Rethink & Broaden Diversity, Equity, and Inclusion to Create a Competitive Advantage

March 2022
### Talent: Unprecedented urgency

- **Top 3**
  - “Bias” and “lack of fair treatment at work” are 2 of top 3 factors most correlated with retention risk during the Great Resignation (2021)\(^1\)

- **76%**
  - Of the global workforce believes **diversity at work is a critical factor** when considering employment\(^2\)

### Business: Recognition of potential

- **1.3x**
  - **Higher procurement ROI** for companies with a strong supplier diversity focus vs. average comparable business\(^3\)

- **\(~40\)%**
  - Of S&P 500 companies discussed diversity on earnings calls\(^4\)

### Society: Growing expectations

- **90%**
  - **90%** of Gen-Zers believe companies should take action on social issues\(^5\)

- **$50bn+**
  - **In pledges to address racial equity** by top 50 US companies in the 3 months after summer 2021 protests\(^6\)

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2. Employee expectations rise as brands address DEI initiatives," Agility PR Solutions, 2020.
4. RBC 2020; Brighthouse analysis; Washington Post; Other sources: BCG analysis, web search, HBR.
5. ~40% of S&P 500 companies discussed diversity on earnings calls.
…yet questions remain on how to effectively progress in these three areas

**Talent**

How do we attract and build a diverse workforce?

How do we ensure truly equitable and unbiased workplace environment?

How do we drive engagement and overall employer brand perception catering to all employees?

**Business**

How do we integrate an equity and inclusion lens in all business operations?

How do we drive innovation and value creation through more inclusive practices, products, and services?

How do we leverage supplier and distributor diversity as a competitive advantage?

**Society**

How do we effectively use our (company’s) identity, voice, and influence to catalyze social change?

How do we most successfully amplify commitments within industry?

How do we measure the impact of our direct activity and its multiplier effect?
# Summary

**Rethink and broaden DEI to create competitive advantage**

## TRENDS

1. **The past decade saw increasing implementation of formal DEI programs** – yet the goal is still far away due to a narrow focus.
2. **Social movements, COVID-19 impact, and Great Resignation** increased the urgency on businesses to act as agents of change.

The expectations for corporate advancement of DEI have become more expansive in scope:

3. **Talent**: Stronger outcomes expected – with challenges rooted in emphasis on leadership-track talent and use of broad demographic categories (e.g., women, LGBTQ+) that fail to recognize individual (functional and emotional) needs.
4. **Business**: Recognition that DEI lens can unlock significant value via innovation, better-fit products, stronger value chains, and addressing underserved communities' needs.
5. **Society**: Growing pressure on companies from customers, investors, and stakeholders to advance the social good via advocacy, philanthropy, convening and mobilization of partners.

## IMPLICATIONS FOR LEADERS

1. **Shift the mindset from DEI as a “do-good” signaling move to a lever of long-term, sustainable advantage**.
2. **Amplify the talent impact**:
   - Expand beyond traditional DEI segments, recognize the complexity of identities and changes in needs over time.
   - Address needs co-related with happiness and motivation - and create nuanced, end-to-end solutions.
3. **Unlock DEI as a driver of business opportunities**: remove bias from own operations, innovate propositions to serve broader segments, cooperate with ecosystem partners.
4. **Use society's ESG expectations to drive change**: revisit DEI KPIs, make visible commitment to bold action, advance advocacy.

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Source: BCG experience and analyses
Implementation of DEI programs is increasing – yet they have a largely narrow focus

- **Diversity**: Improve representation, esp. in leadership.
  - Narrow focus on DEI so far
  - ~70% of companies have diversity programs, in many countries\(^1\)

- **Equity**: Drive fair outcomes in hiring & advancement.
  - $8bn annual spending on diversity, equity, & inclusion training in the US\(^2\)

- **Inclusion**: Mitigate bias & create psychological safety.
  - 67%+ of staff feels their firm is inclusive and respectful of their identity\(^3\)

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<thead>
<tr>
<th>Challenge</th>
<th>Business</th>
<th>Society</th>
<th>Talent</th>
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<tbody>
<tr>
<td><strong>Talent</strong></td>
<td>76%</td>
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<tr>
<td><strong>Business</strong></td>
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<td>Up to 75%</td>
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<tr>
<td><strong>Society</strong></td>
<td>42%</td>
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**Challenges remain**

- Of target employees do not feel benefit from DEI programs\(^1\)
- Of companies have no DEI goals as part of their business strategy\(^4\)
- Of people believe business is not doing enough to address systemic injustice\(^6\)

