



2015 WEALTH CREATION INDEX SHOWS THE POWER OF TWO

The problem with growth at any cost is that it often disguises mistakes and bad managerial hygiene. To grow profitably in real economic terms, without unsustainable leverage and without mucking up the balance sheet, is the mark of strong leadership.

By J.P. Donlon

NOW IN ITS 8TH YEAR, the Wealth Creation Index (WCI) seeks to identify the top public companies (S&P 500 and middle-market) whose CEOs created true economic value as opposed to GAAP accounting value. The methodology, which is explained in greater detail on p. 29, is based on the idea of Economic Value Added (EVA) and Market Value Added (MVA), which measure the degree to which companies make money in excess of their risk-adjusted cost of capital. Companies with positive EVA are creating wealth. Those with negative EVA are destroying wealth.

While no single metric is the Holy Grail of performance and wealth creation, EVA and MVA come close. How effectively is each dollar invested in a business? It's a discipline that can be used by any public or private business, from a chain of pizza parlors to Apple Inc. Many private equity firms use variations of such measures in evaluating their own portfolio companies.

For the data and analysis we partnered with EVA Dimensions LLP CEO Bennett Stewart, a pioneer in economic value research and with Drew Morris, CEO of Great Numbers!, a New Jersey results consultancy.

The idea is to look at companies in the S&P 500 (minus REITs) whose CEOs have been at their jobs for at least three years, a practice that screens out leaders taking credit for a predecessor's actions. (For the full list of 328 ranked companies please go to ChiefExecutive.net/WCI2015.) The top 100 ranked companies and their leaders feature the best performers in the same way world-class swimmers are separated by mere hundredths of seconds in Olympic competition. All of them are in a league of their own.

Yet someone's got to collect the gold, silver and bronze and this year it falls to Facebook, MasterCard and O'Reilly Automotive respectively—companies that couldn't be more different from one another apart from being perhaps lighter on fixed assets than most. Facebook's rise clearly reflects the network effect. The company, which had its IPO in May of 2012, was first-to-scale

in social media and benefited mightily from technological and commercial advances in mobile phones and mobile phone cameras. Facebook is the epitome of being in the right place at the right time. MasterCard returns this year in second place from its No. 1 rank in 2014. It also represents economies of scale and a network effect. It helps to have a business model that has proven astonishingly successful in throwing off cash. The Purchase, New York payments firm depends on a strong technology network that addresses the increasing convergence of physical and digital worlds. Given that \$8 out of \$10 of world consumer transactions are still done in cash, MasterCard has a lot of headroom to expand its market. Third-ranked O'Reilly Automotive also benefits from economies of scale and an extensive distribution network. Launched in 1957 as a retail auto parts distributor in Springfield, Missouri, it has since expanded into 43 states with 4,433 employees. It boasts a robust supply chain and overshadows competitors, such as Pep Boys, in operational efficiencies.

Other companies such as Roper Industries, Pall, Chipotle, L Brands, Schein Pharmaceutical, Monsanto, Walt Disney and Harman are notable for having greatly improved their ranking from previous years, showing that such firms are no flash in the pan. Apple, ranked 43, is to some degree the victim of large numbers. At \$224 billion it is 10 times as large as the third-largest player in its field and must struggle to keep that meteoric EVA momentum growth. Tim Cook has said he wants to diversify Apple's dependence on mobile phones, which represent two-thirds of its revenue.

If there is a theme to this year's rankings it may be the power of two. For every Facebook there is a Google; for every MasterCard there is a Visa; for every O'Reilly Automotive, there is an AutoZone. Facing off with a tough competitor, the way Coke and Pepsi once did and CVS and Walgreens still do, reinforces competitive spirits and spurs wealth creation for shareholders.

Ranking CEO Wealth Creation

By Bennett Stewart and Drew Morris

Our ranking is based on the performance of companies in the S&P 500 index (and their CEOs) for the three years ending on June 30, 2015. Only companies for which the CEOs were in their roles for the entire July 2012 through June 2015 period were ranked. Not ranked are the 19 REITs in the June 30, 2015 S&P 500 Index. (Also, several companies were not ranked due to incomplete data for the measurement period.)

