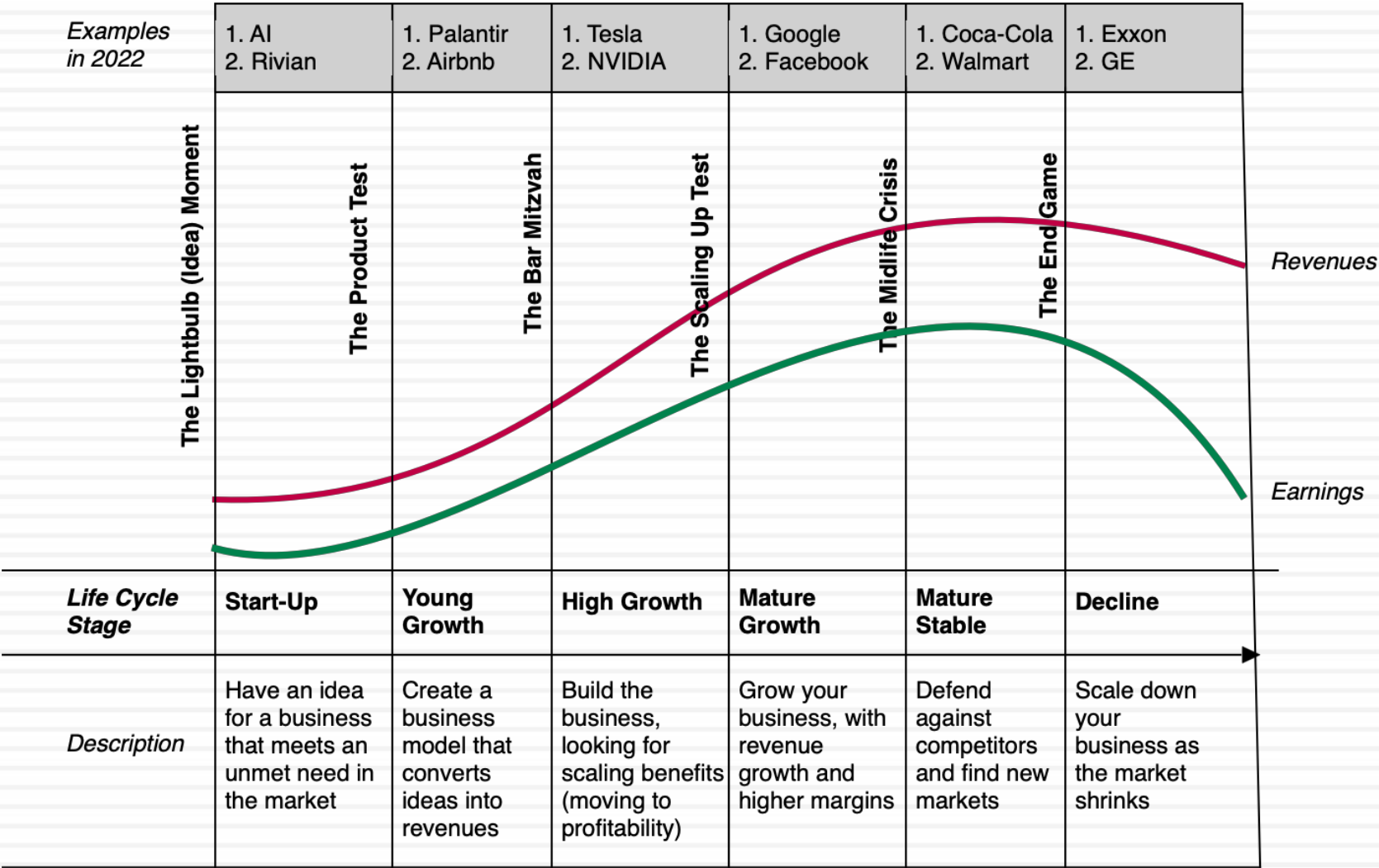




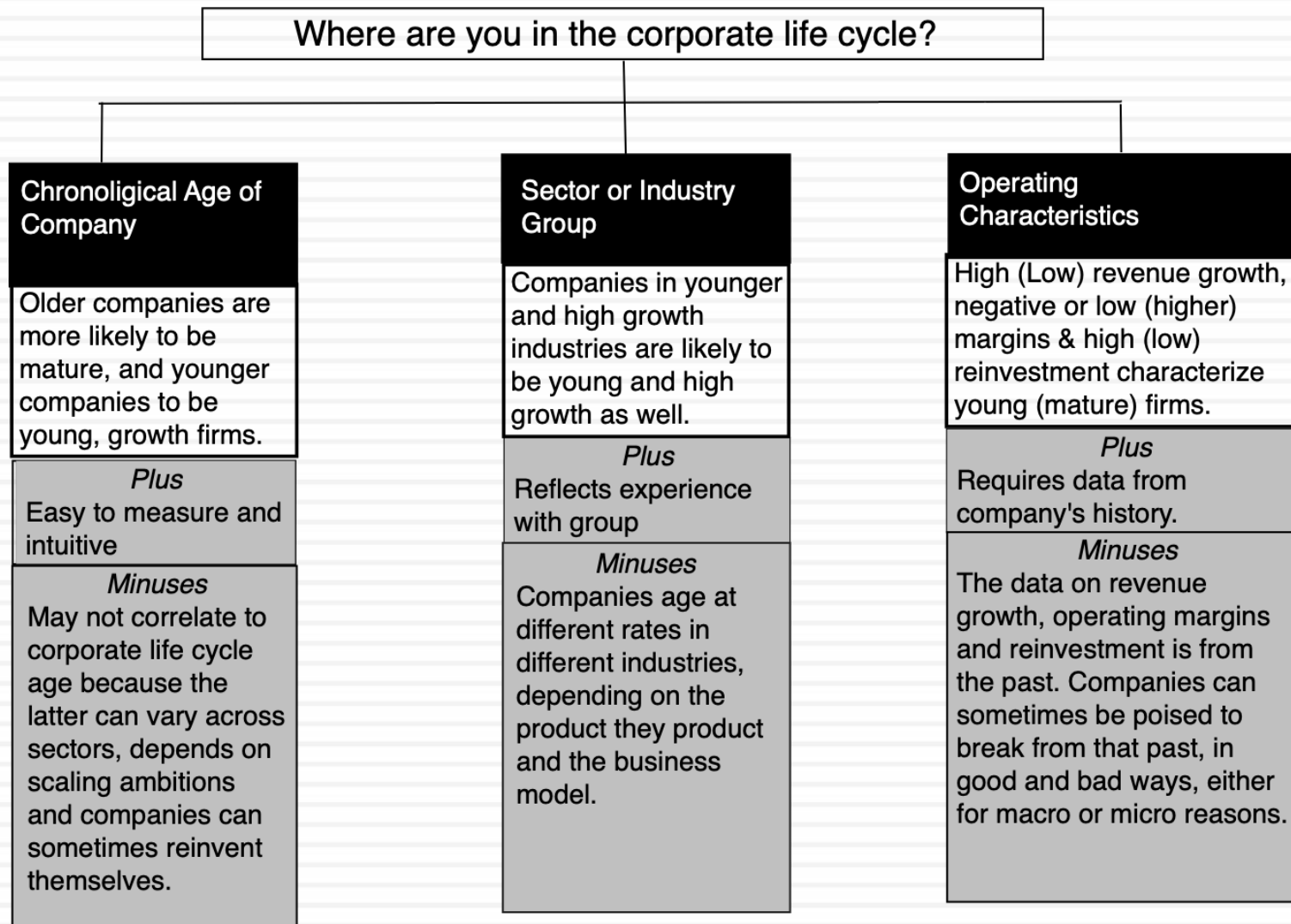
THE CORPORATE LIFE CYCLE: TROUBLE WITH TRANSITIONS!

