

VALENS RESEARCH



Return Driven Strategy

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January 2017

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What is strategy?

“Big thinking with little follow-up”

“Un-realistic, un-implementable ideas”

“High-priced consultants”

“A waste of time”

“It’s execution that matters anyway”

*“Who said these day-long seminars
were worth anything?
I’d rather have gotten something done”*

Strategies and strategic planning disappoints

What is “Strategic Planning?”

- **Targets are set simply by challenging prior year performance**

- **Managers complain 90% of time spent spreadsheet-building rather than real analysis**

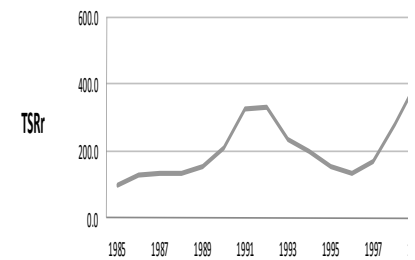
- **Business units manipulate plans downward to maximize incentive bonus potential**

- **Corporate managers argue over arbitrary or uncontrollable factors: betas, multiples, calculations**

What is termed “strategic planning” is often not strategy at all

Forecasts

Valuation

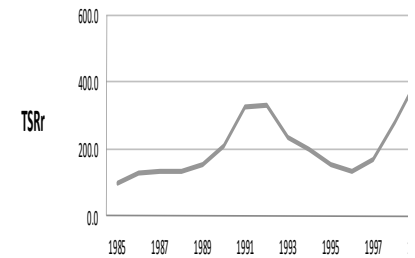
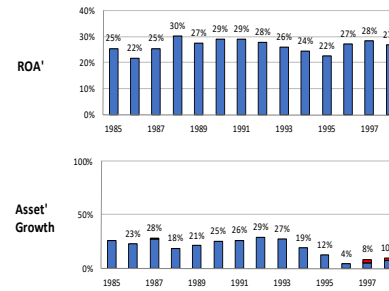


Results

Forecasts

Performance

Valuation



Actions

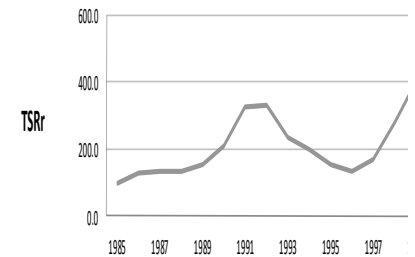
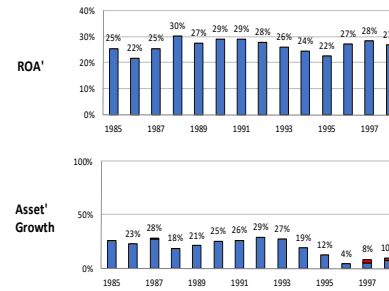
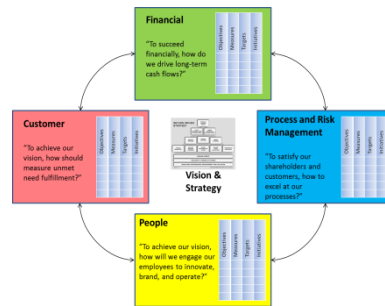
Results

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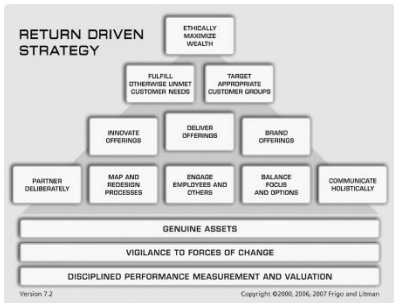
Plans

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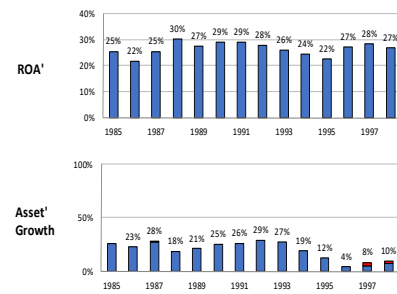
Strategy



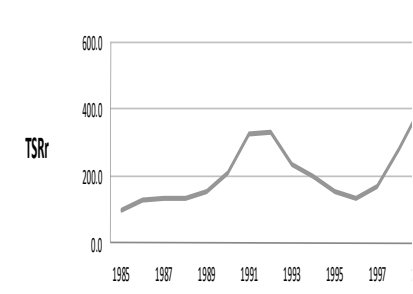
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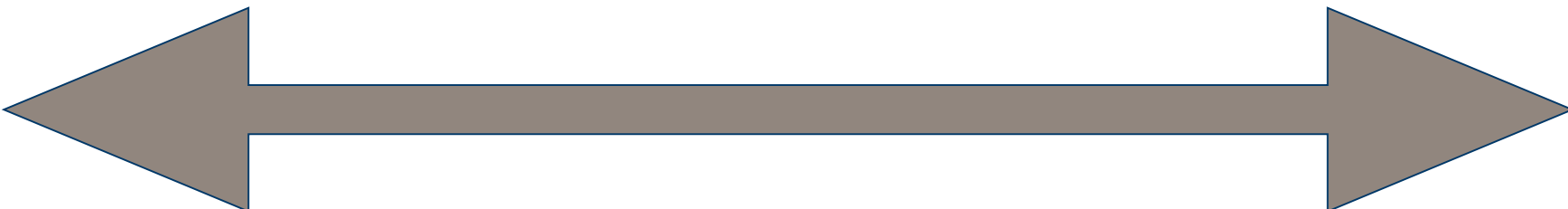
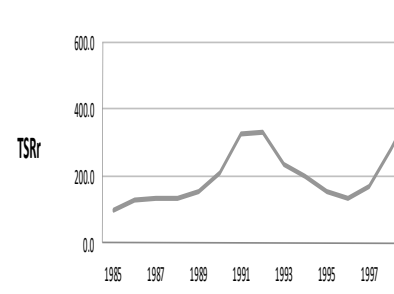
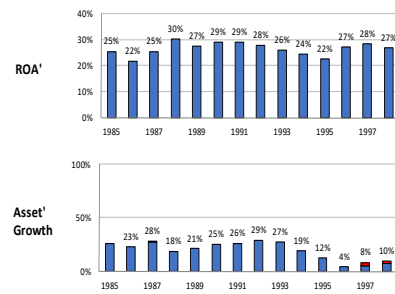
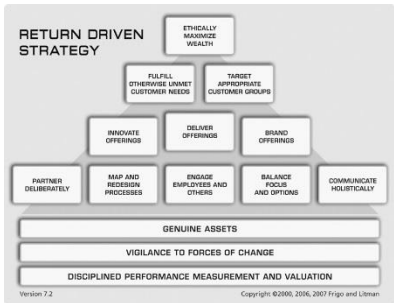
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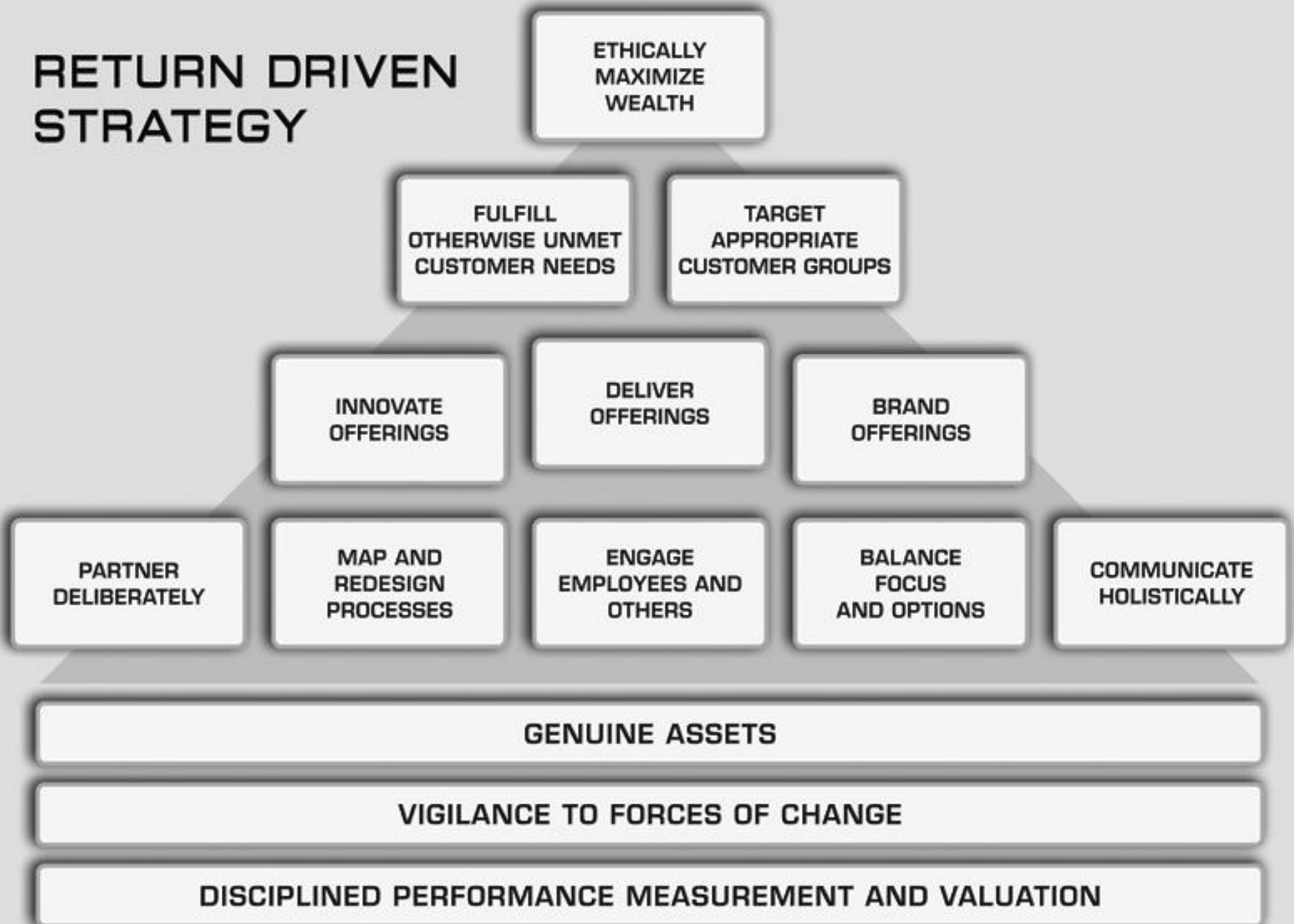
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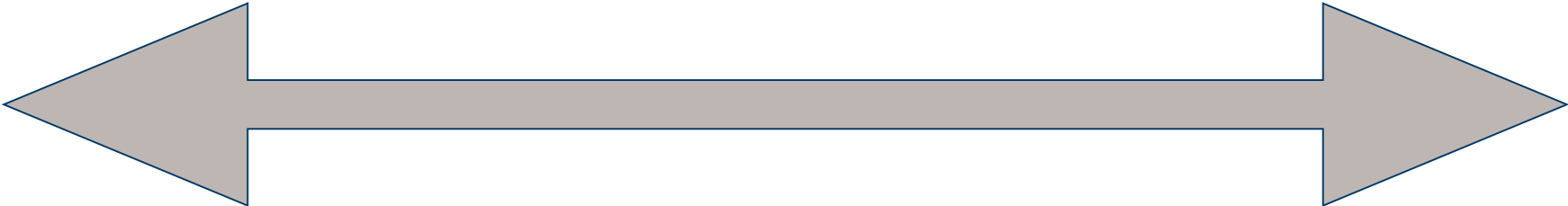
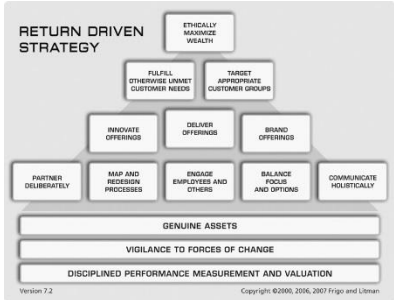


RETURN DRIVEN STRATEGY



Plans

Strategy

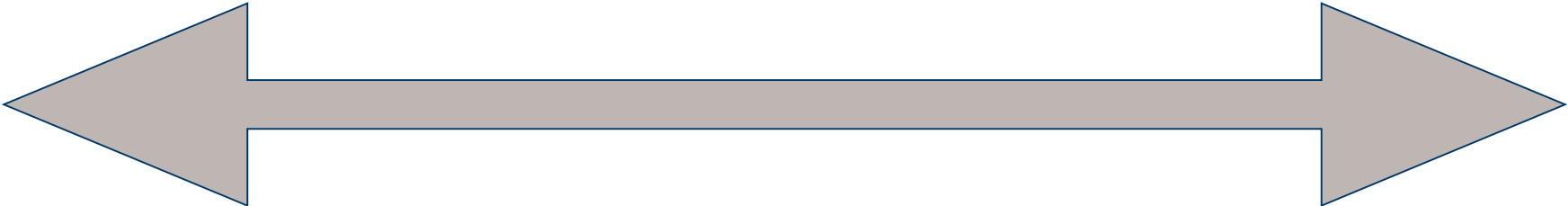
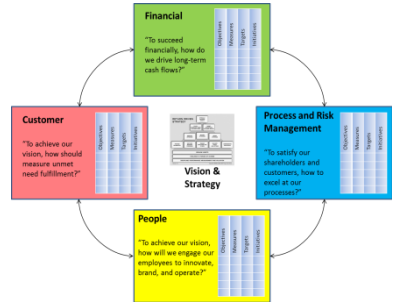
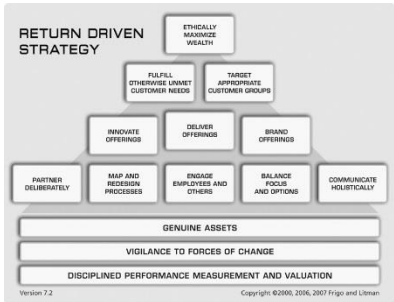


Plans

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Plans

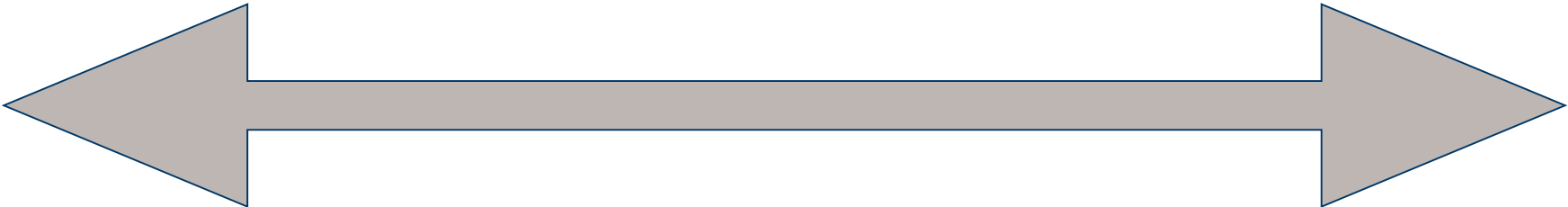
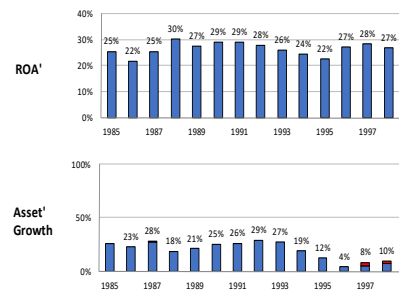
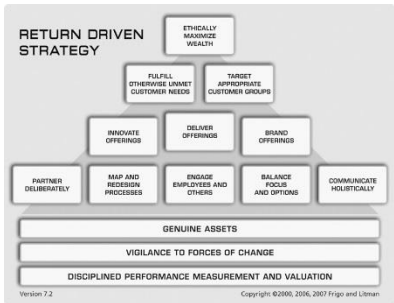
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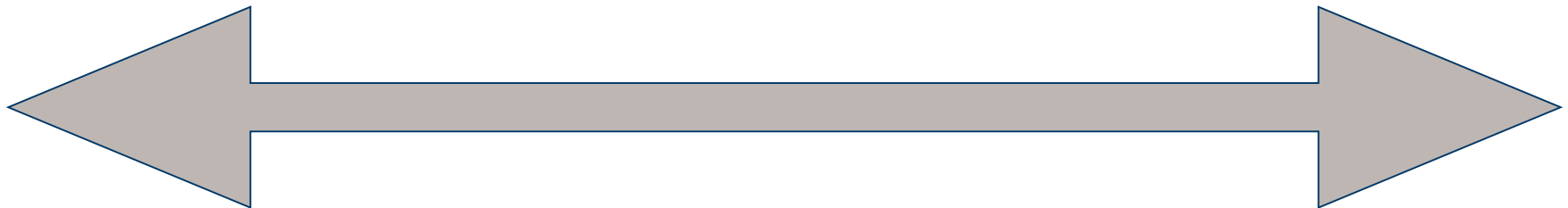
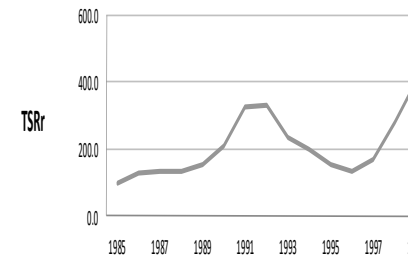
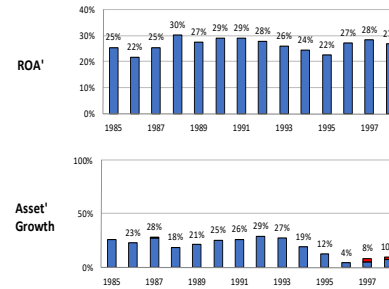
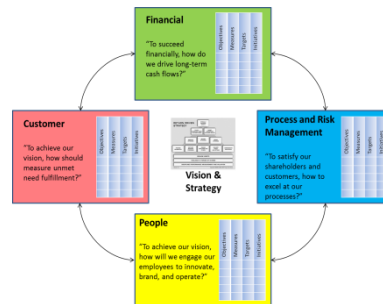
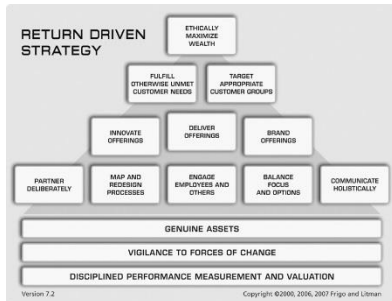
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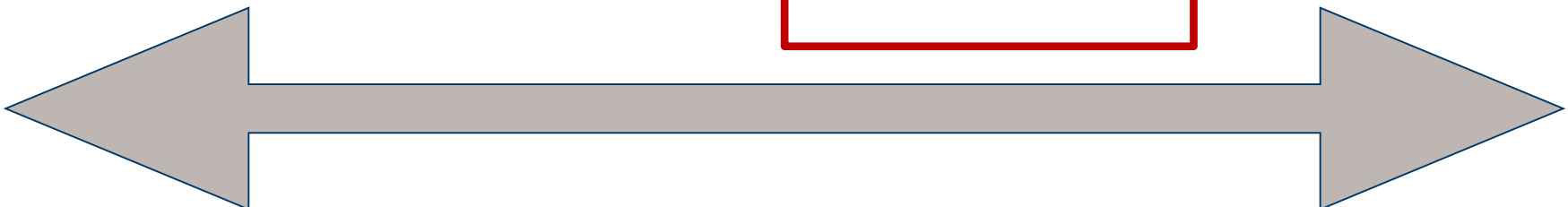
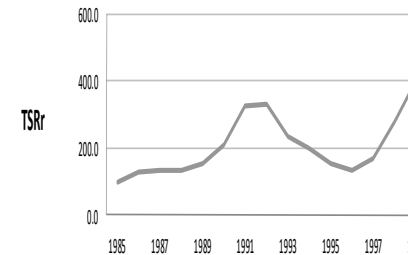
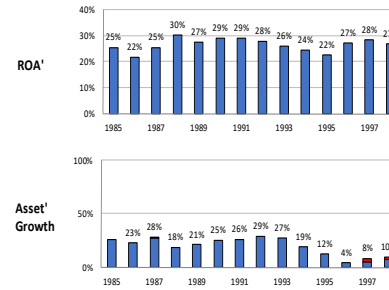
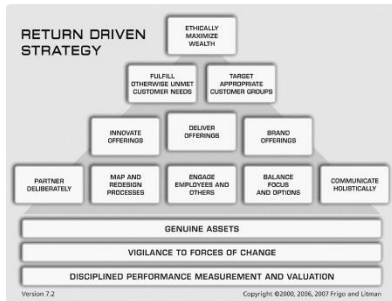
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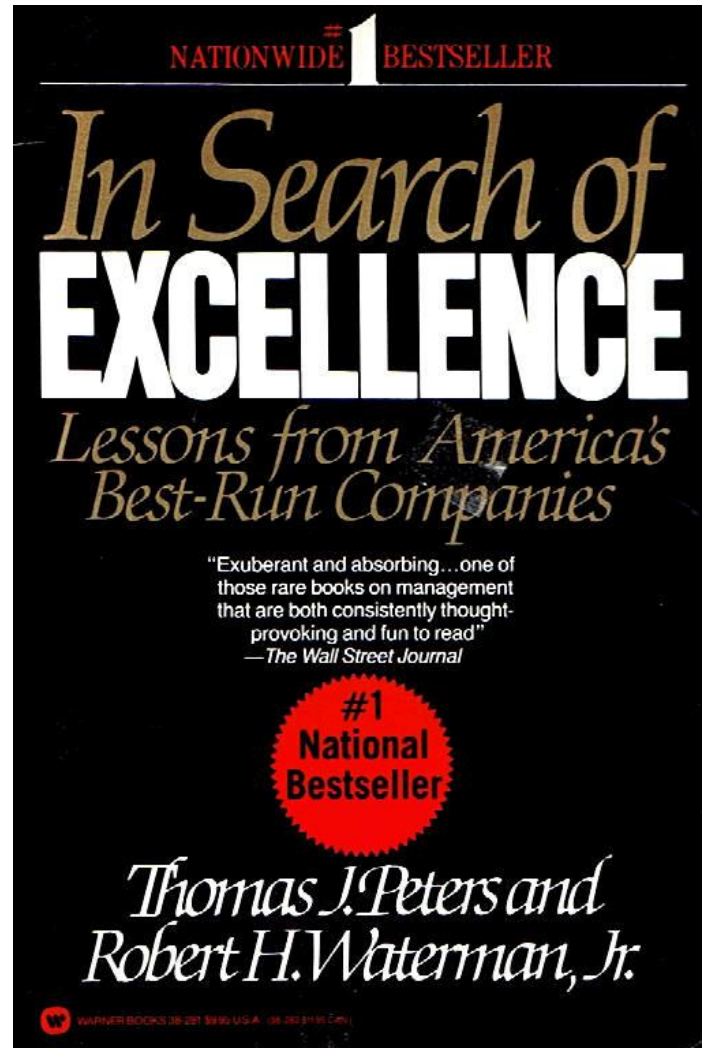
Valuation



In Search of Excellence?

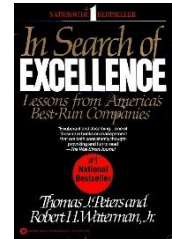
“In Search of Excellence,” 1983

By Thomas Peters & Robert Waterman, Jr.



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By Thomas Peters & Robert Waterman, Jr.

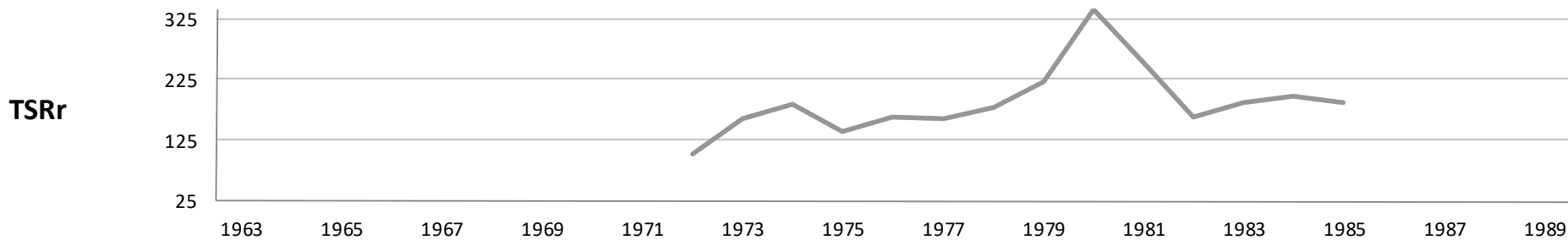
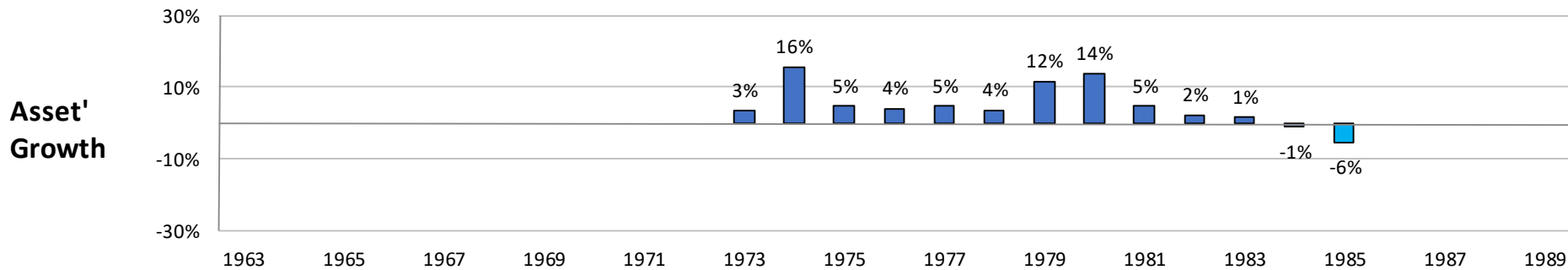
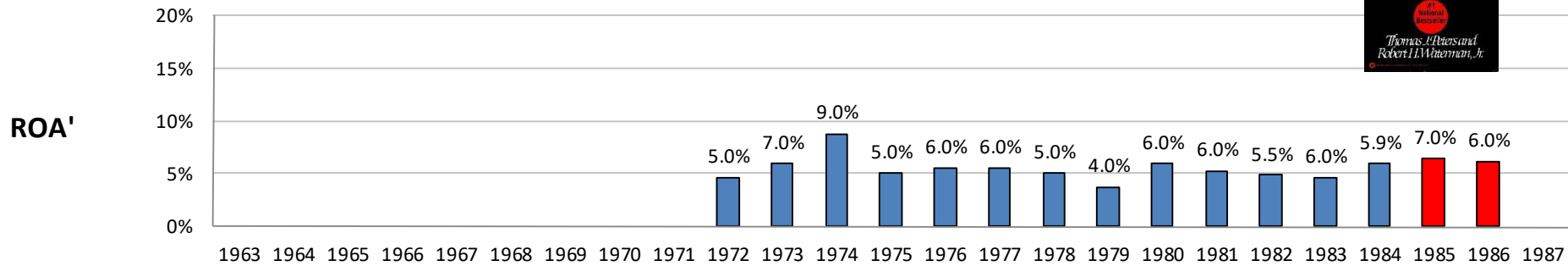
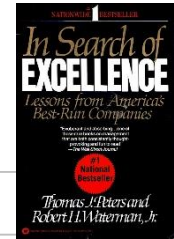


32 Publicly Traded "Most Excellent" Companies (The Excellence Index)

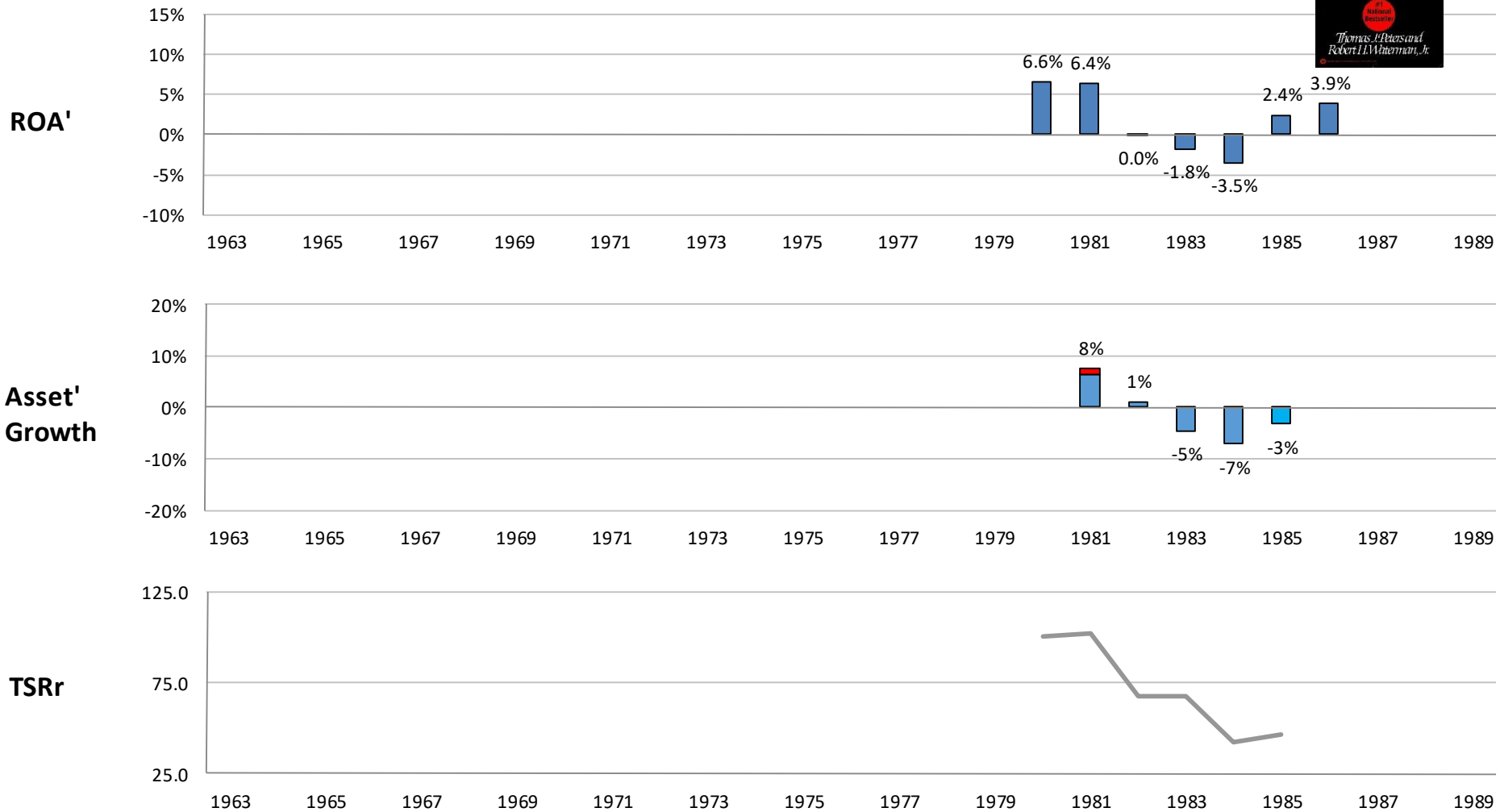
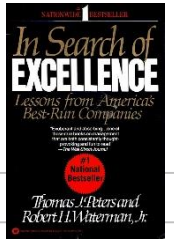
3M CO	MMM	Frito-Lay (Pepsi)	PEP
Amdahl	AMH	Hewlett-Packard	HPQ
Amoco	AN	IBM	INTC
Avon Products	AVP	Intel	IBM
Boeing	BA	Johnson & Johnson	JNJ
Bristol-Meyers Squibb	BMJ	K-Mart (LBO)	
Catepillar	CAT	Maytag (Whirlpool)	WHR
Dana Corp	DCNA	McDonalds	MCD
Data General	DGN	Merck	MRK
Delta Airlines	DALR	National Semiconductor	NSM
Digital Equipment	DEC	Procter & Gamble	PG
Disney	DIS	Reychem	RYC
Dow Chemical	DOW	Schlumberger	SLB
Du Pont	DD	Texas Instruments	TXN
Eastman Kodak	EK	Wal-Mart	WMT
Emerson Electric	EMR	Wang Labs	WANG

Source: <http://www.forbes.com>

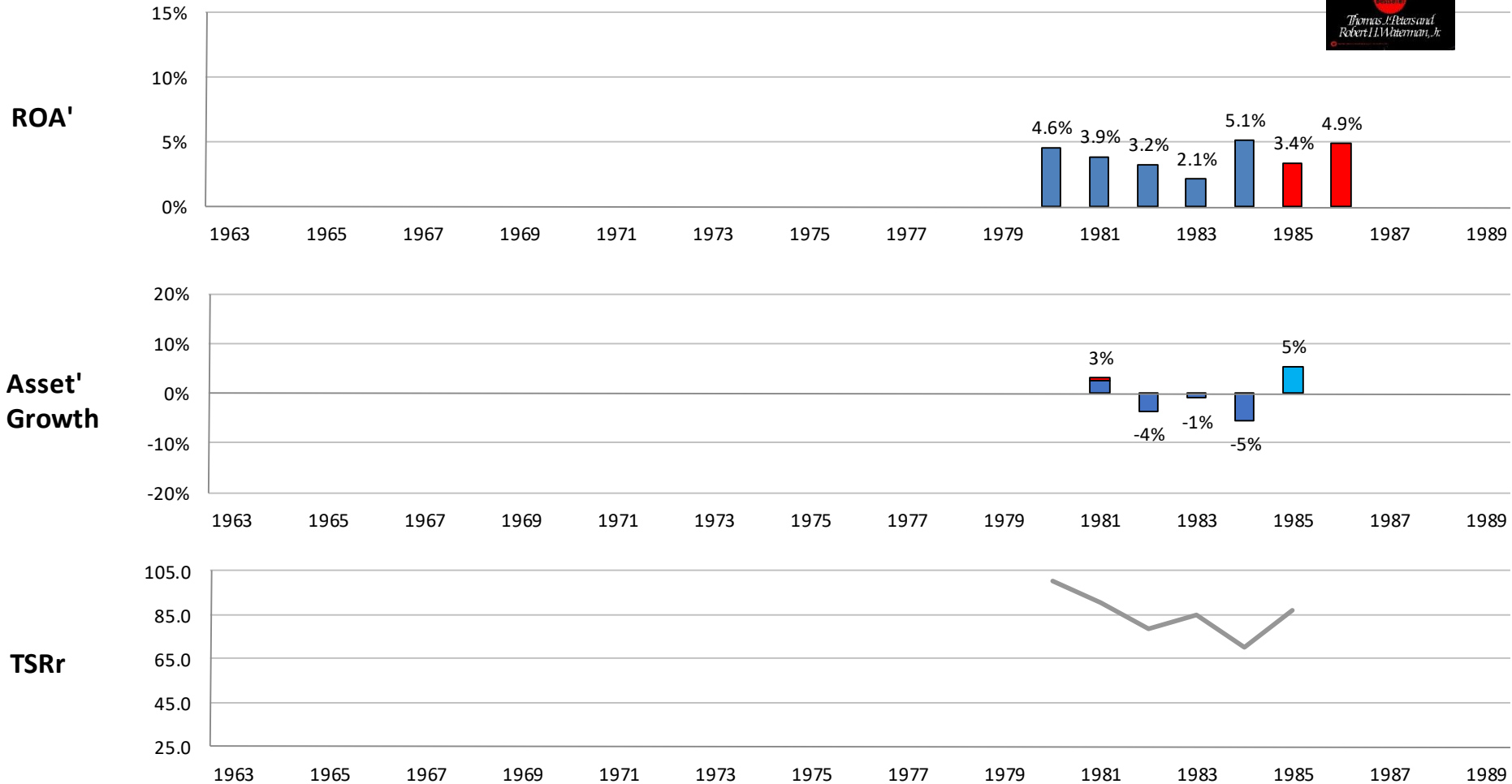
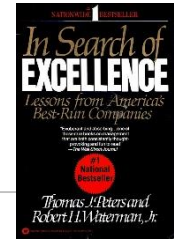
Amoco (AN)



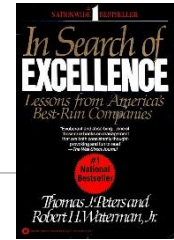
Caterpillar (CAT)



Dow Chemical (DOW)



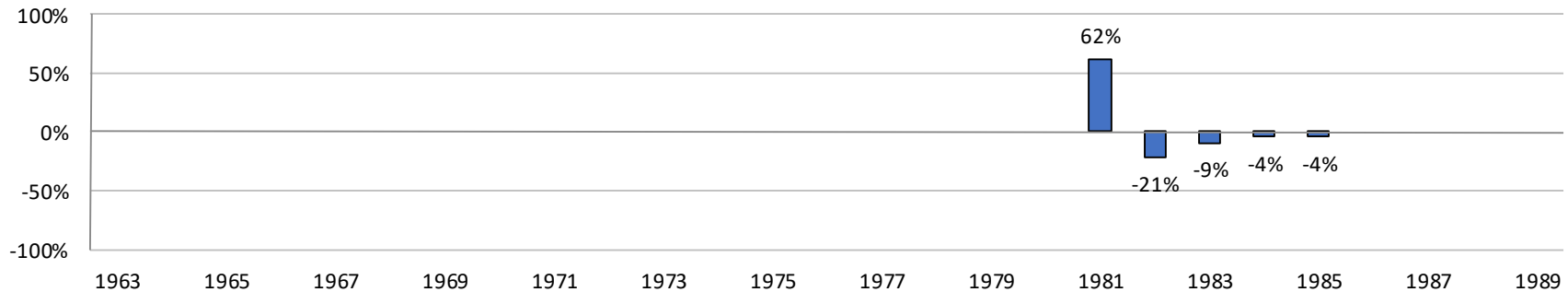
Du Pont (DD)



ROA'



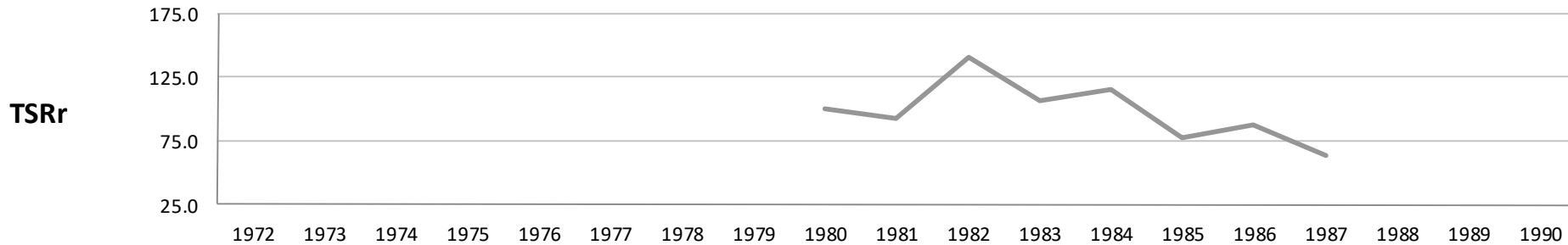
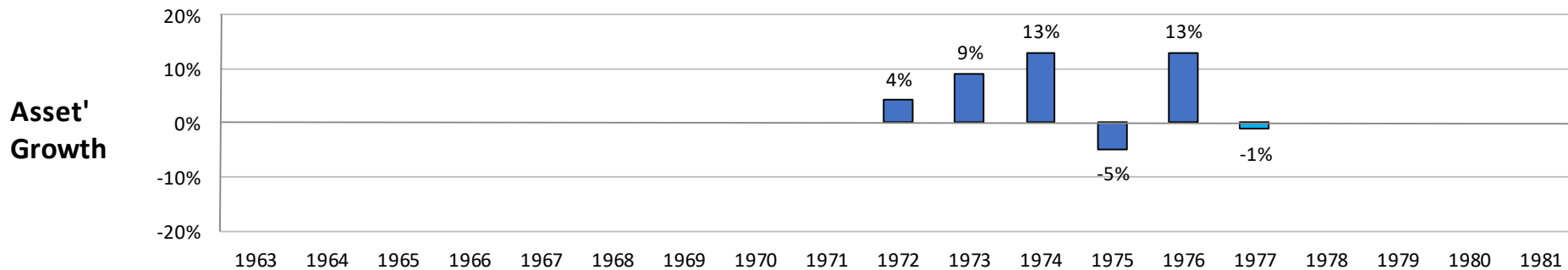
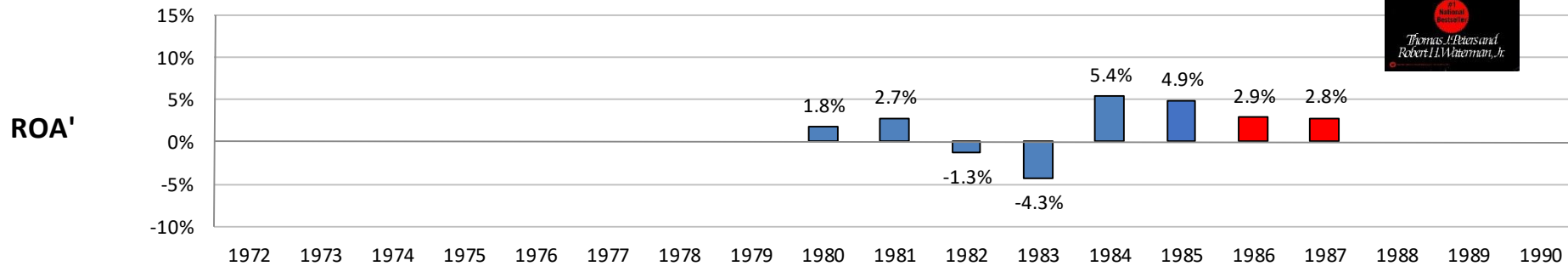
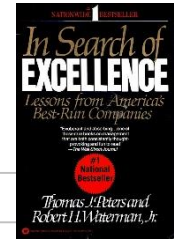
Asset' Growth



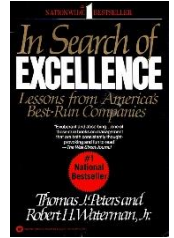
TSRr



Delta Airlines (DALR)



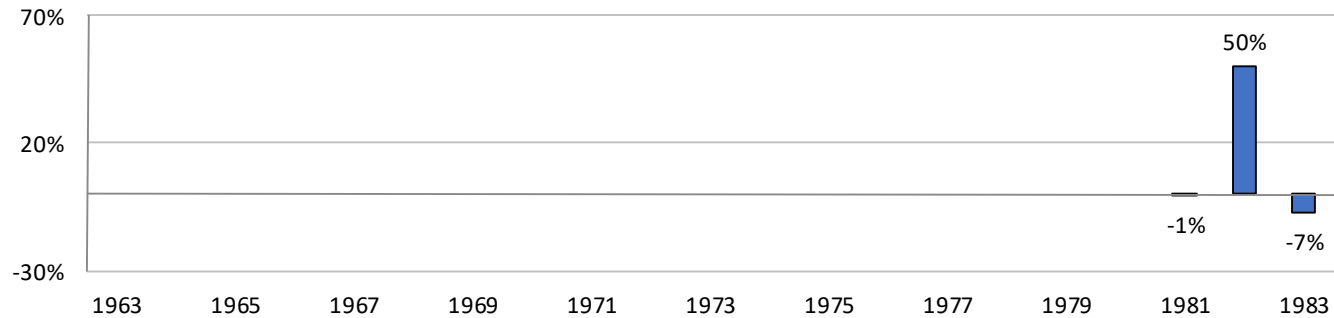
Walt Disney (DIS)



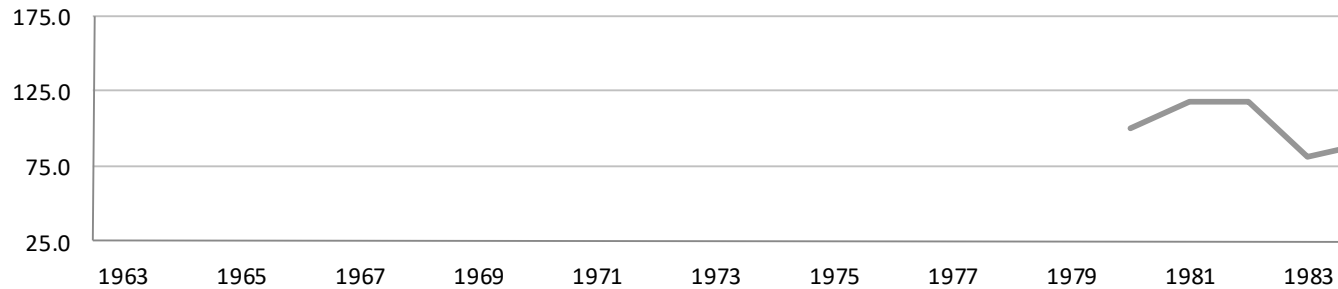
ROA'



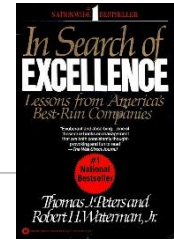
Asset' Growth



TSRr



Eastman Kodak (EK)



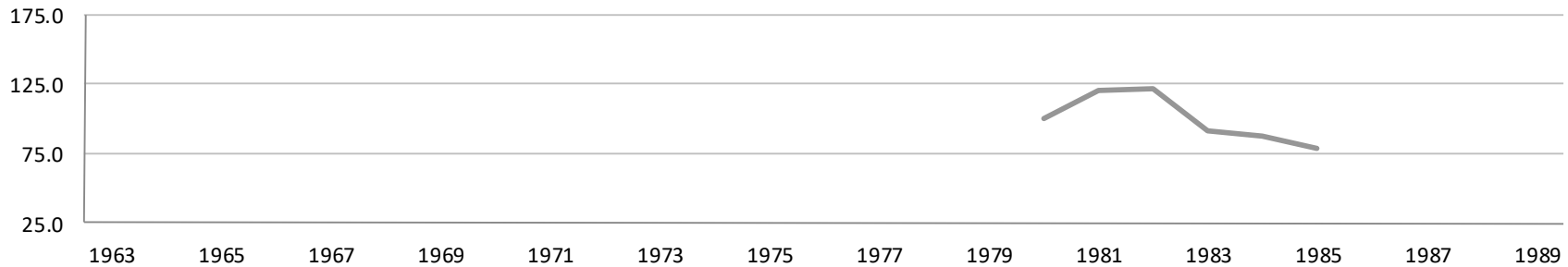
ROA'



Asset' Growth

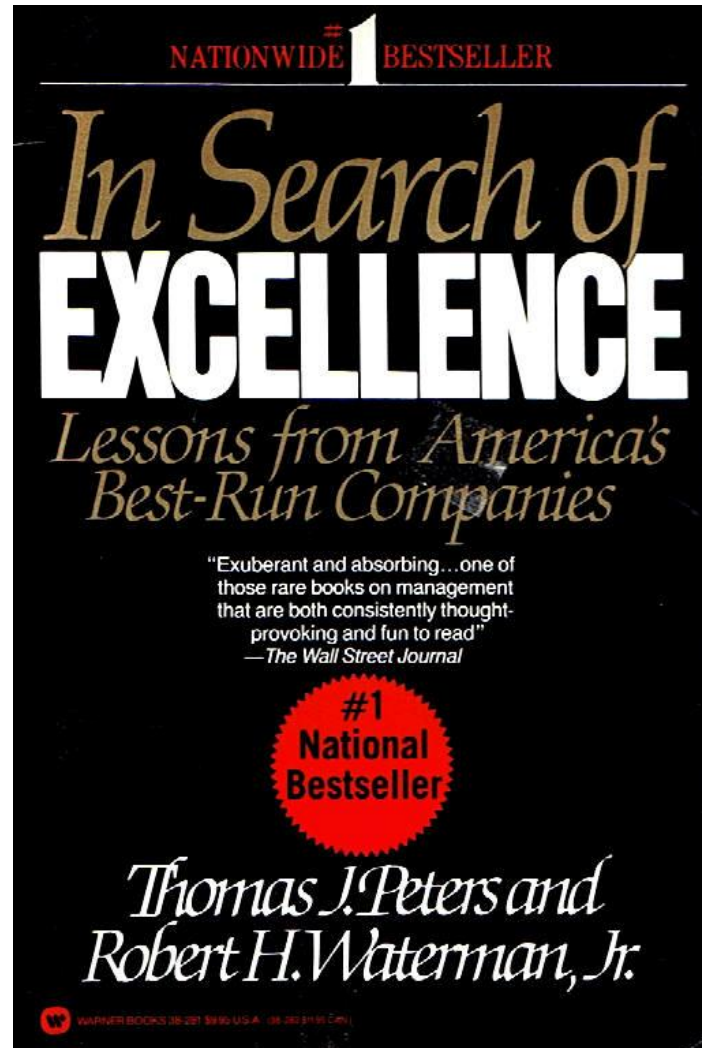


TSRr



“In Search of Excellence,” 1983

By Thomas Peters & Robert Waterman, Jr.



TOP TEN		FORTUNE		Total Return	
Rank	Company	2001	1996-2001		
1	General Electric	-15.1%	21.2%		
2	Southwest Airlines	-17.3%	33.7%		
3	Wal-Mart Stores	9.0%	39.1%		
4	Microsoft	52.7%	26.3%		
5	Berkshire Hathaway	6.5%	17.3%		
6	Home Depot	12.1%	36.0%		
7	Johnson & Johnson	14.0%	20.5%		
8	FedEx	29.8%	18.5%		
9	Citigroup	0.1%	28.9%		
10	Intel	4.9%	14.1%		
	Top ten average	9.7 %	25.5 %		
	S&P 500	-11.89%	10.70%		

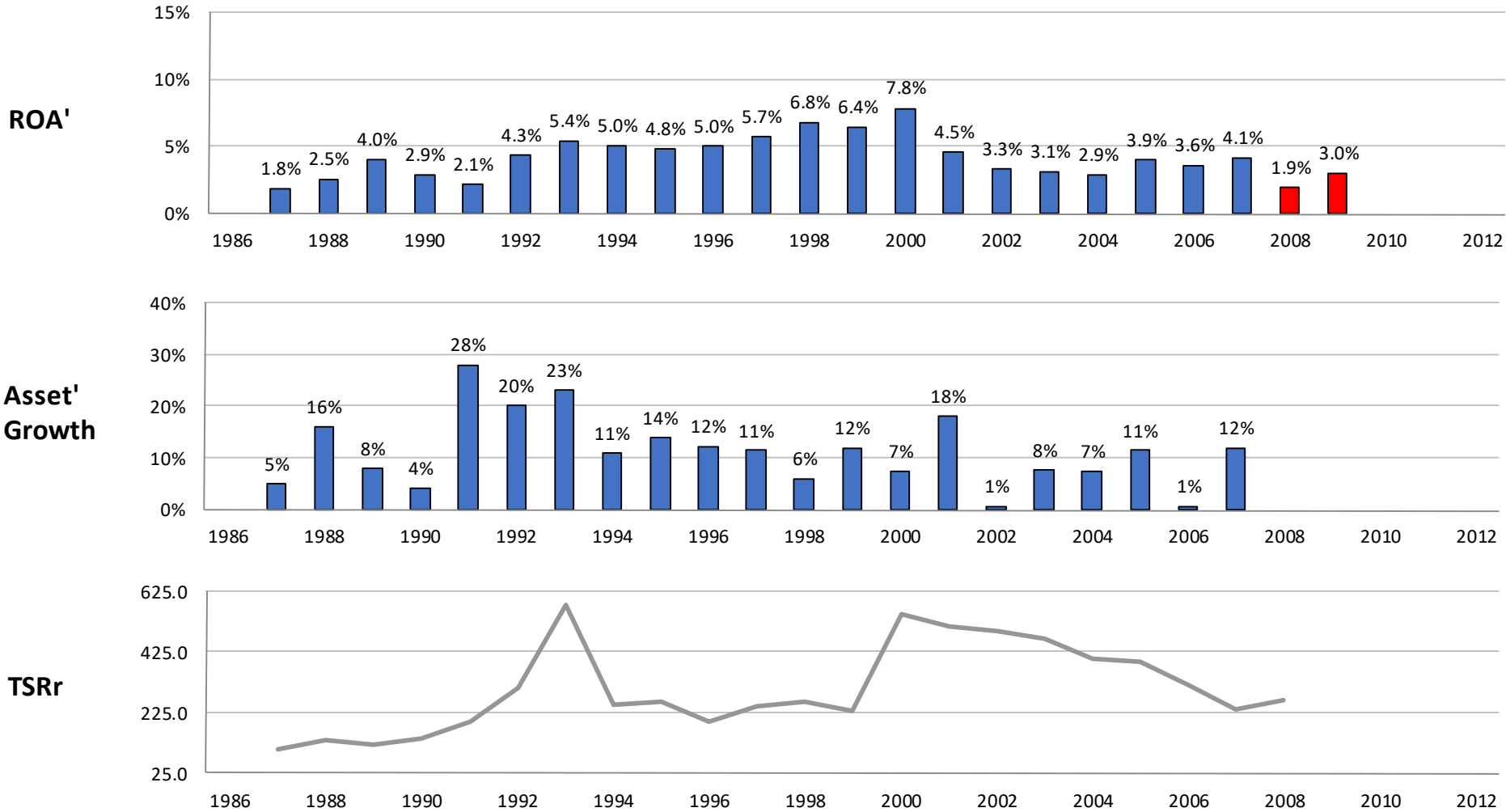
From the Mar. 04, 2002 Issue

SOUTHWEST AIRLINES (LUV)



Airlines
Market Cap : 9.883 USD

Price: 13.45 (May 2, 2008)



From 1,435 companies studied,
authors found 11 “Great” companies*

Abbott Laboratories

Circuit City

Fannie Mae

Gillette Co.

Kimberly-Clark Corp.

Kroger Co.

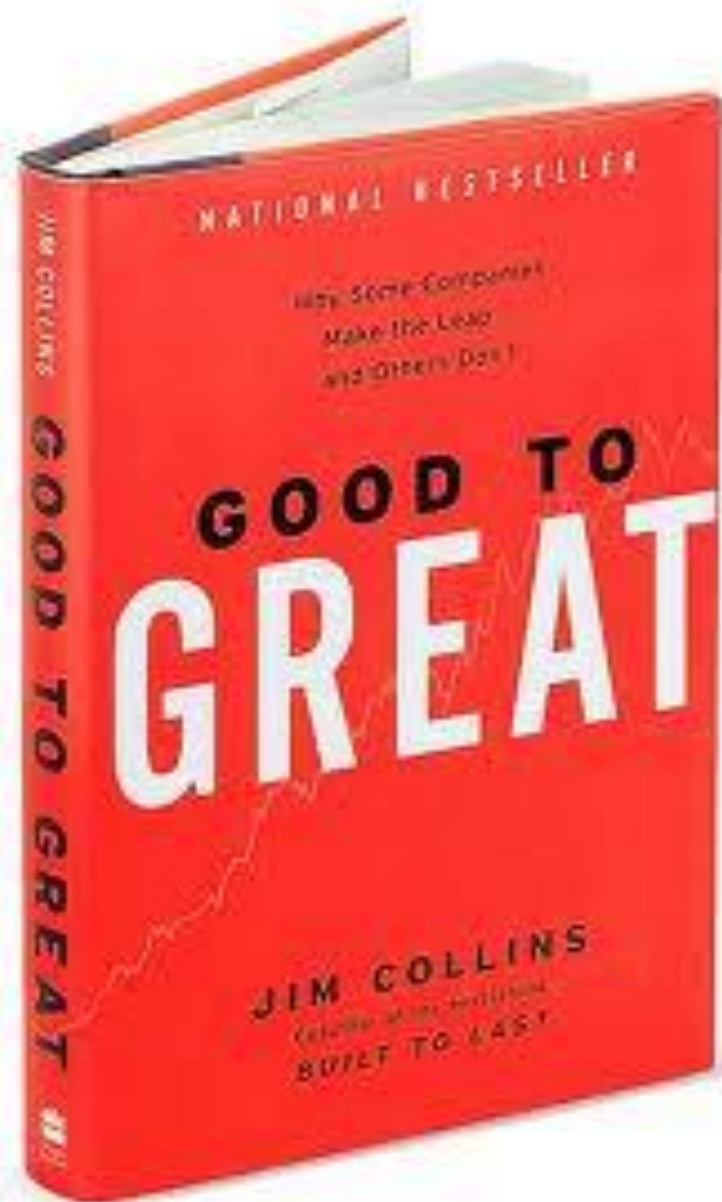
Nucor Corp.

Philip Morris Cos. Inc.

Pitney Bowes Inc.

Walgreen Co.