Again this year, we used a methodology recommended by Bennett Stewart, CEO of EVA Dimensions. CEO performance was assessed using four measures based on the concept of Economic Value Added, or EVA. EVA is profit remaining after subtracting the full cost of the capital the business uses—known as economic profit.

The first and most important measure, EVA Momentum, shows the trend in the growth of the firm's economic profits (EVA) over the past three years. It is a better measure of wealth-creation progress over time than growth in sales, EBIT, EBITDA or earnings per share, since it only counts profit growth after covering the full cost of capital, including a minimum shareholder return to compensate for risk.

The second, EVA Margin, shows how profitable the firm is per dollar of sales. It blends pricing power,

operating efficiency and how well assets are managed into a single net-margin score.

The third, Market-Implied EVA Momentum, measures the expected long-run growth rate for economic profits reflected in the company's stock price. It shows how well the CEO has positioned the company for continued profitable expansion, as far as investors can tell, through initiatives targeting growth markets, innovations, brand value and operational excellence.

The fourth measure uses the concept of Market Value Added or MVA, to judge wealth creation. MVA is the difference between a firm's stock-market value and the overall amount of capital it has invested. It's the shareholder wealth the business has created. MVA Margin, our fourth metric, is MVA as a percentage of sales—the higher, the better.

All of the measures were computed for each company using June 30, 2015

share prices, and the most recent reported financial data up to, but not after, June 30, 2015. The measures were then ranked within their industry groups to arrive at percentile scores. A company's final score is a weighted combination of the four percentile scores above. Those ranked at the very top consistently outperform their industry peers across all four measured categories. They show an exceptional rate of profitable growth, are highly profitable and valuable and justify continued confidence in their future success.

The top 50 companies in the ranking delivered an average Total Shareholder Return (TSR) of 118.6 percent between July 2012 and June 2015 (the period covered in the reported financials). The bottom 50 companies' TSR averaged 75.2 percent, while the actual for all of the scored S&P 500 companies was 85.8 percent. The top 50's median TSR was 103.5 percent; the bottom 50's was 61.4 percent.

As the table at left shows, the top 50 companies in the wealth-creation ranking far outperformed the bottom 50 companies and the scored S&P 500 between July 2012 and June 2015. [Note: Total Shareholder Return = share-price return plus dividend yield reinvested dividends, expressed as a percent.]

TSRS OF THE TOP & BOTTOM 50

A Validity Check on the Ranking Method

TOTAL SHAREHOLDER RETURN	JUL. 2012-JUN. 2015
TOP 50	
Average	118.6%
Median	103.5%
BOTTOM 50	
Average	75.2%
Median	61.4%
ALL SCORED S&P 500 Actual	85.8%

FOR MORE ON THE RANKING METHOD AND HOW COMPANIES SCORED, PLEASE VISIT: WWW.EVADIMENSIONS.COM/CEO, OR CONTACT BENNETT STEWART AT GBSTEWART@EVADIMENSIONS.COM.

