

## News Release

Further information:

Release #6181

Joseph DiBlasi (781) 308-7935 / joseph.diblas@conference-board.org

For Immediate Release: 10 AM ET, July 1, 2020

### **Innovation Index: Amid COVID-19, Companies that Serve Diversified Businesses and Maintain Strong IP Have Better Weathered the Storm**

*Market Valuation of Most Innovative Companies Rebounds in Second Quarter, Reports The Conference Board*

- The Innovation  $\alpha$  Indexes recovered in the second quarter from sharp declines due to the COVID-19 pandemic.
- In the US, the Industrial Services and Retail Sectors have performed well, but Process Industries have lagged somewhat. Technology services lost a large share in the US index.
- Despite global volatility in stock markets, the Retail Trade and Consumer Durables sectors performed relatively well in Q2.
- The Communications sector performance has been essentially flat in Q2 both in the US and globally, but its weight in both indexes remains relatively unchanged.

**NEW YORK, July 1, 2020**...In Q2 2020, *The Conference Board Innovation  $\alpha$  Index powered by M•CAM* for the United States increased by 13.5 percent over the previous quarter but was still down nearly 4.5 percent from a year ago. At the same time, the parallel global *Innovation  $\alpha$  Index*, which tracks innovative companies worldwide, increased by 17.1 percent quarter over quarter, and was down by 2.2 percent from a year ago.

While the global COVID-19 pandemic has increased market volatility, companies that serve diversified business sectors and supply chains and maintain strong intellectual property management practices have shown resilience during this period. Normally, the indexes outperform indexes such as Russell 1000 and MSCI ACWI, but this has not been the case in the past quarter and year. The Russell 1000 index increased by 19.6 percent over the previous quarter and the MSCI ACWI Index increased by 18.1 percent over the previous quarter. The data show that Industrial Services and Retail Sectors in the US have performed well, but Process Industries have lagged somewhat. Globally, Retail Trade and Consumer Durables sectors have particularly performed well. However, Technology Services lost the largest share among the most innovative listed companies in the United States.

“Technology Services lost most in terms of their share in the US *Innovation  $\alpha$  Index* while roughly maintaining their share globally. Technology transfer as a component of global procurement continues to play a role in transactions, but it is generally falling out of favor as companies are rethinking their business models,” said Bart van Ark, Executive Vice President and Chief Economist at The Conference Board. “The Health Services and Health Technology sectors’ stock price performance have also performed relatively weakly in the second quarter. The global pandemic has caused supply and demand mismatches in the healthcare sector and exposed additional supply chain challenges as well.”

The *Innovation  $\alpha$*  indexes reflect the stock market performance from one of the most fundamental sources of business growth – namely, innovation capabilities of companies. The indexes are expected to yield long-term results that exceed market averages. Because the market performance of companies is driven by many factors in the short term, the index returns can fluctuate compared to benchmarks. Measurement of innovation outcomes requires a long-term focus. For example, the cumulative growth of one thousand dollars invested in the US index in January 2013 exceeds the cumulative growth of the same amount invested in the Russell 1000 index by about 10 percent.

In the US index, the weights for Q3 increased the most for Finance, Industrial Services, Retail Trade, Producer Manufacturing, Energy Minerals, Consumer Durables, and Process Industries. Retail Trade and Industrial Services showed the highest quarterly performance in the second quarter.

In the global index, Retail Trade, Commercial Services, Consumer Durables, Electronic Technology, Energy Minerals, and Producer Manufacturing saw their weights for Q3 increase the most. Consumer Services, Retail Trade, Consumer Durables, Process Industries, Energy Minerals, and Non-Energy Minerals showed the highest quarterly performance in the second quarter.

“The third quarter weight of the Electronic Technology sector remains strong due to its diversified revenue sources,” said David Martin, CEO of M•CAM International. “In the US index, the Finance sector also witnessed slight weight increases for Q3 as the FDIC announced the agency will loosen the restrictions from the Volcker Rule, offering banks more freedom to invest in venture capital and similar funds.”

### **Latest insights from the Innovation $\alpha$ Index**

***The Conference Board Innovation  $\alpha$  Index Powered by M•CAM*** was developed by M•CAM, an investment firm that analyzes intellectual property and intangible assets to support credit and equity products. It consists of two indexes that rank and identify the 100 most innovative US companies in the Russell 1000 universe of companies and the 120 most innovative global companies in the MSCI World Index universe of companies.<sup>1</sup> The selection is determined by the potential of those companies to generate substantial revenue growth through the use of proprietary technologies and innovations. The rankings result from a series of algorithms that gauge a company’s innovation standing by analyzing their patents, trademarks, and copyrights, and the value generated from them.

