



Overview and Perspectives

Value-based services and perspectives

- The GAAP data companies must collect and report have little correlation to the shareholder returns that management is obliged to seek;
- Managing for increases in earning, EPS, EBITDA, ROE, ROA, or EVA based on net assets is unlikely to regularly serve the best interests of shareholders; and
- The resources allocated to new GAAP-related compliance requirements leave most senior managers and board members without the information they need to make investment decisions in the interest of shareholders.

Corporate Value Services provides a specialized corporate finance function that is:

- **Required** for an organized and empirically correct attempt at managing for shareholder value;
- **The highest standard** of value management experience and analysis tools not normally present in the corporate finance function;
- **Affordable** as a periodically outsourced service, much like auditors or special outside counsel; and
- **Objective** and free of any potential “bankers agenda”

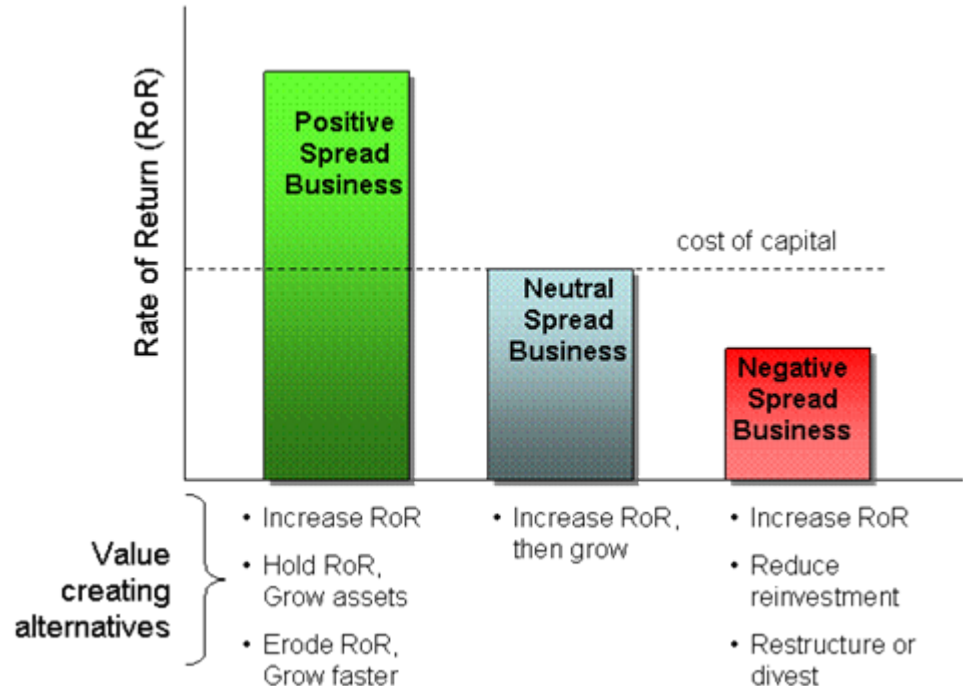
Generic value-creating results

Translation is Required

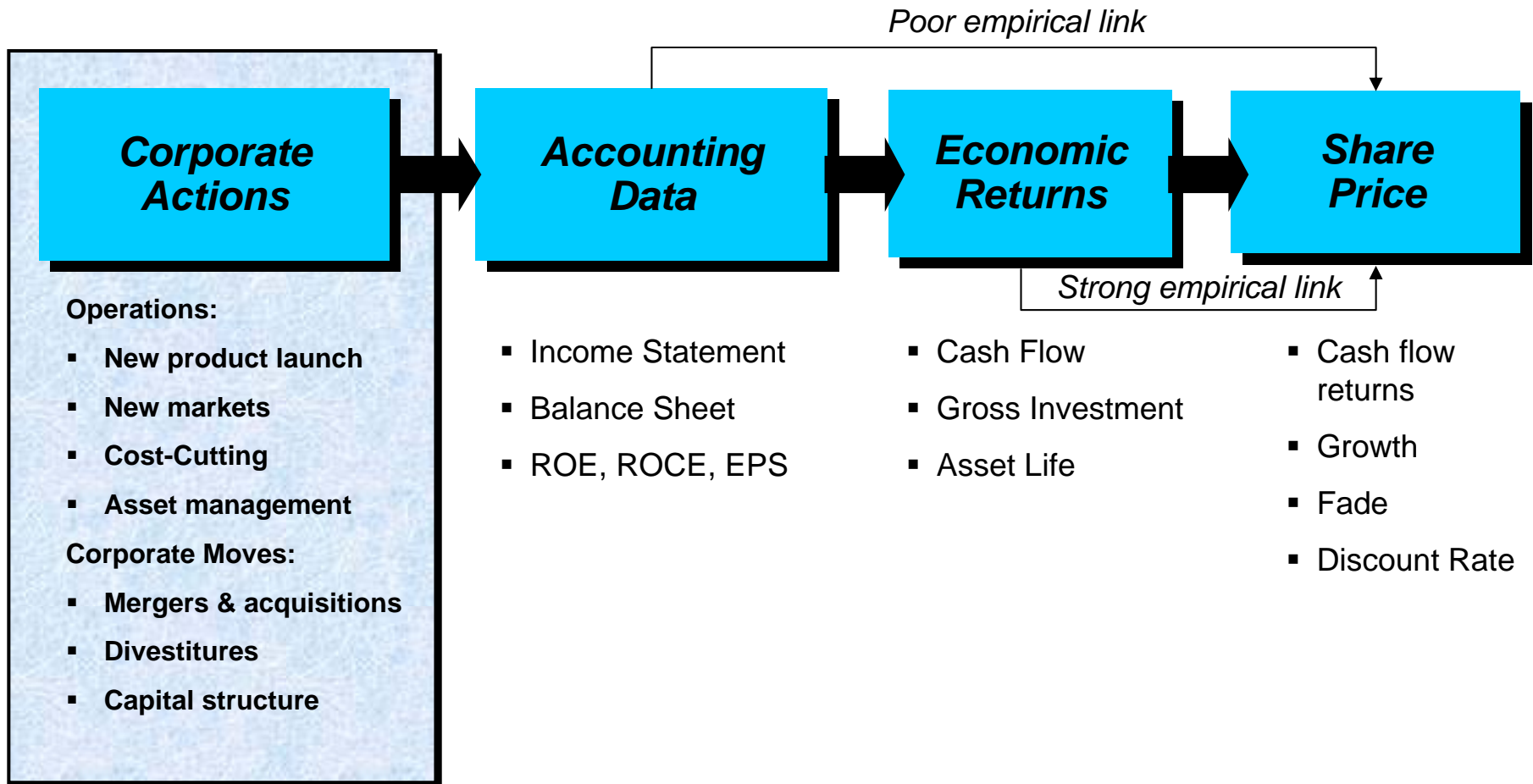
Operationally, companies create value in a myriad of ways, including real or perceived improvements in products, pricing, cost structure, customer acquisition, branding, etc.

... but when operational performance gets reflected in financial results, value is created in only three ways:

1. Increasing the rate of return
2. Growing when the rate of return is above the cost of capital
3. Shrinking investment when returns are below the cost of capital



