

Names in the News: NSRGY and CSGN SW

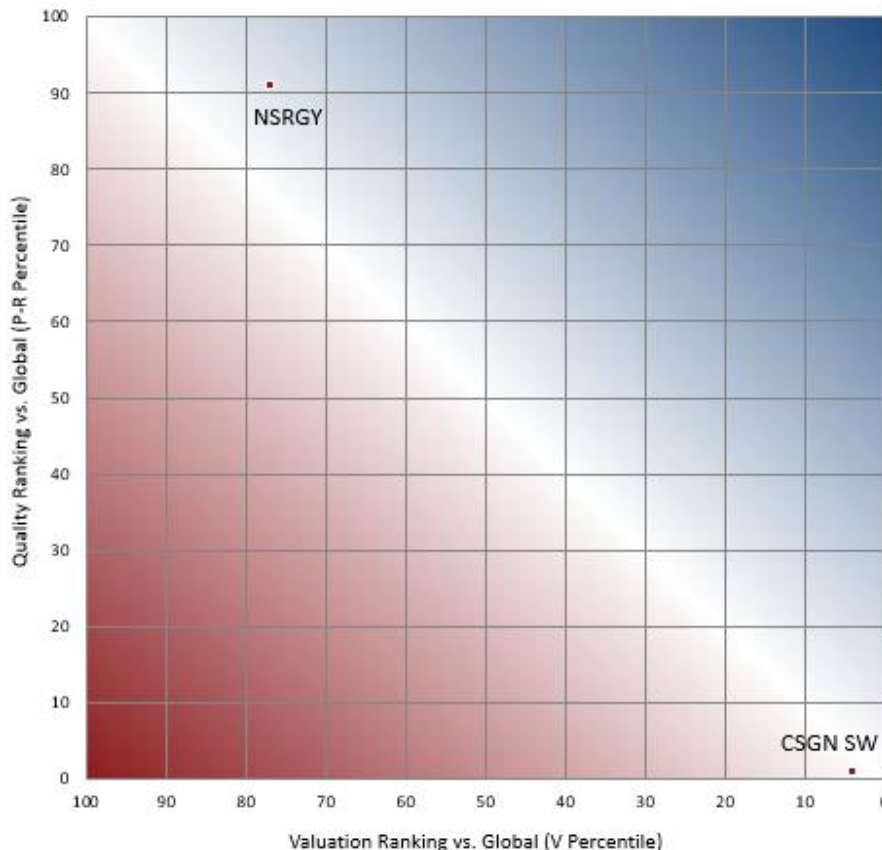
**Nestlé S.A. (NSRGY) & Credit Suisse Group AG (CSGN SW)**

This week, our analysis carries a Swiss theme. First, we look at **Nestlé S.A.**, which can be found on page 2. Our PRVit model currently rates **NSRGY** as ‘Overweight,’ owing to very strong Profitability and moderate Risk scores. The Swiss food and drink conglomerate recently announced strong organic growth, mostly driven by higher product pricing.

Additionally, we discuss banking giant **Credit Suisse Group AG**, which can be found on page 3. We rate **CSGN SW** as a ‘Sell’ in the Global industry group. The firm has recently reported a quarterly net loss, due to significant underperformance of its Investment Banking division. For both names, we conduct an analysis into EVA Drivers, EVA Fundamentals, and future expectations.

In **Figure 1** we plot the financial Quality of the names on the y-axis, where higher is superior Quality, and the Valuation of the names on the x-axis, where more expensive names are to the left and cheaper names are to the right. **NSRGY** offers higher Quality (P-R) and is more expensive (but the Quality justifies the price). **CSGN SW** is extremely cheap but attains a low Quality ranking.

**Figure 1: HEAT Map**



**PRVit and Sub-Factors**

**PRVit** compares a company's operational Quality, based on EVA metrics, to the company's market-based Valuation. When Quality exceeds Valuation, the overall PRVit ranking will be higher.

