

Volume 6, December 20, 2016

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 Bullseyes** Which companies have the most to fear from activists and governance authorities? Our list consists of companies in the crosshairs of both CPI and TSR. There's agreement that these firms are not doing well compared to peers, which means there's no place to hide. This is the target list you don't want to be on.

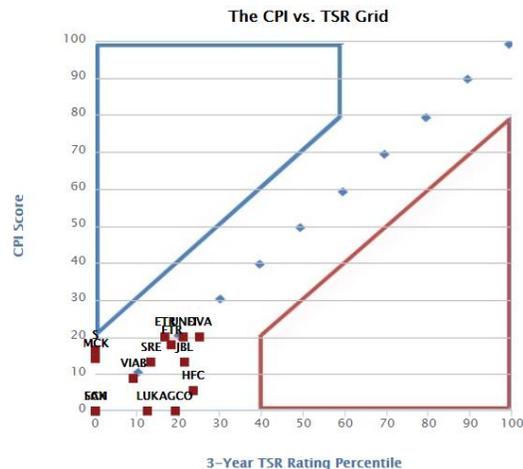
| Ticker | Name | Sub-Industry                                   | Sales                      | CPI Score | Prior CPI Score | Δ     | 3Yr TSR | Rank   | MVA Margin /Sales | % tile | EVA Margin /Sales | % tile | 3 Yr Trend EVA Mo | % tile | Mkt Impl EVA Mo | % tile |    |
|--------|------|--|----------------------------|-----------|-----------------|-------|---------|--------|-------------------|--------|-------------------|--------|-------------------|--------|-----------------|--------|----|
| 1      | MCK  | <a href="#">MCKESSON CORP</a>                  | Health Care Distributors   | \$194267  | 14.2            | 37.9  | -23.7   | -2.5%  | 0                 | 10%    | 43                | 0.7%   | 43                | 0.02%  | 43              | -0.03% | 17 |
| 2      | JCI  | <a href="#">JOHNSON CONTROLS INTL PLC</a>      | Building Products          | \$37674   | 9.4             | 18.7  | -9.3    | -0.8%  | 11                | 34%    | 25                | 1.4%   | 50                | 0.57%  | 17              | 0.06%  | 1  |
| 3      | S    | <a href="#">SPRINT CORP</a>                    | Wireless Telecom           | \$32437   | 16.5            | 66.7  | -50.3   | -0.4%  | 0                 | -83%   | 29                | -17.2% | 29                | -0.74% | 17              | 1.50%  | 67 |
| 4      | JBL  | <a href="#">JABIL CIRCUIT INC</a>              | Electronic Mfg Svcs        | \$18353   | 13.2            | 47.2  | -34.0   | 5.6%   | 21                | 1%     | 38                | -0.3%  | 56                | 0.04%  | 21              | 0.03%  | 0  |
| 5      | DVA  | <a href="#">DAVITA INC</a>                     | Health Care Services       | \$14563   | 20.0            | 69.8  | -49.8   | 1.9%   | 25                | 49%    | 53                | 2.1%   | 63                | -0.21% | 24              | -0.01% | 14 |
| 6      | FCX  | <a href="#">FREEPORT-MCMORAN INC</a>           | Diversified Metals & Minir | \$14248   | 0.0             | 14.6  | -14.6   | -21.1% | 0                 | -91%   | 20                | -25.0% | 20                | -5.26% | 20              | 2.27%  | 60 |
| 7      | VIAB | <a href="#">VIACOM INC</a>                     | Movies & Entertainment     | \$12488   | 8.8             | 80.3  | -71.4   | -22.5% | 9                 | 60%    | 43                | 7.5%   | 93                | -0.84% | 0               | -0.61% | 0  |
| 8      | ETR  | <a href="#">ENTERGY CORP</a>                   | Electric Utilities         | \$10706   | 20.0            | 4.2   | 15.8    | 10.2%  | 17                | 2%     | 11                | 0.2%   | 36                | -0.01% | 50              | -0.07% | 22 |
| 9      | LUK  | <a href="#">LEUCADIA NATIONAL CORP</a>         | Industrial Conglomerates   | \$10619   | 0.0             | 37.9  | -37.9   | -3.6%  | 13                | -6%    | 0                 | -1.9%  | 25                | -1.39% | 25              | 0.17%  | 0  |
| 10     | HFC  | <a href="#">HOLLYFRONTIER CORP</a>             | Oil&Gas Refine&Mkt         | \$10524   | 5.5             | 88.5  | -83.0   | -6.5%  | 24                | 6%     | 41                | -2.5%  | 29                | -1.75% | 0               | 0.34%  | 71 |
| 11     | SRE  | <a href="#">SEMPRA ENERGY</a>                  | Multi-Utilities            | \$10014   | 13.2            | 77.6  | -64.4   | 8.1%   | 13                | 121%   | 80                | -1.4%  | 0                 | -0.90% | 7               | 0.70%  | 93 |
| 12     | SAH  | <a href="#">SONIC AUTOMOTIVE INC -CLA</a>      | Automotive Retail          | \$9646    | 0.0             | 7.8   | -7.8    | -2.4%  | 0                 | -4%    | 7                 | -0.7%  | 7                 | -0.13% | 8               | 0.05%  | 58 |
| 13     | UNFI | <a href="#">UNITED NATURAL FOODS INC</a>       | Food & Staples Retailing   | \$8672    | 20.0            | 77.4  | -57.3   | -12.8% | 21                | 9%     | 14                | 0.3%   | 36                | -0.06% | 42              | 0.01%  | 31 |
| 14     | FTR  | <a href="#">FRONTIER COMMUNICATIONS COR</a>    | Integrated Telecom         | \$7900    | 17.9            | 0.0   | 17.9    | 0.4%   | 18                | -36%   | 18                | 0.1%   | 55                | 0.26%  | 55              | -0.24% | 18 |
