**SCCO International** in association with **Pepperdine University**

# Strategy and Value



**Graziadio Business Review** **June 2012**

## SCCO International CEO Performance 125

CEO Performance of Northern California's Largest Companies


# Not *Everyone* Deserves a Medal

PEPPERDINE UNIVERSITY
Graziadio School of Business and Management

# Who's *Really* Winning?

Cultural commentators have derided the millennial generation as the "*Everyone gets a medal generation*."

The criticism is that by providing undifferentiated praise, this generation is not being prepared for the real world where there are winners and losers. In the same way, there seem to be a lot of corporate rankings that hail all companies regardless of performance. Unfortunately, in the real world, the market does separate the winners and losers on a daily basis.

How then should performance be determined? Given that a CEO's primary duty is to allocate capital to its highest and best use, we ranked CEO performance of 125 of Northern California's largest companies according to their ability to earn returns above their investors' required return. For example, if a CEO's company had $1 billion of capital tied up in working capital and fixed assets and investors require a 10% return, then the company would need to generate $100 million of profit (e.g., $1 billion x 10% required return) to fairly compensate its investors. The market bears out this approach by valuing companies 2.5x higher that earn returns above their required return than those that do not.

Accordingly, the two main categories in our ranking are returns based. The first category is based solely on which CEO's company delivered the highest return above its required return while the second category is based on economic profit, which takes into account the profits a company makes over and above its required return on capital. Not surprisingly, Apple was the leader in both of these categories. Apple delivered returns 1,049% above its required return on only $2.4 billion of capital, resulting in an impressive $25.4 billion of economic profit (1,049% return above investor requirements x $2.4 billion of capital). The market rewarded this performance with an exceptional market to book multiple of 77x (compared to an average multiple of approximately 4x for all 125 companies).

**Continued on page 4**

# CEO Performance Scorecard

## The Medal Winner

Given that a CEO's primary duty is to put capital to its highest and best use, we ranked CEO performance of 125 of Northern California's largest companies according to their ability to earn returns above investors' required returns. Accordingly, the two main categories in our ranking are returns based. The first category is based solely on which CEO's company delivered the highest return above its required return while the second category is based on economic profit, which takes into account the profits a company makes over and above its required return on capital.


**Steve Jobs**, CEO of **Apple**, achieved a rare double by leading his company to the top spot in both categories. Apple delivered returns 1,049% above its required return on only $2.4 billion of capital, resulting in an impressive $25.4 billion of economic profit (1,049% return above investor requirements x $2.4 billion of capital). The market also took note and rewarded Apple with a market to book multiple of 77x, which is significantly higher than the average multiple of 4x for the 125 companies in the ranking.

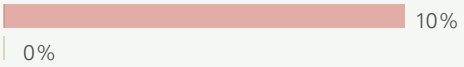
## Performance by the Numbers

Companies that exceed their investors' required returns are valued significantly higher than companies that do not. The CEOs of these companies have strategies in place that deliver higher returns and more profitable growth, which is why they really are winners.

**85 companies** in the ranking earned returns above investor requirements.

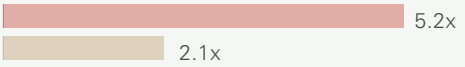
**Average Profit Margin**

**10%** higher profitability for the 85 companies earning returns above required returns




**Average Market to Book Multiple**

**2.5x higher** valuations for the 85 companies earning returns above required returns



# Who's *Really* Winning?

**Continued from page 2**

To further examine the role of returns, we segmented the 125 companies into two groups and compared their respective performance. Group I consisted of the 85 companies (68%) with returns above their required return while Group II consisted of the 40 companies (32%) with returns below their required return. Group I was the hands-down winner in all categories, outperforming Group II according to market value, return and growth measures.

First, at year-end 2011, the market valued Group I companies demonstrably higher than Group II companies. Group I's average market to book multiple of 5.2x is approximately 2.5x Group II's average market to book multiple of 2.1x. In other words, the market is valuing every $1 invested in Group 1 at $2.50 versus only $1 for Group II.

Clearly, the market doesn't believe that "*everyone deserves a medal*."

Next, we compared the performance of Group I and Group II over the last five years. During this period, Group I delivered higher returns and grew faster than Group II. The average return on capital for Group I was 26% versus 1% for Group II. Group I grew sales at 10% annually and delivered an average profit margin of 10%, while Group II grew at 16% annually with an average profit margin of 0%.

Going forward, Group I should emphasize growth since growth combined with high returns builds value. Conversely, Group II companies would generate relatively more value by focusing on margin improvement. Many CEOs fall into the trap of thinking that high growth will cure all; however, if margins remain low, then additional growth will only drive down profits, free cash flow and value.

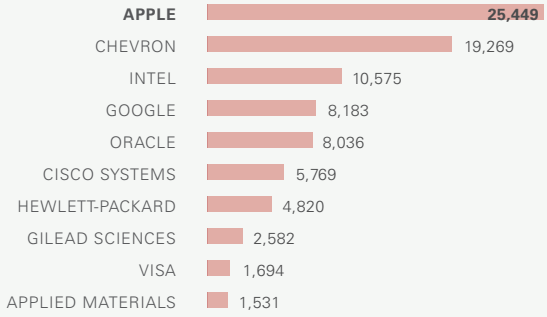
Finally, the strong performance of Group I spanned multiple industries. Group I also delivered higher returns than Group II across the common industries in our ranking. For example, in Medical Equipment, the top performer, Intuitive Surgical (Group I), delivered a 105% return on capital while Accuray (Group II) earned a -48% return on capital. Other industries, such as Semiconductors, Computer Software, Computer Hardware, Communication Equipment and IT Consulting and Services, exhibited similar results.

In summary, returns do matter. Companies that exceed their investors' required returns are valued significantly higher than companies that do not. The CEOs of these companies have strategies in place that deliver higher returns and more profitable growth—which is why they really are winners.

