

LUBRIZOL CORP	LZ	Chemicals	Date	Share Price	PRVit Score (vs Market)	Industry Median	PRVit Score (vs Industry)
<p>The Lubrizol Corporation, a specialty chemical company, produces and supplies technologies that improve the performance of its customer's products in the transportation, industrial, and consumer markets worldwide. The company operates in two segments, Lubrizol Additives and Lubrizol Advanced Materials. The Lubrizol Additives segment supplies additives for transportation and industrial lubricants. It offers a range of engine additives for lubricating engine oils, such as gasoline, diesel, marine, and stationary gas engines, as well as produces additives for fuel and refinery, and oilfield chemicals. This segment also sells additive components and viscosity modifiers. It primarily serves global and regional oil companies, refineries, and lubricant producers and marketers via retail, commercial, or vehicle original equipment manufacturer channels. The Lubrizol Advanced Materials segment offers a portfolio of performance chemicals used in consumer and industrial applications, such as ingredients for personal care and pharmaceutical products; emulsions and additives for coatings and inks; and specialty plastics and materials. This segment offers three primary product lines, which includes Noveon consumer specialties, performance coatings, and engineered polymers. Noveon consumer specialties products include acrylic thickeners, film formers, fixatives, emollients, silicones, specialty surfactants, methyl glucoside, lanolin derivatives, and cassia hydrocolloids. Performance coatings product line comprises high-performance polymers and additives for specialty paper, graphic arts, paints, textiles, and coatings applications. Engineered polymers product line consists of products such as Estane thermoplastic polyurethane and TempRite engineered polymers used within the construction, automotive, telecommunications, electronics, and recreation industries. The Lubrizol Corporation was founded in 1928 and is headquartered in Wickliffe, Ohio.</p>	24-Nov-10	\$107.72	93	63	95		
	<p>LZ's outstanding performance (92nd percentile vs. Russell 3000 companies), coupled with its low risk (24th percentile), indicates a very high intrinsic valuation is warranted (91st percentile), which compared to its actual market valuation (51st percentile at its \$107.72 share price) makes for a PRVit score of 93rd percentile vs. the market.</p> <p>LZ's PRVit score is at the 95th percentile of all firms in its industry, which leads to a recommendation to Buy. LZ is more attractively priced in relation to its true value than all but a few of the stocks in its industry.</p>						
		Sell 0-19	Underweight 20-39	Hold 40-59	Overweight 60-79	Buy 80-100	

92 Performance Score (P) Higher is better

87 P1 Profitability Financial strength in generating a return on capital over the full cost

	LZ	25th	50th	75th	% Russell
EVA Margin (EVA/Sales)	8.4%	-5.3%	0.2%	4.0%	88
EVA Spread (EVA/Capital)	11.2%	-4.0%	0.2%	4.4%	90

86 P2 Trend The growth rate in the firm's economic profit (its EVA)

	LZ	25th	50th	75th	% Russell
EVA Momentum (vs Cap)	5.1%	-0.5%	1.1%	4.2%	78
3 Year Trend (ΔEVA/Cap)	3.3%	-2.0%	-0.3%	0.9%	91
Last Quarter (ΔEVA/Cap)	-0.3%	-1.0%	1.0%	4.0%	32

24 Risk Score (R) Lower is better

43 R1 Volatility Variability in stock price and the EVA profit margin

	LZ	25th	50th	75th	% Russell
Stock Price Volatility	33%	30%	39%	49%	34
EVA Margin Variability	3.1%	2.3%	4.8%	11.4%	35

21 R2 Vulnerability Leveraged, negative cash flow firms are suspect

	LZ	25th	50th	75th	% Russell
Free Cash Flow Rate	10%	10%	3%	-7%	23
Op Cash Gen Return	28%	48%	21%	10%	40
Total Debt/Total Capital	33%	8%	26%	45%	59
Total Debt/EBITDAR	1.1	0.8	1.9	3.6	32

51 Valuation Score (V) Lower is better

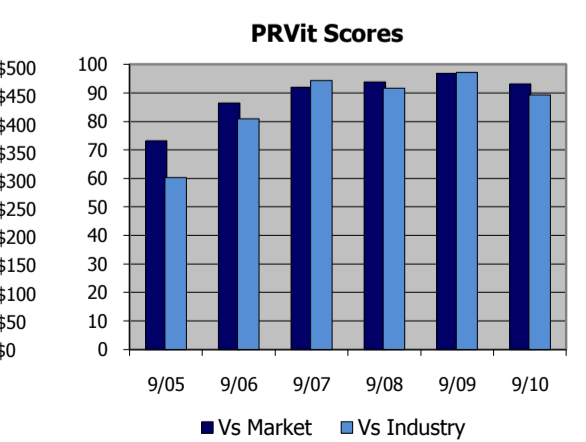
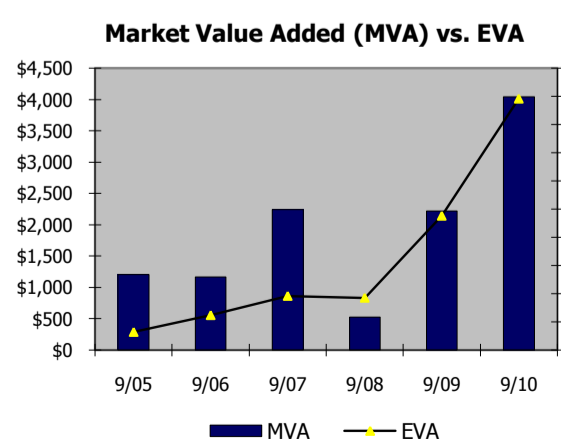
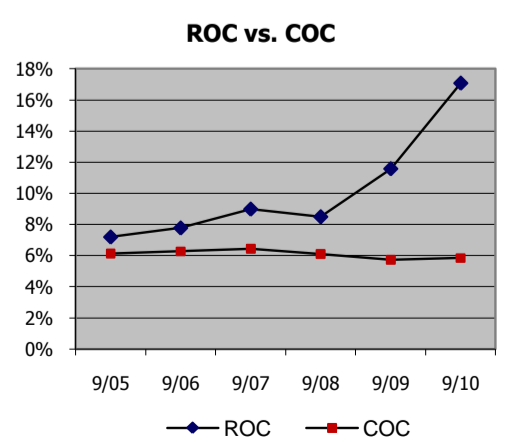
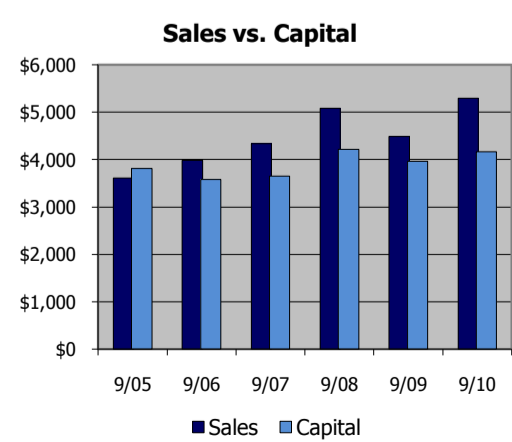
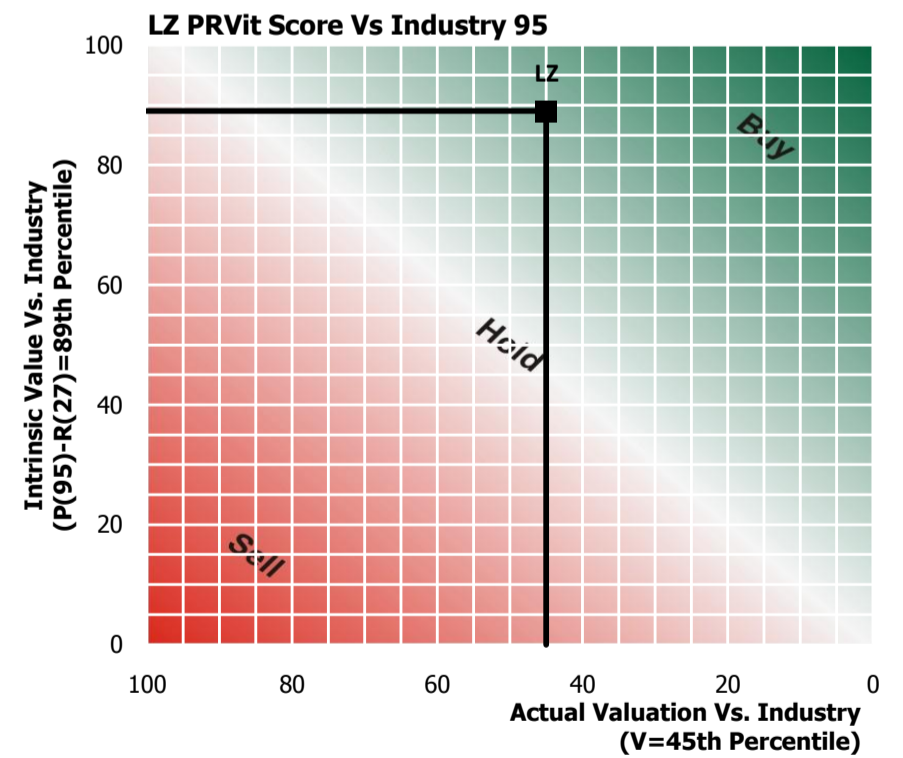
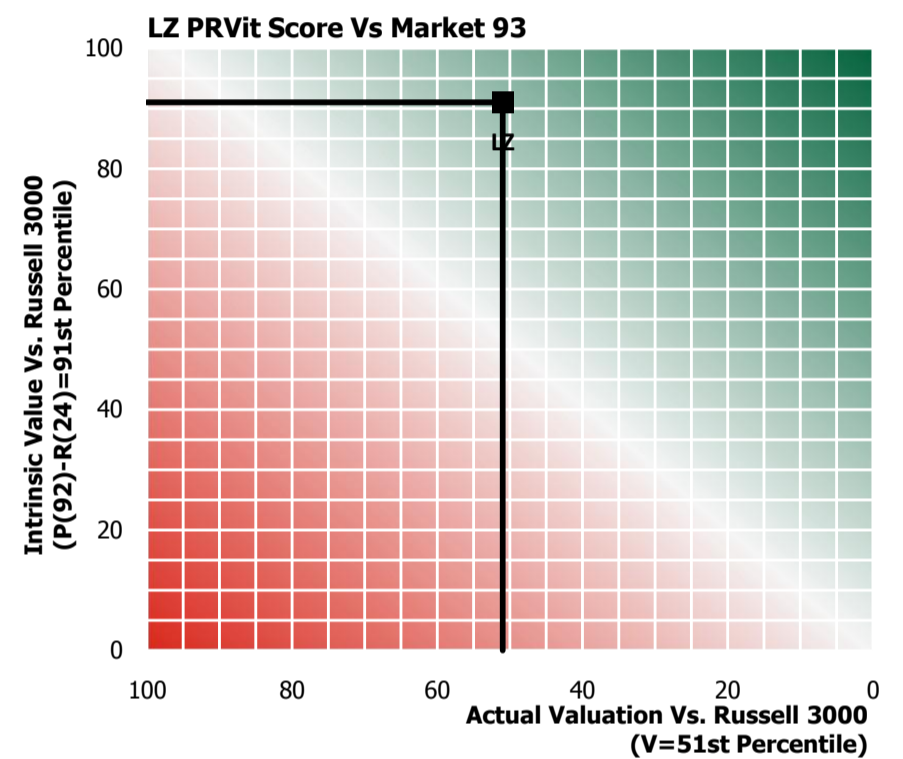
67 V1 Wealth Ratios Valuation multiples to book capital (as adjusted)

	LZ	25th	50th	75th	% Russell
MVA Margin	75%	-1%	44%	142%	61
MVA Spread	95%	-1%	38%	124%	69

7 V2 Wealth Multiples Valuation multiples to cash flow, earnings, EVA

	LZ	25th	50th	75th	% Russell
EBITDAR Multiple	5.5	5.9	7.9	10.8	20
NOPAT Multiple	11.9	16.0	20.9	29.9	11
Future Growth Reliance	-45%	3%	33%	72%	7

The PRVit Matrix: depicts a company's PRVit score by plotting its "intrinsic" value score – what PRVit rates the firm is truly worth based on its risk-adjusted performance, i.e., its comparative P-R score – against its actual valuation score – which reflects the company's current trading multiples. Companies rated "Hold" plot along the diagonal, which is where the firms' actual valuation multiples align with their intrinsic values. "Buys" plot in the upper right green zone, which is where PRVit rates the firms as worth more than their current share values, and "Sells" appear in the lower left red zone, where the firms' P-R scores fall short of their V scores. The top grid rates the firms against the entire market, and the lower one ranks them against industry peers (which is the basis for the official "PRVit" score).



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EVA Momentum (vs Cap)	5.1%	0.8%	2.1%	4.5%	80
3 Year Trend (ΔEVA/Cap)	3.3%	-0.6%	0.2%	0.8%	93
Last Quarter (ΔEVA/Cap)	-0.3%	-0.7%	0.8%	2.2%	29

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EVA Margin Variability	3.1%	1.8%	3.4%	5.5%	48

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Free Cash Flow Rate	10%	12%	7%	0%	30
Op Cash Gen Return	28%	24%	17%	12%	22
Total Debt/Total Capital	33%	23%	36%	49%	42
Total Debt/EBITDAR	1.1	1.0	1.6	2.5	29

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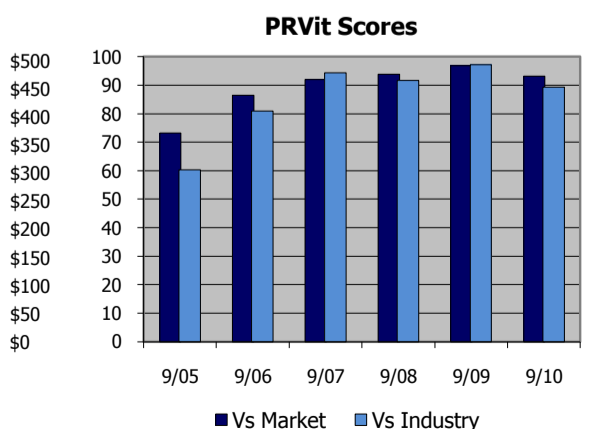
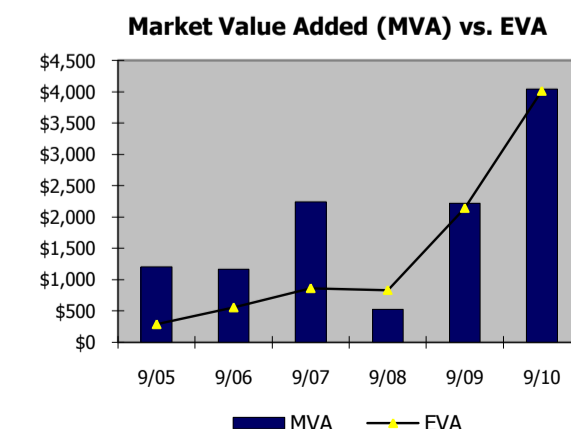
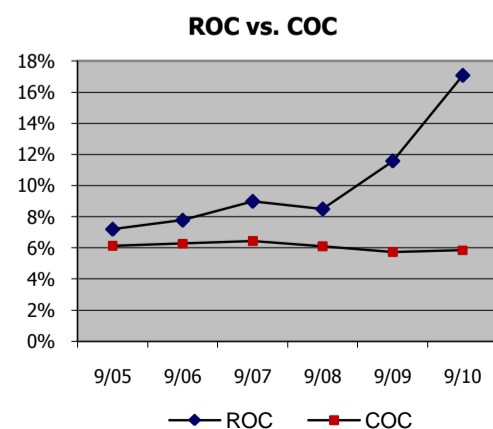
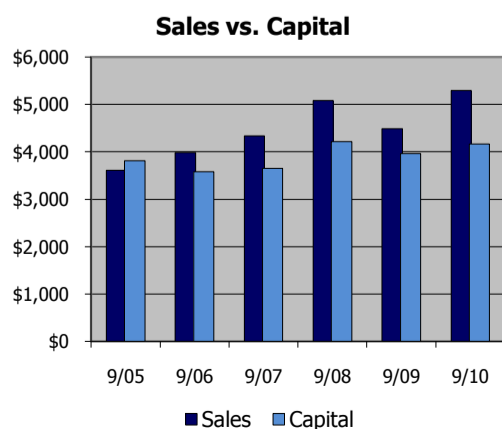
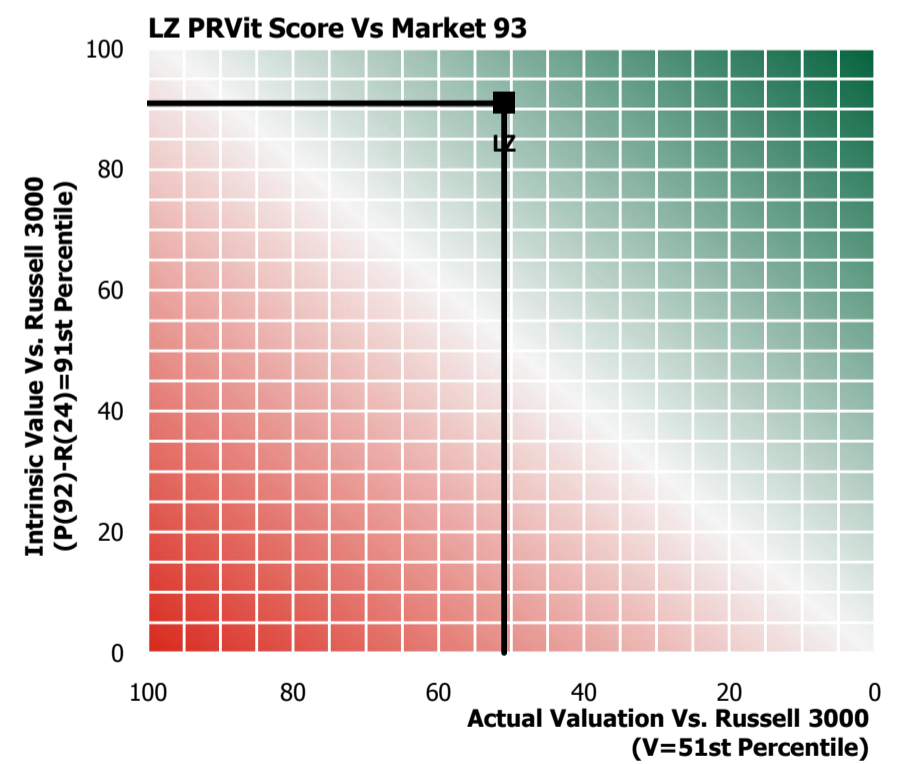
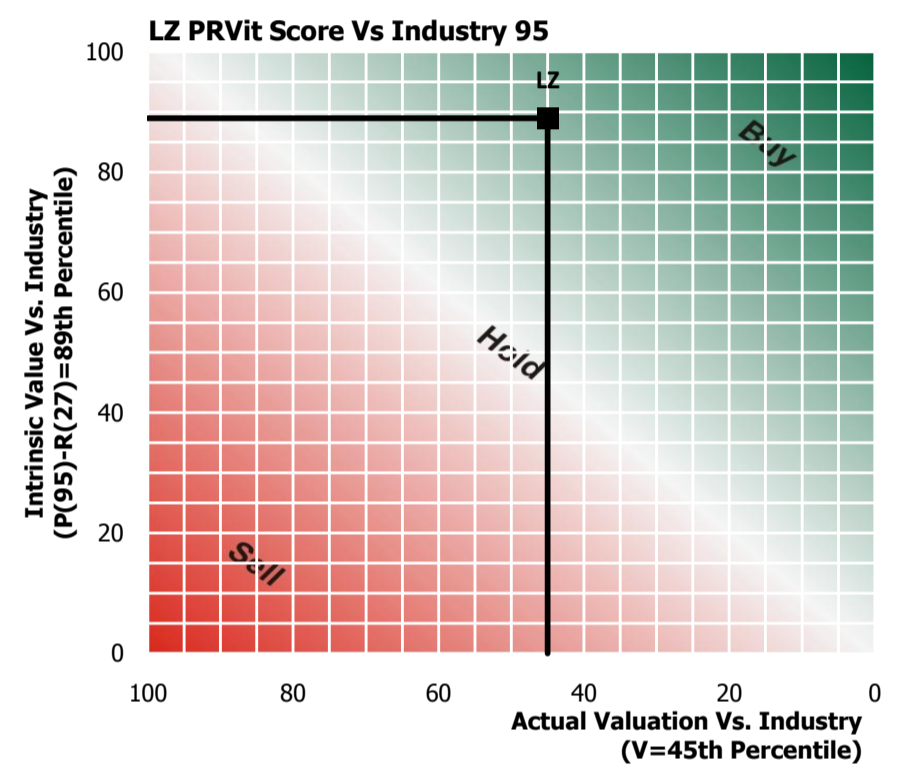
58 V1 Wealth Ratios Valuation multiples to book capital (as adjusted)

