

What price reputation?

Corporate Reputation Value Drivers: A Global Report by AMO

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AMO is the leading global partnership of strategic advisory and communications consultancies. We provide our clients around the world with thoughtful counsel producing better business results. Founded in 2001, we have a unique structure, pairing deep local market expertise with broad global perspective and integrated project management.

Foreword

In a world of growing complexity and rapid-fire stock market volatility, investors are increasingly sensitive to company reputations.

When times get tough, it is the companies with stronger, more balanced corporate reputations that will ride the storm most effectively, protect value and come out on top. Which means, of course, that understanding the elements that work hardest to protect and enhance the value of their company's reputation is crucial to managers of any listed company.

But this has remained hard to examine, difficult to pinpoint and impossible to measure in any comprehensive way, until now.

The *2019 AMO Global Reputation Value Drivers* report reveals for the first time the individual components of corporate reputation that are creating most value for the world's leading blue-chip companies and is essential insight for all concerned with the management of the critical assets that are corporate reputations.

Angus Maitland,
Co-Chairman of AMO
Founder of Maitland/AMO

James Abernathy,
Co-Chairman of AMO
Founder of Abernathy MacGregor/AMO

Methodology

Drawing on research by Reputation Dividend, the AMO report spells out how reputation contributes to the stock market valuations of over 1,000 of the world's largest companies in 15 leading national indices.

Reputation value analysis is founded on the understanding that no single method of valuing companies can fully explain market capitalisation with any consistency.

Each company's reputation value is measured by calculating the extent to which its actual stock market capitalisation differs from the value implied by standard financial metrics alone, such as earnings multiples, discounted cash flows, or free cash flow yields.

The regression-based approach uses an array of data combining financial metrics and non-financial factors including research-sourced measures of corporate reputation to derive a "general model of investor behaviour". This, calibrated on an annual basis, explains close to 95% of companies' market cap with a high degree of statistical significance.

The reputation-driven element of any individual company's market capitalisation is determined by applying the "general model" to the precise circumstances of that company's performance. This reveals the degree to which its shares trade at a premium or discount to the value implied by the financials alone – the supra-normal (or sub-normal) value resulting from corporate reputation.

The research used data from Bloomberg and Morningstar to determine the financial metrics for 1,073 companies in the 15 national blue-chip indices. This universe comprises 67% of the companies in the indices with 77% of the gross market capitalisation. Companies with incomplete data histories were excluded from the analysis, resulting in 538 being removed from the overall total of 1,611. Findings on the 1,073 were then extrapolated to the full universe.

For our analysis of the impact of the corporate reputation indicators, we applied the nine categories used in *Fortune* magazine's annual "Most Admired Companies" survey.

This report provides broad-based data findings by market and by industry. For details of individual companies' reputation contribution data, please contact your local AMO office.

Main findings

Corporate reputations account for **35.3%** of the market capitalisation of the world's 15 leading equity market indices

That equates to **\$16.77 trillion⁽¹⁾** of value for shareholders

Reputations supported corporate value as markets came under pressure in 2018

Reputation value grew by **2.1%** in the 12 months to Q1 2019, while total market cap dropped **0.4%**

21% of companies have reputations that are so poor as to be actively destroying market capitalisation

Average reputation value contribution varies widely by **industry sector** and by **country**

(1) Q1 2019.

The foundations of reputation value

The most valuable elements of reputation are driven by impressions of:

- 1 a company's value as a long-term investment
- 2 its quality of management
- 3 its financial soundness

The largest increases in reputation value will be delivered by improvements in perceptions of:

- 1 its global competitiveness
- 2 its value as a long-term investment
- 3 its capacity for innovation
- 4 the quality of its products and services

The economic impact of reputation

Reputation value analysis measures the extent to which a company's corporate reputation builds, or diminishes, its share price beyond what might reasonably be expected from financial performance.

The study began with the 1,611 companies that make up the world's 15 leading indices and have a combined market cap of \$47.52 trillion. These were IBOV (Brazil), SPTSX (Canada), SSE (China), CAC40 (France), DAX (Germany), HSI (Hong Kong), FTSEMIB (Italy), NKY (Japan), AEX (the Netherlands), RTSI (Russia), IBEX (Spain), OMEX (Sweden), SMI (Switzerland), FTSE 100 (UK) and S&P 500 (USA).

