

echo

GLOBAL RESEARCH PROTECTING BRANDS AND REPUTATION

REPUTATION
DIVIDEND What's your reputation worth?



2012 US REPUTATION DIVIDEND REPORT

HEADLINES AND HIGHLIGHTS

June, 2012

FOREWORD

From over two decades of close experience and observation, we believe that alignment between internal behaviors and external expectations is essential for organizations to be successful now, and importantly, in the future.

Creating a balanced, valued corporate reputation is a task of all senior management teams. Understanding the context and key drivers of that reputation has to be the starting point for this.

To that end, we help organizations achieve their ambitions by providing a clear and objective 'echo' of perceptions and expectations. Measuring the intangibles, analyzing reputation, determining influencers, auditing communication effectiveness, assessing perceptions, and understanding drivers of behavior, is what we do in support of our clients' leadership and excellence.

In partnership with specialist consultants, Reputation Dividend, we are delighted to launch the 2012 US report on the health of corporate reputation in America and present reputation valuation analytics among our range of insight services.



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INTRODUCTION

The importance of a strong, well structured corporate reputation has long been beyond any doubt. Few CEOs would question whether or not it ranks amongst their company's most important assets but at the same time they would struggle to say what it's worth and, more importantly, how it should be managed in order to maximize its Value. Until now.

Reputation value analytics is a powerful new tool for anyone with an interest in corporate branding, communications or investor relations. Developed by Reputation Dividend in association with Echo Research over six years and an analysis of close to 700 of the largest companies in the US and UK, this uniquely objective approach to identifying and measuring the value generating components of corporate reputation is revealing their true worth and providing fresh insights into the messaging priorities that can help protect and grow shareholder value.

Today, reputation value analytics is helping companies and the managers of their corporate reputations and brands to:

- Prioritize communications and messaging to support the foundations of reputation value.
- Integrate corporate brand into any wider brand management strategy.
- Structure communications strategy for shareholder value growth.

This report summarizes the highlights from the 2012 US Reputation Dividend study. It provides, for the first time, a thoroughly objective, value based assessment of the status and standing of the reputation assets of America's largest public companies. In addition it offers new insight into the challenges and demands facing reputation owners looking to secure and or grow the financial value it represents.

HEADLINES AND HIGHLIGHTS

The principal learnings from the 2012 US Reputation Dividend study can be summed up as follows.

1. Corporate reputations are real and present assets across much of corporate America. At the beginning of 2012 they were adding more than \$3 trillion to shareholder value in the S&P500 alone.
2. Corporate reputation can be both a source and a drain on shareholder value. In the US, the most valuable reputations measured include Apple, Exxon Mobil and Chevron with a combined worth of \$645bn as of the middle of June 2012.
3. Having helped to mitigate the pressures of the downturn in 2009 and 2010 reputation value slipped in 2011. Companies appeared to take their eyes off the ball and were diverted by the growing optimism for improved financials. As a result the average reputation contribution in the S&P500 fell by 4 percentage points and the index ended the year some \$440bn lower than it otherwise could have been.
4. The key to securing existing value and leveraging incremental value lies in directing messaging to the factors that matter most to investors at the time. Heading into 2012 these were increasingly starting to align with 'growth' rather than 'defensive' characteristics. Uncertainty still remains – so merit in reassuring as to the long term potential – however, the means by which that is being established is increasingly a function of companies' 'superior' product or service quality and an ability to generate earnings from a broad geographic base.

2012 IN MORE DETAIL

Corporate reputation – a real and present asset

Corporate reputations constitute some of the most important repositories of value in US listed companies today. As at the beginning of January 2012 they were contributing a combined total of \$3,190bn to market capitalization in the S&P500 alone.

Reputation Contribution, the proportion of a company's market cap attributable to its reputation, averages 26% across the index. Put another way, the corporate reputations of America's largest public companies are currently underpinning investor confidence in companies' ability to deliver the economic returns expected to the extent that they're generating 26% of the total shareholder value.

Winners and losers

Within that, the Reputation Contributions of individual companies ranged from as high as 58% (Apple) to as low as -39% (Sears Holdings). At the beginning of 2012 Apple's corporate reputation was potent enough to deliver as much as \$217bn of value to its shareholders. Conversely, Sears' reputation was such that it was destroying value to the tune of \$1.3bn.

