

Stern Stewart's EVA® Clients Outperform the Market and Their Peers Empirical Research Revised October 1, 2002

Companies that have adopted Stern Stewart's EVA framework for performance management, value-based planning and incentive compensation have realized a very high return.

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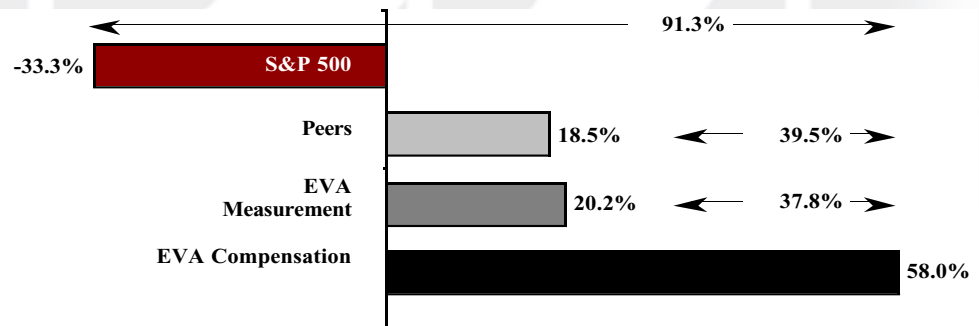
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As reported in a prior Stern Stewart study,¹ companies that implemented EVA in the 1990's outperformed their peers by an average of 8.3% per annum over the five years following adoption and created total excess shareholder wealth of \$116 billion. A separate academic study demonstrated that substantial improvements in EBITDA and operating margins, faster assets turns and stronger cash flow generation were the drivers of the superior stock market performance.²

In this monograph we report on a new study of the performance of EVA companies concentrating on the period since the peak of the stock market on March 24, 2000 through midyear 2002 (June 30). Over this generally depressed time for stocks, a period of economic slowdown, and an era of far-reaching questioning of the quality of corporate earnings and corporate governance, the portfolio of Stern Stewart's EVA clients earned a total return of 36.5% and beat the S&P 500 by a total of 69.8%. EVA firms have fared very well indeed in the new economic and market climate.

The performance differential is even more significant for companies that have reinforced EVA as a performance measure and decision tool by tying management incentives to EVA. Those firms earned a 64.5% total return since the market peak and beat the S&P 500 by 91.3% whereas companies that used EVA only for performance measurement earned a 20.2% return and beat the market by 53.5%.

Total Return from Market Peak: March 24, 2000–June 30, 2002

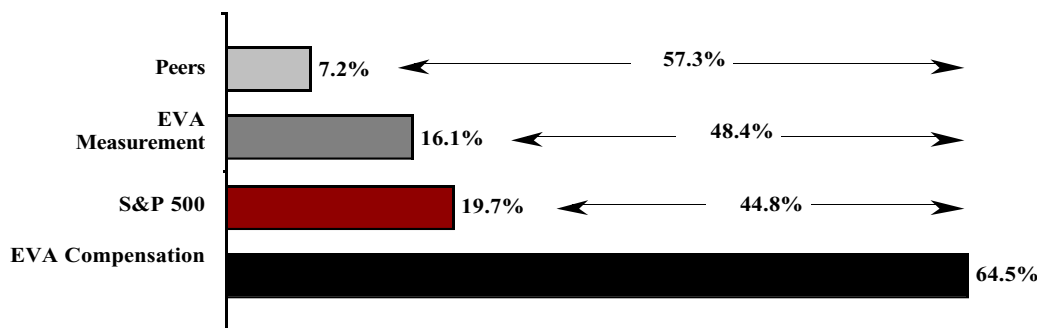


The evidence is consistent with the contention that EVA works best when it is used in a powerful bonus plan that simulates the incentives of ownership and directly aligns the interests of managers and employees with those of the owners. Refer to the companion piece, "How to Structure Incentive Plans That Work," for insights into critical design characteristics of EVA bonus plans.³

Stern Stewart's EVA clients have outperformed their peers as well as the market. Each company was compared against the total return produced by the eight competitors sharing its General Industry Code (GIC) and that were closest in size by market capitalization. The peers earned an 18.5% return since the market peak, several points less than the EVA measurement companies but significantly less than the return of the EVA bonus payers.

The same study was repeated to cover the five-year period from July 1, 1997 to June 30, 2002. The key finding was the same—tying bonuses to EVA led to the significantly higher returns for shareholders. The EVA-bonus-payers generated total shareholder returns of 64.5% over the five years ending June 2002, compared with 16.1% for EVA measurement companies and 7.2% for peer companies. The S&P 500 returned 19.7% over the five years.

5-Year Total Return: July 1, 1997–June 30, 2002



Companies such as those listed below that have adopted the full Stern Stewart EVA management and incentive framework span a wide range of sectors and circumstances:

| Company | Sector | Sale \$Mil. | EVA Date | Annualized Return* EVA | Annualized Return* Peers |
|-------------------------|----------------------------|-------------|----------|------------------------|--------------------------|
| Best Buy | Retailing | \$21,330 | Jan 1998 | 39.1% | 10.4% |
| Bradley Pharmaceuticals | Pharmaceuticals | \$33 | Jul 1998 | 62.2% | - 0.2% |
| Briggs & Stratton | Capital Goods | \$1,529 | Jan 1990 | -2.5% | -0.7% |
| Centura Banks | Banking | \$239 | Mar 1994 | 32.3% | 2.0% |
| Genesco | Retailing | \$774 | Apr 1999 | 29.0% | 8.1% |
| Herman Miller | Office Furniture | \$1,469 | Mar 1996 | 3.1% | 4.8% |
| Manitowoc | Construction, Marine, Food | \$1,237 | Mar 1993 | 12.4% | 0.8% |
| Molson | Brewing | \$2,223 | May 1999 | 39.3% | -4.5% |
| Schnitzer Steel | Steel | \$289 | Jul 2000 | 26.2% | 34.7% |
| SPX Corporation | Diversified Mfg. | \$4,912 | Oct 1995 | 14.2% | 2.1% |

* Annualized returns from 7/1/1997 for companies on EVA at 7/1/1997 or EVA Date for those that implemented EVA post 7/1/1997

¹EVA® Works II, Stern Stewart & Co.

²Robert Kleiman, Oakland University, "Some New Evidence on EVA Companies" *Journal of Applied Corporate Finance*, Volume 12, No. 2 (Summer 1999)

³How to Structure Incentive Plans That Work," by G. Bennett Stewart, III (download from <http://www.eva.com/evaluation/overview.shtml>)

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