Growing up is hard to do...

The Corporate Life Cycle



Life Cycle Diagnostics



Corporate Age and Operating Characteristics: The Data

decile(Age)	# firms	Revenue Growth Rate (CAGR over last 3 years)				Operating Margin			
		First Quartile	Median	Third Quartile	% with negative growth	First Quartile	Median	Third Quartile	% with negative margins
Bottom decile	4,026	-4.86%	18.16%	72.42%	14.80%	-176.76%	-3.29%	12.22%	54.91%
2nd decile	4,164	-6.00%	13.58%	41.46%	25.55%	-53.00%	0.00%	13.77%	48.17%
3rd decile	4,930	-7.18%	8.88%	26.08%	28.86%	-15.02%	4.28%	15.61%	37.39%
4th decile	4,098	-4.55%	8.58%	21.60%	29.77%	-5.30%	4.95%	14.04%	31.63%
5th decile	4,785	-6.01%	6.19%	17.61%	32.18%	-0.48%	5.76%	14.91%	27.79%
6th decile	4,029	-7.11%	4.15%	15.51%	35.84%	0.00%	5.79%	13.98%	25.83%
7th decile	4,653	-7.04%	3.74%	14.20%	35.63%	0.00%	5.48%	13.54%	25.08%
8th decile	4,414	-6.22%	2.19%	9.87%	40.17%	0.40%	6.20%	13.42%	20.93%
9th decile	4,582	-5.24%	1.32%	8.38%	42.12%	1.21%	6.03%	12.57%	17.03%
Top decile	4,473	-3.97%	1.57%	7.33%	40.73%	0.00%	5.86%	12.37%	12.22%

Sector and Operating Characteristics: The Data

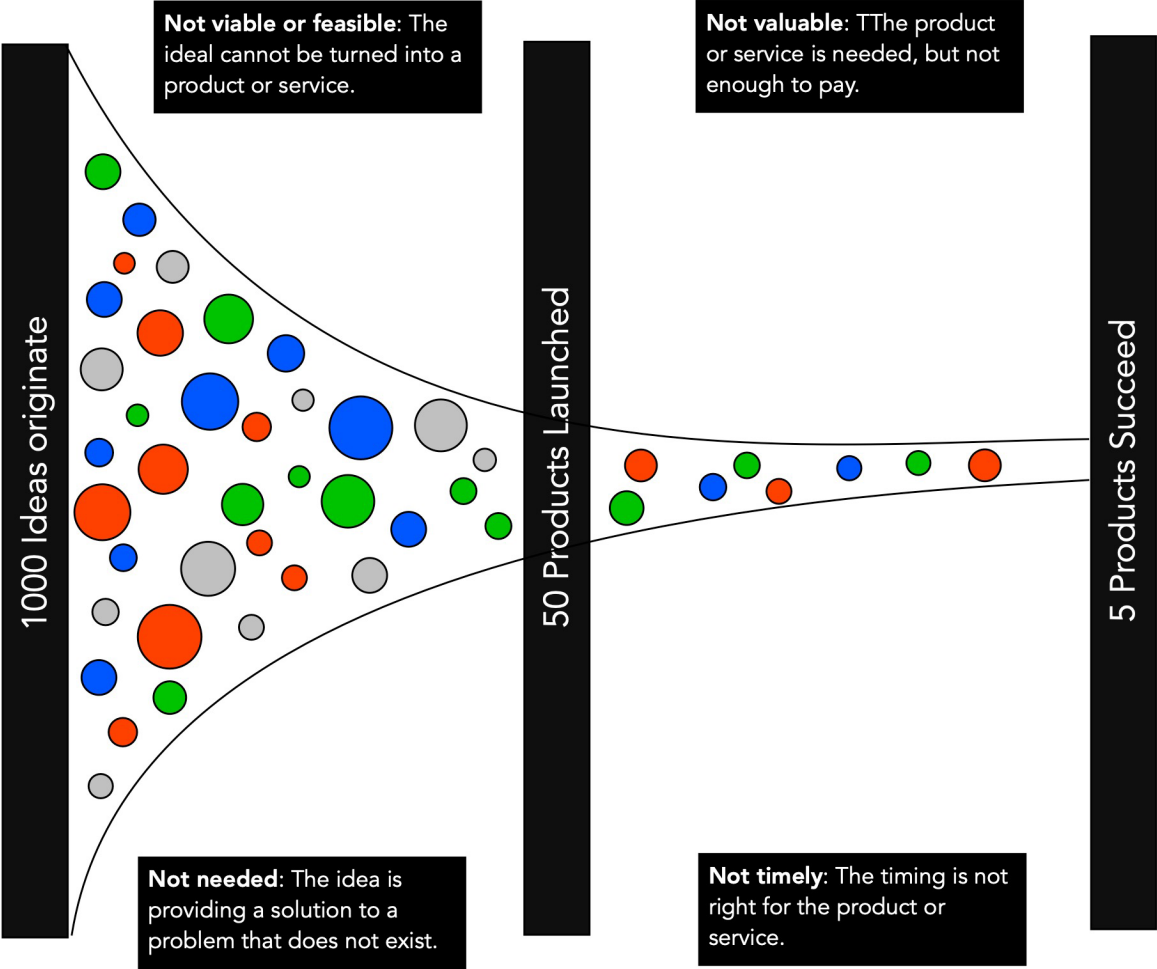
Primary Sector	# firms	Median Age	Revenue Growth Rate (CAGR over last 3 years)				Operating Margin			
			First Quartile	Median	Third Quartile	% with negative growth	First Quartile	Median	Third Quartile	% with negative margins
Communication Services	2,223	23	-10.76%	1.92%	16.98%	40.40%	-13.06%	4.68%	14.59%	37.22%
Consumer Discretionary	6,277	34	-11.29%	0.37%	11.37%	45.45%	-3.68%	4.16%	10.10%	32.10%
Consumer Staples	3,041	38	-3.99%	3.93%	12.66%	32.65%	0.39%	4.87%	11.03%	23.54%
Energy	1,522	25	-12.03%	0.18%	14.34%	40.47%	-10.34%	4.19%	22.19%	34.64%
Financials	5,646	28	-3.29%	6.90%	18.74%	24.35%	0.00%	0.00%	10.27%	21.94%
Health Care	4,670	21	-1.74%	10.42%	34.55%	22.36%	-209.09%	-0.64%	13.89%	50.52%
Industrials	8,288	35	-5.97%	2.98%	14.45%	37.52%	0.27%	5.57%	11.63%	24.21%
Information Technology	6,246	25	-1.87%	8.47%	22.19%	26.48%	-6.52%	4.96%	12.66%	32.33%
Materials	6,345	29	-3.81%	5.25%	16.24%	24.37%	1.34%	7.69%	14.55%	22.21%
Real Estate	2,728	28	-12.02%	1.81%	16.06%	41.39%	5.47%	22.69%	52.20%	19.14%
Utilities	910	27	-2.13%	4.22%	14.44%	30.66%	4.64%	14.96%	27.90%	15.16%
Total	47,907	29	-5.75%	4.44%	17.04%	32.35%	-1.79%	5.07%	13.74%	29.29%



The Idea Phase

Idea to Prouct...

The Idea Funnel



Idea Failure...

- Not needed: New ideas for businesses are built on the presumption that there is an unmet or poorly met need. If that presumption is wrong, there is nowhere for the idea to go.
- Not (economically) valued: Even if a need exist, to create a business around meeting it, you require customers who are willing to pay for the product.
- Not viable/feasible: Assuming that there is a need that is unmet, and that people are willing to pay to meet that need, you still have to come up with a product or service that is a viable solution to that need.
- Not timely: There may be a need that is unmet that you can construct a product or service to meet, but the time may not be right.

