

# CEO Wealth Creators... and Destroyers

In the first annual *Chief Executive*/Applied Finance Group Wealth Creation Rankings we size up the best and worst performers of the S&P 500 over the last three years.

**VALUE.** Creating and sustaining it is what CEOs are supposed to do. Creating a lot of value makes shareholders happy and justifies fat paychecks and big bonuses. Losing it angers shareholders, creates tension with the board and generates skepticism about CEOs' strategies, their team's effectiveness or both. When value creation eludes a CEO, his or her days are numbered.

To get a sense of how the S&P 500 CEOs were faring at wealth creation, *Chief Executive* partnered with the Applied Finance Group, creators of the Economic Margin (EM) value metric, and with Drew Morris, CEO of Great Numbers!, a results-improvement consulting firm. His framework for maximizing results, which includes EM, appeared in our January/February and March 2008 issues.

As we have seen with the recent meltdown in financial markets, value isn't always what it appears to be. And traditional accounting measures do not count what really counts. Earnings per share (EPS) and price/earnings (P/E) ratios are based on accounting profit, which is prone to distortion and has no real relationship to wealth creation. Trying to grow earnings or EPS in the belief that the stock market will reward you with a higher share price no longer works, as investors really seek to understand the company's underlying economic performance.

To state the obvious, navigating with instruments that mislead is dangerous. CEOs need to look at their businesses with the same wealth-creation measures that, for example, private equity and institutional investors use. Investors want to know how good a company and its leaders are at preserving and growing their capital.

Many companies have moved from accounting to economic approaches to measuring this. A few, such as EVA, are good because they reckon with the true cost of capital, but none are perfect. Our rankings rely on Economic Margin, a measure with which executives can readily manage wealth creation, and which is applicable at all levels of a company. EM is calculated as the difference between operating cash flow and an appropriate capital charge, all divided by invested capital. EM is suitable for both private and public companies and useful for making comparisons with competitors, as it's an economic-profitability percentage, not a monetary amount.

The ranking method we used (see sidebar, opposite) also considers management's demonstrated ability to protect shareholder wealth and create truly valuable assets. Our intent is to advance the art, science and practice of creating wealth for a company's owners and the associated results-creation skills of its executive team.

## 10 BEST WEALTH CREATORS

CEO	COMPANY
1. J. Christopher Donahue	Federated Investors
2. Jeffrey P. Bezos	Amazon.com
3. Robert W. Selander	Mastercard
4. Mark Donegan	Precision Castparts
5. Hugh Grant	Monsanto
6. John W. Rowe	Exelon
7. John C. Martin, Ph.D.	Gilead Sciences
8. Daniel P. Amos	AFLAC
9. Andrea Jung	Avon
10. Clayton M. Jones	Rockwell Collins

## 10 BEST WEALTH DESTROYERS

CEO	COMPANY
1. James R. Tobin	Boston Scientific
2. Robert J. Coury	Mylan
3. Gary C. Kelly	Southwest Airlines
4. Herb M. Allison, Jr.	Fannie Mae
5. Eli Harari, Ph.D.	Sandisk
6. Glen F. Post, III	Centurytel
7. Larry L. Weyers	Integrus Energy
8. Steven R. Appleton	Micron Technology
9. John A. Luke, Jr.	Meadwestvaco
10. Lynn Laverty Elsenhans	Sunoco

# Ranking CEO Wealth Creation BY

**DREW MORRIS AND MICHAEL BURDI**

The ranking focuses on the performance of companies (and their CEOs) in the S&P 500 index for three years ending on Sept. 1, 2008. It's based on reported results during that period and estimates for the next 12 months.

CEOs whose tenure did not coincide for the full three years were not ranked. Also not ranked are the 14 REITs in the S&P 500 and companies that have been acquired or no longer exist.

The four components of the ranking, explained below, were developed and calculated by the Applied Finance Group (AFG), an independent equity-research advisory firm, using proprietary metrics and data. A weighted combination of each company's component rankings is used to produce an overall score: 100 is awarded to the best wealth creator; 1 to the worst. The component rankings are shown as letter grades with companies in the top 20 percent of each component metric receiving an A grade; the bottom 20 percent receiving an F.

## Market (or Enterprise) Value/Invested Capital (MV/IC)

This measure shows the degree to which investors consider the company's assets valuable, relative to their cost. Market value is what a buyer would have to pay to buy the company outright, that is, to purchase all of the stock and pay off all of the loans, leases and other obligations. Note that market value depends on the stock price. Invested capital is the inflation-adjusted total of all of the investments in the business. It does not depend on the stock price. So by its nature, MV/IC reflects the market's take on the value of the investments made in the business.

## The Average of the Past Three Years' Economic Margins

Economic Margin (EM) measures the degree to which the company is making money in excess of its risk-adjusted capital cost. It's expressed as a percentage of invested capital.

