

REPORT

THE 2009 VALUE CREATORS REPORT

Searching for Sustainability

Value Creation in an Era of Diminished Expectations



THE BOSTON CONSULTING GROUP

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October 2009

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Executive Summary

In the past year, global capital markets have been buffeted by financial crisis and economic recession.

- ◇ By the end of 2008, equity values had declined precipitously—in the neighborhood of 40 percent—from their 2007 highs
- ◇ As a result, the weighted average annual total shareholder return (TSR) for this year's Value Creators database, covering the five-year period from 2004 through 2008, was an anemic 2.9 percent; and 5 of the 14 industry samples we follow each year had negative TSR, on average, during this period
- ◇ Although equity values have been on an upswing from their March 2009 lows, capital markets remain risk averse and stock prices are still nowhere near their 2007 levels
- ◇ And despite some signs that suggest the beginnings of a recovery, few observers have a clear picture of what it will look like
- ◇ In the face of so much uncertainty and volatility, many senior executives have turned inward; indeed, some have even come to question the relevance of shareholder value management in today's tough economic environment
- ◇ It is precisely in times of high uncertainty that companies have to make carefully targeted bets
- ◇ In particular, recessions typically accelerate the forces reshaping industries and create new winners and losers in the struggle for competitive advantage
- ◇ The analytical tools of shareholder value management, in addition to being a critically important way of measuring company performance, also set an essential context for corporate decision making
- ◇ Especially in large, complex companies, the only way to assess and evaluate unlike businesses in the portfolio, weigh the potential tradeoffs and risks among different strategic options, and in the end optimize total business performance is in terms of contribution to TSR

The challenge facing companies today is to make their value-creation performance *sustainable*.

- ◇ Sustainable value creation is built on a foundation of distinctive customer value and defensible competitive advantage that allows a company to deliver superior shareholder returns over the long term
- ◇ Sustainable value creation is also characterized by consistency, with the companies that achieve it beating the market average in more years than not
- ◇ Finally, sustainable value creation is balanced—between short-term and long-term performance, across the key drivers of TSR, and among all the stakeholders of a company's economic system, including employees, customers, suppliers, and society as a whole

The Boston Consulting Group believes that the very uncertainty of today's economy makes the concepts and tools of shareholder value management more important than ever before.

Although a laudable goal, sustainable value creation is extremely difficult to deliver.

- ◇ Few companies are able to beat the market average year after year
- ◇ Consistently delivering superior value requires knowing how to identify the most appropriate pathway to sustainability, given a company's starting point in the capital markets, its competitive position, and the dynamics of its industry
- ◇ It also requires knowing when a particular pathway has played itself out and a shift to a different strategy for sustainability is necessary

This year's Value Creators report focuses on how companies can achieve sustainable value creation.

- ◇ We introduce a new ranking that identifies the world's top 25 *sustainable value creators* over the past decade
- ◇ We draw lessons from the experience of those companies to describe four pathways to achieving sustainability
- ◇ We describe practical steps that senior executives can take to begin defining their own strategy for achieving sustainable value creation, using a new analytical tool that we call the *TSR sustainability matrix*
- ◇ We conclude with extensive rankings of the top value creators worldwide for the five-year period from 2004 through 2008

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The Imperative of Sustainability

Since we published our last Value Creators report, in September 2008, global capital markets have been buffeted by financial crisis and economic recession.¹ Equity values have declined precipitously, and although they have recently been on an upswing from their March 2009 lows, capital markets remain risk averse and stock prices are still nowhere near their 2007 levels. And despite some signs that suggest the beginnings of a recovery, no one really knows whether that recovery will be strong or simply a weak prelude to a double-dip recession and subsequent years of sluggish growth.

Why Shareholder Value Still Matters

In so volatile and uncertain an environment, it should be no surprise that the lion's share of management attention has turned inward. Many senior executives have, quite rightly, been focusing on the cost cutting and restructuring necessary to maximize cash flow, strengthen the balance sheet, and ensure their company's liquidity and immediate financial survival. They haven't been giving much thought to how they will deliver superior returns to shareholders in the years to come.

Indeed, some senior executives have come to question the very principle of managing for shareholder value itself. Even Jack Welch, former chairman and CEO of General Electric, a company famous for its year-after-year delivery against quarterly earnings-per-share (EPS) estimates, told the *Financial Times* in March that "on the face of it, shareholder value is the dumbest idea in the world."²

Welch is right not so much about the concepts and tools of value management but about how they have been misused by many companies in recent years. At BCG, we

have always believed that value management is about creating value over the long term, not submitting to the tyranny of exceeding quarterly earnings estimates. We also think that many of the stock-based executive-compensation plans supposedly designed to "pay for performance" have actually contributed to an overemphasis on short-term results to the neglect of long-term risks.³

And yet, we are also convinced that given the uncertainty of today's economy, the concepts and tools of shareholder value management are more important than ever before. It is precisely in times of high uncertainty that companies have to make carefully targeted bets. Recessions typically accelerate the forces reshaping industries and create new winners and losers in the struggle for competitive advantage.⁴ Mature industries face growing pressures to consolidate; companies with inefficient business models are weeded out by the tougher economic climate; and those companies that figure out how to exploit the downturn to improve their competitive position emerge as the new leaders of their industries. In effect, the downturn is creating a playing field in which apparently small differences between competitors are going to translate into major—and potentially game-changing—differences in a company's ability to create competitive advantage and, therefore, to deliver superior shareholder value over the long term.

1. See *Missing Link: Focusing Corporate Strategy on Value Creation*, The 2008 Value Creators Report, September 2008.

2. See Francesco Guerrera, "Welch Condemns Share Price Focus," *Financial Times*, March 12, 2009.

3. See *Fixing What's Wrong with Executive Compensation*, BCG White Paper, June 2009.

4. See *Collateral Damage, Part 5: Confronting the New Realities of a World in Crisis*, BCG White Paper, March 2009.

The value of value management is that in addition to being a critically important way of measuring company performance, it also sets an essential context for corporate decision making. Contribution to TSR is the only way to assess and evaluate unlike businesses in the portfolio, weigh the potential tradeoffs and risks among different strategic moves, and in the end optimize total business performance.

In our opinion, the key value-creation challenge for companies in today's economy is *sustainability*, by which we mean developing an approach to shareholder value that allows a company to deliver above-average returns consistently, over relatively long periods of time. Many of the senior executives we talk to are hungry for an approach to value creation that looks beyond the horizon of today's volatile markets or next quarter's earnings. And our recent interviews with institutional investors suggest that they are increasingly on the lookout for those companies with a long-term track record of value creation and a credible plan for delivering value not just this year or even the next but for many years to come.⁵ For all these reasons, we have decided to devote this year's Value Creators report to the theme "searching for sustainability."

The Characteristics of Sustainable Value Creation

What makes value-creation sustainable? First and foremost, the delivery of above-average TSR built on a foundation of distinctive customer value and defensible competitive advantage. It is not about squeezing the system or manipulating the numbers in order to maximize this year's returns. By definition, sustainable value creation means delivering superior shareholder returns over the long term, by which we mean over a decade or more, not just a few years.

In order to be sustainable, a company's value-creation performance must also be relatively consistent. Although it is the rare company that can beat the market or its industry peer group year after year, sustainable value creators do so more often than not. A company that is delivering extraordinary returns one year and then destroying value the next may come out above average over a given period of time. But its value-creation performance would hardly qualify as sustainable.

The key value-creation challenge for companies in today's economy is *sustainability*.

Sustainable value creation is also balanced. Just because sustainable value creators emphasize the long term, that doesn't mean they somehow ignore the near term. Indeed, they tend to have an in-depth understanding of how short-term dynamics in the capital markets can affect their ability to deliver value in the future. As Jack Welch went on to say in a subsequent interview, "Any fool can just deliver in the short term by squeezing, squeezing, squeezing. Similarly, just about anyone can lie back and dream, saying, 'Come see me in several years, I'm working on our long-term strategy.' Neither one of these approaches will deliver sustained shareholder value. You have to do both."⁶

Finally, a sustainable approach to value creation makes it easier to fund and provide sustainable benefits for other stakeholders in the company's economic system: employees, customers, suppliers, and society at large. Put another way, the more sustainable a company's ability to deliver shareholder value, the more likely its entire economic system will prove sustainable as well.

Defined in this fashion, sustainable value creation is a laudable goal; even more, it is an imperative. But it is also extremely difficult to achieve. Consider the following data: in a sample of 1,781 global companies with a market valuation of at least \$1 billion at the end of 2008, about half beat their local stock-market average more than five times in the ten years from 1999 through 2008. But less than 10 percent beat their local stock-market average for more than seven years, and only a single company beat the average for all ten years.

The reason that delivering above-average returns consistently is so difficult has to do with the impact of investor expectations on a company's value-creation performance. Many executives still assume that in order to consistently generate above-average TSR, it is enough to be steadily growing the fundamental economic value of the business through some combination of above-

5. See *Collateral Damage: Function Focus—Valuation Advantage: How Investors Want Companies to Respond to the Downturn*, BCG White Paper, April 2009.

6. See "Jack Welch Elaborates: Shareholder Value," *BusinessWeek*, March 14, 2009.

average growth and profitability. But as any regular reader of the Value Creators report well knows, it is not that simple.⁷ In order for such improvements to translate into above-average TSR, they must also exceed the expectations that investors have already priced into the company's stock and that are reflected in the company's valuation multiple. The capital markets are continuously assessing and readjusting investor expectations for a company's stock and resetting the company's valu-

ation multiple as new information about company performance becomes available. To exceed these expectations requires delivering a constant flow of positive "surprises."

7. See *Dealing with Investors' Expectations: A Global Study of Company Valuations and Their Strategic Implications*, The 2001 Value Creators Report, September 2001; and *Balancing Act: Implementing an Integrated Strategy for Value Creation*, The 2005 Value Creators Report, November 2005.

The BCG Top 25 Sustainable Value Creators

For more than a decade, the BCG Value Creators report has published rankings of the top ten value creators in the world and in 14 global industries, on the basis of their average annual TSR during the previous five years. This year, we supplement our traditional rankings with a new one designed to identify those large global companies that have been most successful at sustaining superior value creation over a longer period of time.

How did we measure the sustainability of a company's value-creation performance? We started by focusing on large global companies with a market capitalization of at least \$30 billion. We chose to limit our rankings to the world's largest companies because the bigger the company, the harder it is to exceed investor expectations and deliver superior TSR year after year. One hundred of the 694 companies in this year's Value Creators database met this initial hurdle.

Next, we ranked these companies by how much their TSR performance outpaced that of their local stock-market average from 1999 through 2008. We chose to measure TSR performance relative to the local stock-market average in order to control for the impact of geographic location and variable market dynamics in different countries around the world. We decided to track performance over an entire decade because we believe that ten years is the minimum time frame necessary to evaluate the staying power of a company's value-creation performance. Of the 96 companies in our sample for which ten-year data were available, 67 beat their local-market average during the period studied.

However, because consistency is also a key aspect of sustainability, we added an additional hurdle. To make the list, a company had to beat its local-market average for a majority of the years under study (in other words, in at least six of the ten years). Forty-seven companies met this hurdle. Finally, because we also wanted to emphasize

those companies that have persisted in creating value since the start of the downturn in 2007, we excluded four companies in our sample that did not generate positive average annual TSR over the past five years. The final result is a select list of 43 global companies. We list the top 25 by the size of their average annual TSR relative to their local stock-market average in the exhibit "The Top 25 Sustainable Value Creators."

Although the United States has the most companies on the list, with 11, the top 25 represent a broad variety of countries and regions, with 7 headquartered in Europe, 4 in the Asia-Pacific region (including Australia), 2 from rapidly developing economies (India and Brazil), and 1 from the Middle East (Israel). And while high-growth, innovation-based industries such as pharmaceuticals and technology figure prominently, more traditional sectors such as consumer goods, mining and materials, chemicals, and utilities are also well represented. All told, 9 of the 14 industrial sectors covered in the Value Creators report have companies among the top 25 sustainable value creators.

Of course, past results are no guarantee of future performance. Executives at each of these companies should be asking themselves, do we know how we are going to sustain our superior performance in the decade to come?

Given the importance of sustainability—and also the difficulty of achieving it—we decided to do something different this year. In addition to our usual rankings of the top value creators worldwide and in 14 global industries for the preceding five-year period, we introduce a new ranking of the world’s top 25 *sustainable value creators*: leading global companies that have consistently beaten their local stock-market indexes and delivered the highest TSR relative to their local market over the past ten years.

(See the sidebar “The BCG Top 25 Sustainable Value Creators.”) In the next section, we draw on lessons from these companies to describe four pathways to sustainable value creation.

The Top 25 Sustainable Value Creators

#	Company	Location	Industry	Ten-year RTSR ¹ (%)	Years of positive RTSR	Market value ² (\$billions)
1	Gilead Sciences	United States	Pharmaceuticals and medical technology	36.4	10	46.5
2	Apple	United States	Technology and telecommunications	25.1	7	75.8
3	British American Tobacco	United Kingdom	Consumer goods	17.9	8	53.2
4	Vale	Brazil	Mining and materials	17.8	8	61.9
5	Reliance Industries	India	Chemicals	16.5	6	36.7
6	Exelon	United States	Utilities	14.9	8	36.6
7	BHP Billiton	Australia	Mining and materials	14.4	8	119.5
8	ArcelorMittal	Netherlands	Mining and materials	14.2	6	32.3
9	Teva Pharmaceutical	Israel	Pharmaceuticals and medical technology	12.1	6	38.0
10	Taiwan Semiconductor	Taiwan	Technology and telecommunications	10.7	6	34.7
11	Novo Nordisk	Denmark	Pharmaceuticals and medical technology	10.5	6	30.8
12	Lockheed Martin	United States	Machinery and construction	10.1	7	33.2
13	Schlumberger	United States	Machinery and construction	10.0	7	50.5
14	Rio Tinto	United Kingdom	Mining and materials	10.0	6	33.9
15	United Technologies	United States	Multibusiness	9.9	6	50.6
16	Samsung Electronics	South Korea	Technology and telecommunications	9.8	6	45.5
17	Tesco	United Kingdom	Retail	9.2	8	41.3
18	Altria Group	United States	Consumer goods	8.8	9	31.0
19	Baxter International	United States	Pharmaceuticals and medical technology	8.6	7	33.0
20	BASF	Germany	Chemicals	8.4	7	35.1
21	E.ON	Germany	Utilities	8.3	8	74.2
22	McDonald’s	United States	Retail	7.9	6	69.3
23	Colgate-Palmolive	United States	Consumer goods	7.0	8	34.3
24	Procter & Gamble	United States	Consumer goods	6.4	6	187.5
25	KDDI	Japan	Technology and telecommunications	6.1	6	31.1

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Average annual total shareholder return relative to local stock-market average, 1999–2008.

²As of December 31, 2008.



Four Pathways to Sustainable Value Creation

There is more than one way to achieve sustainable value creation. The experience of the companies on our list of the top 25 sustainable value creators suggests four distinct pathways to sustainability. Each has its own preconditions, necessary management disciplines, and potential pitfalls. Choosing the right strategy must take into account a company's starting point in the capital markets, its competitive position, and the evolving dynamics of its industry. And over time, a company must be prepared to change its approach as its circumstances change.

The Growth Engine

Previous Value Creators reports have emphasized that the longer the time period, the more that profitable growth becomes the dominant contributor to a company's TSR.⁸ So it should be no surprise that many of the companies on our list are market leaders in fast-growing and highly profitable segments of the world economy that enjoyed extraordinary growth during the ten-year period of our assessment (from 1999 through 2008). We call such companies *growth engines*, and they are often among the most successful value creators in their sectors over the long term.

Typically, growth engines deliver sales growth that is well above the GDP average—usually 15 percent per year or more. As one would expect, some of the most successful value creators on our list are relatively small companies that are growing rapidly off a small base in a key growth market. A dramatic example is our number-one sustainable value creator, drug maker Gilead Sciences. Specializing in developing and marketing drugs to treat antiviral diseases, with a primary focus on HIV/AIDS, Gilead was

founded in 1988, went public in 1992, introduced its first product in 1995, and didn't make a profit until 2002. But its revenues increased at a nearly stratospheric rate. Between 1998 and 2003, for instance, the company's sales grew 574 percent. And since 2003, the company's sales have grown at a still-extraordinary 44 percent per year (more than four times the rate of our global pharmaceuticals and medical technology sample). Gilead's market leadership and relentless focus on cost-effectiveness have also allowed it to improve its margins by 5 percent per year. The result: Gilead is the only company on our list to beat its local stock-market average for all ten years of our study. And from 2004 through 2008, the company generated an average annual TSR of 28.5 percent (compared with the global pharmaceuticals sample average of only 1 percent).

Other growth engines on the list have been the beneficiaries of broad macroeconomic trends such as deregulation, globalization, or the recent boom in commodity prices. Vale (4), BHP Billiton (7), and Rio Tinto (14), for example, together control roughly 70 percent of the market for iron ore, a critical raw material in steel making.⁹ During a decade when the rise of rapidly developing economies such as China and India has fed a boom in commodity prices, these companies have seen their revenue grow at an average annual rate of 30 percent, 15 percent, and 23 percent, respectively—well above the global average for GDP growth. And Indian chemical giant Reliance Industries (5) has grown on the back of India's expanding economy to become that country's

8. See *Spotlight on Growth: The Role of Growth in Achieving Superior Value Creation*, The 2006 Value Creators Report, September 2006.

9. See *Beyond the Boom: The Outlook for Global Steel*, BCG report, February 2007.

largest private-sector company, with average annual sales growth of 33 percent since 1998—nearly five times the average of our global chemicals industry sample.

Whether the trends that have fueled these companies' above-average growth will continue in the years to come is, of course, another question entirely. That is why the mark of a genuinely sustainable growth engine is its ability to identify and exploit new opportunities to exceed growth expectations over time. The primary way to extend the life of a growth engine is through innovation—whether of new products, new business models, or both. For example, during the ten-year period we studied, Apple (2) successfully transformed itself from a niche player in the fast-commoditizing computer business into a

leader in consumer electronics—largely through the introduction of the iPod music player, the iTunes online music business, and the iPhone mobile phone. (See the sidebar “Apple: From Niche Player to Consumer Electronics Juggernaut.”) And U.K. grocery retailer Tesco (17) has consistently delivered above-average growth in the relatively low-growth retail sector by continuously rolling out new formats and channels that have allowed the company to expand into new product categories and services such as clothing, consumer electronics, furniture, music downloads, travel, and even personal finance.¹⁰

10. See “The Multichannel Imperative,” BCG Opportunities for Action, September 2008.

Apple

From Niche Player to Consumer Electronics Juggernaut

Perhaps the most dramatic example of a company that has used innovation to achieve and sustain above-average growth is the number two company on our sustainable-value-creators list: Apple. By the late 1990s, Apple's initial pathway to growth was running out of steam. The company's unusual proprietary approach to designing both the hardware and software for its computers had made Apple a distinctive choice in the market for personal computers and inspired intense loyalty on the part of the company's customers. But it had also limited the company to being a niche player in the industry and hampered its ability to compete on price.

