Best-Practice EVA

Financial intelligence for measuring, managing and maximizing value
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Why EVA?

- Financial analysis can be a great aid to strategic planning
  - What is the state of profitability and value creation in our business markets?
  - What are the key financial drivers, and relative strengths, of our financial performance?
  - How are we really doing by line of business?
  - Which of alternative business strategies will produce the most value, and why?

- How can we orchestrate a planning process that systematically develops better plans? And what makes a plan better and more valuable?

- How can we accurately value acquisitions and look beyond accounting EPS?

- How can we make sure we are aiming to exceed market expectations?

- How can we put early-warning sensors on the ground?

- How can we best communicate the valuation essence of our plans – to our people, our board, and investors?

- And, how can we empower all our people to be informed, financially-literate, value creators and charged up owner-entrepreneurs?”

- The new Best-Practice EVA model is the answer!
Hustle as Strategy
by Amar Bhide

Strategy, its high-church theologians insist, is about outflanking competitors with big plays that yield long-term “rents” from a sustainable advantage. It is questionable whether this proposition is itself sustainable. Strategy involves a lot more and also a lot less.

The competitive scriptures almost systematically ignore the importance of hustle and energy. While they preach strategic planning, competitive strategy, and competitive advantage, they overlook the record of a surprisingly large number of very successful companies that vigorously practice a different religion. These companies don’t have long-term strategic plans with an obsessive preoccupation on rivalry. They concentrate on operating details and doing things well. Hustle is their style and their strategy. They move fast, and they get it right.

Are executives in these companies living in the managerial dark ages? Wouldn’t they do even better if they linked their hustle to big, powerful strategic plans? I believe the answer is “no.”

Opportunities to gain lasting advantage through blockbuster strategic moves are rare in any business. What mostly counts are vigor and nimbleness. These traits are always needed and always important, yet strategic planning theologians largely ignore them. Countless companies in all industries, young or old, mature or booming, are already learning the limits of strategy and concentrating on tactics and execution. In a world where there are no secrets, where innovations are quickly imitated or become obsolete, the theory of competitive advantage may have had its day. Realistically, ask yourself, if all your competitors gave their strategic plans to each other, would it really make a difference?

No basis in fact or logic

There was just one snag. What was the intellectual basis of this now vast enterprise of locating sustainable competitive advantage? As Stewart notes, it was “lacking any foundation in fact or logic.” Except where generated by government regulation, sustainable competitive advantage simply doesn’t exist.

Porter might have pursued sustainable business models. Or he might have pursued ways to achieve above-average profits. But sustainable above-average profits that can be deduced from the structure of the sector? Here we are in the realm of unicorns and phlogiston. Ironically, like the search for the Holy Grail, the fact that the goal is so mysterious and elusive ironically drove executives onward to continue the quest.

Hype, spin, impenetrable prose and abstruse mathematics, along with talk of “rigorous analysis”, “tough-minded decisions” and “hard choices” all combined to hide the fact that there was no evidence that sustainable competitive advantage could be created in advance by studying the structure of an industry.

Although Porter’s conceptual framework could help explain excess profits in retrospect, it was almost useless in predicting them in prospect. As Stewart points out, “The strategists’ theories are 100 percent accurate in hindsight. Yet, when casting their theories into the future, the strategists as a group perform abysmally. Although Porter himself wisely avoids forecasting, those who wish to avail themselves of his framework do not have the luxury of doing so. The point is not that the strategists lack clairvoyance; it’s that their theories aren’t really theories— they are ‘just-so’ stories whose only real contribution is to make sense of the past, not to predict the future.”
The path to financial truth

Hustle is the Strategy? Then, EVA is a Catalyst!

The goal of strategy is to avoid competition?

How did all this happen? Porter began his publishing career in his March-April 1979 Harvard Business Review article, “How Competitive Forces Shape Strategy”, with a very strange sentence: “The essence of strategy is coping with competition.” Ignoring Peter Drucker’s foundational insight of 1973 that the only valid purpose of a business is to create a customer, Porter focused strategy on how to protect businesses from other business rivals. The goal of strategy, business and business education was to find a safe haven for businesses from the destructive forces of competition.

The “profit potential of an industry” turned out to be, not a fixed quantity with the only question of determining who would get which share, but rather a highly elastic concept, expanding dramatically at one moment or collapsing abruptly at another, with competitors and innovations coming out of nowhere. As Clayton Christensen demonstrated in industry after industry, disruptive innovation destroyed company after company that believed in its own sustainable competitive advantage.

Is Industry Destiny”
Does Structure drive Strategy?

The only safe place

The business reality of today is that the only safe place against the raging innovation is to join it. Instead of seeing business—and strategy and business education—as a matter of figuring out how to defeat one’s known rivals and protect oneself against competition through structural barriers, if a business is to survive, it must aim to add value to customers through continuous innovation and finding new ways of delighting its customers. Experimentation and innovation become an integral part of everything the organization does.

Or, Is it Experimentation, Innovation, in Customer Satisfaction, in Production, in Organization, that Matters?

If so, then EVA is extra valuable!

> It is not only the most efficient, reliable and informative financial analysis technique.
> It is also a way to spread financial literacy and empower initiative.

Firms like Apple [AAPL], Amazon [AMZN], Salesforce [CRM], Costco [COST], Whole Foods [WFM] and Zara [BMAD:ITX] are examples of prominent firms pursuing this approach. They have shifted the concept of the bottom line and the very purpose of the firm so that the whole organization focuses on delivering steadily more value to customers through innovation. Thus experimentation and innovation become an integral part of everything the company does. Companies with this mental model have shown a consistent ability to innovate and to disrupt their own businesses with innovation.

Thus what is striking about continuous innovation is that the approach is not only more innovative: it tends to make more money. The latter point is important to keep in mind. For all the hype about innovation, unless it ends up making more money for the firm, ultimately it isn’t likely to flourish. Making money isn’t the goal, but the result has to be there for sustainability.
What is Best-Practice EVA?

- **EVA is economic profit**, net of full cost of capital charge on balance sheet assets. It puts a premium on asset management, discounts to the NPV of cash flow (and thus, to share price), and guides all the right decisions – in any business.