| 15     | AGCO | <a href="#">AGCO CORP</a>                      | Con,Ag Mach & Trucks       | \$7276    | 0.0             | 31.3  | -31.3   | 0.2%   | 19                | 4%     | 19                | -3.4%  | 15                | -1.50% | 12              | 0.43%  | 56 |
| 16     | DDS  | <a href="#">DILLARDS INC -CLA</a>              | Merchandise Stores         | \$6551    | 17.9            | 74.8  | -57.0   | -9.5%  | 27                | 8%     | 33                | 1.5%   | 58                | -0.42% | 36              | -0.15% | 0  |
| 17     | DAN  | <a href="#">DANA INC</a>                       | Auto & Suppliers           | \$5754    | 16.1            | 58.4  | -42.3   | 0.9%   | 23                | -55%   | 6                 | -7.8%  | 3                 | 0.18%  | 29              | 0.41%  | 70 |
| 18     | PRGO | <a href="#">PERRIGO CO PLC</a>                 | Pharmaceuticals            | \$5656    | 12.8            | 69.6  | -56.8   | -17.8% | 25                | 15%    | 13                | -11.4% | 51                | -7.99% | 32              | 1.47%  | 32 |
| 19     | ESND | <a href="#">ESSENDANT INC</a>                  | Office Svcs & Supplies     | \$5412    | 0.0             | 7.6   | -7.6    | -20.4% | 0                 | -7%    | 8                 | -0.2%  | 23                | -0.29% | 15              | -0.03% | 36 |
| 20     | BKD  | <a href="#">BROOKDALE SENIOR LIVING INC</a>    | Health Care Facilities     | \$5004    | 6.8             | 79.9  | -73.1   | -24.3% | 14                | -5%    | 26                | -6.3%  | 5                 | -2.47% | 0               | 0.69%  | 82 |
| 21     | QUAD | <a href="#">QUAD/GRAPHICS INC</a>              | Commercial Printing        | \$4466    | 0.0             | 10.9  | -10.9   | 9.2%   | 20                | 9%     | 33                | -1.4%  | 0                 | 0.00%  | 20              | 0.21%  | 67 |
| 22     | CF   | <a href="#">CF INDUSTRIES HOLDINGS INC</a>     | Fertilizers & Ag Chem      | \$3934    | 0.0             | 83.8  | -83.8   | -12.0% | 0                 | 77%    | 38                | -3.6%  | 38                | -8.52% | 0               | 0.90%  | 50 |
| 23     | SCSC | <a href="#">SCANSOURCE INC</a>                 | Technology Distributors    | \$3602    | 8.0             | 43.9  | -35.9   | -1.2%  | 25                | 4%     | 42                | 0.1%   | 45                | -0.16% | 18              | 0.01%  | 33 |
| 24     | HSNI | <a href="#">HSN INC</a>                        | Internet & Catalog Retail  | \$3592    | 12.2            | 35.9  | -23.7   | -8.4%  | 20                | -6%    | 5                 | -2.9%  | 10                | -0.08% | 33              | 0.26%  | 26 |
| 25     | DAR  | <a href="#">DARLING INGREDIENTS INC</a>        | Food & Beverage            | \$3321    | 0.0             | 49.1  | -49.1   | -11.4% | 0                 | 2%     | 3                 | -0.4%  | 20                | -0.95% | 10              | 0.04%  | 27 |
| 26     | FOSL | <a href="#">FOSSIL GROUP INC</a>               | Textiles, Apparel, Lux     | \$3076    | 7.0             | 82.3  | -75.2   | -36.1% | 4                 | 12%    | 21                | -0.3%  | 29                | -2.28% | 15              | 0.09%  | 29 |
| 27     | KS   | <a href="#">KAPSTONE PAPER &amp; PACKAGING</a> | Paper & Forest Products    | \$3064    | 8.8             | 44.8  | -36.0   | -6.5%  | 9                 | 39%    | 55                | -1.3%  | 36                | -1.33% | 27              | 0.39%  | 50 |
| 28     | XL   | <a href="#">XL GROUP LTD</a>                   | Insurance                  | \$2874    | 2.6             | 37.9  | -35.3   | 9.2%   | 28                | -158%  | 8                 | -12.1% | 14                | -4.88% | 12              | 0.11%  | 63 |
| 29     | HCP  | <a href="#">HCP INC</a>                        | Real Estate                | \$2644    | 14.1            | 67.0  | -53.0   | 2.0%   | 7                 | 213%   | 39                | -18.9% | 22                | -7.47% | 15              | 4.20%  | 49 |
| 30     | NUS  | <a href="#">NU SKIN ENTERPRISES -CLA</a>       | Household & Personal       | \$2249    | 12.2            | 87.8  | -75.6   | -24.9% | 4                 | 81%    | 48                | 4.6%   | 52                | -2.31% | 0               | -0.09% | 22 |
| 31     | CPA  | <a href="#">COPA HOLDINGS SA</a>               | Airlines                   | \$2153    | 17.9            | 100.0 | -82.1   | -12.7% | 0                 | 76%    | 50                | 3.3%   | 25                | -2.25% | 0               | 0.04%  | 82 |
| 32     | TRCO | <a href="#">TRIBUNE MEDIA CO</a>               | Broadcast,Cable & Sat      | \$2112    | 0.0             | 71.4  | -71.4   | -14.9% | 5                 | -41%   | 21                | 4.4%   | 58                | -7.03% | 0               | -0.93% | 9  |
