

America's Wealth Creators

Big companies like Microsoft, GE, and Intel are making investors richer than ever before. But as FORTUNE's annual MVA rankings show, these giants will have to keep growing like small startups to meet the market's expectations.

Imagine that you're standing at the pinnacle of glory. You're the CEO of a megaplayer called General Giant, the top dog in its industry and still growing fast. You didn't reach these heights by chance. You excel at hatching technologically advanced products that sell for premium prices. As soon as rivals catch up, you outflank them with a wave of fresh offerings that do the job faster or make it simpler. But your greatest achievement is refusing to let your size slow your reflexes. To crown your achievement, Wall Street loves your story and believes that you, the big guy, can outrun nimble startups. Your reward: an Olympian stock price.

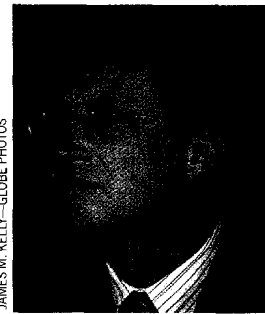
The view from this lofty perch looks pretty good, right? Well, sort of. That huge valuation is a blessing, but as FORTUNE's annual MVA list (for market value added) shows, it could put a hex on the future. General Giant is really a proxy for the top 20 wealth creators in this year's rankings, a group that encompasses tech pioneers Microsoft and Lucent, legendary marketers Coca-Cola and Johnson & Johnson, and cost-crunchers General Electric and Wal-Mart. Our 1999 list—which is based on data from 1998—shows that investors, as never before, are putting their big

by
**Shawn
Tully**

investors are raising expectations of their future performance from merely daunting to stratospheric.

So what do the MVA numbers show? To keep it simple, let's say that General Giant represents the average company in the Towering Twenty. At the beginning of 1999, General's MVA—total market value minus invested capital—was \$136 billion. That's fine, but look at what that value is based on. Last year General handed shareholders only \$1.7 billion in EVA—operating profit minus the cost of capital. (We'll get back to MVA and EVA in a minute.) Hence the market sets General's MVA at 79 times its EVA earnings. Two years earlier its MVA would have been 47 times EVA. According to Stern Stewart, the firm that coined the

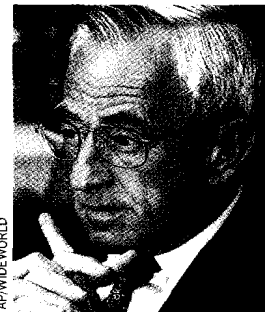
T H E W I N N E R S



JAMES M. KELLY—GLOBE PHOTOS

HIGHEST MVA & MOST IMPROVED MVA
Microsoft
\$328 billion
Up \$184.5 billion

CEO Bill Gates created phenomenal new wealth in just one year.



AP/WIDEWORLD

HIGHEST EVA
Philip Morris
\$5.2 billion

CEO Geoffrey Bible has strong EVA, but investors are still pessimistic.

T H E L O S E R S



GREGORY PACE—SIGMA

LOWEST MVA & LOWEST EVA
General Motors
—\$17.9 billion
—\$5.5 billion

CEO Jack Smith's capital-intensive company is at the bottom of the list in both MVA and EVA.



ERICH HARTMANN—MAGNUM

BIGGEST DECREASE IN MVA
Schlumberger
—\$16.6 billion

CEO Euan Baird's oil-serving company was hit with a downturn in the industry.

MVA RANKINGS

MVA/EVA names and popularized the concepts, General must multiply its EVA more than sixfold, to more than \$10.6 billion, by 2004 to support its current MVA. If it fails, its stock price, and MVA, could collapse.

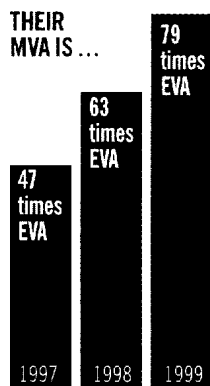
In pondering the task ahead for General Giant, consider the fate of the Nifty Fifty. In the early '70s investors created a similar aura around a group of big-cap growth stocks that included Xerox, Polaroid,

Avon, and International Flavors & Fragrances. "This does remind me of the Nifty Fifty phenomenon," says Al Jackson, head of global equity research at Credit Suisse First Boston. "Most of those stocks went ka-boom. You really have to wonder if these valuations are valid."

The MVA list confirms what lofty P/Es already suggest: that a few big companies are getting pricey, while investors are only lukewarm about most other large caps. But the MVA and EVA numbers tell the story better because they remove accounting distortions that can make profits look rosier than they really are. To compile this year's list, Stern Stewart took America's 1,000 largest corporations

(measured by market cap) and ranked them by MVA, the total wealth created for investors by the end of 1998. We publish the MVA standings of the 200 largest corporations—as well as an update of what's happened to the MVA of the top ten through Oct. 22 of this year. Stern Stewart senior financial analyst Charles Protell crunched the numbers.

MVA and EVA answer the most critical question in business: Is management creating or destroying wealth for its shareholders? Let's look first at MVA. It's the total value the market places on all the company's stocks and bonds—in other words, what investors would pocket if they sold all



MVA is racing ahead of EVA. In short, investors expect near miracles.

FORTUNE CHARTS

The Top Wealth Creators

WHO CREATES VALUE?

The 200 companies with the biggest market caps (out of a pool of 1,000 large-cap companies) are listed by MVA rank.