Clearly, corporate reputation can be both a valuable asset and a costly liability.

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As a group, the ten companies with the most potent corporate reputations tracked in the S&P500 were adding some \$1,129bn of shareholder value at the start of 2012.

Top ten	Reputation Contribution	Reputation value (at Jan 2, 2012)	Year on year change (in Rep Cont)
Apple	58%	\$216,916m	-0.3 % pts
Exxon Mobil	56%	\$229,338m	-0.8 % pts
Chevron	56%	\$119,177m	1.3 % pts
Philip Morris International	56%	\$75,873m	5.9 % pts
Procter & Gamble	55%	\$101,752m	0.4 % pts
McDonald's	55%	\$56,500m	-1.7 % pts
Walt Disney	54%	\$36,706m	-2.7 % pts
IBM	54%	\$116,847m	-2.7 % pts
Intel	54%	\$66,392m	1.3 % pts
Google	52%	\$109,588m	-5.4 % pts

By contrast, the ten least potent were destroying value to the tune of almost \$6.8bn.

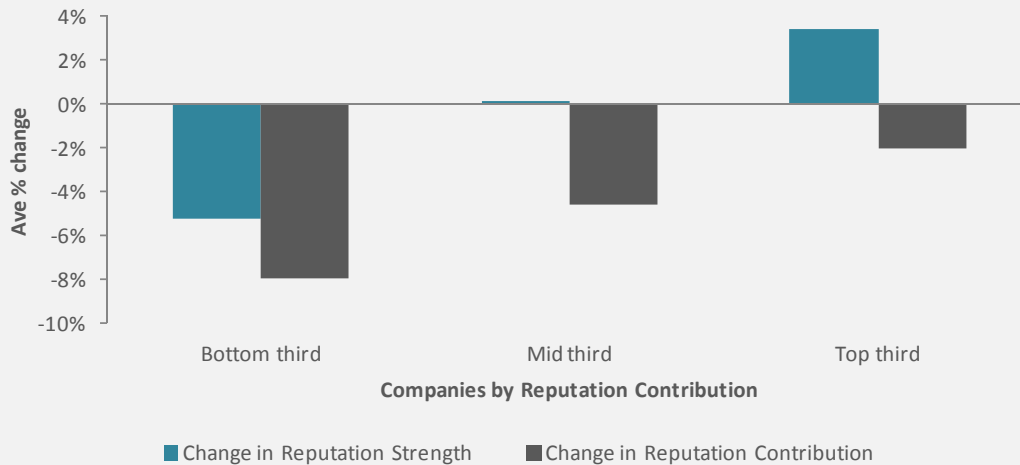
Bottom ten	Reputation Contribution	Reputation value (at Jan 2, 2012)	Year on year change (in Rep Cont)
Best Buy	-6%	-\$544m	-38.7 % pts
E*Trade Financial	-7%	-\$151m	na
Family Dollar Stores	-7%	-\$471m	-3.8 % pts
Sara Lee	-11%	-\$1,268m	-12.5 % pts
SuperValu	-12%	-\$198m	26.7 % pts
Coventry Health Care	-12%	-\$511m	1.6 % pts
Boston Scientific	-16%	-\$1,242m	3.3 % pts
Dean Foods	-18%	-\$375m	-11.0 % pts
Advanced Micro Devices	-19%	-\$697m	-26.3 % pts
Sears Holdings	-39%	-\$1,335m	-20.9 % pts

A company's reputation asset cannot be assumed; value can rise...and fall

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As indicated above, the value of a reputation asset can go up as well as down. Indeed, and notwithstanding their preeminent positions, the contributions of the ten most potent corporate reputations declined by an average of 0.5 percentage points in 2011. At the other end of the scale, the ten companies with the lowest Reputation Contributions saw even greater declines with falls averaging just over 9 percentage points. Overall, three quarters of the 216 S&P500 companies tracked in both 2010 and 2011 registered falls in their Reputation Contributions last year. Only 53, one in four, managed to build the potency of their assets.