Wells Fargo



**Good to Great: Why Some Companies Make the Leap ...
And Others Don't (HarperBusiness, 2001)*

The popularity of “Good to Great” has been immense

From 1,435 companies studied, they found 11 “Great” companies*

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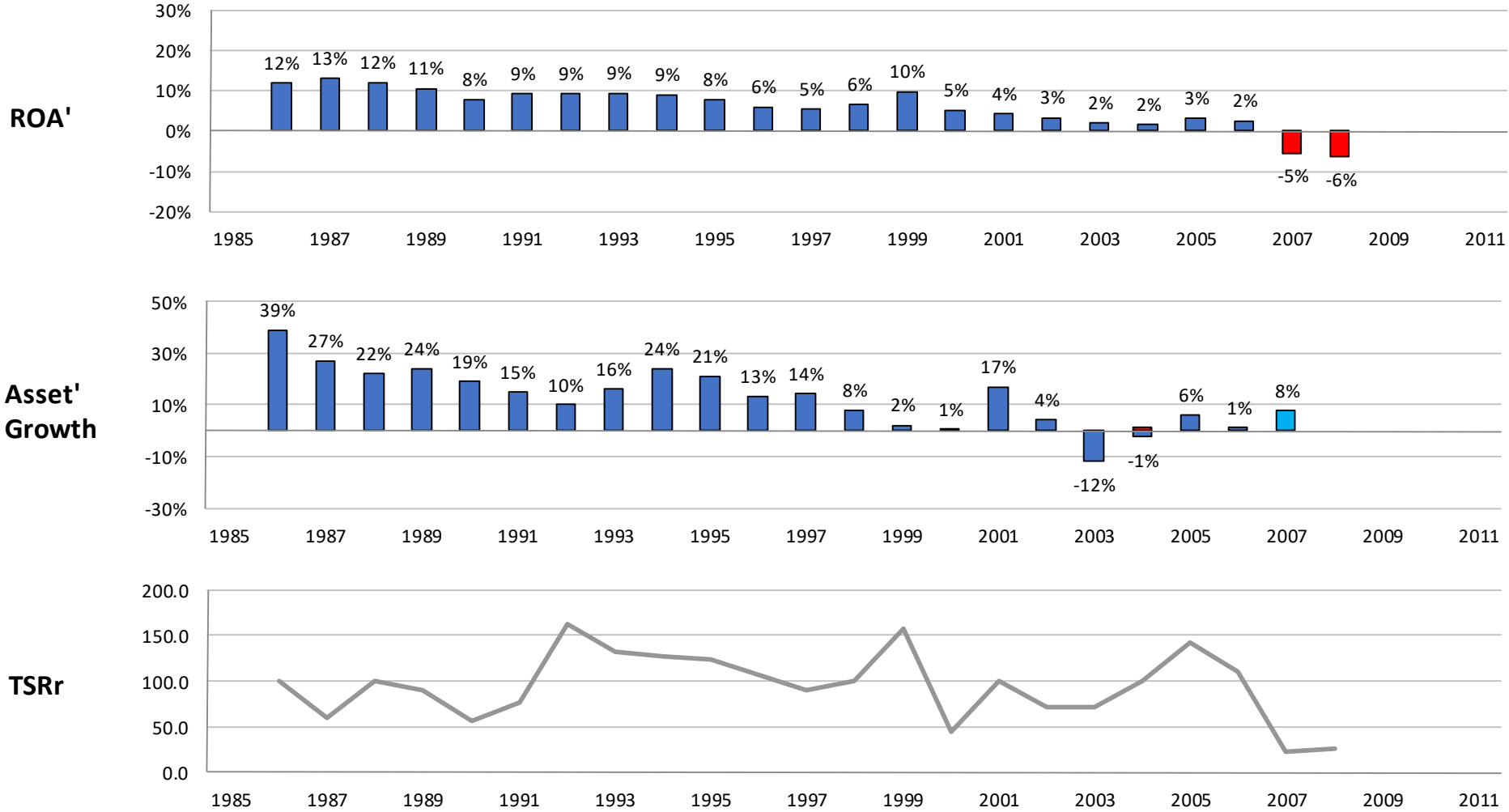
**Good to Great: Why Some Companies Make the Leap ... And Others Don't (HarperBusiness, 2001)*

What was the method used for
determining this select group?

CIRCUIT CITY STORES INC (CC)

Computer & Electronics Retail
Market Cap : 0.818 USD

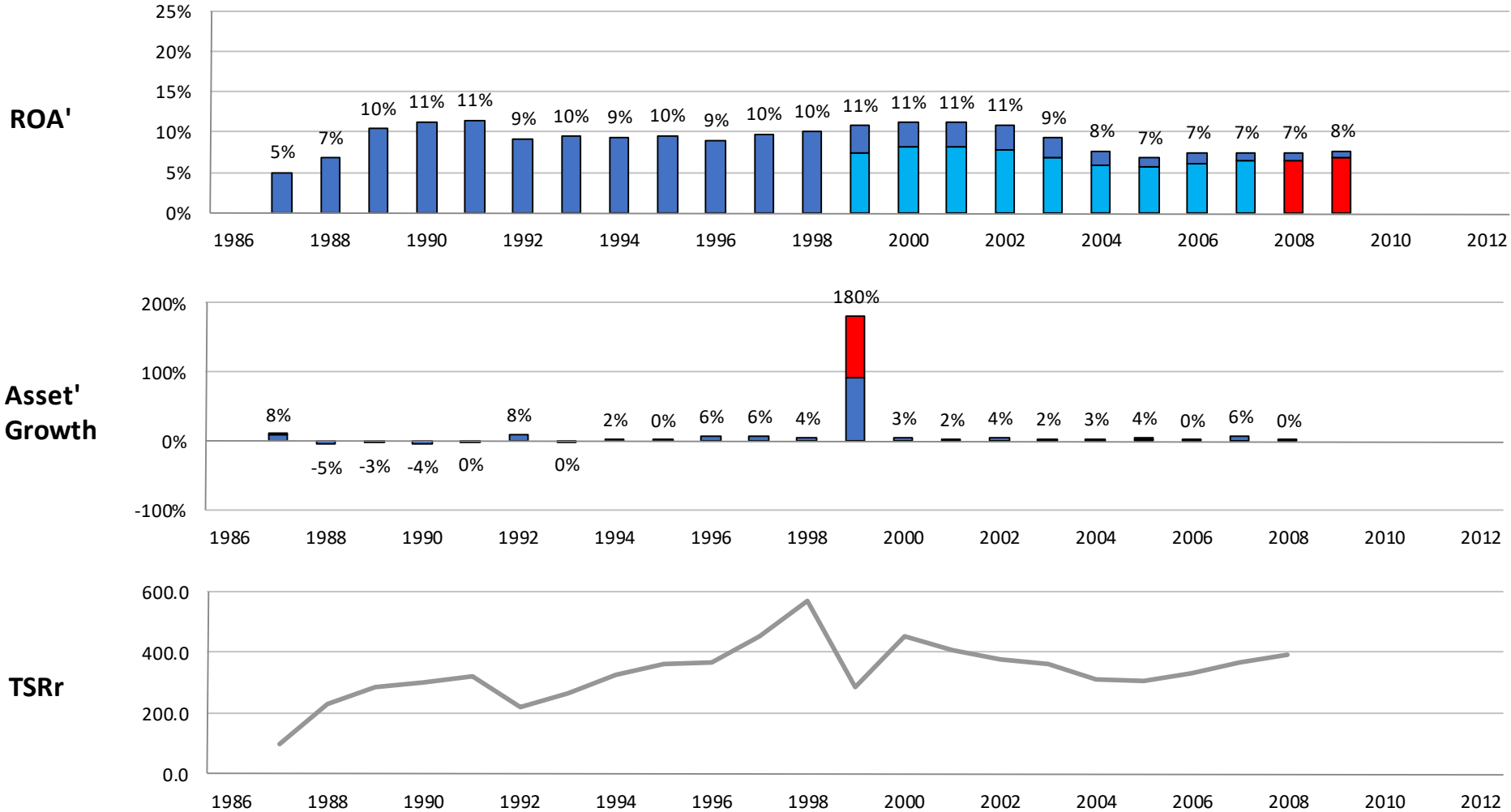
Price: 4.86 (May 2, 2008)



KROGER CO (KR)

Food Retail
Market Cap : 18.146 USD

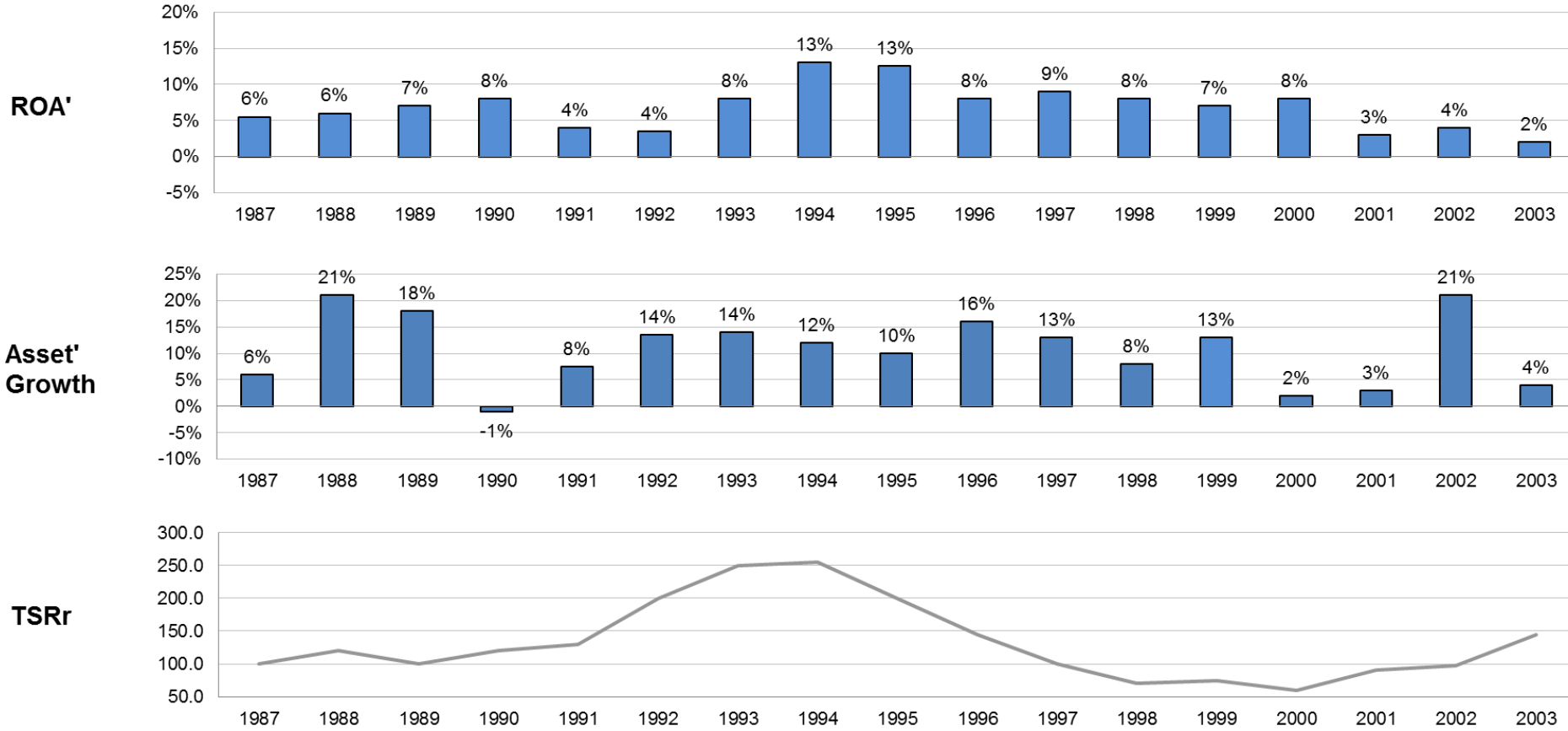
Price: 27.37 (May 2, 2008)



NUCOR CORP (NUE)

Steel
Market Cap : 21.398 USD

Price: 74.30 (May 2, 2008)



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Nucor Corp.

Pitney Bowes Inc.

Wells Fargo

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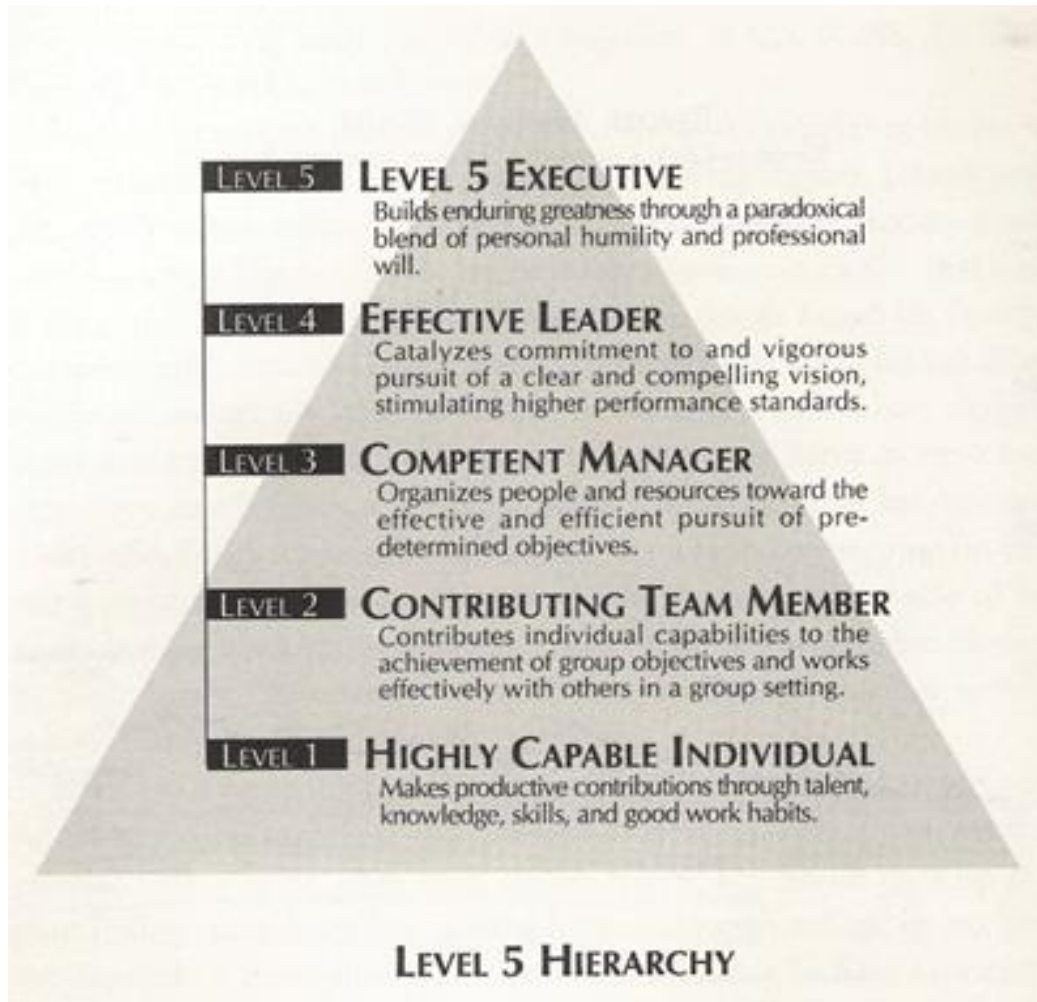
Kroger Co.

Philip Morris Cos. Inc.

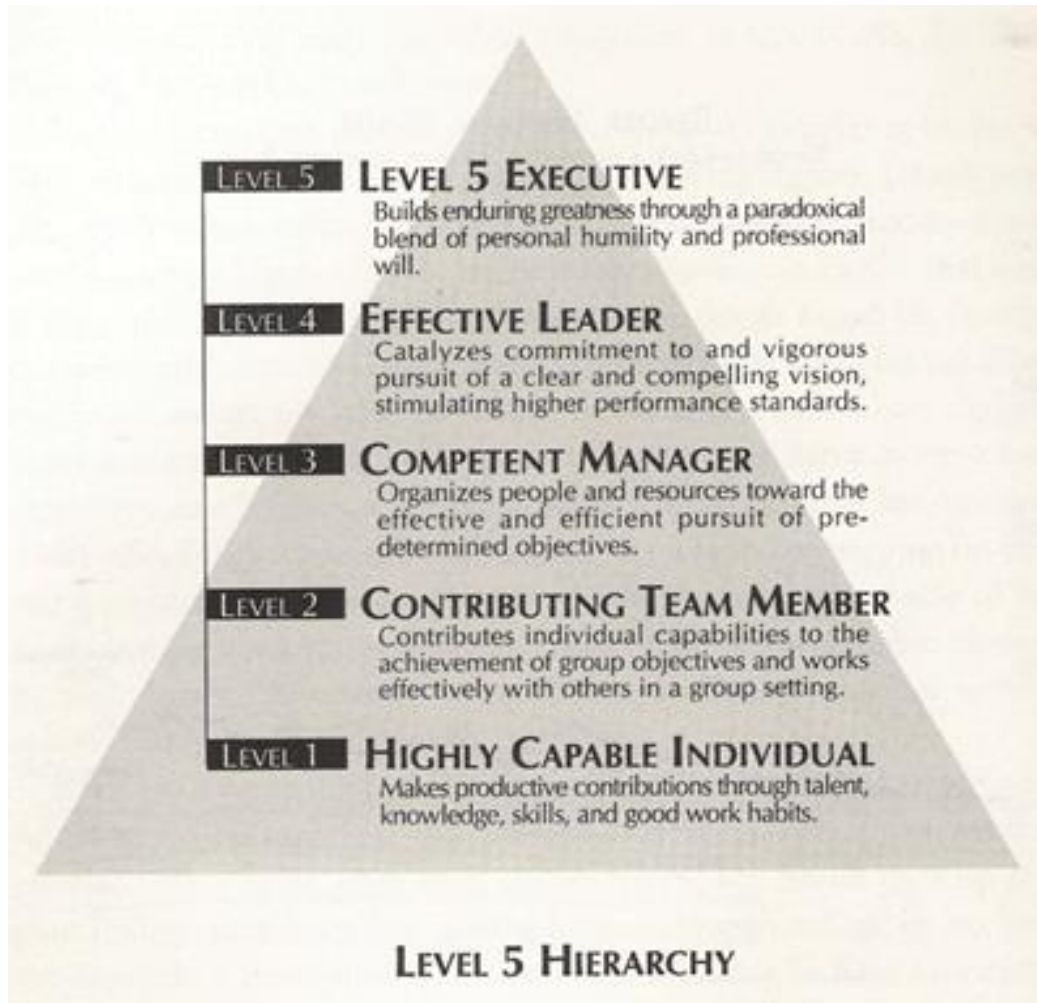
Walgreen Co.

**Good to Great: Why Some Companies Make the Leap ... And Others Don't (HarperBusiness, 2001)*

Does the conclusion for “Level 5 Leadership” hold water?



Does the conclusion for “Level 5 Leadership” hold water?



Are “great”
business leaders
mEEK and
un-charismatic?

Schwab
Ellison
Goizueta
Walton
Bloomberg
Jobs
Welch
Sloan
Ford...

From 1,435 companies studied,
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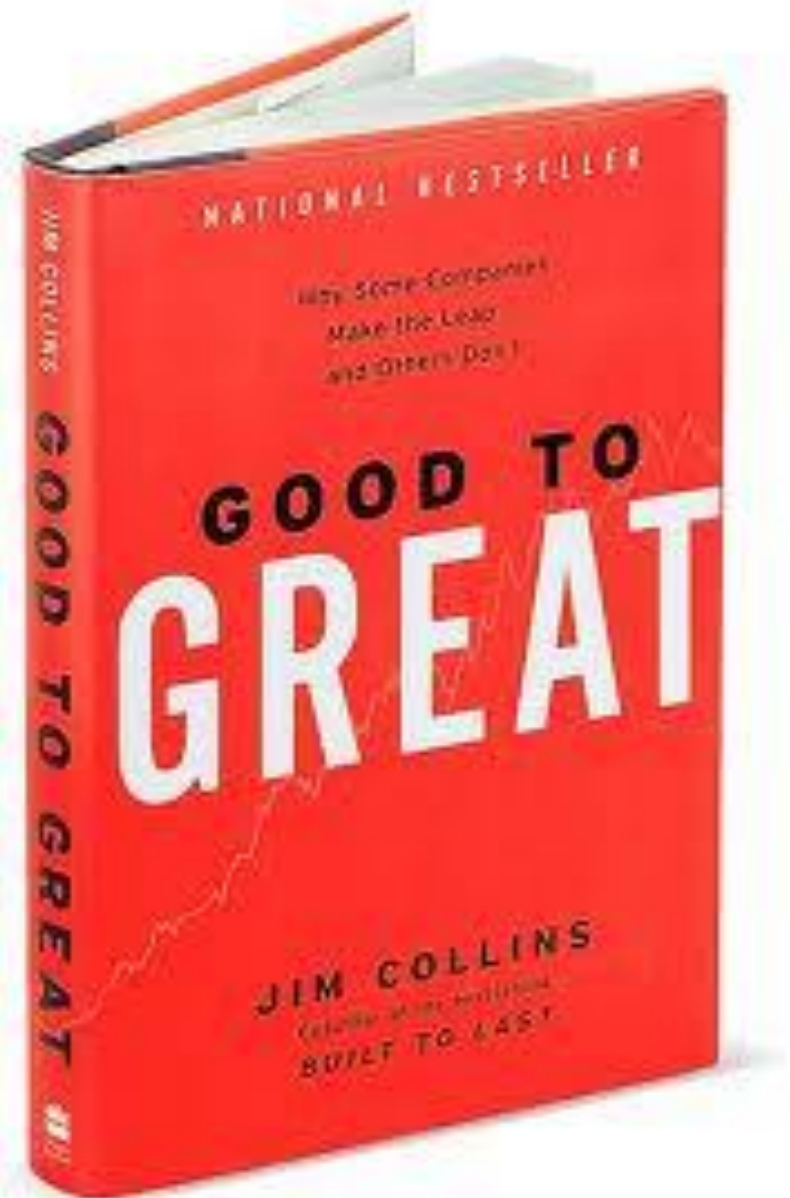
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Walgreen Co.

Wells Fargo

A better title?

**Good to Great: Why Some Companies Make the Leap ...
And Others Don't (HarperBusiness, 2001)*



Screening for great strategy and high performance

What is “great business strategy”?

Great business strategy results in great business performance

So, study the high-performers: Long-term approach to be certain

- *10+ Years ROA' about double (2x) or more the cost of capital, AND*
- *10+ Years Asset' Growth rates exceeding GDP (2x), AND*
- *10+ Years TSR consistent with ROA's and Growth*

Companies that have exhibited extraordinary performance



What is “great business strategy”?

Great business strategy results in great business performance

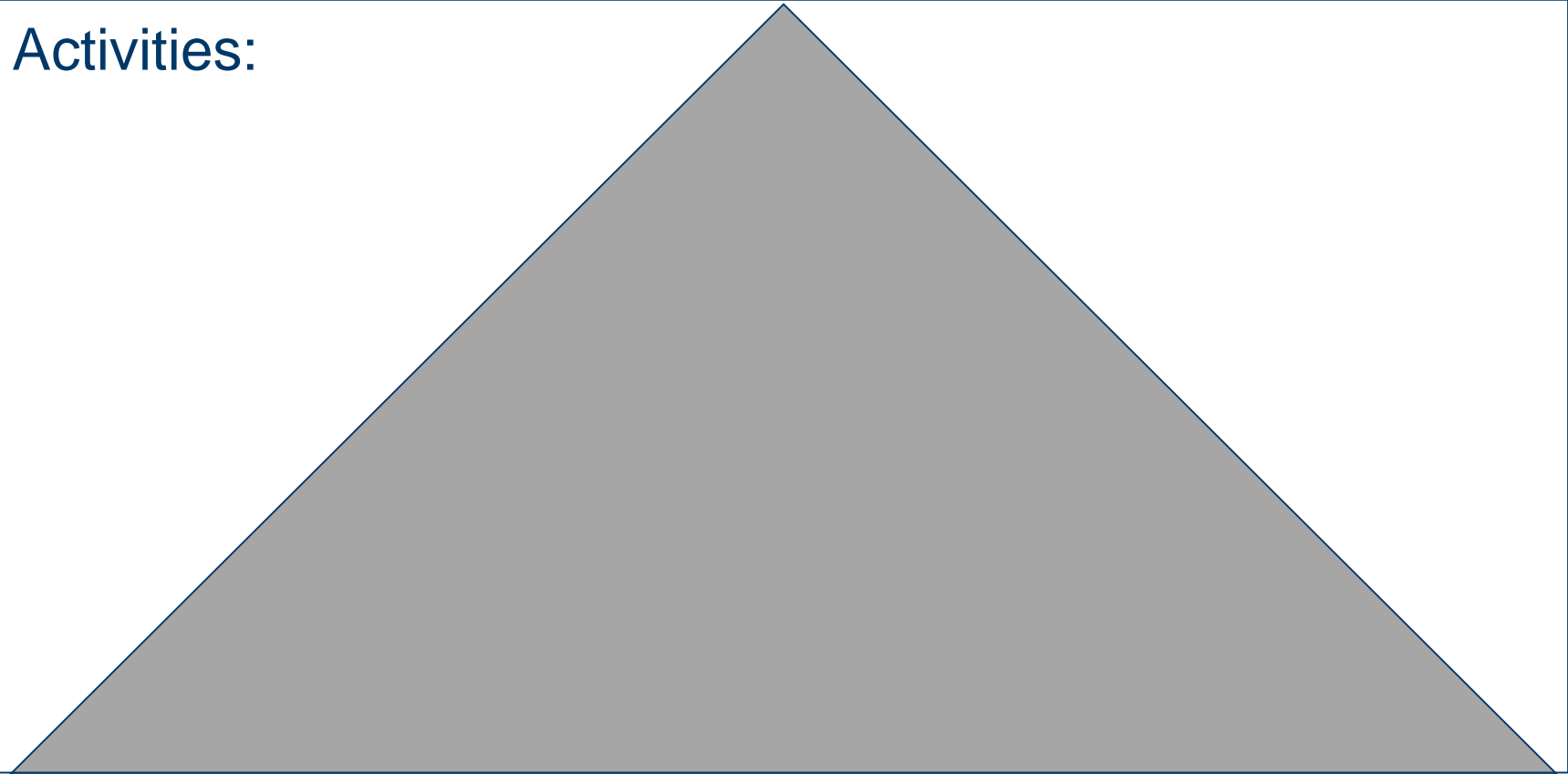
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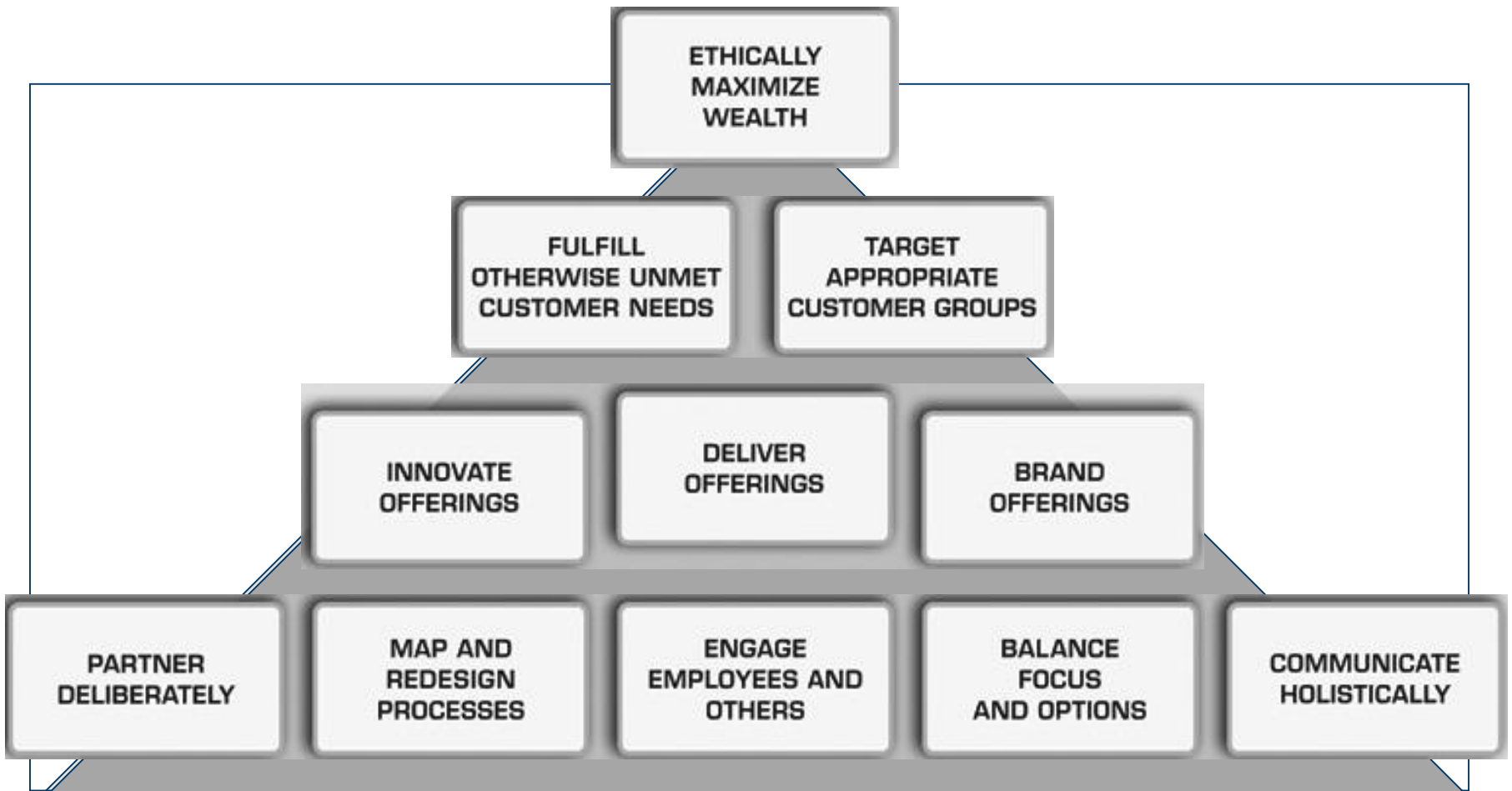
- *10+ Years ROA' about double (2x) or more the cost of capital, AND*
- *10+ Years Asset' Growth rates exceeding GDP (2x), AND*
- *10+ Years TSR consistent with ROA's and Growth*

40,000+ companies screened globally over 40+ years of performance

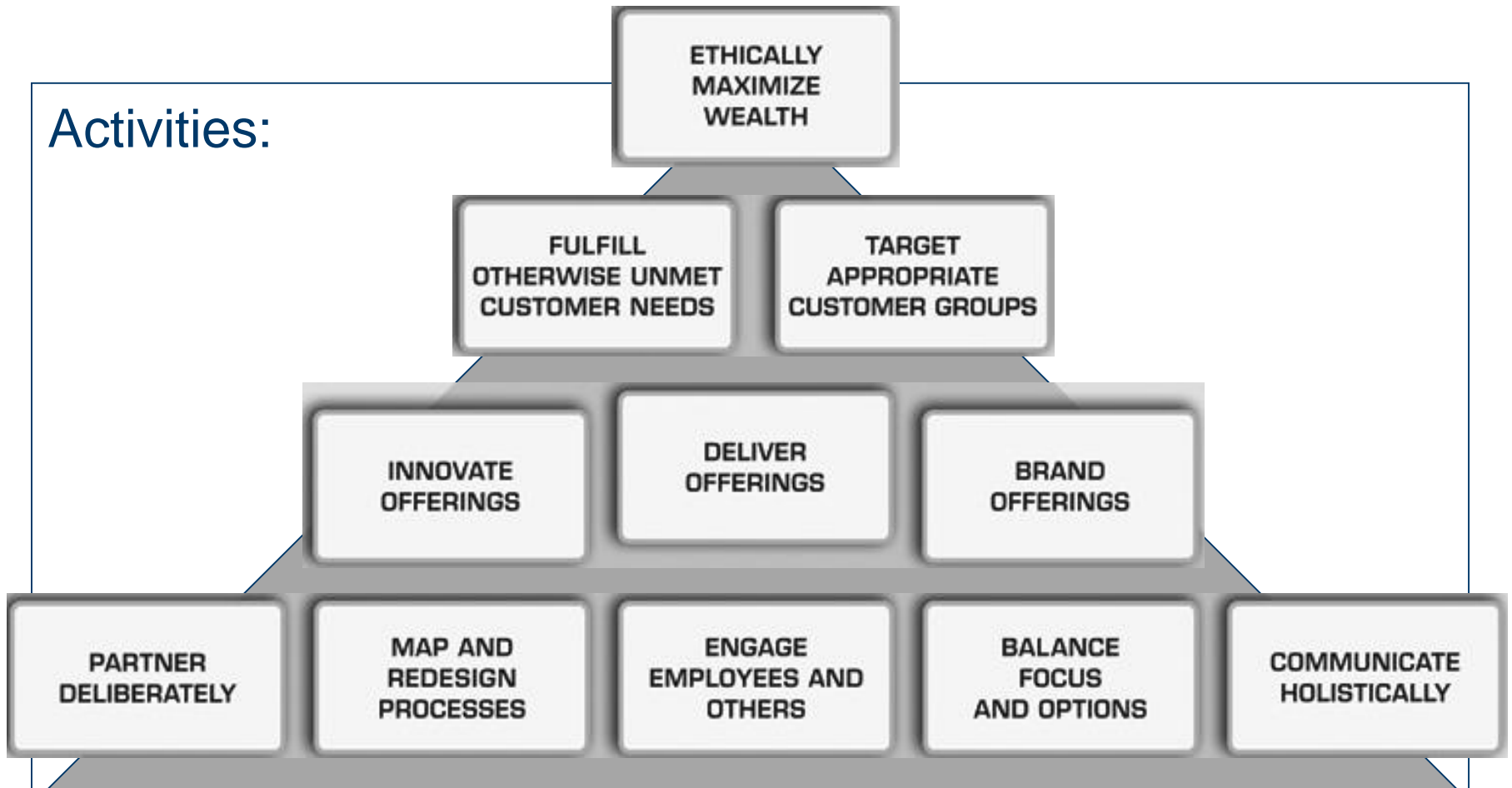
- *Common activities that led to great performance*
- *Common activities that led to poor performance*

Activities:



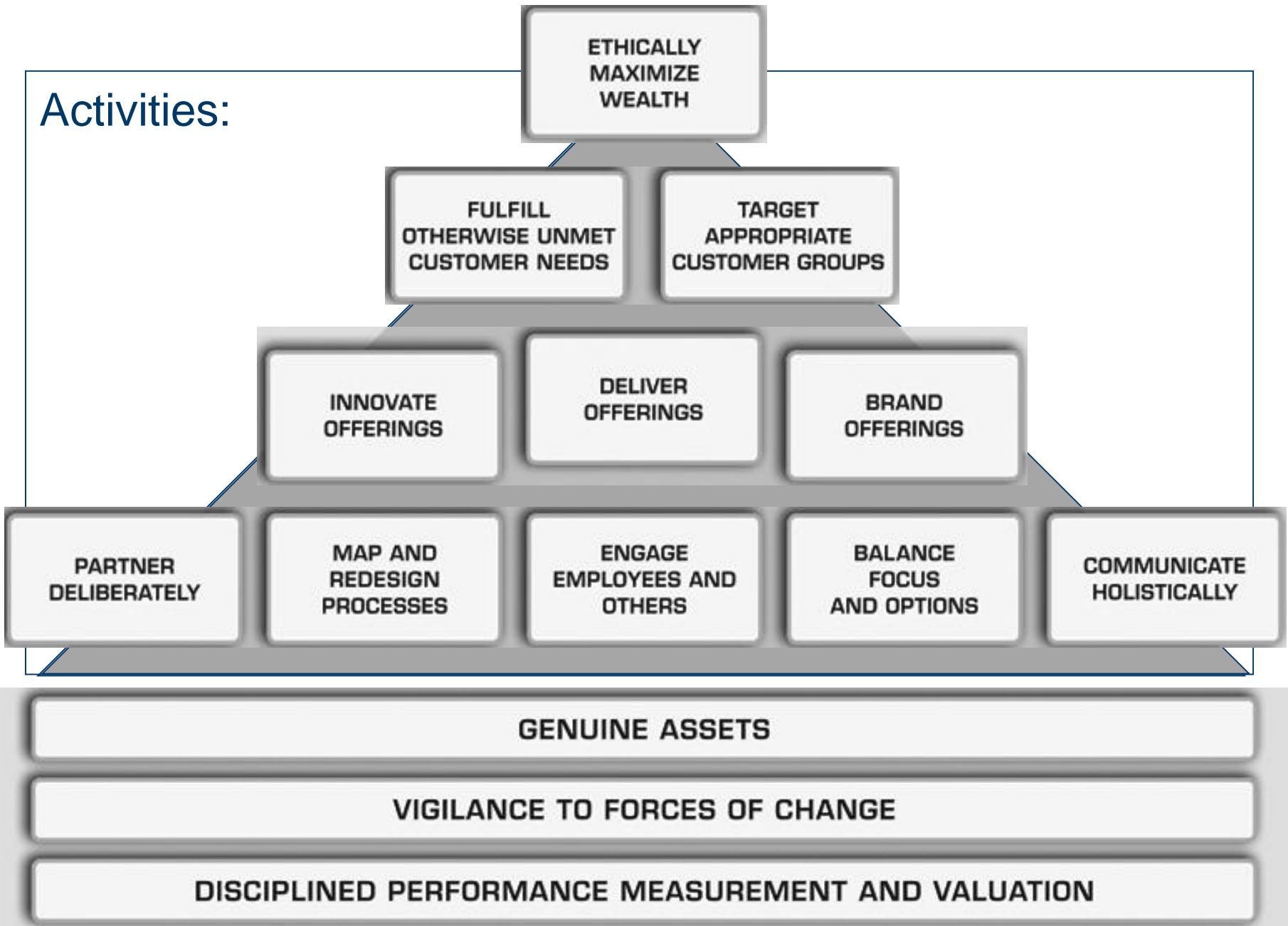


Activities:

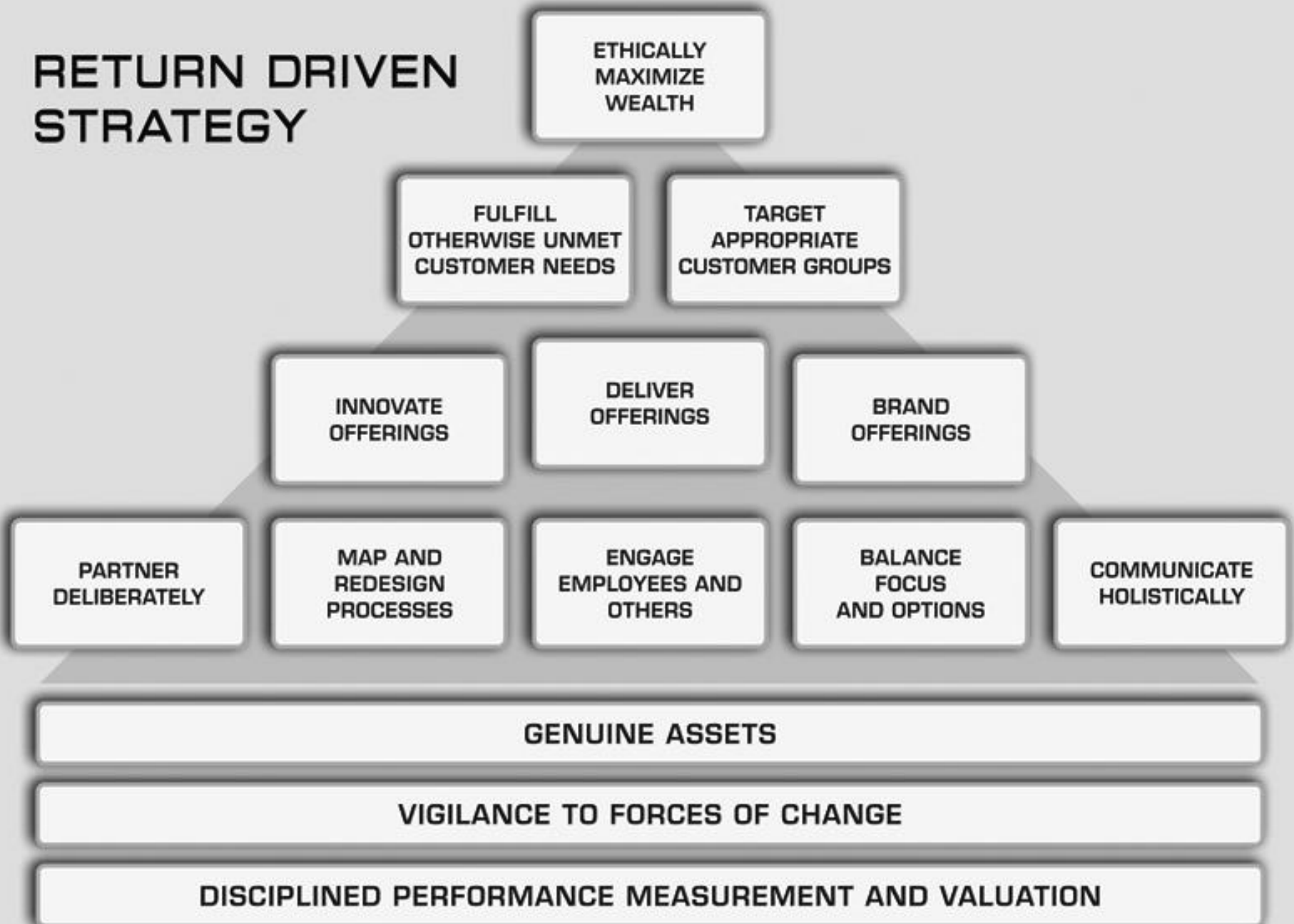


Foundations:

Activities:



RETURN DRIVEN STRATEGY



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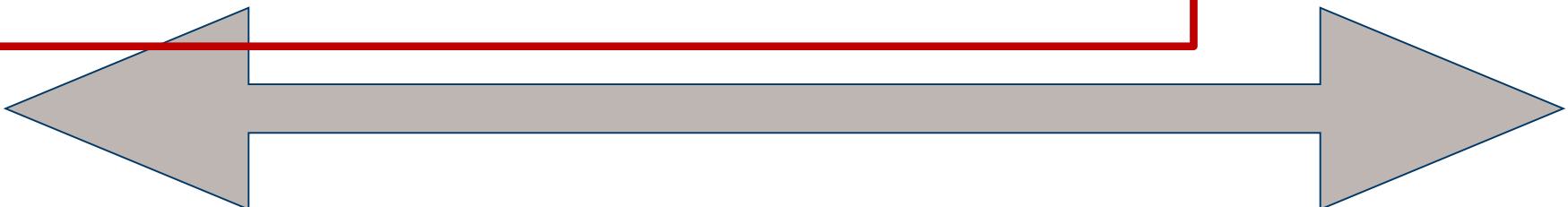
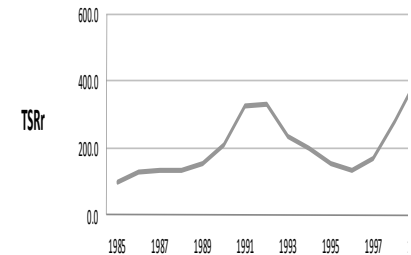
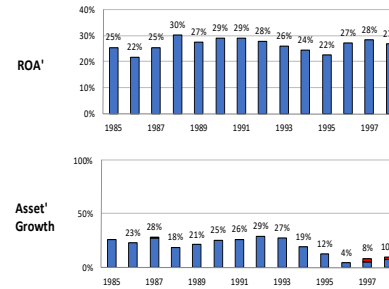
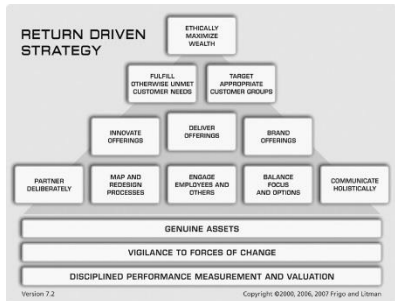
Forecasts

Strategy

Execution

Performance

Valuation



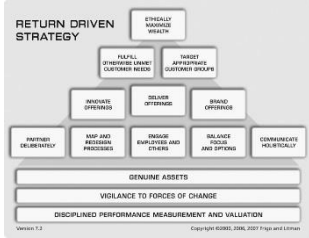
**ETHICALLY
MAXIMIZE
WEALTH**

GENUINE ASSETS

VIGILANCE TO FORCES OF CHANGE

DISCIPLINED PERFORMANCE MEASUREMENT AND VALUATION

Insights from Return Driven Strategy



The SEC Required Definitive Schedule 14A

“The DEF14A”

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

MORGAN STANLEY

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

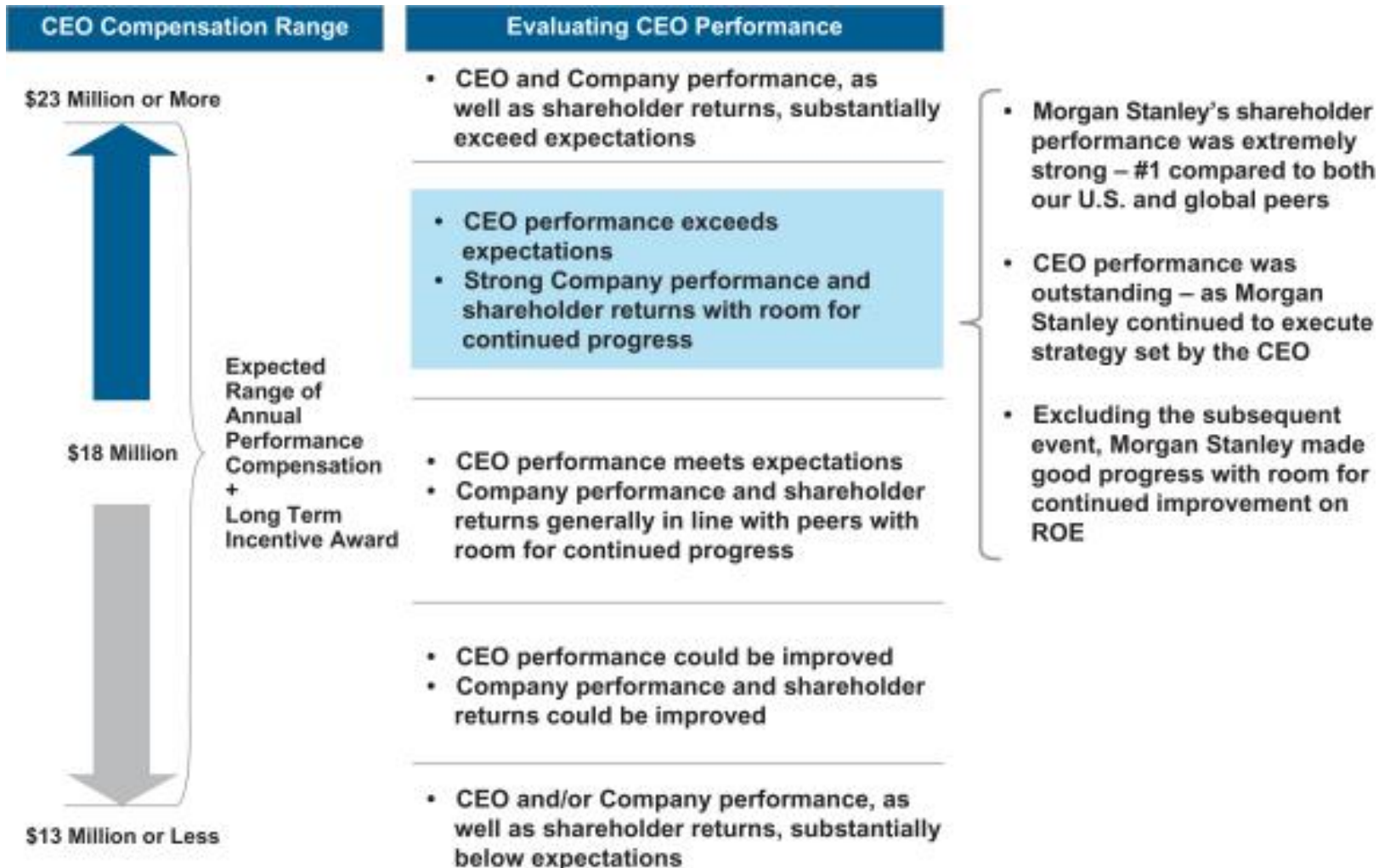
(5) Total fee paid:

-
- Fee paid previously with preliminary materials:
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- (1) Amount previously paid:

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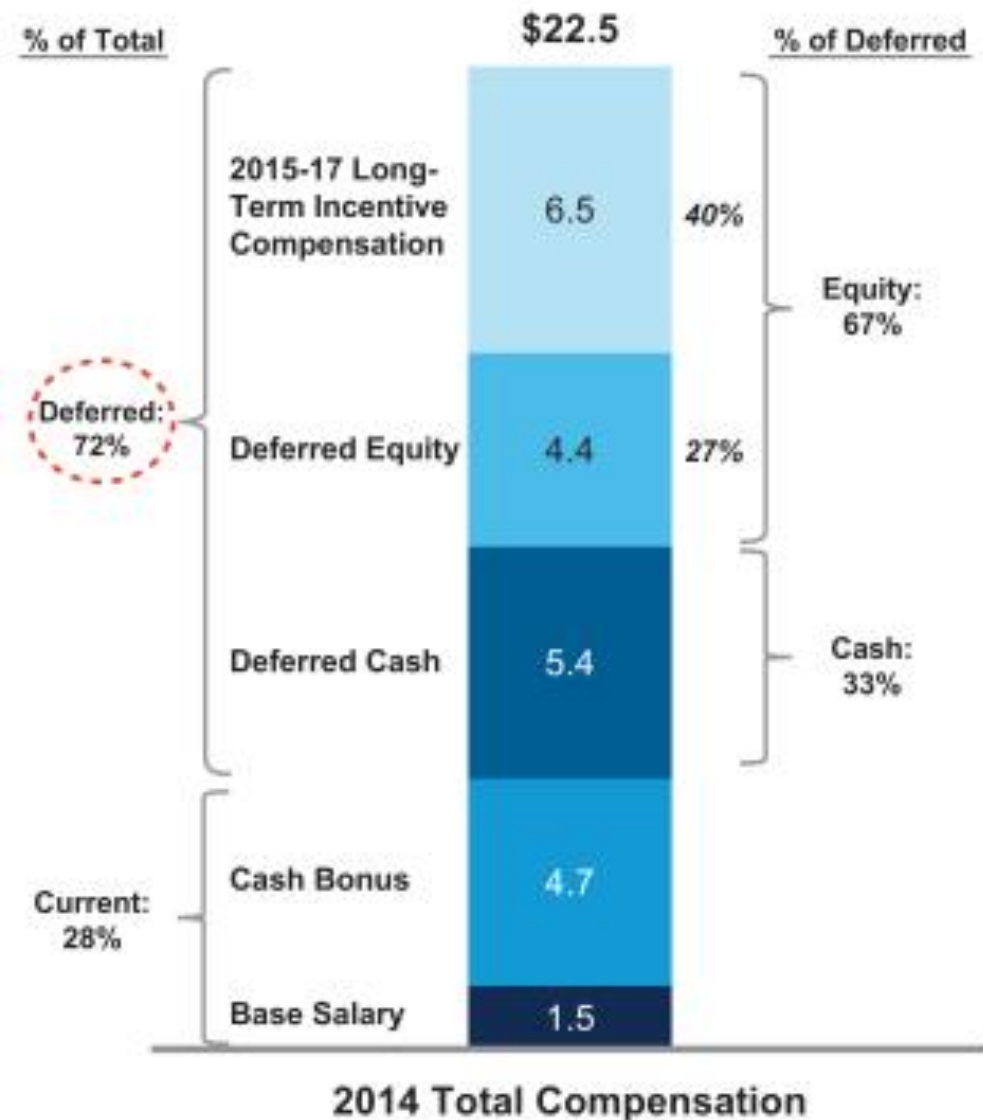


“...evaluated Company performance against a number of financial and market metrics on an absolute basis and relative to a comparison group comprised of Bank of America Corp., Barclays Plc, Citigroup Inc., Credit Suisse Group, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., UBS AG, and Wells Fargo & Company”



2014 CEO Compensation Elements

\$ Million



Deferred Compensation (72%)

Deferred Cash and Deferred Equity

- Deferred over three years
- Subject to cancellation and clawback

2015-17 Long-Term Incentive Compensation

- Realizable value determined after three years (2015-2017), based equally on two performance metrics: target average ROE of 10% and shareholder returns relative to the S&P Financials Index
- Payout can range from 0 – 1.5x target, depending on performance relative to target. TSR portion will not exceed 1.0x if there is negative TSR for the performance period
- Subject to cancellation and clawback

Current Compensation (28%)

Base Salary

- CEO base salary is equal to the median salary for the CEOs of the top five U.S. banks

Cash Bonus

- Cash bonus was awarded consistent with the Company-wide deferral schedule

Strategic Objective

Continue to improve Wealth Management margins through cost discipline and revenue growth

Improve Fixed Income and Commodities ROE: risk-weighted assets (RWAs) reductions and strategic solution for Commodities

Additional expense reductions and improvement in expense ratios

Progress regarding Morgan Stanley-specific growth opportunities: most notably, the U.S. Bank

Strategic Objective

2014 Progress

Continue to improve Wealth Management margins through cost discipline and revenue growth

Increased Wealth Management pretax margin⁽⁶⁾ from 18% in 2013 to 20% in 2014⁽⁷⁾

On track to achieve stated goal of 22-25% by year-end 2015

Improve Fixed Income and Commodities ROE: risk-weighted assets (RWAs) reductions and strategic solution for Commodities

Reduced Basel III RWAs⁽¹⁰⁾ in Fixed Income and Commodities from \$280 billion at year-end 2012 to \$210 billion at year-end 2013 and \$188 billion at year-end 2014 (excluding lending)

On track to achieve year-end 2015 target of <\$180 billion

Sold/divested TransMontaigne Inc. and CanTerm Canadian Terminals. Committed to selling Global Oil Merchanting business

Additional expense reductions and improvement in expense ratios

Non-compensation efficiency ratio (adjusted non-compensation expenses / net revenue) improved from 30% in 2013 to 29% in 2014⁽¹¹⁾

Institutional Securities incentive compensation restructured in order to reduce compensation to net revenue ratio to 39% or less starting in 2015

Progress regarding Morgan Stanley-specific growth opportunities: most notably, the U.S. Bank

Combined U.S. Bank assets increased 21%, from \$125 billion at year-end 2013 to \$151 billion at year-end 2014

Combined U.S. Bank loan balances grew 70%, from \$35.0 billion at year-end 2013 to \$59.6 billion at year-end 2014⁽¹²⁾

Monetary goals:

Level of cash flow

Volatility/stability of cash flow

Purpose of the cash flow

Monetary goals:

Level of cash flow

Volatility/stability of cash flow

Purpose of the cash flow

And, what are the non-monetary goals?



Home

In order to achieve wealth,
shouldn't we first define it?



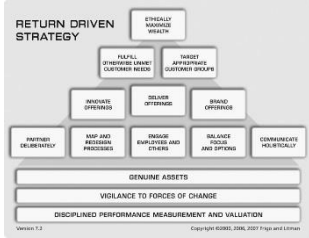
**ETHICALLY
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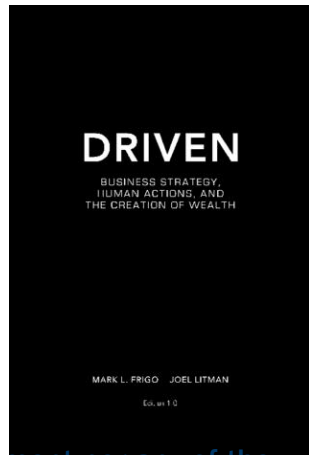
Insights from Return Driven Strategy



Why Ethics?

Rule No. 1

Rule No. 2



Rules number one and two...

Rules number one and two...

Enron

ENRON SCANDAL (2001)

COMPANY

Houston-based commodities, energy and service corporation



WHAT HAPPENED

Shareholders lost \$74 billion, thousands of employees and investors lost their retirement accounts, and many employees lost their jobs.



MAIN PLAYERS

CEO Jeff Skilling and former CEO Ken Lay



PENALTIES

Lay died before serving time; Skilling got **24 years in prison**. The company filed for bankruptcy. Arthur Andersen was found guilty of fudging Enron's accounts.



HOW THEY DID IT

Kept huge debts off the balance sheets.



HOW THEY GOT CAUGHT

Turned in by internal whistleblower Sherron Watkins; high stock prices fueled suspicions.



FUN FACT

Fortune Magazine named Enron "America's Most Innovative Company" for six years in a row prior to the scandal.



Rules number one and two...

Enron, Worldcom

WORLD COM SCANDAL

(2002)



COMPANY

Telecommunications company; now MCI, Inc.

WHAT HAPPENED

Inflated assets by as much as **\$11 billion**, leading to 30,000 lost jobs and \$180 billion in losses for investors.



MAIN PLAYER

CEO Bernie Ebbers

HOW HE DID IT

Underreported line costs by capitalizing rather than expensing, and inflated revenues with fake accounting entries.



HOW HE GOT CAUGHT

WorldCom's internal auditing department uncovered **\$3.8 billion** in fraud.



PENALTIES

CFO was fired, controller resigned, and the company filed for bankruptcy. Ebbers **sentenced to 25 years for fraud**, conspiracy and filing false documents with regulators.



FUN FACT

Following the scandal, Congress passed the Sarbanes-Oxley Act, introducing the most sweeping set of new business regulations since the 1930s.



Rules number one and two...

