>
<td>18%</td>
<td>62%</td>
<td>9%</td>
</tr>
<tr>
<td>Money laundering</td>
<td>9%</td>
<td>16%</td>
<td>61%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Concerns about cyber breach and insider threat extend across sectors; all nine industries featured in the survey rate this as their top risk. This consistency in the perception of cyber threat is not surprising now that cyber attacks (both internal and external) are a fact of life for business, posing a dynamic, relentless challenge for leading companies.

With a growing imperative to protect digital assets — not just physical ones — executives see FDA as playing a critical role in managing a broader spectrum of risks. The survey found that cyber breach or insider threat risk has the second-highest application of FDA, with more than 70% of respondents using it, while internal fraud risk, an area that has long been using some form of FDA, takes first place with 77%.
Regulatory enforcement becoming more rigorous and widespread
FDA demand is also being driven by increasing government and public scrutiny of fraud risk, with 43% of respondents citing regulatory pressure as one of the main reasons behind their investment in FDA.

Top drivers of FDA investment

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response to growing cyber crime risks</td>
<td>53%</td>
</tr>
<tr>
<td>Increased regulatory scrutiny</td>
<td>43%</td>
</tr>
<tr>
<td>Increased risk of fraud in emerging markets</td>
<td>32%</td>
</tr>
<tr>
<td>Pressure from the board or management team</td>
<td>31%</td>
</tr>
<tr>
<td>Seeking greater cost-efficiency in the fraud risk management process</td>
<td>30%</td>
</tr>
<tr>
<td>Recent fraud risk assessment findings in the organization</td>
<td>26%</td>
</tr>
<tr>
<td>Need for more robust third-party due diligence</td>
<td>25%</td>
</tr>
<tr>
<td>Increasing merger and acquisition activities</td>
<td>13%</td>
</tr>
<tr>
<td>Increased calls to your “whistle-blower line”</td>
<td>9%</td>
</tr>
<tr>
<td>Other main reasons</td>
<td>4%</td>
</tr>
</tbody>
</table>

Q: What are the main reasons why you are planning to increase your investment in FDA capabilities?
Base: respondents who plan to increase investment in FDA (405).
Multiple answers allowed, may exceed 100%.

C-suite respondents are more likely to be concerned about regulatory pressure. This is not surprising considering that high-profile regulatory enforcement actions have been dominating the headlines, leading to billions of dollars in fines and the prosecution of individual executives.

The US Securities and Exchange Commission (SEC) and Department of Justice continue to lead the way in robust domestic and extraterritorial enforcement actions. The SEC’s Financial Reporting and Audit Task Force is now deploying cutting-edge FDA tools to mine data for fraud and is engaging whistle-blowers in unprecedented numbers to uncover financial reporting and disclosure problems.

Outside the US, regulators in the United Kingdom, Germany, Italy and France, among others, have been involved in major enforcement actions. In Asia, prosecutions for corruption are increasingly frequent, with China leading the way.

74% of C-suite respondents agree with the statement: “We need to do more to improve our current anti-fraud procedures, including the use of FDA tools.”

Facing the severity of fraud risks and the threat of regulatory enforcement, the survey reveals that C-suite respondents have a stronger sense of urgency around FDA adoption than other executives. Ultimately, the cost of getting it wrong is becoming too grave to ignore.

For a copy of the full report, Shifting into high gear: mitigating risks and demonstrating returns, please go to ey.com/2016FDASurvey.
Increasing numbers of companies are taking steps to improve the effectiveness of the disclosures made in their financial statements. But, as Tim Cooper discovers, doing so can sometimes require a radical change of mindset.

**Disclosure effectiveness** is an increasingly hot topic as companies look to transform their reports from mere compliance exercises into more useful communication tools. In November 2015, research by EY and the Financial Executives Research Foundation (FERF) showed that 74% of US companies are taking action to improve their financial reporting as they start to question the clarity and usefulness of compliance-driven reports. Put simply, the inclusion of too much irrelevant information can lead to overlong documents, while confusion over what is material can lead to relevant information not being disclosed.

The last quarter of 2015 saw a flurry of activity among standard-setters and other bodies, aimed at encouraging better disclosures. In October, the International Accounting Standards Board (IASB) issued an exposure draft on how to apply materiality — a core concept in disclosure effectiveness — to financial statements. Information is defined as material if misstating or omitting it could influence decisions that users make. The IASB’s draft is part of its wider Disclosure Initiative, a range of projects that seek to address both broad and specific issues on disclosure effectiveness.

In the US, the Financial Accounting Standards Board has also issued its own proposal on materiality, while the US Securities and Exchange Commission (SEC) is considering ways to improve the disclosure regime for the benefit of both companies and investors. The European Securities and Markets Authority and other bodies are also working on this issue and examining how it applies in a local context.

**CHECKLIST MENTALITY**

One of the IASB’s projects aims to develop a set of principles for effective disclosure. Another will review disclosures in existing standards. According to the board, many entities currently disclose too much irrelevant information and omit too much that is material, which reduces the relevance, or decision-usefulness, of their statements.

Ensuring that information is material requires both a good understanding of users’ needs and good judgment. Many preparers say they feel ill-equipped to make these judgments, so the IASB aims to provide greater clarity and guidance for them.

Stephen Cooper, an IASB board member, says: “We will issue a final practice statement on materiality as soon as we can – toward the end of 2016 or the beginning of 2017. We are emphasizing good practice rather than making this a requirement. Reading the draft practice statement will educate people on materiality, so they can apply that.”

However, Cooper believes that improving disclosure effectiveness also requires a change in mindset. “Sometimes, the easy way is to treat disclosure requirements as a checklist,” he says. “But to communicate effectively with investors, you have to stand back, think and judge whether a particular item is relevant.

“Some companies have taken this on board, but many others still adopt a checklist mentality. We, at the IASB, also need to look at what we can do when writing the standards. That is why we have started these research projects.”

Steinar Kvifte, a member of EY’s Global IFRS Services group, believes the importance of this change in mindset will continue to increase. “In the first years of IFRS, compliance took up most of companies’ resources,” he says. “But IFRS has now become more ‘bread and butter’ and users’ attention has shifted to asking for more consistent and transparent messages in financial statements. This has therefore become a priority for regulators, standard-setters and preparers. “This demand will continue to increase as more companies revisit their financial reporting strategies – including areas such as integration between the financial statements and other financial communications, and greater use of technology. Materiality will play a greater role, and alternative
“To communicate effectively with investors, you have to stand back, think and judge whether a particular item is relevant.”

Stephen Cooper, IASB

Case study: General Electric

General Electric (GE), based in Connecticut in the US, made some comprehensive improvements to its financial reports in 2015. It started by combining the 10-K (a comprehensive summary report of performance that US-based companies must submit annually to the SEC) and annual results into one document.

Jan Hauser (pictured above), GE’s Vice President, Controller and Chief Accounting Officer, says: “The compliance document was not engaging and was hard to understand. Combining the two made all those disclosures simpler and more understandable.”

The next stage was to remove a large amount of redundant information and make it more concise. “For example, we had been describing the business in similar ways in different sections for different reporting requirements,” says Hauser. “Now we tell the story just once and bring it all together more cohesively.”

Despite this, the initiative did not reduce the overall number of pages in the report. “This was also about enhancing information,” Hauser explains. “We added more white space and more relevant items. Investors viewed that favorably because it gave greater insight into the business drivers.”

GE’s report is also now more forward-looking in the way it explains the alignment of its portfolio. “If you focus only on past performance, you don’t get the texture of that vision,” says Hauser.

GE also brought the most important parts forward into one introductory page, with more detail provided in the management discussion and analysis section for those who require it.