**Key Figures**

- Only ~50% of diverse employees feel their day-to-day is free of bias\(^3\)
- Only ~7% of companies' spending is directed to diverse suppliers\(^5\)
- 27% of executives see lack of internal alignment/action on social issues as a barrier\(^7\)

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Global social movements and impacts of COVID-19 have increased pressure on businesses

Global social and political movements intensified pressures

- ~80% Of women globally have experienced some form of sexual harassment
- ~50% Of US hate crimes motivated by anti-Black bias
- ~340% Rise in Asian hate crime in the US in 2021 vs. 2020

COVID-19 disproportionately impacted minorities

- ~1.5x Higher rate of leaving jobs for caregivers\(^1\) during COVID globally
- Only 35% Of US working moms who left during the pandemic plan to return to work vs pre-pandemic
- 4% Increase in female unemployment in India during second wave (vs 1% for men)

\(^1\)Versus non-caregivers; Source: International Labor Organization; Our World in Data; NY Times; Forbes; The Guardian; Business Insider; Bank of America; Bloomberg; BCG research
1.3 Talent: Majority of employees increasingly expect stronger DEI outcomes

Talent expects DEI efforts from companies…

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>76%</td>
<td>Of job seekers view workforce diversity as an important factor when considering employment opportunities¹</td>
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<td>43%</td>
<td>Of those looking for new employment say it is important that company speaks out on DEI²</td>
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<tr>
<td>53%</td>
<td>Of Gen Z consumers expect firms to have diverse senior leadership³</td>
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<tr>
<td>44%</td>
<td>Of LGBTQ job-seekers did not apply for a job/declined a job offer due to perceived noninclusive culture⁴</td>
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…and believe not enough is done – despite many initiatives

- DEI program(s) varies by country – gender programs most common
- % respondents that indicated their company had the particular diversity program or initiatives⁵

<table>
<thead>
<tr>
<th>Country</th>
<th>Gender</th>
<th>LGBTQ+</th>
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<tr>
<td></td>
<td>71%</td>
<td>64%</td>
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<tr>
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<td>42%</td>
<td>36%</td>
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<td>50%</td>
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<td>48%</td>
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<td>77%</td>
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<td>59%</td>
<td>50%</td>
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- Of targeted employees do not feel personal benefit from them⁴
- 66% State their companies are 'not doing a lot of work' on the topic of DEI⁶

1. Glassdoor 2. Employee expectations rise as brands address DEI initiatives, “Agility PR Solutions, 2020, 3. Race and Representation Branding Study Dashboard”, 4. BCG DIAL Survey 2020; 5. BCG DIAL Survey; Q: “Does your company have any programs, initiatives or activities in place to promote the following types of diversity? A: Y/N/Not sure; re-based Y/N answers; removed "Not sure" N=32,537; 6. CNBC “Majority of employees want to work for a company that values diversity, equity and inclusion, survey shows” - NBC SurveyMonkey Workforce Survey. The poll was conducted among 8,233 employed adults across the U.S. from April 8-18. Source: BCG experience and analysis; BCG DIAL survey 2020; International Labor Organization, Our World in Data, NY Times, Forbes, The Guardian.
1.3 Talent: Challenges are rooted in a narrow focus, overly simplistic approach, and failure to address underlying needs - among other factors

Traditionally, DEI has taken a narrow, overly simplistic approach

Narrow focus on leadership track
Concentrates on high-potential, C-suite talent

Use of demographic DEI categories

- Man
- Woman
- White
- Black
- Asian
- Other
- Straight
- LGBTQ

Put employees “in a box,” not recognizing full spectrum and multiplicity of identities

Overlook the real needs that drive happiness, retention, motivation
Focus on tactical policies and technical benefits without solving for underlying needs

As a result, they don't tend to inspire positive employee outcomes

<table>
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<th>80%</th>
<th>Correlation of satisfying needs with happiness</th>
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<tbody>
<tr>
<td>50%</td>
<td>Correlation of satisfying needs with motivation</td>
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<tr>
<td>50%</td>
<td>Correlation of satisfying needs with long-term retention</td>
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Notably, they overlook true underpinning needs correlated with happiness

Example: US women

Needs that US women often self-rank as most important include compensation, benefits and work-life balance – yet they are not within top 10 biggest drivers of happiness

Similar results observed for the male population

3 out of the top 4

Needs most correlated with women’s happiness are more heavily grounded in their day-to-day experience: e.g., feeling valued, supported, fairly treated, respected, and important

Source: BCG’s US Workforce Survey, 2021, BCG analyses, Note: n=3,345 full time working women; Note: average MaxDiff scores used
### Companies are increasingly making DEI a fully integrated part of their strategy:

#### Innovate business models
- Support diverse entrepreneurs - **capitalize on under-invested businesses**, innovative ideas and access to marginalized groups

#### Strengthen value chain
- **Tap into diverse suppliers** to expand & better tailor own product
- **Widen supplier base** to reduce dependence & promote competition

#### Build "better fit" products
- **Expand consumer base** via propositions for unmet needs
- **Build brand loyalty** by addressing specific communities’ needs

#### Serve underserved markets
- **Establish and drive demand** in nascent/marginalized markets
- **Capture unexplored sales potential**

| Micro-distribution | Diverse vendor development program | Drug suitability for minorities | Better serve
|--------------------|-----------------------------------|-------------------------------|------------------|
| • Help rural marginalized women be entrepreneurs - use their networks to reach communities with nutritious food | • Workshops with women & ethnic minority suppliers on retail practices, buyer relations, brand building, financial planning, capital access, etc. | • Training 250 clinical investigators from minority backgrounds to recruit more diverse trial participants – in order to ensure wider-applicability of drug across racial demographics | • Employed community managers to build trust in underrepresented communities
| • Provide training in sales, management, finance, nutrition & wider support | | • Introduced new credit risk assessment to remove bias & ensure equity | • Introduced new credit risk assessment to remove bias & ensure equity
| 180% Incremental income increase in Brazil rural communities | $2.1bn Purchases from diverse suppliers in 2018-2020 | $100M Committed to NMF1 to increase DEI in clinical trials | $30bn Lending pledge for underserved areas

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1. National Medical Fellowships
Source: BCG analysis and experience; HBR; press search
1.5 Society: Growing pressure on companies from customers, investors, and stakeholders to advance the social good

CONSUMERS: Demand more corporate involvement on social issues

Of Gen-Zers believe companies should act on social issues¹

… and 91% of Millennials in the US would switch brands to those championing a cause¹

INVESTORS: Recognize DEI activism in society as a signal of impact

Of institutional investors subject ESG to the same scrutiny as financial considerations²

… given 80%+ of studies show ESGs result in better performance³

Companies increasingly engage in societal DEI initiatives

1. Vocal advocate for a cause
   - Support women in sport
     - Launched campaign “Dream Crazier” with Serena Williams to combat the stereotypes placed on women athletes
     - +35M Views on YouTube and Twitter in 2 days

2. Philanthropy: channeling resources to expert groups
   - Pledged funds to promoting racial justice
     - Set up inclusion advisory board to identify the resources and funds to donate to fighting social injustices
     - $10 M Pledged in 2021 for social justice initiatives externally

3. Convening at forums to advocate for public policy
   - Advocate US racial justice policies
     - Advocate for US policing reform, set out policy recommendations & commitments to address the racial wealth gap
     - $20 B+ Commitment to minority-owned small businesses⁴

4. Mobilizing partners to drive systemic change
   - Improve access to health care
     - Partnered with South African government and Transnet to provide free health care, health education, disease screening in 70 rural communities via health trains
     - $20B+ Commitment to minority-owned small businesses⁴

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¹. BCG Brighthouse analysis
². 21 Edelman Trust Barometer Special Report: Institutional Investors. Q7. Please indicate the extent to which you agree or disagree with the following statements regarding shareholder activism. 4-point scale; top 2 box
³. BCG research of 51 ESG studies; ‘ESG and Financial Performance: Aggregated Evidence From more than 2000 empirical Studies’ by G. Friede, T. Busch, A. Bassen; 4. Commitment via capital, grants, low-cost debt and technical assistance, including focused investments in historically underserved and undercapitalized communities; Other sources: BCG analysis, experience, press search; Business Roundtable
Shift your mindset and attack the issues from a broader DEI perspective

1. Shift the mindset from DEI as a “do-good” move to “must-have” lever of sustainable advantage
   - Apply across your people, stakeholders, business ecosystem, and wider society
   - Ensure necessary investment in DEI across leadership priorities, core diversity team, and resourcing for holistic DEI strategy
   - Embed in performance goals of leaders and managers across the enterprise

2. Amplify talent impact
   - Expand the field of view – refocusing efforts on the entire workforce
   - Recognize the complexity of needs, and how they evolve over an employee's career and life
   - Reinvent how to develop (nuanced) solutions – address emotional needs, not just functional and technical ones

3. Unlock DEI as a driver of strategy
   - Recognize DEI as a powerful lens for opportunities - dedicate sufficient investment & innovation focus
   - Anchor in authentic levers for your company
   - Develop new & inclusive products and business models; innovate to reach the underserved
   - Incorporate DEI practices across your ecosystem – e.g., diverse suppliers

