

CFO University

Presented by FEI Houston

Financial Strategy and Capital Allocation

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What Really Moves a Company's Stock Price?



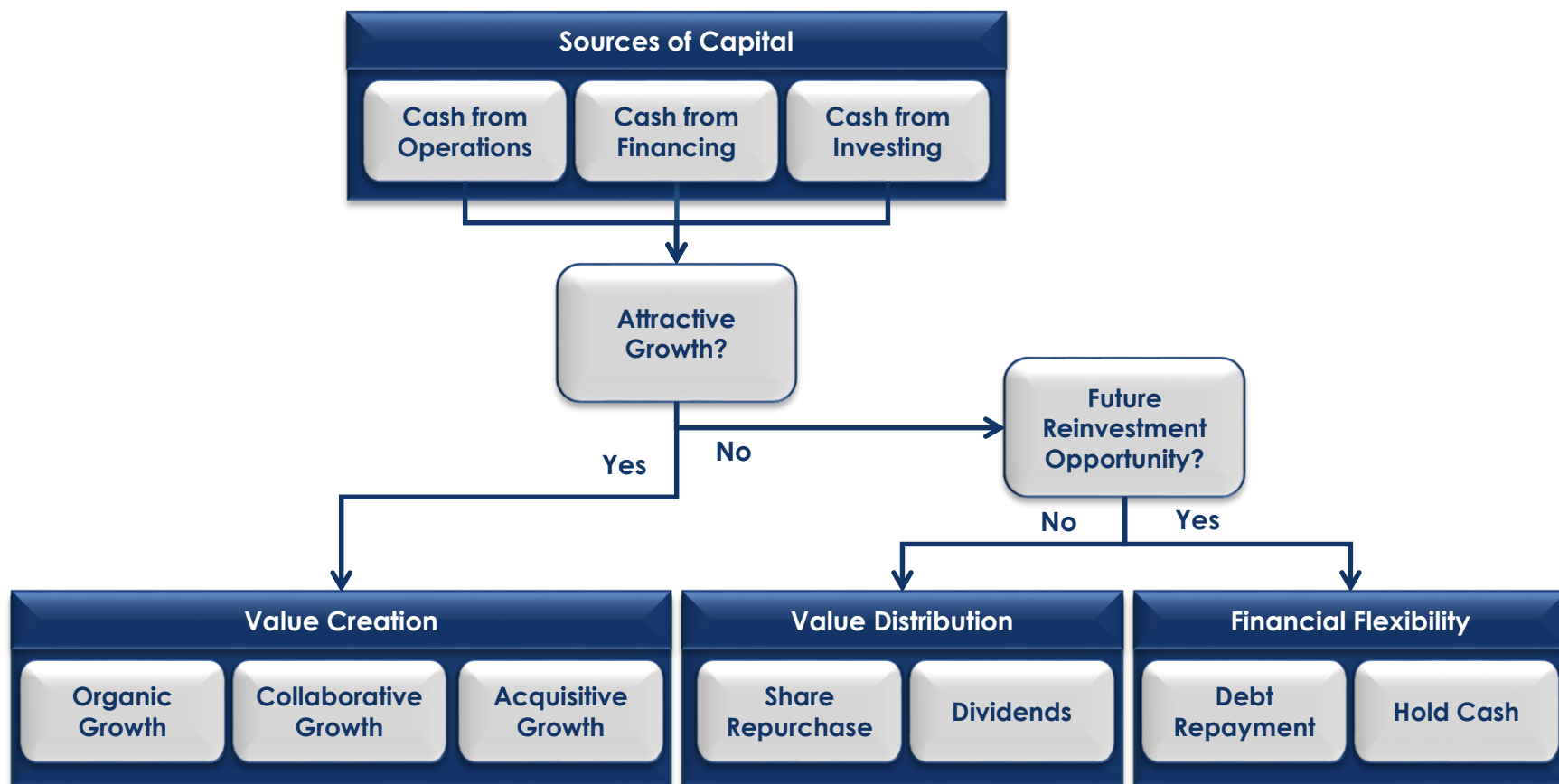
*Margaret Meade
Famous Anthropologist*

*“What people say,
what people do, and
what they say they do
are entirely different
things.”*

