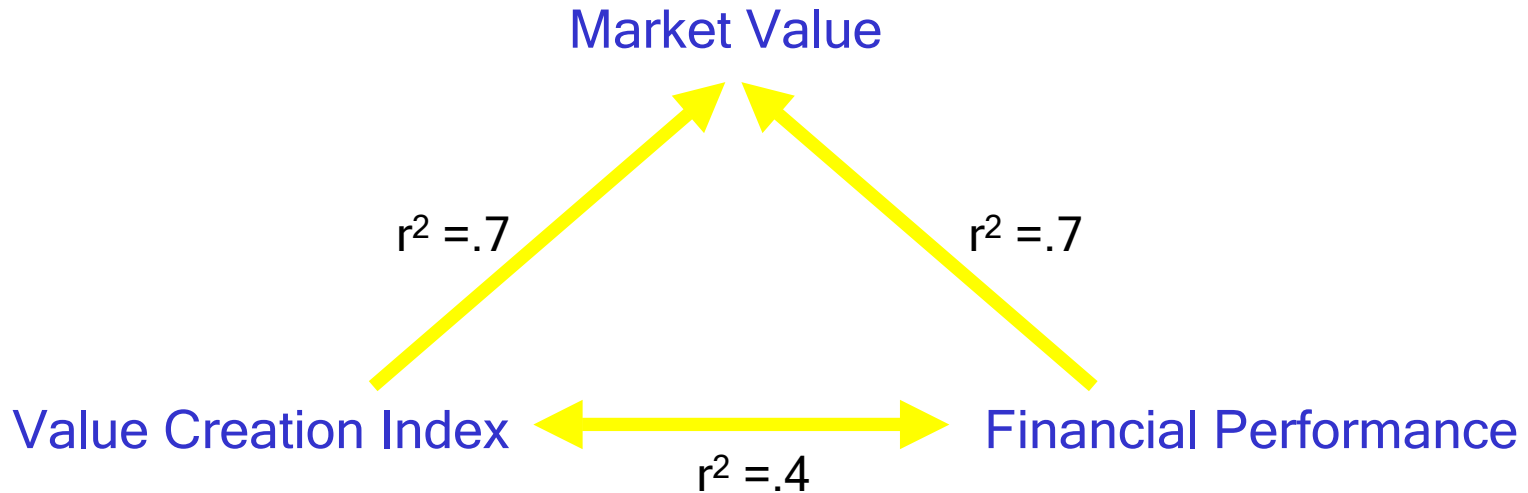


# Intangibles – The Invisible Advantage

- **At least 50% of a company's value is in its intangibles drivers. Employing a firm's invisible advantage is the only way to improve firm performance and sustain a competitive advantage.**
- **Non-financial performance accounts for 35% of institutional investors' valuation. And, in fact, The more sell-side analysts rely on non-financial performance, the more accurate are their earnings forecasts.**
- **We have identified 12 intangible drivers that tend to be consistent across industries, though definitions vary. These include: Leadership, Strategy Execution, Communication & Transparency, Brand Equity, Reputation, Networks & Alliances, Technology and Processes, Human Capital, Workplace Organization & Culture, Innovation, Intellectual Capital, and Adaptability.**
- **For the first time we can quantify what was previously considered immeasurable.**

# Value Creation Index Insights

- The VCI is highly correlated with the market value of equity



- **The R-squared values indicate that the VCI is as powerful as financial performance in explaining variance in market value**
- **The VCI is quite elastic - a 10% change in the VCI is associated with a 5% change in the market value of equity, after controlling for financial variables**

