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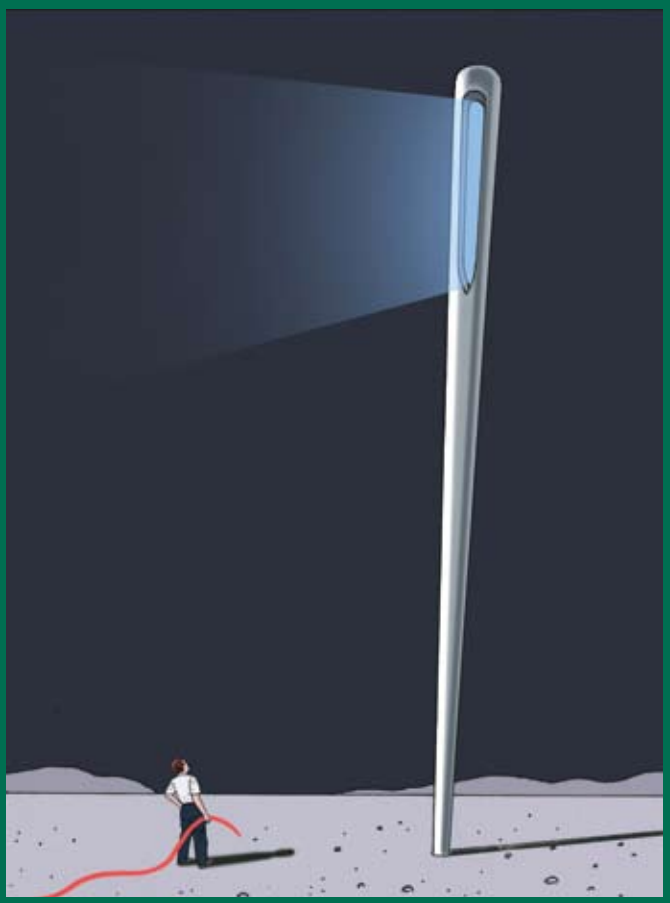
REPORT

THE 2010 VALUE CREATORS REPORT

Threading the Needle

Value Creation in a Low-Growth Economy



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Threading the Needle

Value Creation in a Low-Growth Economy

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bcg.com

The financial analyses in this report are based on public data and forecasts that have not been verified by BCG and on assumptions that are subject to uncertainty and change. The analyses are intended only for general comparisons across companies and industries and should not be used to support any individual investment decision.

Contents

Executive Summary

Threading the Needle: Value Creation in a Low-Growth Economy *is the twelfth 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 delivering above-average shareholder returns in a global economy characterized by below-average growth.

Although 2009 saw a strong rebound in equity values, global capital markets are still laboring under the shadow of the worldwide financial crisis that began in 2008.

- Global market indexes were up roughly 30 percent in 2009, but the weighted average annual total shareholder return (TSR) for this year's Value Creators database, which covers the five-year period from 2005 through 2009, was 6.6 percent. This is still considerably below the long-term historical average of approximately 10 percent
- Market volatility remains high; as of this writing, most equity indexes are flat for 2010
- Despite real signs of economic recovery, macroeconomic fundamentals in the developed economies remain under significant pressure

BCG believes that the world's developed economies are entering an extended period of below-average growth.

- Recessions that are preceded by financial crisis tend to be followed by significant shortfalls in postrecession GDP, according to a recent report by the International Monetary Fund (IMF)
- In recent decades, growth in U.S. GDP has been the engine of the global economy; but the high indebtedness of U.S. consumers makes it unlikely that the U.S. economy will be able to continue to play that role—despite unprecedented stimulus spending by the U.S. government and the Federal Reserve
- Although developing economies such as Brazil, China, and India continue to grow rapidly, they will not be able to pull the Western economies forward (indeed, these economies continue to depend on exports to fuel their rapid growth)
- BCG estimates that the average annual GDP growth in developed economies from 2010 through 2015 will be in the neighborhood of 2.4 percent, with some countries experiencing growth rates as low as 1 percent or even less

A low-growth economy has big implications for how companies create shareholder value.

- Lower revenue growth, growing pressure on margins as companies compete for fewer growth opportunities, and declining valuation multiples (reflecting shifting investor expectations), will make capital gains a relatively less important source of TSR

- As multiples decline, the yield from payouts of free cash flow will increase, making these direct payments to shareholders in the form of dividends or stock repurchases a more important source of TSR

- This shift means that there will be opportunities for companies to achieve above-average shareholder returns by emphasizing cash payout as the primary source of TSR

- The very best performers (those that make our annual rankings of the top ten value creators by industry) will be companies that find ways to "thread the needle"—that is, to combine increased cash payouts with above-average profitable growth in what is a much tougher and more competitive economic environment

- One of the key challenges facing every company will be how best to deploy its ongoing free cash flow—as well as the substantial cash it has accumulated on its balance sheet as a result of cost cutting during the downturn and subsequent recovery—in order to optimize value creation over the long term

This year's Value Creators report addresses the special challenges and opportunities for value creation in a low-growth economy.

- We begin by making the case that the world's developed economies face an extended period of below-average growth

- Next, we describe the distinctive dynamics of value creation in a low-growth environment

- We then suggest steps companies should take to rethink their approach to growth and capital deployment and to reset their value-creation strategy in response to these new dynamics

- We conclude with extensive rankings of the top value creators worldwide for the five-year period from 2005 through 2009

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The Coming Era of Low Growth

Although 2009 saw a strong recovery in equity values, global capital markets are still laboring under the shadow of the worldwide financial crisis that began in 2008. Market volatility remains high; as of this writing, most equity indexes are flat for 2010. And despite real signs of economic recovery, macroeconomic fundamentals in the developed economies remain under significant pressure—most recently from the sovereign-debt crisis in European countries such as Greece, Portugal, and Spain.

We don't know precisely how the recovery will play itself out. But we do feel confident about one prediction: the developed world is entering an extended period of below-average growth—with profound implications for how companies create value. That's why we have devoted this year's Value Creators report to the theme of value creation in a low-growth economy.

Why Low Growth Is Likely

At first glance, this focus may seem misguided. After all, economic growth in 2010 has been better than most observers had anticipated. Just as we were writing this report, the International Monetary Fund (IMF) announced that it was raising its global growth forecast for 2010 to 4.6 percent—up from the 4.2 percent projection it had issued in April.[1]

And yet, the same IMF forecast estimates that growth will slow in the second half of 2010 and will be lower (4.3 percent) in 2011. What's more, it points out that in the world's developed economies, growth rates in 2011 will average only 2.4 percent—with the growth rate in some, such as Japan, as low as 1.8 percent. And although emerging markets in Asia and other parts of the developing world will grow much faster (8.5 percent, on average, in 2011), the growth rates in these economies will also slow down compared with their growth rates this year.

There are at least four reasons for believing that the world's developed economies are likely to experience a period of below-average growth.

The Nature of the "Great Recession." The downturn that began in late 2008 was a globally synchronized recession brought on by a worldwide financial crisis. History shows that recessions preceded by systemic financial upheaval tend to be far deeper and longer lasting than other recessions, and the subsequent recovery is slower. In 2009, for instance, the IMF released a study analyzing the medium-term implications of 88 historical financial crises in developed, emerging, and developing countries.[2] It found that in the seven years after such a crisis, economies tend to have a significant *output gap* (that is, a deviation of actual output from what one would expect by extrapolating from the precrisis growth trend) of, on average, a negative 10 percent.

Earlier this year, BCG used empirical data from the IMF study to simulate GDP growth rates from 2010 through 2015.[3] Our model suggests that while major developing countries such as Brazil, China, and India will soon return

1. See "I.M.F. Says Growth to Continue, but at Slower Pace," *The New York Times,* July 8, 2010.

2. See IMF, *World Economic Outlook: Sustaining the Recovery,* October 2009.

3. See *Collateral Damage, Part 8: Preparing for a Two-Speed World; Accelerating Out of the Great Recession,* BCG White Paper, January 2010.

to a level of GDP growth that approaches their precrisis growth rates, the more developed economies may see significantly lower growth for a number of years. Specifically, the simulation shows GDP growth rates of less than 2 percent per year for the United States, Europe, and Japan, leading to an overall output gap ranging from a negative 8.7 percent (France) to a negative 16.7 percent (United Kingdom). (See Exhibit 1.)

The Indebtedness of U.S. Consumers. In the two decades preceding the downturn, median inflation-adjusted U.S. hourly wages remained relatively flat. And yet, the American consumer (whose spending accounts for 70 percent of U.S. GDP) continued to spend with the sort of abandon that only unconstrained credit can provide. That spending was a critical engine of global economic growth.

Now, however, U.S. consumers are worried about jobs, reduced asset values from the bursting of property and stock bubbles, and the consequent threat to their retirement accounts. Their spending is unlikely to fuel a new wave of global growth. And although economies of the developing world are growing at a significantly faster pace than those in the developed world, they remain too small and too focused on exports to pick up the slack.

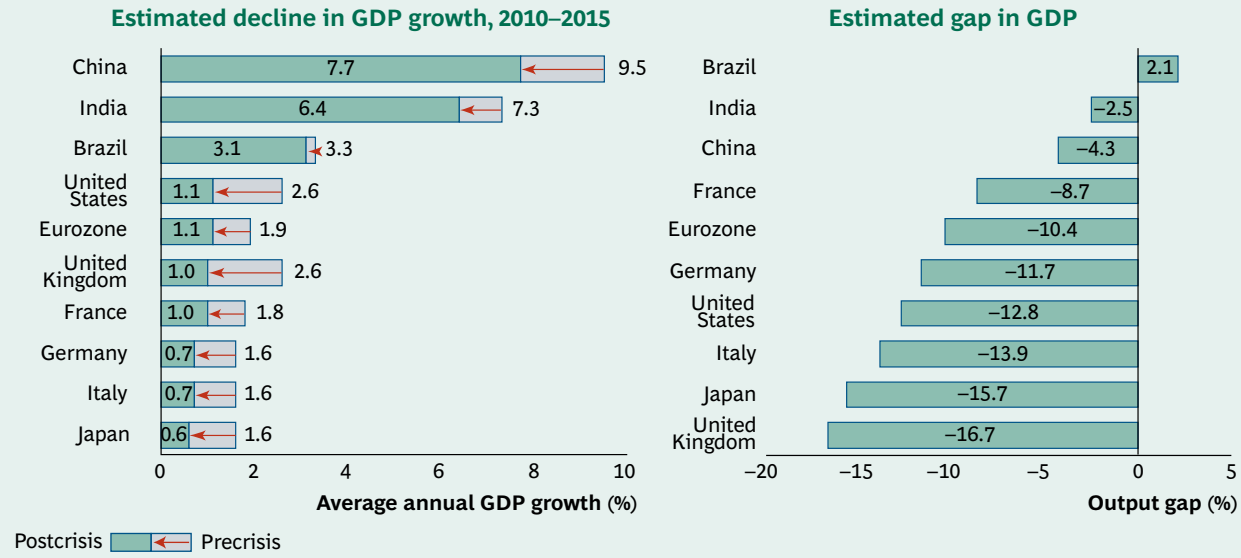
Reduced Availability of Credit. Although the situation has improved somewhat since the dark days of late 2008, the damaged global banking system is still leery about granting credit. Given that in recent years it has taken about five dollars of credit to sustain each dollar of GDP growth, less credit is also a serious constraint on growth.

The End of Government Stimulus. To be sure, the fast reaction and unprecedented financial stimulus by the Obama administration and other governments has propped up growth rates and contributed to the economic recovery in 2010. But as of this writing, all signs indicate that world governments are shifting from economic stimulus to deficit reduction.[4] Once government stimulus winds down, can private demand sustain the recovery?

For all these reasons, both executives and investors are anticipating an economic environment characterized by

4. See "Governments Move to Cut Spending, in 1930s Echo," *The New York Times,* June 29, 2010.

Exhibit 1. Lower Growth Rates Could Lead to Significant Gaps in GDP



Sources: Economist Intelligence Unit; Bloomberg; IMF; OECD; BCG analysis.
Note: The output gap is the estimated shortfall in total 2015 GDP owing to the financial crisis, based on regressions derived from an IMF analysis of 88 historical examples. The precrisis growth rate is calculated by a various-length ordinary least squares (OLS) regression spanning at least ten years before the financial crisis. The postcrisis growth rate is the amount of growth necessary to achieve postcrisis GDP, using the Solow growth model. Brazil shows a positive value (output surplus) because its growth rate was above its precrisis trend in 2008 and was relatively unaffected by the downturn.

low growth. In March 2010, BCG surveyed 440 senior executives in seven major world economies.[5] When asked what "shape" they thought the emerging recovery would take, fully half said that they expected the recovery to be "L-shaped"—that is, relatively slow and difficult. This response is significantly higher than in March 2009, when only 17 percent of respondents to a similar survey were so pessimistic.

In April 2010, we surveyed 110 professional investors and equity analysts in the United States and Europe who cover economies around the world and represent some $1 trillion in assets under management.[6] Although respondents disagreed on precisely when the recovery would be in full gear (in general, those covering Europe and other global markets were more pessimistic than those covering the United States), they agreed that lower GDP growth would have an impact on corporate net income. The vast majority were convinced that growth in company net income in the years to come would be below the long-term historical average for developed markets of approximately 5 percent. A plurality (46 percent) estimated that annual net-income growth rates in the next few years could be as low as 2 to 4 percent during the recovery. Another 40 percent were slightly more optimistic, seeing net income growth in the neighborhood of 4 to 6 percent. And only 9 percent expected earnings growth to be 6 percent or higher.

A low-growth economy poses major challenges for value creation.

Challenges—and Opportunities

Whatever the precise level of future growth, a low-growth economy poses major challenges when it comes to value creation. Lower GDP growth will put pressure on corporate revenues and profits. For many companies, maintaining historical levels of revenue growth will only come by winning market share. Competitive intensity will increase, and real winners (and losers) will emerge. How to deliver profitable growth that beats the average without undermining other drivers of total shareholder return (TSR)—in particular, margins?

After a 20-year period in which valuation multiples have been above the long-term historical average, lower growth is also likely to mean lower multiples as investors factor lower growth expectations into a company's stock price. (See Exhibit 2.) What's more, after nearly all companies have, first, suffered from the late-2008 market selloff and, then, benefited from the 2009 rebound in equity values, valuation multiples will become more differentiated as investors reward those companies that combine above-average growth with clear competitive advantage, strong margins, and appropriate capital deployment. How to ensure that a company benefits from the increasing differentiation in valuation multiples and avoids becoming its victim?

An irony of the current economic environment is that opportunities for growth are becoming constrained precisely at the moment when, due to widespread cost cutting and cash accumulation in response to the recession, corporations have built up an unprecedented amount of cash on their balance sheets. For example, the U.S. Federal Reserve reported in early June that U.S. companies, excluding financial services companies, held $1.84 trillion in cash, the highest level as a percentage of assets since the 1960s.[7] To be sure, the size of any company's cash hoard has to be evaluated in terms of its level of debt and its potential need to use that cash to pay down that debt in the future.[8] Still, the question remains, how should companies best deploy this cash and their high levels of ongoing free cash flow to create value in the future?

Finally, as a result of the turmoil over the past several years, governments are becoming more involved in the private sector, and many observers are questioning the legitimacy of shareholder value as an appropriate model for corporate governance. How to balance the interests and priorities of different stakeholders (investors included) in an environment in which the "economic pie" is likely to grow at a lower rate than in the recent past? (See the sidebar "Why Shareholder Value Still Matters.")

But if an extended period of low growth presents challenges for public companies, it also presents a singular opportunity. The stagflation of the 1970s, Japan's "lost

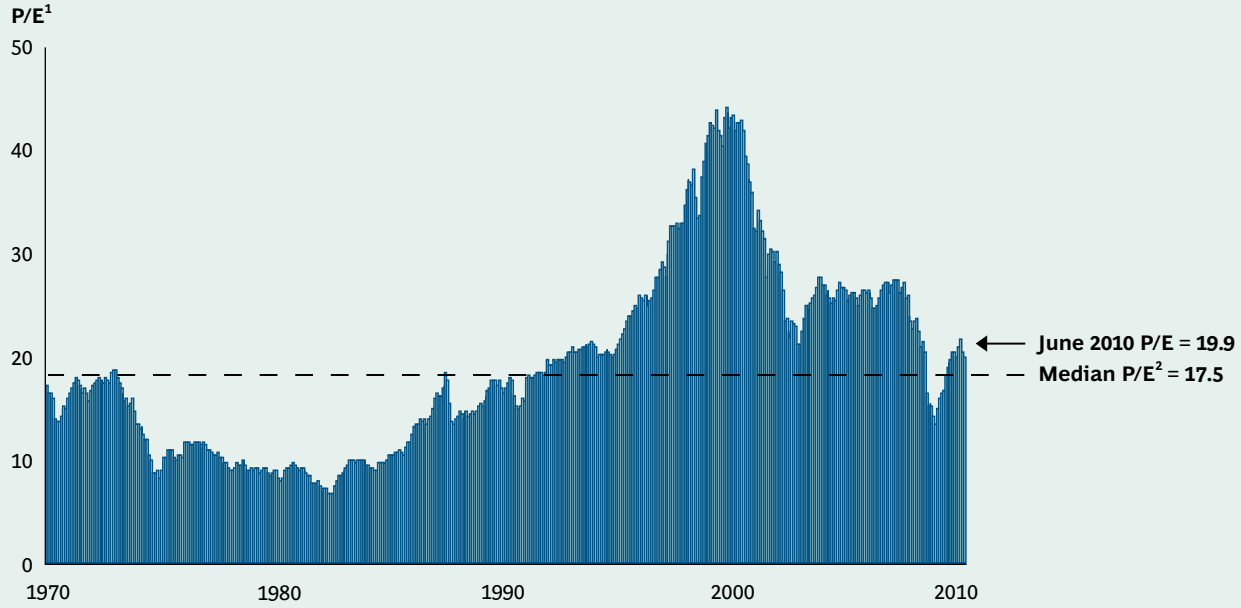
5. See *Collateral Damage, Part 9: In the Eye of the Storm; Ignore Short-Term Indicators, Focus on the Long Haul,* BCG White Paper, May 2010.

6. See "Investors' Priorities in the Postdownturn Economy," BCG article, July 2010.

7. See "US Companies Tap Cash Piles for Share Buy-Backs," *Financial Times,* June 17, 2010.

8. See "Show Us the Money," *The Economist,* July 1, 2010.

Exhibit 2. Valuation Multiples Remain Above the Historical Average



Sources: Robert Shiller, Yale University; BCG analysis.
[1]Cyclically adjusted price-to-earnings (P/E) ratios are based on a ten-year moving average of price index and earnings for S&P 500 composite.
[2]From January 1970 through June 2010.