# Top and Bottom 10 Value Creators – 2011 Economic Profit

## Top 10 Value Creators

$ MILLIONS




## Economic Profit at a Glance

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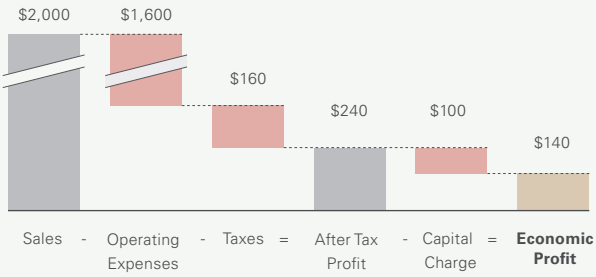
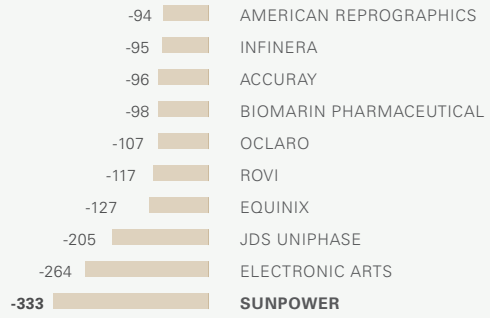



## Bottom 10 Value Creators

$ MILLIONS




**Economic Profit** is profit after tax and a notional charge for capital invested in the business

**Capital Charge** is invested capital x cost of capital e.g., $1,000 x 10% = $100

**Invested Capital** = working capital + net assets

**Cost of Capital** = investors' required return

# Top and Bottom Economic Profit

1st PLACE PODIUM

## Apple

Under **Steve Jobs'** leadership, **Apple**'s innovations captivated users and generated unprecedented demand for its products. In 2011, sales grew $43 billion (66%) to $108 billion with a 24% profit margin. To put that into perspective, five years ago Apple's sales were only $19 billion with a 9% margin. It is no surprise that Apple's $25 billion economic profit earned it the #1 position in the 2011 ranking. Clearly, the bar has been set high for Tim Cook in his new role.

BENCHED

## SunPower Corp

**Thomas Werner**'s **SunPower** has experienced intense competition in the solar energy industry over the past 5 years and has not fared well. To combat declining market share, SunPower reduced selling prices, which decreased margins and, combined with nearly $2 billion in capital, caused economic profit to plummet to -$333 million. In 2011 and early 2012, Sunpower announced a number of actions to improve performance but it won't be easy in this rapidly changing industry.

# Who Are the Return Champs?

Northern California's corporate landscape is dominated by technology and software-related companies; however, within these categories lies a diverse set of companies that vary in size and market focus. To recognize performance over this broad company universe, we have chosen to also rank CEOs according to their value spread, the difference between their company's return on capital and their cost of capital.

Although growing economic profit, which combines efficiency and size in one number, should be the long-term maximizing objective, looking at the value spread allows us to standardize for size and compare all CEOs in terms of how well they have employed their investors' capital.

Two companies from entirely different industries, **NetApp** (data storage and software) and **Intuitive Surgical** (medical devices), exemplify this concept particularly well. Their individual performances are instructive on how different strategies and different combinations of profitability and capital investment can result in returns, growth and value.

## Northern California's Return All-Stars

ALL-STAR

### NetApp

In 2011, **NetApp**'s **Tom Georgens** delivered a value spread of 533% on average capital of $115 million, which resulted in $614 million of economic profit. The company generates 10% profit margins and capital turnover of 52x, thanks to its practice of extracting customer advances. In addition to its favorable capital model, NetApp is well positioned to handle the proliferation of big data that its customers will face for the foreseeable future.

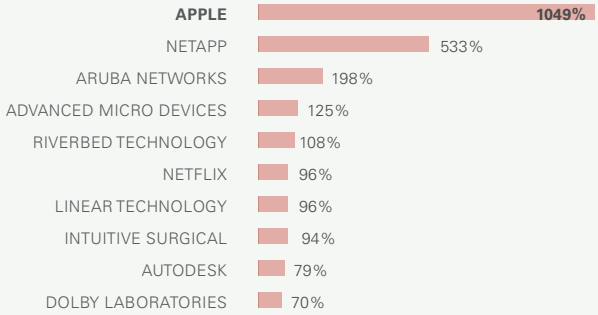
ALL-STAR

### Intuitive Surgical

**Intuitive Surgical**'s **Gary Guthart** earned a spectacular 94% value spread on an average capital base of $501 million, resulting in $438 million of economic profit. The company generated a 28% profit margin in 2011 and capital turnover of 3.8x. Intuitive's pioneering development of robotics in the field of minimally invasive surgery allows it to command such premium pricing and it is also driving the company's 25%-plus growth trajectory.

# Top and Bottom 10 - 2011 Value Spread

## Top 10 Value Spread




## What Is the Value Spread?

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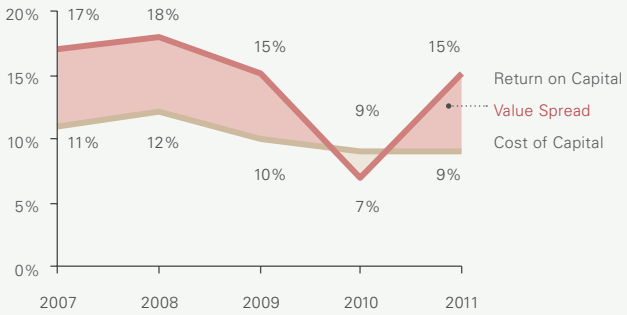
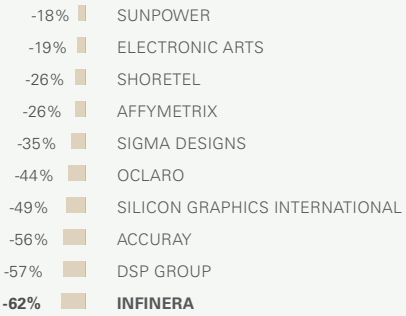



## Bottom 10 Value Spread




**Value Spread** = Return on Capital - Cost of Capital

| | | |
|---|---|---|
| | 2011 Return on capital | 15% |
| - | 2011 Cost of capital | 9% |
| = | **2011 Value Spread** | 6% |

Value is created when a company's return on capital is above its cost of capital and, conversely, value decreases when a company's return on capital is less than its cost of capital.