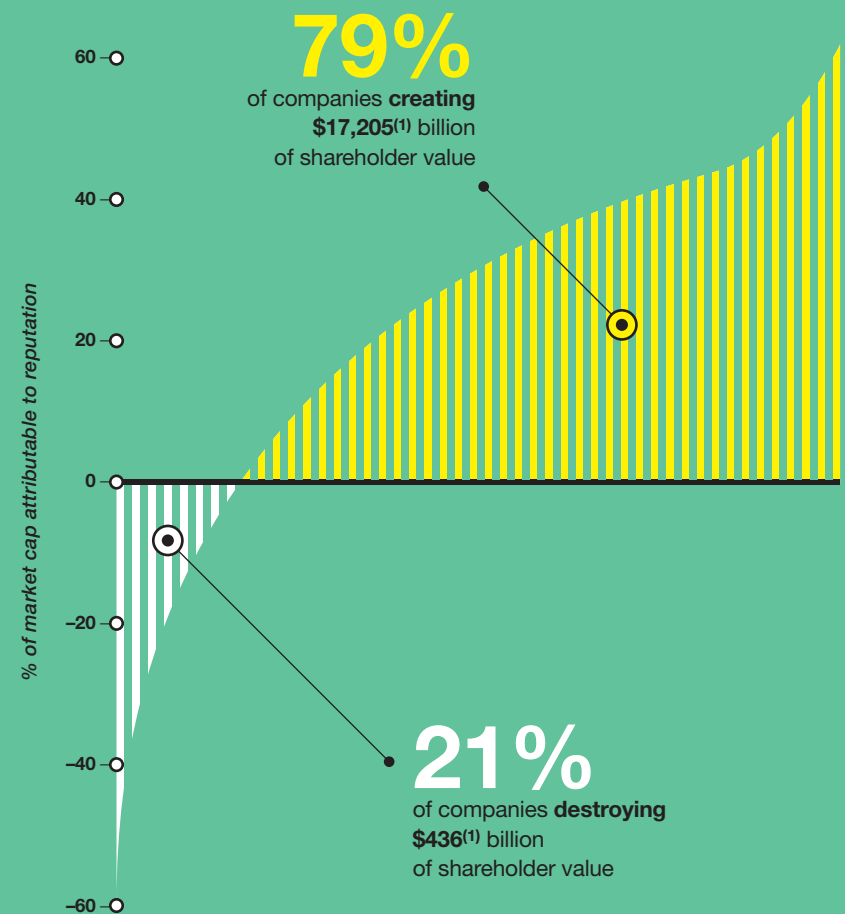
Our research showed that 35.3% of the overall market capitalisation was attributable to corporate reputations, \$16.77 trillion⁽¹⁾ of shareholder value.

What's more, reputation value is growing: the gross amount rose by 2.1% over the 12-month period to end-Q1 2019, while overall market cap dropped 0.4%.

The evidence as to the economic impact of reputation as a whole is clear but the numbers hide enormous variation in individual company performance. 79% of the companies reviewed saw their stock values shored up by corporate reputations that accounted for \$17.2 trillion of market capitalisation. At the other end of the scale however, 21% of companies saw their market cap reduced by a total \$436 billion due to the impact of negative reputations. Corporate reputation can be a major contributor to shareholder value but only when it's performing well.

(1) End-Q1 2019.

Reputation contributions across the 15 leading equity markets



Country focus

Reputation impact is by no means uniformly distributed and individual company reputations contribute value to very different degrees in different geographies. The mix of company profiles, the number of companies in the index and domestic conditions result in a wide spread of reputation contributions to stock market valuations around the world.

These ranged from an average of 47% across the UK's FTSE 100, down to 14% in the Russian market's RTSI index. Corporate visibility, global operations and familiarity are breeding higher degrees of banked reputational goodwill compared with companies in regions where the support provided by effective corporate reputations continues to be trumped by a need for harder evidence.