Why Shareholder Value Still Matters

Critics argue that managing for shareholder value contributed to the global economic crisis by encouraging executives to overemphasize the short term, oversimplify their company's actual performance, and overpay for dangerous risk taking by corporate management.[1] What's more, considering that in late 2008 many investments declined in market value by half or more in the space of a few short weeks, why should we still trust shareholder value as a relevant measure of corporate performance?

To blame the concept of shareholder value management for such negative outcomes is to mistake remarkably poor—and in some cases, self-interested—corporate governance for defects of principle in the idea itself. There is nothing in the theory or practice of shareholder value management that forces companies to maximize short-term returns at the expense of long-term sustainability or to reward owners at the expense of alienating customers, employees, or other stakeholders.

Understood correctly, the principles of managing for shareholder value are simple: First, ensure that a company delivers enduring economic returns above the cost of any new capital it employs; and second, increase the returns earned by its existing capital over time. There are three basic ways to achieve these goals. The first is to grow healthy (that is, high-return) businesses. The second is to fix or shrink unhealthy businesses with returns that are below the cost of capital. And the third is to return cash to investors in the form of dividends or stock buybacks when a company has more cash on hand than it has opportunities for profitable growth.

From this perspective, managing for shareholder value has nothing to do with "managing earnings" to fool investors into thinking that a company's fundamental performance is better than it actually is. It doesn't necessitate "borrowing from the future" to maximize today's returns

1. For some examples, see "Welch Condemns Share Price Focus," *Financial Times,* March 12, 2009; N. Craig Smith and Luk Van Wassenhove, "How Business Schools Lost Their Way," *Bloomberg Businessweek,* January 11, 2010; and Roger Martin, "The Age of Customer Capitalism," *Harvard Business Review,* January–February 2010.

or playing an "expectations game" with the goal of always beating quarterly estimates.

The tools of shareholder value enable managers to develop a granular view of where strategies, activities, and resources add or subtract value. Cash-based metrics such as cash flow return on investment, economic profit, and TSR allow managers to compare performance across different businesses, identify and address wasteful or uncompetitive practices, quantify potential growth opportunities and tradeoffs, and measure performance outcomes against expectations and against peers. Such metrics also force companies to be disciplined about how they allocate capital and to evaluate potential investments carefully against the alternative of returning cash to investors.

Perhaps even more important, managing for long-term shareholder value gets management teams thinking of the company's owners as a resource to leverage rather than an audience to spin. Almost all companies have a core group of long-term owners who would like to see the business run in a way that drives fundamental performance over a three-, five-, or even ten-year period. These owners are professional investors, and they embody sophisticated views of the company, its businesses, and its changing competitive landscape. They represent a valuable feedback loop for senior management about the objective prospects of the company's strategies and its priorities.

Finally, managing for shareholder value is one of the best ways for a public company to continue to serve not only its investors but also its other stakeholders. When a company delivers consistent and sustainable improvements in shareholder value, it lays the foundation not only for its own long-term survival but also for long-term returns to all stakeholders: to customers in the form of new innovations and ever-greater customer value, to employees in the form of rising wages and salaries, to governments in the form of taxes, and to communities in the form of stable jobs. Indeed, the more effectively a company monitors and adapts its strategy to deliver long-term shareholder value, the more likely it is to avoid crisis situations that require radical restructuring, massive employee layoffs, or government bailouts.

Returns to P&G Investors Were Only About 7 Percent of Market Capitalization

Breakdown of P&G's 2009 stakeholder value

	($billion)	Stakeholders who benefit
Revenue	79.0	Revenue reflects value delivered to customers
Cost of goods sold	38.9	Suppliers and manufacturing employees
Selling, general, and administrative expenses	24.0	Service providers and administrative employees
Taxes	4.0	Governments
Interest expense	1.4	Bondholders
Net income from continuing operations[1]	11.3	Shareholders
Market capitalization	~150	

Sources: Procter & Gamble 2009 annual report; BCG analysis.
[1]Includes $560 million of other nonoperating income.

To illustrate this point, consider the breakdown of Procter & Gamble's $79 billion in 2009 revenue (a result of delivering value to customers) as it flows to various stakeholders of the company. (See the exhibit above.) Its almost $39 billion in cost of goods sold represents value to suppliers and to the employees who make its products. Its $24 billion in selling, general, and administrative expenses represents value to marketing and administrative employees in the form of salaries and benefits. Its $4 billion in taxes is value flowing to governments. And its more than $1 billion in interest expense represents value to bondholders. Only after all these bills are paid does P&G have a net income of approximately $11 billion—the economic value created for shareholders—which represents a relatively low 7 percent return on the company's market capitalization of roughly $150 billion. Unless P&G can find some way to grow its revenues at a profit in the future, not only the company's investors but also all its other stakeholders are likely to suffer.

decade," and even the Great Depression all offer examples of companies that prospered in tough economic times.[9] The big winners didn't succeed by playing it safe—that is, paying down debt, driving down costs to preserve the bottom line, conserving cash, and simply waiting for conditions to get better. Rather, they took advantage of their competitors' paralysis to create new sources of competitive advantage that endured for a long time.

What's more, the belief that the downturn is ushering in a period of below-average growth is creating a fundamental shift in investor expectations.[10] For the first time in a long time, investors are focusing on longer-term fundamentals. Instead of riding marketwide trends, they are assessing the quality and sustainability of individual company stocks. They care more about a company's business strategy and management track record and less about quarterly earnings growth rates. In short, they are giving companies permission to focus on long-term competitiveness and sustainable value creation—more so than in a long time.

No one knows how long this shift will last. But investors have reset their focus and strategies to achieve superior TSR. Managements need to do the same. The first step is understanding the distinctive dynamics of value creation in a low-growth environment.

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9. See David Rhodes and Daniel Stelter, *Accelerating Out of the Great Recession: How to Win in a Slow-Growth Economy,* McGraw-Hill, 2010.

10. See *Collateral Damage: Function Focus; Valuation Advantage—How Investors Want Companies to Respond to the Downturn,* BCG White Paper, April 2009; and "Investors' Priorities in the Postdownturn Economy," BCG article, July 2010.

Value Creation in Low-Growth Environments

What characterizes value creation in low-growth environments? Two broad trends and a paradox. Their implications for an individual company will, of course, depend on its particular situation. But understanding the underlying dynamics of value creation in a low-growth economy is a necessary first step.

The Declining Importance of Capital Gains

As regular readers of the Value Creators reports know, BCG has a model for quantifying the relative contribution of the various sources of TSR. (See Exhibit 3.) The model uses the combination of revenue (that is sales) growth and change in margins as an indicator of a company's improvement in fundamental value. It then uses the change in the company's valuation multiple to determine the impact of investor expectations on TSR.[11] Together, these two factors determine the change in a company's market capitalization. Finally, the model also tracks the distribution of free cash flow to investors and debt holders in the form of dividends, share repurchases, or payments on debt in order to determine the contribution of free-cash-flow payouts to a company's TSR. Using this model, executives can analyze the sources of TSR for their company, its business units, a peer group of companies, an industry, or an entire market index over a given period.

How is low GDP growth likely to affect these drivers of TSR? Although it will vary by industry, in general lower economic growth will mean lower sales growth for many companies. Lower revenue growth will also mean lower profits—a result of reduced operational leverage and pressure on margins owing to increased competition. What's more, as a company's growth in net income declines, the overall level of its valuation multiple will likely drop as well, as investors factor that decline into the company's stock price. To be sure, earnings are currently rebounding from their depth-of-recession lows and corporate profitability is at an all-time high, but that won't stop valuation multiples from declining as a reflection of the low-growth future outlook.

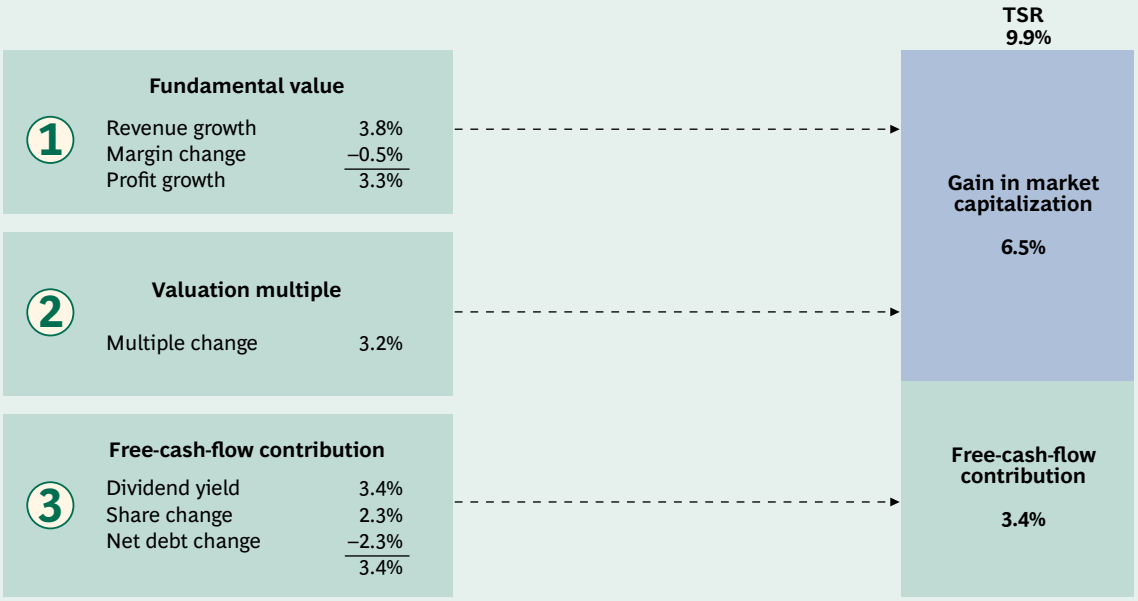
All these changes will cut significantly into a company's ability to deliver capital gains, making this source of TSR relatively less important in the future than in the past. At first glance, this might seem to imply that overall TSR will be lower as well. For example, when we asked the respondents to our investor survey what they thought the market average TSR would be in the years to come, 89 percent said that it would be below the long-term historical average of roughly 10 percent, with the median estimate at 8.8 percent. This logic is true as far as it goes; however, it neglects the inherently dynamic nature of TSR.

The Growing Importance of Cash Payout

Investors set stock prices in order to earn a required rate of return on their capital. The required rate of return for equities is a function of expected returns on risk-free

11. There are many ways to measure a company's valuation multiple, and different metrics are appropriate for different industries and different company situations. In the Value Creators rankings, we use the EBITDA multiple—the ratio of enterprise value (the market value of equity plus the market value of debt) to EBITDA—in order to have a single measure with which to compare performance across our global sample. (See "Appendix: The 2010 Value Creators Rankings.")

Exhibit 3. BCG's Model Allows a Company to Identify the Sources of Its TSR



Sources: Thomson Financial Datastream; Thomson Financial Worldscope; Bloomberg; BCG analysis.
Note: This calculation is based on an actual company example; the contribution of each factor is shown in percentage points of average annual TSR.

bonds, plus a premium for the risk in equities. The main factor driving equity risk premiums is volatility in earnings growth and stock prices. Given how uncertain the current environment is, one would expect that investors' required rate of return would be, if anything, *higher* (to account for the increased risk). Investors are unlikely to accept a lower rate of return just because revenue growth is likely to be lower (and potentially riskier) in the future. Instead, they will set lower prices for equities so that stocks continue to deliver the required rate of return despite lower revenue growth.

As investors reset their expectations about future growth, reducing the absolute level of valuation multiples, the long-term result is to increase the value of a company's free-cash-flow yield. Free-cash-flow yield is the return investors get from cash payouts that companies make to investors. The percentage contribution of free-cash-flow yield to TSR is calculated by the amount of cash paid to investors divided by the company's market capitalization. A company's market capitalization is a product of its earnings and the valuation multiple assigned to those earnings. If valuation multiples decline, then the yield goes up on the same amount of cash paid out.

To calculate a company's expected free-cash-flow yield, divide the expected percentage of net income that will be paid out in the future (as dividends or share repurchases) by the size of a company's expected price-to-earnings (P/E) multiple. By way of a simple illustration: if a company pays out 50 percent of its net income and its P/E ratio is 20, then its free-cash-flow yield contributes 2.5 percentage points of TSR. If the company's P/E drops to 10, however, the same cash payout yields 5 percentage points of TSR. Thus, lower valuation multiples allow investors to achieve a higher future TSR. Since the lower a company's multiple, the higher its yield, this dynamic tends to counteract the parallel drop in net income growth, resulting in an average TSR closer to the historical average.

Market analysts often overlook this dynamic. Typically, their forecasts assume that a company's future yield will include only its current announced dividends and share repurchases. This assumption makes sense because although most companies have significant free cash flow that remains uncommitted, analysts do not know how the companies are going to use that cash or whether it will end up creating or destroying shareholder value.

However, this approach has the effect of underestimating a company's actual TSR potential. The significant amount of cash that companies have accumulated on their balance sheets and the currently high levels of free cash flow that resulted from cost cutting during the downturn have given many companies the opportunity to improve their free-cash-flow yield dramatically.

There are signs that at least some companies are realizing that cash payout is becoming a more important source of TSR. After cutting back on dividends and share buybacks during the depths of the downturn, more and more companies are starting to return some of that cash to shareholders. As of late June 2010, 136 companies in the S&P 500 had either increased their dividend payouts in 2010 or initiated new dividends—bolstering payments by a total of $11 billion.[12] Only two S&P 500 companies had decreased or suspended dividends during this period. (These actions are in sharp contrast to those in 2009, when there were 157 dividend increases and 78 decreases or suspensions that together cut payments to shareholders by a record $37 billion.) And according to a recent study by Bank of America Merrill Lynch, by mid-June 2010, there were some 343 new authorizations for stock buybacks at U.S. companies, totaling roughly $178 billion.[13] Projected over the full year, this rate of stock repurchases would be the highest volume since 2007 and total some $898 billion—in contrast to only $128 billion in 2009.

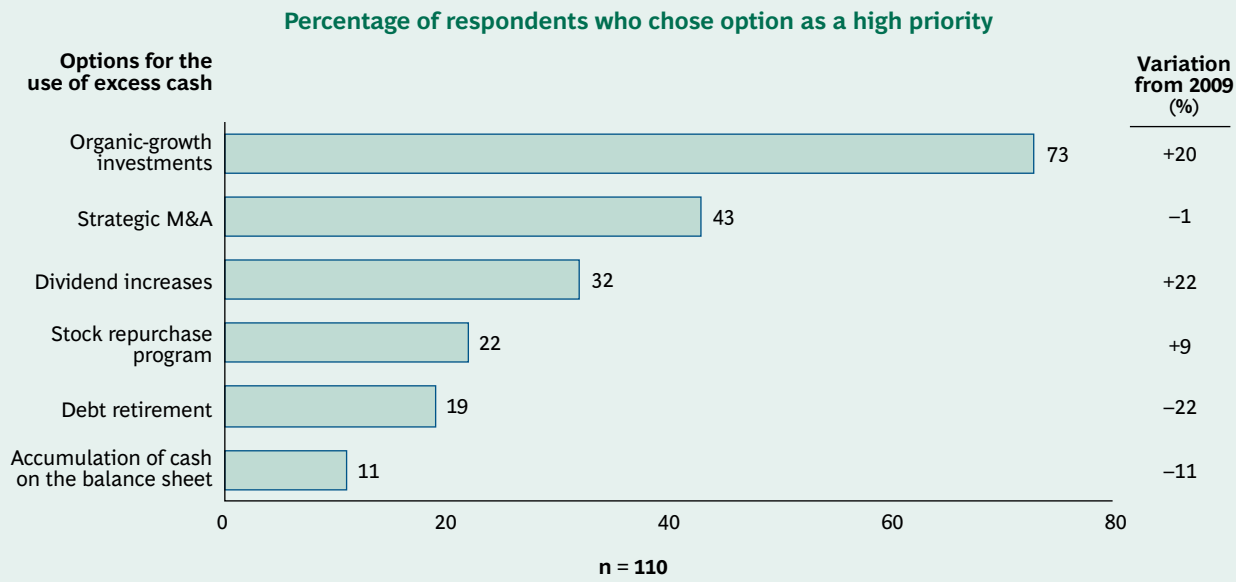
There are also indications that investors have begun to put a higher value on cash returned to shareholders, resulting in positive impact on a company's valuation multiple as well. When we asked participants in our investor survey to set their priorities for the use of excess cash, increases in a company's dividend shot up to number three on the list, chosen by 32 percent of respondents as either their first or second priority. (See Exhibit 4.) Last year, by contrast, it was the lowest priority on the list, chosen by only 10 percent. This shift in investor sentiment helps explain why, as of late June, the Dow Jones Select U.S. Dividend Index was up 1.9 percent for 2010—in contrast to the S&P 500 which was down 2.5 percent.[14]

12. See "Dividends Are Rising. Will Stocks Follow?" *The New York Times,* June 25, 2010.

13. See "US Companies Tap Cash Piles for Share Buy-Backs," *Financial Times,* June 17, 2010.

14. See "Dividends Are Rising. Will Stocks Follow?" *The New York Times,* June 25, 2010.

Exhibit 4. Investors Are Putting a Higher Value on Dividend Increases



Source: BCG 2010 Investor Survey.
Note: Respondents were asked, "How would you rank the following options based on your preference for the use of excess cash?" For each option, the exhibit shows the percentage of respondents who ranked it first or second.

For some companies, a value creation strategy that emphasizes cash payout and strong free-cash-flow yield may be a sensible approach in a low-growth environment. This is especially true for companies in mature, consolidated industries with high returns on invested capital that are generating far more cash than they can invest in profitable growth. But there are two important caveats to this scenario. First, it is unclear how long the current high levels of free cash flow will last. As governments around the world cope with high deficits and anemic tax revenues, cash-rich corporations will become a tempting new revenue source—whether through new corporate taxes such as the recent U.K. tax on bonuses in the financial sector or through the kind of political pressure that forced BP to contribute to a $20 billion cleanup fund to defray the economic losses due to the Deepwater Horizon oil spill.[15]

Second, although a value creation strategy emphasizing free-cash-flow yield can occasionally generate superior TSR, it is extremely difficult to sustain that performance over time. As a company's yield rises, investors will eventually bid up its valuation multiple—which, of course, has the parallel effect of causing the yield to decline. Only in special situations, when a company's valuation multiple remains low, can it sustainably deliver superior TSR from a value creation strategy based on free-cash-flow yield.[16] In order to be a top TSR performer, most companies will, sooner or later, need to find a way to grow. To understand why requires grasping a phenomenon that we call the *growth paradox.*

The Growth Paradox

Exhibit 5, based on data from the S&P 500, illustrates the paradoxical role of growth in value creation. On the one hand, revenue growth is the single most important driver of value creation for top performers over the long term,

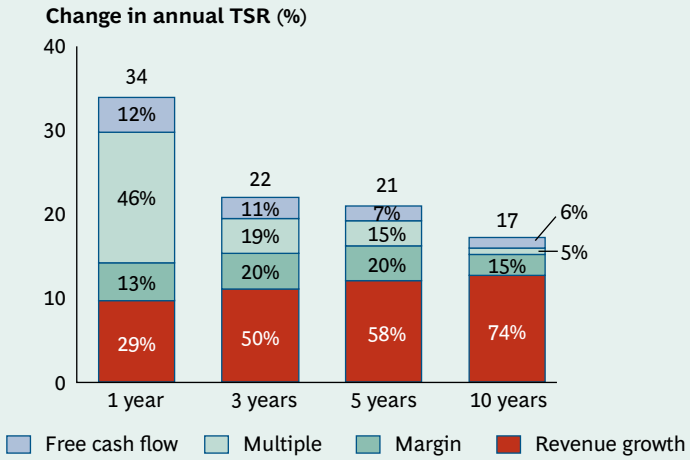
15. Indeed, there are some signs that investors are already expecting growing government pressure on dividends. For example, the 2012 futures on the Euro Stoxx 50 Index of major companies predicts that dividends will amount to €90 per share (about $110), down from €158 at the market's peak in 2007—and well below the 2012 consensus analyst forecast of about €130. See "The Short View," *Financial Times,* June 29, 2010.

