
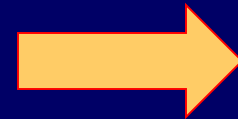


IDENTIFYING SHAREHOLDER VALUE CREATORS



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Questions

- In principle, MVA is considered to be equal to the firm's expected future EVAs
- Evaluate the historical financial performance of the pairs of Asian and American firms in each industry
- Compare the consistency of EVA as a measure across different industries and under different market conditions
- Can you help in adoption and design a EVA based incentive plans inside these organizations

Computer Hardware - PC

■ Apple Computer

- Shows increasing NOPAT, EVA, MVA, and MVE from 1998 to 2000
- All performance measures are correlated

■ Acer Inc.

- Shows improved NOPAT, MVA & MVE in 1999 & 2000
- EVA was negative in all years (thou NOPAT and MVA are positive)
- Possible Explanations for this could be:
 - Estimation error in computing EVA
 - Over-optimism of investors about future prospects
 - EVA ignores potential future NOPAT arising from ACER's growth options

Food and Beverage

- Coca-Cola

- All performance measures declined during the period
- All performance measures are consistent overtime

- Nestle Malaysia Bhd.

- Experience significant growth in EVA and MVA in 1998 despite fall in NOPAT
- EVA, MVA, and MVE seem to be correlated over the period

Real Estate

- Simon Property Group
 - Although the company shows increasing NOPAT, its EVA remained negative throughout the period
 - Despite a sharp drop in EVA in 1999, the firm's MVA and MVE increased in that year
 - The measures seem to have low correlation with each other
- Ayala Land Inc.
 - Except in 2000, in all other years NOPAT and EVA were positive
 - In 2000, NOPAT was positive but EVA was negative
 - Its MVA and MVE declined over the period
 - Possible explanations
 - The EVA measure ignores the terminal value

Some Take Homes ...

EVA is influenced by

- GAAP choices
- Ignores terminal value
- Ignores strategic option values

If, Profitability Index = $ROCE/WACC$ and Value/Capital ratio = P/BV , then

- A graph between Profitability Index and P/BV Ratio would indicate
- From an investors perspective the goal could be “to invest in those firms with the highest profitability index for a given level of value/capital ratio”

Some Take Homes ...

- Is ACER overpriced?
 - Yes OR the profitability index may not be capturing the growth opportunities in store
- Is Nestle Malaysia relatively overpriced?
 - No
 - It is generating a high return on capital because Coca-cola it is working on relatively small amount of invested capital
- What about Real Estate companies?
 - Either investors are overly optimistic
 - OR, it had high forthcoming EVAs in the next years

Limitations of Various Measures ...

Accounting measures such as Turnover, Net Income & EPS

- Can be noisy and give misleading signals to the financial manager who seeks to maximize shareholder value
- Do not reflect the riskiness of the earnings
- Do not reflect time value of money, the opportunity cost associated to equity

- EVA
- Is not forward looking
- Possible reallocation of resources to projects with shorter investment horizon
- Severely hurts long-run capital intensive projects

Limitations of Various Measures ...

Take Real Estate Companies

- The advantages of an aggressive land banking strategies may be less obvious
- They use, Funds From Operations; EBIDTA; and Funds Available for Distribution as financial measurement tools
- Tying EVA to compensation schemes
- How?
- Especially if a an industry is cyclical or capital-intensive
- Complications: number/type of EVA centers, appropriate accounting adjustments in computing EVA, EVA target, EVA interval, design of EVA bonus bank