4. Use ESG expectations to drive change
   - Revisit DEI KPIs – expand to both leading indicators and broader measures capturing people, business, and societal impact
   - Make visible commitment to bold action and drive transparency of outcomes
   - Extend reach and impact with policy and advocacy agenda

1. Leading indicators consist of inclusion, retention, advancement (not only representation). Source: BCG analysis and case experience
2.1 Shift the mindset from DEI as a “do-good” signaling move to lever of long-term, sustainable business advantage

<table>
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<tr>
<th>Historical approach: Diversity for diversity’s sake</th>
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<tbody>
<tr>
<td><strong>VALUE VIEW</strong></td>
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<tr>
<td>Moral obligation</td>
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<tr>
<td>- It is the right thing to do'</td>
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<tr>
<td>- Focus on equality, equal opportunity, respect</td>
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<tr>
<td>- Hope for higher creativity/innovation</td>
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<tr>
<td><strong>ACTION</strong></td>
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<tr>
<td>Committing to improve diversity</td>
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<tr>
<td>- Enhance objectivity &amp; representation in recruiting and promotion</td>
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<td>- Launch anti-discrimination policies</td>
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<tr>
<td>- Commit to diversity</td>
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<tr>
<td>- Create support groups (e.g., women)</td>
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<thead>
<tr>
<th>Approach needed to accelerate: Apply business to the why, go deep on the how</th>
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<tr>
<td>Business, talent &amp; socio-economic enablement</td>
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<tr>
<td>- DEI as a tool to enhance employee experience and business outcomes</td>
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<td>- Full talent realization of everyone</td>
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<td><strong>ACTION</strong></td>
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<tr>
<td>Using DE&amp;I to realize our full potential</td>
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<tr>
<td>- Apply DEI to unlock talent across the entire organization</td>
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<tr>
<td>- Focus on deep-rooted (emotional) needs of employees and society</td>
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<tr>
<td>- Embed in leaders' performance goals and business strategy to unlock value</td>
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<tr>
<td>- Ensure necessary investment in DEI</td>
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Source: BCG experience, BCG articles (Amplified Calls for Racial Equity Need Amplified Responses, Redefining Diversity Equity and Inclusion)
Amplify talent impact: recognize the complexity of contexts that can shape how employees’ needs change over time

Understand how needs change over time for broader workforce

1. Expand the focus from top talent to the entire workforce
2. Go beyond demographic categories (e.g., women, LGBTQ+) when designing employee value proposition.
   Understand both employees’ emotional (e.g., “I want to feel in control”) and functional needs (“I need predictability”) – and which ones matter most to drive happiness, retention, and motivation
3. Recognize these needs are dynamic and change over the course of the employee’s career and personal life

Case study

Gabrielle Novacek
Managing Director & Partner, BCG

Gabrielle explains how partner’s life-threatening medical diagnosis led to a powerful breakthrough in reimagining DEI

“Our lives were turned upside down in a heartbeat, and part of what I had to sort out was how would I be a caregiver in the context of my job”

Gabrielle Novacek, BCG
2.2 Reinvent how to develop solutions: address employee needs and create nuanced, holistic solutions

Tap into employees' decision making

- Embrace employees’ agency in their careers
- Understand underlying causes of employees’ departures/discontentment
- Identify emotional and functional needs that matter most to happiness, motivation and retention

Recognize cohorts with similar needs

- Go beyond overly simplistic demographic buckets to groups with shared needs (e.g., caregivers, not just moms)
- Find clusters of demographic & attitudinal patterns that best predict key needs
- Analytically derive “communities” with unique sets of needs and experiences

Create solutions for the entire career and personal journey of each cohort

- Rethink and develop more nuanced solutions addressing parts of one’s identity that really matter
- Devise a more holistic set of interventions - ones that address an employee’s emotional needs (e.g., feeling supported) beyond functional benefits (e.g., part-time)

Open continuous (anonymous) feedback loop and regularly refine solutions to better capture nuances of foundational needs and evolving employee journeys

Source: BCG experience; BCG articles (Amplified Calls for Racial Equity Need Amplified Responses, Redefining Diversity Equity and Inclusion, Reinventing Gender Diversity Programs for a Post-Pandemic World)
Unlock business opportunities via DEI: innovate propositions to serve broader segments and build advantage in your ecosystem