16. See the section "The Cash Machine" in *Searching for Sustainability: Value Creation in an Era of Diminished Expectations,* The 2009 Value Creators Report, October 2009, pp. 13–15.

Exhibit 5. The Growth Paradox

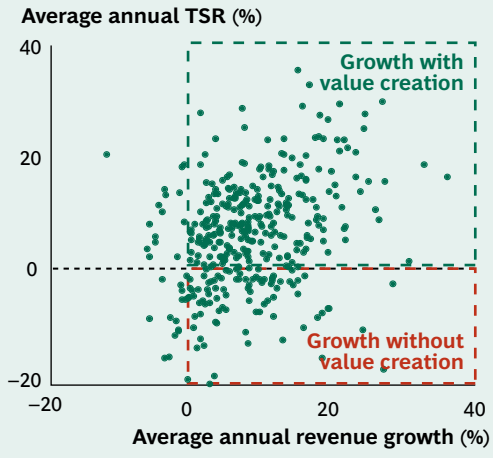
For top performers, growth is the single most important source of TSR over the long term. . .

Sources of TSR for top-quartile performers (S&P 500, 1990–2009)



. . .but not all companies with above-average growth necessarily create value

Correlation of revenue growth and TSR (S&P 500, 1990–2009)



Source: BCG analysis.
Note: Each bar shows the average annual TSR for a given time period; the shaded sections of each bar show the percent of total TSR from each source.

responsible for nearly three quarters of average annual TSR for top-quartile performers over rolling ten-year periods from 1990 through 2009. Put simply, revenue growth is by far the main driver of superior value creation. That's why, for example, most of the top ten companies in our sustainable value-creators rankings have revenue growth rates in the double digits—and one as high as 73 percent. (See the sidebar "The BCG Top Ten Sustainable Value Creators.")

And yet, not all companies that deliver above-average growth necessarily create above-average TSR. The right-hand chart in Exhibit 5 shows that a great many companies grow without creating value because their growth comes at the expense of other drivers of TSR—for example, declining margins or a lower valuation multiple.

A macroeconomic environment characterized by low growth exacerbates this growth paradox. Precisely because it is the scarce resource in a low-growth economy, a company's ability to generate even modestly above-average sales growth will be a key differentiator between TSR winners and losers. For example, during the last prolonged bear market—from 1966 through 1982—nearly all of the top 20 companies that most strongly outperformed their industry peers in TSR did so through growth in sales rather than growth in margins or dividends.[17]

Therefore, it is critical that companies do not become so reconciled to the lack of growth opportunities that they

17. See *Megatrends: Tailwinds for Growth in a Low-Growth Environment,* BCG Focus, May 2010.

The BCG Top Ten Sustainable Value Creators

For more than a decade, the BCG Value Creators report has included 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.[1] Last year, however, in order to emphasize that shareholder value management is all about long-term performance, we decided to supplement our traditional rankings with a new one. This ranking identifies those large global companies that have been most successful at sustaining superior value creation over an even longer period of time: ten years. We call these high-performing companies *sustainable value creators.*

The companies on BCG's list of top ten sustainable value creators this year are large global companies with a market capitalization of at least $35 billion. We limit our rankings to the world's largest companies because the bigger the company, the harder it is to exceed expectations and deliver superior TSR year after year. Of the 712 global companies in this year's Value Creators database, 102 cleared that hurdle. We tracked 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.

The exhibit to the right lists the top ten value creators for the period from 2000 through 2009. The exhibit highlights the arrival of what BCG calls *global challengers* from rapidly developing economies on the world value-creation stage. Both the number one company on the list, the diversified mining giant Vale, and the number three company, the beverage conglomerate AmBev, are from Brazil. And the number two company, chemical maker Reliance Industries, is from India.

But that's not to say that companies from developed economies aren't also well represented—that is, as long as they are from the English-speaking world. The United States has two companies on the list: drug maker Gilead Sciences at number four and Apple at number seven. So does the United Kingdom with British American Tobacco at number five and the consumer goods company Reckitt Benckiser at number eight. And Canada is represented by BlackBerry maker Research In Motion at number six.

As one might expect, high-growth, innovation-based industries such as pharmaceuticals and technology appear on our list. But more traditional sectors such as consumer goods, mining and materials, chemicals, and retail are also represented. All told, 6 of the 14 industrial sectors covered in the Value Creators report have companies among the top ten sustainable value creators.

But what is most striking about our list is the way these top performers combine significant—usually double-digit—revenue growth with high free-cash-flow yield. For example, our number-one company, Vale, had sales growth of 21 percent per year and at the same time managed to have a dividend yield of an unusually high 5 percent.

1. Readers interested in previous Value Creators reports can download them from the BCG website.

focus exclusively on cost cutting and cash payouts at the neglect of making the necessary investments to secure future revenue-growth opportunities. The companies that are tempted to milk the business in order to prop up their earnings per share (EPS) may end up underinvesting in the future—in effect, making low growth a self-fulfilling prophecy.[18]

At the same time, however, a company has to be careful to avoid the opposite problem: growth without value. Because companies are so flush with cash as a result of the cost cutting and cash accumulation of recent years, they may be tempted to overcommit to growth. But as more and more companies compete for fewer growth opportunities, the odds that improvements in revenue growth will come at the expense of other drivers of TSR go up. As a result, a company may win on growth but not win on TSR.

How can companies thread this needle? By developing an explicit strategy for value creation marked by three characteristics:

- *Creativity* in identifying new ways and new areas in which to invest in profitable growth

18. For example, when we asked the participants in our senior-executive survey in which areas they would be making significant efforts in 2010, only 41 percent said that they were planning to increase R&D, only 35 percent were planning to hire new talent, and fewer than 40 percent were thinking of extending their geographic reach, expanding capacity, or exploring acquisitions. See *Collateral Damage, Part 9: In the Eye of the Storm; Ignore Short-Term Indicators, Focus on the Long Haul,* BCG White Paper, May 2010.

Of course, past results are no guarantee of future performance. Executives at these companies should ask themselves whether they know how to sustain their superior performance in the decade to come—especially since it is likely to look significantly different from this one.

The BCG 2010 Top Ten Sustainable Value Creators

						TSR Decomposition[1]					
#	Company	Location	Industry	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)
1	Vale	Brazil	Mining and materials	35.7	148.6	21	–1	10	5	–1	1
2	Reliance Industries	India	Chemicals	33.1	78.3	N/A	N/A	N/A	N/A	N/A	N/A
3	AmBev	Brazil	Consumer goods	30.8	61.9	25	14	–8	4	–16	11
4	Gilead Sciences	United States	Pharmaceuticals and medical technology	29.0	38.9	N/A	N/A	N/A	N/A	N/A	N/A
5	British American Tobacco	United Kingdom	Consumer goods	25.6	65.1	5	5	4	7	2	3
6	Research In Motion	Canada	Technology and telecom	24.3	38.2	73	9	–54	0	–4	0
7	Apple	United States	Technology and telecom	23.4	189.6	21	17	–12	0	–3	–1
8	Reckitt Benckiser	United Kingdom	Consumer goods	22.3	39.2	10	7	1	3	–2	2
9	Wal-Mart de México	Mexico	Retail	21.4	38.3	12	4	5	2	1	–1
10	Posco	South Korea	Mining and materials	20.9	42.4	11	–5	6	4	1	3

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 102 global companies with a market valuation greater than $35 billion that have been listed on some world stock exchange and have available data for the complete ten-year period.
[1]Contribution of each factor shown in percentage points of ten-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding. (TSR decomposition is not available for Reliance Industries and Gilead Sciences owing to years of negative EBITDA.)
[2]Average annual TSR, 2000–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.

- *Discipline* to invest only in those growth initiatives that will truly be value creating—and then to pay back excess cash to investors once the necessary investments to pursue those opportunities have been made

- *Long-term focus* that privileges sustainable value creation over a three- to five-year period, rather than trying to maximize short-term gains in EPS

The challenge for companies today: to shift from an approach to value creation that is focused on delivering quarterly earnings growth to one that emphasizes managing TSR over the long term. How companies can begin charting a course to deliver superior TSR over the long term is the subject of the next section of this report.

A Fresh Look at Value Creation Strategy

The shift to a low-growth economy requires a parallel shift in how companies set their value-creation strategy. Put simply, they need to stop managing to momentum targets for short-term revenue and earnings growth and start managing for superior TSR over the long term. Doing so requires rethinking their approach to growth and their criteria for capital deployment. It also requires innovations in the strategic-planning process.

Value-Creating Growth

Achieving profitable growth is going to be harder in a low-growth economy. There will be more competition—especially from global challengers from the fast-growing emerging economies. It is no coincidence, for instance, that all of the companies in our list of the top ten global performers for the five-year period from 2005 through 2009 are from Asia. (See the exhibit "The Global Top Ten, 2005–2009" in The 2010 Value Creators Rankings appendix.) As everyone competes for relatively fewer growth opportunities, margins will be under threat to a degree not seen in recent years.

Coping with these challenges will require discipline. Companies will need to take a tough look at existing business plans so as to weed out those growth investments that do not create value and to focus on those that do. It will also require creativity. Companies will have to be far more systematic in finding new ways and new places to grow.

Given the likelihood of increased competition, companies should start by making any investments necessary to build a competitive moat around the core business. Competitors will be coming after that business, so it is critical to preserve and protect existing sources of competitive advantage.

As a company develops its growth strategy, it also must be especially alert to the impact of growth on margins. In the high-growth era of the 1990s and first decade of this century, companies chased easy growth. Many got out of the habit of tracking the impact of that growth on their margins. In today's environment, achieving profitable growth will be harder, and margins will be under threat. Therefore, it is necessary to manage the growth-margin tradeoff very carefully. To be sure, there may be situations in which it is necessary to accept lower margins in order to remain competitive. But, by all means, companies should avoid simply chasing share based on a weak competitive position because such a move is likely to wreak havoc on margins.

Once weaknesses in a company's core business have been addressed, a company can begin thinking about new ways and new markets in which to grow. For example, is there some way to exploit the "two-speed" economy by expanding in emerging markets? And if so, what is the best way to do so—through organic growth, M&A, or partnerships? (See the sidebar "Five Growth Strategies for a Low-Growth Economy.")

When a company has few opportunities for organic growth, growing through acquisitions can be an effective way to create value.[19] For example, acquisitions that consolidate an industry can be a good way to preserve a com-

19. See *Growing Through Acquisitions: The Successful Value Creation Record of Acquisitive Growth Strategies,* BCG report, May 2004; and *Searching for Sustainability: Value Creation in an Era of Diminished Expectations,* The 2009 Value Creators Report, October 2009, p. 12.

Five Growth Strategies for a Low-Growth Economy

Through its work with clients around the world, BCG has identified five growth strategies that have served companies well during periods of low growth.

Invest in innovation. During periods of low growth, innovation becomes more important, not less. In the Great Depression, for example, DuPont, IBM, Chrysler, and GE all outspent their rivals and developed products ahead of their competitors. And many companies—P&G most dramatically—acquired unassailable brand leadership by systematic investment in their brands.[1] Through a commitment to innovation when other companies were cutting back, these companies established a dominant position in their industries that would last for decades.

Exploit megatrends. Megatrends are major trends with the power to shape the landscape of economic opportunity and risk for decades to come. They can take decades to gather strength and then suddenly burst forth to rearrange the competitive environment. But because of the long buildup before takeoff, companies often underestimate the power of megatrends or assume that they have already accounted for them in their plans. BCG has been tracking the development and interaction of 78 megatrends since 2005. Nearly 80 percent continued to grow during the downturn—with 23 actually strengthening in importance.[2] Of the trends that kept growing, we estimate that 44 percent represent opportunities with a global market size greater than $500 billion. Take, for example, the demographic trend of the aging of the population. The so-called silver market (goods and services for consumers over 60) is now worth more than $700 billion worldwide and is fast become a valuable source of growth for companies in sectors as diverse as cosmetics and financial services. Spotting the megatrends that will sweep through a company's markets over the next decade is a critical step in reigniting growth.

Pursue breakout growth. Some industries grow faster than others. But in every industry, there are always a few companies that achieve *breakout growth* at rates that are anywhere from two to seven times the average for the industry as a whole and that create correspondingly above-average shareholder value. These companies do so by actively managing their corporate portfolio, focusing on developing and expanding their core business, exercising discipline to sustain or expand margins while pursuing top-line growth, and expanding aggressively outside their home market.

Engage in business model innovation. A company's business model—the value proposition that it offers customers and the operating model it creates to deliver that value at a profit—is key to creating shareholder value in any economic environment. In times of instability, when the potential for competitive disruption is high, business model innovation is especially important. Business model innovation can provide companies with a way to break out of intense competition, establish competitive barriers around new markets, or create new growth opportunities where none existed before.[3]

Practice pricing fluency. In a low-growth environment in which margins are likely to be under pressure, a company's pricing policies and implementation will be a critical lever to manage. The winners will be those companies that resist the temptation to offer concessions on prices in order to maintain share. Companies that can defend their prices with disciplined processes will have a competitive advantage. But it requires building a capability that reaches deep into a company's sales and marketing organization. A comprehensive "pricing fluency" program focuses on improving a company's pricing model with better policies for setting prices and on enhancing the pricing platform for organizational implementation. In our experience, the result is sustainable revenues that are 1 to 3 percent greater than those of competitors.[4]

1. See David Rhodes and Daniel Stelter, *Accelerating Out of the Great Recession: How to Win in a Slow-Growth Economy,* McGraw-Hill, 2010.
2. See *Megatrends: Tailwinds for Growth in a Low-Growth Environment,* BCG Focus, May 2010.
3. See *Business Model Innovation: When the Game Gets Tough, Change the Game,* BCG White Paper, December 2009.
4. See *Crisis Pricing for the Downturn and After,* BCG White Paper, September 2009; and "Pricing Fluency: A Program for Pricing Excellence," BCG Opportunities for Action, December 2009.

pany's competitive advantage and protect margins. Similarly, buying businesses with strong future growth prospects can be a way to expand a company's growth opportunities and build new growth platforms for the future. But investments in M&A tend to be riskier than equivalent investments in organic growth, so a company needs to assess its opportunities carefully and be realistic about its capabilities, both for doing deals and for the subsequent postmerger integration (PMI).[20]

When it comes to M&A, the main shift companies need to make is to think less about whether a particular deal is "EPS accretive" in the short term and more about whether it is actually going to create shareholder value in the long term. A deal may appear to be "cheap" and deliver one-time EPS gains without necessarily improving a company's TSR. For example, when a company that is trading at a P/E ratio of 20 acquires a company with a P/E ratio of 10, whatever benefit is obtained from combining the earnings of the two companies can be undermined by declines in the acquirer's valuation multiple.

By the same token, deals that dilute EPS in the near term can improve TSR over the long term. Indeed, in a low-growth economy, some of the most value-creating acquisitions—those of companies with a higher growth rate than that of the acquirer—will initially dilute EPS because the target will likely be trading at a higher valuation multiple than the acquirer. But over time, such an acquisition will lead to higher revenue growth and a higher overall multiple.

Last but not least, no company should be thinking about where to grow without at the same time thinking about where not to—because it lacks advantage, is not producing returns above the cost of capital, or faces an industry environment that makes a cash payout strategy preferable. It is the rare company, for example, that knows precisely where it is creating value—by business unit, by product line, or by customer segment. Yet, that kind of detailed assessment is all the more necessary in today's environment.

For an illustration of the right way to navigate these choices, consider the example of a $5 billion industrial conglomerate with a portfolio of some 20 business units. The company had a long history of acquisitive growth that had fed a rising dividend. But, in a situation similar to that faced by many companies today, the company's recent TSR performance was lagging; it was experiencing weak demand in many of its core business segments, and its customers were becoming far more cost conscious, making it harder for the company to set prices at levels that would sustain its margins.

No company should think about where to grow without thinking about where not to.

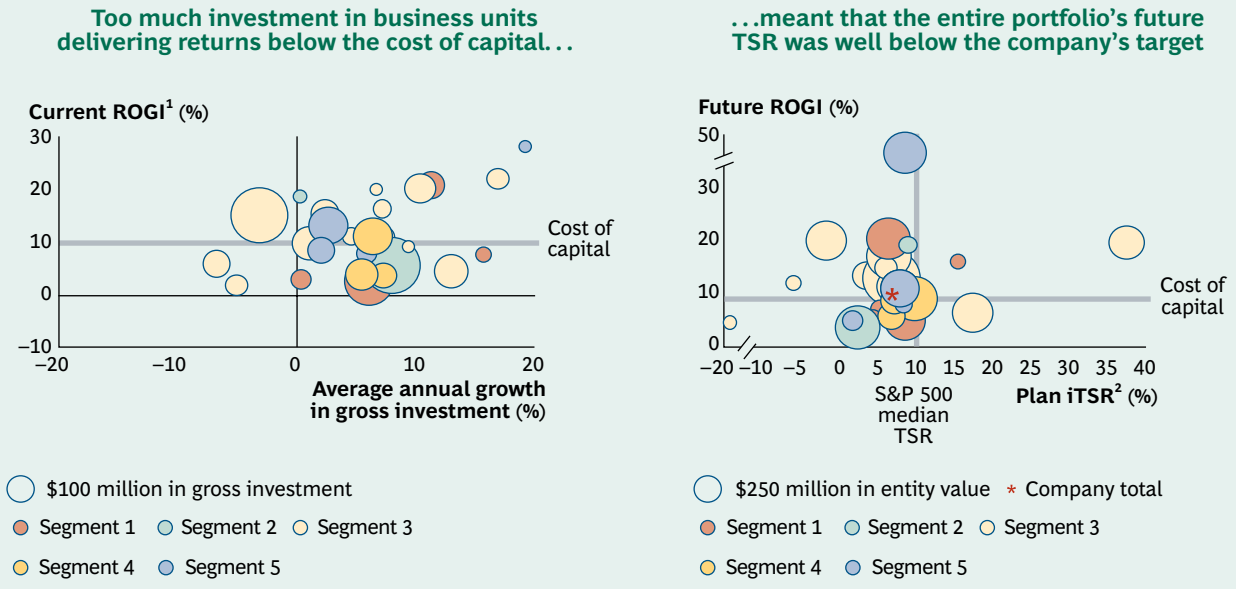
To address this worrisome situation, senior executives decided that they needed to do a detailed business-by-business health check. They evaluated their entire corporate portfolio on three critical dimensions—the long-term attractiveness of the market both in terms of its growth prospects and the company's competitive position, the likely financial results in terms of return on investment, and the expected future TSR contribution of each of the company's business units.