Starting in 2002, however, Apple, led by founder Steve Jobs, began introducing a series of highly successful new products and services—the iPod, the iTunes online music service, and the iPhone—that fueled the company's rapid transformation from a niche player in the low-growth and low-margin computer business into a consumer electronics juggernaut. The attractiveness of Apple's new products was important, but the shift wasn't only a matter of product innovation. A key reason for Apple's success was the company's ability to define a workable business model for downloading music—something that had eluded the music industry for years.

This combination of product innovation and business-model innovation put Apple at the very center of a market approximately 30 times the size of its original market.¹ It also helped expand the company's traditional computer market, as new customers became so attached to their iPods that they took another look at Apple's computers.

(Roughly 50 percent of computer buyers in Apple's own retail stores have never owned an Apple computer before.)

As a result of this shift, Apple has not had a negative quarter of year-to-year growth since March 2003 and is one of the few technology companies that is continuing to grow during the current downturn. Even better, Apple's move into more profitable product segments has resulted in a massive improvement in margins. Since 2003, Apple's EBITDA margin has increased almost tenfold—from 2.2 percent of revenue to 20.8 percent. As a result, the company's market capitalization has grown from \$8 billion to more than \$75 billion. During the five years ending in 2008, Apple's average annual TSR exceeded 50 percent.

Apple's innovation-focused strategy has also positioned the company to exploit the next phase in the convergence of technology, media, and entertainment. One interesting sign of this trend: Apple has consistently been the top company in BCG's annual survey of senior executives to identify the world's most innovative companies, and 2009 is no exception. But even more striking, when we asked respondents to name the five most innovative companies in their industry, Apple was selected number one not only in technology and communications but also in consumer goods. And it made the top five in retail and in media and entertainment as well.²

1. See *Convergence 2.0: Will You Thrive, Survive, or Fade Away?* BCG Focus, April 2007.

2. See *Innovation 2009: Making Hard Decisions in the Downturn*, BCG report, April 2009.

Like Apple and Tesco, most growth engines focus on organic growth. And in recent years, many executives, board members, and investors have come to view the idea of acquisitive growth with skepticism. They have been influenced by the many research studies showing that most mergers and acquisitions—as many as two-thirds—fail to create value for the acquirer’s shareholders. And they are reacting against the excesses of the late-1990s boom, in which many companies used acquisitions as a quick, but ultimately unsustainable, method to boost earnings and valuation multiples.

They should take another look. BCG research has shown that when it comes to value creation, there is no inherent disadvantage to growth by acquisition, and some of the companies on our list confirm that insight.¹¹ Acquisitive growth has been a key element in the growth trajectory of Gilead, for example, which has made five acquisitions since 1999, with a total deal value of more than \$4 billion. And an aggressive acquisitions strategy—an average of one per year over the past 25 years—has allowed Israeli pharmaceuticals maker Teva (9) to increase sales at a rate of 25 percent per year over the past decade (three times the rate of our global pharmaceuticals sample) and become a dominant player in the global market for generic pharmaceuticals.

But as with any value-creation strategy, growth engines need to carefully manage the tradeoffs across the entire value-creation system. Failing to do so can lead to a number of pitfalls. Perhaps the most common mistake that companies make when they pursue a growth-engine strategy is to chase growth at the expense of margins. A number of the high-growth companies on our list have experienced a decline in their EBITDA margins over the past few years, which raises questions about their ability to sustain their superior TSR in the future.

Another challenge that sooner or later every growth engine confronts is *multiple compression*—the decline of its valuation multiple to the market average.¹² Strong growth leads to an above-average valuation multiple, as investors bid up the company’s stock price in expectation of the future value created by that growth (which is considerable compared with the company’s current earnings). As the company continues to grow, the absolute value of sales increases, but because the company is starting from a

higher base, its growth rate slows and starts to decline. This decline in the company’s growth rate has two results. First, the value of expected future earnings relative to current earnings decreases—causing the multiple to decline as well. Although the company’s stock price may still increase, it will not do so as fast as the company’s earnings. Second, the company’s investor base starts to migrate from growth-oriented investors toward more value-oriented investors.

Sooner or later
every growth-engine
company confronts
multiple compression.

The phenomenon of multiple compression presents senior executives with a fundamental strategic choice. Either like Apple, Tesco, or Teva, they find ways to prolong their high growth rate (or, at least, cause it to decline more slowly than investors anticipate)—thus beating the expectations of their current growth investors, keeping their multiple relatively high, and continuing to grow their stock price at a high rate. Or they shift decisively to a strategy that balances growth against other priorities attractive to the growing number of more value-oriented investors who own the company’s stock.

Finally, even profitable growth can be “too expensive” if it comes at the price of eroding a company’s free cash flow. During the past decade, some companies in search of growth plowed all their capital back into the business and even took on debt or issued new shares to fund additional growth—but at the long-term cost of reducing their free-cash-flow yield. So among the other factors an aspiring growth engine needs to consider is the impact of its growth plans on the balance sheet—especially in today’s environment, in which balance sheet strength has become a much higher priority among investors.

In conclusion, being a successful growth engine does not necessarily mean always maximizing sales growth in the near term. Sometimes the most sustainable path is to focus on steady and consistent growth over time. A good example is the number 11 company on our list, the Danish pharmaceutical maker Novo Nordisk. With a commanding 52 percent share in the global market for insu-

11. See *Growing Through Acquisitions: The Successful Value Creation Record of Acquisitive Growth Strategies*, BCG report, May 2004.

12. For a more detailed description of the phenomenon of multiple compression, see *Missing Link: Focusing Corporate Strategy on Value Creation*, The 2008 Value Creators Report, September 2008, pp. 16–19.

lin, Novo Nordisk is a world leader in diabetes care, a disease area experiencing rapid growth in both the developed and the developing worlds. But unlike some of the growth engines on our list, Novo Nordisk had an unusually balanced TSR profile during the ten-year period from 1999 through 2008. (See Exhibit 1.) In a decade when many large pharmaceutical companies were paying top dollar to make acquisitions their senior executives believed would boost revenue growth, Novo Nordisk stayed focused on its core disease areas and grew its revenues largely organically at a steady clip of 10 percent per year. Unusual for a growth company, Novo Nordisk also returns a considerable portion of its cash to investors (an artifact of the company's unusual capital structure in which a nonprofit foundation owns a controlling interest), accounting for roughly a quarter of its average annual TSR of 14.8 percent.

The Cash Machine

In some industries, it is possible to sustain above-average value creation with only modest revenue growth. Companies that do so tend to have relatively stable businesses that generate a great deal of cash. Their route to sustainable value creation is less through growing revenues than through some combination of continuously improving margins, increasing asset productivity, stopping unprofit-

able growth that is destroying value, and then returning much of the freed-up cash to shareholders in the form of dividends or share repurchases or to debt holders by paying down debt. We call this approach the *cash machine*.

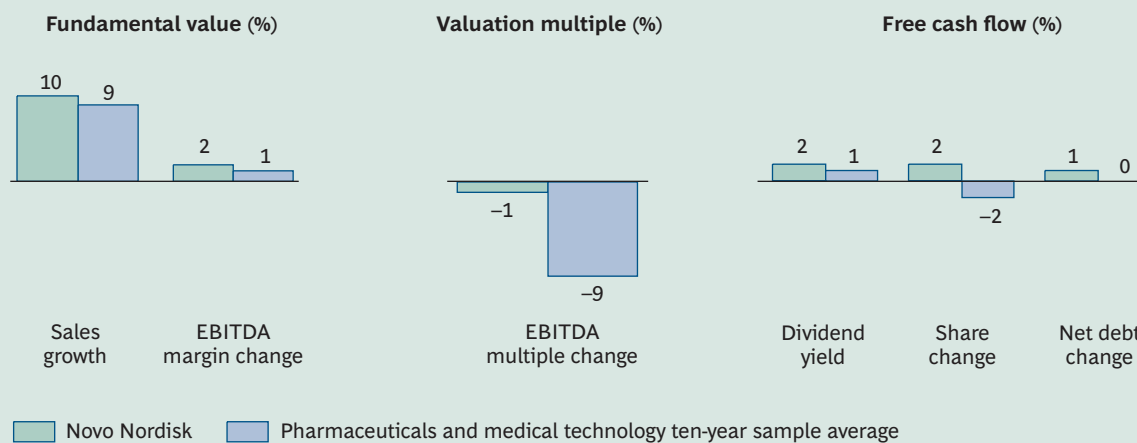
A cash machine's potential to beat the market in the near term is typically not as great as that of a growth engine. But even if a company beats the market average by only one or two percentage points per year, doing so consistently over a decade or more can add up to top-quartile performance.

There is one important precondition, however, for the cash-machine strategy to be successful. A company has to have a relatively low valuation multiple. A low multiple means that each dollar of cash paid out to investors has a higher yield. The higher the yield from these cash payouts to TSR, the less a company has to beat its already low growth expectations to deliver above-average TSR—and the more investors will be attracted to the stock and exert a steady upward pressure on the company's valuation multiple, creating even more value.

For a pure version of a cash-machine pathway to sustainability, consider the number three company on our list: British American Tobacco. The well-documented health effects of cigarette smoking have subjected the tobacco

Exhibit 1. Novo Nordisk Has Taken a Balanced Approach to Value Creation

Novo Nordisk's TSR decomposition profile, 1999–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: The bars show the contribution of each factor in percentage points of ten-year average annual TSR.

industry to heavy government regulation and put a serious drag on growth, as well as generally lowering investor expectations for industry performance. In the past five years, for instance, British American Tobacco's sales have grown only 3 percent per year—half the average growth rate of our global consumer-goods sample. But the company's unusually high (and improving) EBITDA margins have allowed it both to increase its EBITDA multiple at a time when consumer-goods multiples were declining, on average, and to deliver more than double the dividend yield of the sample as a whole. The result: an average annual TSR of 23.4 percent, making British American Tobacco one of the top value creators in our global consumer-goods sample over the past five years.

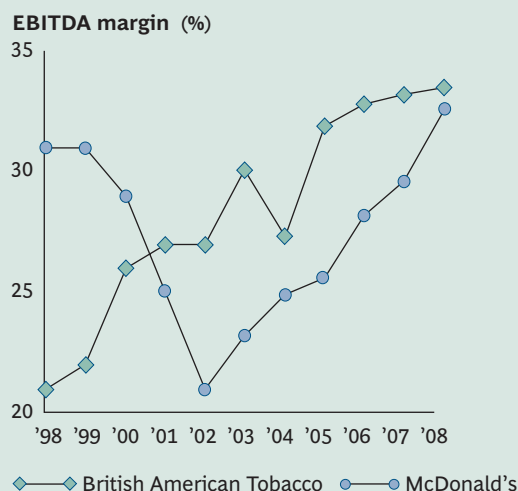
The hallmark of a sustainable cash machine is strong pricing power and high returns on capital. This allows a company to make huge cash payouts, while still having enough cash to fund some growth. And, as the British American Tobacco example suggests, when a cash machine delivers even modest growth, the combination of that growth with high margins can have a major impact on a company's TSR. (See Exhibit 2.) In this respect, perhaps the company on our list that most dramatically illustrates the power of a cash-machine route to sustainable value creation is McDonald's (22), where a focus on margins over growth has been the central component of

a dramatic TSR turnaround in the past decade. (See the sidebar "McDonald's: Emphasizing Margins over Growth.")

The cash-machine pathway to sustainability can be highly effective when a company has a previous history of relatively low returns on investment, a reputation for chasing market share, and a low valuation multiple. But even the most successful cash machine will eventually run out of room for further improvement. There are limits to how much any company can reduce costs or improve working capital efficiency. Even more serious, the higher a company's dividend yield, the more investors will eventually be attracted to its stock, bidding its multiple up and reducing the impact of its cash payouts on its overall TSR. In the near term, of course, a rising multiple boosts a company's TSR. But it is a classic example of the principle "Be careful what you wish for," because the higher its valuation multiple, the more difficult it becomes for a cash machine to continue to exceed investor expectations.

Finally, in companies that pursue a cash-machine route to sustainability, sometimes an organization can become so focused on efficiency and target all its metrics to achieve it that managers become risk averse. They start passing on growth opportunities that they ought to be investing in.

Exhibit 2. It Is Possible to Deliver Sustainable TSR with Only Modest Sales Growth by Improving EBITDA Margins



1999–2008

	Sales growth ¹ (%)	TSR ² (%)
British American Tobacco	5.5	19.0
McDonald's	6.6	7.0
S&P 500 average	11.4	3.3

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Ten-year average annual sales growth (1999–2008).

²Ten-year average annual TSR (1999–2008).

McDonald's

Emphasizing Margins over Growth

When the late Jim Cantalupo became CEO of McDonald's on January 1, 2003, he inherited a company in trouble. Despite efforts to expand the number of its restaurants and to diversify into new formats through acquisition (in May 2000, for example, the company had purchased the bankrupt Boston Market chain), declines in same-store sales were wreaking havoc with company margins. Between 1999 and 2002, the company's EBITDA margin declined by nearly a third; total shareholder return was negative for three years in a row.

A 30-year veteran of McDonald's, Cantalupo's plan was to take the company back to its roots. He sold off recent acquisitions and stopped adding to the number of McDonald's restaurants worldwide. Instead, he focused the company's resources on a goal of improving same-store sales and driving margins for both the restaurant operators and McDonald's.

The company emphasized its original customer proposition of service, value, and cleanliness. Stores invested in delivering accurate orders, hot food, and clean restrooms. The Dollar Menu became more visible and a higher share of incremental sales. And the company introduced new of-

ferings to appeal to key customer segments—salads for health-conscious “moms” and specialty coffee drinks.

These efforts had a dramatic impact on value creation. Since 2003, the company has been able to grow its EBITDA margin to the point at which, in 2008, it was slightly higher than it had been ten years earlier, before the start of the decline. What's more, McDonald's generated so much cash that it allowed the company to greatly increase its direct cash payouts to shareholders and debt holders. Between 2004 and 2008, this combination of margin improvement and increases in cash returned to investors and debt holders accounted for a full 16 percentage points of TSR—almost 70 percent of the company's total average annual TSR of 23 percent during this period.

As a result, McDonald's also generated more TSR than all but one company in our entire retail sample. This achievement is even more extraordinary when one considers the fact that McDonald's is by far the largest company in this year's retail top ten. The company's market capitalization is more than double that of the next biggest company on the list, and it accounts for about half of the total market capitalization of the entire U.S. restaurant industry.

Sooner or later, even a well-functioning cash machine needs to find some way to improve its rate of growth.

The Portfolio Migrator

Sometimes, quite successful companies can face a situation in which opportunities for further growth are limited. The businesses a company finds itself in have largely played themselves out. There are few opportunities to grow at an adequate return, even through the innovation of new products or business models. In such situations, a company has to take a more disruptive path: to restructure the entire portfolio and redefine where it wants to play in the future. In other words, it needs to become a *portfolio migrator*.

Unlike acquisitive growth (which is primarily a matter of buying companies, not selling them), portfolio migration involves both acquisitions and divestitures. It is not enough just to acquire promising new businesses; it is also essential to get rid of the legacy businesses in the portfolio whose value creation potential has run its course. Other-

wise, a company runs the risk of ending up with a bimodal portfolio made up of businesses that attract very different types of investors and may see its multiple punished as a result. Portfolio migrators refashion the mix of their business portfolio over time through a steady series of acquisitions and divestitures that move them into new and more promising businesses and markets.¹³

Portfolio migrators tend to be large established companies in relatively mature sectors of the economy, often with complex portfolios made up of multiple businesses. A classic example on our sustainable-value-creators list is the German power-and-gas company E.ON (21). E.ON is the product of the June 2000 merger between two German conglomerates, Veba and Viag. By a rapid and ongoing series of acquisitions and divestitures, the combined company has transformed itself into a focused and dynamic leader in European power and gas. (See the sidebar “E.ON: Migrating to Greener Pastures.”)

13. See *Managing for Value: How the World's Top Diversified Companies Produce Superior Shareholder Returns*, BCG report, December 2006.

E.ON

Migrating to Greener Pastures

In some respect, portfolio migration has been the *raison d'être* of E.ON. The company is the product of a June 2000 merger between two German utility companies, Veba and Viag. Although their origins were in the utilities business, by the 1990s both companies had evolved into unwieldy multibusiness conglomerates with diverse portfolios that included businesses in real estate, chemicals, and telecommunications.

The creation of E.ON was only the first step in a long-term strategy to refashion the combined company into a leading player in European power and gas. Company management recognized that deregulation in the utility markets and growing economic integration in the European Union represented a strategic opportunity: to use the company's strong position in Germany as a platform for regional expansion. But the plan would require E.ON first to focus on its core strengths in power and gas and, second, to migrate into the higher-margin unregulated areas of the industry.

Starting in 2000, the new company commenced a series of acquisitions and divestitures that currently total over €100 billion. For example, the company's 2002 purchase of British-owned Powergen made E.ON Britain's second-largest electricity and gas provider. Its 2003 acquisition of

Ruhrgas made it the continent's biggest importer of natural gas (as well as giving it a 6.5 percent stake in Gazprom, making it the principal foreign shareholder of the large Russian gas company).

Nearly a decade after its creation, E.ON is the world's largest privately owned energy service provider. In 2000, the company had a presence only in Germany and Sweden. Today, it has the broadest market footprint in Europe, competing in 26 countries, including the United Kingdom, France, Spain, Italy, Hungary, and Russia. It also has a subsidiary in the United States. And it has created a global business in renewable energy that includes wind and solar power.

In the past five years, E.ON's migration strategy has led to sales growth of 15 percent per year—nearly twice the global utilities-industry sample average of 8 percent—and an average annual TSR of 14.7 percent, compared with 11 percent for its peers. With its new global footprint largely in place, however, the company may be on the verge of shifting its value-creation strategy yet again. Recently, E.ON announced an additional €30 billion in investments by 2012—this time focused exclusively on organic investment.

A company that embarks on the portfolio-migrator pathway to sustainability needs to carefully plan and orchestrate each step of the migration in advance. To be sure, there is always room for some strategic opportunism—for instance, BCG research has shown that downturns are the best time to make value-creating acquisitions.¹⁴ But it is important to know in advance where you are going and each step in the path to getting there.

A comprehensive migration plan is essential because an aspiring portfolio migrator has to migrate not only its businesses but also its investor base. Even if a company's portfolio-migration strategy makes perfect business sense, the company can suffer in the capital markets if it fails to communicate clearly the logic of the various moves it is making or if investors lack confidence that the management team can make the transition effectively.