	Overall Ranking	Score (best=100)	MV/IC	3 Yr. EM	EM Change Mgmt.	Quality Score	Company	CEO
1.	100	A	A	A	A	A	Federated Investors	J. Christopher Donahue
2.	100	A	A	A	A	A	Amazon.com	Jeffrey P. Bezos
3.	99	A	A	A	A	A	Mastercard	Robert W. Selander
4.	98	A	A	A	A	A	Precision Castparts	Mark Donegan
5.	98	A	B	A	A	A	Monsanto	Hugh Grant
6.	97	A	A	B	A	A	Exelon	John W. Rowe
7.	96	A	A	A	A	A	Gilead Sciences	John C. Martin, Ph.D.
8.	96	A	A	A	A	A	AFLAC	Daniel P. Amos
9.	96	A	A	A	A	A	Avon	Andrea Jung
10.	96	A	A	B	A	A	Rockwell Collins	Clayton M. Jones
11.	95	A	A	B	A	A	McGraw-Hill	Harold W. McGraw, III
12.	95	A	A	A	A	A	Microsoft	Steven A. Ballmer
13.	94	A	A	A	A	A	MEMC Electronic Materials	Nabeel Gareeb
14.	93	A	A	C	A	A	C.H. Robinson Worldwide	John P. Wiehoff
15.	93	A	A	B	A	A	Schlumberger	Andrew Gould
16.	93	A	A	B	A	A	Intuitive Surgical	Lonnie M. Smith
17.	92	A	A	A	C	A	Express Scripts	George Paz
18.	91	A	A	C	A	A	Autozone	William C. Rhodes, III
19.	90	A	A	A	C	A	Lorillard	Martin L. Orlowsky
20.	90	A	B	A	A	A	FirstEnergy	Anthony J. Alexander
21.	90	A	A	A	C	A	Paychex	Jonathan J. Judge
22.	89	A	A	B	A	A	Apple	Steven P. Jobs
23.	88	A	A	B	A	A	Ecolab	Douglas M. Baker, Jr.
24.	88	A	A	C	A	A	Smith Int'l.	Douglas L. Rock
25.	88	A	A	C	A	A	Franklin Resources	Gregory E. Johnson
26.	88	A	A	A	C	A	Charles Schwab	Charles R. Schwab
27.	87	A	C	A	A	A	Fluor	Alan L. Boeckmann
28.	87	A	A	C	A	A	Linear Technology	Lothar Maier
29.	87	A	B	B	A	A	Lockheed Martin	Robert J. Stevens
30.	87	A	A	D	A	A	Questar	Keith O. Rattie
31.	86	A	A	C	A	A	Sigma-Aldrich	Dr. Jai P. Nagarkatti
32.	86	A	B	B	A	A	C.R. Bard	Timothy M. Ring
33.	86	A	D	A	A	A	Jacobs Engineering Group	Craig L. Martin
34.	84	B	B	B	A	A	Int'l. Flavors & Fragrances	Robert M. Amen
35.	84	A	B	B	A	A	State Street	Ronald E. Logue
36.	84	A	B	B	A	A	Yum! Brands	David C. Novak
37.	83	A	D	A	A	A	Celgene	Sol J. Barer, Ph.D.
38.	83	B	C	A	A	A	Deere	Robert W. Lane
39.	83	A	A	D	A	A	Expeditors Int'l.	Peter J. Rose
40.	83	B	C	A	A	A	Gamestop	Daniel A. DeMatteo
41.	83	A	B	C	A	A	Waters	Douglas A. Berthiaume
42.	82	A	A	D	A	A	American Express	Kenneth I. Chenault
43.	82	B	C	B	A	A	Aon	Gregory C. Case
44.	82	B	B	B	A	A	Emerson Electric	David N. Farr
45.	82	B	B	B	A	A	EnSCO Int'l.	Daniel W. Rabun, J.D.
46.	82	B	B	B	A	A	DuPont	Charles O. Holliday, Jr.
47.	82	A	C	A	A	A	McDonald's	James A. Skinner
48.	82	D	A	A	A	A	Manitowoc	Glen E. Tellock
49.	81	A	A	D	A	A	IntercontinentalExchange	Jeffrey C. Sprecher
50.	81	B	C	A	A	A	Tiffany	Michael J. Kowalski
51.	81	A	A	D	A	A	Varian Medical Systems	Timothy E. Guertin
52.	81	B	B	B	A	A	SYSCO	Richard J. Schnieders
53.	80	B	C	A	A	A	Cummins	Theodore M. Solso
54.	80	B	B	B	A	A	Genuine Parts	Thomas C. Gallagher
55.	80	A	A	D	A	A	Google	Eric E. Schmidt, Ph.D.
56.	80	A	A	F	A	A	Western Union	Christina A. Gold
57.	80	C	B	B	A	A	Occidental Petroleum	Dr. Ray R. Irani

# CEO WEALTH CREATION INDEX

EM is calculated as (Operating Cash Flow - Capital Charge) / Invested Capital. Companies with positive EM (greater than 0 percent) are creating wealth; those with negative EM (F grades) are destroying it.

## EM Change

This is a 12-month forecasted EM, based on the ratio of the most recent EM to the 3-year average.