Hauser says the key to improving effectiveness is to start with senior management. “The CEO, CFO and the Compliance department all have to be 100% behind it. For us, it was important that the project envisioned a big enough swing to make a difference. If we had done it in small increments, it would have been harder to achieve meaningful change.”

Although the project initially took up more resources than in previous years, Hauser says it now takes GE no longer to compile the reports than it did before. “Rather, it is a switch in focus toward the front of the document and what it should say,” she says. “But it has also been a lot of fun and has made our reporting team much more engaged in this work, because it feels more relevant.”
Danish energy company DONG Energy has made a number of improvements to its annual report recently, as Jeppe Hoff Nielsen (pictured), Senior Director and Head of Corporate Reporting and Planning, explains. “First, we decided that our annual report should focus on equity investors, then bond investors, and then the broader stakeholder group,” he says. “Then we decided to focus [the content] on the market situation, business model, strategy, performance and risk. That made the structure clearer.”

He continues: “Then the report describes our business model, including an overview of the group’s activities and how we create value. We also changed the way we present our strategic targets by integrating the follow-up on both financial and non-financial targets in each business unit. We will provide further details on each business unit so that readers can understand our businesses better.”

DONG Energy also reduced the number of pages in the report from 200 to 130. “We took out a lot of material that had been there for compliance reasons but didn’t add value,” Nielsen explains. “We cut clutter by moving accounting policies, estimates and judgments into the relevant notes. Our aim was to drive out anything from the financial statements and management review that didn’t add to users’ understanding of our results.”

Bellon says disclosure effectiveness is about moving from a legalistic perspective to one that facilitates business objectives: “You have to fight against the tendency to tick boxes because [many] reports today are supervised by legal people who are not concerned about the outcome or the use by shareholders.

“Companies that demonstrate best practice in this area put themselves in the investor’s shoes,” he continues. “For example, they view their performance reporting – on areas like operating profit, cash flow, capital and risk – through the investor’s eyes and structure it accordingly. It makes more sense. It looks simple. But it is not the way many companies have traditionally done it.”

De Greling adds that there has been a positive reaction to the idea of simplifying standards, but formats tailored to the company’s business model will become common. This means the financial reporting process will become more complex, but the usefulness of reports will improve.”

THE USERS’ PERSPECTIVE

Jean-Baptiste Bellon is Chairman of the Société Française des Analystes Financiers (SFAF) and Jacques de Greling is Co-Chairman of its Accounting Commission, which represents users’ views on accounting standards and practices. They welcome the general moves by companies and standard-setters to improve disclosure effectiveness and highlight a recent initiative by the Autorité des Marches Financiers (the French stock market regulator) aimed at improving its guidelines in this area.
INFORMATION: DISCLOSURE EFFECTIVENESS

Ensuring the right tone and support are coming from the top
Regularly reviewing disclosure documents for effectiveness
Designing executive summaries in a way that drives quality and the rest of the document
Finding ways to avoid repetition

Kvifte stresses that the way companies approach the disclosure effectiveness challenge will differ according to their circumstances. Indeed, tailoring is crucial to ensuring effectiveness.

“This is not ‘one size fits all’ and generally cannot be replicated between companies – it is about context,” he says. “Tailoring the disclosures requires relevant management involvement and sound judgment.”

Echoing Bellon, he concludes with a piece of advice that is also a challenge: “You need to think like the user – which is not an easy task for management.”

warns that it will not be easy to tackle the issues of disclosure overload and improved materiality.

“Standard-setters might be tempted to simplify some standards, or the way they are applied, but that will take time,” he says. “Also, the definition of materiality is good, but it is difficult to implement, because making that judgment could involve more risk. Moreover, the importance of that information at one moment may be very different at another time.”

FIRST STEPS
So what practical steps can companies take to improve the effectiveness of their disclosures? Respondents to the EY-FERF report made a number of suggestions for those companies that are just getting started, including:

- Holding meetings with key constituents
- Leveraging disclosure committees
- Putting disclosure effectiveness on the audit committee agenda

Case study: CSL

In 2015, global pharmaceutical company CSL overhauled the content of its financial statements to make them more effective.

John Levy (pictured), Vice President, Corporate Finance, who is based in Melbourne, says: “The last time we changed our financial statements was on the introduction of IFRS in Australia in 2004. We just added notes in what was a compliance-driven process. But disclosure overload became a problem, so we have tried to address that.”

CSL’s management team proposed a radical new format in September 2014. Together with a large internal stakeholder group, the team went through the previous year’s financials, considering whether each disclosure was material.

“We also reordered and decided to omit a separate nine-page statement of accounting policies,” Levy adds. “Instead, we relocated accounting policies next to the relevant numbers, so that users could go to a single point. We also cut nine notes and reordered the remainder so that the user can read six notes at the beginning and get a flavor of our financial drivers. If they want more detail, this is provided later on.”

The company reworked seven pages of financial instrument disclosures into a single-page summary of risks and mitigations and three pages of discussion. It also changed the layout from portrait to landscape to give more flexibility in presentation. It replaced some “tortuous” tables with narrative disclosures, but it also introduced more graphical presentation of certain information. “For example, a chart tells the story of our debt maturity disclosure much better,” says Levy. “We will go further with that this year.”

These changes, together with the use of a proofreader, reduced the full financial statements from 67 pages to 52, creating a substantial saving on print costs. This gave CSL space to add some more relevant material, including information about its different inventory classes.

Levy says that, as the business changes, the challenge each year will be to include everything that is material. “Understanding materiality requires a holistic view of the organization and those things that enable stakeholders to form a view about financial performance, risk and the way we make key accounting judgments,” he explains. “Those judgments were previously buried in the end of Note 1. Now they are in prominent boxouts.”

He adds that the form and content of financial statements will be more fluid because of these changes. That increases complexity for preparers and could make preparation time longer.

However, investors have given positive feedback. “The Australian Shareholders’ Association acknowledged our efforts and I talk to many other companies who want to go down the same path,” Levy concludes.
Ramesh Swaminathan of India-based multinational pharmaceutical company Lupin shares five key lessons for CFOs.

Ramesh Swaminathan joined Lupin Limited in July 2007. As the CFO of this US$2.06b global pharmaceutical company, he has ensured that Lupin delivers sustained growth in an increasingly unpredictable and volatile business environment. Over the past five years, Lupin has delivered compounded annual growth of 21.4% in sales and 28.7% in profits, intensified its research efforts, grown through acquisitions and improved operational efficiencies. Swaminathan's career has also included senior roles at Henkel (in Germany and India), VST Industries, SPIC and Standard Chartered Bank.

1. **Connect the dots**
   The external world is changing at a rapid pace: it’s volatile, uncertain and complex. While the traditional functions of a CFO remain, such as financial control, compliance and upholding governance norms, there is an added responsibility for value creation.

   Within the organization, the CFO is the person who is best connected with both the external and the internal world. CFOs get to meet investors, consultants, people in all departments within the company, suppliers and promoters. They have the right company insights and understand the external environment. In short, the CFO knows the value drivers. They must connect the dots to create value for the organization. Navigating through challenging environments is a given, but creating and delivering value is fast becoming an imperative.

2. **Be committed to quality**
   The pharmaceutical industry is governed by various regulations, and there can be an inspection at any time. Regulatory action can have serious repercussions, hurting the financials as well as the corporate image.