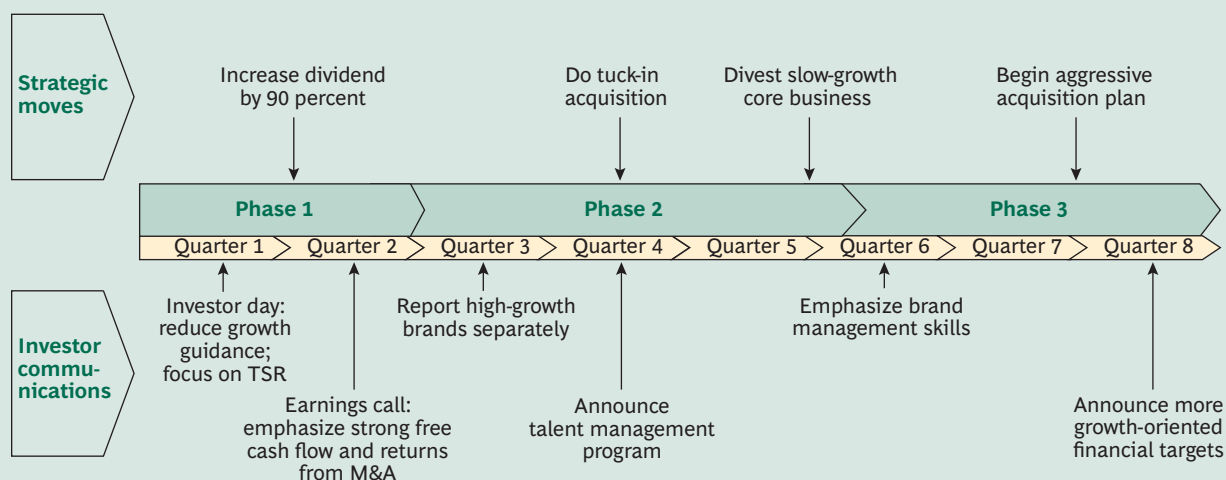
One apparel company we have worked with, for example, wanted to improve its growth prospects by acquiring some smaller but higher-margin businesses to comple-

ment its large legacy businesses that were still profitable but had few prospects for additional growth. The company had begun to execute its strategy and made a few small acquisitions—only to see its valuation multiple suffer as the company's traditional value investors fled the stock because they didn't like the higher risk associated with the new growth businesses. The company began to gain traction in the capital markets only when it developed and executed a carefully sequenced three-phase strategic plan to progressively shift its strategy and its investor base over a two-year period. (See Exhibit 3.)

The plan carefully orchestrated an internal timetable for key financial moves, including both acquisitions and divestitures, with a sequence of investor communications to shape the context for how investors perceived these moves. In the first phase, the company reasserted its attractiveness to its traditional value investors by reducing

14. See *The Return of the Strategist: Creating Value with M&A in Downturns*, BCG report, May 2008.

Exhibit 3. Successful Portfolio Migrators Carefully Orchestrate Strategic Moves and Investor Messages



Source: BCG analysis.

its growth guidance, emphasizing its strong free cash flow, and nearly doubling the company's dividend. That move alone had a major impact on the company's valuation multiple—causing it to increase by 30 percent within six months of the announcement. In the second phase, the company laid the groundwork for its new growth strategy by separating out reporting for its high-growth brands, adding to revenues by means of a small tuck-in acquisition, and divesting itself of its largest legacy brand (which had been a drag on the company's overall growth rate). In the third phase, as the company shifted decisively to a high-growth path, it began emphasizing to analysts and investors the depth of its brand-management skills and released financial targets aimed squarely at investors interested in higher growth. Although recently the downturn has caused the company's TSR to decline, over the past ten years the company's average annual TSR has been twice that of its local stock-market average and nearly three times that of its peer group.

The Value Impresario

Many large companies will eventually reach a point at which the size and complexity of the business require them to pursue not just one of these pathways to sustainability but all of them—with varying degrees of emphasis at different moments in time. We call this approach to sustainability the *value impresario*.

Companies that follow this pathway are generally large established companies with a variety of businesses in their portfolio. Consistently exceeding investor expectations for these companies is especially difficult for the simple reason that the market tends to be more efficient about estimating their future prospects. The companies are well known and closely followed by professional investors and market analysts. The outlook for their markets is often more predictable.

Value impresarios aren't wedded to any single pathway to sustainability. They tend to use all of them, shifting their emphasis to the approach that has the most potential to exceed investor expectations at any moment in time—and sometimes using different approaches simultaneously for different businesses in their portfolio. And they are keenly aware of the impact of any one lever of TSR on all the others.

Value impresarios share some common characteristics. First, they tend to take the long view of company performance. Instead of just managing to annual plans, they define those plans within the context of a detailed three-to five-year value-creation strategy. And even as they focus on executing that strategy, senior leadership is often already thinking about what the most important drivers of value creation for the company will be in the subsequent five years.

Second, value impresarios have a clear understanding of the precise role that each business unit needs to play in the company's overall value-creation strategy. One company we have worked with, for example, assigns each of its more than 45 lines of business to one of three roles in the company's overall portfolio: *growth businesses*, with strong prospects for long-term expansion and sustainable profitability based on clear competitive advantages; *financing businesses*, with solid competitive positions and the aspiration to be important sources of net cash flow; and *turnaround businesses*, which require major restructuring or possible exit in order to create value. In addition to defining the aspirations and key performance indicators for each business, these roles also determine the specific metrics used to evaluate executive performance.

Third, value impresarios use TSR as the central metric for value creation. Because it incorporates the value of dividends and other cash payouts, TSR is a far more comprehensive measure than share-price appreciation. It is also a better metric than commonly used operational proxies for value creation such as growth in EPS or economic

profit, or even cash-based metrics such as cash flow return on investment (CFROI) or cash value added (CVA).

Fourth, value impresarios manage the drivers of TSR directly at the business unit level. In effect, they treat business units as independent companies competing for capital in a kind of internal stock market. Units are responsible for delivering a required contribution to TSR through some combination of sales growth, margin improvement, and increased asset productivity. The internal TSR system uses metrics equivalent to a company's capital gain—that is, it incorporates the increase in the intrinsic value of the unit, typically measured by growth in sales and margins. It also tracks a unit's "dividend" contribution by measuring the cash flow that the unit returns to corporate after reinvestment. Internal TSR metrics are a comprehensive way to ensure that a company's internal targets are tightly linked to what actually creates value for shareholders. Instituting such a system, for example, was a key factor in Procter & Gamble's (24) turnaround after a major decline in its share price in 2000. (See the sidebar "Procter & Gamble: Managing for TSR.")

Procter & Gamble

Managing for TSR

When A.G. Lafley was appointed CEO of Procter & Gamble in June 2000, the company was at a low point. On March 7, 2000, the company had announced that it would miss its quarterly earnings estimate for the first time in 15 years, causing its share price to plummet. Since January 2000, the company's market capitalization had dropped roughly \$85 billion. "P&G Investor Confidence Shot," read one headline in the financial press.¹

Among the many steps Lafley took to transform P&G's performance, one of the most important was to start managing the company explicitly for TSR. The process began with setting an ambitious TSR goal. Lafley and his team defined a peer group that included not only traditional consumer-goods rivals such as Unilever and L'Oréal but also large corporations in other industries that were competing with P&G for investors' dollars. The company's TSR target was for P&G to be in the top third of this group over rolling periods of 3, 7, and 10 years—something that none of the companies in the group had achieved over the previous 20 years.

Defining this ambitious goal put the company's current problems in stark focus. The company's current growth

rates were nowhere near enough to meet the new TSR target. Executives estimated that in order to achieve top-third status within its peer group, P&G would need to nearly double its current revenue growth rate. Even worse, what growth the company was delivering was increasingly coming at the expense of margins. Although, on the whole, the company's top line had been growing slightly, too much spending chasing questionable growth initiatives was causing its overall EBITDA margin to decline. This decline contributed to the company's missing its earnings estimates in March 2000 and was causing investors to question the company's growth plan. So the challenge wasn't just generating more growth; it was doing so at lower cost and higher profitability.

The company's new focus on TSR was a key factor in pushing the organization to strike the right balance between these sometimes conflicting goals. P&G created an internal system of metrics known as "operational TSR" to measure the performance of its brands and business units in terms

1. See A.G. Lafley, speech delivered at the eighteenth session of the Integrative Thinking Seminar, Rotman School of Business, University of Toronto, April 21, 2003, available at <http://www.rotman.utoronto.ca/integrativethinking/Lafley.pdf>.

Finally, value impresarios actively engage with their investors to understand how they view the company and its businesses. For example, one of the first things that new CEO A.G. Lafley did when he took over Procter & Gamble in June 2000 was to hold a series of one-on-one meetings with key investors and analysts to see how they saw the company's prospects. And United Technologies (15), the only multibusiness conglomerate on our sustainable value-creators list, has an award-winning investor-relations team that has established a strong reputation for candor, transparency, and responsiveness to the needs of market analysts and portfolio managers.¹⁵

Becoming a value impresario isn't easy. Managing the complexity requires explicit focus, at the corporate level, on choosing the right metrics, targets, and incentives. And a value impresario's credibility in the capital markets is all about management's track record—its ability to deliver consistently over time.

Put another way, a company has to “win the right” to become a value impresario and then continuously manage

the ongoing shift in emphasis among the drivers of TSR. Those companies that succeed, however, often enjoy a premium in the capital markets.

Deciding which pathway is most appropriate for any particular company will depend on a number of factors: the TSR aspirations of its senior team, the company's starting point in the capital markets, and the future potential of its businesses. In the concluding section, we describe a process for determining a company's TSR sustainability profile and therefore its best strategy for sustainable value creation.

15. See *Managing for Value: How the World's Top Diversified Companies Produce Superior Shareholder Returns*, BCG report, December 2006.

of their contribution to the company's TSR. Not only did a business unit's operational TSR become a critical metric for benchmarking its performance against competitors, but also, and even more important, it became one of two key criteria (the other being growth in EPS) used to set executive compensation throughout the senior management ranks.

The new TSR metrics forced P&G's business-unit heads and brand managers to be careful stewards of the cash that they were employing and more disciplined and tough-minded about which growth initiatives they would propose. And, at the corporate level, the metrics helped senior management more accurately assess the value of the company's broad portfolio of initiatives.

The new discipline about value creation helped the company aggressively transform its approach to innovation by simultaneously increasing the number of new product ideas and more than doubling the yield of its R&D and new-product development pipeline. It has also led the company to divest many traditional brands that, although still profitable, did not meet the company's more aggressive financial goals. At the same time, P&G has moved aggressively into new sectors with higher potential to generate TSR, such as

beauty care, through both organic growth and acquisitions—for example, the 2001 acquisition of Clairol from Bristol-Myers Squibb, the 2003 purchase of the German hair-care company Wella, and, most prominently, the 2005 acquisition of Gillette, which made P&G the largest consumer-goods company in the world.

Since 2001, Procter & Gamble's EBITDA margin has been rising steadily, gaining a full six percentage points from its 2001 low. And the combination of steadily improving margins, more commercially successful innovation, and game-changing acquisitions has allowed the company's sales growth to explode compared with our global consumer-goods sample. So far, P&G has met its goal of remaining in the top third of its peer group. And between Lafley's appointment as CEO (he recently stepped down but continues as the company's chairman) and the end of 2008, the company's market capitalization roughly doubled to \$187.5 billion, making P&G one of the five most valuable companies in the United States and among the ten most valuable in the world, as well as the third largest, by market capitalization, in this year's Value Creators database.

A Road Map for Sustainable Value Creation

Sustainable value creation is all about making choices that optimize the total performance of the business. But how do senior executives identify the right tradeoffs and most appropriate options for their company, given its starting point in the capital markets, its competitive position, and the dynamics of its industry? The best way is to start looking at the company's TSR potential the same way that investors do—by developing an in-depth understanding of the company's TSR sustainability profile.

The BCG Sustainability Matrix

Although each of the routes to sustainable value creation described in this report has a distinctive emphasis, whatever approach a company decides to take will be successful only if it optimizes performance across all of the drivers of TSR. Growth engines emphasize rapid growth exceeding investor expectations, but they deliver sustainable above-average TSR only when that growth does not come at the expense of severely eroding margins; indeed, in the best case, the growth actually delivers higher margins by exploiting scale advantages that create operating leverage. Similarly, a cash-machine strategy will deliver sustainable above-average TSR only as long as

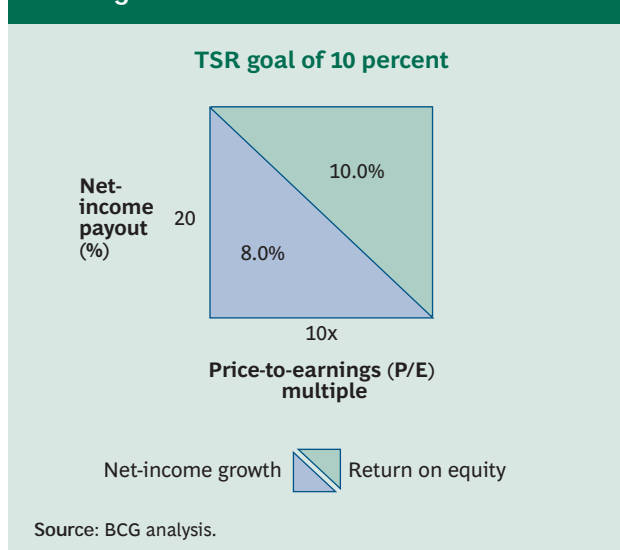
the company's valuation multiple does not grow too large; if and when it does, it is probably time to shift to another pathway. And, of course, both portfolio migrators and value impresarios are always on the lookout for the next best way to beat investor expectations and deliver superior TSR.

In working with our clients on assessing their future TSR potential, we have found it useful to think of sustainability in terms of something we call the *TSR sustainability matrix*. The matrix is a simplified framework designed to portray the dynamic relationships among the main drivers of TSR. To understand these dynamics, consider the simple graphic in Exhibit 4. Imagine a company with a goal of generating a long-term TSR of 10 percent. That

goal is close to the long-term historical average and may well be slightly above average in the years to come.

To make the math easy, let's also assume that the company trades at ten times earnings and pays out 20 percent of its net income in the form of dividends or share repurchases. Since a 20 percent payout at a price-to-earnings ratio of 10 results in a cash flow yield of 2 percent, the company would have to grow its market capitalization by 8 percent in order to reach its TSR goal. Since our stylized example assumes a stable valuation multiple, that means growing net

Exhibit 4. The BCG TSR Sustainability Matrix Shows the Dynamic Relationships Among the Main Drivers of TSR



income by 8 percent through some combination of increased sales and margin improvement.¹⁶

What kind of return on capital would be necessary to sustain that level of income growth? Assuming the company's margins remain steady, it would need a return on equity (ROE) of 10 percent in order to fund both its payout and its growth (2 percent to fund a net-income payout of 20 percent, 8 percent to fund enough sales growth to increase net income by 8 percent). Of course, if the company were able to improve margins, the necessary sales growth and therefore the necessary ROE to fund that growth would be less. Alternatively, the more the company planned to get the required sales growth from acquisitions, the higher the necessary ROE because, from an investment perspective, organic growth requires less capital per dollar of incremental sales than growth from mergers and acquisitions (M&A).

This is, of course, a highly stylized example and may seem too simplistic. But when one begins to play with the variables, things get more interesting. Exhibit 5 compares two matrices at two different levels of TSR aspiration, 10 percent and 15 percent (which historically would be top-quartile performance), and at various levels of net-income payout and P/E ratio. A close look at these two matrices reveals a number of fundamental but often overlooked dynamics.

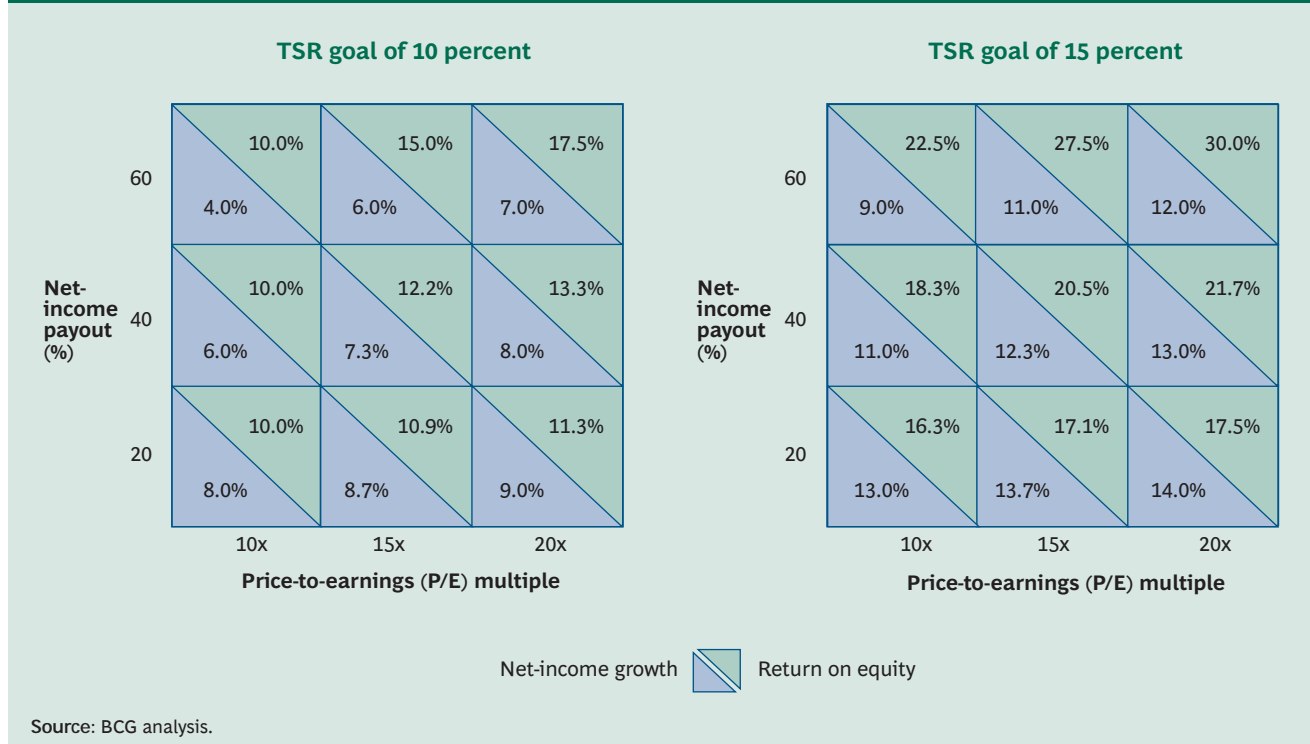
- ◇ All else being equal, the higher a company's P/E multiple, the more income growth necessary to create a given amount of TSR—and, therefore, the higher the required ROE. Why? By definition, the higher a company's multiple, the lower its TSR yield from a given level of cash payout, forcing the company to generate more TSR through income growth. This is precisely the reason why a rising valuation multiple can eventually become a problem for a company pursuing a cash-machine strategy.
- ◇ By the same token, raising cash payout as a percentage of net income lowers the growth necessary to deliver a given amount of TSR. However, at any given P/E multiple (other than ten times earnings), a higher payout also greatly increases the ROE required to sustain that payout, even though the necessary level of growth to create a given amount of TSR is less. The reason: the cost of funding organic growth is generally assumed to be proportionate to book equity (so, in this

case, a 10 percent growth in revenue would require a 10 percent growth in book equity), but the cost of cash flow yield is the market value of equity (which, at any P/E ratio above 10, is greater than the book equity). As a result, when P/E multiples are above 10, funding an incremental point of TSR from organic growth requires a lower ROE than funding an incremental point of TSR from net-income payout.

