

DATA UPDATE 6: IN SEARCH OF PROFITABILITY!

The Business End Game!



INVESTMENT RETURNS..

- Crass and mercantile though this may sound, **the end game for a business is to make money**, and a business that fails this simple test cannot survive for long, no matter how noble its social mission, how great its products are and how much its customers and employees love it.
- In this session, I look at business profitability, relative to revenues, and why profit margins vary across businesses and sectors.
- I then raise the ante and argue that making money is too low a standard to hold companies to, since the capital invested in these companies can generate returns elsewhere, opening the door to bringing in the opportunity costs (costs of equity and capital) that I introduced in my last post.



THE BUSINESS END GAME: THE FRIEDMAN PROPOSITION

- In 1970, [Milton Friedman argued in a New York Times article](#) that the social responsibility of a business is to deliver (and increase) profits.
- That view has come under attack in recent decades, but even in the immediate aftermath of the article's appearance, there was some push back.
 - Some came from people who argued that Friedman was missing details, with a few noting that it is cashflows, not earnings, that businesses should focus on, and others arguing that it is profits over the long term, not just immediate profits, that should be the focus of a business.
 - My guess is that Professor Friedman would have agreed on both fronts, arguing that he was talking about economic, not accounting, profits, and that there was nothing that foreclosed a focus on long term profits.

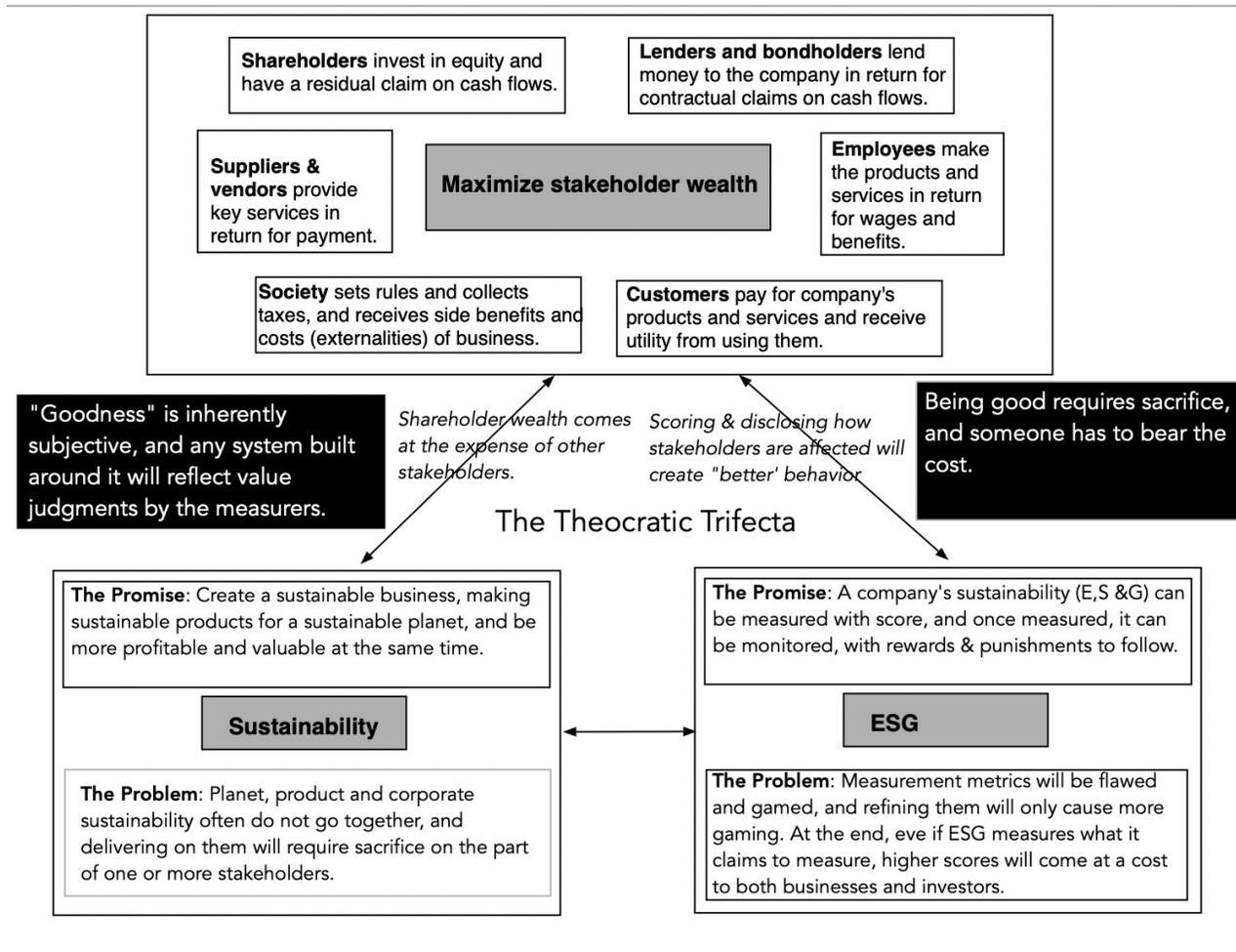


A MORE FUNDAMENTAL CRITIQUE..

- In the decades since, there has been a more fundamental critique of the Friedman business end game, coming from those who believe that his view is far too cramped and narrow a vision of what a business should do, and that **businesses have obligations to society and the planet that need to be incorporated into decision-making.**
- Later, though, these critics decided to go for the jugular, arguing that the business objective itself be reframed to include these broader responsibilities, with some arguing for **stakeholder wealth maximization, where businesses seek to maximize value to their different stakeholders (employees, lenders, customers).**
- About two decades ago, stakeholder wealth maximization was **supplemented by ESG**, an acronym that quickly got buy-in from the establishment.
- In the last five years, ESG has fallen out of favor, largely undone by its own internal inconsistencies, but the gravy train that lived off its largesse has moved on, and **taken much of what filled the ESG space, repackaged it, and renamed it sustainability.**



THE THEOCRATIC TRIFECTA!



THE BUSINESS END GAME (UPDATED)

- After decades of pushback from critics of the Friedman business end game, it is time that we acknowledge that Milton Friedman was right, and to follow up and ask the question of what can be done, given that businesses are profit-seekers, to advance social good and curb externalities.
 - I don't believe that the *disclosure route*, which seems to have become the fallback for some seeking better business behavior, will accomplish much, and it may do more harm than good.
 - While *laws and regulations* can provide a partial fix, they are blunt instruments, and in a setting where businesses can move easily across borders, they may not be effective.
 - Ultimately, *we (as consumers and voter) get the businesses we deserve*, and if after paying lip service to social causes, we buy products and vote for governments that undercut those causes, no acronym or neat-sounding words will repair the breach.