Founder Failure..

- When asked to describe what makes for a successful founder, venture capitalists have a laundry list of characteristics, some of which are in direct contradiction with others on the list.
 - ▣ We do know that there are characteristics (tunnel vision, arrogance, lack of empathy, savior complex) which lead to founder failure.
 - ▣ We also know that there are many successful founders who are arrogant, lack empathy and think that they (and they alone) can save the world.
- As a generalization, though, founders who are disciplined, have a vision that they can communicate and are adaptable improve their odds of success.

Capital Failure..

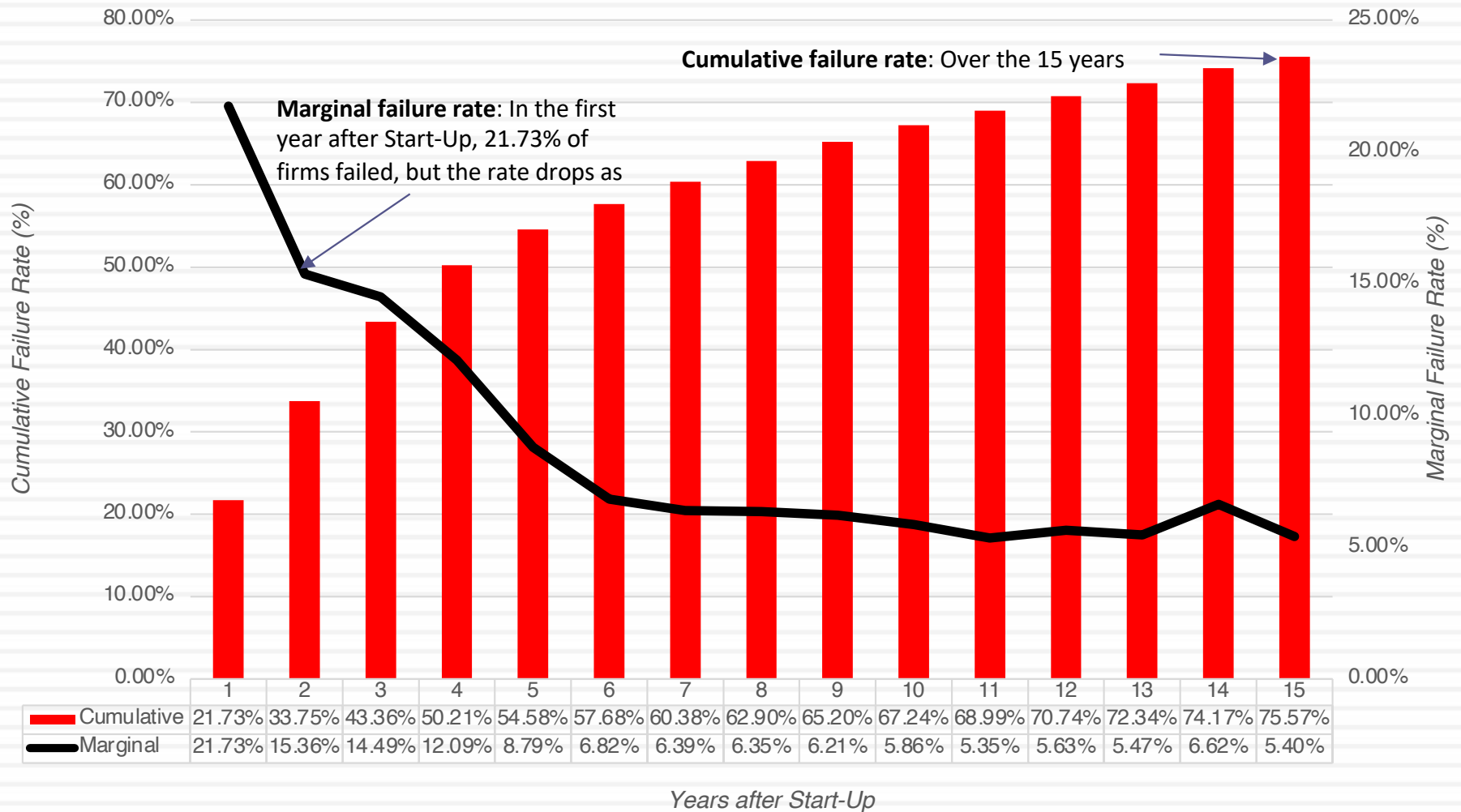
- The truth remains that no matter how good an idea is, and how well prepared a founder is, converting an idea into a product often requires capital.
- Unfair though it might be, access to capital varies across time and people.
 - ▣ If access to capital is too difficult, good ideas will never make it to product or business stage
 - ▣ If access to capital is too plentiful, some bad ideas with questionable founders can become businesses as well.
- *Generally, ideas that require much more capital to convert into products will fail more often than ideas that can be converted into products with less capital intensity.* This link between success and capital need can explain why so much “financially successful” innovation is surface-level and why so little of it qualifies as true innovation.



The Product Test

Product to Business...

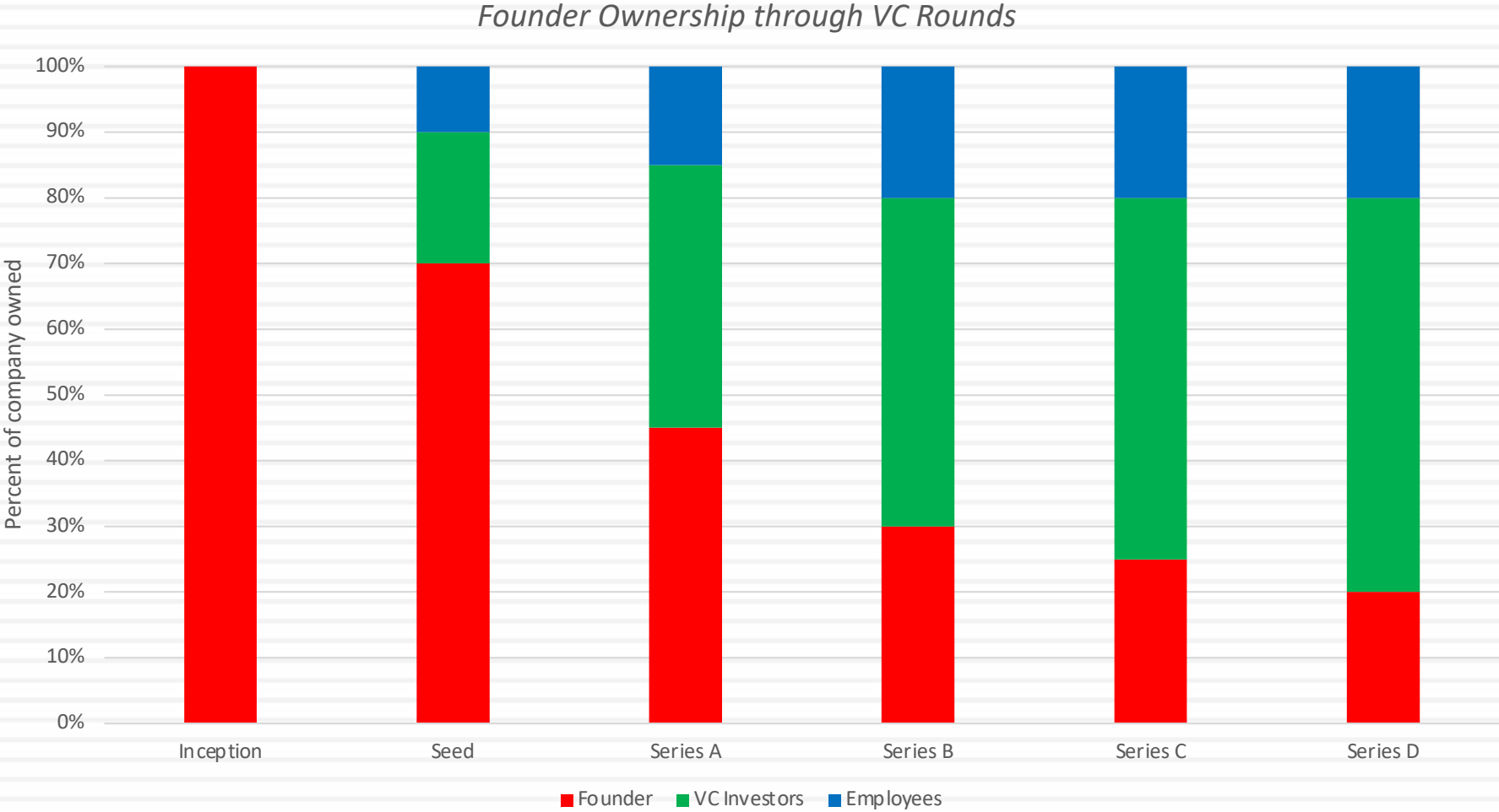
Truncation Risk: Failure is the norm...



