

## PRVit Factor Report – Europe and the United Kingdom

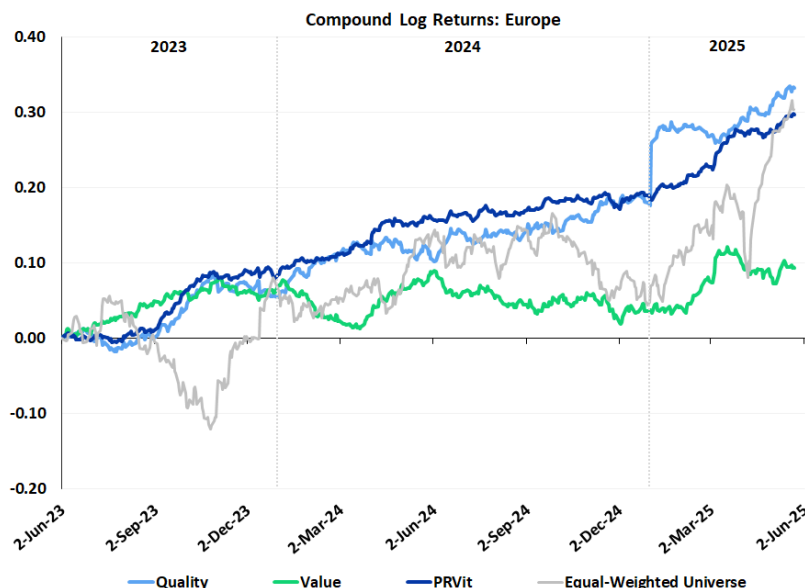
### Results through May 2025

The PRVit Factor Report for Europe and the U.K. was reformatted recently to provide similar information as the old format but with fewer pages.

### Europe Results

PRVit continued to trend up (generate alpha) through May 2025. Quality rolled over briefly in late February but has generally been trending up in 2025. Value had a substantial run in February and into early March, rolled over from mid-March to early May, and then was up for the month of May (see **Figure 3** on page 2).

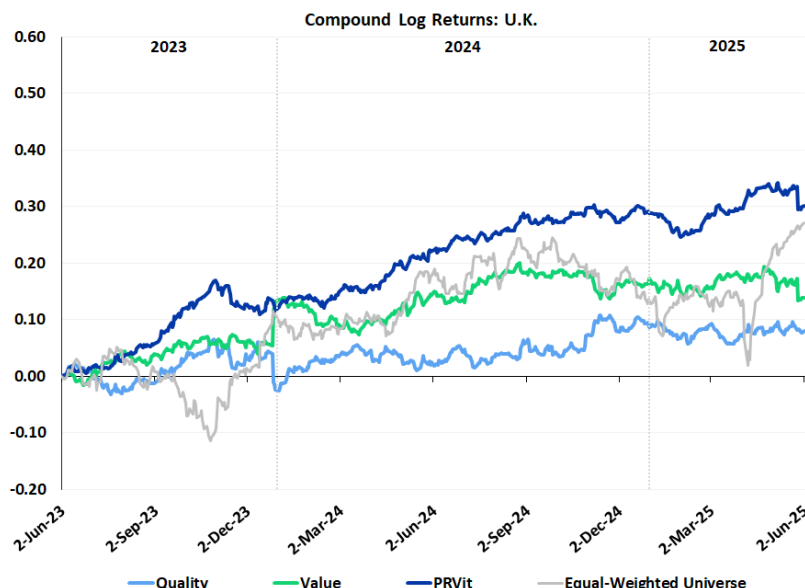
**Figure 1: Factor Performance – Europe ex the U.K.**



### U.K. Results

PRVit trended up from February through April but was off in May (see **Figure 4** on page 2). Quality saw some volatility in May and ended the month net down 7bps. Value had a positive spread for the month when looking at the monthly re-balancing data on page 2, but in the daily re-balancing data graphed below, the factor struggled at the end of the month.

**Figure 2: Factor Performance – The U.K.**



### Contents

Our monthly PRVit Reports summarize the performance of our PRVit stock selection model as well as its underlying factors: Profitability (P), Risk (R), and Value (V). We analyze the results by regions, by sectors, and by market cap size. All references to Europe exclude the United Kingdom.