| 33     | FUL  | <a href="#">FULLER (H. B.) CO</a>              | Specialty Chemicals        | \$2068    | 9.5             | 54.8  | -45.3   | 0.5%   | 16                | 61%    | 25                | 0.9%   | 33                | -0.45% | 19              | 0.29%  | 44 |
| 34     | AOI  | <a href="#">ALLIANCE ONE INTL INC</a>          | Tobacco                    | \$1874    | 0.0             | 0.0   | 0.0     | -15.5% | 0                 | -19%   | 0                 | -0.7%  | 0                 | -0.08% | 20              | -0.02% | 83 |
| 35     | CLF  | <a href="#">CLIFFS NATURAL RESOURCES INC</a>   | Aluminum & Steel           | \$1840    | 4.4             | 5.3   | -0.9    | -23.6% | 5                 | -326%  | 0                 | -37.0% | 0                 | -3.88% | 5               | 1.46%  | 80 |
| 36     | BZH  | <a href="#">BEAZER HOMES USA INC</a>           | Homebuilders               | \$1822    | 15.6            | 37.9  | -22.3   | -11.6% | 6                 | -23%   | 0                 | -6.3%  | 8                 | -0.54% | 26              | 0.60%  | 82 |
| 37     | KEX  | <a href="#">KIRBY CORP</a>                     | Freight Transportation     | \$1819    | 18.4            | 63.6  | -45.2   | -10.1% | 15                | 59%    | 51                | -3.0%  | 17                | -1.47% | 16              | 0.70%  | 72 |
| 38     | CONN | <a href="#">CONN'S INC</a>                     | Specialty Stores           | \$1620    | 0.0             | 88.5  | -88.5   | -44.1% | 0                 | -12%   | 12                | -2.6%  | 12                | -2.61% | 0               | 0.23%  | 68 |
| 39     | SYNA | <a href="#">SYNAPTICS INC</a>                  | Semiconductors             | \$1583    | 14.3            | 81.4  | -67.1   | 3.8%   | 21                | 58%    | 34                | 2.1%   | 62                | -1.41% | 23              | 0.27%  | 8  |
| 40     | NYT  | <a href="#">NEW YORK TIMES CO -CLA</a>         | Publishing                 | \$1560    | 10.9            | 63.0  | -52.0   | 0.7%   | 13                | 1%     | 46                | -5.0%  | 8                 | -1.26% | 11              | 0.61%  | 69 |
| 41     | WAIR | <a href="#">WESCO AIRCRAFT HOLDINGS INC</a>    | Aerospace & Defense        | \$1477    | 2.3             | 81.6  | -79.3   | -9.8%  | 6                 | 29%    | 26                | -0.5%  | 36                | -1.22% | 3               | 0.22%  | 31 |
| 42     | NFG  | <a href="#">NATIONAL FUEL GAS CO</a>           | Gas Utilities              | \$1452    | 20.0            | 100.0 | -80.0   | -3.3%  | 0                 | 102%   | 55                | 7.0%   | 100               | -0.67% | 9               | -0.36% | 10 |
| 43     | P    | <a href="#">PANDORA MEDIA INC</a>              | Internet Software & Svcs   | \$1328    | 13.4            |       |         | -21.2% | 16                | 182%   | 44                | -12.2% | 31                | -4.63% | 6               | 3.45%  | 56 |
| 44     | WDR  | <a href="#">WADDELL&amp;REED FINL INC -CLA</a> | Non-Spread Financials      | \$1313    | 12.8            | 49.4  | -36.7   | -27.1% | 0                 | 45%    | 15                | 12.5%  | 73                | -1.08% | 20              | -1.28% | 8  |
| 45     | RRGB | <a href="#">RED ROBIN GOURMET BURGERS</a>      | Restaurants                | \$1291    | 4.9             | 37.9  | -33.0   | -8.8%  | 17                | 24%    | 11                | -0.8%  | 19                | -0.42% | 28              | 0.21%  | 31 |
| 46     | NSR  | <a href="#">NEUSTAR INC</a>                    | Outsourced Services        | \$1165    | 16.5            | 75.7  | -59.2   | -11.6% | 3                 | 84%    | 21                | 7.8%   | 69                | -0.75% | 17              | -0.50% | 3  |
| 47     | WTW  | <a href="#">WEIGHT WATCHERS INTL INC</a>       | Special Consumer Svcs      | \$1157    | 13.3            | 79.2  | -65.9   | -30.8% | 5                 | 146%   | 61                | 3.6%   | 57                | -5.14% | 0               | 0.27%  | 43 |
| 48     | TISI | <a href="#">TEAM INC</a>                       | Facilities Svcs            | \$1079    | 0.0             | 62.4  | -62.4   | -2.1%  | 13                | 44%    | 40                | -2.1%  | 7                 | -1.24% | 0               | 0.50%  | 67 |
| 49     | LTS  | <a href="#">LADENBURG THALMANN FINL SER</a>    | Capital Markets            | \$1071    | 9.1             | 27.4  | -18.3   | -6.3%  | 13                | 14%    | 21                | -6.5%  | 18                | -2.17% | 16              | 0.99%  | 52 |
| 50     | ILG  | <a href="#">ILG INC</a>                        | Hotels, Resorts, Cruise    | \$1066    | 9.5             | 64.5  | -55.1   | -11.7% | 7                 | 73%    | 30                | 2.0%   | 62                | -1.63% | 17              | 0.17%  | 15 |

