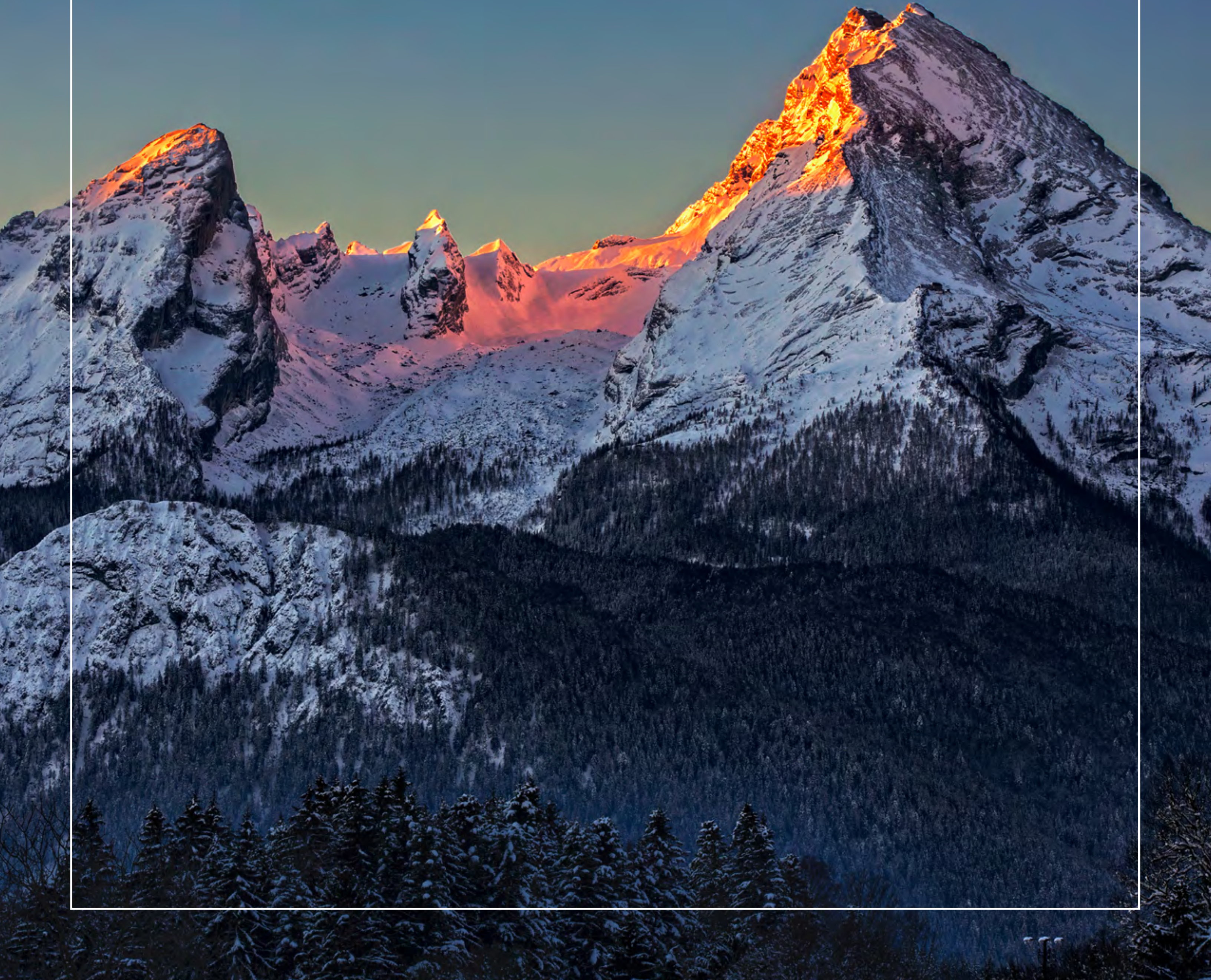
Fortuna Advisors LLC

JANUARY 2024

2024 Fortuna Advisors Value Leadership Report

How great companies become great stocks



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Thank you to Chris Moore and Michael Chew of Fortuna Advisors for their contributions to this report.

ABOUT FORTUNA ADVISORS

Fortuna Advisors collaborates with leaders to transform decision-making throughout their business to achieve exceptional results. Our management playbook delivers measurable outcomes through:

1. **Better Insights**: See the truth about where value is created or destroyed.
2. **Better Decisions**: Drive faster, better and enduring results.
3. **Better Behaviors**: Align incentives and processes to drive execution.

We serve as a catalyst to create a culture of ownership, where everyone from the board to management and employees embraces a long-term investor perspective to unlock the organization's full value creation potential.

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Driving Sustained Shareholder Returns

2023 was a year of colossal gains for equity investors, with the Dow Jones and Nasdaq 100 indexes each breaching all-time highs, and the S&P 500 nearly following suit. Investors broadly reembraced a risk-on mindset, firmly putting the losses of 2022 in the rear-view mirror.

***Total Shareholder Return (TSR)** combines share price appreciation and dividend yield to reflect shareholder value creation.

In our fourth annual Fortuna Advisors Value Leadership Report, we analyze how some of the world's best public companies produced outsized shareholder returns. Our research tracks the performance of the S&P 900, excluding financials and real estate,[1] over the five years ending in 2023.

We evaluate Total Shareholder Return (TSR)* as an indicator of value leadership in markets, and analyze how key financial measures related to TSR performance over the period. The findings explain capital market trends and can aid leaders in charting their own roadmaps to achieving superior shareholder returns. These insights are also vital for managements and boards that are charged with selecting performance measures that are most likely to motivate strong performance.