Changing Reputation Strength vs Contribution (2012 vs 2011)



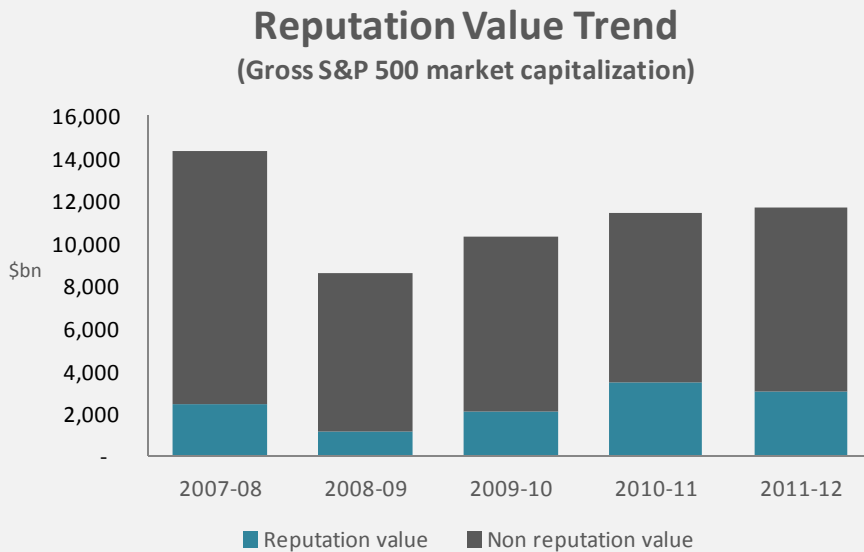
This broad decline in Reputation Contribution in 2011 followed two years of steady growth.

The average remained significantly ahead of the level recorded at the start of 2010. However, as the downturn hardened, companies took action to mitigate deteriorating corporate earnings and protect market value. This, in combination with investors running for safety with their money, appears to have stalled the increasing potency of reputation.

Although the total market capitalization of the S&P500 closed 2011 up (by approximately 2%), the average fall in Reputation Contribution of close to 4 percentage points meant that the index ended

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the year some \$440bn lower than it could have been. Clearly, the cost of failing to manage reputation is substantial.



This decline in Reputation Contribution was in marked contrast to the UK where a combination of European austerity and less optimism about 'green shoots' is focussing the attention of the investment community and encouraging reputation development. As a result, the average Reputation Contribution in the UK's FTSE100 continued to push ahead in 2011 increasing by 2 percentage points to 33%.

Much of the difference between the US and the UK can be attributed to two factors.

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First, some companies in the US may be falling back into early-downturn ways and failing to put the same effort into supporting their reputations as they saw the financials start to look more positive. Companies with 'stronger' reputations appear to have worked to support their assets but those with less presence did not. As a result the reputation assets of the less 'reputation developed' companies deteriorated most and their Reputation Contributions declined accordingly.

Second, and arguably more importantly, individual reputations appear not to have kept pace with changing investor 'needs'. Companies with the greatest Reputation Contributions managed to build the absolute strength of their reputations but the corresponding value tended to decline. This suggests that they have not supported those aspects of their reputations that interest the investment community most.

Being known isn't enough...it's what you're known for that matters

Our analysis confirms that reputation 'strength' alone isn't enough to create shareholder value. High performing companies with an average reputation 'strength' of 7 (measured on a scale up to 10) commanded Reputation Contributions ranging from 33% to 45% in 2011. Similarly, companies are achieving an index average Reputation Contribution of 26% with reputation strengths from 6.0 to 6.6.

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An active source of value growth

In addition to being a major repository of shareholder value corporate reputations are a means to grow it.

Potential gains from reputation building however are far from uniform. Across the S&P500 the average yield from a 5% improvement in reputation is a little over 2.5% of market capitalization. Within that the range is considerable, anything up to 5.5%. Generally speaking, strengthening the current reputation of a 'typical' S&P500 (i.e., with a market capitalization of approximately \$24bn) would add some \$600m of shareholder value. Enhancing the 'wrong' components of a reputation however will yield less, but boosting the 'right' ones can yield considerably more.