PROFITABILITY IN BUSINESSES: ECONOMIC VS ACCOUNTING EARNINGS

	<i>Item</i>	<i>Explanation</i>
Start with	Revenues	Accountant's estimate of the revenues/sales generated by any transactions made the business during the period
Net out	Cost of Goods Sold	Estimated costs that are directly associated with producing the product/service sold by the company
To get	Gross Profit	Unit profitability, before covering other indirect costs and financial expenses
Net out	Operating Expenses	Include all expenses associated with operations this year, with no benefits spilling over into future years
To get	Operating Profit	Profitability of business/ operations
Net out	Financial Expenses	Expenses associated with non-equity financing (debt, for instance)
Add in	Financial Income	Income earned on cash balance and on financial investments (in companies and securities)
To get	Pretax Profit	Income to equity investors, prior to taxes
Net out	Taxes	Taxes, based upon taxable income (may not equate to cash taxes paid)
To get	Net Profit	Income to equity investors, after taxes

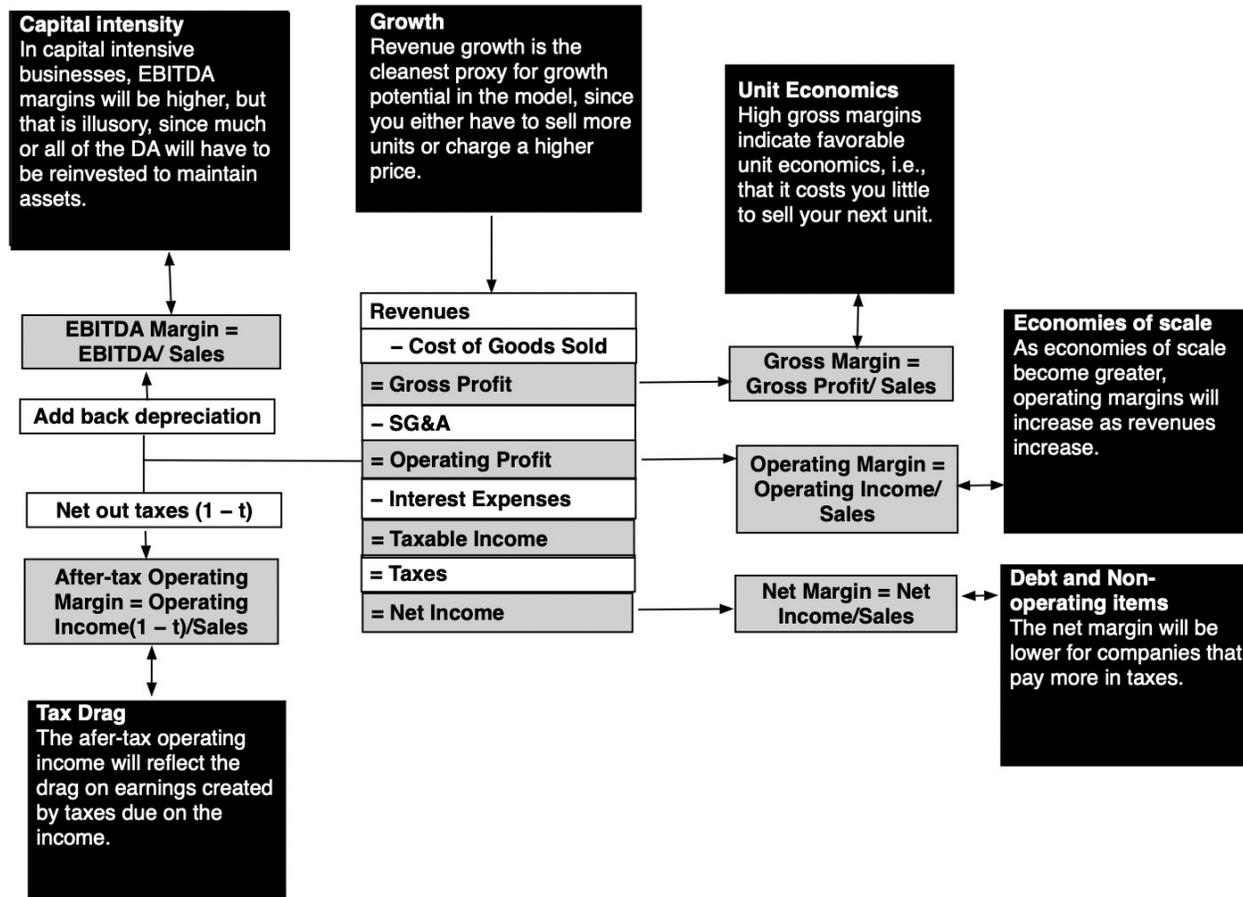


EARNINGS IN 2025: US & GLOBAL

<i>Global firms (in \$ millions)</i>												
	<i>Communicati on Services</i>	<i>Consumer Discretionary</i>	<i>Consumer Staples</i>	<i>Energy</i>	<i>Financials</i>	<i>Health Care</i>	<i>Industrials</i>	<i>Information Technology</i>	<i>Materials</i>	<i>Real Estate</i>	<i>Utilities</i>	<i>All firms</i>
Number of firms	2,193	6,358	3,202	1,402	5,278	4,452	9,007	6,234	6,457	2,671	902	48,156
Trailing Revenues	\$3,813,061	\$10,264,269	\$6,980,192	\$6,101,080	\$9,466,147	\$5,878,681	\$13,263,757	\$6,748,979	\$5,692,700	\$1,472,592	\$2,730,240	72,411,698
Trailing Gross Profit	\$1,932,345	\$2,979,742	\$2,010,660	\$1,760,205	\$5,896,118	\$1,941,362	\$3,124,396	\$2,295,183	\$1,269,052	\$455,627	\$870,310	24,534,999
Trailing EBITDA	\$1,121,791	\$1,223,169	\$791,002	\$1,250,111	\$1,008,213	\$789,185	\$1,626,160	\$1,364,994	\$829,258	\$301,423	\$711,294	11,016,600
Trailing Operating Income	\$688,567	\$771,384	\$586,173	\$792,531	\$948,575	\$570,110	\$1,136,447	\$997,718	\$497,678	\$213,076	\$435,274	7,637,533
Trailing Net Income	\$466,977	\$510,100	\$337,068	\$429,073	\$2,009,953	\$307,946	\$745,648	\$792,425	\$256,769	\$62,124	\$229,266	6,147,349
<i>US firms (in \$ millions)</i>												
<i>Primary Sector</i>	<i>Communicati on Services</i>	<i>Consumer Discretionary</i>	<i>Consumer Staples</i>	<i>Energy</i>	<i>Financials</i>	<i>Health Care</i>	<i>Industrials</i>	<i>Information Technology</i>	<i>Materials</i>	<i>Real Estate</i>	<i>Utilities</i>	<i>All firms</i>
Number of firms	315	581	297	282	1,224	1,178	796	706	273	253	89	5,994
Trailing Revenues	\$1,607,034	\$3,219,562	\$2,612,224	\$1,553,169	NA	\$3,918,774	\$2,704,072	\$2,570,317	\$684,335	\$341,204	\$530,029	\$19,740,720
Trailing Gross Profit	\$936,398	\$1,113,623	\$713,652	\$454,099	NA	\$1,032,563	\$721,954	\$1,272,645	\$174,844	\$169,752	\$234,040	\$6,823,569
Trailing EBITDA	\$551,540	\$504,879	\$283,282	\$335,149	NA	\$429,779	\$425,979	\$800,678	\$126,898	\$127,563	\$203,004	\$3,788,751
Trailing Operating Income	\$368,176	\$291,072	\$206,005	\$184,367	NA	\$303,309	\$293,449	\$634,955	\$79,115	\$61,061	\$116,521	\$2,538,030
Trailing Net Income	\$267,569	\$199,309	\$118,545	\$109,733	\$558,887	\$44,458	\$184,367	\$500,017	\$28,407	\$31,546	\$68,576	\$2,211,413