WHAT MARKET VALUE ADDED MEANS

MVA shows the difference between the capital investors have put into a company and the money they can take out.

THE WEALTH PREDICTOR

EVA is after-tax net operating profit minus the cost of capital. A growing EVA is a good sign that a stock will soar.

THE MEASURE OF WISDOM

Does the return on capital exceed the cost of capital? If so, then the company is using investors' money wisely.

MVA RANK	WHO CREATES VALUE?			MARKET VALUE ADDED \$ millions	ECONOMIC VALUE ADDED \$ millions	THE MEASURE OF WISDOM		
	1999 ¹	1998 ²	1994 ²			Capital \$ millions	Return on capital	Cost of capital
1	3	13	MICROSOFT	\$328,257	\$3,776	\$10,954	56.2%	12.6%
2	1	1	GENERAL ELECTRIC	\$285,320	\$4,370	\$65,298	19.3%	11.9%
3	5	15	INTEL	\$166,902	\$4,280	\$23,626	35.4%	12.9%
4	12	3	WAL-MART STORES	\$159,444	\$1,159	\$36,188	13.2%	9.8%
5	2	2	COCA-COLA	\$157,536	\$2,194	\$13,311	31.2%	11.2%
6	4	4	MERCK	\$153,170	\$4,175	\$29,550	30.0%	11.9%
7	8	17	PFIZER	\$148,245	\$1,052	\$14,631	18.3%	11.4%
8	14	47	CISCO SYSTEMS	\$135,650	\$1,849	\$9,509	38.2%	13.1%
9	25	-	LUCENT TECHNOLOGIES	\$127,265	\$1,514	\$31,448	17.5%	11.6%
10	10	10	BRISTOL-MYERS SQUIBB	\$119,350	\$2,273	\$15,883	26.8%	11.2%
11	16	1000	IBM	\$116,572	(\$1,058)	\$73,891	10.1%	11.7%
12	7	7	EXXON	\$114,774	(\$2,262)	\$84,599	6.2%	8.8%
13	6	6	PROCTER & GAMBLE	\$102,379	\$1,661	\$27,997	17.6%	10.7%
14	9	5	PHILIP MORRIS	\$98,657	\$5,180	\$47,121	21.2%	9.1%
15	11	11	JOHNSON & JOHNSON	\$92,568	\$1,712	\$24,395	19.5%	10.9%
16	41	715	DELL COMPUTER	\$90,302	\$1,447	\$1,004	200.7%	14.0%
17	13	34	ELI LILLY	\$87,890	\$1,548	\$12,276	23.0%	10.2%
18	28	18	HOME DEPOT	\$81,285	\$813	\$11,452	18.3%	9.8%
19	19	25	SBC COMMUNICATIONS	\$79,956	\$2,219	\$53,120	13.9%	8.4%
20	82	332	WORLDCOM	\$77,032	(\$3,585)	\$86,364	6.0%	12.6%
21	23	28	SCHERING-PLOUGH	\$75,620	\$1,298	\$6,158	38.1%	12.0%
22	30	31	BELLSOUTH	\$74,322	\$1,122	\$38,297	11.3%	8.2%
23	113	615	AMERICA ONLINE	\$70,861	\$38	\$2,334	18.9%	16.7%
24	29	8	AT&T	\$66,667	(\$1,314)	\$68,916	7.9%	9.8%
25	22	12	ABBOTT LABORATORIES	\$65,924	\$1,347	\$12,001	22.5%	9.9%
26	27	19	AMERICAN HOME PRODUCTS	\$61,427	\$1,294	\$20,034	15.2%	8.5%
27	17	24	BELL ATLANTIC	\$59,705	\$1,366	\$53,613	10.6%	7.9%
28	26	162	AMERICAN INTL. GROUP	\$58,495	(\$668)	\$42,935	9.7%	11.3%
29	52	27	TIME WARNER	\$58,194	(\$2,779)	\$30,341	1.0%	9.4%
30	38	73	WARNER-LAMBERT	\$55,038	\$590	\$9,380	17.1%	10.2%
31	33	142	COMPAQ COMPUTER	\$54,918	(\$291)	\$17,506	10.3%	12.4%
32	36	44	AMERITECH ⁴	\$52,330	\$1,120	\$27,250	13.4%	8.8%
33	31	366	CITIGROUP	\$51,380	\$2,697	\$60,672	18.8%	14.4%
34	15	23	GILLETTE	\$46,663	\$255	\$10,713	14.2%	11.5%
35	24	9	PEPSICO	\$46,328	\$300	\$22,589	14.4%	12.8%
36	21	49	HEWLETT-PACKARD	\$45,464	(\$593)	\$28,436	10.6%	12.8%
37	34	29	MOBIL	\$44,196	(\$1,656)	\$36,092	3.7%	8.2%
38	51	301	TYCO INTERNATIONAL	\$41,439	\$483	\$13,430	15.5%	11.0%
39	46	21	MCDONALD'S	\$41,311	\$256	\$20,674	11.6%	10.2%
40	88	158	EMC	\$38,933	\$512	\$3,733	31.0%	14.0%
41	39	22	GTE	\$38,854	\$1,163	\$47,779	10.7%	8.1%
42	18	14	WALT DISNEY	\$38,633	(\$197)	\$38,337	9.4%	10.0%
43	290	991	FORD MOTOR	\$38,509	\$2,545	\$37,153	13.8%	9.5%
44	32	51	AMERICAN EXPRESS	\$37,781	\$931	\$8,395	23.2%	12.1%
45	54	48	ORACLE	\$36,740	\$879	\$4,787	36.7%	13.8%

¹Calculations are based on figures as of the previous year-end. ²Historical rankings reflect alterations due to mergers and other financial charges. ³The rankings exclude electric utilities and real estate firms. ⁴Ameritech was acquired by SBC Communications on October 8, 1999.