### Key Takeaways:

- Investors added to Risk in both universes. See negative Risk results in **Figures 3 & 4** on page 2.
- Cheap stocks outperformed expensive stocks in both universes, reversing April's results.
- Sector attractiveness is in **Figure 9** on page 3.

### Methodology:

The graphs to the left contain the compound log returns of the total alpha coming from **Quality**, **Value**, and **PRVit**, as well as the equal-weighted benchmark for the last two years in each universe. Note: The 'equal-weighted universe' lines are included to show market direction: when the colored factor lines are moving up, they are generating alpha, and when they are over the '0' line of the y-axis, they have generated positive cumulative alpha.

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### About ISS EVA

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 +29,000 stock universe.

Visit our website [www.EVAexpress.com](http://www.EVAexpress.com)

### PRVit Performance and Factor Returns

Figures 3-4 show the performance of the PRVit model in Europe and the U.K. across all its subcomponents. The top-bottom spread (“spread”) is the difference between the average return of the top 20% and the bottom 20% of stocks ranked by a factor. The information coefficient (“IC”) is the cross-sectional correlation between the factor ranks and future returns. An IC around 5% indicates a very monotonic result: in other words, the top quintile outperforms the 2<sup>nd</sup> quintile, the 2<sup>nd</sup> quintile outperforms the 3<sup>rd</sup> quintile, etc.

Figure 3: Europe All Cap

Europe	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	10.8%	2.26%	7.5%	1.71%	4.6%	0.86%	3.3%	0.82%	2.9%	0.51%	3.1%	0.59%	2.9%	0.58%
Profitability Level (High P1)	9.0%	1.88%	5.7%	1.17%	3.8%	0.72%	2.8%	0.71%	2.6%	0.47%	2.8%	0.52%	2.6%	0.50%
Profitability Trend (High P2)	11.1%	2.54%	8.0%	1.44%	4.7%	0.94%	3.2%	0.82%	2.6%	0.56%	2.3%	0.53%	2.9%	0.72%
Risk (Low R)	-4.1%	-1.08%	2.5%	0.60%	3.7%	0.51%	2.7%	0.45%	1.9%	0.17%	2.5%	0.39%	2.8%	0.52%
Volatility (Low R1)	-3.6%	-1.61%	6.2%	1.33%	4.1%	0.60%	2.5%	0.28%	2.0%	-0.03%	2.6%	0.30%	2.7%	0.34%
Vulnerability (Low R2)	-2.7%	-1.28%	-2.2%	-0.73%	1.4%	0.30%	1.5%	0.36%	1.0%	0.18%	1.2%	0.23%	1.4%	0.43%
Quality (High P - R)	7.1%	1.17%	7.5%	1.64%	5.4%	1.11%	3.8%	0.86%	3.1%	0.44%	3.5%	0.63%	3.6%	0.82%
Valuation (Low V)	6.9%	1.09%	3.1%	0.56%	-0.1%	0.08%	0.8%	0.22%	1.3%	0.53%	0.0%	0.08%	1.1%	0.54%
Valuation Ratios (Low V1)	5.6%	1.35%	2.1%	0.32%	-0.7%	-0.16%	0.3%	0.11%	0.9%	0.46%	-0.3%	0.03%	0.3%	0.35%
Valuation Multiples (Low V2)	9.8%	1.42%	6.4%	1.09%	2.3%	0.36%	2.6%	0.60%	2.3%	0.65%	1.2%	0.24%	2.6%	0.74%
PRVit	11.5%	1.95%	10.0%	1.97%	5.1%	1.14%	4.0%	1.00%	3.6%	0.85%	3.1%	0.68%	3.8%	0.96%
PRVit Prime	12.2%	1.71%	9.7%	1.64%	5.0%	0.94%	3.8%	0.89%	3.4%	0.79%	2.8%	0.61%	3.5%	0.89%