2015 Top 100 Wealth Creators

Rank	Company	CEO	2015 Score	2014 Score	Change in Score	3 Yr. EVA Momentum	EVA Margin	Market-implied Momentum	MVA Margin
1	Facebook	Mark Zuckerberg	99.7	57.7	42.0	A	A	A	A
2	Mastercard	Ajay Banga	99.5	100.0	-0.5	A	A	A	A
3	O'Reilly Automotive	Gregory L. Henslee	99.3	99.7	-0.4	A	A	A	A
4	Roper Industries	Brian D. Jellison	99.1	95.7	3.4	A	B	A	A
5	Monster Beverage	Rodney C. Sacks	98.9	99.5	-0.6	B	A	A	A
6	Pall	Lawrence D. Kingsley	98.0	95.0	3.0	B	A	B	A
7	Brown-Forman	Paul C. Varga	97.8	99.1	-1.3	B	A	A	A
8	Chipotle Mexican Grill	Steve Ells	97.6	97.8	-0.2	A	B	A	A
9	Dollar Tree	Bob Sasser	97.2	86.3	10.9	A	A	C	A
10	TripAdvisor	Stephen Kaufer	97.0	60.3	36.7	B	A	A	A
11	Cognizant Technology Solutions	Francisco D'Souza	96.8	97.0	-0.2	A	A	C	B
12	Constellation Brands	Robert S. Sands	96.5	90.1	6.4	A	B	B	B
13	Starbucks	Howard D. Schultz	96.3	96.1	0.2	B	B	B	A
14	Moody's	Raymond W. McDaniel, Jr.	96.1	89.3	6.8	A	A	C	A
15	Paychex	Martin Mucci	95.9	94.2	1.7	B	A	B	A
16	L Brands	Leslie H. Wexner	95.7	77.3	18.4	B	A	C	A
17	3M	Inge G. Thulin	95.5	76.3	19.2	B	A	C	B
18	Dominion Resources	Thomas F. Farrell, II	95.3	55.8	39.5	C	B	A	A
19	Cerner	Neal Patterson	95.0	94.8	0.2	A	B	C	B
20	Amphenol	Adam Norwitt	94.8	89.9	4.9	B	A	C	B
21	Monsanto	Hugh Grant	94.4	97.6	-3.2	B	B	C	A
22	Leggett & Platt	David S. Haffner	94.2	83.1	11.1	B	C	B	A
23	Under Armour	Kevin A. Plank	94.0	91.6	2.4	B	C	A	A
24	Avago Technologies	Hock E. Tan	93.8	94.4	-0.6	A	B	C	B
25	Hanesbrands	Rich Noll	93.6	78.0	15.6	A	B	C	B
26	Cintas	Scott D. Farmer	93.3	76.1	17.2	A	B	C	B
27	Henry Schein	Stanley Bergman	93.1	93.8	-0.7	C	C	A	B
28	F5 Networks	John McAdam	92.7	93.6	-0.9	B	A	C	A
29	Edwards Lifesciences	Michael A. Mussallem	92.5	87.8	4.7	A	A	C	B
30	Praxair	Stephen F. Angel	92.3	96.5	-4.2	C	B	B	A
31	Sherwin-Williams	Christopher M. Connor	92.1	87.6	4.5	B	B	C	B
32	Sempra Energy	Debra L. Reed	91.4	89.1	2.3	B	C	B	B
33	Walt Disney	Robert A. Iger	91.0	85.0	6.0	A	B	C	B
34	Nike	Mark G. Parker	90.8	83.7	7.1	B	B	B	B
35	Fiserv	Jeffery W. Yabuki	90.6	75.2	15.4	B	B	C	B
36	Cabot Oil & Gas	Dan O. Dinges	90.4	89.7	0.7	B	C	B	A
37	Snap-On	Nicholas T. Pinchuk	90.1	72.2	17.9	B	B	B	B
38	Sigma-Aldrich	Rakesh Sachdev	89.9	85.7	4.2	C	A	A	A
39	Equifax	Richard F. Smith	89.7	88.9	0.8	B	C	B	A
40	AMETEK	Frank S. Hermance	89.5	92.1	-2.6	C	A	C	B
41	Affiliated Managers Group	Sean M. Healey	88.4	87.2	1.2	A	C	C	B
42	Robert Half	Harold M. Messmer, Jr.	88.2	92.5	-4.3	B	B	C	B
43	Apple	Timothy D. Cook	88.0	86.9	1.1	B	A	C	A
44	Kansas City Southern	David L. Starling	87.8	98.2	-10.4	C	A	B	A
45	Rockwell Automation	Keith D. Nosbusch	87.6	87.4	0.2	B	A	C	B
46	PPG Industries	Charles E. Bunch	87.4	79.9	7.5	A	C	C	C
47	CVS Health	Larry J. Merlo	86.9	79.3	7.6	B	C	C	C
48	Universal Health Services	Alan B. Miller	86.7	59.0	27.7	B	A	C	C
49	Urban Outfitters	Richard A. Hayne	86.5	81.8	4.7	C	B	B	B
50	Harman	Dinesh C. Paliwal	86.3	92.9	-6.6	A	B	C	C