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MVA Spread	95%	24%	67%	143%	60

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EBITDAR Multiple	5.5	6.1	7.7	9.8	14
NOPAT Multiple	11.9	17.0	19.1	24.8	3
Future Growth Reliance	-45%	-7%	10%	33%	2

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Historical PRVIt Scores & Ratings

Date	Action	Rating	Score	Share Price	
7/1/2006	▲	UPGRADE	BUY	85	\$39.85
1/4/2006	▲	UPGRADE	OVERWEIGHT	69	\$43.39
12/31/2005	▼	DOWNGRADE	HOLD	54	\$43.43
11/1/2005	▲	UPGRADE	OVERWEIGHT	65	\$41.59
7/1/2005	▲	UPGRADE	HOLD	47	\$42.01
4/1/2005	▼	DOWNGRADE	UNDERWEIGHT	28	\$40.64
10/1/2004	▼	DOWNGRADE	HOLD	53	\$34.60
7/1/2004	▼	DOWNGRADE	OVERWEIGHT	65	\$36.62
9/20/2001	▲	UPGRADE	BUY	87	\$29.48
8/10/2001	▼	DOWNGRADE	OVERWEIGHT	72	\$35.85
6/30/2001	▲	UPGRADE	BUY	94	\$31.05
6/20/2001	▼	DOWNGRADE	OVERWEIGHT	74	\$32.05
5/15/2001	▲	UPGRADE	BUY	86	\$29.23
3/6/2001	▼	DOWNGRADE	OVERWEIGHT	74	\$33.29
12/30/2000		INITIATED	BUY	92	\$25.75



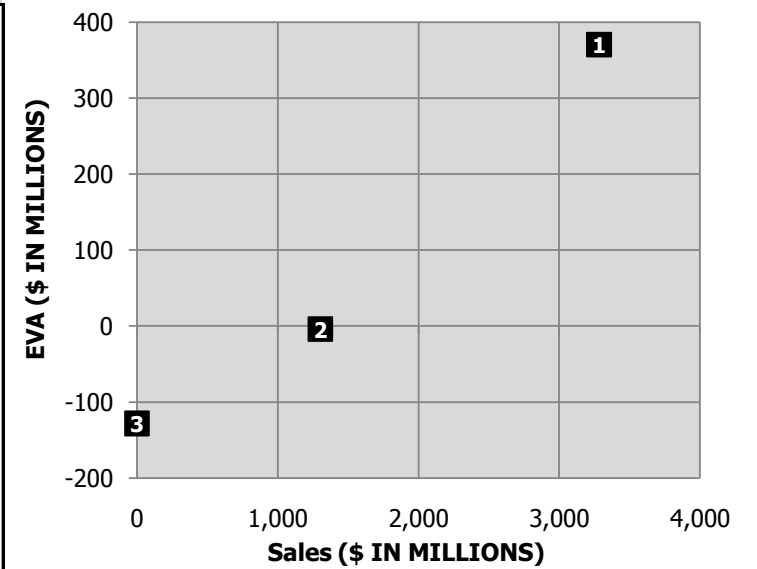
The scores and ratings shown above are based on what the latest version of the PRVIt model would have produced historically.

Business Segment Performance(as of FYE Dec, 2009)

Segment Performance Overview

Graph Number/Segment Name	EVA US\$ IN MILLIONS	Return On Capital (%)
1 Lubrizol Additives	\$371	27.0%
2 Lubrizol Advanced Materials	-\$4	5.6%
3 Corporate	-\$128	-4.7%

EVA Vs. Sales Matrix



Segment Performance Details US\$ IN MILLIONS

Graph Number/Segment Name	Sales(\$)	NOPAT(\$)	Capital(\$)	EVA(\$)	Return On Capital = (NOPAT/Sales) / (Capital/Sales)				
					EVA / Sales	EVA / Capital	Return On Capital	NOPAT / Sales	Capital / Sales
1 Lubrizol Additives	\$3,284	\$473	\$1,752	\$371	11.3%	21.2%	27.0%	14.4%	53%
2 Lubrizol Advanced Materials	\$1,302	\$101	\$1,803	-\$4	-0.3%	-0.2%	5.6%	7.8%	138%
3 Corporate	\$0	-\$57	\$1,216	-\$128	NM	-10.6%	-4.7%	NM	NM

LUBRIZOL CORP

LZ

Chemicals

\$107.72

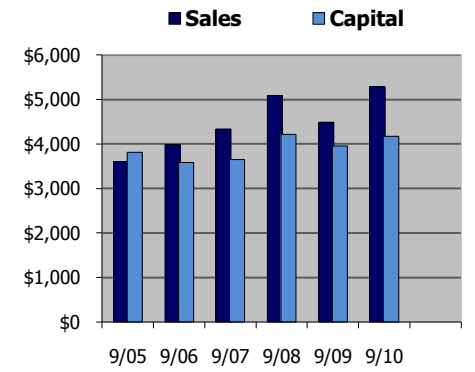
24-Nov-10

Fiscal Year Ends: DEC

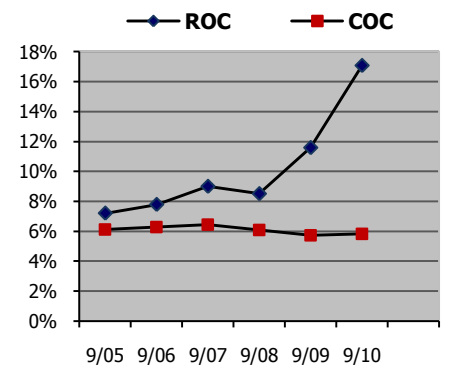
Performance

LZ's exceptionally strong return on capital and its outstanding EVA profit trend combine for a first rate, 92nd percentile P score.

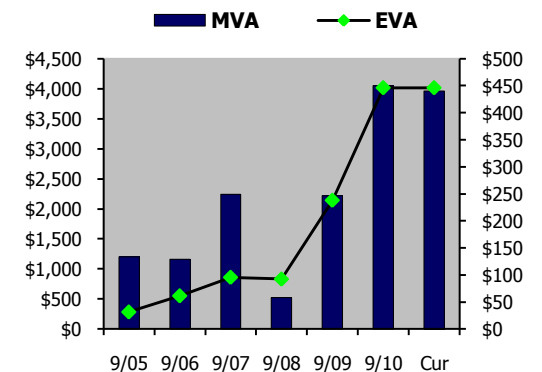
	2005TFQ3	2006TFQ3	2007TFQ3	2008TFQ3	2009TFQ3	2010TFQ3	24-Nov-10	Average
1 Sales	\$3,611	\$3,988	\$4,337	\$5,087	\$4,486	\$5,289	\$5,289	\$4,466
2 EBITDAR (EBITDA+Rent+R&D+Ad+Etc)	\$772	\$792	\$854	\$917	\$1,156	\$1,503	\$1,503	\$999
3 NOPAT (Net Operating Profit After Tax)	\$282	\$292	\$330	\$344	\$476	\$681	\$681	\$401
4 Capital (Net Operating Assets)	\$3,818	\$3,585	\$3,654	\$4,220	\$3,960	\$4,169	\$4,169	\$3,901
5 Return on Capital (ROC) (NOPAT/Capital)	7.2%	7.8%	9.0%	8.5%	11.6%	17.1%	17.1%	10.2%
6 Cost of Capital (COC)	6.1%	6.3%	6.4%	6.1%	5.7%	5.8%	5.8%	6.1%
7 EVA (ROC-COC) x Capital	\$32	\$62	\$96	\$93	\$238	\$446	\$446	\$161
8 Company Type	GROWTH	GROWTH	STAR	GROWTH	STAR	STAR	STAR	
9 EVA Spread (EVA/Capital = ROC-COC)	0.8%	1.6%	2.6%	2.3%	5.8%	11.2%	11.2%	4.1%
10 EVA Margin (EVA/Sales)	0.9%	1.5%	2.2%	1.8%	5.3%	8.4%	8.4%	3.4%
11 EBITDAR Margin (EBITDAR/Sales)	21.4%	19.9%	19.7%	18.0%	25.8%	28.4%	28.4%	22.2%
12 Sales Growth	33.2%	10.4%	8.8%	17.3%	-11.8%	17.9%	17.9%	12.6%
13 EVA Momentum (ΔEVA/Sales)	-0.7%	0.8%	0.9%	-0.1%	2.9%	4.6%	4.6%	1.4%
14 EVA Momentum (ΔEVA/Capital)	-0.8%	0.8%	0.9%	-0.1%	3.6%	5.1%	5.1%	1.6%
15 3 Year Trend (ΔEVA/Capital)	-0.2%	-0.1%	0.7%	0.6%	1.4%	3.3%	3.3%	0.9%
16 Last Quarter (ΔEVA/Capital)	0.5%	0.5%	1.3%	-0.5%	9.0%	-0.3%	-0.3%	1.7%
P Performance Score	37	44	61	59	93	94	92	65
P1 Profitability Score	50	50	57	58	84	88	87	65
P2 Trend Score	23	32	58	52	92	95	86	59



Sales growth has averaged 12% but was 18% in the most recent year. On average, every dollar of Sales has been supported by Capital of \$0.83, but capital intensity last year was \$0.79 per \$1.00 of sales.



LUBRIZOL CORP's return on capital increased from a long-run average of 10.2% to 12.4% over the past 3 years.



LUBRIZOL CORP has been a supreme wealth creator, with MVA following a generally rising EVA trend.

Risk

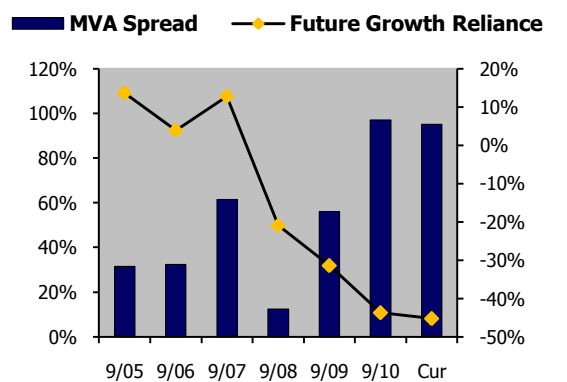
LZ's moderate return volatility is offset by its strong liquidity and cash flow, resulting in a low, 24th percentile R score.

	2005TFQ3	2006TFQ3	2007TFQ3	2008TFQ3	2009TFQ3	2010TFQ3	24-Nov-10	Average
1 Free Cash Flow (FCF)	\$281	\$563	\$351	-\$215	\$721	\$413	\$413	\$352
2 Op Cash Generation (OCG)	\$596	\$698	\$658	\$531	\$936	\$870	\$870	\$715
3 Excess Cash Per Share	\$2.66	\$6.99	\$8.15	\$4.74	\$15.24	\$12.38	\$12.38	\$8.36
4 Equity Risk Index	0.84	0.87	0.82	0.82	0.80	0.78	0.78	0.82
5 Stock Price Volatility	23%	18%	24%	38%	61%	34%	33%	33%
6 EVA Margin Variability	1.8%	1.7%	1.5%	0.7%	2.5%	3.1%	3.1%	1.9%
7 FCF Generation (FCF/Capital)	7%	15%	10%	-5%	18%	10%	10%	9%
8 OCG Return (OCG/Gross LT Capital)	21%	25%	24%	17%	30%	28%	28%	24%
9 Total Debt/Total Capital	50%	45%	41%	41%	40%	33%	33%	42%
10 Total Debt/EBITDAR	2.6	2.3	2.0	2.0	1.7	1.1	1.1	1.9
R Risk Score	26	19	15	17	15	20	24	19
R1 Variability	25	25	22	6	30	40	43	25
R2 Vulnerability	43	33	31	49	13	17	21	31

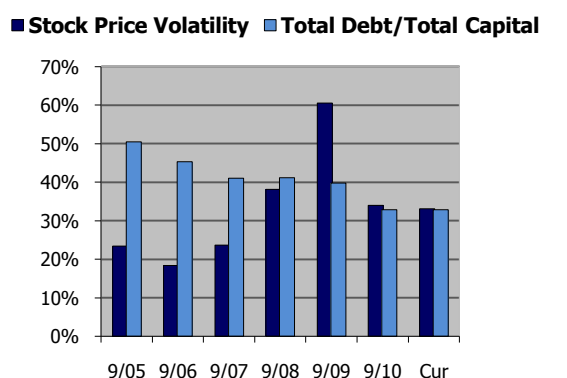
Value

LZ trades for high market-to-book ratios, but its very low multiples of earnings and cash flow result in a middling, 51st percentile V score.

	2005TFQ3	2006TFQ3	2007TFQ3	2008TFQ3	2009TFQ3	2010TFQ3	24-Nov-10	Average
1 Share Price	\$43.33	\$45.73	\$65.06	\$43.14	\$71.46	\$105.97	\$107.72	\$62.45
2 Total Shareholder Return	28.2%	7.9%	44.7%	-31.8%	68.5%	50.2%	47.7%	28.0%
3 Equity Value	\$2,976	\$3,169	\$4,505	\$2,928	\$4,910	\$7,016	\$6,930	\$4,251
4 Market Value (MV)	\$5,019	\$4,750	\$5,895	\$4,745	\$6,180	\$8,217	\$8,130	\$5,801
5 Capital	\$3,818	\$3,585	\$3,654	\$4,220	\$3,960	\$4,169	\$4,169	\$3,901
6 Market Value Added (MVA) (MV - Capital)	\$1,201	\$1,165	\$2,242	\$524	\$2,220	\$4,048	\$3,961	\$1,900
7 Current Value Added (CVA) (EVA/COC)	\$517	\$982	\$1,489	\$1,518	\$4,161	\$7,638	\$7,638	\$2,718
8 Future Value Added (FVA) (MVA - CVA)	\$684	\$182	\$752	-\$994	-\$1,941	-\$3,590	-\$3,676	-\$818
9 MVA Spread (MVA/Capital)	31%	32%	61%	12%	56%	97%	95%	48%
10 MVA Margin (MVA/Sales)	33%	29%	52%	10%	50%	77%	75%	42%
11 EBITDAR Multiple (Ent Value/EBITDAR)	6.6	6.1	7.0	5.2	5.4	5.5	5.5	6.0
12 NOPAT Multiple (MV/NOPAT)	17.8	16.2	17.9	13.8	13.0	12.1	11.9	15.1
13 Future Growth Reliance (FVA/MV)	14%	4%	13%	-21%	-31%	-44%	-45%	-11%
14 Market-Implied Momentum (ΔEVA/Sales)	0.1%	0.0%	0.1%	-0.2%	-0.3%	-0.5%	-0.5%	-0.1%
V Valuation Score	10	9	24	10	37	59	51	25
V1 Wealth Ratios	25	25	39	31	59	71	67	41
V2 Wealth Multiples	18	13	21	12	7	8	7	13



-45% of the company's market value is dependent on future growth in EVA, which is very low among the Russell 3000 companies.



Stock price volatility has risen, but abated recently and is now in the 42nd percentile. Financial leverage has eased and is now at the 20th percentile.

PRVIt

	2005TFQ3	2006TFQ3	2007TFQ3	2008TFQ3	2009TFQ3	2010TFQ3	24-Nov-10	Average
1 Intrinsic Value Score (P-R)	49	58	72	70	93	94	91	73
2 PRVIt Score vs Market	73	86	92	93	96	93	93	89
3 Industry Median Score	69	63	60	71	67	67	63	66
4 PRVIt Score vs Industry	60	80	94	91	97	89	95	85
5 P Score vs Industry	28	48	53	49	90	94	95	60
6 R Score vs Industry	34	27	15	30	25	21	27	25
7 V Score vs Industry	23	16	31	11	31	52	45	27

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EVA Dimensions, LLC is the definitive source of financial data bases, valuation modeling and investment research using the proprietary EVA methodology originally developed by Stern Stewart & Co, the global management consulting firm.

PRVIt Overview:

PRVIt ("prove-it) is the "performance-risk-valuation investment technology from EVA Dimensions LLC.

It is a purely quantitative rating of a stock's alpha potential. It is based on a daily statistical analysis of the financial results and market valuations of all Russell 3000 stocks. PRVIt uses a total of 22 individual measures to assess the essence of performance trends, risk exposures, and valuation multiples. The individual measures are combined into 6 component scores, which in turn sum to the composite performance, risk and valuation scores, as follows:

Performance (P) is a function of:

Profitability: as indicated by EVA Margin (EVA as a percent of sales) and EVA Spread (EVA as a percent of capital)

Trend: as indicated by EVA Momentum (the *change* in EVA, as percent of *trailing* sales and capital, and over the past quarter, year, and 3 year trend)

Risk (R) is a function of:

Variability: as indicated by the standard deviation in the firm's share price and its EVA Margin

Vulnerability: as indicated by weak free cash flow and operating cash generation, and an extended debt repayment horizon out of cash operating profits

Valuation (V) is a function of:

Wealth Ratios: as indicated by MVA Margin (MVA as a percent of sales) and MVA Spread (MVA as a percent of capital)

Wealth Multiples: as indicated by market value multiples of EBITDAR and NOPAT, and by Future Growth Reliance (FGR) -- the percent of market value above the capitalized value of EVA.