Figure 4: U.K. All Cap

U.K.	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	-2.2%	-0.25%	0.4%	-0.22%	3.4%	0.84%	3.0%	0.57%	2.5%	0.18%	3.8%	0.55%	3.3%	0.52%
Profitability Level (High P1)	-3.8%	0.68%	-0.3%	0.64%	1.2%	0.58%	2.0%	0.34%	2.0%	0.14%	3.5%	0.49%	2.9%	0.47%
Profitability Trend (High P2)	-1.9%	-1.09%	0.7%	-0.45%	5.0%	1.06%	3.4%	0.58%	2.4%	0.27%	2.7%	0.40%	2.9%	0.63%
Risk (Low R)	-0.2%	-0.21%	-0.5%	0.86%	-1.2%	-0.03%	0.9%	0.29%	0.9%	-0.05%	2.2%	0.29%	2.5%	0.36%
Volatility (Low R1)	-4.6%	-0.68%	1.0%	0.83%	1.1%	-0.31%	1.2%	-0.10%	1.1%	-0.36%	1.9%	0.07%	2.5%	0.16%
Vulnerability (Low R2)	1.3%	1.14%	-3.1%	-0.54%	-3.0%	-0.72%	0.2%	0.11%	0.5%	0.22%	1.2%	0.34%	0.8%	0.11%
Quality (High P - R)	-0.4%	-0.07%	0.1%	0.17%	2.3%	0.66%	2.8%	0.51%	2.3%	0.19%	3.9%	0.64%	3.8%	0.60%
Valuation (Low V)	6.9%	2.11%	5.5%	1.19%	1.6%	0.11%	1.6%	0.65%	3.1%	1.22%	0.3%	0.28%	1.2%	0.44%
Valuation Ratios (Low V1)	7.4%	2.43%	4.4%	0.62%	0.9%	-0.35%	1.0%	0.40%	2.6%	1.09%	-0.2%	0.13%	0.8%	0.36%
Valuation Multiples (Low V2)	7.8%	2.12%	6.2%	1.80%	3.6%	0.56%	3.0%	0.77%	4.0%	1.06%	1.5%	0.25%	2.3%	0.41%
PRVit	2.9%	-0.26%	4.7%	1.38%	3.8%	0.76%	3.6%	0.91%	4.0%	0.93%	3.4%	0.70%	4.2%	0.88%
PRVit Prime	3.5%	0.12%	5.1%	1.50%	4.1%	1.03%	3.7%	0.97%	4.0%	1.02%	3.4%	0.75%	4.3%	0.96%

### Compound Total Alpha for Factors

The graphs below are the compound log returns of the total alpha generated by each of our key factors: Profitability (P), Risk (R), and Value (V). In these graphs, the benchmarks are provided for timing: the alpha lines are not relative to those lines.

In Europe, all three factors trended up in 2022, 2023, and 2024, and all three have been up to start 2025. In the U.K., Value has been the strongest-performing factor over the last three years, but Profitability and Risk have been positive with lower volatility. Profitability was up to start the year, but Value and Risk were mostly flat (net).

Figure 5: Europe All Cap

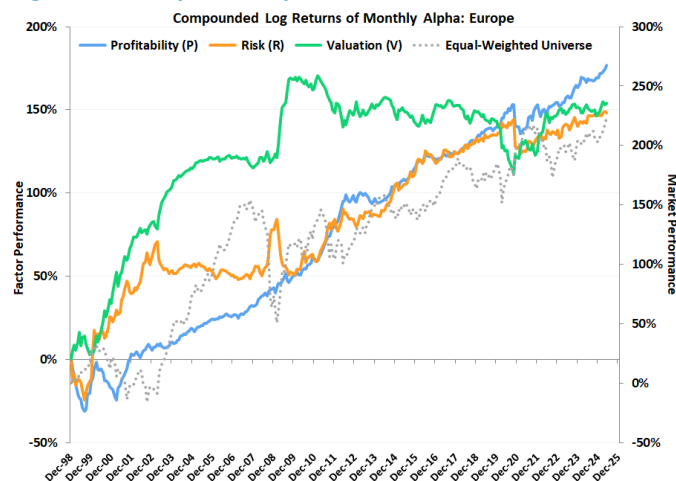
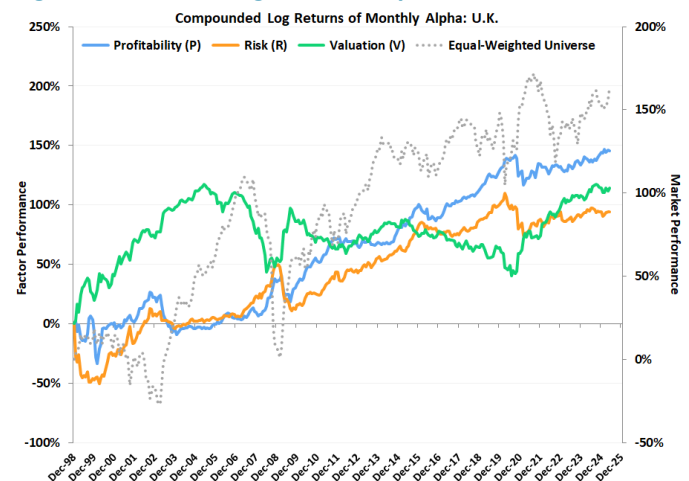