PROFIT MARGINS



MARGINS IN 2025

Global firms (in \$ millions)													
		Aggregate Values			Gross Margin			Operating Margin			Net Profit Margin		
Primary Sector	# firms	Gross Margin	Operating Margin	Net Margin	First Quartile	Median	Third Quartile	First Quartile	Median	Third Quartile	First Quartile	Median	Third Quartile
Communication Services	2,193	50.68%	18.06%	12.25%	23.48%	42.67%	65.18%	-8.70%	4.11%	13.89%	-13.91%	1.89%	10.12%
Consumer Discretionary	6,358	29.03%	7.52%	4.97%	16.42%	30.44%	48.89%	0.00%	4.78%	10.48%	-1.34%	2.87%	7.97%
Consumer Staples	3,202	28.81%	8.40%	4.83%	15.61%	26.47%	39.97%	0.88%	4.95%	10.95%	0.00%	3.19%	8.35%
Energy	1,402	28.85%	12.99%	7.03%	12.16%	29.47%	55.78%	-1.81%	5.92%	19.92%	-5.29%	3.46%	11.89%
Financials	5,278	62.29%	10.02%	21.23%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Health Care	4,452	33.02%	9.70%	5.24%	26.97%	46.34%	67.39%	-72.20%	1.56%	12.61%	-75.60%	0.28%	10.29%
Industrials	9,007	23.56%	8.57%	5.62%	14.09%	24.29%	37.38%	0.07%	5.77%	12.09%	-0.65%	4.01%	9.25%
Information Technology	6,234	34.01%	14.78%	11.74%	16.37%	30.16%	48.06%	-7.64%	3.41%	11.00%	-8.39%	2.75%	9.86%
Materials	6,457	22.29%	8.74%	4.51%	11.72%	22.28%	37.49%	-1.84%	4.47%	10.75%	-3.70%	2.74%	8.39%
Real Estate	2,671	30.94%	14.47%	4.22%	26.61%	51.47%	75.12%	4.00%	21.90%	52.42%	-5.76%	11.74%	41.18%
Utilities	902	31.88%	15.94%	8.40%	17.05%	31.65%	49.76%	5.24%	13.59%	26.12%	1.70%	8.06%	16.19%
All firms	48,156	33.88%	10.55%	8.49%	25.29%	47.91%	78.26%	-11.90%	0.78%	12.47%	-21.27%	2.77%	15.34%
Global firms (in \$ millions)													
		Aggregate Values			Gross Margin			Operating Margin			Net Profit Margin		
Primary Sector	count	Gross Margin	Operating Margin	Net Margin	First Quartile	Median	Third Quartile	First Quartile	Median	Third Quartile	First Quartile	Median	Third Quartile
Communication Services	315	58.27%	22.91%	16.65%	30.39%	52.19%	67.67%	-22.73%	0.46%	13.39%	-29.78%	-6.26%	4.33%
Consumer Discretionary	581	34.59%	9.04%	6.19%	22.90%	37.49%	51.62%	-1.98%	4.67%	11.73%	-6.25%	1.27%	7.79%
Consumer Staples	297	27.32%	7.89%	4.54%	18.61%	33.22%	51.93%	-14.58%	3.09%	10.82%	-18.64%	0.87%	6.06%
Energy	282	29.24%	11.87%	7.07%	17.56%	40.61%	70.37%	-3.07%	8.86%	27.26%	-8.38%	3.75%	15.14%
Financials	1,224	58.98%	12.00%	18.83%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Health Care	1,178	26.35%	7.74%	3.69%	19.91%	53.23%	74.76%	NA	-29.80%	6.50%	NA	-34.21%	2.84%
Industrials	796	26.70%	10.85%	6.82%	17.92%	27.95%	39.58%	-8.22%	6.11%	13.49%	-13.50%	2.82%	9.11%
Information Technology	706	49.51%	24.70%	19.45%	30.56%	50.30%	73.26%	-35.87%	-0.30%	11.22%	-42.42%	-2.39%	9.20%
Materials	273	25.55%	11.56%	4.15%	12.97%	23.57%	36.81%	-0.84%	6.15%	13.51%	-9.00%	0.89%	8.81%
Real Estate	253	49.75%	17.90%	9.25%	42.28%	62.82%	77.40%	4.24%	17.62%	33.79%	-6.72%	8.60%	25.47%
Utilities	89	44.16%	21.98%	12.94%	35.56%	45.79%	57.30%	14.65%	20.90%	25.50%	8.63%	12.27%	16.48%
All firms	5,994	37.76%	12.75%	9.74%	25.29%	47.91%	78.26%	-11.90%	0.78%	12.47%	-21.27%	2.77%	15.34%



INDUSTRY MARGINS: HIGHEST AND LOWEST

<i>Businesses with highest operating margins</i>							
Industry Group	# firms	<i>Aggregated Values</i>			<i>Company-level operating margins</i>		
		<i>Gross Margin</i>	<i>Operating Margin</i>	<i>Net Margin</i>	<i>First Quartile</i>	<i>Median</i>	<i>Third Quartile</i>
Tobacco	10	64.31%	43.68%	26.65%	-21.01%	8.55%	40.24%
Precious Metals	56	55.02%	40.43%	28.59%	3.26%	28.43%	43.54%
Retail (REITs)	26	78.61%	38.64%	23.00%	22.44%	31.65%	42.07%
Transportation (Railroads)	4	50.96%	37.43%	24.73%	33.42%	35.41%	41.29%
Semiconductor	66	58.97%	35.31%	30.45%	-38.67%	0.91%	14.87%
Software (Entertainment)	77	66.45%	33.67%	29.93%	-27.58%	2.35%	13.31%
Utility (Water)	14	58.97%	33.65%	21.16%	14.65%	29.42%	31.59%
Software (System & Application)	309	71.72%	33.21%	25.49%	-59.28%	-5.22%	10.11%
Drugs (Pharmaceutical)	228	71.73%	29.54%	18.54%	-472.34%	-23.70%	10.33%
Semiconductor Equip	31	46.32%	26.29%	21.32%	-1.60%	6.86%	18.26%
<i>Businesses with lowest operating margins</i>							
Industry Group	# firms	<i>Aggregated Values</i>			<i>Company-level operating margins</i>		
		<i>Gross Margin</i>	<i>Operating Margin</i>	<i>Net Margin</i>	<i>First Quartile</i>	<i>Median</i>	<i>Third Quartile</i>
Electronics (Consumer & Office)	8	38.77%	-4.25%	-9.42%	-42.89%	-10.21%	-1.35%
Coal & Related Energy	16	14.86%	-3.82%	-2.13%	-190.10%	-129.00%	-0.13%
Retail (Grocery and Food)	15	26.31%	1.85%	1.32%	-0.24%	2.18%	4.08%
Auto & Truck	33	10.41%	2.38%	1.29%	-351.22%	-57.92%	2.54%
Food Wholesalers	13	15.44%	2.55%	1.17%	0.99%	1.24%	3.48%
Rubber & Tires	3	17.99%	2.57%	-9.49%	-123.77%	2.61%	2.61%
Real Estate (Operations & Services)	54	32.21%	2.76%	1.19%	-13.87%	-1.00%	11.09%
Chemical (Basic)	29	9.31%	2.86%	-3.73%	-2.53%	2.00%	4.59%
Healthcare Support Services	104	12.08%	2.99%	1.25%	-11.58%	1.59%	6.16%
Chemical (Diversified)	4	15.32%	3.41%	-5.35%	0.48%	5.75%	6.12%



