



How EVA[®] Works

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Preamble

Over the years, EVA has enjoyed considerable success as a metric and management tool in companies all over the world. The latest convert has been the Chinese government agency, SASAC, which in January 2010 announced a mandate that all large state-owned enterprises report their results in terms of EVA and link top management bonuses to it. The question is, how has EVA helped, and what is required to make it a success?

At root, EVA is just a special way to measure a firm's "economic" profit. It is measured after deducting the full weighted average cost of debt and equity capital, which means that EVA automatically includes a discipline for managing capital wisely. It also means that EVA automatically discounts to the exact same net present value as discounted cash flow does. EVA is also measured after repairing material accounting distortions that don't make economic sense and that frequently mislead managers into making sub-optimal decisions. For example, R&D and ad spending are written off over time instead of expensed, so that managers are not tempted to cut the spending just to make a short term earnings goal, leased assets are treated as if they were owned, so managers view leases as a form of capital commitment, and restructuring charges are added back to earnings and back to the balance sheet as a capital investment, so restructuring ROI's can be judged like any other investment. Not all adjustments apply to every company, of course, and not every CFO wants to make all the changes. But at root, and when the dust settles, EVA is the best, most complete, comparable and fundamentally correct way to measure profit and to shine a bright light on the three basic ways that any company can win, to wit, by intelligently streamlining costs, by investing capital in all positive NPV projects that earn returns over the cost of capital, and by paring capital tied up in un-economic assets and activities. No other measure or set of measures so succinctly, completely, or accurately conveys how to create value.

While there are a number of success factors for implementation, including compensation and training, for the purpose of this conversation, let's say that adopting EVA is a question of doing these three things well.

1. **Improving EVA is the Mission that Matters:** The first real success factors is adopting "EVA Momentum" as the key overarching financial metric and way to keep score across all lines of business. EVA Momentum is a new ratio metric developed by EVA Dimensions that measures the growth rate in EVA. It is the *change* in EVA divided by *prior* period's revenues. It is the only ratio measure where bigger is always better, because it gets bigger when EVA gets bigger, which is a sign managers made sensible decisions that added economic profit and increased per share intrinsic value. But let's be clear here. For EVA Momentum to be most effective, it should *supersede and replace* other financial metrics, including earnings, earnings per share, earnings growth, ROE, ROA ROIC, EBIT, EBITDAR, gross margin, gross contribution, operating margin and cash flow. It should not just be added as one more metric among others. It should stand at the summit. This is when it works best.

2. **Use EVA to Measure NPV:** The second thing is that all plans, projects, acquisitions, and decisions need to be based on projecting, analyzing, discounting and maximizing EVA as a means to measure and maximize net present value. Discounted cash flow should no longer be used or taught. Moreover, EVA Momentum should be measured over the plans, and traced to key drivers, as is elaborated below.
3. **Make EVA Momentum the Focal Point of Management Reporting:** Third, all management reporting and performance reviews should be organized around measuring, analyzing, benchmarking and improving EVA, specifically, by focusing on a set of new ratio indicators developed by EVA Dimensions.

One of those is called EVA Margin -- it is the ratio of EVA/Sales. It is a firm's true economic profit margin. It accurately represents as one key number the total productivity and profitability of the business model. It can be traced to a set of underlying key financial performance ratios that span and consolidate income statement efficiency and balance sheet asset management. The de-construction starts with the "EBITDAR" margin -- essentially the EBITDA margin before rent expense, and before R&D and ad spending, and a handful of other adjustments that make it a more reliable, comparable measure of the businesses' true cash operation profit margin. Next, a series of items charges to recover the cost of individual capital components are deducted, starting with a charge to finance working capital at the firm's pre-tax cost of capital, next, for plant and equipment (which combines depreciation, pre-tax cost of capital, and the firm's actual rent expense into an overall PP&E "rental charge"), and lastly to cover the amortization and cost of capital for intangibles (from acquisitions, except goodwill, but also including the charges for R&D and ad spending). The remaining pre-tax EVA margin is an incredibly useful overall indicator of operational excellence.