Figure 6: United Kingdom All Cap



## PRVit Performance by Sector

We provide the spreads for each sector for our PRVit factor for Europe (Figure 7) and the U.K. (Figure 8). In May ("1M" columns), PRVit had a positive spread in 9 of 11 sectors in Europe and 7 of 11 sectors in the U.K. Over the last year, PRVit has averaged a positive spread in all sectors in Europe except Communication Services. Please note that several sectors in the U.K. contain fewer than 30 companies, which leads to higher volatility in the factor performance.

Figure 7: PRVit Performance by Sector – Europe All Cap

PRVit vs Industry	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Europe	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	40.3%	8.83%	6.8%	1.84%	2.4%	1.03%	4.1%	1.00%	3.5%	0.71%	3.2%	0.48%	3.7%	1.24%
MATERIALS	2.6%	1.51%	10.6%	2.78%	5.0%	0.76%	5.1%	1.43%	2.3%	0.28%	1.4%	0.15%	4.8%	1.17%
INDUSTRIALS	13.2%	0.73%	9.3%	0.53%	4.5%	1.13%	4.5%	1.21%	4.4%	1.22%	3.9%	1.04%	5.0%	1.31%
CONS DISC	0.0%	-1.93%	14.5%	3.28%	4.1%	0.80%	3.4%	0.94%	4.0%	0.89%	2.7%	0.62%	3.0%	1.04%
CONS STAP	7.1%	4.38%	9.8%	3.00%	9.8%	1.73%	6.5%	1.50%	4.7%	1.03%	3.5%	0.79%	6.0%	1.06%
HEALTH CARE	18.3%	4.67%	13.4%	2.29%	7.3%	0.99%	3.4%	0.34%	3.1%	0.58%	3.0%	0.50%	3.8%	0.69%
FINANCIALS	6.5%	0.70%	3.7%	0.40%	3.7%	1.06%	2.4%	0.32%	1.8%	0.35%	1.5%	0.29%	1.8%	0.37%
INFO TECH	0.4%	-1.56%	9.7%	3.51%	1.8%	0.58%	4.3%	1.24%	4.2%	1.07%	3.5%	0.68%	3.1%	1.27%
COMM SVC	22.4%	4.06%	14.2%	-2.71%	5.0%	-0.07%	5.6%	0.82%	6.8%	1.52%	1.3%	0.53%	4.4%	1.25%
UTILITIES	21.8%	0.24%	6.1%	-0.73%	9.1%	0.91%	7.8%	1.51%	4.3%	0.46%	2.5%	0.19%	3.3%	0.87%
REAL ESTATE	17.8%	2.47%	12.0%	1.83%	4.0%	1.29%	2.6%	0.74%	4.2%	1.07%	4.9%	0.91%	4.9%	0.91%

