

WHAT IS EVA?

EVA = Sales – Operating Costs (net operating profit after tax) – **Capital Costs** (cost of cap% x net business assets)

*EVA converts accounting profit to economic profit by reversing accounting distortions and measuring the dollar value profit after **ALL** costs, including the cost of giving shareholders a fair return on invested capital (this is a critical point).*

Best-Practice EVA is the next generation of EVA – converts traditional EVA dollar-based profit measure into a powerful ratio-based framework

HEADLINE BEST-PRACTICE EVA RATIOS

EVA Margin (EVA / Sales): true economic profit margin combining operating and capital efficiency into one metric

EVA Momentum (Δ EVA / Trailing Sales): incremental EVA growth rate indicator; key valuation signal & turning point signal of a business model.

EVA Shock (first derivative of EVA Momentum): change of the change, or acceleration/deceleration of EVA Momentum

Future Growth Reliance: percent of a firm's overall market value that is dependent on continued incremental growth in EVA

WHY IS EVA VALUABLE?

- **True measure of economic profit:** EVA cuts through accounting distortions and charges for the use of capital
- **Unified framework:** EVA is comparable across companies, industries & countries
- **Unique measurement:** provides an unbiased view of quality, growth, risk & value
- **Leading indicators:** EVA metrics are predictive of future stock prices

THREE TENETS OF EVA

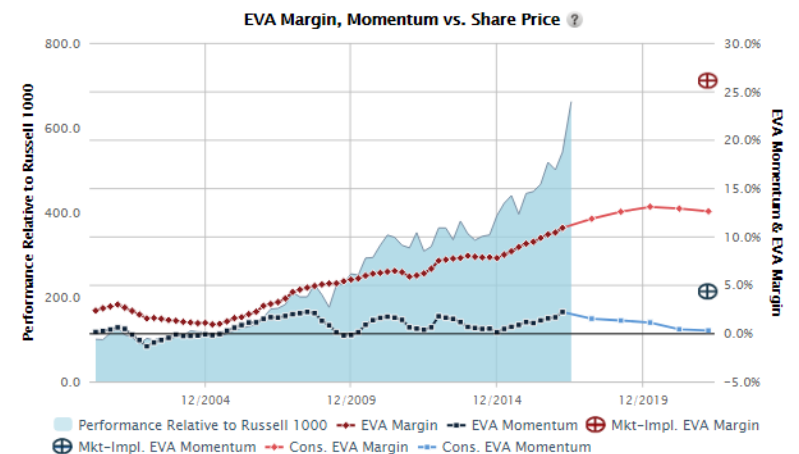
- More EVA always is better.
- EVA measures true economic profit of business, after compensating shareholders for use of their capital and is therefore superior to standard accounting measures.
- The value of any firm is the Capital invested plus the present value of future EVA generation. The math is similar to a DCF: Value = Capital + PV(EVA)

UNDERSTANDING A COMPANY IN THE evaDimensions FRAMEWORK

EVA Margin (red line): above (below) zero = company achieving better (worse) than cost of capital. Increasing (decreasing) EVA Margin indicates a company has improving (declining) operating profit and/or getting more (less) efficient with assets.

EVA Momentum (blue line): measures incremental growth in EVA. Positive (negative) EVA Momentum indicates the company is generating (destroying) incremental value. ONLY CORPORATE PERFORMANCE RATIO WHERE MORE IS ALWAYS BETTER!

EVA Shock (slope of blue line): measure of acceleration (deceleration) of EVA Momentum; critical for determining INFLECTION POINTS in a business model.