The EVA margin schedule is a superior way to format and analyze the productivity of a business model. It is better than using RONA and the DuPont ROI formula, for instance, for a couple of reasons. First, it is based on sales, and not on capital, which makes the EVA margin schedule a familiar format that is readily usable by line teams who are accustomed to thinking in terms of driving sales and earning margins on sales. A second benefit is that it expresses all the pluses and minuses of income efficiency and balance sheet asset in a single common currency -- a percentage of sales -- rather than as ROI does as a multiplicative relationship between margins and asset turns -- which are not on the same scale at all, and therefore, not easily compared. The bottom line is that the EVA margin schedule better enables managers to more quickly and accurately size up the true significance of individual performance factors and thus target the genuinely best performance improvement opportunities. It is also an ideal schedule to help them make decisions that involve tradeoffs between operating margins and asset turns.

The second ratio is EVA Momentum, as has been mentioned. It is even more important than EVA Margin as it traces to *all* performance drivers, in fact, *changes* in the EVA Margin are implicitly a part of what drives EVA Momentum, but so is "profitable growth," which is the value added from adding sales at a positive EVA Margin (or from shrinking sales where the margin is negative). Without going into details, suffice it to say that EVA Margin and EVA Momentum (henceforth, "EVA M&M") provide an

extremely capable and intuitive set of financial analytical tools, and as such they should *replace* other financial analytical tools, and they should be used to structure management scorecards that clearly link key operating and strategic measures to EVA and the EVA drivers.

Having now forcefully stated the case for focusing on EVA Margin and EVA Momentum, and for discounting EVA to measure NPV, it must be admitted that in practice companies rarely jump into a full-fledged EVA program in one fell swoop. A thoughtful transition plan is required to do that, while building consensus all along the way. The truth is, some companies never get all the way there. In some companies, there's been such an investment and such a cultural focus around other measures that the rational thing to do is to add EVA Momentum to the other measures, at least for an appreciable transition period.

But putting those practical transition issues aside, what are the typical benefits you can expect as you move closer and closer to full adoption of the EVA Momentum focus? Here are a few we've seen:

Better Operating and Investment Decisions

Because EVA deducts the full cost of all invested capital, for the cost of equity as well as for debt, the present value of a forecast for EVA is always mathematically the same as the NPV of projected cash flow. That's perhaps EVA's most important property, giving it instant credibility as the foundation for "value-based" corporate management and as a tool to replace other measures and techniques that are not so blessed. Still, one may reasonably ask, if discounting a projection of EVA always gives the same answer for the same set of assumptions around a proposed business decision, how can using EVA make a difference?

First, EVA enables decision-makers to more clearly see and enhance the underlying drivers of the value by using the EVA M&M ratios to deconstruct the projected value drivers, and to compare those assumptions directly against the EVA drivers generated by prior investments of like characteristics. Managers, in brief, are able to make more accurate NPV decisions by *more accurately modeling the real economic drivers* as a purely technical matter.

But the benefits are not solely or even chiefly analytical in nature. A second major benefit is *simplicity*. It is actually far *simpler* to use one and the same EVA measure to evaluate NPV and also to use it for judging performance after the fact -- which is something that cash flow simply cannot do. Cash flow is a measure of value, but not a measure of performance. So long as managers are investing capital wisely, in high returning, EVA enhancing projects, the more capital that is invested the greater is the net present value, but the lower is the firm's "free" cash flow after investment spending. The point is, "free" cash flow over any interval is not a reliable way to tell if a business is doing better or worse. CFOs know that, and turn to other measures instead, but therein lies the rub. It's downright confusing and awkward for them to apply discounted cash flow analysis in forecast mode and to use other measures when looking back at actual performance. But there is really no choice but to do that when capital projects are evaluated by discounted

cash flow in the first place. Which is why we suggest that CFOs literally replace discounted cash flow analysis with projecting and discounting EVA.