Top quartile TSR performance over the five years ending in 2023 required nearly quadrupling your share price. Impressively, top-quartile companies increased their market capitalization by $12.5 trillion on aggregate over the same period, illustrating the immense value created by market outperformers. The value at stake highlights the importance of individual companies focusing capital and human resources on the business segments, geographies, and product lines that create the most value for shareholders.

Lastly, we highlight some of the obstacles to achieving top-quartile TSR that managements should strive to overcome, as well as best practices corporate leaders can embrace.[2]

VALUE CREATION HIGHLIGHTS

1 **A RETURN TO RISK, BUT NOT GROWTH AT ALL COSTS**
Despite a substantial appetite for riskier assets and industries, investors preferred stocks with high returns on capital and earnings over those with high revenue growth. This was in contrast to the five years ending in 2021 after a multi-year bull run. This suggests that higher interest rates and the resulting higher cost of capital led investors to prize capital productivity and profitability over standalone revenue growth. *Read more.*

2 **ECONOMIC PROFIT PROXIES SHAREHOLDER RETURNS**
Even as investors embraced profitability and capital efficiency, Fortuna's unique *measure of economic profit* tracked TSR better than common performance measures, including return on invested capital (ROIC), EBIT, EBITDA, EPS, free cash flow and revenue growth, for the fourth straight year. As market trends fluctuate, it's essential to guide performance with measures that reliably relate to shareholder returns across market cycles and trends. *Read more.*

3 **THE IMPORTANCE OF INNOVATION**
From NVIDIA to Microsoft to Eli Lilly, the importance of innovation was on full display in capital markets in 2023. Leaders should deploy best practices to cultivate and manage this vital source of shareholder returns. *Read more.*

4 **SHIFTS IN INDUSTRY PERFORMANCE**
As investors reembraced a risk-on mindset in 2023, the Semiconductors and Software industries took off, fueled by the frenzy around artificial intelligence. Meanwhile Capital Goods and Consumer Durables and Apparel jumped substantially as business and consumer confidence grew. Non-cyclical industries like Healthcare, Food and Beverage, and Utilities retreated as investors sought more risk and higher returns. *Read more.*

5 **PAST PERFORMANCE IS NO GUARANTEE**
Value leaders in the prior five years were as likely to be top or bottom quartile in the recent period. Winners cannot rest on their laurels, and underperformers should never count themselves out. *Read more.*

What Does it Take to Be Top-Quartile?

Making the top quartile in TSR is by definition no easy task. But the rewards for those who achieve it are well worth the effort. Over the five-year period ending in 2023, the median annualized TSR of the top quartile of our sample was 29.6%. At this rate, a one-thousand-dollar investment would have been worth $3,651 after five years, almost quadrupling in value, as shown in *Figure 1*.

The scatterplot in *Figure 2* shows company TSR percentile rankings over successive five-year periods, with each dot representing a company in the sample. For instance, NVIDIA is in the 100th percentile over the first period, on the horizontal axis, and in the 99th percentile over the more recent five-year period.

The relatively even distribution of datapoints across the chart suggests that past performance is not a reliable indicator of future performance—any company is capable of reaching the top quartile over the next five years. Likewise, the data highlights the difficulty of sustaining superior returns over time. Some companies, and indeed some industries, shift due to business and economic cycles. But there is also a broader influence of market disruption where companies meaningfully gain, or lose, competitive advantage, which can profoundly influence both performance and valuation multiples, and in turn, TSR. Unfortunately, we've observed that far too many companies that become consumed with the quarterly earnings cycle underinvest in innovation and brand building, which often drive such market disruption.