## Management Quality

This AFG-proprietary measure rewards a company with positive EM for growing its asset base, and one with negative EM for shrinking their asset base. In other words, if a company is making money and it adds assets in such a way that it can make even more, that's good. So is selling off a money-losing division. That said, it's also valid that adding scale can help a business get past its fixed costs.

The top 50 companies in the ranking delivered an average Total Shareholder Return of 135.6% between January 2005 and August 2008. The bottom 50 companies' TSR averaged -6.1%, while the S&P 500's was 13.6%. Total Shareholder Return = share-price return plus reinvested dividends.

### A validity check on the ranking method

#### Total Shareholder Return

Jan. '05–Aug. '08

	Average	Median
<b>Top 50</b>	135.6%	102.7%
<b>Bottom 50</b>	-6.1%	-7.6%
<b>S&amp;P500</b>	13.6%	

The difference between managing wealth creation well and not very well is dramatic. The Top 50's average TSR was 9 times (897%) better than the S&P 500's.

For more on Economic Margin and how companies scored, see <http://www.economicmargin.com/moreinfo.htm>.

	Overall Ranking	Score (best=100)	MV/IC	3 Yr. EM	EM Change	Mgmt. Quality Score	Company	CEO
58.	80	A	A	D	A	A	Qualcomm	Dr. Paul E. Jacobs
59.	79	B	C	A	A	A	BMC Software	Robert E. Beauchamp
60.	79	A	B	A	C	A	DirectTV	Chase Carey
61.	79	B	B	B	A	A	General Dynamics	Nicholas D. Chabreja
62.	79	B	A	C	A	A	Marriott	J.W. Marriott, Jr.
63.	79	A	A	F	A	A	Moody's	Raymond W. McDaniel, Jr.
64.	78	B	B	C	A	A	Windstream	Jeffery R. Gardner
65.	78	C	C	A	A	A	Boeing	W. James McEnerney, Jr.
66.	78	A	A	C	C	C	Coach	Lew Frankfort
67.	78	C	B	A	A	A	Constellation Energy	Mayo A. Shattuck, III
68.	78	A	D	A	A	A	Pall	Eric Krasnoff
69.	78	A	B	D	A	A	Baker Hughes	Chad C. Deaton
70.	78	A	D	A	A	A	Baxter Int'l.	Robert L. Parkinson, Jr.
71.	77	A	D	A	A	A	Peabody Energy	Gregory H. Boyce
72.	77	A	F	A	A	A	Southwestern Energy	Harold M. Korell
73.	77	A	B	D	A	A	Stryker	Stephen P. MacMillan
74.	77	B	C	B	A	A	Becton Dickinson	Edward J. Ludwig
75.	77	B	B	C	A	A	Cisco Systems	John T. Chambers
76.	77	C	B	B	A	A	Hartford Financial Svcs.	Ramani Ayer
77.	77	B	B	B	A	A	IBM	Samuel J. Palmisano
78.	77	B	D	A	A	A	Omnicom	John D. Wren
79.	76	B	B	C	A	A	PNC Financial Svcs.	James E. Rohr
80.	76	A	A	A	C	C	Total System Svcs.	Philip W. Tomlinson
81.	76	A	B	D	A	A	Nordstrom	Blake W. Nordstrom
82.	75	C	C	A	A	A	H.J. Heinz	William R. Johnson
83.	75	B	B	C	A	A	Centerpoint Energy	David M. McClanahan
84.	75	B	C	B	A	A	Cooper Industries	Kirk S. Hachigian
85.	75	A	A	F	A	A	PACCAR	Mark C. Pigott
86.	74	B	B	C	A	A	Bank of New York Mellon	Robert P. Kelly
87.	74	A	A	B	C	C	Best Buy	Bradbury H. Anderson
88.	74	B	A	F	A	A	Int'l. Game Technology	Thomas J. Matthews
89.	74	B	B	C	A	A	BB&T	John A. Allison, IV
90.	74	B	A	D	A	A	National Oilwell Varco	Merrill A. Miller, Jr.
91.	73	A	F	A	A	A	CONSOL Energy	J. Brett Harvey
92.	73	C	A	D	A	A	Cigna	H. Edward Hanway
93.	73	C	A	D	A	A	General Electric	Jeffrey R. Immelt
94.	73	A	B	B	C	C	Halliburton	David J. Lesar
95.	73	A	B	B	C	C	Altera	John P. Daane
96.	73	B	D	B	A	A	Weatherford Int'l.	Bernard Duroc-Danner, Ph.D.
97.	73	B	B	A	C	C	Torchmark	Mark S. McAndrew
98.	72	B	A	D	A	A	Abercrombie & Fitch	Michael S. Jeffries
99.	72	B	A	D	A	A	Caterpillar	James W. Owens
100.	72	B	B	C	A	A	FPL	Lewis Hay, III
101.	72	B	B	D	A	A	Polo Ralph Lauren	Ralph Lauren
102.	71	C	D	A	A	A	Agilent Technologies	William P. Sullivan
103.	71	B	A	B	C	C	Brown-Forman	Paul C. Varga
104.	71	B	D	B	A	A	Saint Jude Medical	Daniel J. Starks
105.	71	B	F	A	A	A	Massey Energy	Don L. Blankenship
106.	71	C	C	A	A	A	Murphy Oil	Claiborne P. Deming
107.	71	C	A	C	A	A	Chubb	John D. Finnegan
108.	71	B	C	C	A	A	EOG Resources	Mark G. Papa
109.	71	C	B	B	A	A	Loews	James S. Tisch
110.	71	A	A	C	C	C	Progressive	Glenn M. Renwick
111.	71	B	D	B	A	A	Invesco	Martin L. Flanagan, CPA
112.	70	B	A	F	A	A	Titanium Metals	Steven L. Watson
113.	70	C	C	A	A	A	Akamai Technologies	Paul Sagan