The table below illustrates the elements entering the P score for Sara Lee, as of July 7, 2010.

The firm's overall score at the time was pegged at 91 -- meaning PRVIt judged it's performance better than 9 out of 10 companies on the market.

Performance		SLE	Russell 3000 Distribution			% vs Russell
			25th	50th	75th	
86	P1 Profitability	Financial strength in generating a return on capital over the full cost of capital				
	EVA Margin (EVA/Sales)	5.0%	-8.1%	-0.5%	3.6%	80
	EVA Spread (EVA/Capital)	9.3%	-5.4%	-0.5%	3.7%	89
84	P2 Trend	The growth rate in economic profit (EVA) over the past quarter, year, and 3 year trend				
	EVA Momentum (vs.Capital)	2.2%	-2.0%	0.4%	2.9%	70
	EVA Momentum (3 Yr Trend)	1.9%	-1.9%	-0.4%	0.6%	89
	EVA Momentum (Quarter)	1.9%	-1.3%	1.1%	4.8%	59
91	Performance Score (P)	Higher is better				

The overall P score is a statistical combination of the firm's underlying Profitability score (P1) -- which registered at the 86th percentile -- and a Trend score (P2) clocking in at the 84th percentile. Pairing such high profitability and such a favorable trend was so rare the firm's overall performance was rated more highly than was either element considered in isolation.

Sara Lee was indeed profitable -- the firm was generating EVA at the rate of 5% of sales and 9.3% of its capital -- both of which clearly exceeded the 75th percentile marks shown in the table. Sara Lee had also exhibited a consistently impressive uptrend in its EVA. Its EVA Momentum over the latest 4 quarters -- as measured by the increase in its EVA over the prior year, divided by its trailing capital -- was 2.2% -- or at the 70th percentile mark for all Russel firms. Its 3 year trend at increasing EVA was lower -- a 1.9% rate -- but better by comparison with other firms that suffer more in the economic downturn. Interesting, its most recent EVA trend, as indicated measured by the change over the most recent quarter compared to the same quarter the year before, is the same rate as the 3 year trend -- 1.9% -- but compared with other firms that demonstrated a stronger rebound coming out of the recession, its percentile is lower, at only the 59th percentile. So, if there is a glimmer of weakness it is that the arc of the EVA curve is beginning to flatten -- as the most recent quarterly Momentum rate is below its most recent annual rate. Still, and once again, achieving positive EVA upticks over all the three intervals is so rare an accomplishment that Sara Lee qualified for an 84th percentile Trend score. And that, coupled with its 86th percentile Profitability score, put Sara Lee in the top decile of economic performers across the entire Russell 3000 universe as of that time. An identical process is followed to generate a composite R score and V score, based on the relevant set of indicative measures for each. A PRVIt "market score" is at last determined by computing the ratio of (P-R)/V, and expressing that as a percentile against all 3000 Russell firms. PRVIt, in short, is a comparative risk-adjusted return on value index.

It is a proxy for the ratio of the firm's intrinsic value to its actual market valuation:

$$\text{PRVIt Score} = \frac{\text{Intrinsic Value}}{\text{Actual market Value}} = \frac{\text{P} - \text{R}}{\text{V}} = \frac{0 - 100}{1}$$

High PRVIt score ==> a bargain, a relatively high performance, net of risk, per unit of value, a "buy"

Low PRVIt Score ==> a trap, intrinsic value less than actual value, a "sell"

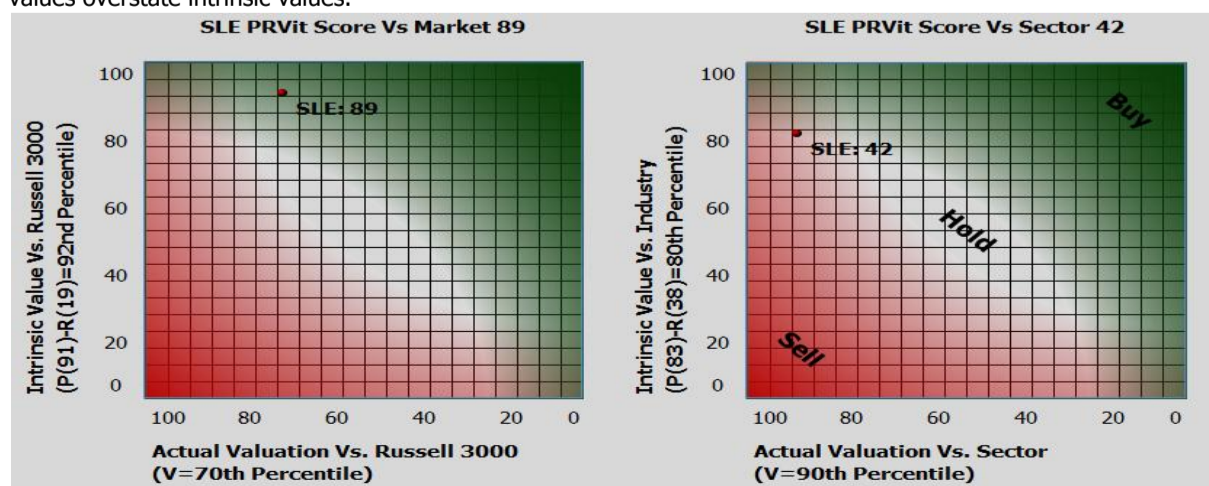
Said another way, PRVIt rates stocks according to VARP™ -- or whether they deliver "Value-At-A-Reasonable-Price™"

It asks the key question: Is a company truly worth more -- or less -- than its current market valuation?

It answers by using recent past EVA performance and profitability trends, net of risk -- or P-R -- as a proxy for the firm's intrinsic value, and comparing that with its actual market valuation score.

Firms with high scores are attractively priced relative to intrinsic value, and are expected to outperform stocks with lower PRVIt scores.

The PRVIt Matrix shown below is a visual representation of how PRVIt rates stocks according to VARP. It plots a firm's intrinsic value, as indicated by its comparative P-R score, on the "Y" axis, and plots the firm's actual valuation score on the horizontal, with valuation scores plotting backwards -- increasing from right to left. "Holds" plot on the diagonal -- where actual market valuations are in close accord with their true intrinsic values. "Buys" plot in the upper right, green zone, where intrinsic value scores outpace the actual valuation multiples. "Sells" land in the lower left red zone, where the firms' actual trading values overstate intrinsic values.



The left chart is the PRVit Matrix for Sara Lee (SLE) rated as of July 7th, 2010. Its intrinsic value -- as indicated by its P score of 91, net of its risk score of 19, was at the 92nd percentile against all Russell 3000 firms. The combination of so high a performance score, and so low a risk score, was statistically so rare among the Russell 3000 firms that SLE rated an intrinsic value score even higher than its lofty performance score alone.

A composite of Sara Lee's market valuation multiples came in at only at the 70th percentile -- clearly less than its P-R score would seem to have warranted. Accordingly, the ratio of the firm's intrinsic value to actual market valuation -- i.e., its comparative (P-R)/V score -- was at the 89th percentile, indeed a very high PRVit rating vs. the market. SLE thus plots solidly in the upper right, green zone on the grid -- above the diagonal, where intrinsic value scores outpace the firms' actual valuation scores. So, boasting a PRVit score of 89 out of a possible 100 against all Russell 3000 firms suggests that Sara Lee was a definite "buy." But was that really so?

The answer is actually "no" -- at least not according to PRVit. At the time, many stocks in the Food & Beverage industry group actually had far higher PRVit scores than Sara Lee did-- so compared to the alternatives, PRVit did not rate Sara Lee as particularly attractive within its industry.

To show this, a second PRVit score is computed for each company -- one that removes the general PRVit rating for the firm's industry group as a whole. First, all companies in each of 55 industry groups are ranked according to their PRVit market scores. Then they are then assigned a PRVit "in-industry" score according to their percentile rank against their industry peers. The top rated firm in every industry group is thus assigned an in-industry PRVit score of 100, the lowest rated one a score of 0. All others are evenly spaced in between. In-industry PRVit scores are better guides as to which stocks to buy and which to sell -- compared to the alternatives available within a given industry group than are the raw PRVit scores measured against the market as a whole.

To put Sara Lee in perspective, out of a total of 65 Food & Beverage companies, only 8 had a PRVit market score less than 50, and 36 -- nearly half -- had PRVit market scores of 90 and above! Unsurprisingly, profits in the industry had held up quite well in the economic downturn, given the inelastic demand for the products, which nearly all the firms' P scores zooming when judged against all Russell 3000 firms. Looking forward, through, investors priced the firms' shares far more conservatively, at much lower multiples than their recent performance would suggest was warranted, as other industries were expected to show a far stronger profit rebound as the economy recovered. The result -- PRVit scores among the Food & Beverage companies as a group, when rated against the market as a whole, were quite inflated (the median score was 91!). The PRVit in-industry score eliminates that distortion by removing the common industry valuation elements, thus permitting each firm's relative investment merits to show through.

To visualize that, glance at the PRVit Matrix on the right hand side above. The grid depicts Sara Lee rated solely against its Food & Beverage peer set -- where it is far less exceptional. True, the firm's performance bore up quite well -- at the 83rd percentile -- even when judged against its elite peer group. And its risk, too, remained on the lower end of the spectrum, at the 38th percentile against industry peers. But the combination did not stand out so well -- SLE qualified for just a 71st percentile intrinsic value score within its industry, based on its comparative P-R rating against public peers. Worse, its valuation multiples -- judged by the standards of its industry peers -- were very high. At the 90th percentile, the firm's actual market valuation score outpointed its intrinsic value score, at least against industry rivals, leaving SLE with a PRVit "in-industry" score of just 42. In truth, almost 6 of 10 industry peers were better buys, according to PRVit. Put bluntly, for investors seeking exposure to the Food & Beverage industry, SLE was not the stock to own.

You may be wondering -- if PRVit rates a whole industry highly, like it did Food & Beverage companies at the time, is it not a good strategy to increase exposure to the industry as a whole?

The answer unfortunately is no.

Research and experience have shown that PRVit is incapable of predicting industry rotation. It is only good -- but quite good in fact -- at predicting which stocks in a given industry are likely to do better or worse.

And for that purpose, PRVit in-industry scores translate quite directly and mechanically into investment recommendations.

Specifically, firms with in-industry PRVit scores of 80-100 are rated "buys." As a group those firms are expected to generate a 3-4% annual extra return over their respective industry benchmarks.

On the other side, firms with in-industry PRVit scores of 0-19 are rated "sells." In toto, these firms are expected to underperform their respective industry benchmarks by an average of 3-4% annually.

Firms scoring 40-60 are "holds." As a portfolio, they are expected to match their industry benchmark.

Firms scoring 60-79 scores are rated "overweight" -- the conviction is not strong enough to rate a buy but it is strong enough not to rate a sell.

Firm's scoring 20-39 scores are rated "underweight" -- not strong enough to recommend a short sale but weak enough not to rate the stock a buy.

Sell	Underweight	Hold	Overweight	Buy
0-19	20-39	40-59	60-79	80-100

There is no hidden bias to buy or sell a industry or the market as a whole -- as is so often the case with other "Street" research. Unlike most others, PRVit is a pure *stock* rating system.

PRVit scores change every day for every company --though usually not by much. They change more month to month, and quarter to quarter. In any event they change because a company filed a new financial report, or its stock price moved, or other companies filed and their stock prices moved, which changes a company's ratings against the Russell 3000 distribution.

Glossary of key terms and measures
Performance Metrics

Return on Capital (ROC). ROC is defined as net operating profit after taxes, or **NOPAT**, as a percentage of total capital employed. "Capital" is a firm's total borrowings plus shareholders' equity, or what is the same thing, it is its net operational assets – the sum of its working capital, fixed plant, equipment and property assets, and other assets, including intangibles. NOPAT is correspondingly the profit attributable to the capital – before deducting any interest or other financing expense – which makes the ROC ratio of the two a reliable gauge of a firm's ability to productively invest and manage the resources put at its disposal regardless of how the capital is financed.

NOPAT and capital are also measured after making a series of corrective adjustments that undo accounting distortions. Accounting rules mandate, for example, that research and development and advertising spending be immediately written off against corporate earnings as the money is spent. But in fact, such outlays are in the main vital investments that create new products, improve productivity and increase brand value and customer satisfaction. Therefore, a new rule is followed to measure NOPAT and capital, which is to add the outlays to balance sheet assets and to write them off over a period of years -- generally 5 years for R&D and 3 years for ad spending. That way, a sudden sharp boost in the spending doesn't inexplicably diminish a company's earnings and depress its ROC -- the cost is spread over time to match the expected benefits (and nor does a cutback appear as a misleading increase in earnings). Another advantage to following this rule is that the rate of return the firm is actually earning on its investments in innovation and in building brands can be more accurately gauged and reliably compared with other firms -- indeed, across firms operating in other industries that may differ in the degree of such spending on intangibles.

The adjustments don't stop there, of course. Impairment charges are reversed, as if they did not happen. Mere accounting strokes of the pen have no impact on ROC (or on EVA, for that matter). In the same spirit, restructuring charges and asset write-downs are taken out of earnings, and added back to balance sheet capital, so that any additional money invested to streamline and restructure can be judged in terms of its return on investment, just like any other.

Financial distortions, too, are purged. Assets rented are added to capital as if they were owned, and the interest component of rent expense is added back to NOPAT. Surplus cash and the related income are set aside, so that a massive cash distribution to investors, such as Microsoft undertook in 2004, has no effect on ROC (though it sends ROE – return on equity – haywire). Period to period fluctuations in the effective tax rate, too, are smoothed to better reveal underlying profitability. All told, some 50 adjustments are called into play to correct bookkeeping flaws.

The result is that unlike the conventional ROE computed from reported financial figures, the ROC measure that EVA Dimensions' uses enables more uniform and informative comparisons of performance over time for a given company, and across firms and industries that are inherently quite different in their business models and financial make-up. It neutralizes the varying degrees to which firms use intangible capital (like patents, know how, and brands) vs. tangible capital (inventories and plant), the mix of owning versus leasing assets, the mix of debt versus equity financing, and the extent of excess cash on hand, to name a few.

Financial institutions require a special treatment. Financing assets with appropriate funding sources is an operating decision for a financial intermediary, and interest expense is akin to cost of goods sold. Hence, funding sources like deposits, borrowed funds, and insurance reserves, are excluded from capital, and the associated interest expense is deducted from NOPAT. In effect, net interest income is the equivalent of sales for an industrial company, and common equity capital (as adjusted) is the equivalent of "capital."

Economic Value Added (EVA). EVA is the name given to a special way of measuring corporate profit that follows economic logic rather than doggedly conforming to accounting rules. The chief difference is that, under EVA, profit is measured after setting aside a minimum return to compensate shareholders for bearing risk, which is an invisible but nevertheless quite real "opportunity cost" that accounting records entirely overlook. EVA recognizes that a firm isn't really profitable until it earns at least the return that its shareholders could earn on their own by investing in an equally risky basket of stocks. This one change means that many companies that appear to be profitable and profitably expanding when judged by their EBITDA, net income or EPS, aren't really profitable at all when judged by the EVA standard.

To be specific, EVA is computed as net operating profit after tax, or **NOPAT**, less a "capital charge" computed by multiplying the firm's capital by its overall, weighted average cost of debt and equity capital (a figure that is generally 6%-12% these days, depending on the risk of the firm). EVA may also be thought of as the percent spread between a firm's return on capital (**ROC**) and its overall cost of capital (**COC**), times the amount of capital it employs. In other words, it is the dollar amount by which a firm's return on capital exceeds -- or falls short of -- its overall cost of capital.

A firm's EVA increases when it pares wasteful costs and boosts the **ROC** it is earning on its installed capital base, when it grows by investing new capital in projects and strategies that more than cover the threshold return, and when it releases capital that is not earnings its true cost – which happens when management improves asset turns, pares marginal lines of business or sells or outsources assets worth more to others. An increase in a firm's EVA, even if it is just making a negative EVA less negative, is as sure a sign a company is making progress as generally exists, and that it is increasing the value of the firm above the capital invested in it, spread which goes by the name of **MVA**, standing for "market value added." EVA Momentum is a ratio that measures the rate of increase in EVA (as a percent of sales in the prior period).

EVA Spread. The ratio of **EVA/Capital** measures the productivity of capital in generating economic profit. It is mathematically the same as the percent spread between **ROC** and **COC**.

EVA Margin. The ratio of **EVA/Sales**; it is the percentage of sales that ends up as **EVA** after all operating expenses, taxes, and capital charges have been paid. It is the single best measure of a company's profit margin because it correctly and completely consolidates pricing power, operational efficiency and the quality of asset management into one overall score.

In so doing, the EVA margin makes it possible to meaningfully compare asset light service businesses that require little capital, and which like Wal-Mart can generate an outstanding **EVA** with relatively meager operating margins, versus companies in asset intense industries, such as semiconductor fabricators or paper mill operators that must tie up significant capital to generate sales, and which therefore are obliged to earn far higher operating margins to cover the cost of their capital before they can begin to earn **EVA**.

An *increase* in EVA Margin is moreover a strong indication that a firm is becoming *more* productive and profitable -- all things considered. That's because an increase in EVA Margin generally stems from one or more of the "3-P's" -- that is, from earning and exerting *price* power, from developing an outstanding *product* line-up (and not carrying products just for the sake of sales, market share, or income), and from achieving *process* excellence -- from trimming the total operating and capital cost of running the business. A good example is Apple, which managed to increase its EVA Margin from a mere 3.1% to a phenomenal 16.9% over the 6 years ending March 2010 -- a function of charging premium prices on an all-star product line-up developed and delivered with remarkable operational efficiency.