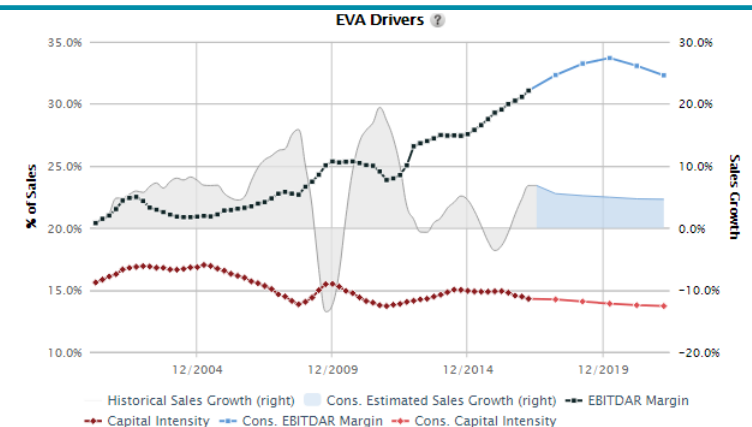


The three drivers of EVA are **EBITDAR Margin**, **Capital Intensity**, and **sales growth**.

EBITDAR Margin (blue line) excludes rent expense, Ad & Promo expense, and R&D expense (which are all capitalized).

Capital Intensity = working capital, net PP&E, and intangibles (including capitalized Ad & Promo and R&D), assessed a charge at the cost of capital and scaled to sales. Declining (increasing) Productive Capital charges (red line) = higher (lower) asset efficiency.

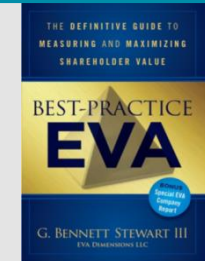
The gray shaded areas represent year-over-year **sales growth**.



PRVIt (PERFORMANCE, RISK & VALUE INVESTMENT TECHNOLOGY) EVA-BASED STOCK SELECTION MODEL

- 24-factor quant model based on EVA-centric metrics that scores all stocks in 15,000 global company coverage universe on scale of 0 (sell) to 100 (buy).
- Directly corresponds to economically meaningful and fundamental concepts of profit, growth, risk and valuation.
- While nominally a quant model, PRVIt is really a framework to translate fundamentals into unbiased EVA metrics that are ranked vs. industry or market.
- PRVIt compares the Intrinsic Value (aka Quality) of a firm's operations to the Value paid in the market
- Platform to assess investability of business models across the entire growth/value spectrum and monitor changes in company fundamentals.
- Backtests well with 1.2% average U.S. and 1.1% global universe MONTHLY alpha since 1998 with less volatility than overall market.

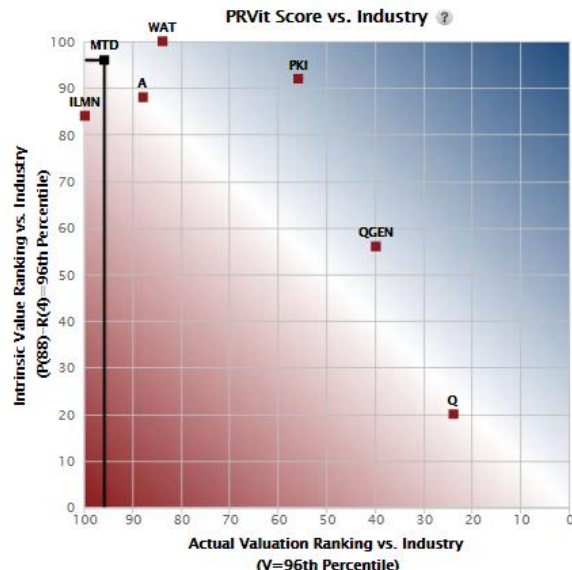
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PRVIt Global Score represents raw percentile ranking of company vs. all companies in global database. Rankings for the company vs. industry and country peers is also shown. **PRVIt Prime Score** = PRVIt Global Score less an adjustment for country- and industry-specific statistical bias. All #'s are from 0-100 (higher is better).