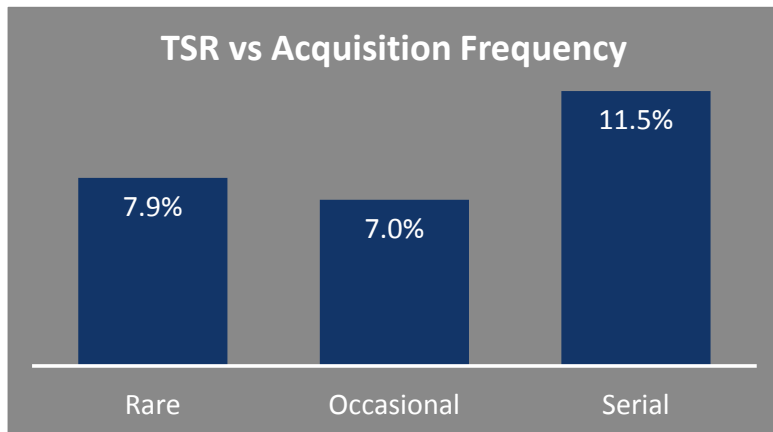
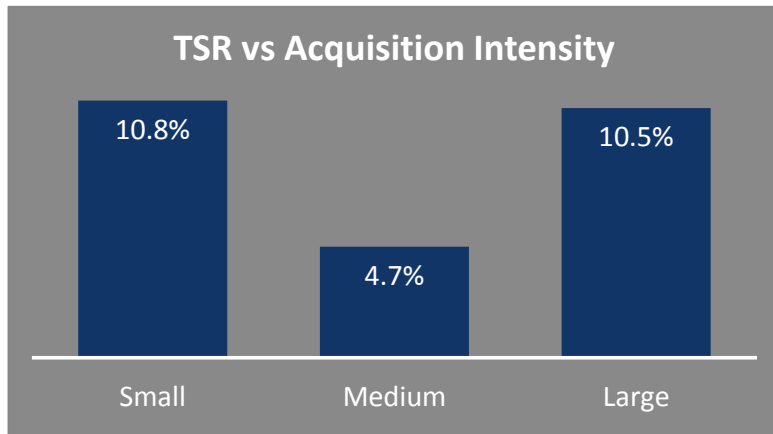
**Go by what
investors do, not
what they say.**

Holistic Capital Deployment Framework

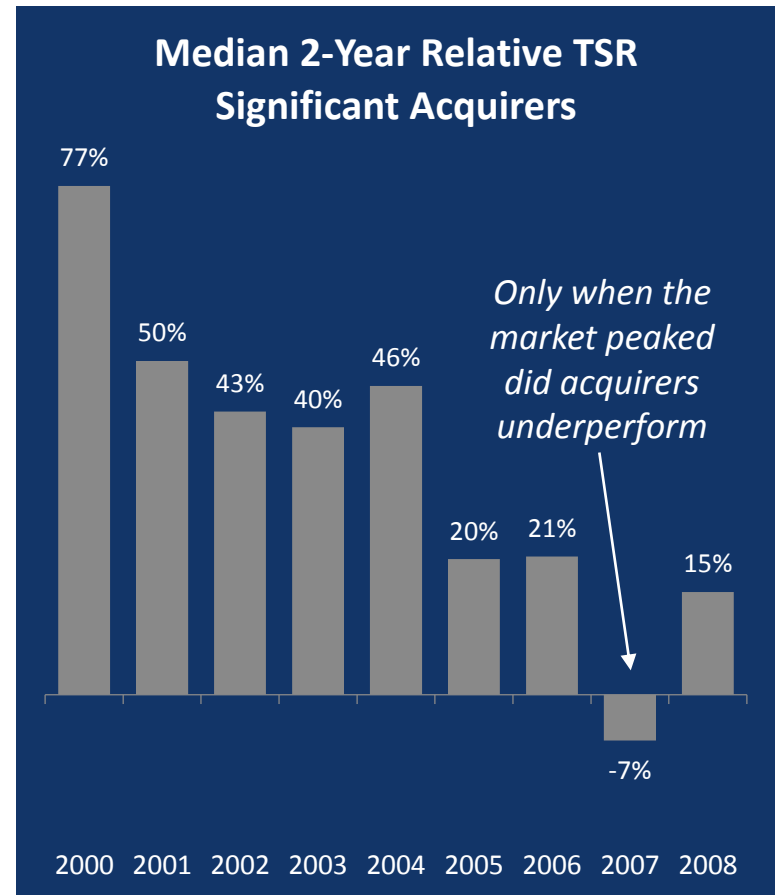
Most companies apply different analytics to capital deployment alternatives making comparisons impossible. Fortuna Advisors' consistent shareholder value framework makes tradeoffs clear and fact based.