FIGURE 1
Five-Year Ending Value of $1,000 Invested in Median of Each Quartile

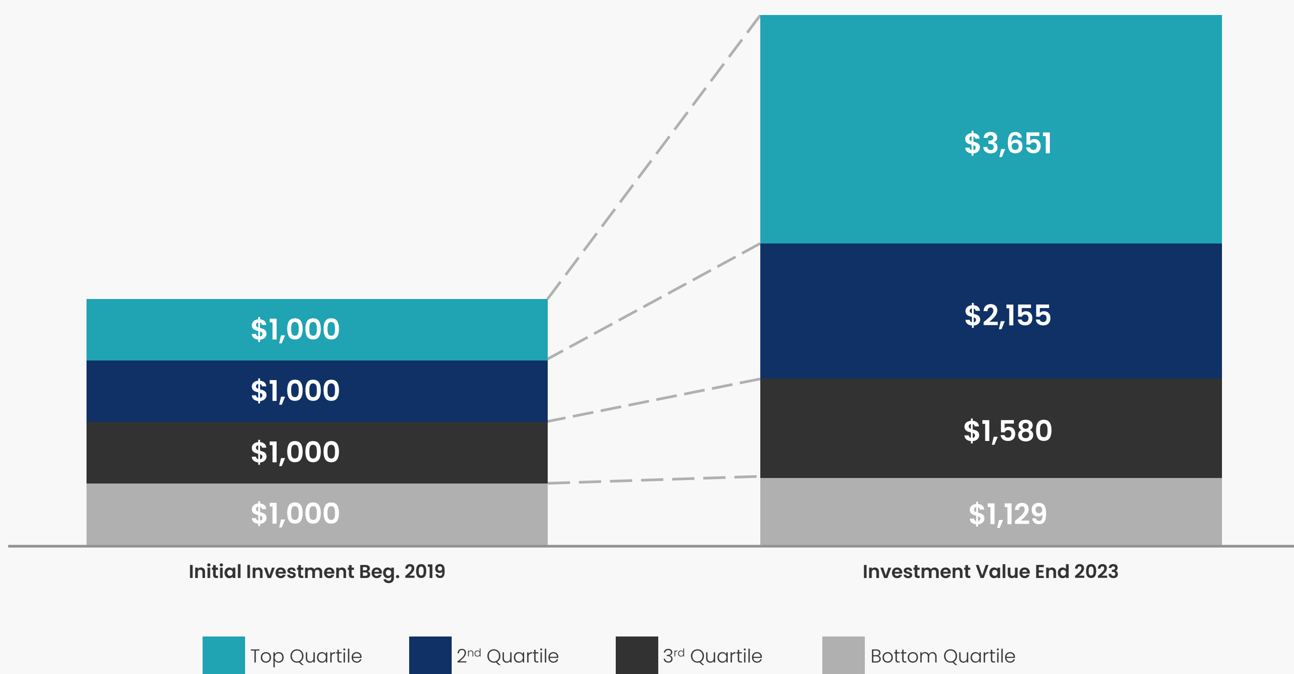
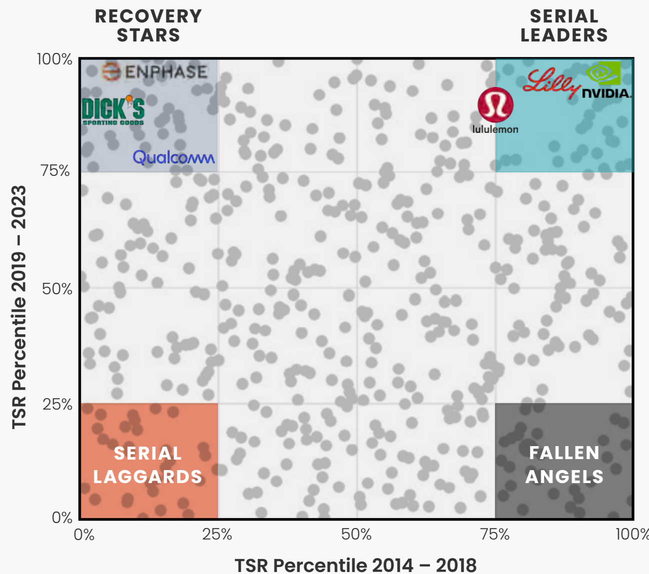


FIGURE 2
TSR Percentile Rank in Successive Five-Year Periods



RECOVERY STARS

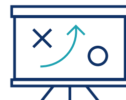
1. Acadia Healthcare
2. AECOM
3. AutoNation
4. Avis Budget Group
5. Calix
6. Cardinal Health
7. Chipotle Mexican Grill
8. Civitas Resources
9. Clean Harbors
10. Cleveland-Cliffs
11. Commercial Metals Company
12. Darling Ingredients
13. Devon Energy
14. DICK'S Sporting Goods
15. Eagle Materials
16. Enphase Energy
17. First Solar
18. Freeport-McMoRan
19. GameStop
20. Generac Holdings
21. General Electric
22. Hess
23. Hubbell
24. KBR
25. Lennar
26. MACOM Technology Solutions
27. Matador Resources Company
28. McKesson
29. Olin
30. Penske Automotive Group
31. QUALCOMM
32. Quanta Services
33. Range Resources
34. Ryder System
35. Seagate Technology Holdings
36. Super Micro Computer
37. Synaptics
38. Targa Resources
39. Taylor Morrison Home
40. Tempur Sealy International
41. Tenet Healthcare
42. Toll Brothers
43. United States Steel
44. WESCO International
45. Williams-Sonoma
46. Worthington Enterprises

SERIAL LEADERS

1. Adobe
2. Advanced Micro Devices
3. Apple
4. Axon Enterprise
5. Broadcom
6. Cadence Design Systems
7. CDW
8. Celsius Holdings
9. Churchill Downs
10. Cintas
11. Coca-Cola Consolidated
12. Copart
13. DexCom
14. Eli Lilly and Company
15. Fair Isaac
16. Fortinet
17. IDEXX Laboratories
18. Insulet
19. Intuit
20. Lam Research
21. Lowe's Companies
22. Lululemon Athletica
23. Meta Platforms
24. Microsoft
25. Molina Healthcare
26. Monolithic Power Systems
27. Novanta
28. NVIDIA
29. NVR
30. O'Reilly Automotive
31. Old Dominion Freight Line
32. Palo Alto Networks
33. Pool
34. Qualys
35. Repligen
36. ServiceNow
37. Skechers U.S.A.
38. Synopsys
39. Tesla
40. TransDigm Group
41. Trex Company
42. West Pharmaceutical Services
43. XPO

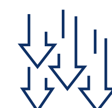
We've developed four TSR archetypes for the companies that start *and* end in either a top- or bottom-quartile position over the two successive five-year periods:

Serial leaders are the 43 companies that remained in the top quartile for both periods, which represent a wide range of industries. Serial leaders this year include Eli Lilly, Lululemon Athletica, and NVIDIA. Serial leaders focus on improving year over year and *constantly* reevaluate, and reallocate resources to, their best strategies and opportunities . Simply put, they are never satisfied with the status quo.