The results were disconcerting. The executives discovered that not only was a significant portion of the company's business portfolio delivering returns below the company's cost of capital, but also the majority of capital investment—60 percent—was going to those value-destroying businesses. As a result, the likely TSR that the entire portfolio could generate was well below the company's target. (See Exhibit 6.)

The company took three major steps to address these problems. First, it adopted a more nuanced approach to how it managed its business units, allocating each to one of three broad categories or roles. Those delivering returns above the cost of capital and in markets with significant growth prospects were designated "growth" businesses that would receive the lion's share of investment. Meanwhile, in "core" businesses that were generating significant cash but had fewer prospects for profitable growth, the emphasis would be on tighter management and improved efficiency to maximize cash generation. Finally, those business units that were destroying value would either be managed in order to improve returns or divested.

20. See *Accelerating Out of the Great Recession: Seize the Opportunities in M&A,* BCG report, June 2010; and *Real-World PMI: Learning from Company Experiences,* BCG Focus, June 2009.

Exhibit 6. Inefficient Capital Deployment Can Impede Value Creation



Source: BCG analysis.
[1]ROGI = return on gross investment.
[2]iTSR = "internal TSR," a metric for simulating each business unit's contribution to company TSR.

But the executive team didn't stop there. They proceeded to identify a range of specific initiatives within each of these three categories and quantify their potential contribution to TSR. Through this process, the company identified an additional 5 percent of annual TSR that could be added to the momentum five-year forecast and bring the company closer to its TSR target. (See Exhibit 7.)

Finally, because the company had a more targeted approach to growth and an explicit plan for creating value, the senior team felt confident that the company would generate the necessary returns to fund a substantial (30 percent) increase in its dividend—and thus appeal to investors clamoring for a greater cash payout.

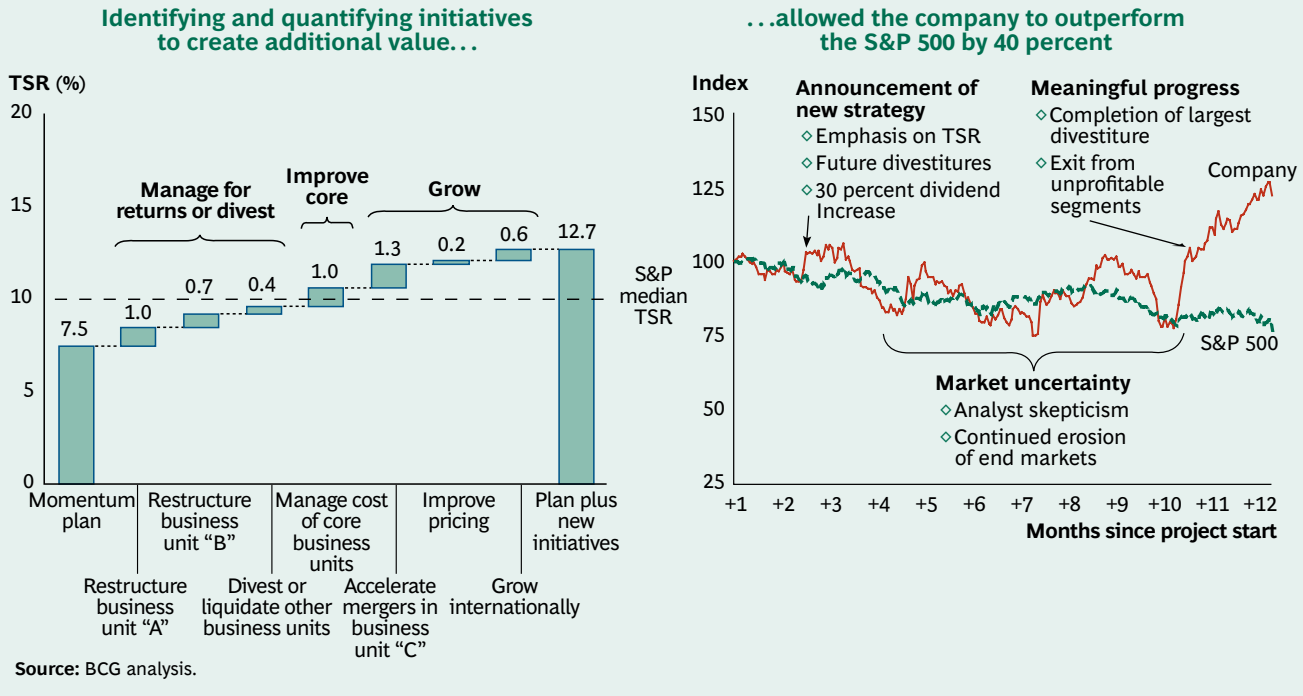
The capital markets did not respond immediately to the company's announcement of its new value-creation strategy, including the dividend increase. Initially, there was a fair amount of skepticism on the part of analysts about the seriousness of the company's commitment. But by the time the company had completed the divestiture of its largest value-destroying business and exited some unprofitable business segments (about ten months into the new strategy), market sentiment began to turn around. By the end of the first year after announcing its new plan, the company's TSR was 40 percent above the S&P 500 average.

Balanced Capital Deployment

As the example of the industrial conglomerate suggests, companies can no longer think about growth in isolation from other uses of capital. Unless the economy witnesses severe erosion in margins, many companies are going to have a lot more cash flow than they can effectively reinvest in profitable growth. The worst outcome would be to waste that cash by pursuing value-destroying growth or to fail to exploit the value-creating potential of that cash by simply leaving it on the balance sheet. Rather, executives need to ask how best to deploy that cash in order to create shareholder value.

Getting to the right answer will require challenging some legacy assumptions. The first is the lingering belief that dividends are to be avoided because they signal to investors that a company has few growth prospects. As we have argued in these pages, investors' views of dividends

Exhibit 7. A Value Creation Plan Helped One Company Outperform the Market



Source: BCG analysis.

have changed. Increasingly, they see a strong dividend not as a sign that a company can't grow but, rather, as an indication that management is disciplined about using its capital to fund only value-creating growth.[21]

A related assumption worth challenging is the management preference for share repurchases over dividends as the best means to return cash to shareholders. This mistaken belief is yet another artifact of too narrow a focus on EPS rather than on TSR. Many executives prefer share buybacks because, unlike dividends, buybacks boost EPS above the level that underlying organic growth in net income would on its own. They also think that boosting EPS growth is a convenient way to boost an "undervalued" stock price. And, of course, their incentives are often tied directly to EPS growth, and the value of their stock options depends on appreciation in stock price, not on increases in dividend yield.

But there is growing evidence that investors prefer dividend increases to recurring share repurchases because they are a far more robust signal of a company's financial health and stability. BCG's research demonstrates that dividends have a far more positive impact on a company's valuation multiple than share repurchases do. Indeed, in many cases, buybacks can actually *reduce* a company's multiple in the near term.[22] And, as discussed earlier, the respondents to our investor survey rated dividend increases as a higher priority for excess cash than share repurchases—in part because, by a large majority (76 percent), they believe that most companies do a poor job of timing their share repurchases.

Finally, a third assumption about capital deployment that companies will have to rethink concerns the desirability of leverage. Leverage exacerbates the volatility of a company's value-creation performance. But in a low-growth economy, investors will be looking for quality and sustainability. Some companies may want to retire debt in order to become a "safer," less risky stock. Others may want to preserve current levels of leverage because interest rates are so low and because it may be difficult to take

21. See "Thinking Differently About Dividends," BCG Perspectives, April 2003.

22. See the section "The Share Buyback Trap" in *Avoiding the Cash Trap: The Challenge of Value Creation When Profits Are High,* The 2007 Value Creators Report, pp. 20–23.

on new debt in the future. But whatever a company's situation, it would be prudent to plan future value-creation strategy on the assumption that the company will need to fund that strategy out of its ongoing operating free cash flow. One big advantage this kind of "living within our means" discipline has for planning purposes is that it will force sharpened consideration of a company's potential tradeoffs around capital deployment.

Scenario-Based Strategic Planning

By now, it should be clear that the approach to value creation strategy we are describing is not something that can take place within the normal strategic-planning process. As strategic planning exists at most companies today, business units develop their momentum plans, which are then aggregated into an overall corporate strategy. Rethinking value creation strategy requires a top-down overlay to that process, led actively by the CEO and involving the board.

Creating alternative future scenarios sharpens the tradeoffs a company faces.

One approach that helps sharpen the tradeoffs a company faces is to create alternative future scenarios that emphasize significantly different uses of capital. For example, assign three different teams to develop the "best-case scenario" for three different value-creation strategies—one emphasizing investments in organic growth, one emphasizing acquisitive growth, and one emphasizing cash payouts. What would be the differential impact of each of these scenarios on TSR? What would be the associated risks given the company's starting position, organizational capabilities, and investor base?

The point of this exercise is not necessarily for any one scenario to win out over the others. It is likely that the final strategy will include elements drawn from each scenario, perhaps with different moves playing a more central role at different moments in time. But developing multiple scenarios has the advantage of surfacing unanticipated opportunities, sharpening the choices and tradeoffs that a company has to make, and forcing a tough, realistic assessment of what the company can actually achieve.

As a company develops and evaluates these different scenarios, it should keep in mind the likely impact of various moves on its investor base and, therefore, on its valuation multiple. One way to do so is to develop a fine-grained understanding of the factors that actually determine differences in valuation multiples in a company's peer group. This will be especially important in an environment in which multiples, on average, will be declining and in which ensuring "full valuation" of a company's plans will be critical.

BCG's research shows that it is possible to identify and actively manage the factors that determine approximately 80 percent of the differences in valuation multiples across a company's peer set.[23] The key questions are: What are the specific drivers of differences in valuation multiples within a company's industry? What are the likely impacts of the company's business strategy, financial policies, and investor messaging on its valuation multiple?

Another way to gauge investor reactions to a company's plans is by conducting a detailed investor segmentation to determine who the company's dominant investors are and to identify their key priorities for the company.[24] Having this kind of detailed information is important in any situation, but it is especially important today, when many companies have experienced significant churn in their investor base and when investor priorities themselves have been evolving.

Once a company has identified its dominant investors, it should bring their perspectives into the planning process. BCG regularly conducts interviews with the fund managers at leading investors in our client companies, as well as at potential target investors. In our experience, only by talking directly to investors, asking probing questions, and carefully listening to and interpreting their responses can a company's management gain a clear view of the expectations and priorities of the company's investor base.[25] The point of acquiring that view is not in order to

23. See the section "Understand What Drives Relative Valuation Multiples" in *Balancing Act: Implementing an Integrated Strategy for Value Creation,* The 2005 Value Creators Report, November 2005, pp. 15–18.

24. See the section "The Investors Who Matter—and What Matters to Them" in *Missing Link: Focusing Corporate Strategy on Value Creation,* The 2008 Value Creators Report, pp. 26–27.

25. See "Treating Investors Like Customers," BCG Perspectives, June 2002.

do precisely what investors want in every situation. Rather, it is to anticipate how investors are likely to respond to a company's strategic moves. But in some cases, in-depth interaction with leading investors can go a long way toward helping a company clarify the most sustainable path for value creation in the future.

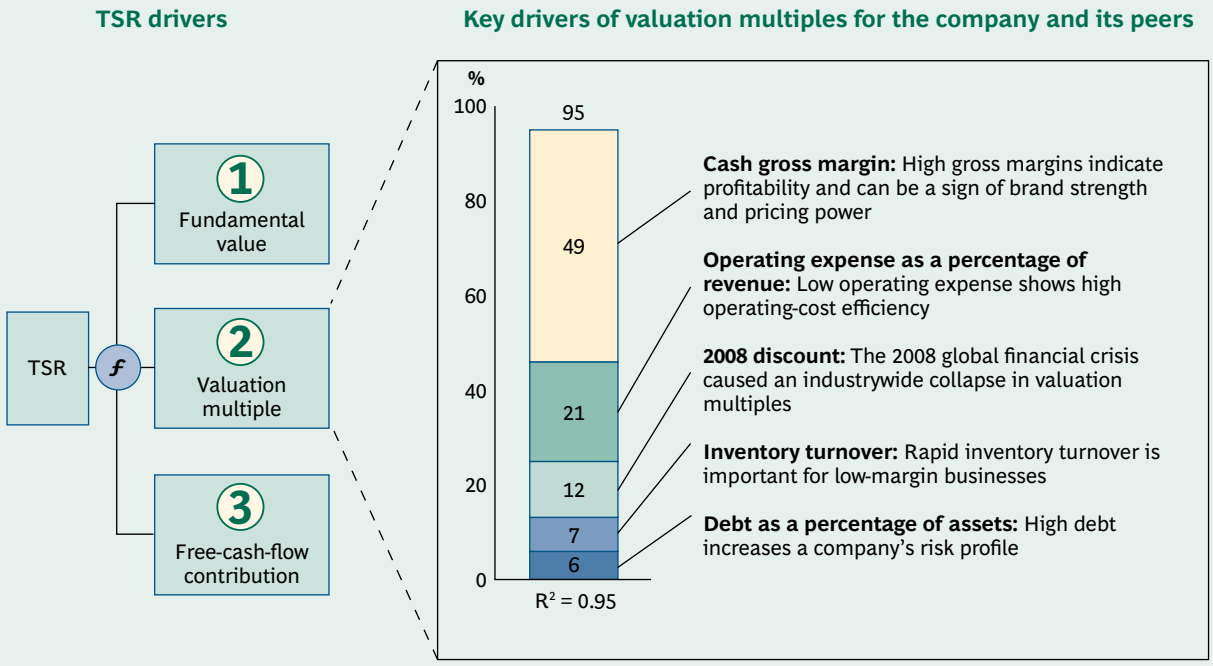
Take the example of a $10 billion U.S. distribution company. Based on its strategic plan, the company's TSR outlook was weak. In order to meet its targets, the company needed to find additional ways to create value, but managers were pessimistic about their ability to find more growth in their slow-growing markets. As a result, they were thinking about M&A as an alternative path to growth.

When they analyzed the drivers of multiples in the company's industry, however, executives discovered that investors didn't really take future growth rates into account in assigning a multiple to a company's earnings. Far more important were the relative size of a company's margins and of its operating expense (as a percentage of revenue). These two factors alone explained a full 70 percent of the differences among multiples in the company's peer group. (See Exhibit 8.)

Why? Competition was so tough in the company's business that most growth came at the expense of already low margins. Knowing this, investors did not especially value growth. Rather, they awarded multiples in the sector on the basis of the strength of a company's cash flow. This insight was confirmed by a review of profitability by customer. It turned out that the company's business with many of its largest customers was not profitable because the customers' buying power was so strong that it allowed them to dictate extremely low prices.

From a value creation perspective, unless the company could somehow renegotiate prices with its largest customers or improve its capital turnover, it would be better off letting these customers go so that it could focus on its most profitable customer segments. To be sure, such a move would force the company's near-term EPS to take a hit. But because the shift in focus would improve mar-

Exhibit 8. A Few Factors May Differentiate Companies' Valuation Multiples



Source: BCG analysis.
Note: R^2 stands for multiple regression correlation coefficient. An R^2 of 0.95 means that 95 percent of the observed differences among valuation multiples in the company's peer group are explained by the model.

gins and lower operating expenses, taking this step would actually fuel an increase in the company's valuation multiple. Although additional growth in the form of strategic M&A made sense in the long term, it was best to hold off until after the company had fixed its core business.

Getting rid of some of its largest (although least profitable) customers would force the company to lower its guidance for growth in EPS. But interviews with leading investors revealed that if such a move were put in the context of a newfound commitment to managing for TSR, investors would be ready to accept it. The company has begun to address its profitability problems by renegotiating its contracts with some customers and by dropping others. It has also signaled its commitment to maximizing cash flow by significantly increasing its dividend (which, because of low growth in the sector, contributed the lion's share of the company's TSR). In the three months since announcing its new strategy, the company has outperformed the S&P 500 by 15 percent.

Adapting to low growth after decades of relatively high growth is a bit like having to use muscles that one has not exercised in a long time. It can be painful—but in the end, it produces a healthier organism. By focusing on value-creating growth, optimizing the tradeoffs among various uses of capital, and taking a scenario-based approach to strategic planning, companies will be in good shape to address the challenges of value creation in a low-growth economy.

Ten Questions Every CEO Should Know How to Answer

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

1. *Do you know where and how your businesses are creating value?* By business unit, by product category, by customer segment?

2. *Do you have a process in place for discovering new ways to deliver value-creating growth?* Are you investing to create long-term sustainable TSR or merely managing the business to maximize your short-term EPS?

3. *Are you emphasizing shareholder value performance over relatively long time horizons (three to five years), rather than quarterly or annual EPS?*

4. *Are you evaluating future acquisitions by their long-term value-creation potential, not by whether the deals would happen to accrete or dilute EPS in the short term?*

5. *Do you know what drives differences in valuation multiples in your peer group?*

6. *Do you know the segmentation of investors who own your stock?* Which types of investors dominate? Are they the right ones given your value-creation strategy? Are you engaged in an active dialogue with your core investors in order to understand their objectives and priorities?

7. *Are your financial policies—such as debt-to-capital ratio and dividend payout—likely to appeal to your target investors in a low-growth environment?*

8. *Are your management processes—for example, planning, budgeting, and capital allocation—aligned with the goal of increasing shareholder value over the long term?*

9. *Are you rethinking your executive-compensation system for an environment in which capital gains will be a less important contributor to TSR?* Does your system require that senior executives have substantial "skin in the game" in the form of long-term direct equity exposure (not stock options)?

10. *Have you thoroughly explored different scenarios for creating value in the future?* Do you know the different benefits and risks of emphasizing organic growth, M&A, or cash payout?

Appendix

The 2010 Value Creators Rankings

The 2010 Value Creators rankings are based on an analysis of total shareholder return at 712 global companies for the five-year period from 2005 through 2009.

To arrive at this sample, we began with TSR data for more than 4,000 companies provided by Thomson Reuters. We eliminated all companies that were not listed on a 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.") In addition to our 712-company comprehensive sample, we also separated out those companies with market valuations of more than $35 billion. We have included rankings for these large-cap companies in the "Global Rankings."

