

CPI, for corporate performance index, is a summary score of financial excellence that rates a company against its industry peers on a percentile scale. It tends to confirm a company's TSR rank when the rank is right, challenges TSR when it is wrong, and explains the factors that are determining TSR in any case.

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*The Dandy Dons of Corporate America. Don Meredith was a popular quarterback and sportscaster, famous for his rendition of "Turn the lights out, the party's over" on Monday night football. Reports indicate, though, that beneath a happy-go-lucky façade lurked a heavy boozing, pill popping, mad man. Here we present the corporate equivalent – the 50 companies that superficially look good per TSR but which CPI reveals to have deep seated issues.*

| Ticker | Name | Sub-Industry                 | Sales                        | CPI Score | 3-Year TSR Rank | CPI 3 Yr Rank | MVA Margin % | EVA Margin % | 3 Yr Trend Mo | Mkt Impl % |    |        |     |        |     |
|--------|------|------------------------------|------------------------------|-----------|-----------------|---------------|--------------|--------------|---------------|------------|----|--------|-----|--------|-----|
| 1      | AAL  | AMERICAN AIRLINES GROUP INC  | Airlines                     | \$40021   | 22              | 100           | -78          | -1%          | 27            | 3.8%       | 27 | 1.53%  | 30  | -0.50% | 64  |
| 2      | MIC  | MACQUARIE INFRASTRUCTURE CP  | Freight Transportation       | \$1616    | 24              | 94            | -70          | 217%         | 93            | -7.2%      | 9  | -2.33% | 9   | 2.23%  | 98  |
| 3      | HRS  | HARRIS CORP                  | Communications Equipment     | \$7410    | 14              | 81            | -67          | 80%          | 65            | -3.5%      | 55 | -2.71% | 5   | 1.07%  | 48  |
| 4      | HP   | HELMERICH & PAYNE            | Oil & Gas Drilling           | \$1859    | 24              | 90            | -66          | 114%         | 92            | -14.4%     | 77 | -5.80% | 17  | 2.86%  | 46  |
| 5      | EXPE | EXPEDIA INC                  | Internet & Catalog Retail    | \$8379    | 27              | 93            | -65          | 135%         | 62            | -0.2%      | 52 | -0.28% | 24  | 1.18%  | 67  |
| 6      | LXK  | LEXMARK INTL INC -CL A       | Technology Hardware          | \$3482    | 15              | 79            | -64          | 3%           | 27            | -5.0%      | 41 | -1.43% | 32  | 0.63%  | 59  |
| 7      | CHTR | CHARTER COMMUNICATIONS INC   | Broadcast&Cable&Satellite    | \$13653   | 27              | 90            | -63          | 182%         | 81            | -8.6%      | 22 | -2.90% | 9   | 1.89%  | 100 |
| 8      | TSN  | TYSON FOODS INC -CL A        | Food & Beverage              | \$38231   | 28              | 91            | -63          | 37%          | 23            | -2.4%      | 48 | 0.46%  | 57  | -0.09% | 12  |
| 9      | DLTR | DOLLAR TREE INC              | Department Stores            | \$20393   | 41              | 100           | -59          | 63%          | 83            | 1.4%       | 58 | -0.51% | 27  | 0.13%  | 58  |
| 10     | GT   | GOODYEAR TIRE & RUBBER CO    | Auto & Suppliers             | \$15480   | 14              | 72            | -58          | -93%         | 0             | -6.5%      | 9  | 0.43%  | 61  | -0.17% | 24  |
| 11     | FIS  | FIDELITY NATIONAL INFO SVCS  | Outsourced Services          | \$8670    | 14              | 70            | -55          | 176%         | 51            | -2.0%      | 15 | -1.01% | 11  | 1.29%  | 74  |
| 12     | CSL  | CARLISLE COS INC             | Industrial Conglomerates     | \$3658    | 45              | 100           | -55          | 108%         | 29            | 5.1%       | 57 | 1.20%  | 100 | 0.14%  | 14  |
| 13     | POST | POST HOLDINGS INC            | Food & Beverage              | \$5076    | 6               | 61            | -55          | 38%          | 25            | -2.5%      | 7  | -1.11% | 7   | 0.48%  | 64  |