		Currency: U.S. Dollar Scale: Values in Millions					
APPLE INC GENERAL - DISCLOSED		Trailing Four Quarters					
APPLE INC GENERAL - DISCLOSED		2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2
29	EVA Margins						
33	Cash Operating Costs (% of Sales)	83.4%	80.9%	77.0%	74.1%	70.4%	64.6%
34	COGS Adjusted Chrg: % of Sales	70.4%	70.0%	66.7%	63.7%	60.7%	56.7%
37	SG&A Adjusted Chrg: % of Sales	13.0%	10.9%	10.4%	10.4%	9.7%	7.9%
40	EBITDAR Margin (EBITDAR/Sales)	16.6%	19.1%	23.0%	25.9%	29.6%	35.4%
43	Productive Capital Rental Charge (% of Sales)	11.7%	8.4%	8.2%	7.8%	8.0%	6.9%
44	Cap Chrg: Working Capital % of Sales	-0.1%	0.1%	0.1%	0.0%	0.2%	0.1%
64	Rent Chrg: Net PP&E Adjusted % of Sales	4.5%	3.3%	3.3%	3.4%	3.7%	3.3%
83	Rent Chrg: Intangible Capital AT % of Sales	7.2%	5.0%	4.8%	4.4%	4.2%	3.5%
118	EVA Before Tax Margin (EVABT/Sales)	4.9%	10.7%	14.8%	18.1%	21.6%	28.5%
121	EVA Effective Tax Rate	43.1%	38.9%	37.2%	36.8%	36.5%	36.2%
124	Other EVA % of Sales	1.1%	1.3%	1.5%	2.0%	1.8%	-1.1%
161	Rent Charge: Goodwill & Sp Items % of Sales	0.7%	0.5%	0.4%	0.3%	0.2%	0.2%
170	EVA Margin (EVA/Sales)	3.1%	7.4%	10.5%	13.1%	15.2%	16.9%

EVA Momentum. The *change* in a firm's economic profit in a given period divided by its sales (or capital) in the prior period (when divided by trailing sales, it is referred to as EVA Momentum Margin, and by capital, as EVA Momentum Spread).. For example, a company that has 2009 sales of \$100, and that increases EVA from \$10 in 2009 to \$11 in 2010 (or from -\$6 to -\$5 for that matter) generates 1% EVA Momentum (\$1/\$100). EVA Momentum indicates the rate of growth in economic profit, scaled to sales. EVA Momentum can be measured by quarter (vs. the same quarter the prior year), year over year, or over a longer term horizon, such as the trailing three to five years. It can be measured using actual EVA figures or using a trend line change.

EVA Momentum is a very important metric. For one thing, it is the *only* financial ratio where a bigger outcome is generally always better, because it increases when **EVA** does, which indicates the firm's net present value is expanding and that management is taking actions that make economic sense. That cannot be said of margin, market share, growth rate, return on capital, or any other ratio metric. All of them can "improve" when a firm's performance and value are actually deteriorating (see "EVA Momentum -- the one ratio that tells the whole story," by EVA Dimensions CEO Bennett Stewart, for more information; appearing in the *Morgan Stanley Journal of Applied Corporate Finance*, Spring, 2009).

Also, more than any other measure, EVA Momentum levels cross-company comparisons by scaling results according to size and also by concentrating on performance improvements -- focusing on *changes* in **EVA** -- which means that legacy assets or liabilities that are already reflected in the base *level* of EVA are ignored. It is, for instance, positive for negative **EVA** businesses that are on the mend, and negative for positive **EVA** businesses that are slipping. EVA Momentum is thus a financial "canary in the cave," presciently signaling changes of direction in advance of conventional measures like EBITDA, EPS or ROE, which do not adequately charge profit for the use of investors' capital.

EVA Momentum is always the sum of two overarching drivers (from which all others derive). It is the sum, first, of the *change* in **EVA Margin** -- which reflects improvements or deteriorations in the total productivity of the business model spanning price power, operations efficiency and asset management -- and second, of "profitable growth," which is the *product* of the firm's sales growth rate and its **EVA Margin**. For instance, a company that increases its **EVA Margin** from 4.5% to 5%, coupled with 10% sales growth, produces 1% EVA Momentum -- half from the Margin improvement, and the other half from earning a 5% Margin on the 10% sales growth. Or, to take a real example as shown in the table below, Apple's EVA Momentum in the four quarter year ending with its second quarter of 2010 was 8.6% -- a result of a \$3.1 billion increase in EVA over the period divided by \$36.3 billion in sales the prior year. But that only tells the answer. The firm's EVA Momentum is actually better understood as emanating from a 1.2% expansion in its EVA Margin -- from 15.2% to 16.9% -- and from achieving sales growth of 40.8% at the concluding 16.9% EVA Margin -- for a "profitable growth" product of 6.9% (there is also a component due to the change in the cost of capital, which is generally negligible).

evaDimensions		Currency: U.S. Dollar Scale: Values in Millions					
APPLE INC GENERAL - DISCLOSED		Trailing Four Quarters					
APPLE INC GENERAL - DISCLOSED		2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2
170	EVA Momentum						
171	EVA (ROC-COC) x Capital	\$347	\$1,282	\$2,256	\$3,776	\$5,536	\$8,651
172	ΔEVA (vs. prior year)	\$543	\$935	\$975	\$1,519	\$1,760	\$3,115
173	Sales	\$11,097	\$17,306	\$21,586	\$28,747	\$36,323	\$51,123
175	EVA Momentum (% of Trailing Sales)	7.6%	8.4%	5.6%	7.0%	6.1%	8.6%
178	= EVA Margin Expansion Delta EVA Margin	5.9%	4.3%	3.1%	2.7%	2.1%	1.7%
181	EVA Margin (EVA/Sales)	3.1%	7.4%	10.5%	13.1%	15.2%	16.9%
182	+ Growth@Margin Gsales x EVA Margin	1.7%	4.1%	2.6%	4.4%	4.0%	6.9%
185	Sales Growth Rate	54.7%	56.0%	24.7%	33.2%	26.4%	40.8%
186	+ EVA Margin Expansion from lower COC	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%
187	Implied EVA Momentum 10 Yr (Sales)	3.3%	2.8%	3.5%	4.0%	0.6%	2.6%

One implication: firms with low and stagnant **EVA Margins** are incapable of generating EVA Momentum -- no matter how rapidly their book income, EBITDA or EPS expand. Firms with low or negative **EVA Margins** must first increase it before they have any chance to add value as they grow sales or expand their book earnings. Another implication: a profitable firm may forfeit some of its **EVA Margin** (and **ROC**), and yet still generate Momentum by achieving with sales growth at the Margin. Google did that in 2007, a year it racked up nearly 8% in EVA Momentum. Its **EVA Margin** shrank from 20% to 18%, but was more than compensated by 55% sales growth at the **EVA Margin**.

EVA Momentum is thus a worthy successor to the DuPont ROI formula because, like ROI, it traces to operational ratios that characterize income efficiency and asset management, but better than ROI, it correctly incorporates the value of profitable growth and strategic retrenchment.

Another advantage is that it is possible to figure out the projected EVA Momentum rate that is baked into stock prices. That is possible because the present value of **EVA** is by definition the same as the net present value of discounted cash flow, and so the **EVA** trajectory that will discount back to the **MVA** reflected in the firm's share price can be determined. As is shown on the chart above, the market-implied EVA Momentum rate for Apple has typically run at 3% or so, and as Apple handsomely outpaced that expected rate, its shares were significantly revalued, bid up from an **MVA** premium of \$27 billion to \$177 billion, representing \$150 billion in aggregate wealth creation and a truly phenomenal return for shareholders.

Once again, it is not possible to derive a market-implied ROI or EPS growth, because neither ROI or EPS discount to share value -- whereas **EVA** does (see **MVA** discussion). The oft-quoted "consensus EPS" is thus nothing of the kind. It is merely an arbitrary aggregation of sell-side analyst projections for next year's EPS -- which is hardly a sufficient foundation for understanding long-run discounted value, and which completely ignores the input of buy-side analysts. In short, unlike the market-implied EVA Momentum, "consensus EPS" ignores the market's true "consensus" as is reflected in the share price.

Valuation Metrics:

Market Value Added (MVA). The spread between a company's overall market value, given its share price, and the **capital** invested its business to produce the value. It is the difference between the sum of cash that investors have put into or left in the business as its capital and the present value of the cash they could expect to take out of it, if only by selling their shares. As such, it represents how much wealth the firm has created. It is also implicitly the aggregation of the net present values ("NPV's") of all existing and planned capital investment projects. Moreover, the period-to-period change in MVA, when coupled with the EVA profit actually earned, determines the rate of return the firm generates for its investors on the **market value** of their investment in the firm.

In principle, a firm is fairly valued when its MVA is priced to equal the expected sum of the **EVA** profit it is able to earn in the future, after discounting to a present value. Businesses that are only capable of covering their cost of capital and that break even on **EVA** break even on MVA, too. They tend to trade close to the book value of their capital (actually, usually a bit more, as there is always the chance for a turnaround or takeover). On the other hand, businesses like Apple's that handily return more than their cost of capital and which earn significant **EVA** profits trade for lofty MVA values. They are bid to market value premiums over invested capital, which enhances the wealth of the investors, and in the process, generates outsized returns. And the larger the **EVA** they earn and the more rapidly and surely they can expand it, the larger the MVA premium that is warranted. It works in reverse, too. Negative **EVA** businesses, like GM in the 20 years leading up to the bankruptcy, are bid down to market valuations that discount, sometimes quite severely, the book value of their capital, leading to a loss of shareholder wealth.

The rule above is theory and not always perfectly realized in practice across a market universe of 3000 stocks, which is the reason that the PRVit stock rating model is often capable of identifying mis-valued stocks by weighing on the one side of the scale a set of **EVA** performance and risk factors that proxy for the present value of **EVA**, and on the other side, a variety of MVA related multiples derived from the firm's actual market valuation. The relative balance of intrinsic **EVA** value versus actual MVA valuation, compared to all other Russell firms, gives rise to the PRVit rating, and to insights about relative over- or under-valuations of individual companies.

MVA Spread. The ratio of **MVA/Capital**, which indicates the rate at which a firm is creating wealth per unit of capital employed. Either a high **ROC** or significant stream of new positive **EVA** projects are needed to justify a high MVA index.

Wealth Margin. **MVA/Sales**, which indicates the rate at which a firm is creating wealth per unit of sales. Either a high **EVA Margin** or a significant and long-lasting **EVA Momentum** trend are necessary to justify a high MVA margin. To be precise, a firm's MVA Margin should equal the capitalized value of its current **EVA Margin** plus the present value sum of the **EVA Momentum** it will accumulate over a growth horizon of 3 -15 years.

Future Growth Value (FGV). The portion of the firm's **MVA** that exceeds the capitalized value of its current **EVA**. It is therefore the value that investors are currently paying in anticipation of growth in **EVA**. To take an example, suppose a firm's MVA is \$1 billion, and that its **EVA** is currently running at \$60 million. Suppose also that its overall cost of capital is 10%. The capitalized value of its current **EVA** is \$600 million (\$60 million/10%), which leaves a \$400 million residual as the future growth value -- the premium the market is pre-paying for the value of anticipated growth in **EVA** (i.e., for continued **EVA Momentum**). Future growth value can also be negative, which occurs when a firm's **EVA** profit is at a cyclical peak, when patents are slated to expire or substitute products are coming on the market, or where contingent liabilities loom large.

Future Growth Reliance (FGR). **Future Growth Value/Market Value**. It is the percent of the firm's overall market value that is dependent on, actually, at the risk of, continued growth in **EVA**. Stocks with high FGRs percentages qualify as PRVit "Buys" only if they are demonstrating a strong and reliable trend of improving **EVA**.

Future Growth Margin (FGM). **Future Growth Value/Sales** (for the most recent trailing four quarters). In principle, a fairly valued firm's FGM should equal the present value sum of the **EVA Momentum** it will accumulate over a growth horizon of 3 -15 years. Either a high **EVA Margin** or a significant and long-lasting **EVA Momentum** trend are necessary to justify a high FVA margin.

Enterprise Multiple (EM). Enterprise Value/EBITDAR (which is EBITDA, plus rent, plus R&D and advertising, plus a handful of other corrective accounting adjustments). EM is the number of years of pre-tax operating cash flow required to match the firm's Enterprise Value (which is just a slight variation on the aggregate market value of the firm's debt and equity, and which includes the present value of rents to neutralize the comparison among firms that own or lease assets in differing proportions). The higher the multiple, the more the firm must be able to reinvest its EBITDAR in EVA-enhancing investments and strategies.

NOPAT Multiple. Market Value/NOPAT. The number of years the firm must generate net operating profit after taxes at the current level to cover the current market value. Unlike EBITDAR, **NOPAT** is net of depreciation and amortization, including the amortization of R&D and ad spending that under **EVA** is written off over time. It is also net of tax. Unsurprisingly, the NOPAT multiple tests better as a predictor of shareholder returns than the EBITDAR multiple (which in turn, tests better than the plain vanilla EBITDA multiple). In practice, using both together as a composite indication of the un-leveraged valuation multiples the market is currently attaching to a company is even better -- as they are not perfectly correlated "signals". In any case, the higher the multiples, the greater is the risk-adjusted EVA performance in order for a stock to qualify as a PRVit "Buy,"

Risk Metrics:

Stock Price Volatility. The standard deviation in monthly returns. The higher it is, less confidence can be attached to extrapolating past performance trends.

EVA Margin Variability. The standard deviation in the firm's **EVA Margin** over the past three years. The higher it is, more uncertainty is attached to extrapolating past performance trends.

Financial Leverage. A heavy reliance on debt financing is a risk factor, making the firm vulnerable to sudden downturns, robbing it of flexibility to pounce on fleeting opportunities, and increasing the variability of the residual profit stream that accrues to the shareholders. Debt reliance is indicated by the overall ratio of the firm's total debt, including the present value of operating rents, to its total capital, and also by **payback horizon**, which is the number of years of pre-tax operating cash flow (EBITDAR) required to fully retire the debt obligations.

Free Cash Flow (FCF). Cash operating receipts minus cash operating disbursements. It can also be computed as **NOPAT** less the change in **capital** over the period. A firm that earns more NOPAT than it re-invests has positive "free" cash flow, and thus the liquidity to distribute the surplus to investors or retain it as a cash reserve. A firm that invests more than it earns, and which records a negative FCF, must raise debt or equity, or draw down on its excess cash balances.

Free Cash Generation (FCG). The ratio of **FCF/Capital**, the net cash flow yield on capital, a ratio that is mathematically the same as the firm's **ROC** less the growth rate in its **capital**. Positive cash generation is considered a sign of liquidity and staying power, and hence, lower risk. Negative free cash generation is interpreted as a higher risk proposition. For one, it prolongs the duration of the cash payback, making it riskier to project and value. For another, it may be the result of aggressive and unproven acquisition spending. Regardless, negative FCG generation requires external financing, and that puts the firm's growth at the mercy of market access. Being reliant on external financing sources also can lure management into adopting liberal accounting policies that make profit look better than it really is, raising questions about the quality of the earnings and corporate governance -- a la Enron.

Operating Cash Generation (OCG). OCG is operating cash flow after investment in working capital. It is measured as cash operating profit after taxes (i.e., NOPAT plus depreciation and amortization) less the period investment in working capital. OCG automatically converts all sales to cash sales (because it nets out uncollected receivables), deducts inventory accumulations and "channel stuffing," and voids non-cash provisions to reserves, such as bad debt, obsolescence, and short-term warranty and deferred revenue (regardless of whether the reserve accruals have been booked through NOPAT or left to stew in a contra working capital account). Unlike the accounting-based "funds flow from operations," OCG is before interest expense, and thus it avoids the distortions of changes in debt/equity financing mix. It is in principle an even better indicator of the cash generated from operations.

OCG Return. OCG/Gross Long-Term Capital. Gross long term capital is [capital](#) plus accumulated depreciation and amortization, less working capital. It is the permanent, long term, capital invested in fixed plant, property and equipment, in long-term investments, and in intangibles, including goodwill, and other long term assets, and thus it is the capital base that corresponds to OCG. The OCG Return thus indicates the operating cash flow yield on permanent capital. A high OCG Return is a surer indication that business operations are actually generating liquidity, and that the firm's operations are inherently less risky than ones with low net cash returns.

Payback Horizon. The ratio of the firm's total debt/EBITDAR (which is EBITDA plus rent plus research and ad spending, plus other corrective accounting adjustments). It is the number of years of pre-tax operating cash flow that is required to pay off the firm's debt, including its operating lease commitments and on-balance sheet pension fund deficit. A high ratio raises questions about a firm's creditworthiness and its ability to pounce on fleeting opportunities and to withstand downturns, and is taken as a sign of "vulnerability."

Capital Ratio FEA (Financial Institutions only). The percent of financial earning assets, including the loan loss reserve, that is financed with capital (the remainder is funded with purchased funds -- deposits, borrowings, insurance reserves, etc.). A higher ratio indicates more capital is being used to cushion business risk, and that risk insurance is effectively being purchased on the balance sheet.

AIRGAS INC	ARG	Chemicals	Date	Share Price	PRVIt Score (vs Market)	Industry Median	PRVIt Score (vs Industry)		
Airgas, Inc., through its subsidiaries, distributes industrial, medical, and specialty gases, as well as hardgoods in the United States. The company's gas products include nitrogen, oxygen, argon, helium, and hydrogen; welding and fuel gases, such as acetylene, propylene, and propane; and carbon dioxide, nitrous oxide, ultra high purity grades, special application blends, and process chemicals. Its hardgood products comprise welding consumables and equipment, and safety products, as well as maintenance, repair, and operating supplies. The company also engages in the rental of gas cylinders, cryogenic liquid containers, bulk storage tanks, tube trailers, and welding and welding related equipment. In addition, Airgas produces and/or distributes gas products, principally carbon dioxide, dry ice, nitrous oxide, anhydrous ammonia, refrigerants, and atmospheric merchant gases; and produces oxygen, nitrogen, and argon. It serves industrial manufacturing, repair and maintenance, non-residential construction, medical, petrochemical, food products, wholesale trade, analytical, utilities, and mining, and transportation industries. The company markets its products through multiple sales channels, including branch-based sales representatives, retail stores, strategic customer account programs, telesales, catalogs, e-business, and independent distributors. As of March 31, 2008, it operated an integrated network of approximately 1100 locations, including branches, retail stores, packaged gas fill plants, specialty gas labs, production facilities, and distribution centers. Additionally, Airgas, Inc. provides retail solutions to retail customers, such as florists, grocers, restaurants and bars, tire and automotive service centers, and others. The company was founded in 1982 and is based in Radnor, Pennsylvania.			24-Nov-10	\$62.07	25	63	13		
<p>ARG's mediocre performance (46th percentile vs. Russell 3000 companies), coupled with its high risk (70th percentile), indicates a low intrinsic valuation is warranted (38th percentile), which compared to its actual market valuation (67th percentile at its \$62.07 share price) makes for a PRVIt score of 25th percentile vs. the market.</p> <p>ARG's PRVIt score is at the 13th percentile of all firms in its industry, which leads to a recommendation to Sell. ARG is less attractively priced in relation to its true value than almost all of the stocks in its industry.</p>									
Sell 0-19		Underweight 20-39		Hold 40-59		Overweight 60-79		Buy 80-100	

46 Performance Score (P) Higher is better

55 P1 Profitability Financial strength in generating a return on capital over the full cost

	ARG	25th	50th	75th	% Russell
EVA Margin (EVA/Sales)	1.5%	-5.3%	0.2%	4.0%	60
EVA Spread (EVA/Capital)	1.2%	-4.0%	0.2%	4.4%	58

35 P2 Trend The growth rate in the firm's economic profit (its EVA)

	ARG	25th	50th	75th	% Russell
EVA Momentum (vs Cap)	-0.5%	-0.5%	1.1%	4.2%	26
3 Year Trend (ΔEVA/Cap)	0.0%	-2.0%	-0.3%	0.9%	56
Last Quarter (ΔEVA/Cap)	0.7%	-1.0%	1.0%	4.0%	47