Enron, Worldcom, Adelphia, Tyco, Waste
Management

WASTE MANAGEMENT SCANDAL (1998)

COMPANY

Houston-based, publicly traded waste management company



WHAT HAPPENED

Reported **\$1.7 billion** in fake earnings.



MAIN PLAYERS

Founder/CEO/Chairman
Dean L. Buntrock
and top executives



Arthur Andersen
Company (auditors)

HOW THEY DID IT

The company allegedly falsely increased the depreciation time length for their property, plant and equipment on the balance sheets.



HOW THEY GOT CAUGHT

A new CEO and management team went through the books.



PENALTIES

Settled a shareholder class-action suit for **\$457 million**; SEC fined Arthur Andersen **\$7 million**.



\$457m

FUN FACT

After the scandal, the new CEO A. Maurice Meyers set up an anonymous company hotline where employees could report dishonest or improper behavior.



Rules number one and two...

Enron, Worldcom, Adelphia, Tyco, Waste
Management, Rite Aid, ZZZZ Best, Krispy Kreme,
Computer Associates, Global Crossing, Lucent,
Microstrategy, Sunbeam, Xerox, Tyco

TYCO SCANDAL (2002)

COMPANY



New Jersey-based
blue-chip Swiss security systems company

WHAT HAPPENED

CEO & CFO stole \$150 million
and inflated company income
by \$500 million.



MAIN PLAYERS

CEO Dennis Kozlowski and
former CFO Mark Swartz



HOW THEY DID IT

Siphoned money through
unapproved loans and fraud-
ulent stock sales. Money was
smuggled out of the company
disguised as executive bonuses
or benefits.



HOW THEY GOT CAUGHT

SEC and Manhattan D.A. investigations
uncovered questionable accounting practices,
including large loans made to Kozlowski
that were then forgiven.

PENALTIES

Kozlowski and Swartz were
sentenced to **8-25 years in prison**.
A class-action lawsuit forced
Tyco to pay **\$2.92 billion** to investors.



8-25 YEARS



2.92 Bill.

FUN FACT

At the height of the scandal Kozlowski
threw a **\$2 million birthday party**
for his wife on an island, complete
with a Jimmy Buffett performance.



Rules number one and two...

Enron, Worldcom, Adelphia, Tyco, Waste
Management, Rite Aid, ZZZZ Best, Krispy Kreme,
Computer Associates, Global Crossing, Lucent,
Microstrategy, Sunbeam, Xerox, Tyco,
Healthsouth

HEALTHSOUTH SCANDAL (2003)

COMPANY  **HEALTHSOUTH**

Largest publicly traded health care company in the U.S.

WHAT HAPPENED

Earnings numbers were allegedly **inflated \$1.4 billion** to meet stockholder expectations.



MAIN PLAYER

CEO Richard Scrushy

HOW HE DID IT

Allegedly told underlings to make up numbers and transactions from 1996-2003.



HOW HE GOT CAUGHT

Sold \$75 million in stock a day before the company posted a huge loss, triggering SEC suspicions.



PENALTIES

Scrushy was acquitted of all 36 counts of accounting fraud, but convicted of bribing the governor of Alabama, leading to a 7-year prison sentence.



FUN FACT

Scrushy now works as a motivational speaker and maintains his innocence.

**NOT
GUILTY?**

Rules number one and two...

Enron, Worldcom, Adelphia, Tyco, Waste
Management, Rite Aid, ZZZZ Best, Krispy Kreme,
Computer Associates, Global Crossing, Lucent,
Microstrategy, Sunbeam, Xerox, Tyco, AIG

AMERICAN INSURANCE GROUP SCANDAL (2005)

COMPANY

Multinational insurance corporation



WHAT HAPPENED

Massive accounting fraud to the tune of \$3.9 billion was alleged, along with bid-rigging and stock price manipulation.



MAIN PLAYERS

CEO Hank Greenberg

HOW HE DID IT

Allegedly booked loans as revenue, steered clients to insurers with whom AIG had payoff agreements, and told traders to inflate stock prices.

HOW HE GOT CAUGHT

SEC regulator investigations, possibly tipped off by a whistle-blower.



PENALTIES

Settled with the SEC for \$10 million in 2003 and \$1.64 billion in 2006, with a Louisiana pension fund for \$115 million, and with 3 Ohio pension funds for \$725 million. Greenberg was fired, but has faced no criminal charges.



FUN FACT

After posting the largest quarterly corporate loss in history in 2008 (\$61.7 billion) and getting bailed out with taxpayer dollars, AIG execs rewarded themselves with over \$165 million in bonuses.



Rules number one and two...

Enron, Worldcom, Adelphia, Tyco, Waste
Management, Rite Aid, ZZZZ Best, Krispy Kreme,
Computer Associates, Global Crossing, Lucent,
Microstrategy, Sunbeam, Xerox, Tyco, AIG,
Valeant

S&P 500
2,154.79
8.69 (0.40%)



Dow 30
18,181.29
86.46 (0.48%)



Nasdaq
5,289.42
31.93 (0.61%)



Press F11 to exit full screen

44.37
-1.56 (-3.40%)



Valeant Pharmaceuticals International, Inc. (VRX) 26.05 0.16 (0.60%) As of 11:33 AM EDT. NYSE Real Time Price. Market open.



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Rules number one and two...

Enron, Worldcom, Adelphia, Tyco, Waste
Management, Rite Aid, ZZZZ Best, Krispy Kreme,
Computer Associates, Global Crossing, Lucent,
Microstrategy, Sunbeam, Xerox, Tyco, AIG,
Valeant, Volkswagen

S&P 500

2,154.66
8.56 (0.40%)



Dow 30

18,180.43
85.60 (0.47%)



Nasdaq

5,288.59
31.10 (0.59%)



Know More

charles SCHWAB

Schwab Trading Services

Scottd

Qualify for & 50 Fre Restrictio

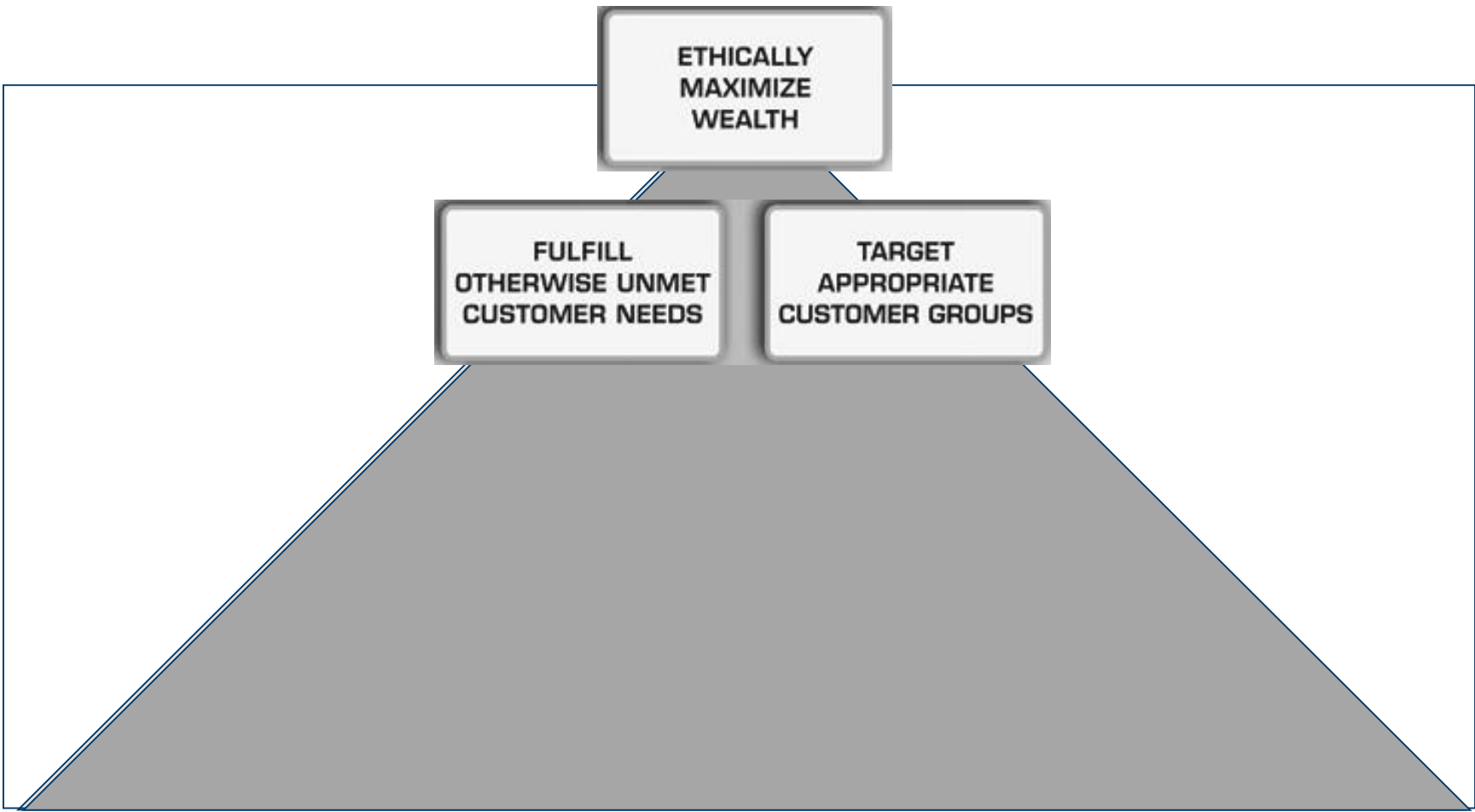
Volkswagen AG (VLKAY) 27.65 -0.76 (-2.68%) As of 11:21 AM EDT. Other OTC Delayed Price. Market open.



Ethical behavior does not
guarantee success

Ethical behavior does not
guarantee success

It reduces the risk of
massive financial failure



GENUINE ASSETS

VIGILANCE TO FORCES OF CHANGE

DISCIPLINED PERFORMANCE MEASUREMENT AND VALUATION

Great product

VS.

Great business

PCs: AAPL, IBM, DELL

Apple desktops and notebooks

“...removed from the survey... because the company scores so high that it’s like the class genius blowing the curve...”

PC Magazine 18th Annual survey

Notebooks

Reliability	Tech Support	Repairs	% Needing Repair
<ol style="list-style-type: none">AppleFujitsuIBMAveratecAcerDellSonyToshibaHP/CompaqGateway	<ol style="list-style-type: none">AppleIBMDellToshibaGatewayHP/CompaqSony	<ol style="list-style-type: none">AppleIBMDellToshibaHP/CompaqGatewaySony	<ol style="list-style-type: none">AveratecAppleAcerHP/CompaqSonyToshibaFujitsuIBMDellGateway

Source: 18th Annual Reader Satisfaction Survey, www.pcmag.com

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Desktops

Reliability	Tech Support	Repairs	% Needing Repair
<ol style="list-style-type: none"> Apple Alienware Clone MPC/Micron Sony Dell ABS Shuttle Gateway Systemax IBM eMachines HP/Compaq 	<ol style="list-style-type: none"> Apple Clone IBM eMachines HP/Compaq Dell Gateway Sony 	<ol style="list-style-type: none"> Clone eMachines IBM HP/Compaq Dell Gateway Sony 	<ol style="list-style-type: none"> Apple Sony Shuttle Dell eMachines Alienware HP/Compaq Systemax IBM Gateway MPC/Micron Clone ABS

Source: 18th Annual Reader Satisfaction Survey, www.pcmag.com

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IBM Tops the PC Market With PC Hardware

“...outperformed its chief competitors in customer satisfaction with notebook hardware quality and reliability...”

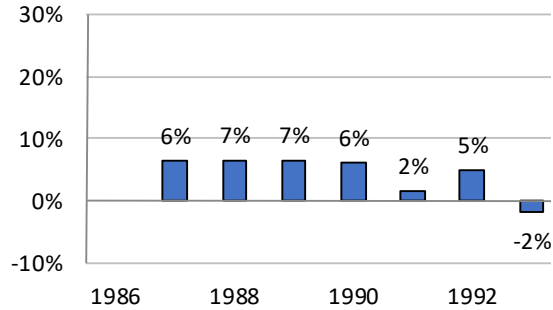
(1)Technology Business Research, Inc., "Corporate IT Buying Behavior & Customer Satisfaction Study: Notebooks -- First Quarter 2004," May 27, 2004.

INTL BUSINESS MACHINES CORP (IBM)

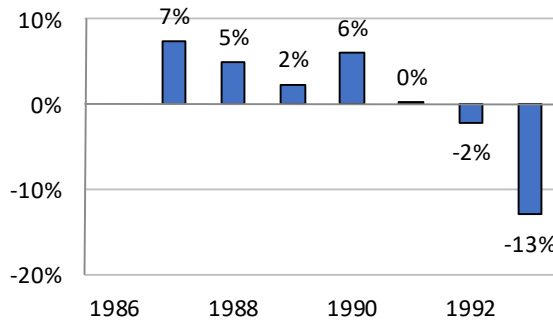
Computer Hardware

Market Cap : 157.834 USD

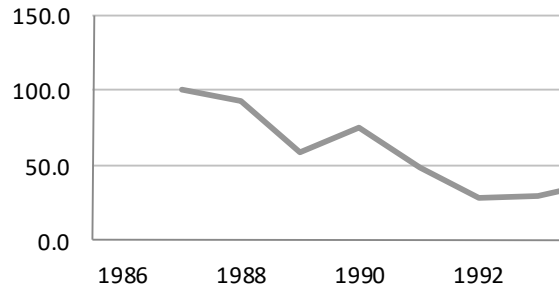
ROA'



Asset' Growth



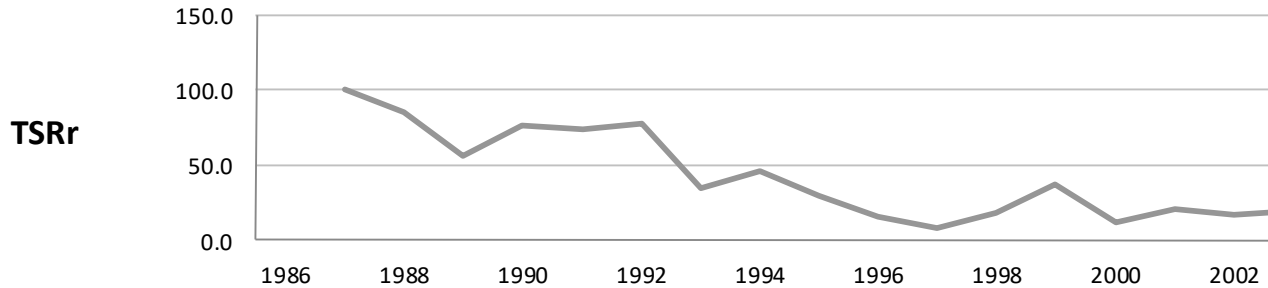
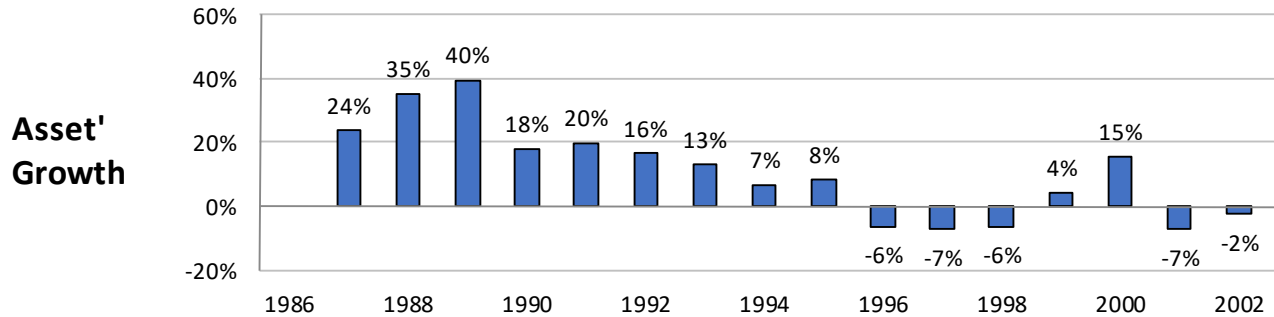
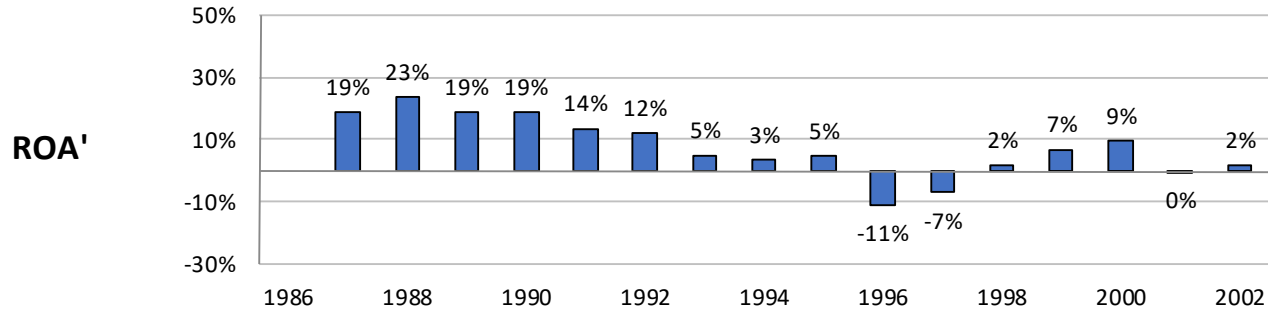
TSRr



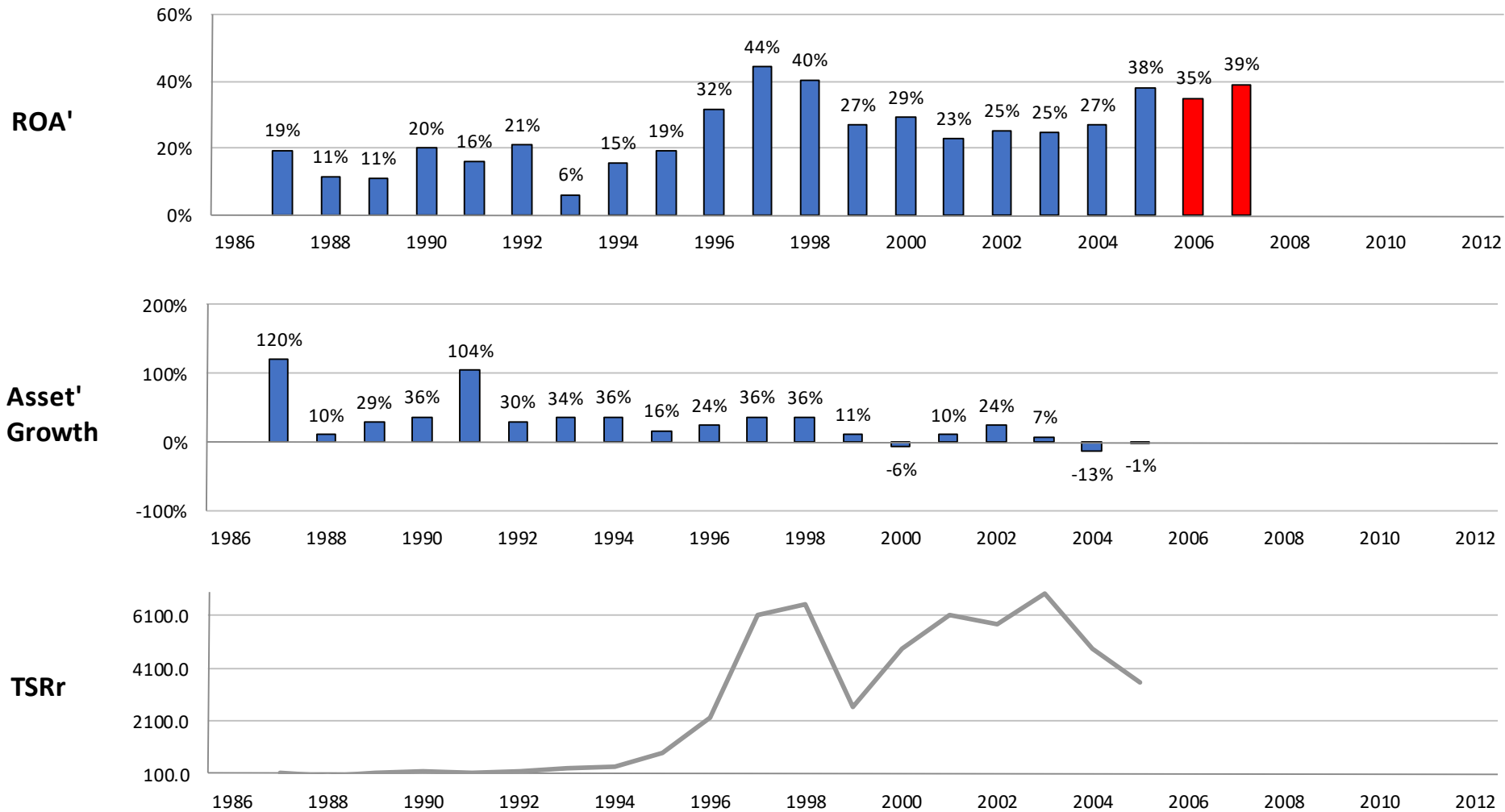
APPLE INC (AAPL)

Computer Hardware

Market Cap : 107.412 USD



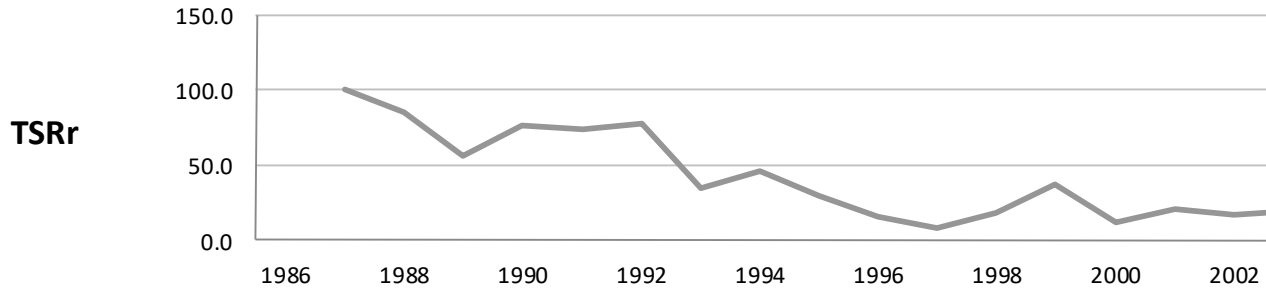
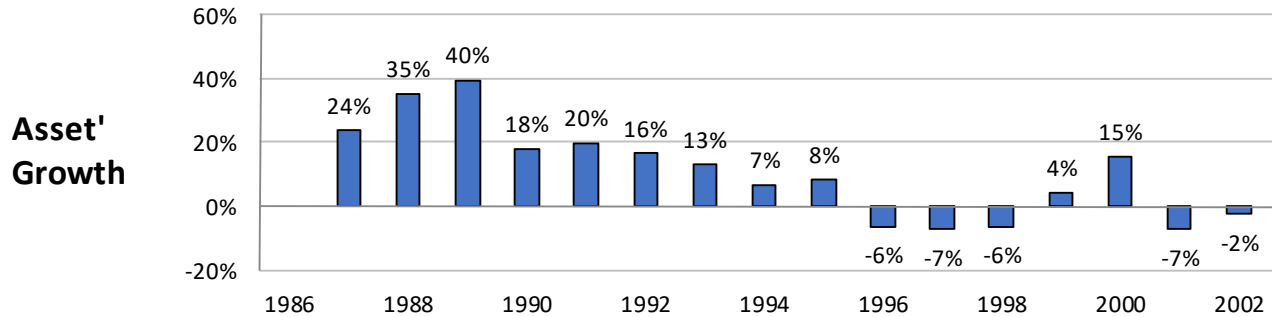
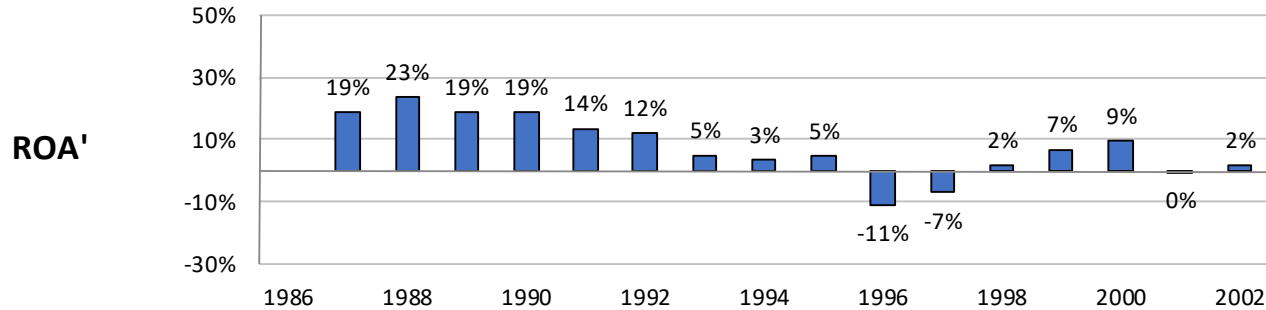
DELL – What is the real unmet need of the customer?



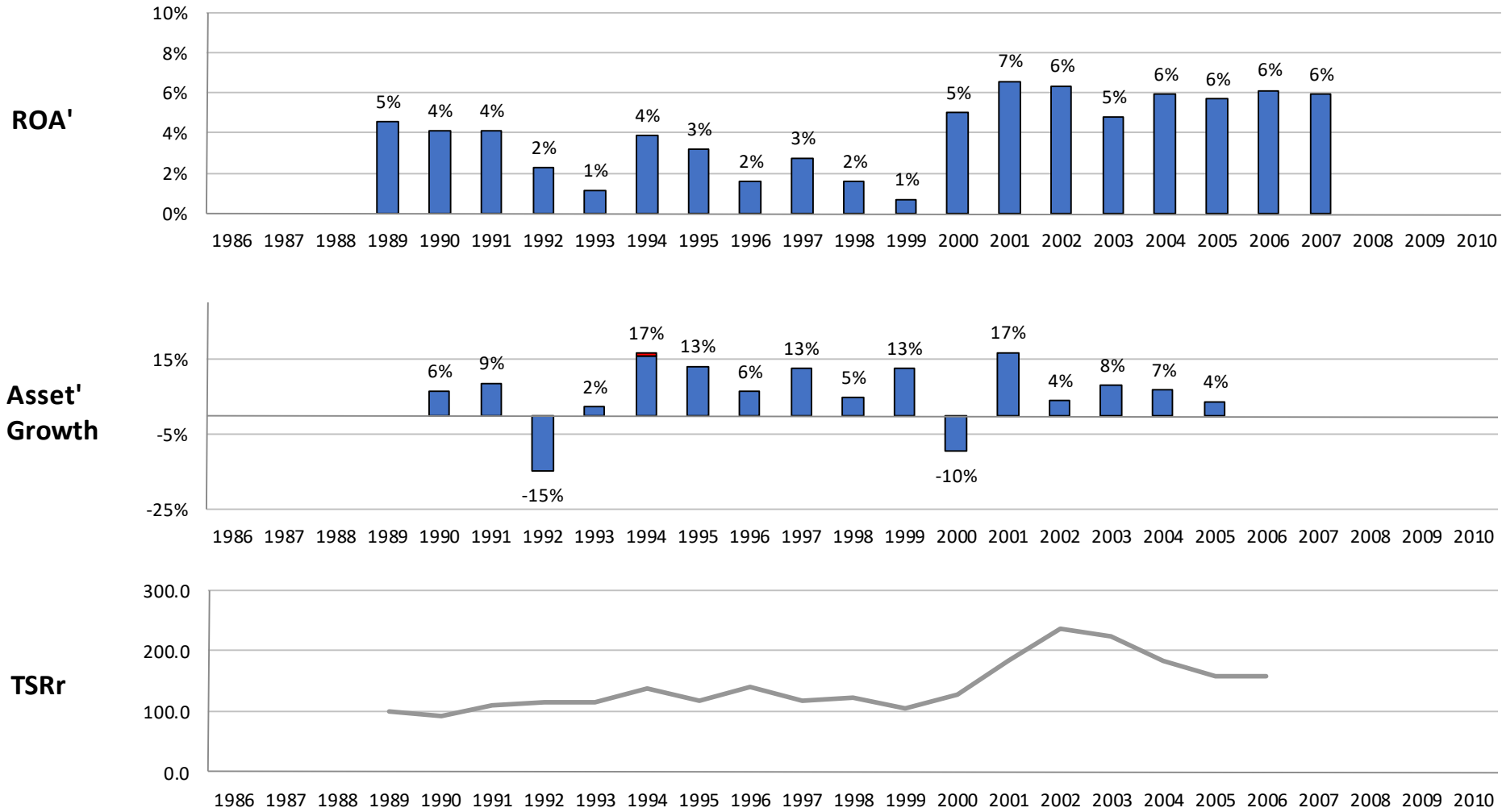
APPLE INC (AAPL)

Computer Hardware

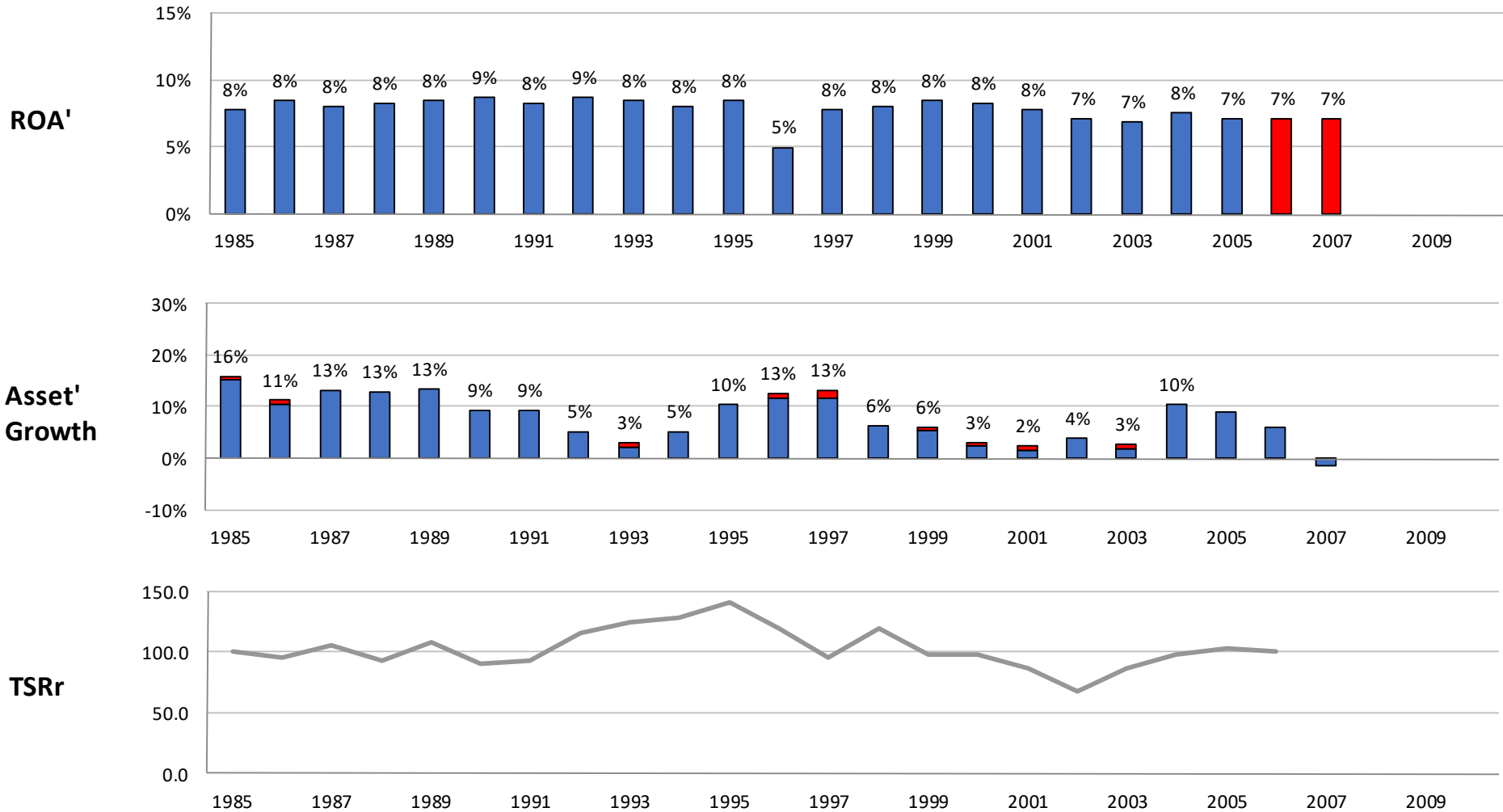
Market Cap : 107.412 USD



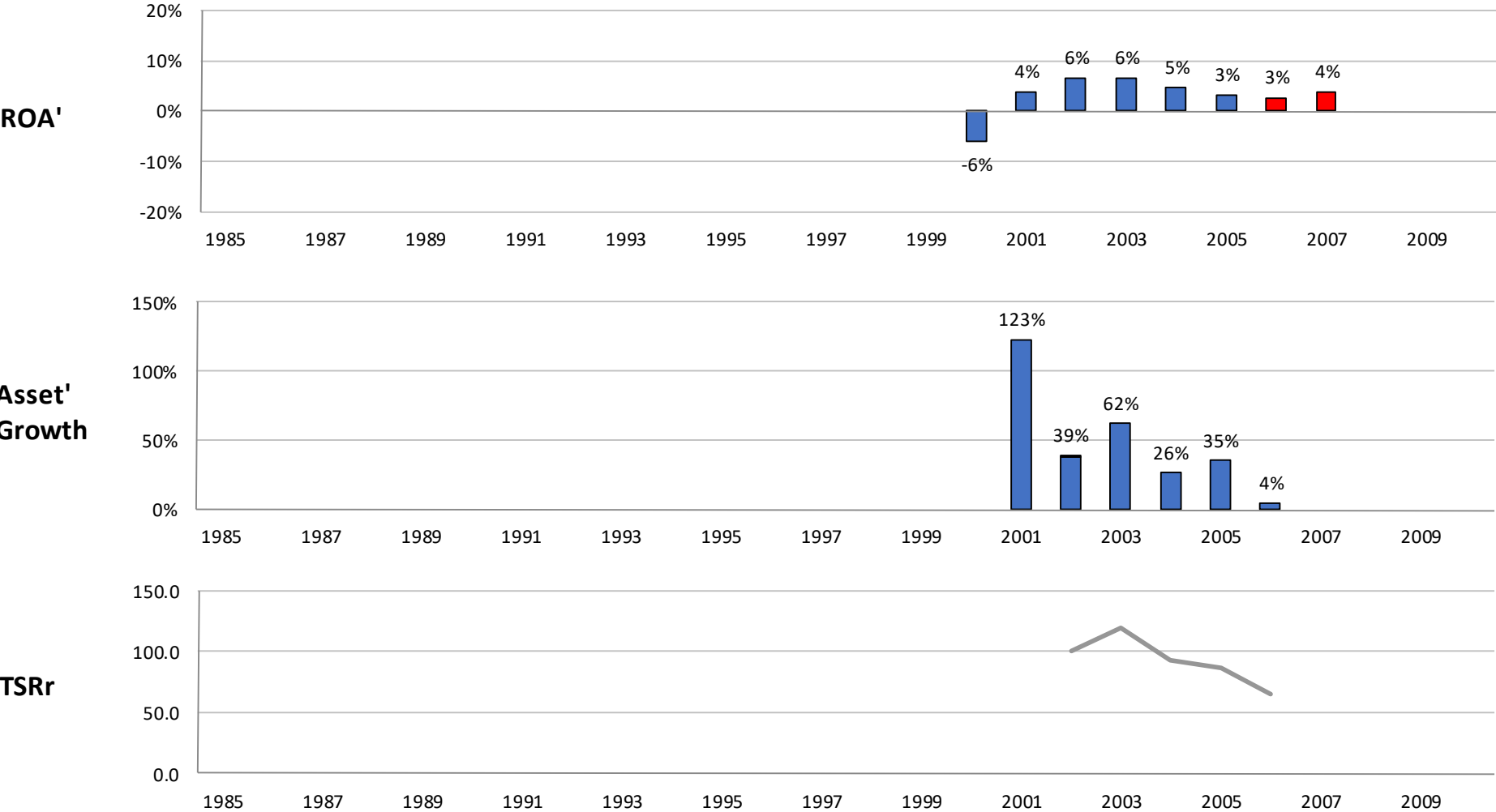
BMW – Great product vs. great business



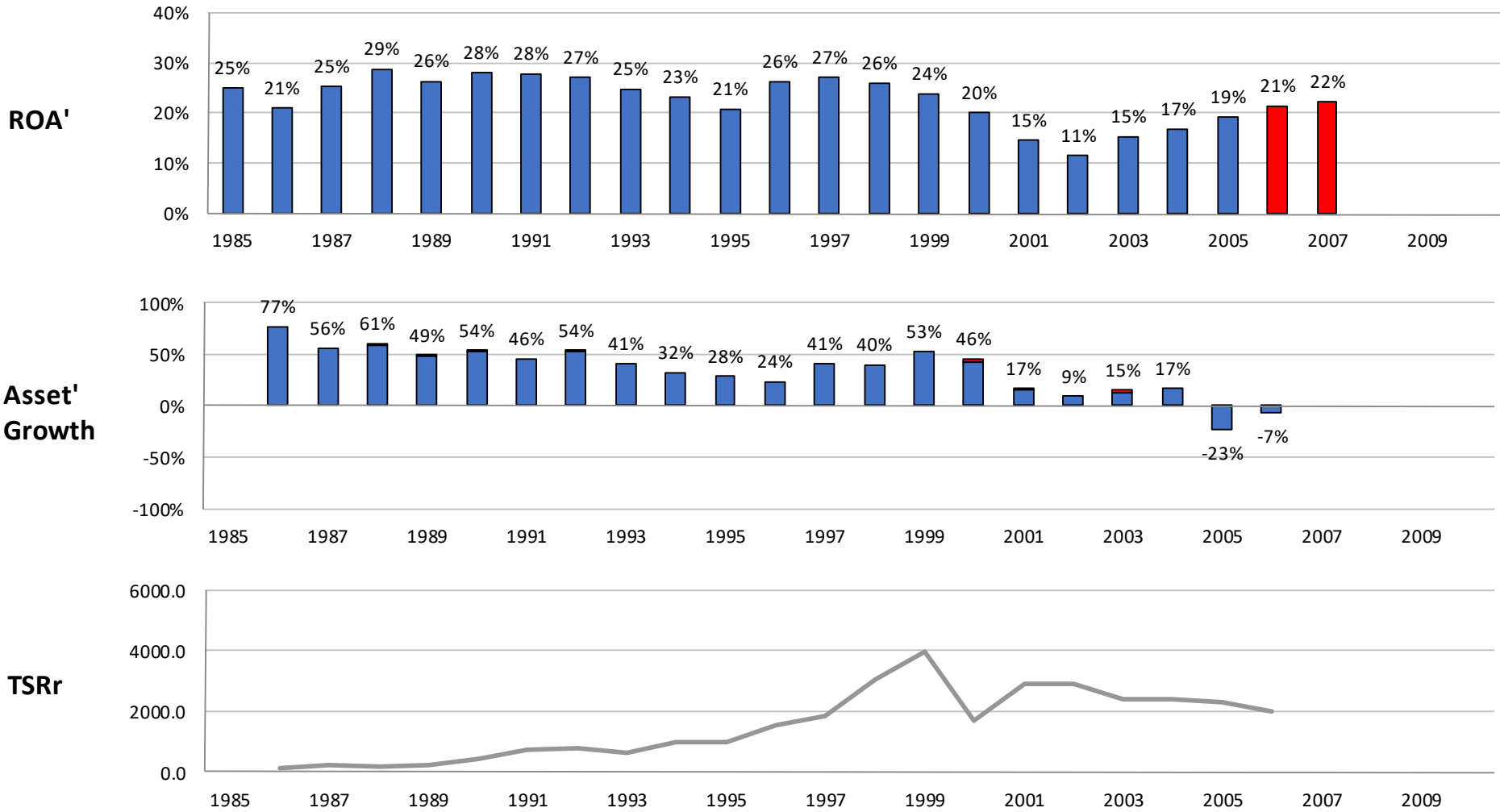
MCD – Great product vs. great business



JBLU – Great product vs. great business



MSFT – pricing power



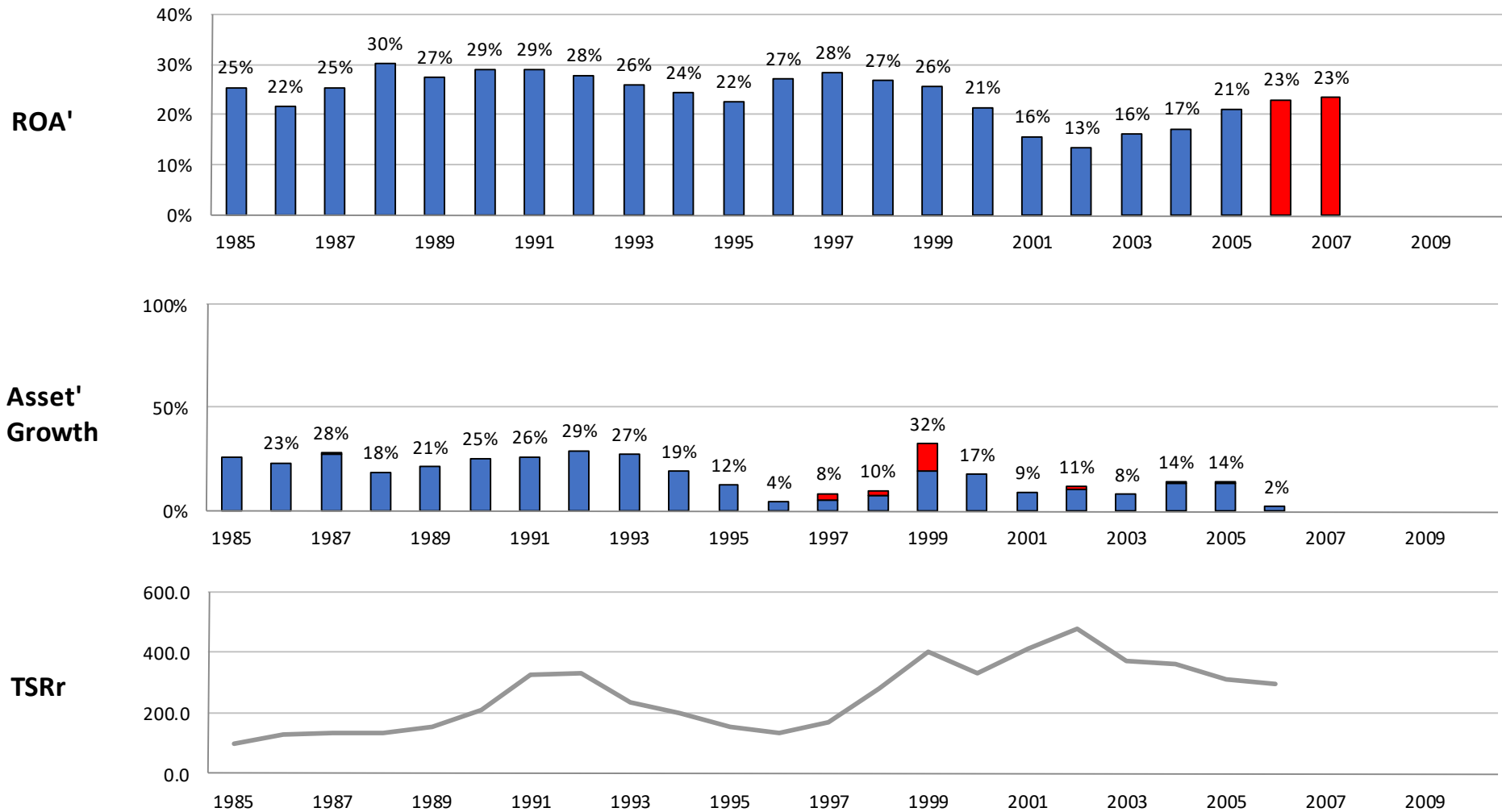
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Excess ROA' levels are driven by pricing power

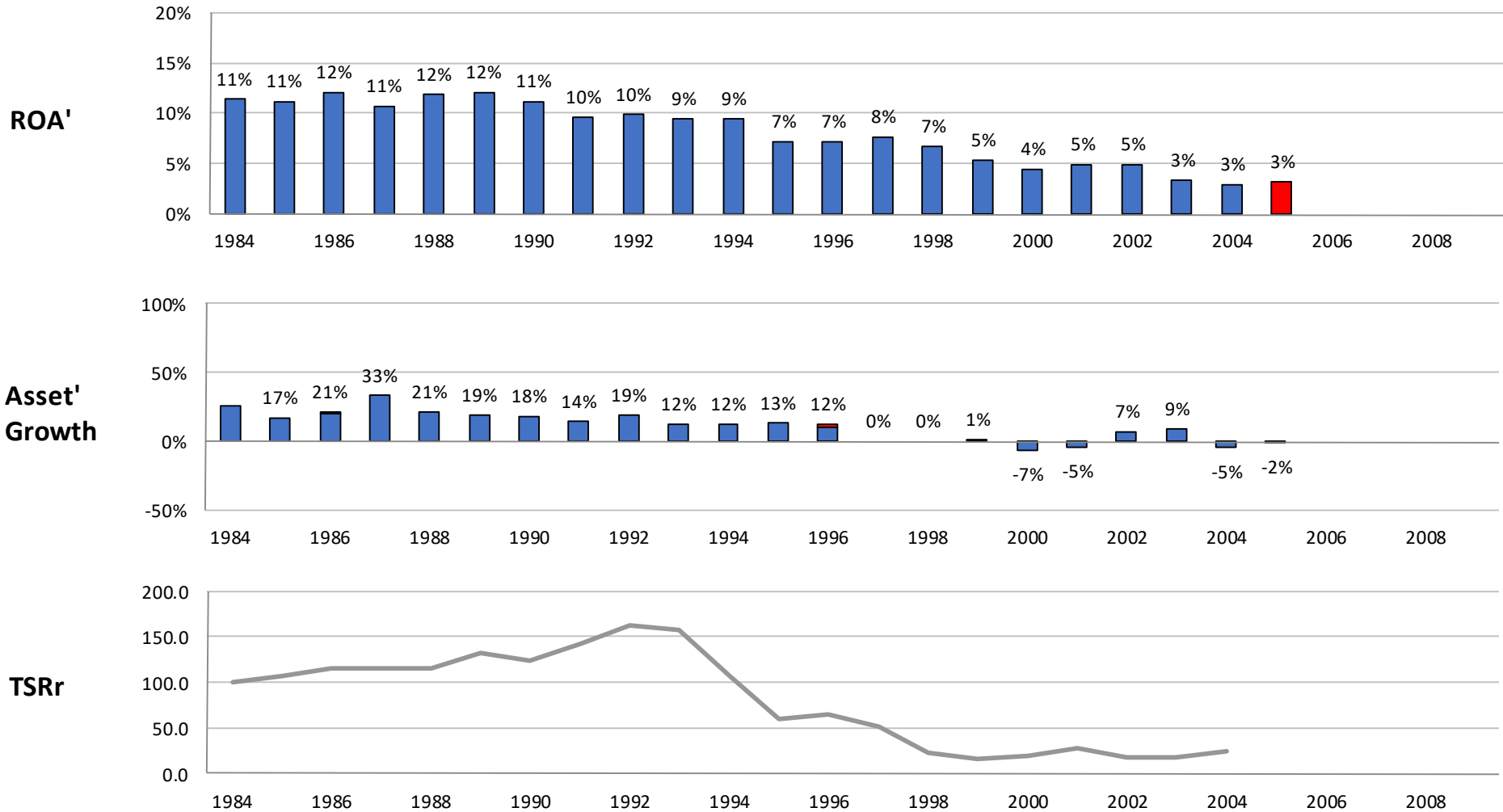
Excess ROA' levels are driven by pricing power

**Pricing power is driven by
*fulfilling otherwise unmet customer need***

WMT – What are the real needs?



TOY – What were the real needs?



TOY

- Still touting their competitive advantage as...
- “...*broadest range of merchandise*...”

THE ULTIMATE QUESTION

Driving Good Profits
and True Growth

FRED REICHHELD

[About the book](#)

[Measuring your
Net Promoter Score](#)

[Fred Reichheld:
Author/Speaker](#)

[Related writings](#)

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Measuring your Net Promoter® Score

Asking the ultimate question allows companies to track promoters and detractors, producing a clear measure of an organization's performance through its customers' eyes, its Net Promoter® Score. Bain analysis shows that sustained value creators—companies that achieve long-term profitable growth—have Net Promoter Scores (NPS) two times higher than the average company. And NPS leaders outgrow their competitors in most industries—by an average of 2.5 times.

NPS is based on the fundamental perspective that every company's customers can be divided into three categories. "Promoters" are loyal enthusiasts who keep buying from a company and urge their friends to do the same. "Passives" are satisfied but unenthusiastic customers who can be easily wooed by the competition. And "detractors" are unhappy customers trapped in a bad relationship. Customers can be categorized based on their answer to the ultimate question.

The best way to gauge the efficiency of a company's growth engine is to take the percentage of customers who are promoters (P) and subtract the percentage who are detractors (D). This equation is how we calculate a Net Promoter Score for a company:

$$P - D = NPS$$

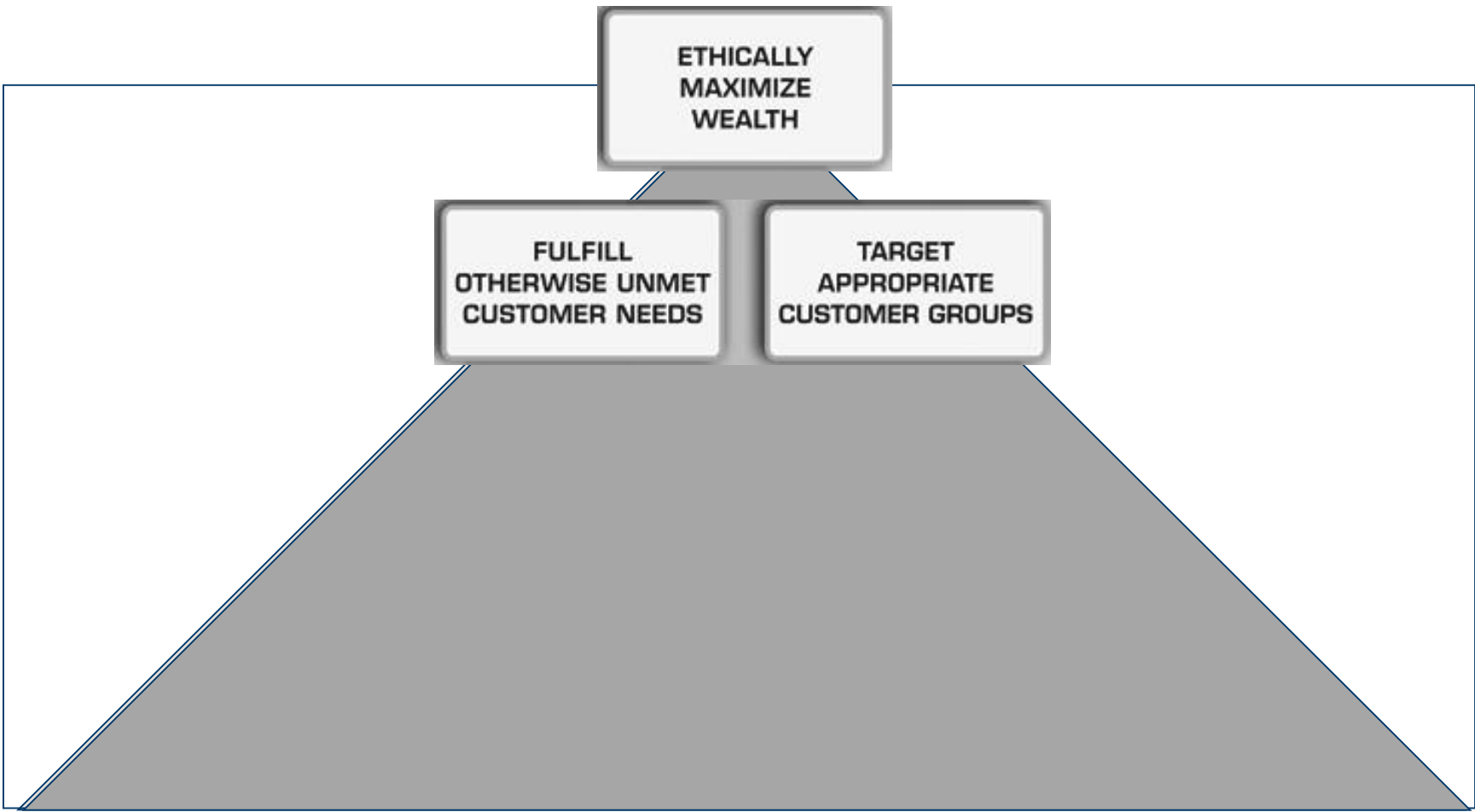
Net Promoter Score

NPS Stars

HomeBanc*	82%	American Express	51%
Harley-Davidson	81%	Commerce Bank	50%
Costco	81%	Dell	50%
Amazon.com	79%	Adobe	48%
Chick-fil-A*	73%	Electronic Arts	48%
eBay	72%		
Vanguard	71%		
SAS	70%		
Apple	66%		
Intuit (TurboTax)*	66%		
Cisco	58%		
FedEx	57%		
Southwest Airlines	56%		

* All NPS statistics are based on Bain or Satemrix surveys, with the exceptions of Intuit, Chick-fil-A, and HomeBanc. For these firms, we used data that they provided. Their data was gathered in a reasonable (but not perfectly equivalent) fashion.

Source: Reichheld, Fred. "The Ultimate Question: Driving Good Profits and True Growth." Harvard Business School Press 2006.