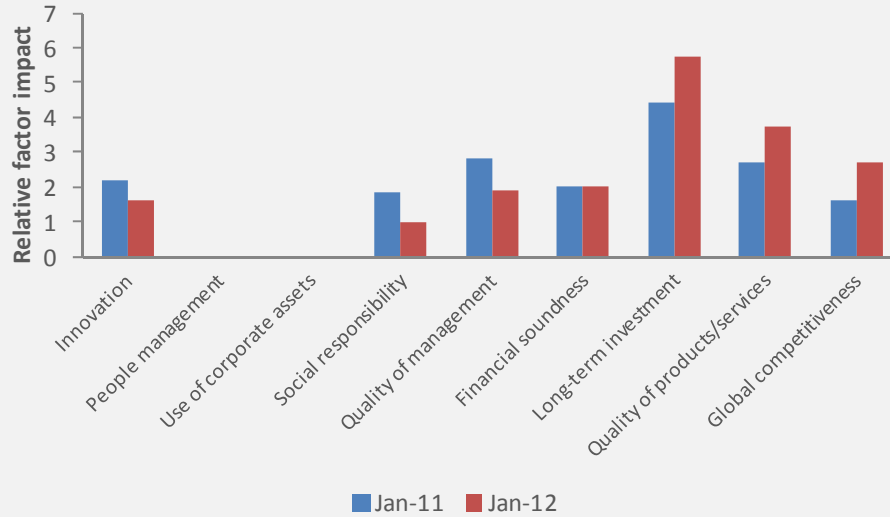
Tapping the full potential of reputation

The investment community responds to changes in different characteristics to different degrees and indeed, to different characteristics depending on market sentiment. In the same way that reputation value isn't simply a function of strength value growth will be determined by changes in the individual components of a company's reputation. As such, companies will achieve disproportionately greater returns on investment by ensuring that their communications activity is aligned to promote the messages that matter most at the time.

The questions for CEOs and their reputation managers therefore are, where exactly are the messaging opportunities?; can the company sustain a stronger reputation (i.e., is it being unfairly under-rated)?; and, is the likely return sufficient for the investment required?

While the general requirements of corporate messaging may, in the broadest sense, remain largely consistent, it's clear that the 'needs' of the investment community are a movable feast.

Reputation Factor Growth Potential



The main growth driver in 2012 remains perceptions of the value of a company as a ‘long term investment’. Next come perceptions relating to the ‘quality of products and services’ and ‘global competitiveness’. Both of these have become marginally more important to investors in the last twelve months and can reasonably be interpreted as leading indicators of an upturn; the investment community looking more favorably on companies that are demonstrating that they are geared up to capitalize on the recovery.

By contrast, defensive characteristics such as ‘quality of management’ and ‘use of corporate assets’ have become less motivating.

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HOW ECHO AND REPUTATION DIVIDEND CAN HELP

Reputation Dividend analytics can be applied to individual companies on two levels.

LEVEL 1: Dedicated company report based on our annual study

A dedicated report for your company comprising data modelling and analysis leveraging our most recent proprietary research covering more than 260 of the US's largest publicly traded companies.

The report includes:

- Your company's Reputation Contribution – the value of your company's corporate reputation based on the most recent study.
- Historical trend data (where they exist).
- Comparisons to competitor and peer group companies.
- An analysis of your company's reputation value drivers and their impact on market cap - your company's 'Reputation Risk Profile'.
- The incremental value potential of each reputational driver and expectations of ROI – 'what if' scenario analysis exploring different messaging possibilities.
- Headline pointers on reputational messaging priorities as they relate to securing and growing shareholder value.

In addition, our individual company report will include listings of Reputation Contribution and Reputation Leverage for all companies in the database along with details of our methodology and analysis.

The individual company report includes a face-to-face consultation with a senior team member to present the findings and to provide an opportunity to discuss their implications.

LEVEL 2: Ad-hoc research and consulting

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This level offers a more comprehensive and customized 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 corporate reputation in more detail and against company-specific or unique reputational drivers or against a specific timeframe (for example in the run up to financial results.)