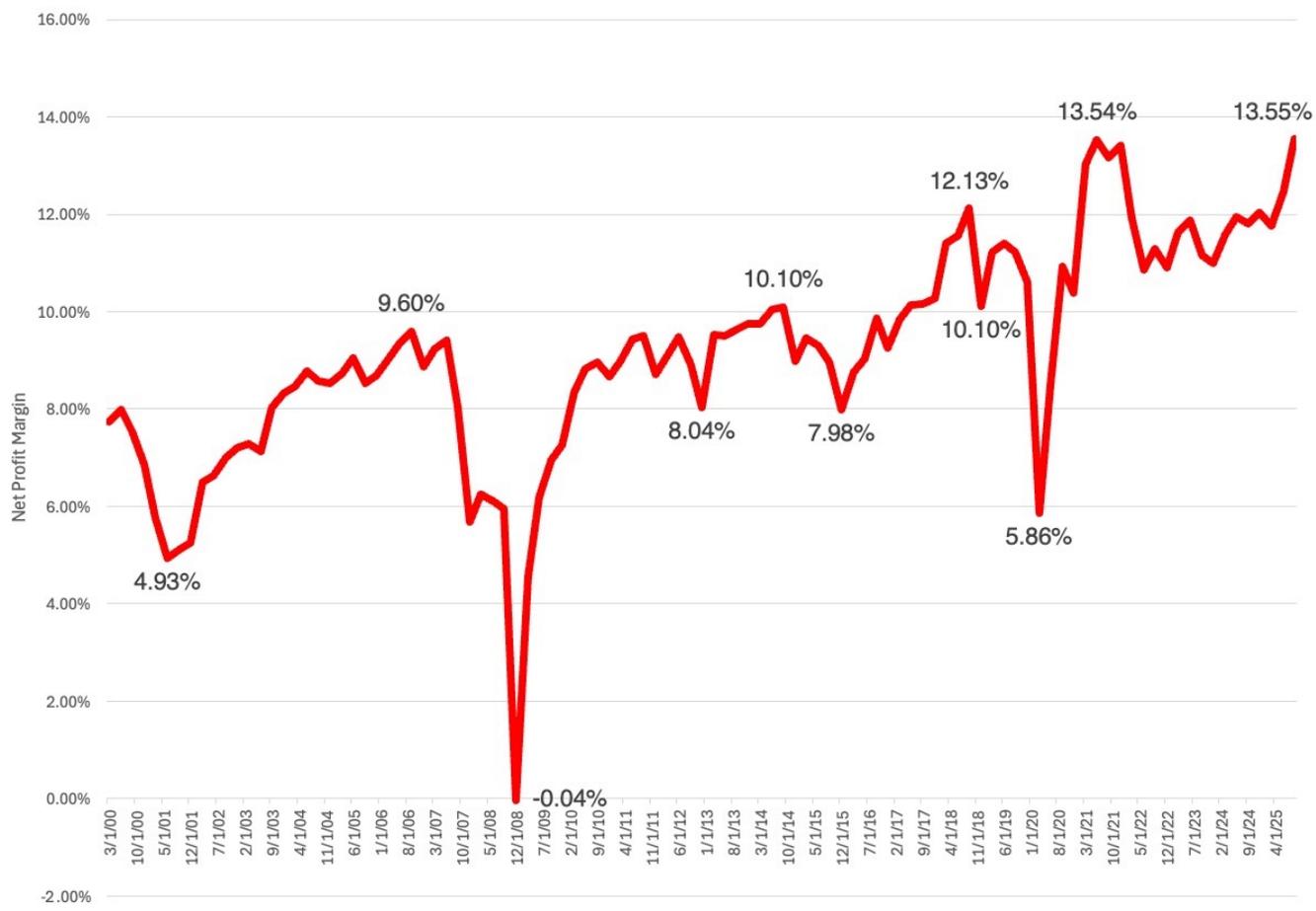
THE AI THREAT!

- While high margins are a desirable feature for a business, **having high margins can make a business vulnerable to disruption**, and the AI sell off that we have seen play out in the **last few months in software** reflects the concerns that investors have of AI putting significant downward pressure on software margins.
- If your pushback is that the **drop off in revenues and margins has not happened yet, and that it is unfair to software firms** to mark their market pricing down preemptively, this is exactly what markets are supposed to do, and these software companies benefited earlier in their lives, when market prices were marked up well ahead of the run-up in margins.
- **You live by the sword (expectations of growth and high margins), you die by it** (expectations that growth rates will hit a cliff and margins will decline)!