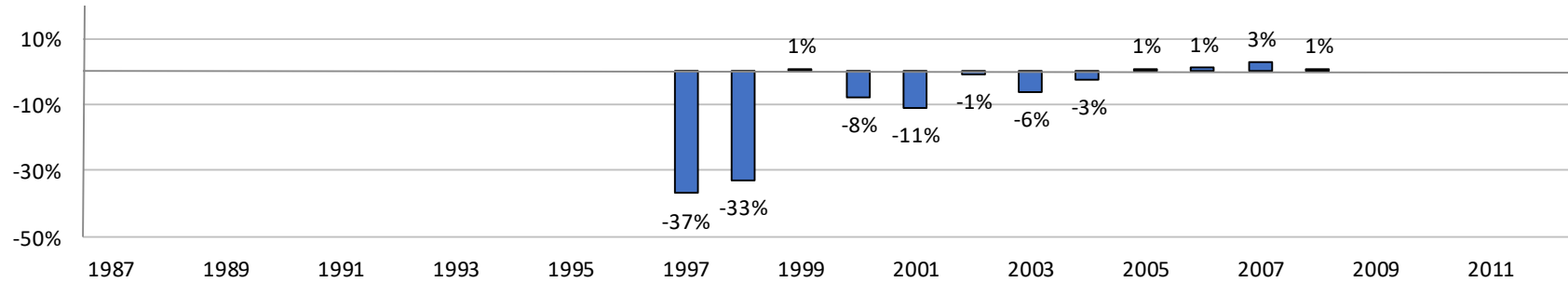
GENUINE ASSETS

VIGILANCE TO FORCES OF CHANGE

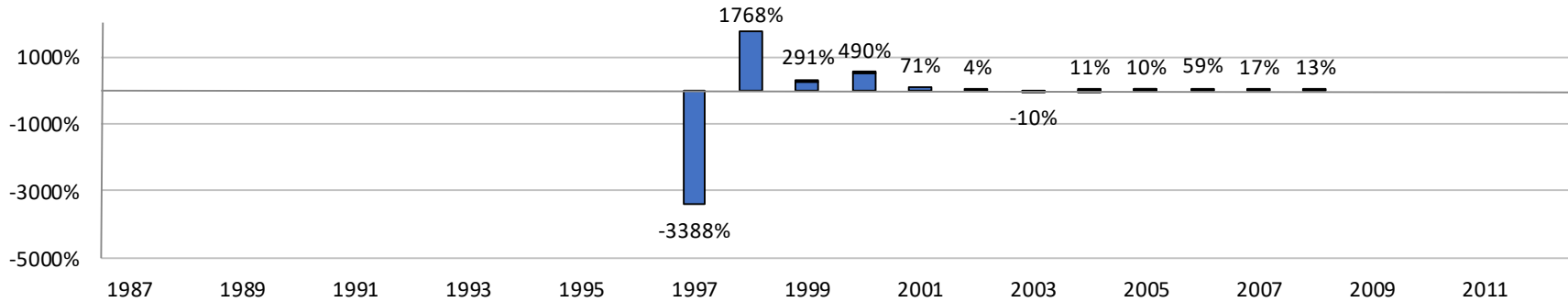
DISCIPLINED PERFORMANCE MEASUREMENT AND VALUATION

LEAP: Growth in prepaid phone service in the USA

ROA'



Asset' Growth

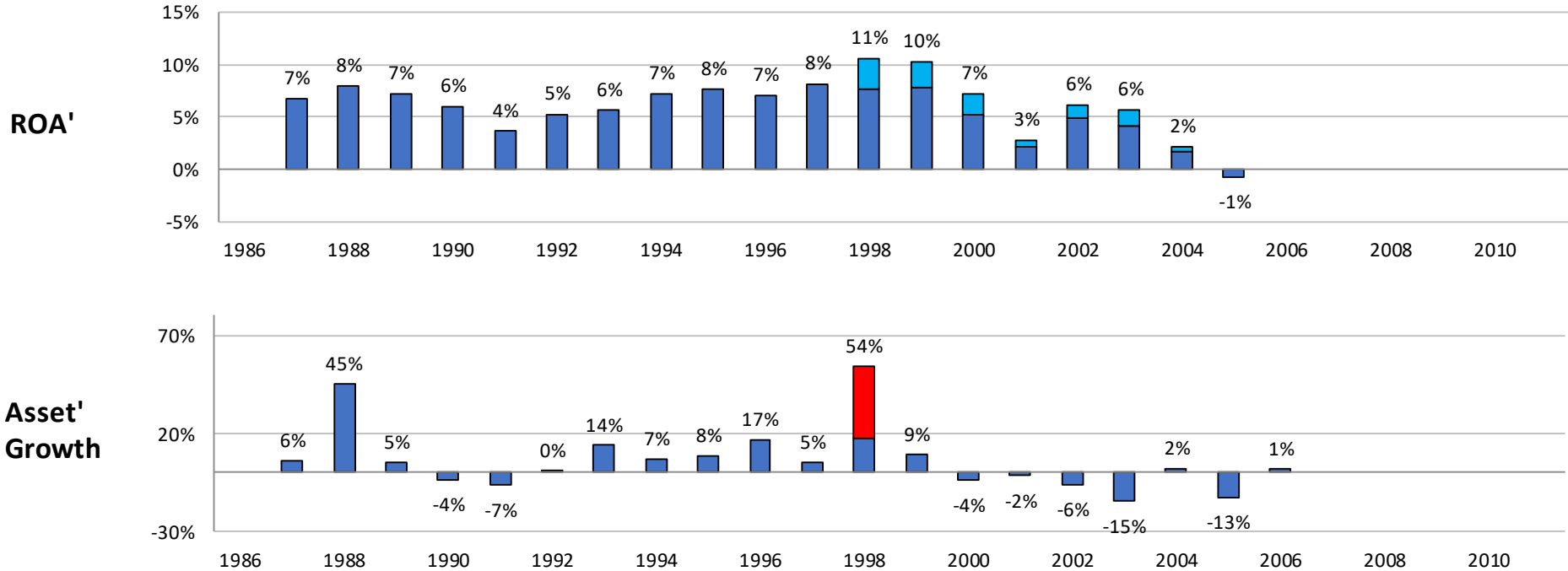


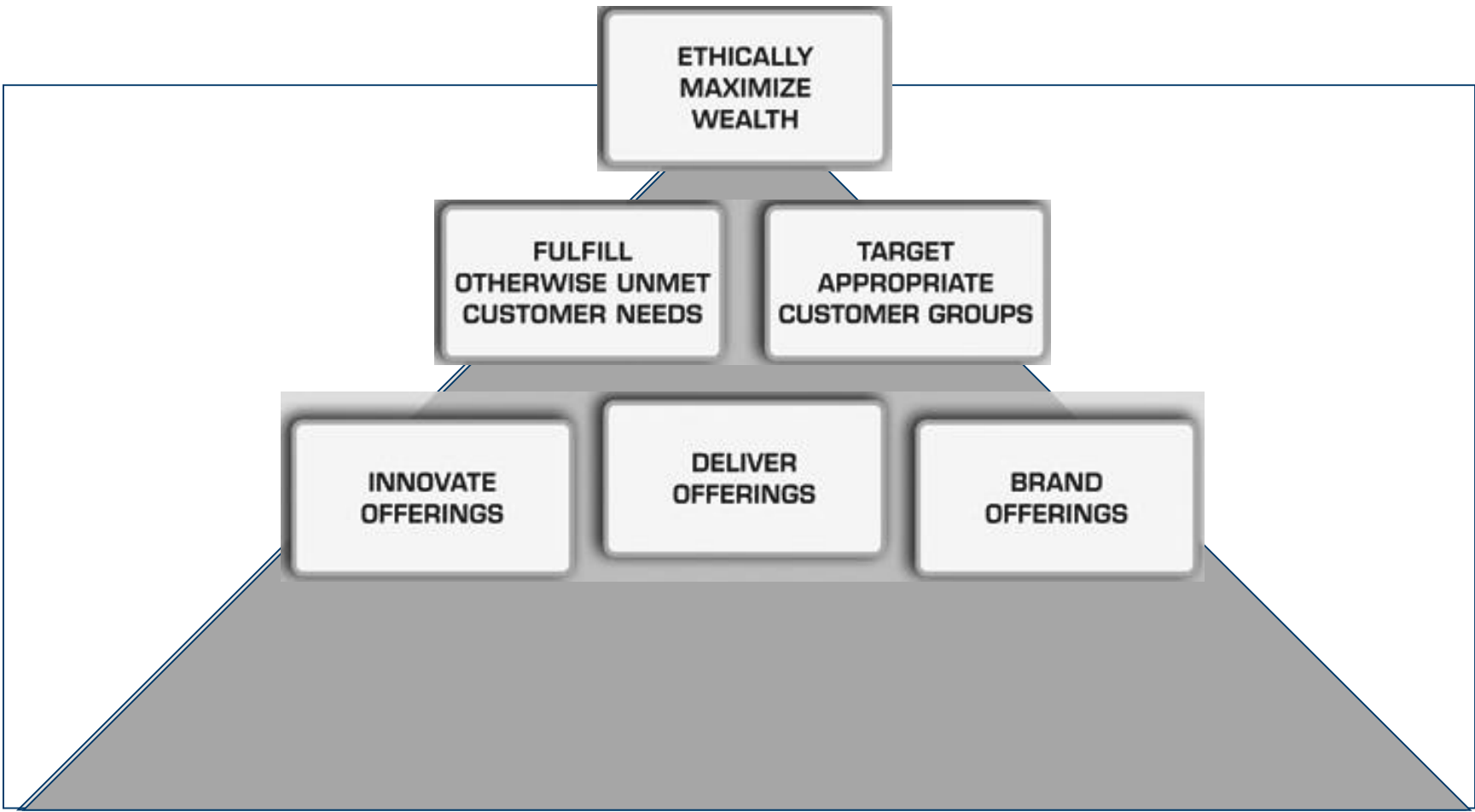
DANA HOLDING CORP (DAN)

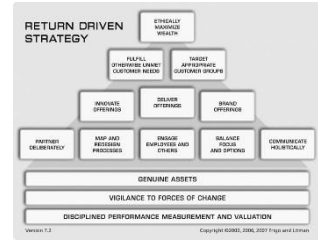
Relative Wealth Chart

Auto Parts & Equipment
Market Cap : 1.832 USD

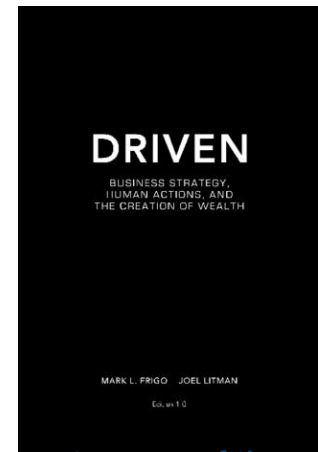
Price: 12.21 (May 2, 2008)







Is it really, truly, absolutely
 “the brand?”



Special Report

THE 100 TOP BRANDS

Here's how we calculate the power in a name

To rank the world's 100 most valuable global brands, we set three hurdles that all contenders have to meet to merit consideration. First, they must have brand values greater than \$1 billion. They also have to be global in nature, meaning they must derive at least a third of their sales from outside their home countries and have significant distribution throughout the Americas, Europe, and Asia. Finally, they must have publicly available marketing and financial data. That excluded some big brands, such as Visa International, the BBC, and Mars.

How do you place a value on a brand? Some attempts rely on little more than opinion polls or ad spending. *BusinessWeek* selected Interbrand's method because it values brands the same way analysts value other assets: on the basis of how much they're likely to earn in the future. Those projected

profits are then discounted to a present value based on how risky the projected earnings are—that is, the likelihood that they will, in fact, materialize.

To start the process, Interbrand first figures out what the brand's overall sales are. (The brand may be almost the entire company, as in the case of McDonald's Corp. For others, such as Marlboro, it may be just a portion.) Next, with the help of analysts from J.P. Morgan Chase & Co., Citigroup, and Morgan Stanley, Interbrand projects net earnings for the brand. It then deducts a charge for the cost of owning the tangible assets, on the theory that whatever income is generated beyond that cost is due to intangible factors. This is the economic value added by things like patents, customer lists, and, of course, the brand.

The next step is to winnow the earnings generated by the brand from the

earnings generated by other intangibles. For example, are people buying Shell gasoline because of the brand name or because the gas station is conveniently located? Interbrand uses market research and interviews with industry executives to sift through those variables.

The final phase is to analyze the strength of the brand to figure out how risky those future brand earnings are. To calculate the brand's strength, Interbrand looks at seven factors, including the brand's market leadership, its stability, and its ability to cross geographic and cultural borders. The risk analysis produces a discount rate that is applied to the brand earnings to come up with a net present value. *BusinessWeek* and Interbrand believe this figure comes closest to representing the true economic value of that complex array of forces that make up a brand.

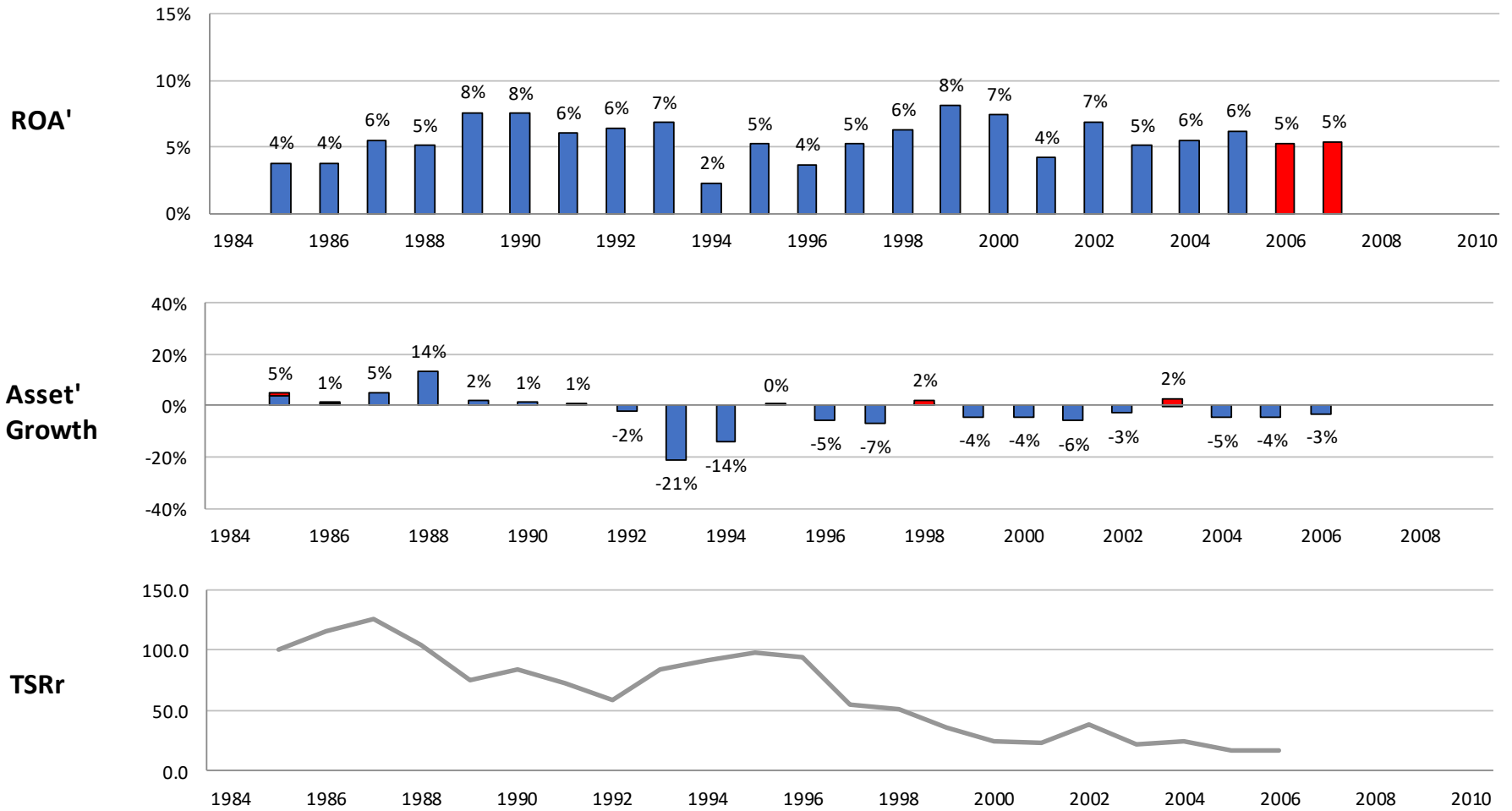
Branding and valuation...

“Strongest brands” don’t see highest valuation levels

“Strong brands” do not correlate with V/A levels

- Polaroid, Kodak

EK – Retreat to survive



Branding and valuation...

“Strongest brands” don’t see highest valuation levels

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Branding and valuation...

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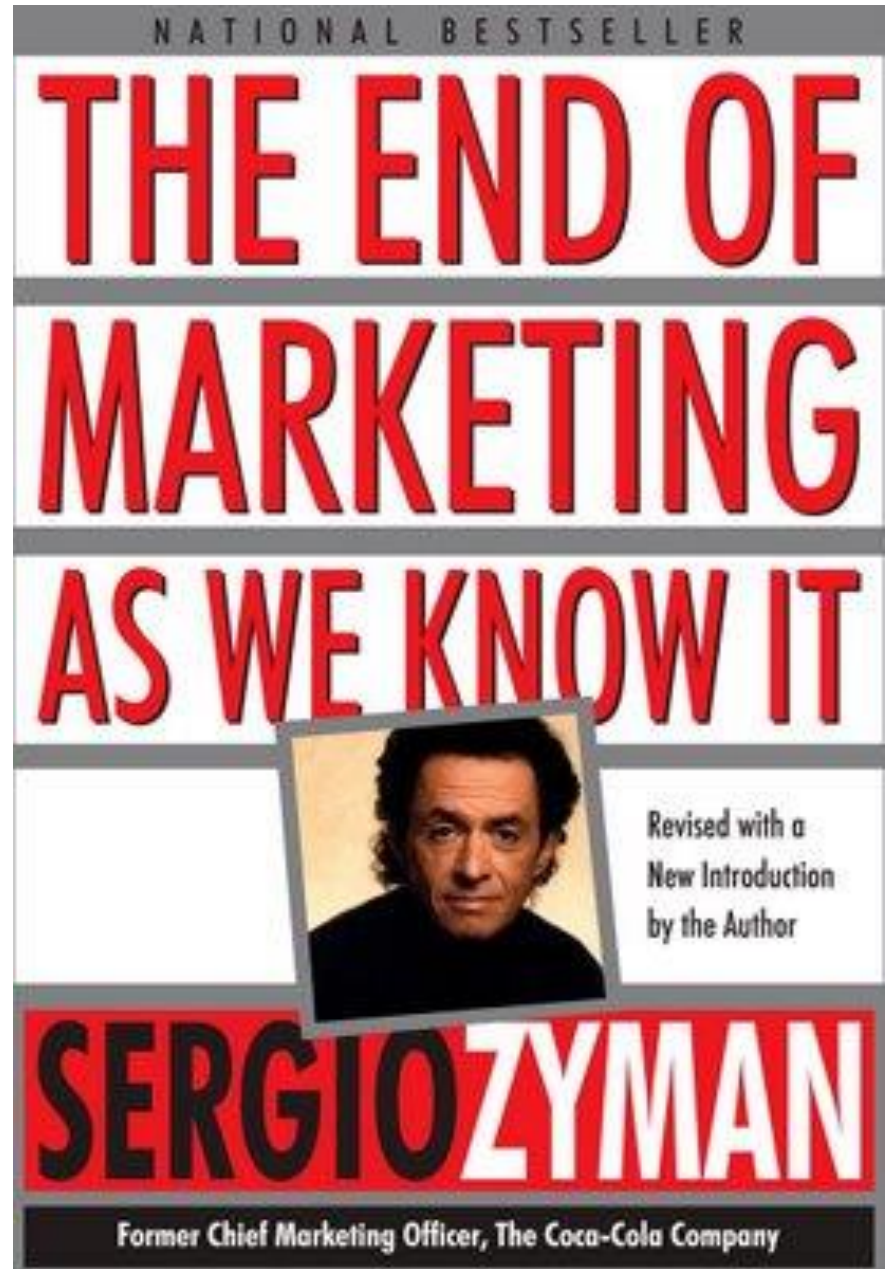
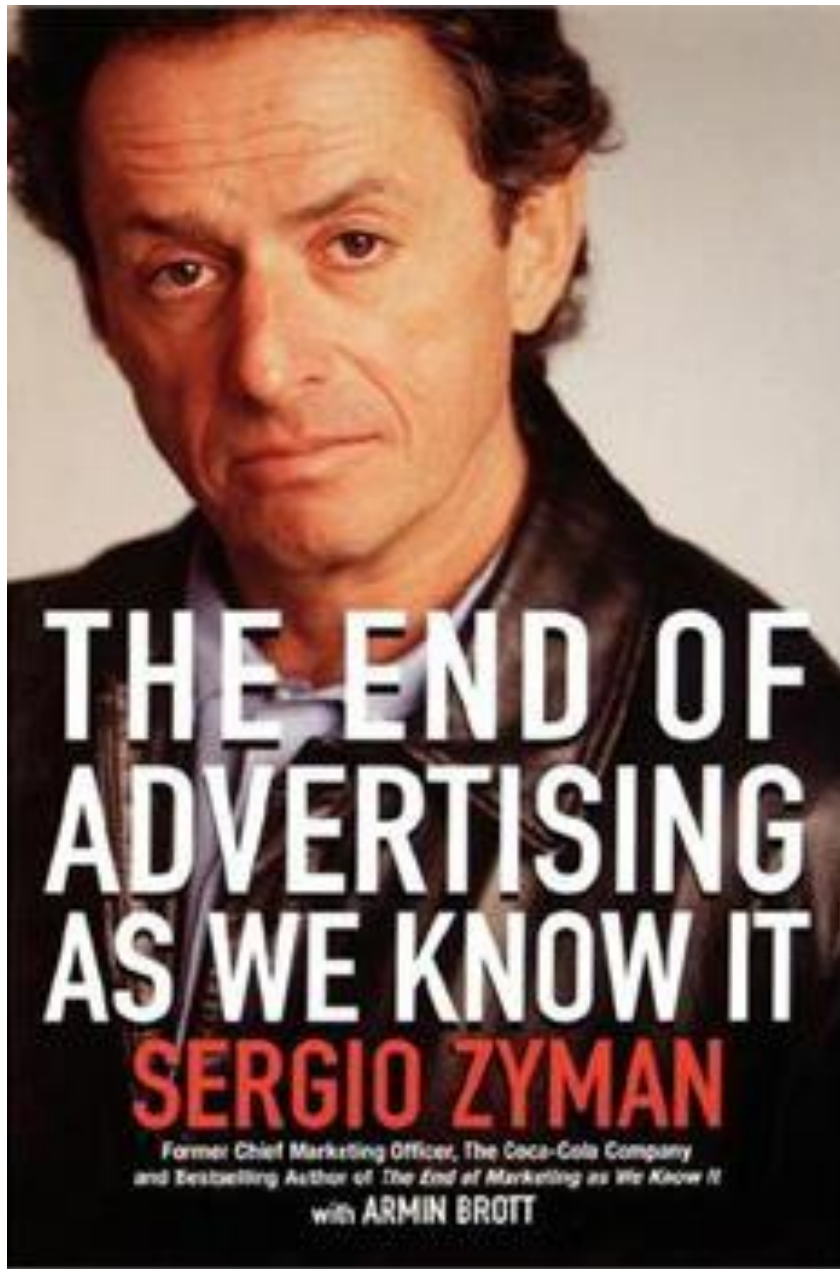
- Polaroid, Kodak
- MCD
- Coors/RKY & TAP
- BUD & InBev

“Stronger brands” do not mean higher valuations...

Company	Ticker	5-yr Median CFROI	5-yr Mean CFROI	5-yr Median VCR	5-yr Mean VCR
ADIDAS-SALOMON AG NPV AD SG		12.4	12.3	2.0	2.0
AMAZON COM INC COM	AMZN	5.3	1.4	5.2	6.9
APPLE COMPUTER INC CO IA APL		1.9	2.9	1.2	1.5
AVON PRODS INC COM	AVP	21.2	21.4	6.0	6.1
AMERICAN EXPRESS CO C AXP		19.0	19.4	4.1	4.4
BOEING CO COM	BA	6.7	6.6	1.8	1.9
BAYER MOTOREN WERK E BMWG		6.0	5.9	0.9	1.0
BP ORD USD0.25	BP	5.9	6.1	1.4	1.4
ANHEUSER BUSCH COS IN BUD		13.5	13.2	3.4	3.4
CITIGROUP INC COM	C	16.5	16.1	2.6	2.8
CANON INC NPV	7751C	9.6	10.0	1.6	1.6
CARLSBERG SER'B'DKK20 CARLb		7.4	7.6	1.1	1.1
COLGATE PALMOLIVE CO (CL		23.9	23.7	7.2	7.5
CISCO SYS INC COM	CSCO	11.9	11.5	3.9	4.7
DAIMLERCHRYSLER AG OF DCXGn		2.7	3.0	0.7	0.7
DELL INC COM	DELL	24.2	25.2	8.4	8.2
DISNEY WALT CO COM DIS DIS		7.6	7.2	2.1	2.1
EASTMAN KODAK CO COM EK		5.7	6.0	1.2	1.2
ERICSSON(LM)TEL SEK1 SIERICb		-2.7	0.2	1.6	1.9
FEDEX CORP COM	FDX	4.6	4.6	1.3	1.3
FORD MTR CO DEL COM P/F		3.2	3.1	1.0	1.0
GILLETTE CO COM	G	16.5	17.3	5.2	5.5
GENERAL ELEC CO COM	GE	18.4	18.1	4.2	5.3
GAP INC DEL COM	GPS	8.2	8.1	1.8	2.0
GOLDMAN SACHS GROUP GS		12.9	13.3	2.2	2.3
HARLEY DAVIDSON INC CO HDI		19.4	18.7	4.6	5.0
HEINEKEN NV EUR1.60 HEIN		10.2	10.2	2.2	2.3
HONDA MOTOR CO NPV	7267C	8.8	7.7	1.1	1.1
HEINZ H J CO COM	HNZ	17.9	17.3	3.4	3.6
HEWLETT PACKARD CO C HPQ		8.2	7.9	1.6	1.7
INTERNATIONAL BUSINESS IBM		8.8	9.1	2.9	2.9
INTEL CORP COM	INTC	10.7	11.0	3.6	3.3
KIMBERLY CLARK CORP C KMB		12.0	12.3	2.7	2.9
COCA COLA CO COM	KO	29.5	30.6	7.2	7.6
KELLOGG CO COM	K	16.8	16.3	4.2	3.8
LVMH MOET HENNESSY ELV MH		14.0	14.1	3.8	3.7
MCDONALDS CORP COM	MCD	7.6	7.6	1.6	1.6
MERRILL LYNCH & CO INC (MER		11.8	11.7	1.9	2.0
ALTRIA GROUP INC COM	MO	23.4	23.4	3.7	3.7
MERCK & CO INC COM	MRK	16.8	17.4	3.1	3.5

Company	Ticker	5-yr Median CFROI	5-yr Mean CFROI	5-yr Median VCR	5-yr Mean VCR
MICROSOFT CORP COM	MSFT	14.4	14.5	4.2	4.4
NIKE INC CL B	NKE	11.3	11.1	2.6	2.6
NOKIA OYJ EUR0.06	NOK1V	18.6	20.4	3.1	5.5
NESTLE SA CHF1(REGD)	NESN	13.4	13.4	2.1	2.2
NINTENDO CO LTD NPV	7974C	8.8	9.1	3.0	2.5
ORACLE CORP COM	ORCL	19.9	20.3	6.7	9.1
PEPSICO INC COM	PEP	22.9	22.6	5.5	5.7
PFIZER INC COM	PFE	18.1	18.3	3.7	4.4
PHILIPS ELEC(KON) EUR0.2	PHG	2.9	3.1	1.2	1.2
POLO RALPH LAUREN COR RL		11.9	11.4	1.7	1.7
REUTERS GROUP ORD GBIRTR		9.5	10.5	2.7	2.8
SAP AG ORD NPV	SAPG	14.6	14.5	5.5	5.4
STARBUCKS CORP COM	SBUX	7.7	7.8	3.6	3.8
SONY CORP NPV	6758C	6.7	6.4	1.2	1.3
AT&T CORP COM NEW	T	5.7	6.2	0.8	0.8
TIFFANY & CO NEW COM	TIF	11.4	10.8	3.0	2.7
TOYOTA MOTOR CORP NP1 7203C		7.3	7.4	1.1	1.1
TEXAS INSTRS INC COM	TXN	8.9	9.2	2.7	2.6
VIACOM INC CL B	VIA.B	11.0	11.3	3.2	3.2
VOLKSWAGEN AG ORD NP VOWG		2.5	2.4	0.6	0.6
DOW CHEM CO COM	DOW	2.8	3.0	1.2	1.2
WRIGLEY WM JR CO COM	WWY	17.9	17.9	6.1	6.2
EXXON MOBIL CORP COM	XOM	6.3	6.3	1.6	1.7
XEROX CORP COM	XRX	5.2	4.8	1.3	1.3
YAHOO INC COM	YHOO	6.9	7.4	3.5	4.3
YUM BRANDS INC COM	YUM	11.8	11.4	2.1	2.2
SUN MICROSYSTEMS INC (SUNW		0.3	3.9	1.2	2.3
MOTOROLA INC COM	MOT	1.0	2.8	1.1	1.1
TIME WARNER INC COM	TWX	8.6	9.3	1.7	3.1
MATSUSHITA ELC IND NPV	6752C	2.3	0.8	0.8	0.8
ROYAL DUTCH PETROL EU RD		7.4	7.4	1.5	1.6
MATTEL INC COM	MAT	15.3	15.3	2.6	2.6
DIAGEO P L C SPON ADR N DEO		21.9	22.8	3.4	3.5
BROWN FORMAN CORP CL BF.B		13.0	12.7	2.8	2.9
PEARSON ORD GBP0.25 PSON		14.2	15.8	2.5	2.9
HILTON HOTELS CORP CON HLT		9.7	9.8	1.6	1.7
SIEMENS AG NPV(REGD) SIEGn		4.6	5.0	1.2	1.3
SWATCH GROUP CHF2.25(E UHR		9.6	10.0	1.6	1.8
BENETTON GROUP SPA EL BNG		8.5	8.1	1.5	1.7

Top Brands	9.7	11.2	2.2	3.0
S&P 500	9.8	10.8	2.0	2.8

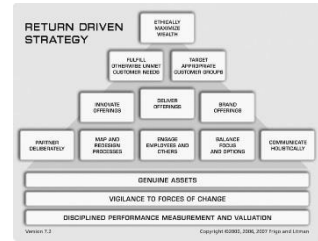




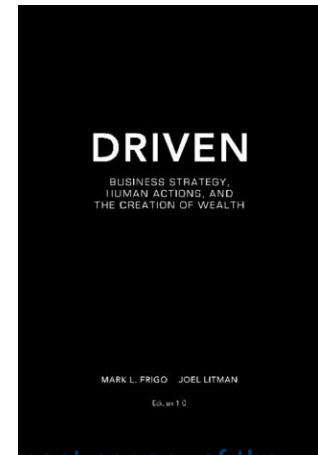
Roberto Goizueta, CEO, KO

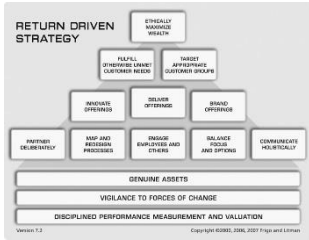
“You can have your commercials...”

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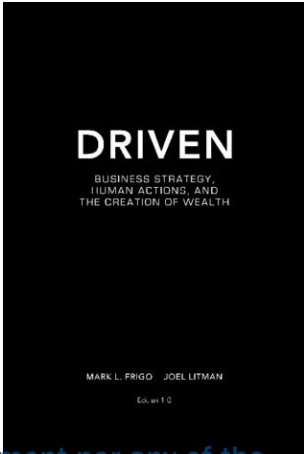


Hoover, Wal-Mart, GE

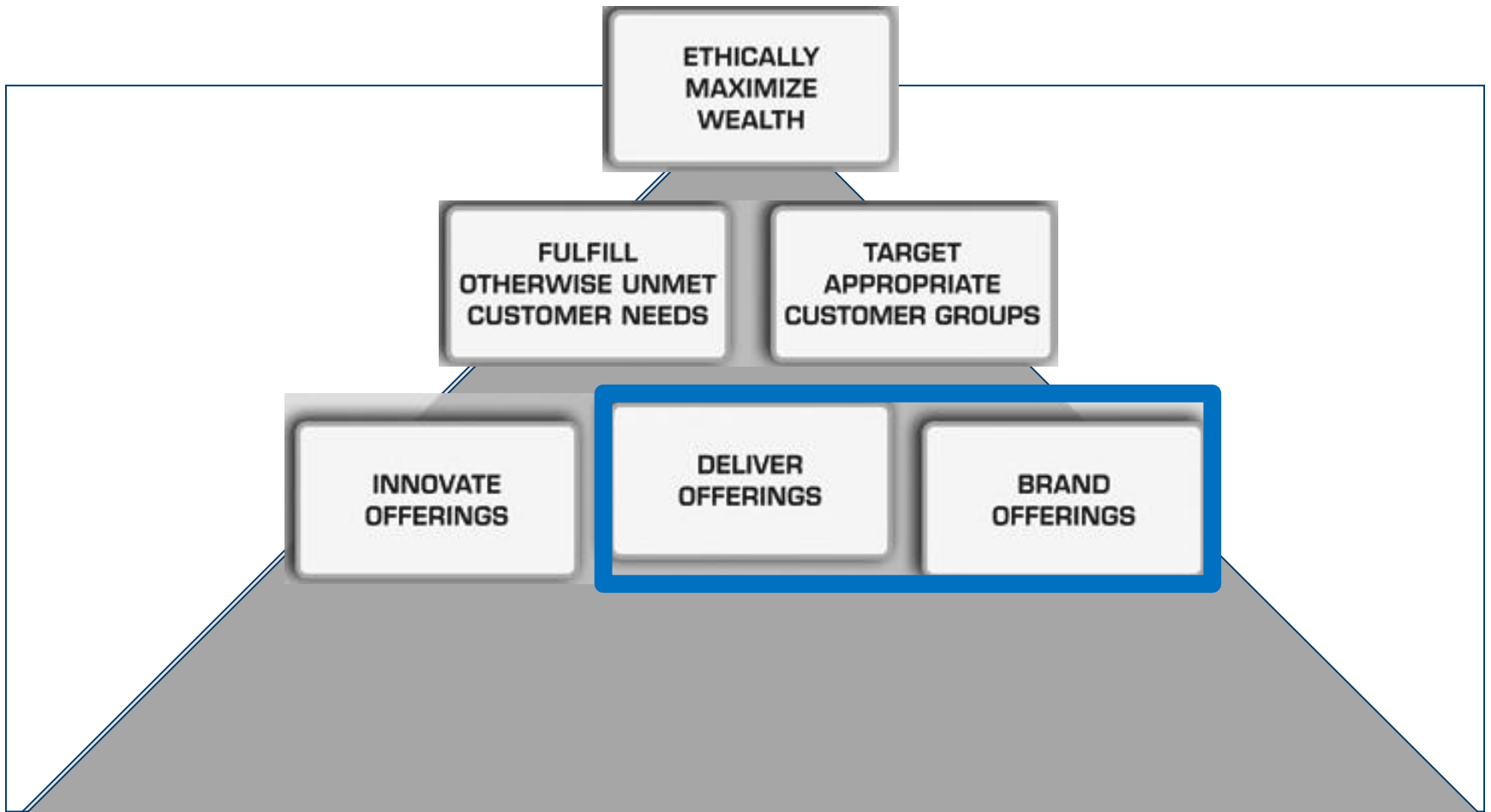


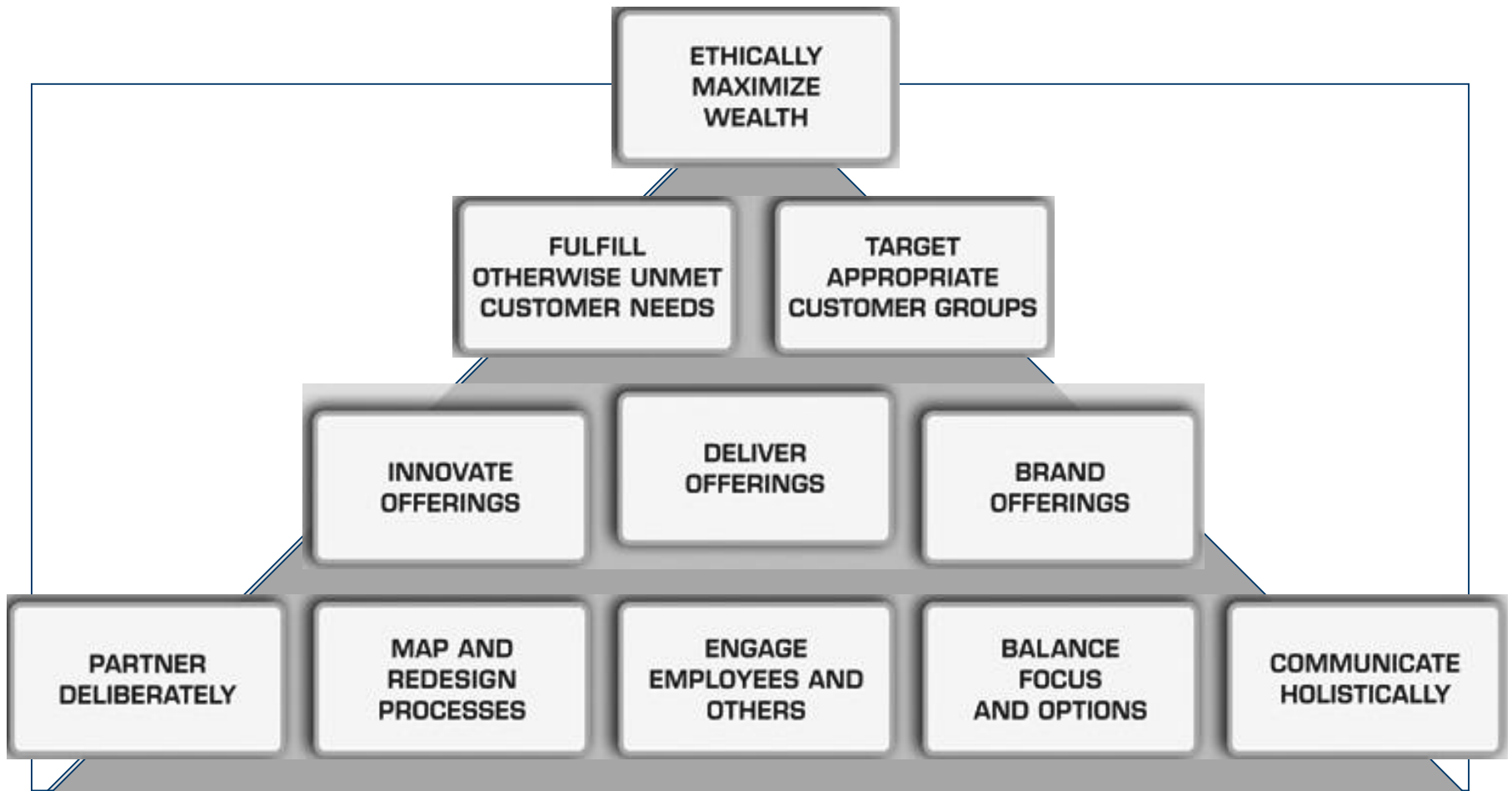


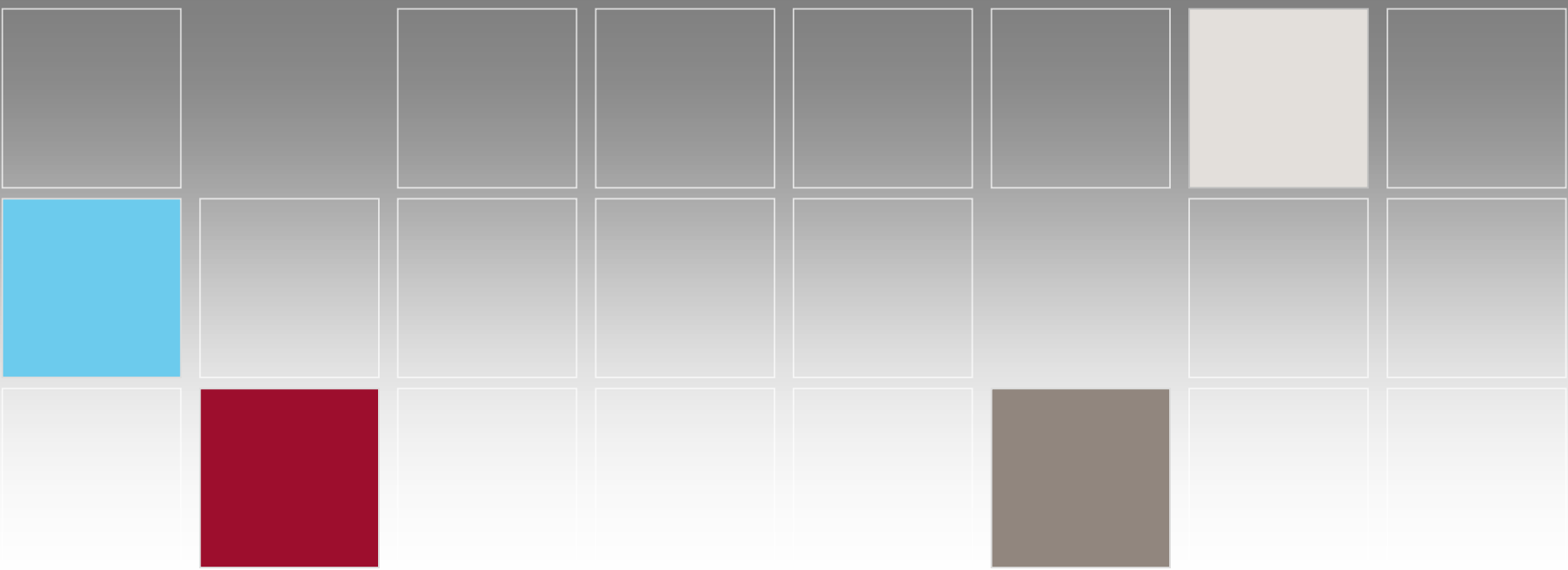
Is it really, truly, absolutely
the brand?



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- May 13, 2008

The Impact of Human Capital on Investment Capital

Hewitt and HOLT: Examining human capital metrics that drive business performance



Linkage to Business Results and CFROI¹

- Quantifying what’s been “fuzzy”
 - Shareholder value
- “Apples-to-Apples” results
 - Industry by industry
- Statistical validity:
 - “Reverse causality”

▪ Incremental Cost of Talent

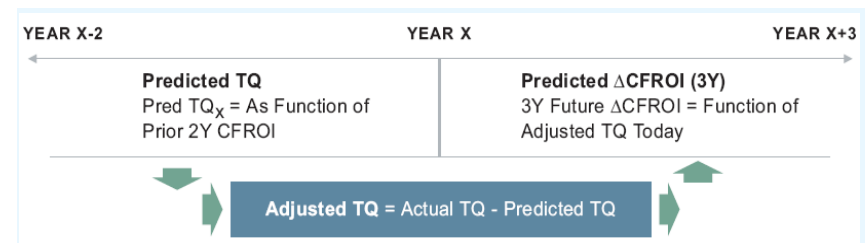
▪ *versus*

▪ Measurable Business Impact

- Data on 1000 companies, 20 million employees
- 8 Pilot companies (Verizon, Alcoa, JC Penney, Lilly, Nationwide, Sony Electronics, Siemens, MeadWestvaco)

▪ CFROI and Total Business Return

- 1997 – 2007, N = 115 companies



¹ For detailed description of HCF™ methodology and results, see Valuation Issues Journal, Feb 2006: “Optimizing Human Capital Investments for Superior Shareholder Returns”, (Raza, Samir)

Talent Quotient Definition

Measuring and monitoring “pay progression”

The people getting the highest total pay increases...

...are they leaving or staying?

TQ Impacts Business Results—Cross Industry Study¹

- In both analyses, Talent Quotient is predictive of financial performance in succeeding years

Deep Empirical Study Companies grouped by TQ result in 2001 (N=115)	Performance Measures in Following Three Years (2001-04)			
	Revenue Growth (3Y CAGR)	Operating Cash Flow Growth (3Y CAGR)	CFROI ^{®2} (3Y annualized)	Total Business Return (3Y annualized)
Bottom 1/3 (TQ Avg. 80)	2.2%	5.0%	-1.0%	11.7%
Top 1/3 (TQ Avg. 126)	4.5%	11.6%	7.9%	15.1%
Difference	+ 2.3%	+ 6.6%	+ 8.9%	+ 3.4%

¹ For detailed description of HCF™ methodology and results, see Valuation Issues Journal, Feb 2006: [“Optimizing Human Capital Investments for Superior Shareholder Returns”](#).

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TQ Impacts Business Results—Cross Industry Study¹

In both analyses, Talent Quotient is predictive of financial performance in succeeding years

“Best 10–Worst 10” Comparison

	■ Average 2004 TQ		■ Sales Growth 3 year annualized (ending 7/07)	■ Total Return 3 year annualized (ending 7/07)	■ Price to Book (at 7/07)
■ WORST 10 in TQ	■ 84	■ Median	■ 5.8%	■ 7.1%	■ 1.8

¹ For detailed description of HCF™ methodology and results, see Valuation Issues Journal, Feb 2006: [“Optimizing Human Capital Investments for Superior Shareholder Returns”](#).

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TQ Impacts Business Results—Cross Industry Study¹

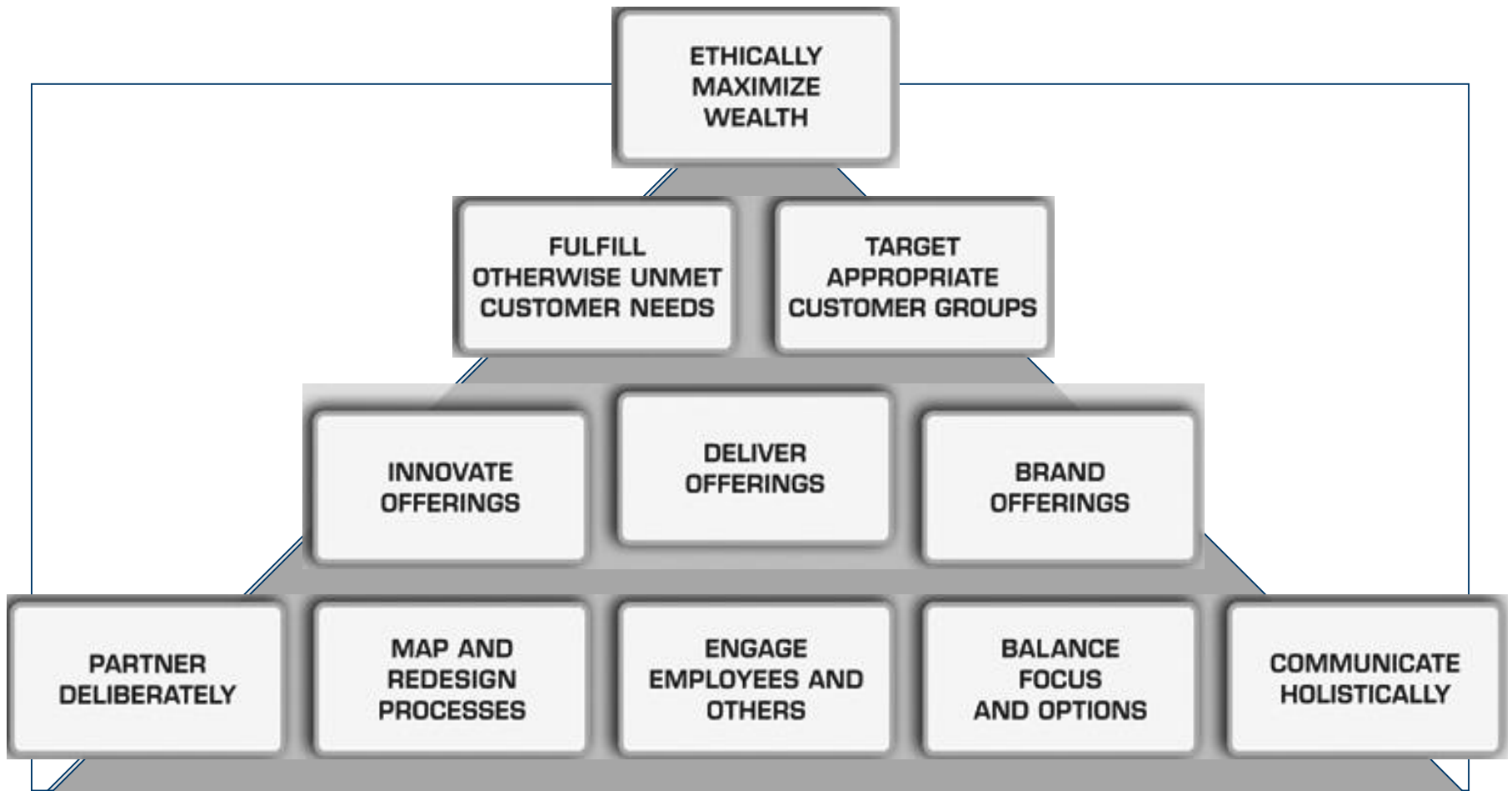
In both analyses, Talent Quotient is predictive of financial performance in succeeding years

“Best 10–Worst 10” Comparison

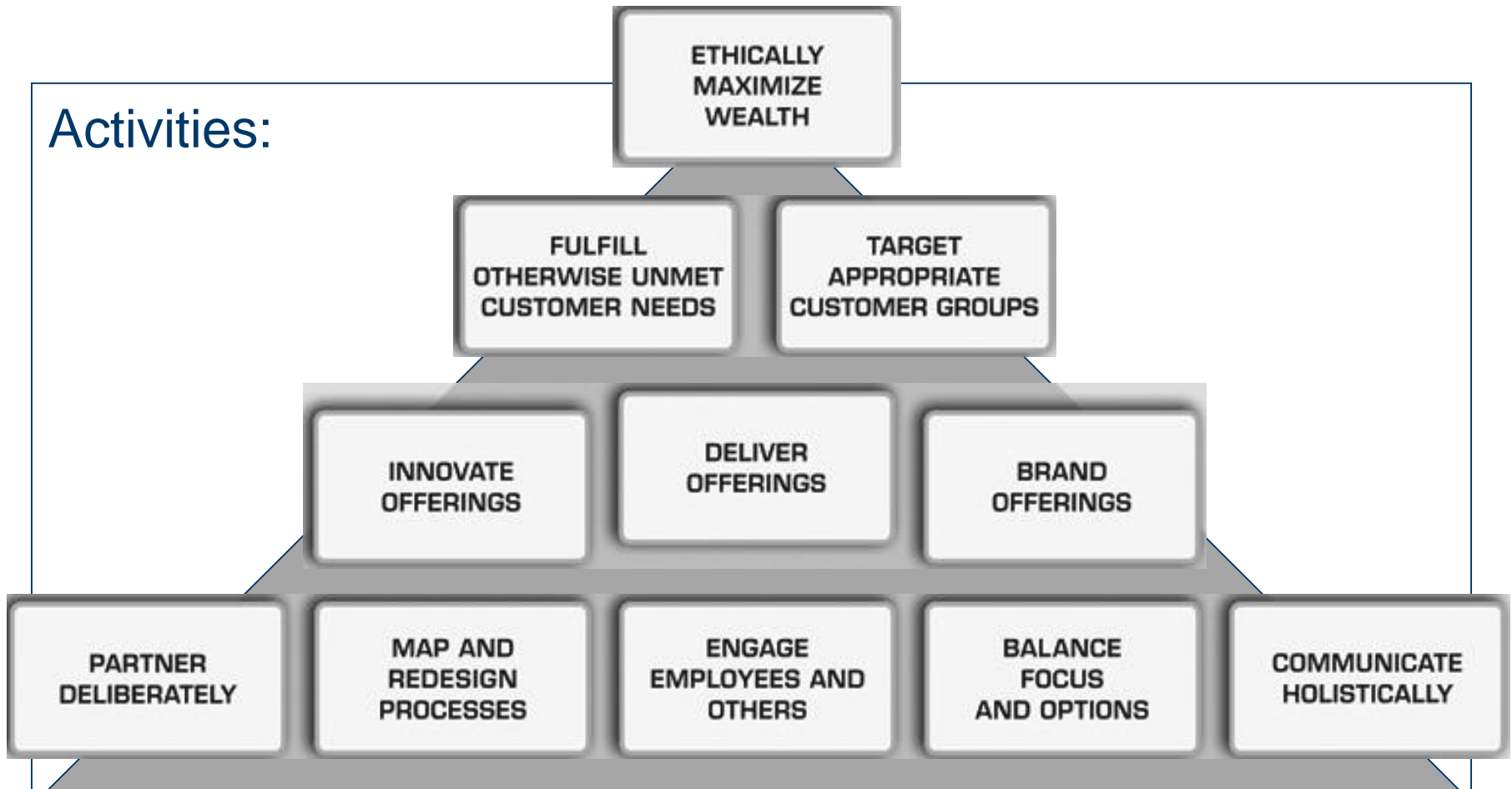
	■ Average 2004 TQ		■ Sales Growth 3 year annualized (ending 7/07)	■ Total Return 3 year annualized (ending 7/07)	■ Price to Book (at 7/07)
■ WORST 10 in TQ	■ 84	■ Median	■ 5.8%	■ 7.1%	■ 1.8
■ BEST 10 in TQ	■ 141	■ Median	■ 8.0%	■ 13.2%	■ 2.9

¹ For detailed description of HCF™ methodology and results, see Valuation Issues Journal, Feb 2006: [“Optimizing Human Capital Investments for Superior Shareholder Returns”](#).

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Activities:



Foundations:

DISCIPLINED PERFORMANCE MEASUREMENT AND VALUATION

Unique measures and metrics

KO and 50 Foot/Population rule

Share of stomach

WMT and 10 Foot Rule

What are key units of measure with:

Asset managers?

Motorcycle makers?

Construction companies?

When is Six Sigma too “loose”?

VALENS RESEARCH



Return Driven Strategy

Professor Joel Litman
September 2016

Valens Securities, Inc., Valens Research, and The Institute of Strategy & Valuation
110 Cambridge Street, Cambridge MA 02141
joel.litman@valens-securities.com

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Unique measures and metrics

KO and 50 Foot/Population rule

Share of stomach

WMT and 10 Foot Rule

What are key units of measure with:

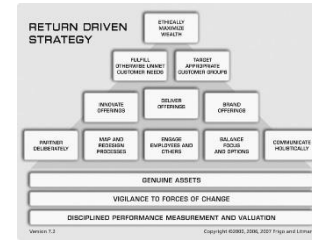
Asset managers?

Motorcycle makers?

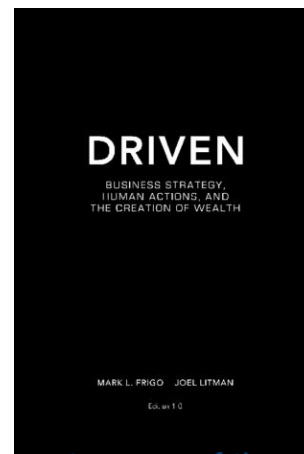
Construction companies?

When is Six Sigma too “loose”?

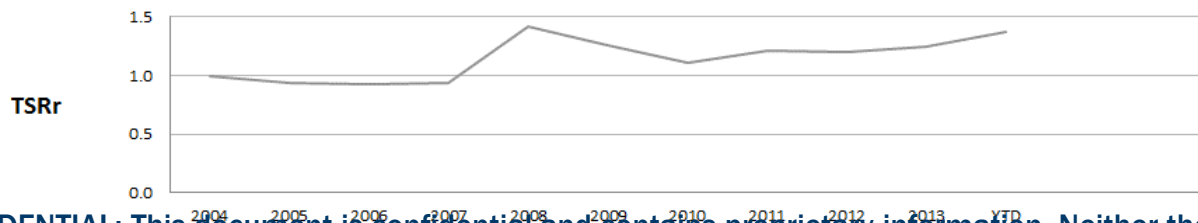
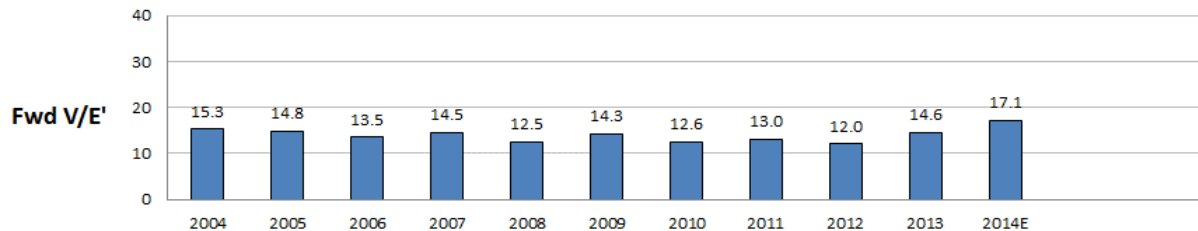
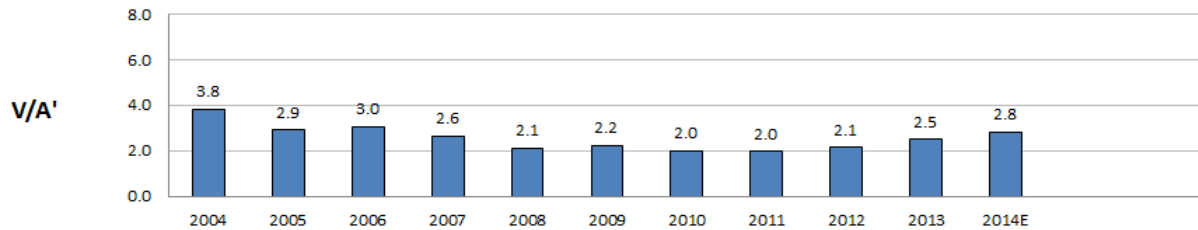
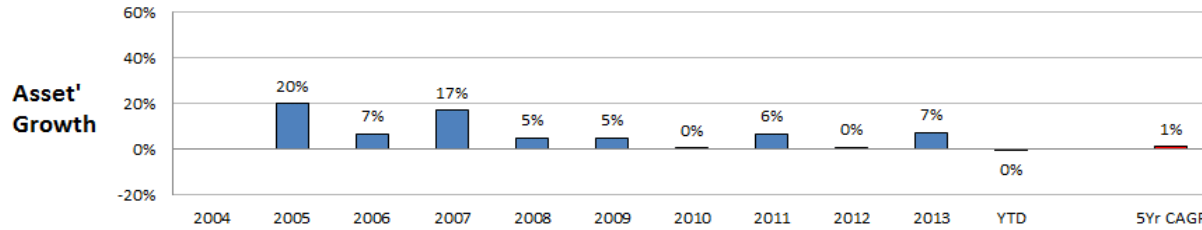
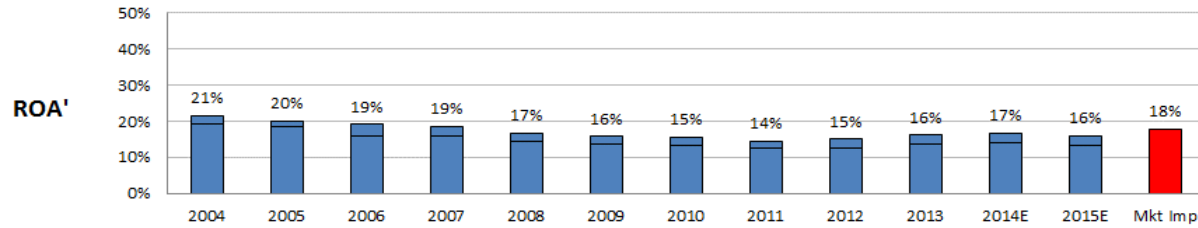
What is being measured in Lean Manufacturing?