Success requires business trade offs...

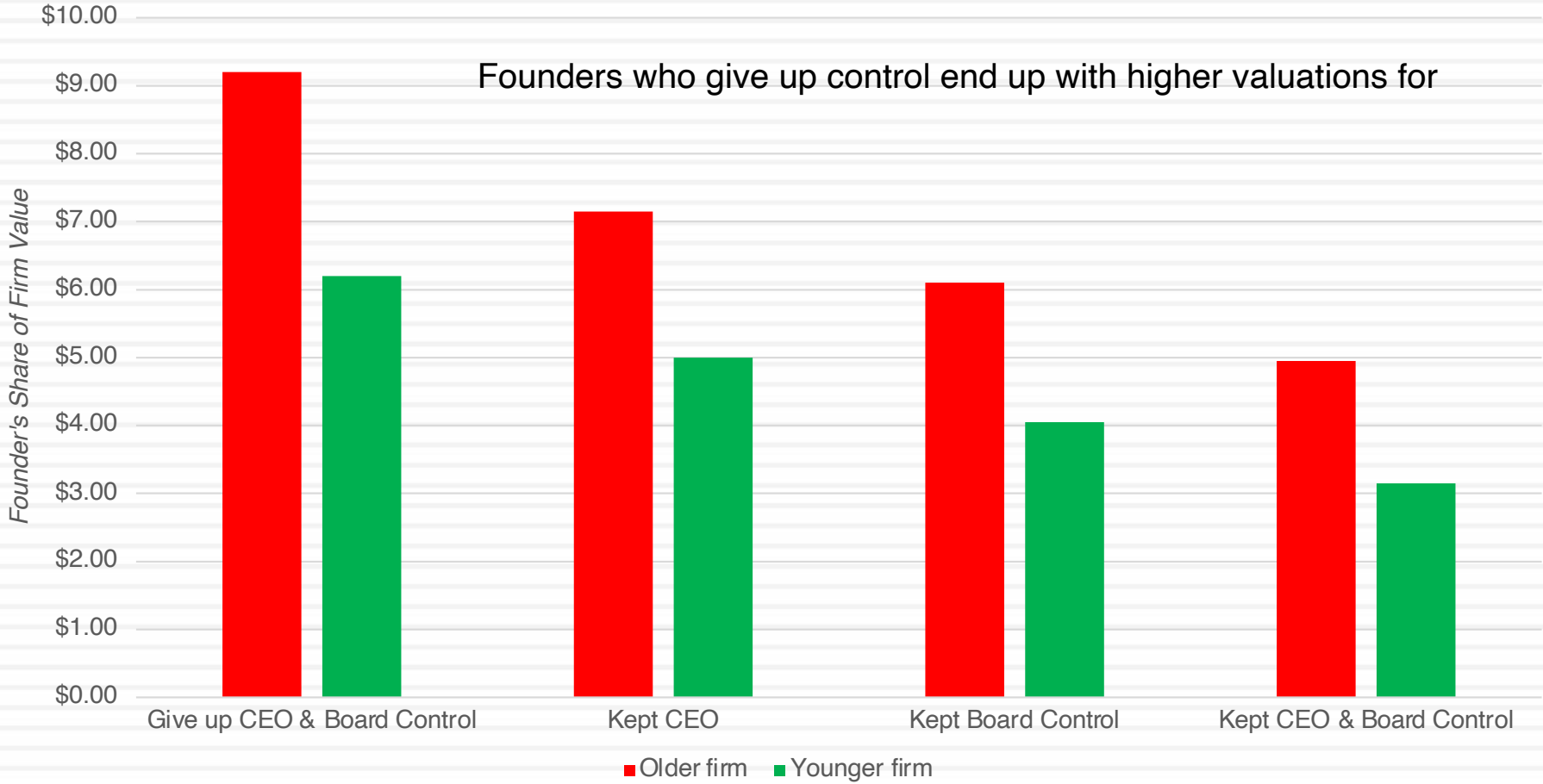
- Purity versus Pragmatism: Founders who insist on purity of vision, and are unwilling to compromise to get to market, are more likely to fail.
- Growth versus Business Building: With the limited time and resources that they have, founders must decide whether to prioritize growth or building businesses.
- Small story versus Big story: Early on, founders have to determine whether to stay focused on a small & conquerable market or to go after a big market. The odds of succeeding will be greater with the former, but the pricing you get will be higher with the latter.

And giving up control...



The Founder's Dilemma

The Founder's Dilemma





The Bar Mitzvah Test

Grown-up yet?