Figure 8: PRVit Performance by Sector – U.K. All Cap

PRVit vs Industry	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
U.K.	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	9.9%	10.50%	3.2%	10.61%	1.7%	2.01%	0.2%	4.81%	-1.6%	1.71%	1.6%	2.24%	6.4%	1.80%
MATERIALS	-24.3%	-1.56%	-13.4%	-1.63%	2.9%	0.86%	0.0%	-0.72%	0.2%	-0.67%	3.3%	0.29%	4.8%	0.73%
INDUSTRIALS	16.2%	1.59%	16.8%	3.13%	8.8%	2.05%	6.1%	1.49%	6.5%	1.52%	3.2%	0.74%	4.9%	0.95%
CONS DISC	6.8%	2.54%	19.0%	5.45%	9.0%	3.05%	8.4%	3.05%	5.8%	1.79%	4.3%	1.24%	4.5%	0.95%
CONS STAP	-7.0%	0.16%	8.0%	0.20%	16.6%	2.85%	10.8%	0.82%	9.1%	1.28%	6.7%	1.31%	5.4%	1.10%
HEALTH CARE	4.3%	5.56%	7.1%	7.40%	6.6%	3.25%	5.8%	1.76%	7.0%	1.02%	6.1%	0.59%	5.4%	0.69%
FINANCIALS	2.5%	1.54%	-1.9%	0.85%	-1.1%	0.06%	-1.0%	0.02%	-1.0%	0.09%	0.0%	0.46%	3.9%	0.68%
INFO TECH	-19.7%	-13.28%	12.7%	-2.56%	-1.0%	-1.97%	1.4%	1.06%	3.3%	1.86%	2.2%	1.50%	3.7%	1.45%
COMM SVC	-20.1%	-4.42%	-12.8%	-1.73%	-12.1%	-2.51%	-2.4%	0.05%	1.4%	1.93%	8.7%	1.70%	6.7%	1.02%
UTILITIES	46.7%	2.96%	-22.8%	-1.86%	-12.4%	-0.79%	4.2%	1.83%	1.8%	1.28%	-1.4%	0.33%	3.1%	0.23%
REAL ESTATE	6.7%	-3.58%	7.2%	-2.08%	9.7%	0.11%	4.9%	-0.01%	7.1%	0.46%	8.7%	0.96%	8.7%	0.96%

## Sector Attractiveness

In Figure 9, we provide average PRVit scores by sector for the two regions. PRVit above 50 is attractive and sectors above the regional average are most attractive.

In Europe, Communication Services, Utilities, IT, and Financials are the most attractive sectors. In the U.K., Health Care, Industrials, and Staples are the most attractive sectors. Europe scores as attractive (PRVit = 51), off slightly from 52 last month. The U.K. continued to score as slightly unattractive (PRVit = 49).

Figure 9: Sector Attractiveness

Europe	PRVit	Quality	Value	U.K.	PRVit	Quality	Value
Communication Services	55	59	45	Health Care	55	61	53
Utilities	53	50	37	Industrials	55	69	50
Information Technology	53	63	61	Consumer Staples	55	73	46
Financials	53	66	45	Communication Services	53	59	54
Energy	52	45	28	Consumer Discretionary	47	55	42
Industrials	51	65	54	Energy	46	36	24
Health Care	50	57	57	Financials	46	56	45
Materials	49	45	38	Information Technology	43	67	76
Consumer Discretionary	46	58	49	Utilities	43	51	52
Consumer Staples	45	62	47	Materials	40	42	48
Europe Average	51	60	48	U.K. Average	49	59	48

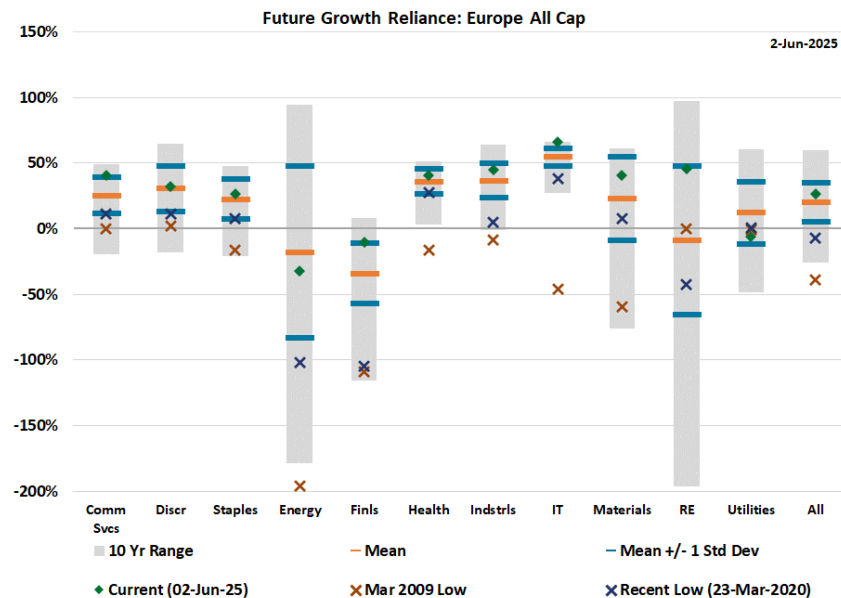
The universe for each region includes all companies in the ISS EVA with a market cap greater than \$1B, excluding the Real Estate sector and Pharmaceuticals, Biotechnology, and Life Science firms under \$5B.

