

Cheap Value for a Better World: Russell 2000

Cheap Value, Attractive PRVit, and Strong ESG Prime Score

We identify attractive names in the Russell 2000 Index with cheap Value scores (V), attractive PRVit, and strong ESG Performance Scores (see details below). The PRVit framework compares a firm's operational Quality to the Value paid in the market: the greater the disconnect between Quality and Value, the more favorable the stock.

Figure 1: Top Names

Name	Ticker	Sector	Market Cap (US\$M)	PRVit	Quality (P - R)	Valuation (V)	ESG Rating Decile
GOODYEAR TIRE & RUBBER CO	GT	Discr	4,857	73	15	0	2
MIMECAST LTD	MIME	Info Tech	3,535	70	81	37	2
ABM INDUSTRIES INC	ABM	Industrials	3,059	98	95	29	1
VERINT SYSTEMS INC	VRNT	Info Tech	2,929	97	57	4	2
MILLER (HERMAN) INC	MLHR	Industrials	2,767	78	73	38	1
AVAYA HLDGS CORP	AVYA	Info Tech	2,244	76	36	4	1
COMMUNITY HEALTH SYSTEMS INC	CYH	Health Care	2,138	67	36	5	2
ADTALEM GLOBAL EDUCATION INC	ATGE	Discr	1,851	91	59	9	2
SECUREWORKS CORP	SCWX	Info Tech	1,806	87	69	14	2
ICF INTERNATIONAL INC	ICFI	Industrials	1,744	84	68	30	2
FRESH DEL MONTE PRODUCE INC	FDP	Staples	1,563	79	21	7	1
INNOVIVA INC	INVA	Health Care	1,364	100	100	29	1
ANAPTYSBIO INC	ANAB	Health Care	672	93	81	18	2
CYTOMX THERAPEUTICS INC	CTMX	Health Care	470	85	54	5	1
SENECA FOODS CORP	SENEA	Staples	435	100	82	0	2
XOMA CORP	XOMA	Health Care	377	72	71	31	2

Criteria

- In Russell 2000
- Valuation (V) < 40 (cheapest 40%)
- PRVit > 60 (most attractive 40%)
- ESG Rating Decile = 1 or 2 (top 20% of ESG ratings)

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 50 are considered 'Prime', they score well across Environmental, Social, and Governmental metrics. A table that includes these scores is on page 2.

ESG Rating Decile Rank: This factor indicates decile rank relative to industry group (companies) and covered entities (countries) based on assessment of Environmental (E), Social (S), and Governance (G) performance. A decile rank of 1 indicates a high relative performance, while a 10 indicates a low relative ESG performance.

EVA Value

Our EVA Value score is comprised of Wealth Ratios (V1) and Wealth Multiples (V2). See more details on our Valuation Metrics on page 3.

Wealth Ratios Score (V1) include Market Value Added divided by Sales (MVA/Sales) and Market Value Added to Capital (MVA/Capital) which are similar to Price-to-Book using cleaned versions of Capital.

Wealth Multiples Score (V2) consider the current market valuation as multiples of cash flow (EBITDAR), enterprise earnings (NOPAT), and EVA. This factor also includes our Future Growth Reliance (FGR) which computes the percent of the market value that is coming from investors' expectations (value not explained by Capital and Current Value Added).

Notes

Criteria

- In Russell 2000
- Valuation < 40 (cheapest 40%)
- PRVit > 60 (most attractive 40%)
- ESG Rating Decile = 1 or 2

PRVit compares the Quality of a firm's Risk-adjusted Profitability to the Value paid in the market.

ISS ESG Performance Score is a composite score of different environmental, social, and governance factors that assess corporate sustainability performance and impact.

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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 +20,000 stock universe.