All data as of December 15<sup>th</sup>, 2016

The Bullseyes were filtered from the Russell 3000 stock universe by:

1. Excluding stocks with revenues running under \$500 million—we want to focus on better known companies
2. Eliminating companies with CPI scores over 20—we want the bottom of the barrel
3. Eliminating companies with 3-year TSR ranked above 30<sup>th</sup> percentile versus industry peers—we want TSR to confirm the bad news
4. Deleting Coal and Integrated Oil & Gas because their industries have just 3 or fewer members.

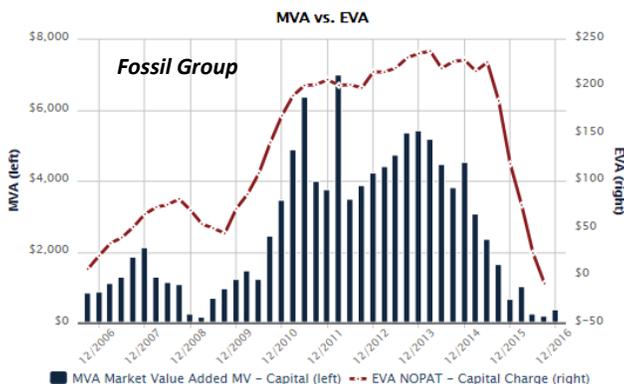
The final list consists of an especially troubled group—the companies filtered above that had the biggest *reductions* in CPI score within each industry group over the past three years. Our aim is to isolate companies with the steepest fall from grace.



The chart at upper right plots the 15 largest companies by sales on the CPI vs. TSR grid. As expected, and by design, these firms, indeed all the firms making the cut, plot in the lower left corner, the corporate equivalent of purgatory, doubly condemned by CPI and 3-year TSR rank. The list of the penitents continues below:

| Ticker | Name | Sub-Industry                 | Sales                      | CPI Score | Prior CPI Score | Δ     | 3Yr TSR | Rank   | MVA Margin MVA /Sales | % tile | EVA Margin EVA /Sales | % tile | 3 Yr Trend EVA Mo | % tile  | Mkt Impl EVA Mo | % tile |     |
|--------|------|------------------------------|----------------------------|-----------|-----------------|-------|---------|--------|-----------------------|--------|-----------------------|--------|-------------------|---------|-----------------|--------|-----|
| 51     | ASPS | ALTISOURCE PORTFOLIO SOLTNS  | Real Estate Mgmt & Dev     | \$1029    | 4.4             | 93.8  | -89.4   | -45.2% | 0                     | 40%    | 13                    | 4.3%   | 82                | -1.33%  | 19              | -0.21% | 7   |
| 52     | BKE  | BUCKLE INC                   | Apparel Retail             | \$1027    | 6.8             | 85.1  | -78.3   | -14.9% | 18                    | 76%    | 79                    | 8.8%   | 97                | -1.34%  | 4               | -0.65% | 0   |
| 53     | OCN  | OCWEN FINANCIAL CORP         | Thriffs & Mortgage Finance | \$1020    | 3.6             | 96.0  | -92.5   | -54.2% | 0                     | -29%   | 4                     | -23.3% | 12                | -7.00%  | 11              | 2.73%  | 82  |
| 54     | ACIW | ACI WORLDWIDE INC            | Software                   | \$972     | 7.3             | 37.7  | -30.5   | -3.7%  | 24                    | 125%   | 15                    | -6.9%  | 36                | -2.73%  | 20              | 1.82%  | 23  |
| 55     | LL   | LUMBER LIQUIDATORS HLDGS INC | Home Retail                | \$950     | 8.0             | 100.0 | -92.0   | -42.6% | 0                     | 22%    | 38                    | -7.1%  | 0                 | -4.52%  | 0               | 1.01%  | 92  |
| 56     | HAE  | HAEMONETICS CORP             | Health Care Supplies       | \$906     | 9.9             | 17.3  | -7.4    | -2.4%  | 25                    | 105%   | 14                    | -2.0%  | 55                | -1.63%  | 25              | 0.93%  | 24  |
| 57     | GTLS | CHART INDUSTRIES INC         | Industrial Machinery       | \$906     | 4.9             | 85.9  | -80.9   | -25.4% | 2                     | 11%    | 11                    | -2.4%  | 24                | -1.34%  | 17              | 0.34%  | 23  |
| 58     | PRAA | PRA GROUP INC                | Diversified Support Svcs   | \$906     | 12.2            | 100.0 | -87.8   | -11.9% | 4                     | 76%    | 33                    | 3.1%   | 58                | -2.96%  | 5               | 0.00%  | 13  |
| 59     | LBY  | LIBBEY INC                   | Household Durables         | \$810     | 0.0             | 17.7  | -17.7   | -1.2%  | 5                     | -6%    | 5                     | 1.0%   | 41                | -0.32%  | 11              | -0.20% | 6   |
| 60     | GLDD | GREAT LAKES DREDGE & DOCK CP | Construct & Engineer       | \$777     | 3.9             | 24.3  | -20.4   | -19.0% | 5                     | -4%    | 9                     | -5.3%  | 5                 | -1.03%  | 9               | 0.60%  | 94  |
| 61     | PB   | PROSPERITY BANCSHARES INC    | Commercial Banks           | \$751     | 12.5            | 83.7  | -71.2   | 5.9%   | 5                     | 157%   | 47                    | 2.7%   | 41                | -1.25%  | 6               | 0.75%  | 41  |
| 62     | VRTU | VIRTUSA CORP                 | IT Consulting & Svcs       | \$738     | 17.1            | 86.0  | -68.9   | -10.3% | 18                    | 38%    | 33                    | 0.1%   | 46                | -0.81%  | 22              | 0.25%  | 38  |
| 63     | TDW  | TIDEWATER INC                | Oil & Gas Eq & Svcs        | \$714     | 9.5             | 12.1  | -2.7    | -57.2% | 0                     | -300%  | 6                     | -58.3% | 16                | -8.77%  | 10              | 4.91%  | 78  |
| 64     | OAS  | OASIS PETROLEUM INC          | Oil & Gas E&P              | \$669     | 11.0            | 88.3  | -77.3   | -30.2% | 21                    | 38%    | 40                    | -50.9% | 48                | -15.29% | 25              | 6.48%  | 32  |
| 65     | DDD  | 3D SYSTEMS CORP              | Technology Hardware        | \$650     | 17.4            | 93.1  | -75.7   | -42.9% | 6                     | 83%    | 60                    | -13.4% | 30                | -7.13%  | 12              | 2.56%  | 75  |
| 66     | MTSC | MTS SYSTEMS CORP             | Electronics                | \$579     | 20.0            | 77.4  | -57.3   | -3.2%  | 21                    | 79%    | 48                    | 2.2%   | 63                | -1.26%  | 21              | 0.43%  | 17  |
| 67     | MYE  | MYERS INDUSTRIES INC         | Metal,Glass Containers     | \$567     | 14.2            | 79.2  | -64.9   | -6.3%  | 14                    | 17%    | 14                    | -2.2%  | 14                | -0.45%  | 14              | 0.35%  | 100 |
| 68     | POWL | POWELL INDUSTRIES INC        | Electrical Equipment       | \$565     | 9.4             | 37.9  | -28.5   | -12.7% | 19                    | 15%    | 31                    | -0.9%  | 46                | -0.72%  | 32              | 0.22%  | 24  |
| 69     | ACAT | ARCTIC CAT INC               | Leisure Products           | \$557     | 0.0             | 59.2  | -59.2   | -32.3% | 0                     | 3%     | 7                     | -8.6%  | 0                 | -3.97%  | 0               | 1.15%  | 100 |
| 70     | EXTR | EXTREME NETWORKS INC         | Communications Equipmer    | \$527     | 8.0             | 65.5  | -57.5   | -10.3% | 11                    | 21%    | 26                    | -9.7%  | 21                | -0.79%  | 19              | 1.46%  | 54  |
| 71     | ALOG | ANALOGIC CORP                | Health Care Equipment      | \$515     | 14.8            | 63.0  | -48.2   | -0.6%  | 16                    | 77%    | 18                    | -0.2%  | 56                | -0.67%  | 24              | 0.58%  | 15  |
| 72     | TGH  | TEXTAINER GROUP HOLDINGS LTD | Trading&Wholesalers        | \$512     | 0.0             | 93.1  | -93.1   | -33.4% | 0                     | -128%  | 0                     | -18.4% | 0                 | -7.01%  | 0               | 1.38%  | 96  |

Let's look first at **Fossil Group**, the fashion accessories concern ranked #26 by sales, and typical of the list. Its CPI is currently quite low, a score of 7 among textile, apparel and luxury goods concerns. Its 3-year TSR is also dismal, averaging -36.1% per year, for a 4<sup>th</sup> percentile rank in its peer group. The company is clearly in bad shape, the metrics agree.



