Long Term Value

EY's framework

Without a language that can articulate how an organisation is generating long term value, how can investors focus beyond the short term returns?

"To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."

Larry Fink, Chairman and Chief Executive Officer, Blackrock
Annual Letter to CEOs

Long term value. What do we mean?

- Companies are increasingly facing more demands by investors, their customers and the public to better articulate their plans for making a profit in responsible way to the long term benefit of various stakeholder groups.
- EY's Long Term Value Framework is a tangible framework and includes a series of outcome-based indicators to asses the value created for and perceived by stakeholders through the effective development, preservation and deployment of strategic capabilities in line with the organization's stated purpose.
- EY is a key driver in "The Embankment Project for Inclusive Capitalism" which is an 18-month project to further elaborate this framework. The project brings together 33 global companies representing more than $25 trillion of assets under management whereby participants include Nestlé, Novartis, Unilever, PepsiCo, Johnson & Johnson, Aetna, BASF, Ecolab, DowDuPont, Blackrock, Investec Asset Management and JPMorgan Chase & Co.

52% of market value is based on intangibles - 2017 Global Intangible Finance Tracker

54% of the public believes that today's youth will be worse off than their parents - 2017 Global Intangible Finance Tracker

Key challenges to overcome

- **Disconnect between profits and shareholder returns:** profit is a short term value indicator, while shareholder returns accrue over the long term.
- **Measuring the wrong things:** things that can be more readily measured are typically tangible assets that are reported on the balance sheet.
- **Diminishing trust in organizations:** companies to demonstrate their responsible behavior actively across all aspects of their operations.
- **Increased information demands reduce clarity:** no fundamental re-think of how value is measured and communicated.

EY
Building a better working world

Implications – EY's long term value framework

6 criteria must be fulfilled to in order to achieve effective long term value measurement:

1. Clear about context: Industry, business cycles, competition and macro trends
2. Material to stakeholders: it should be significant enough to influence a stakeholders decision-making
3. Core to purpose, strategy and business model: it must describe the critical thing the organization stands for, how that impacts its relationships with stakeholders and shapes the organisation's strategy.
4. Assured / trusted: in order to (re)build trust, a level of assurance is required to differentiate it from unproven information sources
5. Provide a more complete view of value: the information should go beyond financial reporting and should also include information about the key drivers of value.
6. Simple to understand: current corporate reporting is voluminous and complex. A new framework must be concise and understandable.

What questions do you need to ask?

- Do you know what percentage of your market capitalization is based on intangibles?
- Can you appropriately explain the drivers behind these intangibles to investors?
- How is the company aligning its strategy and business with long-term value concepts? If it needs to transform to do this, what is its approach?
- How do you plan to measure the creation of value for your stakeholders?
- Do you have appropriate information and decision making tools to optimize your company's long-term value?

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