Who Says M&A Doesn't Create Value?



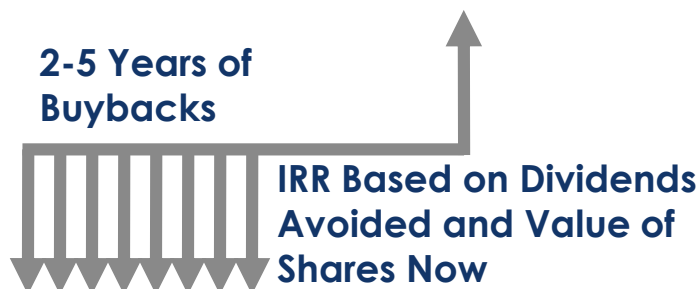
“Who Says M&A Doesn't Create Value”, February 26, 2010
(based on Industrial Machinery Industry)



“Acquirer TSR Hinges on Results”, June 14, 2011
(based on all industries)

Stock Buybacks: Buy High and Sell Low

Buyback ROI



Fortuna Advisors developed Buyback ROI in order to measure the return and timing of repurchases, for comparison to other uses of capital like acquisitions and capital expenditures. This tool can help companies better determine when buybacks are likely to help the remaining shareholders.

FORTUNE

May 1, 2017

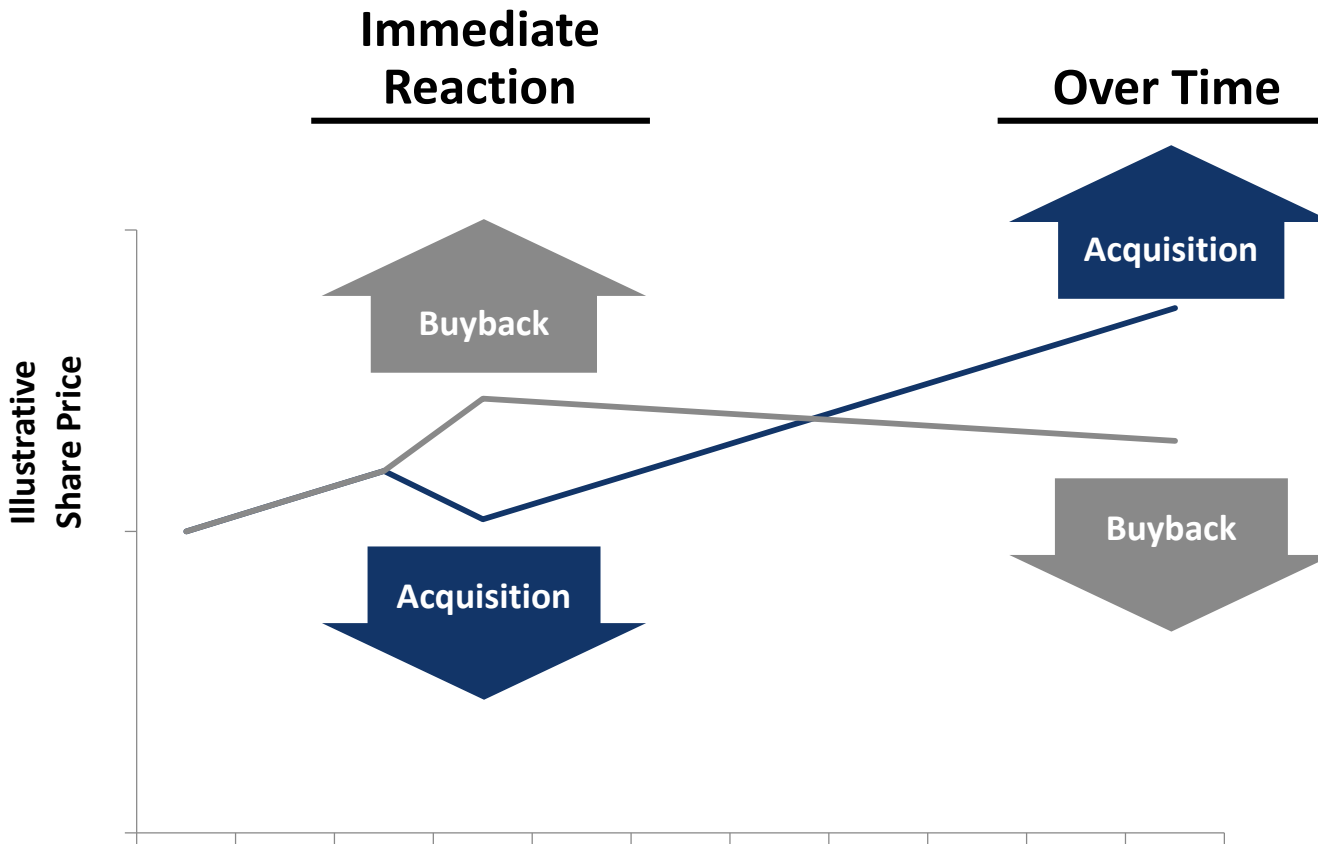
SHARE REPURCHASES

STOCKS THAT DODGE THE BUYBACK BLUES

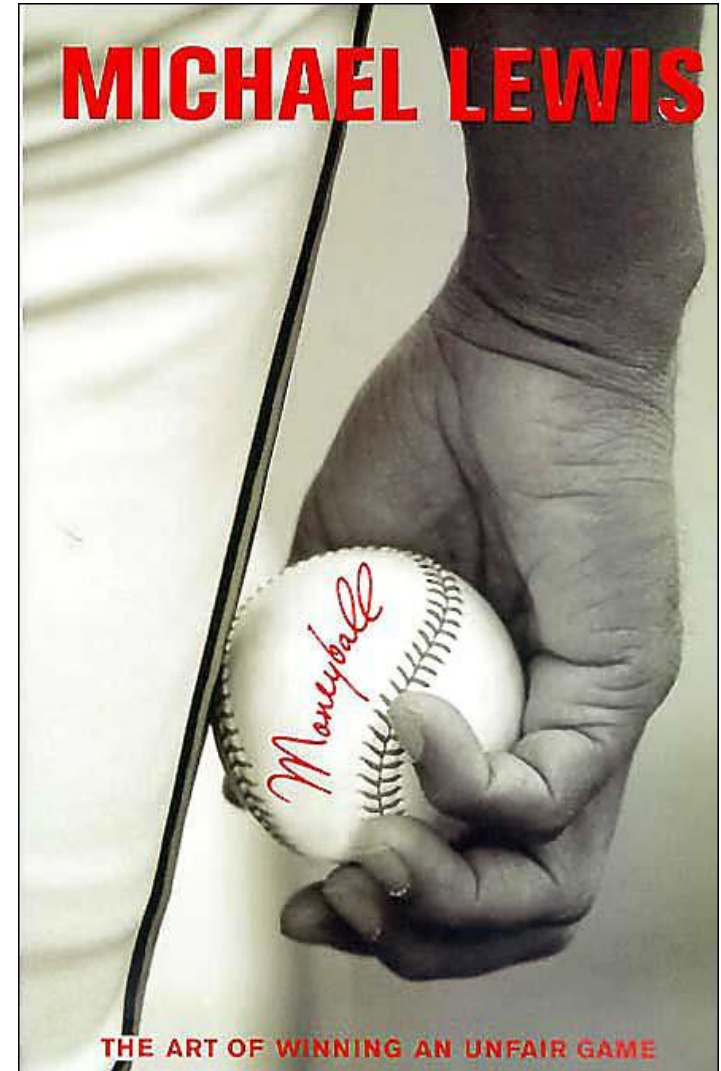
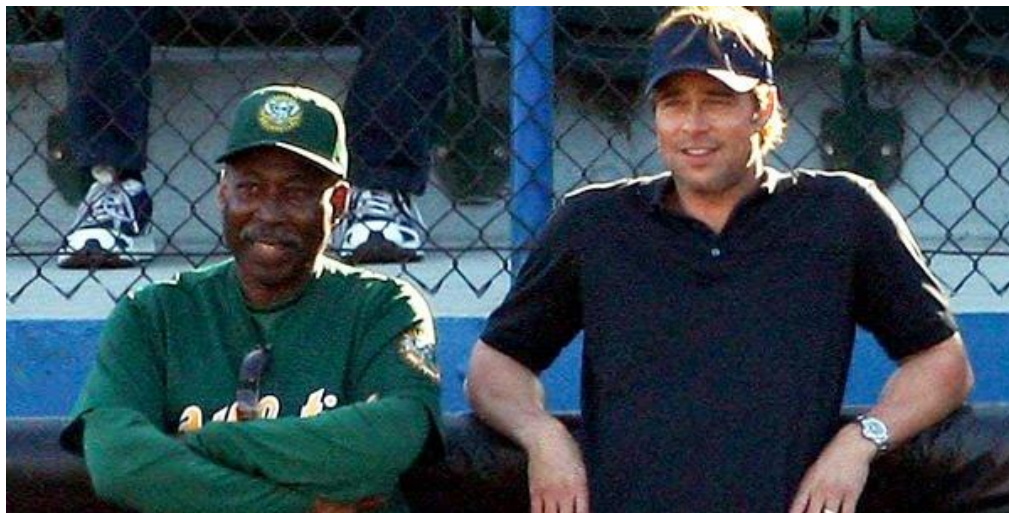
The President's tax reforms could set off a stampede of share repurchases. But such deals don't always pay off for investors. Here's how to tell good buybacks from bad. BY RYAN DEROUSSEAU