- **Best-Practice EVA** makes EVA simpler to understand and more wide ranging in applications with a **comprehensive ratio framework**

- At the summit is a key **summary statistic**:
  - It’s called EVA Momentum – it’s the change in EVA/Trailing Sales
  - It the one measure to maximize – it defines the “financial goal”
  - It summarizes overall profit performance in one score
  - It focuses on change, on performance at the margin; it’s the news in the data
  - It’s a spanning metric, applicable to ALL lines of business and circumstances
  - It is the one statistic to accurately grade performance with peers
  - It grades the quality and value of business plans – in one statistic
  - The Momentum growth investors expect is baked into stock prices (“MIM”)

- **Plus, a step-wise dissection of key drivers**:
  - EVA Margin – or EVA/Sales – plays the key role in this
  - It demystifies EVA and makes it more understandable
  - It connects EVA to familiar operating drivers, and all on same scale – percent of sales
  - It provides practical tools managers can use to actively improve the value of their plans, projects, acquisitions and decisions

- The new Best-Practice EVA framework is coded into a set of **software** tools from EVA Dimensions that make testing and implementing easy and affordable

- It is also supported by a **global data file** of EVA statistics and drivers covering 9000 companies that is updated daily

- An **equity research service** – launched 2012 and based on **BP-EVA** – is now serving 150 PMs and analysts at 8 of top 10 largest active US fund managers.
Best-Practice EVA Cheat Sheet

EVA Margin (EVA/Sales) = 4%  
EVA Margin = EVA/Sales = 4%  
ΔEVA Margin = 4% - 3% = 1%

ΔEVA = $50 - $30 = +$20  
ΔEVA/Prior Sales = +$20/$1,000 = 2%

Sales Growth x EVA Margin = (25% x 4%) = 1%

Sales
- Operating Costs (incl depreciation, taxes) = $1100
  NOPAT (net operating profit after taxes) = $150
- Capital Costs (CoC% x $Capital) = $50

ΔEVA = $50 - $30 = +$20

1. Cut Costs → raise NOPAT without raising capital
2. Manage Assets → purge assets/activities not covering cost of capital, none under capital
3. Grow Profitably → invest in all growth > cost of capital, none under capital

ΔEVA Margin = “Productivity Gains”
ΔEVA Margin = 4% - 3% = 1%

Sales Growth x EVA Margin = “Profitable Growth”
Sales Growth x EVA Margin = (25% x 4%) = 1%

The Present Value of EVA = NPV = Franchise Value
Use EVA instead of DCF to measure and improve the value of plans, projects, acquisitions, decisions
EVA Momentum Defines Coca-Cola’s 2020 Plan Vision

Our 2020 Vision Is Directly Linked To Our Winning Metrics

**Economic Profit Growth**
Target 10%+ CAGR

Sales Growth x EVA Margin
PROFITABLE GROWTH
~70% of EP Growth

ΔEVA Margin
PRODUCTIVITY & REINVESTMENT
~30% of EP Growth

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Volume Growth
~40% of EP Growth

Share Gains
~10% of EP Growth

Revenue Realization
~20% of EP Growth

P&L Leverage
~15% of EP Growth

Capital Efficiency
~15% of EP Growth

Greater Than Industry

Greater Than Industry

1% to 2% Price/Mix

Cost Growth Below Revenue Growth

Productivity; Working Capital

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After Apple, Google, Amazon, Coke is it.
Fact: The market usually marks up the value of companies that increase R&D spending.

R&D is really an investment, not a period cost.

Share price does not equal EPS x P/E!
EVA Reverses Accounting Distortions

1. Discharge Surplus Cash – focus on the business
2. Treat Leased Assets as Owned – quality of asset management matters, neutralize own or rent decisions to real economic choice
3. Amortize R&D, Ad Spend, with interest – manage strategically
4. Restructurings are Investments, Not Charges – Fail Fast, Fail Well
5. Reverse Impairment Charges – non-event, no effect on increasing EVA
6. Capitalize Disposal Losses (Gains) – sell even losers for value gains
7. Smooth Income Tax (and reduce tax by COC on net deferred tax liability) – remove tax distortions, minimize tax, postpone tax
8. Repair Retirement Accounting Distortions (use service cost in place of reported cost, deduct Cost of Capital on unfunded liability from EVA)
9. Non-Controllable Interests Reduce Earnings and Capital
10. Remove Hedge Gains from Capital – no penalty for successful hedge
11. Bring changes in reserves (e.g., bad debt, LIFO reserve) into earnings – manage the business, not the bookkeeping
EVA is not just a measure
Increasing EVA is actually the “Real Key to Creating Wealth”
It’s a tool to accurately simulate the value of alternative strategies and decisions
It’s a tool to empower line teams to innovate and add value

BEST-PRACTICE EVA
THE “CLINCHER” EVA Always Discounts to NPV of Cash Flow

MVA = Market Value Added = Market Value – Capital
MVA = Total Shareholder Wealth = “Franchise Value” = Sum of all NPVs, past and planned
MVA = present value of future “free” cash flow (FCF) ---- “Classic DCF”
MVA = present value of future EVA!

Praxair’s EVA powers its MVA:

The change in MVA is best explained by change in EVA over time – better than any other measure
EVA is the “real key to creating wealth” as Fortune put it
Monitor MVA and MVA ratios as the key indicators of wealth creation, franchise value, and corporate aggregate NPV
Project, analyze and discount EVA to measure and improve NPV of plans, projects, acquisitions and decisions
An EVA/MVA Example for Autozone

EVA is the Key to Creating Wealth

Autozone is a leading auto parts distributor. The top graph below plots the cumulative amount of capital that has been invested in its business assets (including leased assets, but net of excess cash), as the blue bar and the market’s valuation of the capital, as derived from the firm’s share price, as the much taller gray bar. The spread between them is Autozone’s MVA, and it is plotted as the bar on the bottom chart. As of the end of 2012, it ran at about $15 billion, up from about $3 billion at year end since 1997.

The bottom chart overlays the firm’s EVA each year against the year-end MVA. In principle, MVA should equal the present value of forecast EVA. However, because investors’ expectations are largely shaped by a firm’s actual performance record, there is often a close association between EVA and MVA, as is certainly evident for Autozone.

A generally rising EVA profit has been responsible for firing up an increasing MVA premium over time, and the fluctuations in EVA and MVA around that trend have been tightly tied. EVA has indeed been the key to creating wealth for Autozone, as the theory predicts.

MVA = Market Value Added
MVA = Market Value – Capital
MVA = Owners’ Wealth
MVA = “Franchise Value”
MVA = Corporate NPV

MVA = PV of EVA
MVA = PV of Cash Flow

Increasing MVA is the Mission
Increasing EVA is the Method

Check it out, at our website, for 9,000 global equities

www.evaDimensions.com/EVAvsMVA

Charts for 9,000 public companies are available at http://www.evadimensions.com/EVAvsMVA
EVA is Actually the Real Key to Creating Wealth

Universe is S&P500, ex biotech, real estate, and oil and gas (value in ground, on ground, or in pipeline businesses) – leaving 413 firms over 2006 to 2012.

Regressions are all against MVA Momentum, which is the change in MVA from 2006 to 2012, divided by 2006 sales. It measures the growth in owner wealth and corporate NPV, which drives TSR.

EVA Momentum is the (2012 EVA – 2006 EVA)/2006 Sales. It measures the growth rate in economic profit, scaled to sales.

Net Income and EBITDA Momentum are computed same way, as the six year cumulative change over initial sales.