- ◇ A more ambitious TSR target will, of course, require more income growth. But unless a company is prepared to take on debt to fund that growth or dilute existing shares by issuing new ones, it puts even greater demands on a company's ROE. So, for instance, if a company moves from a 10 percent TSR target to a 15 percent target, its ROE must be enough to fund a 5 percent higher level of ongoing reinvestment for growth or a higher level of net-income payout to achieve a 5 percent higher yield, or some combination of the two. Before setting an ambitious TSR goal, a company must be sure that it can reliably fund the mix of growth investments and net-income payouts required to achieve that goal at the company's anticipated future P/E multiple.
- ◇ Although it is not directly shown on this version of the matrix, margin improvement is a powerful game changer in a company's TSR profile. On the one hand, it improves a company's ROE. On the other hand, it also allows a company to reach a given level of income growth with relatively less investment in sales growth. The end result is more net income available for investing in even more sales growth, in M&A, or in additional payouts. At the same time, it is important to avoid the trap of overrelying on near-term margin improvements as a sustainable driver of meeting aggressive long-term TSR goals, because sooner or later margin improvements reach a point of diminishing returns.

16. The appropriate metrics used to measure the drivers of TSR will vary for any individual company, depending on the nature of its business. But as long as the metrics used are consistent with each other, the dynamics are the same. Margin change can be measured in terms of EBITDA, EBIT, or net income. Valuation multiples can be calculated in terms of the ratio of enterprise value to EBITDA (the EBITDA multiple) or of price to earnings (P/E) multiple. Returns on capital may be measured in terms of return on equity (ROE), return on invested capital (ROIC), or cash flow return on investment (CFROI). In some industries, the signal from different return-on-capital metrics can vary substantially; a company must carefully assess which metric is the most appropriate signal of its ability to finance its TSR strategy.

Exhibit 5. The TSR Sustainability Matrix Helps Executives Decide Where They Want to Play



In our experience, the TSR sustainability matrix gives senior executives and board members an intuitive feel for the dynamics of TSR creation and helps them see their company's prospects more like investors do. The real value of the matrix, however, comes not at the level of the simple mathematical model described above. Rather, it comes when executives use the model to think through their strategy for achieving sustainable value creation, given their current starting point.

Where to Play—and How to Get There

We have used the TSR sustainability matrix with the senior teams at a number of our clients to frame an in-depth analysis of their company's TSR potential. The conversation usually begins with the question, Where are we currently located on the matrix? But it quickly evolves into Where do we want to play in the future? And, finally, it turns into How are we going to get there? To be sure, the debate will be only as productive as the quality of the data that executives bring to the table. How confident are they about their estimates of the amount of growth their organization will be able to de-

liver? Do they have a clear picture of where that growth will come from—how much from organic growth, from margin improvement, and from acquisition?

Some things will be easier to estimate than others. Most companies, for example, have a relatively clear idea of the level of cash payout they are targeting. But few have much confidence about where their multiple will be in, say, three years' time—especially today. No matter. The fact is that a market-assigned P/E multiple fundamentally shapes a company's requirements for delivering superior TSR, and executives need to anticipate in advance the likely impact of a significant increase or decline in their current multiple on their plans to deliver sustainable TSR. What's more, tools for identifying the drivers of differences among valuation multiples within a peer group can shed considerable light on where a company's P/E multiple is likely to end up, given a company's strategic and financial plans.¹⁷

17. For a more detailed description, see the discussion of *comparative multiple analysis* in *Missing Link: Focusing Corporate Strategy on Value Creation*, The 2008 Value Creators Report, September 2008, p. 22.

When executives take the discussion seriously and use it as an occasion for a tough-minded assessment of their business, the exercise tends to put a much sharper lens on the strategic choices and operational priorities they face in order to deliver and sustain above-average TSR in the future.

Typically, we find that it is the rare company that can occupy the same “cell” of the TSR sustainability matrix for extended periods of time. Rather, sustainable value creation requires knowing when and how to shift one’s TSR profile from one cell to another.

After all, a company’s core markets will eventually mature. Opportunities for strategic M&A will dwindle or become too expensive. The low-hanging fruit in terms of cost reduction and margin improvement will have already been picked. A high average ROE will decline as new growth opportunities become less profitable than previous investments. The more successful the company at delivering above-average TSR, the more investors will bid up its valuation multiple, thereby making it more difficult for the company to deliver above-average TSR in the future. Executives have to carefully assess how all these factors are likely to affect their TSR performance over the next three, five, and ten years.

For example, we have recently been working with a company that for a number of years had a TSR profile roughly equivalent to the cell in the lower right-hand corner of the 15 percent TSR matrix in Exhibit 5. The company had been pursuing a version of a cash-machine strategy. Its organic revenue growth rate was a relatively modest 4 percent, which it had been able to supplement by about 2 percent per year through acquisitions (although at a cost that required the company to take on considerable debt—despite its ROE of 20 percent). But the main driver of its TSR performance was a steady improvement in gross margins, which had increased from about 35 percent to 45 percent over the previous five years and had fueled an additional 8 percent annual growth in the company’s net income. With an overall growth in net income of 14 percent per year, a P/E multiple that had remained steadily in the low twenties, and a regular program of share repurchases that paid out 20 percent of net income every year (equivalent to a cash yield of 1 percent), the company had regularly delivered against its TSR target of 15 percent.

Sustainable value
creation requires
knowing when to shift
one’s TSR profile.

The problem, however, was that the CEO doubted the company could sustain this TSR profile into the future. The improvements in gross margins that had been the primary engine behind the company’s recent performance had pretty much run their course; executives estimated that the rate of improvement in margins would decline from 8 percent to as little as 2 percent per year—leaving a TSR gap of 6 percent. If the company couldn’t somehow fill that gap, its future TSR would drop from 15 percent to 9 percent.

Additional revenue growth from traditional sources was unlikely to fill the gap. Future organic growth in the business could be stretched from 4 percent to, perhaps, 5 percent, but that gain would likely be neutralized by the fact that future opportunities for acquisitions that fit the company’s current business strategy were limited. At most, they would deliver only another percentage point of revenue growth per year, rather than the 2 percent of the recent past.

Three factors, however, somewhat ameliorated the company’s situation. First, like most companies, this company’s share price experienced a major decline in late 2008, but the decline—about 25 percent—was significantly less than that of its main competitors. By mid-2009, the company’s share price had largely recovered the ground it had lost; however, because the equivalent share price was on a much larger base of total earnings, its P/E multiple dropped from the low twenties to about 16. The lower P/E multiple had the effect of shifting the company’s TSR profile one cell to the left in the lower row of the 15 percent TSR matrix, increasing the yield of its net-income payouts and decreasing the size of its TSR gap, although not by much.

Second, the fact that the company had few options for M&A had a silver lining. Although the company’s past acquisitions had added to net income, they had been quite expensive compared with investments in organic growth. In fact, they had stretched the company’s debt-to-capital ratio to uncomfortable levels. Doing fewer deals in the future would free up cash that could be used to significantly raise the company’s net-income payout ratio—from 20 percent to as much as 45 percent—essentially moving the company to the middle cell of the 15 percent TSR matrix. This would have the effect of tripling the company’s cash

yield from 1 percent to 3 percent and allowing the company to deliver a TSR of 11 percent—not quite its historic level of 15 percent but still likely to be above average for the market as a whole.

The CEO, however, wasn't prepared to settle for that less ambitious target. So the discussion inside the senior team began to focus on whether there was anything the company could do to get its multiple back up to its historical level and add additional TSR that way. An analysis of the drivers of P/E multiples in the industry and interviews with leading investors suggested that the company could actually raise its near-term P/E through some carefully designed financial moves. If, instead of simply increasing the amount of its share repurchases, the company used its bigger cash payout for a combination of dividends and debt retirement, the reduction in the company's perceived risk profile would likely increase the company's multiple by 25 percent relative to its peers, allowing it to rise to about 19 over the next three years. After adjusting for the lost yield from the discontinued share repurchases and the impact on its cash flow yield from a higher P/E multiple, this increase in the company's valuation multiple would add about six percentage points to its annual TSR over the next three years. In other words, the company could achieve its 15 percent target TSR in the near term by moving almost full circle in the matrix, from the lower right through the lower middle and center cells to the middle right cell.

But this was only a temporary solution. It bought time, but it still left open the question of how the company would be able to sustain its TSR performance after the impact of the financial moves was fully reflected in its multiple. Once the cash payout was set at 45 percent of net income and the P/E multiple stabilized at 19, the company would still need to deliver 13 percent growth in net income. Eventually, the company would have to consider a more radical move.

At present, the company is carefully assessing two sets of strategic options. First, does it take the steps described above in order to buy a few years' time to develop a long-term solution? Or does it focus its efforts on quickly developing a long-term solution instead? Second, in either case, it needs to determine precisely what kind of

The TSR sustainability matrix focuses senior management's attention on key tradeoffs.

long-term strategy will best deliver its 15 percent TSR target. For example, should the company try to renew its cash-machine strategy by cutting selling, general, and administrative (SGA) expenses and improving the efficiency of its sales and distribution process in an effort to squeeze more net income out of its existing business? Or should it, perhaps, shift toward a growth-engine strategy by investing heavily in innovation in order to gain market share and deliver significantly higher ongoing revenue growth? Or should it, rather, embark on a major portfolio migration by divesting low-ROE and low-organic-growth businesses and pursuing larger and more transformative M&A deals than the company has ever considered to date?

None of these options is without risk and each requires managing complex tradeoffs between short-term and long-term value creation. Each one also has quite different implications for the company's business strategy, financial policies, and investor communications. The value of engaging deeply around the company's TSR sustainability profile, however, has been to focus senior management's attention on the key tradeoffs and to deepen its understanding of both the opportunities and risks of future options.

A Step Ahead

Of course, going through the exercise of determining a company's TSR sustainability profile is only the first step on the road to sustainable value creation. But done right, a company's senior executives should eventually come out of the process with a detailed road map that includes the following:

- ◇ An explicit TSR target that strikes an appropriate balance between a company's aspirations and what it can realistically achieve and between performance over the short term and over the long term
- ◇ A detailed understanding of the performance improvements required in order to achieve that target and the precise sequence in which those improvements need to take place
- ◇ A sense for how shifts in the company's valuation multiple will likely impact the company's performance re-

quirements, as well as contingency plans for dealing with those shifts if and when they occur

- ◆ TSR-based operational targets and metrics that the company can drive down into the organization and embed in its incentive and compensation system (in effect, every business unit should have its own version of the TSR sustainability matrix)
- ◆ A robust framework for shifting planning, budgeting, and capital allocation away from an annual cycle based on incremental improvements to historical performance and toward a set of criteria based on contribution to long-term TSR

Analyzing a company's performance in terms of its ability to deliver sustainable value creation is what investors do every day. Armed with the right tools, there is no reason why executives can't develop an even better-informed perspective, given their intimate knowledge of the company's plans and of industry trends. When they do, they can stay one step ahead of investor expectations and consistently generate superior shareholder value for many years to come.



Ten Questions That Every CEO Should Know How to Answer

In conclusion, we offer ten questions about sustainable value creation that every CEO should know how to answer. The questions synthesize the basic arguments and recommendations made in this year's report in a concise format.

1. *Do you know the historical sources of your company's recent TSR performance?* Have you been optimizing total business performance across all the drivers of TSR in an integrated fashion?
2. *Have you set an explicit TSR target?* Is it realistic considering your past performance, your current starting point, and the future potential of your business?
3. *Can your current momentum and business plans deliver against that target?* If not, how will you fill the gap? Do you know the likely contribution of each of your business units to overall company TSR?
4. *What is your TSR sustainability profile?* Do you know what will be the main drivers of your future TSR? Are you confident that these drivers will deliver your target TSR over the long term? If not, have you begun to identify the necessary changes to ensure long-term sustainability?
5. *Have you assessed the likely impact of a near-term change in your valuation multiple on your ability to deliver sustainable TSR?* Do you have contingency plans in place to adapt your value-creation strategy should such a change occur?
6. *Is your future TSR profile aligned with the priorities of your current investors?* If not, do you need to change the profile so that it is more appealing to current investors? Or do you need to migrate to a new investor mix?
7. *Are your financial policies—such as debt-to-capital ratio and dividend payout—aligned with the pathway to sustainability most appropriate for your business?*
8. *Do your operational performance metrics reflect each business unit's actual contribution to overall TSR?* If so, are those metrics also part of the incentive compensation plans for your managers?
9. *Are your other management processes—such as planning, budgeting, and capital allocation—designed around criteria that are based on contribution to long-term TSR?*
10. *Have you translated your strategy to deliver sustainable TSR into a detailed multiyear timeline of business and financial moves?* Do your employees understand the logic behind the strategy? Do your investors?



Appendix

The 2009 Value Creators Rankings

The 2009 Value Creators rankings are based on an analysis of total shareholder return at 694 global companies for the five-year period from 2004 through 2008.

To arrive at this sample, we began with TSR data for more than 6,000 companies provided by Thomson Reuters. We eliminated all companies that were not listed on some world stock exchange for the full five years of our study or did not have at least 25 percent of their shares available on public capital markets. We also eliminated certain industries from our sample—for example, financial services.¹ We further refined the sample by organizing the remaining companies into 14 industry groups and establishing an appropriate market-valuation hurdle to eliminate the smallest companies in each industry. (The size of the market-valuation hurdle for each individual industry can be found in the tables in the “Industry Rankings,” beginning on page 32.) In addition to our 694-company sample, we also separated out those companies with market valuations of more than \$30 billion. We have included rankings for these large-cap companies in the “Global Rankings,” on page 31.

The global and industry rankings are based on five-year TSR performance from 2004 through 2008.² We also show TSR performance for 2009, through June 30. In addition, we break down TSR performance into the six investor-oriented financial metrics used in the BCG decomposition model.³

The average annual return for the 694 companies in our sample was 2.9 percent—and in 5 of the 14 industry samples, TSR was actually negative, on average, during the past five years. (See Exhibit 1.) This poor performance reflects the precipitous decline in market values in late 2008 owing to the global financial crisis. The TSR delivered by

the global sample’s average annual sales growth of 8 percent was almost entirely eroded by declines in EBITDA multiples, which accounted for a negative seven percentage points of TSR, on average.

As always, however, the leading companies in our sample substantially outpaced not only their own industry average but also the total sample average. For example, the average annual TSR of the global top ten was more than 16 times greater than that of the sample as a whole—48.4 percent on average. (See Exhibit 2.) The top ten companies in each industry outpaced their industry averages by between 9.1 percentage points (in utilities) and 31.1 percentage points (in technology and telecommunications). And in every industry we studied, the top ten companies, on average, also did substantially better than the global sample average—by at least 4.5 percentage points of TSR. The lesson for executives is this: Coming from a sector with below-average market performance is no excuse. No matter how bad an industry’s average performance is relative to other sectors and to the market as a whole, it is still possible for companies in that industry to deliver superior shareholder returns.

1. We chose to exclude financial services because measuring value creation in the sector poses unique analytical problems that make it difficult to compare the performance of financial services companies with companies in other sectors. For BCG’s view of value creation in financial services, see *Living with New Realities*, The 2009 Creating Value in Banking Report, February 2009.

2. TSR is a dynamic ratio that includes price gains and dividend payments for a specific stock during a given period. To measure performance from 2004 through 2008, 2003 end-of-year data must be used as a starting point in order to capture the change from 2003 to 2004, which drives 2004 TSR. For this reason, all exhibits in the report showing 2004–2008 performance begin with a 2003 data point.

3. This model has been described in previous Value Creators reports. See, for example, *Missing Link: Focusing Corporate Strategy on Value Creation*, The 2008 Value Creators Report, September 2008, p. 20.

What kind of improvement in TSR was necessary to achieve truly superior performance, given the sample average? A company had to deliver an average annual TSR of at least 12 percent per year to be in the top quartile of the global sample and 43.2 percent per year to make the top ten. The most successful companies delivered TSR above 50 percent per year, and as much as 74 percent.

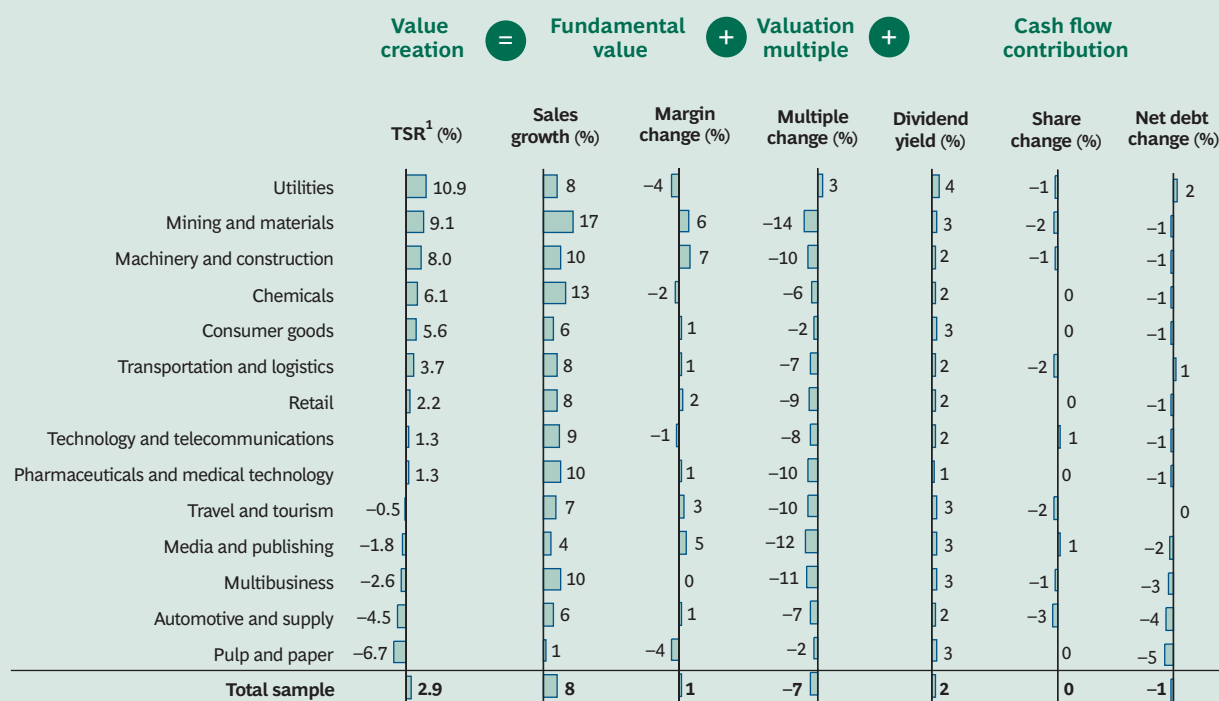
Exhibits 1 and 2, and the exhibits in the “Global Rankings” and “Industry Rankings” themselves, suggest four other broad trends of interest:

- ◆ The big industry winner in this year’s rankings—the utilities sector, with a weighted average annual TSR of 10.9 percent—may seem surprising. Although sales growth in the sector was only average, the utilities sample had the highest dividend yield of all our industry samples—4 percent. When this above-average dividend yield is combined with the impact of debt reductions in the sector and the increase in shares

outstanding, the total free-cash-flow contribution was five percentage points of TSR—nearly half the industry average. What’s more, the utilities sector was the only one to actually see its EBITDA multiple grow, on average. Clearly, the sector’s ability to generate and pay out cash played a major role in its success and perhaps even served to put a floor under industry multiples at a time when they were declining throughout the economy.