MVA RANKINGS

their securities—minus the capital they invested, including equity and debt offerings, retained earnings, and bank loans. The difference between what investors could take out and what they put in is MVA.

If MVA is positive, management has achieved Job One by making shareholders richer. If not, it's just burning capital. Look how Cisco (No. 8) has turned a few dollops of investor money into mounds of MVA. Over its entire life, Cisco has collected just \$9.5 billion from shareholders and lenders for all of its labs, inventories, and research. Yet it parlayed that slender investment into networking products so lucrative that at the start of 1999, the investors who put up that capital could have sold their stocks and bonds for \$145 billion, reaping \$136 billion in newly minted wealth, or MVA.

Like market cap, MVA rises and falls with the stock market. But the MVA for highly cyclical stocks can also drop in a generally good market, even when the companies are excellent performers. A case in point is oil services giant Schlumberger, which posted the biggest MVA de-

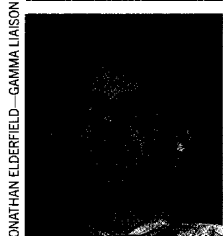
cline on the list, shedding \$16.5 billion in value during 1998. The decline happened because of a steep drop in oil prices, which prompted the Exxons and Shells to curtail their capital spending on exploration and development. Schlumberger's profits, and stock price, tumbled. Still, it weathered the downturn better than most of its rivals. This year oil prices are rebounding, and as the market foresees bigger profits, so is Schlumberger's MVA.

Although good companies can get buffeted in the short run, over the long term the key to the big MVA numbers posted by the Intels and GEs is a strong and growing EVA—the wealth management adds each year. EVA is similar to accounting earnings, but with a crucial twist. In their financial statements companies take a charge for debt in the form of interest. But the most important capital, the funds provided by shareholders,

MVA RANK	1999 ¹	1998 ²	1994 ²	COMPANY ³	MARKET VALUE ADDED \$ millions	ECONOMIC VALUE ADDED \$ millions	Capital \$ millions	Return on capital	Cost of capital
46	256	-	-	MEDIA ONE GROUP	\$35,966	\$1,156	\$1,691	17.4%	9.0%
47	47	112	-	MEDTRONIC	\$33,610	\$333	\$2,901	25.5%	11.8%
48	20	30	-	E.I. DU PONT DE NEMOURS	\$33,073	\$1,652	\$38,478	13.0%	9.1%
49	40	38	-	CHEVRON	\$30,764	(\$1,287)	\$33,607	4.3%	8.4%
50	63	35	-	AIRTOUCH COMMUNICATIONS ⁴	\$30,706	\$94	\$17,052	10.4%	9.7%
51	59	287	-	BANK OF AMERICA	\$30,618	(\$2,262)	\$73,066	9.3%	12.4%
52	79	86	-	GAP	\$30,401	\$489	\$4,132	23.1%	10.6%
53	53	983	-	CHASE MANHATTAN	\$28,425	\$338	\$30,935	14.0%	12.9%
54	87	682	-	SUN MICROSYSTEMS	\$27,650	\$557	\$5,359	26.2%	12.9%
55	49	130	-	WELLS FARGO	\$27,272	(\$1,573)	\$38,388	7.8%	11.9%
56	77	138	-	WALGREEN	\$25,737	\$197	\$3,808	17.2%	11.1%
57	81	374	-	SAFeway	\$25,727	\$479	\$9,631	14.1%	8.0%
58	80	226	-	XEROX	\$25,241	(\$680)	\$33,839	6.8%	9.1%
59	65	53	-	ANHEUSER-BUSCH	\$24,598	\$517	\$10,961	14.1%	9.0%
60	94	177	-	TEXAS INSTRUMENTS	\$24,578	(\$410)	\$9,322	9.8%	15.2%
61	61	298	-	FIRST UNION CORP.	\$24,321	(\$420)	\$35,410	10.1%	11.3%
62	62	-	-	MORGAN STANLEY	\$23,985	\$513	\$16,178	18.1%	15.0%
63	67	969	-	BANK OF NEW YORK	\$23,403	\$476	\$7,715	18.3%	11.7%
64	105	56	-	US WEST	\$23,385	\$645	\$20,065	11.2%	7.7%
65	304	-	-	YAHOO	\$22,962	\$38	\$320	29.7%	12.8%
66	58	61	-	COLGATE-PALMOLIVE	\$22,635	\$222	\$8,022	14.9%	12.1%
67	89	77	-	AMGEN	\$22,622	\$689	\$2,884	40.3%	12.4%
68	50	90	-	KIMBERLY-CLARK	\$22,387	\$573	\$10,237	15.7%	9.9%
69	44	52	-	CAMPBELL SOUP	\$21,757	\$422	\$5,269	15.5%	8.3%
70	48	43	-	SARA LEE	\$21,368	\$61	\$8,775	10.6%	9.9%
71	97	-	-	CHARLES SCHWAB	\$21,186	\$157	\$1,395	29.4%	16.9%
72	60	-	-	ASSOCIATES FIRST CAPITAL	\$20,424	\$168	\$10,393	14.1%	12.2%
73	68	64	-	AUTOMATIC DATA PROCESS.	\$19,919	\$378	\$5,372	18.0%	9.1%
74	42	20	-	3M	\$19,903	\$784	\$12,756	15.8%	9.1%
75	104	280	-	PHARMACIA & UPJOHN	\$19,461	(\$233)	\$10,396	8.0%	10.3%
76	86	193	-	SUNTRUST BANKS	\$19,283	\$546	\$5,283	21.5%	11.2%
77	147	348	-	CARDINAL HEALTH	\$18,795	\$206	\$2,402	19.2%	8.7%
78	56	36	-	EMERSON ELECTRIC	\$18,741	\$596	\$11,377	15.6%	9.7%
79	93	219	-	DAYTON HUDSON	\$18,562	\$185	\$11,153	11.9%	10.1%
80	129	59	-	COMCAST	\$18,005	(\$645)	\$7,298	3.8%	9.3%
81	64	33	-	ELECTRONIC DATA SYSTEMS	\$17,696	(\$141)	\$9,637	7.8%	9.2%
82	130	254	-	CVS CORP	\$17,405	\$156	\$6,979	12.4%	9.6%
83	71	16	-	MOTOROLA	\$17,254	(\$2,830)	\$26,216	(0.1%)	11.3%
84	72	66	-	SPRINT	\$17,241	\$317	\$18,222	10.4%	8.6%
85	69	419	-	MONSANTO	\$17,028	(\$229)	\$19,754	6.8%	8.1%
86	43	79	-	ALLSTATE	\$17,015	\$843	\$14,478	17.2%	11.2%
87	66	60	-	H.J. HEINZ	\$16,876	\$493	\$7,236	14.9%	8.5%
88	512	-	-	AMAZON.COM	\$16,828	(\$61)	\$228	(24.1%)	12.6%
89	84	174	-	MBNA	\$16,593	\$529	\$2,061	38.5%	12.4%
90	45	84	-	COMPUTER ASSOCIATES	\$16,389	(\$85)	\$8,728	12.6%	13.6%