| 14     | ZBRA | ZEBRA TECHNOLOGIES CP -CL A  | Electronic&Office Equipment  | \$3608    | 6               | 60            | -54          | 50%          | 41            | -0.7%      | 41 | -1.52% | 13  | 0.46%  | 34  |
| 15     | OSK  | OSHKOSH CORP                 | Cons&Ag&Farm Machinery       | \$6279    | 10              | 62            | -53          | 5%           | 46            | -1.7%      | 32 | -0.84% | 26  | 0.23%  | 46  |
| 16     | COMM | COMMSCOPE HOLDING CO INC     | Communications Equipment     | \$4566    | 41              | 94            | -53          | 93%          | 68            | -1.0%      | 78 | -0.50% | 30  | 0.81%  | 43  |
| 17     | MNK  | MALLINCKRODT PLC             | Pharmaceuticals              | \$3686    | 7               | 59            | -52          | 9%           | 13            | -6.9%      | 54 | -2.56% | 33  | 0.80%  | 28  |
| 18     | GNP  | GLOBAL PAYMENTS INC          | Outsourced Services          | \$3089    | 47              | 96            | -49          | 255%         | 72            | 4.7%       | 54 | -0.03% | 36  | 0.87%  | 64  |
| 19     | MSFT | MICROSOFT CORP               | Software                     | \$85394   | 35              | 83            | -48          | 416%         | 67            | 16.9%      | 96 | -1.60% | 28  | 1.52%  | 18  |
| 20     | CAB  | CABELAS INC                  | Specialty Stores             | \$4199    | 15              | 62            | -46          | 49%          | 63            | -3.1%      | 0  | -0.98% | 4   | 0.60%  | 96  |
| 21     | PPC  | PILGRIM'S PRIDE CORP         | Food & Beverage              | \$7984    | 30              | 76            | -46          | 49%          | 32            | 3.7%       | 58 | 0.54%  | 61  | -0.18% | 5   |
| 22     | LLY  | LILLY (ELI) & CO             | Pharmaceuticals              | \$20837   | 24              | 69            | -45          | 192%         | 38            | 5.7%       | 73 | -3.33% | 33  | 0.67%  | 27  |
| 23     | HII  | HUNTINGTON INGALLS IND INC   | Aerospace & Defense          | \$7168    | 52              | 96            | -44          | 66%          | 61            | 3.5%       | 68 | 1.08%  | 81  | 0.00%  | 18  |
| 24     | KR   | KROGER CO                    | Food & Staples Retailing     | \$112409  | 38              | 80            | -42          | 16%          | 50            | 0.9%       | 59 | 0.09%  | 60  | -0.03% | 5   |
| 25     | SPB  | SPECTRUM BRANDS HOLDINGS INC | Household&Personal Products  | \$5098    | 52              | 94            | -42          | 94%          | 50            | 1.3%       | 27 | 0.66%  | 80  | 0.35%  | 65  |
| 26     | PWR  | QUANTA SERVICES INC          | Construction & Engineering   | \$7345    | 16              | 58            | -42          | 14%          | 52            | -2.7%      | 22 | -1.00% | 17  | 0.44%  | 78  |
| 27     | SIG  | SIGNET JEWELERS LTD          | Specialty Stores             | \$6580    | 38              | 80            | -42          | 29%          | 56            | 2.5%       | 63 | 0.14%  | 54  | -0.17% | 19  |
| 28     | SCI  | SERVICE CORP INTERNATIONAL   | Consumer Services            | \$2991    | 49              | 89            | -40          | 81%          | 50            | 1.2%       | 46 | 0.70%  | 61  | 0.44%  | 67  |
| 29     | NCR  | NCR CORP                     | Technology Hardware          | \$6421    | 23              | 63            | -39          | 8%           | 36            | -1.0%      | 55 | -0.61% | 53  | 0.14%  | 36  |
| 30     | CDNS | CADENCE DESIGN SYSTEMS INC   | Software                     | \$1788    | 49              | 89            | -39          | 225%         | 34            | 1.6%       | 62 | 1.32%  | 75  | 1.85%  | 28  |
| 31     | COTY | COTY INC                     | Household&Personal Products  | \$4349    | 37              | 75            | -38          | 87%          | 46            | -0.3%      | 12 | -0.03% | 56  | 0.49%  | 73  |