The global and industry rankings are based on five-year TSR performance from 2005 through 2009.[2] We also show TSR performance for 2010, 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 712 companies in our sample was 6.6 percent—and in 3 of the 14 industry samples, TSR was actually negative, on average, during the past five years. (See Exhibit 1.) This relatively poor performance (considerably below the long-term historical average of approximately 10 percent) reflects the precipitous decline in market values in late 2008 owing to the global financial crisis—a decline that the rebound in 2009 equity values only partly recovered.[4]

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 11 times greater than that of the sample as a whole—75 percent. (See Exhibit 2.) The top ten companies in each industry outpaced their industry averages by between 13.2 percentage points (in pulp and paper) and 34.5 percentage points (in machinery and construction). And in every industry we studied, the top ten companies also did substantially better than the overall sample average—by at least 6.6 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

1. We chose to exclude financial services because measuring value creation in that 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 *After the Storm,* The 2010 Creating Value in Banking Report, February 2010.

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 2005 through 2009, end-of-year 2004 data must be used as a starting point in order to capture the change from 2004 to 2005, which drives 2005 TSR. For this reason, all exhibits in the report showing 2005–2009 performance begin with a 2004 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.

4. See "Rebound but Not Yet Recovery," BCG article, March 2010.

companies in that industry to deliver superior shareholder returns.

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 16.3 percent per year to be in the top quartile of the global sample and 61.7 percent to make the top ten. And the most successful companies delivered TSR above 80 percent per year, and as high as 106.3 percent.

Exhibits 1 and 2 and the exhibits in the rankings themselves suggest five other broad trends of interest:

- In the past five years, companies from rapidly developing economies have come to dominate the Value Creators rankings. Of the 142 companies listed in this year's rankings, 81 are located in emerging markets—57 percent of the total. What's more, all of the top ten value creators in our global sample are from Asia, and seven of the top ten large-cap value creators are from rapidly developing economies as well. The only industry sector that does not have any companies from emerging markets in its top ten is pharmaceuticals and medical technology.

- The big industry winner in this year's rankings is the mining and materials sector, with a weighted average annual TSR of 18 percent. This performance is a function of the rise in commodity prices from 2005 through 2009, driven in part by rapid development in emerging markets. In second and third place are the chemicals industry and the machinery and construction industry.

- Looking at the TSR decomposition of the major industries in our sample, it is striking that only 3 of the 14 industries we analyze each year—consumer goods,

Exhibit 1. Robust Sales Growth Was Often Accompanied by Margin Erosion

	Value creation =	Fundamental value		+ Valuation multiple	+ Cash flow contribution		
	TSR[1] (%)	Sales growth (%)	Margin change (%)	Multiple change (%)	Dividend yield (%)	Share change (%)	Net debt change (%)
Mining and materials	18.0	10	–4	11	3	–3	1
Chemicals	12.0	6	–1	5	3	0	0
Machinery and construction	11.7	9	3	–1	2	–1	0
Consumer goods	9.5	6	1	1	3	0	–1
Utilities	8.6	9	–4	2	4	–2	0
Technology and telecommunications	6.7	7	–1	–2	2	1	0
Retail	4.2	8	0	–5	2	0	–1
Automotive and supply	3.9	1	–6	10	2	–3	0
Transportation and logistics	3.8	5	–1	–1	2	–2	0
Pharmaceuticals and medical technology	3.5	9	1	–6	2	–1	–1
Multibusiness	0.3	7	–2	–4	3	–1	–2
Travel and tourism	–0.7	5	–2	–1	2	–4	–2
Media and publishing	–1.5	4	0	–6	3	0	–2
Pulp and paper	–1.7	–1	–1	0	3	–2	–1
Total sample	**6.6**	**7**	**–1**	**0**	**3**	**–1**	**–1**

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; any apparent discrepancies in TSR totals are due to rounding.
[1]Five-year average annual TSR (2005–2009) for weighted average of the respective sample.

utilities, and automotive and supply—have generated positive TSR from margin improvement. The margin erosion in other sectors is either a sign of growing pressure on margins owing to higher input prices or increased competition, or perhaps a signal of a general lack of managerial discipline around margins. As we argue in the body of this report, lower revenue growth is likely to produce additional pressure on margins. So this trend may be a sign of things to come. Alternatively, the TSR decomposition of the top ten value creators in each industry illustrates that many of these companies found a way to grow and to improve margins at the same time.

◇ In 2008, the majority of our industries 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 trend reversed itself in 2009, as the EBITDA multiples of the best performers and those of the rest began to diverge. In other words, although multiples increased, on average, they increased more for the top value creators—and, in some industries, significantly more. This is a sign of the growing divergence in valuation multiples that we expect to be a characteristic of a low-growth economic environment.

◇ Another striking change between 2008 and 2009 is the increase in dividend yields, both on average and for the top ten—in the global sample and in every industry. Given the sharp rise in stock prices in 2009, one would expect dividend yields (which are the ratio of dividend payout to stock price) to decline. The rise in 2009 would seem to indicate that the companies in our sample are devoting a larger portion of their cash flow to dividend payouts, a move that is in line with investor preferences as revealed by our investor survey.

Exhibit 2. The Top Ten Combined Sales Growth with Margin Improvement

	Value creation	=	Fundamental value		+	Valuation multiple	+	Cash flow contribution		
	TSR[1] (%)		Sales growth (%)	Margin change (%)		Multiple change (%)		Dividend yield (%)	Share change (%)	Net debt change (%)
Machinery and construction	46.2		28	10		9		2	−2	0
Chemicals	42.1		18	6		14		3	3	4
Mining and materials	41.4		17	−5		23		3	0	3
Technology and telecommunications	28.6		17	7		0		2	1	1
Multibusiness	26.5		13	0		8		2	−4	7
Automotive and supply	26.3		8	0		10		2	0	6
Consumer goods	26.2		13	3		7		3	−1	1
Travel and tourism	20.4		13	−1		7		2	−2	2
Retail	20.1		15	1		1		3	0	1
Utilities	19.1		8	0		0		4	−1	8
Transportation and logistics	19.1		9	9		0		2	−4	3
Pharmaceuticals and medical technology	17.8		11	8		−3		1	0	−1
Media and publishing	15.7		12	2		−2		3	−2	3
Pulp and paper	12.1		6	−1		6		3	−4	2
Total sample top ten	**75.0**		**40**	**10**		**22**		**2**	**−1**	**3**

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; any apparent discrepancies in TSR totals are due to rounding.
[1]Five-year average annual TSR (2005–2009) for weighted average of the respective sample.

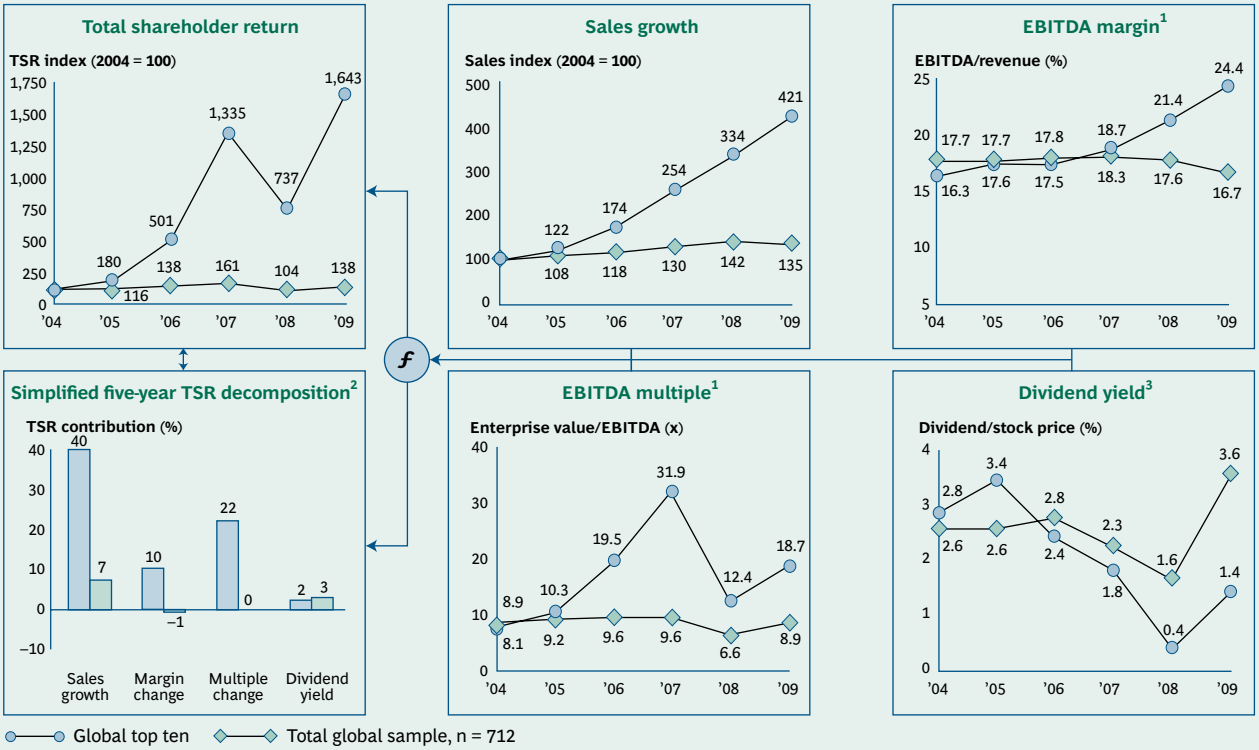
Global Rankings
Total Global Sample

The Global Top Ten, 2005–2009

#	Company	Location	Industry	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1] Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Tencent	Hong Kong	Technology and telecom	106.3	39.5	70	4	37	1	–1	–6	–22.4
2	Jindal Steel & Power	India	Mining and materials	88.2	14.3	57	9	19	2	0	2	–11.3
3	Suning Appliance	China	Retail	81.4	14.2	52	15	16	0	–2	1	–17.5
4	OCI	South Korea	Chemicals	70.9	4.4	7	24	8	2	–4	34	14.0
5	Sany Heavy Industry	China	Machinery and construction	67.4	8.0	50	1	13	1	–1	4	–25.1
6	Tingyi	Hong Kong	Consumer goods	67.3	13.8	33	14	13	5	0	2	1.7
7	Changsha Zoomlion Heavy Industry	China	Machinery and construction	66.4	6.4	49	3	13	2	0	0	–36.6
8	Kweichow Moutai	China	Consumer goods	63.4	23.5	30	5	29	2	0	–3	–25.0
9	TBEA	China	Machinery and construction	62.3	6.3	37	7	6	1	–1	12	–38.1
10	Perusahaan Gas Negara	Indonesia	Utilities	61.7	10.3	36	9	10	3	–2	5	–0.6

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 712 global companies.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Global Top Ten Versus Total Global Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Total sample calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Total sample calculation based on sample average.

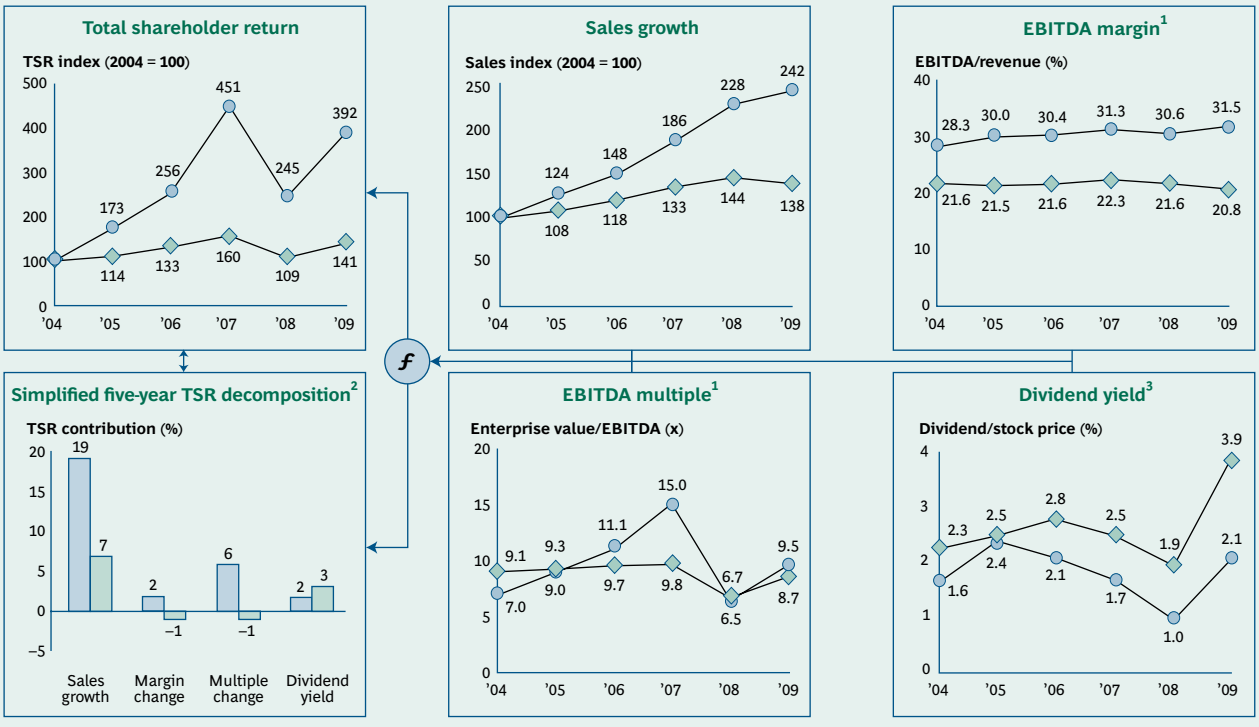
Large-Cap Companies

The Large-Cap Top Ten, 2005–2009

#	Company	Location	Industry	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1] Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Tencent	Hong Kong	Technology and telecom	106.3	39.5	70	4	37	1	–1	–6	–22.4
2	Reliance Industries	India	Chemicals	48.2	78.3	25	–3	22	2	–3	5	0.4
3	Apple	United States	Technology and telecom	45.6	189.6	37	35	–21	0	–3	–2	19.4
4	Posco	South Korea	Mining and materials	30.2	42.4	9	–10	28	3	1	–2	–24.5
5	AmBev	Brazil	Consumer goods	28.5	61.9	15	8	0	5	–2	3	4.2
6	ABB	Switzerland	Machinery and construction	27.2	45.0	9	13	–2	1	–2	8	–4.9
7	América Móvil	Mexico	Technology and telecom	27.1	75.6	22	5	–5	1	3	1	1.4
8	Wal-Mart de México	Mexico	Retail	26.8	38.3	13	3	9	2	1	–1	–1.9
9	Google	United States	Technology and telecom	26.3	197.0	44	5	–21	0	–4	2	–28.2
10	China Mobile	Hong Kong	Technology and telecom	26.0	188.5	19	–3	3	4	0	3	9.4

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 112 global companies with a market valuation greater than $35 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Large Cap Top Ten Versus Total Large-Cap Sample, 2005–2009



Large-cap top ten Total large-cap sample, n = 112

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Total sample calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Total sample calculation based on sample average.

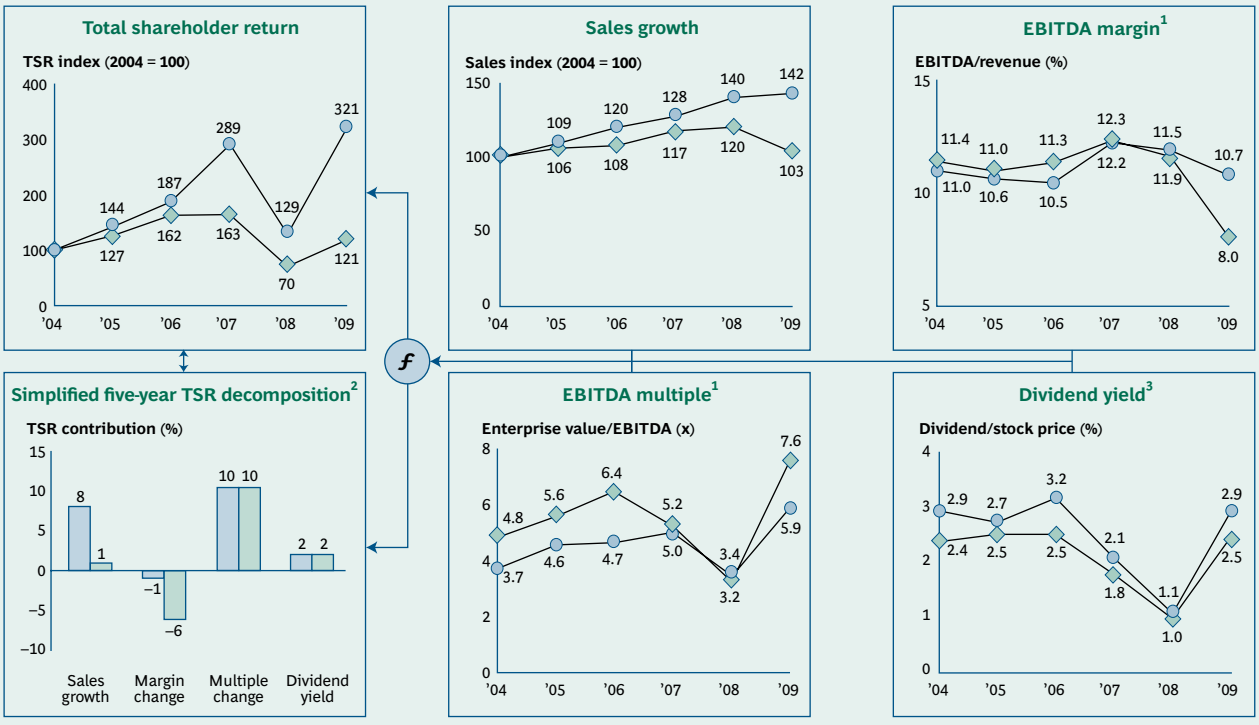
Industry Rankings
Automotive and Supply

The Automotive Top Ten, 2005–2009

#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1] Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Faw Car	China	51.4	6.2	26	0	23	4	0	–1	–41.6
2	Fuyao Group Glass	China	35.6	4.4	23	4	2	1	0	7	–39.6
3	Astra International	Indonesia	34.7	15.3	20	5	6	3	0	1	41.7
4	Mahindra & Mahindra	India	33.3	6.4	27	15	–7	3	–3	–1	15.7
5	Chongqing Changan Automobile	China	30.6	4.8	6	–16	42	2	0	–3	–37.7
6	Hero Honda Motors	India	27.4	7.5	16	–3	12	3	0	0	24.1
7	Maruti Suzuki India	India	26.8	9.9	17	–5	13	1	0	1	–8.7
8	Volkswagen	Germany	25.2	37.8	3	–3	6	4	–1	14	14.7
9	Hyundai Mobis	South Korea	22.8	14.8	19	1	2	2	–3	2	21.1
10	Hyundai Motor	South Korea	18.6	22.5	12	4	1	2	2	–2	19.4