Return on capital (ROC) is NOPAT/Capital; Delta ROC is the 2012 ROC – 2006 ROC.

FCF is Free Cash Flow. It is true operating cash flow (before any interest costs) net of all investment spending on business assets; FCF Generation is (cumulative FCF from 2007 to 2012)/2006 Sales.

- Generating “free cash flow” net of investment spending does not matter. The market does not want cash, it wants growth in EVA.
- Earning a high return on capital or improving it is NO guarantee of stock market success, because growth and scale matter, too.
- Sales growth is a very poor measure of the growth that counts – it can be manufactured by bulking up on operating costs and capital.
- EBITDA growth is not half as good as EVA – it is blind to earning a return on capital, replacing wasting assets, paying taxes, to goodwill investments, pension status, and a lot more – it is truly earnings before many things that count.
- Net Income growth is better – it factors in depreciation, taxes and borrowed money interest expense as legitimate business costs that EBITDA just blindly ignores. But it does not set aside the full cost of capital, and is riddled with accounting distortions that EVA repairs.
- Taking a big step further, the clear winner is EVA Momentum – driving growth in real economic profit. It’s the performance ratio that tells the whole performance story – registering improvements in total business productivity and profitable growth while also purging accounting flaws.
Volkswagen Discloses its EVA Framework on-line


The profits from product lines as a whole determine the value of the group.

Volkswagen projects, analyzes and discounts EVA to measure and maximize the NPV of plans, projects, acquisitions and decisions. It’s the best-practice decision tool. Use it instead of discounted cash flow!
Now, let’s put the EVA Margin under the Microscope

It’s the replacement for ROI and the DuPont ROI analysis

It’s the EVA Momentum Up-shifter!

BEST-PRACTICE EVA
EBITDAR = EBITDA + rent + R&D + Ad Spend + …
It’s a better, purer, measure of cash operating profit

Working Capital Margin Charge = (Pre-Tax COC% x $Working Capital)/Sales
= (Working Capital Days on Hand/365) x Pre-tax COC%
EVA Margin Applications

- A teaching tool – demystify the balance sheet, all drivers on same scale
- Replace ROI with margin x sales model – capital is a cost, not a divisor
- EVA Margin is a statistic to quantify business model productivity
- Neutralize differences in capital intensity – e.g. Intel vs Wal-Mart
- Tradeoff decisions – e.g. sourcing decisions where capital changes
- Tier it – measure Margin at stages, e.g. EVA before tax, for various users
- A strategic diagnostic tool – examine profitability trends over long history
- View and improve operational drivers of business plan
- Format to review actual versus budget, by quarter
- Embellish with other metrics, milestones, for true “scorecards”
- Peer benchmarking – isolate strengths and weaknesses
- A special present value version is used for judging and improving capital investment projects
  \[ NPV = PV \text{ of EVA}; \ NPV = (PV \text{ EVA/PV Sales}) \times PV \text{ of Sales} \]
Let’s put it all into action with Coca-Cola

Start with a sell-side consensus estimate

Next, develop two alternative plans – for Productivity Gains and Profitable Growth

Then plot the EVA Momentum against the MVA and stock price of the plans

It’s a straight line!

EVA Momentum is indeed a perfect proxy for the quality and value of forward plans

BEST-PRACTICE EVA
### Consensus Forecast Model

#### COCA-COLA CO - KPI

<table>
<thead>
<tr>
<th></th>
<th>2012TFQ2</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>47,509,000</td>
<td></td>
</tr>
<tr>
<td><strong>Sales Growth Rate</strong></td>
<td>12.6%</td>
<td>13.3%</td>
</tr>
<tr>
<td><strong>EBITDA Margin</strong></td>
<td>34.2%</td>
<td>38.2%</td>
</tr>
<tr>
<td><strong>COGS Adjusted % of Sales</strong></td>
<td>35.7%</td>
<td>32.8%</td>
</tr>
<tr>
<td><strong>SG&amp;A Adjusted % of Sales</strong></td>
<td>30.2%</td>
<td>29.1%</td>
</tr>
<tr>
<td><strong>Working Capital Charge</strong></td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>Working Capital DOH</strong></td>
<td>12.3%</td>
<td>12.1%</td>
</tr>
<tr>
<td><strong>PP&amp;E Charge</strong></td>
<td>6.2%</td>
<td>6.4%</td>
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#### Gross Property, Plant and Equipment

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<thead>
<tr>
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<th>2012TFQ2</th>
<th>Summary</th>
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<tbody>
<tr>
<td><strong>Capital Expenditures</strong></td>
<td>3,036,000</td>
<td>2,256,600</td>
</tr>
<tr>
<td><strong>+ Increase in P&amp;V of Rents</strong></td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>+ Aca-Sales-Impairments-Retirements+/FX</strong></td>
<td>-2,046,000</td>
<td>-255,200</td>
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<tr>
<td><strong>Depreciation Rate</strong></td>
<td>7.6%</td>
<td>7.9%</td>
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#### Reduction of Accum Depreciation

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<tr>
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<th>2012TFQ2</th>
<th>Summary</th>
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<tbody>
<tr>
<td>1. % of Trailing Gross PP&amp;E (Adjusted)</td>
<td>4.5%</td>
<td>4.4%</td>
</tr>
<tr>
<td>2. % Retired/Reduced</td>
<td>1,023,901</td>
<td>741,505</td>
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<tr>
<td><strong>Gross PP&amp;E (Adjusted)</strong></td>
<td>23,917,000</td>
<td>18,652,800</td>
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#### Net PPE (Adjusted)

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<th>Summary</th>
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<tr>
<td><strong>Net PPE (Adjusted)</strong></td>
<td>15,174,000</td>
<td>11,330,600</td>
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<tr>
<td><strong>Pv of Rents</strong></td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td><strong>PP&amp;E Life Remaining %</strong></td>
<td>64%</td>
<td>60%</td>
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<tr>
<td><strong>PV Rents - % of Gross PP&amp;E Adjusted</strong></td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td><strong>EVA from Operations Margin</strong></td>
<td>27.7%</td>
<td>31.4%</td>
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#### Intangible Capital

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<tr>
<td><strong>1. Finite Life Intangibles Gross Per $1 of Sales</strong></td>
<td>0.33</td>
<td>0.29</td>
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<tr>
<td><strong>2. Definite Life Gross</strong></td>
<td>-63,000</td>
<td>1,622,200</td>
</tr>
<tr>
<td><strong>Amortization Rate % of Finite Life Intangibles Gross</strong></td>
<td>1.1%</td>
<td>0.8%</td>
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<tr>
<td><strong>Retirement/Reduction of Accum Amort</strong></td>
<td>180,039</td>
<td>-109,305</td>
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#### Ad&Promo