In contrast to cash flow, EVA is both a measure of value *and* a way to measure and analyze actual performance period by period. With EVA, the promise is clearly linked to the performance. That linkage not only makes the management process simpler to understand and use. It makes decisions inherently *more accountable*. Managers know that a decision to expand a plant or add a product line or store location, for example, is tantamount to a decision to increase the fixed capital charge that will be deducted from their business profit going forward. Realizing that, managers approach development of projection assumptions with *more intensity and realism*. It causes them to *think and act more like owners* because they can know that the consequences of poor decisions will be visible in the EVA profit their division will report in the aftermath.

“Dick, before our operators wanted all the store space they could get, because they wanted to maximize their contribution; now they are only asking for what their business can cover, because of the capital charge. We’re finding stores within our stores.”

**Kevin Freeland, BBY SVP of Inventory Management
as told to CEO Richard Schulze one year after
introduction of EVA**

Simplicity, consistency, and accountability also make for *better communication, cohesion and teamwork*. It helps that a middle manager knows that the EVA generated by a specific investment decision (or any decision for that matter) will directly add to the EVA of the larger unit to which it is attached. One of EVA's most important properties is that if you add the EVA of a good decision to the EVA of a larger business it makes for an overall larger EVA. EVA, and hence EVA Momentum, are *always* value-additive. Good plus great is better still. But that is NOT TRUE with other measures. For instance, any new investment or expansion that earns less than the division average ROIC lowers the division's ROIC. Add a good enough ROI on top of a great ROI and the overall ROI is lower. In contrast, a new investment adds to the division's EVA and to its NPV if the new investment earns anything over the cost of capital. The ROI/IRR rule and the EVA/NPV rule are incompatible, and only EVA reliably gives the correct NPV answer, at all levels. It is the *only* measure that can correctly motivate and link the right decisions at the micro decision level to the macro business outcome. It's the only measure that correctly aggregates and integrates from the bottom to the top. And that is not only in comparison with ROI, but profit margin, too. Managers should always add new

products and reach into new markets so long as they add to EVA and NPV, even if the expansion reduces the firm's operating margin for whatever reason.

To expand this thought, note that EVA is also the only measure that can guide managers to optimal scaling decisions. Examples include how large a store or plant to build, how many SKU's to carry, how much to spend on advertising, and so on -- any question that involves how many, how fast, how big are scaling type decisions, and they are pervasive in management. Because most investments initially tend to generate *increasing* returns to scale -- higher IRR's follow as more money is invested at the outset, followed by lower incremental returns at some point -- it turns out that the scale that maximizes ROI is almost always to invest too *little*, and the scale to maximize sales or operating income is to invest too *much*. By contrast, EVA increases so long as the *incremental* return to scale covers the cost of capital, which is the correct decision that maximizes NPV and share price.

For an example, let's think about a question of how high to build a building on a given plot of land. At first, a taller building generates an overall higher IRR as the additional rents charged on the higher floors help offset the fixed costs. But at some point construction costs rise disproportionately to strengthen the building, and elevator banks subtract from rentable space. The overall IRR starts to turn down, and yet, the project's NPV and EVA continue to expand so long as the incremental profit offsets the cost of capital charge for the incremental capital. By focusing on increasing EVA, and hence, on driving EVA Momentum, managers always have the incentive to make the correct value-maximizing decision *at the margin*, as basic economics suggest ought to be the case. But no other measure actually passes that most elementary test.

A preoccupation with maintaining high returns and high margins -- at the expense of incremental growth in economic profit -- may also explain Harvard Professor Clayton Christensen's finding that large established companies often open the door for upstarts to enter and undermine a profitable business. If incumbent champions were less concerned with maintaining lush margins and statuesque returns, and truly emphasized growth in EVA and hence EVA Momentum as the mission metrics that matter, that would encourage managers to pursue the incremental growth and disruptive innovation that would stave off the upstarts and sustain their competitive edge -- particularly if as we suggest the firm's "investments" in R&D, training and advertising are amortized over time rather than expensed.