Recovery Stars are the 46 companies that languished in the bottom quartile in the first period but leapt to the top over the most recent period, including Dick's Sporting Goods, Enphase Energy, and Qualcomm. Either by riding a wave of changing consumer and business behaviors, improved operations, or continued growth, recovery is often also accompanied by an increase in future expectations, which increases the valuation multiple.

Fallen Angels are the 33 companies that generated top-quartile TSR during the first five-year period, but then fell to the bottom quartile during the most recent five-year period.

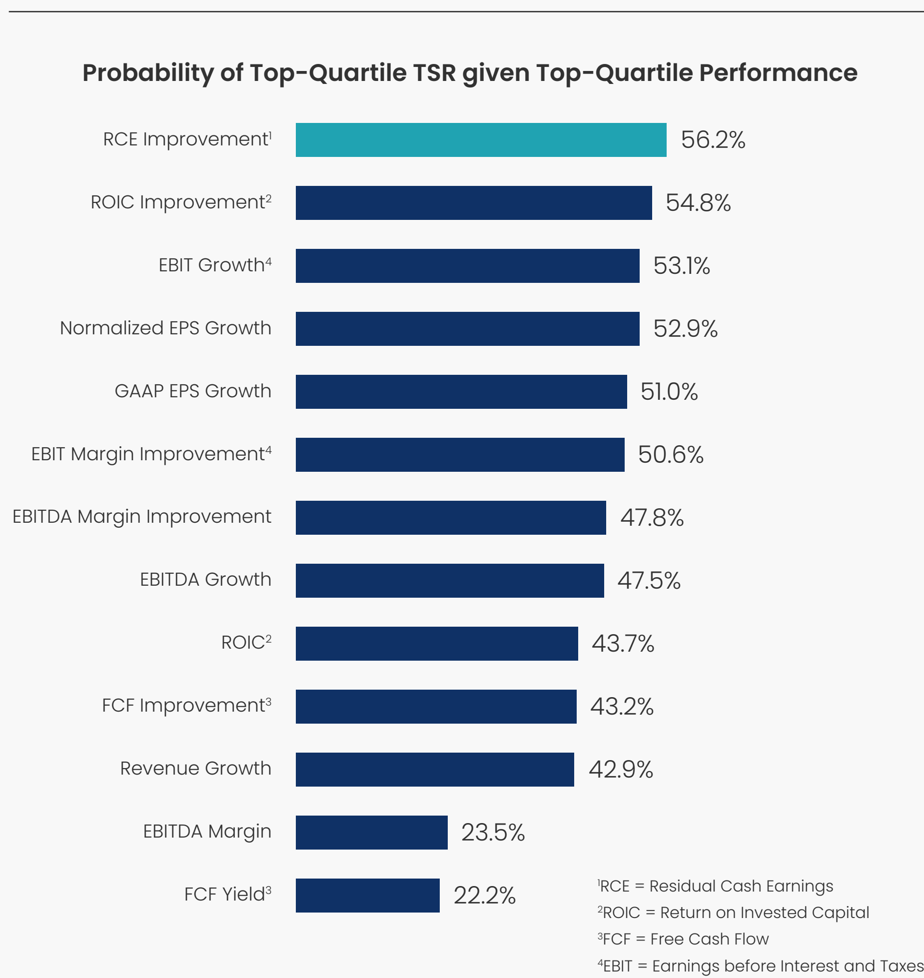


Serial Laggards are the 37 companies that generated bottom-quartile TSR over the two successive periods.

Measurement Matters: How Common Metrics Relate to TSR

Companies adopt performance measures to track and reward performance, which we think should be based on value created for shareholders. In this sense, the north star of performance measurement would be a metric that reliably reflects market value creation, or TSR. When managers try to increase this measure, they are highly likely to be driving higher TSR over the longer term. With this in mind, we set out to analyze how the many common performance measures we see in company executive incentive plans actually related to stock market performance over the last five years.

FIGURE 3
How Performance Measures Relate to TSR



Results & Discussion

The strongest predictor of TSR outperformance over the last five years was Residual Cash Earnings (RCE), Fortuna's measure of economic profit. Other top measures included improvement in return on invested capital (ROIC), EBIT growth, and EPS growth. Interestingly, despite stocks' bullish performance in 2023, revenue growth was not a particularly strong predictor of shareholder returns in the most recent five-year period, as we saw in the five-year period ending in 2021, another strong stretch for equities.

Instead, most of the top metrics (notably ROIC improvement, EBIT growth, and EPS growth) related to capital efficiency and earnings. This trend was likely influenced by a level of interest rates not seen since 2001 and the resulting elevated capital costs faced by companies, which led investors to prize profitability and high returns on capital over standalone growth.

Methodology

To understand which measures best explain outperformance in TSR, we first determined which companies achieved top-quartile TSR performance from 2019 through 2023. From that sample, we determined how many of those companies also achieved top-quartile performance in each of the operating measures in *Figure 3* over the same timeframe. For example, 56.2% of the companies that achieve top-quartile TSR performance also achieve top-quartile performance in RCE Improvement.

Problems with Common Measures

ROIC

In 2023 Investors showed a strong preference for companies with high returns on capital. As mentioned above, this emphasis on capital efficiency likely reflects the higher cost of capital over the last two years as interest rates moved up. The drawback of measuring performance with ROIC is that it unintentionally stifles long-term growth and innovation, putting companies at risk of being leapfrogged by competition in years to come. Too often we see managements pass up value-accretive investments for the sake of boosting ROIC. It may take time for market underperformance to materialize, but in the long run insufficient reinvestment will eventually drag on a company's share price.