- ◆ In every other industry and in the sample as a whole, declines in EBITDA multiples destroyed TSR. Often, what separated the top ten in many samples from the rest was their ability either to improve their multiple while industry multiples were declining on the whole, or at least to limit the damage of an industry-wide decline. (An exception is the mining and materials sector, in which multiple declines destroyed slightly more TSR for the top ten than for the sector as a whole.)

Exhibit 1. With the Exception of the Utilities Industry, Declines in Valuation Multiples Have Substantially Eroded TSR



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports, BCG analysis.

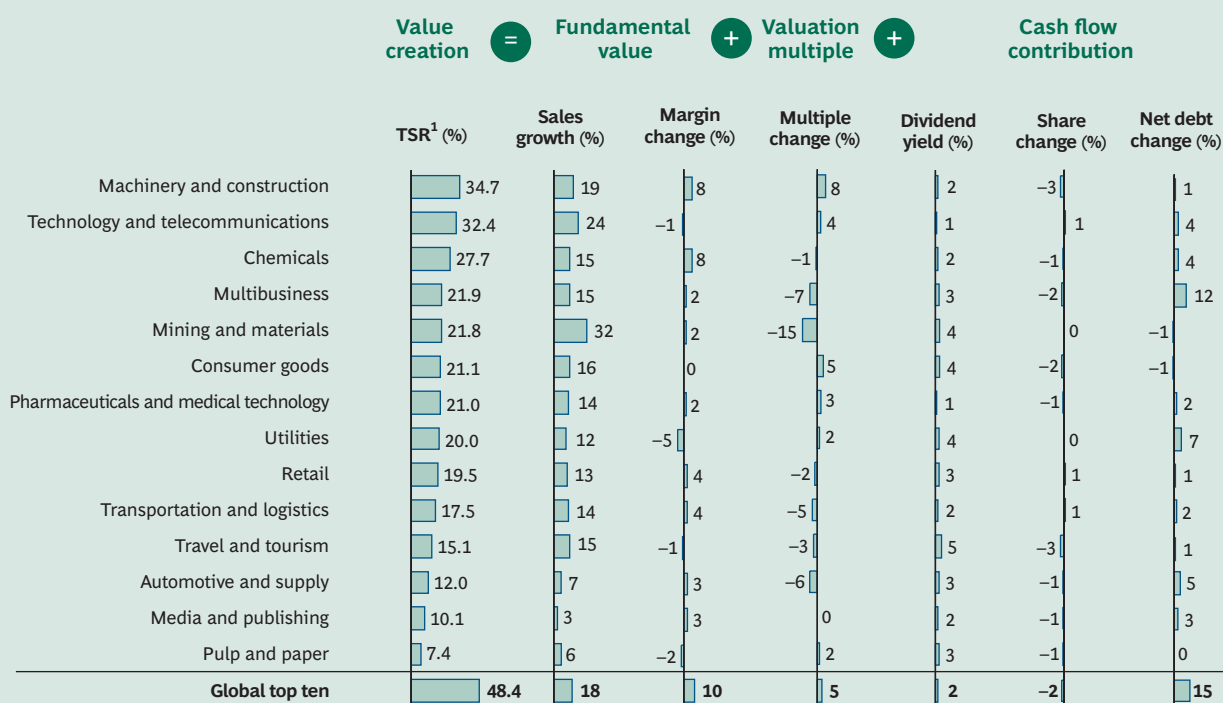
Note: Decomposition is shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals are due to rounding.

¹Five-year average annual TSR (2004–2008) for weighted average of respective sample.

- ◇ The more detailed analyses of TSR performance in the appendix exhibits show that, with a few exceptions, 2008 saw a major narrowing of the gap between the EBITDA multiples of the top ten in a sample and the average multiple of the sample as a whole. This narrowing is most apparent in the global sample, as can be seen in the exhibit “Value Creation at the Global Top Ten Versus Total Global Sample, 2004–2008,” on page 30. This narrowing suggests that the late 2008 selloff hit companies with high valuations (based on strong economic fundamentals before the market sell-off) comparatively harder than those with weaker valuations (based on poor fundamentals). If there comes a time when substantial portions of the money that moved into cash in late 2008 start returning to the equities market, these companies could benefit disproportionately.
- ◇ Another striking change between 2007 and 2008 is the decline in dividend yields, both on average and for the

top ten, in the global sample and in nearly every industry. Given the sharp decline in stock prices in 2008, one would expect dividend yields (which are the ratio of dividend payout to stock price) to increase. The decline would seem to indicate that many companies were indeed cutting dividends to preserve financial flexibility—even financially strong companies.

Exhibit 2. For the Top Ten Performers, Sales Growth Is a Major Lever of Value Creation



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports, BCG analysis.

Note: Decomposition is shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals are due to rounding.

¹Five-year average annual TSR (2004–2008) for weighted average of respective sample.

Global Rankings

Total Global Sample

The Global Top Ten, 2004–2008

						TSR Decomposition ¹						
#	Company	Country	Industry	TSR ² (%)	Market value ³ (\$billions)	Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2009 TSR ⁵ (%)
1	OCI	South Korea	Chemicals	73.7	3.6	11	21	7	3	−3	36	−2.5
2	Doosan Heavy Industries	South Korea	Machinery and construction	58.5	4.3	26	7	21	2	0	2	−2.5
3	Japan Steel Works	Japan	Machinery and construction	57.5	5.0	12	22	3	2	0	19	−2.5
4	K+S	Germany	Chemicals	53.2	9.3	18	28	4	4	1	−1	4.8
5	Apple	United States	Technology and telecom	51.5	75.8	36	52	−24	0	−4	−8	66.9
6	LG Group	South Korea	Multibusiness	47.1	5.8	9	2	−5	3	−2	39	42.6
7	Bharti Airtel	India	Technology and telecom	45.9	27.9	51	15	−22	0	−1	2	11.5
8	Larsen & Toubro	India	Machinery and construction	44.4	9.3	23	5	15	2	−16	14	90.8
9	CEZ	Czech Republic	Utilities	43.9	24.1	18	5	11	4	0	5	12.5
10	CSL	Australia	Pharmaceuticals and medical tech	43.2	13.1	24	11	6	2	−2	3	−7.0

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 694 global companies.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

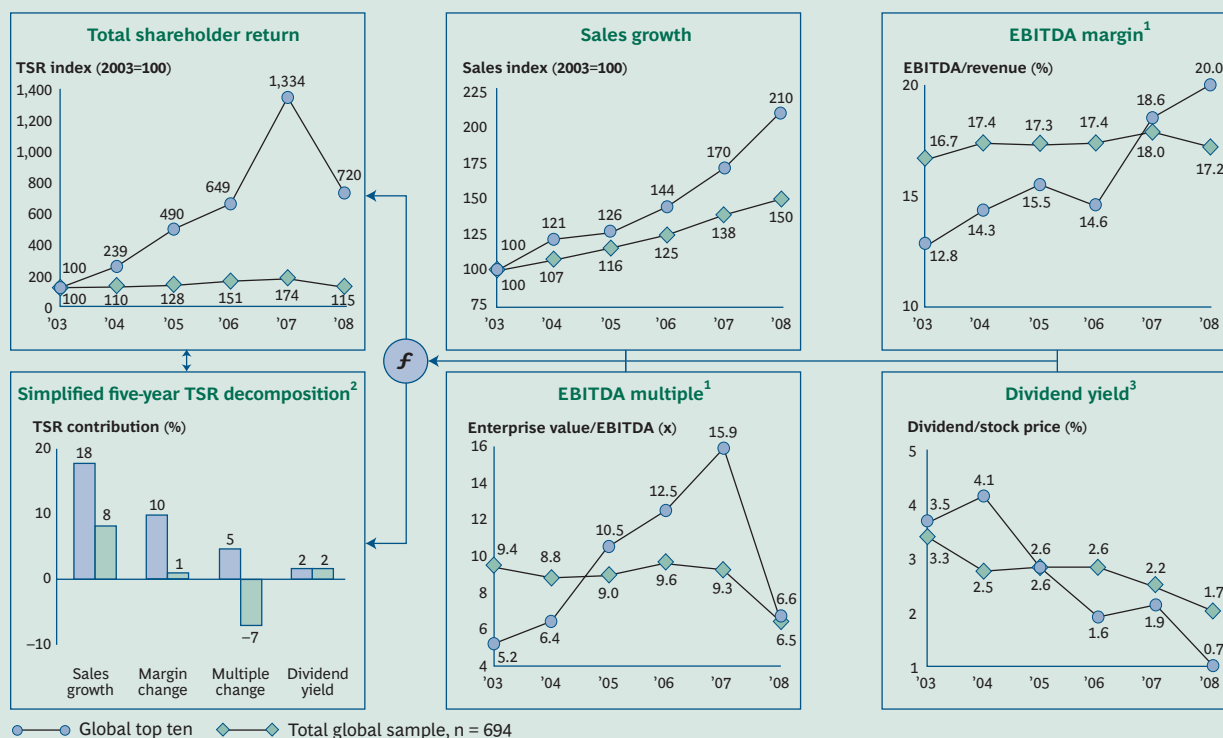
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Global Top Ten Versus Total Global Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Total sample calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Total sample calculation based on sample average.

Large-Cap Companies

The Large-Cap Top Ten, 2004–2008

#	Company	Country	Industry	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
						Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Apple	United States	Technology and telecom	51.5	75.8	36	52	-24	0	-4	-8	66.9
2	Monsanto	United States	Chemicals	38.8	38.6	20	6	7	2	-1	4	6.7
3	América Móvil	Mexico	Technology and telecom	33.6	51.0	30	1	-2	1	3	1	21.2
4	Reliance Industries	India	Chemicals	31.1	36.7	25	-2	5	2	-1	3	61.4
5	Nintendo	Japan	Consumer goods	30.3	42.5	27	7	1	3	2	-9	-18.8
6	China Mobile	Hong Kong	Technology and telecom	29.7	201.3	22	-1	4	3	0	2	1.7
7	Gilead Sciences	United States	Pharmaceuticals and medical tech	28.5	46.5	40	5	-15	0	-1	0	-8.8
8	British American Tobacco	United Kingdom	Consumer goods	23.4	53.2	3	2	10	5	1	2	-3.7
9	McDonald's	United States	Retail	23.0	69.3	7	7	0	3	3	3	-5.9
10	BHP Billiton	Australia	Mining and materials	22.4	119.5	28	9	-20	2	2	1	15.9

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 100 global companies with a market valuation greater than \$30 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

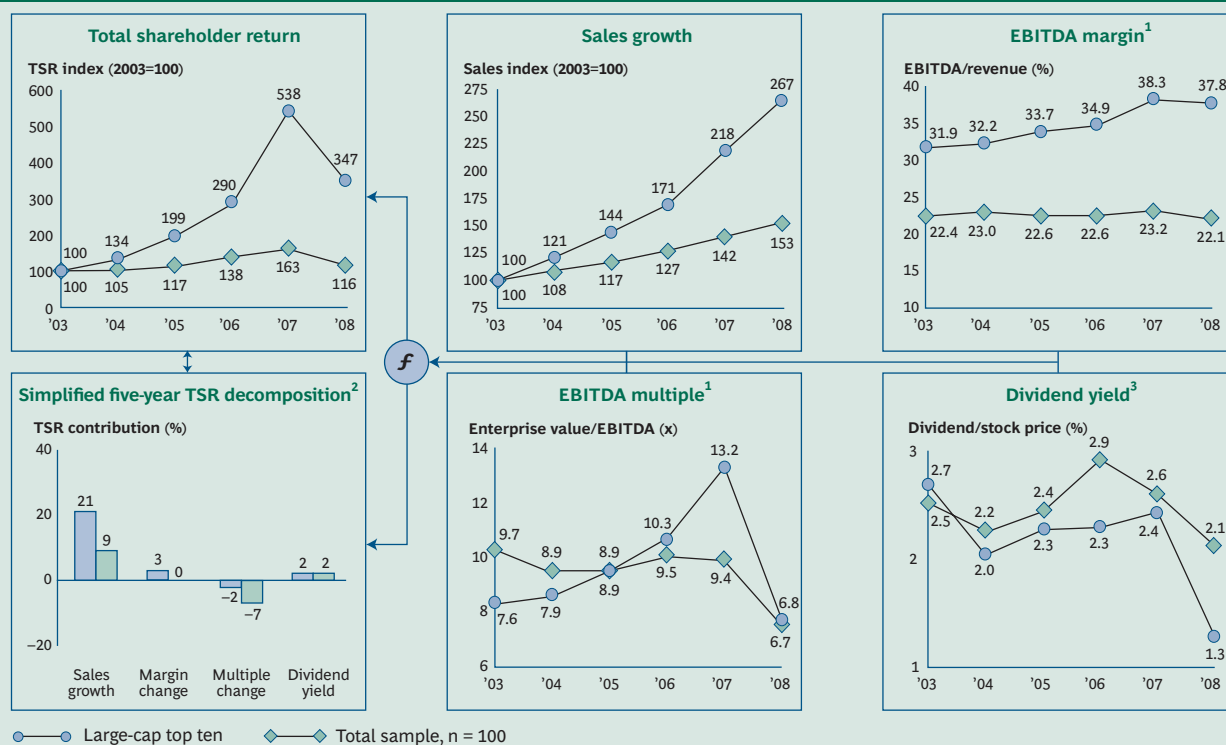
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Large-Cap Top Ten Versus Total Large-Cap Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Total sample calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Total sample calculation based on sample average.

Industry Rankings

Automotive and Supply

The Automotive Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Astra International	Indonesia	21.1	3.9	24	6	-10	5	0	-4	131.7
2	UMW	Malaysia	16.5	1.6	19	4	-3	5	-3	-5	17.6
3	Scania	Sweden	15.7	7.9	12	6	-6	4	0	-1	1.2
4	Hero Honda	India	15.5	3.3	14	-5	2	4	0	1	72.0
5	MAN	Germany	13.2	8.0	2	11	-7	3	0	4	17.0
6	Hankook Tire	South Korea	13.0	1.8	14	-6	6	2	1	-5	8.8
7	Daihatsu	Japan	11.5	3.7	12	3	-8	1	0	4	15.4
8	Yokohama Rubber	Japan	10.4	1.6	7	1	-5	3	1	4	8.7
9	Volkswagen	Germany	9.3	21.6	6	2	-10	4	-1	8	33.1
10	Sumitomo Rubber	Japan	7.7	2.2	6	-6	7	2	-2	1	0.8

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 47 global companies with a market valuation greater than \$1.5 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

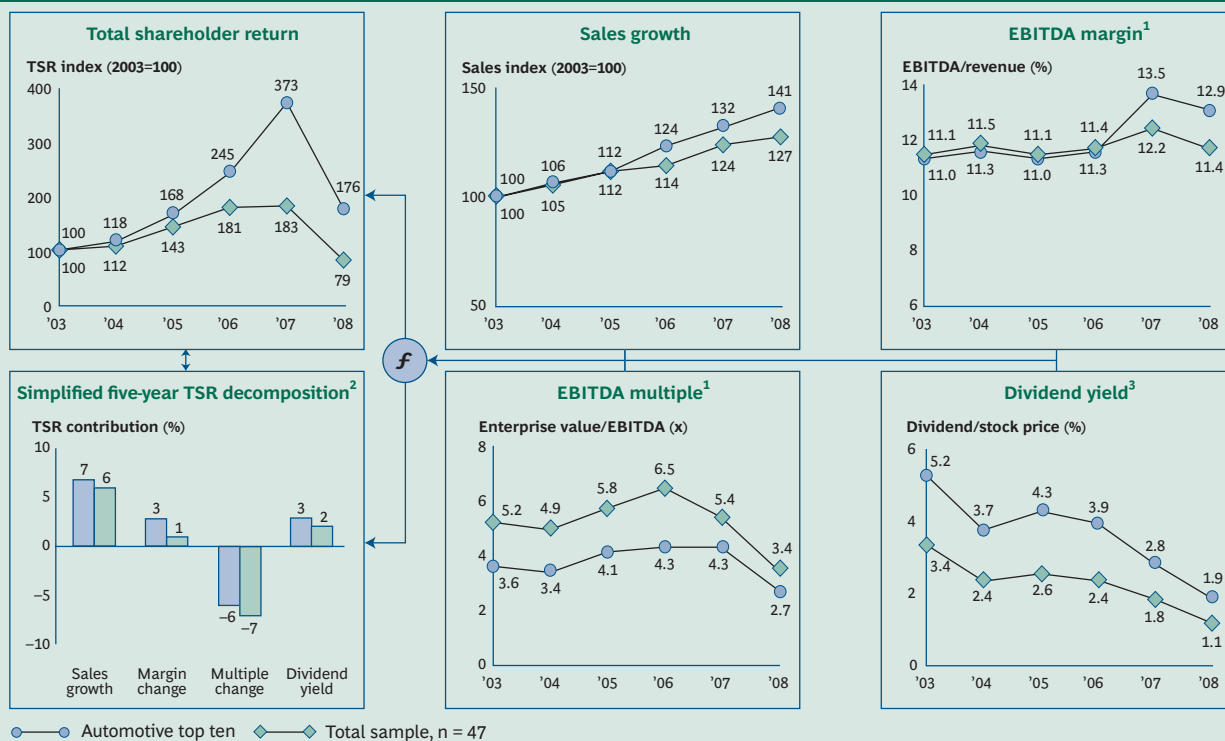
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Automotive Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Chemicals