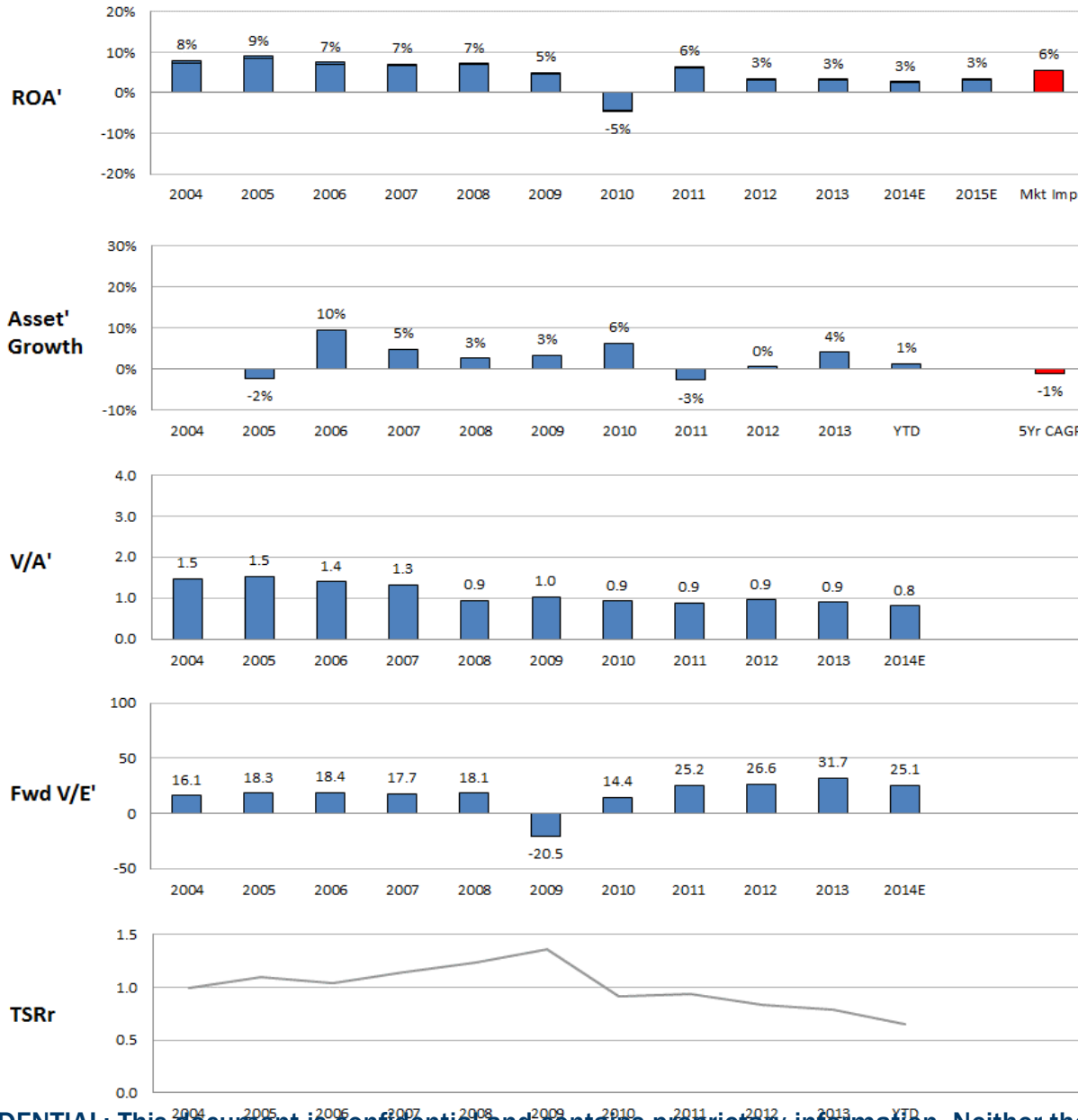
Analyzing Strategy, Performance, and Valuation Together



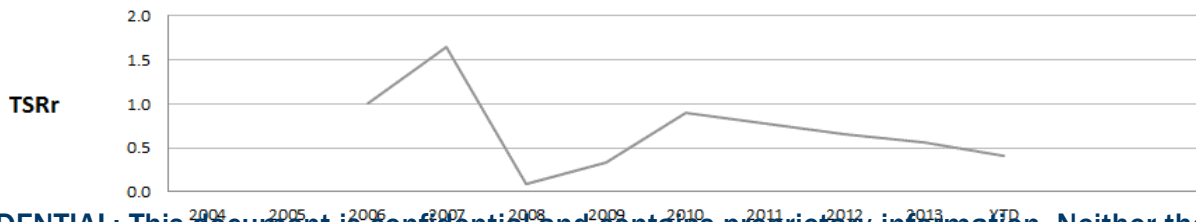
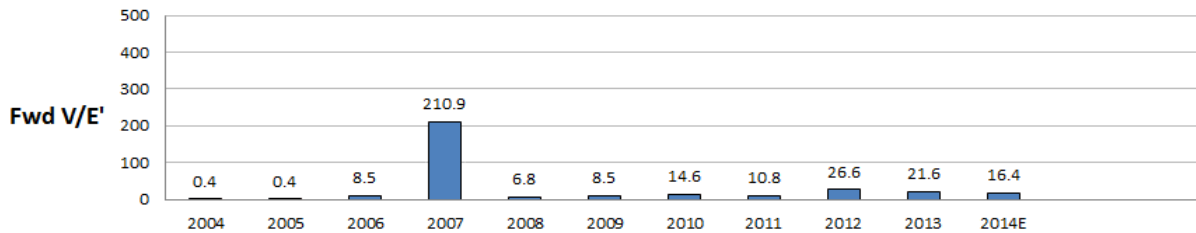
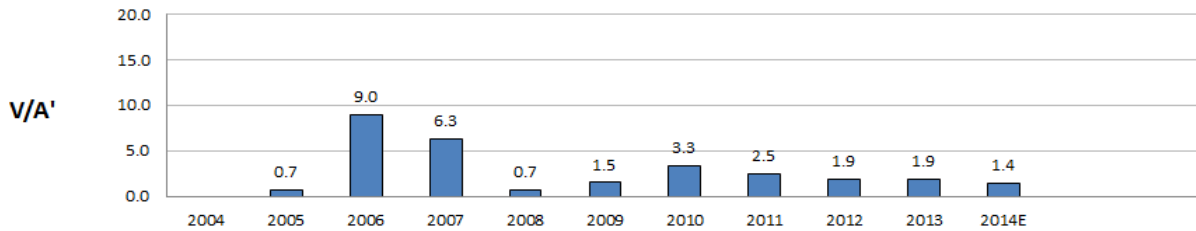
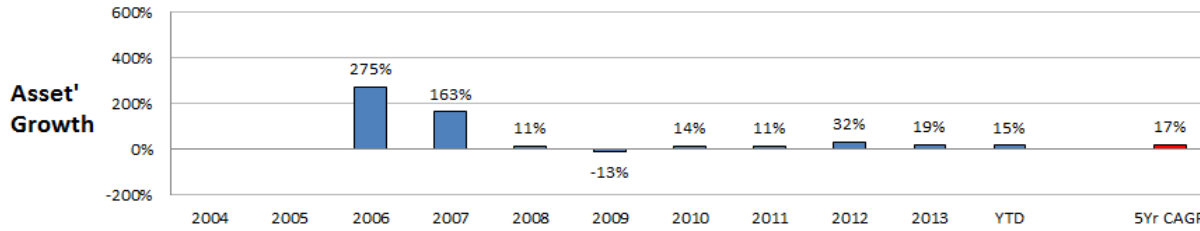
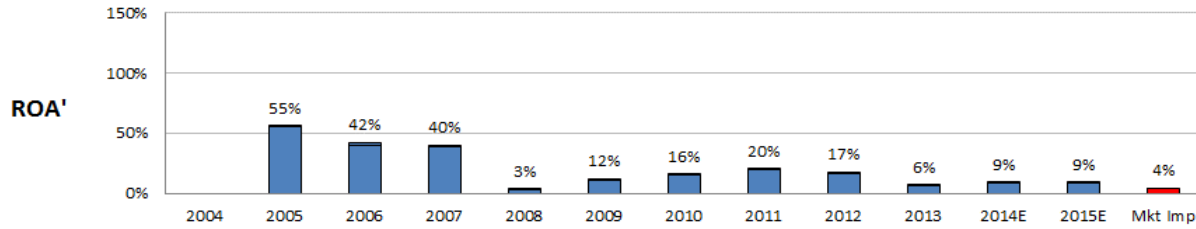
JNJ – Johnson & Johnson



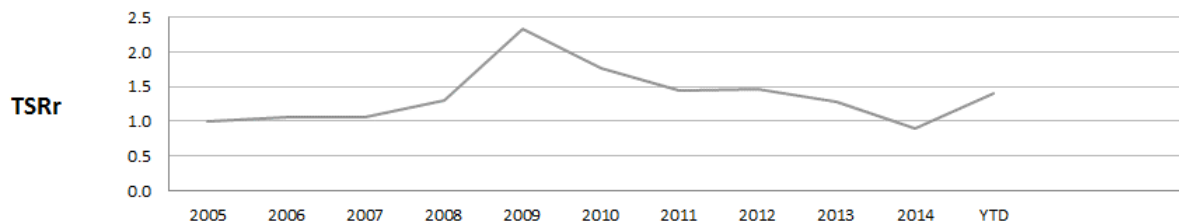
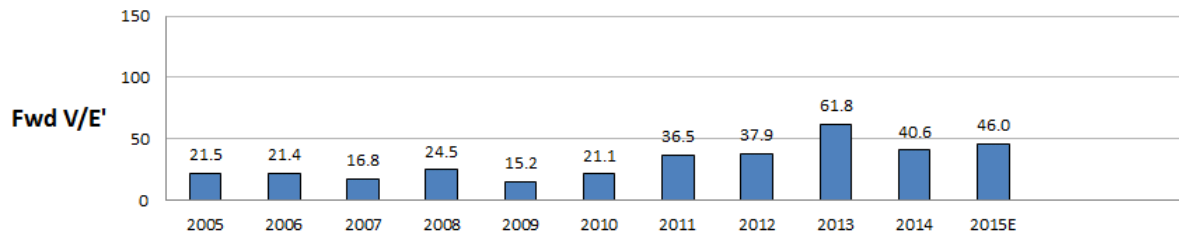
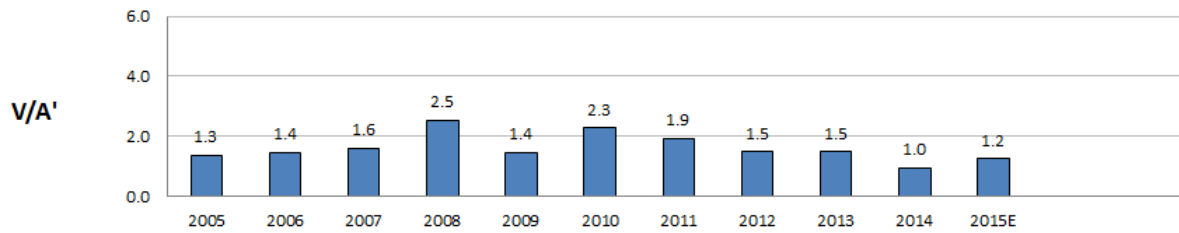
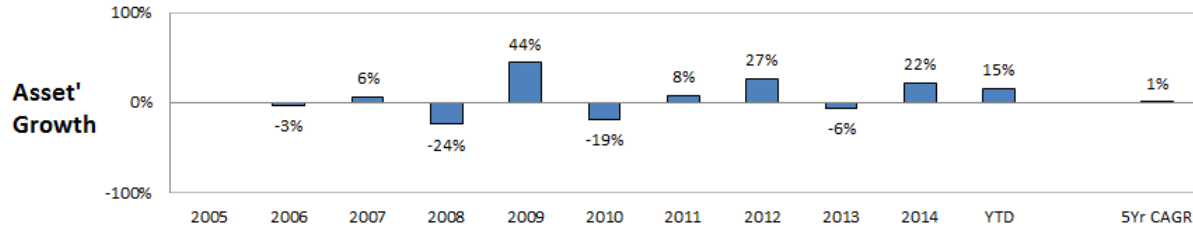
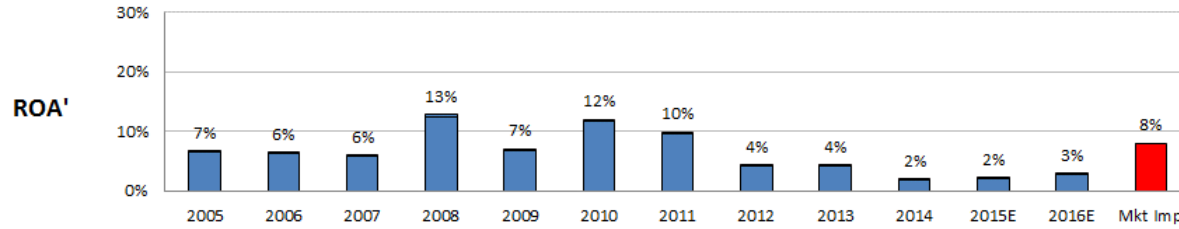
BP – BP plc



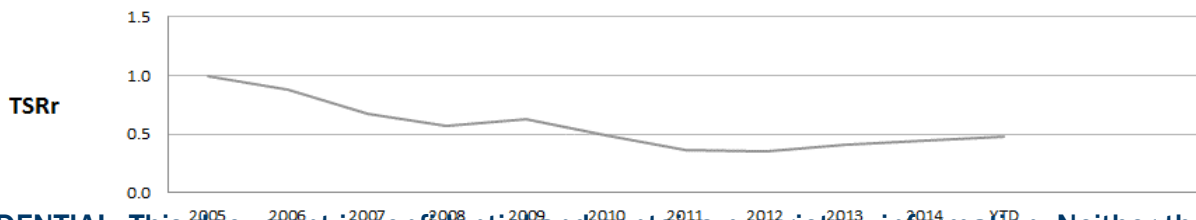
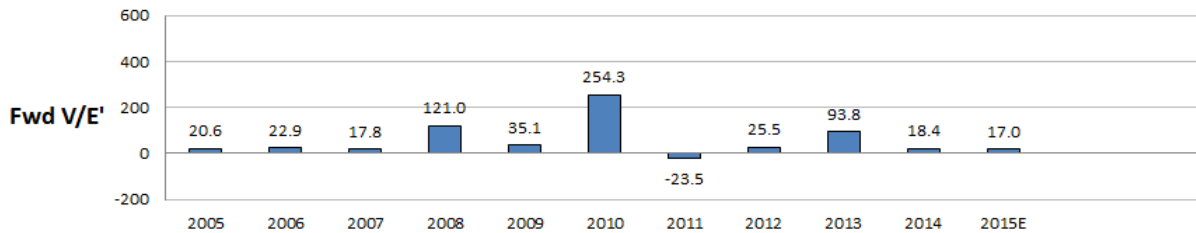
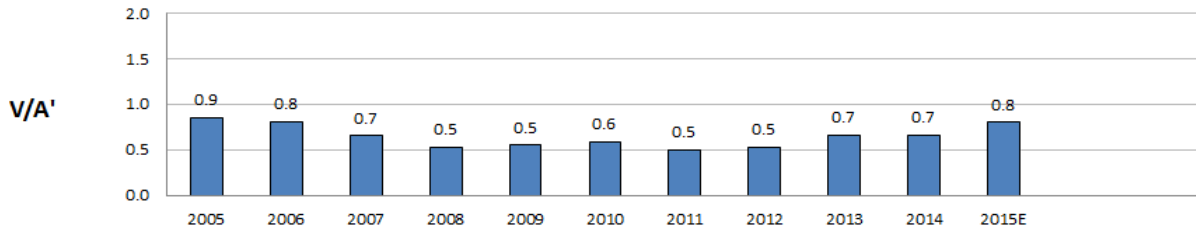
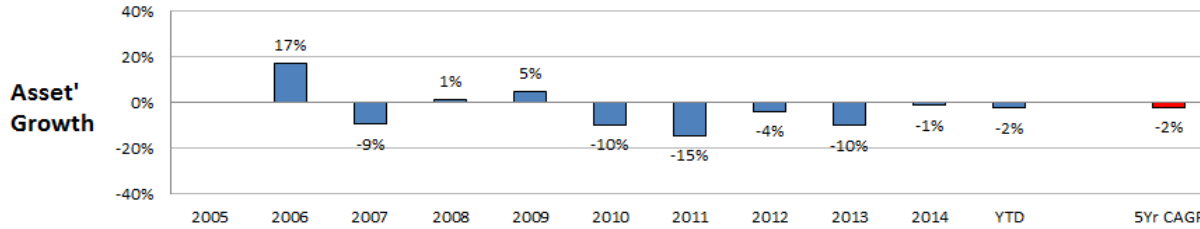
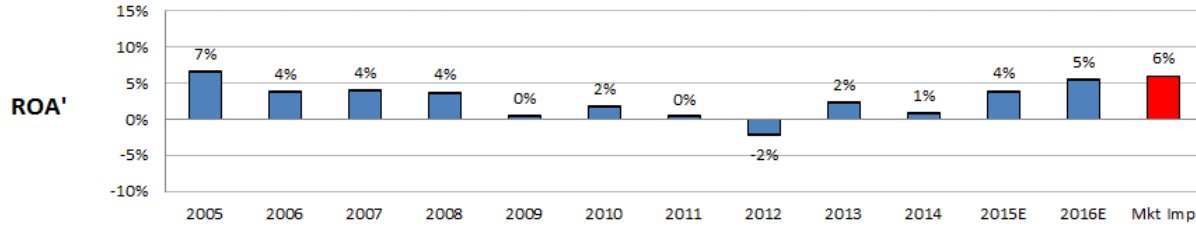
CROX – Crocs, Inc



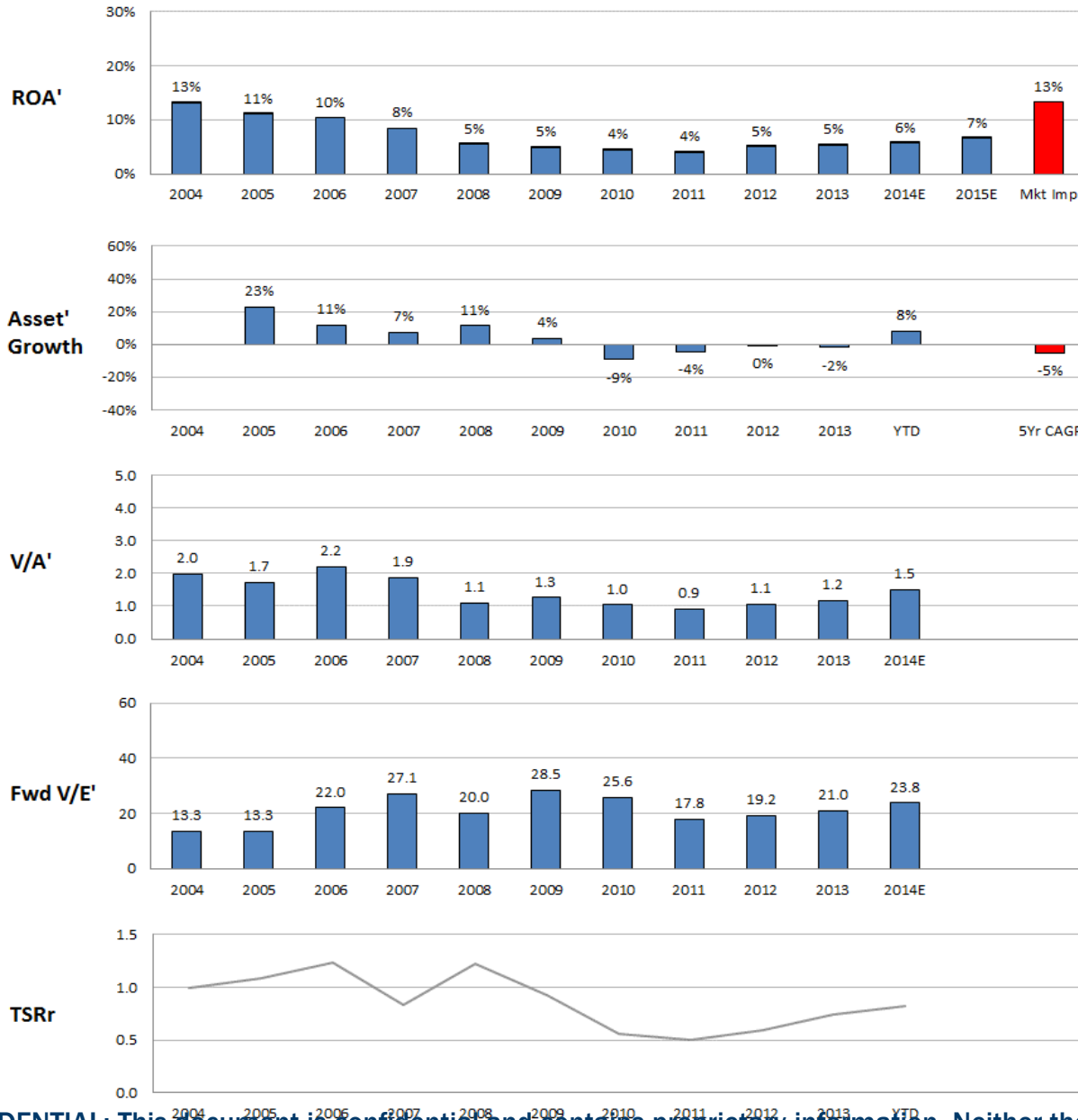
S53 - SMRT Corporation Ltd



6701 – NEC Corporation



TLKM – PT Telekomunikasi Indonesia

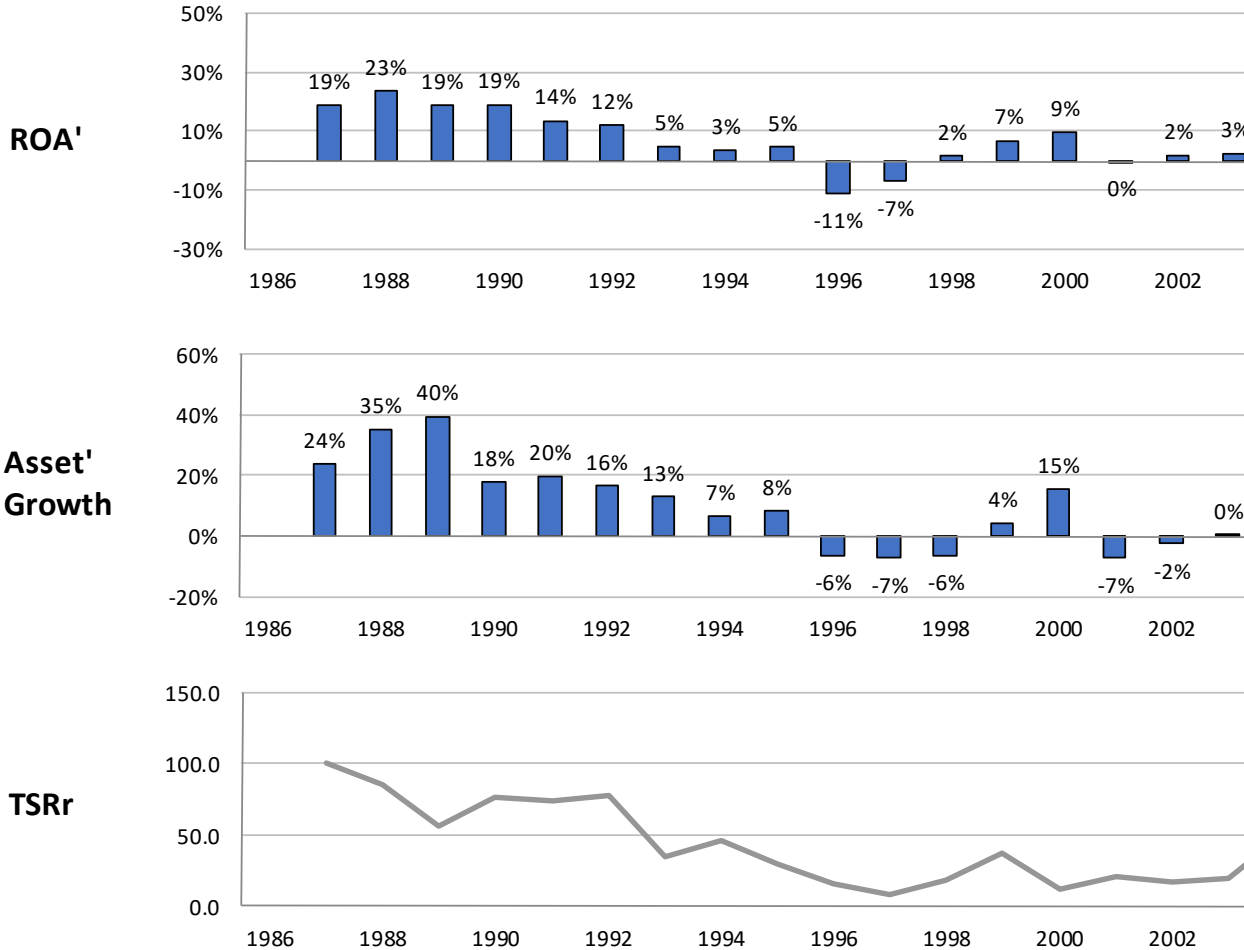


Return Driven Strategy

APPLE INC (AAPL)

Relative Wealth Chart

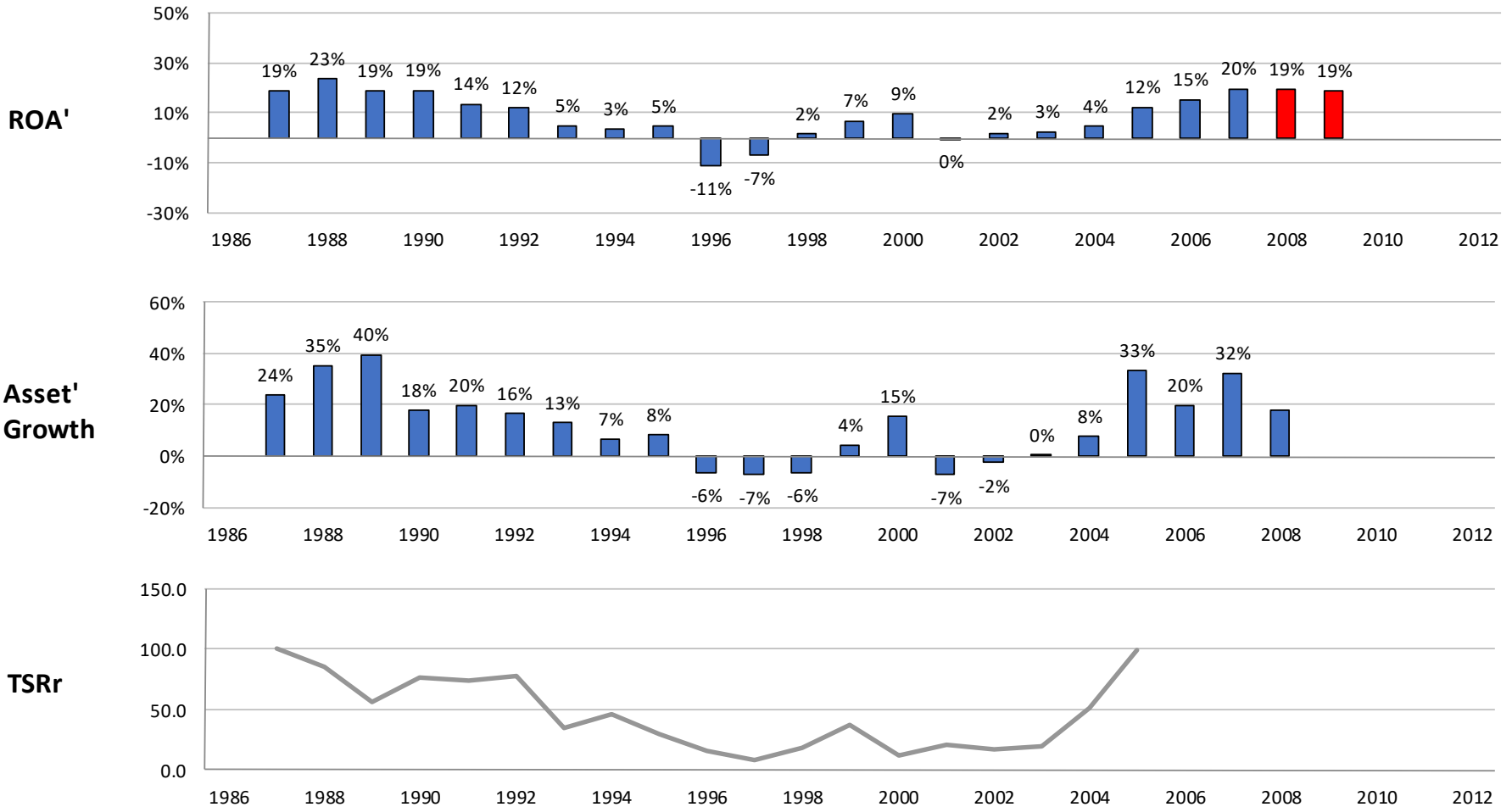
Computer Hardware
Market Cap : 107.412 USD



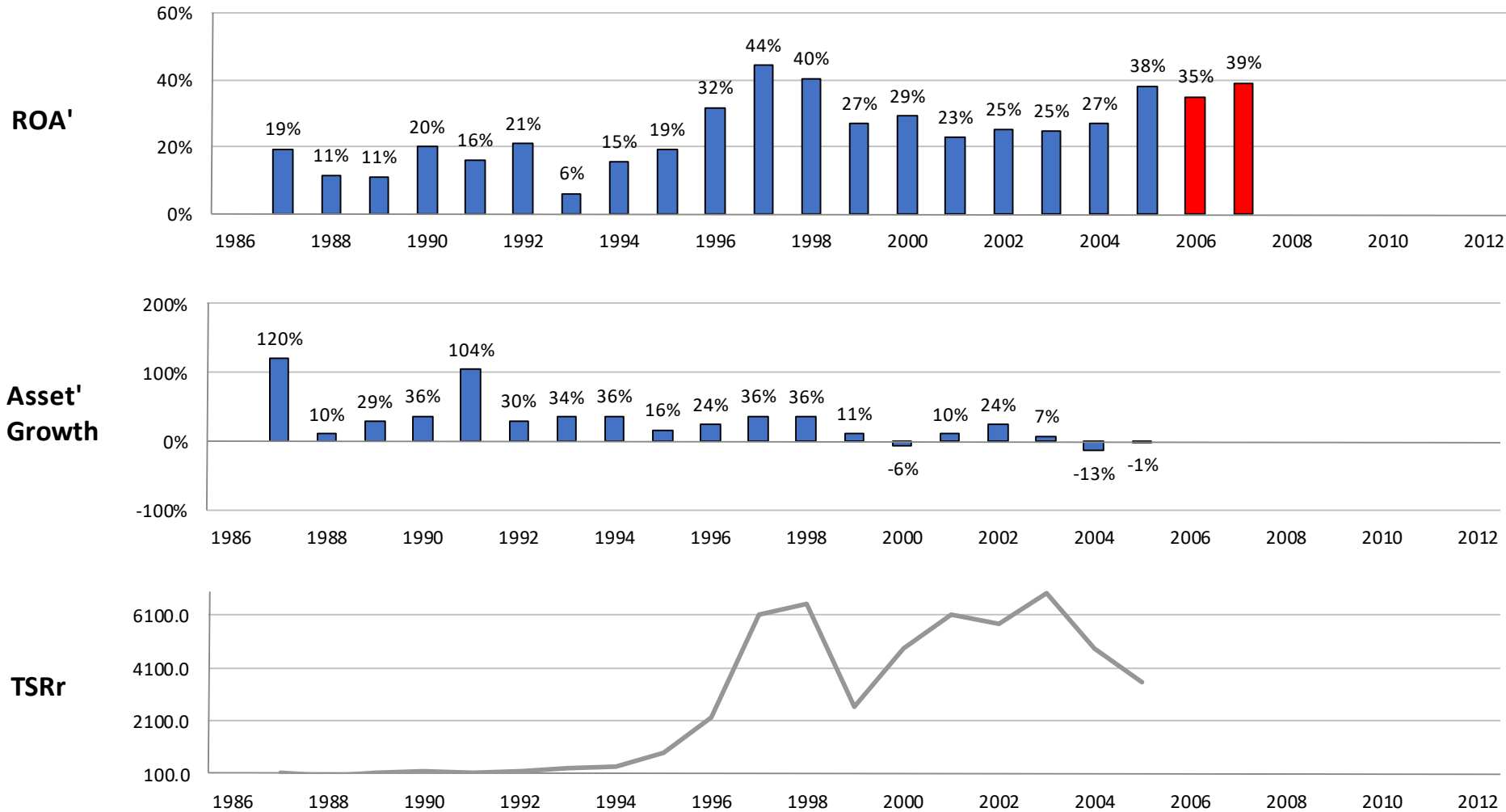
APPLE INC (AAPL)

Relative Wealth Chart

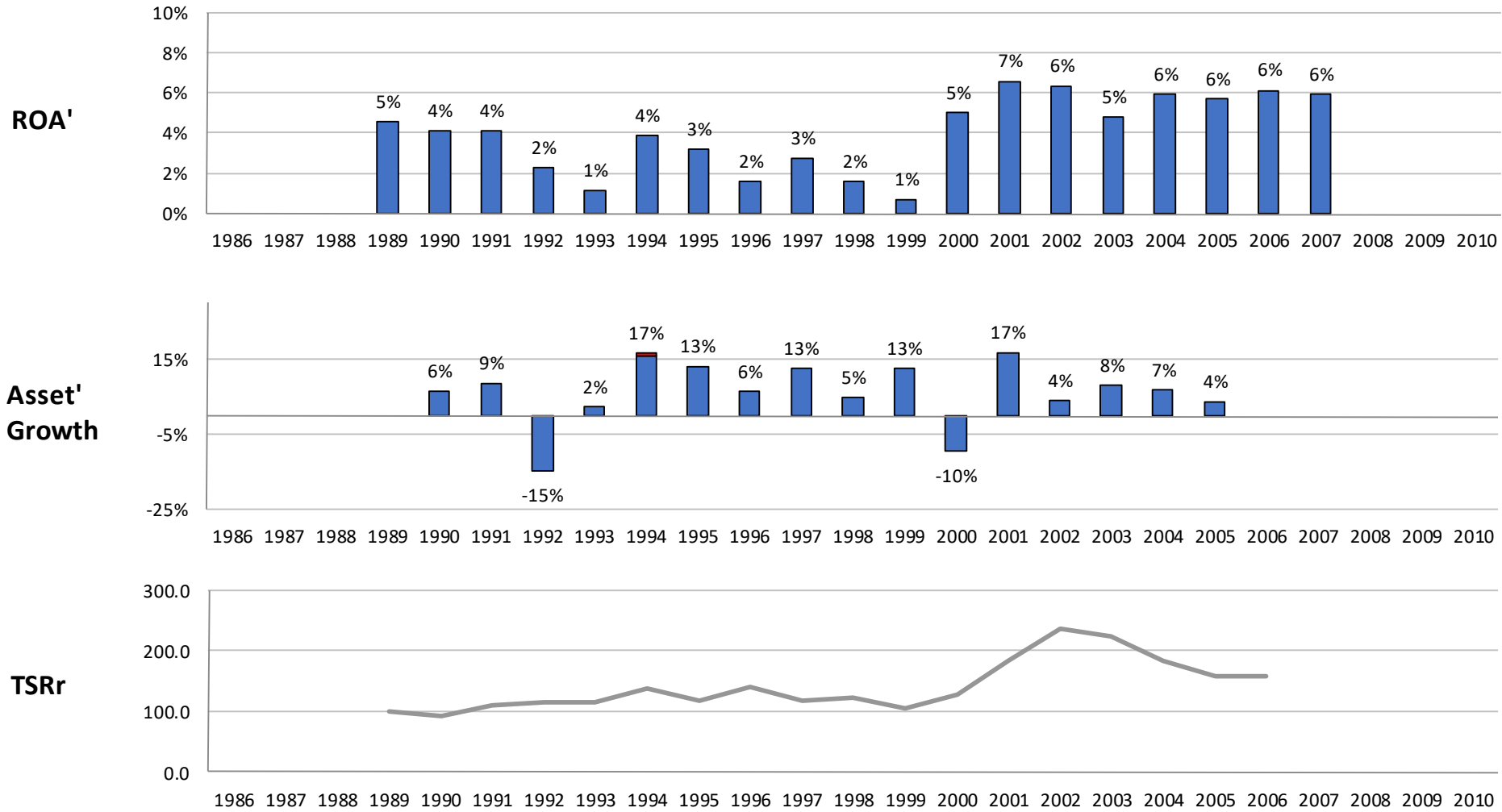
Computer Hardware
Market Cap : 107.412 USD



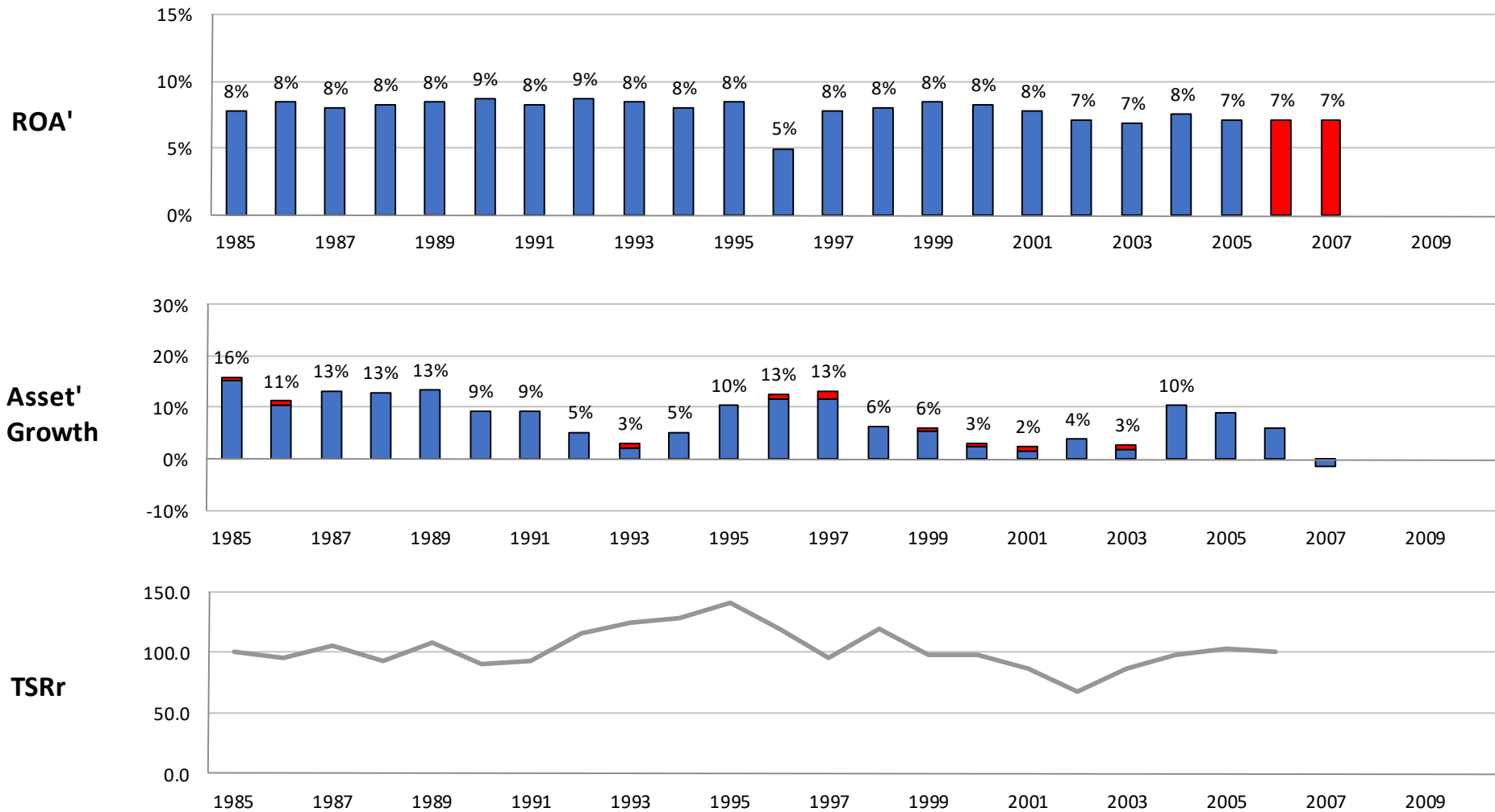
DELL – Real needs are not always the obvious ones



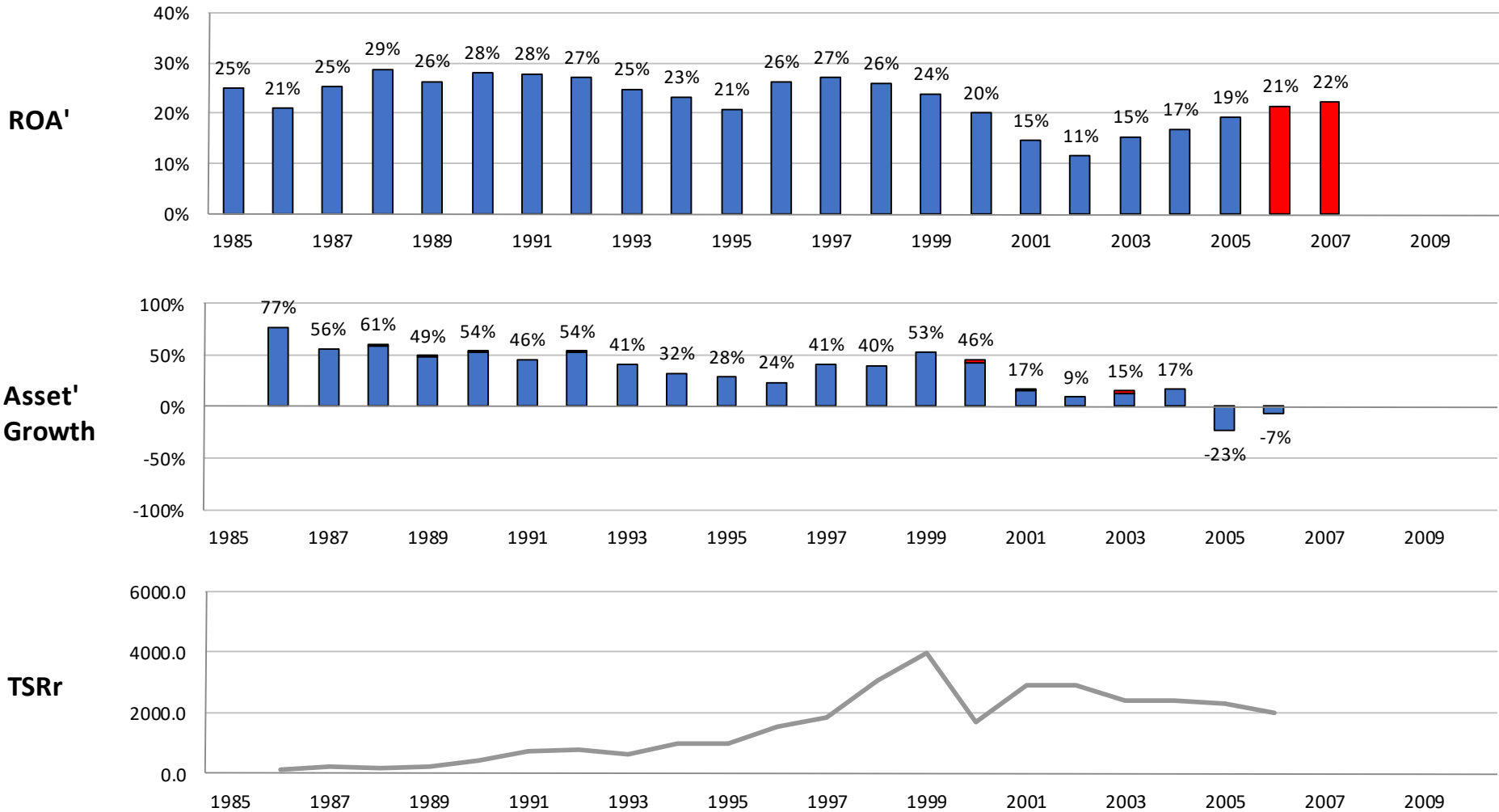
BMW – Great product vs. great business



MCD – Great product vs. great business

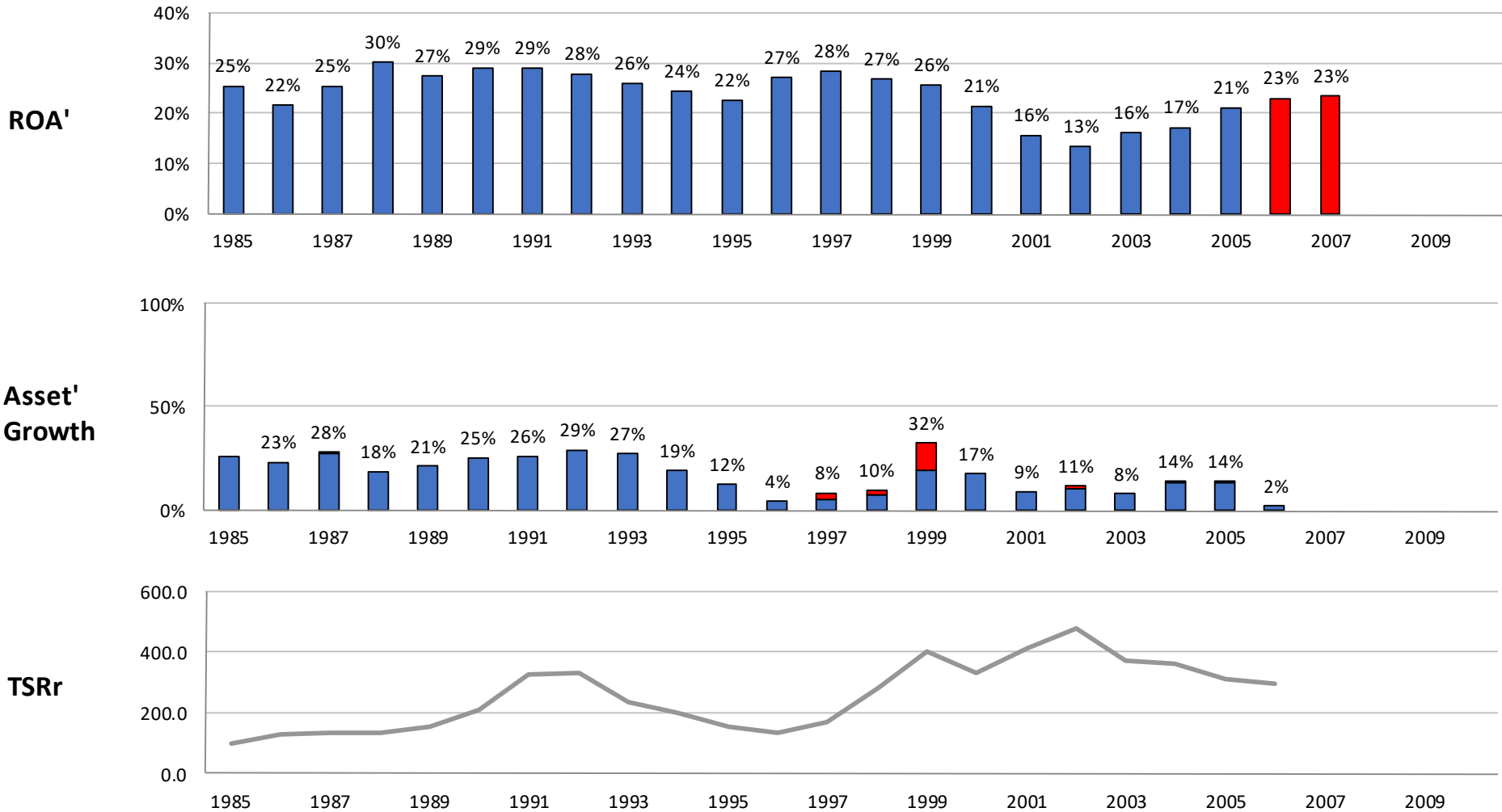


MSFT – pricing power



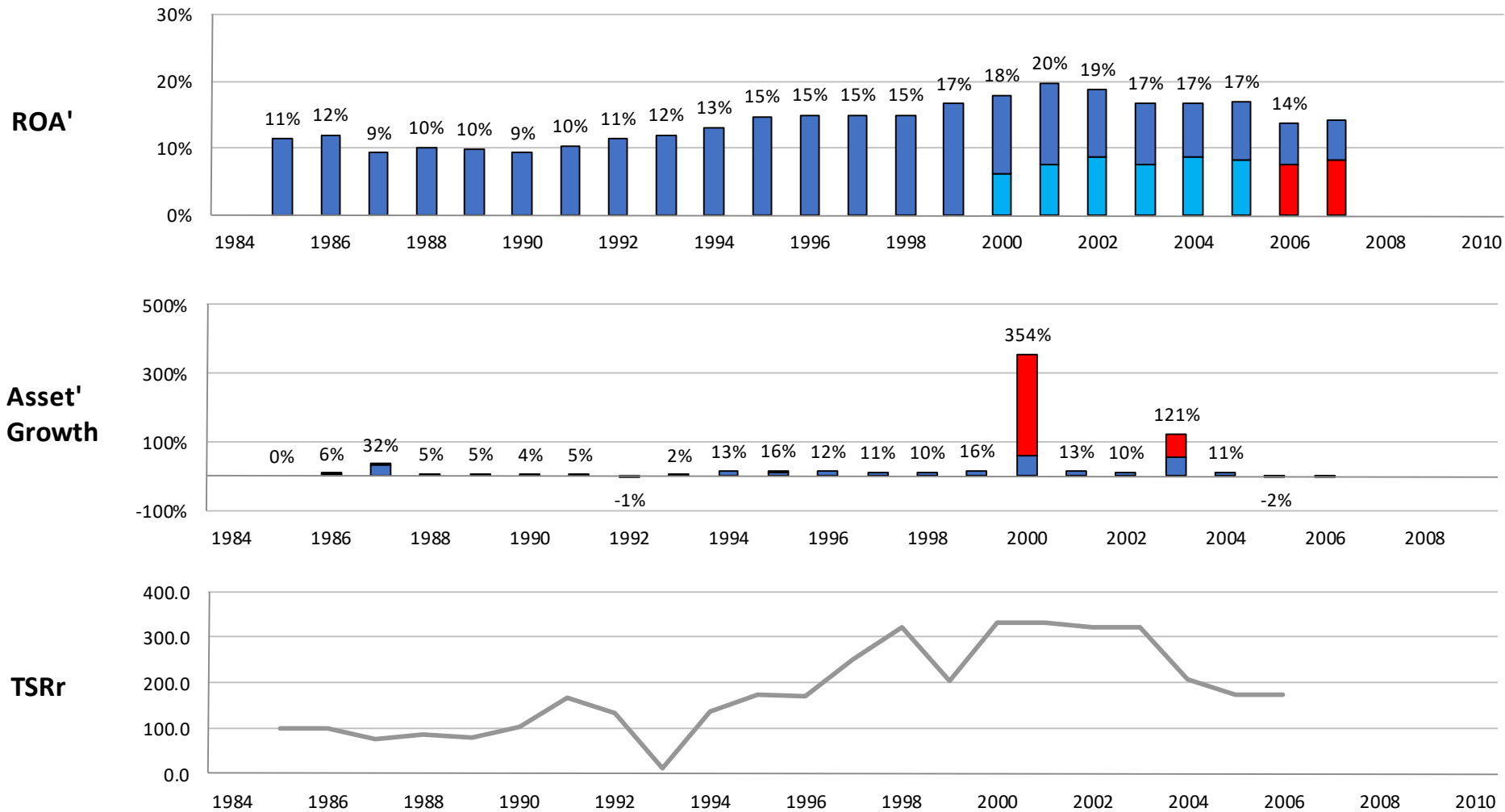
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WMT – Real needs are not always the obvious ones

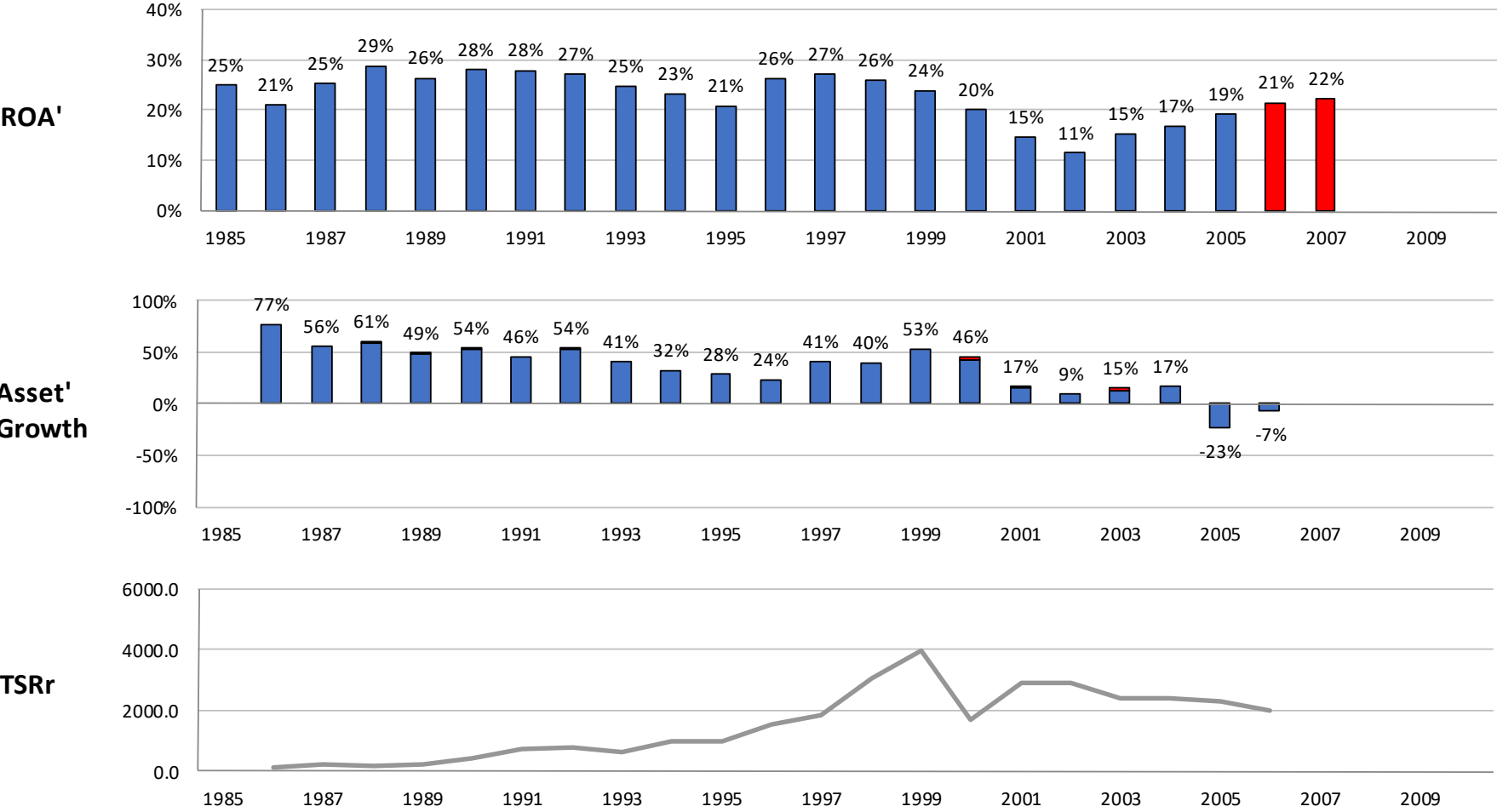


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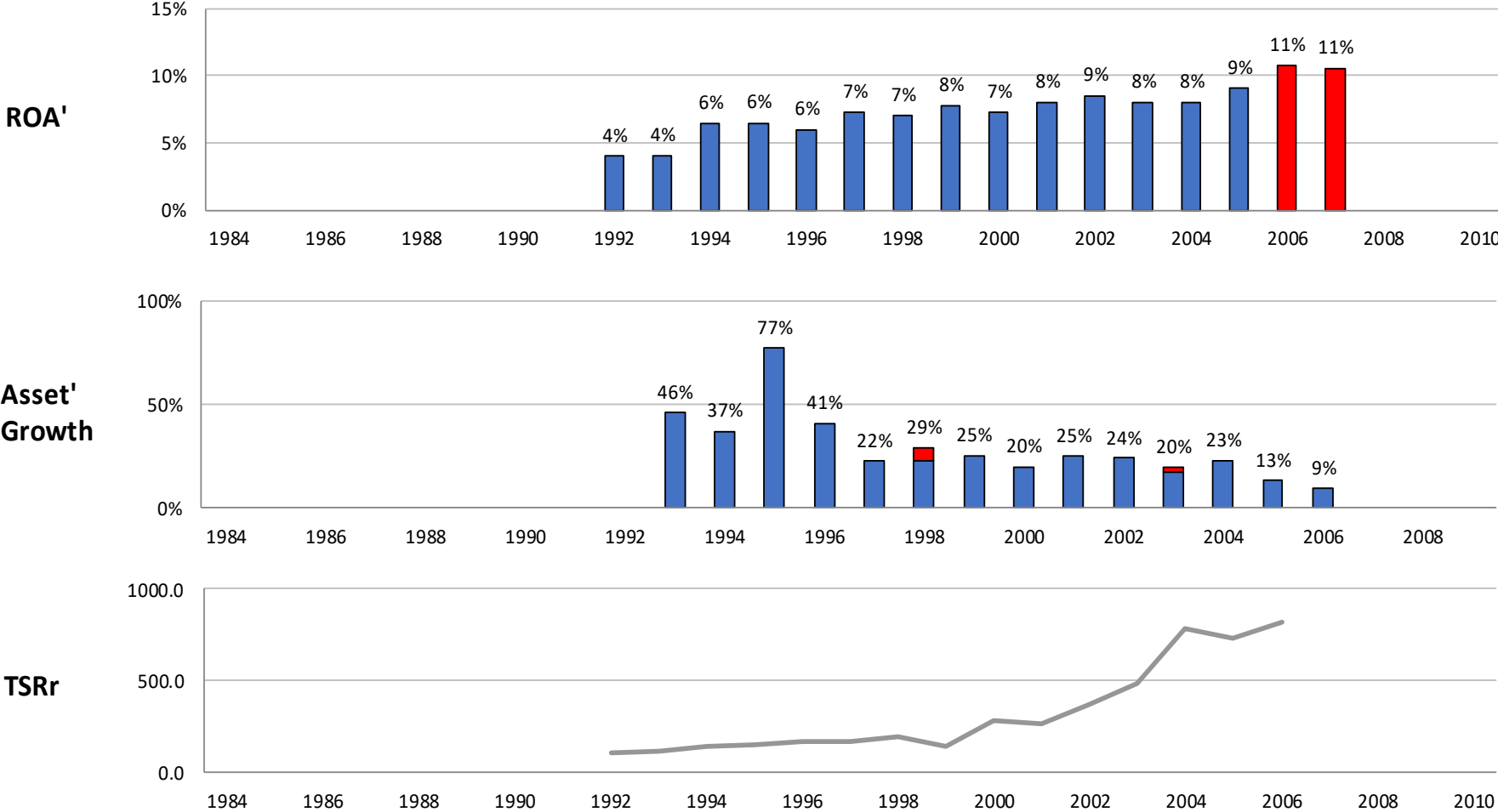
PFE – Asset growth is like principal growth