   Remember, the inspectors are just doing their jobs; issues need to be weighty for inspectors to report them for regulatory action. But companies that are cutting corners will have to pay the price, while those that are diligent and proactive in dealing with situations will come out on top. You need to be disciplined, responsible and committed to delivering quality and meeting compliance norms.
Keep up with technology
A company needs to build efficiencies by constantly fine-tuning business processes and its operational framework. Sometimes technology is needed for compliance, but one needs to look beyond that.
Technology is bringing new challenges and opportunities for organizations. You can’t ignore mobility and the digital world, either; it can affect all spheres of business if not harnessed properly.
Technology facilitates operational efficiencies on the shop floor, quicker decision-making and faster time-to-market, but if not adopted properly, it can drag one down affecting the bottom line at the same time.
Therefo, it’s important to adapt to change, stay abreast of technology, balance it with your business roadmap and use it to improve customer experience, be it internally or externally.

Weigh the pros and cons of an acquisition
A CFO is the voice behind a potential acquisition and you need to keep several things in mind.
First, don’t allow yourself to be pressurized by the operating team and the bankers. Second, look at all the risks associated with the acquisition. Third, work with the team to discover value in making the acquisition. Fourth, don’t do anything out of bravado. Fifth, don’t just look at the EBITDA (earnings before interest, taxes, depreciation and amortization) or the P/E [price-earnings] ratio; pick your own matrix, such as cash flows, terminal value and the payback period of the acquisition. Even if you have to pay a little more, look at how the additional payment will translate into value. Sixth, weigh all the pros and cons.
Ultimately, nothing matters more than the company’s bottom line.

Never spring surprises on shareholders
When communicating with the external world, you need to qualify conditions that are affecting the company, be it regulatory challenges, competition or rising debt. You should put these challenges across in a palatable manner, and in the right tone, so they don’t make investors jittery. Keep them informed, at the right time, and let them know the measures the company is taking to overcome these challenges. These measures should be well thought-out; there shouldn’t be any knee-jerk reactions.
The European Union (EU) audit legislation that comes into force on 17 June 2016 will have a significant impact on audit committees in Europe and beyond. Ken Arthur explains the potential challenges that lie ahead and how audit committees can prepare for them.

The EU audit legislation that comes into effect on 17 June 2016 will usher in far-reaching changes for public interest entities (PIEs) in the EU. PIEs are broadly defined in the legislation as “companies that are governed by the law of a Member State and that have shares or securities admitted to trading on a regulated market in the EU.” Significantly, all credit institutions and insurance undertakings are also defined as PIEs, whether they are listed or not.

Several key provisions of the legislation will greatly affect the audit committees of these companies. Yet many audit committees may not be aware of the challenges that lie ahead. Under the law, EU competent authorities must, among other things:

- Evaluate PIE audit committee performance as part of audit market monitoring reports that they are required to publish every three years
- Establish a sanctions regime that is applicable to individual PIE audit committee members, other directors and the PIEs themselves (as well as their external auditors) in the event of non-compliance with the law

Meanwhile, audit committees of PIEs must:

- Rotate audit firms in accordance with local laws
- Meet specific requirements for monitoring auditor independence, including preapproving expenditure on permissible non-audit services (preapproving expenditure could be difficult where a large entity has subsidiaries in multiple jurisdictions, because different Member States will apply different prohibitions with regard to non-audit services)

While much of what has been legislated is already best practice in many EU Member States, there are some provisions where the framework will require audit committees to make substantial changes to how they currently operate.

CHANGES AFFECTING AUDIT COMMITTEES

1. Performance monitoring

For the first time, the legislation requires the European Competition Network and the audit oversight authorities in each Member State to prepare an audit market monitoring report on a three-year basis. The report will focus on topics including concentration levels in the PIE audit market, audit quality and the performance of audit committees, with the first report due to be published in June 2016 and the second in June 2019.

At this stage, it isn't clear how the performance of an audit committee will be assessed, but the way in which it conducts the audit tendering process will almost certainly form a major part of the assessment. Regardless of the jurisdiction in which they are based, audit committees will have to be able to “demonstrate, upon request ... that the selection procedure was conducted in a fair manner.”

It is also possible that the review may include the audit committee’s role in the assessment of auditor independence, monitoring the provision of non-audit services and supporting overall audit quality. It could also include a judgment on whether the audit committee is sufficiently independent and comprises individuals who provide the right breadth of sector and accounting or auditing skills.
2. Tendering activity
The new legislation will require a PIE either to rotate its auditor or put the audit out to tender after a maximum 10-year period. For example, they can require a PIE to rotate its auditors after a period of less than 10 years. Alternatively, they can choose to let a PIE keep its current auditor for a further period of up to 10 additional years, providing the PIE puts the audit out for tender at the end of the first 10-year period. In any event, the total duration of an audit mandate (i.e., before and after a tender) must not exceed 20 years, except in the case of a joint audit, where a maximum duration of 24 years applies.

The audit committee is responsible for conducting a tender consistent with certain legal requirements, and needs to follow a fair and transparent process when selecting a new auditor. Furthermore, it must be able to demonstrate that the organization of the tender process contains non-discriminatory selection criteria and has not precluded the participation of smaller audit firms (e.g., those outside the Big Four).

Following the tender, the audit committee must recommend the names of at least two potential auditors to the board. One will be the preferred choice. The names and preference will then be presented to the shareholders, and if the recommendation of the audit committee is rejected, the board will need to explain why.

3. Monitoring the independence of statutory auditors
Auditors of PIEs will be subject to a maximum cap on non-audit fees equal to 70% of audit fees, based on a three-year rolling average. Auditors are prohibited from providing a wide range of non-audit services to their audit clients, including accounts...
An initial priority for an audit committee will be to ascertain to what extent there are PIEs anywhere in the group structure. If any PIEs are identified, their audit committee should prepare for the new legislation by following the steps below:

- The applicable rotation and tendering requirements for the PIE’s audit should be determined, both in terms of length and timing. These will differ according to jurisdiction and the length of the existing audit relationship.
- Relationships beyond the company’s current auditor should be managed. Audit committees of PIEs need to examine whether audit firms other than the current auditor provide non-audit services to other group companies, determine the nature of any such services, and ascertain whether those firms would be considered sufficiently independent if they were to tender for the audit in the future.
- The audit committee should obtain regular updates from its auditor on its independence.
- The audit committee should decide how to provide proof that it has carried out the audit tendering process in a fair, transparent and non-discriminatory manner.
- The composition of the audit committee should be reviewed to ensure that it complies with the new legislation. Is it sufficiently independent, and is it composed of individuals who provide the right breadth of sector and accounting or auditing skills?

How audit committees can prepare

An initial priority for an audit committee will be to ascertain to what extent there are PIEs anywhere in the group structure. If any PIEs are identified, their audit committee should prepare for the new legislation by following the steps below:

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- The audit committee should obtain regular updates from its auditor on its independence.
- The audit committee should decide how to provide proof that it has carried out the audit tendering process in a fair, transparent and non-discriminatory manner.
- The composition of the audit committee should be reviewed to ensure that it complies with the new legislation. Is it sufficiently independent, and is it composed of individuals who provide the right breadth of sector and accounting or auditing skills?

“The overall impact is to enable the audit committee to remain on top of things.”

Petri Hofsté, Kas Bank and Bank Nederlandse Gemeenten

preparation, active corporate finance, and legal and payroll services. Tax and valuation services are now generally prohibited, although Member States may permit them in certain circumstances.

Since audit committees will have to preapprove expenditure on permissible non-audit services, they will need to understand the structure of their group and the different audit arrangements that are in place. They will also need to know which services the PIE requires and which professional services firms will be eligible to provide them.