Rank	Company Name	Ticker	\$ Total Buyback / Market Cap	Buyback ROI
1	NVIDIA Corporation	NVDA	5.5%	80.5%
2	Electronic Arts Inc.	EA	9.8%	43.4%
3	E*TRADE Financial Corporation	ETFC	5.3%	42.0%
4	Northrop Grumman Corporation	NOC	27.0%	35.5%
5	Martin Marietta Materials, Inc.	MLM	5.5%	35.2%
6	Southwest Airlines Co.	LUV	15.7%	35.1%
7	Global Payments Inc.	GPN	12.9%	34.1%
8	Applied Materials, Inc.	AMAT	13.8%	34.0%
9	Activision Blizzard, Inc.	ATVI	23.6%	33.2%
10	Boston Scientific Corporation	BSX	4.2%	33.0%

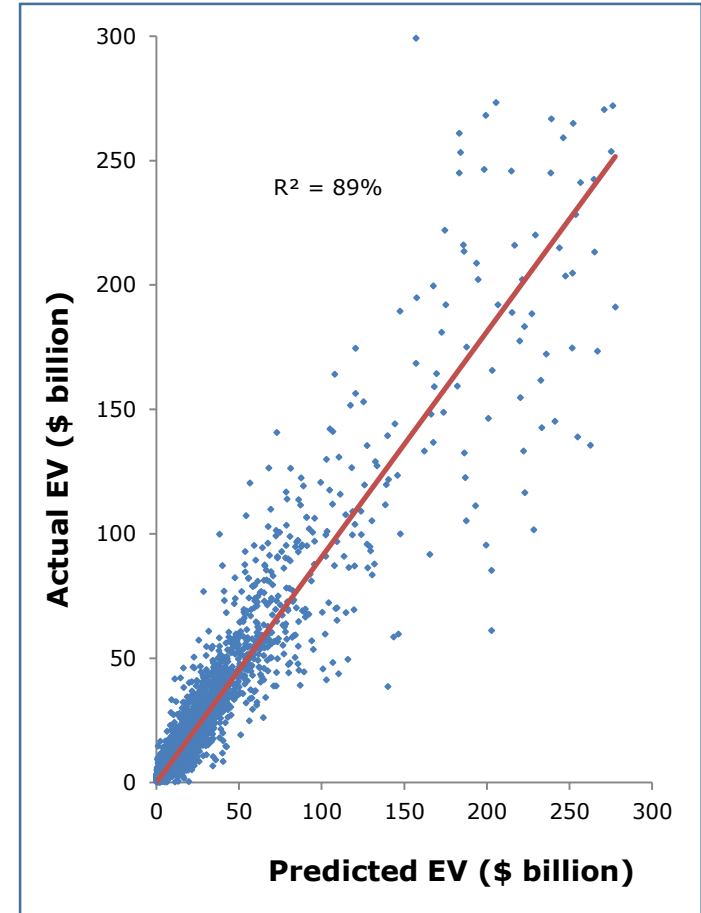
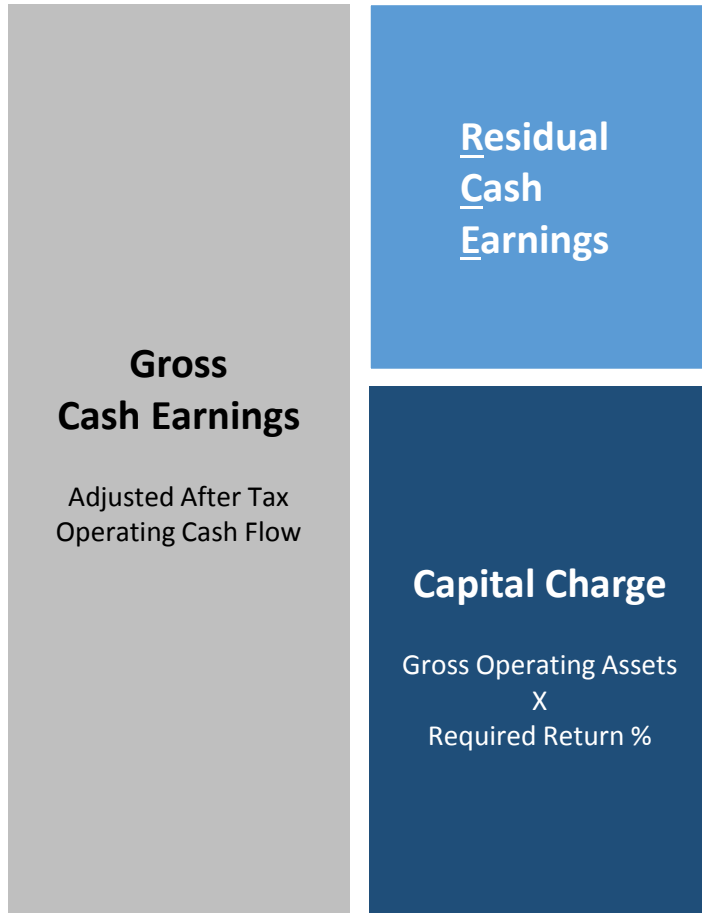
Immediate Share Price Reactions are Often Different from TSR Over Time



Moneyball: Business is Like Baseball







Introducing Residual Cash Earnings (RCE) *Improving the Growth vs Return Tradeoff*



Note: Predicted value based on gross operating assets plus the present value of RCE which in the graph is estimated simply as RCE capitalized as if it were expected to stay flat forever.

