



COMPETITIVE STRENGTH ANALYSIS

fortna[®]
The Distribution Experts[®]

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Executive Summary

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- ✓ This report updates and replaces our 2010 report and analysis of the potential Fortna impact on a company's competitive strength.
- ✓ wRatings is a privately-owned, independent research firm that analyzes the competitive strength of 2,000+ public companies on a continual basis. We utilize consumer and business panels to rate how well each company meets customer expectations. Since 1999, executive teams, boards, hedge funds and private equity firms use our ratings to help make return on capital decisions.
- ✓ Fortna provided wRatings with 115 current Clients that represent their largest revenue sources from the US/Canada, Mexico, Latin America and EMEA.
- ✓ To examine the impact of Fortna on a company's competitive strength, we created two groups using the Fortna list and the 2,000+ public companies in the wRatings universe of coverage: 1) Fortna Clients (47 public companies) and 2) Their Industry Peers (128 companies). Privately owned companies from the Fortna Client list were not included in our analysis.
- ✓ Fortna Clients out-perform their industry peers across three key performance metrics of competitive strength: Total Moat Scores (an analysis of 11 customer barriers), Sales \$/Employee and Pricing Power.

What is Competitive Strength?

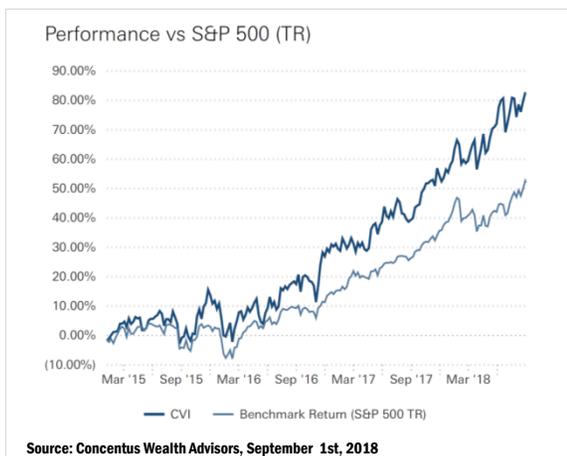
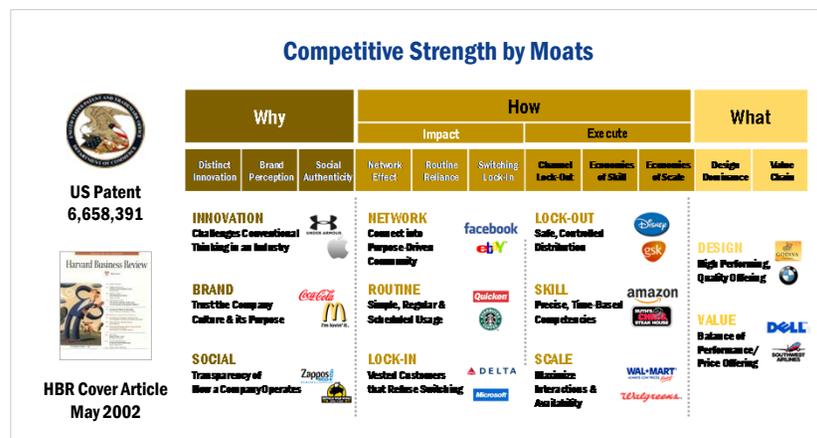
Our patented research was spotlighted as the **May 2002** cover article in **Harvard Business Review** entitled *Change The Way You Persuade*.

Basic economic theory shows that in a highly competitive market, returns will be driven down to essentially no economic profit as rivals imitate any known advantage. Statisticians call this reversion to the mean. To achieve a durable advantage, a company must defy this very powerful force of competition.

Using our global competitive strength database of 2,000+ public companies, we've completed two studies (2001-2005 and 2005-2015) that identified patterns in how companies meet customer expectations better than rivals. These 11 patterns, or moats, strongly correlate ($r=0.80$) to generating economic profit, sales growth and pricing power.

We use moats to analyze the competitive strength of companies for corporate executives, boards, hedge funds & PE firms.