Level 2 reports take account of reputational and financial data from a mix of your own internal and external sources. We can also undertake additional custom research as required. We leverage our own research resources but can complement these with any additional sources of your choice.

These engagements may also involve in-depth interviews with senior management, investment and industry analysts and communications specialists to ensure that existing corporate brand and communications strategies are factored into our analysis.

In addition to all the information in a Level 1 report, a Level 2 report will provide:

- The detailed information necessary to inform executive management teams how to allocate resources and budget more effectively.
- Strategies to align and adjust communications, messaging channels and budgets.
- Guidelines for revising the internal strategies to support the reputation opportunities.
- A framework to enhance communications and operational strategies.
- The insight and knowledge to improve the alignment of corporate, internal and customer brand management.

Level 2 engagements provide systematic way to implement a fully integrated and on-going reputation value management program. Our process provides a step-by-step path that engages your senior leadership team through ongoing communications and feedback sessions.



For further information about the 2012 study and how reputation value analytics
could be applied to your company, please contact:

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APPENDIX 1: Reputation Dividend Modelling

Reputation Dividend analysis is based on the notion that a well managed, suitably structured corporate reputation creates shareholder value by underpinning confidence in a company's ability to deliver the economic returns promised or expected. Its uniquely objective approach to diagnosing the impact of corporate reputation offers a distinctively fresh perspective and in that, a means to achieve better management based on better measurement.

Analysis is a two-stage process beginning with the development of the 'general model'. This establishes the factors influencing the investment community and so ultimately the market capitalizations of individual listed companies as a whole. It is derived from a study of a sample of approximately 600 S&P500 and FTSE350 companies over five years using advanced regression analysis techniques to test a number of different variables.

The analysis is populated with data from a variety of well established and reputable sources. The financial metrics, including shareholder equity, return on assets, forecast and reported dividend, EBITDA/EBIT and, EPS, liquidity, company and sector betas and corporate reputation, were derived from the likes of Bloomberg, Factset and Thomson Reuters. The headline reputation measures were from Fortune's 'World's Most Admired Companies' and Management Today's 'Britain's Most Admired Companies' reports.

Corporate reputation is treated at two levels in the modelling. First, as a single holistic variable and second, at the more granular level of the nine core components of reputation defined from the source research ('quality of management', 'quality of goods and services', 'ability to attract, develop and retain talent', 'capacity to innovate', 'quality of marketing', 'community and environmental responsibility', 'use of corporate assets', 'financial soundness' and 'value as a long term investment').

The general model is intuitively sound, robust and passes all the standard statistical tests. Moreover it is comprehensive in that it explains, on average, close to 95% of corporate value.

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Having established the general model we analyze the scale and nature of the contribution of an individual company's reputation to shareholder value. That includes assessing the company's individual financial and reputational metrics through the lens of the general model in order to understand exactly how they combined to establish its market capitalization. From that we can determine the key reputation messaging priorities to secure the company's existing reputation value and optimize incremental growth.

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APPENDIX 2:

The 2012 US Company Reputation Contribution Listing In Full

Company	Reputation Contribution
Apple	57.6%
Exxon Mobil	56.4%
Chevron	56.2%
Philip Morris International	55.7%
Procter & Gamble	55.4%
McDonald's	55.0%
Walt Disney	54.5%
IBM	53.9%
Intel	53.8%
Google	52.4%
Caterpillar	52.2%
Schlumberger	50.7%
Occidental Petroleum	50.2%
Qualcomm	50.0%
Deere	48.2%
Starbucks	48.0%
United Technologies	47.9%
UPS	47.4%
National Oilwell Varco	47.0%
Visa	47.0%
Accenture	46.9%
Colgate-Palmolive	46.2%
Nike	46.2%
Cisco Systems	46.0%
Verizon Communications	45.3%
Viacom	45.1%
Wal-Mart Stores	44.9%
Sysco	44.7%
Texas Instruments	44.6%
FedEx	44.6%
Halliburton	44.6%
Ralph Lauren	44.4%
Apache	44.4%
Target	44.3%
UnitedHealth Group	44.1%
Wynn Resorts	44.1%
Time Warner	43.7%
General Electric	43.1%
VF	42.5%
PepsiCo	42.4%
MasterCard	42.2%
FMC Technologies	41.9%
AT&T	41.0%