EBIT & EBITDA

It is noteworthy that EBIT growth performed so well in this report. Understandably, EBIT and EBITDA growth are some of the most common measures we see linked to internal performance measurement. Despite the strong relationship to TSR, the fundamental issue with these metrics is that they don't account for the capital required for each dollar of earnings. While this generally leads to a suboptimal allocation of capital, in our work we have seen it affect one increasingly vital source of growth in particular: M&A. Again and again, we see companies effectively "buying" EBITDA through acquisitions, with little regard to whether capital spent actually achieves a decent ROI. And again and again, these companies are punished by shareholders.

Free Cash Flow

In recent years, it has become increasingly common for companies to use *free cash flow* (FCF) as a period measure of performance. It may seem desirable, since free cash flow over time is used in the discounted cash flow net present value (NPV) model, which is a cornerstone of modern corporate finance. But unless an investment has a return over 100% in its first year, which is rare in our experience, FCF will be negative—and may remain negative for several years if a company is in a growth stage, or modernizing older assets over that period. And so free cash flow is liable to motivate underinvestment, which harms shareholders and other stakeholders alike over the long term.

Earnings Per Share

EPS is perhaps the most common measure we see companies focus on. Despite its merits, managements can feel pressured to maximize EPS over short-term cycles to the extent that they forgo good investments that may pay off handsomely over time. Additionally, GAAP EPS requires R&D investments be charged as an annual expense. So unless the lion's share of the benefits of R&D is expected during the current fiscal year, which is typically not the case, this distorts EPS by making it look worse. Unfortunately, this tends to discourage R&D investments for public companies looking to meet earnings expectations—often at the cost of future earnings.

Another problem stems from the fact that share repurchases create the appearance of earnings improvement when looking at profitability on a per share basis. So using EPS as an incentive may unintentionally encourage managements to prioritize share repurchases over investing in their businesses to build earnings power.

Don't see your company's performance measure(s) on this list? Reach out and we'd be happy to take a look for you. (info@fortuna-advisors.com)

Managements should carefully consider their APPROACH TO MEASURING PERFORMANCE INTERNALLY, as it has a profound effect on decision-making and shareholders returns over time.

Recommendations

Our advice to boards and managements is to carefully consider their approach to measuring performance internally, as it has a profound effect on decision-making and thus shareholders returns over time. Generally, companies tend to use too many measures and fail to adequately understand how they relate to each other and to overall value creation. Oftentimes with this "balanced scorecard" approach measures conflict, and this leads to indecision and "*analysis paralysis*."

Another problem is that most measures are incomplete—that is, they don't tell the full value creation story—and this leads to predictably adverse outcomes. For example, companies focused on revenue growth risk lowering profitability to the point of value destruction. Those guided by EBIT or EBITDA growth may not pay sufficient attention to capital productivity. Meanwhile, those occupied with return on capital might sacrifice attractive growth investments that bring down average ROIC but still earn more than the cost of capital, leading to market underperformance.

Economic profit measures like RCE are a reliable proxy for TSR because they clarify tradeoffs between growth, profitability, and capital productivity to send an unambiguous value creation signal. RCE simplifies decision-making—no need for endless analyses of the new plant, product or whatever investment management may be considering. As Ball Corporation's CFO Scott Morrison described their use of economic profit in a 2021 webinar, "[I]t makes the meetings shorter … [and] takes away a lot of the *BS that happens in the budgeting process*."

Further, as market trends and investor preferences for various aspects of performance fluctuate over time, RCE remains a reliable tool to track market value, as evidenced by 69% of our *serial leaders* placing in the top quartile of RCE improvement over the last five years. In fact, those that achieved top-quartile RCE were nearly 13x more likely to be serial leaders versus serial laggards. With the other top measures, ROIC improvement, EBIT growth, and normalized EPS growth, this statistic was just 4x, 7x, and 9x, respectively, suggesting that these metrics are more likely to lead management astray when used as performance measures.

Residual Cash Earnings (RCE)

There are many business attributes that lead to high total shareholder return (TSR). When it comes to performance measurement, executives are often tempted to layer measures on measures. But this introduces **unnecessary complexity**, and worse, creates **adverse incentives.** So how can management teams effectively balance performance drivers to maximize long-term TSR?

Economic profit, whose most well-known iteration is Economic Value Added (EVA), was developed to serve as a comprehensive performance measure.

Fortuna's partners spent many years implementing Stern Stewart's EVA and applying Credit Suisse HOLT's cash flow return on investment (CFROI). In different ways, these two frameworks aimed to combine growth, profitability, and capital productivity to relate performance to valuation and share price performance.

Unfortunately, both of these measures are fairly complex, and EVA also has been found to discourage long-term growth investment. To arrive at a simpler measure that better balances growth and return, Fortuna conducted extensive capital market research to create Residual Cash Earnings (RCE).

More than any other performance measure, RCE provides a reliable value signal. To put it simply: up is good, down is bad , as shown in *Figure 5*. And most important, it shows a stronger relationship to TSR than EVA, or generic economic profit (see "*Beyond EVA*").

As shown in *Figure 4*, RCE consists of Gross Cash Earnings, which is EBITDA less tax costs plus P&L investments like R&D, less a capital charge based on Gross Operating Assets multiplied by a required return on capital. We use gross assets in the asset base for consistency with not charging for accounting depreciation.

Figure 6 demonstrates the versatility of RCE in predicting shareholder returns across industries. While traditional economic profit has been criticized as applying only to "old world" companies with tangible assets, RCE is adjusted to capture intangible assets as well, as shown by industries like Software and Pharmaceuticals. To learn more about RCE and how it relates to your companies shareholder performance, reach out to *info@fortuna-advisors.com*.

