The Study gave us precisely the information we were looking for. It is formative and essential data, with many great insights, that can help companies better understand the value of communications, and take that understanding to their leadership. I believe that among their ‘aha’ conclusions is that a greater investment in brand and Corporate Communications can have an increased benefit to the overall business.

C R Rothenberg
Corporate Reputations Stepping Up to the Plate – But Beware the ‘Trump Bump’

- US corporate reputations are delivering record levels of shareholder value...
  spurred on by the Trump Bump
- $1 in every $5 of market capitalization is now accounted for by the confidence underpinned by company reputations; $4,561 billion in the first six months of 2017
- High value reflects high risk and investor circumspection is fuelling growing interest in defensive characteristics
- CSR continues its climb in value and importance to investors

Introduction

Reputations are widely recognized as one of the cornerstones of corporate value. But just how much they contribute, and how, has only become clear in recent years. The thoughts, feelings and impressions that reside in the minds of company watchers support the confidence with which investors consider their positions and the are keys to unlocking economic impact.

The 2017 US Reputation Dividend Report summarizes the health of US corporate reputations and their capacity to drive shareholder value. It provides the latest perspectives on how well, or not, reputations are working for the companies they describe and the people who invest in them. It describes the essential drivers of the value they deliver and reveals opportunities for more effective messaging.

Reputation Value Analysis is critical intelligence. It provides company leaders, boards and reputation managers with the understanding they need to deploy their companies’ reputations for risk mitigation and value growth. Ultimately, the insight it offers provides the foundations needed to ensure that corporate communications can work as hard and as efficiently as they need to.
Expectations for deregulation and generous corporate tax breaks in the wake of Donald Trump’s election have spurred on what has turned out to be one of the longest bull runs in the history of the US stock market. Corporate valuations have been stretched and share prices have outpaced earnings forecasts as investors accepted more and more risk and opted for equities at the expense of low-yielding bonds and debt assets. Regardless of growing concerns that the Federal Reserve might, or rather will, raise interest rates again soon, and that the US government will start to unwind quantitative easing, shareholders have put worries on hold as they’ve sought to boost their otherwise weak returns.

But as the stock market enjoyed record-setting highs, underwhelming improvements to underlying corporate financials led to even greater reliance being placed on already high performing reputations in order to fuel confidence in the economic returns expected. As a result, the combined value of corporate reputation in the S&P 500 touched a new high of $4,561 billion in the first six months of 2017, 20.6% of the gross market capitalization.

While in many respects this is a testament to the ability of corporate reputations to drive shareholder value, it comes with significant strings attached because it is also a pointer to the growing levels of risk being accepted by the markets.

Fig 1. Reputation Contribution Growth in the S&P 500
History shows that in the months before the November election, confidence was at a level such that the average Reputation Contribution – the proportion of a company’s market capitalizations accounted for by its reputation – across the S&P 500 stood at 16.9%, approximately 3.7 percentage points lower than it was afterwards. The markets were not expecting a Trump victory and investor confidence was bolstered at the time by harder evidence of more benign commercial performances. Post-election analysis however, highlighted a dislocation, as the surprise result saw investors put more faith in frothy valuations driven by a need to believe, rather than through actual economic and political reality.

All of which, while superficially encouraging, raises red flags of caution on concerns that the absence of solid foundations could well undermine optimism catastrophically if, or indeed, when, it becomes tested. The risk has, arguably, been mispriced by necessity and a lack of alternatives and by all accounts, to a considerable level. The ‘Trump Bump’ has pushed the index up by close to $1 trillion which, while ‘only’ 5% of all shareholder value, is more than enough to create significant disruption if challenged.

Changes At The Top

The ten most economically powerful reputation assets in corporate America were, on average, accounting for close to half of their market capitalization at the start of 2017; $1,579 billion in total or 35% of all reputation value in the index.