Rank	Company	CEO	2015 Score	2014 Score	Change in Score	3 Yr. EVA Momentum	EVA Margin	Market-implied Momentum	MVA Margin
51	Keurig Green Mountain	Brian Kelley	86.1	98.7	-12.6	B	B	C	B
52	J.B. Hunt Transport	John N. Roberts	85.9	84.0	1.9	B	B	C	B
53	Red Hat	James M. Whitehurst	85.5	84.6	0.9	C	B	C	B
54	Mohawk Industries	Jeffrey S. Lorberbaum	85.2	71.6	13.6	A	D	B	C
55	Schlumberger	Paal Kibsgaard	85.0	91.2	-6.2	B	B	C	A
56	Autozone	William C. Rhodes, III	84.6	83.3	1.3	A	A	D	A
57	Whole Foods Market	John P. Mackey	84.4	97.2	-12.8	C	A	C	B
58	Linear Technology	Lothar Maier	84.2	80.5	3.7	C	A	C	A
59	T. Rowe Price	James A. C. Kennedy	84.0	94.6	-10.6	A	A	D	B
60	Honeywell	David M. Cote	83.7	84.4	-0.7	B	B	C	B
61	Wisconsin Energy	Gale E. Klappa	83.5	86.1	-2.6	B	A	C	A
62	United Rentals	Michael J. Kneeland	83.3	89.5	-6.2	A	A	F	B
63	FMC Technologies	John T. Grep	83.1	71.4	11.7	B	B	C	B
64	W.W. Grainger	James T. Ryan	82.9	91.0	-8.1	C	A	C	A
65	Precision Castparts	Mark Donegan	82.7	91.4	-8.7	C	B	C	B
66	Texas Instruments	Richard K. Templeton	82.3	54.7	27.6	B	B	C	B
67	Colgate-Palmolive	Ian M. Cook	82.0	94.0	-12.0	C	A	C	A
68	NetFlix	Reed Hastings	81.8	67.3	14.5	C	B	A	A
69	DuPont	Ellen J. Kullman	81.6	70.1	11.5	C	A	C	A
70	Michael Kors	John D. Idol	80.8	98.9	-18.1	A	A	F	C
71	Dow Chemical	Andrew N. Liveris	79.9	83.5	-3.6	A	C	C	C
72	Exxon Mobil	Rex W. Tillerson	79.9	79.5	0.4	A	A	F	C
73	Newell Rubbermaid	Michael B. Polk	79.7	36.2	43.5	B	C	C	C
74	Alliance Data Systems	Edward J. Heffernan	79.3	88.2	-8.9	C	C	C	C
75	Kimberly Clark	Thomas J. Falk	78.8	60.7	18.1	A	A	F	C
76	Lowe's	Robert A. Niblock	78.6	35.3	43.3	C	C	C	C
77	Hershey	John P. Bilbrey	78.4	90.6	-12.2	C	B	C	B
78	Scripps Networks Interactive	Kenneth W. Lowe	78.2	82.5	-4.3	B	A	D	B
79	VF Corp	Eric C. Wiseman	78.0	75.6	2.4	C	C	C	B
80	Expedia	Dara Khosrowshahi	77.8	74.8	3.0	B	C	C	C
81	Comcast	Brian L. Roberts	77.6	68.4	9.2	B	C	C	C
82	Range Resources	John H. Pinkerton	77.3	65.6	11.7	B	C	C	C
83	Verizon	Lowell C. McAdam	77.1	86.5	-9.4	A	A	F	A
84	TJX	Carol M. Meyrowitz	76.9	91.8	-14.9	B	B	D	B
85	Clorox	Donald R. Knauss	76.5	49.0	27.5	B	B	C	B
86	Accenture	Pierre Nanterme	76.1	68.6	7.5	C	B	C	C
87	EQT Corporation	Murry S. Gerber	75.9	82.3	-6.4	C	C	B	B
88	Ecolab	Douglas M. Baker, Jr.	75.6	53.7	21.9	C	C	B	B
89	Lennar	Stuart A. Miller	75.0	61.6	13.4	C	B	D	B
90	Regeneron Pharmaceuticals	Leonard S. Schleifer	74.8	74.6	0.2	B	A	D	C
91	Charles Schwab	Walter W. Bettinger II	74.6	66.0	8.6	C	C	A	A
92	Lam Research	Martin B. Anstice	74.4	44.9	29.5	B	A	D	B
93	Tiffany & Co.	Michael J. Kowalski	74.2	78.8	-4.6	C	B	C	B
94	Twenty-First Century Fox	Rupert Murdoch	73.9	77.8	-3.9	A	A	F	C
95	Cincinnati Financial	Steven J. Johnston	73.7	68.8	4.9	B	B	C	C
96	Southwest Airlines	Gary C. Kelly	73.1	41.3	31.8	C	C	C	C
97	Google	Larry Page	72.9	76.7	-3.8	C	A	D	C
98	Ameriprise Financial	James M. Cracchiolo	72.7	66.3	6.4	C	B	C	C
99	Xilinx	Moshe N. Gavrielov	72.4	81.0	-8.6	C	A	D	B
100	FedEx	Frederick W. Smith	72.2	34.5	37.7	C	C	C	C