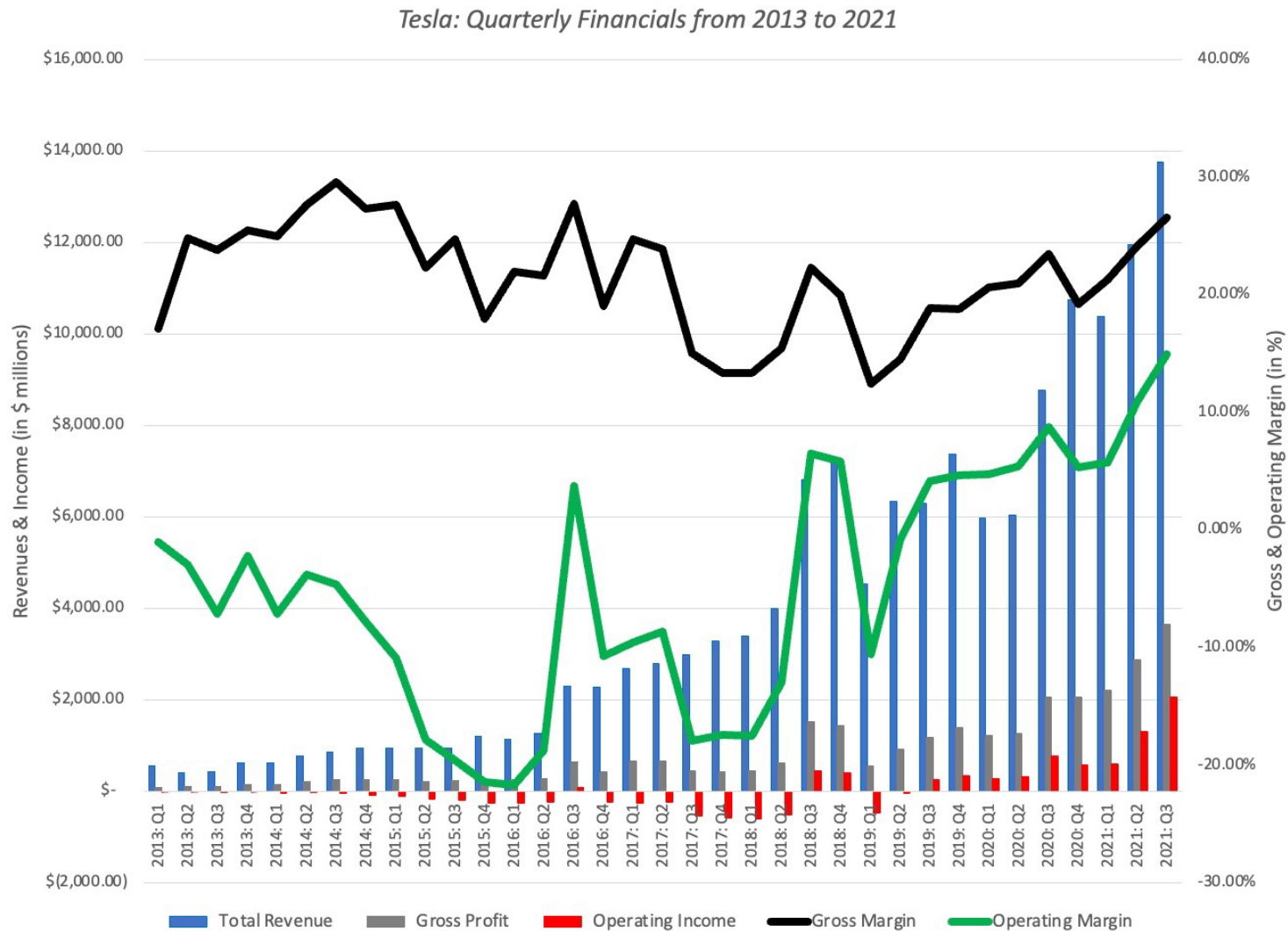
The “Bar-Mitzvah” Test

- Young companies often are cut slack by investors (private and public), who are willing to overlook their financial shortcomings (big losses, fresh capital raises), because of their growth potential in large markets.
- There will be a time in these companies’ lives when even these investors will start asking questions about profitability and cash flows, and demanding answers about how and when...
- That is the Bar Mitzvah test, and many young companies are unprepared for it, since they never expected to be tested.

The “Build-a-Business” Toolbox

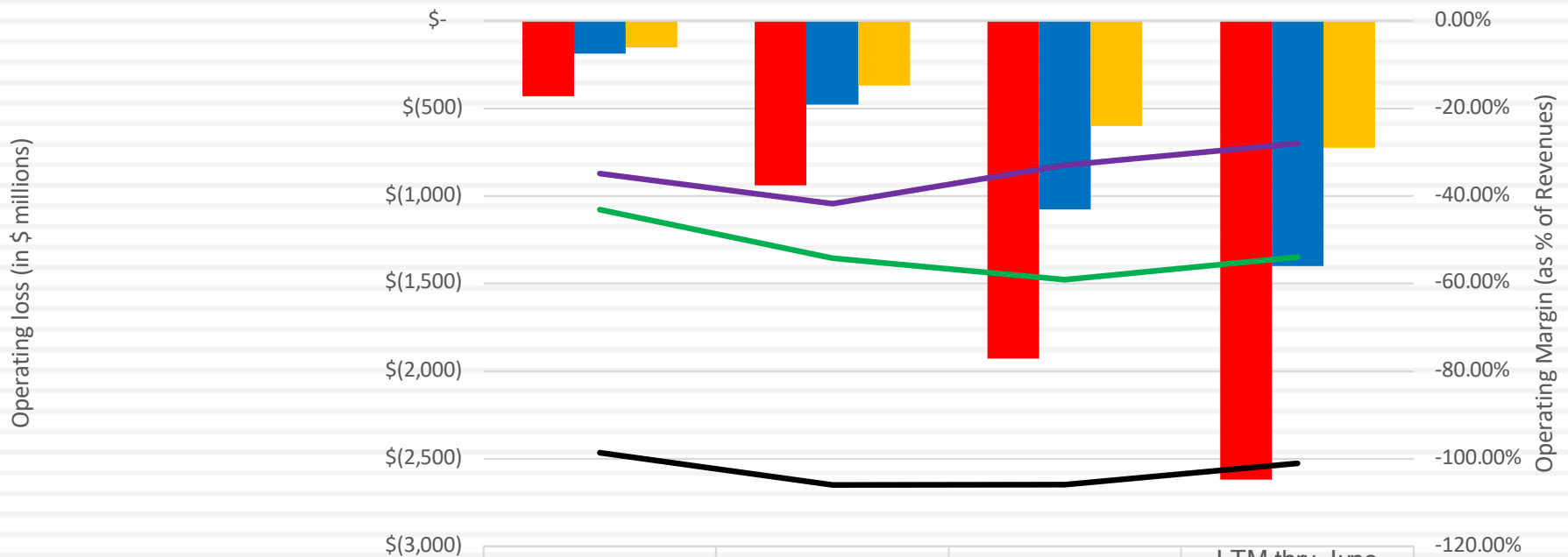
- Preserve or improve unit economics: Even though young companies may be money-losers, they should be working on and presenting evidence on unit economics, i.e., their profits on the marginal unit sold.
- Show evidence of economies of scale: While young businesses may be money-losing, revenues should be growing faster than costs, so that profitability ensues.
- Consider trade-offs on growth: Growth is not an unalloyed good, and companies should not only document and show how much it costs them to deliver growth. For a manufacturing firm, this may be easy to do, but for technology and user-based companies, it will require more work.