# Example: Industry Analysis

## VCI Scores & Company Rankings

## Intangibles Significance Rankings

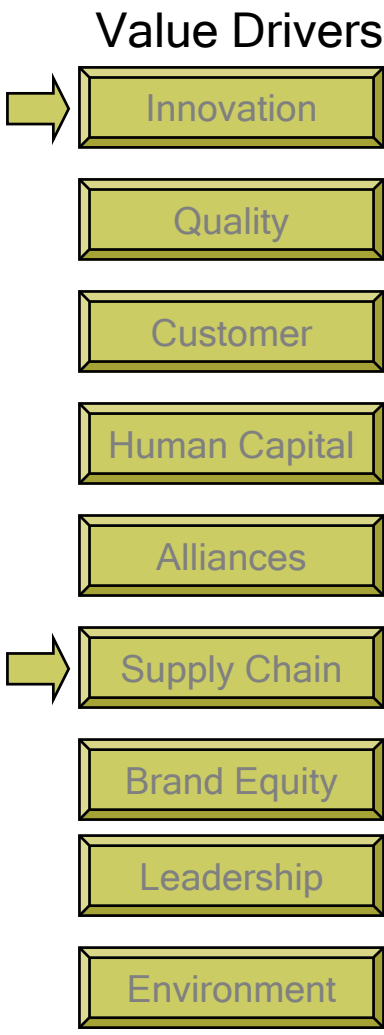
Rank	Company	VCI Score
1	IBM	100.00
2	GE	99.62
3	INTEL	96.82
4	CISCO	78.22
5	GM	75.25
6	FORD	70.79
7	DELL	64.48
8	HP	64.38
9	NIKE	57.26
10	GILLETTE	53.86
11	APPLE	52.96
12	ALCOA	51.23
13	CATERPILLAR	50.31

Value Driver	Significance Rank
Brand	1
Alliances & Networks	2
Human Capital	3
Environment	4
Quality of Product	5
Innovation	6
Leadership	7

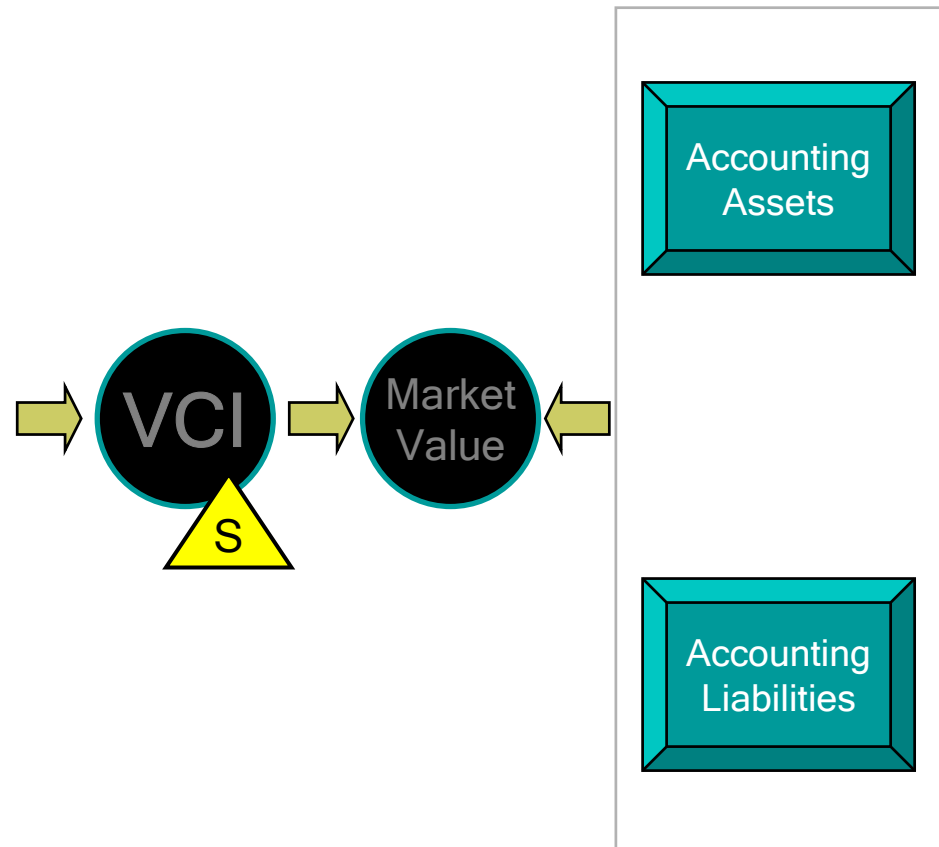
# Example: Auto (OEM's) Industry VCI Model

- Patent Importance
- # of Patents
- European Patents
- R&D Expenditures
- Worldwide Auto R&D dollars per vehicle

- Hours/Vehicle Completion
- Pieces Per Line
- Piece/Labor Hour
- Powertrain-Hours/Engine
- Total Assembly Capacity and Utilization
- Hours/Transmission Completion
- WorldWide Investment Cost/Vehicle