	Overall Ranking	Score (best=100)	MV/IC	3 Yr. EM	EM Change Mgmt.	Quality Score	Company	CEO
114.	70	A	B	D	A		IMS Health	David R. Carlucci
115.	70	A	A	A	A		Philip Morris	Louis C. Camilleri
116.	70	B	D	B	A		Coviden	Richard J. Meelia
117.	70	C	D	A	A		Hewlett-Packard	Mark V. Hurd
118.	70	B	A	B	C		Mattel	Robert A. Eckert
119.	70	B	F	A	A		Medco	David B. Snow, Jr.
120.	70	B	D	A	B		Teco Energy	Sherrill W. Hudson
121.	70	D	C	B	A		Noble Energy	Charles D. Davidson
122.	69	B	C	B	A		Family Dollar Stores	Howard R. Levine
123.	69	B	A	F	A		Johnson & Johnson	William C. Weldon
124.	69	B	C	C	A		Abbott Laboratories	Miles D. White
125.	69	B	A	F	A		Illinois Tool Works	David B. Speer
126.	69	B	B	D	A		Oracle	Lawrence J. Ellison
127.	69	B	C	C	A		Intel	Paul S. Otellini
128.	69	C	C	C	A		Staples	Ronald L. Sargent
129.	68	A	F	A	B		American Tower	James D. Taiclet, Jr.
130.	68	C	B	C	A		Netapp	Daniel J. Warmenhoven
131.	68	A	D	C	A		Rohm & Haas	Raj L. Gupta
132.	68	B	A	F	A		BJ Svcs.	J. W. Stewart
133.	68	B	C	C	A		Estee Lauder	William P. Lauder
134.	68	C	B	D	A		Ball	R. David Hoover
135.	68	C	D	B	A		Honeywell	David M. Cote
136.	68	D	B	B	A		Travelers	Jay S. Fishman
137.	67	D	B	C	A		Corning	Wendell P. Weeks
138.	67	D	A	C	A		Humana	Michael B. McCallister
139.	67	C	B	D	A		Applied Materials	Michael R. Splinter
140.	67	A	A	B	A		Teradata	Michael Koehler
141.	67	D	D	A	A		United States Steel	John P. Surma, CPA
142.	66	B	C	D	A		Microchip Technology	Steve Sanghi
143.	66	C	A	F	A		Nucor	Daniel R. DiMicco
144.	66	C	D	B	A		Genzyme	Henri A. Termeer
145.	66	D	B	C	A		Merck	Richard T. Clark
146.	66	C	F	A	A		Transocean	Robert L. Long
147.	66	B	B	B	C		Morgan Stanley	John J. Mack
148.	65	B	C	B	C		Analog Devices	Jerald G. Fishman
149.	65	C	F	A	A		Unum	Thomas R. Watjen
150.	65	C	A	F	A		AES	Paul T. Hanrahan
151.	65	C	A	F	A		Allegheny Technologies	L. Patrick Hassey
152.	65	C	C	C	A		Apache	G. Steven Farris
153.	65	B	D	C	A		Allergan	David E.I. Pyott
154.	65	A	A	F	C		Harley-Davidson	James L. Ziemer
155.	64	C	C	C	A		Costco	James D. Sinegal
156.	64	B	C	D	A		Pactiv	Richard L. Wambold
157.	64	C	A	F	A		Lowe's	Robert A. Niblock
158.	64	B	B	B	C		Qlogic	H.K. Desai
159.	63	A	F	A	C		Janus Capital	Gary D. Black
160.	63	B	B	C	C		Rockwell Automation.	Keith D. Nosbusch
161.	63	A	A	D	C		Sherwin-Williams	Christopher M. Connor
162.	63	B	B	B	C		Campbell Soup	Douglas R. Conant
163.	63	D	B	D	A		Reynolds American	Susan M. Ivey
164.	63	C	C	C	A		Sealed Air	William V. Hickey
165.	63	C	D	B	A		Hess	John B. Hess
166.	63	B	C	F	A		Patterson	James W. Wiltz
167.	63	C	B	D	A		Procter & Gamble	Alan G. Lafley
168.	63	A	A	F	C		Robert Half	Harold M. Messmer, Jr.
169.	62	D	D	A	A		Goodrich	Marshall O. Larsen