Passing the test? Tesla in 2022



Failing the test? The financials leading into the WeWork IPO

WeWork: A Money Loser Scales Up



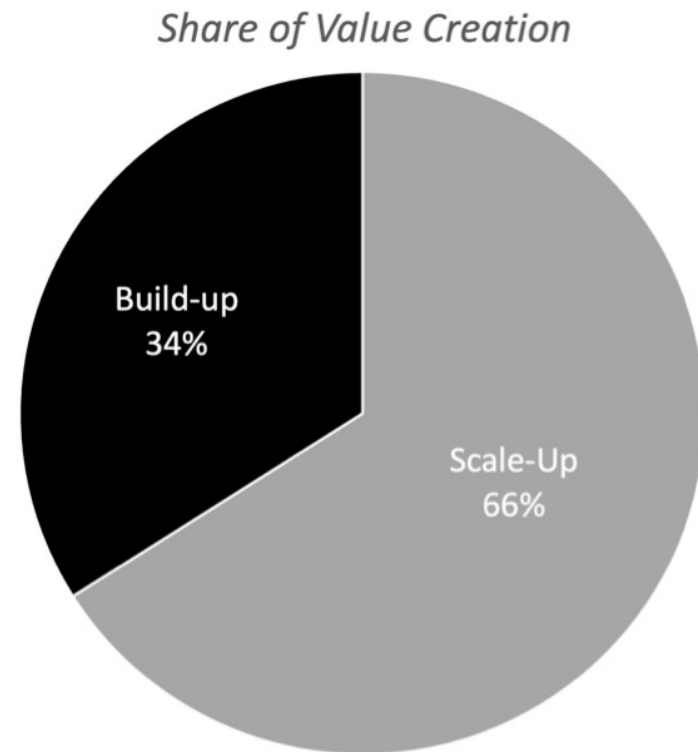
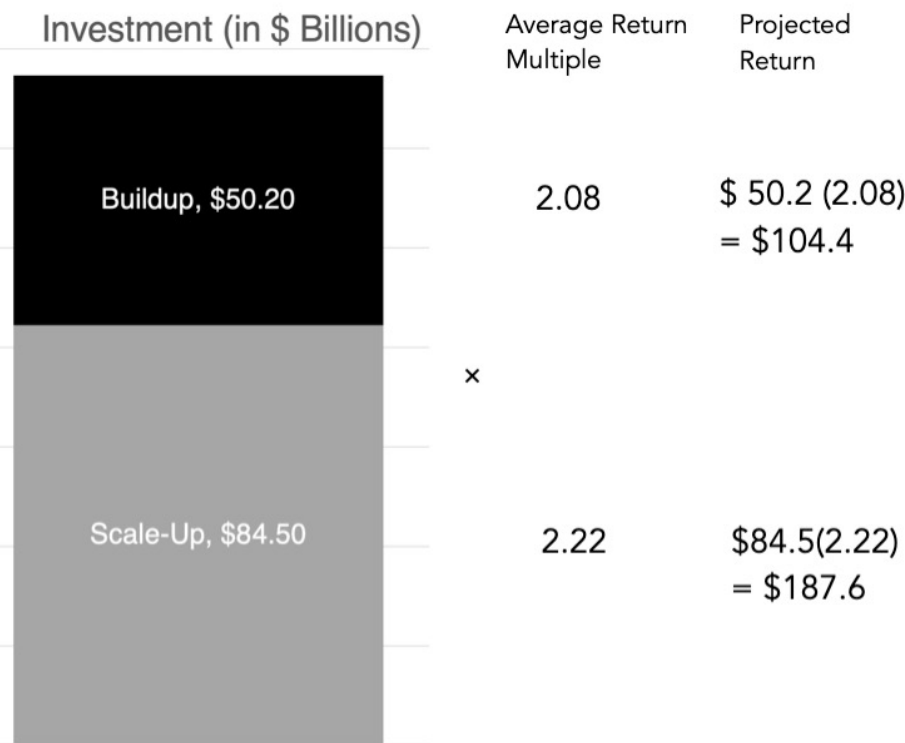
	2016	2017	2018	LTM thru June 2019
EBIT	\$(430)	\$(939)	\$(1,929)	\$(2,620)
EBITR	\$(188)	\$(480)	\$(1,077)	\$(1,399)
EBITR & Pre-opening Exp	\$(152)	\$(370)	\$(600)	\$(726)
EBIT/Revenue	-98.62%	-105.98%	-105.87%	-101.04%
EBITR/Revenue	-43.12%	-54.18%	-59.11%	-53.95%
EBITR & Pre-Opening Exp/Revenue	-34.86%	-41.76%	-32.93%	-28.00%



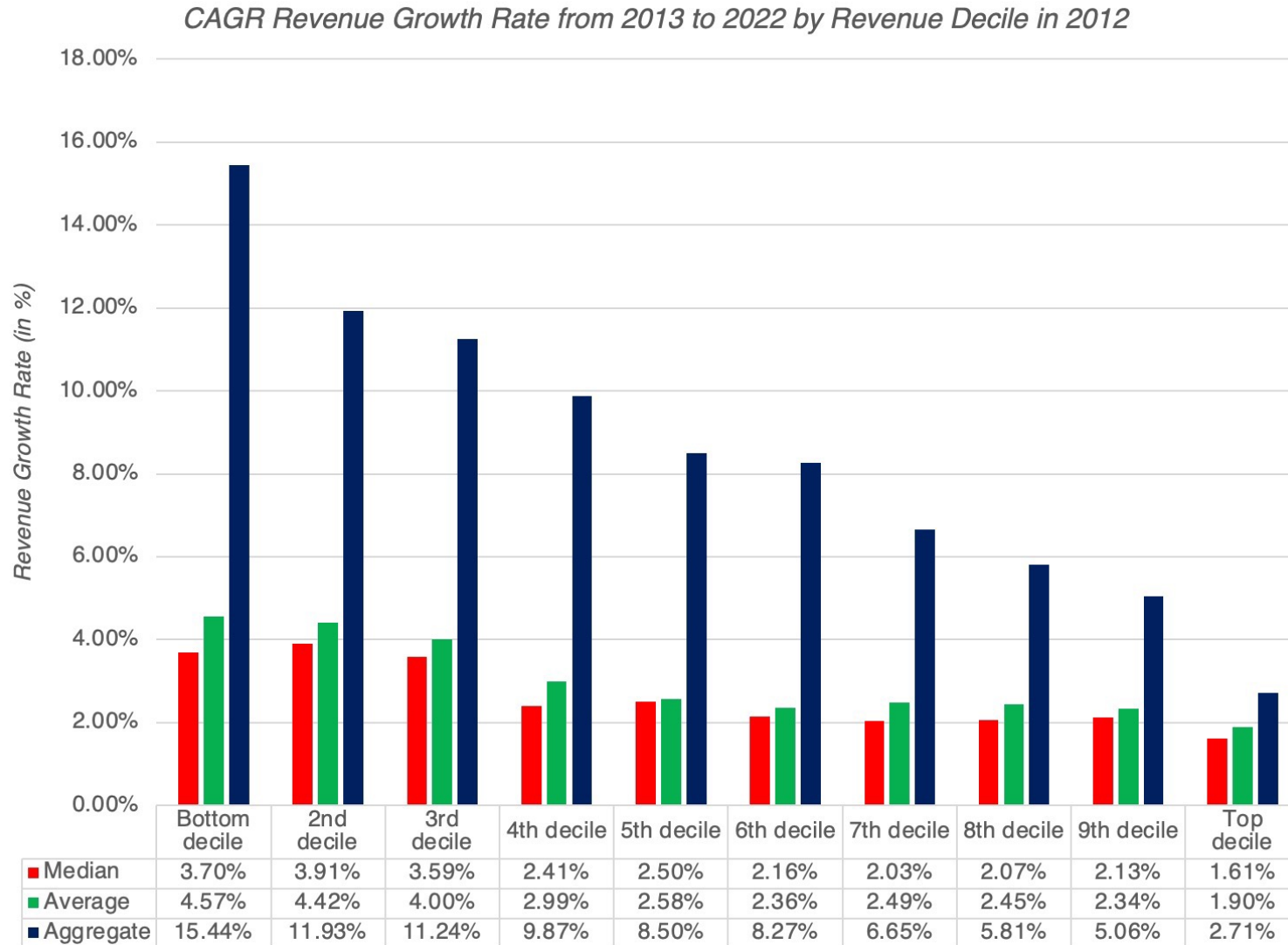
The Scaling-up Test

Why most businesses stay small...

Scaling up is the key to value augmentation...



Scaling up is tough to do...