The average value spread for the 125 companies in this ranking was 13%.

# The High High and the Low Low

CHAMP

## Apple

In a rare double, **Apple** also tops the value spread and economic profit ranking. Through its intuitive software and design, Apple has established a premium brand that, combined with minimal capital, enabled Apple to earn returns of over 1,000%. Notably in 2011, it generated $25 billion profit on $2.4 billion capital (excluding cash and investments). The big question is whether, and for how long, Apple can defend its enviable position and remain #1.

DEFEATED

## Infinera

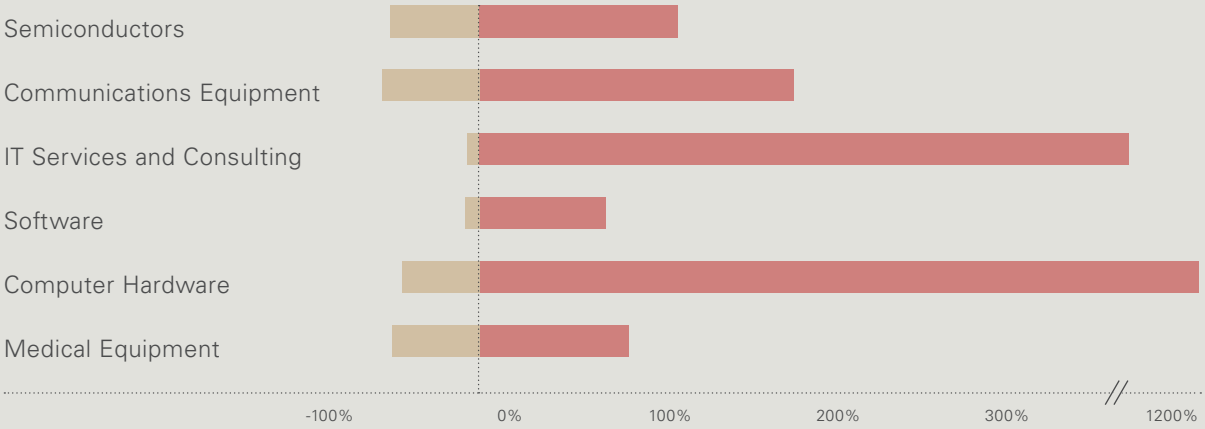
From 2006–2011, **Infinera**'s **Thomas Fallon** has grown revenues from $58 million to over $400 million. At first glance, the sales growth seems impressive, however a closer look reveals negative profits along with increased investment to support growth and to stay current in the ultra-competitive digital optic network industry. This combination of negative profits and increased capital resulted in negative economic profit of $95 million in 2011 and earned Infinera the #125 spot in our ranking.

# Perspectives on Performance

## Good Industry or Good Leadership?

It seems intuitive that different industries should have differing return profiles; however, for select Northern California companies, the data suggests that variations in performance are driven more by differences in leadership, strategy and execution than by overall industry characteristics.

### Industry Breakdown




| | Semiconductors | | Software | | Communications Equipment | |
|---|---|---|---|---|---|---|
| **Top 3** | **1. Advanced Micro Devices** | **125%** | **1. Autodesk** | **79%** | **1. Aruba Networks** | **198%** |
| | 2. Linear Technology | 96% | 2. Oracle | 29% | 2. Riverbed Technology | 108% |
| | 3. NVIDIA | 41% | 3. Intuit | 23% | 3. Cisco Systems | 34% |
| **Bottom 3** | 26. SunPower | -18% | 6. Adobe Systems | -10% | 13. Shoretel | -26% |
| | 27. Sigma Designs | -35% | 7. Symantec | -5% | 14. Oclaro | -44% |
| | **28. DSP Group** | **-57%** | **8. Salesforce.com** | **-10%** | **15. Infinera** | **-62%** |

| | Computer Hardware | | IT Services & Consulting | | Medical Equipment | |
|---|---|---|---|---|---|---|
| **Top 3** | **1. Apple** | **1049%** | **1. NetApp** | **533%** | **1. Intuitive Surgical** | **94%** |
| | 2. Synaptics | 59% | 2. VMware | 67% | 2. Varian Medical Systems | 44% |
| | 3. SanDisk | 46% | 3. Google | 44% | 3. Align Technology | 23% |
| **Bottom 3** | 6. Super Micro Computer | 4% | 9. Yahoo! | 2% | 7. Natus Medical | -5% |
| | 7. Quantum | -11% | 10. Equinix | -3% | 8. Cepheid | -6% |
| | **8. Silicon Graphics International** | **-49%** | **11. Ariba** | **-4%** | **9. Accuray** | **-56%** |