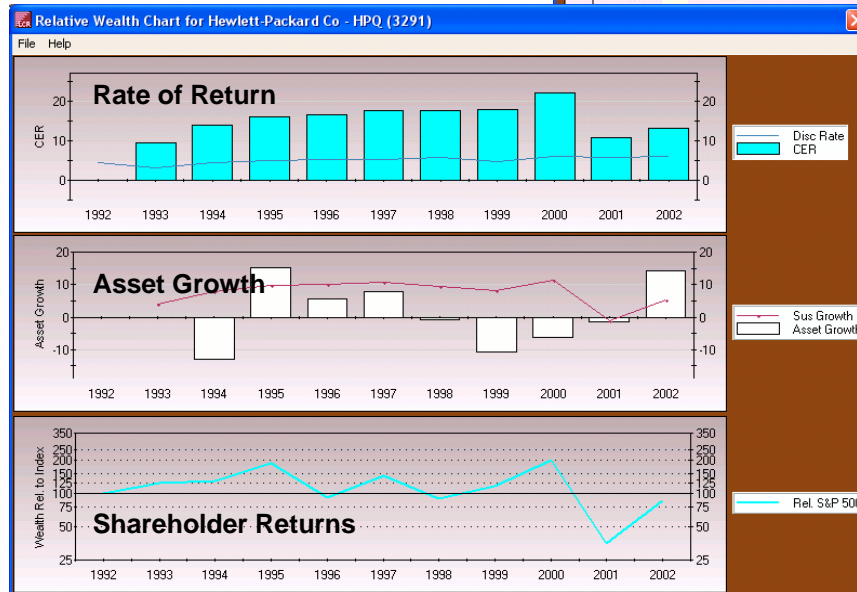
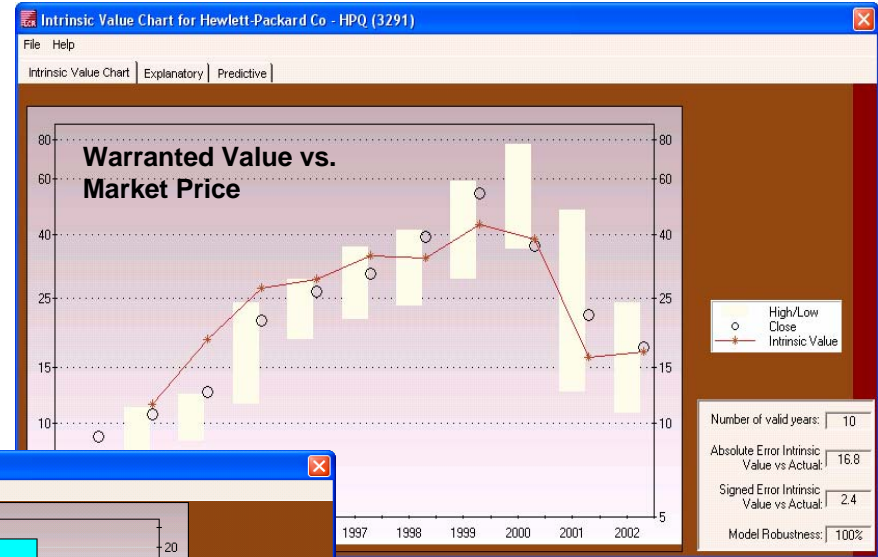
Link corporate actions to share price



Highly correlated modeled connections

Rate of return and asset growth rates together drive shareholder returns vs. the aggregate market.

Reasoned (and modeled) expectations for these results are used to estimate warranted values over time.