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 38 global companies with a market valuation greater than $4 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Automotive Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

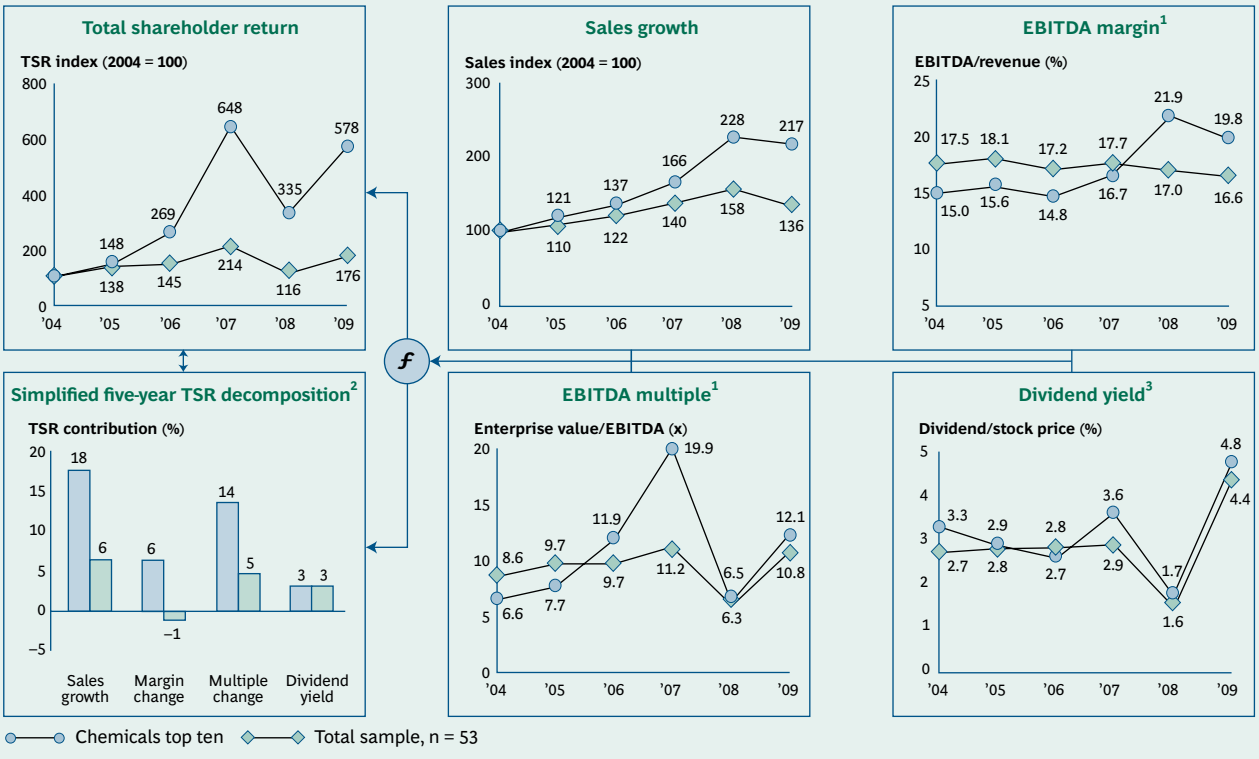
Chemicals

The Chemicals Top Ten, 2005–2009

#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1] Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	OCI	South Korea	70.9	4.4	7	24	8	2	–4	34	14.0
2	Reliance Industries	India	48.2	78.3	25	–3	22	2	–3	5	0.4
3	SQM	Chile	45.0	10.3	14	13	13	4	0	0	–6.5
4	LG Chem	South Korea	43.8	13.4	14	3	9	3	0	14	35.5
5	Israel Chemicals	Israel	41.8	17.4	12	8	14	6	–1	3	–14.3
6	Yantai Wanhua Polyurethanes	China	38.4	5.8	26	–5	15	2	0	1	–38.2
7	K+S	Germany	37.6	11.1	7	5	25	4	–1	–2	–4.7
8	Incitec Pivot	Australia	33.8	5.3	24	32	–17	4	–4	–5	–22.6
9	Mosaic	United States	30.4	26.6	31	30	–11	1	–26	6	–34.6
10	Yara International	Norway	29.5	13.5	7	–7	25	3	2	0	–28.3

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 53 global companies with a market valuation greater than $4 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Chemicals Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

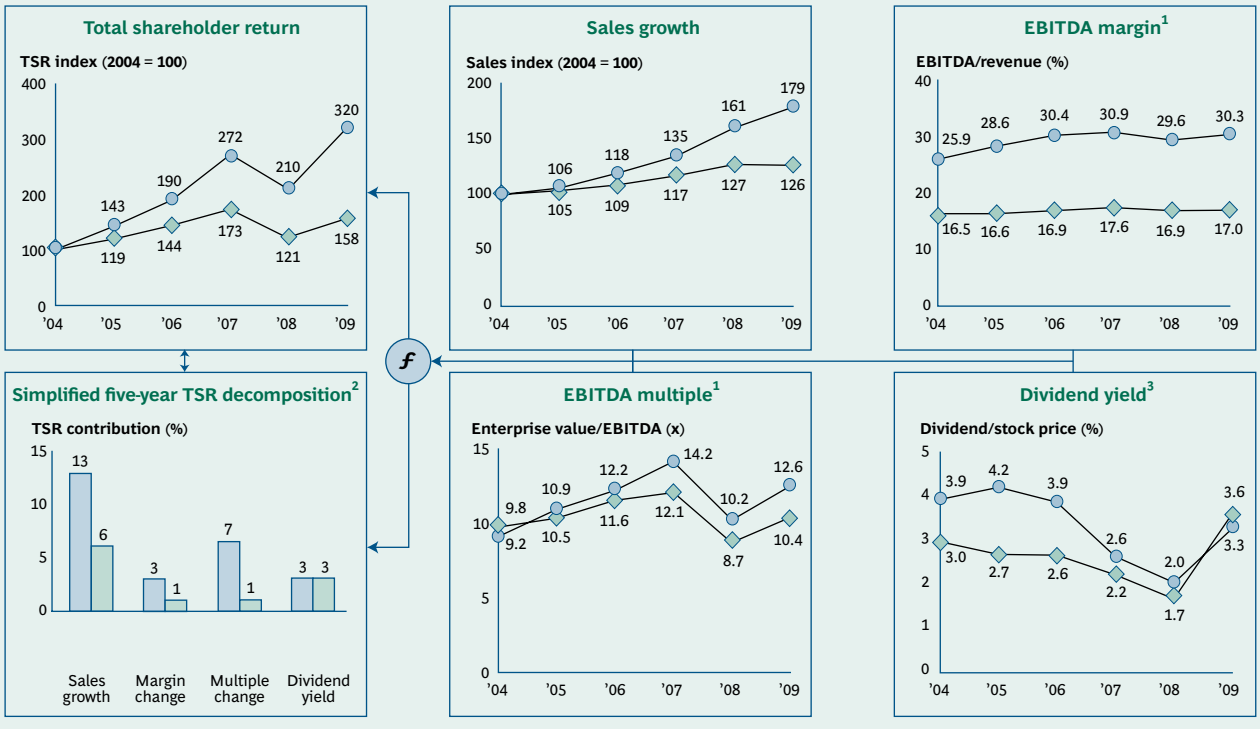
Consumer Goods

The Consumer Goods Top Ten, 2005–2009

#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1]: Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Tingyi	Hong Kong	67.3	13.8	33	14	13	5	0	2	1.7
2	Kweichow Moutai	China	63.4	23.5	30	5	29	2	0	–3	–25.0
3	Wuliangye Yibin	China	46.3	17.6	14	13	18	1	0	0	–23.0
4	Brasil Foods	Brazil	29.2	11.4	25	–4	28	2	–23	2	4.7
5	AmBev	Brazil	28.5	61.9	15	8	0	5	–2	3	4.2
6	ITC	India	24.9	20.7	19	–2	6	2	0	1	25.9
7	Grupo Modelo	Mexico	22.6	18.4	11	–3	10	4	0	0	–12.0
8	British American Tobacco	United Kingdom	22.4	65.1	6	6	3	5	1	1	9.4
9	Reckitt Benckiser	United Kingdom	19.1	39.2	15	4	–1	3	0	–1	–5.1
10	SABMiller	United Kingdom	19.0	44.5	10	1	12	3	–8	1	3.5

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 59 global companies with a market valuation greater than $10 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Consumer Goods Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

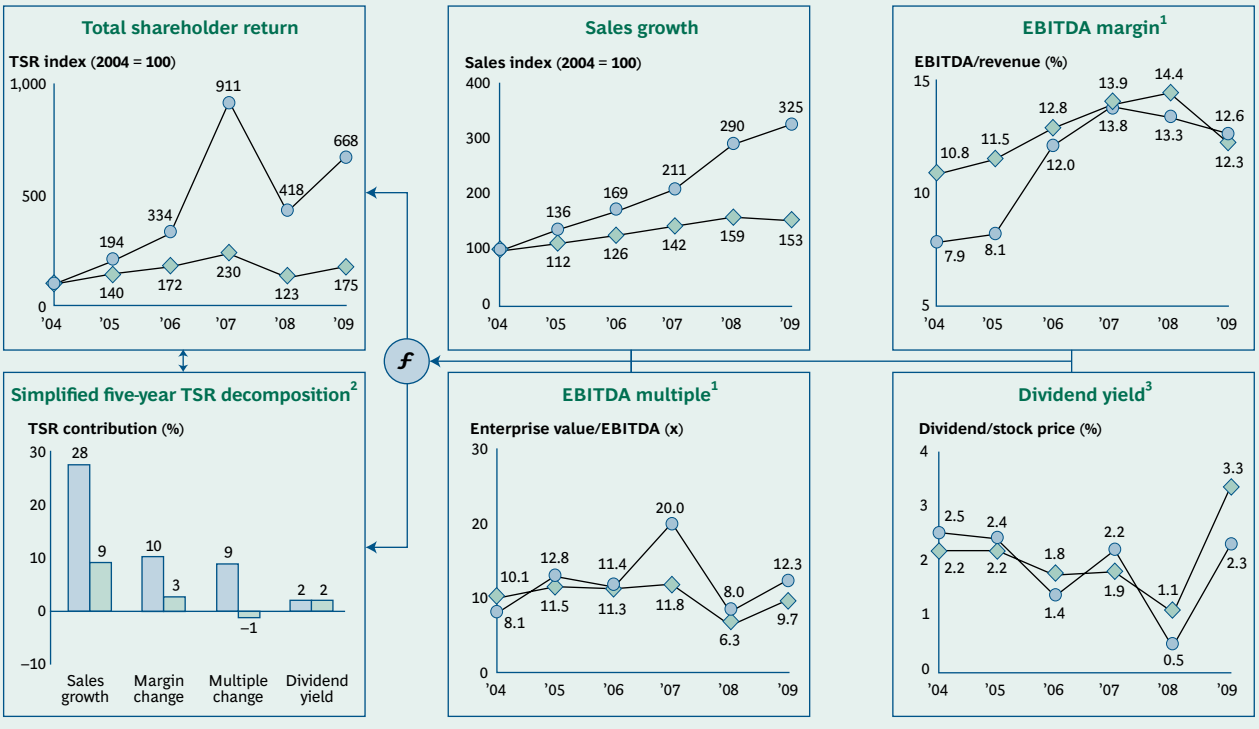
Machinery and Construction

The Machinery and Construction Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Sany Heavy Industry	China	67.4	8.0	50	1	13	1	–1	4	–25.1
2	Changsha Zoomlion Heavy Industry	China	66.4	6.4	49	3	13	2	0	0	–36.6
3	TBEA	China	62.3	6.3	37	7	6	1	–1	12	–38.1
4	Doosan Heavy Industries	South Korea	48.0	6.5	29	–4	40	1	–1	–17	–6.8
5	Orascom Construction	Egypt	47.4	9.4	22	–3	21	3	–1	7	–8.2
6	Larsen & Toubro	India	46.6	21.5	30	8	19	2	–16	4	7.5
7	Bharat Heavy Electricals	India	44.6	25.8	32	–4	16	1	0	0	2.8
8	WorleyParsons	Australia	42.4	6.5	63	2	–13	4	–11	–2	–22.2
9	Hyundai Heavy Industries	South Korea	41.0	9.4	20	23	0	3	1	–6	35.5
10	Vestas Wind Systems	Denmark	36.1	12.6	21	42	–28	0	–3	4	–19.5

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 77 global companies with a market valuation greater than $6 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Machinery and Construction Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

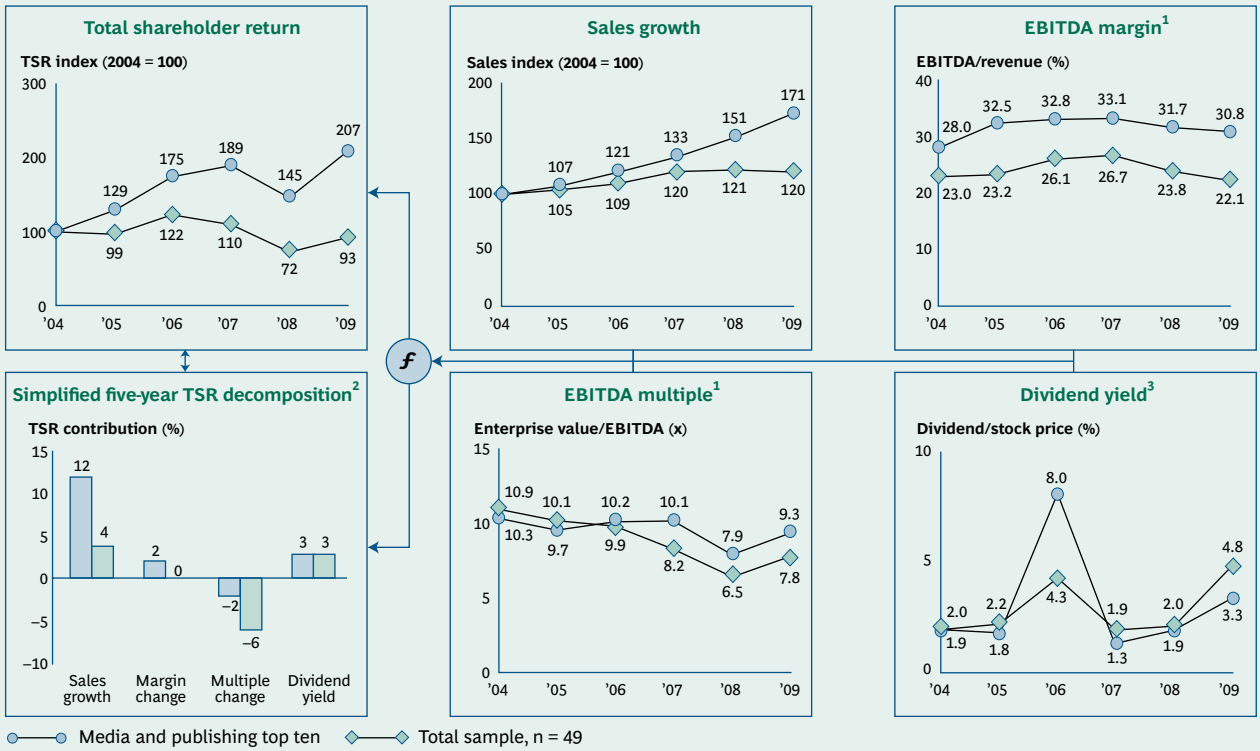
Media and Publishing

The Media and Publishing Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Naspers	South Africa	33.3	15.1	16	4	19	1	–7	–1	–13.4
2	Net Serviços de Comunicação	Brazil	30.3	4.7	27	0	3	0	–11	12	–29.2
3	Modern Times Group	Sweden	17.8	3.3	16	4	–2	2	0	–2	22.4
4	Shaw Communications	Canada	17.7	9.0	11	–1	0	3	2	3	–9.6
5	SES	Luxembourg	13.5	10.7	9	–1	0	4	4	–3	19.3
6	Grupo Televisa	Mexico	12.8	11.9	10	1	4	3	–5	–1	–14.1
7	Beijing Gehua CATV Network	China	12.5	2.2	16	–4	3	1	–3	–1	–2.5
8	Pearson	United Kingdom	11.8	11.4	9	4	–7	5	0	1	2.0
9	Cablevision Systems	United States	10.3	6.4	8	5	–16	14	–1	1	13.7
10	Zee Entertainment Enterprises	India	9.0	2.4	9	–5	4	1	–1	0	18.7

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 49 global companies with a market valuation greater than $2 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Media and Publishing Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

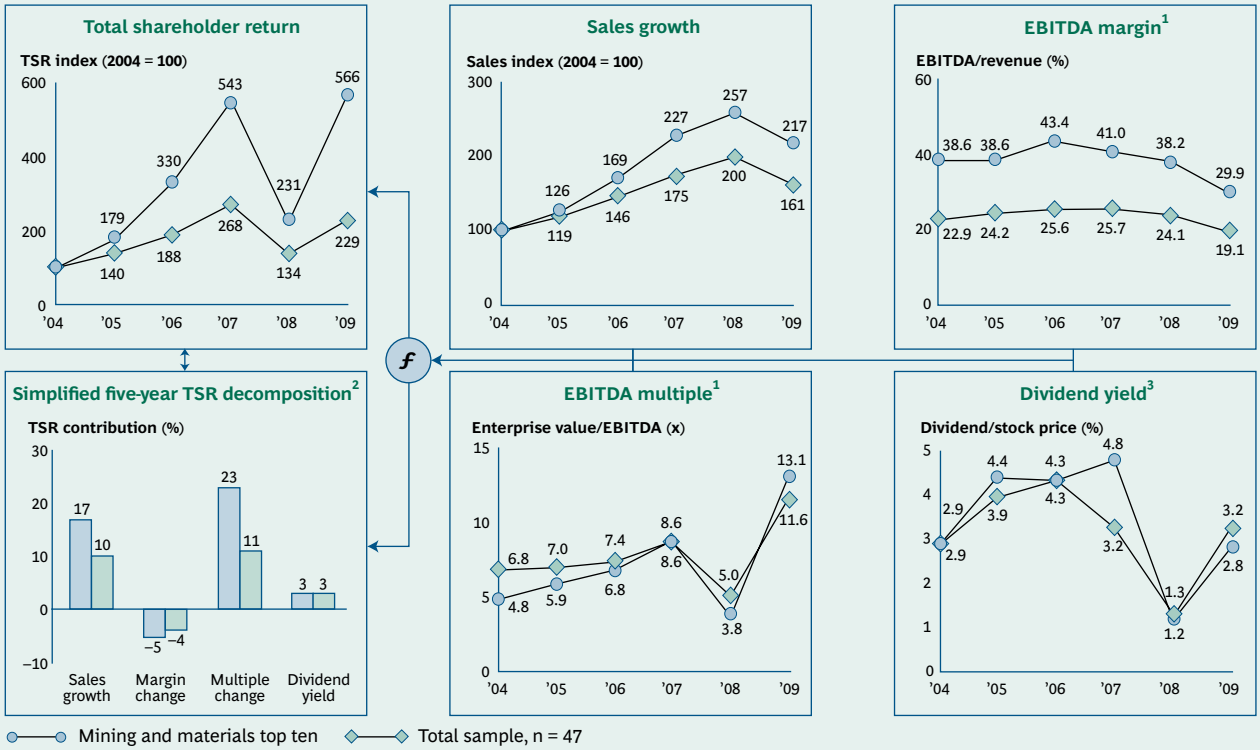
Mining and Materials

The Mining and Materials Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Jindal Steel & Power	India	88.2	14.3	57	9	19	2	0	2	–11.3
2	Jiangxi Copper	China	50.1	17.8	37	–14	23	3	–3	4	–40.2
3	Vedanta Resources	United Kingdom	48.3	12.2	39	2	10	3	0	–6	–18.6
4	Sterlite Industries	India	46.7	13.4	30	–3	19	1	–13	13	–20.7
5	Anhui Conch Cement	China	44.6	12.9	25	–4	20	1	–6	9	–34.8
6	Grupo México	Mexico	43.7	18.3	5	–2	28	4	2	8	2.6
7	Antofagasta	United Kingdom	40.1	15.8	9	–4	28	5	0	2	–19.5
8	Siderúrgica Nacional	Brazil	38.7	23.5	3	–3	28	8	3	0	–2.9
9	Tenaris	Italy	36.5	25.8	15	3	11	4	0	4	–3.7
10	Anglo Platinum	South Africa	35.4	25.4	14	–7	26	4	–2	0	–5.4