	Overall Ranking	Score (best=100)	MV/IC	3 Yr. EM	EM Change Mgmt.	Quality Score	Company	CEO
170.	62	C	D	C	A		Limited Brands	Leslie H. Wexner
171.	62	C	F	A	A		CA	John A. Swainson
172.	62	D	C	C	A		McKesson	John H. Hammergren
173.	62	D	C	C	A		Darden Restaurants	Clarence Otis, Jr.
174.	62	C	D	A	B		CMS Energy	David W. Joos
175.	62	C	C	D	A		Wal-Mart Stores	H. Lee Scott, Jr.
176.	61	B	A	D	C		Bed Bath & Beyond	Steven H. Temares
177.	61	B	B	F	A		Danaher	H. Lawrence Culp, Jr.
178.	61	F	B	C	A		Terex	Ronald M. DeFeo
179.	61	D	A	F	A		Forest Laboratories	Howard Solomon
180.	61	B	F	A	C		Hudson City Bancorp	Ronald E. Hermance, Jr.
181.	61	C	B	B	C		Texas Instruments	Richard K. Templeton
182.	60	D	F	A	A		Biogen Idec	James C. Mullen
183.	60	C	B	D	A		Black & Decker	Nolan D. Archibald
184.	60	B	F	A	C		AK Steel Holding	James L. Waincott
185.	60	C	B	F	A		Ryder System	Gregory T. Swienton
186.	60	D	A	F	A		XTO Energy	Bob R. Simpson
187.	60	D	C	C	A		American Capital	Malon Wilkus
188.	60	C	C	D	A		Amgen	Kevin W. Sharer
189.	59	D	C	C	A		Chevron	David J. O'Reilly
190.	59	D	B	D	A		Carnival	Micky Arison
191.	59	D	C	C	A		Parker Hannifin	Donald E. Washkewicz
192.	58	C	C	D	A		Kimberly Clark	Thomas J. Falk
193.	58	F	C	B	A		Schering-Plough	Fred Hassan
194.	58	B	F	A	C		Big Lots	Steven S. Fishman
195.	58	D	A	F	A		NVIDIA	Jen-Hsun Huang
196.	58	D	B	D	A		PG&E	Peter A. Darbee
197.	57	C	B	F	A		Stanley Works	John F. Lundgren
198.	56	C	D	B	C		Ameriprise Financial	James M. Cracchiolo
199.	56	C	B	D	C		Discover	David W. Nelms
200.	56	F	A	F	A		Freeport-McMoRan Copper & Gold	Richard C. Adkerson
201.	56	D	B	D	A		PPG Industries	Charles E. Bunch
202.	56	B	F	A	C		Hercules	Craig A Rogerson
203.	56	C	C	D	A		Dover	Ronald L. Hoffman
204.	56	D	B	D	A		Wyeth	Bernard J. Poussot
205.	56	D	D	C	A		Kroger	David B. Dillon
206.	56	D	C	C	A		Whirlpool	Jeff M. Fettig
207.	55	D	C	D	A		Lexmark	Dr. Paul J. Curlander
208.	55	D	C	D	A		J.C. Penney	Myron E. Ullman, III
209.	55	C	D	D	A		Range Resources	John H. Pinkerton
210.	55	F	A	F	A		Coventry Health Care	Dale B. Wolf
211.	55	D	A	F	A		Meredith	Stephen M. Lacy
212.	54	C	D	D	A		Cabot Oil & Gas	Dan O. Dinges
213.	54	B	C	C	C		National Semiconductor	Brian L. Halla
214.	54	C	C	F	A		Cintas	Scott D. Farmer
215.	54	D	B	D	B		Comerica	Ralph W. Babb, Jr.
216.	53	C	D	A	C		Amerisource Bergen	R. David Yost
217.	53	D	D	D	A		ITT	Steven R. Loranger
218.	53	D	C	A	A		Molex	Martin P. Slark
219.	53	D	C	D	A		Hospira	Christopher B. Begley
220.	52	F	B	F	A		Marathon Oil	Clarence P. Cazalat, Jr.
221.	52	D	D	C	A		Burlington Northern Santa Fe	Matthew K. Rose
222.	52	F	A	F	A		ConocoPhillips	James J. Mulva
223.	52	D	C	D	A		Nabors Industries	Eugene M. Isenberg

## Three Top Wealth Creators—

Jeff Bezos, Amazon.com



**Score: 100**

The market values Amazon's assets (brand, customer base, warehouse and distribution capabilities and IT infrastructure). The company generates healthy cash flow exceeding its cost of capital (and it's expected to improve).

Bezos has grown Amazon's asset base while continuing to produce returns above its cost of capital. That's just the numbers side of the story. Amazon's fanatical attention to the design of its customer experience, and passion for improving it, serves them well. Their customer-value proposition (including the thin margins that made analysts apoplectic in the past) continues to drive revenue growth. Amazon sees few limits to what it can offer customers. It's true that much of the cost of creating its IT and warehouse infrastructure is behind them, so it's easier to make money. But Amazonians still have their foot on the gas, continuing to bring on third parties, which drives sales and margins with low-to-modest impacts on its infrastructure. None of this seems like an accident. There's a lot to admire here.