The top spot in 2017 was captured by The Walt Disney Company after the 2016 leader Apple, slipped six places on concerns for softer sales in China, earnings worries and unfulfilled expectations for the next game-changing product. Apple’s falter allowed the substance of Disney’s reputation asset to shine through as it fended off its own less than positive results, investor worries about subscriber losses at ESPN and difficulties with CEO succession to retain its already high performing Reputation Contribution of 52.5%. As the Wall Street Journal declared in November last year, “Walt Disney Co. told investors yesterday to hang in there, and Wall Street appears to have listened.” Or rather, perhaps, deferred in part to their thoughts and feelings, i.e. the company’s reputation.
<table>
<thead>
<tr>
<th>Company</th>
<th>Reputation Contribution</th>
<th>Reputation Value</th>
<th>2016 Rank</th>
<th>Change in Reputation Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walt Disney</td>
<td>52.5%</td>
<td>$90,735m</td>
<td>2</td>
<td>+0.5% pts</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>49.4%</td>
<td>$155,443m</td>
<td>9</td>
<td>+4.4% pts</td>
</tr>
<tr>
<td>Alphabet</td>
<td>49.1%</td>
<td>$278,642m</td>
<td>3</td>
<td>-2.5% pts</td>
</tr>
<tr>
<td>Comcast</td>
<td>48.5%</td>
<td>$85,492m</td>
<td>14</td>
<td>+6.4% pts</td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>48.5%</td>
<td>$169,681m</td>
<td>4</td>
<td>-2.7% pts</td>
</tr>
<tr>
<td>Apple</td>
<td>47.8%</td>
<td>$317,890m</td>
<td>1</td>
<td>-8.1% pts</td>
</tr>
<tr>
<td>Starbucks</td>
<td>47.5%</td>
<td>$39,287m</td>
<td>7</td>
<td>+0.5% pts</td>
</tr>
<tr>
<td>Microsoft</td>
<td>47.2%</td>
<td>$232,479m</td>
<td>29</td>
<td>+8.9% pts</td>
</tr>
<tr>
<td>Nike, Inc.</td>
<td>45.6%</td>
<td>$40,995m</td>
<td>5</td>
<td>-1.8% pts</td>
</tr>
<tr>
<td>Facebook</td>
<td>44.7%</td>
<td>$168,091m</td>
<td>6</td>
<td>+2.5% pts</td>
</tr>
</tbody>
</table>

Fig 2. Reputation Value - US Top Ten

Strong pipeline and performance helped catapult Johnson & Johnson into second place from ninth. The company has long been one of the world’s most respected companies in the sector and this continued through 2016, with its Reputation Contribution increasing by 4.4 percentage points. Despite ongoing problems with court cases over alleged links between its talcum powder and ovarian cancer, the company was able to point to a steady flow of acquisitions and investments that made good commercial sense to investors and analysts alike.
Comcast was the highest placed entrant to the top ten having risen nine places to fourth overall on a 6.4 percentage point Reputation Contribution uplift. Expectation beating profits, rumblings of an extension into wireless and the first rise in net video customers for a decade put a seal on a ‘good Olympics’ and what started to be viewed as the company’s role helping to power the comeback of cable.

Microsoft however was the biggest gainer in the top ten. The company registered the largest rise to enter from 29th place in 2016 displacing the likes of Nike and Facebook (down to ninth and tenth places respectively) on the way. Investors have been particularly encouraged by its apparent dusting off and re-energizing on the acquisition of LinkedIn, its focus on cloud-based products, Office 360 reaching its inflection point (where recurring subscription more than compensates for lost license revenue) on top of a seemingly more benign base in which the worldwide market for PCs is stabilizing after some years of shrinkage.

Size Matters in the Court of Public Opinion, But Only So Much

Inevitably, given the familiarity it breeds, company size, is one of the factors behind a reputation’s economic impact, but that said, it is only part of the story. There are high performing reputation assets in the bottom half of the index though far fewer than in the top half.