Because EVA so reliably guides managers to the best decisions, another advantage is that decisions can generally be *better delegated and decentralized* closer to the field of action with more confidence that local decisions will accurately maximize the global value. That frees top managers to turn time and attention to deal with more strategic issues and opportunities rather than having to constantly intervene to overcome shortcomings in the financial measures and decision tools.

These are all benefits from using EVA for measuring NPV and making decisions, and, for measuring and analyzing performance after the fact. What seems to be a mere change in format is in fact an phenomenally beneficial change in substance.

Better Exit Decisions

Withdrawing capital from uneconomic assets and activities can also be evaluated by EVA, which brings about many of the same benefits as outlined above, but at least one more. Under EVA, a bookkeeping loss incurred on a plant closure or decision to exit a line of business – or indeed on any capital transaction -- is added back to earnings and added back to balance sheet capital. That's one of the standard corrective adjustments that we suggest all EVA companies make. With this rule, balance sheet capital is not reduced by the book value of the liquidated assets, but is reduced instead by the amount of any after-tax cash liquidation proceeds. A shut down decision is thus reduced to this straightforward question: can we reinvest the exit proceeds at the cost of capital and earn more than continued operation would earn for us? If so, shut it, and ignore any charge to earnings. EVA thus permits managers to more aggressively re-allocate capital tied up in the existing product and business portfolio based on the incremental NPV. By that same token, EVA removes gains on asset sales from reported earnings gains and instead applies the gain to reduce balance sheet capital. That way, managers are only motivated to sell assets that are worth more to the buyer than to the incumbent firm, and they are deterred from selling assets merely to harvest one-time bookkeeping gains.

Better Restructuring Decisions

A decision to restructure generally involves incurring cash costs for severance, asset retirement obligations, breaking contracts, etc, in anticipation that a business will increase its on-going profits by avoiding on-going expenses and losses. EVA again treats this as an investment decision. A restructuring charge is added back to earnings, so earnings are not affected by it, and to complete the double entry bookkeeping, the restructuring charge is added back to balance sheet capital, which increases the cost of that capital that is levied against any increase in earnings that results from the decision. In consequence, managers are far more inclined to seize opportunities to streamline operations and redeploy resources because they no longer have to worry about recognizing an up-front accounting charge, but also -- and this is critically important -- they are motivated to spend restructuring capital wisely, to maximize the EVA and NPV of the restructuring initiative, rather than treating the restructuring costs as free money as tends to happen when restructuring costs are expensed.

Better Advertising and Research decisions

Under EVA, advertising and promotion spending, particularly the initial spending around a new product launch, is written off against earnings over a period of time instead of expensed, and interest at the cost of capital on the deferred balance is also deducted from earnings (for internal EVA measurement purposes, that is). This special EVA accounting treatment encourages managers to increase ad budgets to what will

maximize long term value of the brand and customer loyalty and repeat business. It also encourages more consistent, persistent spending, which is critical to making advertising pay, rather than opportunistically cutting the spending just to make a near term budget goal. Lastly, it generates measures of EVA and EVA Momentum that are inherently more comparable over time and across businesses that employ different business model for ad spending support. The same comments generally apply to R&D spending, or even spending on critical training programs which under EVA can also be considered as a form of capital investment rather than as a period expense.

Here's one example. In 1998, one year after adopting EVA, Monsanto's management announced a 40% boost in R&D spending the firm's pharmaceutical unit because 5 drugs were in Phase III clinical trials, and the faster the trials could be concluded, the longer the effective patent life, and the greater the "first-strike" advantage. The increase reduced analysts' projected EPS from \$1.60 to \$1.40, but the company's stock price rose from \$38 to \$40 the day the decision was announced. The firm simply sold for a higher price-earnings ratio, because the market was really valuing the EVA, not near term book earnings. And that is a change in thinking that was importantly reinforced, if not precipitated, by Monsanto's decision to treat R&D investments as capital and not as period expenses.