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 47 global companies with a market valuation greater than $10 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Mining and Materials Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

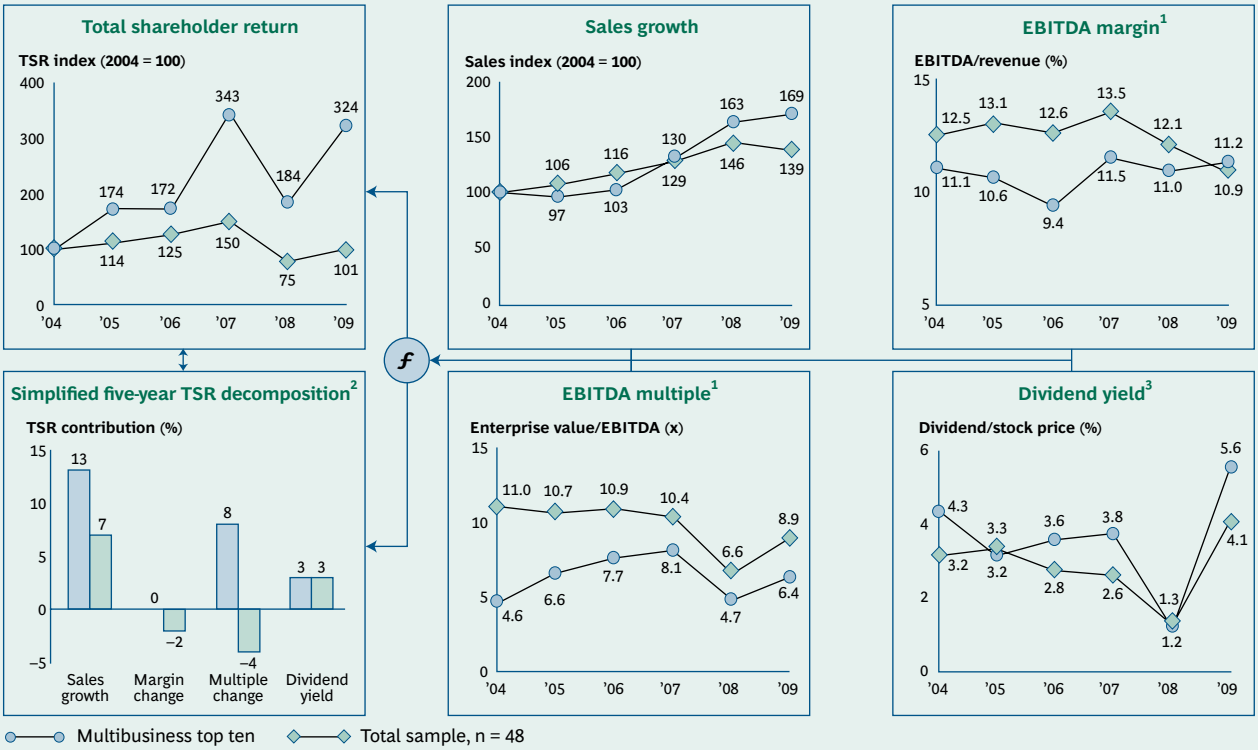
Multibusiness

The Multibusiness Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Jaiprakash Associates	India	41.7	6.8	12	6	24	1	–9	6	–12.6
2	Beijing Enterprises	Hong Kong	40.1	8.2	23	–2	22	3	–11	6	–8.4
3	LG Group	South Korea	35.8	11.1	8	1	0	2	0	25	–9.1
4	Hanwha Corporation	South Korea	30.1	3.2	11	12	13	2	0	–8	–22.0
5	Noble Group	Singapore	27.7	9.0	27	–7	13	5	–7	–3	–17.3
6	Shanghai Industrial	Hong Kong	22.7	5.5	15	8	9	4	–2	–10	–19.9
7	WEG	Brazil	22.5	6.6	14	–2	6	4	0	1	–7.6
8	China Resources Enterprise	Hong Kong	22.5	8.8	6	9	2	5	–2	3	3.5
9	Sembcorp	Singapore	21.3	4.7	10	17	–15	4	–1	7	15.1
10	Industries Qatar	Qatar	20.9	17.3	13	–6	10	5	0	–1	–11.4

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 48 global companies with a market valuation greater than $3 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Multibusiness Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

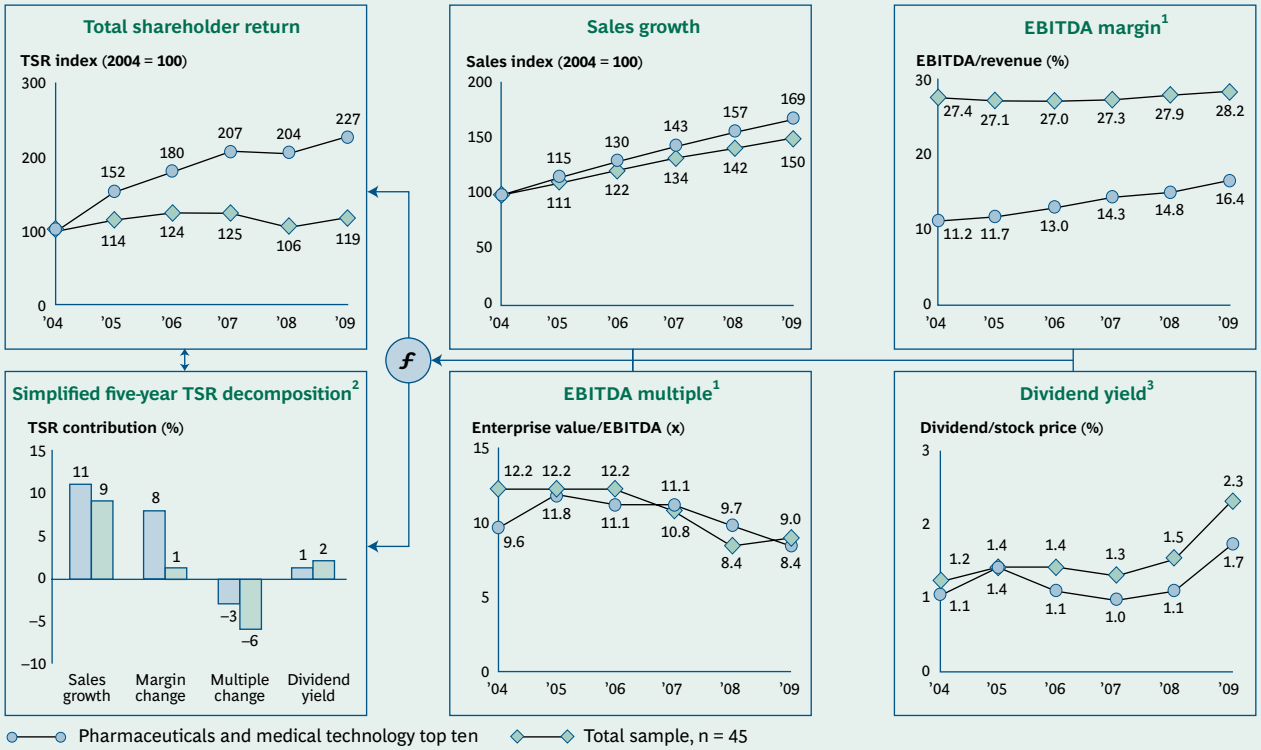
Pharmaceuticals and Medical Technology

The Pharmaceuticals and Medical Technology Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Intuitive Surgical	United States	50.0	11.7	49	14	–9	0	–2	–1	4.0
2	Celgene	United States	33.2	25.6	44	10	–15	0	–7	1	–8.7
3	CSL	Australia	28.8	17.9	23	13	–13	2	0	5	1.4
4	Gilead Sciences	United States	19.9	38.9	36	2	–16	0	0	–2	–20.8
5	Novo Nordisk	Denmark	19.3	40.2	12	2	0	2	1	1	51.4
6	Shire	United Kingdom	17.8	11.0	16	–7	19	1	–3	–9	14.0
7	McKesson	United States	15.5	16.9	9	3	–1	1	1	2	8.0
8	Fresenius Medical Care	Germany	15.2	16.1	13	2	–1	2	–1	0	21.6
9	Fresenius	Germany	13.8	10.2	14	3	2	2	–5	–2	26.7
10	AstraZeneca	United Kingdom	13.0	68.3	9	8	–9	4	2	–2	13.0

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 45 global companies with a market valuation greater than $8 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Pharmaceuticals and Medical Technology Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

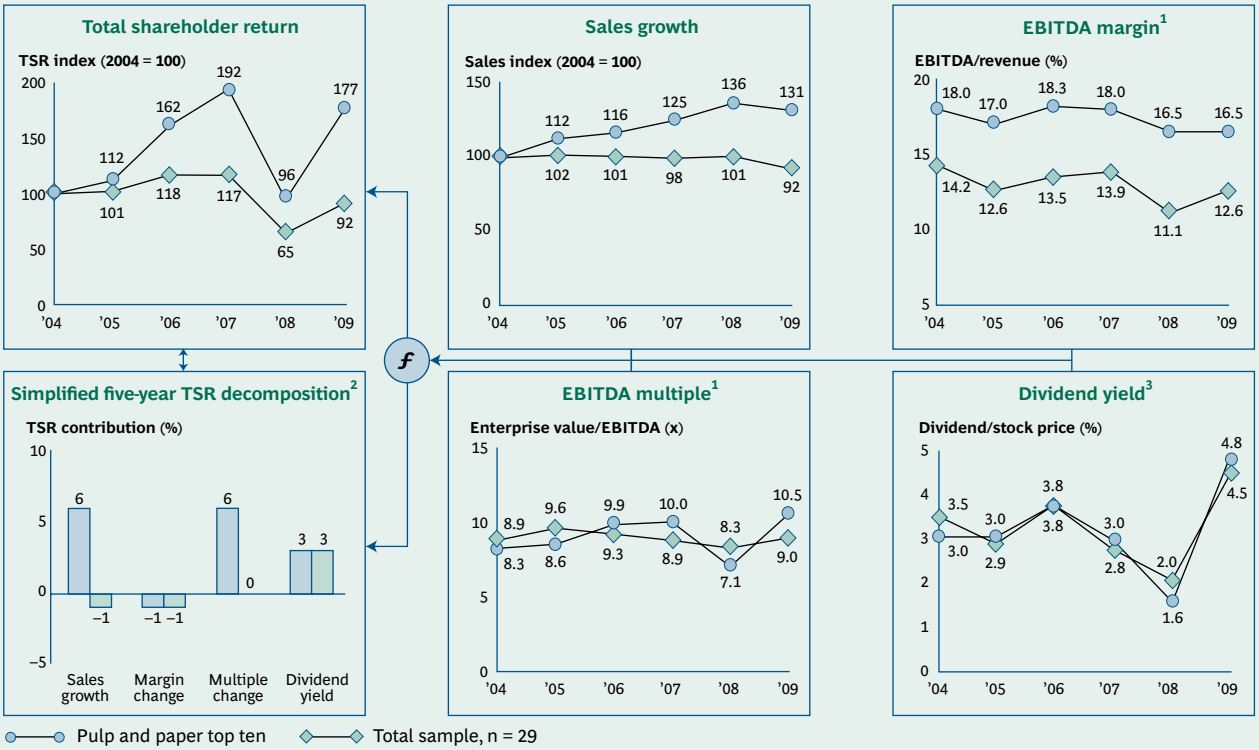
Pulp and Paper

The Pulp and Paper Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Lee & Man Paper	Hong Kong	30.2	3.1	38	–15	13	4	–6	–3	8.8
2	Rock-Tenn	United States	29.4	2.0	13	18	–2	2	–2	0	–0.8
3	Shandong Huatai Paper	China	19.9	1.3	17	–7	17	2	–6	–2	–34.8
4	Semapa	Portugal	17.3	1.3	13	–2	–15	4	0	17	–1.9
5	Empresas CMPC	Chile	11.4	9.1	12	–6	7	2	–1	–2	19.1
6	Suzano Papel e Celulose	Brazil	11.3	3.6	8	–9	13	4	–2	–3	–7.2
7	Portucel	Portugal	11.0	2.2	2	–1	1	5	0	4	11.3
8	Temple-Inland	United States	9.6	2.3	–5	–4	11	6	1	1	–1.0
9	Mayr-Melnhof Karton	Austria	5.4	2.3	2	–2	–1	3	0	3	3.5
10	Rengo	Japan	5.3	1.6	4	–2	0	2	–2	5	2.6

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 29 global companies with a market valuation greater than $500 million.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Pulp and Paper Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

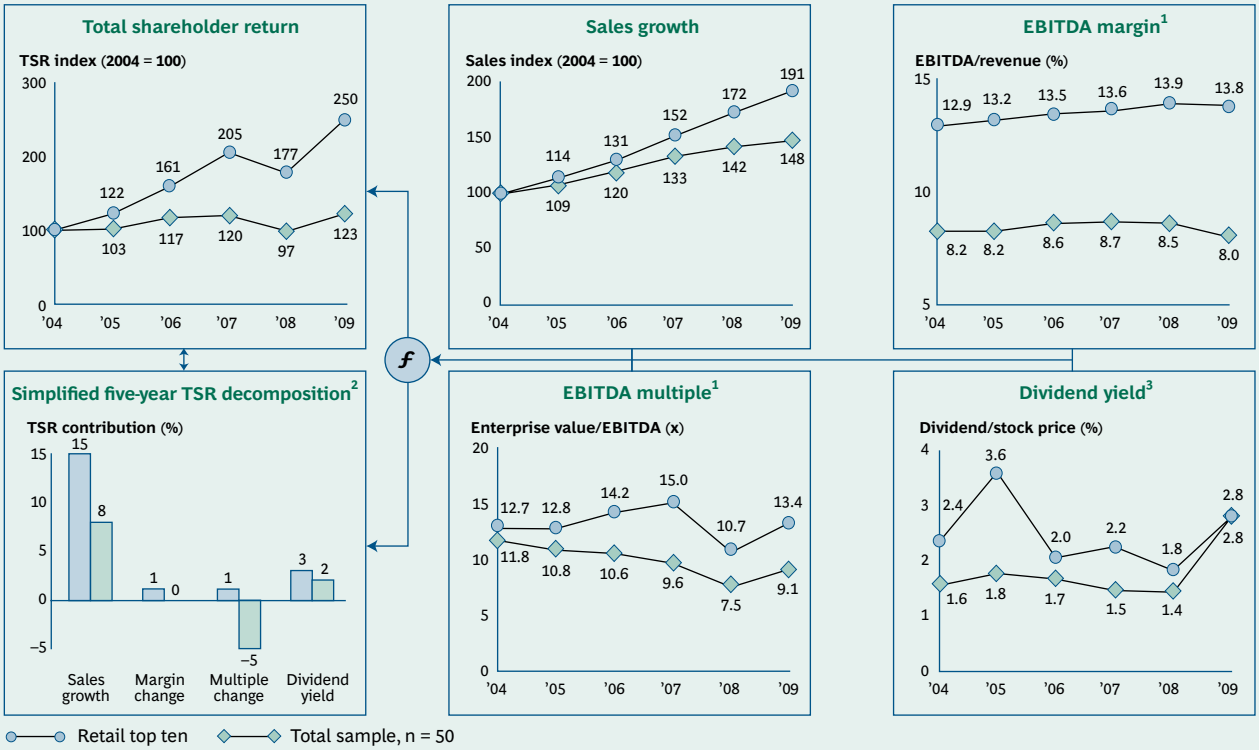
Retail

The Retail Top Ten, 2005–2009

#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1]: Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Suning Appliance	China	81.4	14.2	52	15	16	0	–2	1	–17.5
2	Wal-Mart de México	Mexico	26.8	38.3	13	3	9	2	1	–1	–1.9
3	Dairy Farm	Singapore	26.1	8.1	12	3	5	7	0	–1	18.3
4	Amazon.com	United States	24.9	59.7	28	–4	0	0	–2	2	–18.8
5	Fast Retailing	Japan	19.3	18.7	15	–1	6	2	0	–2	–22.0
6	McDonald's	United States	17.3	67.2	4	7	–1	3	3	1	7.3
7	Inditex	Spain	17.3	39.3	17	2	–5	2	0	1	9.6
8	Woolworths	Australia	16.9	31.4	12	7	–2	4	–3	0	–1.7
9	H&M	Sweden	15.3	46.7	13	2	–3	4	0	0	12.2
10	Companhia Brasileira de Distribuição	Brazil	14.6	9.5	13	–6	6	1	–2	2	–2.4

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 50 global companies with a market valuation greater than $7 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Retail Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