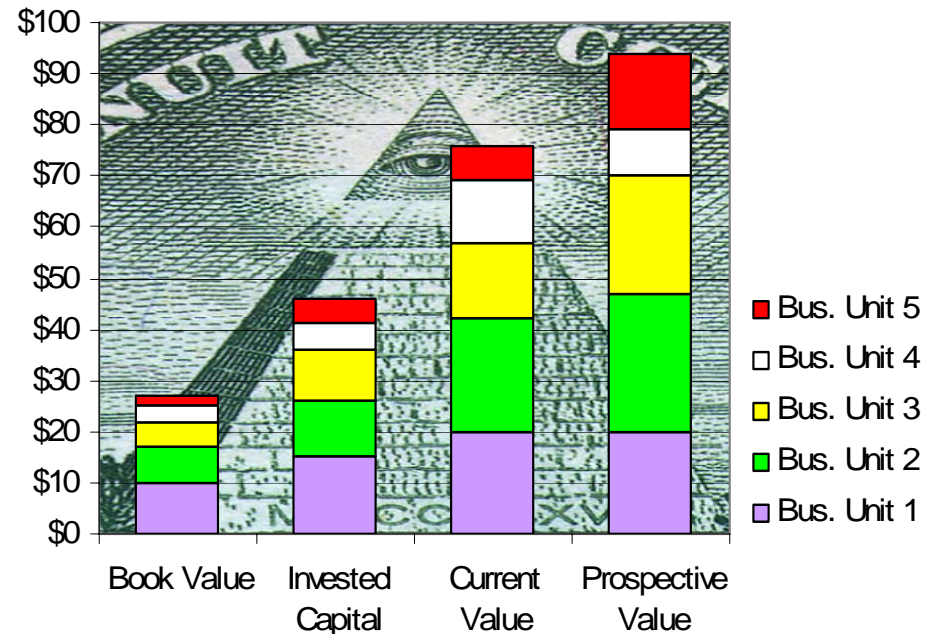


- Rate of return
- Size & growth rate
- Fade expectations
- Discount rate

Drilled down to business units & strategies

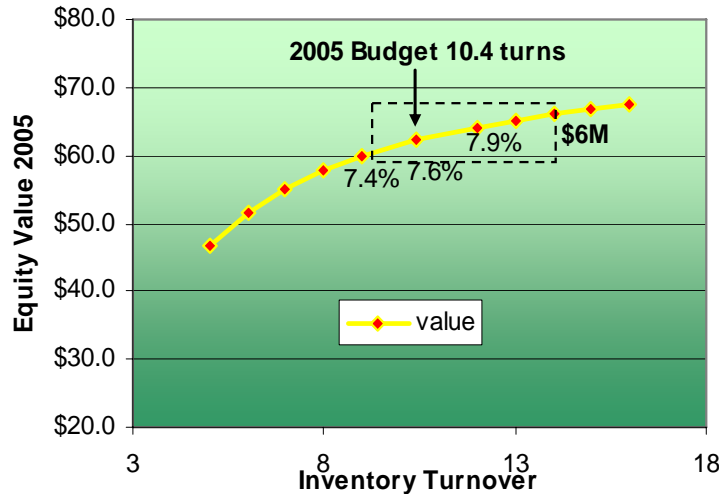
Translation is Required

- From GAAP to shareholder returns
- From accounting to economics
- From the present to the possible
 - To understand current value
 - To develop value-related strategies, communications & incentives
- For proactive corporate governance



Uncovering performance / value implications

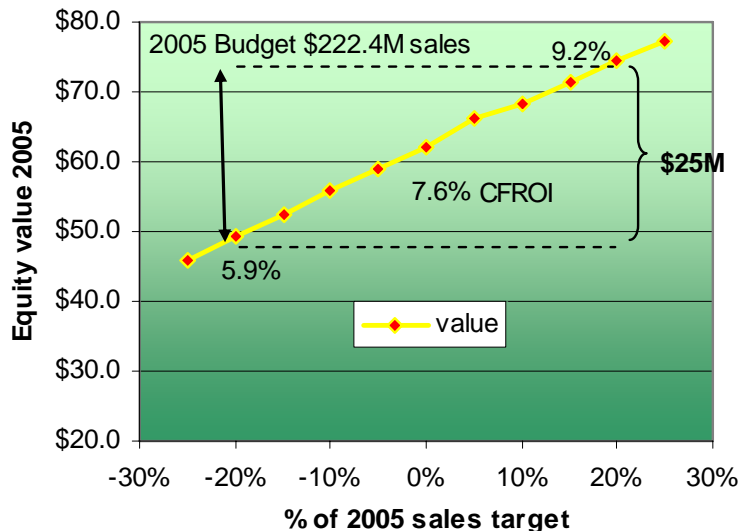
Inventory turns and value



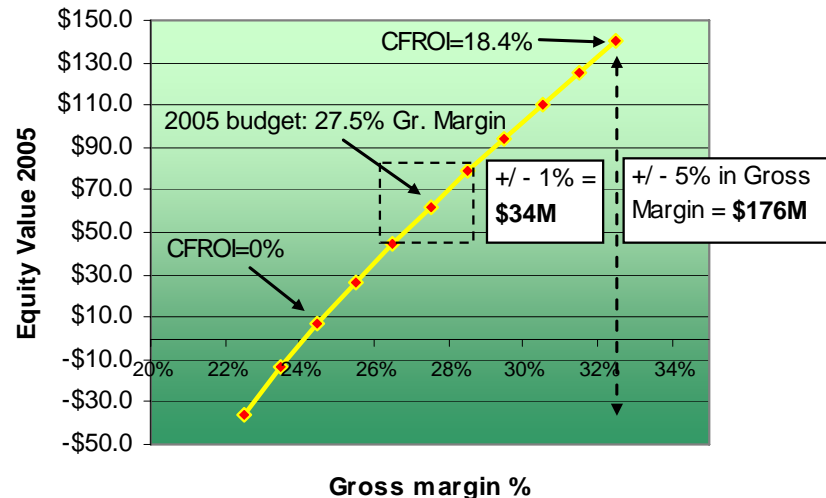
Actual case: Management and directors' believed that managing inventory levels was the most important financial objective. Sales and margins suffered from imposition of non-economic order quantities for key purchased components. Sales and margins were far more important value drivers.