70 Risk Score (R) Lower is better

42 R1 Volatility Variability in stock price and the EVA profit margin

	ARG	25th	50th	75th	% Russell
Stock Price Volatility	45%	30%	39%	49%	66
EVA Margin Variability	1.0%	2.3%	4.8%	11.4%	7

84 R2 Vulnerability Leveraged, negative cash flow firms are suspect

	ARG	25th	50th	75th	% Russell
Free Cash Flow Rate	-1%	10%	3%	-7%	63
Op Cash Gen Return	6%	48%	21%	10%	84
Total Debt/Total Capital	48%	8%	26%	45%	78
Total Debt/EBITDAR	3.1	0.8	1.9	3.6	69

67 Valuation Score (V) Lower is better

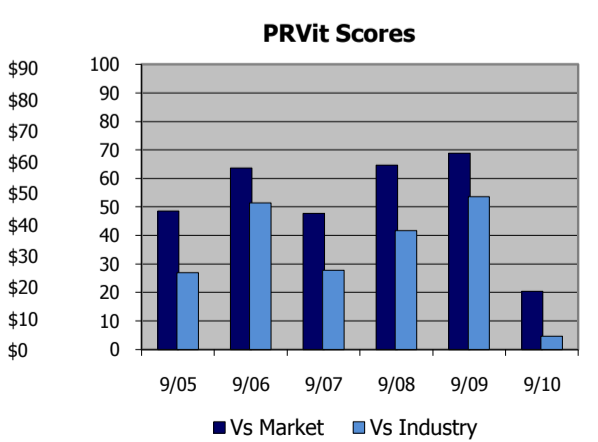
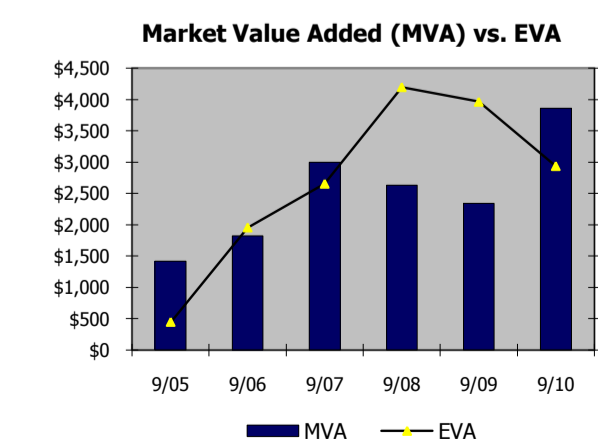
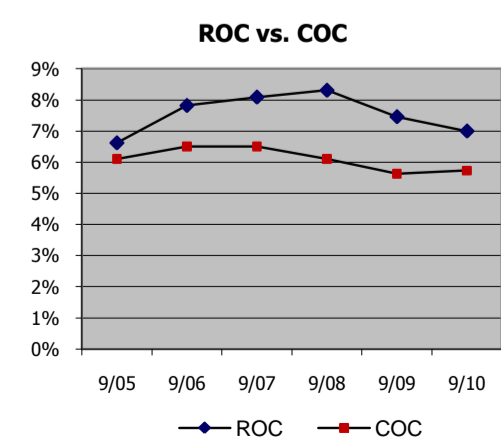
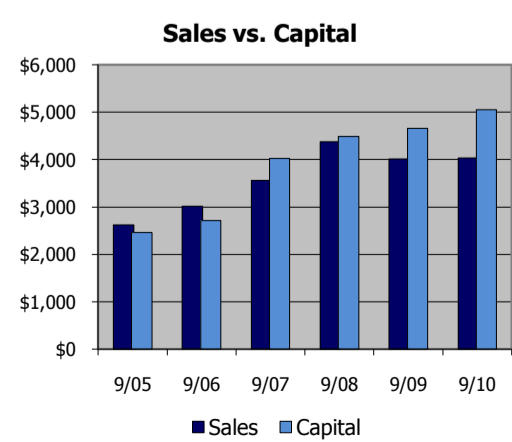
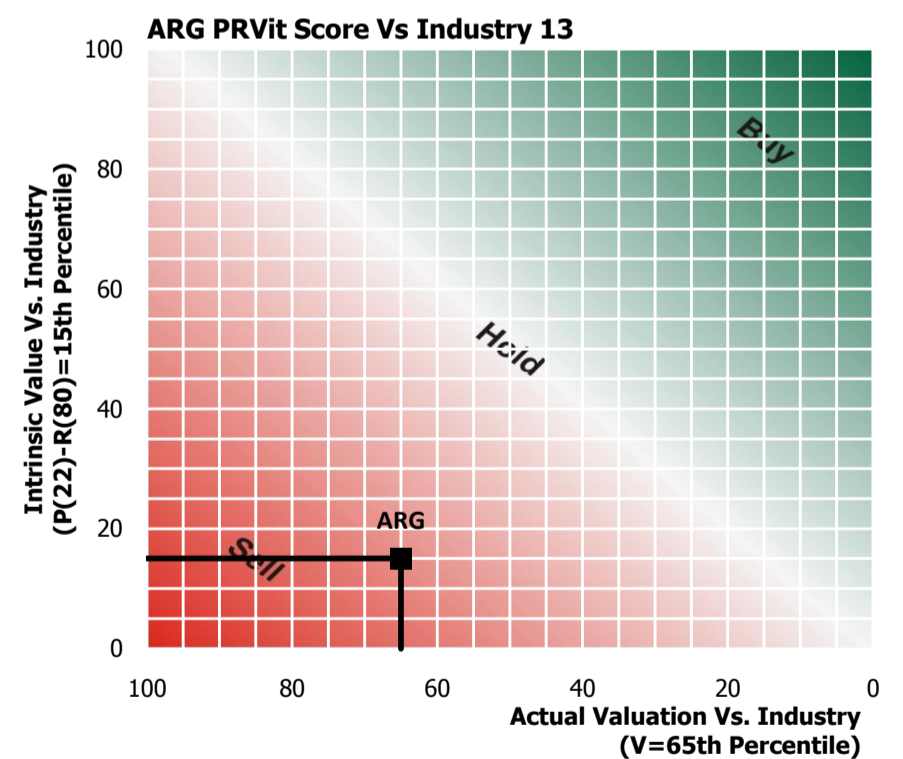
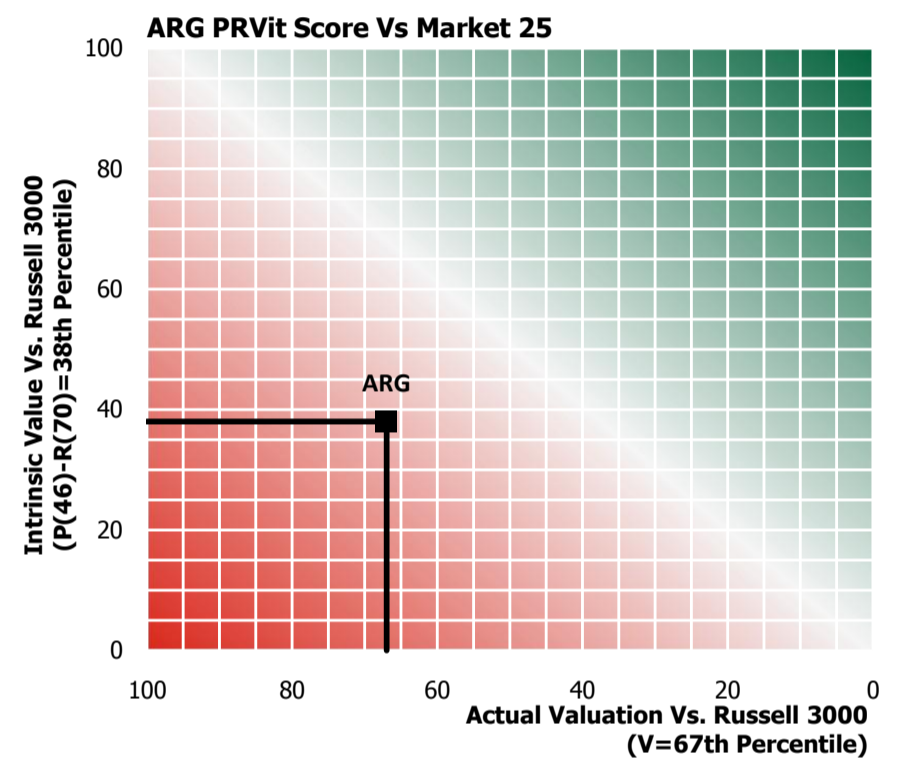
66 V1 Wealth Ratios Valuation multiples to book capital (as adjusted)

	ARG	25th	50th	75th	% Russell
MVA Margin	84%	-1%	44%	142%	63
MVA Spread	67%	-1%	38%	124%	62

57 V2 Wealth Multiples Valuation multiples to cash flow, earnings, EVA

	ARG	25th	50th	75th	% Russell
EBITDAR Multiple	10.7	5.9	7.9	10.8	75
NOPAT Multiple	24.9	16.0	20.9	29.9	64
Future Growth Reliance	28%	3%	33%	72%	45

The PRVIt Matrix: depicts a company's PRVIt score by plotting its "intrinsic" value score – what PRVIt rates the firm is truly worth based on its risk-adjusted performance, i.e., its comparative P-R score – against its actual valuation score – which reflects the company's current trading multiples. Companies rated "Hold" plot along the diagonal, which is where the firms' actual valuation multiples align with their intrinsic values. "Buys" plot in the upper right green zone, which is where PRVIt rates the firms as worth more than their current share values, and "Sells" appear in the lower left red zone, where the firms' P-R scores fall short of their V scores. The top grid rates the firms against the entire market, and the lower one ranks them against industry peers (which is the basis for the official "PRVIt" score).



AIRGAS INC	ARG	Chemicals	Date	Share Price	PRVit Score (vs Market)	Industry Median	PRVit Score (vs Industry)		
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<p>ARG's mediocre performance (46th percentile vs. Russell 3000 companies), coupled with its high risk (70th percentile), indicates a low intrinsic valuation is warranted (38th percentile), which compared to its actual market valuation (67th percentile at its \$62.07 share price) makes for a PRVit score of 25th percentile vs. the market.</p> <p>ARG's PRVit score is at the 13th percentile of all firms in its industry, which leads to a recommendation to Sell. ARG is less attractively priced in relation to its true value than almost all of the stocks in its industry.</p>									
Sell 0-19		Underweight 20-39		Hold 40-59		Overweight 60-79		Buy 80-100	

22 Performance Score (P) Higher is better

32 P1 Profitability Financial strength in generating a return on capital over the full cost

	ARG	25th	50th	75th	% Industry
EVA Margin (EVA/Sales)	1.5%	0.6%	2.4%	4.6%	39
EVA Spread (EVA/Capital)	1.2%	0.9%	3.2%	4.9%	28

22 P2 Trend The growth rate in the firm's economic profit (its EVA)

	ARG	25th	50th	75th	% Industry
EVA Momentum (vs Cap)	-0.5%	0.8%	2.1%	4.5%	14
3 Year Trend (ΔEVA/Cap)	0.0%	-0.6%	0.2%	0.8%	45
Last Quarter (ΔEVA/Cap)	0.7%	-0.7%	0.8%	2.2%	47

80 Risk Score (R) Lower is better

42 R1 Volatility Variability in stock price and the EVA profit margin

	ARG	25th	50th	75th	% Industry
Stock Price Volatility	45%	30%	40%	46%	74
EVA Margin Variability	1.0%	1.8%	3.4%	5.5%	6

92 R2 Vulnerability Leveraged, negative cash flow firms are suspect

	ARG	25th	50th	75th	% Industry
Free Cash Flow Rate	-1%	12%	7%	0%	78
Op Cash Gen Return	6%	24%	17%	12%	91
Total Debt/Total Capital	48%	23%	36%	49%	74
Total Debt/EBITDAR	3.1	1.0	1.6	2.5	84

65 Valuation Score (V) Lower is better

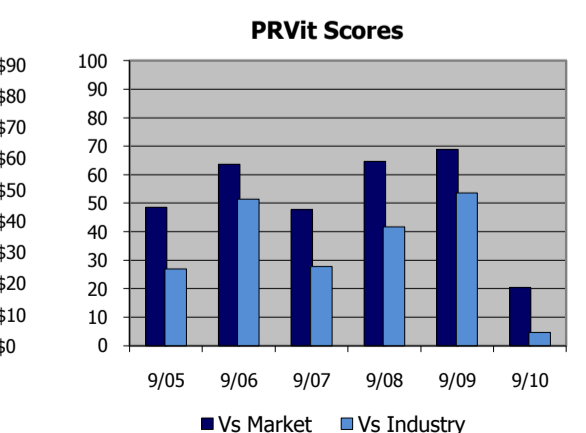
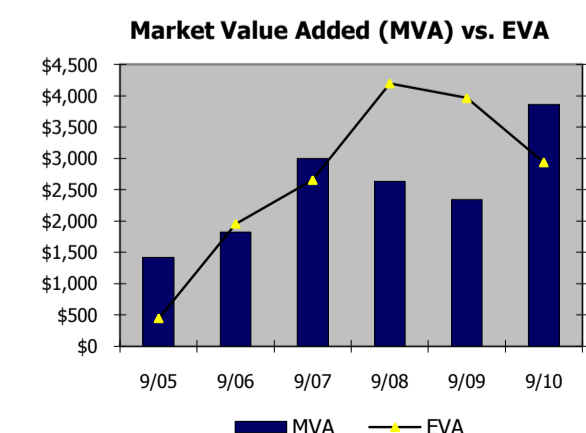
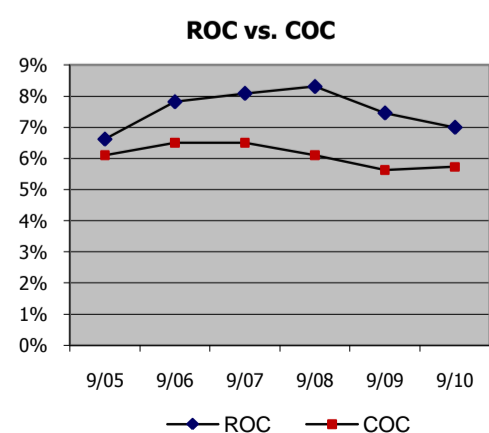
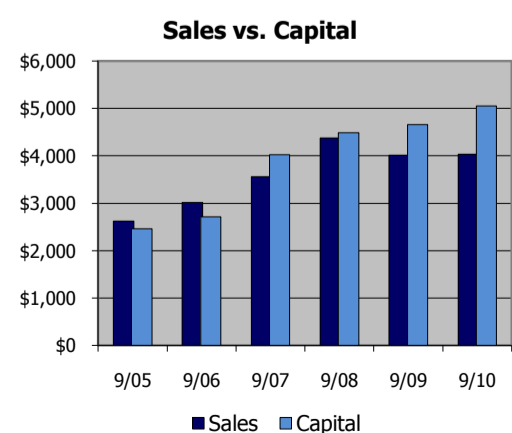
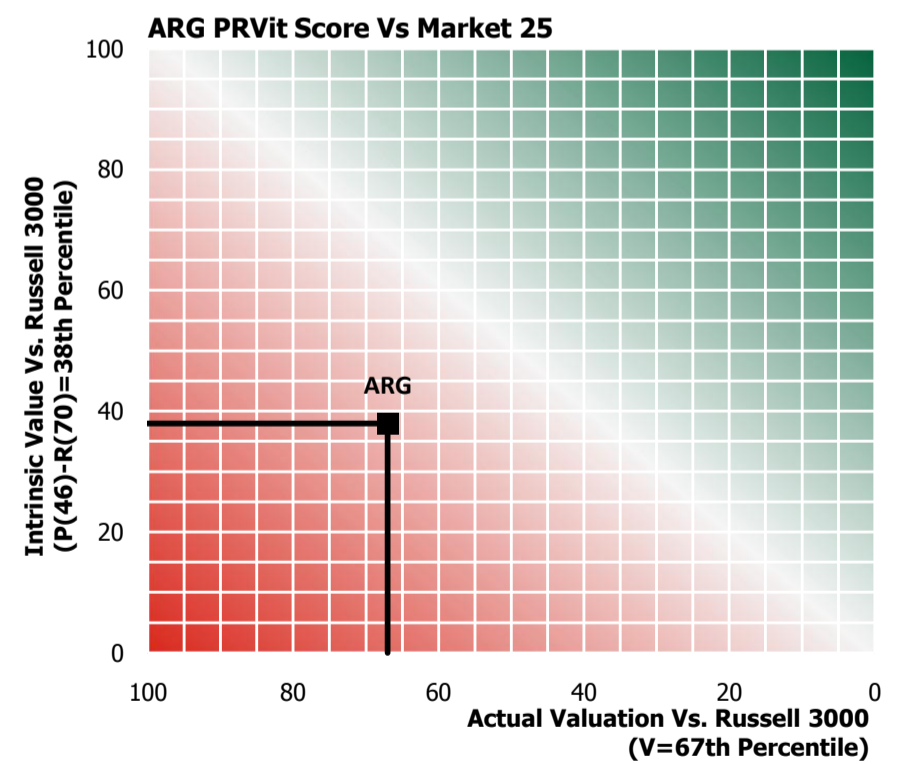
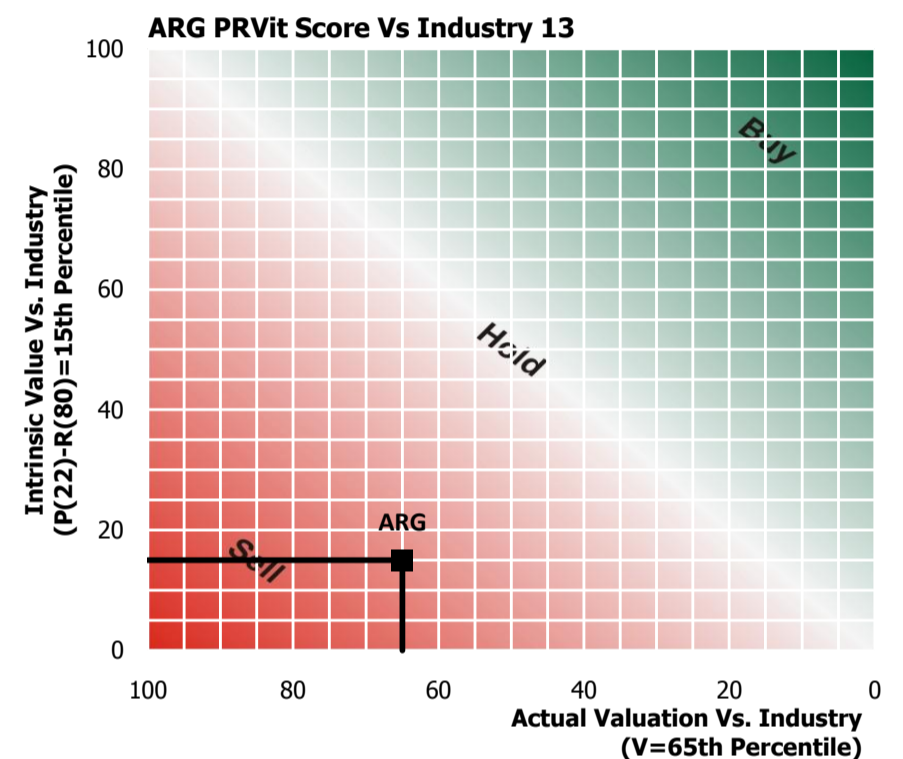
55 V1 Wealth Ratios Valuation multiples to book capital (as adjusted)