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<th>Summary</th>
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<tr>
<td><strong>1. Ad&amp;Promo Expense % of Sales</strong></td>
<td>6.5%</td>
<td>8.1%</td>
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<tr>
<td><strong>2. Ad&amp;Promo Expense</strong></td>
<td>3,273,289</td>
<td>2,866,966</td>
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#### Tax

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<tr>
<td><strong>NIOPBT Adjustments % of Sales</strong></td>
<td>0.6%</td>
<td>0.4%</td>
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<tr>
<td><strong>Standard - Actual Tax Rate</strong></td>
<td>15.4%</td>
<td>15.0%</td>
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#### Other EVA

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<tr>
<th></th>
<th>2012TFQ2</th>
<th>Summary</th>
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<tbody>
<tr>
<td><strong>Other EVA</strong></td>
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### Notes

- **Consensus Forecast Model**
  - Hit $60 B revs, 4-5% growth
  - +1.2% on EBITDA Margin
  - $3-$3.7B cap ex, Gross PPE intensity is up 10%
  - Plant ages slightly
  - Continued spending on purchased intangibles
  - Ad spend runs at 7% of sales
  - Assume tax effective rate 15%<statutory
  - Deferred Tax Liability remains high

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The path to financial truth
The path to financial truth

EVA, EVA Margin, EVA Momentum, and PV of EVA are Key Measures of Plan

<table>
<thead>
<tr>
<th>EVA Summary</th>
<th>2012T2Q2</th>
<th>Summary</th>
<th>2013T2Q2</th>
<th>2014T2Q2</th>
<th>2015T2Q2</th>
<th>2016T2Q2</th>
<th>2017T2Q2</th>
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<td>57,046,609</td>
<td>59,836,742</td>
<td>54,305,514</td>
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<td>EVA</td>
<td>6,004,416</td>
<td>5,940,026</td>
<td>6,576,433</td>
<td>6,908,885</td>
<td>7,105,918</td>
<td>7,721,524</td>
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<td>EVA Margin</td>
<td>55,067</td>
<td>54,404</td>
<td>56,837</td>
<td>59,029</td>
<td>59,432</td>
<td>61,506</td>
<td>55,067</td>
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<tr>
<td>Sales Growth Rate</td>
<td>12.6%</td>
<td>13.3%</td>
<td>13.0%</td>
<td>13.4%</td>
<td>13.9%</td>
<td>13.4%</td>
<td>13.6%</td>
<td></td>
</tr>
<tr>
<td>Prevent vs Food Beverage &amp; Tobacco</td>
<td>34.2%</td>
<td>34.5%</td>
<td>35.2%</td>
<td>35.4%</td>
<td>35.4%</td>
<td>35.3%</td>
<td>35.7%</td>
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<tr>
<td>EVA Margin</td>
<td>13.3%</td>
<td>13.0%</td>
<td>12.2%</td>
<td>12.6%</td>
<td>12.7%</td>
<td>12.8%</td>
<td>13.6%</td>
<td></td>
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<tr>
<td>EVA Profit Margin</td>
<td>13.0%</td>
<td>12.6%</td>
<td>13.1%</td>
<td>13.3%</td>
<td>13.2%</td>
<td>13.3%</td>
<td>13.1%</td>
<td></td>
</tr>
<tr>
<td>PPE Charge</td>
<td>1.3%</td>
<td>1.6%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.7%</td>
<td></td>
</tr>
<tr>
<td>Cost of Capital</td>
<td>4.2%</td>
<td>5.3%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td></td>
</tr>
</tbody>
</table>

**Value Summary**

| Projected Share Price | 41.97 |
| Current Share Price | 38.2 |
| Target Shareholder Return | 9.4% |

**EVA Margin and Momentum Summary**

<table>
<thead>
<tr>
<th>Sales</th>
<th>47,509,000</th>
<th>36,772,100</th>
<th>49,410,643</th>
<th>51,856,173</th>
<th>54,395,488</th>
<th>57,046,609</th>
<th>59,836,742</th>
<th>54,305,514</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Growth Rate</td>
<td>12.6%</td>
<td>13.3%</td>
<td>13.0%</td>
<td>13.4%</td>
<td>13.9%</td>
<td>13.4%</td>
<td>13.6%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Cash Operating Costs</td>
<td>55.8%</td>
<td>61.8%</td>
<td>65.3%</td>
<td>64.6%</td>
<td>64.6%</td>
<td>64.9%</td>
<td>64.8%</td>
<td>64.8%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>34.2%</td>
<td>34.5%</td>
<td>35.2%</td>
<td>35.4%</td>
<td>35.4%</td>
<td>35.3%</td>
<td>35.7%</td>
<td>35.7%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>13.3%</td>
<td>13.0%</td>
<td>12.2%</td>
<td>12.6%</td>
<td>12.7%</td>
<td>12.8%</td>
<td>13.6%</td>
<td>13.6%</td>
</tr>
<tr>
<td>PPE &amp; Intangibles</td>
<td>13.0%</td>
<td>13.1%</td>
<td>12.9%</td>
<td>12.8%</td>
<td>12.4%</td>
<td>12.2%</td>
<td>12.2%</td>
<td>12.3%</td>
</tr>
<tr>
<td>EVA Before Tax</td>
<td>18.4%</td>
<td>20.4%</td>
<td>20.8%</td>
<td>20.5%</td>
<td>20.4%</td>
<td>20.3%</td>
<td>20.3%</td>
<td>20.3%</td>
</tr>
<tr>
<td>EVA Tax / EVA Before Tax</td>
<td>29.3%</td>
<td>29.4%</td>
<td>27.5%</td>
<td>27.4%</td>
<td>27.1%</td>
<td>26.7%</td>
<td>26.4%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Other EVA</td>
<td>-7.9%</td>
<td>0.0%</td>
<td>-0.2%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Goodwill &amp; Intangible Items</td>
<td>1.0%</td>
<td>1.3%</td>
<td>1.1%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>EVA Margin</td>
<td>12.6%</td>
<td>13.0%</td>
<td>12.6%</td>
<td>12.8%</td>
<td>12.9%</td>
<td>12.9%</td>
<td>12.9%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

**Valuation**

**Projected MVA = Total Present Value of CFC**

- Projected CFC and Terminal Value
- Present Value Factor at the Cost of Capital
- Present Value of Projected CFC and Terminal Value
- Cumulative Present Value of CFC
- Less: Capital Most Recent Actual

Projected MVA = Total Present Value of EVA

**Implications:**

1. Stop discounting cash, discount EVA
2. EVA Momentum is perfect proxy for quality and value of forward plan
EVA Momentum Pyramid Reveals all Value-Drivers

