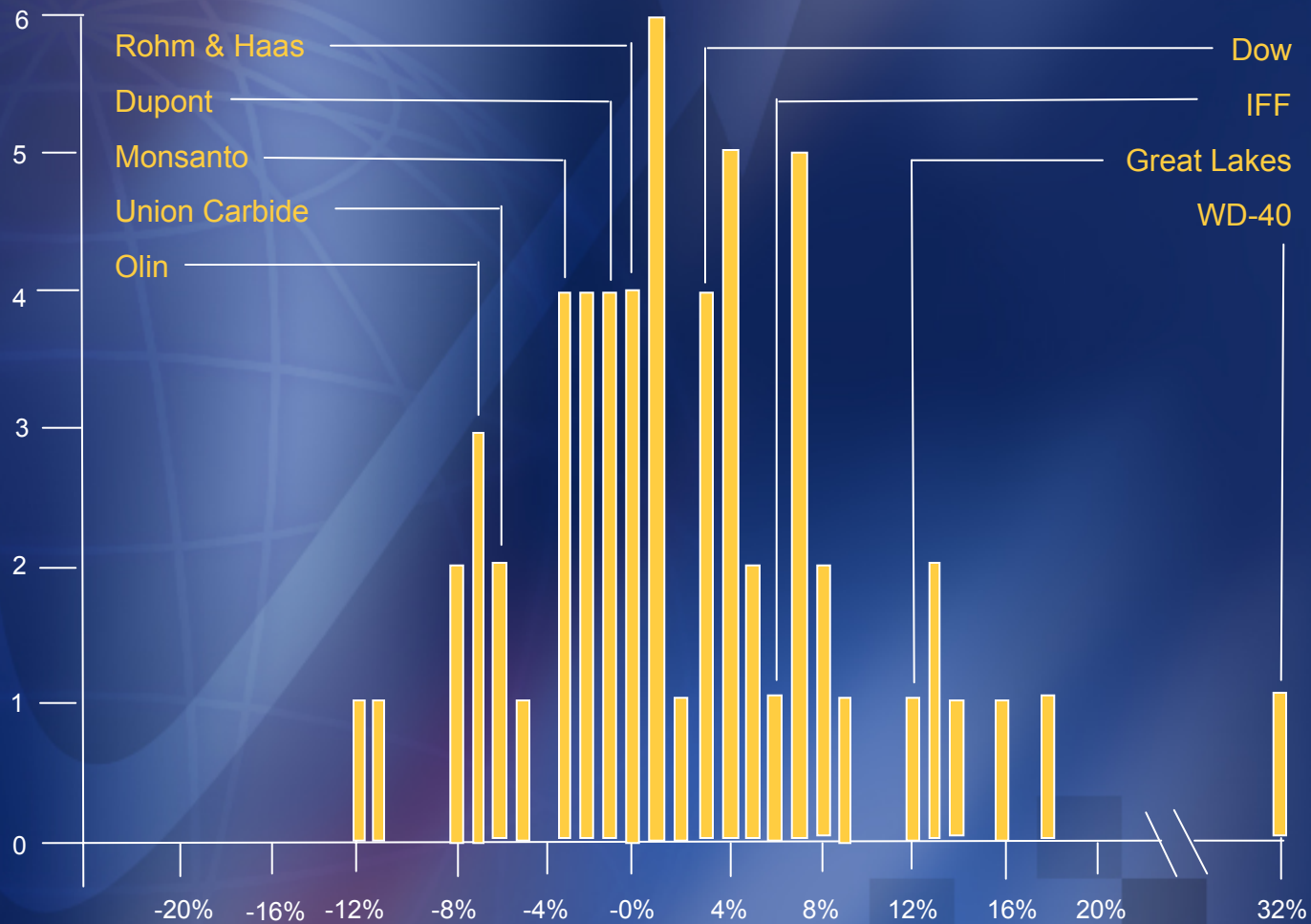
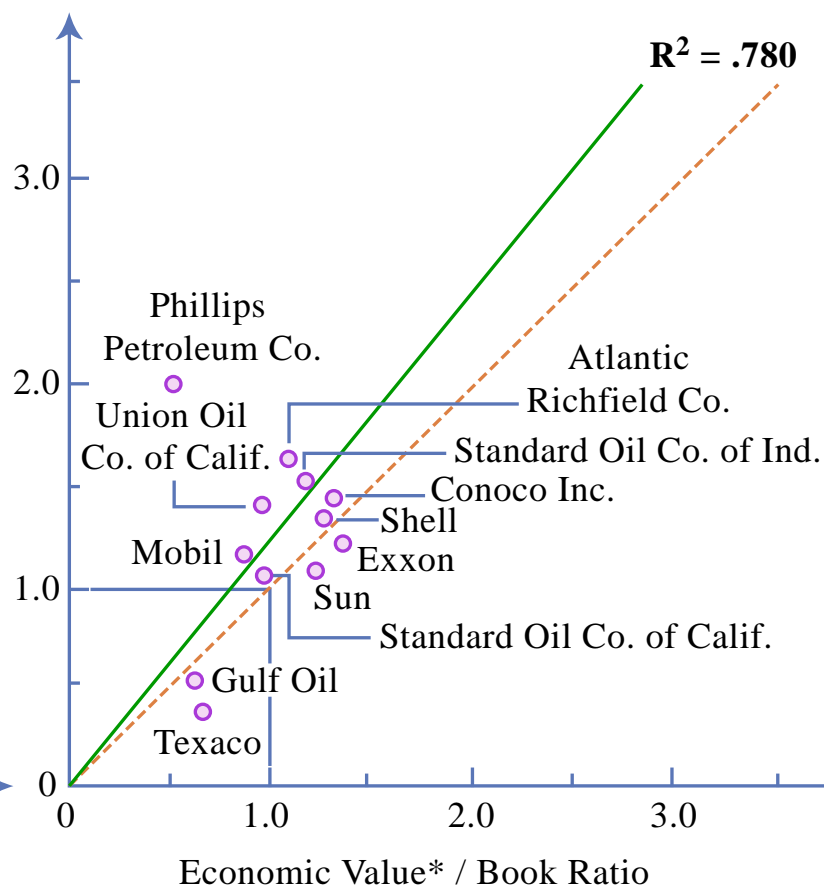