RCE A More Direct Signal for Value Creation

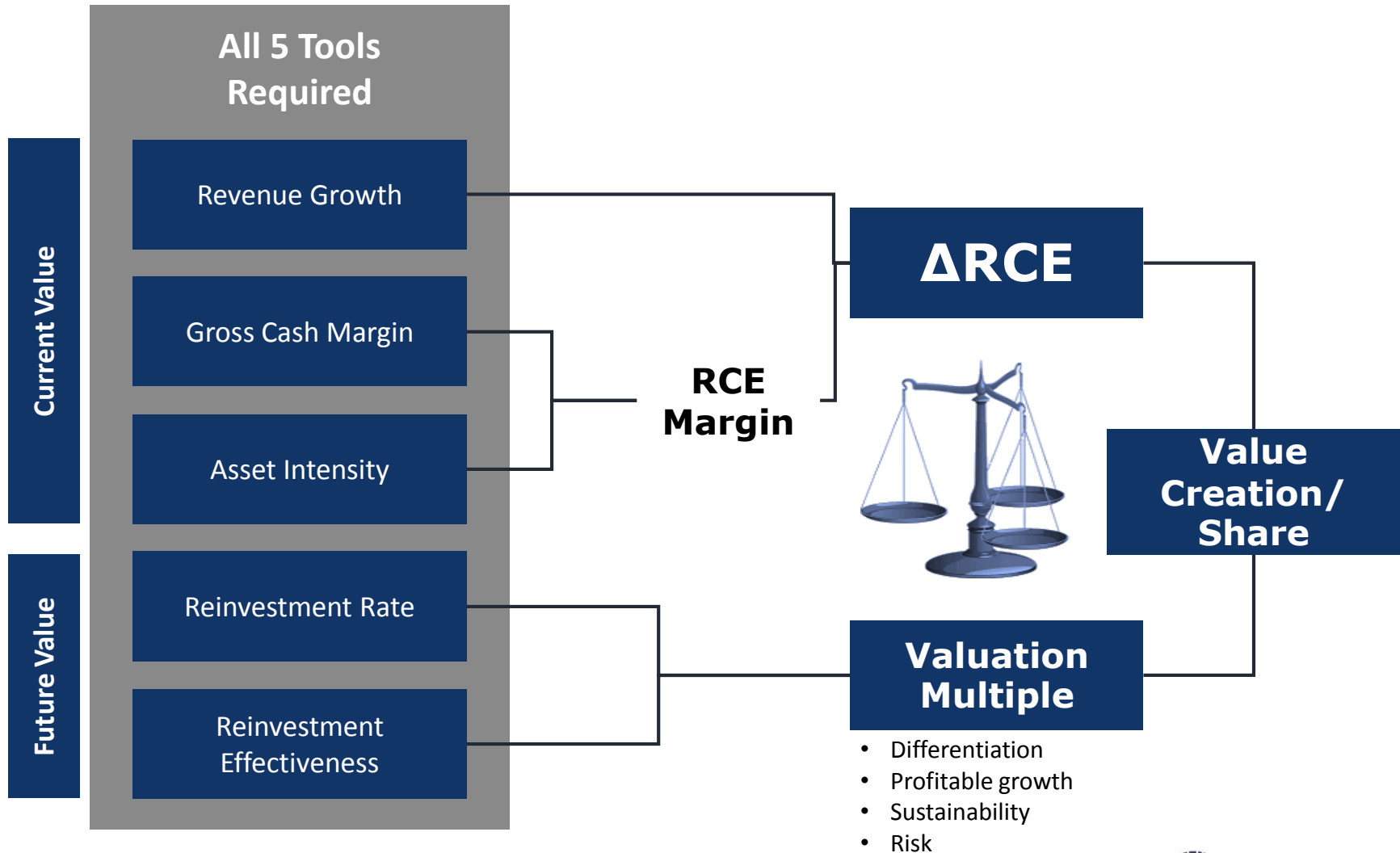
RCE holds management accountable for this bad investment

	<u>Existing</u>	+	<u>Invest</u>	=	<u>Combined</u>
Sales	\$3,200		\$1,000		\$4,200 
Margin	5%		6%		5.2% 
Gross Cash Earnings	\$160		\$60		\$220 
<u>Gross Oper Assets</u>	<u>\$4,000</u>		<u>\$1,000</u>		<u>\$5,000</u>
ROIC %	4.0%		6.0%		4.4% 
Required Return	10.0%		10.0%		10.0%
<u>Capital Charge</u>	<u>\$400</u>		<u>\$100</u>		<u>\$500</u>
Residual Cash Earnings	(\$240)		(\$40)		(\$280) 

Note: Analysis simplified for illustration.