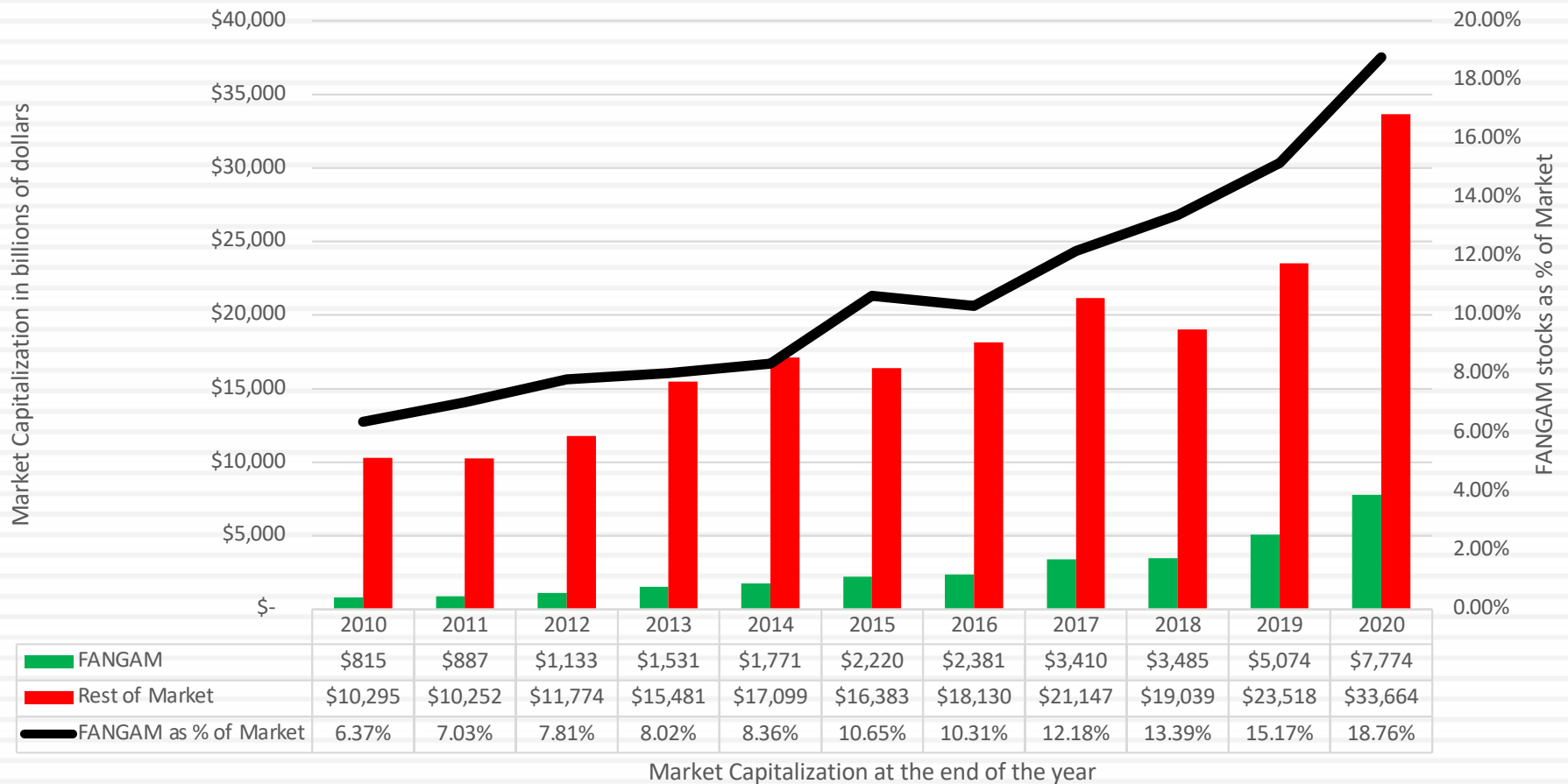


And it comes with costs...

- *Loss of focus:* As companies try to scale up, many will have to move from their core businesses into new ones.
- *Less efficient growth:* As companies become larger, growth is not only more difficult to attain, but is often more expensive to deliver.
- *And a tradeoff on sustainability?* Sustainability and social purpose are the buzzwords for the moment, and every enterprise claims to have these qualities embedded in them. The truth is that scaling up often comes at the expense of both, and you (as the founder or owner) have to decide what you value more.

But if you can pull it off...

The Payoff to Scaling up: FANGAM stocks between 2010-2020



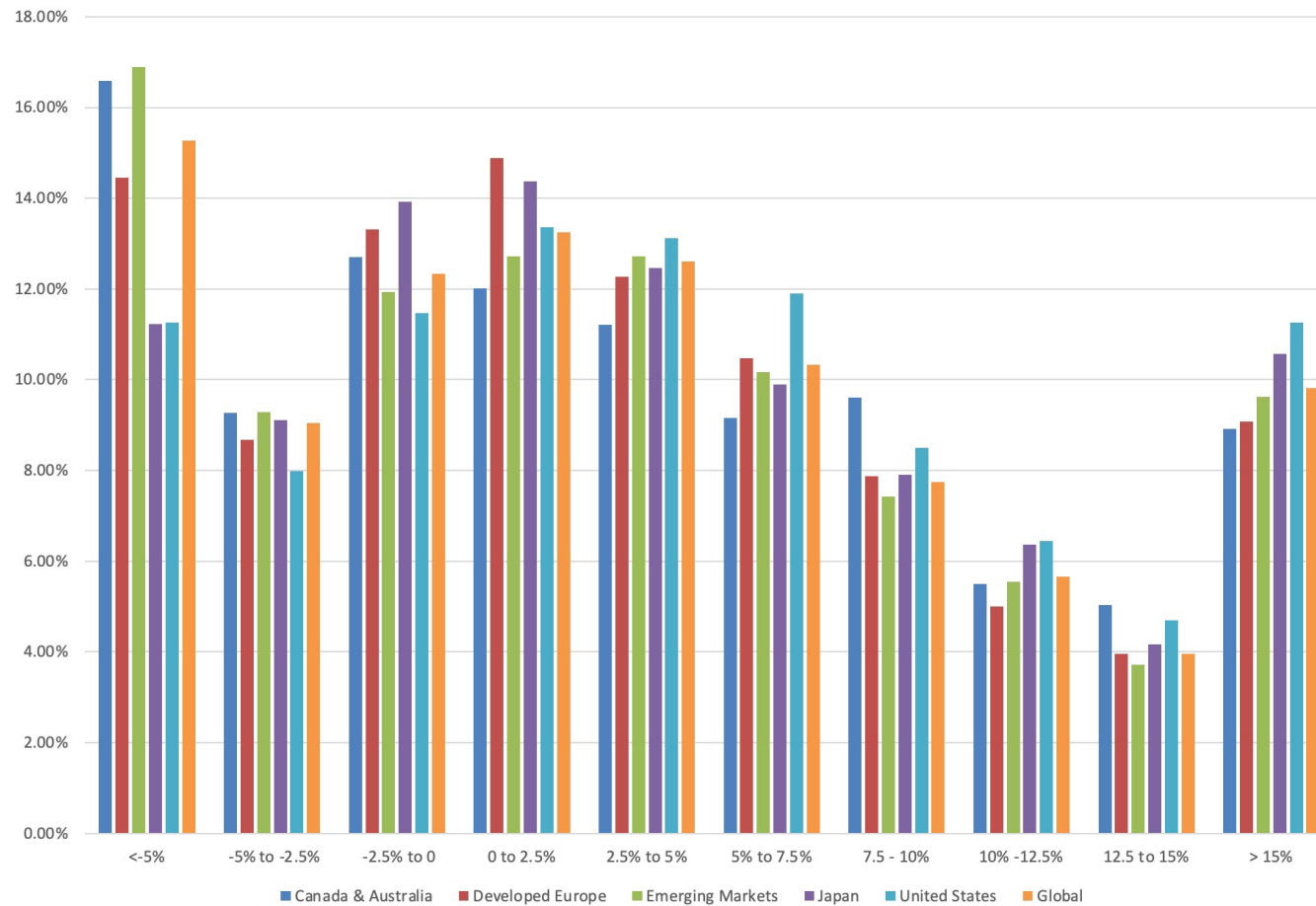


The Midlife Crisis

To be young again...

Hitting your limits...