The Chemicals Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	OCI	South Korea	73.7	3.6	11	21	7	3	-3	36	-2.5
2	K+S	Germany	53.2	9.3	18	28	4	4	1	-1	4.8
3	Israel Chemicals	Israel	38.8	9.0	25	18	-15	6	-1	6	47.8
4	Monsanto	United States	38.8	38.6	20	6	7	2	-1	4	6.7
5	PotashCorp	Canada	37.6	21.4	27	23	-18	1	1	3	21.5
6	Reliance Industries	India	31.1	36.7	25	-2	5	2	-1	3	61.4
7	FMC	United States	21.9	3.2	10	5	-3	1	-1	9	6.3
8	Syngenta	Switzerland	21.5	17.5	13	8	-3	0	2	2	29.0
9	Bayer	Germany	16.1	44.0	8	4	1	3	-1	1	-4.1
10	Tokuyama	Japan	15.4	2.2	6	4	-7	1	-1	12	-4.5

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 58 global companies with a market valuation greater than \$2 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

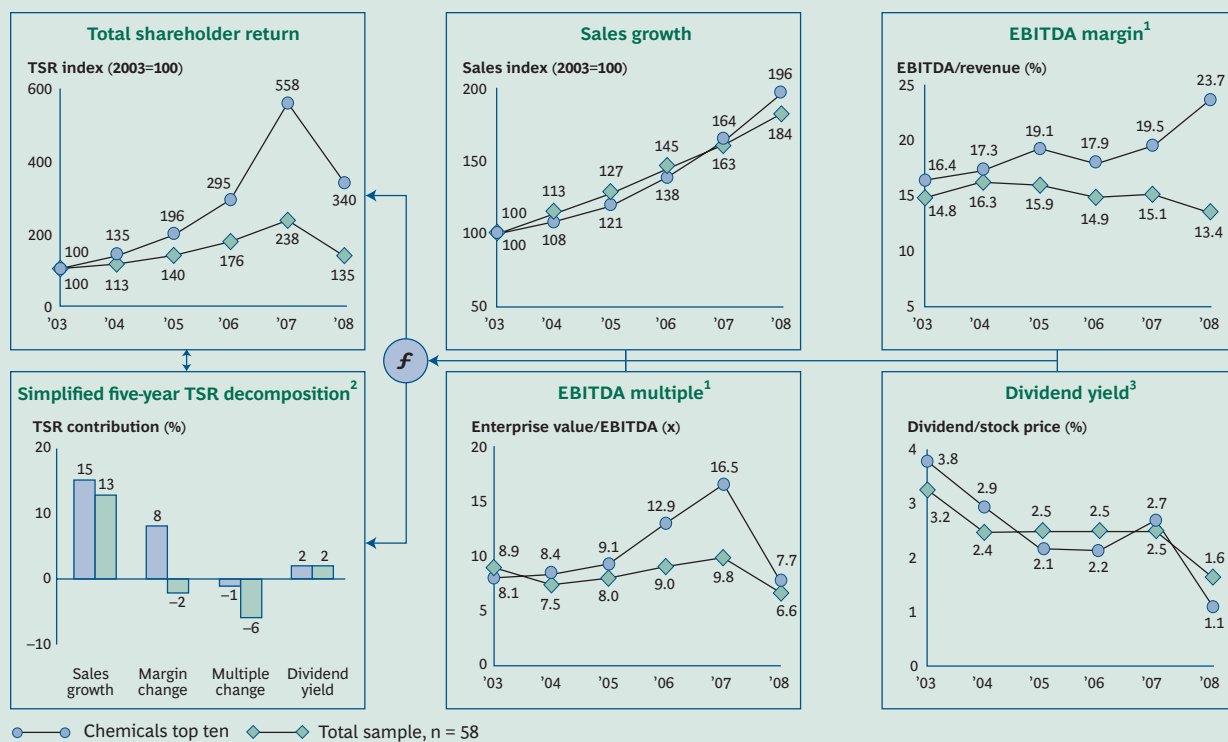
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Chemicals Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Consumer Goods

The Consumer Goods Top Ten, 2004–2008

#	Company	Country	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	KT&G	South Korea	35.9	8.1	7	1	21	5	-2	3	-9.0
2	Nintendo	Japan	30.3	42.5	27	7	1	3	2	-9	-18.8
3	British American Tobacco	United Kingdom	23.4	53.2	3	2	10	5	1	2	-3.7
4	ITC	India	22.4	13.3	5	10	6	2	0	-1	11.1
5	UST	United States	19.8	10.3	3	-2	10	6	2	1	0.1
6	Imperial Tobacco Group	United Kingdom	18.1	28.9	24	-14	10	4	-5	-2	-11.6
7	SABMiller	United Kingdom	17.8	25.6	25	-1	2	3	-8	-3	6.2
8	Reckitt Benckiser Group	United Kingdom	17.7	26.7	12	4	1	2	0	-2	9.3
9	Hermes International	France	15.8	14.6	8	-1	8	1	1	-1	0.1
10	AmBev	Brazil	14.8	26.7	18	5	-3	4	-10	0	26.8

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 61 global companies with a market valuation greater than \$7 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

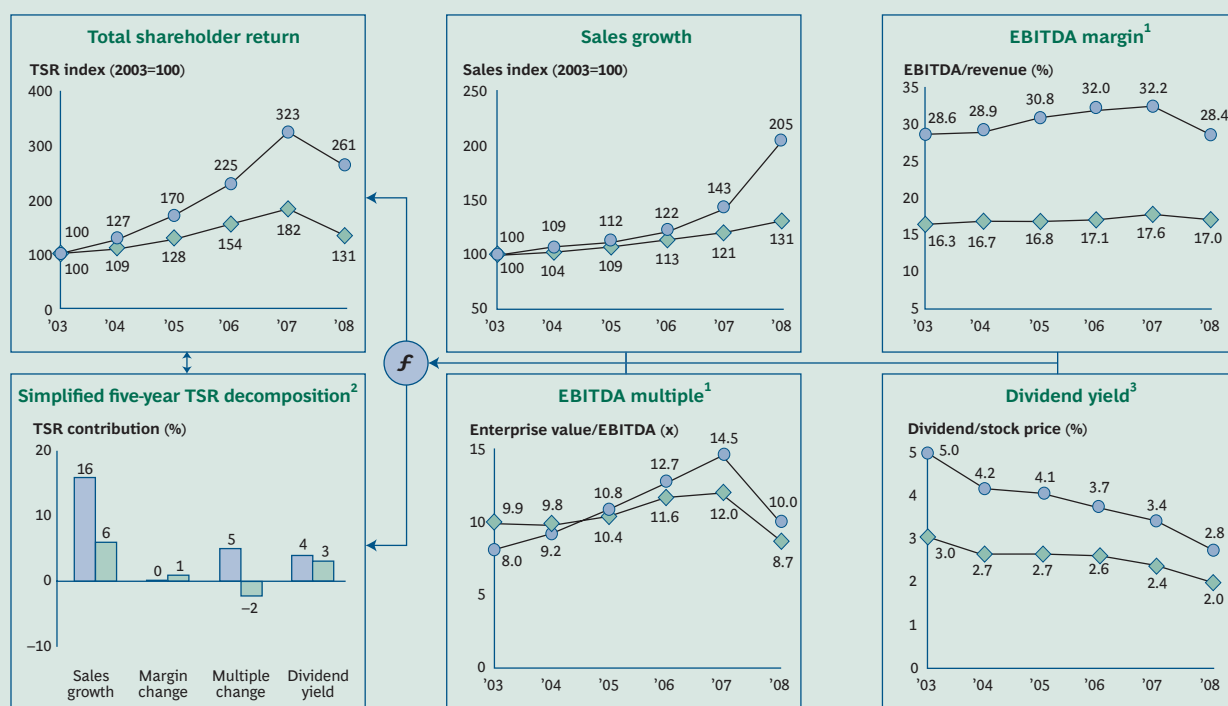
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Consumer Goods Top Ten Versus Industry Sample, 2004–2008



Legend: —●— Consumer goods top ten —◆— Total sample, n = 61

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Machinery and Construction

The Machinery and Construction Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Doosan Heavy Industries	South Korea	58.5	4.3	26	7	21	2	0	2	-2.5
2	Japan Steel Works	Japan	57.5	5.0	12	22	3	2	0	19	-2.5
3	Larsen & Toubro	India	44.4	9.3	23	5	15	2	-16	14	90.8
4	Hyundai Heavy Industries	South Korea	43.0	9.5	21	12	-7	4	-1	15	-4.5
5	Hyundai Engineering & Construction	South Korea	41.0	5.0	7	1	23	0	-13	22	-6.5
6	Bharat Heavy Electricals	India	40.7	13.7	23	13	3	1	0	1	58.3
7	Samsung Heavy Industries	South Korea	30.1	4.1	21	7	3	2	0	-4	28.3
8	Vestas Wind Systems	Denmark	28.7	10.5	29	8	-3	0	-9	3	25.4
9	FLIR Systems	United States	27.4	4.3	28	4	-4	0	-1	1	-26.5
10	ACS	Spain	23.2	14.5	12	3	16	3	2	-13	13.0

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 76 global companies with a market valuation greater than \$4 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

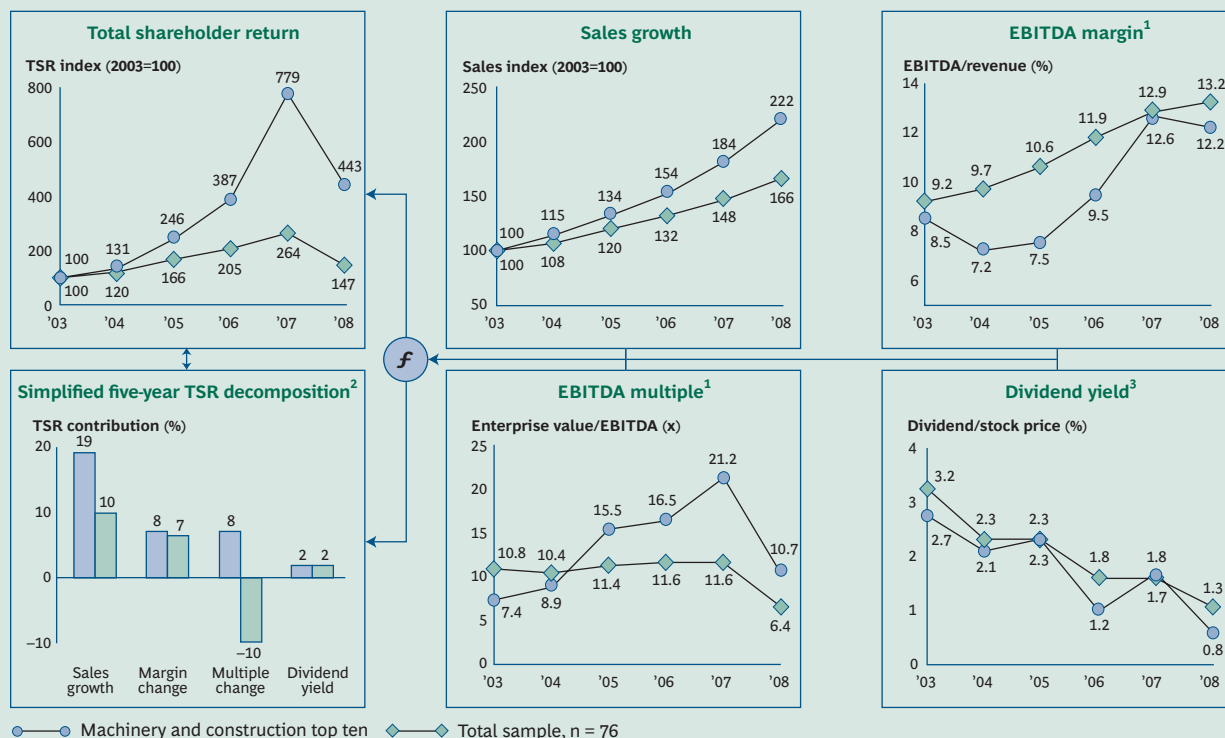
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Machinery and Construction Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Media and Publishing

The Media and Publishing Top Ten, 2004–2008

#	Company	Country	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Naspers	South Africa	33.3	6.7	11	16	10	1	-7	1	22.1
2	Shaw Communications	Canada	18.9	7.5	10	1	0	2	2	5	-7.4
3	GrupoTelevisa	Mexico	15.8	7.2	12	5	-4	3	-2	1	11.0
4	SES	Luxembourg	14.9	9.5	8	-4	6	4	3	-2	3.8
5	Dun & Bradstreet	United States	9.3	4.1	4	5	-4	0	6	-3	6.1
6	Toho Company	Japan	7.9	4.0	3	-3	7	1	-1	0	-16.5
7	John Wiley & Sons	United States	7.6	2.1	14	2	-6	1	1	-5	-6.1
8	Vivendi	France	7.0	37.8	0	3	-2	3	-2	4	-21.6
9	Net Serviços de Comunicação	Brazil	6.8	1.9	23	1	-11	0	-11	5	43.1
10	Wolters Kluwer	Netherlands	5.2	5.4	0	-4	5	4	0	0	-3.2

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 31 global companies with a market valuation greater than \$2 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

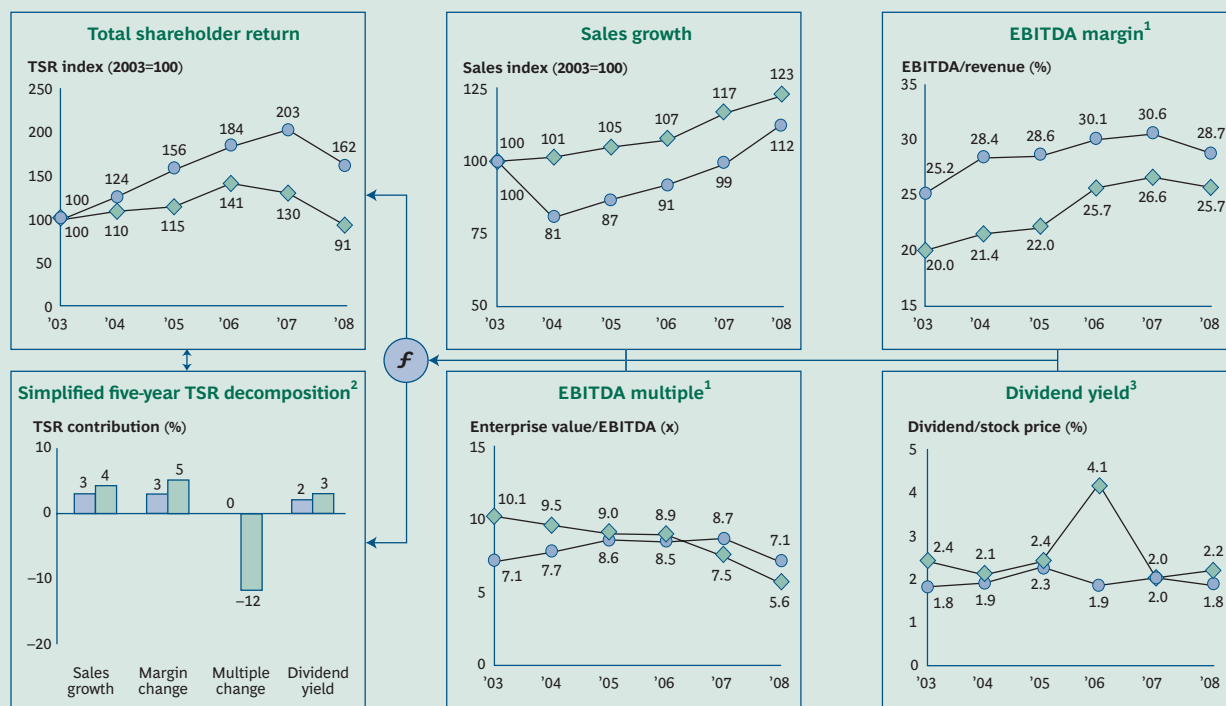
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Media and Publishing Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Mining and Materials

The Mining and Materials Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Agnico-Eagle Mines	Canada	32.4	7.9	23	23	-3	0	-12	1	-2.0
2	Nucor Corporation	United States	31.0	17.3	29	16	-16	4	-4	2	-2.2
3	Novolipetsk Steel	Russia	29.1	6.9	34	-1	8	2	0	-15	81.3
4	Siderúrgica Nacional	Brazil	28.1	9.4	14	13	-16	12	2	3	59.2
5	Tenaris	Italy	25.8	11.9	28	14	-20	4	0	0	36.5
6	Newcrest Mining	Australia	23.5	10.8	30	5	-8	0	-5	1	-9.8
7	BHP Billiton	Australia	22.4	119.5	28	9	-20	2	2	1	15.9
8	Posco	South Korea	22.2	23.1	18	-3	3	4	1	-1	11.4
9	ArcelorMittal	Netherlands	20.9	32.3	57	2	-18	2	-16	-5	39.7
10	Usinas Sider Minas	Brazil	19.7	5.8	12	1	-10	8	0	9	60.1

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 43 global companies with a market valuation greater than \$5 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

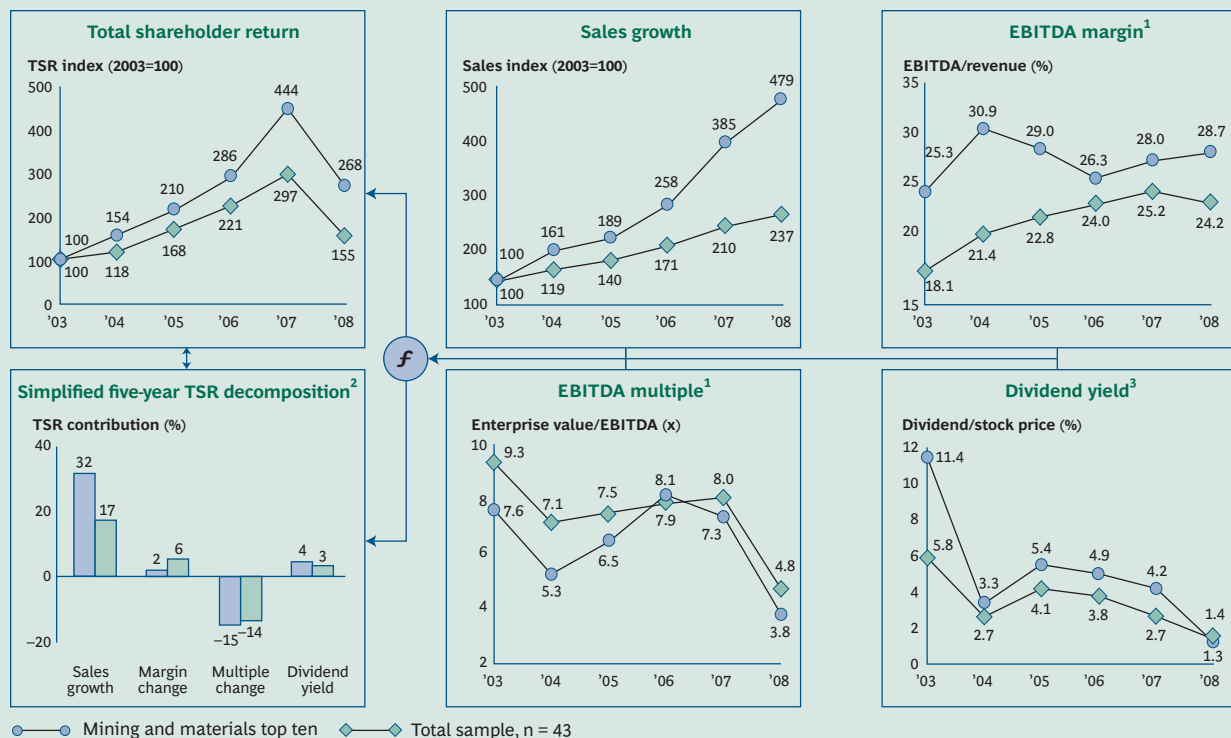
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Mining and Materials Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Multibusiness