For the 2020 Q3 index reset, the indexes were reweighted on July 1, 2020 depending on the expected performance of their constituents.

In the US index, the top five ranked companies (based on their index weights for Q3 of 2020) are Microsoft Corporation (Technology Services), Halliburton Company (Industrial Services), Procter & Gamble Company (Consumer Non-Durables), QUALCOMM Incorporated (Electronic Technology), General Electric Company (Electronic Technology).

---

<sup>1</sup> United Technologies Corp and Raytheon Company completed an all-stock merger and formed Raytheon Technologies Corporation effective on April 4th, 2020. Consequently, United Technologies Corp and Raytheon Company have been deleted from the INAU index and Raytheon Technologies Corporation has been added, leading to a total of 99 companies in INAU index for 2020Q3.

In the global index, the top five ranked companies (based on their index weights for Q3 of 2020) have remained the same as in Q2. They are adidas AG, Bayer AG, BMW, Daimler AG, and Thales SA in the Consumer Non-Durables, Health Technology, Consumer Durables, Consumer Durables, and Electronic Technology sectors, respectively.

“While the economic impact of the global COVID-19 pandemic continues, the reopening of various regions and sectors have contributed to better stock market performance recently. Companies that serve diversified business sectors and supply chains and maintain strong management of intellectual property have proven resilient in this volatile environment,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “Sectors related to consumer spending, like Retail Trade and Consumer Non-Durables, are expected to emphasize innovation efforts on operations, supply chains, and innovation management as confidence recovers.”

## **About the Innovation $\alpha$ Index**

***The Conference Board Innovation  $\alpha$  Index powered by M•CAM*** features 120 global and 100 US rankings of large public companies in two separate indexes. The constituent companies in the indexes are expected to generate higher stock market performance than those that are not in the index because they invest in intangible assets and effectively deploy their innovations. The US and global indexes enable a direct look at the financial outcomes of the companies’ innovation activity that arises out of their intangible investments such as patents, trademarks, and copyrights.

The indexes demonstrate that companies that focus on innovations – those protected with proprietary rights – will perform better in financial markets in the long term. The companies in the indexes are weighted according to each firm’s ability to invest in, develop, control, and deploy intellectual property to achieve strategic advantage over competitors. The index is rules-based and is reweighted quarterly on the first trading day of January, April, July, and October. The index is also reconstituted annually on the first trading day of January. During the reconstitution, up to ten percent of the index components may be replaced. Stock prices and market capitalization are not factors in determining index weighting.

See tables on pages 4-6 for more information on sectors and changes in weights. More information on the innovation index is available in a white paper ([available here](#)), which details the methodology and results. A complete ranking of the most innovative companies (US and global), their weights in the indexes, and their changes in weights is also [available here](#).

### ***About The Conference Board Innovation $\alpha$ United States Index powered by M•CAM***

The US index uses a quantitative, rule-based methodology to measure the performance of top 100 US companies in innovation ability. The universe of the index are equities of companies similar to those in the Russell 1000, including the 1000 US companies with the largest market capitalization.

### ***About The Conference Board Innovation $\alpha$ Global Index powered by M•CAM***

The global Index uses a quantitative, rule-based methodology to measure the performance of the top 120 global companies in innovation ability. The universe of the index is similar to the MSCI World Index, including companies from the U.S., Europe, Japan, etc.

M•CAM, the index owner, measures the innovation ability of companies by analyzing their powers in the control and deployment of intellectual property (IP), including patents, trademarks, and copyrights, etc. Since 1998, M•CAM has aggregated and maintained the world’s largest organized repository of state-granted IP from over 160 countries. This analysis provides an absolute qualitative and quantitative measure of each individual company’s innovation and management thereof. It also provides a relative score of how one company’s performance is likely to compare with others with whom it cooperates or competes.

### **About The Conference Board**

The Conference Board is the member-driven think tank that delivers trusted insights for what’s ahead. Founded in 1916, we are a non-partisan, not-for-profit entity holding 501 (c) (3) tax-exempt status in the United States. [www.conference-board.org](http://www.conference-board.org).