**Assess own practices & remove inherent bias from operations**
- Assess your customer base vs. the demographics of the areas you serve
- Review your marketing & sales practices for bias: e.g., customer targeting/screening, algorithms
- Test your brands, products/services, messaging/imaging with a representative set of customers

**Innovate areas to serve marginalized segments**
- Identify dimensions where company can create greater social DEI: e.g., promoting equal opportunity/health care
- Identify DEI drivers for customer acquisition
- Integrate focus on underserved segments into customer insights
- Use human-centered design to develop new products & business models
- Catalyze partnerships to accelerate

**Spearhead DEI in your ecosystem & supply chain**
- Benchmark supplier diversity with customer base and competitor set
- Set and de-average targets based on supplier base & opportunity space
- Embed diversity in supplier scorecards/assessment
- Collaborate with suppliers to improve performance
- Cultivate next gen of (diverse) suppliers (e.g., trainings)

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**Case studies**

**AssistiveTouch**

AssistiveTouch: enable users with upper body disabilities to navigate Apple Watch features

- Eye-tracking enabling full iPad control only with a user’s eyes

**Products for people with disabilities**

- Launched "Virtual Plus care plan" app to deliver accessible, equitable care during COVID-19
- Connect members to non-medical community programs (e.g., housing)
- Support 2,000+ businesses owned by the underrepresented
Use ESG expectations to drive change: revisit DEI KPIs, make visible commitment to bold action, and advance advocacy

**Revisit KPIs to set clear goals**
- Define what “good” looks like
- Maintain focus on demographics in recruitment, yet go beyond – measure long-term inclusion indicators
- Expand metrics across employee life cycle; tailor to each new “community”
- Connect KPIs to broader set of business & societal impact goals
- Embed external DEI KPIs in all leaders’ pay & benefits
- Establish transparent, specific criteria for assessment

**Take bold transparent action**
- Appoint chief diversity officer
- Ensure senior leaders are champions
- Allocate sufficient resources, capital, and innovation focus to DEI
- Identify DEI areas relevant to you
- Report metrics to hold leaders accountable
- Don’t let the external narrative jump ahead without strong action plan

**Advance advocacy agenda**
- Educate employees on social issues
- Go beyond donation-matching, provide additional stipends for giving
- Use ESGs to recommend and vet causes deserving of employee-support
- Become vocal advocate for social change in public forums
- Build coalitions to convene with peers to drive sustained impact at scale
- Set up the infrastructure to facilitate change (e.g., think-tank partnerships)

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1. E.g., via staff-wide survey/diverse focus groups; 2. E.g., retention, advancement; 3. Diversity, Equity, Inclusion & belonging; 4. Approach to designing product experiences with a justice lens in the product development lifecycle and a playbook for inclusive & diverse illustrations in branding; 5. Defined as global women and ethnically diverse men; 6. As of Dec 31 2021; Source: BCG experience, PayPal, web search

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**Case study**

- DIE&B Roundtable to act as a catalyst for change
- Strong advocate for public policies e.g., Equality Act
- Justice by Design to build equity in product design
- Developed products supporting financial security
- Supplier diversity program assists in supplier certification, factoring DEI in scoring, etc.
- Track net disposable income and set targets for workforce

56% Of workforce identifies as diverse
Diversity
Driving representation of various demographic and identity groups inside the organization so that employees from diverse backgrounds are represented and successful across functions, geographic areas, and seniority levels.

Equity
Ensuring equal opportunity and comparability in outcomes for all. Leveling the playing field by supporting underrepresented staff to provide the same opportunities for career advancement as majority-group employees.

Inclusion
Creating a work environment in which all staff feel valued and empowered to bring their authentic selves and true perspectives to light at work, and feel psychologically safe to do so. Ensuring all staff have positive and supportive workplace experience.
### Additional perspectives on Diversity, Equity, and Inclusion

<table>
<thead>
<tr>
<th><strong>Amplified Calls for Racial Equity Need Amplified Responses</strong></th>
<th><strong>It’s Time to Reimagine Diversity, Equity, and Inclusion</strong></th>
<th><strong>Inclusive Cultures Have Healthier and Happier Workers</strong></th>
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<tbody>
<tr>
<td>Reinventing Gender Diversity Programs for a Post-Pandemic World</td>
<td>A New LGBTQ Workforce Has Arrived—Inclusive Cultures Must Follow</td>
<td>With Caregivers in Crisis, Companies Need to Step Up</td>
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<tr>
<td>The Importance of Being Equitable in Product Design</td>
<td>Financial Institutions Can Help Break the Cycle of Racial Inequality</td>
<td>Racial Equity in Banking Starts with Busting the Myths</td>
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