Better Product Line/SKU Decisions

Product line and SKU decisions are no longer made to maximize gross margins but EVA, taking account the cost of the associated capital -- for infrastructure, supply chain, inventory, receivables, display cases and square footage, and so on. As one example, Best Buy managers at one time were pushing to add musical instruments to the merchandise line-up -- because of their apparently high gross margins. But, after consideration of the slow turns and incremental capital charge, the category was found to generate a negative EVA, and was rejected.

Better Planning, Performance and Compensation Targets

Many companies rely on seemingly simple and familiar measures, like profit contribution, sales growth, operating margins, returns, days on hand and such for setting goals and judging performance. Measures like that though are vulnerable to disruptions from business decisions or changes in business models or the competitive landscape. What's more, the measures do not individually or collectively tie to wealth creation or share price in any obvious quantifiable way. As a result, it is very difficult to set sensible goals for measures like that -- they are always somewhat arbitrary, ambiguous and incomplete -- and to use them judge performance (It's a little like trying to keep score in a basketball game by weighting some combination of blocked shots, rebounds, shooting percentage, steals and assists, instead of by the actual score). And because of those shortcomings, top managers and board directors are constantly pressured to make

allowances and permit special exemptions and exceptions, so that planning integrity, capital accountability, and overall administrative simplicity are lost in the shuffle. The way we put it is that simplistic measures lead to complex management and endless negotiations.

Take an example. Suppose that a competitor steps up ad spending, and the logical response is to match it. Under conventional profit measures, a manager is punished for increasing the ad spending. But under EVA, the ad spending is spread over time, better matching cost with benefit, so no special allowance must be made. Take another. A new product begins to sell better than expected, and it is sensible to ramp up inventory days to match the anticipated demand. A manager judged by inventory days or RONA might be punished for that, but rewarded if that is necessary to increase EVA.

Not only is EVA a more robust and reliable measure (because it accurately consolidates all pluses and minuses of business decisions into a single decisive score). Because stock prices are generally set at levels that discount projections of EVA, it is possible to measure the EVA trajectory that is implied by the stock prices of public firms, and convert that into a market-implied EVA Momentum growth rate which is a far better statistic for understanding investors expectations and setting minimum planning goals than the so-called consensus earnings-per-share (which is not a real consensus, but rather, an arbitrary aggregation of the opinions of sell-side analysts -- as if the buy-side investors with the money don't matter -- for a measure -- earnings-per-share -- that hardly captures the totality of all that determines a firm's market value). Because EVA is the only performance measure that discounts to the net present value and stock price of a company, it is possible to set market-derived performance targets only for EVA, and hence, for EVA Momentum. That is simply a crushing advantage. It gives CFO's a powerful weapon to establish a credible, achievable, long-range financial performance target that is directly linked to investor expectations and use that in setting a minimum consolidated planning target and as a performance goal for top management compensation. The alternative is to set plan and comp targets as a function of the, well, of the plan itself, which is not only circular logic, but perversely encourages managers to sandbag their plans and budgets to make it easier to beat them and earn a bonus. The way we put it is, *simplistic measures lead to complex targets, but the EVA measure leads to a simple target -- more EVA -- and a greater EVA Momentum -- is better than less.*

Planning that Leads to Better Capital Allocation and Portfolio Decisions

Top management needs to be able to rely on accurate or at least realistic business plan projections to correctly allocate capital and make optimal portfolio decisions. The best way to make sure the plans are realistic is to measure their EVA and discounted EVA value, to measure and de-construct their EVA Margin and EVA Momentum, and benchmark the drivers against past results and public peers, and against the "market-implied" EVA Momentum rate that is baked into the company's stock price, and stock price of similar public peers. In other words, EVA leads to more realistic and more valuable plans for many of the

same reasons that it elevates the value of investment decisions in general. And the fact that the financial and valuation methodology used to evaluate plans is very nearly the same as the one used to evaluate individual investment decisions only adds to the overall simplicity and accountability of both processes.