### Value Express

#### COCA-COLA CO - KPI

<table>
<thead>
<tr>
<th>Consensus Base Case</th>
<th>5 Yr EVA Momentum</th>
<th>Productivity Gains Case 2</th>
<th>5 Yr EVA Momentum</th>
<th>Productive Growth</th>
<th>Profitable Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Share Price</td>
<td>$48.47</td>
<td>EVA(1)/Sales</td>
<td>15.8% x 25.0%</td>
<td>$47.509</td>
<td>14.3% x 25.0%</td>
</tr>
<tr>
<td>Target Return</td>
<td>10%</td>
<td>EVA(1)/Sales</td>
<td>12.0%</td>
<td>EVA(1)/Sales</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales</th>
<th>2012FIC</th>
<th>2013FIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>$42,509</td>
<td>$59,837</td>
<td></td>
</tr>
</tbody>
</table>

- COGS (Adjusted) | 85.7% | 85.3% |
- SG&A (Adjusted) | 50.2% | 50.8% |
- EBITDA Margin | 34.3% | 29.4% |
- Productive Capital Charges | 15.8% | 17.0% |
- Depreciation Rate | 7.6% | 7.9% |
- Working Capital Charge | 0.2% | 0.3% |
- Working Days | 12.3 | 12.1 |
- PPE Rent Charge | 5.2% | 7.1% |
- Gross PP & E/Sales | 0.49 | 0.55 |
- Rent Ratio | 33.2% | 33.0% |
- Life Remaining | 64% | 61% |
- Intangibles Capital | 9.4% | 9.6% |
- R&D Charge | 0.0% | 0.0% |
- Add/Promo Charge | 5.4% | 7.1% |
- EVA Before Tax | 18.0% | 18.4% |
- Corporate Charges | 5.7% | 5.5% |

KPI

<table>
<thead>
<tr>
<th>KO</th>
<th>5 Yr EVA Momentum</th>
<th>Productivity Gains</th>
<th>Profitable Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Share Price</td>
<td>$49.84</td>
<td>EVA(1)/Sales</td>
<td>14% x 18%</td>
</tr>
<tr>
<td>Target Return</td>
<td>0%</td>
<td>EVA(1)/Sales</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales</th>
<th>2012FIC</th>
<th>2013FIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>$47,509</td>
<td>$50,837</td>
<td></td>
</tr>
</tbody>
</table>

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- Corporate Charges | 5.7% | 5.5% |

### E Pluribus Unum
From Many to the One

### E Unum Pluribus
From One to the Many
EVA Momentum is Best Measure of the Quality and Value of Plans

- More Momentum ➔ More EVA ➔ More NPV and “Franchise Value” ➔ A Higher Share Price – it’s the perfect proxy measure for total business performance and wealth creation

### Applications

1. Work backwards to determine Market-Implied Momentum (“MIM”)
2. Grade and compare the overall quality of plans across lines of business
3. Stimulate line teams to develop more valuable plans – *during the planning process*
4. Use as framework to analyze and improve plan drivers
5. Upload and analyze analyst models, acquisitions, in same way

### Productivity:

Sales same, but increase EBITDAR margin 2%, reduce WC days, cap ex spend tails off at $3B

### Growth:

Plus, step up ad spend from 7% to 8% of sales, add 2% p.a. to sales growth, add another 1% to gross margin
Increasing EVA is the REAL Key to Creating Wealth!

EVA

NPV

Price  TSR

Operate Efficiently  Manage Assets  Grow Profitably

EVA
Most companies and boards think of acquisitions as an “exchange of earnings” – what’s the impact on pro-forma EPS?

A better way is to think of acquisitions as an exchange of value and ask, what’s the impact on our MVA?

The real answer lies in projecting and discounting EVA, including the synergies.

We really can use EVA for everything!

BEST-PRACTICE EVA
## EPS and P/E Reaction to 66 Largest Stock Deals

<table>
<thead>
<tr>
<th>Aquirer</th>
<th>Target</th>
<th>Announcement Date</th>
<th>Deal Value($M)</th>
<th>% EPS Accretion</th>
<th>% PE Expansion</th>
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</thead>
<tbody>
<tr>
<td>AOL</td>
<td>TIME WARNER</td>
<td>10-Jan-00</td>
<td>$186,235.75</td>
<td>131%</td>
<td>-67%</td>
</tr>
<tr>
<td>PFIZER INC</td>
<td>WARNER-LAMBERT CO</td>
<td>4-Nov-99</td>
<td>$87,319.41</td>
<td>-4%</td>
<td>-8%</td>
</tr>
<tr>
<td>EXXON</td>
<td>MOBIL CORP</td>
<td>1-Dec-98</td>
<td>$80,338.03</td>
<td>-17%</td>
<td>22%</td>
</tr>
<tr>
<td>VERIZON COMMUNICATIONS INC</td>
<td>GTE CORP</td>
<td>7-Mar-00</td>
<td>$71,126.72</td>
<td>-4%</td>
<td>4%</td>
</tr>
<tr>
<td>TRAVELERS GROUP INC</td>
<td>CITICORP</td>
<td>6-Apr-98</td>
<td>$69,891.80</td>
<td>-28%</td>
<td>54%</td>
</tr>
<tr>
<td>SBC COMMUNICATIONS INC</td>
<td>AMERITECH CORPORATION/DEL</td>
<td>11-May-99</td>
<td>$68,219.41</td>
<td>46%</td>
<td>-40%</td>
</tr>
<tr>
<td>PFIZER INC</td>
<td>PHARMACIA CORP</td>
<td>15-Jul-02</td>
<td>$64,263.86</td>
<td>-9%</td>
<td>-18%</td>
</tr>
<tr>
<td>NATIONSBANK CORP</td>
<td>BANKAMERICA CORP</td>
<td>4-Oct-98</td>
<td>$57,466.00</td>
<td>-16%</td>
<td>24%</td>
</tr>
<tr>
<td>BANK OF AMERICA CORP</td>
<td>FLEETBOSTON FINANCIAL CORP</td>
<td>10-Jul-00</td>
<td>$43,023.25</td>
<td>20%</td>
<td>-24%</td>
</tr>
<tr>
<td>QWEST COMMUNICATIONS INTL</td>
<td>US WEST INC</td>
<td>14-Jun-98</td>
<td>$43,323.76</td>
<td>10%</td>
<td>26%</td>
</tr>
<tr>
<td>CHEVRON CORP</td>
<td>TEXACO INC</td>
<td>19-Sep-99</td>
<td>$35,493.53</td>
<td>-4%</td>
<td>10%</td>
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<tr>
<td>AT&amp;T CORP</td>
<td>TELE-COMMUNICATIONS-TCORP</td>
<td>16-Oct-00</td>
<td>$29,629.43</td>
<td>-10%</td>
<td>-28%</td>
</tr>
<tr>
<td>JDS UNIPHASE CORP</td>
<td>SDL INC</td>
<td>2-Sep-99</td>
<td>$23,049.38</td>
<td>6%</td>
<td>12%</td>
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<tr>
<td>WORLDCOM INC</td>
<td>MCI COMMUNICATIONS</td>
<td>11-Jan-99</td>
<td>$21,868.00</td>
<td>-7%</td>
<td>-20%</td>
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<tr>
<td>CHASE MANHATTAN CORP</td>
<td>J.P. MORGAN &amp; COMPANY</td>
<td>18-Oct-99</td>
<td>$21,050.24</td>
<td>-22%</td>
<td>27%</td>
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<tr>
<td>NORWEST CORP</td>
<td>WELLS FARGO &amp; CO</td>
<td>4-Oct-99</td>
<td>$21,142.92</td>
<td>-26%</td>
<td>15%</td>
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<tr>
<td>CITGROUP INC</td>
<td>ASSOCIATES FIRST CAPITAL</td>
<td>27-Mar-99</td>
<td>$19,676.86</td>
<td>-6%</td>
<td>0%</td>
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<tr>
<td>BANK ONE CORP</td>
<td>FIRST CHICAGO NBD CORP</td>
<td>26-Dec-99</td>
<td>$19,183.98</td>
<td>-43%</td>
<td>102%</td>
</tr>
<tr>
<td>PHILLIPS PETROLEUM CO</td>
<td>CONOCO INC</td>
<td>9-Feb-99</td>
<td>$18,621.90</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>HEWLETT-PACKARD CO</td>
<td>COMPAQ COMPUTER CORP</td>
<td>26-Feb-99</td>
<td>$16,142.92</td>
<td>22%</td>
<td>-74%</td>
</tr>
<tr>
<td>MONSANTO CO</td>
<td>PHARMACIA &amp; UPJOHN INC</td>
<td>10-Apr-99</td>
<td>$15,282.00</td>
<td>-38%</td>
<td>45%</td>
</tr>
<tr>
<td>AMERICAN INTERNATIONAL GROUP</td>
<td>AMERICAN GENERAL CORP</td>
<td>4-Oct-00</td>
<td>$19,676.86</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>STAR BANC CORP</td>
<td>FIRSTAR CORP</td>
<td>16-Oct-00</td>
<td>$19,183.98</td>
<td>-43%</td>
<td>102%</td>
</tr>
<tr>
<td>LUCENT TECHNOLOGIES INC</td>
<td>ASCEND COMMUNICATIONS INC</td>
<td>17-Nov-03</td>
<td>$16,142.92</td>
<td>22%</td>
<td>-74%</td>
</tr>
</tbody>
</table>