	ARG	25th	50th	75th	% Industry
MVA Margin	84%	19%	50%	124%	68
MVA Spread	67%	24%	67%	143%	50

79 V2 Wealth Multiples Valuation multiples to cash flow, earnings, EVA

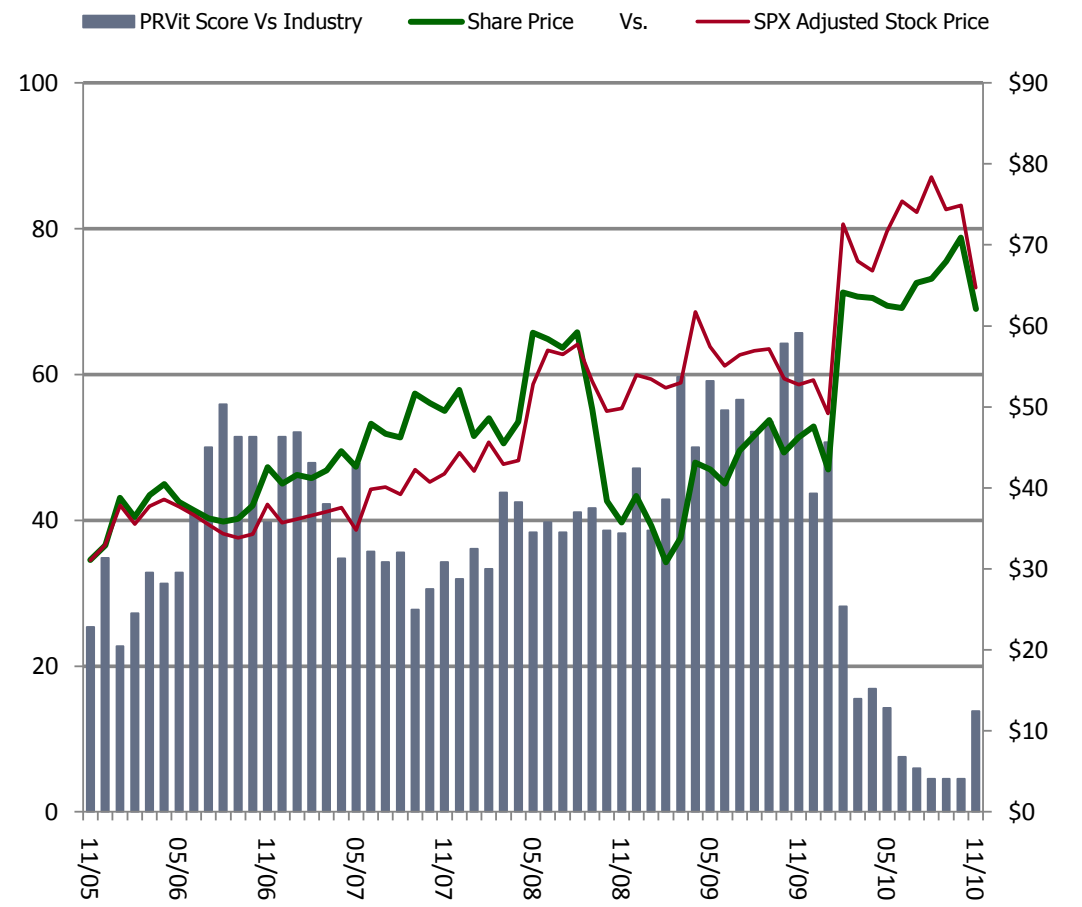
	ARG	25th	50th	75th	% Industry
EBITDAR Multiple	10.7	6.1	7.7	9.8	84
NOPAT Multiple	24.9	17.0	19.1	24.8	77
Future Growth Reliance	28%	-7%	10%	33%	69

The PRVit Matrix: depicts a company's PRVit score by plotting its "intrinsic" value score – what PRVit rates the firm is truly worth based on its risk-adjusted performance, i.e., its comparative P-R score – against its actual valuation score – which reflects the company's current trading multiples. Companies rated "Hold" plot along the diagonal, which is where the firms' actual valuation multiples align with their intrinsic values. "Buys" plot in the upper right green zone, which is where PRVit rates the firms as worth more than their current share values, and "Sells" appear in the lower left red zone, where the firms' P-R scores fall short of their V scores. The top grid rates the firms against the entire market, and the lower one ranks them against industry peers (which is the basis for the official "PRVit" score).



Historical PRVIt Scores & Ratings

Date	Action	Rating	Score	Share Price	
5/5/2010	▼	DOWNGRADE	SELL	14	\$63.80
2/6/2010	▼	DOWNGRADE	UNDERWEIGHT	25	\$60.96
1/1/2010	▼	DOWNGRADE	HOLD	43	\$47.60
11/5/2009	▲	UPGRADE	OVERWEIGHT	65	\$45.11
3/11/2009	▲	UPGRADE	HOLD	45	\$28.77
1/15/2009	▼	DOWNGRADE	UNDERWEIGHT	34	\$38.68
1/1/2009	▲	UPGRADE	HOLD	47	\$38.99
11/6/2008	▼	DOWNGRADE	UNDERWEIGHT	34	\$38.51
9/30/2008	▲	UPGRADE	HOLD	45	\$44.35
7/2/2008	▼	DOWNGRADE	UNDERWEIGHT	34	\$59.65
5/2/2008	▲	UPGRADE	HOLD	45	\$48.29
6/21/2007	▼	DOWNGRADE	UNDERWEIGHT	34	\$47.76
5/12/2007	▲	UPGRADE	HOLD	47	\$41.88
5/1/2007	▼	DOWNGRADE	UNDERWEIGHT	34	\$44.55
7/26/2006	▲	UPGRADE	HOLD	52	\$34.53
4/2/2005	▼	DOWNGRADE	UNDERWEIGHT	30	\$23.69
2/1/2005	▲	UPGRADE	HOLD	50	\$23.52
5/23/2003	▲	UPGRADE	HOLD	46	\$17.25
1/1/2003	▼	DOWNGRADE	UNDERWEIGHT	26	\$17.25
10/23/2002	▼	DOWNGRADE	HOLD	52	\$14.82
10/3/2002	▲	UPGRADE	OVERWEIGHT	65	\$12.88
6/29/2002	▼	DOWNGRADE	HOLD	50	\$17.30
4/26/2002	▲	UPGRADE	OVERWEIGHT	66	\$16.88
1/3/2002	▼	DOWNGRADE	HOLD	54	\$14.60
1/1/2002	▲	UPGRADE	OVERWEIGHT	68	\$15.12

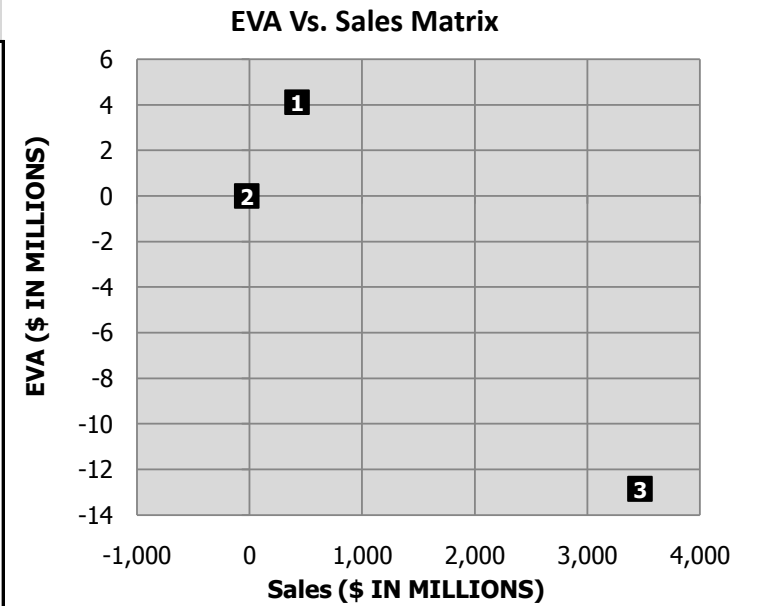


The scores and ratings shown above are based on what the latest version of the PRVIt model would have produced historically.

Business Segment Performance(as of FYE Mar, 2010)

Segment Performance Overview

Graph Number/Segment Name	EVA US\$ IN MILLIONS	Return On Capital (%)
1 All Other Operations	\$4	6.7%
2 Eliminations	\$0	NM
3 Distribution	-\$13	5.5%



Segment Performance Details US\$ IN MILLIONS

Graph Number/Segment Name	Sales(\$)	NOPAT(\$)	Capital(\$)	EVA(\$)	Return On Capital = (NOPAT/Sales) / (Capital/Sales)				
					EVA / Sales	EVA / Capital	Return On Capital	NOPAT / Sales	Capital / Sales
1 All Other Operations	\$421	\$31	\$461	\$4	1.0%	0.9%	6.7%	7.4%	110%
2 Eliminations	-\$24	\$0	\$0	\$0	NM	NM	NM	NM	NM
3 Distribution	\$3,467	\$223	\$4,035	-\$13	-0.4%	-0.3%	5.5%	6.4%	116%

AIRGAS INC

ARG

Chemicals

\$62.07

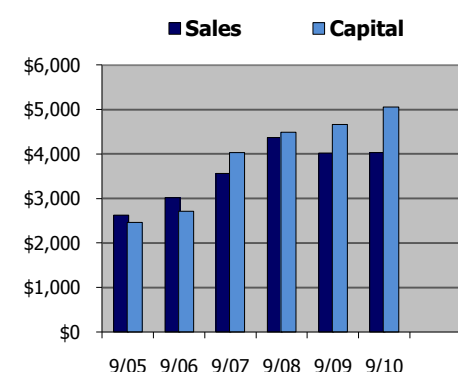
24-Nov-10

Fiscal Year Ends: MAR

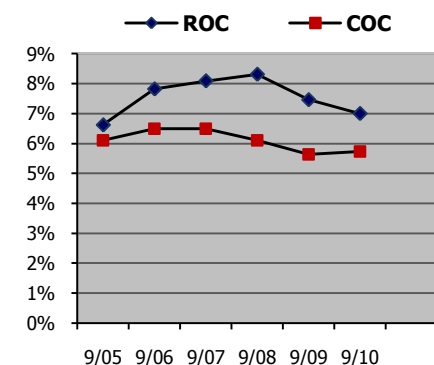
Performance

ARG's mid-tier return on capital combines with a weak EVA profit trend for a middling, 46th percentile P score.

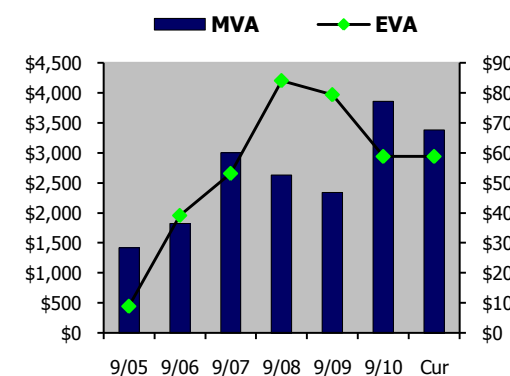
	2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2	24-Nov-10	Average
1 Sales	\$2,626	\$3,013	\$3,564	\$4,373	\$4,018	\$4,037	\$4,037	\$3,605
2 EBITDAR (EBITDA+Rent+R&D+Ad+Etc)	\$411	\$498	\$658	\$798	\$798	\$787	\$787	\$659
3 NOPAT (Net Operating Profit After Tax)	\$158	\$201	\$272	\$346	\$345	\$338	\$338	\$277
4 Capital (Net Operating Assets)	\$2,464	\$2,712	\$4,027	\$4,488	\$4,661	\$5,054	\$5,054	\$3,901
5 Return on Capital (ROC) (NOPAT/Capital)	6.6%	7.8%	8.1%	8.3%	7.5%	7.0%	7.0%	7.6%
6 Cost of Capital (COC)	6.1%	6.5%	6.5%	6.1%	5.6%	5.7%	5.7%	6.1%
7 EVA (ROC-COC) x Capital	\$9	\$39	\$53	\$84	\$79	\$59	\$59	\$54
8 Company Type	GROWTH	GROWTH	GROWTH	GROWTH	STAR	STAR	STAR	
9 EVA Spread (EVA/Capital = ROC-COC)	0.4%	1.5%	1.6%	2.0%	1.7%	1.2%	1.2%	1.4%
10 EVA Margin (EVA/Sales)	0.3%	1.3%	1.5%	1.9%	2.0%	1.5%	1.5%	1.4%
11 EBITDAR Margin (EBITDAR/Sales)	15.7%	16.5%	18.5%	18.3%	19.9%	19.5%	19.5%	18.0%
12 Sales Growth	25.3%	14.8%	18.3%	22.7%	-8.1%	0.5%	0.5%	12.2%
13 EVA Momentum (ΔEVA/Sales)	0.2%	1.2%	0.5%	0.9%	-0.1%	-0.5%	-0.5%	0.3%
14 EVA Momentum (ΔEVA/Capital)	0.2%	1.3%	0.5%	0.9%	-0.1%	-0.5%	-0.5%	0.4%
15 3 Year Trend (ΔEVA/Capital)	0.4%	0.7%	0.9%	1.0%	0.6%	0.0%	0.0%	0.6%
16 Last Quarter (ΔEVA/Capital)	0.7%	1.0%	0.3%	0.2%	-0.3%	0.7%	0.7%	0.4%
P Performance Score	41	52	56	65	73	45	46	55
P1 Profitability Score	46	50	52	59	68	54	55	55
P2 Trend Score	35	48	56	66	68	33	35	51



Sales growth has averaged 12% but was 0% in the most recent year. On average, every dollar of Sales has been supported by Capital of \$1.14, but capital intensity last year was \$1.25 per \$1.00 of sales.



AIRGAS INC's current return on capital of 7% is close to the 6-year average return of 7.6%.



AIRGAS INC has been a wealth creator par excellence, with a generally rising MVA following a generally rising EVA.

Risk

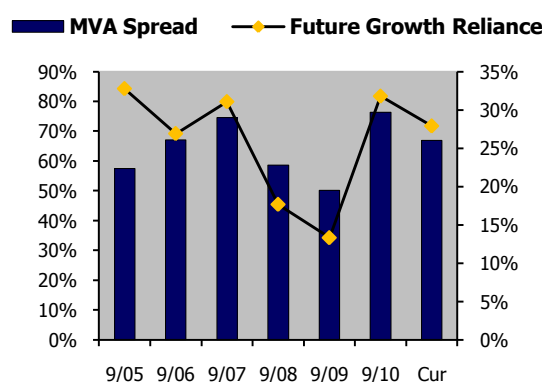
ARG's moderate return variability is tarnished by its very weak financial condition, leading to a high, 70th percentile R score.

	2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2	24-Nov-10	Average
1 Free Cash Flow (FCF)	-\$12	-\$45	-\$1,037	-\$119	\$171	-\$55	-\$55	-\$183
2 Op Cash Generation (OCG)	\$262	\$385	\$376	\$624	\$603	\$285	\$285	\$423
3 Excess Cash Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4 Equity Risk Index	0.87	0.83	0.82	0.83	0.84	0.83	0.83	0.84
5 Stock Price Volatility	27%	28%	24%	44%	65%	45%	45%	39%
6 EVA Margin Variability	0.5%	0.6%	0.6%	0.5%	0.5%	1.0%	1.0%	0.6%
7 FCF Generation (FCF/Capital)	-1%	-2%	-31%	-3%	4%	-1%	-1%	-6%
8 OCG Return (OCG/Gross LT Capital)	11%	15%	12%	16%	14%	6%	6%	12%
9 Total Debt/Total Capital	50%	48%	57%	55%	50%	48%	48%	51%
10 Total Debt/EBITDAR	3.1	2.7	3.5	3.1	2.9	3.1	3.1	3.1
R Risk Score	35	24	41	21	26	70	70	36
R1 Variability	13	2	4	2	14	40	42	13
R2 Vulnerability	66	62	84	59	48	85	84	67

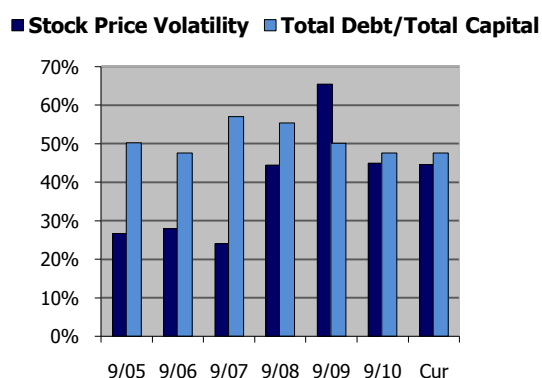
Value

ARG's high market-to-book ratios are muted by lackluster multiples of earnings and cash flow, resulting in a high, 67th percentile V score.

	2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2	24-Nov-10	Average
1 Share Price	\$29.63	\$36.17	\$51.63	\$49.65	\$48.37	\$67.95	\$62.07	\$47.23
2 Total Shareholder Return	24.0%	23.0%	43.6%	-3.0%	-1.2%	42.3%	34.1%	21.4%
3 Equity Value	\$2,327	\$2,881	\$4,331	\$4,115	\$4,037	\$5,798	\$5,317	\$3,915
4 Market Value (MV)	\$3,881	\$4,533	\$7,027	\$7,120	\$7,000	\$8,913	\$8,431	\$6,412
5 Capital	\$2,464	\$2,712	\$4,027	\$4,488	\$4,661	\$5,054	\$5,054	\$3,901
6 Market Value Added (MVA) (MV - Capital)	\$1,417	\$1,821	\$3,000	\$2,632	\$2,340	\$3,859	\$3,377	\$2,511
7 Current Value Added (CVA) (EVA/COC)	\$146	\$601	\$817	\$1,375	\$1,408	\$1,026	\$1,026	\$895
8 Future Value Added (FVA) (MVA - CVA)	\$1,272	\$1,220	\$2,182	\$1,257	\$932	\$2,833	\$2,352	\$1,616
9 MVA Spread (MVA/Capital)	58%	67%	75%	59%	50%	76%	67%	64%
10 MVA Margin (MVA/Sales)	54%	60%	84%	60%	58%	96%	84%	69%
11 EBITDAR Multiple (Ent Value/EBITDAR)	9.6	9.2	10.7	8.9	8.8	11.3	10.7	9.7
12 NOPAT Multiple (MV/NOPAT)	24.5	22.5	25.8	20.6	20.3	26.4	24.9	23.4
13 Future Growth Reliance (FVA/MV)	33%	27%	31%	18%	13%	32%	28%	26%
14 Market-Implied Momentum (ΔEVA/Sales)	0.3%	0.3%	0.5%	0.2%	0.1%	0.5%	0.4%	0.3%
V Valuation Score	42	46	57	61	59	76	67	57
V1 Wealth Ratios	44	49	56	63	63	73	66	58
V2 Wealth Multiples	49	48	57	50	39	65	57	51



28% of the company's market value is dependent on future growth in EVA, which is typical among the Russell 3000 companies.