FIGURE 4
RCE Calculation

FIGURE 5
Improvement in RCE Relates to Higher TSR

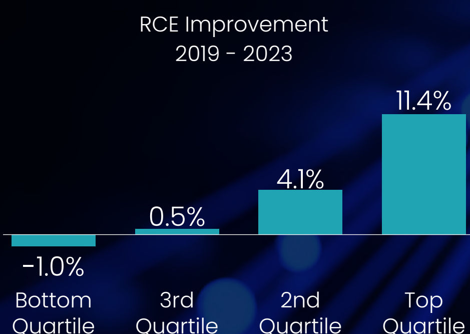
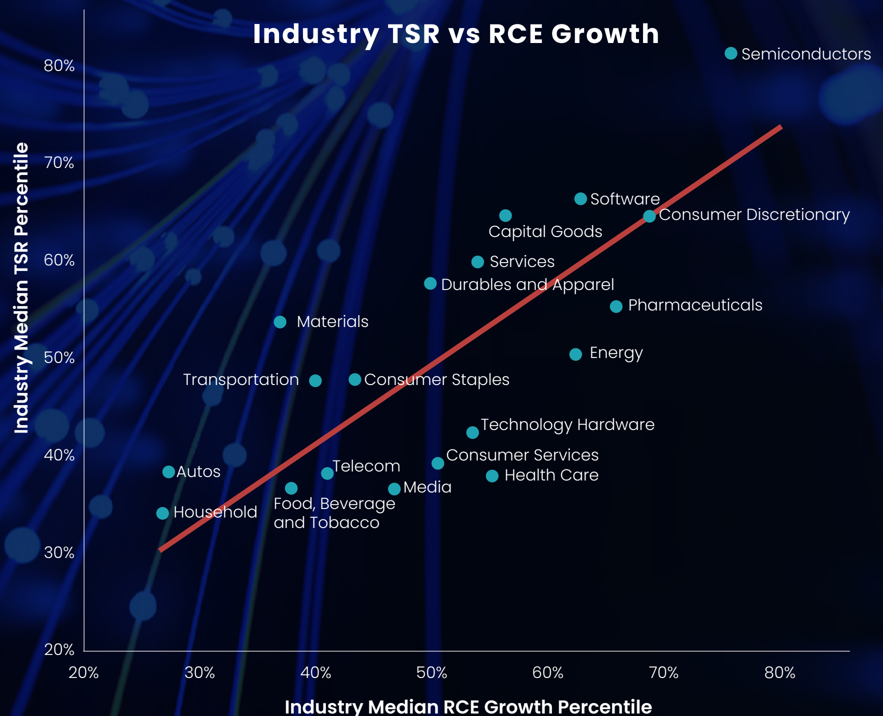


FIGURE 6
Improvement in RCE Relates to Higher TSR



Industry Tectonics: A Return to Risk

2023 was a year of astronomical gains for capital markets. One sector in particular took off, fueled by a frenzy around breakthroughs in artificial intelligence. After taking a breather in 2022, the semiconductor industry reclaimed the throne in this year's report with a whopping five-year median annualized return of 25.1%. The likes of NVIDIA, Advanced Micro Devices, and Intel were among the biggest beneficiaries of the industry's stellar returns.

Software and services also benefited substantially, taking the second spot, with a five-year median annualized return of 18.0%. Meanwhile Capital Goods jumped six spots to third place, reflecting an increase in capital expenditure as the market recovered from a down year in 2022 and business confidence grew. The Materials and Energy industries followed suit, albeit more modestly, moving up to eighth and ninth place respectively, from twelfth and eleventh place in last year's report.

Another key theme for the year was an unexpectedly strong consumer in the face of stubborn inflation, which was reflected by the strength of both Consumer Discretionary, fourth in our list, and Consumer Durables and Apparel, which jumped twelve places, to land in the sixth spot.

Of course, the bullish tone for 2023 had implications for "safer" sectors. On the other end of the spectrum, non-cyclical industries like Healthcare, Food and Beverage, and Utilities—which had relatively outperformed in last year's report—sunk back towards the bottom of our industry performance ranking as investors sought more risk and higher returns for their capital.