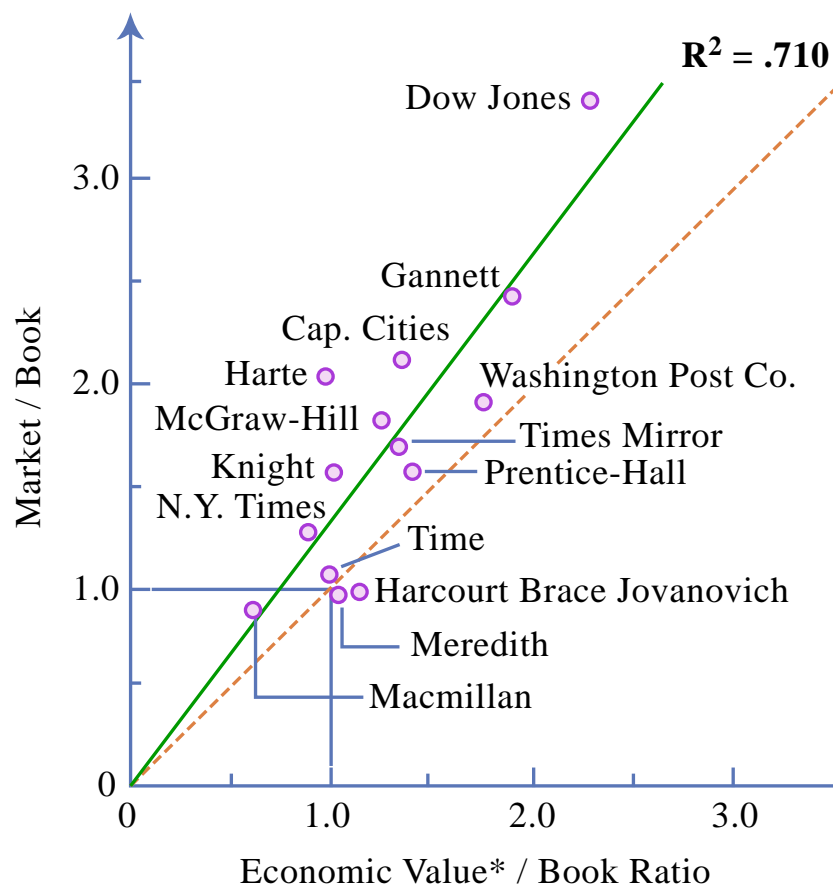