Does this data work? On January 1st, 2015, we started our own fund to invest in the top 25 companies of our rankings. **Our fund has outperformed the S&P 500 return by 30.5% and the Russell 2500 by 33.0% over the last 3.5+ years.**



Our Top 25 Companies
82.5%
S&P 500 (Total Return)
52.0%
Russell 2500 (Total Return)
49.5%

Fortna Client Base

In mid-2018, Fortna provided wRatings with 115 current Clients that represent their largest revenue sources from the US/Canada, Mexico, Latin America and EMEA. Because Fortna specializes in distribution, these companies primarily belong to logistic and delivery-driven industries.

Although Fortna Clients represent dozens of industries, most publicly traded companies fall into one of the following industries:

- ✓ Auto Parts & Retail
- ✓ Footwear
- ✓ Hardline Retail
- ✓ Machinery

To examine the impact of Fortna on competitive strength, we segmented our universe of coverage (2,000+ public companies) into two groups:

1. Fortna Clients (47 companies) and
2. Industry Peers (128 companies)

Combined, our analysis includes the performance of 175 total companies. Industry peer data only includes companies with a market capitalization of \$300 million or more.

Auto Parts & Retail



such as
**Goodyear Tire,
Penske Auto, Valvoline**

Machinery



such as
**Briggs & Stratton,
Stanley Black & Decker, Toro**

**wRatings
Analysis
4 Industries**
**175 Total
Companies**

Hardline Retail



such as
**Best Buy, Haverty Furniture,
Party City**

Footwear



such as
**Crocs, Deckers Outdoor,
Skechers USA**

Competitive Strength Impact of Fortna

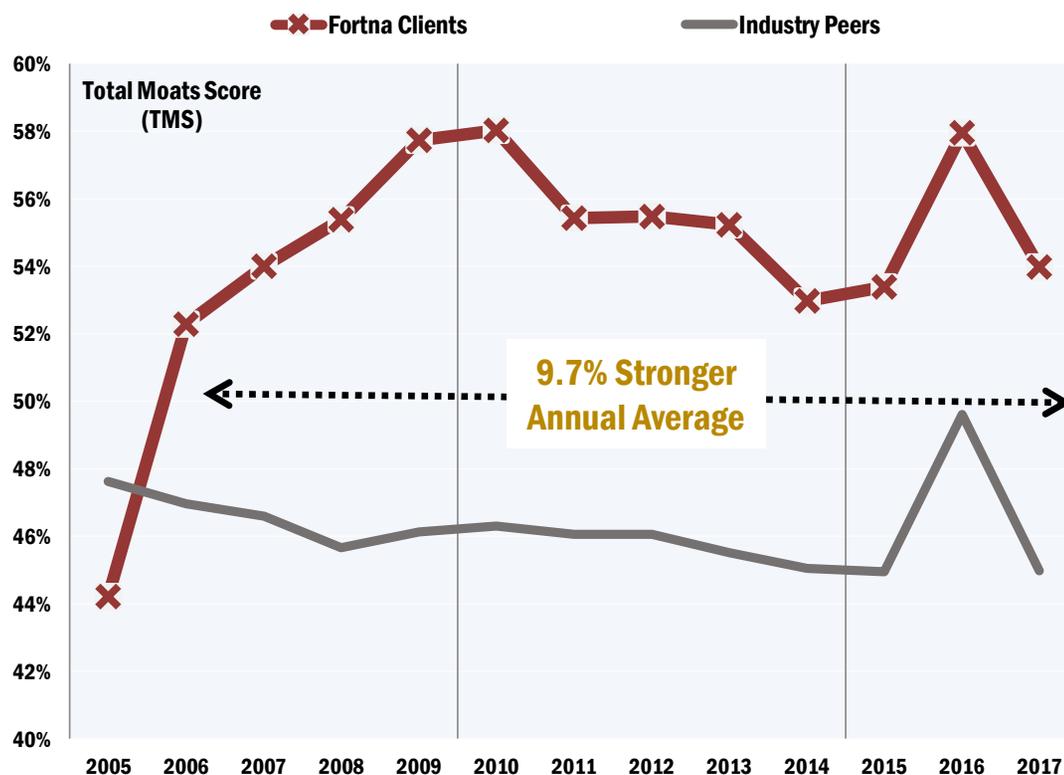
Competitive strength measures how well a company meets customer expectations better than rivals. Smaller gaps indicate a company is performing better, and has a higher score. We measure the score using an average across 11 customer moats, and then force percentile rank that Total Moat Score (TMS) within the 2,000+ public companies in our coverage.