The Multibusiness Top Ten, 2004–2008

#	Company	Country	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	LG Group	South Korea	47.1	5.8	9	2	-5	3	-2	39	42.6
2	Beijing Enterprises	Hong Kong	31.3	4.6	23	-6	16	3	-12	7	24.1
3	Diamond Offshore Drilling	United States	27.6	8.2	35	19	-31	4	-2	3	49.3
4	Grupo Carso	Mexico	25.1	6.3	3	-8	18	2	2	8	-5.3
5	WEG	Brazil	23.7	3.3	20	0	-1	5	0	0	12.6
6	Jardine Matheson	Singapore	18.3	5.4	20	13	-16	3	0	-2	52.7
7	Sembcorp	Singapore	16.0	2.9	15	2	-23	3	-1	19	37.4
8	Noble Group	Singapore	13.4	2.3	45	2	-24	2	-5	-8	86.3
9	China Resources Enterprise	Hong Kong	12.8	4.2	12	1	-1	5	-3	-2	16.7
10	Marubeni	Japan	12.1	6.4	9	7	-13	2	-3	11	28.5

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 45 global companies with a market valuation greater than \$2 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

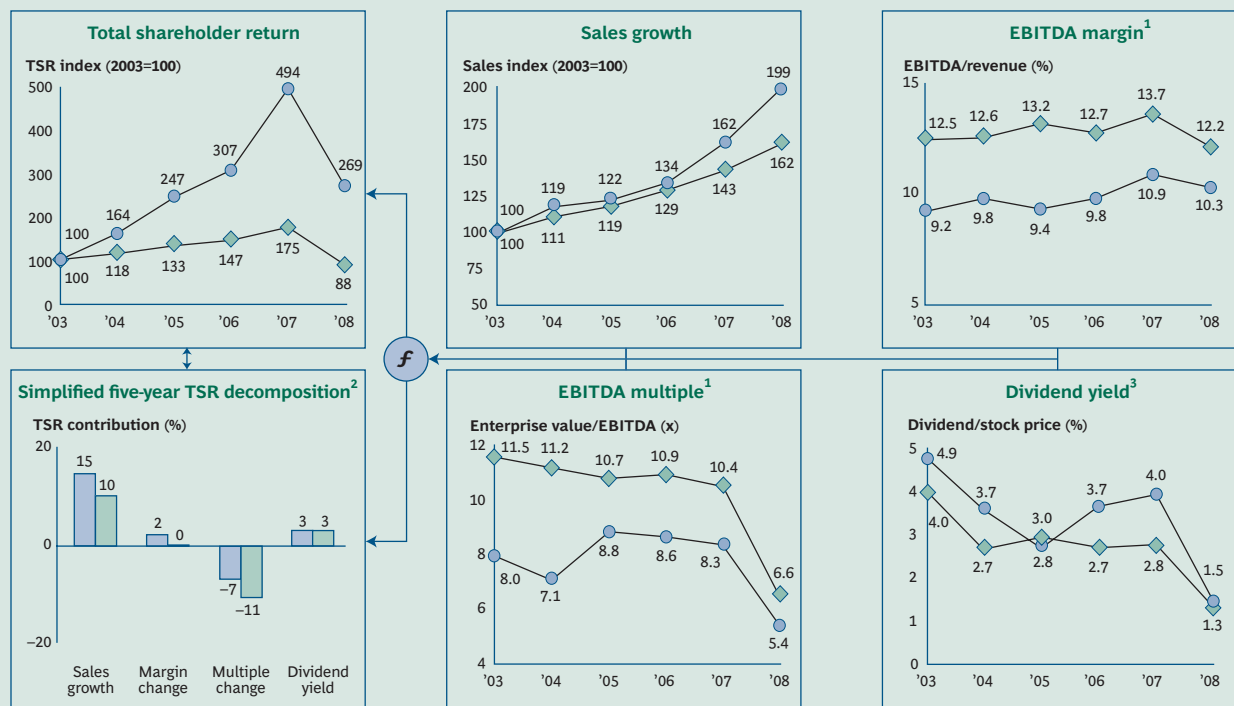
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Multibusiness Top Ten Versus Industry Sample, 2004–2008



Legend: ●—● Multibusiness top ten ◆—◆ Total sample, n = 45

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Pharmaceuticals and Medical Technology

The Pharmaceuticals and Medical Technology Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	CSL	Australia	43.2	13.1	24	11	6	2	-2	3	-7.0
2	Celgene	United States	37.6	25.4	48	17	-20	0	-7	0	-15.3
3	Gilead Sciences	United States	28.5	46.5	40	5	-15	0	-1	0	-8.8
4	Novo Nordisk	Denmark	19.4	30.8	12	1	1	2	2	1	7.1
5	Actelion	Switzerland	17.3	7.0	33	9	-23	0	-3	0	-3.7
6	Merck KGaA	Germany	17.1	19.5	9	7	-3	2	-2	4	15.0
7	Novozymes	Denmark	15.5	5.0	7	-1	6	1	2	0	0.8
8	Fresenius Medical Care	Germany	14.0	13.9	14	2	-3	2	-1	0	-2.6
9	Shire	United Kingdom	13.7	8.0	18	-24	31	0	-2	-9	-17.6
10	Baxter International	United States	13.6	33.0	7	2	1	2	0	3	-4.9

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 54 global companies with a market valuation greater than \$5 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

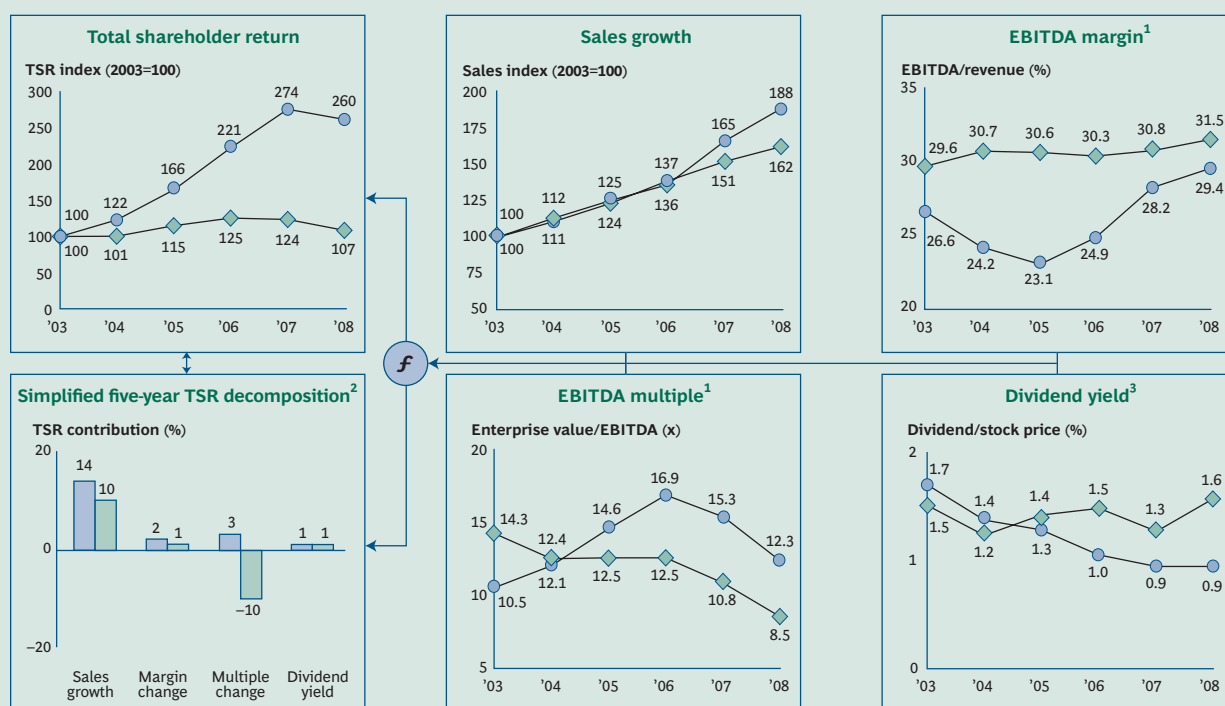
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Pharmaceuticals and Medical Technology Top Ten Versus Industry Sample, 2004–2008



Legend: Pharmaceuticals and medical technology top ten (blue line with circles), Total sample, n = 54 (green line with diamonds).

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Pulp and Paper

The Pulp and Paper Top Ten, 2004–2008

#	Company	Country	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Rock-Tenn	United States	16.9	1.3	14	4	3	2	-2	-5	12.3
2	Semapa	Portugal	15.4	1.0	26	-4	-3	3	0	-7	-5.8
3	Rengo	Japan	13.9	2.1	4	0	0	2	-2	10	-14.7
4	Klabin	Brazil	12.1	1.9	1	-8	22	5	0	-9	4.1
5	Mitsubishi Paper	Japan	6.4	0.8	2	-1	-5	1	-1	10	-34.8
6	Portucel	Portugal	5.0	1.6	2	-3	-1	3	0	3	21.3
7	Daio Paper	Japan	4.4	1.5	3	-9	7	1	-5	6	-23.9
8	Suzano Papel e Celulose	Brazil	3.7	1.6	28	-8	7	4	-11	-15	25.4
9	Mayr-MelnhofKarton	Austria	3.6	1.6	5	-5	-2	2	0	3	22.2
10	Sonoco	United States	2.0	2.3	8	-1	-6	3	-1	-2	6.2

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 27 global companies with a market valuation greater than \$0.5 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

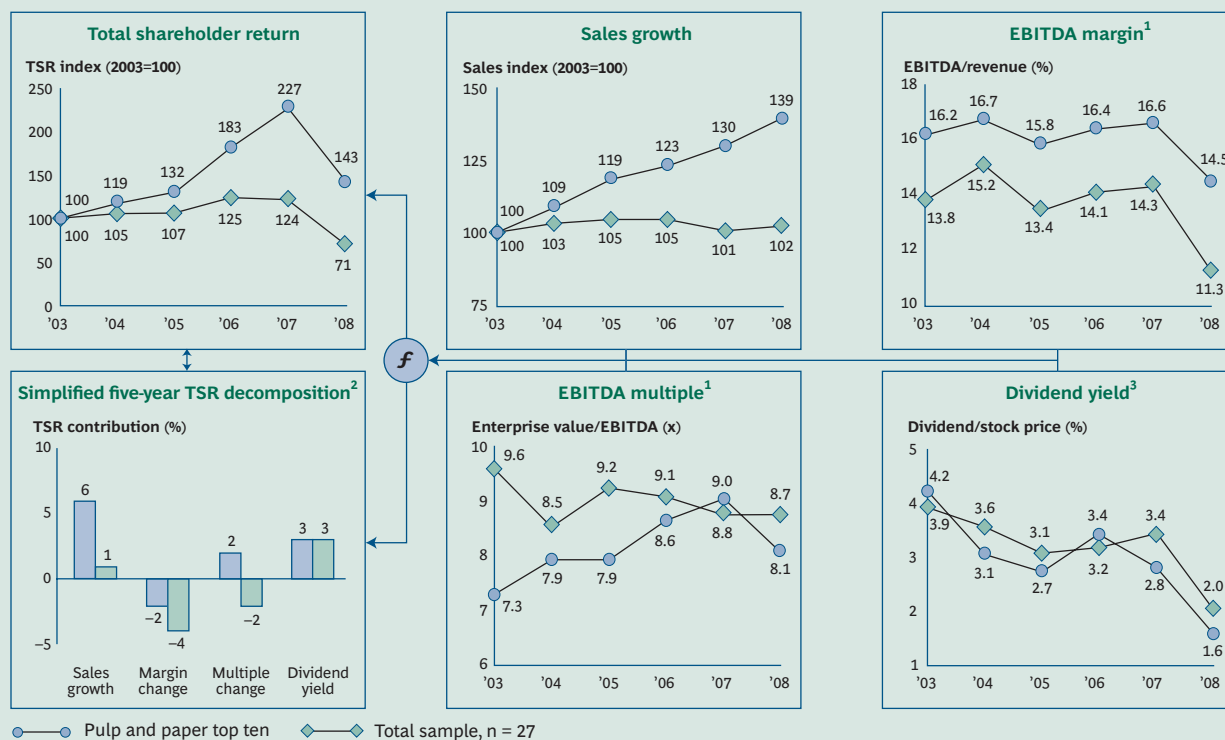
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Pulp and Paper Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Retail

The Retail Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Dairy Farm	Singapore	26.2	5.8	14	2	3	7	0	0	54.7
2	McDonald's	United States	23.0	69.3	7	7	0	3	3	3	-5.9
3	Woolworths	Australia	21.4	22.8	13	6	2	4	-3	0	0.7
4	Nitori	Japan	20.7	4.4	20	3	-1	0	-1	-1	-2.1
5	Wal-Mart de México	Mexico	19.7	22.5	13	4	2	2	1	-1	6.2
6	Colruyt	Belgium	17.0	6.9	13	0	2	2	2	-1	5.8
7	Fast Retailing	Japan	16.5	14.0	14	4	-1	2	0	-2	-2.1
8	Inditex	Spain	16.5	27.1	18	1	-6	2	0	1	10.6
9	Esprit Holdings	Hong Kong	16.2	7.0	23	6	-18	4	-1	2	0.5
10	H&M	Sweden	16.0	32.0	13	3	-4	4	0	0	31.4

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 54 global companies with a market valuation greater than \$4 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

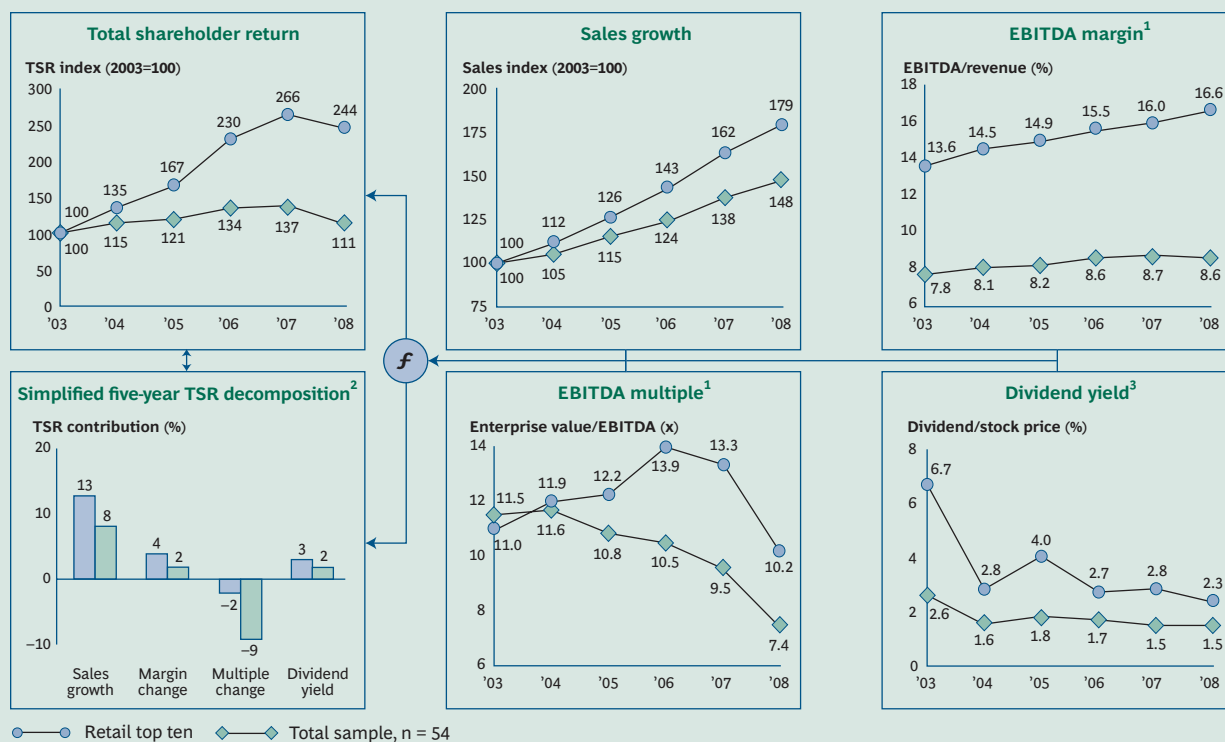
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Retail Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Technology and Telecommunications

The Technology and Telecommunications Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Apple	United States	51.5	75.8	36	52	-24	0	-4	-8	66.9
2	Bharti Airtel	India	45.9	27.9	51	15	-22	0	-1	2	11.5
3	América Móvil	Mexico	33.6	51.0	30	1	-2	1	3	1	21.2
4	MTN Group	South Africa	32.2	21.9	37	5	-9	2	-3	0	11.0
5	China Mobile	Hong Kong	29.7	201.3	22	-1	4	3	0	2	1.7
6	Rogers Communications	Canada	29.1	18.8	19	5	-1	1	-6	11	-16.6
7	Carso Global Telecom	Mexico	28.7	13.9	9	-6	15	0	1	10	-12.2
8	Research In Motion ⁶	Canada	27.9	22.6	NA	NA	NA	NA	NA	NA	67.0
9	Turkcell	Turkey	25.8	12.5	17	5	-5	3	0	5	4.0
10	American Tower	United States	22.1	11.6	20	4	-1	0	-11	12	7.5

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 60 global companies with a market valuation greater than \$10 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

²Average annual total shareholder return, 2004–2008.