A comparison of Reputation Contribution and market capitalization illustrates the presence of some relationship – the broadly upward diagonal – but only a limited one. Companies with a market cap of around $22 billion at the start of 2017 had Reputation Contributions ranging from as little as -18% to as much as +35% whereas companies with a Reputation Contribution of around 20% range in size from $3.5 billion to $16.6 billion.
Fig 3. Reputation Impact and Company Size

On the whole, higher performing reputations tend to be attached to larger companies but size alone does not determine performance. Wal-Mart ranked 16th by market cap is down in the second half of the S&P by Reputation Contribution, while The Kraft Heinz Company ranked 37th is well towards the bottom of the table. By contrast, companies like Nordstrom and W.W. Grainger which are well into the lower half of the index by size, are punching well above their weights reputationally with Reputation Contributions of 30% and 37% respectively.

The Sector Effect

Business sector is a more important determinant of reputation impact with averages ranging from as little as 9.4% in Utilities to 34.9% in Telecommunications.

The variation in the influence of reputation can be explained by the differing natures of the sectors and their underlying business models. Utility companies tend to be more predictable and monopolistic in nature, and so the expectations for future returns more easily determined by past performance and the evidence of financial engineering. By contrast, Telcos, with a far
more mobile customer base and fierce competition for similar services, remain notoriously susceptible to volatility and thus the promise of strategic intent wrapped up in management prowess carried by reputation.

Fig 4. Reputation Impact by Industry Sector

Lagging factors such as size, sector and index are critical drivers of reputation impact, but by far the most important is the make-up of a company’s corporate reputation, what it’s known for and the confidence that inspires in the expectations of returns on the investment.

The Reputation Drivers of Value

Reputations are, by definition, complex properties comprising thoughts, feelings and impressions. Corporate reputations are the summations of how people with a professional perspective, such as investors, see a company as an operating entity, and they create shareholder value according to how the company is judged to be performing on each dimension filtered through the lens of how each one matter at the time.
Although it can vary immensely from company to company (as illustrated by their unique Reputation Risk Profiles) individual factor value contributions across the index in the first half of 2017 ranged from 9% of all reputation value to 14%.

Fig 5. Value Contribution by Reputation Factor - Share of Gross Reputation Value

And within that, shifts in the focus of investor interest have produced marked changes in the location and scale of the value generating components. Most notably, increased attention to immediate at the expense of longer-term looking factors. So, a heightened sensitivity to impressions of quality of management and financial soundness at the expense of those relating to innovation, quality of product and long-term investment potential.

The ‘Trump Bump’ has created a nervousness that is contagious and investors are putting more store by defensive characteristics albeit with one notable exception, matters community
and social responsibility which, although a relatively minor driver, continues to grow in importance and significance.

Understanding how changing investor interests play out at the company specific level provides the critical framework necessary to make decisions about communications strategy. It offers reputation managers the means to balance and prioritize messaging in a way that secures and builds at the same time, with clarity and greater precision. Amid the economic headwinds, market volatility and game changing transformations such as digital, understanding the role of reputation as a means of value delivery and risk reduction is more relevant than ever. Only then can managers be sure that their activities will have greatest effect and the critical assets in their care work as hard as they can, and indeed, must, if it is to serve the reputation owners and so shareholders most effectively.

Looking Ahead

The challenges for reputation managers are clear and demanding of answers if the assets are to be managed to best effect. Reputation Value Analysis helps companies manage uncertainty and create the framework necessary to:

► Get back to the business of proactively managing corporate reputation: By spelling out how much shareholder value is dependent on them and how much is at risk?

► Point to companies’ relative strengths and vulnerabilities: Demonstrate how they can be addressed in improved operational performance and messaging?