Market Cap (USD)	Share Price (USD)	PRVIt Score (vs Market)	Industry Median	PAS:2	PRVIt Score (vs Industry)
15.7B	606.48	64	38	PAS:2	92
Sell 0-19	Underweight 20-39	Hold 40-59	Overweight 60-79		Buy 80-100

PRVIt Heat Map: The vertical axis is ranking of fundamental, risk-adjusted EVA level and growth (Intrinsic Value Ranking, or P-R). The higher, the better. The horizontal axis is the Actual Value Ranking (V). The further left, the more expensive. PRVIt score is ranked difference between Intrinsic Value (P-R) and Actual (V) Value.



UNDERSTANDING PRVIt

Performance Score (P) is a percentile rank from 0-100 (higher is better) that ranks all companies vs. industry. Consists of current EVA profitability metrics (P1) and EVA Momentum trends over the last quarter, year and three years (P2). Higher EVA Margin vs. peers = higher P1 score. Higher incremental EVA growth rates vs. peers = higher P2 score. These two components are then re-ranked for all companies in an industry and given an overall EVA Performance Score (P).

88 Performance (P) Higher is better					
92 Profitability (P1) Financial strength in generating a return on capital over the full cost					
	MTD	25th	50th	75th	% Industry
EVA Margin (EVA/Sales)	10.9%	3.1%	1.1%	3.7%	92
EVA Spread (EVA/Capital)	13.6%	1.5%	1.0%	5.2%	92
84 Momentum (P2) The growth rate in the firm's economic profit (its EVA)					
	MTD	25th	50th	75th	% Industry
1-Qtr. EVA Mo. (vs Cap)	3.7%	1.6%	0.1%	0.9%	92
1-Yr. EVA Mo. (vs Cap)	2.8%	0.5%	0.8%	2.2%	84
3-Yr. EVA Mo. (vs Cap)	1.5%	0.5%	0.5%	2.1%	67

EVA Performance is then scaled to risk to determine level of confidence that EVA Performance is sustainable. This is demonstrated by the **Risk Score (R)** (also from 0-100 but lower Risk is better). Which has two components: Volatility (R1), measure of 3-year standard deviations of stock price and EVA Margin; Vulnerability (R2), measure of free cash flow and leverage. Free Cash Flow Rate = (ROC – Capital Growth Rate). Op. Cash Gen. Return = FCF before CapEx but net of working capital.

4 Risk (R) Lower is better					
0 Volatility (R1) Variability in stock price and the EVA profit margin					
	MTD	25th	50th	75th	% Industry
Stock Price Volatility	18%	19.7%	26.7%	40.2%	8
EVA Margin Volatility	0.7%	1.7%	2.9%	4.1%	0
32 Vulnerability (R2) Leveraged, negative cash flow firms are suspect					
	MTD	25th	50th	75th	% Industry
Free Cash Flow / Capital	10%	8.8%	1.4%	11.0%	16
Op Cash Gen / Total Gross Cap	46%	65.3%	45.4%	17.4%	48
Total Debt/Total Capital	52%	29.8%	42.6%	56.0%	64
Total Debt/EBITDAR	1.4	1.6	2.5	4.5	20

EVA Performance (P) and Risk (R) scores are then indexed to form Risk-adjusted Intrinsic Value ranking, which is then compared to the **Valuation Score (V)**, a composite of EVA-centric valuation multiples (1-100 lower value is better).

For each metric, the company value is shown with the 25th, 50th and 75th percentile values for that metric. The far right blue horizontal bar is the company's percentile ranking for that individual metric.

96 Valuation (V) Lower is better					
96 Price/Book (V1) Valuation multiples to book capital (as adjusted)					
	MTD	25th	50th	75th	% Industry
MVA Margin (MVA/Sales)	585%	156.3%	238.0%	356.6%	92
MVA Spread (MVA/Capital)	702%	100.8%	205.9%	275.0%	96
96 Price/Earnings (V2) Valuation multiples to cash flow, earnings, EVA					
	MTD	25th	50th	75th	% Industry
EBITDAR Multiple	21.5	13.3	14.5	19.8	83
NOPAT Multiple	43.8	36.2	39.6	47.4	67
Future Growth Reliance	56%	43%	52%	62%	60