Visit our website www.EVAexpress.com

Top Names

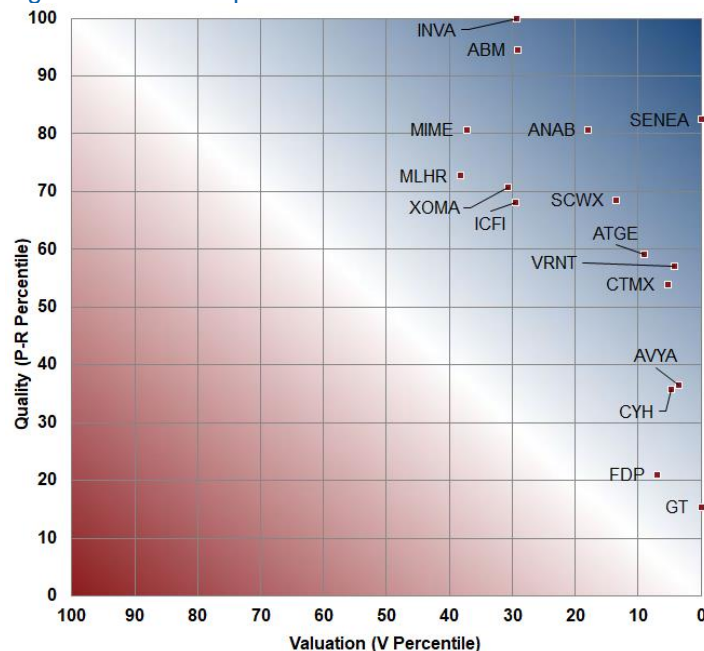
Figure 2 is the same as **Figure 1** but with the ESG Performance Score column and YTD market returns columns added.

Figure 2: Top Names

Name	Ticker	Sector	Market Cap (US\$M)	PRVit	Quality (P - R)	Valuation (V)	ESG Perform. Score	ESG Rating Decile	YTD Returns
GOODYEAR TIRE & RUBBER CO	GT	Discr	4,857	73	15	0	51	2	57.20%
MIMECAST LTD	MIME	Info Tech	3,535	70	81	37	50	2	-5.00%
ABM INDUSTRIES INC	ABM	Industrials	3,059	98	95	29	51	1	20.80%
VERINT SYSTEMS INC	VRNT	Info Tech	2,929	97	57	4	48	2	31.96%
MILLER (HERMAN) INC	MLHR	Industrials	2,767	78	73	38	57	1	39.11%
AVAYA HLDGS CORP	AVYA	Info Tech	2,244	76	36	4	58	1	42.87%
COMMUNITY HEALTH SYSTEMS INC	CYH	Health Care	2,138	67	36	5	51	2	119.92%
ADTALEM GLOBAL EDUCATION INC	ATGE	Discr	1,851	91	59	9	61	2	5.89%
SECUREWORKS CORP	SCWX	Info Tech	1,806	87	69	14	51	2	52.25%
ICF INTERNATIONAL INC	ICFI	Industrials	1,744	84	68	30	50	2	23.79%
FRESH DEL MONTE PRODUCE INC	FDP	Staples	1,563	79	21	7	44	1	38.08%
INNOVIVA INC	INVA	Health Care	1,364	100	100	29	63	1	8.15%
ANAPTYSBIO INC	ANAB	Health Care	672	93	81	18	51	2	14.79%
CYTOX THERAPEUTICS INC	CTMX	Health Care	470	85	54	5	52	1	5.80%
SENECA FOODS CORP	SENEA	Staples	435	100	82	0	41	2	20.23%
XOMA CORP	XOMA	Health Care	377	72	71	31	62	2	-30.41%

PRVit is scored 0 to 100 where 100 is the most attractive. Profitability and Quality are both scored 0 to 100 where 100 is the best. Valuation is scored 0 to 100 where 100 is the most expensive.

Figure 3: HEAT Map



HEAT Map Commentary

Our HEAT Map plots the Top Names using their Quality score (y-axis, higher is better) and their Valuation score (x-axis, right is cheaper).

INVA and **ABM** have the highest overall Quality within the cheap Value group.