Better Supply Chain Decisions

Every company must choose the boundaries of its business model in terms of how far back and forward to reach in its supply chain. The decisions can be complicated, involving tradeoffs among responsiveness and control, cost, comparative advantage, etc. But in any event, the decision should be based on consideration of those real economic factors. The decision should not be clouded by confusion over the impact on sundry financial metrics. For instance, as a general rule, a company will show a higher profit margin the more vertically-integrated it is, and will show a higher return on capital if it hives off lower return functions and harvests just the returns from the highest value added component of the supply chain. But those outcomes are totally irrelevant and should be ignored -- which is hard to do if a company has not completely weaned itself from those metrics. The right decision is always to maximize the NPV of the organization scope which means it is to maximize the EVA of the organization choices that management makes.

The same logic would apply to restaurant or retail type businesses that could choose to own or franchise the stores. Compared to franchising, which generates income with little commitment of capital or generation of sales by the sponsor, owning stores reduces the sponsor's returns and crushes its profit margins. But again, those are merely meritless accounting consequences. The right decision maximizes NPV by maximizing EVA, given the real economic considerations.

Consummate Better Acquisitions

Most companies make an attempt to judge the value of acquisitions by discounted cash flow analysis on the one hand, but then they also look to accrete EPS or judge an acquisition by fallacious multiples of book earnings -- but they shouldn't. EPS accretion is a completely irrelevant and certainly highly unreliable indicator of the merits of a transaction. With EPS in mind, managers can easily be seduced into overpaying for low multiple targets and missing genuinely valuable opportunities to acquire high multiple business. Here's why EPS is misleading.

A buyer buys not just the target's earnings, but also buys its growth prospects and risks, which means the buyer's PE multiple will rise or fall after the acquisition depending on the relatively quality of the earnings it is buying. If a buyer issues low multiple stock to buy a promising, high growth firm at a higher multiple than its own, its EPS will tend to fall, but its PE to rise. If it buys a firm with a lower multiple, it can easily increase EPS, but at the cost of diluting its multiple. Changes in multiple in the wake of acquisitions will almost

always counter the EPS, and in fact, often reverse EPS completely. Research confirms that many of the best deals are ones like Exxon's purchase of Mobil, which reduced Exxon's EPS but increased its stock price, and some of the worst acquisitions are ones like AOL's acquisition of Time Warner, which was so bad both company's CEOs were later fired, even though at the time of the deal AOL's EPS skyrocketed.

In contrast, the EVA answer is very straightforward. Only buy companies where the present value of the seller's EVA in the buyer's hands generates a total value that is greater than the purchase price, which boils down to asking this question: will the present value of *extra* EVA that arises from a synergistic combination of the two firms outweigh the premium that must be paid to win control and to cash out the seller's tax liabilities. And if that comparative EVA/NPV analysis shows the buyer wins – that it will acquire more real and realizable EVA value than it pays – then the buyer's share price is predicted to increase by that value added spread, per share, period. If the deal happens to trigger a dilution of EPS, then the buyer's PE multiple will expand, that is all.

In sum, the "accounting model" of value assumes that PE multiples are fixed, so that increasing EPS is the same as increasing the share price. But the accounting model is wrong. PE multiples change all the time to reflect changes in the quality of earnings that stem from corporate decisions. In contrast, the EVA model assumes, correctly, that the PE ratio is a plug, that what truly drives stock prices are the true economic merits of decisions, and that PE ratios adjust to reconcile reported EPS to true economic value. Logic, and overwhelming evidence, shows that to be true.

Better Financing Decisions


To start with, EVA treats leased assets as if they were owned, which neutralizes the decision to a consideration of the real economic merits, such as, is the lessor better able to realize the tax shield, to predict or manage the asset's residual value, or borrow at a fundamentally lower cost than we can?