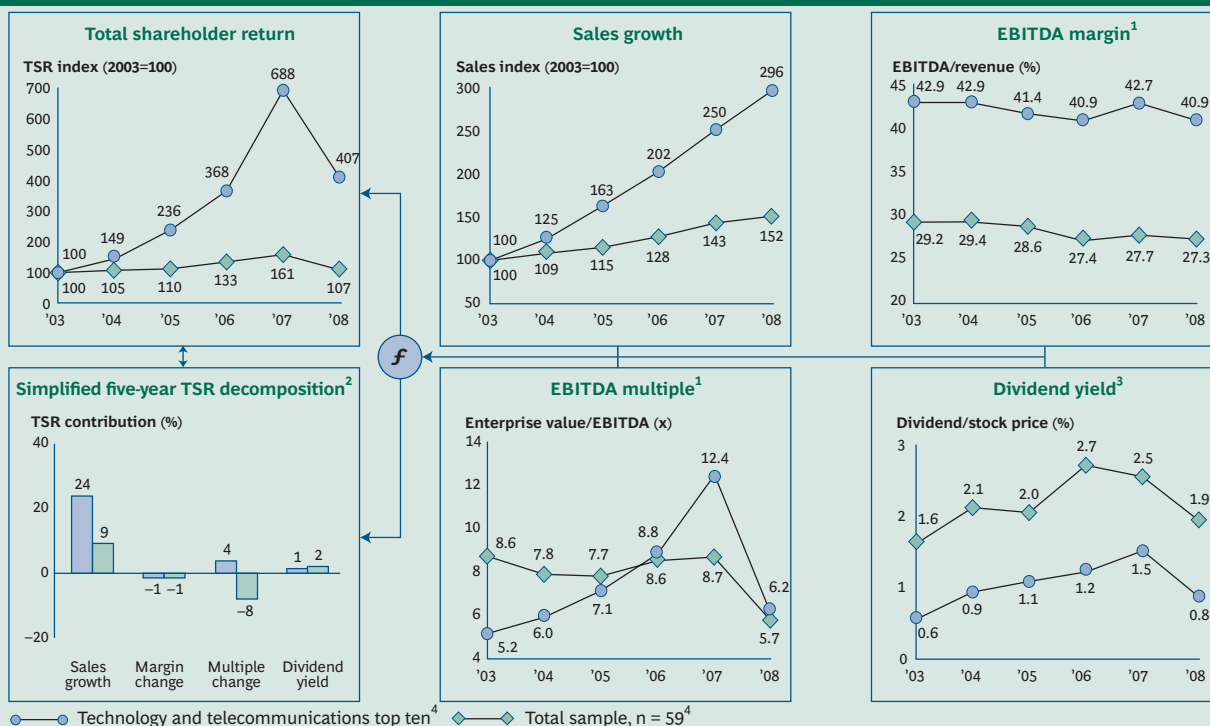
³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

⁶Decomposition is not possible owing to negative EBITDA.

Value Creation at the Technology and Telecommunications Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

⁴Excludes Research In Motion owing to negative EBITDA.

Transportation and Logistics

The Transportation and Logistics Top Ten, 2004–2008

#	Company	Country	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Grupo CCR	Brazil	36.2	4.1	20	5	4	7	-3	4	34.9
2	Hyundai Merchant Marine	South Korea	34.2	3.7	15	2	12	2	-8	11	-34.1
3	C.H. Robinson Worldwide	United States	25.4	9.4	19	6	-1	2	0	-1	-4.2
4	BNSF Railway	United States	20.3	25.7	14	2	-2	2	2	3	-1.6
5	Kuehne + Nagel	Switzerland	19.3	7.5	19	1	-3	2	0	0	29.6
6	Norfolk Southern	United States	16.6	17.2	10	8	-11	2	1	6	-18.5
7	J.B. Hunt	United States	15.5	3.3	9	2	1	1	5	-2	17.3
8	CSX	United States	13.9	12.7	8	16	-16	1	2	3	8.4
9	Expeditors	United States	12.7	7.1	16	3	-7	1	0	1	0.8
10	Canadian National Railway	Canada	12.0	17.0	8	1	-2	2	4	-1	12.9

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 43 global companies with a market valuation greater than \$3 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

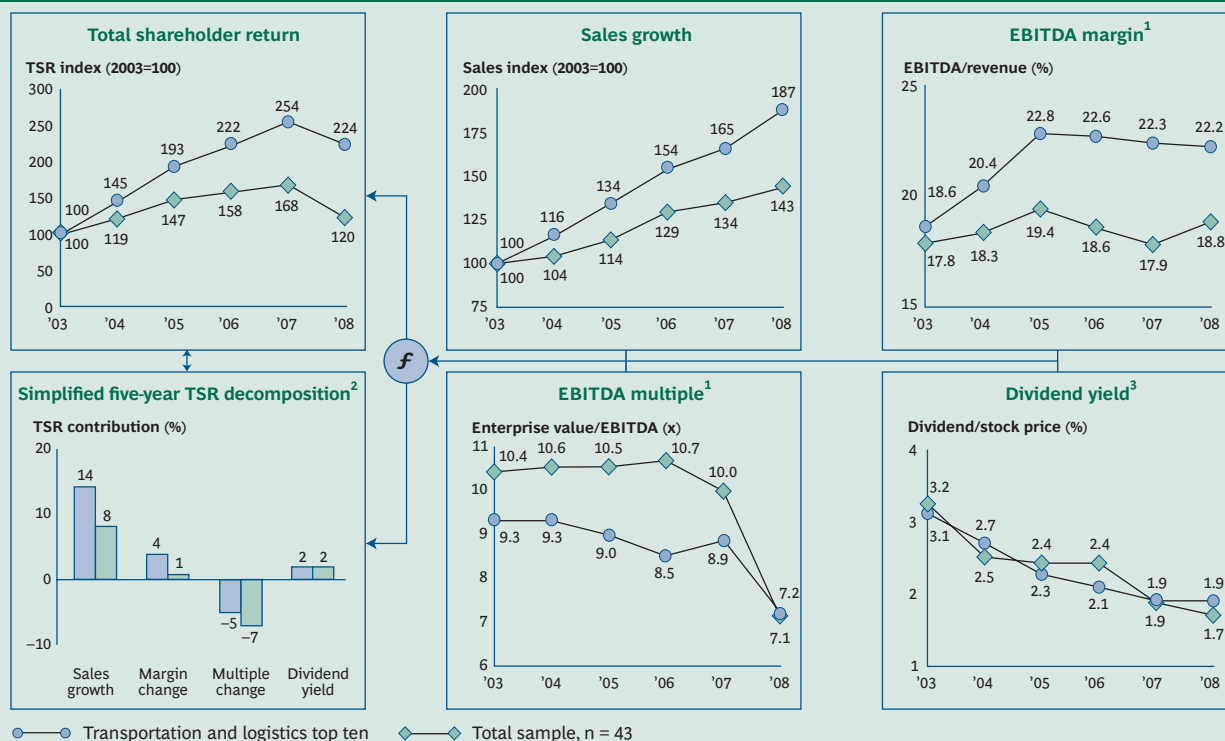
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Transportation and Logistics Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Travel and Tourism

The Travel and Tourism Top Ten, 2004–2008

#	Company	Location	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	SMRT	Singapore	29.1	1.7	3	2	9	7	0	8	2.4
2	LAN Airlines	Chile	27.7	2.9	25	7	-8	5	-1	-1	19.8
3	OPAP	Greece	20.1	9.2	18	2	-9	8	0	1	-2.1
4	Berjaya Sports Toto	Malaysia	18.8	1.6	8	-2	12	11	-9	-1	8.4
5	Korean Air Lines	South Korea	16.5	2.0	10	-16	8	1	0	14	-6.3
6	Arriva	United Kingdom	13.6	1.7	13	-5	7	4	0	-5	-29.4
7	FirstGroup	United Kingdom	13.4	2.8	15	-2	5	4	-1	-7	-16.4
8	Penn National Gaming	United States	13.1	1.7	18	0	-5	0	0	0	36.2
9	Sankyo	Japan	7.7	3.6	15	14	-5	7	-11	-12	-18.4
10	Lottomatica	Italy	6.8	7.6	4	21	-23	1	-5	9	-4.6

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 40 global companies with a market valuation greater than \$1.5 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

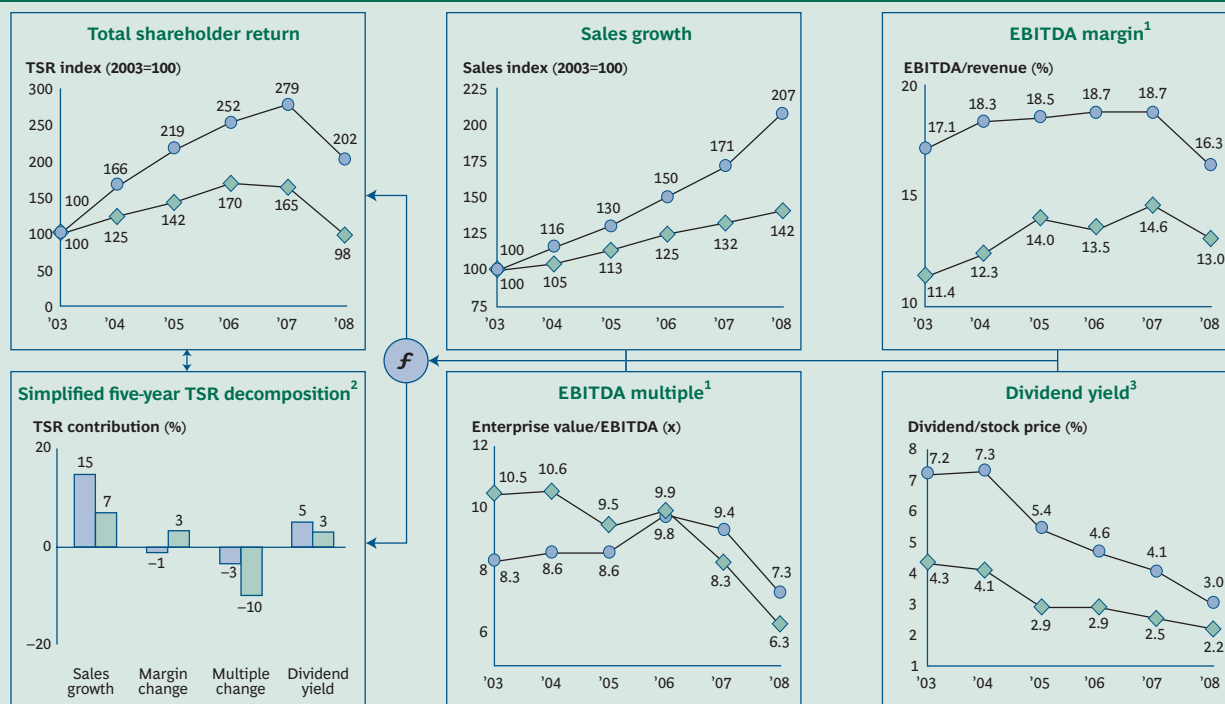
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Travel and Tourism Top Ten Versus Industry Sample, 2004–2008



●—● Travel and tourism top ten ◆—◆ Total sample, n = 40

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.

Utilities

The Utilities Top Ten, 2004–2008

#	Company	Country	TSR ² (%)	Market value ³ (\$billions)	TSR Decomposition ¹						2009 TSR ⁵ (%)
					Sales Growth (%)	Margin change (%)	Multiple change ⁴ (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	CEZ	Czech Republic	43.9	24.1	18	5	11	4	0	5	12.5
2	Unión Fenosa	Spain	32.4	22.5	5	7	3	3	0	13	-55.8
3	Origin Energy	Australia	31.1	10.0	20	2	12	3	-5	-1	-8.1
4	Verbund	Austria	30.9	13.9	9	13	-4	2	0	11	15.6
5	RWE	Germany	18.9	49.5	5	-8	0	4	0	18	-3.5
6	Endesa	Spain	18.7	33.3	7	1	-4	6	0	10	-19.2
7	Scottish and Southern Energy	United Kingdom	17.6	15.5	27	-16	2	5	0	-1	-4.8
8	National Grid	United Kingdom	16.4	25.8	5	-3	6	5	1	2	-16.7
9	Enerdis	Chile	15.6	8.4	22	-1	-14	2	0	7	22.9
10	E.ON	Germany	14.7	74.2	15	-9	5	5	1	-2	-4.3

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

Note: n = 55 global companies with a market valuation greater than \$7 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals due to rounding.

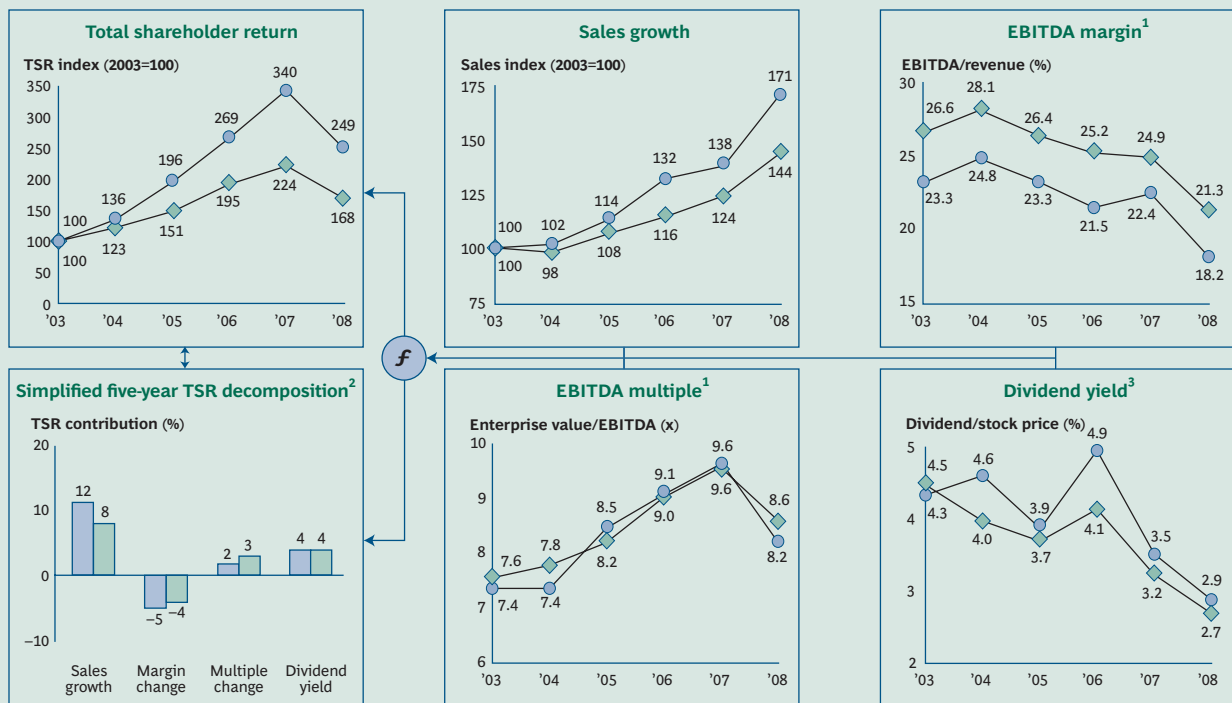
²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of June 30, 2009.

Value Creation at the Utilities Top Ten Versus Industry Sample, 2004–2008



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.

¹Industry calculation based on aggregate of entire sample.

²Share change and net debt change not shown.

³Industry calculation based on sample average.



For Further Reading

The Boston Consulting Group publishes many reports and articles on corporate development and value creation that may be of interest to senior executives. Examples include:

Fixing What's Wrong with Executive Compensation

A White Paper by The Boston Consulting Group, June 2009

Real-World PMI: Learning from Company Experiences

A Focus by The Boston Consulting Group, June 2009

Thriving Under Adversity: Strategies for Growth in the Crisis and Beyond

A White Paper by The Boston Consulting Group, May 2009

The Clock Is Ticking: Preparing to Seize M&A Opportunities While They Last

A White Paper by The Boston Consulting Group, May 2009

Collateral Damage: Function Focus—Valuation Advantage: How Investors Want Companies to Respond to the Downturn

A White Paper by The Boston Consulting Group, April 2009

Get Ready for the Private-Equity Shakeout: Will This Be the Next Shock to the Global Economy?

A White Paper by The Boston Consulting Group, published with the IESE Business School of the University of Navarra, December 2008

M&A: Down but Not Out: A Survey of European Companies' Merger and Acquisition Plans for 2009

A White Paper by The Boston Consulting Group, December 2008

Missing Link: Focusing Corporate Strategy on Value Creation

The 2008 Value Creators Report, September 2008

Venturing Abroad: Chinese Banks and Cross-Border M&A

A report by The Boston Consulting Group, September 2008

The Return of the Strategist: Creating Value with M&A in Downturns

A report by The Boston Consulting Group, May 2008

Managing Shareholder Value in Turbulent Times

The 2008 Creating Value in Banking Report, March 2008

The Advantage of Persistence: How the Best Private-Equity Firms "Beat the Fade"

A report by The Boston Consulting Group, published with the IESE Business School of the University of Navarra, February 2008

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Note to the Reader

Searching for Sustainability: Value Creation in an Era of Diminished Expectations is the eleventh annual report in the Value Creators series published by The Boston Consulting Group. Each year, we publish detailed empirical rankings of the stock market performance of the world's top value creators and distill managerial lessons from their success. We also highlight key trends in the global economy and world capital markets and describe how these trends are likely to shape future priorities for value creation. Finally, we share our latest analytical tools and client experiences to help companies better manage value creation.

This year's report addresses the challenges of consistently delivering above-average shareholder value over long periods of time—what we call *sustainable value creation*. The report draws lessons from the world's top sustainable value creators of the past decade and describes an approach companies can use to determine their potential to deliver sustainable shareholder value in the future.

Acknowledgments

This report is a product of BCG's Corporate Development practice. The authors would like to acknowledge the contributions of the following global experts in corporate development:

Andrew Clark, a senior partner and managing director in the firm's Auckland office and the leader of the Corporate Development practice in Asia-Pacific

Gerry Hansell, a senior partner and managing director in the firm's Chicago office and the leader of the Corporate Development practice in the Americas

Jérôme Hervé, a partner and managing director in the firm's Paris office and the leader of the Corporate Development practice in Europe

Lars-Uwe Luther, a partner and managing director in the firm's Berlin office and the global head of marketing for the Corporate Development practice

Brett Schiedermayer, the managing director of the BCG ValueScience Center in South San Francisco, California—a research center that develops leading-edge valuation tools and techniques for M&A and corporate-strategy applications

The authors would also like to thank Robert Howard for his contributions to the writing of the report; Lisa

Giesbert, Martin Link, Corinna Niebling, and Dirk Schilder of BCG's Munich-based Value Creators research team for their contributions to the research; and Barry Adler, Katherine Andrews, Gary Callahan, Angela DiBattista, Kim Friedman, Pamela Gilfond, and Sara Strassenreiter for their contributions to the editing, design, and production of the report.

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