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Limited Brands	40.9%
Estée Lauder	40.8%
Starwood Hotels & Resorts	40.0%
W.W. Grainger	40.0%
Kimberly-Clark	39.9%
Boeing	38.6%
Illinois Tool Works	38.6%
Lockheed Martin	38.6%
NextEra Energy	38.6%
Costco Wholesale	38.6%
Coca-Cola	38.5%
Alcoa	38.3%
Fluor	38.3%
Stryker	38.1%
Sealed Air	38.0%
Dominion Resources	37.7%
Oracle	37.6%
Marriott International	37.5%
EMC	37.5%
Yum Brands	37.5%
Microsoft	37.3%
Cummins	37.1%
St. Jude Medical	36.9%
Whole Foods Market	36.7%
Medco Health Solutions	36.5%
TJX	36.4%
DuPont	36.2%
Discovery Communications	36.1%
Manpower (ManpowerGroup)	36.1%
Archer Daniels Midland	36.1%
Baxter International	35.9%
Eaton	35.7%
Parker Hannifin	35.7%
Devon Energy	35.5%
Union Pacific	35.2%
Coach	35.1%
Cameron International	34.6%
Robert Half International	34.0%
Charles Schwab	34.0%
Avnet	33.9%
Northrop Grumman	33.8%
Simon Property Group	33.5%
Broadcom	33.5%
Johnson Controls	33.5%
Baker Hughes	33.4%
General Dynamics	33.3%
Medtronic	33.0%
Arrow Electronics	33.0%

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Jacobs Engineering Group	32.9%
Express Scripts	32.9%
T. Rowe Price	32.9%
Abbott Laboratories	32.9%
Staples	32.8%
Intuit	32.8%
Kroger	32.5%
Adobe Systems	32.2%
Honeywell International	32.0%
Becton Dickinson	31.9%
Symantec	31.9%
Walgreen	31.9%
Home Depot	31.9%
Raytheon	31.2%
Ball	30.7%
eBay	30.4%
Applied Materials	30.2%
McKesson	30.1%
Automatic Data Processing	29.9%
Nucor	29.9%
Merck	29.9%
CVS Caremark	29.6%
PVH	29.5%
Bemis	29.1%
Corning	28.4%
Xerox	28.2%
Bristol-Myers Squibb	28.1%
Prudential Financial	28.0%
Juniper Networks	27.7%
Johnson & Johnson	27.6%
Aflac	27.5%
Sonoco Products	27.4%
Henry Schein	27.2%
Aetna	27.1%
Comcast	26.7%
General Mills	26.7%
Public Service Enterprise Group	26.6%
Dell	26.3%
Chipotle Mexican Grill	26.2%
International Paper	26.2%
Travelers Cos.	26.1%
Corn Products International	26.1%
Kellogg	26.0%
Tech Data	25.9%
Ingram Micro	25.8%
Humana	25.8%
Lowe's	25.6%
Kraft Foods	25.5%

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Exelon	25.3%
C.H. Robinson Worldwide	25.1%
Host Hotels & Resorts	25.0%
Cognizant Technology Solutions	25.0%
Norfolk Southern	24.6%
Autodesk	24.3%
Safeway	24.0%
Ingersoll-Rand	23.9%
Tupperware Brands	23.6%
Harris	23.5%
WellPoint	23.4%
CBS	23.1%
CSX	22.4%
Amgen	22.3%
PPG Industries	22.2%
Southwest Airlines	21.9%
Hewlett-Packard	21.5%
Airgas	21.4%
MetLife	21.3%
Paychex	21.2%
Stanley Black & Decker	21.2%
Expedia	20.6%
C.R. Bard	20.4%
Towers Watson	20.3%
Equity Residential	20.3%
Abercrombie & Fitch	20.3%
Tyson Foods	20.1%
Reliance Steel & Aluminum	19.9%
Iron Mountain	19.7%
Valero Energy	19.2%
United States Steel	18.9%
Teradata	18.7%
Macy's	18.0%
Expeditors International of Washington	17.7%
Fiserv	17.6%
Zimmer Holdings	17.5%
Cardinal Health	17.3%
Energizer Holdings	17.2%
J.B. Hunt Transport Services	17.1%
Motorola Solutions	17.1%
Dow Chemical	17.0%
Coca-Cola Enterprises	16.9%
Genuine Parts	16.9%
AmerisourceBergen	16.8%
Darden Restaurants	16.7%
Warnaco Group	16.6%
Equifax	16.1%
Kohl's	15.9%