### EPS x (1+1.31) x PE x (1-0.67) = P x (1-0.23)
AOL lost 23% of stock price value in face of 131% EPS accretion

### EPS x (1-0.17) x PE x (1+0.22) = P x (1+0.11)
Exxon gained 1.3% in face of 17% EPS dilution

### EPS x (1-0.28) x PE x (1+0.54) = P x (1+0.11)
Travelers gained 11% value in face of 28% EPS dilution
P/E Multiples Offset 105% of EPS Reaction

Conclusion: The surest way to increase value is to decrease EPS, and to decrease value is to increase EPS
Think of Acquisitions As an Exchange Value, Not Earnings

- In a winning acquisition, the buyer and seller stock price increase, right away.
- Total value received must exceed total value paid $\Rightarrow$ synergy value must exceed premium.
- Buyer’s stock price benefits by the difference, per share.
- Separates operating and financing decisions – it is total value paid, not the form, that counts.
- EPS does not count – the P/E multiple is a plug.
- Structuring depends on taxes, transactions costs, seller preferences, incentives and signals, not EPS.

\[
\text{MVA (Buyer NPV)} = \text{Pre-bid Market Value} - \text{Pre-bid Market Value} = +$2.98 \text{ Share Price Reaction}
\]

- Plan A: Pay $1,739 all stock
- Plan B: Pay $1,000 debt, $739 stock

EVA says no difference, EPS, lots
Best-Practice EVA metrics are now a force in rating stocks and guiding investors

The rating tool is called “PRVit” (“prove-it”); It’s the Performance-Risk-Value investment technology

It predicts stock prices on assumption they are magnetically drawn to their fundamental EVA value

Our research service is now influential at 8 of top 10 largest active fund managers

BEST-PRACTICE EVA
Bloomberg rates “PRVit” the #1 or #2 best predictive on nearly 1,200 equities – which is drawing investor interest

PRVit correctly rated Lubrizol a Buy all along  PRVit Express performance-risk-valuation-investment-technology

Investor
Clients
include:
PRVit Rates KO a Strong HOLD

PRVit is VARP – or can I buy value-at-a-reasonable price?
It is a relative ranking of \((P-R)/V\)

- **P** from earning and increasing EVA
- **R** from variability in stock price and EVA Margin, weak cash flow, and high leverage
- **V** from high price to book (MVA), price to cash flow (EBITDAR), earnings (NOPAT) and EVA (future growth reliance)

It’s a risk adjusted return on value index
PRVit is proven
# Daily-Delta Report – Alerting the Buy-Side to Key Moves

## First Look: February 25, 2013

<table>
<thead>
<tr>
<th>#.</th>
<th>Ticker</th>
<th>Company</th>
<th>Industry</th>
<th>Mkt. Cap (B)</th>
<th>PRVit vs Ind</th>
<th>ΔPRVit vs Ind</th>
<th>1 Day</th>
<th>1 Wk</th>
<th>1 Mo</th>
<th>PR</th>
<th>RV</th>
<th>MVA Margin</th>
<th>EVA Momentum</th>
<th>Stock A</th>
<th>Latest Q</th>
<th>Enter Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ENDP</td>
<td>ENDHEALTH SOLUTIONS INC</td>
<td>Pharmaceuticals</td>
<td>$3.80</td>
<td>91</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>-7</td>
<td>-1</td>
<td>10% (1%)</td>
<td>10% (1%)</td>
<td>3% (1%)</td>
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<tr>
<td>2</td>
<td>SPGS</td>
<td>STAPLES INC</td>
<td>Specialty Retail</td>
<td>$9.10</td>
<td>80</td>
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<td>-2</td>
<td>-1</td>
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<td>1</td>
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<tr>
<td>3</td>
<td>RPIN</td>
<td>REAL ESTATE INVESTMENT TRUSTS (REITs)</td>
<td>Retail</td>
<td>$5.30</td>
<td>13</td>
<td>1</td>
<td>3</td>
<td>-6</td>
<td>36</td>
<td>2</td>
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<tr>
<td>4</td>
<td>DLB</td>
<td>DOLBY LABORATORIES INC</td>
<td>Electronic Equipment, Instruments &amp; Components</td>
<td>$3.30</td>
<td>61</td>
<td>-3</td>
<td>-8</td>
<td>-3</td>
<td>-1</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>DECK</td>
<td>DECKERS OUTDOOR CORP</td>
<td>Textiles, Apparel &amp; Luxury Goods</td>
<td>$1.40</td>
<td>49</td>
<td>0</td>
<td>5</td>
<td>1</td>
<td>0</td>
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<td>CLWR</td>
<td>CLEARWIRE CORP</td>
<td>Wireless Telecommunication Services</td>
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<tr>
<td>7</td>
<td>RIO</td>
<td>BIO-RAD LABORATORIES INC</td>
<td>Life Sciences Tools &amp; Services</td>
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<td>-5</td>
<td>-9</td>
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<tr>
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<td>KRO</td>
<td>KRONOS WORLDWIDE INC</td>
<td>Chemicals</td>
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<td>0</td>
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<td>9</td>
<td>STZ</td>
<td>CONSTELLATION BRANDS</td>
<td>Beverages</td>
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<td>0</td>
<td>0</td>
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</tbody>
</table>