| 32     | BLL  | BALL CORP                    | Metal & Glass Containers     | \$7687    | 45              | 83            | -38          | 69%          | 71            | 2.3%       | 86 | -0.23% | 29  | 0.09%  | 29  |
| 33     | YHOO | YAHOO INC                    | Internet Software & Services | \$4973    | 26              | 64            | -38          | 211%         | 53            | 8.1%       | 90 | -1.88% | 26  | 1.00%  | 16  |
| 34     | MUSA | MURPHY USA INC               | Automotive Retail            | \$9492    | 45              | 83            | -38          | 20%          | 57            | 1.5%       | 71 | 0.16%  | 71  | -0.07% | 7   |
| 35     | LLL  | L-3 COMMUNICATIONS HLDGS INC | Aerospace & Defense          | \$10393   | 24              | 62            | -37          | 42%          | 39            | 0.0%       | 42 | -0.30% | 36  | 0.25%  | 39  |
| 36     | DE   | DEERE & CO                   | Cons&Ag&Farm Machinery       | \$23669   | 16              | 54            | -37          | 34%          | 57            | -1.3%      | 36 | -2.32% | 11  | 0.48%  | 64  |
| 37     | IAC  | IAC/INTERACTIVECORP          | Internet Software & Services | \$3252    | 24              | 60            | -36          | 142%         | 39            | 8.1%       | 91 | -1.40% | 31  | 0.11%  | 3   |
| 38     | LVL  | LEVEL 3 COMMUNICATIONS INC   | Alternative Carriers         | \$8193    | 50              | 86            | -35          | 85%          | 20            | -3.8%      | 70 | 0.35%  | 63  | 0.95%  | 20  |
| 39     | TXT  | TEXTRON INC                  | Industrial Conglomerates     | \$13806   | 9               | 44            | -35          | 31%          | 14            | 0.7%       | 43 | -0.01% | 43  | 0.12%  | 0   |
| 40     | ABC  | AMERISOURCEBERGEN CORP       | Health Care Distributors     | \$144759  | 9               | 44            | -35          | 9%           | 43            | 0.5%       | 29 | 0.02%  | 29  | -0.02% | 29  |
| 41     | LMT  | LOCKHEED MARTIN CORP         | Aerospace & Defense          | \$46413   | 50              | 84            | -35          | 118%         | 76            | 3.1%       | 66 | -0.28% | 39  | 0.47%  | 71  |
| 42     | SY   | SYSCO CORP                   | Food & Staples Retailing     | \$50367   | 59              | 94            | -35          | 43%          | 77            | 1.2%       | 64 | 0.02%  | 40  | 0.09%  | 82  |
| 43     | VNTV | VANTIV INC                   | Outsourced Services          | \$3476    | 58              | 93            | -35          | 225%         | 62            | 2.4%       | 33 | 0.91%  | 64  | 0.91%  | 67  |
| 44     | SKX  | SKECHERS U S A INC           | Textiles Apparel & Luxury    | \$3522    | 61              | 95            | -34          | 39%          | 55            | 3.6%       | 72 | 2.33%  | 96  | -0.19% | 10  |
| 45     | SPR  | SPIRIT AEROSYSTEMS HOLDINGS  | Aerospace & Defense          | \$6832    | 54              | 88            | -34          | 45%          | 45            | 4.5%       | 76 | 2.57%  | 92  | -0.27% | 0   |
| 46     | OMC  | OMNICOM GROUP                | Advertising                  | \$15328   | 24              | 58            | -34          | 108%         | 67            | 5.7%       | 83 | 0.34%  | 50  | -0.12% | 0   |
| 47     | SNPS | SYNOPSIS INC                 | Software                     | \$2376    | 36              | 68            | -32          | 180%         | 30            | 0.5%       | 57 | 0.20%  | 58  | 1.63%  | 25  |
| 48     | LEA  | LEAR CORP                    | Auto & Suppliers             | \$18639   | 60              | 92            | -32          | 13%          | 47            | 2.2%       | 68 | 0.72%  | 81  | -0.19% | 21  |
| 49     | RTN  | RAYTHEON CO                  | Aerospace & Defense          | \$24159   | 41              | 73            | -32          | 57%          | 53            | 1.2%       | 47 | 0.03%  | 58  | 0.28%  | 45  |
| 50     | MAN  | MANPOWERGROUP                | Human Resource & Employme    | \$19652   | 29              | 61            | -32          | 10%          | 35            | 0.7%       | 50 | 0.20%  | 42  | -0.02% | 40  |