## Expectations Analysis

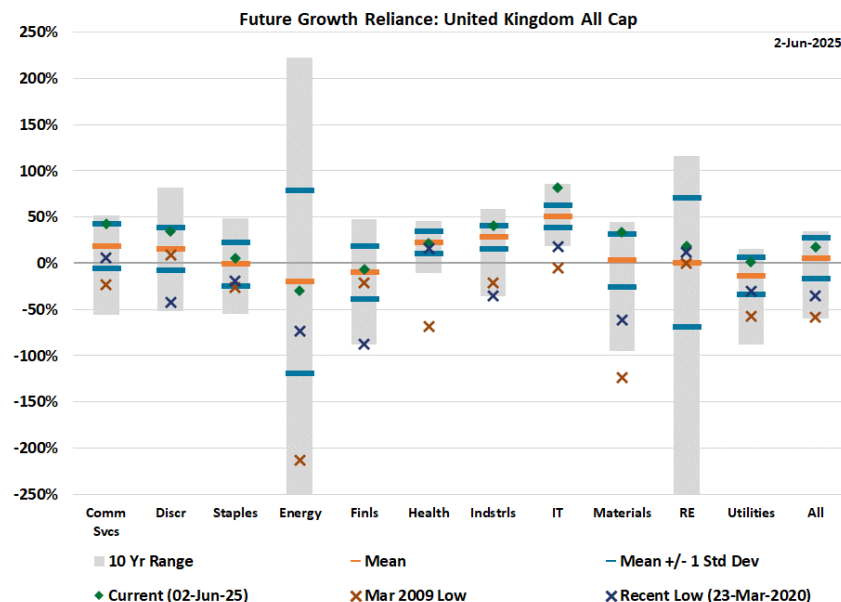
A key driver of our Value scores is the imbedded expectations of the market. For this, we use the Future Growth Reliance (FGR) metric, which computes the implied future EVA growth.

**Figure 10** below plots FGR for Europe over the last 10 years – the gray area is the overall range (min to max), the orange lines represent the mean, the greenish-blue lines show the mean plus/minus 1 standard deviation, the green diamonds represent the current value, the red 'Xs' indicate lows from March 2009, and the blue 'Xs' represent the lows of March 2020. U.K. results can be found in **Figure 11**.

**Figure 10: Expectations Analysis – Europe**



**Figure 11: Expectations Analysis – United Kingdom**



## Formulas

$$\text{Future Growth Reliance (FGR)} = \frac{\text{FVA}}{\text{Market Cap}}$$

$$\text{Future Value Added (FVA)} = \text{Market Cap} - \text{Current Value Added (CVA)}$$

$$\text{Current Value Added (CVA)} = \frac{\text{EVA}}{\text{Cost of Capital (no-growth scenario)}}$$

('Xs' below represent the number of standard deviations the current value is from the mean)

## Europe

IT (+1.7x), Communication Services (+1.1x), and Financials (+1.0x) have the highest expectations. Utilities (-0.8x), Energy (-0.2x), and Discretionary (+0.1x) have the lowest relative expectations (despite Discretionary being above its historical mean).

## United Kingdom

IT (+2.6x), Materials (+1.1x), and Communication Services (+1.0x) have the highest relative expectations. Energy (-0.1x), Health Care (-0.1x), and Financials (+0.1x) have the lowest expectations.

The energy sector is driven by BP, which had reported the worst EVA Margin in a decade. A negative EVA Margin drives CVA negative. The market was looking past the quarter and priced in a full recovery, which drove the FGR up (negative CVA must be offset by higher FVA). IT has seen a dramatic jump this month, with the inclusion of ARM Holdings, which has a market cap that comprises 70% of the sector market cap.