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Health Management Associates	15.4%
Leggett & Platt	15.0%
SAIC	14.7%
Duke Energy	14.7%
News Corp.	14.6%
Cintas	14.6%
Smithfield Foods	14.5%
Hanesbrands	14.4%
DaVita	14.1%
MeadWestvaco	13.8%
Broadridge Financial Solutions	13.8%
Ryder System	13.8%
Emerson Electric	13.7%
Electronic Arts	13.6%
Quest Diagnostics	13.3%
Weyerhaeuser	13.1%
Guess	13.0%
Cerner	12.6%
Micron Technology	12.6%
Covance	12.5%
Newell Rubbermaid	12.0%
Pfizer	11.8%
Bed Bath & Beyond	11.7%
Laboratory Corp. of America	11.5%
Western Union	11.0%
Western Digital	10.5%
Avon Products	10.0%
Owens-Illinois	9.7%
Jabil Circuit	9.2%
CareFusion	9.1%
Ross Stores	9.0%
Owens & Minor	8.3%
Edison International	8.3%
Total System Services	7.9%
Netflix	6.8%
H.J. Heinz	6.6%
Hartford Financial Services Group	6.2%
Gap	6.1%
Domtar	6.1%
ConAgra Foods	6.0%
ManTech International	5.6%
Goodyear Tire & Rubber	4.6%
Dr Pepper Snapple Group	3.7%
Cigna	3.6%
Allstate	2.4%
ConocoPhillips	2.2%
Convergys	2.2%
PG&E Corp.	0.8%

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FirstEnergy	0.5%
Masco	0.0%
J.C. Penney	-0.7%
Freeport-McMoRan Copper & Gold	-0.9%
CA	-0.9%
Eli Lilly	-1.1%
Patterson	-4.7%
GameStop	-5.1%
Con-way	-5.5%
LifePoint Hospitals	-5.8%
Sprint Nextel	-6.2%
Best Buy	-6.4%
E*Trade Financial	-6.6%
American Eagle Outfitters	-6.8%
Family Dollar Stores	-7.0%
Health Net	-9.7%
Foot Locker	-10.7%
AOL	-10.7%
Sara Lee	-11.3%
SuperValu	-11.5%
Coventry Health Care	-11.7%
Omnicare	-11.9%
Collective Brands	-13.4%
Brinker International	-14.2%
Boston Scientific	-15.7%
Dean Foods	-18.2%
Advanced Micro Devices	-18.5%
Office Depot	-19.9%
WellCare Health Plans	-23.5%
Yahoo	-25.7%
Sears Holdings	-39.3%

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Leaders in above- and below-line communication tracking and research, Echo Research is part of the Ebiquity group and provides independent data-driven insights to the global CMO and CCO community to continuously improve our clients' business performance.

With 700 staff across 18 offices group-wide, we are dedicated specialists in the bought, owned and earned marcomms space, including integrated and digital practices to provide a complete end-to-end solution.

We have had the pleasure of supporting over 500 world-class clients. With more than 85 industry awards for excellence in research in the last 22 years, Echo enables clients to measure objectively how they are viewed, assess reputational risks and opportunities, ensure the alignment of communication with business strategy, identify key and emerging influencers, and improve management decision-making.

A Registered Expert Witness on image and reputation, Echo operates globally across multiple sectors and adheres to the highest standards of quality and ethics with ISO 9001:2008 standard. Echo is a registered MRS Partners and member of the ESRC Peer Review College, CASRO and ESOMAR.

Specialties include: Reputation Dividend (as per this booklet), reputation audits, stakeholder research, media content analysis, evaluation and monitoring of social media, and fully integrated brand marketing research and effectiveness.

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