FIGURE 7
S&P 900 Industry Performance and Quartile Distribution, 2018 – 2022

S&P 900 Interquartile TSR Performance by Industry

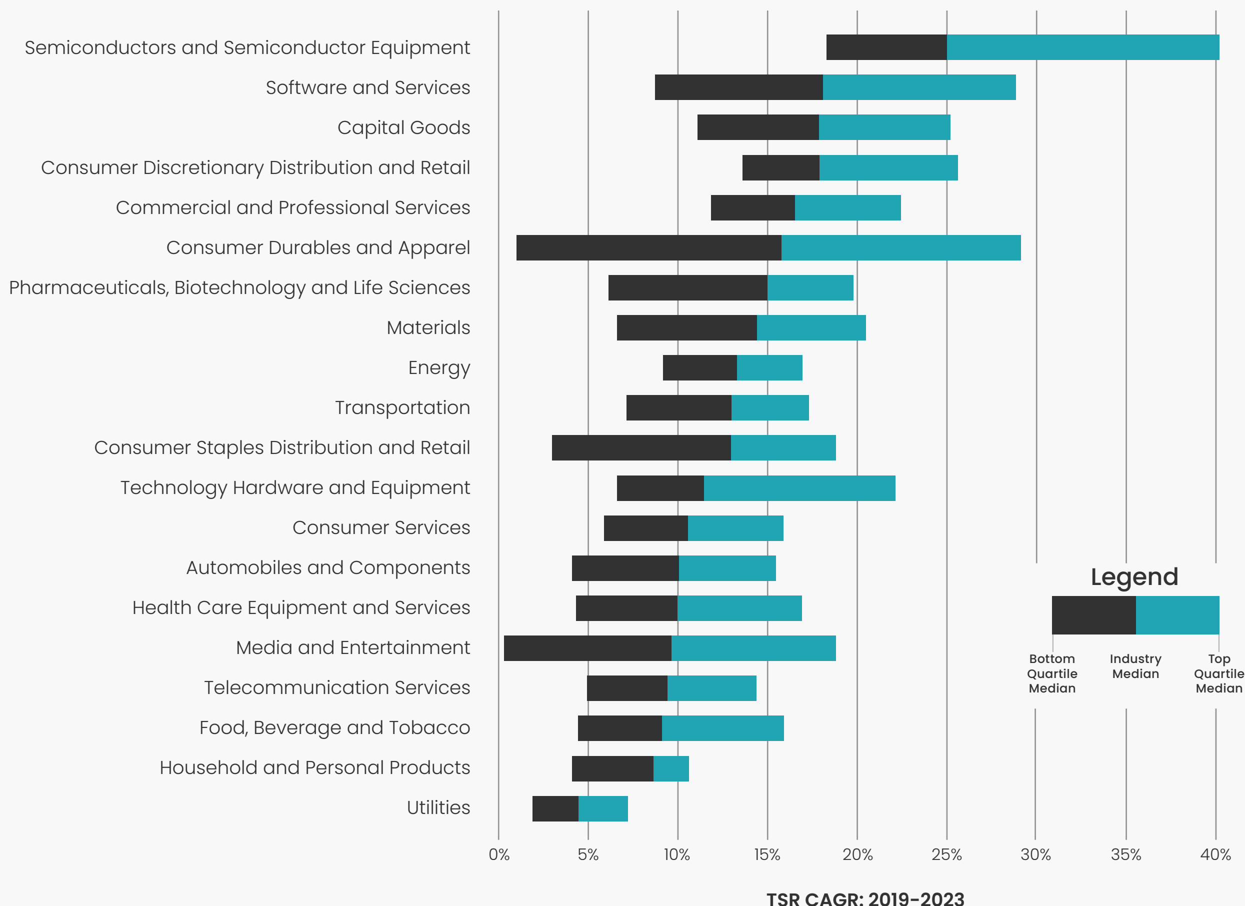


FIGURE 8
S&P 900 Rolling Five-Year Annualized TSR Trend by Industry

Industry	2019	2020	2021	2022	2023
Semiconductors and Semiconductor Equipment	19.3%	28.6%	26.8%	15.2%	25.1%
Software and Services	17.8%	20.9%	27.3%	12.7%	18.0%
Consumer Discretionary Distribution and Retail	11.2%	13.5%	20.6%	15.9%	17.6%
Capital Goods	13.0%	17.5%	15.8%	9.9%	17.5%
Commercial and Professional Services	19.4%	20.5%	21.4%	14.8%	16.2%
Consumer Durables and Apparel	9.5%	10.2%	12.7%	3.0%	15.7%
Pharmaceuticals, Biotechnology and Life Sciences	15.7%	17.7%	27.0%	14.1%	15.1%
Materials	7.1%	12.4%	13.7%	7.3%	14.4%
Energy	-7.7%	-6.8%	-0.3%	7.5%	13.6%
Consumer Staples Distribution and Retail	11.2%	15.5%	12.2%	10.8%	13.1%
Transportation	5.8%	13.7%	16.3%	4.4%	12.9%
Technology Hardware and Equipment	12.9%	20.1%	21.5%	6.7%	11.5%
Consumer Services	13.4%	16.3%	16.1%	4.6%	10.5%
Automobiles and Components	6.9%	8.0%	7.7%	-1.4%	10.0%
Health Care Equipment and Services	17.0%	18.8%	17.3%	11.4%	10.0%
Telecommunication Services	15.4%	18.9%	9.5%	7.9%	9.6%
Food, Beverage and Tobacco	9.1%	6.7%	9.4%	10.2%	9.4%
Media and Entertainment	14.6%	15.6%	15.8%	3.7%	9.4%
Household and Personal Products	9.9%	12.6%	10.5%	5.9%	8.6%
Utilities	11.5%	9.9%	9.1%	7.1%	4.4%

Insights

Naturally, some industries have a wider interquartile range than others—that is, the difference between the median top- and bottom-quartile companies in each industry group. In semiconductors we observed a significant widening of this range, as companies like NVIDA and Advanced Micro Devices distinguished themselves with their latest generation technology for the fabrication of chips related to artificial intelligence research. We see a similar, albeit more muted situation in software, whose broad distribution is also fueled by new innovations that propelled the winners of the group, which include the likes of *serial leaders* Intuit and Adobe. In most growing industries, research and development is a crucial input for success. These companies ought to ensure their corporate governance practices foster and motivate appropriate risk-taking, investment in, and management of their research and development pipelines.