TIME TRENDS IN MARGINS

Net Margin for the S&P 500

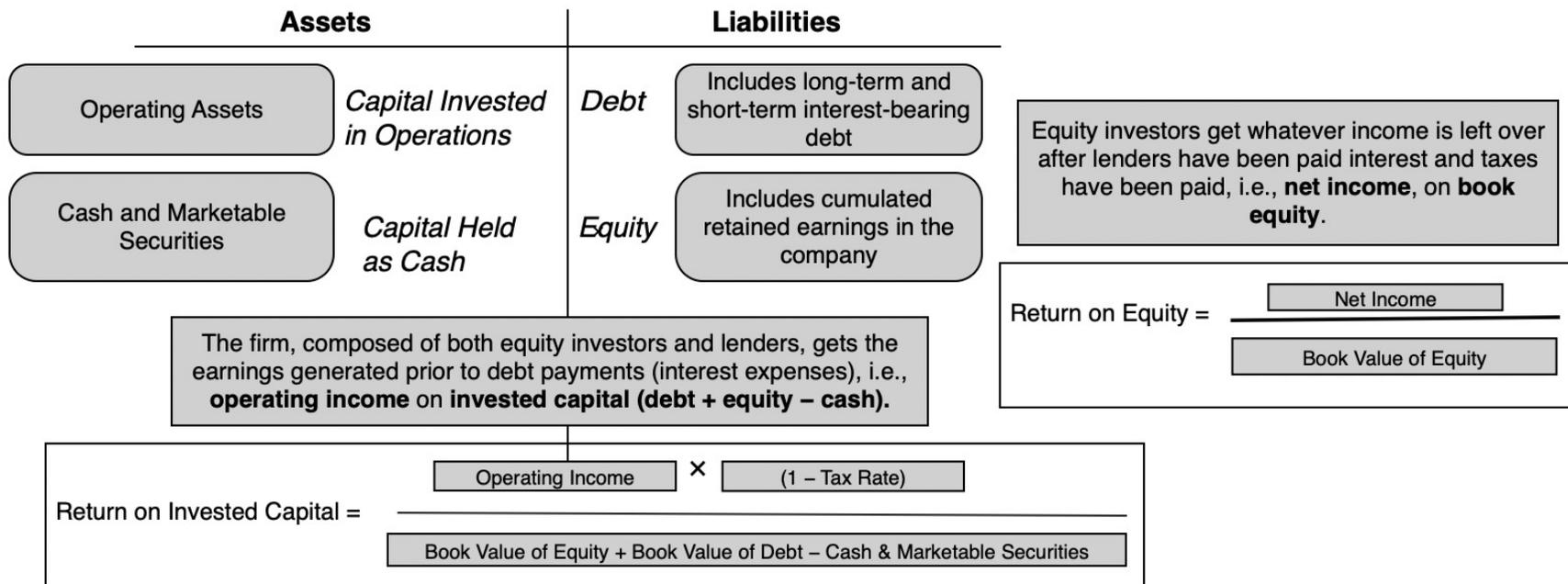


REASONS FOR RISING MARGINS . . .

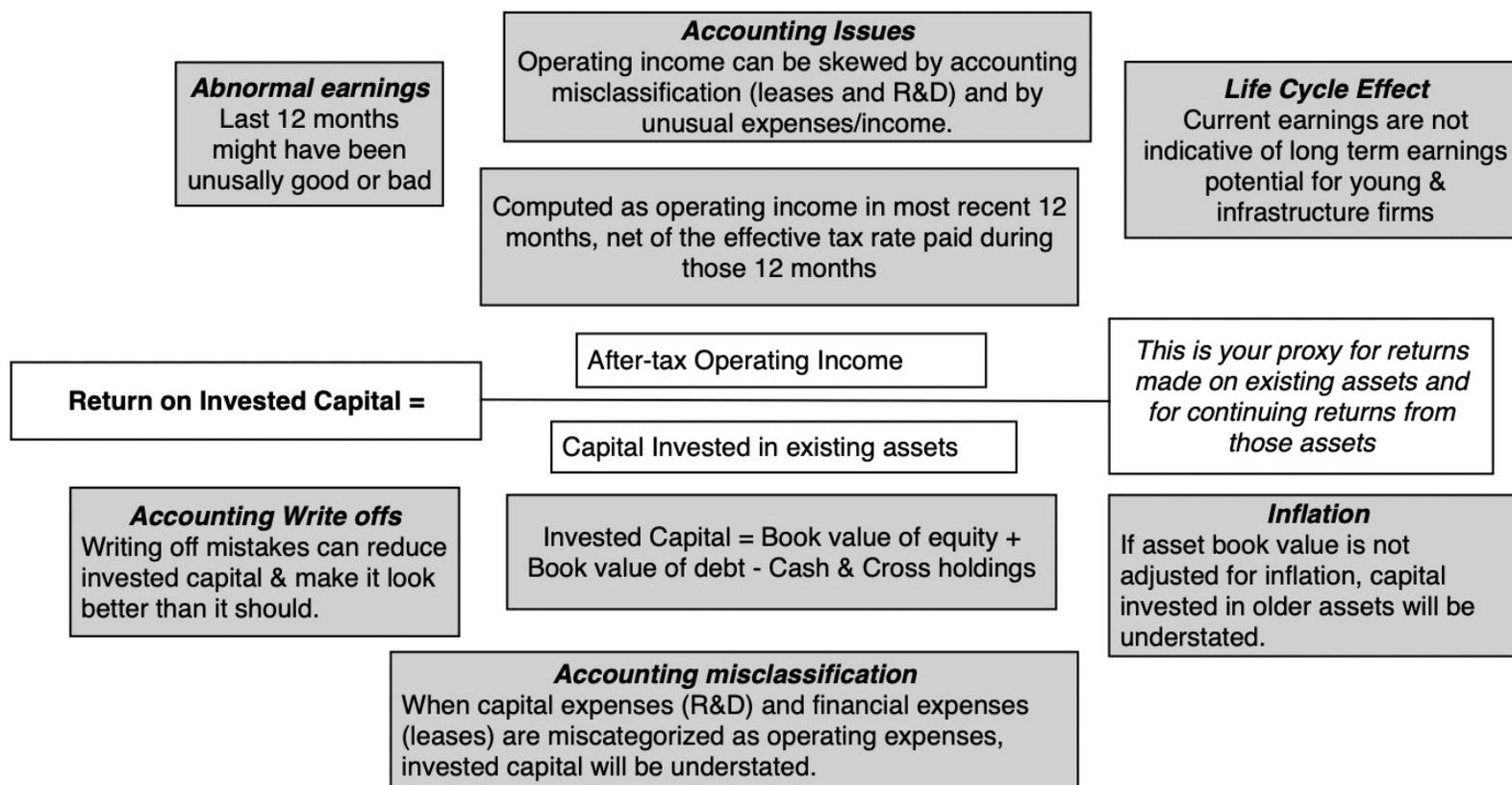
- The most cynical explanation is that this increase in margins is *all sleight-of-hand*, where accountants are pushing through changes, aided and abetted by accounting rule-writers, to make companies look more profitable
- A second explanation is that *the macroeconomic environment* makes it easier for companies to deliver profits, and this explanation had resonance when interest rates were at historic lows in the last decade.
- A third explanation, and this one has been eagerly adopted by many on the political left, is that that this reflects the *increase in bargaining power for capital*, relative especially to labor, implying that the increase in profits are coming primarily at the expense of worker wages.
- The fourth, and in my view the most salient rationale for margin increases, is that the *composition of the market has changed*, as technology companies supplant old-economy companies, bringing superior unit economics and economies of scale to play.



FROM MARGINS TO RETURNS...



AND THE LIMITS OF ACCOUNTING RETURNS..