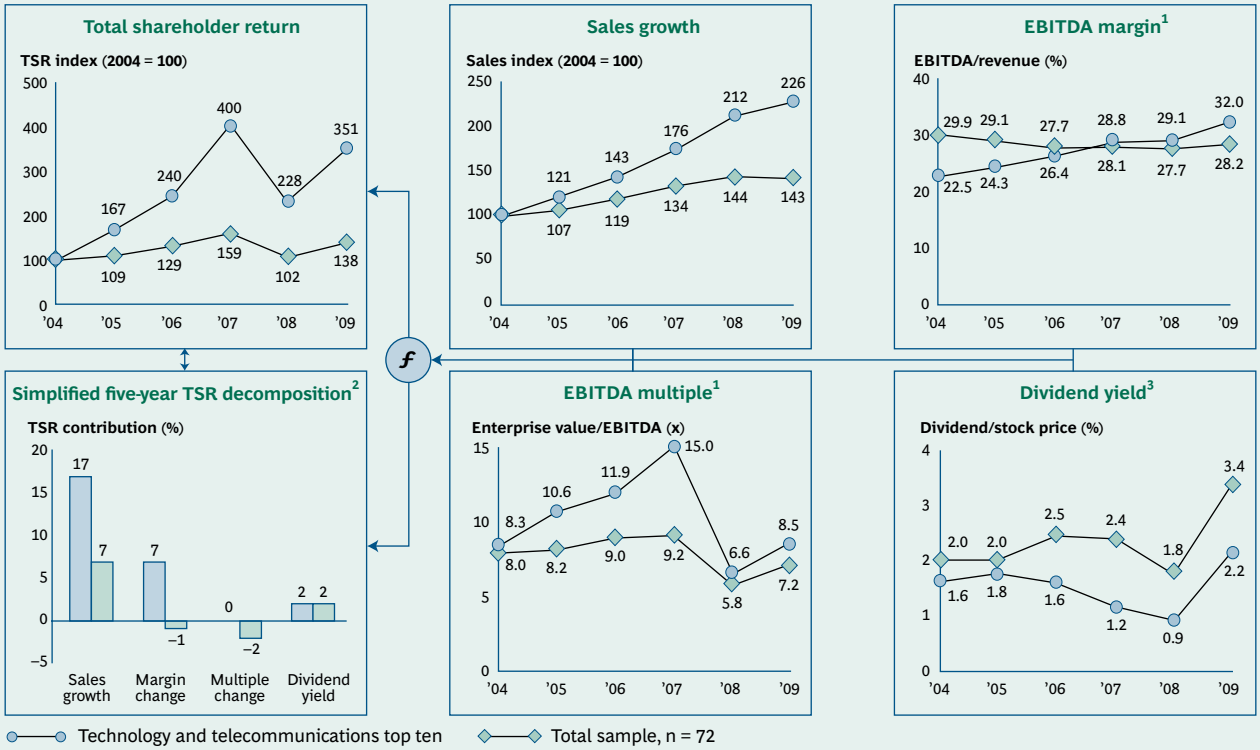
Technology and Telecommunications

The Technology and Telecommunications Top Ten, 2005–2009

#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1]						2010 TSR[5] (%)
					Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	
1	Tencent	Hong Kong	106.3	39.5	70	4	37	1	–1	–6	–22.4
2	Apple	United States	45.6	189.6	37	35	–21	0	–3	–2	19.4
3	MediaTek	Taiwan	32.0	19.0	24	–1	8	5	–2	–1	–18.9
4	América Móvil	Mexico	27.1	75.6	22	5	–5	1	3	1	1.4
5	Google	United States	26.3	197.0	44	5	–21	0	–4	2	–28.2
6	China Mobile	Hong Kong	26.0	188.5	19	–3	3	4	0	3	9.4
7	Bharti Airtel	India	25.6	27.3	44	–1	–18	0	–1	1	–19.9
8	MTN Group	South Africa	23.6	29.3	34	2	–10	2	–2	–1	–12.9
9	Infosys Technologies	India	21.2	32.6	32	0	–11	2	–2	1	7.7
10	Hewlett-Packard	United States	20.8	121.8	8	12	–2	1	4	–2	–15.7

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 72 global companies with a market valuation greater than $12 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Technology and Telecommunications Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

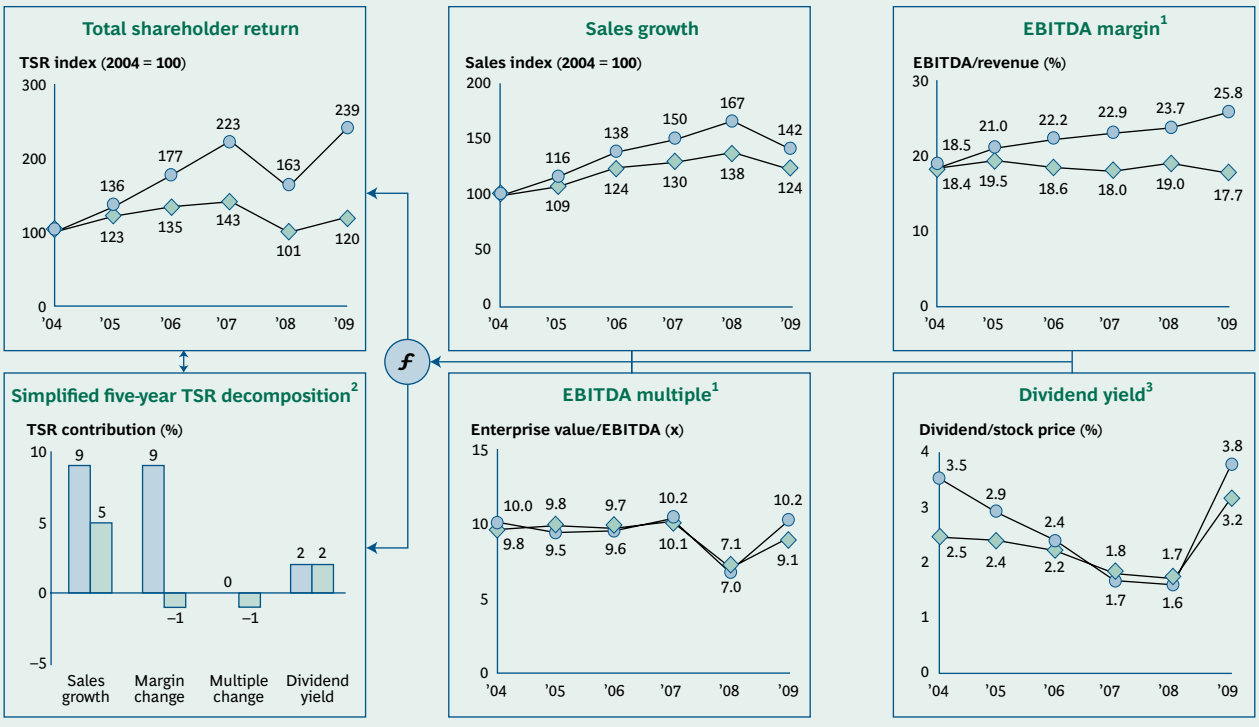
Transportation and Logistics

The Transportation and Logistics Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Huayu Automotive Systems	China	41.1	4.4	44	–19	14	1	–11	13	–28.1
2	América Latina Logística	Brazil	35.4	12.3	21	6	16	1	–9	–1	–38.7
3	Vopak	Netherlands	31.9	5.1	10	8	7	4	0	4	11.0
4	Companhia de Concessões Rodoviárias	Brazil	28.5	10.0	16	4	4	6	–2	–1	–5.7
5	CSX	United States	21.1	19.1	3	10	0	2	2	5	3.4
6	Kuehne + Nagel	Switzerland	18.4	11.7	10	4	2	3	0	1	13.8
7	C.H. Robinson Worldwide	United States	17.9	9.8	12	9	–4	2	0	0	–4.4
8	Burlington Northern Santa Fe	United States	17.6	33.6	5	7	0	2	2	1	1.9
9	Union Pacific	United States	15.6	32.3	3	12	–4	2	1	3	9.7
10	China Merchants	Hong Kong	14.2	7.9	8	10	–1	3	–3	–3	4.1

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 46 global companies with a market valuation greater than $4 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Transportation and Logistics Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

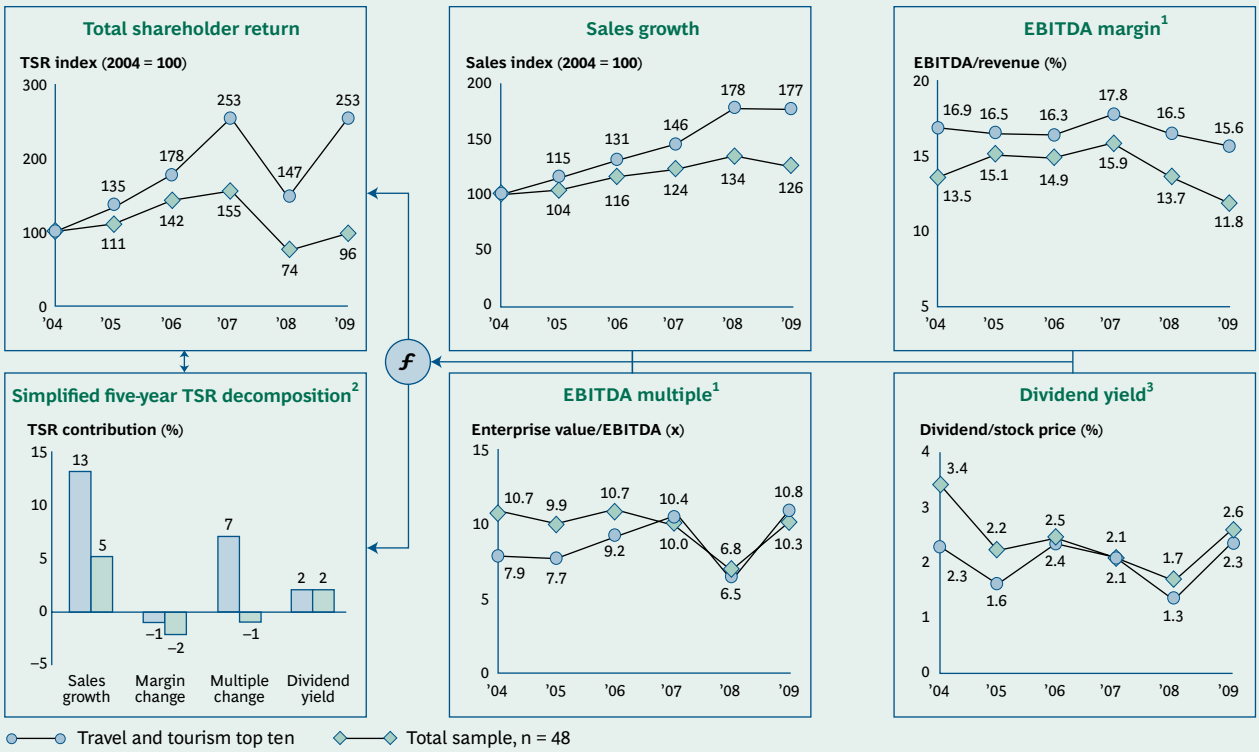
Travel and Tourism

The Travel and Tourism Top Ten, 2005–2009

					TSR Decomposition[1]						
#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Shenzhen Overseas	China	39.2	7.8	66	–6	–15	1	–9	1	–35.4
2	Turkish Airlines	Turkey	30.8	3.4	22	0	4	2	0	3	–21.4
3	LAN Airlines	Chile	25.5	6.0	11	12	4	5	–1	–5	19.3
4	Korean Air Lines	South Korea	24.6	3.3	5	–8	16	1	0	11	49.4
5	Bally Technologies	United States	24.5	2.2	14	5	1	0	–1	6	–21.6
6	Bwin Interactive Entertainment	Austria	24.2	2.2	41	24	–33	0	–8	1	–11.6
7	SMRT	Singapore	22.6	2.1	6	0	7	6	0	4	16.2
8	Shanghai Oriental Pearl	China	20.1	5.3	12	–6	12	1	–1	2	–28.1
9	easyJet	United Kingdom	13.5	2.4	18	–15	31	0	–1	–19	12.7
10	Singapore Airlines	Singapore	13.1	12.7	10	–3	–2	4	–1	4	–2.3

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 48 global companies with a market valuation greater than $2 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Travel and Tourism Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry calculation based on sample average.

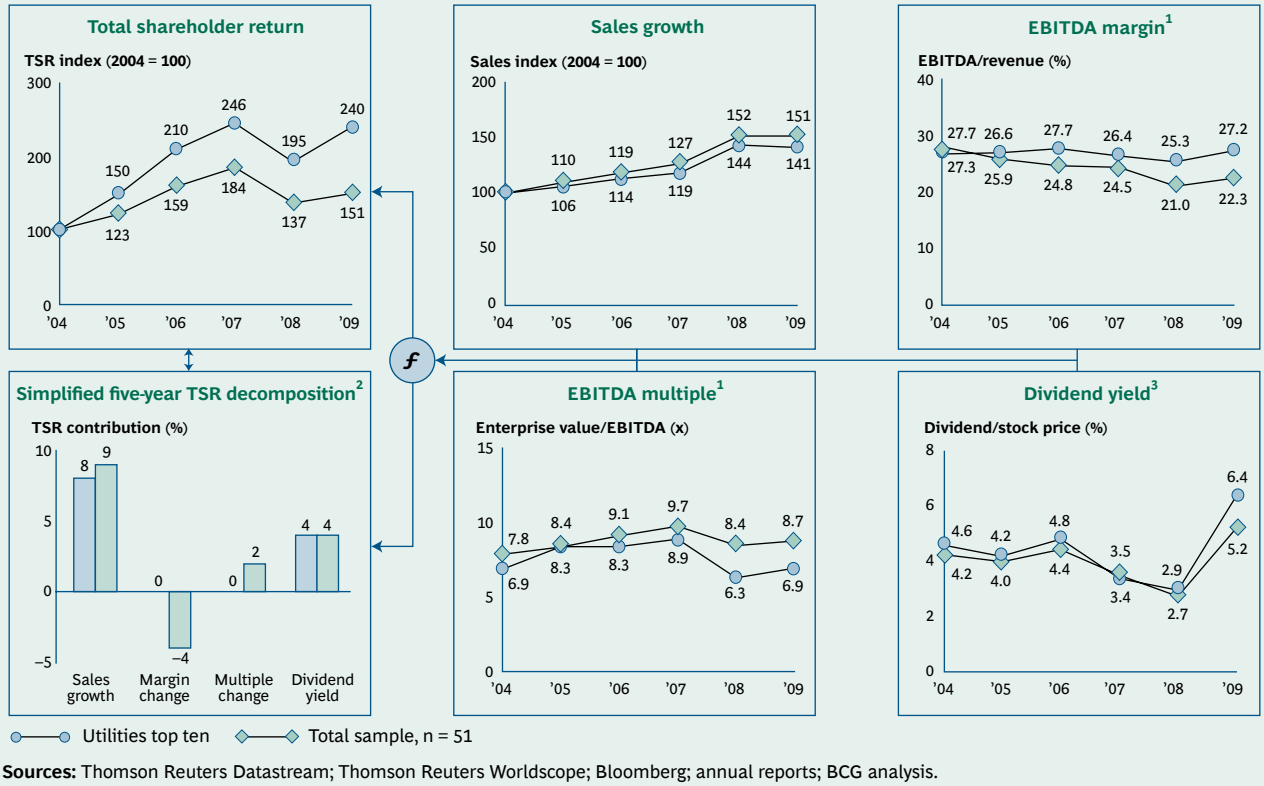
Utilities

The Utilities Top Ten, 2005–2009

#	Company	Location	TSR[2] (%)	Market value[3] ($billions)	TSR Decomposition[1] Sales growth (%)	Margin change (%)	Multiple change[4] (%)	Dividend yield (%)	Share change (%)	Net debt change (%)	2010 TSR[5] (%)
1	Perusahaan Gas Negara	Indonesia	61.7	10.3	36	9	10	3	–2	5	–0.6
2	CEZ	Czech Republic	24.1	25.6	14	3	4	4	2	–2	5.6
3	Origin Energy	Australia	22.9	13.5	18	–1	6	3	–5	2	–9.8
4	Enersis	Chile	22.5	15.4	17	1	–10	3	0	11	–4.6
5	Companhia Energética de Minas Gerais	Brazil	20.6	11.3	10	0	3	7	0	–1	–4.4
6	Endesa	Spain	17.8	36.9	13	–3	–5	6	0	6	–25.7
7	RWE	Germany	16.0	50.1	2	–2	0	5	2	8	–16.7
8	Centrais Elétricas Brasileiras	Brazil	15.7	23.7	8	–11	2	2	–1	16	–8.3
9	Verbund	Austria	15.1	13.3	2	15	–6	2	0	1	–11.7
10	Kinder Morgan Energy	United States	14.2	18.1	–3	15	2	8	–7	–1	10.2

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 51 global companies with a market valuation greater than $10 billion.
[1]Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
[2]Average annual TSR, 2005–2009.
[3]As of December 31, 2009.
[4]Change in EBITDA multiple.
[5]As of June 30, 2010.

Value Creation at the Utilities Top Ten Versus Industry Sample, 2005–2009



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
[1]Industry calculation based on aggregate of entire sample.
[2]Share change and net debt change not shown.
[3]Industry 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:

Investors' Priorities in the Postdownturn Economy
BCG article, July 2010

Accelerating Out of the Great Recession: Seize the Opportunities in M&A
A report by The Boston Consulting Group, June 2010

Cross-Border PMI: Understanding and Overcoming the Challenges
A Focus by The Boston Consulting Group, May 2010

Megatrends: Tailwinds for Growth in a Low-Growth Environment
A Focus by The Boston Consulting Group, May 2010

Rebound but Not Yet Recovery
BCG article, March 2010

After the Storm
The 2010 Creating Value in Banking Report, February 2010

Time to Engage—or Fade Away: What All Owners Should Learn from the Shakeout in Private Equity
BCG White Paper, published with the IESE Business School of the University of Navarra, February 2010

M&A: Ready for Liftoff? A Survey of European Companies' Merger and Acquisition Plans for 2010
BCG White Paper, published with UBS Investment Bank, December 2009

Searching for Sustainability: Value Creation in an Era of Diminished Expectations
The 2009 Value Creators Report, October 2009

Be Daring When Others Are Fearful: Seizing M&A Opportunities While They Last
A report by The Boston Consulting Group, September 2009

Fixing What's Wrong with Executive Compensation
BCG White Paper, June 2009

Real-World PMI: Learning from Company Experiences
A Focus by The Boston Consulting Group, June 2009

The Clock Is Ticking: Preparing to Seize M&A Opportunities While They Last
BCG White Paper, May 2009

Thriving Under Adversity: Strategies for Growth in the Crisis and Beyond
BCG White Paper, May 2009

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

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

Eyes Wide Open: Managing the Risks of Acquisitions in Rapidly Developing Economies
A Focus by The Boston Consulting Group, January 2008

Thinking Laterally in PMI: Optimizing Functional Synergies
A Focus by The Boston Consulting Group, January 2008

Avoiding the Cash Trap: The Challenge of Value Creation When Profits Are High
The 2007 Value Creators Report, September 2007

The Brave New World of M&A: How to Create Value from Mergers and Acquisitions
A report by The Boston Consulting Group, July 2007

Note to the Reader

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