Is everything that counts being counted?
What is driving the long term value debate?

- **Trust**
  Trust in the establishment, including entities, is at an all-time low.

- **Shape of value**
  An increasing proportion of a company’s value lies in its intangible assets.

- **Investment disconnect**
  The investment chain tends to focus on the short-term despite the desire to create value in the long-term.

- **Big data**
  Big data is both disrupting information asymmetries as well as providing new ways of measuring value.

In the absence of a robust methodology stakeholders risk companies cherry-picking the disclosed information.

https://www.ey.com/uk/en/services/assurance/ey---long-term-value
What is driving the long term value debate?

**Trust**

Trust in the establishment, including entities, is at an all-time low.

- Only **43%** of the general public trust business compared to 45% in 2017.
  - 2018 Edelman Trust Barometer

- When asked for their reasons for distrusting business, **45%** of respondents say businesses do not operate in an open and transparent way.
  - 2018 Edelman Trust Barometer

- **60%** of respondents believe CEOs should lead change rather than wait for regulators to impose it.
  - 2018 Edelman Trust Barometer
What is driving the long term value debate?

Shape of value
An increasing proportion of a company’s value lies in its intangible assets.

Undisclosed intangible value rose annually by 18% from 2011
2017 Edelman Trust Barometer

Intangible assets represented 17% of market value in 1975 and by 2015 have risen in some sectors to 87%
2017 ICAEW

52% of market value is based on intangibles on average
2017 Global Intangible Finance Tracker
Value exchanges with society at large

Examples
- Induced creation of jobs
- Emissions
- Supply chain biodiversity impacts
- Scarcity of natural resources
- Systemic economic impacts

For whom
- Society at large

Externalities
Not captured by company’s accounts; value created/abstracted for/from others

Value exchanges with stakeholders

Examples
- Incidents due to unsafe working conditions
- Community investment
- Employee learning
- Product environmental impacts
- Social impact of products or services

For whom
- Suppliers
- Customers
- Local communities

Shared Value
Partially visible in company’s accounts; shared costs & benefits

Value captured by the organization
Visible in company’s accounts

Intrinsic value
What is driving the long term value debate?

Pressure to demonstrate strong financial performance within two years rose from 79% to 87%.

The failure of investors to take a long-term view is inhibiting investment.

1t USD unlocked value by companies unable to take a longer-term approach in forgone US GDP alone over the past decade.

Investment disconnect
The investment chain tends to focus on the short-term despite the desire to create value in the long-term.
What is driving the long term value debate?

- IP traffic will grow at a CAGR of 24% from 2016 to 2021. (2017 CISCO)

- Investors seek an advantage from tradable intelligence – worldwide revenues for big data and business analytics will this year reach 150b USD. (2017 Financial Times; IDC)

- 64% of people say they find leaked information more believable than press statements. (2017 Edelman Trust Barometer)

Big data

Big data is both disrupting information asymmetries as well as providing new ways of measuring value.
The Embankment Project

✓ Companies are not good at **articulating the long term value** for their stakeholders.

✓ A standardized, meaningful way to articulate long term value is needed. This is why EY has created the **Long Term Value (LTV) framework**, based on outcome metrics that, until recently, could not be measured.

✓ In June 2017 “The Embankment Project for Inclusive Capitalism” was launched, with the aim of **testing** the LTV framework with significant asset owners and investors.

✓ Ultimately, the LTV is about helping companies to **deliver trusted, relevant information** to their key stakeholders and **help improve the allocation of capital** for the long term.
# The Embankment Project participants

<table>
<thead>
<tr>
<th>Participants/region</th>
<th>Americas</th>
<th>EMEIA</th>
<th>AsiaPac</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Creators (AC)</strong></td>
<td>Aetna, DuPont, ECOLAB, PepsiCo, Johnson &amp; Johnson</td>
<td>BASF, Nestle, Unilever, Novartis</td>
<td></td>
</tr>
<tr>
<td><strong>USD$1.2trillion</strong></td>
<td>Market Cap (9 participants)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Asset Managers (AM)</strong></td>
<td>BlackRock, Fidelity Investment ISA, JPMorgan Chase &amp; Co, MassMutual, Neuberger Berman, State Street Global Advisors (SSGA), TIAA, Vanguard®</td>
<td>Amundi Asset Management, Investec Asset Management, Schroders</td>
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</tr>
<tr>
<td><strong>USD$18.5trillion AUM</strong></td>
<td>(11 participants)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>USD$6.7trillion AUM</strong></td>
<td>(13 participants)</td>
<td></td>
<td></td>
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<tr>
<td><strong>Americas</strong></td>
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<td><strong>MEIEA</strong></td>
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<tr>
<td><strong>AsiaPac</strong></td>
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</tbody>
</table>
The LTV framework and hypothesis

Outcome metrics are insightful indicators of LTV

Information is available

Disclosure is an issue

There are three levels of metrics

Data and analytics is a key enabler
How to interpret the LTV framework?

- **Context, Purpose, Strategy and Governance** determine the outcomes the organisation needs to deliver to its stakeholders.

- **Value Creation** levers define the types of value an organisation creates.

- **Value Protection** levers define the types of risks and threats an organisation manages to protect value.

- **Outcome Metrics** measure the achievement of stakeholder outcomes.

- **Strategic Assets** are the capabilities and resources that are required to deliver stakeholder outcomes.

<table>
<thead>
<tr>
<th>Clear about context</th>
<th>Material to stakeholders</th>
<th>Core to purpose, strategy &amp; business model</th>
<th>Assured &amp; trusted</th>
<th>More complete view of value</th>
<th>Simple to understand</th>
</tr>
</thead>
</table>

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Financial Reporting Insights – December 2018
Representation of value in the LTV framework

Value creation

- **Financial value**: Traditional yardstick to measure an organisation’s performance
- **Consumer value**: The value an organisation creates through the utilisation of goods and services to meet customer needs, including innovation
- **Human value**: The value an organization creates through the utilisation of the skills, behaviours and engagement of its people
- **Societal value**: The value created through the relationships between an organisation and all other external stakeholders

**Examples**
- **Financial value**
  - Revenue
  - Margin
  - Cash flow conversion
  - Capital structure
- **Consumer value**
  - Functional
  - Comparative
  - Brand
- **Human value**
  - Leadership
  - Workforce alignment
  - Workforce performance
  - Engagement
- **Societal value**
  - Environmental
  - Social
  - Economic
Larry Fink, CEO of Blackrock

 [...] Without a sense of purpose, no company, either public or private, can achieve its full potential. It will remain exposed to activist campaigns that articulate a clearer goal, even if that goal serves only the shortest and narrowest of objectives.