# A Look at Value Spread

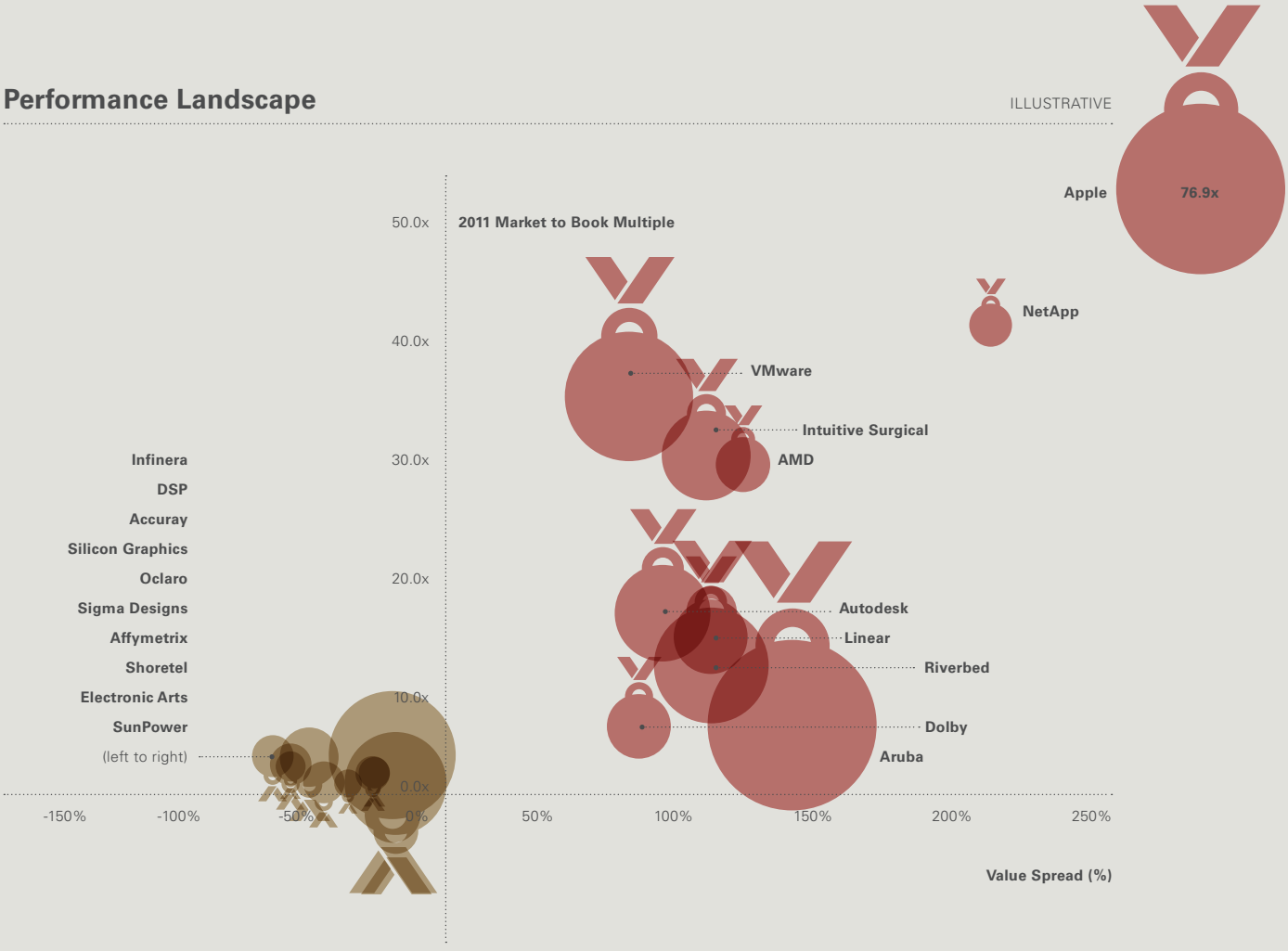
## Increase Your Value Spread – Increase Your Share Price

We have included select companies in the Performance Landscape according to their market to book multiple and value spread. The market rewards companies that earn a high value spread with high market to book multiples and penalizes those that earn low value spreads with low market to book multiples.

From a strategic perspective, companies with a positive value spread (signified by upright medals) should focus on growth since growth in economic profit increases value. While companies earning a negative value spread (signified by upside-down medals) will generate relatively more value by focusing first on improving margins and capital efficiency to improve their value spread. High growth with a negative value spread will only drive down economic profit, cash flow and value.

### Performance Landscape

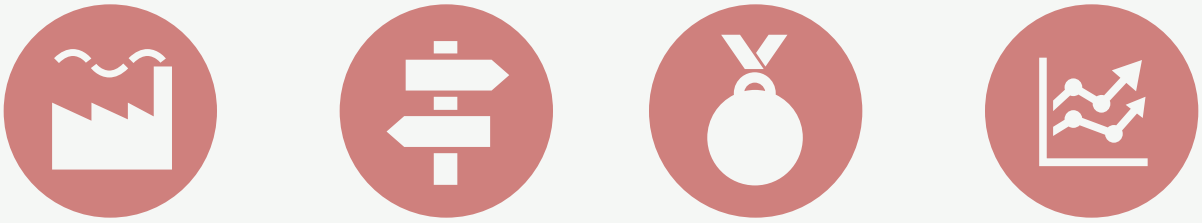
ILLUSTRATIVE




Medal size reflects relative company revenue

Note: Market to Book Multiple = Enterprise Value / Invested Capital

# Four Steps to Becoming a Value-Oriented Company



## 1 Understand your industry's competitive dynamics

Ensure your company has a disciplined approach to understanding where opportunities exist in your industry's value chain. Your understanding must include a deep knowledge of your performance compared to competitors, your positioning with customers, and your pricing power and cost structure. This understanding is the foundation for developing a winning strategy that creates long-term value.

## 2 Focus on strategies that provide competitive advantage

The strategy you choose should be one your organization can execute and that will deliver growth at a positive value spread. The key component of generating long-term value is a sustainable competitive advantage (i.e., price premium, cost efficiency and/or capital efficiency) coupled with a robust capital allocation process to protect and leverage your competitive advantage.