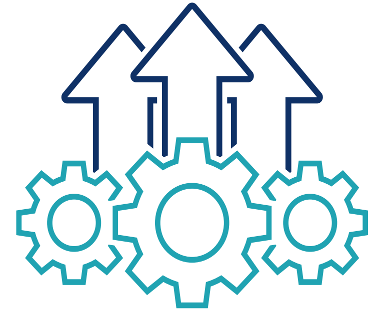
In Consumer Durables and Apparel we noted a similarly wide distribution of returns. This suggests that this group, and other consumer industries to an extent, require a source of differentiation to reach the top of the pack. Differentiation can come from many sources, including innovation, but it can also arise from strong brands and corporate purpose. In fact, Fortuna's *research* shows that "high purpose" companies achieve 14.1% higher revenue growth, 7.7% better operating profitability, 5.8% higher returns on capital, 6.2x turns higher valuation multiples—and a substantial 34.7% greater annualized TSR—versus their peers. As with innovation, differentiation results from strong company culture and *best practices* around investment in intangibles.

Best Practices for Driving Differentiation, Innovation and Investment in Intangibles

From NVIDIA to Microsoft to Eli Lilly, the importance of innovation was on display in capital markets in 2023. Unfortunately, many short-term pressures public companies face, along with common corporate governance practices at both private and public companies, can stifle this vital source of shareholder returns. Many executives acknowledge that pressure to meet quarterly earnings can lead to cutting long-term investments like R&D, brand-building marketing expenses, and training. But there are also less obvious obstacles to differentiation such as internal accounting, performance measurement, and even planning and target-setting processes.

GAAP accounting convention dictates that many important long-term investments be expensed against current profits, which puts them at risk of being cut when management feels pressure to meet near-term earnings targets. Naturally, reducing investment in innovative R&D, brand building and even employee training weakens future performance. But down the line, management usually negotiates a totally new budget, so there is little downside for them, leaving shareholders to foot the bill. While investments in intangibles have largely overtaken tangibles such as plant, equipment and working capital, imagine how much more innovation, brand-building and training investments would happen if they were recorded on the balance sheet as the investments they are.

Most companies also set performance targets based on annual budgets and plans. This can create an inadvertent motivation to downplay expectations and hold back transformative ideas. Setting targets based on prior-year performance can restore the intended purpose of plans and budgets and remove the sources of time-consuming negotiations between management and the board, helping executives think longer term.



Learn more in the podcast *Getting A Handle On How Intangible Investments Drive Value In Today's Organization*, with Fortuna CEO *Greg Milano* and intangibles expert, *Riley Whately*. A more comprehensive *roundtable discussion* includes practical perspectives from Paul Clancy, former CFO at Biogen and Alexion, Glenn Welling, founder and CIO at Engaged Capital, and Gary Bischoping, partner at Hellman & Friedman and former CFO at Varian Medical Systems. Alternatively, reach out at *info@fortuna-advisors.com* to start a conversation with our leadership team.

Overcoming Obstacles to Sustained Value Creation

The 2024 Fortuna Advisors Value Leadership Report aims to help executives and investors better understand the factors that influence TSR performance. Our goal is to inspire companies to commit to long-term value creation, and resist the temptation to sacrifice profitable investments in order to meet short-term expectations. This requires a commitment to understanding the sources of value creation, prioritizing the allocation of scarce resources to those sources, and reliably measuring value creation inside the company to drive the desired management behavior. In essence, the goal is for managements to think and act like long-term, committed owners. The following are some of the common obstacles to TSR outperformance facing company managements.

- ***The team doesn't think it's possible.*** Visualizing and charting a roadmap for achievement is the first step.
- ***Lack of aspirational goals.*** Aiming high is unwittingly discouraged at many companies where performance is measured against plans and budgets. Such companies pay managers to plan for mediocrity, and that's what they get.
- ***Insufficient portfolio optimization.*** Companies often stay in businesses where they cannot add value and don't commit enough resources to building and growing businesses with significant untapped potential. Shifting cost pressures from inflation, and a rising a cost of capital, only heighten the importance of regular *strategic resource allocation* and portfolio optimization activities.
- ***A use it or lose it mindset.*** Many managements overspend because it's "in the budget." In turn, this can lead to underinvestment in new attractive ideas that arise between budget cycles.
- ***Risk aversion.*** Company culture matters. We all want to avoid failure, but excessive risk intolerance can prevent experimentation and innovation, which harms long-term competitiveness.
- ***Misguided incentives.*** Using too many, or incomplete, performance measures means constant negotiation of budget targets. Worse, it often leads to suboptimal investment decisions.

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CONTACT US

to learn how your company may be inadvertently facing obstacles to value creation.

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NOTES

[1]Some of the measures we use, such as EBITDA and Residual Cash Earnings, are not suitable for financials companies, where interest cost is thought of as a cost of goods sold and funding debt is generally not considered to be part of long-term capital.

[2]All analyses performed in this report use data from Capital IQ.

[3]Analysis excludes Banks, Diversified Financials, Insurance, & Real Estate Industries

[4]Columns show annualized TSR over one, two, three, four, and five years, respectively, from left to right.

[5]Note: Fortuna Advisors analysis using data from Capital IQ. FCF Improvement, EBIT Growth, and EBITDA Growth are calculated as the change in the respective measures divided by revenues at the beginning of the period to normalize the metrics for size. RCE improvement is normalized by size, by calculating the change in RCE divided by Gross Operating Assets at the beginning of the period. Growth measures are calculated as CAGRs over the five-year period. EPS Growth is calculated according to GAAP methodology. ROIC is calculated as NOPAT/Net Invested Capital.

[6]Note: RCE improvement is normalized by size, by calculating the change in RCE divided by Gross Operating Assets at the beginning of the period.