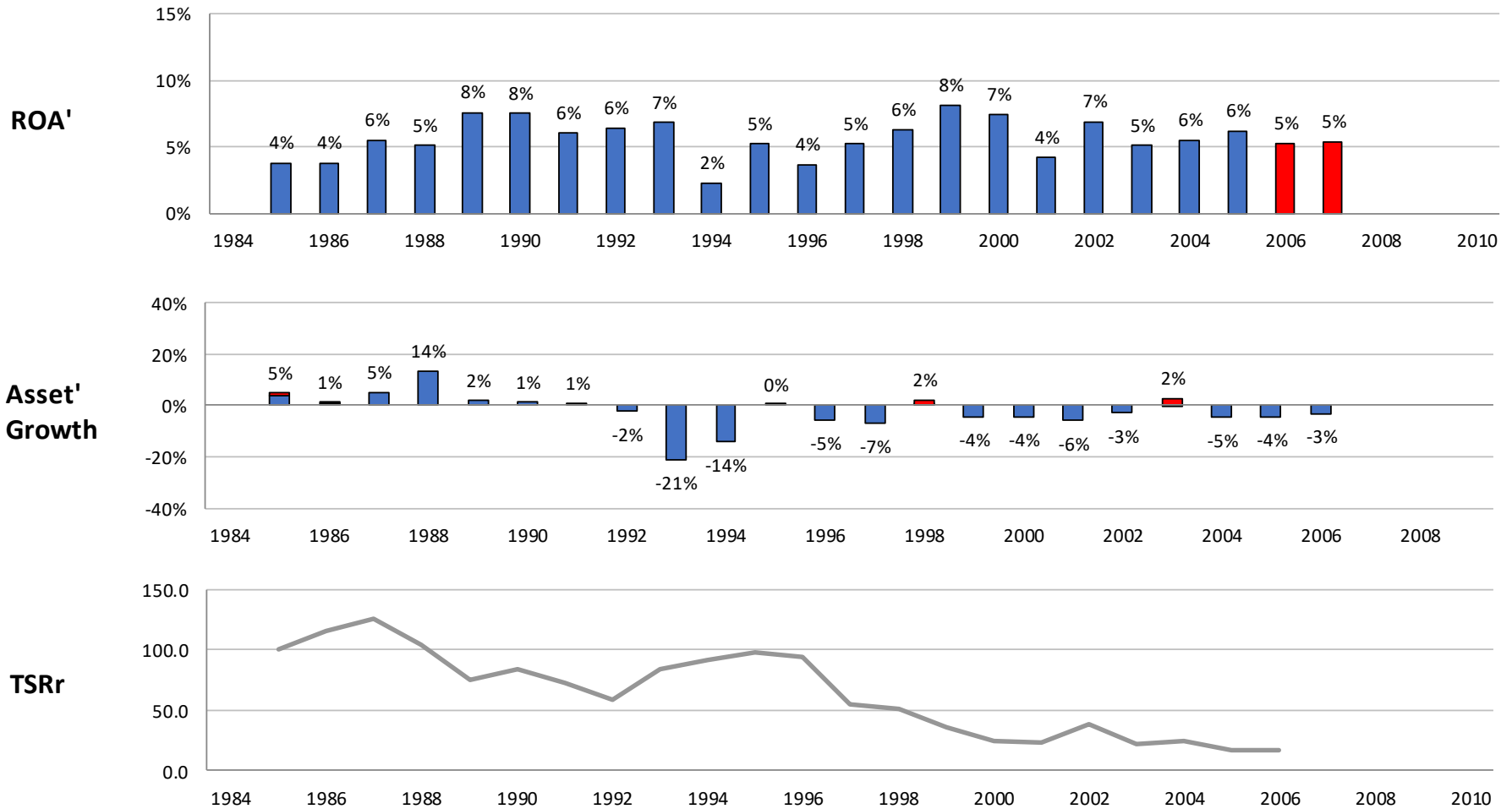
Asset Growth is Like Principal Growth – MSFT



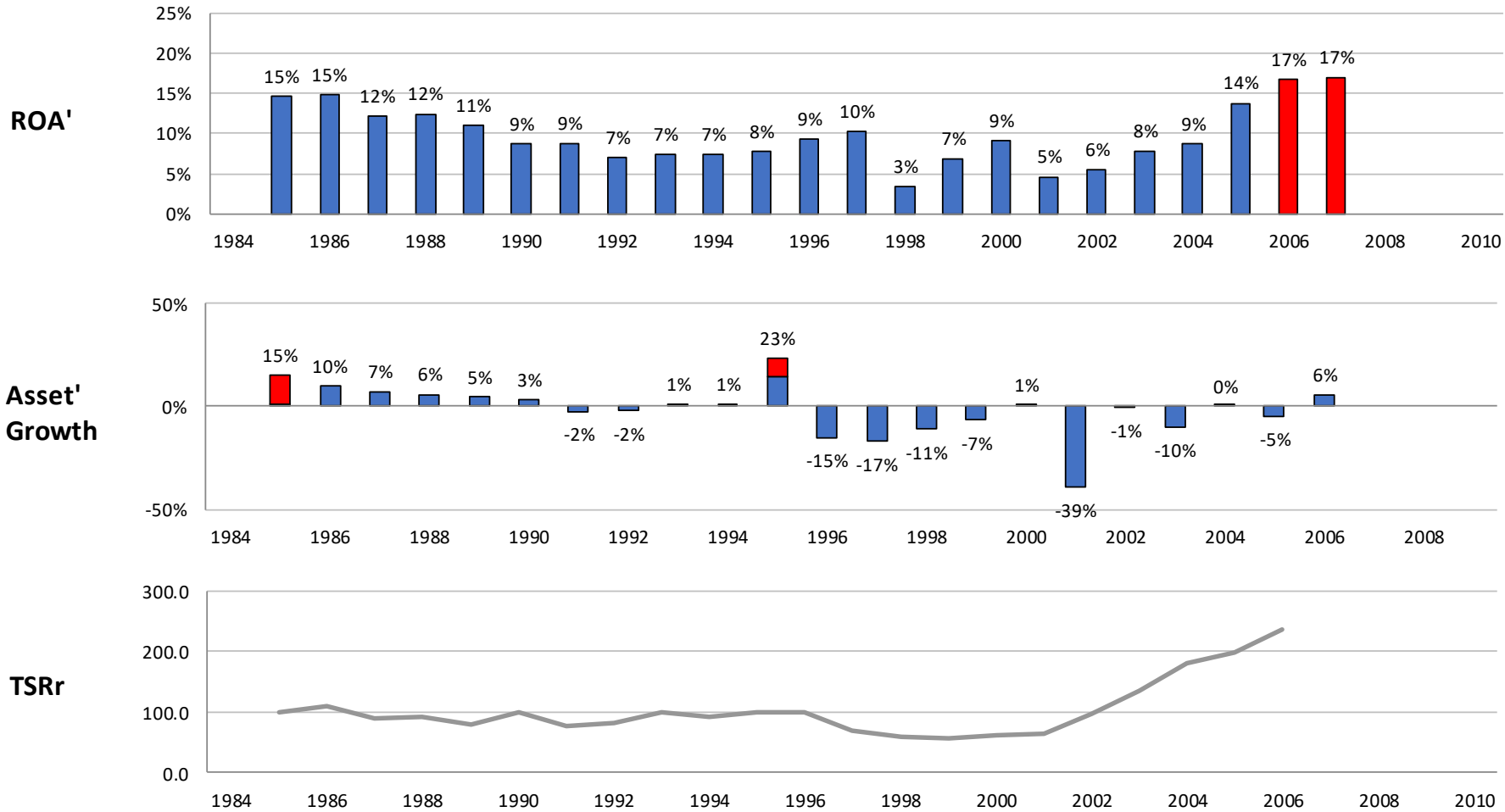
Asset Growth is Like Principal Growth – SBUX



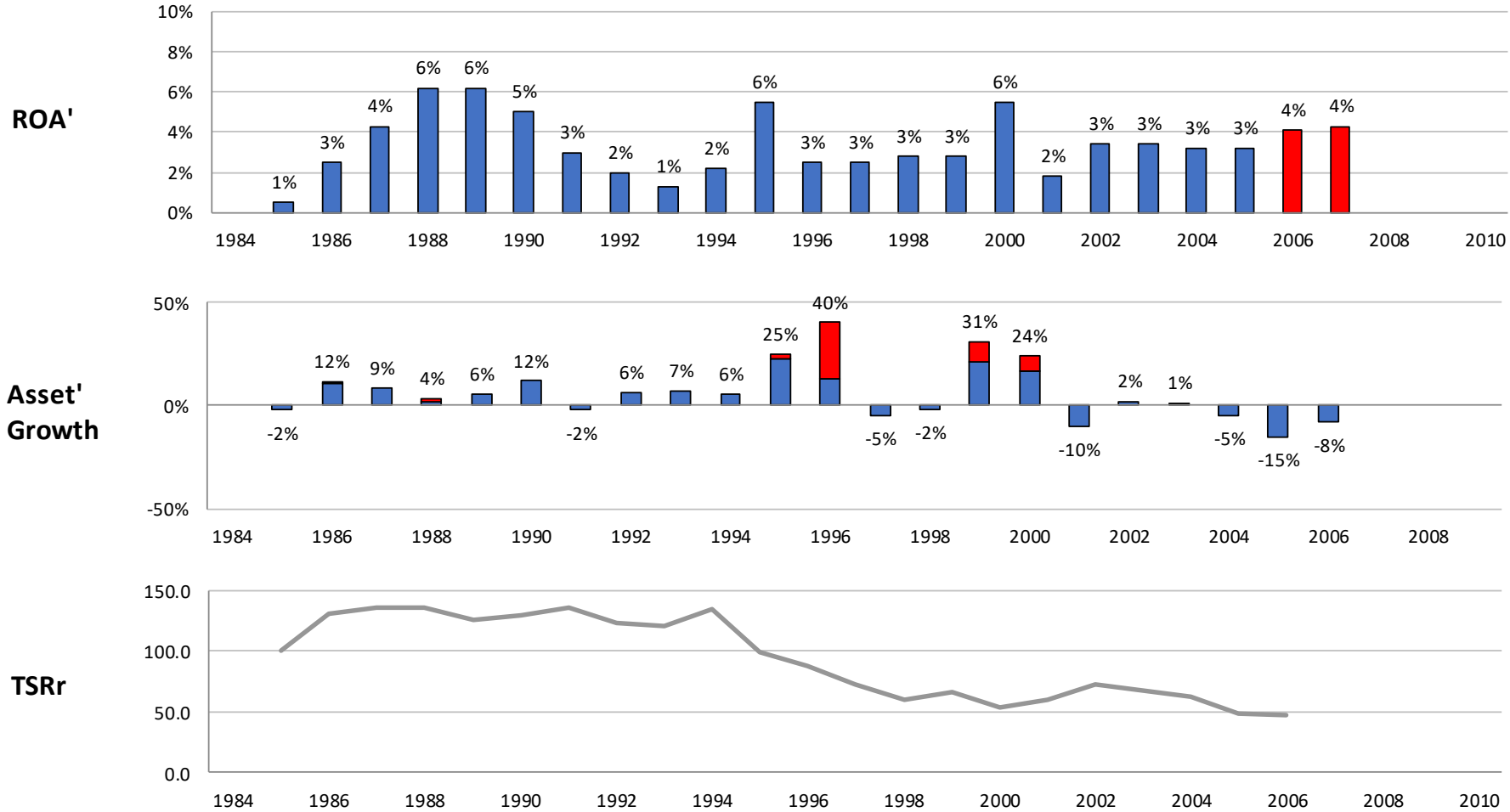
EK – Retreat to survive



ROK – Shrink and grow rich



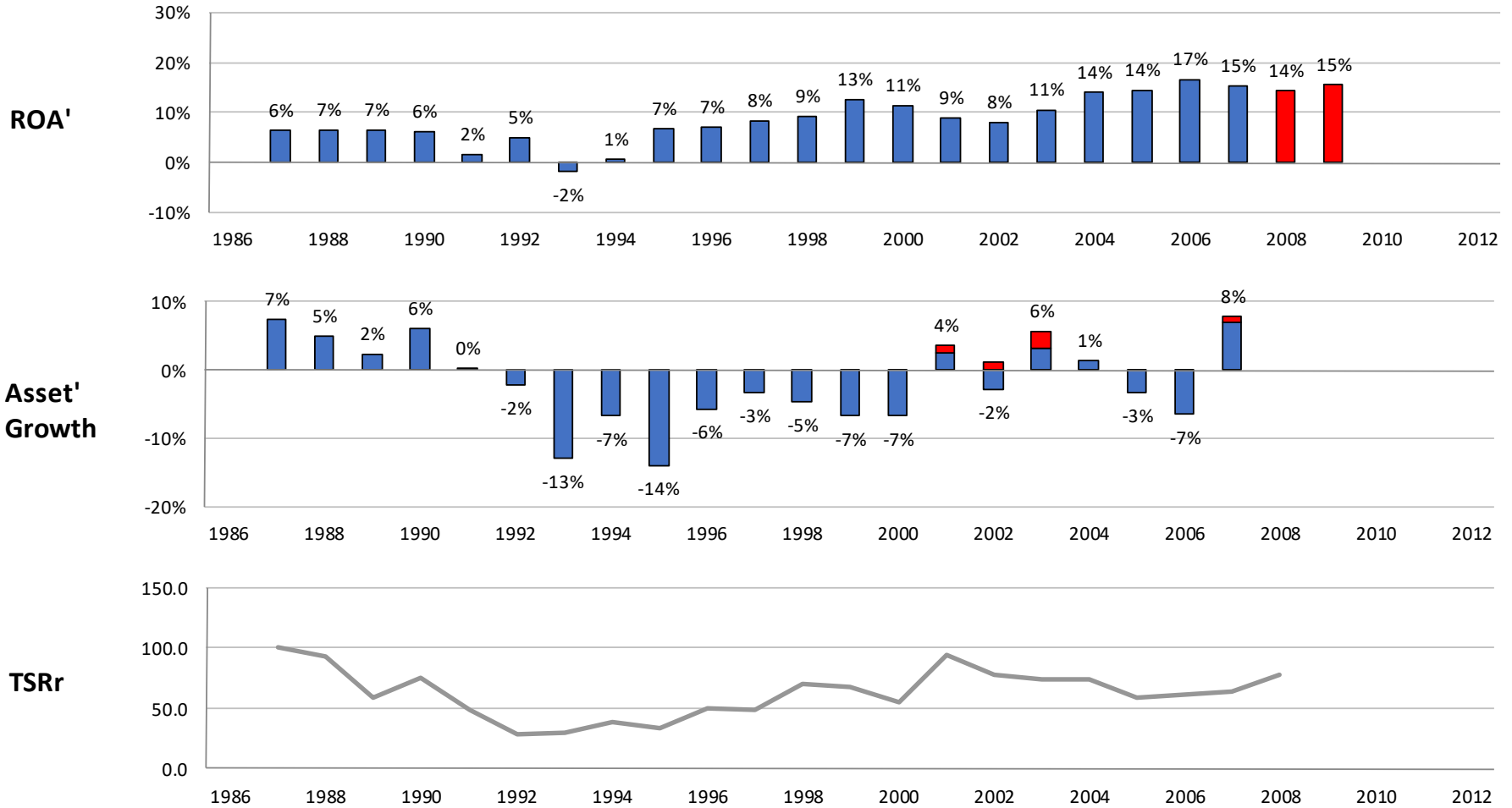
IP – Quality of M&A growth is case-by-case



INTL BUSINESS MACHINES CORP (IBM)

Relative Wealth Chart

Computer Hardware
Market Cap : 157.834 USD

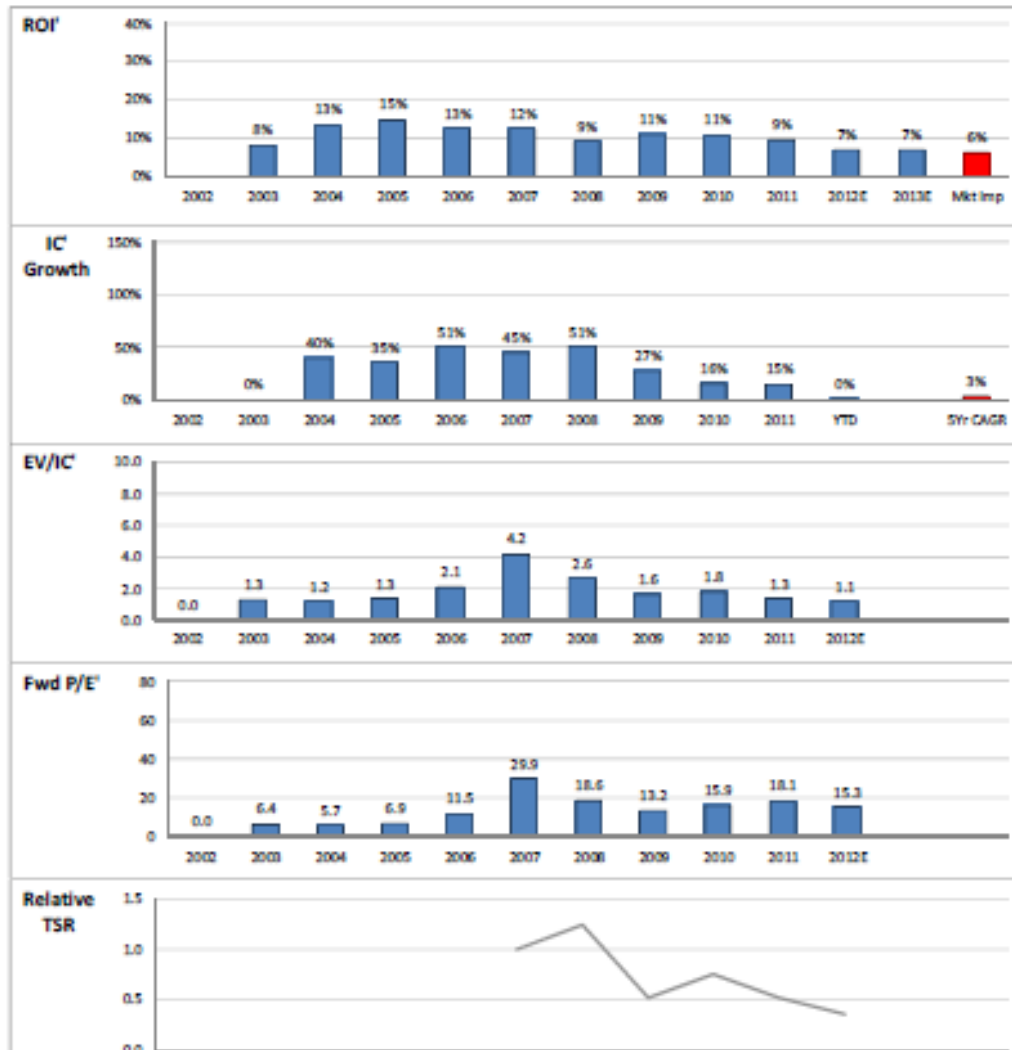


MetroPCS Communications, Inc., PCS

Stock Price USD 5.94 - 2.2B

Telecommunication Services - Wireless Telecommunication Services

Data Date - 6/21/2012 | Fiscal Year - 12/31/2011 - Current Quarter - Q12012



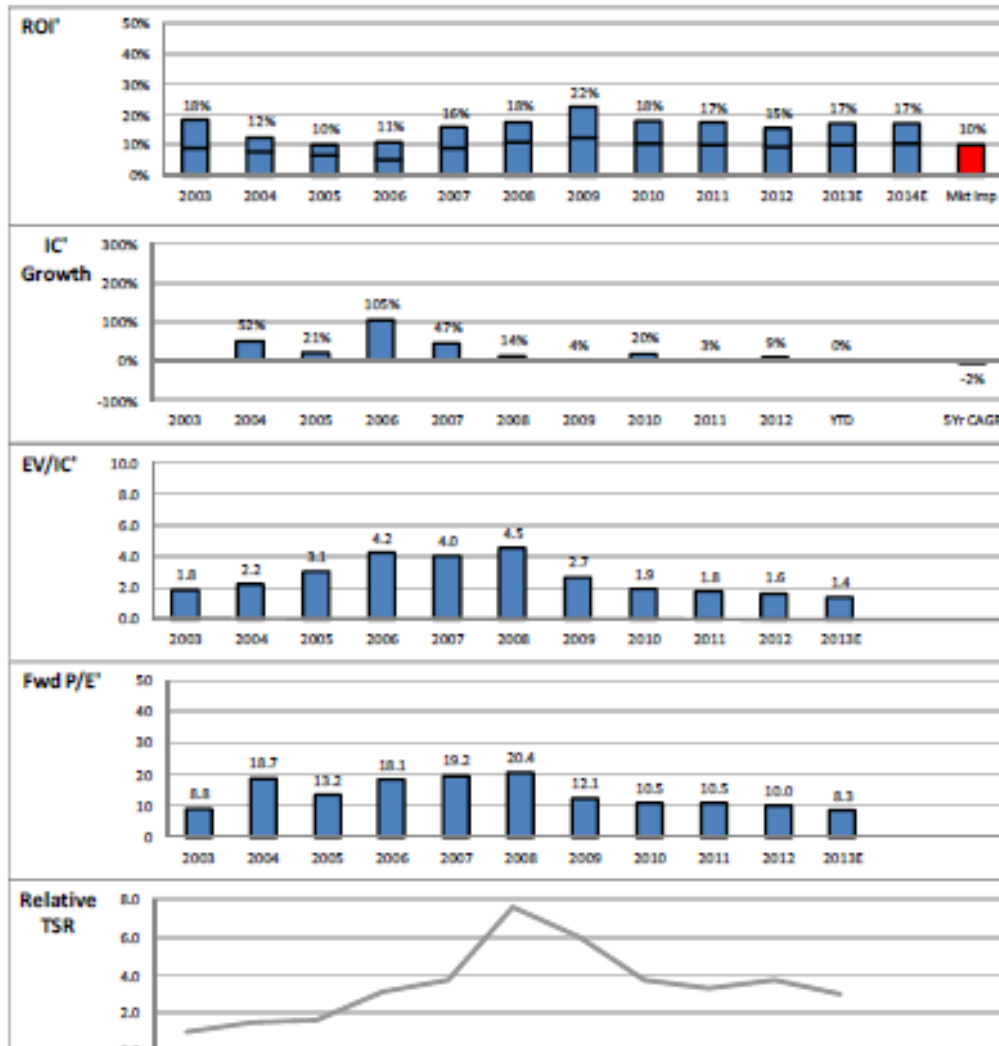
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GameStop Corp., GME

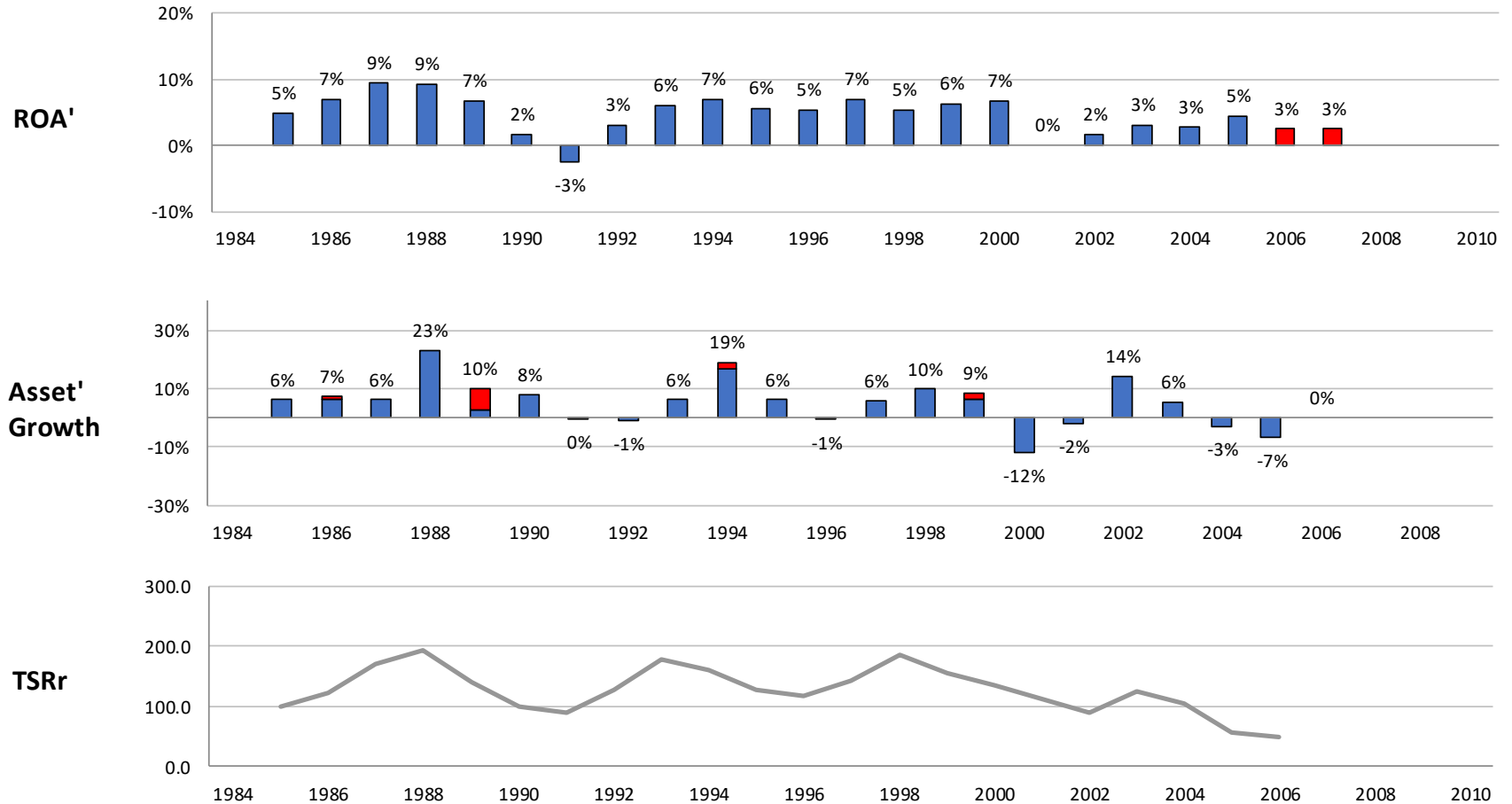
Stock Price USD 17.56 - 2.3B

Consumer Discretionary - Computer and Electronics Retail

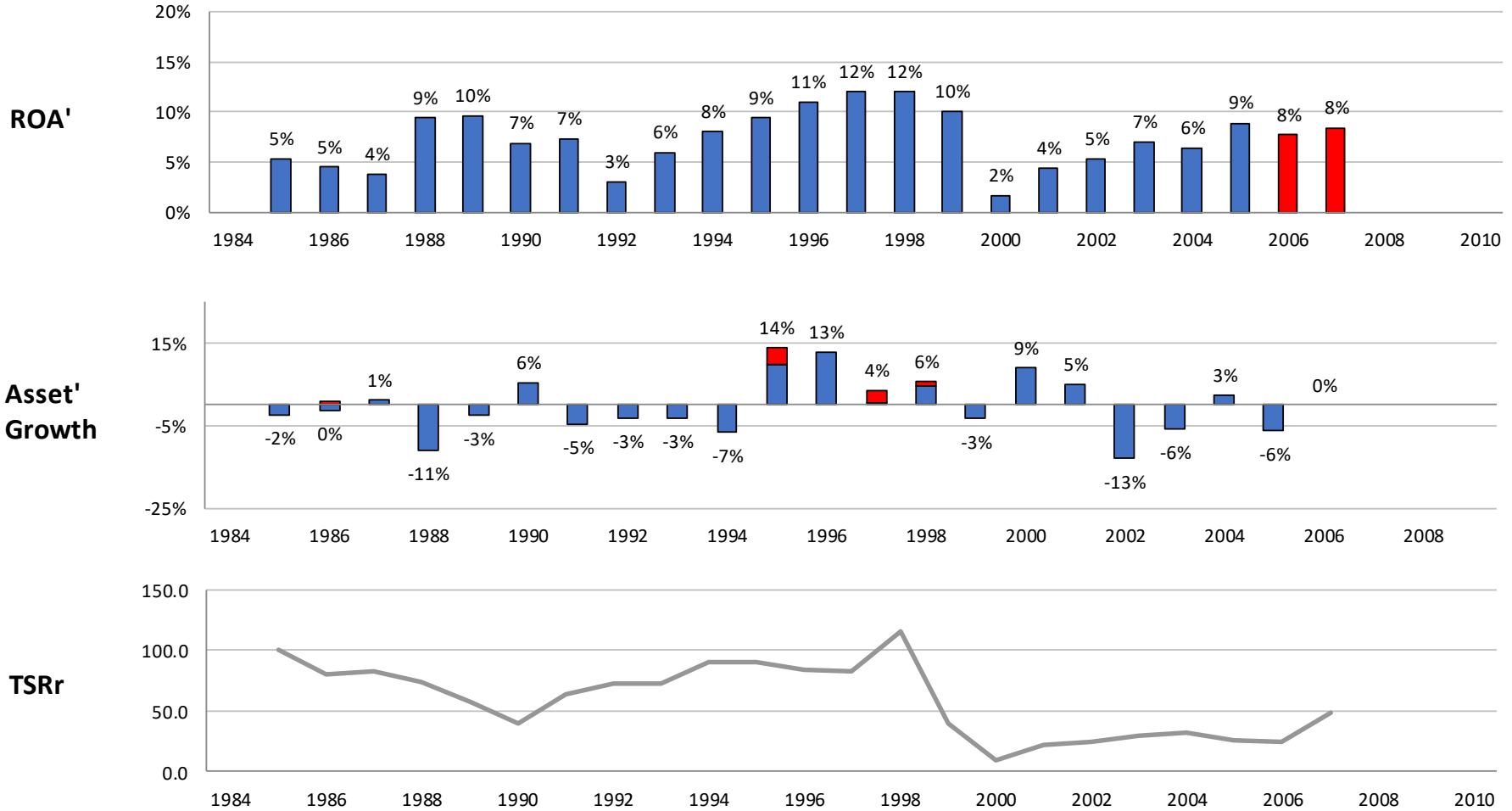
Data Date - 6/21/2012 | Fiscal Year - 1/28/2012 - Current Quarter - Q42012



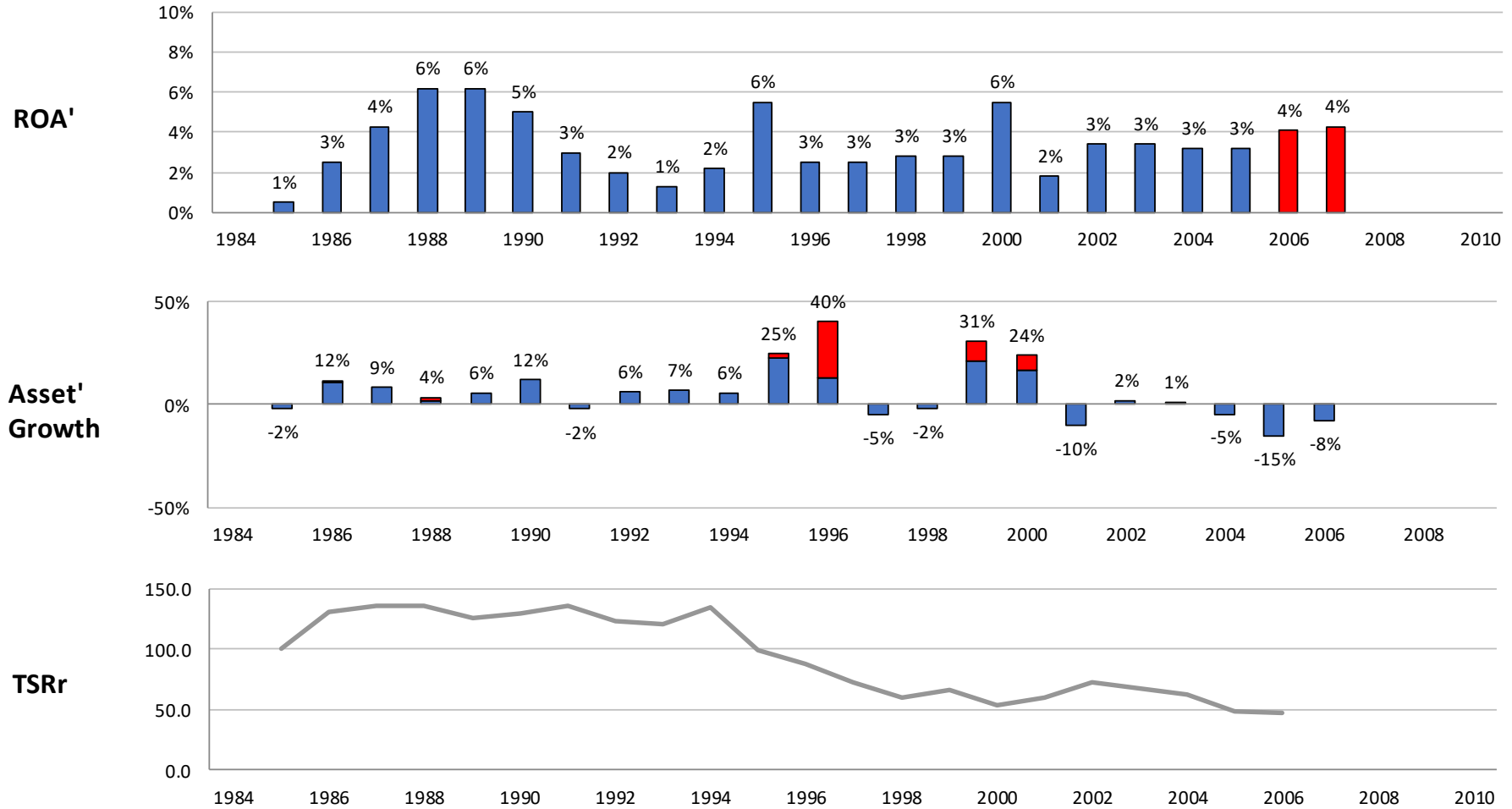
F – Retreat to survive



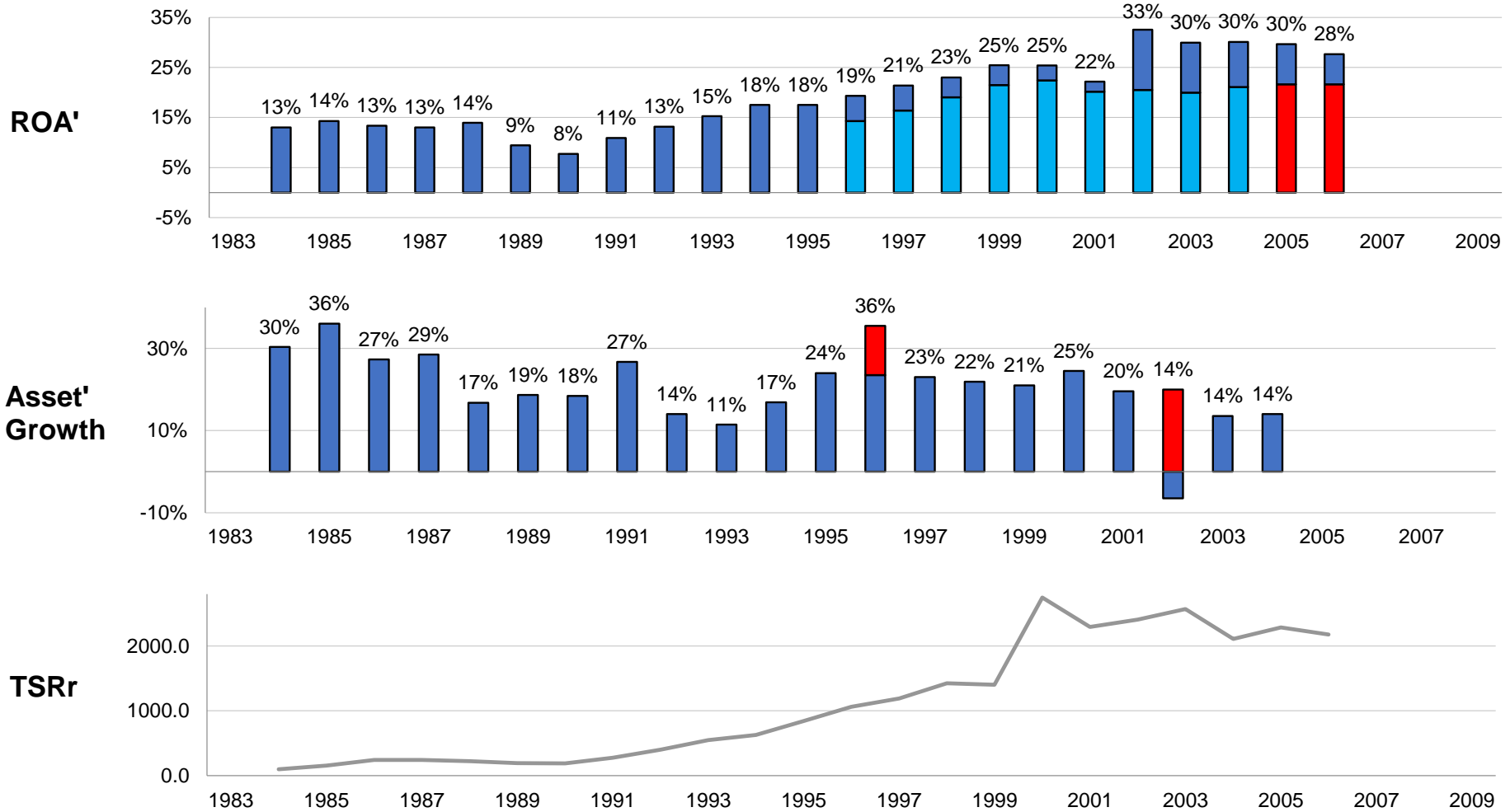
XRX – Retreat to survive



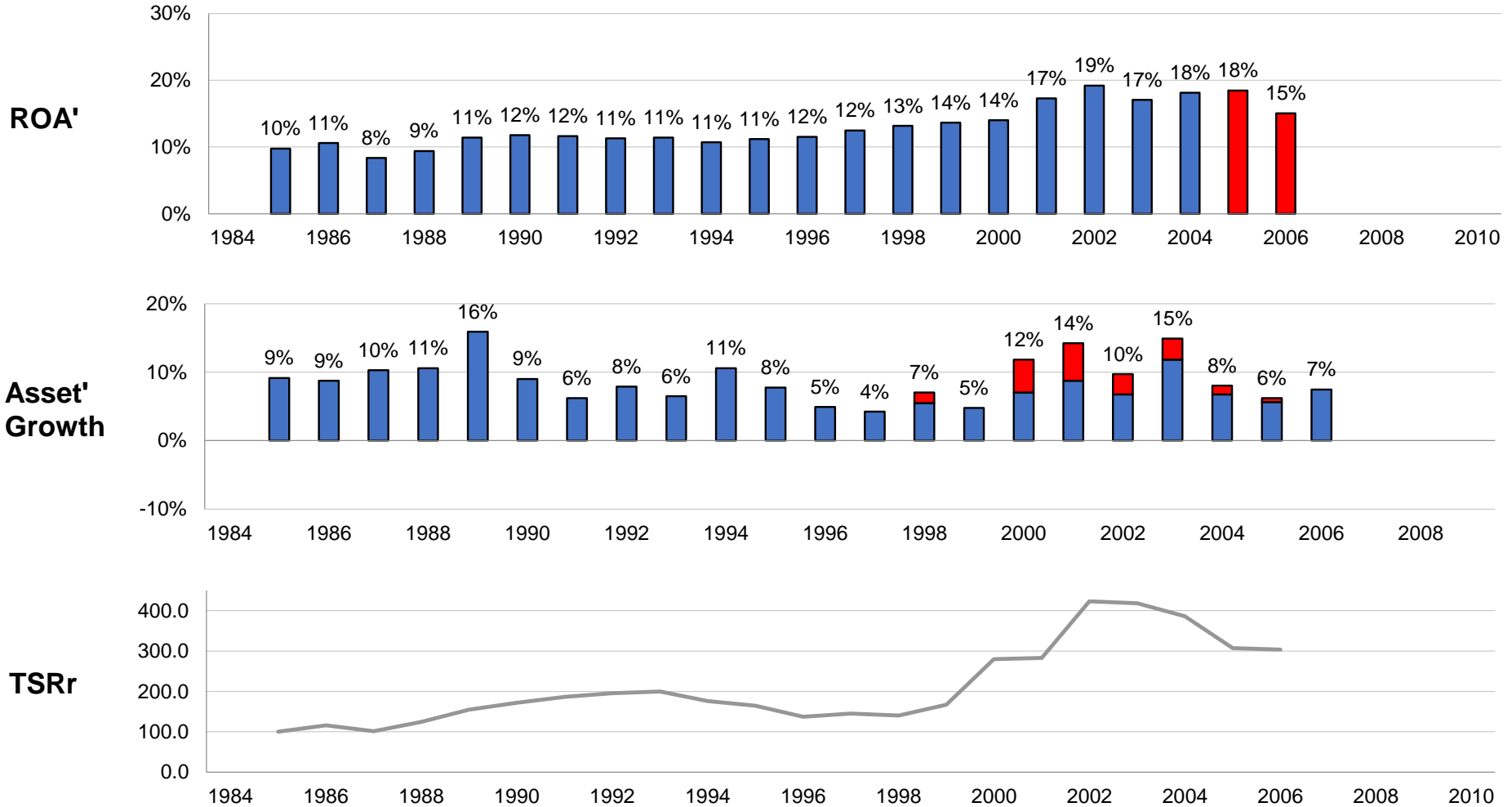
IP – Quality of M&A growth is case-by-case



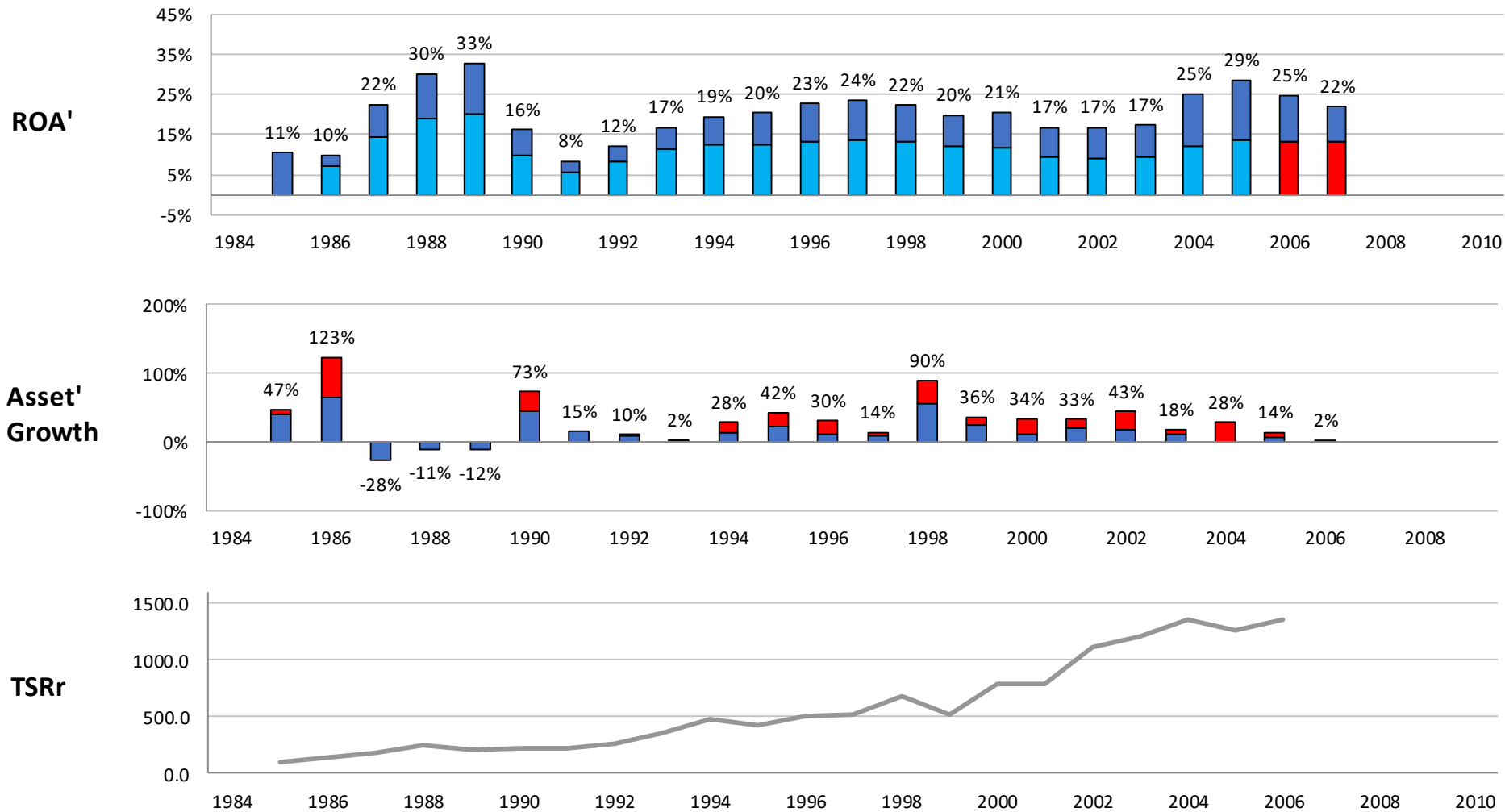
PAYX – Quality of M&A growth is case-by-case



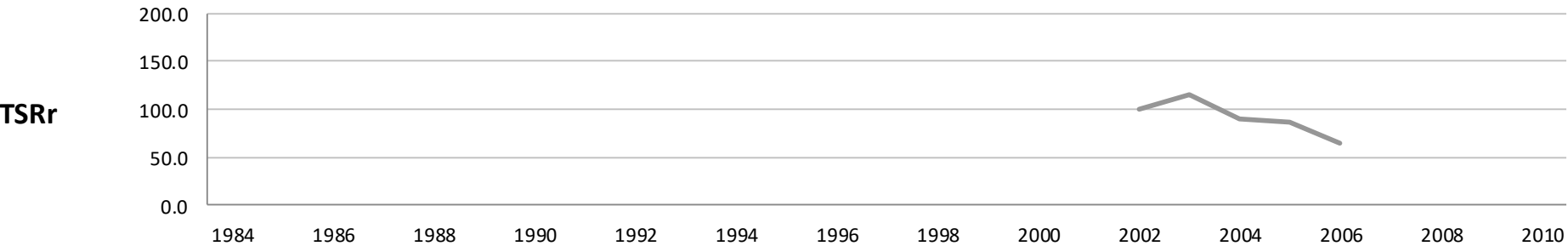
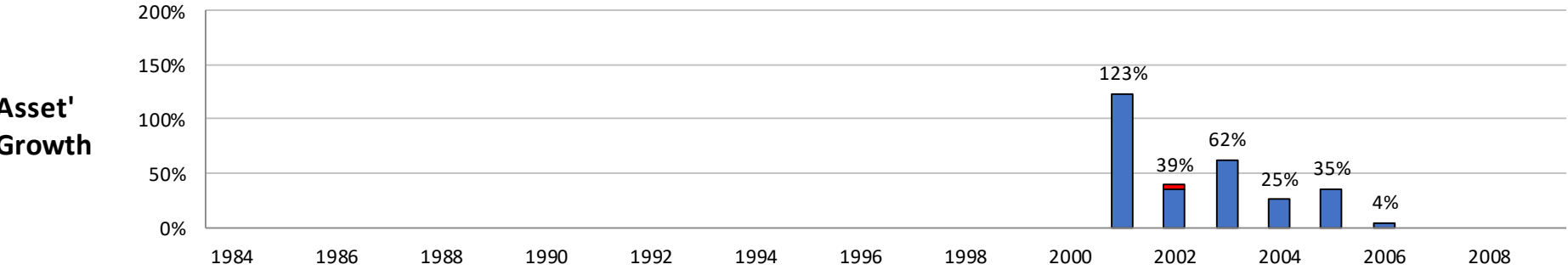
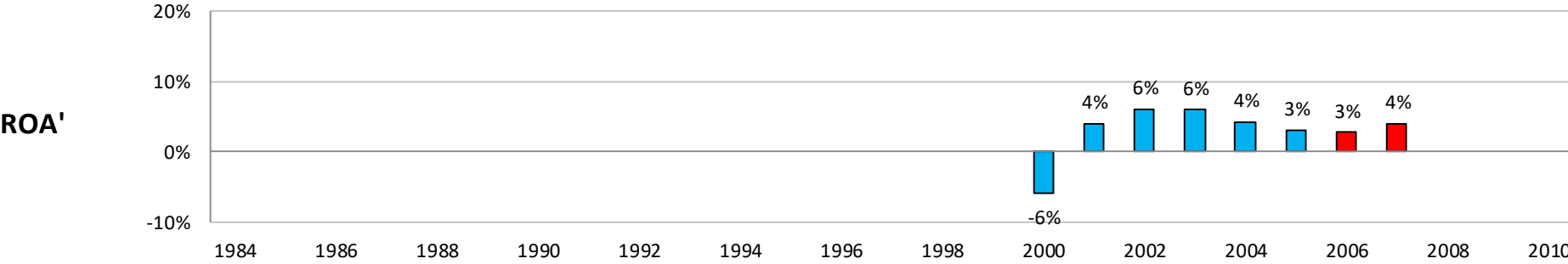
SYY – Quality of M&A growth is case-by-case



DHR – Quality of M&A growth is case-by-case



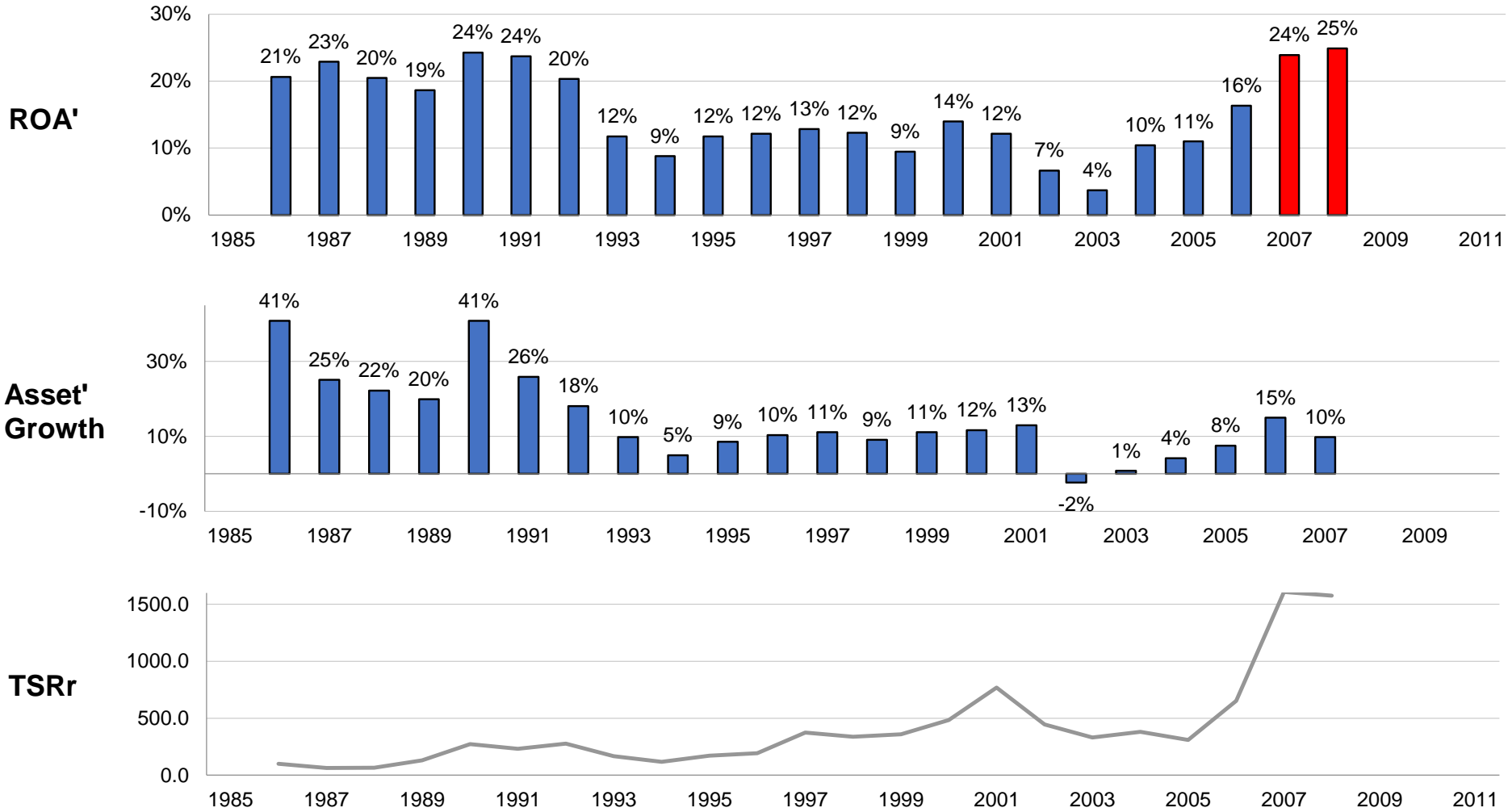
JBLU – Great product vs. great business



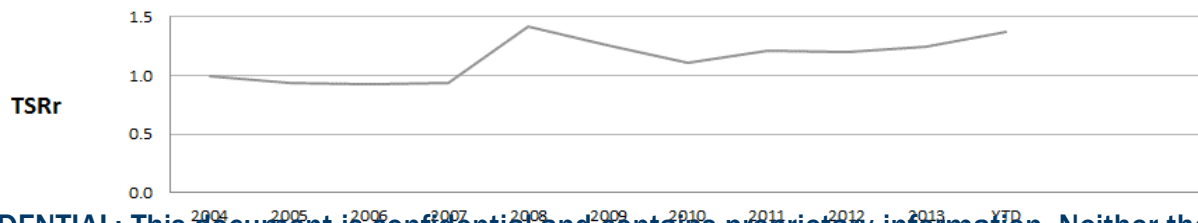
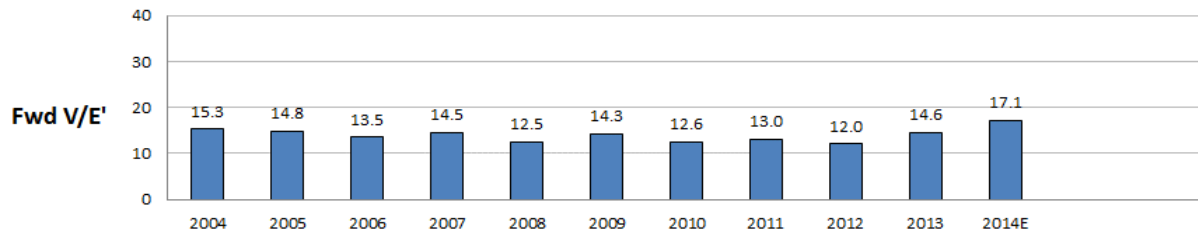
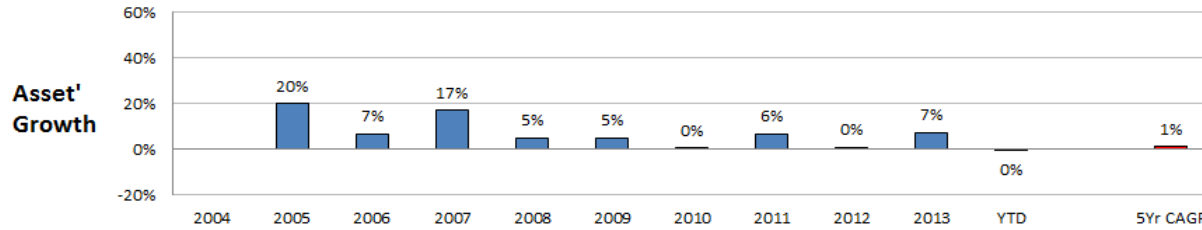
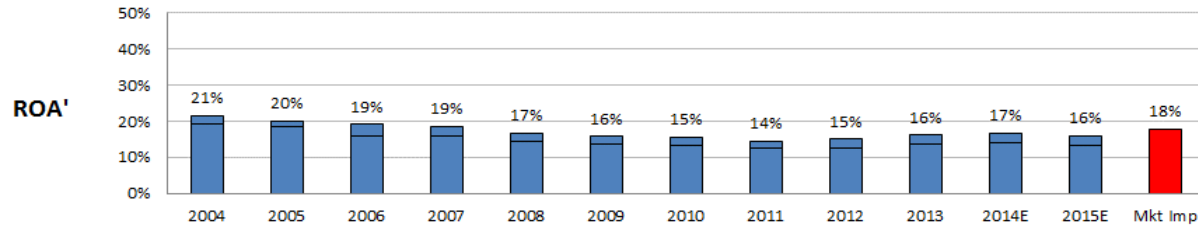
NINTENDO CO., LTD.(C) (7974)