¹Calculations are based on figures as of the previous year-end. ²Historical rankings reflect alterations due to mergers and other financial charges. ³The rankings exclude electric utilities and real estate firms. ⁴Airtouch was acquired by Vodafone on June 30, 1999.

Tech Marvels



1999
MVA
GROWTH

128%

Technology companies

45%

Others

FORTUNE CHART

With Tim Koogle of Yahoo (top), Jeff Bezos of Amazon, and Steve Case of AOL leading the charge, the techs are growing MVA faster than everyone else.

MVA RANKINGS

carries no accounting cost at all. Consequently, many managers treat equity as if it's free—or at least very cheap. (Just look at disastrous takeovers at inflated prices that buyers blithely finance with stock but would never dream of doing with cash.)

In fact, equity is very expensive. When investors buy stocks they expect returns at least as big as those they might get from an equally risky investment. If a company doesn't provide competitive returns, shareholders will sell, driving down the price and denying management the money it needs to keep growing. To derive each company's cost of equity capital, Stern Stewart determines what return investors expect from a basket of stocks in the same industry. And if the company isn't at least matching that competitive return, it isn't making money for its shareholders. For General Giant, our proxy, the current cost of capital including debt is around 11%. If the EVA is still positive after the capital charge, the company is producing real earnings for its shareholders. If not, it's destroying value by coaxing puny profits from loads of expensive plants and inventories, à la General Motors or RJR Nabisco, which show up at the bottom of the list.

The challenge for the Towering Twenty is that MVA is soaring, while EVA—the source of future MVA—is tiny by comparison. Last year the hot stock market

boosted MVA for the top 20 companies by almost \$1.1 trillion—a remarkable 64%. But EVA rose by a measly \$8 billion, or 30%. That puts even more pressure on companies to generate huge increases in earnings without adding loads of capital.

To gauge how tough that will be, consider Microsoft. To sustain its \$328 billion in MVA, investors expect it to expand earnings at a rate of more than 40% per year through 2004. Now, that's below Microsoft's annual

average growth rate of more than 50% for the past five years. But the high valuation means that Microsoft will have to continue to grow like a startup despite its much bigger base. Just look at what investors expect Microsoft to earn in 2004: well over \$40 billion, more than what GE, Intel, Wal-Mart, Coke, and Merck earned—combined—in 1998! Now we begin to see why even President Steve Ballmer says the market may be expecting too much from Microsoft.

The Beat Goes On

MVA as of Oct. 22, 1999

The flight to quality continues. Eight out of our top ten saw their MVA rise even more in the first ten months of 1999. Here's how they would be reranked today.