# Historical Equity Spreads within the Chemicals Industry (1976-91)



Source: Value Line Investment Survey (1992), Marakon Associates analysis.

# The M/B vs. E/B Graph



PUBLISHING COMPANIES (10-Year Strategic Horizon)

OLD COMPANIES (15-Year Strategic Horizon)

Figure by MIT OCW. \*Based on historic (five-year average) values. Source: Compustat, McKinsey analysis. Source: Lily K. Lai, "Corporate Strategic Planning for a Diversified Company," 1983.

## Is there a value gap in your company?

- **Are there any businesses in the portfolio that significantly underperform competitors?**
- **Are there any businesses that are out of their start-up phase and still losing money?**
- **Are there any businesses that would clearly be worth more to someone else due to synergy or operating economies?**
- **Are resources allocated to businesses in a way that reflects their profitability potential, or do you tend to overfund losers and underfund winners?**

## **Is there a value gap in your company? (cont'd.)**

- Is performance measured by using average cost, asset, and debt allocations, and an arbitrary corporate hurdle rate?**
- Are any of your long-term incentives tied directly to relative stock performance or indirectly to the drivers of shareholder value?**
- Is capital spending driven mostly by capital budgeting rather than the strategic planning process?**
- Is the company underleveraged? Could the company be taken private in an LBO at today's stock price?**
- If the company did go private in an LBO, which assets would be sold to repay debt? How much overhead could be cut without damaging the long-term health of the company?**

# The Profitability Matrix

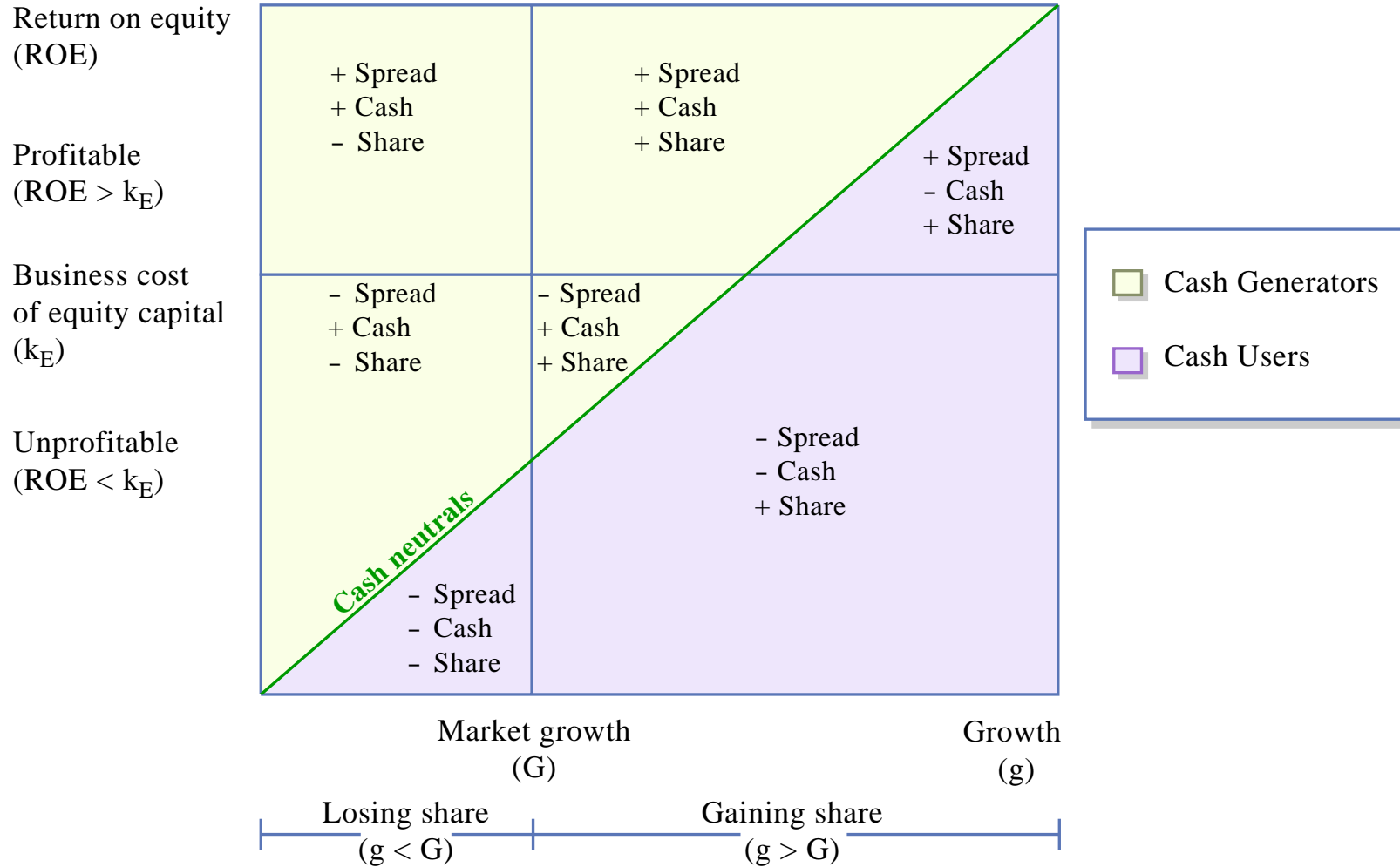


Figure by MIT OCW. Adapted from Marakon Associates. "The Marakon Profitability Matrix," Commentary No. 7, 1981.

## An Alternative Profitability Matrix

