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Economic Value Added, Future Accounting Earnings, and Financial Analysts' Earnings Per Share Forecasts

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Abstract

Empirical research to date on the relative effectiveness of Economic Value Added (EVA) and earnings per share (EPS) as measures of firm performance for stock valuation has been mixed. In contrast to prior research, which primarily focuses on the correspondence of these measures with shareholder value and changes therein, we examine their relative effectiveness in predicting future earnings and their role in enhancing the accuracy of analysts' forecasts. Our results indicate that EVA contains information that is incremental to EPS in predicting future earnings. In addition, we find that despite this potential for EVA to add incremental value to analysts' forecasts of future earnings, analysts do not use the information in reported EVA appropriately, but appear rather to overweigh it.

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