MVA RANK	COMPANY	MVA \$ millions	% change from Jan. '99
1	MICROSOFT	\$451,251	+37%
2	GENERAL ELECTRIC	\$357,348	+25%
3	WAL-MART	\$228,872	+44%
4	CISCO SYSTEMS	\$207,256	+53%
5	INTEL	\$205,225	+23%
6	LUCENT TECHNOLOGIES	\$162,721	+28%
7	MERCK	\$162,087	+6%
8	PFIZER	\$136,695	-8%
9	BRISTOL-MYERS SQUIBB	\$133,489	+12%
10	COCA-COLA	\$130,846	-17%

FORTUNE TABLE

MVA RANK	1999 ¹	1998 ²	1994 ²	COMPANY ³	MARKET VALUE ADDED \$ millions	ECONOMIC VALUE ADDED \$ millions	Capital \$ millions	Return on capital	Cost of capital
91	114	948		UNITED TECHNOLOGIES	\$15,939	\$136	\$14,772	12.5%	11.5%
92	75	62		BANK ONE	\$15,844	(\$1,597)	\$44,257	8.1%	11.7%
93	57	117		MERRILL LYNCH	\$15,716	\$245	\$8,367	19.4%	16.2%
94	253	87		VIACOM	\$15,250	(\$1,557)	\$19,150	2.9%	9.3%
95	99	232		FIFTH THIRD BANCORP	\$15,106	\$113	\$3,929	13.9%	11.1%
96	101	106		PITNEY BOWES	\$15,081	\$455	\$2,747	25.2%	9.8%
97	122	-		GUIDANT	\$14,979	\$271	\$2,077	29.1%	11.0%
98	74	83		ALLIEDSIGNAL	\$14,786	\$382	\$13,869	15.1%	11.8%
99	179	126		LOWE'S	\$14,667	\$147	\$5,258	12.4%	9.0%
100	35	42		SCHLUMBERGER	\$14,557	\$189	\$11,890	13.2%	11.3%
101	112	122		KROGER	\$14,474	\$376	\$5,593	14.9%	7.5%
102	70	71		BESTFOODS	\$13,510	\$398	\$5,346	16.8%	8.9%
103	196	470		COMPUWARE	\$13,506	\$110	\$1,006	26.6%	11.8%
104	103	521		FLEET FINANCIAL GROUP ⁴	\$13,370	\$500	\$12,083	16.2%	11.7%
105	126	-		COX COMMUNICATIONS	\$12,797	(\$26)	\$10,721	9.1%	9.4%
106	145	175		COSTCO	\$12,602	\$92	\$4,273	13.1%	10.6%
107	78	65		GANNETT	\$12,502	\$349	\$7,147	14.2%	9.2%
108	111	75		ALBERTSON'S	\$12,501	\$274	\$5,535	14.1%	8.2%
109	171	-		QWEST COMMUNICATIONS	\$12,427	(\$62)	\$7,864	9.9%	11.4%
110	37	345		BOEING	\$12,315	(\$1,065)	\$27,801	6.0%	9.8%
111	115	289		BAXTER INTERNATIONAL	\$12,200	(\$128)	\$9,753	7.9%	9.4%
112	91	787		MELLON BANK	\$12,097	\$288	\$5,910	16.9%	11.5%
113	76	94		CONAGRA	\$12,027	\$189	\$7,883	11.7%	9.1%
114	96	362		3COM	\$11,904	(\$96)	\$3,630	11.4%	14.8%
115	-	-		FOX ENTERTAINMENT	\$11,860	(\$329)	\$9,568	6.5%	10.3%
116	206	121		ALLTEL	\$11,816	\$816	\$8,823	19.6%	7.9%
117	55	26		KELLOGG	\$11,690	\$374	\$4,241	17.4%	8.2%
118	120	447		TELLABS	\$11,544	\$257	\$1,443	37.4%	15.9%
119	283	-		ASCEND COMMUNICATIONS ⁵	\$11,319	\$108	\$2,999	17.8%	12.9%
120	138	183		APPLIED MATERIALS	\$11,294	(\$86)	\$3,797	14.1%	16.6%
121	154	-		IMS HEALTH	\$11,102	(\$15)	\$1,400	9.4%	10.5%
122	73	322		U.S. BANCORP	\$11,066	(\$209)	\$14,699	10.5%	11.9%
123	174	453		AMERICAN GENERAL	\$10,948	\$223	\$8,693	13.1%	10.4%
124	246	494		STAPLES	\$10,812	(\$53)	\$3,045	10.2%	12.4%
125	95	278		CBS	\$10,764	(\$1,612)	\$21,181	1.6%	10.9%
126	83	147		ILLINOIS TOOL WORKS	\$10,743	\$228	\$5,544	16.6%	11.6%
127	98	46		GENERAL MILLS	\$10,704	\$290	\$3,373	16.6%	8.1%
128	136	151		AVON PRODUCTS	\$10,687	\$222	\$1,711	27.2%	12.3%
129	92	262		TEXACO	\$10,504	(\$1,578)	\$28,540	2.5%	7.9%
130	150	271		CLOROX	\$10,342	\$163	\$2,971	16.0%	9.8%
131	215	170		CABLEVISION SYSTEMS	\$9,948	(\$601)	\$5,979	(3.2%)	8.6%
132	106	179		WACHOVIA	\$9,877	\$114	\$7,872	12.1%	10.6%
134	149	189		PROGRESSIVE	\$9,822	\$235	\$2,468	22.0%	11.5%
135	228	681		FIRSTAR	\$9,681	(\$618)	\$10,662	5.4%	11.2%
137	195	240		INTERPUBLIC GROUP	\$9,566	\$212	\$3,323	16.5%	9.0%

Breaks in numerical order indicate where high MVA performers with smaller market caps would have ranked among the pool of 1,000.

¹Calculations are based on figures as of the previous year-end. ²Historical rankings reflect alterations due to mergers and other financial charges. ³The rankings exclude electric utilities and real estate firms. ⁴Now FleetBoston Financial. ⁵Ascend was acquired by Lucent on June 24, 1999.