AIRGAS INC's stock price volatility of 45% is close to the 6-year average volatility of 39%. Current financial leverage of 48% is close to the 6-year average leverage of 51%.

PRVIt

	2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2	24-Nov-10	Average
1 Intrinsic Value Score (P-R)	48	62	57	72	75	37	38	59
2 PRVIt Score vs Market	48	63	47	64	68	20	25	52
3 Industry Median Score	69	63	60	71	67	67	63	66
4 PRVIt Score vs Industry	26	51	27	41	53	4	13	34
5 P Score vs Industry	39	57	44	60	61	15	22	46
6 R Score vs Industry	48	35	61	35	38	79	80	49
7 V Score vs Industry	70	66	57	66	55	78	65	65

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EVA Dimensions, LLC is the definitive source of financial data bases, valuation modeling and investment research using the proprietary EVA methodology originally developed by Stern Stewart & Co, the global management consulting firm.

PRVIt Overview:

PRVIt ("prove-it) is the "performance-risk-valuation investment technology from EVA Dimensions LLC.

It is a purely quantitative rating of a stock's alpha potential. It is based on a daily statistical analysis of the financial results and market valuations of all Russell 3000 stocks. PRVIt uses a total of 22 individual measures to assess the essence of performance trends, risk exposures, and valuation multiples. The individual measures are combined into 6 component scores, which in turn sum to the composite performance, risk and valuation scores, as follows:

Performance (P) is a function of:

Profitability: as indicated by EVA Margin (EVA as a percent of sales) and EVA Spread (EVA as a percent of capital)

Trend: as indicated by EVA Momentum (the *change* in EVA, as percent of *trailing* sales and capital, and over the past quarter, year, and 3 year trend)

Risk (R) is a function of:

Variability: as indicated by the standard deviation in the firm's share price and its EVA Margin

Vulnerability: as indicated by weak free cash flow and operating cash generation, and an extended debt repayment horizon out of cash operating profits

Valuation (V) is a function of:

Wealth Ratios: as indicated by MVA Margin (MVA as a percent of sales) and MVA Spread (MVA as a percent of capital)

Wealth Multiples: as indicated by market value multiples of EBITDAR and NOPAT, and by Future Growth Reliance (FGR) -- the percent of market value above the capitalized value of EVA.

The table below illustrates the elements entering the P score for Sara Lee, as of July 7, 2010.

The firm's overall score at the time was pegged at 91 -- meaning PRVIt judged it's performance better than 9 out of 10 companies on the market.

Performance		SLE	Russell 3000 Distribution			% vs Russell
			25th	50th	75th	
86	P1 Profitability	Financial strength in generating a return on capital over the full cost of capital				
	EVA Margin (EVA/Sales)	5.0%	-8.1%	-0.5%	3.6%	80
	EVA Spread (EVA/Capital)	9.3%	-5.4%	-0.5%	3.7%	89
84	P2 Trend	The growth rate in economic profit (EVA) over the past quarter, year, and 3 year trend				
	EVA Momentum (vs.Capital)	2.2%	-2.0%	0.4%	2.9%	70
	EVA Momentum (3 Yr Trend)	1.9%	-1.9%	-0.4%	0.6%	89
	EVA Momentum (Quarter)	1.9%	-1.3%	1.1%	4.8%	59
91	Performance Score (P)	Higher is better				

The overall P score is a statistical combination of the firm's underlying Profitability score (P1) -- which registered at the 86th percentile -- and a Trend score (P2) clocking in at the 84th percentile. Pairing such high profitability and such a favorable trend was so rare the firm's overall performance was rated more highly than was either element considered in isolation.

Sara Lee was indeed profitable -- the firm was generating EVA at the rate of 5% of sales and 9.3% of its capital -- both of which clearly exceeded the 75th percentile marks shown in the table. Sara Lee had also exhibited a consistently impressive uptrend in its EVA. Its EVA Momentum over the latest 4 quarters -- as measured by the increase in its EVA over the prior year, divided by its trailing capital -- was 2.2% -- or at the 70th percentile mark for all Russel firms. Its 3 year trend at increasing EVA was lower -- a 1.9% rate -- but better by comparison with other firms that suffer more in the economic downturn. Interesting, its most recent EVA trend, as indicated measured by the change over the most recent quarter compared to the same quarter the year before, is the same rate as the 3 year trend -- 1.9% -- but compared with other firms that demonstrated a stronger rebound coming out of the recession, its percentile is lower, at only the 59th percentile. So, if there is a glimmer of weakness it is that the arc of the EVA curve is beginning to flatten -- as the most recent quarterly Momentum rate is below its most recent annual rate. Still, and once again, achieving positive EVA upticks over all the three intervals is so rare an accomplishment that Sara Lee qualified for an 84th percentile Trend score. And that, coupled with its 86th percentile Profitability score, put Sara Lee in the top decile of economic performers across the entire Russell 3000 universe as of that time. An identical process is followed to generate a composite R score and V score, based on the relevant set of indicative measures for each. A PRVIt "market score" is at last determined by computing the ratio of (P-R)/V, and expressing that as a percentile against all 3000 Russell firms. PRVIt, in short, is a comparative risk-adjusted return on value index.

It is a proxy for the ratio of the firm's intrinsic value to its actual market valuation:

$$\text{PRVIt Score} = \frac{\text{Intrinsic Value}}{\text{Actual market Value}} = \frac{\text{P} - \text{R}}{\text{V}} = \frac{0 - 100}{1}$$

High PRVIt score ==> a bargain, a relatively high performance, net of risk, per unit of value, a "buy"

Low PRVIt Score ==> a trap, intrinsic value less than actual value, a "sell"

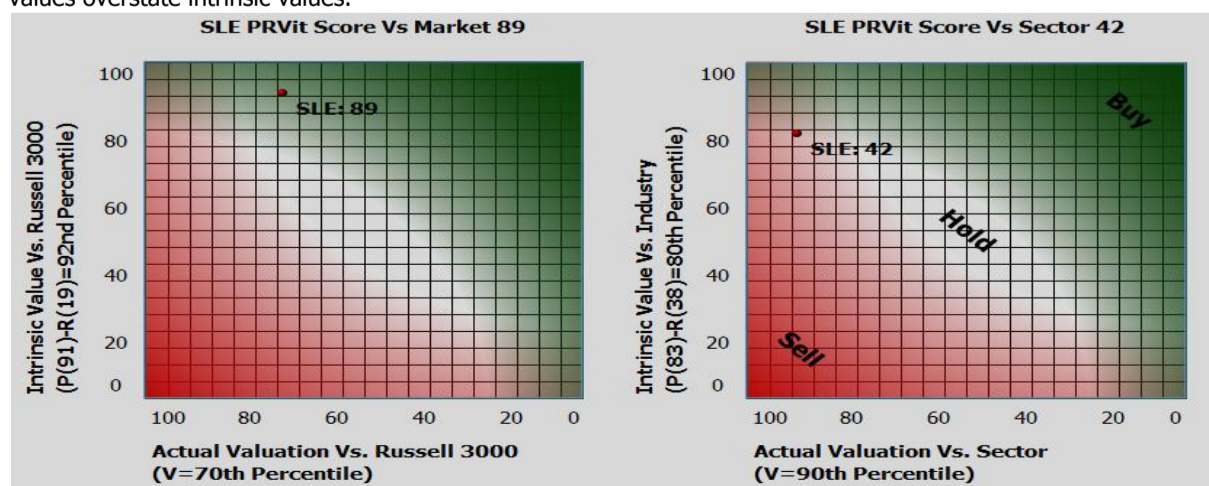
Said another way, PRVIt rates stocks according to VARP™ -- or whether they deliver "Value-At-A-Reasonable-Price™"

It asks the key question: Is a company truly worth more -- or less -- than its current market valuation?

It answers by using recent past EVA performance and profitability trends, net of risk -- or P-R -- as a proxy for the firm's intrinsic value, and comparing that with its actual market valuation score.

Firms with high scores are attractively priced relative to intrinsic value, and are expected to outperform stocks with lower PRVIt scores.

The PRVIt Matrix shown below is a visual representation of how PRVIt rates stocks according to VARP. It plots a firm's intrinsic value, as indicated by its comparative P-R score, on the "Y" axis, and plots the firm's actual valuation score on the horizontal, with valuation scores plotting backwards -- increasing from right to left. "Holds" plot on the diagonal -- where actual market valuations are in close accord with their true intrinsic values. "Buys" plot in the upper right, green zone, where intrinsic value scores outpace the actual valuation multiples. "Sells" land in the lower left red zone, where the firms' actual trading values overstate intrinsic values.



The left chart is the PRVit Matrix for Sara Lee (SLE) rated as of July 7th, 2010. Its intrinsic value -- as indicated by its P score of 91, net of its risk score of 19, was at the 92nd percentile against all Russell 3000 firms. The combination of so high a performance score, and so low a risk score, was statistically so rare among the Russell 3000 firms that SLE rated an intrinsic value score even higher than its lofty performance score alone.

A composite of Sara Lee's market valuation multiples came in at only at the 70th percentile -- clearly less than its P-R score would seem to have warranted. Accordingly, the ratio of the firm's intrinsic value to actual market valuation -- i.e., its comparative (P-R)/V score -- was at the 89th percentile, indeed a very high PRVit rating vs. the market. SLE thus plots solidly in the upper right, green zone on the grid -- above the diagonal, where intrinsic value scores outpace the firms' actual valuation scores. So, boasting a PRVit score of 89 out of a possible 100 against all Russell 3000 firms suggests that Sara Lee was a definite "buy." But was that really so?

The answer is actually "no" -- at least not according to PRVit. At the time, many stocks in the Food & Beverage industry group actually had far higher PRVit scores than Sara Lee did-- so compared to the alternatives, PRVit did not rate Sara Lee as particularly attractive within its industry.

To show this, a second PRVit score is computed for each company -- one that removes the general PRVit rating for the firm's industry group as a whole. First, all companies in each of 55 industry groups are ranked according to their PRVit market scores. Then they are then assigned a PRVit "in-industry" score according to their percentile rank against their industry peers. The top rated firm in every industry group is thus assigned an in-industry PRVit score of 100, the lowest rated one a score of 0. All others are evenly spaced in between. In-industry PRVit scores are better guides as to which stocks to buy and which to sell -- compared to the alternatives available within a given industry group than are the raw PRVit scores measured against the market as a whole.

To put Sara Lee in perspective, out of a total of 65 Food & Beverage companies, only 8 had a PRVit market score less than 50, and 36 -- nearly half -- had PRVit market scores of 90 and above! Unsurprisingly, profits in the industry had held up quite well in the economic downturn, given the inelastic demand for the products, which nearly all the firms' P scores zooming when judged against all Russell 3000 firms. Looking forward, through, investors priced the firms' shares far more conservatively, at much lower multiples than their recent performance would suggest was warranted, as other industries were expected to show a far stronger profit rebound as the economy recovered. The result -- PRVit scores among the Food & Beverage companies as a group, when rated against the market as a whole, were quite inflated (the median score was 91!). The PRVit in-industry score eliminates that distortion by removing the common industry valuation elements, thus permitting each firm's relative investment merits to show through.

To visualize that, glance at the PRVit Matrix on the right hand side above. The grid depicts Sara Lee rated solely against its Food & Beverage peer set -- where it is far less exceptional. True, the firm's performance bore up quite well -- at the 83rd percentile -- even when judged against its elite peer group. And its risk, too, remained on the lower end of the spectrum, at the 38th percentile against industry peers. But the combination did not stand out so well -- SLE qualified for just a 71st percentile intrinsic value score within its industry, based on its comparative P-R rating against public peers. Worse, its valuation multiples -- judged by the standards of its industry peers -- were very high. At the 90th percentile, the firm's actual market valuation score outpointed its intrinsic value score, at least against industry rivals, leaving SLE with a PRVit "in-industry" score of just 42. In truth, almost 6 of 10 industry peers were better buys, according to PRVit. Put bluntly, for investors seeking exposure to the Food & Beverage industry, SLE was not the stock to own.

You may be wondering -- if PRVit rates a whole industry highly, like it did Food & Beverage companies at the time, is it not a good strategy to increase exposure to the industry as a whole?

The answer unfortunately is no.

Research and experience have shown that PRVit is incapable of predicting industry rotation. It is only good -- but quite good in fact -- at predicting which stocks in a given industry are likely to do better or worse.

And for that purpose, PRVit in-industry scores translate quite directly and mechanically into investment recommendations.

Specifically, firms with in-industry PRVit scores of 80-100 are rated "buys." As a group those firms are expected to generate a 3-4% annual extra return over their respective industry benchmarks.

On the other side, firms with in-industry PRVit scores of 0-19 are rated "sells." In toto, these firms are expected to underperform their respective industry benchmarks by an average of 3-4% annually.

Firms scoring 40-60 are "holds." As a portfolio, they are expected to match their industry benchmark.

Firms scoring 60-79 scores are rated "overweight" -- the conviction is not strong enough to rate a buy but it is strong enough not to rate a sell.

Firm's scoring 20-39 scores are rated "underweight" -- not strong enough to recommend a short sale but weak enough not to rate the stock a buy.

Sell	Underweight	Hold	Overweight	Buy
0-19	20-39	40-59	60-79	80-100

There is no hidden bias to buy or sell a industry or the market as a whole -- as is so often the case with other "Street" research. Unlike most others, PRVit is a pure *stock* rating system.

PRVit scores change every day for every company --though usually not by much. They change more month to month, and quarter to quarter. In any event they change because a company filed a new financial report, or its stock price moved, or other companies filed and their stock prices moved, which changes a company's ratings against the Russell 3000 distribution.

Glossary of key terms and measures

Performance Metrics

Return on Capital (ROC). ROC is defined as net operating profit after taxes, or **NOPAT**, as a percentage of total capital employed. "Capital" is a firm's total borrowings plus shareholders' equity, or what is the same thing, it is its net operational assets – the sum of its working capital, fixed plant, equipment and property assets, and other assets, including intangibles. NOPAT is correspondingly the profit attributable to the capital – before deducting any interest or other financing expense – which makes the ROC ratio of the two a reliable gauge of a firm's ability to productively invest and manage the resources put at its disposal regardless of how the capital is financed.

NOPAT and capital are also measured after making a series of corrective adjustments that undo accounting distortions. Accounting rules mandate, for example, that research and development and advertising spending be immediately written off against corporate earnings as the money is spent. But in fact, such outlays are in the main vital investments that create new products, improve productivity and increase brand value and customer satisfaction. Therefore, a new rule is followed to measure NOPAT and capital, which is to add the outlays to balance sheet assets and to write them off over a period of years -- generally 5 years for R&D and 3 years for ad spending. That way, a sudden sharp boost in the spending doesn't inexplicably diminish a company's earnings and depress its ROC -- the cost is spread over time to match the expected benefits (and nor does a cutback appear as a misleading increase in earnings). Another advantage to following this rule is that the rate of return the firm is actually earning on its investments in innovation and in building brands can be more accurately gauged and reliably compared with other firms -- indeed, across firms operating in other industries that may differ in the degree of such spending on intangibles.

The adjustments don't stop there, of course. Impairment charges are reversed, as if they did not happen. Mere accounting strokes of the pen have no impact on ROC (or on EVA, for that matter). In the same spirit, restructuring charges and asset write-downs are taken out of earnings, and added back to balance sheet capital, so that any additional money invested to streamline and restructure can be judged in terms of its return on investment, just like any other.

Financial distortions, too, are purged. Assets rented are added to capital as if they were owned, and the interest component of rent expense is added back to NOPAT. Surplus cash and the related income are set aside, so that a massive cash distribution to investors, such as Microsoft undertook in 2004, has no effect on ROC (though it sends ROE – return on equity – haywire). Period to period fluctuations in the effective tax rate, too, are smoothed to better reveal underlying profitability. All told, some 50 adjustments are called into play to correct bookkeeping flaws.

The result is that unlike the conventional ROE computed from reported financial figures, the ROC measure that EVA Dimensions' uses enables more uniform and informative comparisons of performance over time for a given company, and across firms and industries that are inherently quite different in their business models and financial make-up. It neutralizes the varying degrees to which firms use intangible capital (like patents, know how, and brands) vs. tangible capital (inventories and plant), the mix of owning versus leasing assets, the mix of debt versus equity financing, and the extent of excess cash on hand, to name a few.

Financial institutions require a special treatment. Financing assets with appropriate funding sources is an operating decision for a financial intermediary, and interest expense is akin to cost of goods sold. Hence, funding sources like deposits, borrowed funds, and insurance reserves, are excluded from capital, and the associated interest expense is deducted from NOPAT. In effect, net interest income is the equivalent of sales for an industrial company, and common equity capital (as adjusted) is the equivalent of "capital."

Economic Value Added (EVA). EVA is the name given to a special way of measuring corporate profit that follows economic logic rather than doggedly conforming to accounting rules. The chief difference is that, under EVA, profit is measured after setting aside a minimum return to compensate shareholders for bearing risk, which is an invisible but nevertheless quite real "opportunity cost" that accounting records entirely overlook. EVA recognizes that a firm isn't really profitable until it earns at least the return that its shareholders could earn on their own by investing in an equally risky basket of stocks. This one change means that many companies that appear to be profitable and profitably expanding when judged by their EBITDA, net income or EPS, aren't really profitable at all when judged by the EVA standard.

To be specific, EVA is computed as net operating profit after tax, or **NOPAT**, less a "capital charge" computed by multiplying the firm's capital by its overall, weighted average cost of debt and equity capital (a figure that is generally 6%-12% these days, depending on the risk of the firm). EVA may also be thought of as the percent spread between a firm's return on capital (**ROC**) and its overall cost of capital (**COC**), times the amount of capital it employs. In other words, it is the dollar amount by which a firm's return on capital exceeds -- or falls short of -- its overall cost of capital.

A firm's EVA increases when it pares wasteful costs and boosts the **ROC** it is earning on its installed capital base, when it grows by investing new capital in projects and strategies that more than cover the threshold return, and when it releases capital that is not earnings its true cost – which happens when management improves asset turns, pares marginal lines of business or sells or outsources assets worth more to others. An increase in a firm's EVA, even if it is just making a negative EVA less negative, is as sure a sign a company is making progress as generally exists, and that it is increasing the value of the firm above the capital invested in it, spread which goes by the name of **MVA**, standing for "market value added." EVA Momentum is a ratio that measures the rate of increase in EVA (as a percent of sales in the prior period).