Top Ten Mid-Market Companies (\$100M-\$500M)

Rank	Company	CEO	2015 Score	2014 Score	Change in Score	3 Yr. EVA Momentum	EVA Margin	Market-implied Momentum	MVA Margin
1	Taser International	Rick Smith	100	98	2	A	A	A	A
2	Cognex	Robert Willett	100	82	18	A	A	A	A
3	AAON	Norman H. Asbjornson	100	94	6	A	A	A	A
4	Western Alliance Bancorporation	Robert Gary Sarver	99	87	12	A	A	A	A
5	Bank Of The Ozarks	George G. Gleason	99	88	11	B	A	A	A
6	MarketAxess Holdings	Richard M. McVey	99	90	9	B	A	A	A
7	Natural Health Trends	Chris Sharrg*	99	61	38	A	A	C	A
8	Popeyes Louisiana Kitchen	Cheryl A. Bachelder	99	92	7	A	A	C	A
9	Pinnacle Financial Partners	M. Terry Turner	99	81	17	B	C	A	A
10	Home Bancshares	C. Randall Sims	98	93	6	B	A	B	A

*President (there's no CEO)

A Look at Three of the Best Wealth Creators

by Drew Morris

Three of this year's leading wealth creators are profiled at right. All share one underlying reason for their prosperity: synergistic strengths. Their principal strengths reinforce one another, creating a notably more powerful wealth-creation effect, as we'll see. (These write-ups reflect company events and performance up until June 30, 2014.)



Starbucks



CEO Howard Schultz

S&P 500 RANK 13

BACKGROUND

With more than 21,000 coffee shops in about 60 countries, Starbucks is the world's No. 1 specialty coffee retailer. In addition to hot and cold beverages, food items, roasted

beans and coffee accessories, it's known for providing customers with a welcoming ambiance, comfortable sitting areas, friendly service and free WiFi.

SYNERGISTIC STRENGTHS

- An admired, trusted brand, recognized worldwide.
- A strong value proposition: high-quality custom coffees and teas, in a cafe atmosphere, complete with WiFi and bathrooms for customers.
- A high-potential business model (reflected in the stock price); premium pricing, international opportunities (China, India, etc.); diversified distribution channels, including supermarkets (packaged coffee, K-Cups), kiosks, hotels and airlines.
- Management with intent: expanding into juices, teas and energy drinks; forming fruitful partnerships; exploiting opportunities, such as the lunch and evening periods; and improving the current customer experience.