Other national indices with higher than average reputation contributions included the Dutch AEX, Switzerland's SMI, Germany's DAX, the US S&P, France's CAC, Sweden's OMX and Hong Kong's HSI.

Indices with lower than average reputation contributions were Spain's IBEX, Japan's Nikkei, Canada's SPTSX, China's SSE, Brazil's IBOV and Italy's MIB.

Reputation performance by market reveals that while the average contribution varies substantially, high performance is less spread out. Whereas average contributions range 33 percentage points (from 47% down to 14%), "top performance" ranges just 17 percentage points (from 56% down to 39%). While country difference is driven in part by the number of constituents in the index – with the larger indices including proportionately more smaller companies, often with lower contributions – it is clear from the scale of the spread that there is considerable value growth to be had by companies deploying appropriate reputation stewardship.

Reputation contribution range by equity market
Highest, lowest and average



Industry focus

The average contribution of corporate reputation to market cap varies widely across industry sectors, with “new economy” companies displaying the greatest value in their good names.

The study shows that corporate reputations are contributing more value to companies in “high future-potential” sectors such as technology, telecom and healthcare, compared to more immediately predictable sectors like oil & gas, basic materials, industrials or utilities.

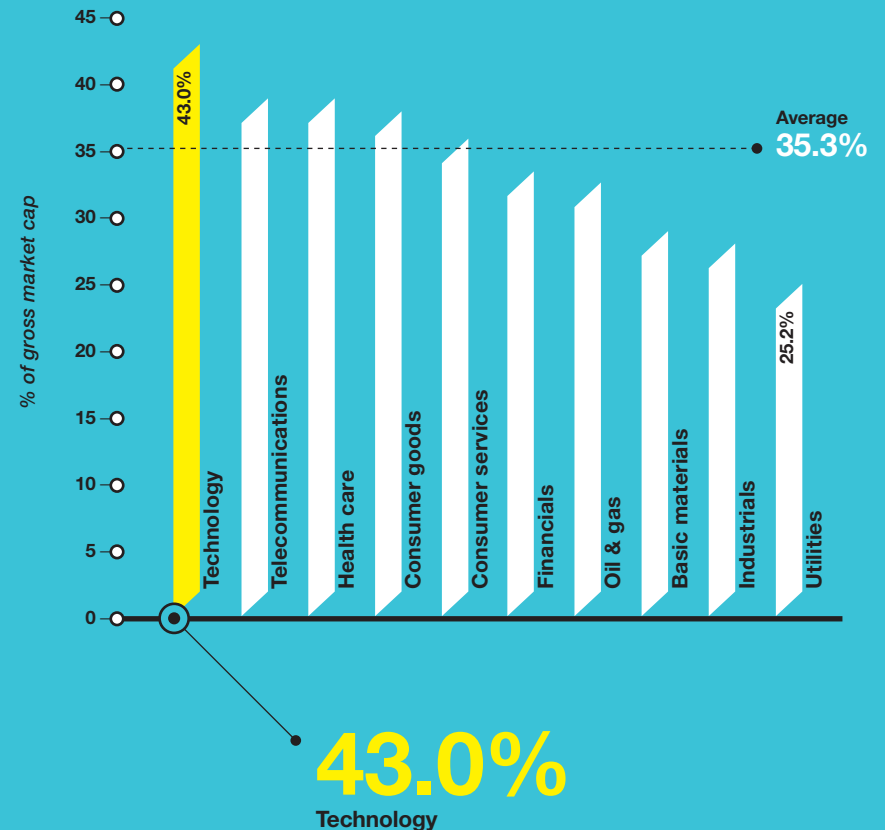
Technology companies enjoyed an average reputation of 43% over the value implied by financial metrics alone. Other sectors with a reputation contribution above average were telecommunications (39%), healthcare (39%), consumer goods (38%) and consumer services (36%).

At the other end of the scale, utilities saw their stock market capitalisations boosted just 25% on average by reputations operating well below the 35.3% average. Other sectors below the overall average were oil & gas (32%), basic materials (29%) and industrials (28%).