EVA Spread. The ratio of **EVA/Capital** measures the productivity of capital in generating economic profit. It is mathematically the same as the percent spread between **ROC** and **COC**.

EVA Margin. The ratio of **EVA/Sales**; it is the percentage of sales that ends up as **EVA** after all operating expenses, taxes, and capital charges have been paid. It is the single best measure of a company's profit margin because it correctly and completely consolidates pricing power, operational efficiency and the quality of asset management into one overall score.

In so doing, the EVA margin makes it possible to meaningfully compare asset light service businesses that require little capital, and which like Wal-Mart can generate an outstanding **EVA** with relatively meager operating margins, versus companies in asset intense industries, such as semiconductor fabricators or paper mill operators that must tie up significant capital to generate sales, and which therefore are obliged to earn far higher operating margins to cover the cost of their capital before they can begin to earn **EVA**.

An *increase* in EVA Margin is moreover a strong indication that a firm is becoming *more* productive and profitable -- all things considered. That's because an increase in EVA Margin generally stems from one or more of the "3-P's" -- that is, from earning and exerting *price* power, from developing an outstanding *product* line-up (and not carrying products just for the sake of sales, market share, or income), and from achieving *process* excellence -- from trimming the total operating and capital cost of running the business. A good example is Apple, which managed to increase its EVA Margin from a mere 3.1% to a phenomenal 16.9% over the 6 years ending March 2010 -- a function of charging premium prices on an all-star product line-up developed and delivered with remarkable operational efficiency.

		Currency: U.S. Dollar Scale: Values in Millions					
APPLE INC GENERAL - DISCLOSED		Trailing Four Quarters					
APPLE INC GENERAL - DISCLOSED		2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2
29	EVA Margins						
33	Cash Operating Costs (% of Sales)	83.4%	80.9%	77.0%	74.1%	70.4%	64.6%
34	COGS Adjusted Chrg: % of Sales	70.4%	70.0%	66.7%	63.7%	60.7%	56.7%
37	SG&A Adjusted Chrg: % of Sales	13.0%	10.9%	10.4%	10.4%	9.7%	7.9%
40	EBITDAR Margin (EBITDAR/Sales)	16.6%	19.1%	23.0%	25.9%	29.6%	35.4%
43	Productive Capital Rental Charge (% of Sales)	11.7%	8.4%	8.2%	7.8%	8.0%	6.9%
44	Cap Chrg: Working Capital % of Sales	-0.1%	0.1%	0.1%	0.0%	0.2%	0.1%
64	Rent Chrg: Net PP&E Adjusted % of Sales	4.5%	3.3%	3.3%	3.4%	3.7%	3.3%
83	Rent Chrg: Intangible Capital AT % of Sales	7.2%	5.0%	4.8%	4.4%	4.2%	3.5%
118	EVA Before Tax Margin (EVABT/Sales)	4.9%	10.7%	14.8%	18.1%	21.6%	28.5%
121	EVA Effective Tax Rate	43.1%	38.9%	37.2%	36.8%	36.5%	36.2%
124	Other EVA % of Sales	1.1%	1.3%	1.5%	2.0%	1.8%	-1.1%
161	Rent Charge: Goodwill & Sp Items % of Sales	0.7%	0.5%	0.4%	0.3%	0.2%	0.2%
170	EVA Margin (EVA/Sales)	3.1%	7.4%	10.5%	13.1%	15.2%	16.9%

EVA Momentum. The *change* in a firm's economic profit in a given period divided by its sales (or capital) in the prior period (when divided by trailing sales, it is referred to as EVA Momentum Margin, and by capital, as EVA Momentum Spread).. For example, a company that has 2009 sales of \$100, and that increases EVA from \$10 in 2009 to \$11 in 2010 (or from -\$6 to -\$5 for that matter) generates 1% EVA Momentum (\$1/\$100). EVA Momentum indicates the rate of growth in economic profit, scaled to sales. EVA Momentum can be measured by quarter (vs. the same quarter the prior year), year over year, or over a longer term horizon, such as the trailing three to five years. It can be measured using actual EVA figures or using a trend line change.

EVA Momentum is a very important metric. For one thing, it is the *only* financial ratio where a bigger outcome is generally always better, because it increases when **EVA** does, which indicates the firm's net present value is expanding and that management is taking actions that make economic sense. That cannot be said of margin, market share, growth rate, return on capital, or any other ratio metric. All of them can "improve" when a firm's performance and value are actually deteriorating (see "EVA Momentum -- the one ratio that tells the whole story," by EVA Dimensions CEO Bennett Stewart, for more information; appearing in the *Morgan Stanley Journal of Applied Corporate Finance*, Spring, 2009).

Also, more than any other measure, EVA Momentum levels cross-company comparisons by scaling results according to size and also by concentrating on performance improvements -- focusing on *changes* in **EVA** -- which means that legacy assets or liabilities that are already reflected in the base *level* of EVA are ignored. It is, for instance, positive for negative **EVA** businesses that are on the mend, and negative for positive **EVA** businesses that are slipping. EVA Momentum is thus a financial "canary in the cave," presciently signaling changes of direction in advance of conventional measures like EBITDA, EPS or ROE, which do not adequately charge profit for the use of investors' capital.

EVA Momentum is always the sum of two overarching drivers (from which all others derive). It is the sum, first, of the *change* in **EVA Margin** -- which reflects improvements or deteriorations in the total productivity of the business model spanning price power, operations efficiency and asset management -- and second, of "profitable growth," which is the *product* of the firm's sales growth rate and its **EVA Margin**. For instance, a company that increases its **EVA Margin** from 4.5% to 5%, coupled with 10% sales growth, produces 1% EVA Momentum -- half from the Margin improvement, and the other half from earning a 5% Margin on the 10% sales growth. Or, to take a real example as shown in the table below, Apple's EVA Momentum in the four quarter year ending with its second quarter of 2010 was 8.6% -- a result of a \$3.1 billion increase in EVA over the period divided by \$36.3 billion in sales the prior year. But that only tells the answer. The firm's EVA Momentum is actually better understood as emanating from a 1.2% expansion in its EVA Margin -- from 15.2% to 16.9% -- and from achieving sales growth of 40.8% at the concluding 16.9% EVA Margin -- for a "profitable growth" product of 6.9% (there is also a component due to the change in the cost of capital, which is generally negligible).

evaDimensions		Currency: U.S. Dollar Scale: Values in Millions					
APPLE INC GENERAL - DISCLOSED		Trailing Four Quarters					
APPLE INC GENERAL - DISCLOSED		2005TFQ2	2006TFQ2	2007TFQ2	2008TFQ2	2009TFQ2	2010TFQ2
170	EVA Momentum						
171	EVA (ROC-COC) x Capital	\$347	\$1,282	\$2,256	\$3,776	\$5,536	\$8,651
172	ΔEVA (vs. prior year)	\$543	\$935	\$975	\$1,519	\$1,760	\$3,115
173	Sales	\$11,097	\$17,306	\$21,586	\$28,747	\$36,323	\$51,123
175	EVA Momentum (% of Trailing Sales)	7.6%	8.4%	5.6%	7.0%	6.1%	8.6%
178	= EVA Margin Expansion Delta EVA Margin	5.9%	4.3%	3.1%	2.7%	2.1%	1.7%
181	EVA Margin (EVA/Sales)	3.1%	7.4%	10.5%	13.1%	15.2%	16.9%
182	+ Growth@Margin Gsales x EVA Margin	1.7%	4.1%	2.6%	4.4%	4.0%	6.9%
185	Sales Growth Rate	54.7%	56.0%	24.7%	33.2%	26.4%	40.8%
186	+ EVA Margin Expansion from lower COC	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%
187	Implied EVA Momentum 10 Yr (Sales)	3.3%	2.8%	3.5%	4.0%	0.6%	2.6%

One implication: firms with low and stagnant **EVA Margins** are incapable of generating EVA Momentum -- no matter how rapidly their book income, EBITDA or EPS expand. Firms with low or negative **EVA Margins** must first increase it before they have any chance to add value as they grow sales or expand their book earnings. Another implication: a profitable firm may forfeit some of its **EVA Margin** (and **ROC**), and yet still generate Momentum by achieving with sales growth at the Margin. Google did that in 2007, a year it racked up nearly 8% in EVA Momentum. Its **EVA Margin** shrank from 20% to 18%, but was more than compensated by 55% sales growth at the **EVA Margin**.

EVA Momentum is thus a worthy successor to the DuPont ROI formula because, like ROI, it traces to operational ratios that characterize income efficiency and asset management, but better than ROI, it correctly incorporates the value of profitable growth and strategic retrenchment.

Another advantage is that it is possible to figure out the projected EVA Momentum rate that is baked into stock prices. That is possible because the present value of **EVA** is by definition the same as the net present value of discounted cash flow, and so the **EVA** trajectory that will discount back to the **MVA** reflected in the firm's share price can be determined. As is shown on the chart above, the market-implied EVA Momentum rate for Apple has typically run at 3% or so, and as Apple handsomely outpaced that expected rate, its shares were significantly revalued, bid up from an **MVA** premium of \$27 billion to \$177 billion, representing \$150 billion in aggregate wealth creation and a truly phenomenal return for shareholders.

Once again, it is not possible to derive a market-implied ROI or EPS growth, because neither ROI or EPS discount to share value -- whereas **EVA** does (see **MVA** discussion). The oft-quoted "consensus EPS" is thus nothing of the kind. It is merely an arbitrary aggregation of sell-side analyst projections for next year's EPS -- which is hardly a sufficient foundation for understanding long-run discounted value, and which completely ignores the input of buy-side analysts. In short, unlike the market-implied EVA Momentum, "consensus EPS" ignores the market's true "consensus" as is reflected in the share price.

Valuation Metrics:

Market Value Added (MVA). The spread between a company's overall market value, given its share price, and the **capital** invested its business to produce the value. It is the difference between the sum of cash that investors have put into or left in the business as its capital and the present value of the cash they could expect to take out of it, if only by selling their shares. As such, it represents how much wealth the firm has created. It is also implicitly the aggregation of the net present values ("NPV's") of all existing and planned capital investment projects. Moreover, the period-to-period change in MVA, when coupled with the EVA profit actually earned, determines the rate of return the firm generates for its investors on the **market value** of their investment in the firm.

In principle, a firm is fairly valued when its MVA is priced to equal the expected sum of the **EVA** profit it is able to earn in the future, after discounting to a present value. Businesses that are only capable of covering their cost of capital and that break even on **EVA** break even on MVA, too. They tend to trade close to the book value of their capital (actually, usually a bit more, as there is always the chance for a turnaround or takeover). On the other hand, businesses like Apple's that handily return more than their cost of capital and which earn significant **EVA** profits trade for lofty MVA values. They are bid to market value premiums over invested capital, which enhances the wealth of the investors, and in the process, generates outsized returns. And the larger the **EVA** they earn and the more rapidly and surely they can expand it, the larger the MVA premium that is warranted. It works in reverse, too. Negative **EVA** businesses, like GM in the 20 years leading up to the bankruptcy, are bid down to market valuations that discount, sometimes quite severely, the book value of their capital, leading to a loss of shareholder wealth.

The rule above is theory and not always perfectly realized in practice across a market universe of 3000 stocks, which is the reason that the PRVit stock rating model is often capable of identifying mis-valued stocks by weighing on the one side of the scale a set of **EVA** performance and risk factors that proxy for the present value of **EVA**, and on the other side, a variety of MVA related multiples derived from the firm's actual market valuation. The relative balance of intrinsic **EVA** value versus actual MVA valuation, compared to all other Russell firms, gives rise to the PRVit rating, and to insights about relative over- or under-valuations of individual companies.

MVA Spread. The ratio of **MVA/Capital**, which indicates the rate at which a firm is creating wealth per unit of capital employed. Either a high **ROC** or significant stream of new positive **EVA** projects are needed to justify a high MVA index.

Wealth Margin. **MVA/Sales**, which indicates the rate at which a firm is creating wealth per unit of sales. Either a high **EVA Margin** or a significant and long-lasting **EVA Momentum** trend are necessary to justify a high MVA margin. To be precise, a firm's MVA Margin should equal the capitalized value of its current **EVA Margin** plus the present value sum of the **EVA Momentum** it will accumulate over a growth horizon of 3 -15 years.

Future Growth Value (FGV). The portion of the firm's **MVA** that exceeds the capitalized value of its current **EVA**. It is therefore the value that investors are currently paying in anticipation of growth in **EVA**. To take an example, suppose a firm's MVA is \$1 billion, and that its **EVA** is currently running at \$60 million. Suppose also that its overall cost of capital is 10%. The capitalized value of its current **EVA** is \$600 million (\$60 million/10%), which leaves a \$400 million residual as the future growth value -- the premium the market is pre-paying for the value of anticipated growth in **EVA** (i.e., for continued **EVA Momentum**). Future growth value can also be negative, which occurs when a firm's **EVA** profit is at a cyclical peak, when patents are slated to expire or substitute products are coming on the market, or where contingent liabilities loom large.

Future Growth Reliance (FGR). **Future Growth Value/Market Value**. It is the percent of the firm's overall market value that is dependent on, actually, at the risk of, continued growth in **EVA**. Stocks with high FGRs percentages qualify as PRVit "Buys" only if they are demonstrating a strong and reliable trend of improving **EVA**.

Future Growth Margin (FGM). **Future Growth Value/Sales** (for the most recent trailing four quarters). In principle, a fairly valued firm's FGM should equal the present value sum of the **EVA Momentum** it will accumulate over a growth horizon of 3 -15 years. Either a high **EVA Margin** or a significant and long-lasting **EVA Momentum** trend are necessary to justify a high FVA margin.

Enterprise Multiple (EM). Enterprise Value/EBITDAR (which is EBITDA, plus rent, plus R&D and advertising, plus a handful of other corrective accounting adjustments). EM is the number of years of pre-tax operating cash flow required to match the firm's Enterprise Value (which is just a slight variation on the aggregate market value of the firm's debt and equity, and which includes the present value of rents to neutralize the comparison among firms that own or lease assets in differing proportions). The higher the multiple, the more the firm must be able to reinvest its EBITDAR in EVA-enhancing investments and strategies.

NOPAT Multiple. Market Value/NOPAT. The number of years the firm must generate net operating profit after taxes at the current level to cover the current market value. Unlike EBITDAR, **NOPAT** is net of depreciation and amortization, including the amortization of R&D and ad spending that under **EVA** is written off over time. It is also net of tax. Unsurprisingly, the NOPAT multiple tests better as a predictor of shareholder returns than the EBITDAR multiple (which in turn, tests better than the plain vanilla EBITDA multiple). In practice, using both together as a composite indication of the un-leveraged valuation multiples the market is currently attaching to a company is even better -- as they are not perfectly correlated "signals". In any case, the higher the multiples, the greater is the risk-adjusted EVA performance in order for a stock to qualify as a PRVit "Buy,"

Risk Metrics:

Stock Price Volatility. The standard deviation in monthly returns. The higher it is, less confidence can be attached to extrapolating past performance trends.

EVA Margin Variability. The standard deviation in the firm's **EVA Margin** over the past three years. The higher it is, more uncertainty is attached to extrapolating past performance trends.

Financial Leverage. A heavy reliance on debt financing is a risk factor, making the firm vulnerable to sudden downturns, robbing it of flexibility to pounce on fleeting opportunities, and increasing the variability of the residual profit stream that accrues to the shareholders. Debt reliance is indicated by the overall ratio of the firm's total debt, including the present value of operating rents, to its total capital, and also by **payback horizon**, which is the number of years of pre-tax operating cash flow (EBITDAR) required to fully retire the debt obligations.

Free Cash Flow (FCF). Cash operating receipts minus cash operating disbursements. It can also be computed as **NOPAT** less the change in **capital** over the period. A firm that earns more NOPAT than it re-invests has positive "free" cash flow, and thus the liquidity to distribute the surplus to investors or retain it as a cash reserve. A firm that invests more than it earns, and which records a negative FCF, must raise debt or equity, or draw down on its excess cash balances.

Free Cash Generation (FCG). The ratio of **FCF/Capital**, the net cash flow yield on capital, a ratio that is mathematically the same as the firm's **ROC** less the growth rate in its **capital**. Positive cash generation is considered a sign of liquidity and staying power, and hence, lower risk. Negative free cash generation is interpreted as a higher risk proposition. For one, it prolongs the duration of the cash payback, making it riskier to project and value. For another, it may be the result of aggressive and unproven acquisition spending. Regardless, negative FCG generation requires external financing, and that puts the firm's growth at the mercy of market access. Being reliant on external financing sources also can lure management into adopting liberal accounting policies that make profit look better than it really is, raising questions about the quality of the earnings and corporate governance -- a la Enron.

Operating Cash Generation (OCG). OCG is operating cash flow after investment in working capital. It is measured as cash operating profit after taxes (i.e., NOPAT plus depreciation and amortization) less the period investment in working capital. OCG automatically converts all sales to cash sales (because it nets out uncollected receivables), deducts inventory accumulations and "channel stuffing," and voids non-cash provisions to reserves, such as bad debt, obsolescence, and short-term warranty and deferred revenue (regardless of whether the reserve accruals have been booked through NOPAT or left to stew in a contra working capital account). Unlike the accounting-based "funds flow from operations," OCG is before interest expense, and thus it avoids the distortions of changes in debt/equity financing mix. It is in principle an even better indicator of the cash generated from operations.

OCG Return. OCG/Gross Long-Term Capital. Gross long term capital is [capital](#) plus accumulated depreciation and amortization, less working capital. It is the permanent, long term, capital invested in fixed plant, property and equipment, in long-term investments, and in intangibles, including goodwill, and other long term assets, and thus it is the capital base that corresponds to OCG. The OCG Return thus indicates the operating cash flow yield on permanent capital. A high OCG Return is a surer indication that business operations are actually generating liquidity, and that the firm's operations are inherently less risky than ones with low net cash returns.

Payback Horizon. The ratio of the firm's total debt/EBITDAR (which is EBITDA plus rent plus research and ad spending, plus other corrective accounting adjustments). It is the number of years of pre-tax operating cash flow that is required to pay off the firm's debt, including its operating lease commitments and on-balance sheet pension fund deficit. A high ratio raises questions about a firm's creditworthiness and its ability to pounce on fleeting opportunities and to withstand downturns, and is taken as a sign of "vulnerability."

Capital Ratio FEA (Financial Institutions only). The percent of financial earning assets, including the loan loss reserve, that is financed with capital (the remainder is funded with purchased funds -- deposits, borrowings, insurance reserves, etc.). A higher ratio indicates more capital is being used to cushion business risk, and that risk insurance is effectively being purchased on the balance sheet.