Hugh Grant, Monsanto



**Score: 98**

Monsanto has created a business that's specifically designed to help its customer (the farmer) win. It makes substantial R&D investments that have led to products that both increase and protect crop yields. So farmers can produce a higher-quality end product at lower cost, with less effort and with reduced risk of crop failures from droughts and other threats.

Wall Street seems to appreciate Monsanto's dominant market and intellectual-property position, as reflected in its strong MV/IC score. In 2005, Monsanto substantially increased its R&D spending. Between 2004 and 2007, Monsanto's Economic Margin grew from 4 percent to 8 percent, while revenues rose 36 percent.

Andrea Jung, Avon Products



**Score: 96**

Avon shares many high-performance characteristics with Amazon, but Jung did something else right. In 2006, when Avon's profitability slipped, she restructured the company, fixing profitability and operational issues before resuming growth. This preserved shareholder wealth and is reflected in Avon's management-quality score.

There's much to like about Avon's business model: high (international) scalability, low costs, an established, trusted brand, and a pay-for-performance direct sales force. But in 2005, some of the wheels looked like they might come off the car. Avon's management dug into the situation and recognized a handful of things, its best shots, that it needed to work on. These included delaying an unwieldy management structure; globalizing product development, supply chain, direct sales and technology infrastructure; focusing Avon's marketing efforts where they'd bring the most benefit; and adding compelling new products at higher price points, which enhanced its brand's value. A lot of heavy lifting. But Jung and her team have a lot to show for it. In addition, Avon pushes hard on good governance and good citizenship, such as giving women in the developing world a path to a better future.

## —and Destroyers

James Tobin, Boston Scientific



**Score: 1**

For disregarding shareholders' welfare, this company wins the prize. Overpaying for Guidant increased Boston Scientific's invested capital markedly (along with its capital charge). The market's reaction was severe, depressing the stock price. Guidant's product recalls led Wall Street and physicians to view Guidant's stent line as damaged goods. Both of these factors hurt its MV/IC score. And the reduced demand, and sales, hurt cash flow and EM.

Overall Ranking	Score (best=100)	MV/IC	3 Yr. EM	EM Change	Mgmt. Quality Score	Company	CEO
224.	52	D	F	B	A	Safeway	Steven A. Burd
225.	52	D	B	B	C	Verizon	Ivan G. Seidenberg
226.	51	C	D	B	C	Compuware	Peter J. Karmanos, Jr.
227.	51	D	F	B	A	Rowan	Daniel F. McNease
228.	51	D	D	C	A	Devon Energy	J. Larry Nichols
229.	51	D	F	A	B	Eastman Kodak	Antonio M. Perez
230.	51	F	D	B	A	CSX	Michael J. Ward
231.	50	D	F	A	C	Sara Lee	Brenda C. Barnes
232.	50	F	A	F	A	King Pharmaceuticals	Brian A. Markison
233.	50	D	F	B	B	New York Times	Janet L. Robinson
234.	50	D	F	A	B	Centex	Timothy R. Eller
235.	50	D	C	F	A	Dow Chemical	Andrew N. Liveris
236.	50	C	F	A	C	Raytheon	William H. Swanson
237.	48	F	C	D	A	Eaton	Alexander M. Cutler
238.	48	F	D	B	B	Expedia	Dara Khosrowshahi
239.	48	D	C	F	A	Avery Dennison	Dean A. Scarborough
240.	47	D	D	D	A	Chesapeake Energy	Aubrey K. McClendon
241.	47	F	D	D	A	Xerox	Anne M. Mulcahy
242.	47	D	F	B	B	DTE Energy	Anthony F. Earley, Jr.
243.	47	D	F	C	B	Eastman Chemical	J. Brian Ferguson
244.	46	C	C	F	B	Broadcom	Scott A. McGregor
245.	45	F	F	A	B	JDS Uniphase	Kevin J. Kennedy
246.	45	D	F	D	A	Spectra Energy	Fred J. Fowler
247.	44	F	C	D	B	Capital One	Richard D. Fairbank
248.	44	F	F	B	B	Tenet Healthcare	Trevor Fetter
249.	44	D	F	B	B	Tyco	Edward D. Breen
250.	44	D	F	C	B	Waste Management	David P. Steiner
251.	44	F	D	C	B	News Corp.	K. Rupert Murdoch AC
252.	43	F	B	F	A	Ingersoll-Rand	Herbert L. Henkel
253.	43	A	F	B	F	Allegheny Energy	Paul J. Evanston
254.	42	D	B	F	B	D.R. Horton	Donald J. Tomnitz
255.	42	F	F	A	B	Tyson Foods	Richard L. Bond
256.	42	F	D	B	C	Teradyne	Michael A. Bradley
257.	42	F	F	C	A	Textron	Lewis B. Campbell
258.	41	B	D	B	F	Entergy	J. Wayne Leonard
259.	41	B	C	D	F	Southern Company	David M. Ratcliffe
260.	41	C	C	F	C	Barr Pharmaceuticals	Bruce L. Downey
261.	40	C	F	D	B	General Motors	G. Richard Wagoner, Jr.
262.	40	D	D	D	B	Novellus Systems	Richard S. Hill
263.	39	D	D	F	B	First Horizon National	D. Bryan Jordan
264.	39	F	C	F	B	CIT	Jeffrey M. Peek
265.	39	C	D	F	B	Pulte Homes.	Richard J. Dugas, Jr.
266.	38	C	D	B	F	Electronic Arts	John S. Riccitiello
267.	38	F	D	D	B	Macy's	Terry J. Lundgren
268.	37	F	F	B	B	MGIC Investments	Curt S. Culver
269.	36	F	D	C	B	Regions Financial	C. Dowd Ritter
270.	36	F	F	C	B	Thermo Fisher Scientific	Marijn E. Dekkers
271.	36	D	F	A	F	Interpublic	Michael I. Roth
272.	35	C	A	F	F	CME	Craig S. Donohue
273.	34	F	F	C	B	Dillard's	William Dillard, II
274.	34	F	F	C	B	El Paso	Douglas L. Foshee
275.	33	D	B	D	F	Bank Of America	Kenneth D. Lewis
276.	32	F	F	C	C	Williams	Steven J. Malcolm
277.	32	B	C	F	F	Frontier Communications	Mary Agnes Wilderotter
278.	31	F	F	C	B	CBS	Leslie Moonves
279.	31	D	F	A	F	Unisys	Joseph W. McGrath