Relative Wealth Chart

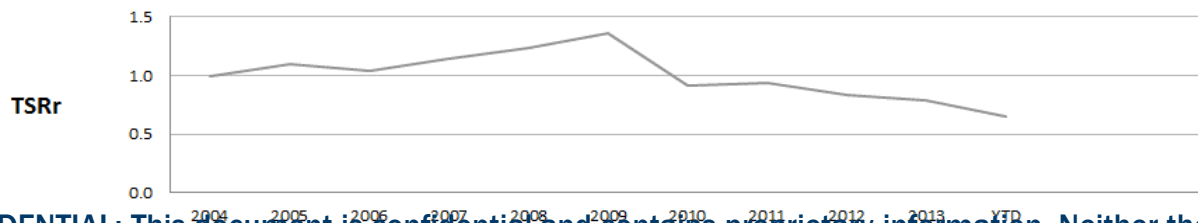
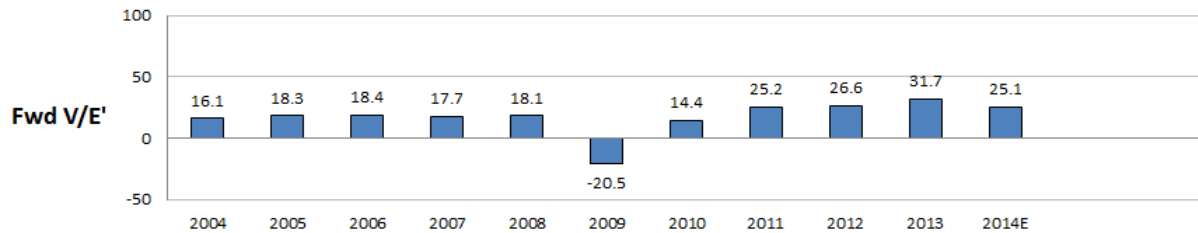
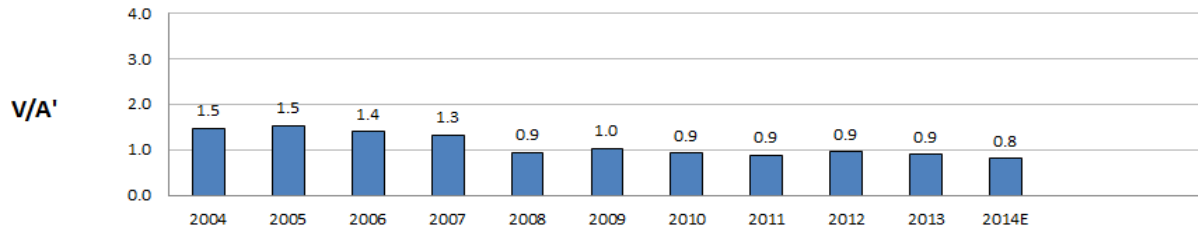
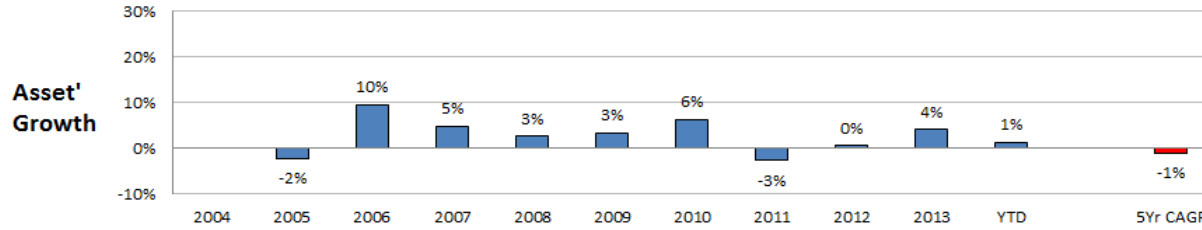
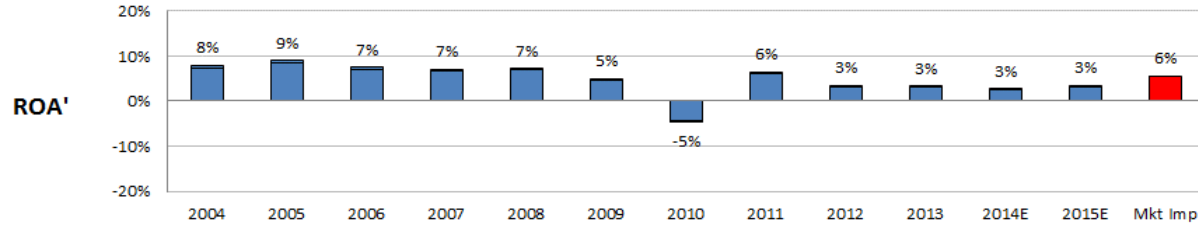
Home Entertainment Software
Market Cap : 65.847 USD



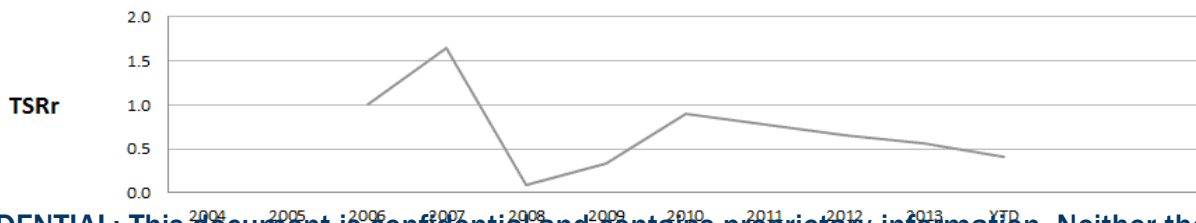
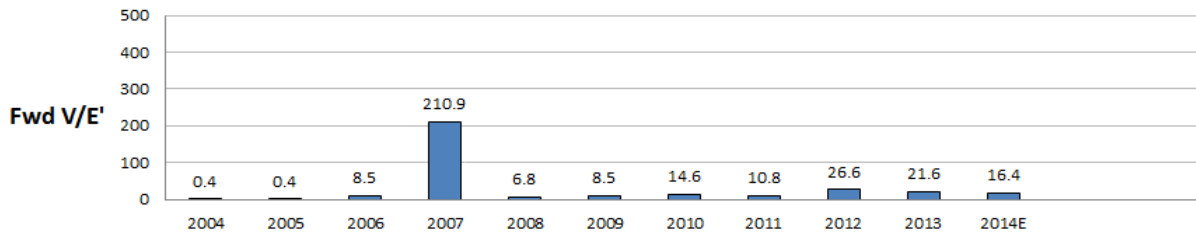
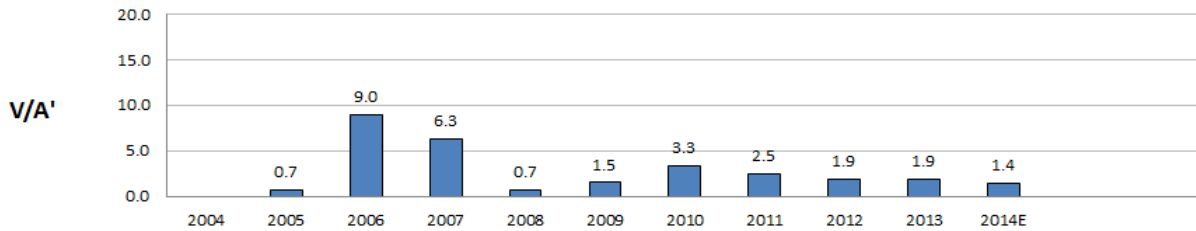
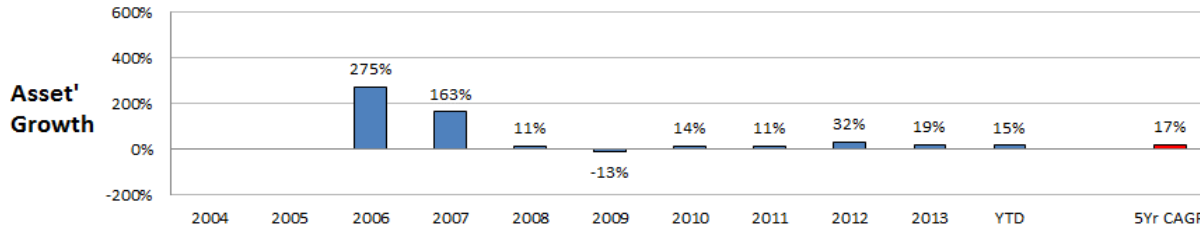
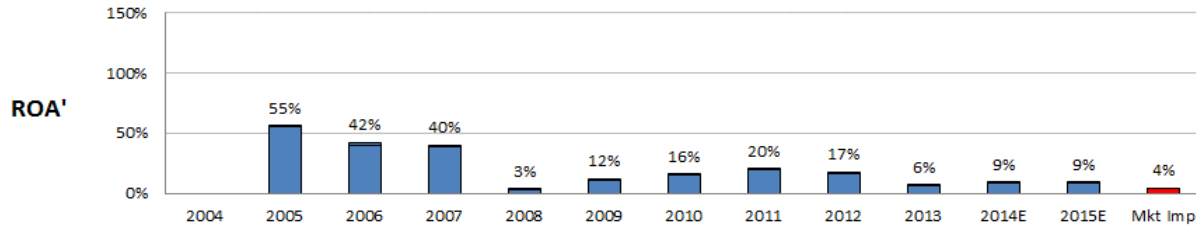
JNJ – Johnson & Johnson



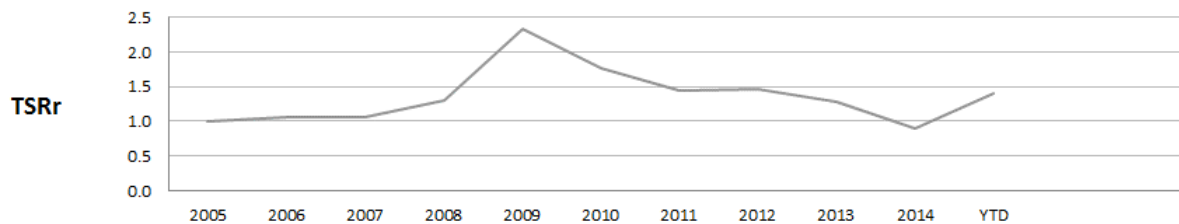
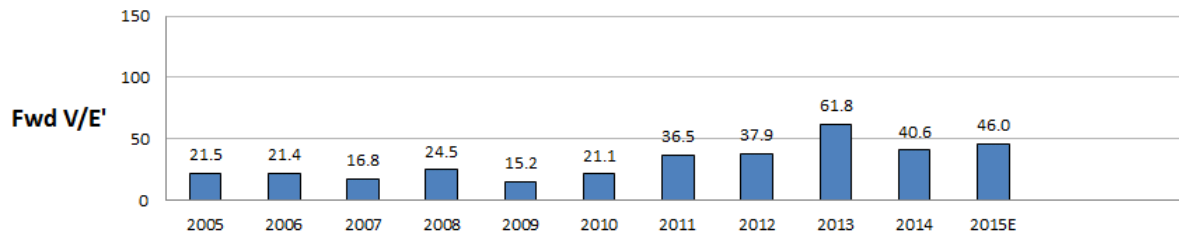
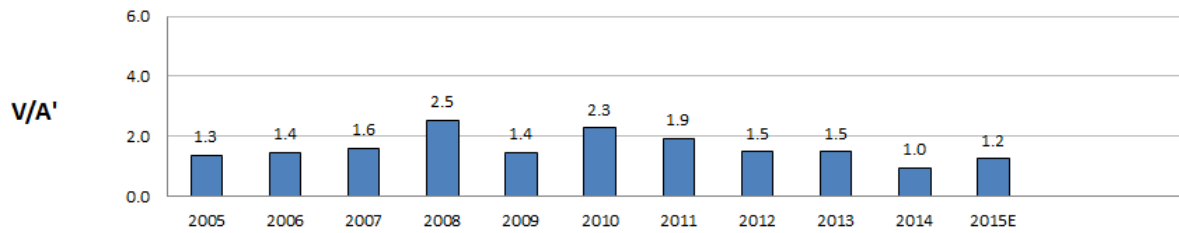
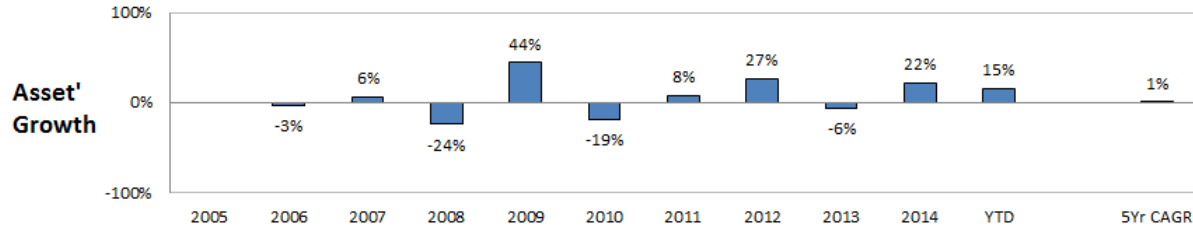
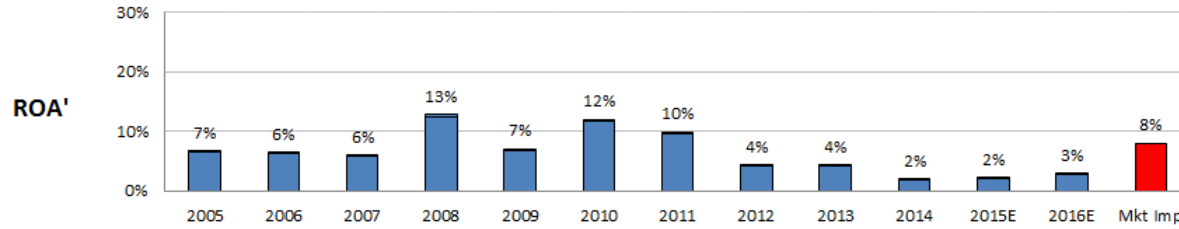
BP – BP plc



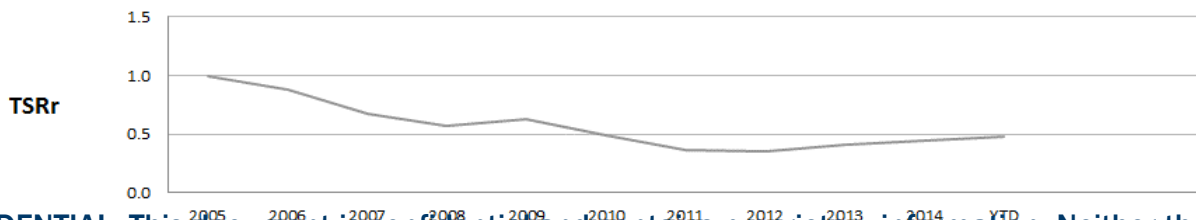
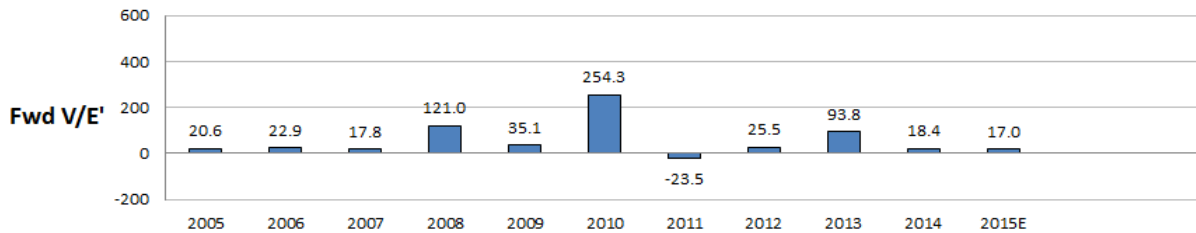
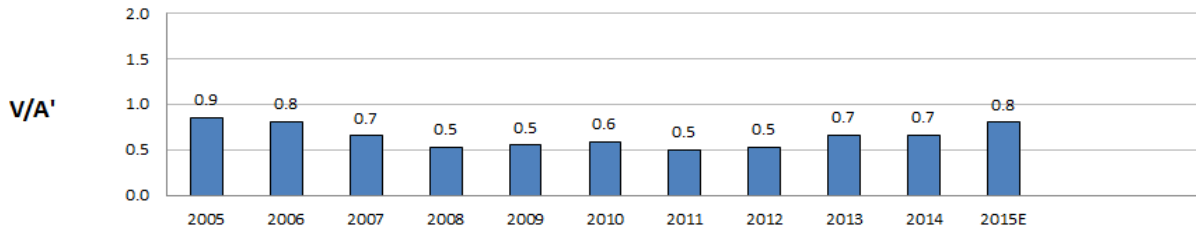
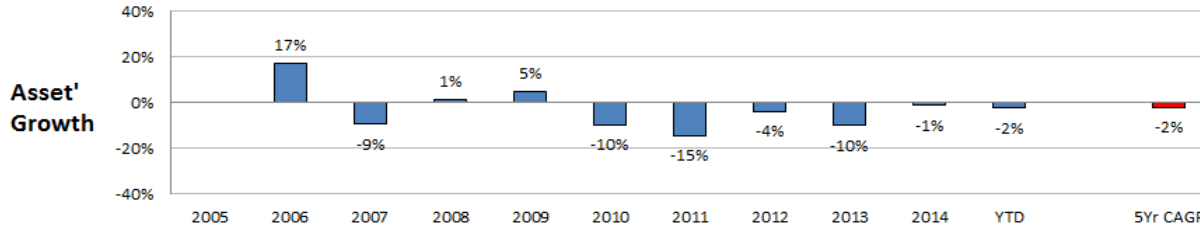
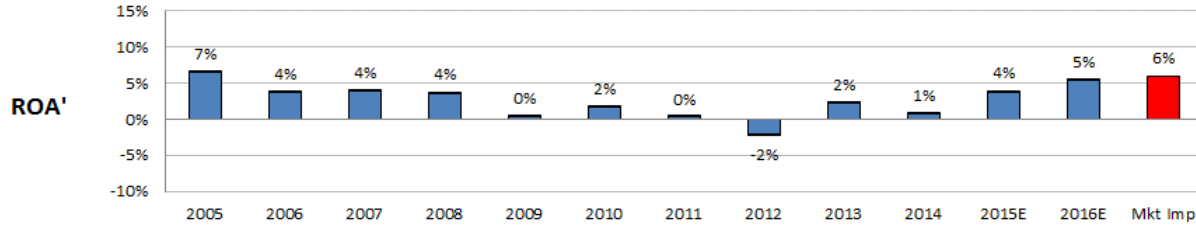
CROX – Crocs, Inc



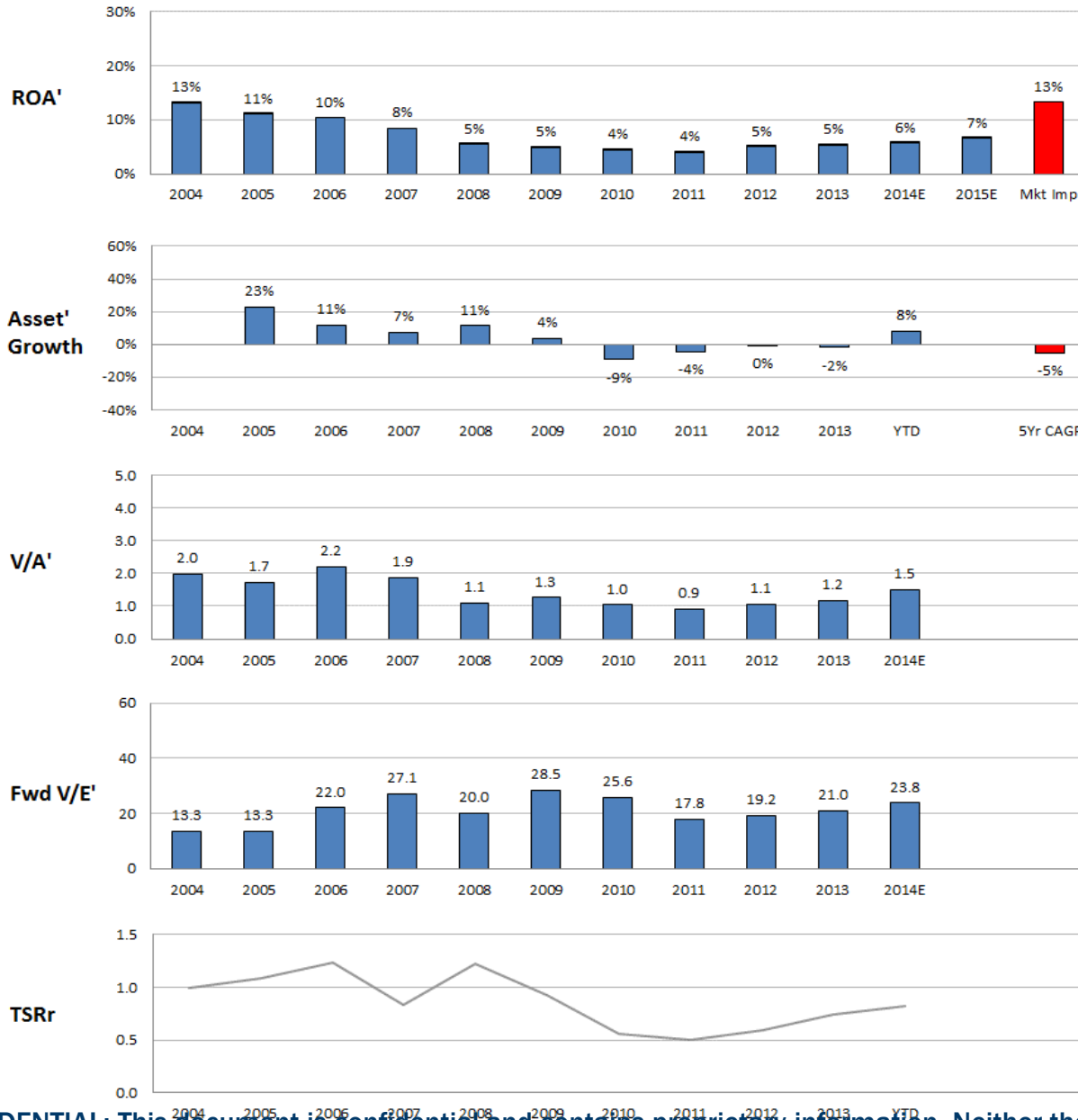
S53 - SMRT Corporation Ltd



6701 – NEC Corporation



TLKM – PT Telekomunikasi Indonesia



Plans

Actions

Results

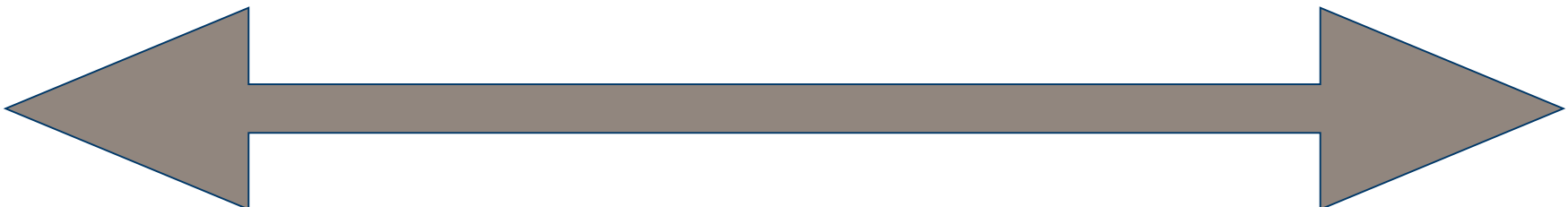
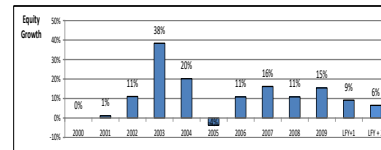
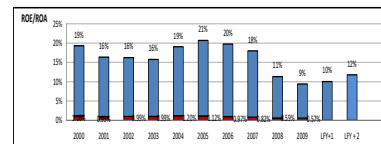
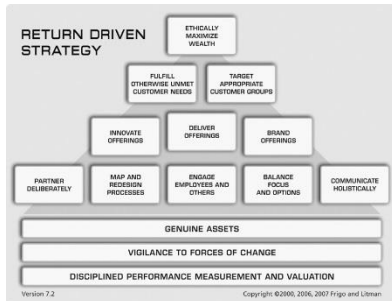
Forecasts

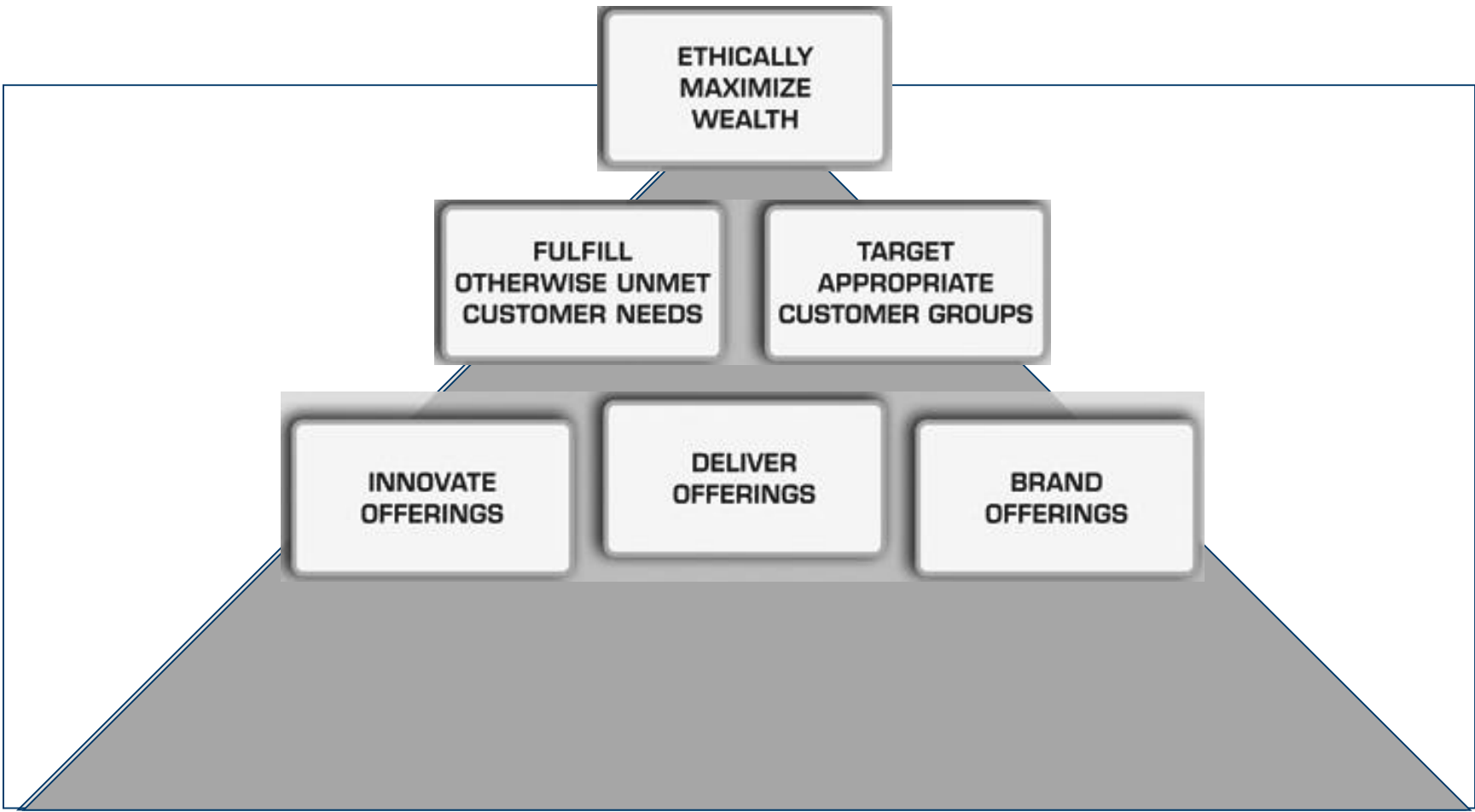
Strategy

Execution

Performance

Valuation



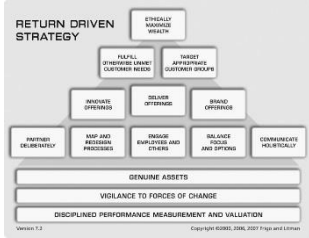


GENUINE ASSETS

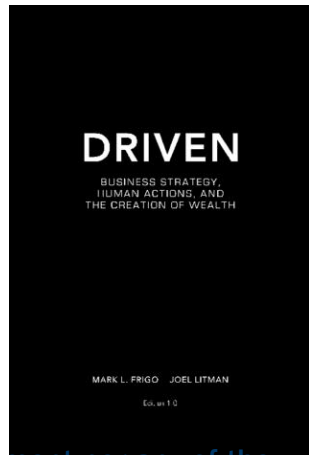
VIGILANCE TO FORCES OF CHANGE

DISCIPLINED PERFORMANCE MEASUREMENT AND VALUATION

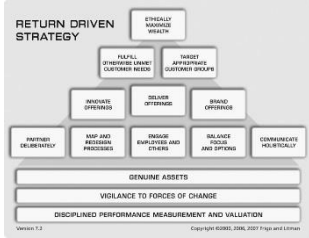
Insights from Return Driven Strategy



Execution of strategy
requires a strategy for execution

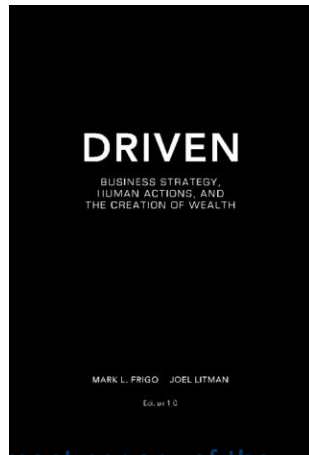


Insights from Return Driven Strategy



Execution of strategy requires a strategy for execution

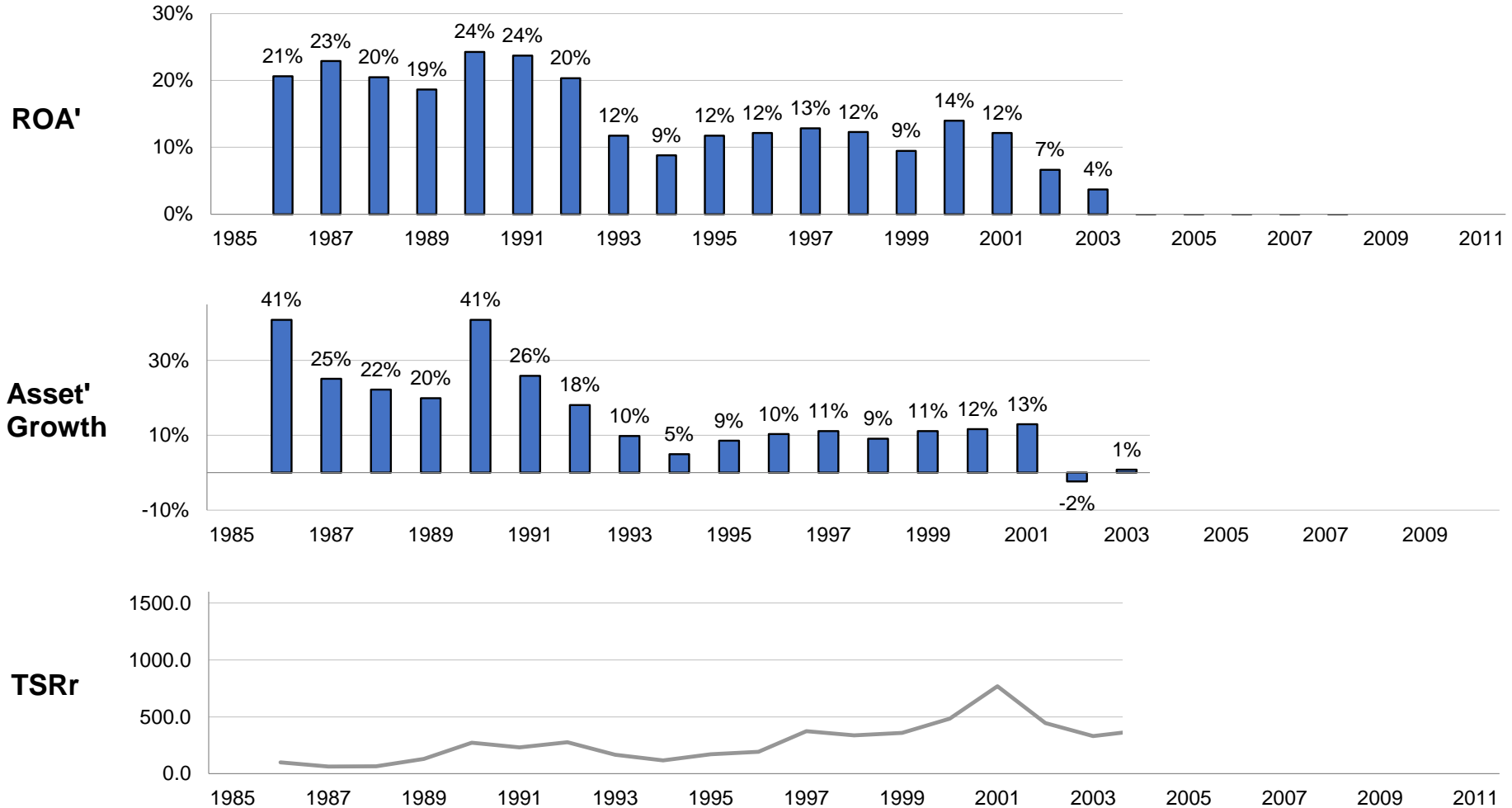
Use case, rehearsal, pilot...
TOY



NINTENDO CO., LTD.(C) (7974)

Relative Wealth Chart

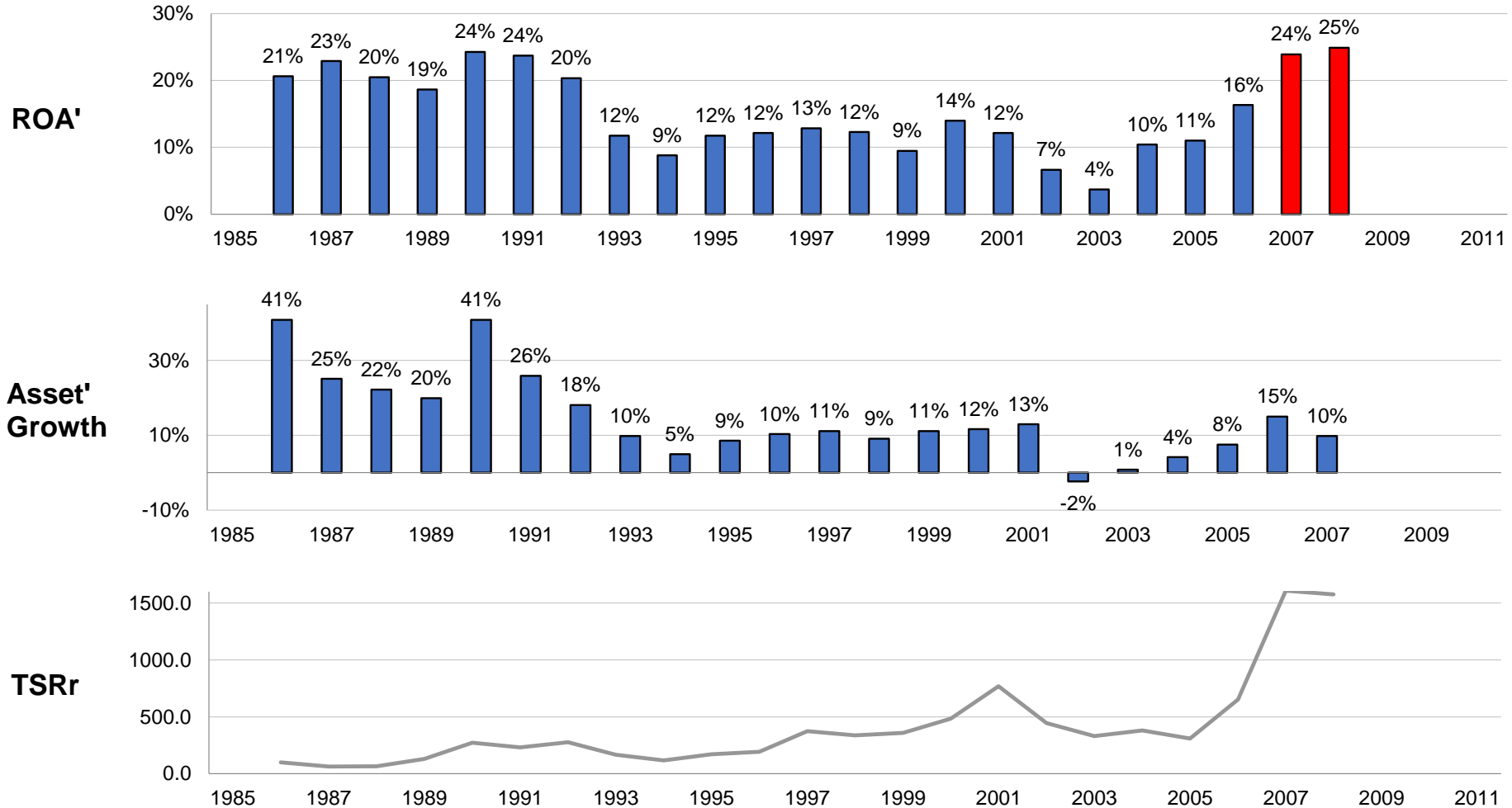
Home Entertainment Software
Market Cap : 65.847 USD



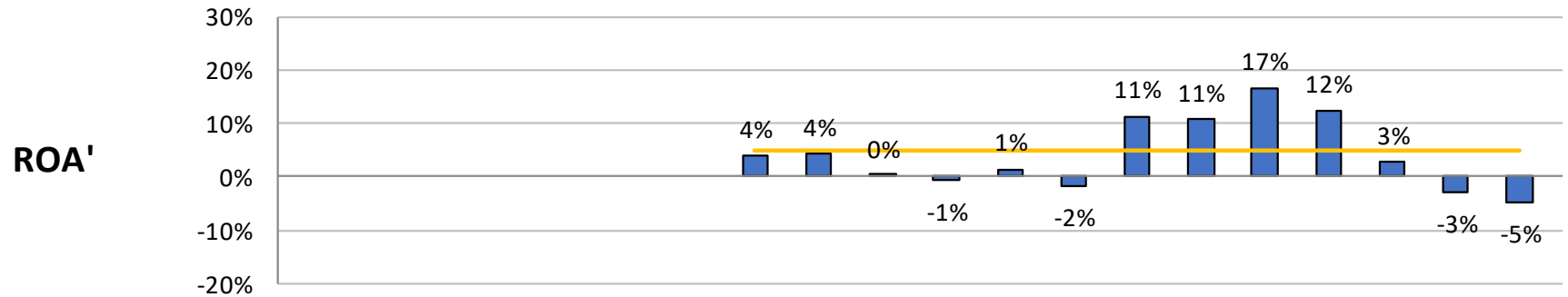
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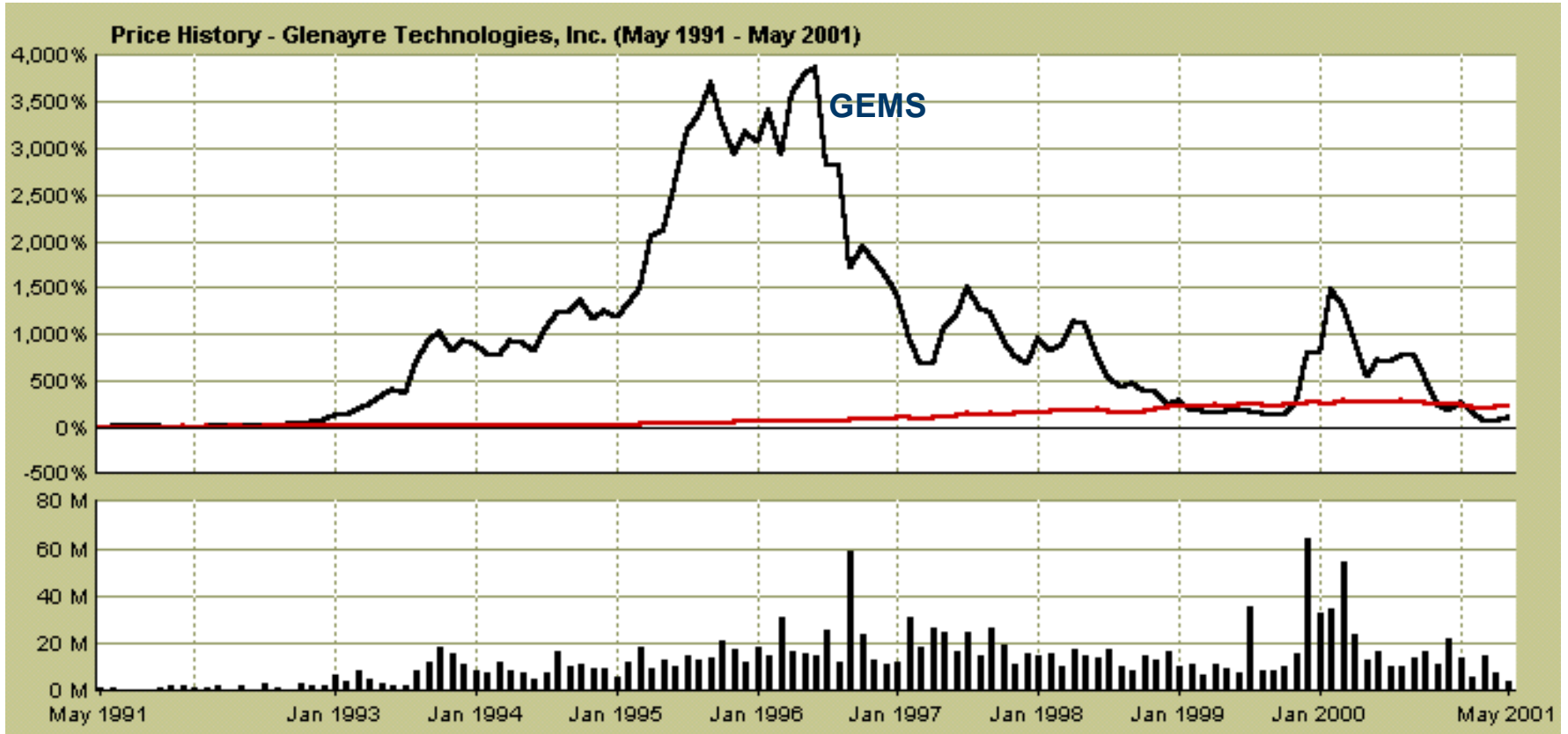
Innovation Alone Is Not Enough



Annual Cash Flow Returns from 1988 through 2000

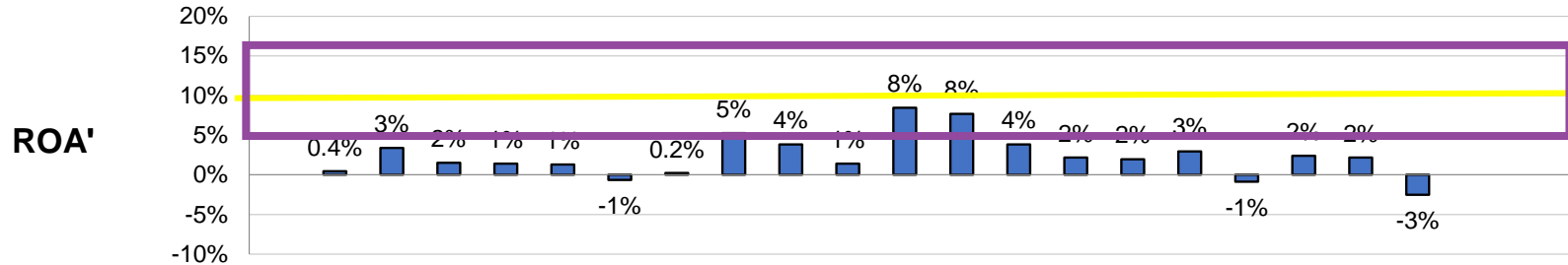
(\$ in Thousands)	1992	1993	1994	1995	1996	1997	1998	1999
Sales Revenue	15,586	136,139	172,107	321,404	390,246	451,679	399,942	238,089
R&D Expenditure	1,173	11,843	15,991	23,968	28,983	40,425	52,024	40,831
R&D % of Revenue	7.53%	8.70%	9.29%	7.46%	7.43%	8.95%	13.01%	17.15%

Glenayre stock performance vs S&P 500

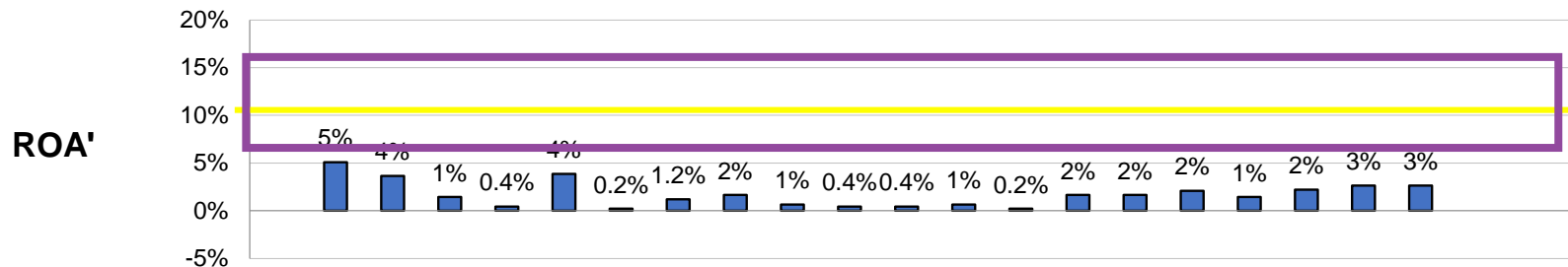


What is the value of the brand?

POLAROID CORP - PRD



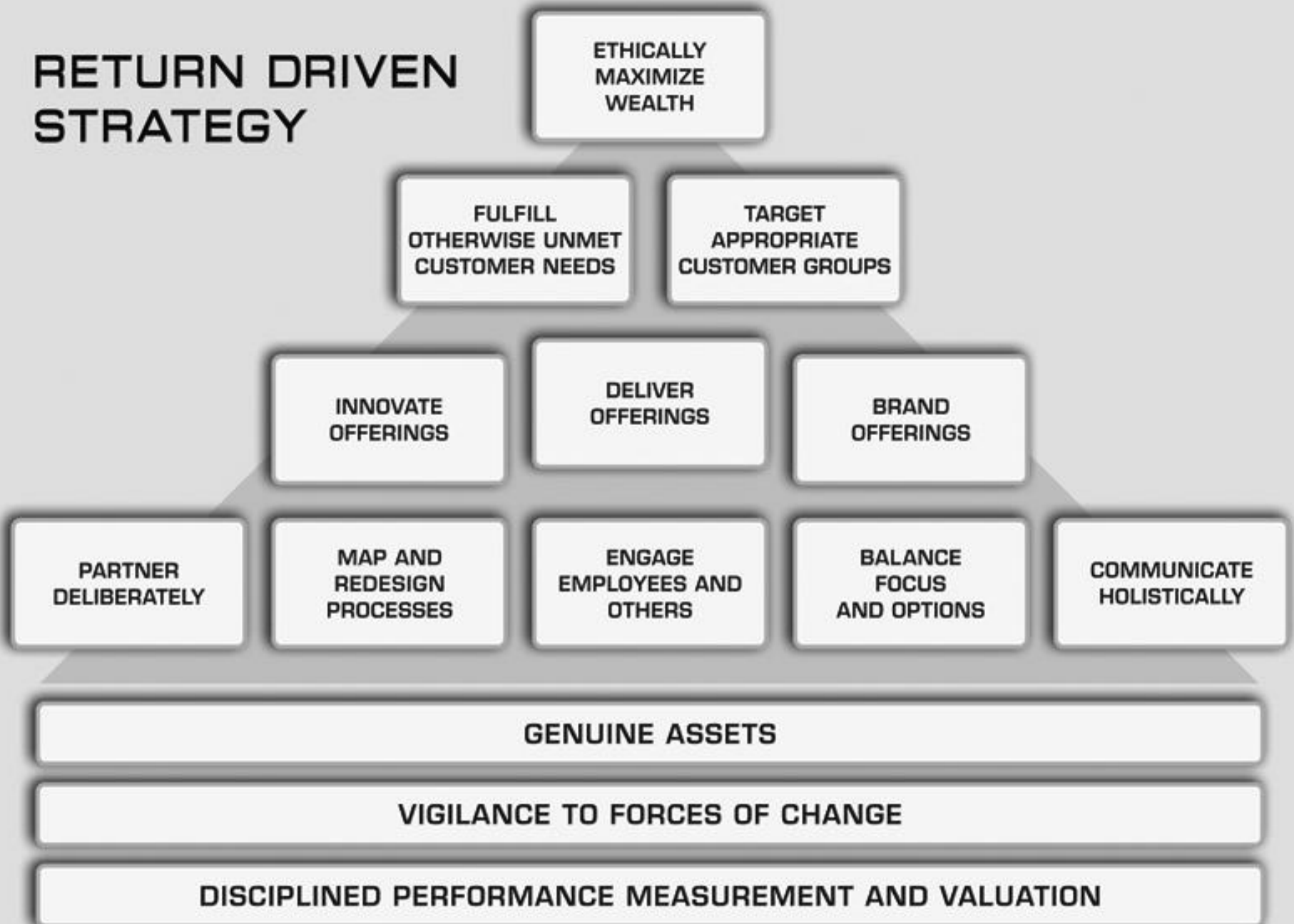
COORS (ADOLPH) – CL B - RKY



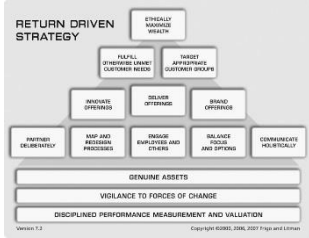
Annual Cash Flow Returns from 1980 through 2000

Source: HOLT Value Associates

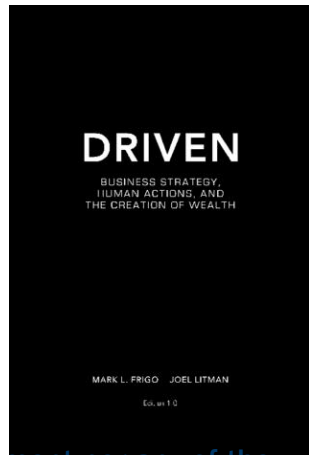
RETURN DRIVEN STRATEGY



Partner Deliberately

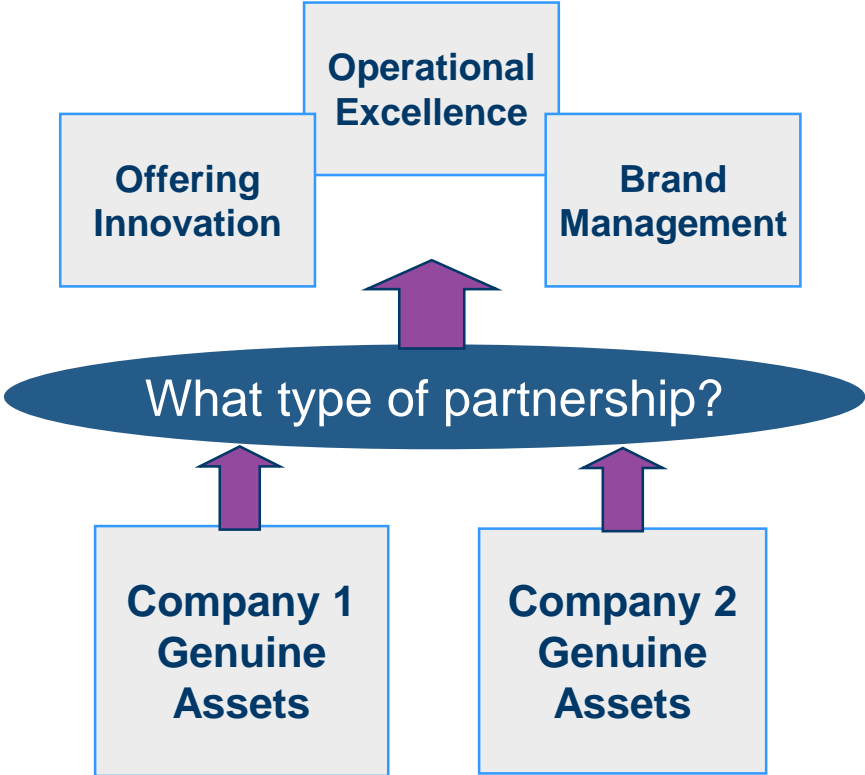


No company is an island



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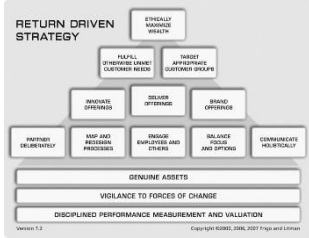
Strategic Partnering Analysis



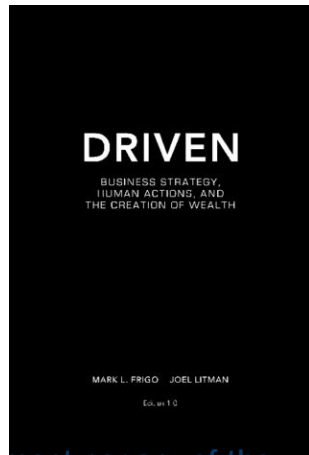
- Purpose of the partnership?
- Required exclusivity?
- The right type?