4 Keys to Wealth Creation

BUSINESS DESIGN

Far and away, how a business goes about making money is the most powerful reason for prospering—or failing

WISE CAPITAL MANAGEMENT

Companies like 3M excel at spending—and saving—money judiciously

A STRONG BRAND

A trusted brand, like Starbucks, attracts and keeps customers coming back and protects pricing

LEADERSHIP MINDSET

What you, as a leader, want and how serious about it will propel your company

Top Ten Mid-Market Companies (\$500M-\$1B)

Rank	Company	CEO	2015 Score	2014 Score	Change in Score	3 Yr. EVA Momentum	EVA Margin	Market-implied Momentum	MVA Margin
1	Dunkin' Brands Group	Nigel Travis	100	58	42	A	A	A	A
2	IPG Photonics	Valentin P. Gapontsev, Ph.D.	100	96	3	A	A	A	A
3	Gentherm	Daniel R. Coker	100	92	8	A	A	A	A
4	Signature Bank/NY	Joseph J. Depaolo	99	89	11	B	A	A	A
5	Boston Beer	Martin F. Roper	99	87	12	B	A	B	B
6	Natural Grocers Vitamin Cottage	Kemper Isely /Zephyr Isely*	99	49	50	A	C	B	A
7	PrivateBancorp	Larry D. Richman	98	74	24	A	B	C	A
8	Method Electronics	Donald W. Duda	98	75	23	A	A	C	C
9	Lifelock	Todd Davis	98	46	52	A	B	C	A
10	Astronics	Peter J. Gundermann	98	76	21	A	A	C	B

*Co-Presidents (there's no CEO)



3M



CEO Inge Thulin

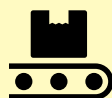
S&P 500 RANK 17

BACKGROUND

3M manufactures products for industry, safety and graphics, electronics, energy, health care and consumers.

SYNERGISTIC STRENGTHS

- 3M's value proposition: consistently high product performance that's worth the price premium.
- Brand: In this case, product reputation—it will meet your need, and be "on spec." Example: 3M's adhesive products stick, appropriately. This reputation enables a bit of pricing power.
- Business design: 3M has a sound sense of where to play. A good bit of its sales are of consumables, such as industrial sanding disks and components embedded in other manufacturer's products. Both of these create recurring revenue.
- World-class, centralized R&D that over time has garnered more than 100,000 patents. That R&D results in one-third of sales coming from products less than five years old. Finally, there is R&D's technology leverage. Its innovations, in abrasives, adhesives, filters and coatings can be pushed out through more than one of the operating businesses above.



Cognex*



CEO Rob Willett

RUSSELL 3000 (\$100M-\$500M) RANK 3

BACKGROUND

Cognex provides machine-vision hardware and software that's used in manufacturing products and tracking their distribution. It

enables direct part mark (DPM) identification that facilitates accurate assembly and can track individual parts over their life, leading to quality improvements. Its surface inspection systems division, divested on July 7, 2015, provided continuous inspection of the making of glass, paper, metal and plastic to ensure the absence of defects.

SYNERGISTIC STRENGTHS

- A solid value proposition, that saves customers (a lot of) money and helps them succeed by improving manufacturing productivity.
- Its business is somewhat protected from price competition by its advanced, proprietary technology. It holds 403 patents, with another 330 pending, worldwide. The result? A pre-tax net income (three-year average) of 26.7 percent of sales.
- A culture in which people tend to stay, rather than taking their considerable machine-vision expertise elsewhere.

*Mid-Market Wealth Creator

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BENNETT STEWART (gbstewart@evadimensions.com) is CEO of EVA Dimensions, a firm that helps corporate management teams to make better decisions and create stronger incentives by bringing the best practices in EVA in-house. The firm also provides EVA-based equity research to institutional investors.

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