These industry averages provide an important benchmark for the analysis of individual companies’ reputations. By comparing a company’s reputation contribution to its industry average, executives at lower-ranked companies can now assess the realistic value growth opportunities to be had by improving their group’s reputation to the broader industry standard or, indeed, beyond.

Conversely, for those companies which today enjoy a reputation contribution above the industry norm, it highlights the value at risk if it were to come under pressure or slip.

Average reputation contribution (market cap weighted)



43.0%
Technology

Reputation drivers

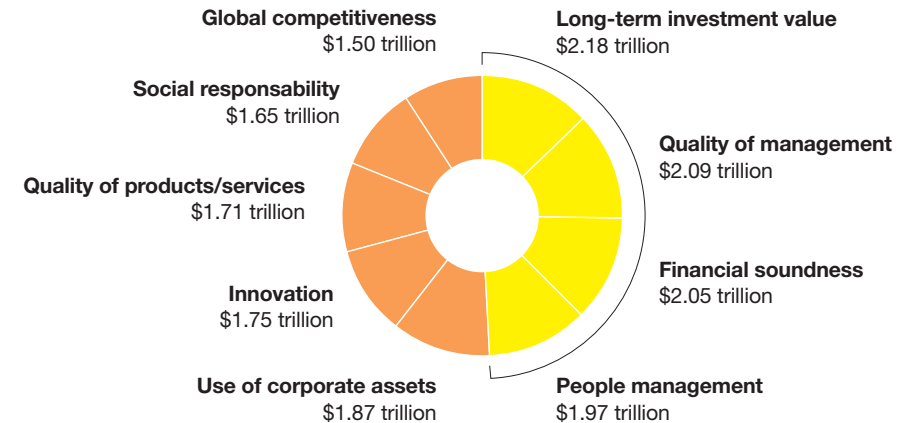
Reputation value, calculated as the extent to which a company's corporate reputation builds, or diminishes, its share price beyond what might reasonably be expected from financial performance, is driven by impressions of different reputational factors.

To assess their impact, the AMO study applied the nine criteria found in *Fortune* magazine's annual "Most Admired Companies" survey to calculate their economic contribution. From there we compiled the overall reputation risk profile by analysing the perceptions of the 324 companies in the *Fortune* list which appear in the 15 national blue-chip equity indices. Those companies had a combined market cap of \$20.53 trillion, 43% (by value) of the 1,611 companies included in the review.

The results of the reputation risk profile were extrapolated across the full universe to show two things:

- **the reputation driver contribution** – the stock market value delivered by each separate headline component of reputation across the universe of companies reviewed;
- **the reputation leverage** – the extent to which improvements in perceptions of the separate reputation drivers deliver increases in market cap.

Reputation risk profile Location of gross reputation value



The AMO study does not report the impact of the reputation drivers on individual companies. Details of individual company performance can be discussed with your local AMO office.