## 3 Align your organization for improved decision-making

The goals of this step are to ensure that the right people are in the right positions and to provide them with the required technology and key processes to be successful. Key processes include integrated value planning (strategic and annual), capital allocation, performance management and aligned incentives that reinforce the strategy.

## 4 Execute, monitor and adapt accordingly

To be competitive, it is critical that proper feedback loops are provided to teams on a frequent basis to support and reinforce direction. This feedback enables companies to respond and adapt to the market as necessary. The ability to adjust quickly to changes will make the difference between winning and losing.

# Appendix:

## 2011 SCCO International CEO Performance 125

# SCCO International CEO Performance 125 (1-50)

| 2011 EP Rank | 2010 EP Rank | **Company Name** | Chief Executive Officer | CEO Since | **2011 EP $millions** | 1 Year EP Change $millions | **2011 Value Spread** | 2011 Market to Book Multiple | 2011 Ent. Value $millions | 2011 Sales $millions | 2011 Invested Capital $millions |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1 | Apple | Timothy D. Cook | 2011 | 25,449 | 11,641 | 1049% | 76.9x | 281,391 | 108,249 | 2,427 |
| 2 | 2 | Chevron | John S. Watson | 2010 | 19,269 | 7,075 | 18% | 1.8x | 210,114 | 253,706 | 108,834 |
| 3 | 3 | Intel | Paul S. Otellini | 2005 | 10,575 | 994 | 36% | 3.2x | 116,645 | 53,999 | 29,431 |
| 4 | 5 | Google | Dr. Larry Page | 2011 | 8,183 | 1,225 | 44% | 8.0x | 165,274 | 37,905 | 18,414 |
| 5 | 4 | Oracle | Lawrence J. Ellison | 1977 | 8,036 | 1,025 | 29% | 4.6x | 131,504 | 36,980 | 28,041 |
| 6 | 6 | Cisco | John T. Chambers | 1995 | 5,769 | -854 | 34% | 3.5x | 60,365 | 43,218 | 16,989 |
| 7 | 7 | HP | Margaret C. Whitman | 2011 | 4,820 | -1,120 | 7% | 1.1x | 81,625 | 127,245 | 66,006 |
| 8 | 8 | Gilead | John C. Martin | 1996 | 2,582 | -41 | 43% | 6.0x | 27,415 | 8,385 | 5,992 |
| 9 | 10 | Visa | Joseph W. Saunders | 2007 | 1,694 | 522 | 7% | 2.6x | 69,153 | 9,188 | 25,890 |
| 10 | 14 | Applied Materials | Michael R. Splinter | 2003 | 1,624 | 858 | 48% | 3.3x | 10,682 | 10,517 | 3,372 |
| 11 | 11 | eBay | Ofer Elyakim | 2009 | 1,351 | 355 | 14% | 3.2x | 35,854 | 11,652 | 9,597 |
| 12 | 12 | McKesson | John H. Hammergren | 2001 | 1,031 | 118 | 11% | 2.3x | 22,801 | 122,734 | 9,606 |
| 13 | 9 | SanDisk | Sanjay Mehrotra | 2011 | 841 | -335 | 46% | 4.9x | 10,666 | 5,662 | 1,815 |
| 14 | 59 | AMD | Rory P. Read | 2011 | 811 | 768 | 125% | 6.2x | 4,141 | 6,568 | 648 |
| 15 | 26 | Agilent | William P. Sullivan | 2005 | 677 | 352 | 16% | 3.1x | 11,047 | 6,615 | 4,261 |
| 16 | 30 | Vmware | Paul A. Maritz | 2008 | 639 | 368 | 67% | 38.2x | 33,796 | 3,767 | 954 |
| 17 | 121 | Symantec | Enrique T. Salem | 2009 | 637 | 709 | 5% | 0.9x | 11,730 | 11,709 | 12,500 |
| 18 | 16 | KLA-Tencor | Richard P. Wallace | 2006 | 617 | -63 | 38% | 4.1x | 6,940 | 3,172 | 1,622 |