**Scoring**

All factors scored from 0 to 100.

**PRVit:** 100 is most favorable.

**Quality (P-R):** 100 is highest Quality.

**Profitability (P):** 100 is most Profitable.

**Risk (R):** 0 is lowest Risk.

**Valuation:** 0 is cheapest.

**Heat Map:** The Heat Map shows the visual trade-off between Quality and Valuation: Companies in the favorable (blue) area offer higher quality and/or cheaper valuation than those in the unfavorable (red) area.

See ISS ESG Scores for both companies on page 4.

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We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +24,000 stock universe.

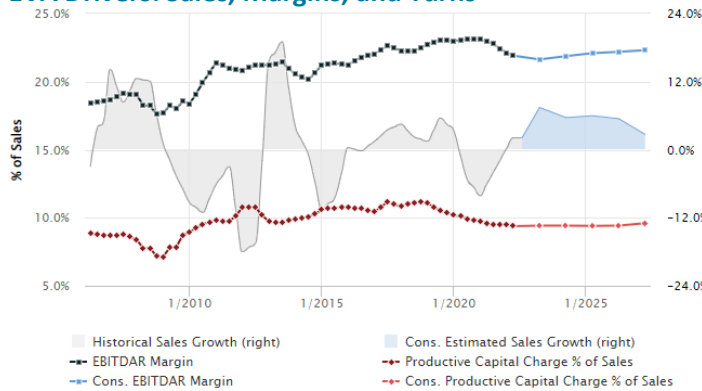
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**Nestlé S.A. (NSRGY)**

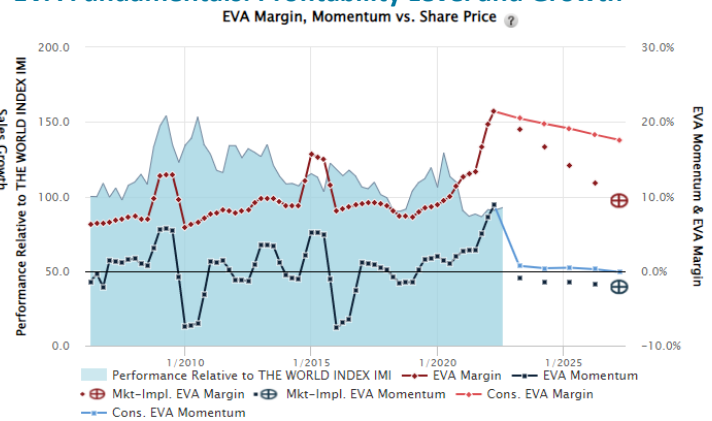
**PRVIt Recommendation: "Overweight" in the Global Stock Universe.**

- Sales Growth recovered to positive territory by year-end 2021. Through 2022, the metric has expanded on strong organic growth driven by higher product pricing. The Swiss firm has increased pricing by 6.5% in the first half of this year. In European and North American markets, e-commerce sales channels have helped with top-line recovery.
- EBITDAR Margin has been worsening since the first calendar quarter of 2021, contracting by 100 basis points through to the March 2022 quarter. Earnings are being pressured by sustained increases in adjusted COGS (as a percentage of sales). Global food commodity and energy inflation continue to be headwinds.
- Our measure of Capital Intensity, Productive Capital Charge (lower is better) has been improving from year-end 2018. The downward trend has been driven by reductions in both Working Capital and PP&E charges.
- Driven by improvements in top-line growth and capital intensity, EVA Margin (profitability) has witnessed significant expansion throughout 2020, 2021, and 2022. The measure currently is at a historical high of 21.4%.
- Similarly, improvements in EVA Drivers have led **NSRGY** to generate new incremental EVA at an accelerated pace. EVA Momentum (growth) has aggressively increased from the June 2021 quarter to currently reach an all-time peak.
- Market Value peaked at the end of 2021, but has been contracting since. Negative Future Value Added (FVA) is offsetting increases in Current Value Added (CVA), while Capital is remaining somewhat constant. Future Growth Reliance (FGR) is at a discount of -50.1%. Investors do not believe the current level of profitability is sustainable.