Moreover, if an audit firm from another network (i.e., a network other than the one performing the group audit) is appointed to audit an entity within the group, the audit committee of the PIE will have to consider carefully whether that entity is, itself, a PIE or if it has parents or subsidiaries in the EU that are PIEs. If so, and to the extent that the incoming auditor has been providing non-audit services elsewhere in the group, those arrangements may need to be terminated.

Where there are multiple PIEs in a group, that requirement can become increasingly complex to monitor, particularly since PIEs in different jurisdictions may have to rotate their auditors at different times.

For example, if a London-based bank has a small subsidiary in Italy that awards its audit to a particular firm, the prohibitions on which services can be provided by that firm apply to the Italian subsidiary as well as to that subsidiary’s own subsidiaries and its parent companies within the EU. They also apply to the audit firm’s entire network globally. If the firm had been providing non-audit services to the bank in London, it would no longer be considered independent once it won the Italian audit, and would have to stop providing those non-audit services.

However, although the prohibitions apply to the global audit network, they generally don’t apply outside the EU, with one exception. More precisely, the EU audit legislation does not prevent a US firm within a network from providing non-audit services to a US parent company, even if it has a PIE subsidiary in the EU. However, if the US entity was a subsidiary of an EU PIE, while most non-audit services are permissible subject to a “threats and safeguards” assessment, some services are explicitly banned (e.g., bookkeeping services and the preparation of accounting records and financial statements). To that extent, the EU legislation does have an extra-territorial effect.

4. Composition of the audit committee

Under the new framework, the majority of audit committee members must now be independent, and one member must be competent in accounting or auditing. The legislation also states that “committee members as a whole shall have competence relevant to the sector in which the audited entity is operating.”

5. Auditors’ report to the audit committee

The law requires the auditor to submit an additional, more detailed, report to the audit committee on the results of the statutory audit. Member States may impose additional requirements for such reports,
including requiring the audit committee to pass it on to the board, along with an explanation of how the audit of the financial statements contributed to the integrity of the PIE’s financial reporting and the audit committee’s role during the process.

6. Audit committees outside the EU
Audit committees of companies based outside the EU, but that have EU PIEs somewhere in their group structure, will also be affected by the legislation. For example, any PIEs in the EU will have to abide by the new auditor rotation requirements, and the independence of their auditors will still need to be monitored. The audit committee of a non-EU parent would not, however, be subject to sanctions on individual audit committee members enforced by the EU supervisory authorities.

This is an edited version of an article first published by the EY Center for Board Matters: to read more, go to ey.com/boardmatters.

The Dutch experience

Petri Hofsté, a member of the Supervisory Board of Kas Bank and Bank Nederlandse Gemeenten, describes her experiences of mandatory audit rotation in the Netherlands.

Given my financial services background, I've had a long history of considering mandatory audit rotation. The Netherlands actually pre-empted the EU legislation, with an eight-year audit firm rotation period and restricted non-audit services.

As a member of Bank Nederlandse Gemeenten’s audit committee, I’ve seen big changes resulting from audit rotation. It’s not just the obligation to consider another audit firm; there’s also much more involvement prior to that in setting the requirements and parameters about who is appointed.

It can feel like an excessive workload at times, as it requires a lot of risk management advice, given all the regulations created by the European Central Bank. The audit committee agenda is now more dominated by regulations and all the reporting around that, which sometimes makes it a challenge to ensure a sufficient balance between the consideration of the performance of the business versus reviewing regulatory reports.

Dutch legislation is more restrictive than EU legislation, and no one is happy that there’s a distinction between the two. But as an audit committee chair, I recognize that we are where we are. Now that the dust is settling, we have a window to work with the current auditors to find an optimum situation. Shifting from one audit partner to another and from one firm to another provides new insights and a different perspective on reporting. For an audit committee, there is a lot to gain from that experience. The overall impact is to keep audit firms sharper and enable the audit committee to remain on top of things.

There are a number of takeaways from the Dutch experience. Above all, make sure you’re well prepared and ensure you have regular evaluations in private sessions. In that sense, you will get annual feedback on quality. That’s valuable.

When changing auditors, preparation is also crucial in the sense of what processes to go into and what the requirements actually are. It’s critical that the audit committee takes the time to set out its own requirements. Finally, having annual discussions is important, not just on the reporting side, but in audit planning and ensuring everyone is happy with the scope.
Are you prepared for corporate reporting’s perfect storm?, a recent survey of 1,000 CFOs and heads of reporting from around the world carried out by EY’s Financial Accounting Advisory Services (FAAS) practice, reveals that the demands, scrutiny and expectations facing finance and corporate reporting continue to increase.

Audit committees and supervisory boards are demanding much more of corporate reporting as they seek the financial insight they need. “Corporate reporting needs to be all things to all people — relevant, timely and cost-effective.” comments Peter Wollmert, Global FAAS Leader, EY. “It will only serve its intended purpose if the CFO is confident of its value.”

Complexity and demand continue to rise
Organizations face a reporting environment that is both complex and highly demanding. Organizational complexity continues to rise, with 48% of respondents having to comply with more than 10 reporting standards and 32% of companies having 16 or more reporting systems. Demand for reporting information is also increasing: 63% of organizations are seeing an increase in the number of reporting standards and 71% say there has been an increase in the number of reports issued. Finance leaders are concerned that these two trends pose significant challenges to the effectiveness of corporate reporting.

An increasingly dynamic and demanding environment
Q: In the past three years, what change has there been to the following aspects of your business?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Significant increase</th>
<th>Increase</th>
<th>No change</th>
<th>Decrease</th>
<th>Significant decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of legal entities or business units</td>
<td>17%</td>
<td>38%</td>
<td>34%</td>
<td>9%</td>
<td>2%</td>
</tr>
<tr>
<td>Number of jurisdictions in which you operate</td>
<td>9%</td>
<td>32%</td>
<td>42%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>Number of products or services sold</td>
<td>14%</td>
<td>42%</td>
<td>26%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Number of reporting standards</td>
<td>19%</td>
<td>44%</td>
<td>25%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Change in time taken for monthly, quarterly and annual reporting</td>
<td>14%</td>
<td>35%</td>
<td>29%</td>
<td>16%</td>
<td>6%</td>
</tr>
<tr>
<td>Internal resources assigned for reporting purposes</td>
<td>16%</td>
<td>36%</td>
<td>25%</td>
<td>17%</td>
<td>6%</td>
</tr>
<tr>
<td>Number of reports issued</td>
<td>25%</td>
<td>46%</td>
<td>19%</td>
<td>8%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Increasing audit committee and board scrutiny
Organizations need to build strong and trusted relationships with audit committees and boards, understanding their needs and prioritizing focused, high-quality insight over quantity of information. A strong relationship between the finance function and the board creates more confidence in the data and leads to further requests for insightful information and value-added input.

84% of respondents say that audit committees and boards have increased their attention overall on reporting.

34% say they have a “good” relationship with the audit committee, but only 20% characterize it as “excellent” and 16% say it is “poor.”
Question marks over reporting confidence and effectiveness
A range of factors is affecting confidence and belief in the effectiveness of reporting. As well as increasing complexity, growing demand is a significant issue, with finance leaders concerned that there is a widening gap between the reports that regulators demand and those that other stakeholders, such as investors, require. At the same time, there is pressure on resources, with the finance function being asked to do more with the same number of people.

The importance of advanced technologies, data analytics and a new skill set
Advanced technologies and sophisticated analytics offer an exciting opportunity to make reporting faster, more efficient, more accurate and better connected. However, organizations face significant challenges in delivering the promise of this next-generation reporting, including an urgent need to integrate disconnected IT infrastructure and fix poor-quality data. It is thus no surprise that 82% of respondents expect to increase their investment in reporting technologies over the next two years, or that IT and data top the list of strategic priorities for reporting.