| 19 | 15 | NetApp | Thomas Georgens | 2009 | 614 | -92 | 533% | 31.2x | 9,529 | 5,959 | 115 |
| 20 | 13 | Gap | Thomas St. Dennis | 2010 | 589 | -242 | 9% | 1.9x | 13,568 | 14,549 | 6,452 |
| 21 | 23 | Intuit | Brad D. Smith | 2008 | 529 | 109 | 23% | 6.3x | 15,012 | 3,851 | 2,322 |
| 22 | 22 | Ross | Michael Balmuth | 1996 | 524 | 83 | 19% | 4.4x | 12,796 | 8,608 | 2,740 |
| 23 | 18 | Clorox | Robert S. Weiss | 2007 | 477 | -114 | 18% | 4.1x | 11,815 | 5,409 | 2,627 |
| 24 | 24 | Adobe | Shantanu Narayen | 2007 | 470 | 93 | 10% | 2.6x | 12,460 | 4,216 | 4,665 |
| 25 | 42 | NVIDIA | Jen-Hsun Huang | 1993 | 460 | 357 | 41% | 4.4x | 5,731 | 3,998 | 1,131 |
| 26 | 20 | Xilinx | Moshe N. Gavrielov | 2008 | 444 | -105 | 23% | 3.5x | 7,616 | 2,270 | 1,935 |
| 27 | 19 | Linear | Lothar Maier | 2005 | 442 | -134 | 96% | 14.9x | 7,002 | 1,295 | 459 |
| 28 | 25 | Intuitive Surgical | Gary S. Guthart | 2010 | 438 | 109 | 94% | 32.4x | 16,238 | 1,757 | 465 |
| 29 | 28 | Varian Medical | Timothy E. Guertin | 2006 | 345 | 37 | 44% | 7.1x | 5,836 | 2,597 | 782 |
| 30 | 31 | Dolby | Michael J. Mendes | 2010 | 276 | 23 | 70% | 6.1x | 2,515 | 956 | 393 |
| 31 | 36 | Autodesk | Carl Bass | 1993 | 248 | 74 | 79% | 17.0x | 6,393 | 2,216 | 315 |
| 32 | 37 | Netflix | Reed Hastings | 1998 | 227 | 74 | 96% | 12.1x | 3,556 | 3,205 | 235 |
| 33 | 21 | Atmel | Steven A. Laub | 2006 | 223 | -287 | 29% | 4.0x | 3,640 | 1,803 | 776 |
| 34 | 48 | VeriFone | Douglas G. Bergeron | 2002 | 221 | 158 | 26% | 3.3x | 3,998 | 1,304 | 856 |
| 35 | 27 | Maxim | Tunc Doluca | 2007 | 213 | -108 | 10% | 3.5x | 7,661 | 2,425 | 2,124 |
| 36 | 29 | Yahoo! | Carol Bartz | 2009 | 202 | -100 | 2% | 1.6x | 18,108 | 4,984 | 10,891 |
| 37 | 17 | Lam | Stephen G. Newberry | 2010 | 202 | -418 | 18% | 3.2x | 3,428 | 2,675 | 1,126 |
| 38 | 33 | Novellus | Richard S. Hill | 1993 | 185 | -1 | 26% | 3.1x | 2,057 | 1,353 | 712 |
| 39 | 34 | Synopsys | Aart J. de Geus | 1994 | 158 | -25 | 15% | 2.8x | 3,064 | 1,536 | 1,036 |
| 40 | 46 | Williams Sonoma | Laura J. Alber | 2010 | 103 | 28 | 6% | 2.4x | 4,384 | 3,721 | 1,825 |
| 41 | 60 | Cypress | Barry J. Feld | 2005 | 103 | 62 | 37% | 9.9x | 2,573 | 995 | 282 |
| 42 | 123 | LSI | Abhijit Y. Talwalkar | 2005 | 99 | 203 | 10% | 4.4x | 2,984 | 2,044 | 1,004 |
| 43 | 75 | URS | Martin M. Koffel | 1989 | 93 | 75 | 2% | 0.7x | 4,111 | 9,545 | 5,557 |
| 44 | 84 | Robert Half | Harold M. Messmer Jr. | 1987 | 90 | 85 | 11% | 5.0x | 4,033 | 3,777 | 803 |
| 45 | 47 | Informatica | Sohaib Abbasi | 2004 | 83 | 20 | 20% | 9.3x | 3,807 | 784 | 413 |
| 46 | 40 | Bio-Rad | Norman D. Schwartz | 2003 | 83 | -34 | 5% | 1.5x | 2,683 | 2,074 | 1,709 |
| 47 | 45 | Copart | D. Keith Grossman | 2011 | 79 | -11 | 9% | 4.1x | 3,453 | 669 | 870 |
| 48 | 65 | TIBCO | Vivek Y. Ranadiv | 1997 | 67 | 31 | 12% | 7.9x | 4,411 | 920 | 552 |
| 49 | 115 | Aruba | Dominic P. Orr | 2006 | 67 | 103 | 198% | 45.1x | 2,603 | 397 | 34 |
| 50 | 64 | Riverbed | Jerry M. Kennelly | 2002 | 66 | 29 | 108% | 31.5x | 3,426 | 726 | 61 |