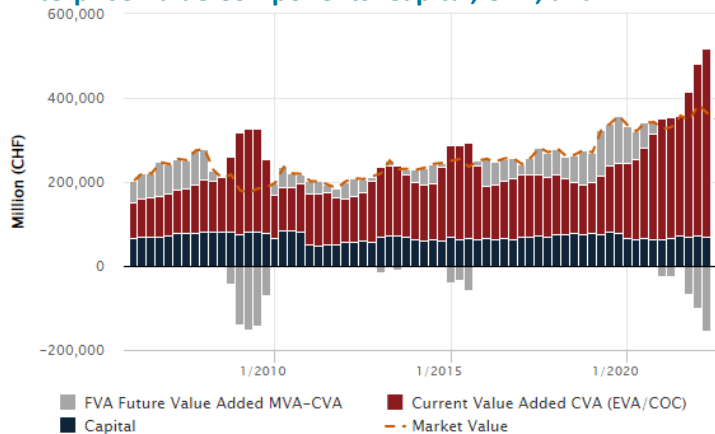
**EVA Drivers: Sales, Margins, and Turns**



**EVA Fundamentals: Profitability Level and Growth**



**Enterprise Value Components: Capital, CVA, and FVA**



**Future Growth Reliance: Market Expectations**

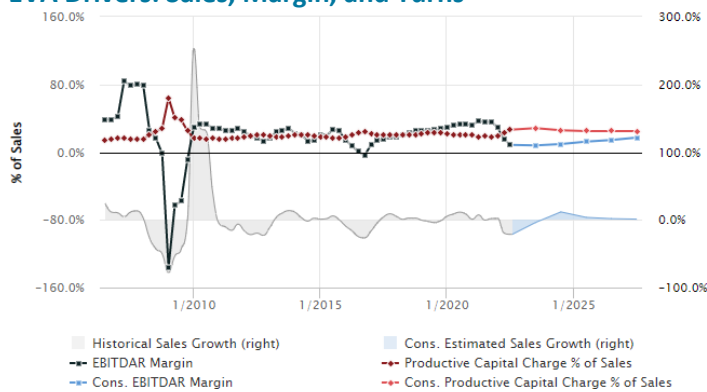


**Credit Suisse Group AG (CSGN SW)**

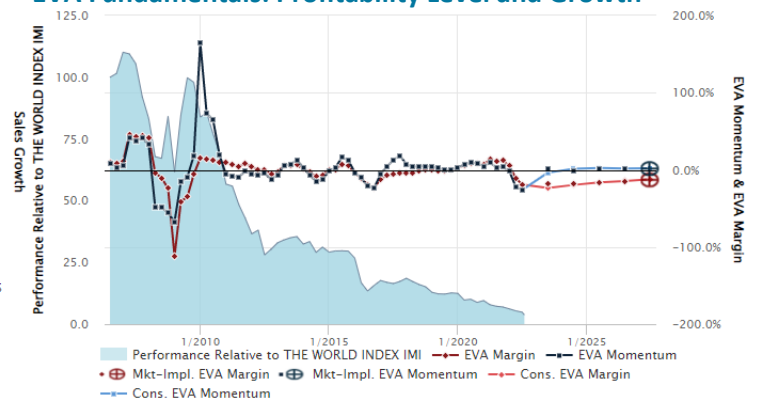
**PRVIt Recommendation: "Sell" in the Global Industry Group. "Underweight" in the Global Stock Universe.**