Although Fortna services and products don't directly impact their Client's customer relationships, improvements in supply chain often have downstream impact on competitive strengths. For example, superior inventory management and short order cycle times may ensure the right product is available to their Client's customers when they want to buy. Companies are also able to make promises to their customers with greater confidence.

Over the past 12 years, Fortna Clients generate 9.7% more competitive strength than their industry peers.

This strength provides Fortna Clients with a protective barrier to keep customers in and rivals out. Just like castles of the past needed moats for protection, companies need to prevent rivals from stealing customers away using discounts and other gimmicks. Ultimately, Fortna Client's customers see the value of a superior customer experience beyond just price.

Competitive Strength



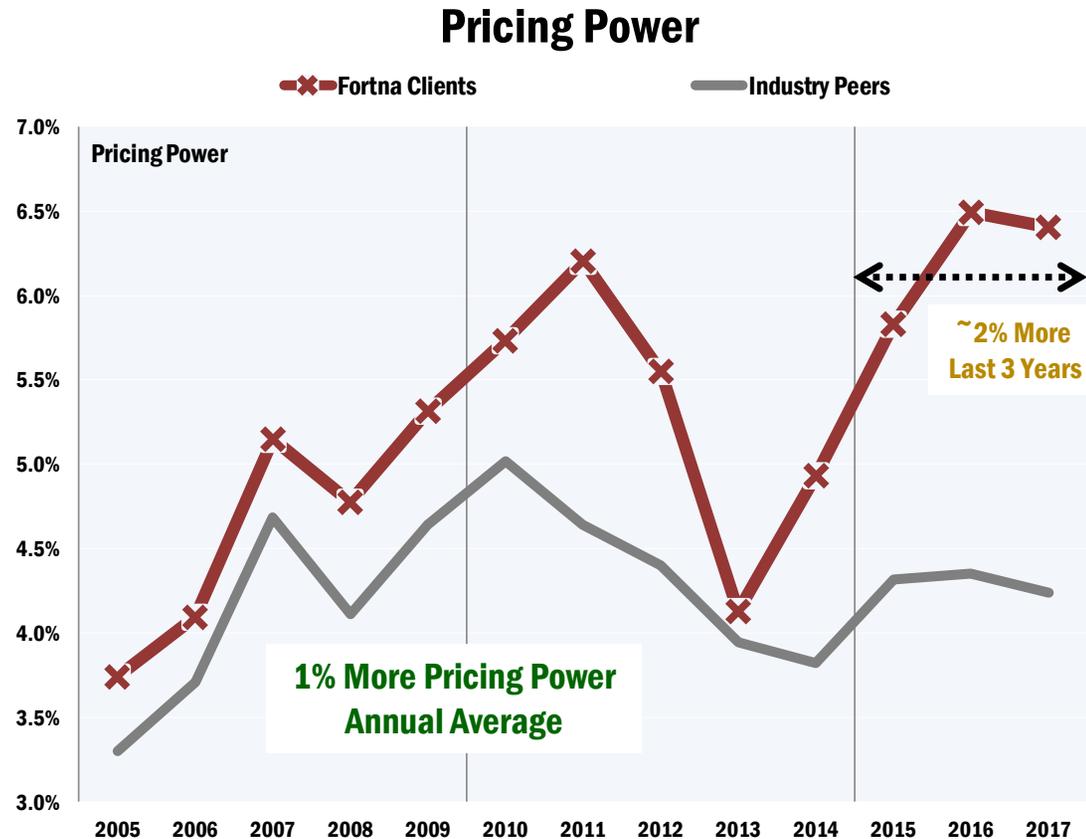
Pricing Power Impact of Fortna

In our surveys with company's customers, we ask how much more a customer would be willing to pay if a company could fully meet their expectations (what we call the customer ideal). Pricing Power is an average of that percentage more a customer is willing pay.

Over the past two decades, our database shows business-to-consumer (B2C) companies average ~4% pricing power each year whereas business-to-business (B2B) companies average ~2%. This average fluctuates based on multiple variables such as geography, economic growth, political environment and weather. Yet given those variables, we found that most companies retain the vast majority of their ability to generate pricing power by simply better meeting their customer's ideal.