Technology and data are strategic priorities for reporting
Q: Which of the following do you consider to be your key priorities from a reporting perspective?

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade existing IT infrastructure</td>
<td>30%</td>
</tr>
<tr>
<td>Harness big data and analytics to enable better reporting</td>
<td>28%</td>
</tr>
<tr>
<td>Integrate reporting with the value drivers and strategy of the business</td>
<td>28%</td>
</tr>
<tr>
<td>Put the right finance function organizational structure in place</td>
<td>28%</td>
</tr>
<tr>
<td>Build a more collaborative relationship with the audit committee and board</td>
<td>27%</td>
</tr>
<tr>
<td>Design changes to corporate governance to meet demands for greater transparency</td>
<td>26%</td>
</tr>
<tr>
<td>Ensure that compliance and control keep pace with changing national and international laws</td>
<td>25%</td>
</tr>
<tr>
<td>Deal with new regulatory reporting developments</td>
<td>25%</td>
</tr>
<tr>
<td>Transform the talent base and skills profile of the finance function</td>
<td>22%</td>
</tr>
<tr>
<td>Integrate nonfinancial information into reporting</td>
<td>21%</td>
</tr>
<tr>
<td>Align reporting with the enterprise risk management framework</td>
<td>19%</td>
</tr>
</tbody>
</table>

Finance functions must also build the skills required to derive and communicate data-driven insight, from hard IT skills to the softer relationship management skills that are necessary to build credible relationships with the audit committee and other boards. “Audit committees are under the spotlight,” says Wollmert, “so CFOs need to turn data into insight for them. This means having the right strategy, processes and skills in place in the finance function.”

Delivering strategic insight
The report concludes that three areas are essential to delivering the strategic insight today’s stakeholders demand:
- Trusted relationships
- Innovative technology
- Talent and skills development
With decisive action across these three essential areas, corporate reporting can weather the storm of complexity and demand, and secure its future as a driver of enterprise value creation.

For a copy of Are you prepared for corporate reporting’s perfect storm?, please go to ey.com/corporatereportingstorm.
The deal-maker

In her 10 years as CFO of pharmaceutical giant Perrigo, Judy Brown has overseen 27 M&A deals, and helped grow the company by a factor of 25. Kirsetin Morello talks to her about the key stages in her career and the ways in which the role of the CFO has evolved over the years.

The biggest hurdle of Judy Brown's career wasn't stepping into the role of CFO for Perrigo Company, one of the world's largest pharmaceutical manufacturers, at the age of 38 in July 2006. Nor was it defeating a hostile takeover attempt in 2015.

No, Brown faced the biggest challenge of her career as a young auditor at EY, when she was transferred to an assignment in Germany, where she knew no one, didn't speak the language, and had just six weeks to prepare before starting to work with German clients.

“That was the page-turner in my career. It was the deep end of a cold, dark pool, because it was swim or drown,” she recalls. “It was a great moment for me personally, because I learned that I can do this. There will be days when I feel foolish, but everyone has days when they feel foolish. I learned that it's not the end of the world.”

That tenacious spirit has paid dividends for Brown, who has presided over 27 M&A transactions during her 10-year tenure as CFO of Perrigo, helping to grow the company from a US$1b, mostly domestic, business into the approximately US$25b global enterprise it is today.

VALUABLE LESSONS

After spending nine and a half years living and working in Germany and Italy for EY and Whirlpool, Brown returned to the US. Shortly thereafter, a call from a recruiter piqued her interest in Perrigo, which is based in Michigan. “When I met the folks here, I fell in love with the people and the promise of quality, affordable health care,” she says.

The incumbent CFO, Douglas R. Schrank, was considering retirement in a few years and put together a three-year development plan for Brown. "He said: ‘You need to learn each of these bullet points each quarter, and hopefully the board will feel comfortable that you can succeed me in three years,’” Brown recalls. “Eighteen months later, he retired and I took the job.”

While her role as CFO of Perrigo includes the classic finance tasks, Brown has also taken on responsibility for government affairs, corporate communications, community affairs, media relations and corporate development, particularly M&A.

Her previous jobs at EY and home appliance manufacturer Whirlpool helped to prepare her for this diverse portfolio in several ways. “Working at EY, I learned to be very fast and flexible, servicing multiple clients at one time,” she explains. “I learned about things like financial reporting, processes, internal audits, internal controls, general controls, IT systems and tax – things that are absolutely foundational and critical to any CFO job.”

But, because her role encompasses much more than fundamental finance, she believes her move to Global Product Development at Whirlpool was instrumental in helping her become a shrewder CFO.

“I made a conscious choice to leave finance for a period of time, with the belief that having operational experience would be important to viewing the world through the lens of the customer and the consumer sales and marketing teams,” she recalls. Understanding how companies do business and make money broadened her outlook. “Now, when I’m sitting in a meeting talking about long-term investments, I have a different perspective.”

Brown also benefited from the fact that, in this particular role, she had only a few direct reports, but had to influence hundreds of people and decisions. It taught her the importance of influence and how indispensable good communication skills are. “In a finance job, you don’t get to own P&L, so influencing skills and the ability to bring a team together for a common purpose are critical,” she says.

A CHANGING ROLE

Brown has seen her job evolve significantly over the past 10 years. “The CFO role is dramatically different to how it was on 1 July 2006, because the company
INSPIRATION: JUDY BROWN

JUDY BROWN: CV IN BRIEF

- Earns a BS in Accountancy from the University of Illinois at Urbana-Champaign in 1990 and joins EY in Chicago as an auditor.
- Passes CPA exam in 1991.
- Moves to Stuttgart in Germany with EY in 1993, and then to Frankfurt in 1996.
- Receives an MBA from the University of Chicago in 1998.
- Moves to Whirlpool Europe in Comerio, Italy in 1998 as Director, Financial Planning and Analysis.
- Becomes Vice President and Corporate Controller for Perrigo Company in Allegan, Michigan in 2004.
- Promoted to Executive Vice President and CFO of Perrigo in 2006.
- In 2008, becomes a member of the Board of Directors for Belden Inc. Also serves on the Audit and Finance Committees.
- Successfully persuades Perrigo shareholders to reject a hostile takeover bid by Mylan in 2015.
Brown spent most of the seven months from the date of Mylan’s initial offer through to the November deadline traveling around the globe for multiple board meetings and discussing the Mylan deal with institutional investors in the US, Europe and Israel. It was important to her to connect with the investors, answer their questions and discuss the deal in person. “Shareholders want to look you in the eye,” she says.

As they discussed the particulars of the deal, Brown never wavered in her resolve. “Early on, it was clear that I needed to be as dispassionate as possible about it,” she explains. “My role was to speak to shareholders about the numbers. It’s not about whether you like the people or the company. My job was to evaluate the deal on its merits.” She told shareholders the analysis was very straightforward and the bid was too low. During the entire process, her message remained the same: the board rejects the offer.

“Throughout the seven months, there were many disparate voices. All shareholders’ voices are important,” she says. “We had to listen and make a call: were we going to do something just
dramatically different to how it was on that day,” she says. While she still focuses on the core tenets of being a CFO, the scale and breadth of what she does has magnified. Perrigo’s business has diversified, its portfolio has broadened and it currently operates in 35 countries – up from just 4 in 2006. Throughout these changes, Brown has been highly involved in myriad aspects of the company beyond finance.

“My universe must also be very externally focused,” she explains. “Because I have an amazing team, they can manage the day-to-day aspects.”