All data as of November 3, 2016

The Dandy Don companies were filtered from the Russell 1000 universe of stocks by:

1. Excluding financials, utilities, and real estate firms.
2. Setting aside firms with robust growth or profit rebounds in the offing. To do this, companies that the market is projecting will expand EVA at a rate of more than 3% of current sales each year were purged. The market so highly regards the prospects for these firms that they do not deserve to appear on the Dandy Don list.

The final table consists of the 50 remaining companies with the largest gap between their TSR rank and CPI score. These firms have generated impressive TSRs, but the financial foundations are suspect. Their boards and top managers need to stay alert, and governance authorities should not necessarily give them a pass.

American Airlines (AAL) tops the misfits. Although its 3-year TSR was astronomical—averaging 76.6% *per year*, best in class—its CPI score is a terrestrial 22. The rate of return is so large only because a modest improvement in value is being compared to a very depressed valuation base (MVA was -\$2B three years ago vs. -\$513M today). True, its EVA is positive and has shown growth, but the EVA Margin and Momentum statistics don't stack up well against peers. It's the relative performance that counts. Even the EVA outlook statistic isn't impressive, just 64<sup>th</sup> percentile, and that is coming off a relatively

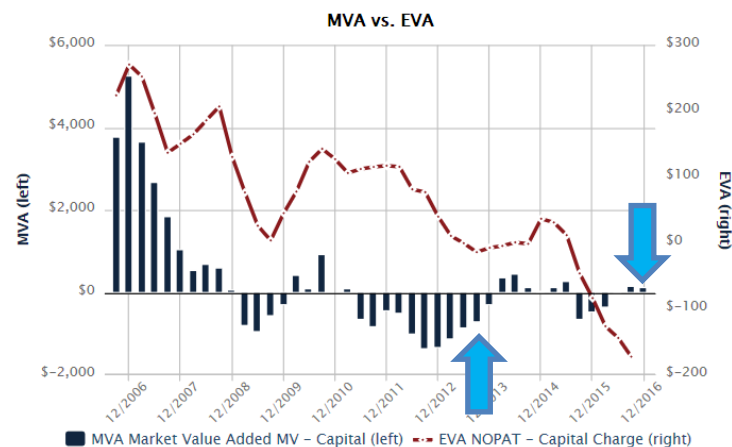
| AAL       | USA          | CPI Score: 22       |
|-----------|--------------|---------------------|
| Sales     | Sales Growth | 3-Year Trend Growth |
| \$ 40,021 | -3.6%        | 12.9%               |
| EVA ?     | EVA Margin ? | 3-Yr Trend EVA Mo ? |
| \$ 1,507  | 3.8% (27)    | 1.53% (30)          |
| MVA ?     | MVA Margin ? | Mkt-Imp Mo ?        |
| \$ -513   | -1% (27)     | -0.50% (64)         |

unprofitable platform. AAL is a classic Dandy Don. TSR significantly overstates the company's true financial condition.

| LXK      | USA          | CPI Score: 15       |
|----------|--------------|---------------------|
| Sales    | Sales Growth | 3-Year Trend Growth |
| \$ 3,482 | -3.4%        | -1.5%               |
| EVA ?    | EVA Margin ? | 3-Yr Trend EVA Mo ? |
| \$ -172  | -5.0% (41)   | -1.43% (32)         |
| MVA ?    | MVA Margin ? | Mkt-Imp Mo ?        |
| \$ 113   | 3% (27)      | 0.63% (59)          |

Lexmark (LXK), #6 on the Dandy Don revue, is an even more telling example. Whereas its 3-year TSR was 79<sup>th</sup> percentile among tech hardware peers, it's CPI score is currently a truly anemic 15, a function of:

1. A **negative 5% EVA Margin**. While essentially breaking even on net income, LXK is failing to cover its full cost of capital and deliver a decent return to its shareholders—even after considering R&D spending to be a capital investment and not a period expense. One reason—nearly \$2 billion in intangible assets are subject to the EVA capital charge. LXK's profits have been purchased at a great capital expense, pushing its EVA Margin in the red. Its profitability score is just 41<sup>st</sup> percentile.
2. **MVA** is a piddling 3 cents per \$1 of sales, a meager 27<sup>th</sup> percentile wealth premium
3. A **deteriorating trend in EVA profits** over the past three years. EVA evaporated at the average annual rate of 1.43% of sales, or 32<sup>nd</sup> percentile. That's partially due to a major \$1B acquisition, Kofax, in May, 2015, which weighted down EVA.
4. The implied buy-side **consensus for long-run EVA growth** is the one modest exception to the otherwise bleak EVA statistics. Investors are projecting LXK will expand EVA at the rate of 0.63% of sales— 59<sup>th</sup> percentile among peers—rather pedestrian and doubly unimpressive considering the forecast is coming off a sub-par EVA Margin and EVA growth trend.