- Sales Growth rolled into negative territory from the first quarter of 2022 and has continued to deteriorate. Although the Wealth Management arm of the business continues to perform well, Investment Banking (IB) revenues dropped in the most recent quarter. With a new Chief Executive announced, the firm plans a business model transition; cutting back on IB, while having renewed focus on its Wealth and Asset Management divisions.
- EBITDAR Margin contracted from the latter half of 2021 and is currently placed well below historical averages. The firm has reported an overall net loss in the most recent quarter, mostly attributable to significant IB underperformance.
- Productive Capital Charge (lower is favored) has witnessed three consecutive quarters of increases.
- Deteriorating EVA Drivers have led to contractions in EVA Margin (profitability). The measure rolled over in 2021, turned negative in the first quarter of 2022, and continues to contract.
- From the end of 2021, the firm began to lose incremental EVA – as EVA Momentum (growth) turned negative. The metric continues to contract, while the pace of EVA destruction has accelerated.
- **CSGN SW** continues to be priced below its Economic Price-to-Book value; the firm’s MVA spread is at -74.6%, which is currently at the largest discount in history. Current Value Added (CVA) turned negative from 2022. As the market is pricing in slight improvement, Future Value Added (FVA) was positive in the June 2022 quarter.

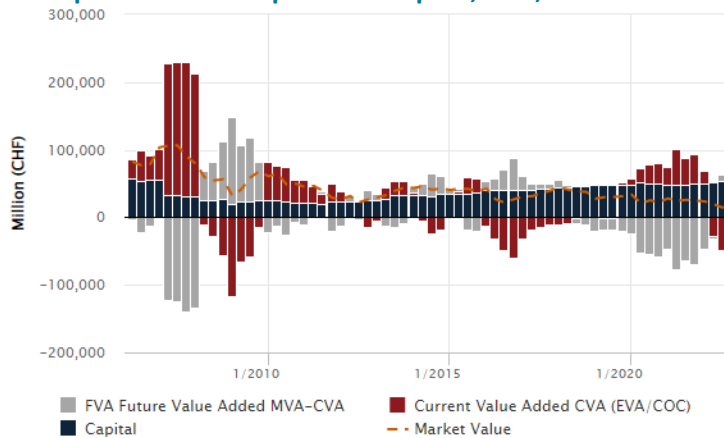
**EVA Drivers: Sales, Margin, and Turns**



**EVA Fundamentals: Profitability Level and Growth**



**Enterprise Value Components: Capital, CVA, and FVA**

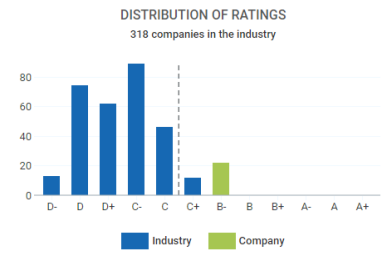
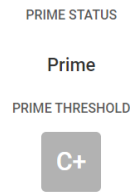


**MVA Spread: EVA’s Price to Book**

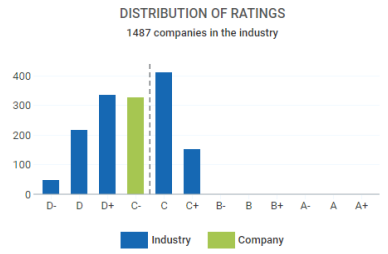
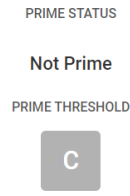


See page 4 for the ESG Performance Scores of both firms.

**ESG Performance for Nestlé S.A. (NSRGY)**



**ESG Performance for Credit Suisse Group AG (CSGN SW)**



**ISS ESG**

**ESG Performance Score:** This factor provides a numerical score from 0 to 100. Prime Status is based on the ESG rating and a sector-specific Prime threshold. The ESG Rating and Performance Score, however, are comparable over all rated entities. All rated entities with values greater than or equal to 50 are considered 'Prime': they score well across Environmental, Social, and Governance metrics.

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We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.

EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +24,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

## Key EVA Concepts

### The value of a firm = Capital + Present Value of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

### EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

### EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line-item drivers and offers key insights into business profitability.

### EVA Momentum = $\Delta$ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

### EVA Shock = $\Delta$ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

### Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

### Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / Enterprise Value

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

## Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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