## EVA & ESG Index

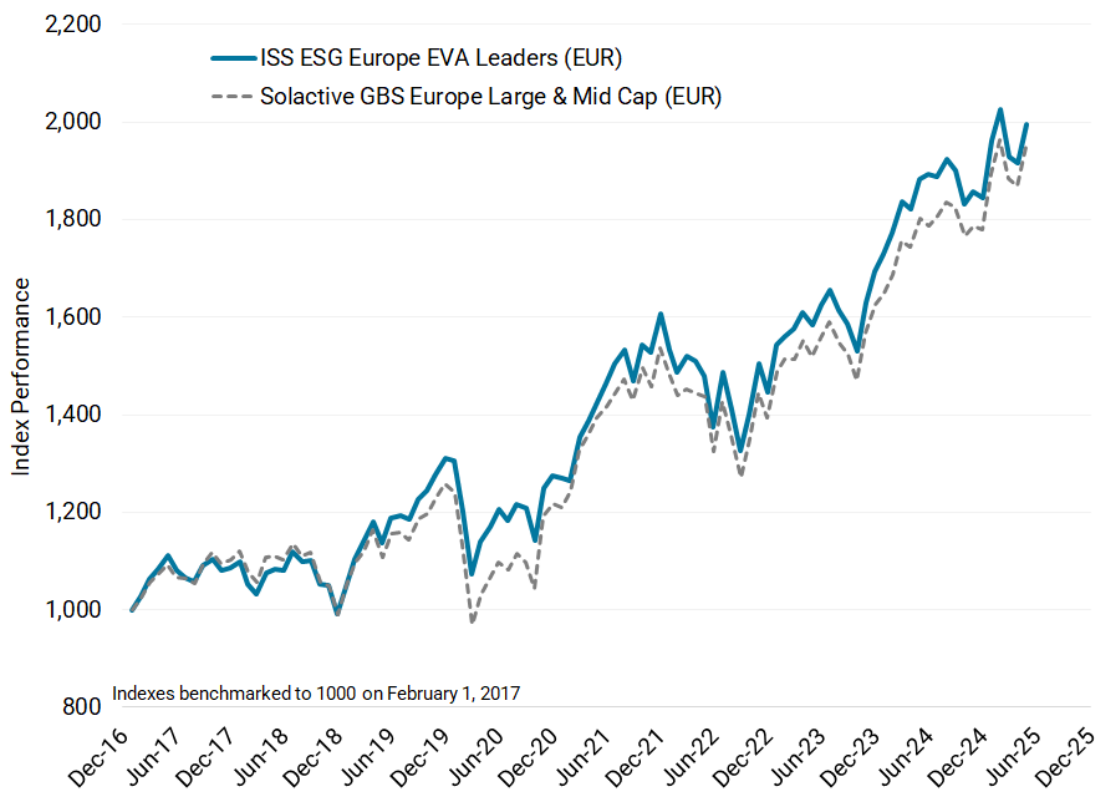
Creation of the index follows a four-step process and starts with the screening of constituents of the Solactive Global Benchmark Series. From there, ISS ESG screens are applied to remove prospective constituents with Red [Norm-Based Research](#) flags, Red Controversial Weapons flags, and those with an overall [ISS ESG Corporate Rating](#) of D-, D, and D+. Next, the [EVA](#) screen is applied to remove prospective constituents with a negative EVA Margin. Last, qualifying constituents are added by sector, based on descending EVA Margin, until reaching a market cap threshold and targeting sector neutrality. Indexes are market cap weighted after the above steps and rebalanced quarterly.

Index [methodologies](#) are available on the ISS website and that of the Index Administrator, Solactive AG, an authorized benchmark administrator under European Benchmarks Regulation (BMR). We currently offer three indexes covering the U.S. (ISSEVAUT), Europe (ISSEVAET), and Developed Markets (ISSEVADT) – Bloomberg tickers in parentheses.

To learn more about ISS ESG's index offerings, please click [here](#).

See PRVit Report – U.S. and Global for similar graphs with those regional indexes.

**Figure 12: ISS ESG Europe EVA Leaders**





## About ISS EVA

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 +29,000 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) / EV**

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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