# SCCO International CEO Performance 125 (51-100)

| 2011 EP Rank | 2010 EP Rank | **Company Name** | Chief Executive Officer | CEO Since | **2011 EP $millions** | 1 Year EP Change $millions | **2011 Value Spread** | 2011 Market to Book Multiple | 2011 Ent. Value $millions | 2011 Sales $millions | 2011 Invested Capital $millions |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 51 | 56 | SYNNEX | Kevin Murai | 2008 | 66 | 22 | 5% | 1.0x | 1,432 | 10,410 | 1,383 |
| 52 | 32 | Juniper | Kevin R. Johnson | 2008 | 64 | -164 | 2% | 2.1x | 8,464 | 4,449 | 4,041 |
| 53 | 61 | Igate | Phaneesh Murthy | 2008 | 64 | 24 | 16% | 2.2x | 1,494 | 780 | 389 |
| 54 | 70 | NETGEAR | Patrick C. S. Lo | 2002 | 63 | 36 | 24% | 3.4x | 1,003 | 1,181 | 267 |
| 55 | 39 | Cadence | Lip–Bu Tan | 2009 | 61 | -78 | 15% | 6.8x | 2,758 | 1,150 | 417 |
| 56 | 41 | OmniVision | Shaw Hong | 1995 | 59 | -46 | 18% | 1.3x | 587 | 937 | 333 |
| 57 | 78 | Coherent | Donald R. Knauss | 2006 | 58 | 46 | 16% | 2.2x | 889 | 803 | 363 |
| 58 | 50 | Integrated | Theodore L. Tewksbury III | 2008 | 52 | -6 | 18% | 1.7x | 491 | 702 | 290 |
| 59 | 51 | Synaptics | Russell J. Knittel | 2010 | 48 | -8 | 59% | 11.3x | 877 | 554 | 81 |
| 60 | 49 | Align | Thomas M. Prescott | 2002 | 44 | -18 | 23% | 3.9x | 1,130 | 480 | 190 |
| 61 | 66 | Thoratec | Gerhard F. Burbach | 2006 | 44 | 8 | 11% | 4.0x | 1,707 | 423 | 386 |
| 62 | 67 | Integrated Silicon | Scott D. Howarth | 2008 | 42 | 8 | 37% | 1.1x | 136 | 271 | 111 |
| 63 | 71 | IXYS | Nathan Zommer | 1993 | 30 | 4 | 16% | 1.6x | 308 | 378 | 190 |
| 64 | 72 | Exponent | Michael M. Morrissey | 2010 | 28 | 5 | 37% | 7.0x | 529 | 272 | 76 |
| 65 | 57 | Sanmina-SCI | Jure Sola | 1991 | 28 | -17 | 2% | 0.8x | 1,259 | 6,602 | 1,483 |
| 66 | 52 | Tessera | Robert A. Young | 2011 | 27 | -27 | 11% | 1.3x | 365 | 255 | 239 |
| 67 | 58 | Micrel | Raymond D. Zinn | 1978 | 27 | -16 | 30% | 5.8x | 498 | 259 | 88 |
| 68 | 79 | Diamond Foods | T. J. Rodgers | 1982 | 22 | 11 | 2% | 1.9x | 2,211 | 966 | 1,106 |
| 69 | 63 | Power Integrations | Balu Balakrishnan | 2002 | 20 | -18 | 15% | 5.5x | 780 | 299 | 134 |
| 70 | 76 | Advent | Stephanie G. DiMarco | 2003 | 19 | 3 | 12% | 6.5x | 1,261 | 326 | 153 |
| 71 | 53 | Nanometrics | Timothy J. Stultz | 2007 | 18 | -28 | 17% | 2.8x | 317 | 230 | 109 |
| 72 | 97 | Cooper | Garry W. Rogerson | 2011 | 16 | 29 | 1% | 1.6x | 4,018 | 1,331 | 2,470 |
| 73 | 80 | Ultra Clean | Clarence L. Granger | 2006 | 13 | 2 | 14% | 1.3x | 123 | 453 | 95 |
| 74 | 74 | Super Micro | Charles Liang | 1993 | 10 | -10 | 4% | 2.4x | 646 | 998 | 258 |
| 75 | 69 | Monolithic Power | Michael R. Hsing | 1997 | 9 | -19 | 15% | 4.8x | 305 | 197 | 60 |
| 76 | 85 | Genomic Health | Kimberly J. Popovits | 2009 | 6 | 3 | 22% | 23.1x | 701 | 206 | 28 |
| 77 | 109 | Intersil | David B. Bell | 2008 | 6 | 33 | 1% | 1.4x | 1,154 | 760 | 896 |
| 78 | 83 | Peet's | Patrick J. O'Dea | 2002 | 6 | 1 | 3% | 3.8x | 822 | 372 | 209 |
| 79 | 81 | GenCorp | Scott J. Seymour | 2010 | 5 | -4 | 2% | 2.6x | 769 | 918 | 290 |
| 80 | 88 | Omnicell | Randall A. Lipps | 2002 | 5 | 4 | 6% | 4.0x | 389 | 246 | 82 |
| 81 | 100 | Electronics For Imaging | John S. Riccitiello | 2007 | 5 | 18 | 2% | 1.6x | 442 | 592 | 266 |
| 82 | 89 | Extreme Networks | Paul R. Johnston | 2009 | 4 | 5 | 13% | 5.5x | 221 | 325 | 33 |
| 83 | 68 | PMC-Sierra | Gregory S. Lang | 2008 | 4 | -25 | 1% | 1.5x | 1,059 | 654 | 726 |
| 84 | 93 | Simpson | Karen W. Colonias | 2012 | 2 | 11 | 0% | 2.5x | 1,414 | 603 | 519 |
| 85 | 73 | Central Garden & Pet | William E. Brown | 2007 | 2 | -21 | 0% | 0.9x | 843 | 1,629 | 873 |
| 86 | 87 | McClatchy | Gary Pruitt | 1996 | -0 | -1 | -0% | 1.0x | 2,488 | 1,270 | 2,429 |
| 87 | 94 | Cost Plus | J. Michael Walsh | 2003 | -0 | 9 | -0% | 1.3x | 653 | 964 | 535 |
| 88 | 90 | Landec | Gary T. Steele | 1991 | -1 | 3 | -1% | 1.3x | 151 | 303 | 119 |
| 89 | 104 | LeapFrog | John Barbour | 2010 | -3 | 14 | -2% | 1.8x | 325 | 455 | 192 |
| 90 | 44 | Rambus | Harold E. Hughes | 2005 | -4 | -98 | -2% | 2.2x | 726 | 312 | 194 |
| 91 | 98 | Mcgrath | Dennis C. Kakures | 2003 | -4 | 9 | -1% | 1.2x | 987 | 343 | 791 |
| 92 | 99 | Core-Mark | A. Jayson Adair | 2010 | -6 | 7 | -1% | 1.1x | 691 | 8,115 | 569 |
| 93 | 103 | Cepheid | John L. Bishop | 2002 | -7 | 8 | -6% | 13.9x | 2,044 | 278 | 132 |
| 94 | 120 | Onyx | N. Anthony Coles | 2008 | -8 | 56 | -1% | 3.7x | 2,270 | 447 | 585 |
| 95 | 55 | Safeway | Steven A. Burd | 1993 | -9 | -55 | -0% | 1.1x | 15,737 | 43,630 | 14,811 |
| 96 | 101 | Symmetricom | David G. Côté | 2009 | -9 | 5 | -5% | 1.1x | 197 | 236 | 178 |
| 97 | 77 | Shutterfly | Jeffrey T. Housenbold | 2005 | -10 | -24 | -4% | 1.5x | 718 | 473 | 253 |
| 98 | 86 | Silicon Image | Camillo Martino | 2010 | -12 | -14 | -13% | 1.9x | 235 | 221 | 94 |
| 99 | 92 | Natus | James B. Hawkins | 2004 | -13 | -5 | -5% | 0.9x | 245 | 233 | 260 |
| 100 | 107 | Jamba | James D. White | 2008 | -14 | 8 | -11% | 1.4x | 167 | 226 | 128 |

Trailing twelve-month data is used for companies with fiscal years ending prior to 6/30/11.