Leveraging corporate reputation for value growth

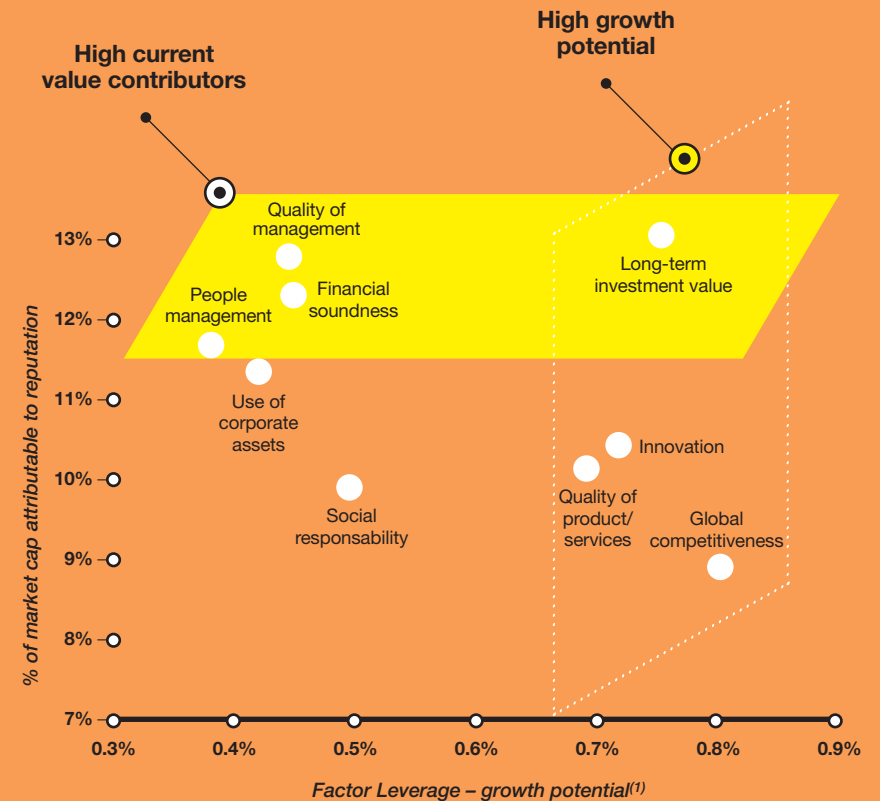
The greatest opportunities for the most effective reputation value management are to be found in aligning the sources of highest reputation contribution extant with the factors that can leverage the largest gains in value tomorrow.

Companies can achieve disproportionate impact by changing perceptions in just a small number of reputation drivers, obtaining higher returns on communications investment.

The “average” company displaying an average reputation value driver profile needs to balance communications to support reputation value already created – high current value contributors – with the most productive sources of growth – high value potential. Top of the list is enhancing perceptions related to “long-term investment potential”. This is the driver which ranks highest as a value contributor and also offers significant leverage potential. Beyond that, the “average” company would need to ensure that strengths in impressions of management prowess, people management and financial soundness are maintained while tapping into the opportunities presented by improving perceptions of global competitiveness and innovation.

Conversely, while seemingly unproductive factors such as CSR characteristics currently rank as low contributors with limited leverage potential, they can undoubtedly have sufficient impact to make their presence in corporate communications and messaging highly opportune.

Reputation value driver impact (all company average)



(1) Market cap growth corresponding to a 5% rise in factor perceptions.

The AMO network

Local expertise, global reach

AMO is the leading international network of strategic advisory and communications consultancies, providing best-in-class financial communications advice for corporations and institutions in the most important markets around the globe.

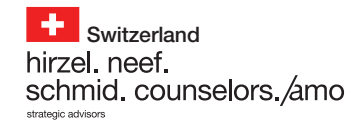
We provide thoughtful counsel to corporate boards and executives. Our mission is to help them achieve critical business goals through our powerful influence in local markets, our deep sector expertise, our broad global perspective and our ability to collectively provide seamless project management to our clients around the world, particularly in the key financial centres of Europe, Asia and the Americas. Our best-in-class approach brings together local-market leaders with unrivalled knowledge of stakeholder perceptions, financial markets and transformative company events, ranging from cross-border transactions, large-scale crises, activist situations, and regulatory matters to bankruptcy and restructuring situations.

AMO is unique among international networks because it is founded on the strength of a partnership between national local agencies, each best-in-class in their markets, that has produced meaningful results for its clients since AMO was founded in 2001.

The AMO network has consistently featured at the top of the global M&A advisory rankings over the last fifteen years. In 2018, AMO agencies advised on almost 300 M&A deals worth approximately €240 billion.

AMO is backed by Havas, one of the world's largest global communications groups, founded in 1835 in Paris.

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About the author

Simon Cole is the founder and director of Reputation Dividend, an independent corporate reputation and brand research consultancy specialising in economic reputation analytics.

REPUTATION DIVIDEND

After training as a mathematician and economist, Simon spent nearly thirty years in brand, advertising and communications consultancy. In the course of that time, he has worked for many of the world's leading brand owners in the UK, Europe, and the Americas.

His specialisation in corporate brand planning and analytics led him to develop Reputation Dividend in 2009 to better serve the increasing needs for greater objectivity in reputation management and connectivity with wider brand management.

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