The EVA vs. MVA chart at left, plotting the firm's economic profit versus owner wealth, shows what's behind it. Following a precipitous drop over the past two years, Fossil's EVA and MVA are much lower today than they were one year ago, or even three, five or seven years back.

FOSSIL GROUP INC - FOSL



Fossil’s CPI score, plotted at left, mirrors EVA and MVA. As its MVA and EVA peaked in 2010-2012, Fossil’s CPI reached well into the upper quartile range, even upper decile. Since then, pacing EVA and MVA, CPI tumbled into the bottom decile, a dramatic reversal.

This is typical of the targets we identified. We intentionally screened for the companies that suffered the biggest *drops* in CPI scores in their industry (after having qualified on the other criteria). We wanted to isolate companies that experienced a sharp turn for the worse, like Fossil. These are the companies that are likely to be

feeling—or about to feel— intense pressures from shareholders that they had not faced before.

One could make the contrary case, namely, that the most needful candidates for governance attention and shareholder activism are companies with *consistently low* CPI scores. Had we had screened for stocks like that we would have found a different list. For instance, instead of Fossil, **Crocs** would be fitted as the apparel, textile and luxury goods representative. Like Fossil, its TSR was abysmal, averaging -18% a year. But whereas Fossil’s CPI plunged from 82 to 7 over the past three years, Crocs’ fell only from 34 to 11. It was much lower to begin with. It’s been more consistently a lower-rated financial performer.

Sorting by consistently low scores would replace **Neustar**, which appears on our list, with **Xerox** in the business of outsourced services. Instead of **Dana**, **GM** would park among the autos. Instead of **Myers Industries**, **Owens-Illinois** would break the mold among glass and metal containers. In other words, you would find companies that have been in trouble for quite a while. Those companies no doubt still merit a lot of attention. But our list is geared toward identifying the emerging candidates.

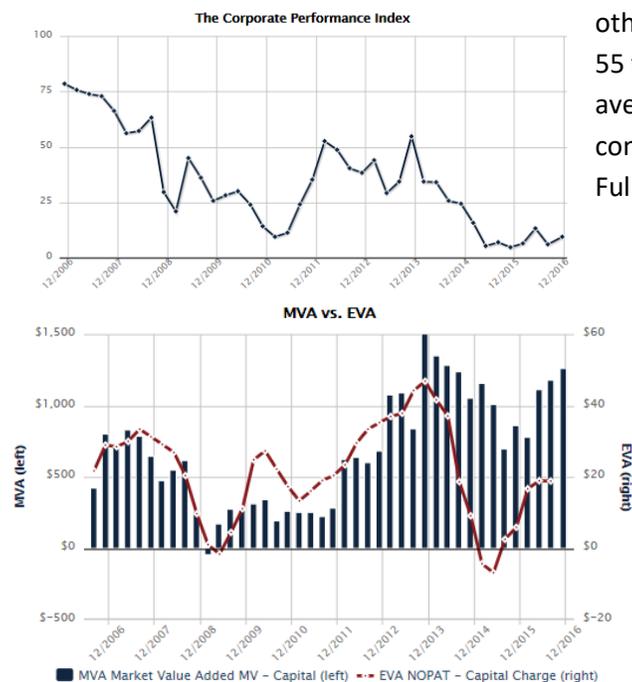
The companies on our list might also be in a better position to respond positively to external pressures. After all, they were doing well or at least much better than they are today just three to five years back. Their CPI scores were previously much higher. It’s logical to assume that it would be easier for companies that have tasted success, that recently were profitable and profitably growing, to jump back on the right track, given the proper motivation.

Or maybe not. To play the devil’s advocate, it’s also conceivable that at least some of the companies on our target list will attempt to restore faded glory by re-running the same playbook when that may no longer be a viable strategy. Times change, but companies like **Tribune Media** (#29) and **The New York Times** (#37) are finding it hard to keep up and adapt. No doubt some of our target companies may need electro shock therapy to jump start new thinking. Either way, the list is worth taking seriously as a tally of emerging candidates that may respond to activist interventions of some kind. Let’s look at some more examples.

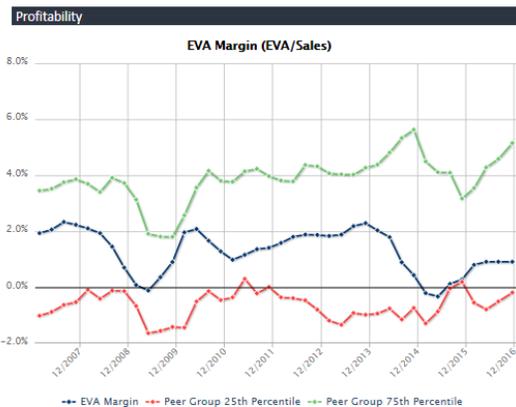
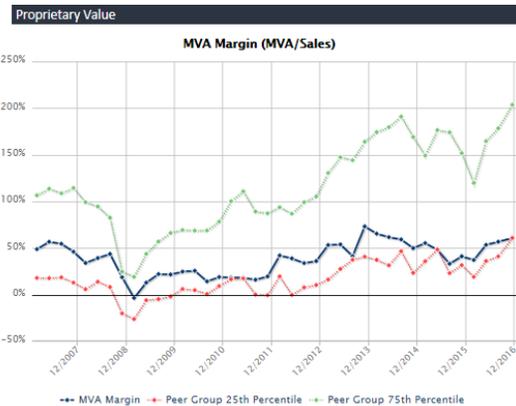
FULLER (H. B.) CO - FUL