EP = Economic Profit; Ent. = Enterprise Value; Market to Book Multiple = Enterprise Value / Invested Capital

# SCCO International CEO Performance 125 (101-125)

| 2011 EP Rank | 2010 EP Rank | **Company Name** | Chief Executive Officer | CEO Since | **2011 EP $millions** | 1 Year EP Change $millions | **2011 Value Spread** | 2011 Market to Book Multiple | 2011 Ent. Value $millions | 2011 Sales $millions | 2011 Invested Capital $millions |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 101 | 102 | Ariba | Robert M. Calderoni | 2001 | -17 | -2 | -4% | 5.3x | 2,631 | 444 | 456 |
| 102 | 112 | Trimble | Steven W. Berglund | 1999 | -18 | 11 | -1% | 2.8x | 5,898 | 1,644 | 1,751 |
| 103 | 105 | bebe | Manny Mashouf | 2009 | -18 | -1 | -4% | 2.1x | 908 | 532 | 426 |
| 104 | 38 | Cavium | Syed B. Ali | 2000 | -18 | -165 | -10% | 5.9x | 1,399 | 259 | 185 |
| 105 | 106 | Silicon Graphics | James D. Wheat | 2007 | -20 | -1 | -49% | 3.3x | 244 | 769 | 40 |
| 106 | 95 | DSP | Kevin J. Yeaman | 2009 | -21 | -9 | -57% | 2.3x | 87 | 194 | 36 |
| 107 | 96 | Shoretel | Peter Blackmore | 2010 | -23 | -10 | -26% | 1.6x | 233 | 225 | 88 |
| 108 | 111 | Harmonic | Lewis Solomon | 2006 | -31 | -2 | -7% | 1.1x | 485 | 549 | 428 |
| 109 | 110 | Affymetrix | Stephen P.A. Fodor | 1997 | -40 | -11 | -26% | 1.6x | 224 | 267 | 151 |
| 110 | 117 | Quantum | Jon W. Gacek | 2011 | -54 | -13 | -11% | 1.6x | 790 | 657 | 505 |
| 111 | 118 | Applied Micro Circuits | Paramesh Gopi | 2009 | -64 | -19 | -16% | 0.8x | 306 | 241 | 406 |
| 112 | 82 | Finisar | Juan Oscar Rodriguez | 2010 | -66 | -73 | -8% | 1.8x | 1,570 | 950 | 775 |
| 113 | 113 | Brocade | Michael Klayko | 2005 | -71 | -38 | -3% | 1.1x | 2,642 | 2,147 | 2,428 |
| 114 | 91 | Sigma Designs | Thinh Q. Tran | 1982 | -73 | -68 | -35% | 0.6x | 109 | 183 | 206 |
| 115 | 54 | Salesforce.com | Marc Benioff | 2001 | -82 | -129 | -10% | 14.8x | 15,036 | 2,267 | 849 |
| 116 | 108 | American Reprographics | Kumarakulasingam Suriyakumar | 2007 | -94 | -71 | -17% | 0.8x | 467 | 423 | 563 |
| 117 | 116 | Infinera | Thomas Fallon | 2010 | -95 | -56 | -62% | 3.3x | 533 | 405 | 154 |
| 118 | 114 | Accuray | Euan S. Thomson | 2002 | -96 | -59 | -56% | 2.6x | 441 | 384 | 170 |
| 119 | 35 | BioMarin | Jean-Jacques Bienaim | 2005 | -98 | -281 | -17% | 6.0x | 3,977 | 441 | 583 |
| 120 | 119 | Oclaro | Alain A. Couder | 2011 | -107 | -48 | -44% | 0.9x | 217 | 390 | 246 |
| 121 | 43 | Rovi | Thomas Carson | 2011 | -117 | -217 | -5% | 1.4x | 3,446 | 691 | 2,228 |
| 122 | 122 | Equinix | Guy Gecht | 2000 | -127 | -35 | -3% | 1.6x | 7,783 | 1,607 | 4,607 |
| 123 | 124 | JDS Uniphase | Thomas H. Waechter | 2009 | -205 | -97 | -12% | 1.8x | 2,964 | 1,715 | 1,683 |
| 124 | 125 | Electronic Arts | Ronald A. Sege | 2010 | -264 | 35 | -19% | 3.4x | 5,975 | 3,865 | 1,379 |
| 125 | 62 | SunPower | Thomas H. Werner | 2010 | -333 | -372 | -18% | 0.7x | 1,322 | 2,312 | 1,864 |

# About the Authors

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Patrick is a Partner of SCCO International, based in Los Angeles. He has more than 15 years of experience advising senior executives on business portfolio strategy and change management processes across a broad set of industries. He is an expert in the field of value realization with a focus on market price strategies and sales management. Patrick is also a member of Pepperdine's Crest Advisory Board.

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**SCCO International** is a global management consulting firm with a focus on the simple yet far-reaching concept of consistent value management. We have been working with our clients for over 15 years to assess their business portfolios and develop and implement strategies that achieve sustainable competitive advantages and drive returns for their shareholders.

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**Methodology Note**

To be included in the ranking, companies must be headquartered in Northern California, publicly traded for at least two years on a major U.S. stock exchange, and have minimum 2011 revenues of $100 million. Excluded are financial institutions and real estate investment trusts. Economic profit calculations are based on SCCO International methodology. The cost of capital estimates used to calculate economic profit and value spread are based on a capital asset pricing model (CAPM) approach. Betas are based on five-year monthly total return data and adjusted toward one consistent with Bloomberg Adjusted Beta methodology where adjusted beta = .66 x unadjusted beta + .33. Company financial information is based on actual fiscal year end data for companies with fiscal years ending between 7/1/11 and 1/31/12. Trailing twelve-month data is used for companies with fiscal years ending prior to 6/30/11. Data sources: company reports, Thomson Reuters Financial.

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