Overall Ranking	Score (best=100)	MV/IC	3 Yr. EM	EM Change	Mgmt. Quality Score	Company	CEO
280.	31	D	F	F	A	Ciena	Gary B. Smith
281.	31	B	C	F	F	Citrix Systems	Mark B. Templeton
282.	30	F	D	D	B	Ashland	James J. O'Brien
283.	30	C	B	F	F	Vulcan Materials	Donald M. James
284.	29	F	D	F	B	Supervalu	Jeffrey Noddle
285.	29	F	F	A	F	Goodyear Tire & Rubber.	Robert J. Keegan
286.	29	F	D	F	B	Pinnacle West Capital	William J. Post
287.	29	F	F	A	F	Northrop Grumman	Dr. Ronald D. Sugar
288.	28	F	F	D	B	Nisource	Robert C. Skaggs, Jr.
289.	28	D	F	A	F	DaVita	Kent J. Thiry
290.	28	F	D	F	B	Gannett	Craig A. Dubow
291.	28	F	F	B	F	LSI	Abhijit Y. Talwalkar
292.	28	D	C	C	F	American Electric Power	Michael G. Morris
293.	27	F	F	F	B	Autonation	Michael J. Jackson
294.	27	F	D	F	C	Anadarko Petroleum	James T. Hackett
295.	27	F	F	A	F	Comcast	Brian L. Roberts
296.	27	F	D	B	F	Genworth Financial	Michael D. Fraizer
297.	27	D	D	C	F	Washington Post	Donald E. Graham
298.	27	D	F	C	F	Xcel Energy	Richard C. Kelly
299.	27	D	F	B	F	Dean Foods	Gregg L. Engles
300.	27	D	B	F	F	KLA-Tencor	Richard P. Wallace
301.	26	B	D	D	F	CB Richard Ellis	W. Brett White
302.	26	F	F	A	F	Dynegy	Bruce A. Williamson
303.	26	D	D	D	F	EMC	Joseph M. Tucci
304.	26	C	C	F	F	Nicor	Russ M. Strobel
305.	25	D	F	B	F	Symantec	John W. Thompson
306.	25	F	A	F	F	Tesoro	Bruce A. Smith
307.	24	F	F	F	B	Lennar	Stuart A. Miller
308.	24	D	C	D	F	Zions Bancorp	Harris H. Simmons
309.	24	D	B	F	F	KeyCorp	Henry L. Meyer, III
310.	24	F	F	B	F	Pepco Holdings	Dennis R. Wraase
311.	22	C	F	F	F	Millipore	Martin D. Madaus, Ph.D.
312.	22	C	D	F	F	Quest Diagnostics	Surya N. Mohapatra, Ph.D.
313.	21	F	F	B	F	Allied Waste Industries	John J. Zillmer
314.	20	D	D	D	F	Ameren	Gary L. Rainwater
315.	20	D	F	C	F	Novell	Ronald W. Hovsepian
316.	20	F	D	D	F	Huntington Bancshares	Thomas E. Hoaglin
317.	19	F	F	B	F	Int'l. Paper	John V. Faraci
318.	19	F	D	C	F	Wyndham Worldwide	Stephen P. Holmes
319.	19	F	B	F	F	Fidelity Nat'l. Infor. Svcs.	Lee A. Kennedy
320.	17	F	D	D	F	Jabil Circuit	Timothy L. Main
321.	16	F	C	F	F	Consolidated Edison	Kevin Burke
322.	16	D	F	D	F	Fedex	Frederick W. Smith
323.	16	D	D	F	F	CVS Caremark	Thomas M. Ryan
324.	16	F	D	D	F	Office Depot	Steve Odland
325.	15	D	D	F	F	Whole Foods Market	John P. Mackey
326.	14	F	C	F	F	Sunoco	Lynn Laverty Elsenhans
327.	14	F	F	C	F	Meadwestvaco	John A. Luke, Jr.
328.	13	F	F	C	F	Micron Technology	Steven R. Appleton
329.	13	F	C	F	F	Integrys Energy	Larry L. Weyers
330.	12	F	D	F	F	Centurytel	Glen F. Post, III
331.	11	F	C	F	F	Sandisk	Eli Harari, Ph.D.
332.	6	F	F	F	F	Fannie Mae	Herb M. Allison, Jr.
333.	6	F	F	F	F	Southwest Airlines	Gary C. Kelly
334.	4	F	F	F	F	Mylan	Robert J. Coury
335.	1	F	F	F	F	Boston Scientific	James R. Tobin