MVA RANKINGS

Of course, Towering Twenty cheerleaders believe that these companies could still make or even beat expectations, if two factors continue to help them. The first is economic. The optimists say the climate will remain stable and balmy, with little inflation in sight. The second is competitive advantage. The top companies on this list all stay way ahead of their competitors: Microsoft and Cisco by creating the most popular technology; Merck and Pfizer by generating a steady stream of blockbuster drugs protected by patents; Coke and Procter & Gamble by nurturing their brands. That edge allows them to charge premium prices and book extra-large earnings.

But there is a danger. If management

A Giant Stumbles

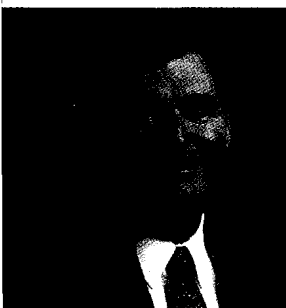
Legendary CEO Roberto Goizueta taught Coca-Cola to manage by EVA and built one of America's greatest wealth creators. It was Goizueta who sold off capital-intensive sidelines like pasta making and plastic cutlery to focus on the lucrative soft drink business: "As Willie Sutton said, 'That's where the money is!'" he told FORTUNE in 1993.

But now under CEO Douglas Ivester, Coke is faltering. And its problems symbolize how investors will severely punish companies that generate great expectations and then fail to live up to them. It's the only player in the

Towering Twenty that lost MVA in last year's hot market, dropping \$684 million in value. This year Coke's MVA fell again, by about \$27 billion.

So what's wrong? Coke's foreign sales are suffering from the

strong dollar and the economic weakness in Asia and Brazil. Its inept handling of product safety problems in Europe this year raised questions about post-Goizueta management. In 1998, after years of double-digit gains, its profits tumbled 14%, and they're falling again this year. But even after the decline in MVA, the market still expects Coke to rebound from here. Coke could do it. But it has a lot to prove.



LOUIS FISHEROS—MATRIX

Ivester's MVA sank

slips even a little, competitors could carve away at those big margins. Then a big slice of the profits that used to flow into the corporate coffers will go instead to consumers in the form of lower prices. The lesson from former highfliers like Lotus and Eastman Kodak is that fat margins are a magnet for new competitors. The troubling news for the Towering Twenty is that their huge valuations leave no margin for error. Any sign that management is faltering

could send their shares into a tailspin.

The Towering Twenty scenario—the yawning gap between market value and real earnings—is even wider among tech companies. During 1998 the combined MVA of the 23 techies on the list, ranging from Compaq to Yahoo, jumped 118%, while their EVA went down by 9%. (MVA for everyone else on the list grew just 45%.)

In some ways the Internet firms embody an EVA/MVA paradox. The market expects

MVA RANK	1999 ¹	1998 ²	1994 ²	COMPANY ³	MARKET VALUE ADDED \$ millions	ECONOMIC VALUE ADDED \$ millions	Capital \$ millions	Return on capital	Cost of capital
138	186	143		ENRON	\$9,549	(\$261)	\$24,129	6.9%	8.3%
139	210	791		RITE AID	\$9,280	\$3	\$7,665	8.3%	8.2%
142	164	547		CLEAR CHANNEL COMMUN.	\$9,167	(\$134)	\$8,002	6.4%	8.7%
143	118	116		FIRST DATA CORP	\$9,103	(\$221)	\$7,407	9.4%	12.4%
144	403	349		MICRON TECHNOLOGY	\$9,052	(\$605)	\$3,928	(2.2%)	14.5%
145	90	78		J.P. MORGAN	\$8,975	\$185	\$9,412	13.9%	11.9%
146	127	389		NATIONAL CITY	\$8,945	(\$249)	\$14,714	9.1%	10.8%
147	213	383		AFLAC	\$8,913	\$215	\$2,743	19.8%	11.4%
148	85	68		ATLANTIC RICHFIELD	\$8,911	(\$2,971)	\$23,210	(3.8%)	8.3%
149	131	70		MAY DEPARTMENT STORES	\$8,824	\$285	\$9,085	11.7%	8.5%
150	125	140		RALSTON PURINA	\$8,777	\$126	\$4,308	12.7%	9.7%
151	163	359		OMNICOM	\$8,648	\$211	\$2,966	18.2%	9.7%
153	251	227		FDX CORP	\$8,532	\$11	\$10,931	9.9%	9.8%
157	227	520		BECTON DICKINSON	\$8,267	\$70	\$3,733	12.4%	10.0%
158	144	182		EQUITABLE ⁴	\$7,992	\$563	\$4,931	26.5%	14.0%
161	198	-		TRICON GLOBAL REST.	\$7,866	\$53	\$4,681	10.3%	9.3%
163	173	783		BB&T	\$7,831	\$114	\$3,868	14.4%	11.2%
164	139	390		BOSTON SCIENTIFIC	\$7,820	\$347	\$5,305	20.0%	11.0%
165	128	239		NIKE	\$7,777	\$7	\$4,668	11.2%	11.0%
167	170	323		TEXTRON	\$7,698	(\$154)	\$8,867	8.8%	10.9%
168	110	224		PNC BANK	\$7,679	(\$21)	\$8,723	10.9%	11.1%
171	159	135		CORNING	\$7,468	\$58	\$5,287	11.2%	10.1%
175	102	558		HALLIBURTON	\$6,918	(\$104)	\$10,112	9.3%	10.6%
176	221	91		EASTMAN KODAK	\$6,899	\$401	\$18,258	10.7%	8.3%
177	100	178		DOW CHEMICAL	\$6,891	\$51	\$21,723	9.1%	8.9%
178	-	-		CONOCO	\$6,873	(\$897)	\$14,273	2.5%	8.6%
186	370	578		AMERICAN STORES ⁵	\$6,287	(\$68)	\$8,330	6.6%	7.4%
189	156	974		FORT JAMES	\$5,985	\$281	\$7,275	13.3%	9.2%
193	107	464		HOUSEHOLD INTERNATIONAL	\$5,832	(\$788)	\$13,313	6.2%	12.1%
196	140	101		PHILLIPS PETROLEUM	\$5,770	(\$729)	\$11,847	1.5%	7.8%
197	223	195		NEXTEL COMMUNICATIONS	\$5,754	(\$2,238)	\$10,066	(15.8%)	11.4%
200	172	353		SERVICE CORP. INTL.	\$5,672	(\$309)	\$13,108	5.1%	8.1%
203	162	95		PPG INDUSTRIES	\$5,574	\$216	\$6,682	14.1%	10.6%
208	132	204		CATERPILLAR	\$5,464	\$711	\$12,871	15.2%	9.1%
209	166	157		AIR PRODUCTS AND CHEM.	\$5,429	(\$99)	\$6,536	9.0%	10.6%
210	906	987		UNISYS	\$5,388	(\$249)	\$6,449	8.1%	11.8%
213	117	57		COLUMBIA/HCA HEALTHCARE	\$5,132	(\$1,208)	\$19,340	3.1%	8.7%
216	109	952		LOCKHEED MARTIN	\$4,994	\$550	\$25,445	10.0%	7.7%
223	165	990		COCA-COLA ENTERPRISES	\$4,781	(\$745)	\$20,910	5.4%	9.8%
227	207	104		RAYTHEON	\$4,712	\$203	\$25,158	9.7%	8.9%
229	141	375		KEYCORP	\$4,693	(\$74)	\$9,785	10.6%	11.4%
252	827	994		CIGNA	\$4,096	(\$537)	\$11,804	6.7%	11.2%
267	263	986		ALUMINUM CO. OF AMERICA	\$3,672	\$156	\$16,047	10.2%	9.0%
294	302	114		WEYERHAEUSER	\$3,385	(\$369)	\$10,480	6.4%	9.8%
331	182	613		WASHINGTON MUTUAL	\$2,793	(\$873)	\$19,980	9.6%	13.9%