**Table 1: Innovation  $\alpha$  US and Global Indexes Latest Performance**

	<b>2019Q3 Return (6/27/2019 - 9/26/2019)</b>	<b>2019Q4 Return (9/26/2019 - 12/27/2019)</b>	<b>2020Q1 Return (12/27/2019 - 3/27/2020)</b>	<b>2020Q2 Return (3/27/2020 - 6/26/2020)</b>	<b>Last Year Return (6/26/2019 - 6/26/2020)</b>	<b>Year-to- Date Return (1/2/2020 - 6/26/2020)</b>
<b>Innovation <math>\alpha</math><sup>®</sup> US Index</b>	1.59%	6.98%	-23.06%	13.52%	-4.49%	-13.61%
<b>Russell 1000 Index</b>	1.62%	8.75%	-22.05%	19.55%	3.46%	-6.56%
<b>Innovation <math>\alpha</math><sup>®</sup> Global Index</b>	0.92%	8.64%	-24.35%	17.14%	-2.22%	-12.10%
<b>MSCI ACWI Index</b>	0.18%	8.62%	-22.97%	18.14%	-0.58%	-9.47%

Sources: The Conference Board and M•CAM

**TABLE 2: The Conference Board Innovation  $\alpha$  United States Index powered by M•CAM (INAU)<sup>2</sup>**

**Weights and Performance by Industry Sector ranked by Change in Weights – Updated June 29, 2020**

Sector	2020Q3 Weight	2020Q2 Weight	Change in Weights Q2 to Q3	2020Q2 Performance (3/27/2020 - 6/26/2020)
Finance	11.65%	8.91%	2.74%	3.95%
Industrial Services	4.90%	2.82%	2.08%	33.55%
Producer Manufacturing	7.66%	6.56%	1.10%	15.33%
Retail Trade	1.96%	0.89%	1.08%	32.62%
Energy Minerals	1.96%	0.89%	1.08%	21.88%
Consumer Durables	2.40%	1.33%	1.07%	23.28%
Process Industries	3.72%	2.66%	1.05%	17.35%
Electronic Technology	29.06%	28.74%	0.33%	12.40%
Communications	2.48%	2.41%	0.07%	-1.94%
Distribution Services	0.44%	0.44%	-0.01%	13.90%
Consumer Services	0.44%	0.44%	-0.01%	22.79%
Health Technology	14.77%	15.34%	-0.57%	16.30%
Health Services	0.44%	1.49%	-1.05%	18.33%
Consumer Non-Durables	8.82%	11.15%	-2.33%	9.17%
Technology Services	9.30%	15.93%	-6.63%	16.14%
All Sectors	100.00%	100.00%	na	13.60%

\*The classification system is FactSet Revere Business Industry Classification System (RBICS).

Sources: The Conference Board and M•CAM

<sup>2</sup> The index constituents' weights are changing on every trading day due to stock price fluctuations. The weights shown are determined on 6/29/2020 4:30 pm ET for INAG index as indicative values of the weights on 7/1/2020.

**TABLE 3: The Conference Board Innovation  $\alpha$  Global Index powered by M•CAM (INAG)<sup>3</sup>**

**Weights and Performance by Industry Sector ranked by Change in Weights – Updated June 29, 2020**

Sector	2020Q3 Weight	2020Q2 Weight	Change in Weights Q2 to Q3	2020Q2 Performance (3/27/2020 - 6/26/2020)
<b>Retail Trade</b>	1.00%	0.66%	0.34%	41.72%
<b>Commercial Services</b>	3.01%	2.69%	0.32%	16.04%
<b>Consumer Durables</b>	11.06%	10.75%	0.31%	29.86%
<b>Electronic Technology</b>	21.41%	21.10%	0.30%	8.80%
<b>Energy Minerals</b>	3.30%	3.07%	0.23%	26.89%
<b>Producer Manufacturing</b>	7.64%	7.43%	0.21%	14.49%
<b>Communications</b>	1.51%	1.31%	0.19%	-0.90%
<b>Process Industries</b>	3.63%	3.46%	0.17%	27.51%
<b>Industrial Services</b>	2.47%	2.41%	0.06%	22.24%
<b>Consumer Services</b>	0.68%	0.66%	0.02%	68.62%
<b>Non-Energy Minerals</b>	3.75%	3.88%	-0.13%	26.57%
<b>Technology Services</b>	7.48%	7.77%	-0.29%	19.11%
<b>Finance</b>	5.59%	5.88%	-0.29%	5.03%
<b>Consumer Non-Durables</b>	7.72%	8.38%	-0.66%	8.39%
<b>Health Technology</b>	19.76%	20.54%	-0.78%	19.07%
<b>All Sectors</b>	100.00%	100.00%	na	17.04%

\*The classification system is FactSet Revere Business Industry Classification System (RBICS).

Sources: The Conference Board and M•CAM

<sup>3</sup> The index constituents' weights are changing on every trading day due to stock price fluctuations. The weights shown are determined on 6/29/2020 4:30 pm ET for INAG index as indicative values of the weights on 7/1/2020.