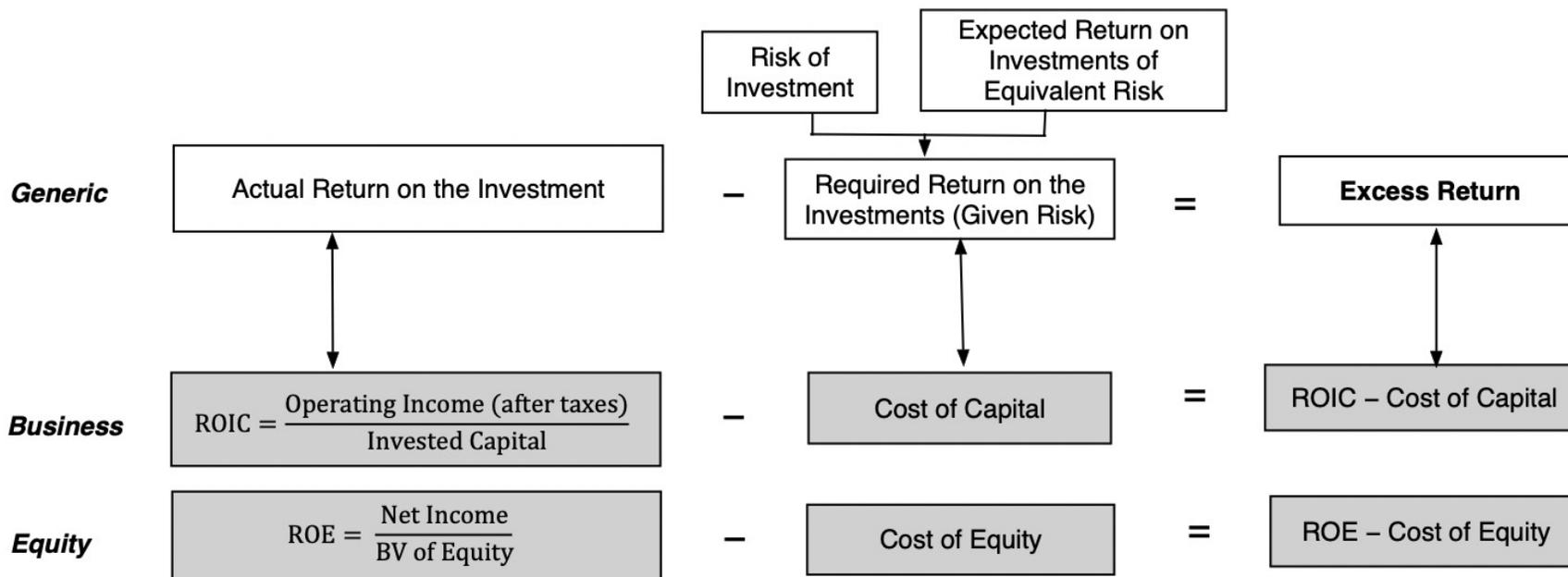


ACCOUNTING RETURNS, BY SECTOR

Global firms									
Primary Sector	# firms	Aggregated Values		Return on Equity			Return on Invested Capital		
		ROE	ROIC	1st Quarter	Median	3rd Quarter	1st Quarter	Median	3rd Quarter
Communication Services	2,193	15.37%	15.96%	-10.72%	3.24%	12.92%	-6.43%	4.04%	15.42%
Consumer Discretionary	6,358	12.00%	11.94%	-1.61%	5.48%	13.57%	-0.02%	5.16%	12.61%
Consumer Staples	3,202	14.38%	18.23%	0.41%	7.42%	15.43%	1.13%	6.78%	14.45%
Energy	1,402	11.42%	16.19%	-10.13%	4.38%	12.61%	-5.46%	4.61%	11.32%
Financials	5,278	12.48%	2.13%	2.06%	8.87%	15.75%	0.00%	0.00%	5.87%
Health Care	4,452	10.63%	19.64%	-42.55%	-0.96%	10.12%	-37.96%	0.83%	10.94%
Industrials	9,007	11.74%	12.21%	-0.58%	6.71%	14.16%	0.05%	5.97%	14.56%
Information Technology	6,234	20.10%	26.95%	-6.88%	4.55%	13.35%	-5.61%	4.02%	15.66%
Materials	6,457	6.71%	9.84%	-15.97%	1.14%	8.87%	-10.40%	1.40%	8.08%
Real Estate	2,671	2.07%	3.81%	-1.69%	4.61%	9.98%	0.49%	3.36%	6.54%
Utilities	902	9.84%	8.49%	1.97%	8.01%	13.28%	2.33%	5.81%	10.19%
All firms	48,156	11.86%	8.03%	-4.74%	5.17%	13.02%	-1.92%	3.69%	11.86%
US firms									
Primary Sector	# firms	Aggregated Values		Return on Equity			Return on Invested Capital		
		ROE	ROIC	1st Quarter	Median	3rd Quarter	1st Quarter	Median	3rd Quarter
Communication Services	315	22.82%	22.04%	-39.17%	-4.22%	9.14%	-25.37%	1.02%	12.15%
Consumer Discretionary	581	22.58%	15.88%	-21.53%	4.72%	18.18%	-3.46%	6.39%	16.76%
Consumer Staples	297	20.11%	25.62%	-18.97%	5.98%	17.39%	-4.90%	8.15%	18.56%
Energy	282	10.92%	13.21%	-8.94%	5.77%	14.79%	-1.07%	6.26%	12.40%
Financials	1,224	14.85%	2.43%	5.37%	10.40%	14.56%	-0.07%	0.00%	0.75%
Health Care	1,178	11.30%	24.27%	NA	-45.72%	-2.11%	NA	-41.73%	5.10%
Industrials	796	18.04%	20.88%	-13.67%	8.07%	19.52%	-6.20%	9.92%	23.89%
Information Technology	706	33.89%	49.67%	-29.73%	-0.15%	13.26%	-38.01%	0.77%	17.10%
Materials	273	6.57%	14.92%	-21.92%	-0.26%	12.56%	-7.00%	3.61%	13.66%
Real Estate	253	5.02%	4.90%	-4.12%	3.17%	8.97%	1.00%	3.27%	5.64%
Utilities	89	11.46%	7.57%	8.19%	9.73%	12.30%	5.22%	6.39%	7.24%
All firms	5,994	17.21%	10.47%	-28.60%	4.37%	13.70%	-15.60%	0.53%	12.69%



RETURNS TO EXCESS RETURNS...



THE LINK TO MOATS...