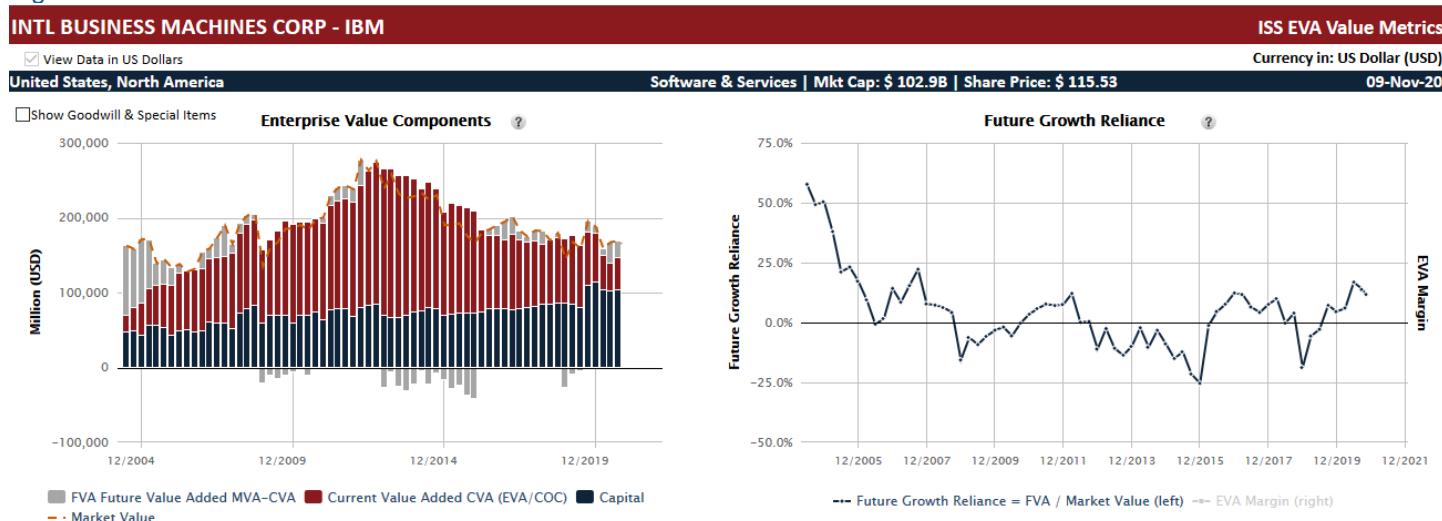
GT, **FDP**, **CYH**, and **AVYA** have the lowest Quality but are cheap enough to make them attractive.

MIME, **ABM**, **CYH**, **SCWX**, **INVA**, **ANAB**, **SENEA**, and **XOMA** were all on the [Good Growth for a Better World](#) report published last week.

Value Explained

On the left, we see the build up to IBM's Enterprise Value: Capital (blue), Current Value Added (red), and Future Value Added (gray). Capital is the EVA-adjusted Capital invested in the business (including capitalized R&D, leases, etc). Current Value Added (CVA) is the current level of profitability (value creation) taken into perpetuity – a no-growth scenario. Finally, Future Value Added (FVA) is the difference between the Enterprise Value of the firm and the value explained by Capital and CVA: this is the implied growth investors are expecting from the business. On the right, we look at the FVA divided by the Enterprise Value (EV) to get our Future Growth Reliance (FGR) which indicates what percent of the EV is coming from the FVA. When FGR is negative, the market is expecting the company to incrementally destroy value in the future. Valuation Scores are relative to the industry.

Figure 4: IBM Value Metrics



What is PRVit?

PRVit is a platform that translates underlying EVA Fundamentals into EVA metrics (Profitability, Risk, Value) that can be ranked and then compared relative to the broader market or intra-industry. To be clear, PRVit is not a black box ranking system. PRVit systematically links company fundamentals and market values to economic (EVA) metrics and the resulting score is a percentile rank. In other words, a company with a PRVit rank of 80 is in the 80th percentile in its industry with respect to its underlying economics relative to the price of the stock in the market. Higher PRVit is better. When fundamentals exceed valuation, the overall PRVit ranking will move higher. See below for more including the individual factors which comprise the PRVit score.

Profitability Score ("P") is a percentile rank from 0-100 (higher is better) that ranks all companies vs. industry. Consists of current EVA Profitability Level metrics ("P1") and EVA Profitability Trends ("P2") over the last quarter, year, and three years. These two components are then re-ranked vs. the industry to calculate an overall EVA Profitability score ("P").

EVA Profitability is then scaled to risk to determine level of confidence that EVA Profitability is sustainable; demonstrated by the **Risk Score ("R")** (also from 0-100, where lower is less risky). Volatility ("R1") measures the 3-year standard deviations of stock price and EVA Margin; Vulnerability ("R2") measures FCF and leverage. FCF Rate = (ROC – Capital Growth Rate). Op Cash Gen. Return = FCF before Capex, but net of working capital.

EVA Profitability ("P") and Risk ("R") scores are then indexed to form the risk-adjusted **Quality ("P – R")** ranking, which is then compared to the **Valuation Score ("V")**, a composite of EVA-centric valuation multiples (lower means cheaper). For each metric, the company value is with the 25th, 50th, and 75th percentile values for that metric. The far-right blue horizontal bar is the company's percentile ranking for that individual metric.

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 20,000 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 = Δ 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 = Δ 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

Best Practice EVA ([link](#)): A summary of Bennett Stewart's most recent book on EVA, available for purchase on [Amazon.com](#)

What Determines TSR ([link](#)): Insight into the relationship between EVA and stock prices

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