With one of the world’s largest pharmaceutical operating supply chain platforms, Perrigo procures, develops, manufactures and distributes huge numbers of pharmaceuticals. Part of Brown’s role is determining how best to leverage that asset. She says: “My favorite part of the job is thinking about where we’re going, what’s changing on the horizon, how shareholders are viewing Perrigo, our industry and our sector, how consumers are viewing our product portfolio, and where we might invest to further our competencies.”

In a particularly strategic move in 2013, Brown championed the relocation of Perrigo’s headquarters and tax home to Dublin in Ireland when it bought Élan Corporation for US$8.6b. The move saves Perrigo about US$150m a year in operating costs and taxes. Brown points out that the move was good for Perrigo’s portfolio and allowed it to be more competitive with its peer group. “Our footprint in West Michigan is as robust as ever, but this gave us a platform to do more M&A and have a much broader European base,” she explains.

In addition to Élan, Brown says that, in particular, the acquisitions of Israel’s Agis Industries in 2005 and Belgium-based health products provider Omega Pharma in 2015 were transformational for the company. “We were entering into generics when we bought Agis, which gave us a footprint in Israel,” she explains, “while the Omega deal moved a significant amount of our revenues to Europe, further diversifying us as a global company.”

But she adds that the right fit is vital, and the deals you don’t do are equally significant: “Saying no is sometimes as important as saying yes.”

**FIGHTING BACK**

One deal Perrigo said “no” to loud and clear was a hostile takeover attempt by Mylan, a global generics and specialty pharmaceutical company. The initial bid was made on 8 April 2015, and over the next six months Mylan twice changed it before launching its unsolicited tender offer for Perrigo shares on 14 September, with a final deadline of 13 November.

Brown spent most of the seven months from the date of Mylan’s initial offer through to the November deadline traveling around the globe for multiple board meetings and discussing the Mylan deal with institutional investors in the US, Europe and Israel. It was important to her to connect with the investors, answer their questions and discuss the deal in person. “Shareholders want to look you in the eye,” she says.

As they discussed the particulars of the deal, Brown never wavered in her resolve. “Early on, it was clear that I needed to be as dispassionate as possible about it,” she explains. “My role was to speak to shareholders about the numbers. It’s not about whether you like the people or the company. My job was to evaluate the deal on its merits.” She told shareholders the analysis was very straightforward and the bid was too low. During the entire process, her message remained the same: the board rejects the offer.

“Throughout the seven months, there were many disparate voices. All shareholders’ voices are important,” she says. “We had to listen and make a call: were we going to do something just
inspiration: judy brown

planning and analysis, but isn't involved much in strategy — be warned: shareholders demand a level of sophistication in talking about where the company should be going,” she says. “The CFO should be actively involved in the boardroom and with investors. A deep understanding of the drivers of shareholder value creation and the motivations of widely disparate styles of investors is critical information to keep in front of the board and management at all times. This focus, which can be led from the CFO chair, raises the game for everyone.”

As for her own future, she's not eyeing a different position as long as she's still growing and learning. “I'm not obsessed with titles, I'm obsessed with learning something new every day,” she says. “I've been here for 10 years and every single quarter is a new adventure. As long as I'm being challenged and challenging myself, I'm happy.”

Brown describes the process as a marathon, but one filled with lots of wind sprints. Her advice for CFOs facing similar takeover attempts is that keeping a clear head is critical. “Stick to the overarching principles that brought you to this chair,” she says. “Band together with your management team and board, and ask yourself every day what the shareholder wants to see. Period. The only thing you can stand by is this: is this what the shareholders want? Is this the right thing for the shareholder?”

S t r a t e g i c F u t u r e
Brown believes that CFOs need to be ready for much more involvement in strategy and in shareholder value creation in the future. “I say to the CFO who is mostly doing treasury, tax and financial planning and analysis, but isn't involved much in strategy — be warned: shareholders demand a level of sophistication in talking about where the company should be going,” she says. “The CFO should be actively involved in the boardroom and with investors. A deep understanding of the drivers of shareholder value creation and the motivations of widely disparate styles of investors is critical information to keep in front of the board and management at all times. This focus, which can be led from the CFO chair, raises the game for everyone.”

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She is also thrilled that her role as CFO includes contributing to corporate strategy. “I love that part of the job,” she says. “To take the business to the next level? I can't think of anything more fun to do. That's the best part.”
SIMPLIFY THE STANDARDS
My primary wish would be to have accounting standards simplified so that financial reports can be more easily understood. I sometimes suspect that people enjoy coming up with complicated new standards for the sake of it. There are quite a few things I would strip out – too many to name – but if I had to choose one, it would be the statement of comprehensive income. Why not stick with the good old profit and loss accounts?

Starting from the 2016 financial year, a long-form auditors’ report will be required in Hong Kong for all listed companies. While a long-form report can be helpful, in that it gives more flavor and all relevant issues encountered by the auditors are disclosed to the public, it can be a case of information overload. There is also the very real risk that auditors faced with new requirements will just include everything – which is definitely information overload.

Additionally, people can draw the wrong conclusions from disclosures, finding faults in issues that management has already resolved.

SAFER WITH SASAC
The Chinese economy is not a communist economy; it is, as they say, a market economy with Chinese characteristics. Just a few decades ago, it was still a planned economy in which all the benchmarks were volume – the number of machines, the output of widgets. Now there is a totally different emphasis, which is on profits.

That said, it is true that every state-owned enterprise still has to align its strategy with the agenda of the country in some ways, which means that it may not operate on a 100% commercial basis.

State-owned companies are all subject to supervision by SASAC (the State-owned Assets Supervision and
Patrick Sun holds a number of INED positions, at companies including the China Railway Signal & Communication Corporation Ltd., the world’s largest provider of rail transportation controls systems. He is also an INED of two Hong Kong and Shanghai dual-listed companies — China Railway Rolling Stock Corporation Ltd. (the world’s largest train builder) and China Railway Construction Corporation Ltd. — and three other Hong Kong-listed companies. He is on the audit committee of all these companies and an audit chair of some of them. He is a past chairman of the Chamber of Hong Kong Listed Companies and, previously, was Senior Country Officer and Head of Investment Banking in Hong Kong for JP Morgan, and Group Executive Director and Co-head of Investment Banking at Jardine Fleming Holdings.

GREATER ACCOUNTABILITY
However, there is an issue with the extent of SASAC’s influence over the operations of state-owned enterprises, in that it diminishes the accountability of the management to the board. Also, if senior appointments are made by SASAC and the salaries of senior management are under SASAC’s influence, the role of the nominations and remunerations committees will be diminished.

In a sense, the strategy of the company is not that of the managers — although they bear the responsibility. Their incentives for taking the job are kudos and challenge and, yes, all the senior managers of state-owned enterprises are likely to be Communist Party members. What’s interesting is that senior company managers and independent directors are required to write an annual “what I did last year” report. Sometimes this is done at the individual level, while some write collectively.

TOUGHER ON THE MAINLAND
Regulators require all listed companies on the mainland Chinese stock exchanges to hire external auditors to examine their internal controls systems annually. They also have to report quarterly. These requirements do not exist in Hong Kong, but, since many state-owned enterprises are dual-listed in Hong Kong and Shanghai, they have to comply with them.

These are examples of how the rules governing listed companies on the mainland are more stringent than those for companies listed in Hong Kong, and I believe this situation needs to be reviewed.

INEDS ARE NEEDED
The corporate governance mentality of private companies in China is still relatively weak and they have less respect for independent non-executive directors (INEDs) than state-owned companies do. I would like to see private enterprises in China place more value on INEDs and recognize that investors do value good corporate governance.