EVA also suggests it is unwise to manipulate EPS with stock buy backs. As is well known, it is generally a simple matter to borrow and buy back shares, and gin up EPS to make a quarterly goal. But here again, the EPS run-up is misleading and irrelevant. By taking more debt on its books, the company's fixed interest charges go up, which makes its profits, and hence EPS, more subject to collapse in an economic downturn. Investors will demand compensation for the added earnings risk by discounting the earnings at a steeper cost of capital rate. Put another way, they will pay a lower multiple for riskier earnings, which again renders the EPS increase a misleading measure of the stock price merits of the maneuver. But to the extent that senior managers and board members are unaware of this, and pay attention to EPS or ROE for that matter, then formally adopting EVA Momentum can deter risky financing decisions that make no fundamental sense. Enron or Lehman are prime examples, if extreme, of what goes wrong when managers make debt choices to manufacture gains in EPS and ROE instead of generating real economic profit.







How does EVA handle debt? EVA, too, recognizes that within prudent limits debt is cheaper than equity, but not as a tactical EPS matter. Rather, the weighted average cost of capital used in the EVA calculation is reduced only if management adopts and implements a permanently higher mix of debt vs. equity in the capital structure, as would generally be indicated by a 12 quarter moving average ratio. EVA is thus not affected by transitory changes that cannot be sustained, such as through an opportunistic buy back of stock.

The System is the Solution

CEO's and CFO's who think of EVA as just another way to measure performance are missing the point. First, EVA is not just another way, but rather, it is the *best way* to measure performance and motivate decisions that maximize value. It's not just sort of like ROI, as many presume. But beyond its virtues as a performance measure, EVA's real value lies in its ability to consolidate all operating, investment and planning decisions into a single consistent framework for management reporting, financial analysis and valuation. Of course, in order to do that, EVA is generally a more sophisticated measure than others, and it is certainly less *familiar* -- which means that training and practice are required to use it effectively. But as an overall system for managing a business for value, none is simpler or more effective taken as a whole (as the chart below portrays). And with the advent of the new EVA ratio metrics and new software tools that automate EVA, the implementation barriers are lower and potential payoff is higher than ever before.

The path to financial truth.
evaDimensions 

Simplify and Upgrade Corporate Financial Management

<p style="color: red; font-size: 2em; opacity: 0.5;">✘</p> <p>Discounted Cash Flow</p>		<p>Discounted EVA = NPV</p>
<p style="color: red; font-size: 2em; opacity: 0.5;">✘</p> <p>Gross Margin, Operating Margin, EBITDA Margin</p>		<p>EVA Margin (EVA/Sales)</p>
<p style="color: red; font-size: 2em; opacity: 0.5;">✘</p> <p>Sales Growth, Earnings Growth</p>		<p>EVA Momentum (ΔEVA/Prior Sales)</p>
<p style="color: red; font-size: 2em; opacity: 0.5;">✘</p> <p>RONA, DuPont Formula</p>		<p>EVA Margin, EVA Momentum Pyramid (ΔEVA Margin + Sales Growth x EVA Margin)</p>
<p style="color: red; font-size: 2em; opacity: 0.5;">✘</p> <p>EBIT, EBITDA, Net Income, EPS</p>		<p>EVA Before Tax, EVA, ΔEVA</p>
<p style="color: red; font-size: 2em; opacity: 0.5;">✘</p> <p>Consensus EPS</p>		<p>Market-Implied EVA Momentum</p>

EVA provides a simple, accountable, cohesive "value-based" management framework.

EVA is a better way to measure and analyze NPV than DCF; no other measure or combination discounts to NPV.

EVA is a measure to maximize, because more EVA is always better than less. That is NOT true of any other measure.

EVA Margin is a better, more understandable, more actionable productivity measure than RONA.

EVA Momentum is the best overall measure of performance; it accurately combines productivity gains and profitable business expansion into one score and all on the same scale!

Investor expectations for EVA can be derived from share prices, which is impossible with any other measure.

The whole is greater than the sum of the parts. Using EVA consistently and pervasively is what makes it so simple and effective.

Use it for decision-making and planning, for reporting, benchmarking, and target setting, and for bonus compensation, investor communications and valuations of all kinds.

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