## EVA® Momentum Intensity

<table>
<thead>
<tr>
<th>#.</th>
<th>Ticker</th>
<th>Company</th>
<th>Industry</th>
<th>Mkt. Cap (B)</th>
<th>PRVit vs Ind</th>
<th>ΔPRVit vs Ind</th>
<th>1 Day</th>
<th>1 Wk</th>
<th>1 Mo</th>
<th>PR</th>
<th>RV</th>
<th>EVA Impact (U/s)</th>
<th>EVA Momentum</th>
<th>Stock A</th>
<th>Latest Q</th>
<th>Enter Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DVA</td>
<td>DEVRY INC</td>
<td>Diversified Consumer Services</td>
<td>$1.90</td>
<td>67</td>
<td>7</td>
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<td>0</td>
<td>0</td>
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<td>2</td>
<td>AMAT</td>
<td>APPLIED MATERIALS INC</td>
<td>Semiconductors &amp; Semiconductor Equipment</td>
<td>$15.90</td>
<td>54</td>
<td>-1</td>
<td>-1</td>
<td>-2</td>
<td>-1</td>
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<tr>
<td>3</td>
<td>LRCX</td>
<td>LAM RESEARCH CORP</td>
<td>Semiconductors &amp; Semiconductor Equipment</td>
<td>$6.40</td>
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<td>-1</td>
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<tr>
<td>4</td>
<td>WY</td>
<td>WYETH</td>
<td>Real Estate Investment Trusts (REITs)</td>
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<td>-3</td>
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<td>5</td>
<td>KG</td>
<td>KOHLS CORP</td>
<td>Multi-line Retail</td>
<td>$10.40</td>
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<tr>
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<td>REINSURANCE GROUP AMER INC</td>
<td>Insurance</td>
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<tr>
<td>8</td>
<td>EMN</td>
<td>EASTMAN CHEMICAL CO</td>
<td>Chemicals</td>
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<tr>
<td>9</td>
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<td>MAXIM INTEGRATED PRODUCTS</td>
<td>Semiconductors</td>
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<tr>
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<td>WILLIAMS-SOMONA INC</td>
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</table>

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The Weekly Roundup – A Popular New Report

EVA® Weekly Roundup

Each week we provide a convenient summary of all of the recent analyses, screens, reports and commentary published by the evaDimensions Equity Research team.

In this week's issue:

Sectors and Regions

Large Cap Non-US Luxury Goods (report link)

Three themes highlighted: High quality, reasonable value; High quality, expensive valuation; Weakening quality, expensive valuation.

Selected Consumer Durables (report link)

Best ideas are: Paccar Corp, Arctic Cat, Newell Rubbermaid and Mattel. More questionable are: Ginnie, Brunswick, Whirlpool, and Leggett & Platt.

Small Cap Non-US Tech: Attractive Underperformers (report link)

Quality with reasonable valuation, but have underperformed: Imagination Technologies, Dialog Semiconductor, Mercedcare, Pirson Elect., Datexis, and Axis.

Select US and UK Homebuilders (report link)

Companies we like best include: Persimmon, Galliford, Berkeley Group, Reino, and NVR.

Select Large Cap US Stocks (report link)

Our observations on a selection of stocks we found interesting following recent filings: AES, XOM/MV, EMDB, HCN, GE, JNJ, SCHW, CKE.

Discount Retail and Dollar Stores (report link)

Preferred COST to TGT and WMT and DLTR among dollar stores on pure value on current profits, but look to DG for a firm investing to generate future EVA.

US Restaurant Stocks (report link)

Positive: PARR, YMCA, THCH, DHH, DPZ & TXRH; Concerns: DRI & BIR

Screens

Under- and Out-performing Aggressive Income stocks (green link)

We screen for underperforming stocks where EVA Momentum has been up, and out performing stocks where EVA Momentum has been trending down.

Quant Model - PRVIt

March 2013 PRVIt Model and Factor Update (report link)

A strong month for PRVIt across all cash, regions. Volatility levels rebound, especially in global large-cap.

Chart of the week: Where to now for the Dow?

As the Dow posts an all-time high this week, we see EVA Margin (profitability) of the broader US market appearing to roll over as EVA momentum (incremental profits) continues to fall.

The trend looks particularly ominous when compared to the last cycle where the EVA Margin inflection point proved to be the peak of the market.

Who we are:

evaDimensions is a 2006 spin-off of the EVA management consulting firm, Stern Stewart. Our CEO, Bennett Stewart, was the principal architect of EVA over 25 years ago. We help investors make better investing decisions by measuring true economic costs using our unparalleled knowledge of the EVA framework. Our work is based on a comprehensive platform of analytical tools for idea generation, peer comparison, and company analysis.

We complement the framework and tools with client-driven research, screens and portfolio analysis.

Get more from EVA*

Contact the evaDimensions team for:
- custom screening - portfolio analysis - stock valuation - sector valuation

Visit our website evaExpress.com for:
- fundamental tools - valuation sensitivity - screening tools - quant analysis

Phone: (800) 620-2299
Email: equityresearch@evadimensions.com

Read the new book:
- "Best Practice EVA", the new book from Bennett Stewart is now available.

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In summary, and next steps

BEST-PRACTICE EVA
Use Best-Practice EVA to Simplify, Structure, Standardize and Value Align Your Management Cycle

**Inform**: develop strategic insights into performance trends, value drivers, best practices, gaps and opportunities, and market expectations through an EVA lens as a backdrop to initial strategy discussions.

**Simulate**: analyze and value draft business plans, prepare summary scorecards, to stimulate better plans during plan review process.

**Value**: summarize the value and EVA Momentum implied by the final plans for review with the board, leadership team, and investors.

**Target**: Convert plans and budgets into quarterly and long range targets for EVA, EVA Margin, EVA Momentum by line of business.