Breaks in numerical order indicate where high MVA performers with smaller market caps would have ranked among the pool of 1,000.

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MVA RANKINGS

Internet companies to generate huge earnings from tiny amounts of capital, precisely the conditions that generate big MVAs. Just look at the how the Web is rewriting the list. In one year America Online jumped from No. 113 to No. 23, with \$71 billion in MVA. Yahoo (No. 65) and Amazon (No. 88) came out of nowhere. But for all three companies EVA is minuscule—virtually nonexistent. To keep their stock strong, the Internet companies have to grow earnings at spectacular rates on their existing businesses. They also must deliver on their promise to generate big returns on capital.

The danger is that with their high share prices, Web companies will start making reckless, multibillion-dollar acquisitions, using their stock as easy currency. Investors are already forecasting fabulous performances from the Internet target companies; those great expectations are built into the steep share price. If Internet acquirers pay a big premium over and above those already high valuations, it will be virtually impossible for them to generate a good return on their capital. A flurry of big bad deals could severely damage Wall Street's romance with the Web.

So how are the Towering Twenty doing in 1999? Stern Stewart has updated the MVA numbers for those companies, and they show that while many big-cap stocks are languishing, investors are still flocking to the Microsofts and GEs. Fifteen of the companies have actually added to their MVA this year, including Cisco, Lucent, and Home Depot. The bar just keeps rising. And as Internet stocks join the Towering Twenty, it could rise even higher. To check up on whether General Giant keeps rolling, or imitates the Nifty Fifty, click on next year's list. **E**

For More Information

To receive a free copy of the Stern Stewart Performance 1,000, send a written request to:

Doris Liloy
Stern Stewart
1345 Avenue of the Americas
New York, N.Y. 10105
Fax: 212-581-6420