Since 2005, pricing power of Fortna Clients with their customers has been higher than industry peers every year. On average, the customers of Fortna's Clients are willing to pay 1% more than if they buy from a rival.

In just the last three years, Fortna Clients possess ~2% more pricing power with their customers than industry peers.



Sales \$/Employee Impact of Fortna

A standard cross-industry measure of employee productivity is Sales \$/Employee. This metric divides the annual gross sales of company by its total number of employees.

Most financial analysts view Sales \$/Employee as a strong indicator of effective leadership and competitive strength.

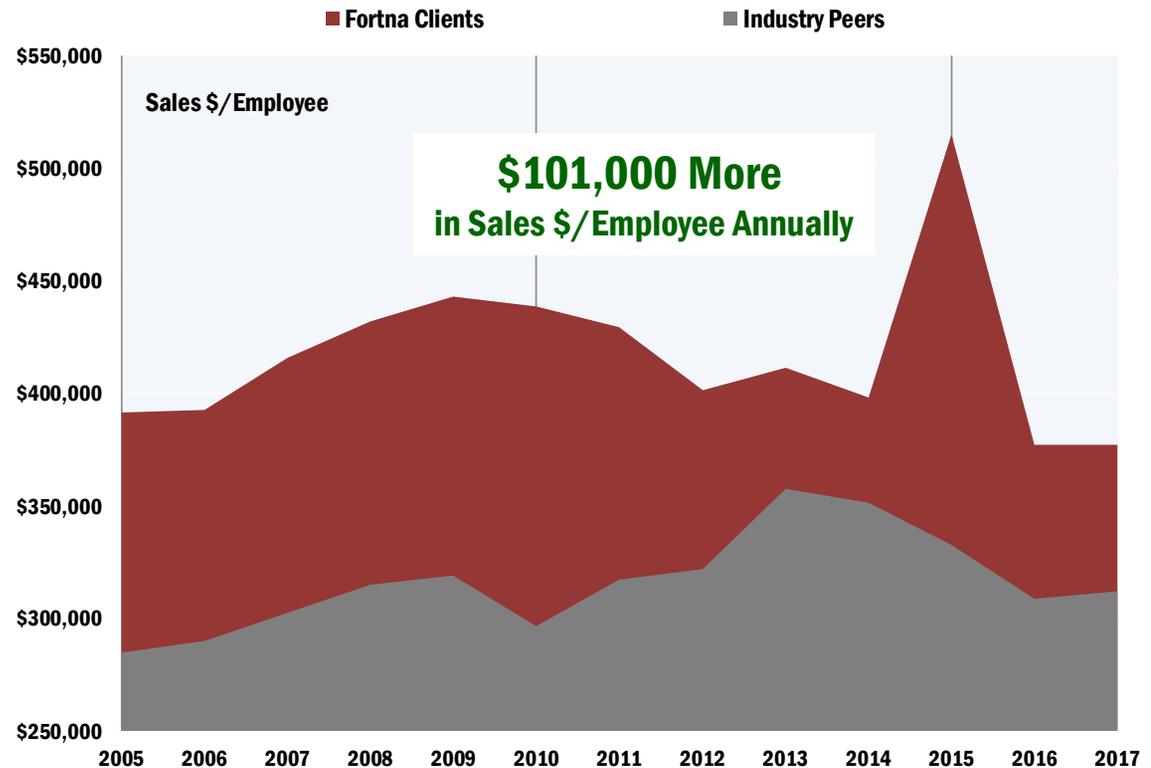
Since 2005, Fortna Clients generate \$101,000 more in sales \$ per employee annually than industry peers. This equates to a twelve-year average of ~32% more sales per employee each year for Fortna clients than industry peers.

A multitude of factors can contribute to higher sales \$/employee. The ability to do more with less employees provides a cost savings advantage. Productivity is a major source of any country's organic growth engine.

Another factor is confidence, where employees learn to trust their internal systems more so they are willing & able to keep promises with customers.

A third factor is the ability to attract higher quality customers that don't base their primary buying decision on price. These customers value elements such as community, authenticity and culture. Many of these elements appear as critical needs found in our moat framework, and detailed on the next page.