► Understand what matters most to investor stakeholders: Identify the drivers that have the greatest impact on reputation value… and the messaging will move the needle?
Reputation Value Analysis – Explained

Reputation value analysis explains the economic impact of corporate reputations with a view to helping companies manage their reputation assets more effectively. It quantifies the financial worth of corporate reputation - making the direct link to market cap and share price performance. Trending data on more than 700 Fortune and FTSE listed companies go back ten years.

Analysis is a two-stage process. To start with, the main factors that influence the investment community, and thus the market capitalizations, of individual listed companies are identified. This is achieved by means of statistical regression analysis of hard financial metrics, including, for example, shareholder equity, return on assets, forecast and reported dividend, earnings, liquidity and company betas and so on as derived from Bloomberg or Factset, and reputation measures, in this instance, taken from Fortune’s World’s Most Admired Companies and Management Today’s Britain’s Most Admired Companies reports.

From there, a combination of metrics are calculated, including the gross economic benefit shareholders derive from reputation assets, the location of value across the individual components of companies’ reputations, the extent to which investment in reputation building will produce returns in value growth, and the relative value potential of individual messaging opportunities.

In addition to determining the financial value of a company’s reputation relative to its peers and competitors, the contribution of the individual drivers of reputation value such as perceptions of companies’ ability to innovate, the quality of its management, its credential with regard to corporate and social responsibility and so on are also calculated, as is their trajectory.

Given that the values of individual company reputations can often be significant, Reputation Dividend’s work can be particularly useful in both uniting and aligning the focus of senior management. Corporate clients span all sectors, many tabling their Reputation Dividend report annually to their Boards by way of high-level reputation asset benchmarking.
How Reputation Dividend Can Help

Analytics are applied on two levels.

Level 1: Dedicated Company Reports

Studies offer insights to:

- Reputation Contribution – the value of a company’s corporate reputation (including trend data).

- Comparisons with competitors and peers.

- The sources of a company’s reputation value and its contribution to market capitalization - a company’s ‘Reputation Risk Profile’.

- The incremental value potential of each reputational driver and potential for ROI – ‘what if’ analysis exploring different messaging possibilities.

- Guidance on reputational messaging priorities as they relate to securing and growing shareholder value.

Individual company reports also include an executive level briefing and meetings with key team members to discuss the implications.

Level 2: Customized Research and Consulting

For any company wishing to make a more comprehensive investigation, we offer a deeper level of research and analysis. This provides a more detailed examination of the drivers of a company’s reputation and its capacity to drive shareholder value.

This service is for organizations that wish to assess the impact of their corporate reputation against company specific drivers, at times of major change (e.g. in a merger or acquisition) or against a particular timeframe (e.g. in the run up to financial results).
Level 2 reports take account of reputational and financial data from a mix of internal and external sources. We can also undertake bespoke research as required. We use our own research resources and can complement these with any additional inputs.

These engagements often involve interviews with senior management, investment and industry analysts to ensure that existing strategies are factored into our analysis.

In addition to everything in a Level 1 report, a Level 2 report provides:

- The insights necessary to inform executive management teams how to allocate resources and budget more effectively.
- A framework to align and adjust communications, messaging channels and budgets.
- Guidelines for revising the internal strategies to support the reputation opportunities.
- A basis to improve the coordination of communications and operational strategies.
- The insight and knowledge to better align corporate, internal and customer brand management.
- The basis of a fully integrated and on-going reputation value management program.

Level 2 engagements provide regular client liaison and findings review throughout the process and culminate in a presentation to and discussion with the senior leadership team.
Reputation Dividend is proud to have worked with the following companies:

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<thead>
<tr>
<th>AIRBUS GROUP</th>
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<th>AMGEN</th>
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<td>ARM</td>
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<td>Standard Life</td>
<td>Xerox</td>
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For further information and how reputation value analytics can help your company contact:

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Or visit our website: www.reputationdividend.com
Valuing Corporate Reputation to Secure and Build Shareholder Value