		Type of competitive advantage (moat)				
		Brand Name	Switching Costs	Network Benefits	Cost Advantages	Legal Protection
Moat Width	Wide	Top brand	Infinite	Global	Permanent	Full
	Narrow	Name brand	High	Local	Temporary	Partial
	No Moat	Generic	None	None	None	None
<i>Place in valuation story</i>		<i>Margins</i>	<i>Customer Retention</i>	<i>Market Share</i>	<i>Profit margins</i>	<i>Pricing Power</i>



EXCESS RETURNS, BY SECTOR

Global firms											
		Return on Equity - Cost of Equity					Return on Invested Capital - Cost of Capital				
Primary Sector	# firms	Aggregated spread	% Positive	% Negative	% >5%	% <5%	Aggregated spread	% Positive	% Negative	% >5%	% <5%
Communication Services	2,193	5.87%	25.81%	74.19%	17.92%	82.08%	5.30%	31.55%	68.45%	22.34%	77.66%
Consumer Discretionary	6,358	2.08%	28.52%	71.48%	18.72%	81.28%	1.64%	31.50%	68.50%	20.02%	79.98%
Consumer Staples	3,202	6.25%	38.60%	61.40%	25.77%	74.23%	7.86%	41.63%	58.37%	26.17%	73.83%
Energy	1,402	2.74%	27.96%	72.04%	17.90%	82.10%	6.98%	30.39%	69.61%	17.83%	82.17%
Financials	5,278	5.43%	43.65%	56.35%	29.01%	70.99%	-4.50%	18.34%	81.66%	13.93%	86.07%
Health Care	4,452	0.93%	20.58%	79.42%	12.98%	87.02%	8.92%	23.18%	76.82%	15.86%	84.14%
Industrials	9,007	1.39%	31.55%	68.45%	19.91%	80.09%	1.55%	34.61%	65.39%	23.10%	76.90%
Information Technology	6,234	8.07%	23.84%	76.16%	15.86%	84.14%	12.89%	27.06%	72.94%	20.29%	79.71%
Materials	6,457	-3.09%	17.84%	82.16%	10.66%	89.34%	-0.16%	19.05%	80.95%	10.90%	89.10%
Real Estate	2,671	-5.54%	29.28%	70.72%	15.31%	84.69%	-3.12%	23.89%	76.11%	10.33%	89.67%
Utilities	902	1.81%	43.35%	56.65%	23.95%	76.05%	0.70%	41.80%	58.20%	18.74%	81.26%
All firms	48,156	2.11%	28.82%	71.18%	18.40%	81.60%	-1.69%	28.04%	71.96%	18.25%	81.75%
US firms											
		Return on Equity - Cost of Equity					Return on Invested Capital - Cost of Capital				
Primary Sector	# firms	Aggregated spread	% Positive	% Negative	% >5%	% <5%	Aggregated spread	% Positive	% Negative	% >5%	% <5%
Communication Services	315	13.62%	13.02%	86.98%	10.48%	89.52%	12.70%	19.37%	80.63%	13.97%	86.03%
Consumer Discretionary	581	13.97%	26.68%	73.32%	20.48%	79.52%	6.68%	34.77%	65.23%	24.96%	75.04%
Consumer Staples	297	12.72%	25.25%	74.75%	20.20%	79.80%	16.57%	33.67%	66.33%	24.24%	75.76%
Energy	282	3.32%	26.95%	73.05%	18.09%	81.91%	5.03%	30.14%	69.86%	17.38%	82.62%
Financials	1,224	8.74%	48.53%	51.47%	30.72%	69.28%	-3.15%	14.87%	85.13%	12.09%	87.91%
Health Care	1,178	2.01%	11.80%	88.20%	9.34%	90.66%	14.43%	14.52%	85.48%	11.63%	88.37%
Industrials	796	8.84%	31.41%	68.59%	24.50%	75.50%	10.73%	39.70%	60.30%	31.03%	68.97%
Information Technology	706	23.14%	18.98%	81.02%	14.87%	85.13%	36.52%	22.52%	77.48%	17.56%	82.44%
Materials	273	-2.86%	19.05%	80.95%	13.55%	86.45%	5.09%	24.18%	75.82%	16.48%	83.52%
Real Estate	253	-1.65%	29.64%	70.36%	14.23%	85.77%	-0.74%	22.53%	77.47%	6.72%	93.28%
Utilities	89	4.63%	65.17%	34.83%	22.47%	77.53%	1.05%	59.55%	40.45%	11.24%	88.76%
All firms	5,994	8.44%	27.46%	72.54%	19.01%	80.99%	1.81%	24.18%	75.82%	17.28%	82.72%

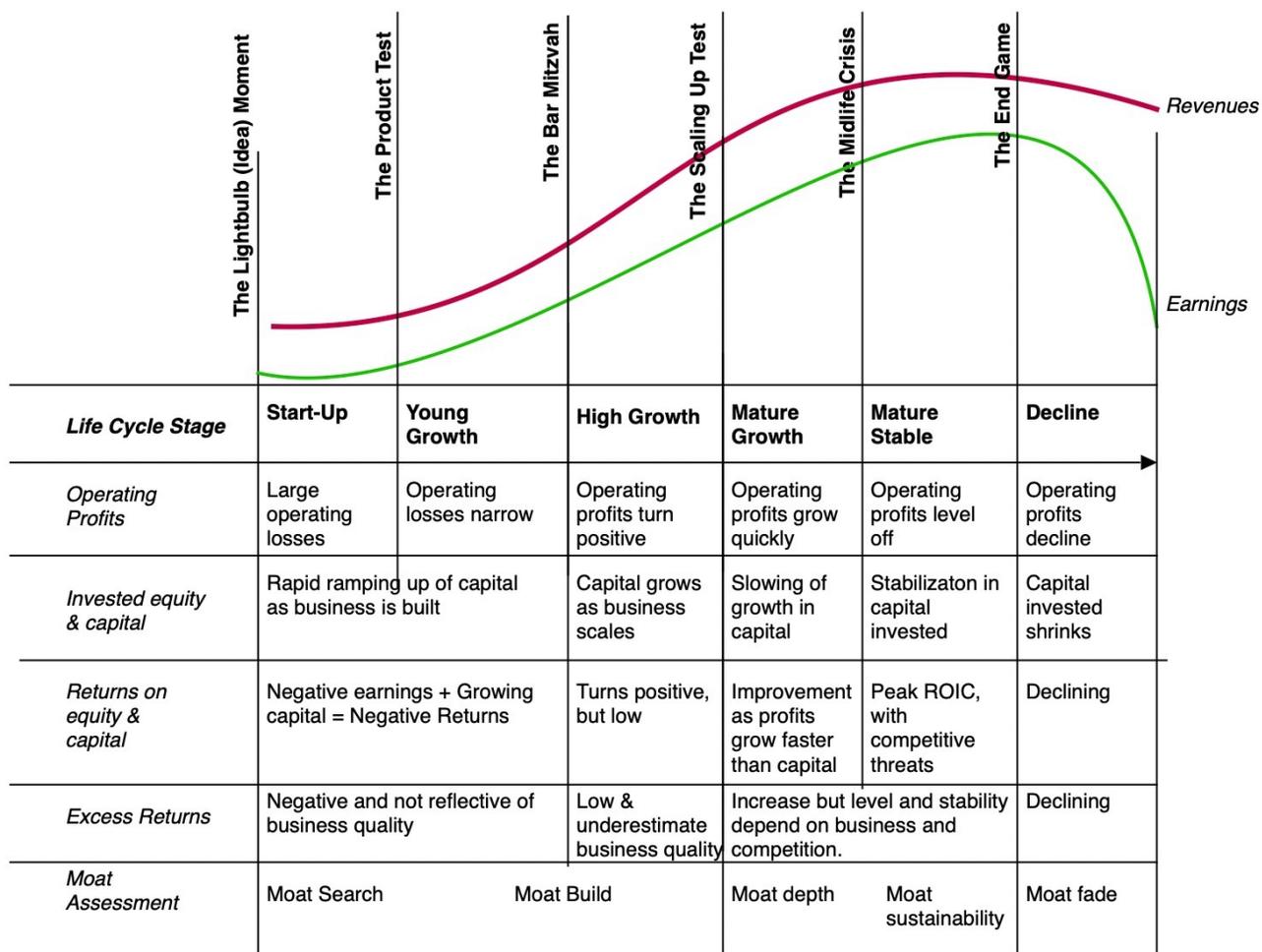


EXCESS RETURNS, BY REGION...