## Gary Kelly, Southwest Airlines



### Score: 6

Southwest's low score may come as a surprise considering it's arguably among the best-managed airlines. But it's an airline; the only one in the S&P 500. That means planes, airport fees and lots of competition. The market is far from wild

about the value of its assets. In the EM sector rankings, Southwest was grouped with other transportation companies, all of which performed better. Southwest's EM ranged between -.5 percent (-.005) and -0.9 percent (almost -1 percent) over the 2005-07 period. While its SEC filings show a profit during this time, when Southwest's off-balance sheet leases and other adjustments are accounted for, the picture reverses. For example, applying those adjustments to Southwest's 2007 results increases its invested capital by \$5.9 billion, or 35 percent. The \$1.7 billion capital charge on this amount exceeded its \$1.5 billion operating cash flow, resulting in a negative Economic Margin.

## Steve Appleton, Micron Technology



### Score: 13

Micron makes commodity memory (DRAM) chips, which require huge investments in wafer fabrication plants. The extreme price competition in this sector limits Micron's ability to earn the margins needed to recover these investments and turn a profit. So Micron's assets are not exactly

Wall Street's favorites, leading to a low MV/IC score. Also, Micron has not earned an economic profit since 2000. Yet in 2006, the company elected to enter another memory-chip market (NAND) which has roughly similar economic characteristics, so it could leverage its very expensive wafer-fab assets. Micron also entered image sensors for cell phones and cameras that is slightly higher margin. Result: Micron continued to grow its assets before correcting its negative EM, destroying even more wealth.

There's a lesson here about CEOs' portfolio-management role and the degree to which a wide range of choices gets considered. IBM over the years took a different approach than Micron. IBM looked for high-margin businesses they could add to their portfolio (services) and got the low-no margin ones (making PCs) out of their portfolio. We wonder whether Micron considered such options.

Finally we wanted to highlight a company that failed to manage its risk—big time. But we weren't able to find any that were still standing and that met our other criteria for CEO tenure: Fannie Mae (still operating, but with a new CEO as of September), Lehman (bankrupt), Washington Mutual (acquired by JPMorganChase) and Wachovia (acquired by Wells Fargo). The popular old song asks, "Where have all the cowboys gone?" Now we know.

—D.M. and M.B.

## How to Move Up

### At the corporate level:

- ▶ Use EM to measure wealth-creation company-wide.
- ▶ Manage your portfolio of businesses from a wealth-creation perspective. This includes entering lucrative or fast-growing businesses as well as putting businesses making sub-par contributions into other hands or shuttering them.
- ▶ Get all you can out of your assets, including the often underleveraged intangible assets (see "Do Intangibles Matter?" *CE* July/August 2008).
- ▶ Ensure that the company's capital structure is right. This affects the capital charge and invested capital. Equity is more expensive than debt, but leverage adds more risk.
- ▶ Overpaying to buy back stock is another danger.

### At the business-unit level:

- ▶ General managers need to find their best ways to boost operating results, as Avon (page 32) did.
- ▶ Finally, manage risks throughout the company. Really.

**Drew Morris** is founder and CEO of Great Numbers! LLC, a NJ-based results-improvement consulting and training company. He has no stake in any of the companies mentioned, save those that might be in long-held mutual funds' portfolios. For more in-depth information on boosting results, contact [drew.morris@greatnumbers.com](mailto:drew.morris@greatnumbers.com).

**Michael Burdi** is Senior Analyst for Applied Finance Group TM, Ltd (AFG), a Chicago-based independent equity research advisory firm specializing in performance and valuation measurement ([www.economicmargin.com/moreinfo.htm](http://www.economicmargin.com/moreinfo.htm)). Disclaimer: AFG, its owners, employees and/or customers may have positions in the securities listed here. The information, provided is based on material AFG believes to be accurate and reliable, however, its accuracy and completeness, are not guaranteed.