**React**: refine plans, refocus resources, recalibrate targets.

**Report**: review EVA Momentum and drivers versus budget targets and prior year, by line of business, by quarter.

**Market Intelligence**: quarterly update of public peer benchmarking, security analyst forecast models, PRVit rating.
BP-EVA Provides Executive Decision Support, Clarity, Accountability

M&A Valuation
- Acquisitions viewed as an exchange of value – total value received less total value paid
- Synergies are valued as the PV of extra EVA arising from combination
- EVA valuation multiples reconciled with flawed accounting indicators
- Post-deal EVA accountability is created

Portfolio Review
- Reliably assess value sources and drains across major business lines
- Measure, benchmark, analyze EVA and determine intrinsic value
- Correlate to public market valuations
- Assess implications for resource allocation, portfolio re-balancing

EVA Visibility
- Measure EVA at deeper divisions -- cutting across product lines, customer segments, departments, functions, regions.
- Reveal “angels” and “demons” customers and lines of business, and simulate remediation strategies – price, purge, policy, process, position, etc.

NPV
- DCF and IRR are replaced with projecting, discounting, and improving EVA
- The PV EVA Margin schedule is used as principal analytical tool and statistically compared to actual EVA Margins
- The PV EVA Spread (PV EVA/PV Capital Investment) is principal risk cushion index

Investor Relations
- Upload and analyze implications of security analyst and consensus forecasts
- Use “market-implied” momentum to assess expectations built into share price
- Use “PRVit” for insights into intrinsic value of company, peers, sector
- Run EVA dashboard for peer comparisons

Treasury
- Project capital requirements and determine impact on key financial ratios
- Use FRS valuations as input to decisions to raise/retire equity
- Optimal capital structure reduces the cost of capital and increases EVA Momentum
The Product Architecture

**FRS (Financial Radar Screen) for Custom Company Apps**

- “Express” is a standalone toolkit linked to 9000 global public companies
- *Express* also links to FRS, enabling custom company analysis and peer benchmarking applications in the same toolkit

**Company Data Upload via Excel**

- Acquisition Model
- Capital Projects
- Decision Projections

**Customize Definition of EVA**

**Consolidate Units, Peers**

**Export ALL Analysis to Express**

**History, Actual vs. Budget Update, Plans, Acquisitions, Projects, Decisions**

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**PRVit Express** performance-risk-valuation-investment-technology

**EVA Express**

**Value Express**

**EVA File 9000 Co’s**

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Steps to **Best-Practice EVA – The 5-Ps**

- **Pilot** (3-6 month test drive to analyze past and planned performance of company, units, peers, and key decisions, through best-Practice EVA lens)
- **Prepare** (obtain buy-in, install software, settle on EVA definition, map plan)
- **Prototype** (simplify, personalize, automate reports, test incentives)
- **Practice** (1 full-year cycle of using BP-EVA with EVAD as coach/consultant)
- **Perform** (cut the strings, repeat, reinforce, as necessary; EVAD backstop)
What’s Next

- Visit www.evaDimensions.com/EVAvsMVA to view EVA/MVA charts for any of 9000 global companies
- Visit www.BestPracticeEVA.com to preview the book
- Read and Learn
  - What’s Wrong with ROI, and what’s better?
  - Is Your Finance Fuzzy or Focused?
  - Boards Improve Your Financial IQ Now!
- On-Line Demo of the BP-EVA Software vs. 4 Public Peers
- Test Drive BP-EVA with a “Concierge” Pilot Program
- Contact us: gbstewart@evadimensions.com
Sample Internal Communication of EVA Momentum

1. **Mission:** From now we will use a measure called EVA Momentum as our key financial goal. Don’t be alarmed -- EVA Momentum is simply a way to measure how much profit growth we achieve after covering the full cost of any new capital we invest in our business. EVA Momentum is just common sense—it tells us to cut costs intelligently, to invest and manage assets wisely, and to deliver “quality” growth with an attractive return for our investors— but, it will give us a single score of how well we’ve done across all those performance dimensions.

2. **Reporting:** We’ll start to examine our EVA Momentum performance in our quarterly reviews. We’ll use it for rating our performance against our budgets and spotting the reasons we are off track, for highlighting key trends and improvement opportunities, and as a framework to organize all of our key operating metrics and strategic milestones into one overall scorecard.

3. **Decision Making:** From now on, we’ll measure the “net present value” of our investment decisions, our forward plans, and our acquisition targets by projecting and discounting the “EVA” profit we expect them to produce. That will always give us the same NPV answer as discounted cash flow, but, it will gives us more insight into the critical assumptions and key drivers of the value, and more consistency back with how we’ll judge our results.

4. **Planning:** We’ll also measure the EVA Momentum we expect to generate over our forward plans, and use that as summary statistic to grade the quality of the plans. We expect that using Momentum will also help stimulate our thinking about how we can raise the bar and plan to do even better, and allocate our resources in imaginative ways to where we can best generate the greatest EVA Momentum profit growth for the company.

5. **Target Setting:** We’re going to set goals for EVA Momentum from looking at expectations built into stock prices and security analyst forecast models and from the results we’ve been generating relative to our best performing public peers. We’ll target Momentum as a plan goal we’ll need to exceed and as a bogey for earning bonus pay.

6. **Communication:** To make sure everyone is on the Momentum bandwagon, we will take some time to be sure all our management leaders have a good working knowledge about and confidence in using the EVA measure. We will also develop a set of dashboards and decision templates that incorporate EVA Momentum metrics, and feature those in regular reports to our directors, management committee, line teams, and investors.

7. **Focus:** As we adopt EVA Momentum, we’ll de-emphasize analysis of other financial metrics like ROI, cash flow, EBITDA and EPS. This won’t happen overnight, and maybe never entirely, but it’s a direction we’ll be taking to simplify our management, concentrate our energies, improve internal communication and increase accountability for generating results that will add real economic value.
Corporate Benefits of Best-Practice EVA

1. Align with and drive shareholder value – the solution to corporate “governance”

2. One common metric, mission and vocabulary spans all functions, units

3. Capital becomes a charge to earnings like any other
   - Accountability for investing and managing capital
   - Incentive to turn assets and develop and deploy lean business models
   - Ability to make better tradeoffs between earnings and assets, margins and turns, returns and growth

4. Profitable growth is also encouraged – even at expense of margins, ROI

5. R&D and brand intangibles managed as strategic assets, not as period expenses

6. Quicker, more incisive restructurings – charges are investments, not earnings hits

7. Simplicity – one measure matters in all aspects – EVA replaces EPS and EBITDA, ROI, and cash flow, and other measures, like margins, days, growth, support it

8. Analytical superiority, clarity, insight, and consistency

9. Acquisitions priced on true economic merits, not accounting appearances

10. Greater business and financial literacy, with more engagement, more delegation

11. Scorecards that are truly-balanced, value-anchored, topped with an actual score

12. More accurate, relevant, realistic, fact-based financial performance targets

13. Stronger, clearer, more powerful incentives of an owner through EVA bonus plan

14. Early adopter advantage with growing buy-side recognition and new book