Sales \$ per Employee



Moat Impact of Fortna

Moats are barriers to entry that protect a company from rivals duplicating their advantages. Companies with high moat scores possess more pricing power & achieve higher annual sales growth than their peers. For clarity, we group moats from the most intangible to most tangible.

Two moats of Fortna Clients provided more strength than their peers:

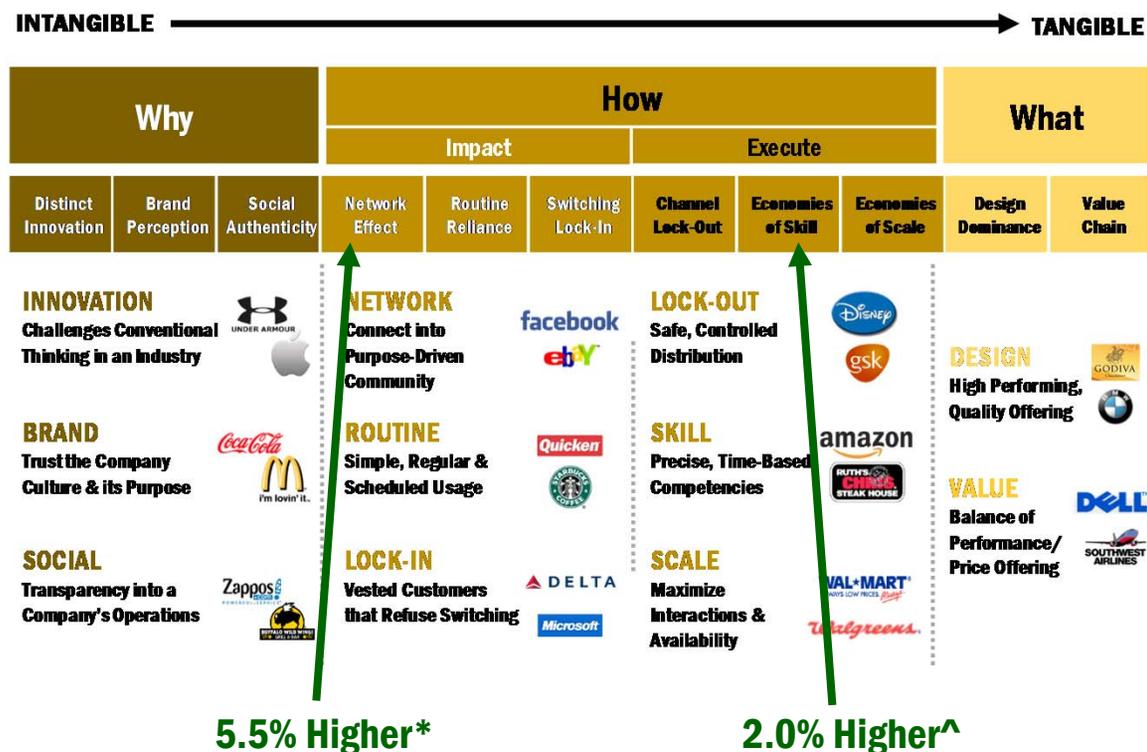
- ✓ **Network Effect** (community growth to connect disparate groups to save customer's time)
- ✓ **Economies of Skill** (precise, time-based core competencies at a fair price)

The common survey question for these two moats is time-sensitivity. For industries that are heavily reliant on distribution, time is critical. Fortna Clients have the ability to better make and deliver on promises than industry peers. In today's service-oriented environment, this improves speed and short order cycle times.

Companies with an economies of skill moat are precise in how they operate, whereas companies with a network effect moat save customers time by connecting them with others in a community.

Fortna Clients possess strengths that are 2.0% and 5.5% higher, respectively, than industry peers.

Moat Framework



* Companies that rank 90% or higher for the Network Effect moat achieve 10.6% annual sales growth on average

^ Companies that rank 90% or higher for the Economies of Skill moat achieve 15.7% annual sales growth on average

Conclusions

Companies that partner with and implement Fortna designed solutions are competitively stronger than their industry peers based on a multitude of factors found in our analysis.

Note that this analysis cannot determine a cause-effect relationship, nor does it hold up at the individual company or business segment level.