Solution: Price to market not to cost. Provision components for success.

Sales and value

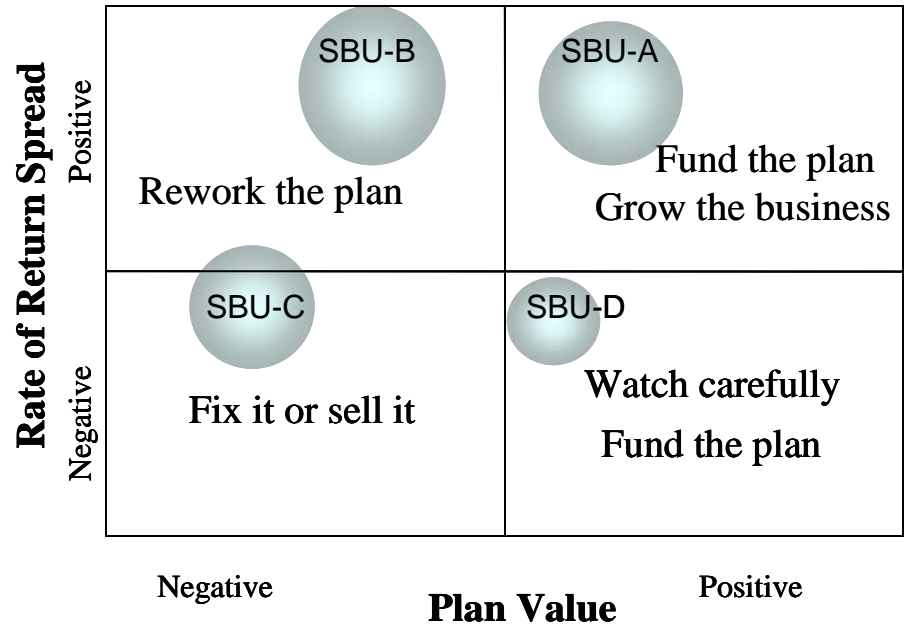
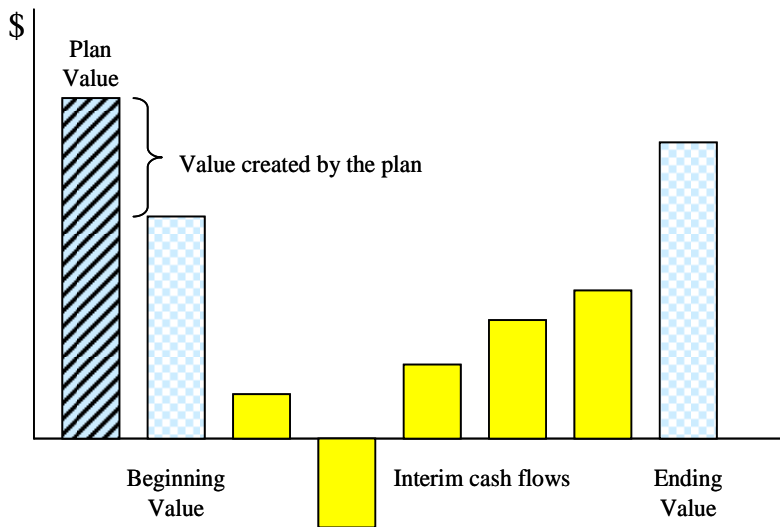


Gross margin % and value



To plan and deliver better than market returns

Having valid estimates of the value of each business today, and the value of achieving its plans, provides a map to prospective shareholder returns



Make Value Governance your management style

1. Commission a correct value audit of the company's business units
2. View current priorities and objectives through a "value lens"
3. Give senior management and board members a Value Map enabling them to meet their fiduciary responsibilities to shareholders
4. Obtain the major benefits of a state of the art value management discipline without licensing expensive software, establishing another set of books or (necessarily) engaging in training programs or changes in performance metrics
5. Bridge the gaps between accounting and market economics...between corporate governance as the avoidance of malfeasance and governance as proactive value management

Corporate Value Services: Your outsourced *Chief Value Officer*