## Performance

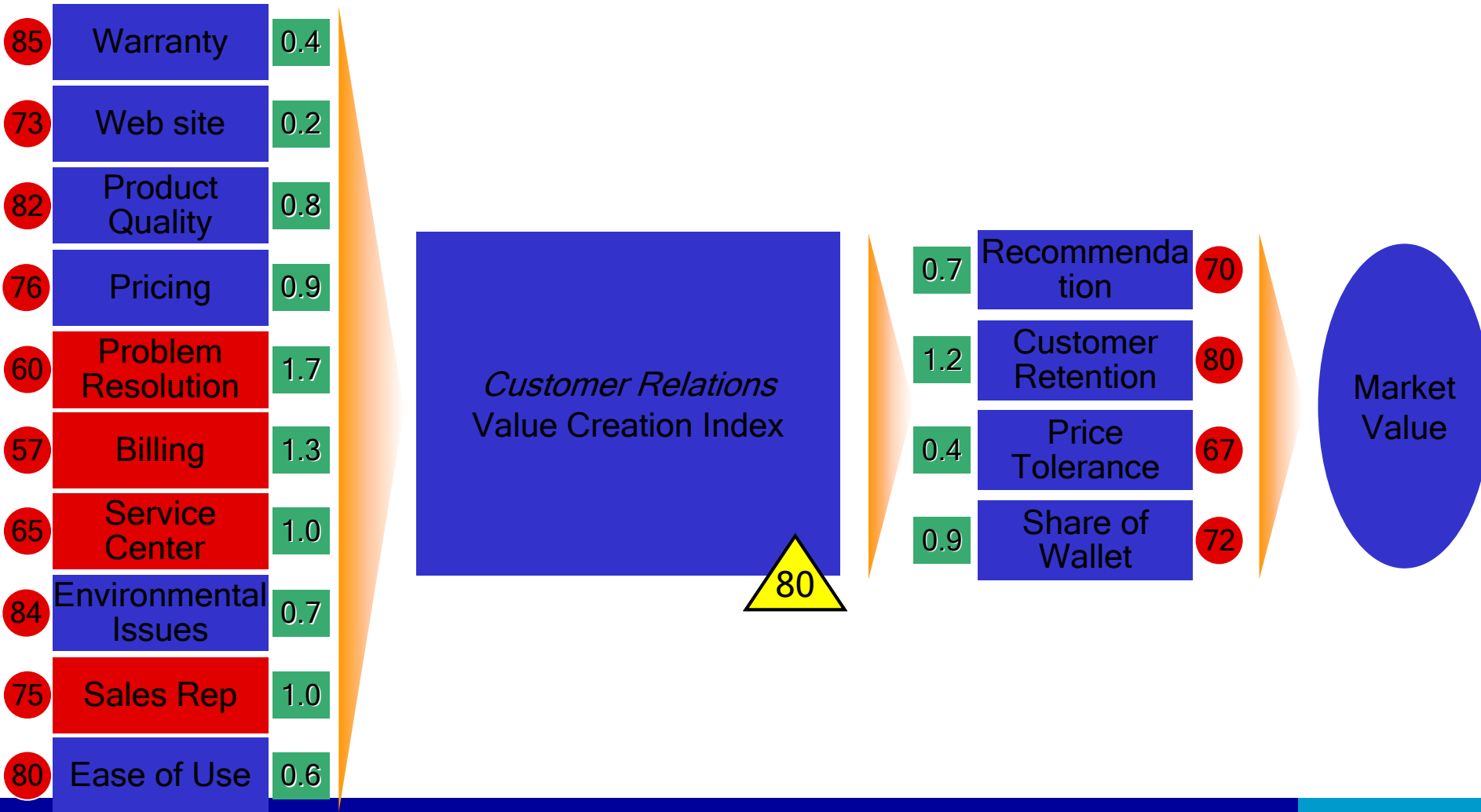


# Example: Fortune 100 Products Company Intangible Driver Model -

Components

Intangible Value  
Driver

Performance  
Outcomes



# Linkage to Economic Performance

Changes Determined:

<u>Value Driver:</u>	<u>Expected Effect of Change:</u>
Sales Rep	1.0
Billing	1.3
Service Center	1.0
Problem Resolution	1.7

Impact on Score

Customer Relations Driver  
(75 to 80)

Impact on Retention

Customer Retention  
(80 to 81.2)

Impact on Financial Performance

\$10 MM increase in net present value of intangible asset considered across five years<sup>1</sup>

<sup>1</sup> This is calculated through corporate financial performance indicators