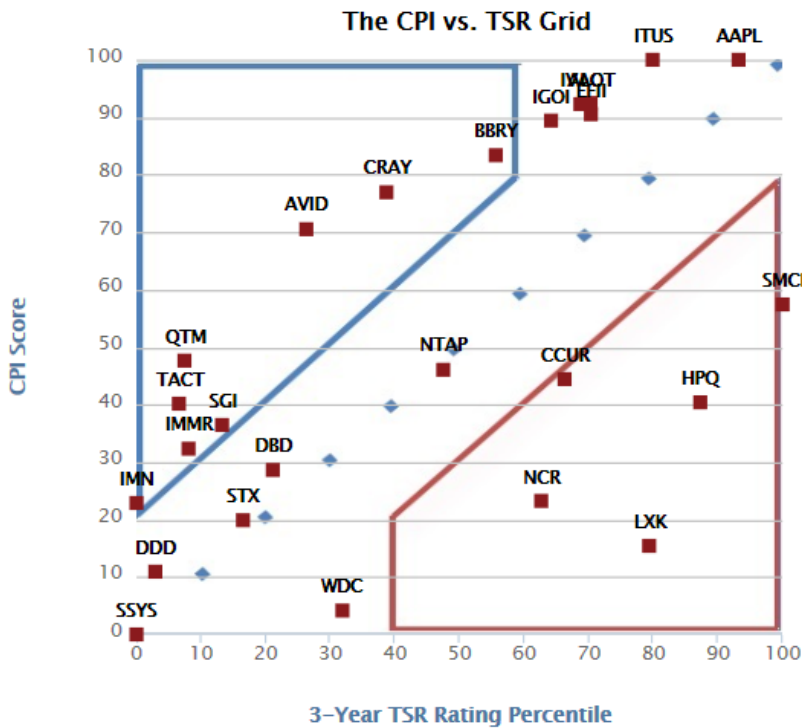


Given the unflattering grades, why has Lexmark's TSR been so stellar? The EVA vs. MVA chart shows why:

- ✓ Three years ago MVA was *negative* \$724 million. Lexmark was in a deep, deep valuation hole.
- ✓ MVA currently stands at \$113 million, a rebound, sure, but the significance of the move is vastly overstated by comparing it, as TSR does, to the depressed valuation base.

LXK is like a critical care patient that did not die, but that remains in guarded condition. It has recovered from a near death experience, but it still requires massive doses of therapy to get back on its feet and stand tall

among industry leaders. It should come as no surprise, then, that Lexmark has agreed to be acquired by a Chinese company. A high TSR offers no respite from a weak CPI.



Lexmark, like all the companies on the Dandy Don list, plots in the lower-right red zone on the CPI vs. TSR grid, shown at left for the U.S. technology hardware and peripherals sector. The lower-left to upper-right alignment tendency is evident once all stocks in the industry are plotted together. But those that fall into the red-zone, firms like LXX that CPI rates considerably lower than TSR, are ones that remain exposed to criticism, vulnerable to activists, and susceptible to takeover, or should be, regardless of an impressive TSR rating.

Here's a pop quiz. Which of the two firms below, operating in the same business, produced the greater 3-year TSR? The one at left clearly boasts the superior set of statistics: Its EVA Margin is 2.5 times as large, its Trend EVA Momentum is nine times larger, its MVA wealth

premium is over 4 times greater compared to sales, and the market judges it to have materially brighter growth prospects. It rates a CPI score of 100 compared to just 47 for the firm on the right.

| SFM      | USA          | CPI Score: 100      |
|----------|--------------|---------------------|
| Sales    | Sales Growth | 3-Year Trend Growth |
| \$ 3,858 | 18.3%        | 20.5%               |
| EVA ?    | EVA Margin ? | 3-Yr Trend EVA Mo ? |
| \$ 95    | 2.5% (100)   | 0.80% (100)         |
| MVA ?    | MVA Margin ? | Mkt-Imp Mo ?        |
| \$ 2,545 | 66% (95)     | 0.04% (59)          |

| KR         | USA          | CPI Score: 47       |
|------------|--------------|---------------------|
| Sales      | Sales Growth | 3-Year Trend Growth |
| \$ 112,409 | 3.3%         | 4.4%                |
| EVA ?      | EVA Margin ? | 3-Yr Trend EVA Mo ? |
| \$ 1,004   | 0.9% (64)    | 0.09% (65)          |
| MVA ?      | MVA Margin ? | Mkt-Imp Mo ?        |
| \$ 16,795  | 15% (50)     | -0.04% (5)          |

TSR sees things quite differently. The left-hand company is Sprouts Farmers' Market. As was discussed in Issue #2, its 3-year TSR was *negative* 22.2% per annum, the *lowest* in the industry. It's a classic blue-zone stock. A Dangerfield. The one at right is Kroger. Its 3-year TSR averaged *positive* 15.7%, or *87<sup>th</sup> percentile* in the food retailing business. It's another classic red-zone stock. It sits at #24 among the Dandy Don's. It's not really performing as well as TSR suggests.