**H.B. Fuller Company**, #33 by size, makes adhesives, sealants and other specialty chemical products. Its CPI score is 10 today, down from 55 three years ago. Although its three-year TSR is positive—a yearly average of 0.5%—it ranks just 16<sup>th</sup> percentile among specialty chemical companies. CPI and TSR once again deliver the same distress signal. Fuller is falling behind its peers.

Let's once again consult the EVA/MVA oracle. As depicted at left, Fuller had a nice run from 2011-2013; its EVA and MVA rose to peak values. Yet, despite that, Fuller only barely qualified for a



median CPI score in its industry because many specialty chemical companies were doing even better. As is evident from the charts at right, Fuller's MVA and EVA Margins, the values expressed as a percent of sales (the blue lines), were not progressing against industry benchmarks at that time. The sheer money values are misleading. Judged relative to its size, and relative to peers, Fuller in its heyday was really just so-so. Since then, its EVA tanked and MVA came well off peak, too. TSR and CPI agree. Fuller's strategic performance has been quite disappointing, which is why it's on the list.



The largest Bullseye on our list, with nearly \$200 billion in sales, is **McKesson**, a health care distributor. Its CPI score is 14, off from 38 three years back. Its TSR averaged -2.5% p.a. over the past 3 years, the lowest in its business. Its stock is priced for an expected *deterioration* in economic profits at the rate of 0.03% of sales, which implies that nearly 60% of its current EVA profits of \$1.3 billion will be competed away and disappear over the next 10 years.

|    | Ticker | Name  | Sub-Industry           | Sales   | CPI Score | MVA Margin MVA/Sales | % tile | EVA Margin EVA/Sales | % tile | 3 Yr Trend EVA Mo | % tile | Mkt Impl EVA Mo | % tile |
|----|--------|---|------------------------|---------|-----------|----------------------|--------|----------------------|--------|-------------------|--------|-----------------|--------|
| 1  | WDR    | <a href="#">WADDELL&amp;REED FINL INC -CL A</a> | Non-Spread Financials  | \$1313  | 12.8      | 45%                  | 15     | 12.5%                | 73     | -1.08%            | 20     | -1.28%          | 8      |
| 2  | BKE    | <a href="#">BUCKLE INC</a>                      | Apparel Retail         | \$1027  | 6.8       | 76%                  | 79     | 8.8%                 | 97     | -1.34%            | 4      | -0.65%          | 0      |
| 3  | NSR    | <a href="#">NEUSTAR INC</a>                     | Outsourced Services    | \$1165  | 16.5      | 84%                  | 21     | 7.8%                 | 69     | -0.75%            | 17     | -0.50%          | 3      |
| 4  | VIAB   | <a href="#">VIACOM INC</a>                      | Movies & Entertainment | \$12488 | 8.8       | 60%                  | 43     | 7.5%                 | 93     | -0.84%            | 0      | -0.61%          | 0      |
| 5  | NFG    | <a href="#">NATIONAL FUEL GAS CO</a>            | Gas Utilities          | \$1452  | 20.0      | 102%                 | 55     | 7.0%                 | 100    | -0.67%            | 9      | -0.36%          | 10     |
| 6  | NUS    | <a href="#">NU SKIN ENTERPRISES -CL A</a>       | Household & Personal   | \$2249  | 12.2      | 81%                  | 48     | 4.6%                 | 52     | -2.31%            | 0      | -0.09%          | 22     |
| 7  | TRCO   | <a href="#">TRIBUNE MEDIA CO</a>                | Broadcast,Cable & Sat  | \$2112  | 0.0       | -41%                 | 21     | 4.4%                 | 58     | -7.03%            | 0      | -0.93%          | 9      |
| 8  | ASPS   | <a href="#">ALTISOURCE PORTFOLIO SOLTNS</a>     | Real Estate Mgmt & Dev | \$1029  | 4.4       | 40%                  | 13     | 4.3%                 | 82     | -1.33%            | 19     | -0.21%          | 7      |
| 9  | WTW    | <a href="#">WEIGHT WATCHERS INTL INC</a>        | Special Consumer Svcs  | \$1157  | 13.3      | 146%                 | 61     | 3.6%                 | 57     | -5.14%            | 0      | 0.27%           | 43     |
| 10 | CPA    | <a href="#">COPA HOLDINGS SA</a>                | Airlines               | \$2153  | 17.9      | 76%                  | 50     | 3.3%                 | 25     | -2.25%            | 0      | 0.04%           | 82     |

Here's a list of similar companies—profitable, but not promising. These are the 10 Bullseyes with the highest EVA Margins on the list—all well over the 2.7% Margin earned by the median S&P 500 company

these days. Like McKesson, though, investors lack confidence in them. All but the last two companies in the table above are in for a sharp deterioration in EVA according to the buy-side consensus—the market-implied EVA momentum statistic in the right column (and those last two, which include Weight Watchers, already shed a considerable heft of EVA profits over the past three years; their outlook is positive only because their downturn has already been so deep).