Map and redesign processes



Reliable navigation begins with reliable maps



Support activities

www.valuebasedmanagement.net

Michael Porter Value Chain

Firm Infrastructure

Human Resource Management

Technology development

Procurement

Inbound
Logistics

Opera-
tions

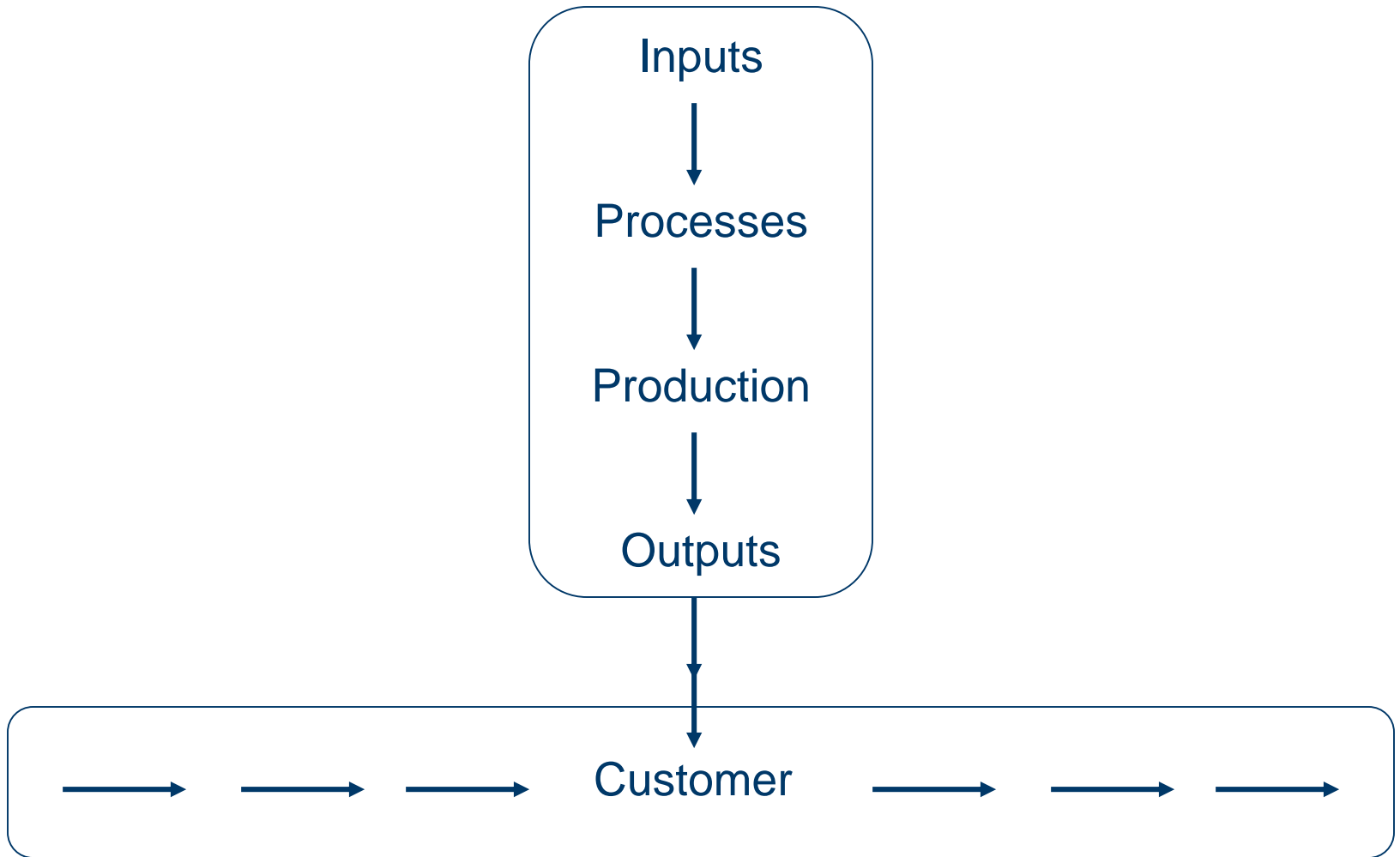
Outbound
logistics

Marketing
and Sales

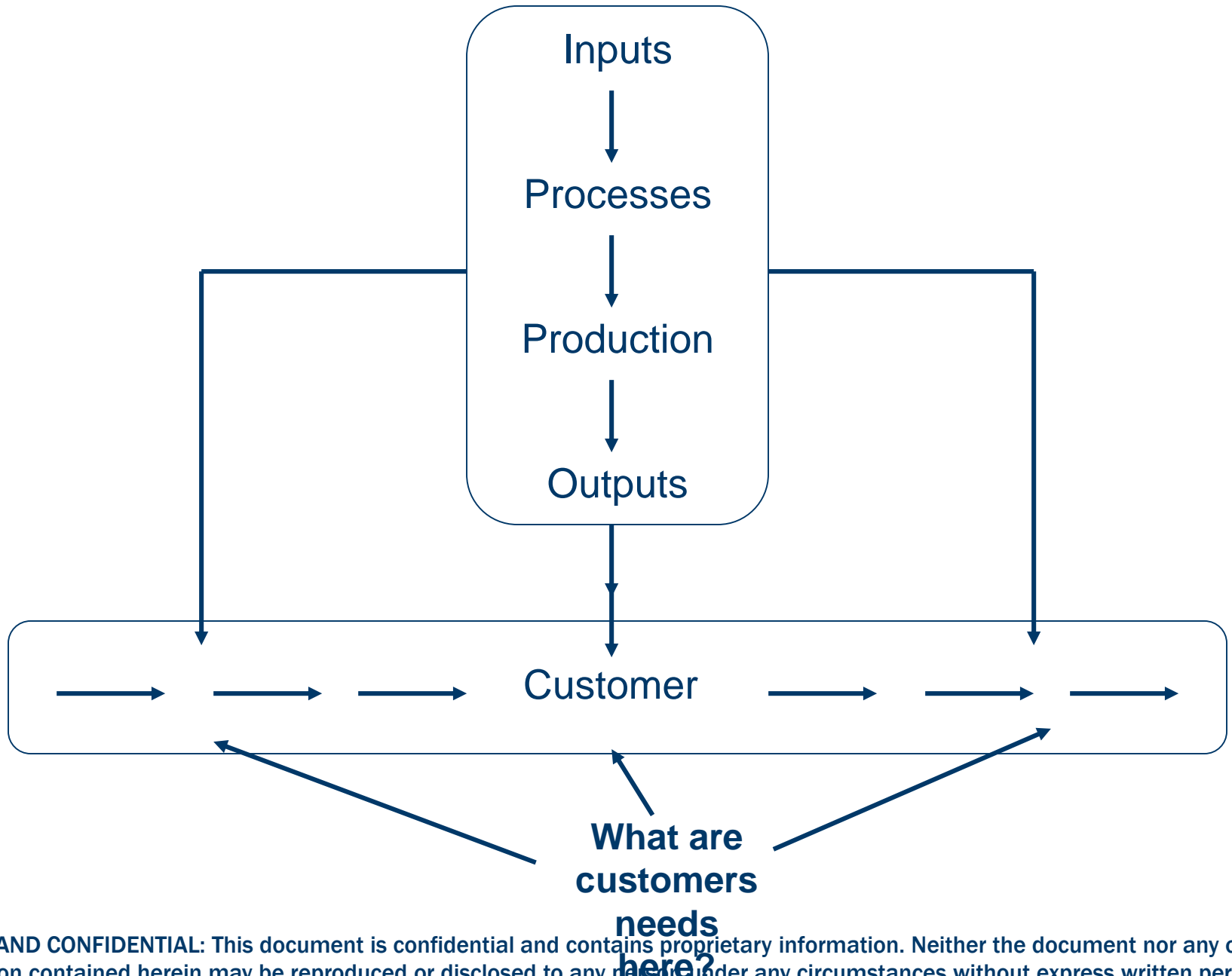
Service

Primary activities

Total Customer Experience

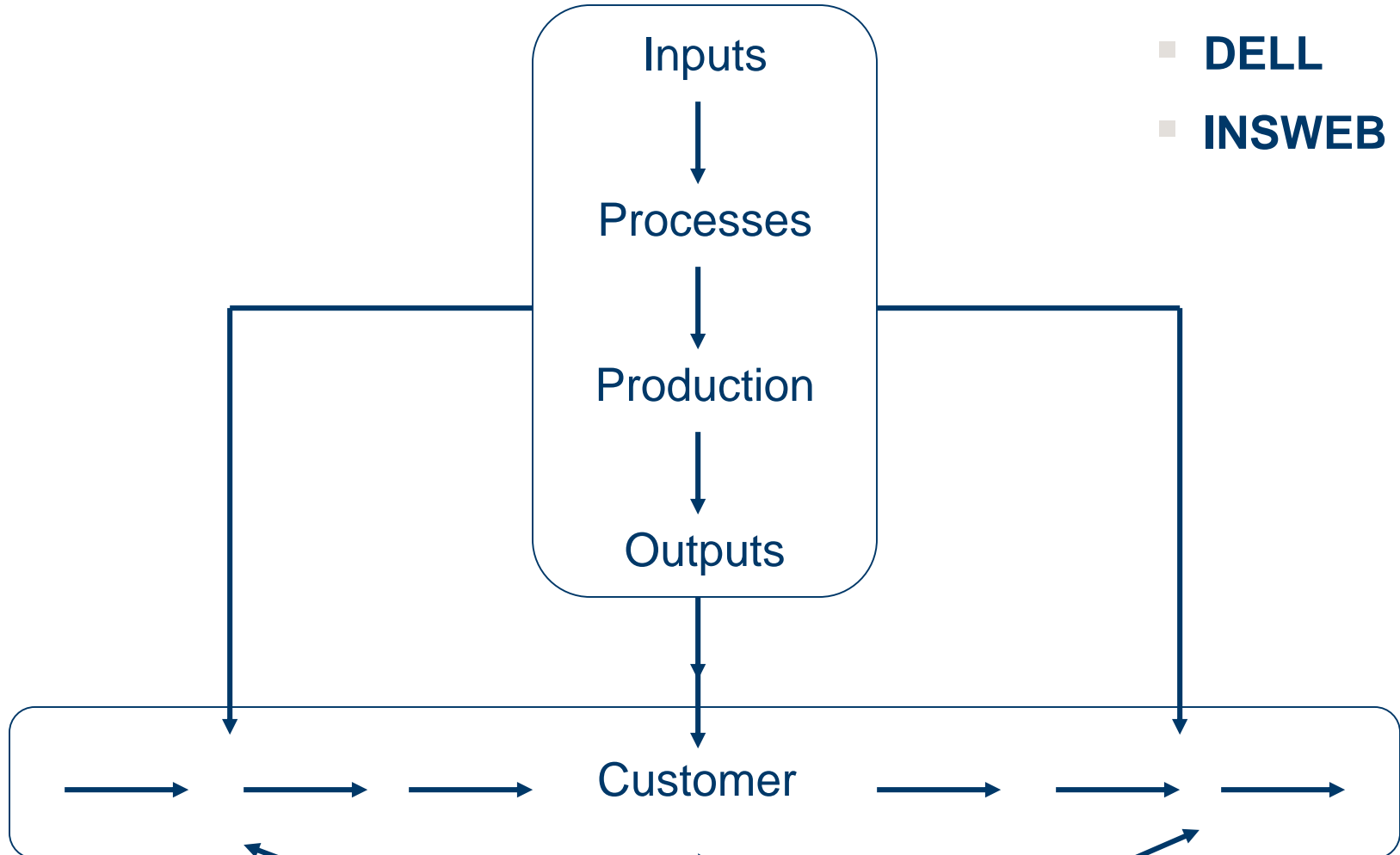


Total Customer Experience



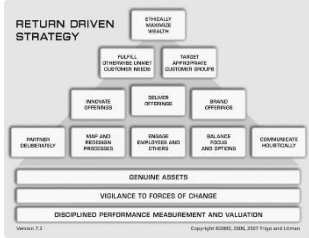
Total Customer Experience

- DELL
- INSWEB

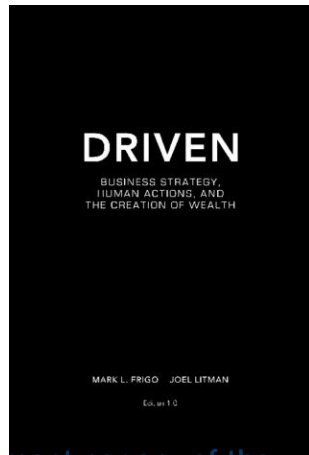


**What are
customers
needs
here?**

Engage Employees and Others



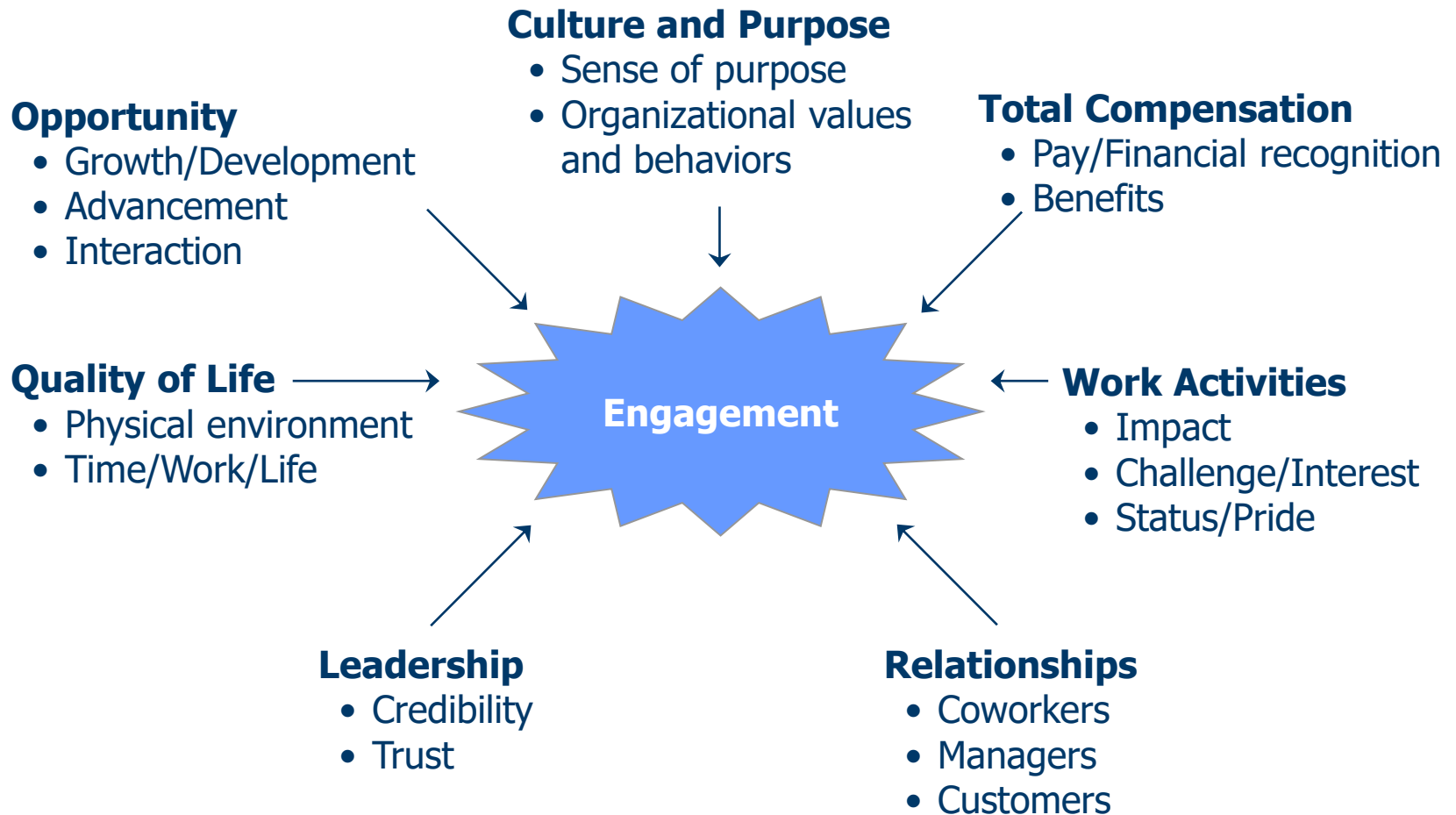
High-performing recruiting strategy is just like marketing strategy



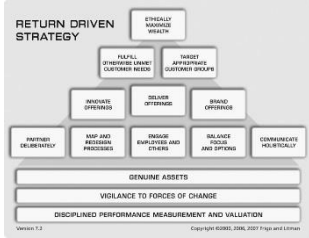
Maximizing employee engagement beyond compensation

(Courtesy of Hewitt Associates)

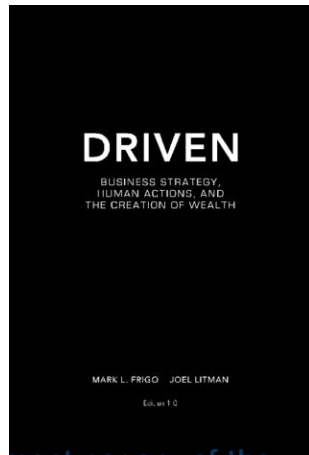
Seven Levers Of Engagement



Balance Focus and Options



How lightning strikes and plants grow



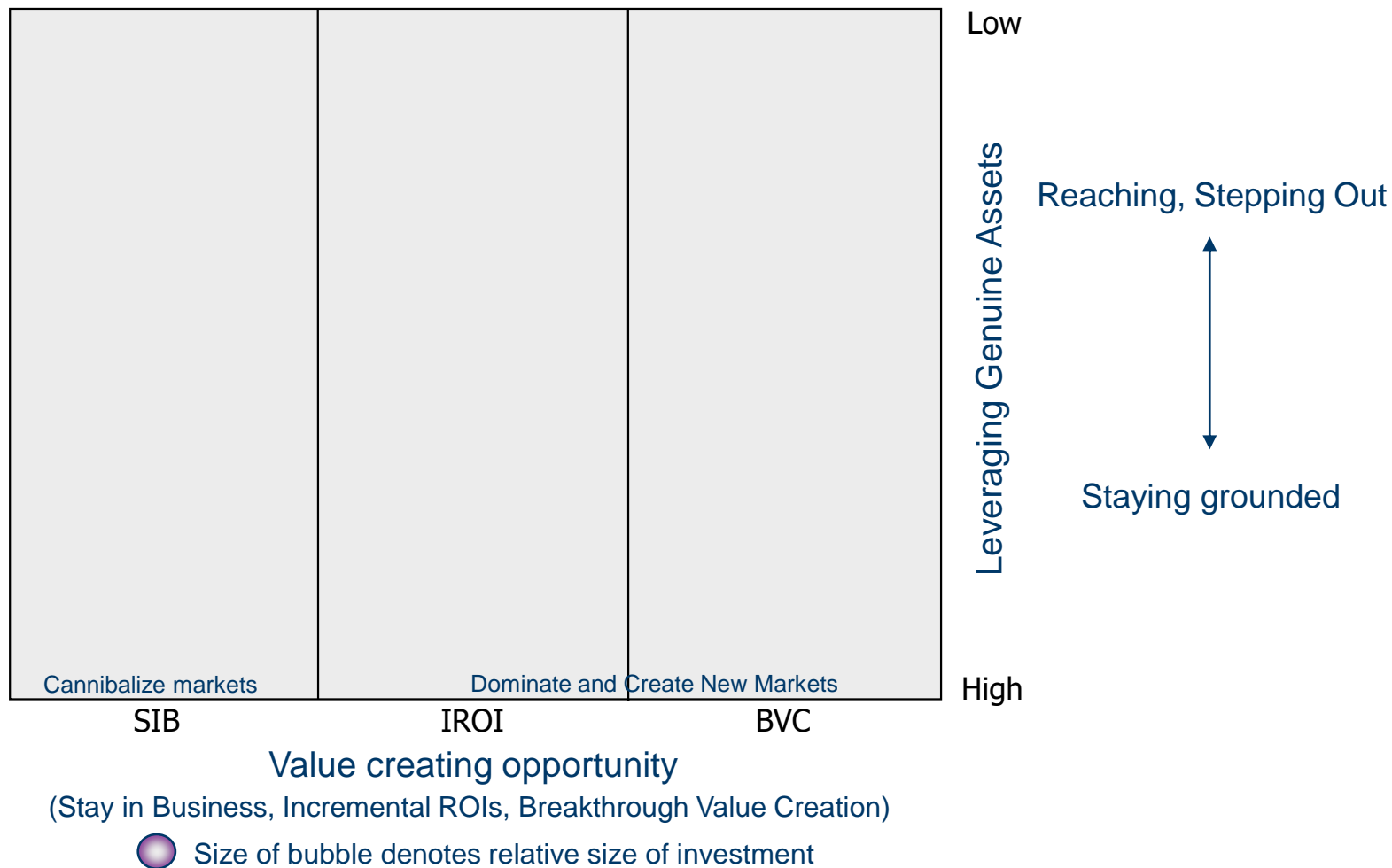
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Offering Innovation:

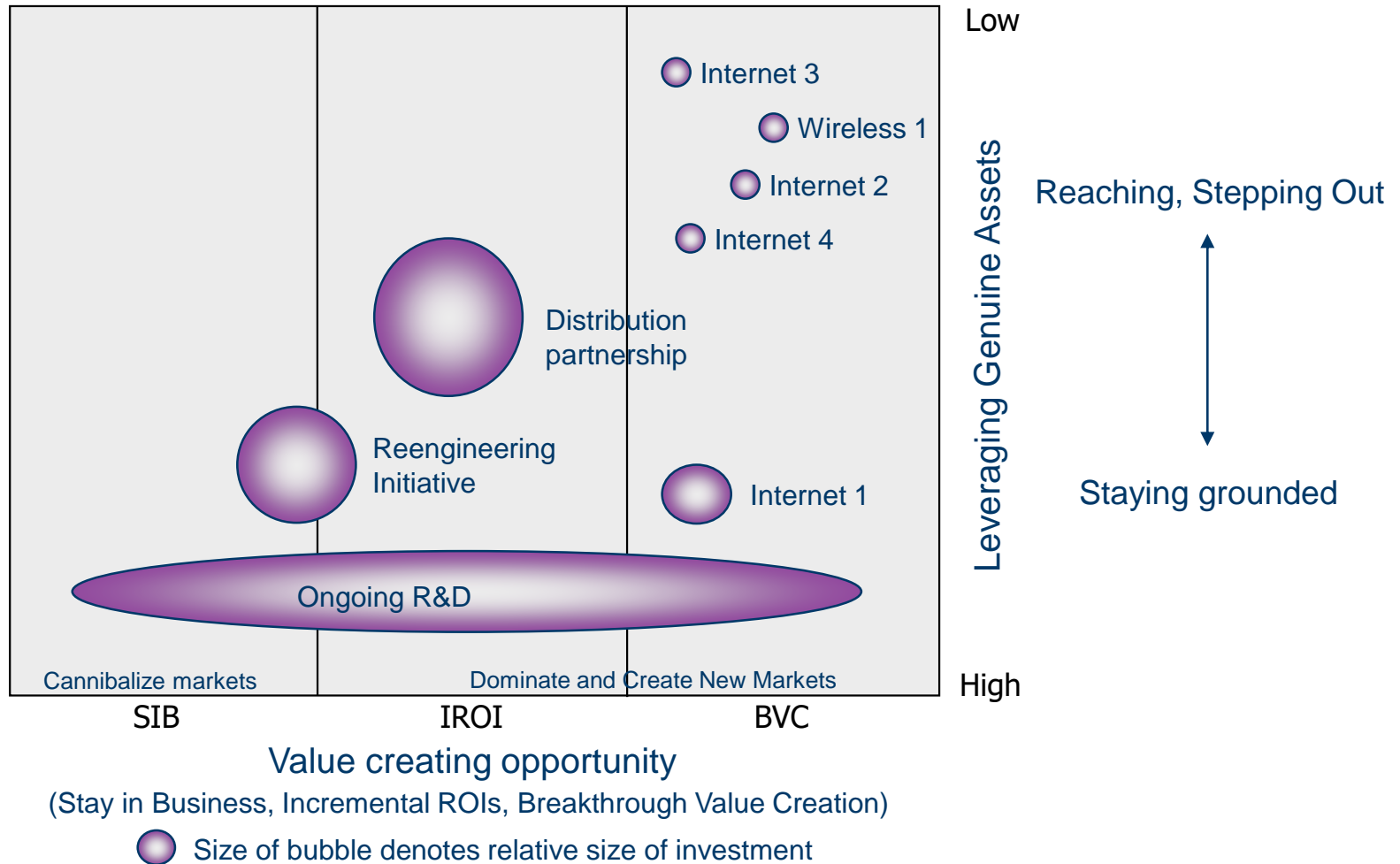
To meet customer needs in ways un-replicable

Failure is an *option*

Options and Portfolio: Achieving Balance

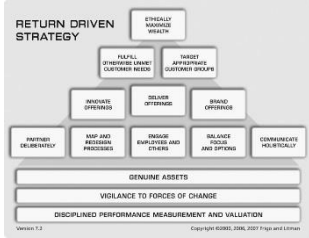


Options and Portfolio: Achieving Balance



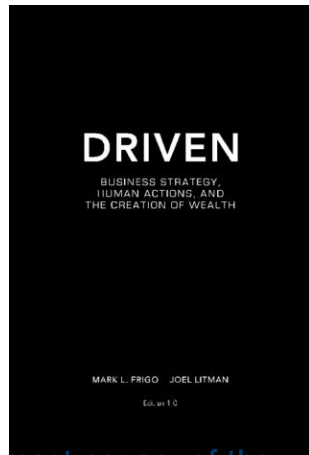
Reaching, Stepping Out
 ↑
 ↓
 Staying grounded

Communicate Holistically

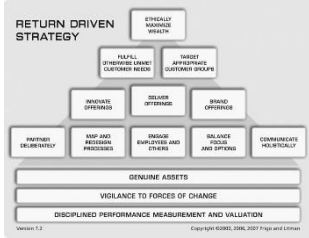


“Holistic” for the whole

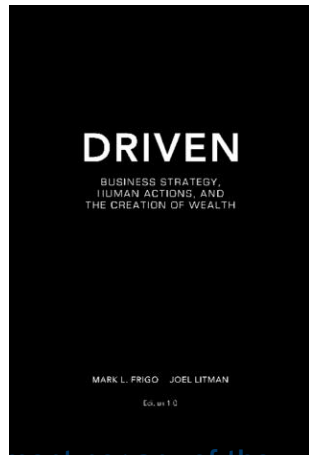
Investors
Competitors
Customer PR
Internal
The public



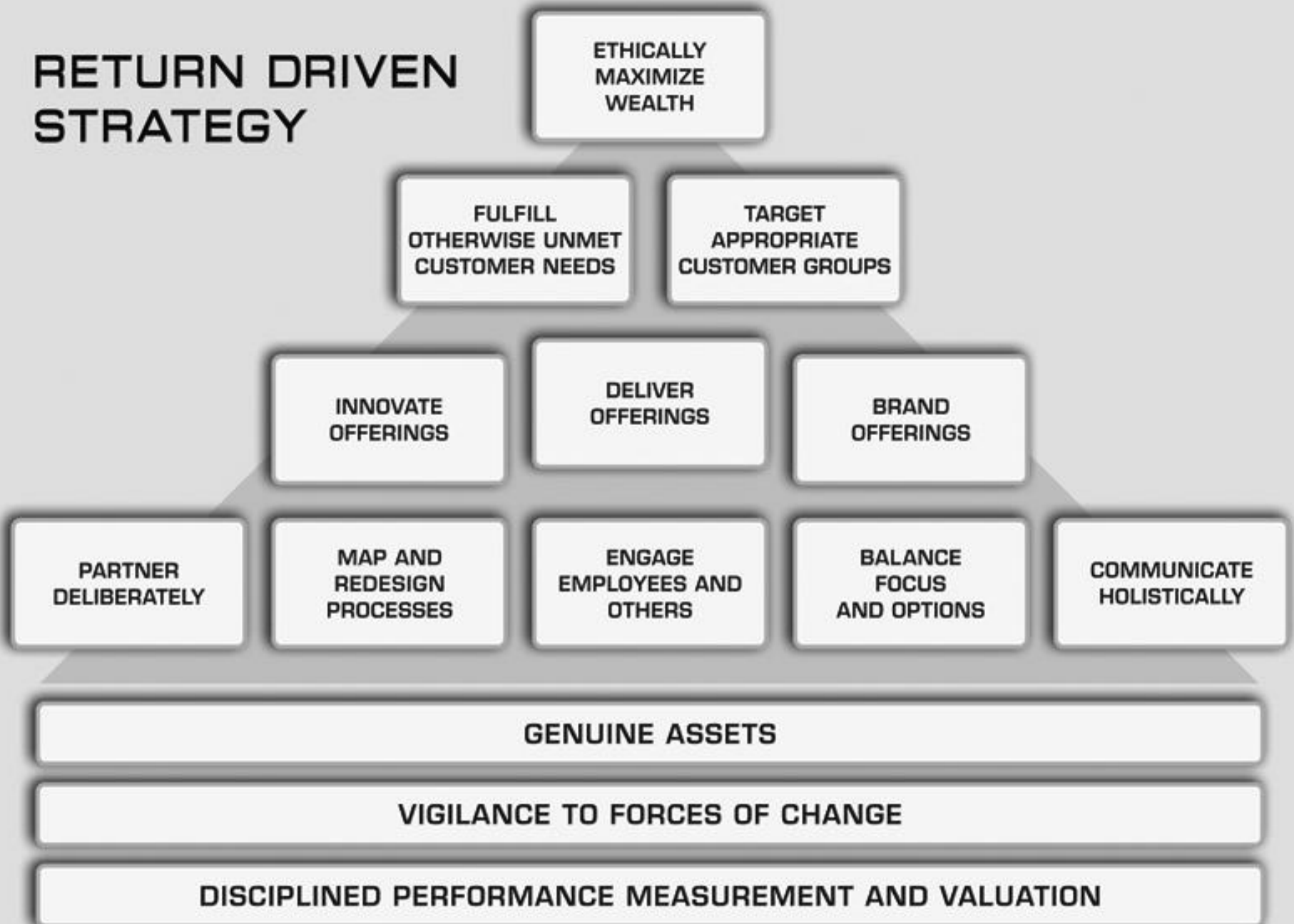
Communicate Holistically



**Speak and write as if
everything you say and type
will be heard and read
*by everyone***



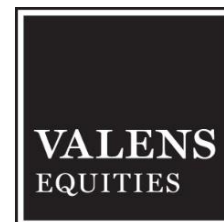
RETURN DRIVEN STRATEGY



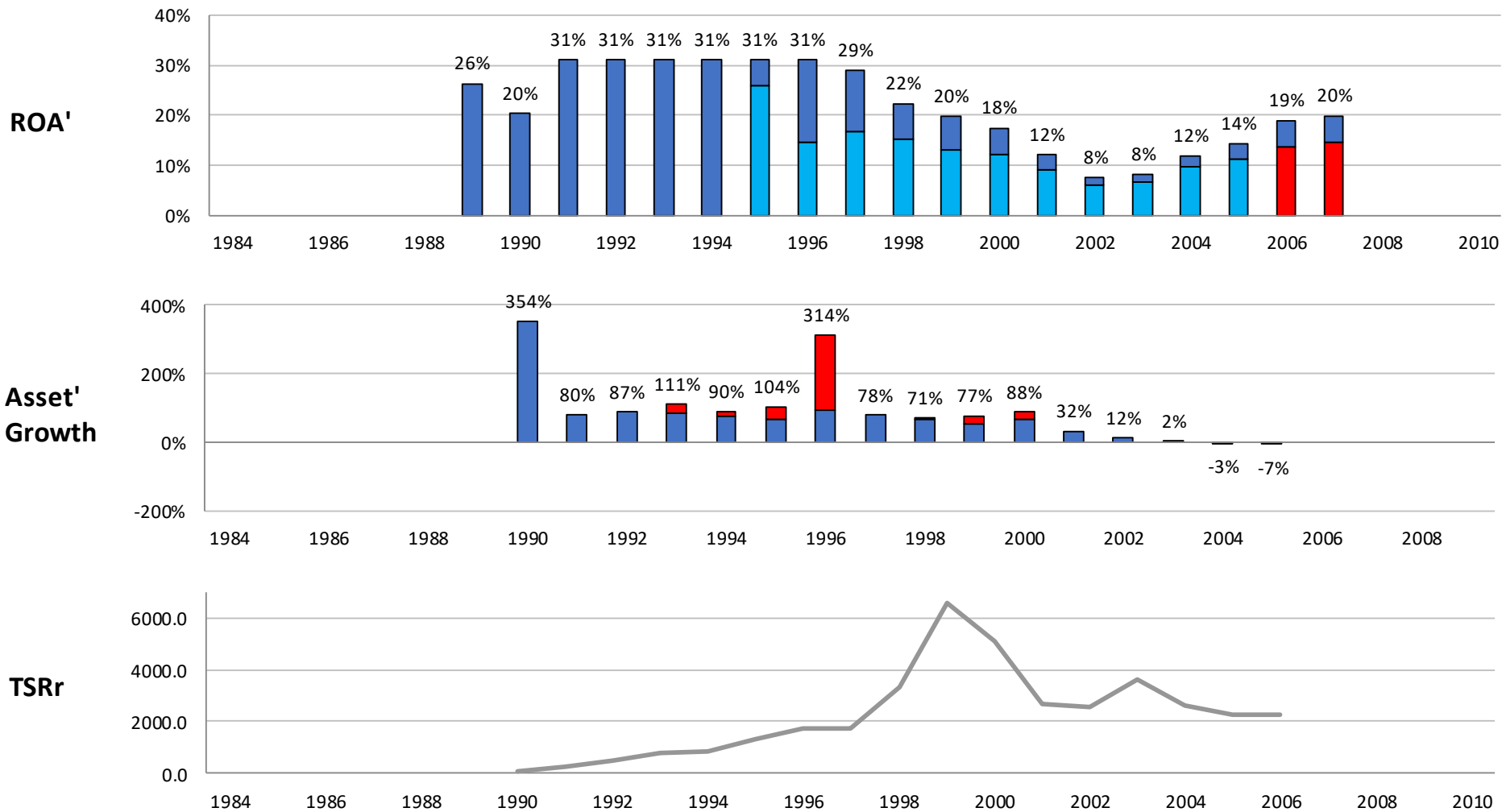


Return Driven Strategy

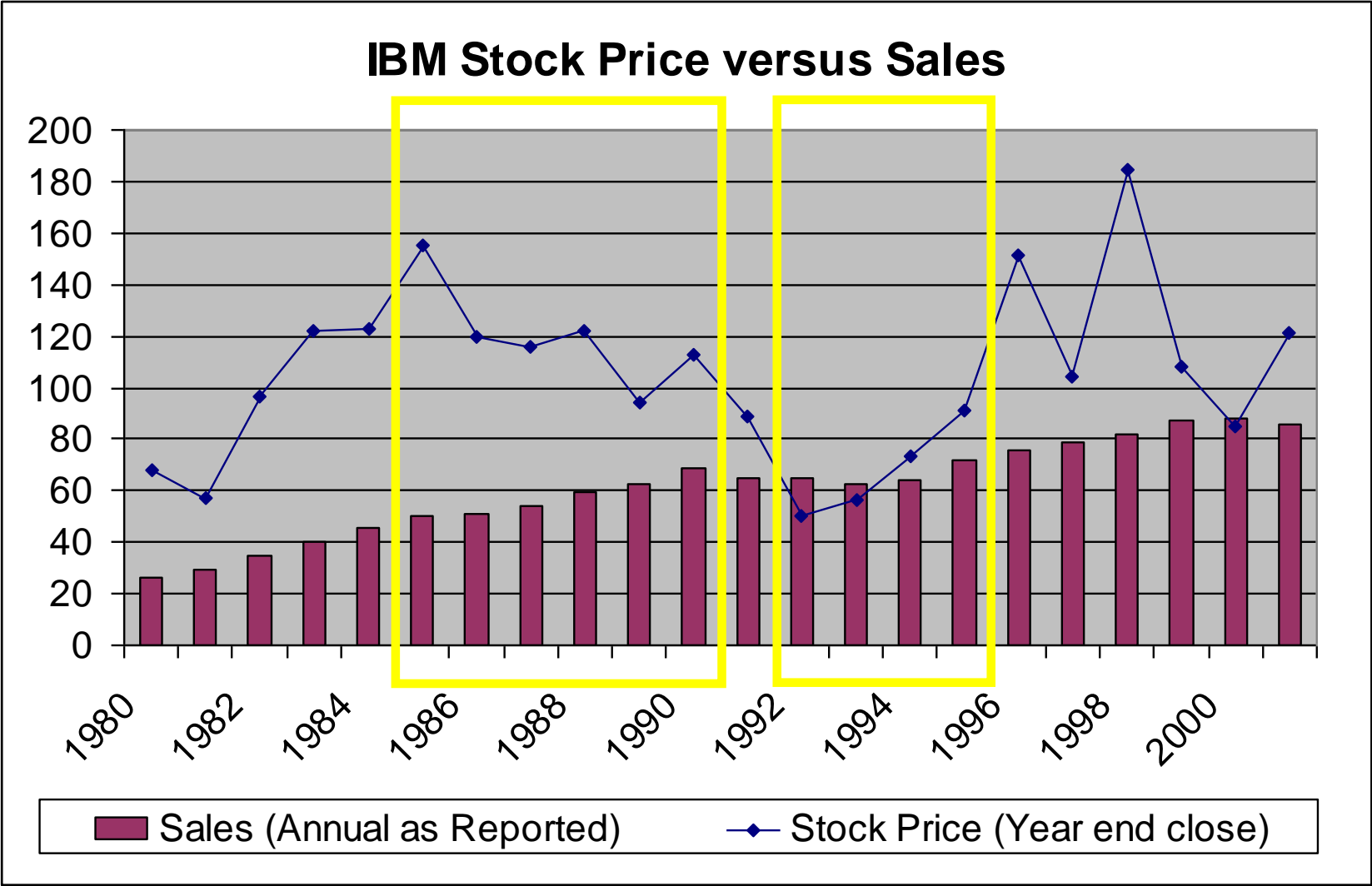
Professor Joel Litman
Chief Investment Strategist
November 12-14, 2014



CSCO – Quality of M&A growth is case-by-case



What about the top line?



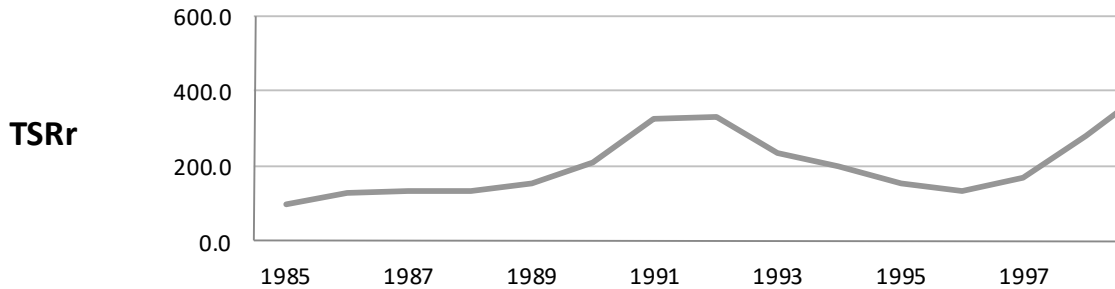
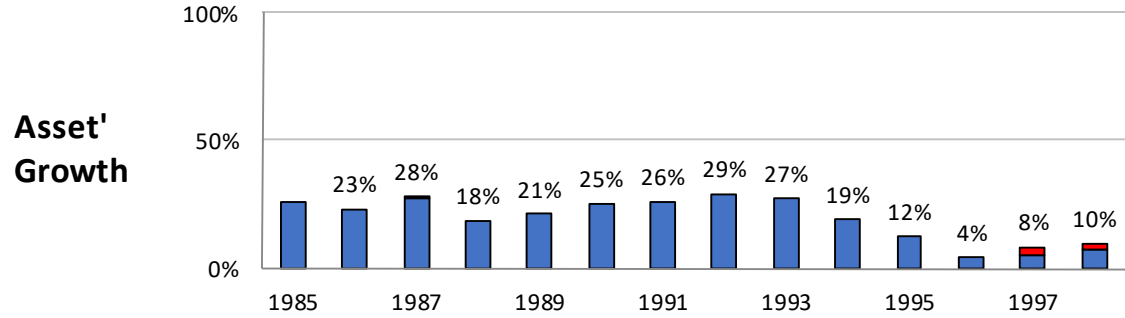
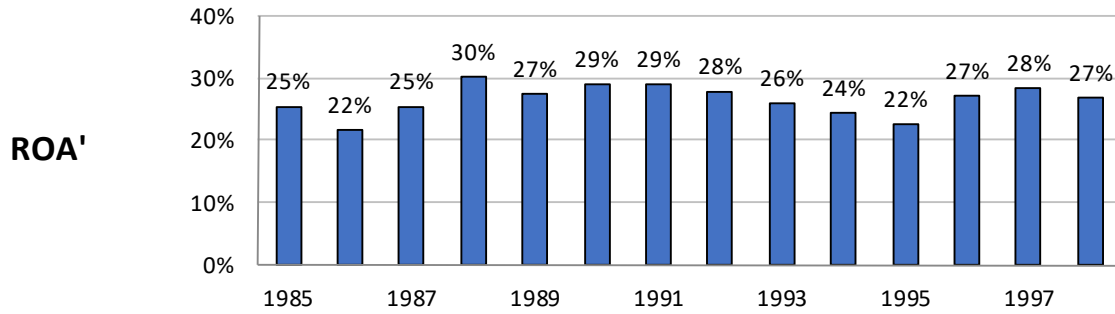
Feb 05, 1999 - Mar 04, 2011 +19.5 (30.23%)



Forecasts

Valuation

WMT



Actions

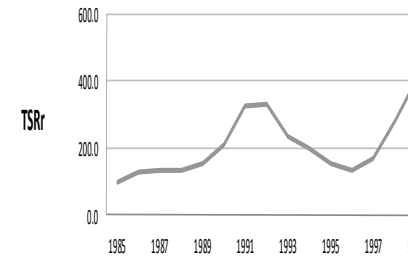
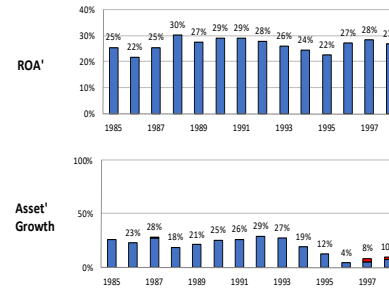
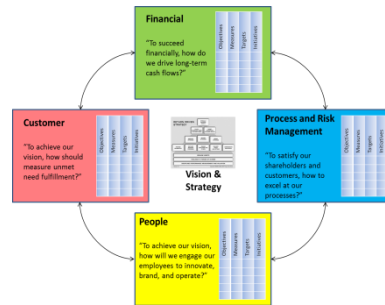
Results

Forecasts

Execution

Performance

Valuation



Plans

Actions

Results

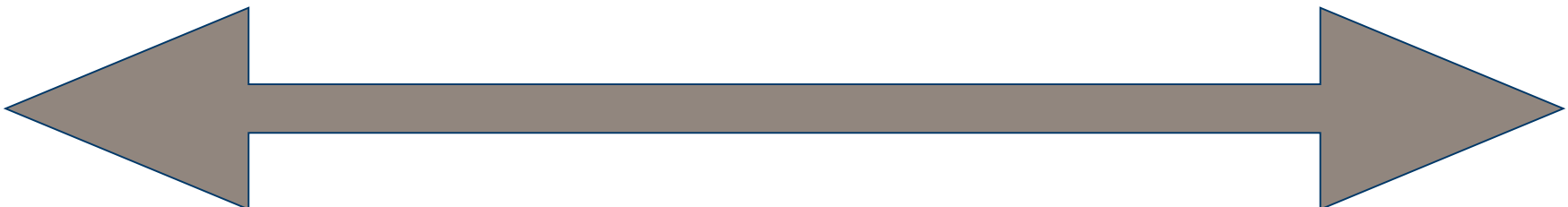
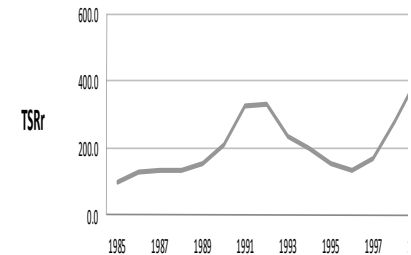
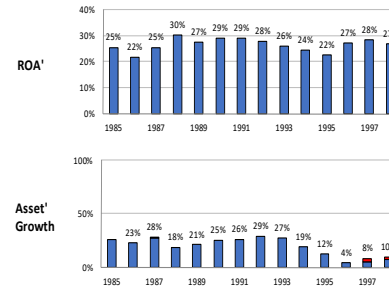
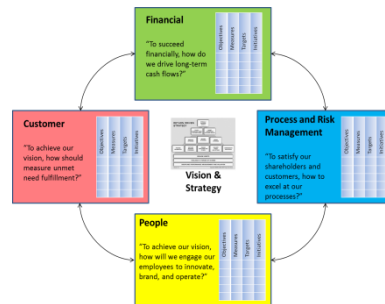
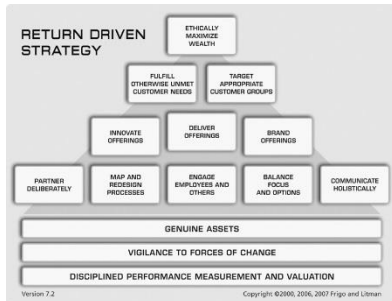
Forecasts

Strategy

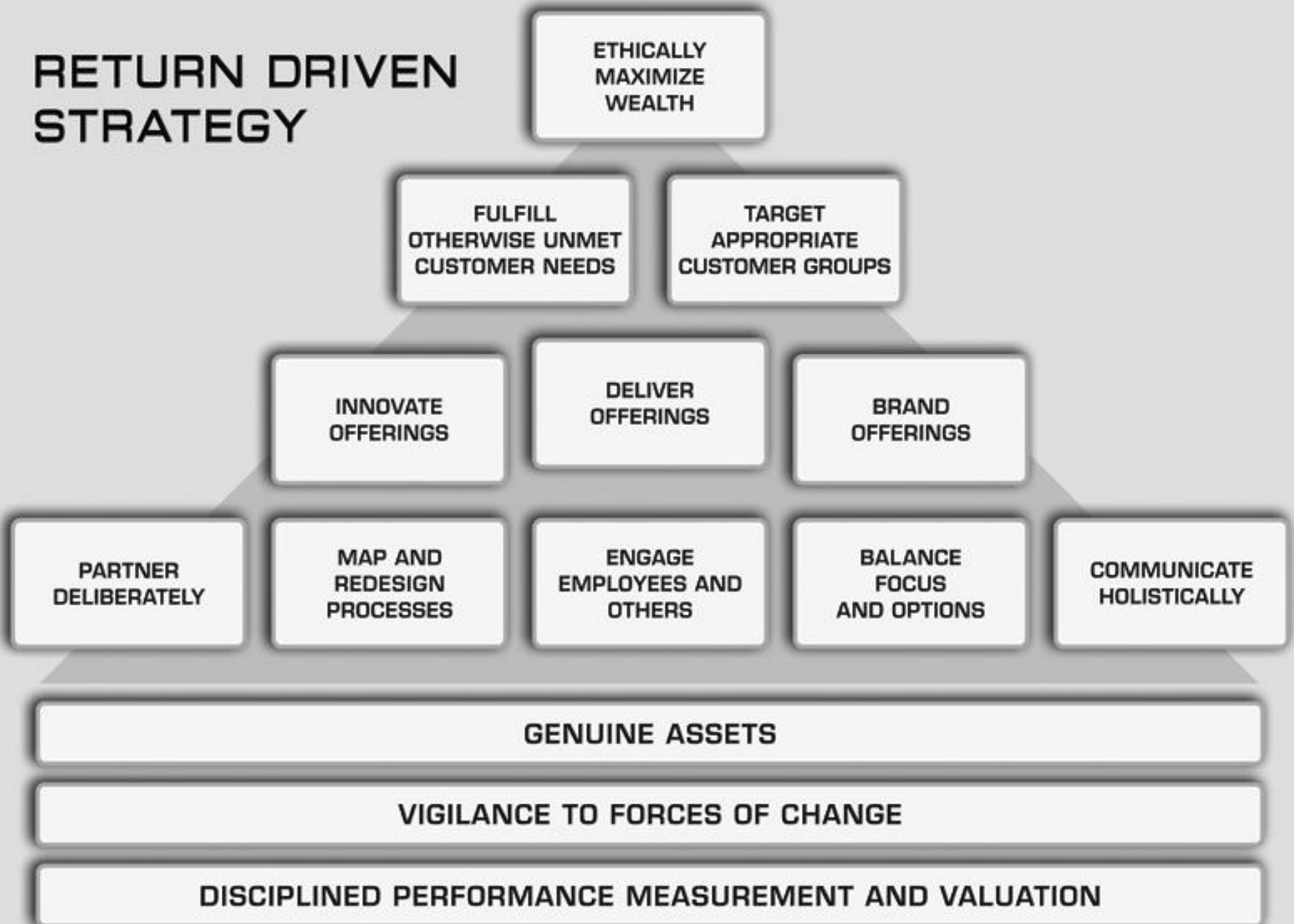
Execution

Performance

Valuation

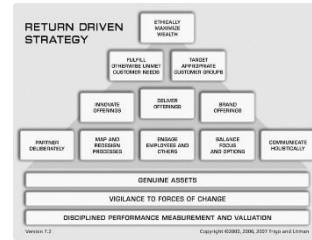


RETURN DRIVEN STRATEGY

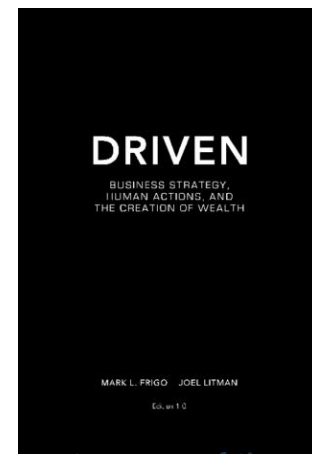


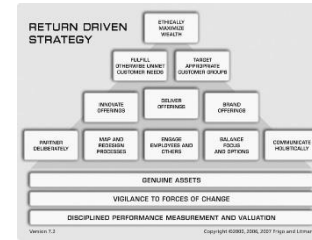
Unique need fulfillment = pricing power

***Pricing power can reveal itself relative to
variable costs OR fixed costs***

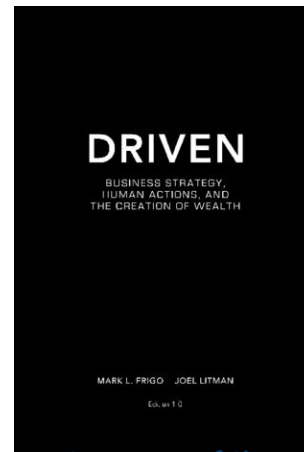


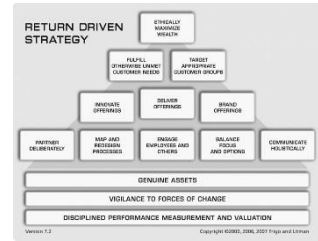
Easier to ride a wave than
storm a beachhead



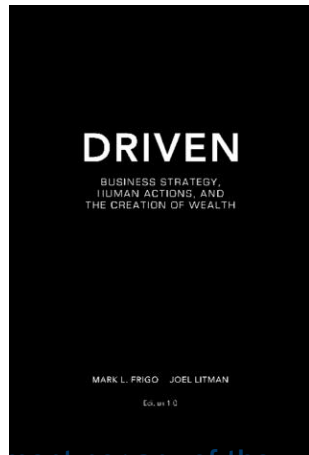


When to shrink and grow rich or grow and grow poor

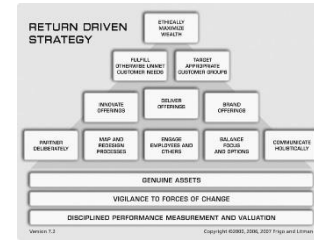




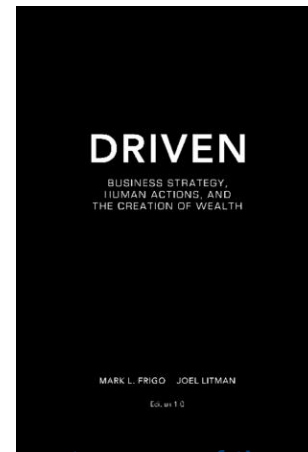
Better to steal your own sales
than for someone else to

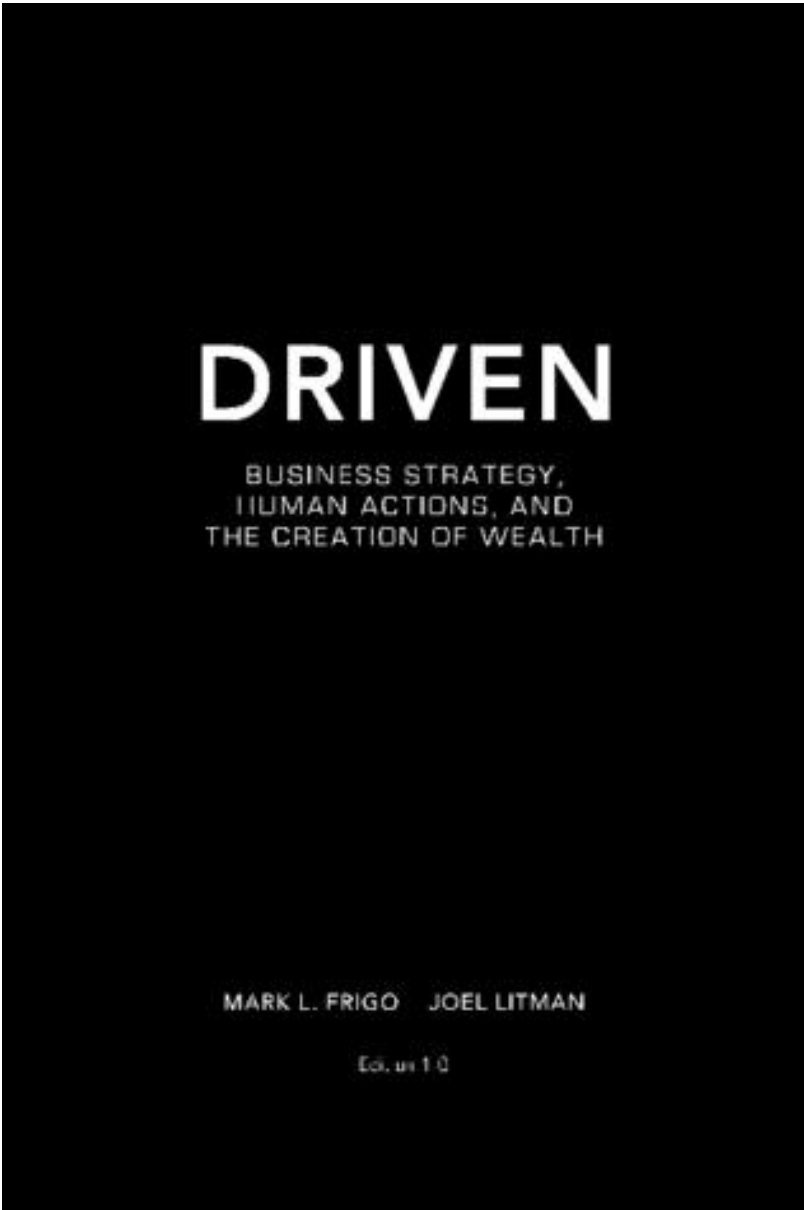


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Large companies versus great companies





DRIVEN:

Business Strategy,
Human Actions, and
The Creation of Wealth

www.returndriven.com

www.driventhebook.com

Return Driven Strategy

Forgetting Rules 1 and 2

The New York Times

Waste Management Stuck in Accounting Mire

January 30, 1998 - "...its problem with **misleading accounting goes back to 1992**, not 1994 as previously announced;

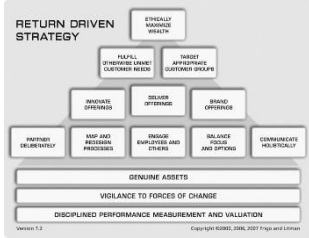
"...**huge charge against earnings...** as company revises the way it has accounted **for value of assets as well as ...expenses ...**

Source: www.nytimes.com

The Cost of "Unethical" Means to Maximize Financial Value

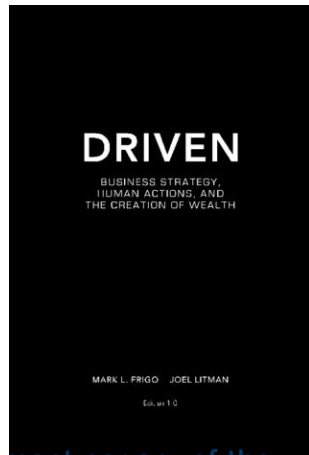
Company	Unethical Practice (Financial Restatement)	Year of Financial Restatement	Relative (S&P 500) Total Shareholder Return
MicroStrategy	<i>Improper Revenue Recognition - Premature Revenue Recognition</i>	2000	-90%
Sunbeam Corp	<i>Improper Revenue Recognition - Bill-and-Hold to Inflate Revenues</i>	1998	-87%
Unify Corporation	<i>Improper Revenue Recognition - Fraud</i>	2000	-84%
McKesson HBOC	<i>Improper Revenue Recognition - Fraudulent Inflation of Net Income and Revenues</i>	1999	-76%
Homestore.com	<i>Improper Revenue Recognition - Fraud</i>	2002	-70%
Waste Management	<i>Improper Expense Recognition - Deferral of Expenses</i>	1998	-69%
Cedant Corporation	<i>Improper Revenue Recognition - Fictitious Revenue</i>	1998	-56%
Rite Aid Corp	<i>Improper Expense Recognition - Overstating Inventory to Inflate Net Income</i>	1999, 2000	-88%, -76%
WorldCom, Inc	<i>Improper Expense Recognitions - Capitalizing Expenses</i>	In 2002, the Company and certain of its subsidiaries filed for bankruptcy	

Insights from Return Driven Strategy



Ethical behavior does not guarantee success

It reduces the risk of massive financial failure



APPLE INC (AAPL)

Computer Hardware

Market Cap : 107.412 USD

Great product

VS.

Great business

PCs: AAPL, IBM, DELL

BMW, JBLU, MCD

Real needs? Betamax, Sega, Glenayre...