A long-term incentive plan based on relative TSR would richly reward Kroger's team and pay nothing to Sprouts'. Does that seem equitable? Would that motivate the right decisions? Would that retain the best people?

**Up next** – can CPI help you pick undervalued stocks? No, but another model, called PRVIt ("prove-it"), can. See them in action for Amazon, a CPI winner, but PRVIt loser—its a great company but not a great stock at its *current* price.

**Want a fuller explanation of EVA and CPI? Then tune into a 30 minute video-cast conducted by our CEO, Bennett Stewart. Click here: [Using the CPI Corporate Performance Index to Fix TSR Flaws](#)**

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Go  Enter a company name or ticker to access the CPI Snapshot Report and EVA vs. MVA chart

CPI Express Corporate Performance Index  
Ranking Company Performance by Economic Value

Navigation: CPI Express | CPI Summary | EVA vs MVA | CPI Metrics | Sub-Ind CPI/TSR Grid | CPI Ranking | Manage Peers | Custom Summary | Custom CPI/TSR Grid | Custom CPI Rank

**CATERPILLAR INC. - CAT**

**The Corporate Performance Index**

**Total Shareholder Return Percentile vs. Construction & Agricultural and Farm Machinery & Heavy Trucks**

| Year       | Percentile |
|------------|------------|
| 10-10-2010 | 7          |
| 10-10-2015 | 64         |

**Total Shareholder Return**

| Year       | TSR   |
|------------|-------|
| 10-10-2010 | 4.3%  |
| 10-10-2015 | 29.9% |

**October 25, 2015**

**CPI Score: 29**

|           |     |                   |                     |
|-----------|-----|-------------------|---------------------|
| Sales     | USA | Sales Growth      | 5-Year Trend Growth |
| \$ 39,024 |     | -21.6%            | -10.8%              |
| EVA       |     | EVA Margin        | 5-Yr Trend EVA Mo   |
| \$ 2.02   |     | -6.5% (7%)        | -1.2% (1%)          |
| MVA       |     | MVA Margin        | Mkt Imp Mo          |
| \$ 26,785 |     | 69% (7%)          | 0.74% (7%)          |
| Leverage  |     | MVA Margin (3 Yr) | Mkt Imp Mo (3 Yr)   |
| 0.7 (1.1) |     | 8.9% (7%)         | 0.0 (0.1)           |
| 100% (11) |     | 3 Year (5)        | 3 Year (5)          |
| 0.69 (11) |     | 4.8% (14)         | 7.2% (11)           |

**The CPI vs. TSR Grid**

**Market Value vs. Capital**

**MVA vs. EVA**

**Sales vs. EVA Margin**

# EVA Dimensions

- Bennett Stewart launches EVA with 1991 book, *The Quest for Value*
- *Fortune* magazine editors feature EVA on September, 1993 cover with headline, "EVA – It's the Real key to Creating Wealth"
- Hundreds of companies adopt EVA globally – Coca-Cola, AT&T, Equifax, Eli Lilly & Herman Miller, Monsanto, Halliburton, Brahma Beer (now AB InBev), Kao Brands (Japan), Lafarge, Port of Singapore Authority, Temasek, TATA Group, CEMEX, FEMSA, are a few
- EVA Dimensions spins out in 2006 to convert EVA to a new ratio framework, automate it with software and data, and serve corporations and investors
- Enhanced EVA model presented in the 2013 book, *Best-Practice EVA*
- Early corporate adopters include Dow Chemical, PepsiCo



EVA Dimensions is a financial technology and advisory firm. We help our clients to make better decisions and create more value with the power of EVA.

We license software that companies use to compute, analyze, benchmark and value EVA in reporting, planning and M&A applications, and that investors use to pick stocks and manage portfolios.

We also provide the training and support needed to transition management teams and directors onto EVA.