Analysis of other technology-driven companies vs. non-technology driven companies may yield similar results.

- ✓ On average over the past 12 years, Fortna Clients generate 9.7% more competitive strength than their industry peers. This strength provides Fortna Clients with a protective barrier to keep customers in as well as keep rivals from stealing them away using discounts and gimmicks. Ultimately, Fortna Client's customers see the value of a superior customer experience.
- ✓ Pricing power of Fortna Clients with their customers has been higher than industry peers every year since 2005. In the last three years, Fortna Clients possess ~2% more pricing power than industry peers.
- ✓ Since 2005, Fortna Clients generate \$101,000 more sales per employee than industry peers every year on average. This can be driven by cost savings, employee confidence and higher quality customers (not focused exclusively on price).
- ✓ For industries that are heavily reliant on distribution, time is critical. Fortna Clients have the ability to better make and deliver on promises than industry peers. In today's service-oriented environment, this improves speed and short order cycle times.
- ✓ Adoption of Fortna services and products may help produce & sustain substantial competitive strength for a company.

Our Universe of Coverage

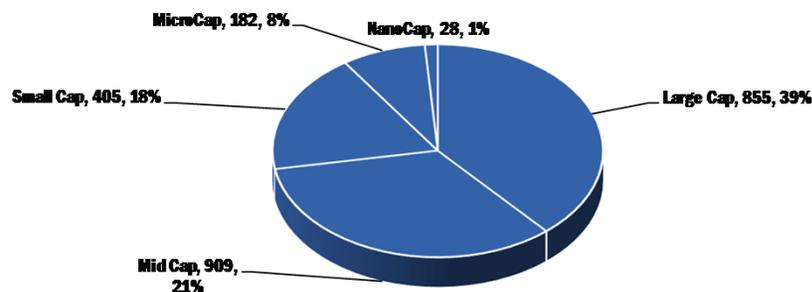
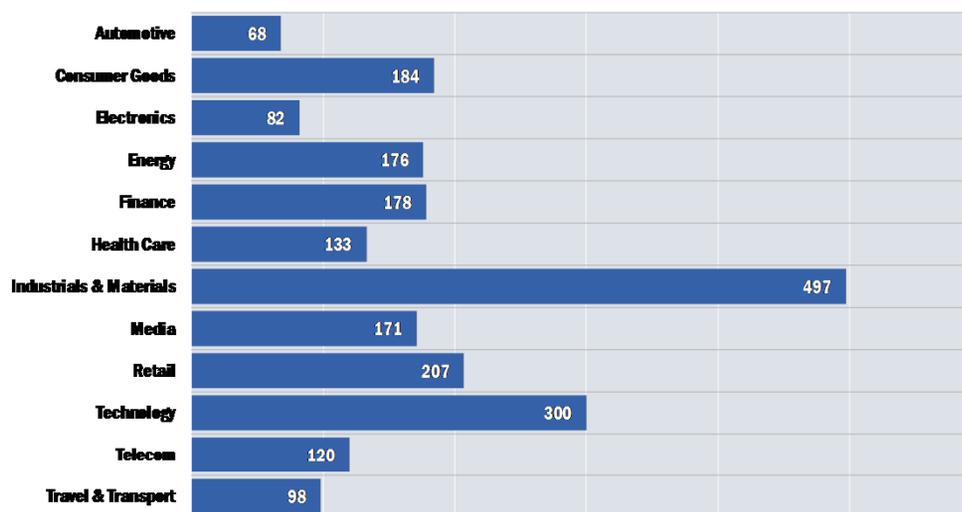
We cover companies that represent all sectors of the economy. To make company selection easy for customers to rate them, we structure companies with a more consumer-friendly nomenclature.

Our research team operates in 13-week increments on a rolling week basis. During the course of 13 weeks, we pre-qualify a panel, conduct interviews with them and analyze the data on each company in our database. From time to time, our analyst team writes and publishes individual reports on certain companies.

KEY

- Large Caps: \$5 Billion or more
- Mid Caps: \$1 Billion to \$5 Billion
- Small Caps: \$300 Million to \$1 Billion
- Micro Caps: \$50 Million to \$300 Million
- Nano Caps: \$50 Million or less

2,214 Companies Covered as of July 1st, 2018





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