Global firms											
Primary Sector	# firms	Return on Equity - Cost of Equity					Return on Invested Capital - Cost of Capital				
		Aggregated spread	% Positive	% Negative	% >5%	% <5%	Aggregated spread	% Positive	% Negative	% >5%	% <5%
Africa and Middle East	2,555	5.68%	45.17%	54.83%	33.27%	66.73%	3.39%	37.34%	62.66%	25.95%	74.05%
Australia & NZ	1,702	0.74%	19.74%	80.26%	13.28%	86.72%	-3.48%	20.39%	79.61%	13.45%	86.55%
Canada	2,576	2.63%	13.43%	86.57%	9.24%	90.76%	-2.36%	13.59%	86.41%	8.62%	91.38%
China	7,775	-2.52%	21.09%	78.91%	10.70%	89.30%	-5.05%	22.92%	77.08%	13.35%	86.65%
EU & Environs	5,649	2.39%	31.90%	68.10%	22.39%	77.61%	-0.57%	31.56%	68.44%	22.25%	77.75%
Eastern Europe & Russia	439	2.60%	28.02%	71.98%	20.50%	79.50%	-1.26%	17.54%	82.46%	10.93%	89.07%
India	5,170	4.26%	36.42%	63.58%	24.53%	75.47%	-2.42%	32.57%	67.43%	21.12%	78.88%
Japan	3,965	-0.49%	39.27%	60.73%	21.39%	78.61%	-2.82%	43.96%	56.04%	28.50%	71.50%
Latin America & Caribbean	980	0.07%	35.31%	64.69%	24.59%	75.41%	0.35%	37.14%	62.86%	24.08%	75.92%
Small Asia	10,367	-0.81%	26.37%	73.63%	15.94%	84.06%	-3.02%	25.35%	74.65%	15.34%	84.66%
UK	984	0.64%	31.50%	68.50%	21.34%	78.66%	-0.92%	34.45%	65.55%	24.80%	75.20%
United States	5,994	8.44%	27.51%	72.49%	19.05%	80.95%	1.81%	24.22%	75.78%	17.32%	82.68%



A LIFE CYCLE VIEW OF EXCESS RETURNS..



EXCESS RETURNS, BY CORPORATE AGE...

Global firms											
Primary Sector	# firms	Return on Equity - Cost of Equity					Return on Invested Capital - Cost of Capital				
		Aggregated spread	% Positive	% Negative	% >5%	% <5%	Aggregated spread	% Positive	% Negative	% >5%	% <5%
Youngest	4,160	-5.36%	17.45%	82.55%	13.05%	86.95%	-0.97%	17.57%	82.43%	12.96%	87.04%
2nd decile	4,465	-1.91%	22.26%	77.74%	14.62%	85.38%	-2.69%	22.26%	77.74%	15.23%	84.77%
3rd decile	4,835	-1.48%	25.96%	74.04%	17.39%	82.61%	-2.04%	24.07%	75.93%	16.44%	83.56%
4th decile	3,925	-3.22%	26.22%	73.78%	16.36%	83.64%	-2.36%	27.87%	72.13%	18.19%	81.81%
5th decile	5,040	2.02%	28.63%	71.37%	18.77%	81.23%	-0.06%	27.24%	72.76%	18.08%	81.92%
6th decile	4,498	2.69%	31.06%	68.94%	19.94%	80.06%	-1.39%	28.90%	71.10%	18.83%	81.17%
7th decile	4,957	1.94%	30.87%	69.13%	19.29%	80.71%	-1.18%	29.96%	70.04%	18.98%	81.02%
8th decile	4,688	4.76%	32.74%	67.26%	20.22%	79.78%	-1.10%	33.30%	66.70%	21.20%	78.80%
9th decile	4,546	1.80%	34.76%	65.24%	21.51%	78.49%	-0.66%	36.41%	63.59%	22.68%	77.32%
Oldest	4,665	3.76%	44.33%	55.67%	26.62%	73.38%	-2.17%	39.51%	60.49%	24.37%	75.63%
US firms											
Primary Sector	# firms	Return on Equity - Cost of Equity					Return on Invested Capital - Cost of Capital				
		Aggregated spread	% Positive	% Negative	% >5%	% <5%	Aggregated spread	% Positive	% Negative	% >5%	% <5%
Youngest	526	-4.81%	8.17%	91.83%	6.65%	93.35%	6.61%	9.70%	90.30%	7.41%	92.59%
2nd decile	553	-14.28%	13.02%	86.98%	9.04%	90.96%	-6.12%	13.92%	86.08%	10.31%	89.69%
3rd decile	435	-2.88%	14.25%	85.75%	10.34%	89.66%	-2.58%	12.41%	87.59%	8.74%	91.26%
4th decile	635	2.31%	20.31%	79.69%	14.17%	85.83%	4.83%	13.39%	86.61%	10.39%	89.61%
5th decile	522	7.41%	23.95%	76.05%	16.48%	83.52%	9.13%	17.24%	82.76%	13.22%	86.78%
6th decile	566	16.68%	29.15%	70.85%	21.20%	78.80%	11.26%	27.74%	72.26%	19.08%	80.92%
7th decile	540	6.25%	30.74%	69.26%	20.19%	79.81%	7.40%	34.26%	65.74%	23.52%	76.48%
8th decile	530	18.96%	44.15%	55.85%	33.96%	66.04%	2.66%	45.85%	54.15%	35.09%	64.91%
9th decile	537	9.85%	51.58%	48.42%	35.01%	64.99%	-2.05%	46.55%	53.45%	32.03%	67.97%
Oldest	554	8.00%	62.09%	37.91%	38.27%	61.73%	1.12%	40.07%	59.93%	27.26%	72.74%



A WRAP . . .

- It seems to me that over the last four decades, moats have started to crumble, partly as a result of global competition and partly because of disruption (which upends businesses, turning good to bad), and the **business landscape has tilted more decisively to larger firms, as more and more businesses become winner-take-all.**
- It is in this context that I take a **more jaundiced view of what AI will do for company profitability and value.**
 - I believe that as a disruptor, it will cause **downward pressure on margins at most firms** and increase the advantages that larger firms have in each business.
 - Even if you buy into the AI will increase productivity argument, unless the AI tools that you are talking about **are exclusive to the companies** in question, these AI tools will lower costs across the board, and competition will then kick in on the pricing front, lowering profitability.
 - I do think that the AI disruption will be **more akin to a slow-motion car wreck**, in terms of its effect of overall profitability, and that the margin slippage will be gradual, but over time, damaging.