You might, of course, ask whether the INEDs at state-owned companies are purely decorative. My experience is that they are quite vocal. If nothing else, there is a direct line from INEDs to SASAC, so it could be dangerous for the managers to not respect the INEDs’ views.

I have been on the board of four large state-owned companies and, in each case, I knew no one there beforehand. I was brought in by SASAC, which appraises me annually. In private enterprises it can be different, more a case of “who you know.”

For a person who is semi-retired or retired, with a relevant background, being an INED allows them to give something back, to contribute their experience and knowledge and to keep abreast of developments. It’s not about money. If you have the chance to work as an INED across different industries, you can learn a lot.

Profile
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Government has taken steps to maintain this growth and encourage foreign investment. Under President Enrique Peña Nieto, who took office in December 2012, a series of structural reforms affecting the energy, education, telecoms, labor, financial and political sectors have been introduced. The private sector now enjoys greater access to credit, the labor market has been deregulated, and greater competition has been introduced to the telecoms and energy sectors, which are now open to foreign players. These changes are not temporary, reversible measures. The President deftly corralled cross-party support for his reform program, ensuring their durability — even if there is still much to do.

"The reforms are going to give us the leverage to grow more strongly, and the main issue in Mexico is growth," explains Rafael Gómez Nava, Dean of IPADE Business School (Instituto Panamericano de Alta Dirección de Empresa). "In the past, we didn't grow to our full potential, and that's why these reforms are so important."

**KEY GROWTH ENGINE**

The country’s economy held up relatively well in 2015, despite a sharp downturn in oil prices that eroded revenues. According to Oxford Economics, inflation is at a record low, real wages are rising

Mexico has perfected the act of confounding its critics in recent times. Go back 10 years, and the Latin American economy receiving all the hype was Brazil, the continent’s largest country and seemingly at the vanguard of the BRIC economies. More recently, Brazil has lost some of its shine, and it is the relatively unsung Mexico that has been busy burnishing its credentials as the region’s more viable economic powerhouse.

That reputation rests primarily on its perceived attractiveness as a location for foreign direct investment (FDI), as the country establishes itself as a crucial link in broader global supply chains. Compared with recession-hit Brazil and devaluation-challenged Argentina, Mexico enjoys considerable economic and political stability. It boasts characteristics that are normally the preserve of advanced economies: a sizeable domestic market, a substantial value-added manufacturing sector and powerful companies that are active across the world.

This should not necessarily come as a surprise. After all, Mexico is the 11th most populous country in the world, the 14th-biggest by land area and the 12th-largest economy — and Goldman Sachs has predicted that, by 2050, it will be the 5th-largest.

It has certainly seen impressive economic growth in the 21st century so far, and its current

**Mexican wave**

Mexico has emerged as an economic powerhouse on the back of government reforms and an increased openness to foreign investment. While there are still significant risks, the overall outlook for investors is positive, as James Gavin explains.
When I was growing up, Mexico was a closed system, and that meant people were not willing to put capital into the economy. But Mexico's economy is evolving into a very open one, where we now do business with every part of the world and have free-trade agreements with them. This process began in the early 1990s, when the foreign investment laws were reformed to allow for 100% foreign ownership in some sectors. More recently, President Enrique Peña Nieto has led a much-needed reform program. One of the key elements of this is a focus on accountability and performance in education, where the Government is getting a lot of pushback from education-sector unions. Another key change is in the energy sector. In the past couple of months, international oil companies have been able to acquire stakes in oil fields and are signing contracts with the Government.

The major positive factor is that reform is embedding itself. Take the stock exchange: it's getting easier by the day for emerging companies to raise capital on the Bolsa (the Mexican stock exchange). And that means more accountability and more transparency. Corporate governance improvements are becoming increasingly evident. Mexico is evolving toward a model of reporting that you see in the more advanced countries, with the likes of América Móvil (a global telecoms services provider) and Grupo Bimbo taking the lead, showing how audit and compensation committees can help businesses operate. Companies are changing the way they operate, and that is a very promising situation.

Of course, there are some negatives to doing business in Mexico. Inconsistencies in the application of law are one challenge and the over-reliance on the US market is another. And too often, family-owned companies are still unwilling to relinquish control, or unwilling to accept the recommendations of their audit committees. But I see a bright future for Mexico.
Ford, the GMs, the VWs, the GEs — have been around for many years. What has changed is that the domestic market has grown over time, and this means that there is a bigger consumer market in the country and local purchasing power is greater. Mexico has increased its participation in the value-added part of the chain so that it is no longer just assembling products, but also designing technology and, increasingly, incorporating local manufacturers into the supply chains of global companies. All this has happened in the post-NAFTA period.

Particular opportunities recently created are in the energy sector, where the monopoly enjoyed by state oil company Pemex has ended and private investment is being encouraged. The energy changes ushered in last year were a milestone in highlighting the receptiveness to reform of a key sector. IPADE Business School has outlined energy as the top growth driver, alongside the food and beverage, automotive and real estate sectors.

**SIGNIFICANT RISKS**

However, there are still significant risks that companies considering investing in Mexico should take note of, including a high crime rate and a high

Gómez Nava says: “Mexico has huge growth potential, not just from its enormous population, but from its proximity to the US and its gateway from Latin America through the NAFTA agreement [a free-trade pact with North America signed in the early 1990s]. But lasting growth will need more and deeper reforms, and these are not going to be easy.”

**INCREASED OPENNESS**

In recent years, Mexico has rapidly expanded its connections to the global trading system, via a network of 12 free-trade agreements linking it to 44 countries that affirm the increased openness of the Mexican economy. That openness has done no harm to the country’s credentials as a key FDI location, helping it to establish a firm foothold in global manufacturing supply chains.

The figures bear out Mexico’s success at pulling in investment dollars. In 2014, it attracted 366 greenfield investment projects totaling an estimated US$33b – more than Brazil, according to fDi Markets, a Financial Times data service.

The automotive sector’s success is a case in point. In 2011, Mexico became the eighth-largest producer of new vehicles and the fourth-largest exporter of vehicles in the world. Other thriving economic sectors include petrochemicals, cement production and construction, textiles, and food and beverages.

Investors have made a beeline for Mexico in large part because it has made a name for itself as a good place to do business. “In fact, it’s been a good place to do business for many years,” says Olaf Carrera, VP of Government and Public Affairs for BP Mexico. “Some of the big multinational corporations – the Ford, the GMs, the VWs, the GEs – have been around for many years. What has changed is that the domestic market has grown over time, and this means that there is a bigger consumer market in the country and local purchasing power is greater.”

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**SIGNIFICANT RISKS**

However, there are still significant risks that companies considering investing in Mexico should take note of, including a high crime rate and a high
level of economic dependence on the US. The rule of law is not a strong point, and the application of law is sometimes inconsistent.

“There will always be challenges, certainly when it comes to bureaucracy and red tape, both at the federal level and sometimes at the state level, depending on where you decide to set up operations,” says Carrera, who points out that some state governments have historically been more attuned to the needs of investors, willing to offer incentives to foreign companies to set up shop in their states.

“That’s where Mexico differs in regional terms,” he continues. “In the northern areas around the US border or near the larger consumer or manufacturing centers such as Monterrey and Guadalajara, it’s much easier to do business because you have greater access to the market and infrastructure that is much better than in other parts of Mexico.”

Financial reporting and corporate governance challenges also figure prominently. “Since many Mexican companies are family-owned, we’re helping them improve by having a more institutionalized way of running the business,” says Gómez Nava.

“It’s getting better, and that is helped by globally active Mexican companies like Grupo Bimbo [a large multinational bakery group] which are doing a great job in terms of corporate management.”