MVA RANK	1999 ¹	1998 ²	1994 ²	COMPANY ³	MARKET VALUE ADDED \$ millions	ECONOMIC VALUE ADDED \$ millions	Capital \$ millions	Return on capital	Cost of capital
336	177	205		ARCHER-DANIELS-MIDLAND	\$2,738	(\$92)	\$10,986	7.2%	8.3%
354	194	818		TENET HEALTHCARE	\$2,539	(\$8)	\$12,651	8.2%	8.3%
356	349	215		NORFOLK SOUTHERN	\$2,531	(\$409)	\$17,996	6.2%	8.6%
363	237	808		USX-MARATHON GROUP	\$2,463	(\$22)	\$13,366	8.6%	8.8%
392	184	69		J.C. PENNEY	\$2,144	(\$71)	\$22,750	6.9%	7.3%
520	420	976		FEDERATED DEPT. STORES	\$1,364	(\$179)	\$12,302	6.9%	8.4%
616	313	427		SEARS ROEBUCK	\$1,072	(\$452)	\$32,536	6.6%	7.9%
648	337	591		OWENS-ILLINOIS	\$938	(\$32)	\$10,832	7.5%	7.9%
683	755	411		BURLINGTON NO. SANTE FE	\$846	(\$12)	\$23,531	8.5%	8.5%
812	941	953		INTERNATIONAL PAPER	\$420	(\$1,331)	\$25,369	3.3%	8.5%
858	292	970		DELTA AIR LINES	\$163	\$504	\$14,658	12.1%	8.2%
923	388	471		AMR CORP.	(\$241)	\$390	\$19,386	11.0%	8.8%
965	996			HARTFORD FINAN. SVCS. GRP.	(\$735)	(\$513)	\$13,214	6.8%	10.6%
966	281	992		OCCIDENTAL PETROLEUM	(\$744)	(\$264)	\$15,812	6.1%	7.7%
978	995	361		KMART	(\$1,011)	(\$253)	\$15,245	6.4%	8.1%
990	452	235		UAL CORP.	(\$1,799)	\$508	\$18,411	9.8%	6.6%
991	734	498		CSX	(\$2,286)	(\$523)	\$21,009	5.5%	8.0%
996	990	119		UNION PACIFIC	(\$5,286)	(\$1,397)	\$30,191	2.4%	7.3%
998	997	997		RJR NABISCO ⁴	(\$12,171)	(\$1,449)	\$35,041	3.4%	7.5%
1000	1000	995		GENERAL MOTORS	(\$17,943)	(\$5,525)	\$85,173	2.0%	9.4%

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Company	MVA RANK	Company	MVA RANK	Company	MVA RANK	Company	MVA RANK
Abbott Laboratories	25	Citigroup	33	Hartford Finan. Svcs. Grp.	965	Phillips Petroleum	196
AFLAC	147	Clear Channel Commun.	142	Heinz (H.J.)	87	Pitney Bowes	96
Air Products and Chem.	209	Clorox	130	Hewlett-Packard	36	PNC Bank	168
AirTouch Communications	50	Coca-Cola Enterprises	223	Home Depot	18	PPG Industries	203
Albertson's	108	Coca-Cola	5	Household International	193	Procter & Gamble	13
AlliedSignal	98	Cotygate-Palmolive	66	IBM	11	Progressive	134
Allstate	86	Columbia/HCA Healthcare	213	Illinois Tool Works	126	Quest Communications	109
Alltel	116	Comcast	80	IMS Health	121	Ralston Purina	150
Aluminum Co. of America	267	Compaq Computer	31	Intel	3	Raytheon	227
Amazon.com	88	Computer Associates	90	International Paper	812	Rite Aid	139
America Online	23	Compuware	103	Interpublic Group	137	Safeway	57
American Express	44	ConAgra	113	J.C. Penney	392	Sara Lee	70
American General	123	Conoco	178	Johnson & Johnson	15	SBC Communications	19
American Home Products	26	Corning	171	Kellogg	117	Schering-Plough	21
American Intl. Group	28	Costco	106	KeyCorp.	229	Schlumberger	100
American Stores	186	Cox Communications	105	Kimberly-Clark	68	Schwab (Charles)	71
Ameritech	32	CSX	991	Kmart	978	Sears Roebuck	616
Amgen	67	CVS Corp.	82	Kroger	101	Service Corp. Intl.	200
AMR Corporation	923	Dayton Hudson	79	Lilly (Eli)	17	Sprint	84
Anheuser-Busch	59	Dell Computer	16	Lockheed Martin	216	Staples	124
Applied Materials	120	Delta Air Lines	858	Lowe's	99	Sun Microsystems	54
Archer-Daniels-Midland	336	Disney (Walt)	42	Lucent Technologies	9	SunTrust Banks	76
Ascend Communications	119	Dow Chemical	177	May Department Stores	149	Telabs	118
Associates First Capital	72	Du Pont	48	MBNA	89	TENET Healthcare	354
AT&T	24	Eastman Kodak	176	McDonald's	39	Texaco	129
Atlantic Richfield	148	Electronic Data Systems	81	Media One Group	46	Texas Instruments	60
Automatic Data Process.	73	EMC	40	Medtronic	47	Textron	167
Avon Products	128	Emerson Electric	78	Mellon Bank	112	Time Warner	29
Bank of America	51	Enron	138	Merck	6	3Com	114
Bank of New York	63	Equitable	158	Merrill Lynch	93	3M	74
Bank One	92	Exxon	12	Micron Technology	144	Tricon Global Rest.	161
Baxter International	111	FDX Corp.	153	Microsoft	1	Tyco International	38
BB&T	163	Federated Dept. Stores	520	Mobil	37	UAL Corp.	990
Becton Dickinson	157	Fifth Third Bancorp.	95	Monsanto	85	Union Pacific	996
Bell Atlantic	27	First Data Corp.	143	Morgan (J.P.)	145	Unisys Worldwide	210
BellSouth	22	First Union Corporation	61	Morgan Stanley	62	United Technologies	91
Bestfoods	102	Firststar	135	Motorola	83	U.S. Bancorp.	122
Boeing	110	Fleet Financial Group	104	Nabisco (RJR)	998	US West	64
Boston Scientific	164	Ford Motor	43	National City	146	USX-Marathon Group	363
Bristol-Myers Squibb	10	Fort James	189	NexTel Communications	197	Viacom	94
Burlington No. Sante Fe	683	Fox Entertainment	115	Nike	165	Wachovia	132
Cablevision Systems	131	Gannett	107	Norfolk Southern	356	Walgreen	56
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