This table displays the 10 firms on the list that rank the highest in terms of owner wealth and franchise value in their industries. In terms of their MVA-

|    | Ticker | Name   | Sub-Industry            | Sales   | CPI Score | MVA Margin MVA /Sales | % tile | EVA Margin EVA /Sales | % tile | 3 Yr Trend EVA Mo | % tile | Mkt Impl EVA Mo | % tile |
|----|--------|--|-------------------------|---------|-----------|-----------------------|--------|-----------------------|--------|-------------------|--------|-----------------|--------|
| 1  | SRE    | <a href="#">SEMPRA ENERGY</a>                  | Multi-Utilities         | \$10014 | 13.2      | 121%                  | 80     | -1.4%                 | 0      | -0.90%            | 7      | 0.70%           | 93     |
| 2  | BKE    | <a href="#">BUCKLE INC</a>                     | Apparel Retail          | \$1027  | 6.8       | 76%                   | 79     | 8.8%                  | 97     | -1.34%            | 4      | -0.65%          | 0      |
| 3  | WTW    | <a href="#">WEIGHT WATCHERS INTL INC</a>       | Special Consumer Svcs   | \$1157  | 13.3      | 146%                  | 61     | 3.6%                  | 57     | -5.14%            | 0      | 0.27%           | 43     |
| 4  | DDD    | <a href="#">3D SYSTEMS CORP</a>                | Technology Hardware     | \$650   | 17.4      | 83%                   | 60     | -13.4%                | 30     | -7.13%            | 12     | 2.56%           | 75     |
| 5  | NFG    | <a href="#">NATIONAL FUEL GAS CO</a>           | Gas Utilities           | \$1452  | 20.0      | 102%                  | 55     | 7.0%                  | 100    | -0.7%             | 9      | -0.36%          | 10     |
| 6  | KS     | <a href="#">KAPSTONE PAPER &amp; PACKAGING</a> | Paper & Forest Products | \$3064  | 8.8       | 39%                   | 55     | -1.3%                 | 36     | -1.33%            | 27     | 0.39%           | 50     |
| 7  | DVA    | <a href="#">DAVITA INC</a>                     | Health Care Services    | \$14563 | 20.0      | 49%                   | 53     | 2.1%                  | 63     | -0.2%             | 24     | -0.01%          | 14     |
| 8  | KEX    | <a href="#">KIRBY CORP</a>                     | Freight Transportation  | \$1819  | 18.4      | 59%                   | 51     | -3.0%                 | 17     | -1.47%            | 16     | 0.70%           | 72     |
| 9  | CPA    | <a href="#">COPA HOLDINGS SA</a>               | Airlines                | \$2153  | 17.9      | 76%                   | 50     | 3.3%                  | 25     | -2.25%            | 0      | 0.04%           | 82     |
| 10 | MTSC   | <a href="#">MTS SYSTEMS CORP</a>               | Electronics             | \$579   | 20.0      | 79%                   | 48     | 2.2%                  | 63     | -1.26%            | 21     | 0.43%           | 17     |

to-sales ratios, i.e., their market-to-book wealth premiums, scaled to sales, they rank near the median in their industry on up—not great, but not that low either. The firms are all trading at respectable price-to-book multiples. So why do they make the list?

They are on the list because they fall short in other ways. Each one of them, for example, suffered a sharp deterioration in EVA over the past three years. Trend Momentum has been negative in each case, and for the most part, severely so. These firms are all strategically moving in the wrong direction compared to peers. The pink-colored ones, like **3-D Systems**, listed 4<sup>th</sup>, compounded that deficiency by ending up with actual EVA losses. Those firms are currently underwater and not covering their cost of capital. Their business models have lost their economic substance. The yellow gang, which includes **Buckle** and **Davita**, remain EVA positive despite the dip, but their outlook is troubling. The market is saying their EVA is not done falling. Investors are forecasting their EVA profits will continue to erode. These firms face strong headwinds relative to industry peers.

The point is: there are many ways a company can go wrong and end up on this black list. It can be a drastically low valuation, or it can come from depressed operating margins or poor capital discipline, a significant compression in economic profits, a highly unfavorable outlook, or some combination of the factors. To paraphrase Tolstoy, every unhappy company is unhappy in its own way. CPI captures them all, and for these companies, TSR confirms the indictment.

Our intent in creating and sharing this list is not to suggest that this is the final word on these firms. There is no gavel slamming the table. There may well be mitigating circumstances which we have not investigated. In others, like Viacom, insiders have control, and meaningful shareholder engagement is not possible. Rather, we wanted to demonstrate how even a purely formulaic screen combining EVA, CPI and TSR can yield valuable insights that should be of interest to corporations and to the governance community that is watching them.

**Up next** – in 2017, *CPI Insights* continues after a brief winter break.

**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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