These companies have taken the lead in setting up audit and compensation committees. They act in the same way as successful companies in developed markets. “What’s interesting is that you now see large private companies willing to do the same as public ones, regardless of the fact that they may be 100% owned by a family,” says Francisco Álvarez del Campo, Regional Managing Partner, EY Mexico and Central America. “They are opening their boards to independent directors and establishing audit committees in order to become more professional.”

**COMBATING CORRUPTION**

There are further steps the Government needs to take to ensure the business environment becomes more attractive for foreign investors. Dealing firmly with corruption is one such step. Carrera says: “Companies of all sizes are prone to acts of corruption, such as requesting facilitation payments. But many foreign companies, for example, simply will not accede to those types of payment, as they are governed by stringent laws in their countries of origin.”

In BP’s case, its global anti-bribery clauses apply to its contracts with suppliers in Mexico. “If a company is strict in adhering to the law and making sure its employees, suppliers and clients do so too, the risks are diminished,” says Carrera.

Mexico’s strong location, sizeable domestic market and a raft of reform measures have all helped the country become the most robust economy in Latin America, ensuring it can ride out the low oil prices.

“The country’s prospects are good,” says Gómez Nava. “Many Latin American countries are looking to the Mexican model as one to follow. However, we need to be patient. The changes will take a while to embed themselves. You can’t change a country like Mexico over the short term.”

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INVESTMENTS IN BIOTECH AND MEDICAL RESEARCH COMPANIES CAN BE HIGH RISK, GIVEN THE LONG TIME SPANS AND COMPLEX PROCESSES INVOLVED IN DEVELOPING NEW DRUGS. LINDEN THOMSON, WHO MANAGES THE AXA Framlington Biotech Fund, TELLS TIM COOPER ABOUT THE KEY TYPES OF INFORMATION SHE BASES HER INVESTMENT DECISIONS ON.

Investors in the biotechnology sector tend not to be in it for short-term gain. With such technologies, there is often a long time span from research and development to launch, never mind actually making a profit, and they thus represent a high-stakes investment.

Linden Thomson has managed the AXA Framlington Biotech fund since 2012. It invests in companies in the biotechnology, genomics and medical research industries worldwide, and Thomson says that, when it comes to assessing smaller companies especially, financial disclosures tend to be less important, as the majority are initially loss-making. “This means their capital expenditure or revenue growth is not that material to the investment opportunity,” she explains.

Instead, her investment decisions in this part of the market are driven by news flow and M&As, as well as her views on whether a particular drug will get through to the next phase of development, for example.

In large caps, however (companies with a market capitalization of over US$10b), a company’s financial statements and forecasting are more important, and Thomson spends more time looking at areas such as potential returns, growth profiles and financial expectations for drug launches.

CLINICAL DATA
When analyzing large and small companies alike, the nonfinancial information that comes with a financial report is crucial, says Thomson. One key thing she looks out for in reports is clinical data, and she finds Form S-1 – the filing used in the US by companies that are planning an initial
public offering – particularly helpful. “Many such reports include a summary of everything you need to know about the drug, and you can dig deeper from there,” she says.

Corporate reports – particularly those originating in the US – are often crucial to her decision-making process. “US companies’ filings are so much more useful to investors, as they are required to disclose much more information,” she explains. “Documents such as the 10-Q quarterly reports or Form S-1 are much more comprehensive than those you get in Europe.

“Risk disclosures can run to four or five pages, and cover everything from clinical trial risks to disclosing that the regulator may have put pipeline drugs on clinical hold. Plus, there is more company-specific information, such as details of payments they make to shareholders that don’t appear on the profit and loss statement. They are required to disclose information that would not necessarily be highlighted during company meetings or presentations.” US reports also disclose detailed information about patents, she adds, which is crucial

**Patents and pricing**

Thomson says pricing – and therefore valuation – of companies in the biotechnology sector should be a relatively straightforward process.

“You know when patents start and finish. You know the competitive landscape. You know how many patients suffer from the particular illness. So you can come up with a penetration and the price. You can come up with what you think the scenario will be on a one-, two- and three-year basis.

“However,” she adds, “it is a very sentiment-driven market, which is what makes it challenging.”

For example, in September 2015, US presidential candidate Hillary Clinton made a speech promising to curb “price gouging” in the drugs market – the practice of sellers raising the price of goods to a level much higher than is considered reasonable or fair. In the aftermath, the iShares Nasdaq Biotechnology ETF fell by 5% in a single day – precisely the type of sentiment-driven investor behavior Thomson is referring to.

**PROFILE**

Linden Thomson joined AXA Investment Managers in 2011 as sector specialist on health care equity and has managed the AXA Framlington Biotech fund since 2012. She previously worked for Clear River Capital, where she was responsible for fundamental stock research across the global pharmaceutical and biotechnology sectors. Prior to that, Thomson worked for Goldman Sachs on the sell side, focusing on the biotechnology sector. She has a degree in medical microbiology from Edinburgh University and is a chartered financial analyst.
Thomson emphasizes that this isn’t the reason she invests more in the US than elsewhere – it’s simply that there are more biotech opportunities there – but it does make her research much easier. In contrast, reports from European companies are not as detailed and too high-level, making them less useful, and she tends to read them less as a result.

INFLECTION POINTS
Thomson also looks at whether the management team’s compensation is aligned with investors – for example, whether it is based on short- or long-term measures, and how robust those measures are.

“We have a longer-term horizon here, though the short term is important too. Many of these companies have clearly defined value inflection points that we need to understand – that is, whether those time points create or destroy value for investors.

“I look at the products, model the opportunities and then do scenario analysis. One of the good things about this sector is that this modeling enables you to forecast long-term investment opportunities with some confidence.”

Ultimately, she says, biotech is a sector where it pays to look behind the headlines. “To find successful companies, you have to be asking questions about all of these things all of the time and not just accepting what you are told,” she concludes.

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Press release pressure
Thomson says press releases are a key form of communication in the world of biotechnology – a world where news about clinical trial results, for example, tends to drive share prices. But companies do not always give sufficient information in press releases or structure them appropriately, she explains.

“I don’t give companies feedback about their annual reports, but I do spend some time discussing with them generically how data will be presented, including in press releases. In biotech, setting and meeting expectations – and therefore how you communicate with investors through press releases – is hugely important. Another pressure for companies is that they have to be careful not to present the majority of the primary information in a press release rather than at a prestigious medical meeting.

“But we still need them to be as honest and open as they can be without jeopardizing that. For example, it is frustrating when a clinical trial has failed and a company doesn’t mention this in the title of the release, or only does so toward the end.”

US companies’ filings are so much more useful to investors, as they are required to disclose more information.”
...and more

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(Random House, January 2016)
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The Industries of the Future
by Alec Ross
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As Hillary Clinton’s Senior Advisor for Innovation, Alec Ross traveled to 41 countries, and here he distils his observations on the forces that are changing the world. He highlights the best opportunities for progress, explains how countries thrive or falter and examines the fields that will shape our economic future over the next 10 years, including robotics, artificial intelligence, the commercialization of genomics, cyber crime and the impact of digital technology.

Small Data: The Tiny Clues that Uncover Huge Trends
by Martin Lindstrom
(John Murray Learning, March 2016)
In an era where many believe that big data has made human perception and observation outdated, Lindstrom shows that mining and matching technological data with psychological insight can create the ultimate snapshot of who we really are and what we really want. Small Data combines armchair travel with forensic psychology to get radically close to the consumer and come up with the counter-intuitive insights that have, in some cases, helped to transform entire industries.

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Reporting is published on behalf of EY by:
Wardour
Drury House
34-43 Russell Street
London WC2B 5HA
United Kingdom
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