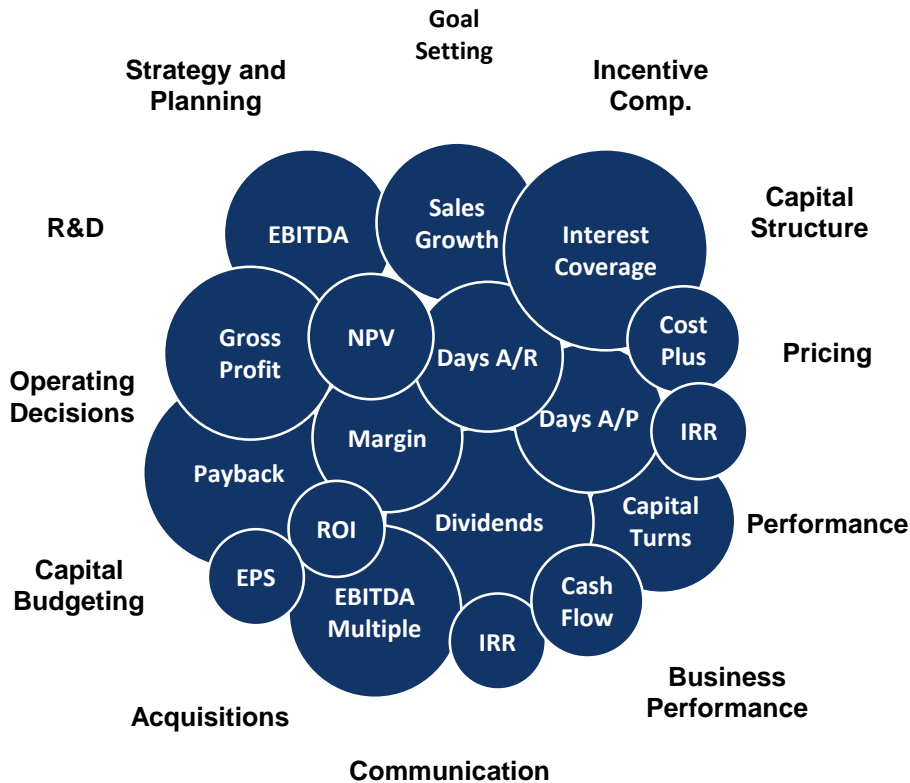
Value Based Scorecard: 5 Tools

Goal Setting, Planning, Decisions and Performance Mgt

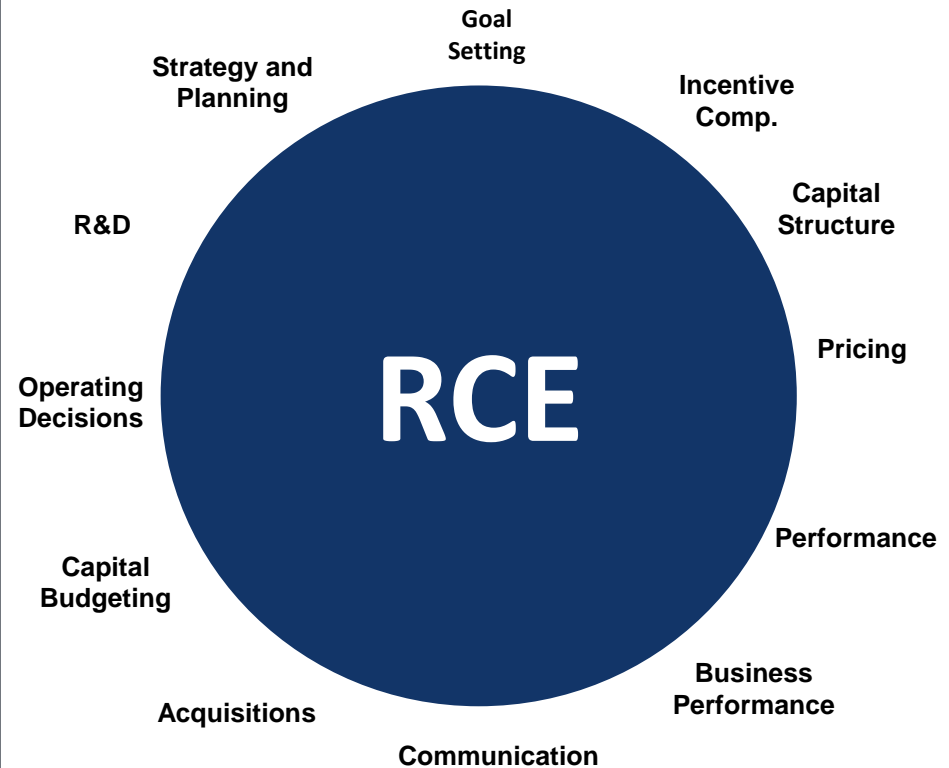


Comprehensive RCE Management Framework

Moving from many different and seemingly unrelated measures used for different applications ...



... to a single measure that links drivers of value in a meaningful way and is applicable to all decisions.



Q&A

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