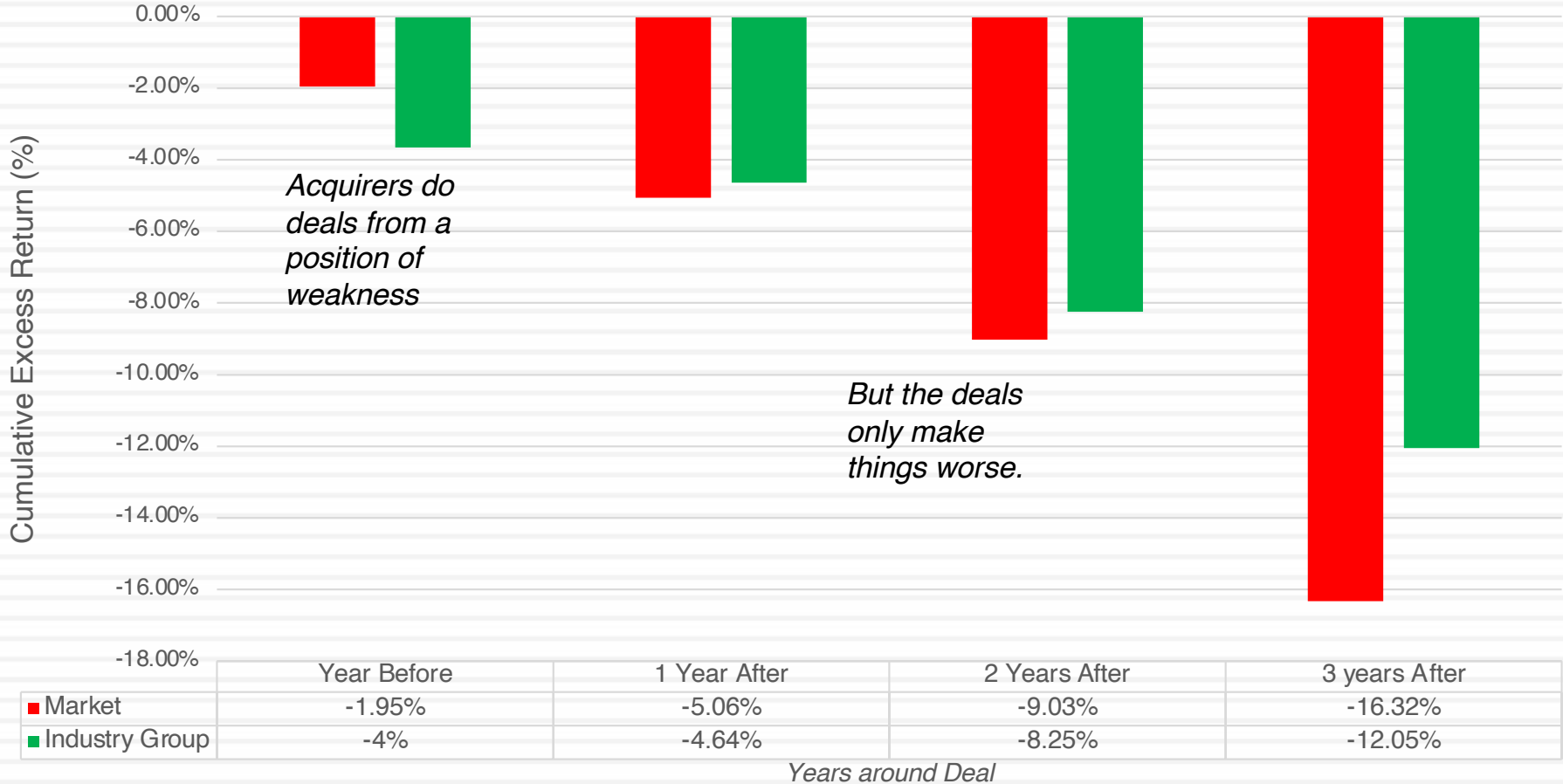
Revenue Growth: CAGR from 2012 to 2022



	<i>Aus, NZ & Canada</i>	<i>Europe</i>	<i>Emerging Mkts</i>	<i>Japan</i>	<i>US</i>	<i>Global</i>
First Quartile	-3.56%	-2.42%	-3.10%	-3.11%	0.11%	-2.34%
Median	0.71%	1.06%	1.51%	-0.43%	4.19%	2.52%
Third Quartile	5.79%	4.98%	6.20%	2.47%	8.79%	8.12%

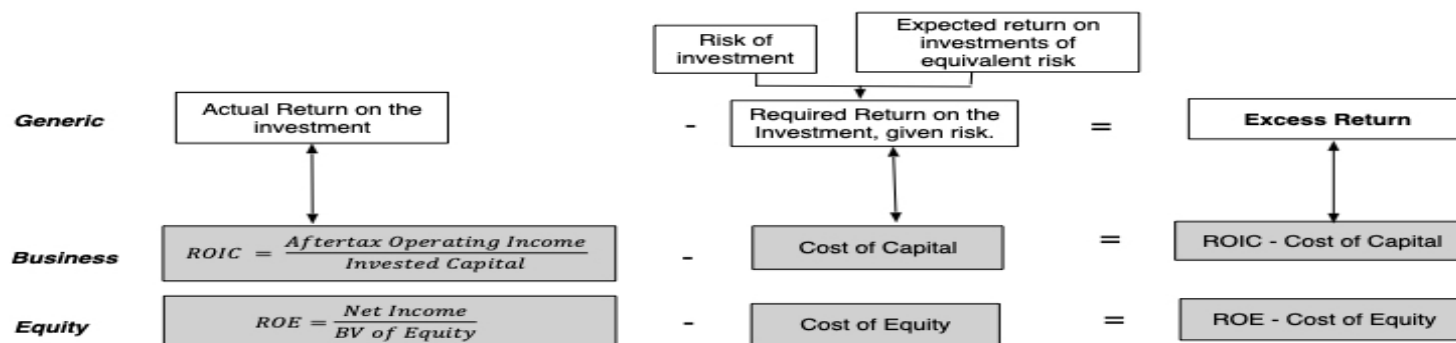
The False Promise of Acquisitions...

Acquirer Stock Return Performance after Acquisitions: 2003-2013 Deals



And growth at any cost...

Measures of Excess Returns



Region	# Firms	ROE - Cost of Equity				ROIC - Cost of Capital			
		25th	Median	75th	% positive	25th	Median	75th	% positive
Africa and Middle East	1,836	-18.89%	-6.98%	4.10%	33.22%	-11.98%	-5.01%	1.88%	29.96%
Australia & NZ	1,747	-45.31%	-19.82%	-2.12%	22.36%	-36.31%	-15.49%	0.41%	25.72%
Canada	2,722	-51.41%	-23.53%	-6.72%	17.13%	-39.17%	-18.23%	-2.56%	19.96%
China	6,955	-12.54%	-5.60%	0.97%	27.96%	-11.70%	-5.77%	0.97%	27.25%
EU & Environs	5,243	-19.58%	-4.96%	5.61%	36.99%	-12.08%	-3.72%	6.42%	37.74%
Eastern Europe & Russia	287	-14.72%	-6.01%	3.67%	32.87%	-11.88%	-6.34%	1.70%	28.83%
India	3,574	-13.42%	-5.99%	4.27%	34.00%	-12.00%	-6.09%	2.18%	29.63%
Japan	3,787	-10.59%	-5.19%	-0.34%	23.75%	-7.70%	-4.11%	2.02%	30.83%
Latin America & Caribbean	821	-17.97%	-6.46%	3.79%	32.21%	-9.50%	-2.20%	5.73%	40.90%
Small Asia	8,792	-16.95%	-7.29%	0.96%	27.71%	-11.92%	-6.43%	-0.11%	24.71%
UK	1,052	-24.17%	-7.02%	5.04%	33.22%	-13.97%	-2.90%	8.96%	41.53%
United States	5,593	-36.19%	-8.32%	5.92%	35.20%	-19.34%	-1.11%	14.11%	46.89%
Global	42,409	-18.90%	-6.77%	1.85%	29.49%	-12.61%	-5.37%	2.59%	30.64%



The End Game

Why businesses fight decline...

Decline is inevitable... as is fighting it...



I have not become the Kings First Minister in order to preside over the liquidation of the British Empire.

— *Winston Churchill* —

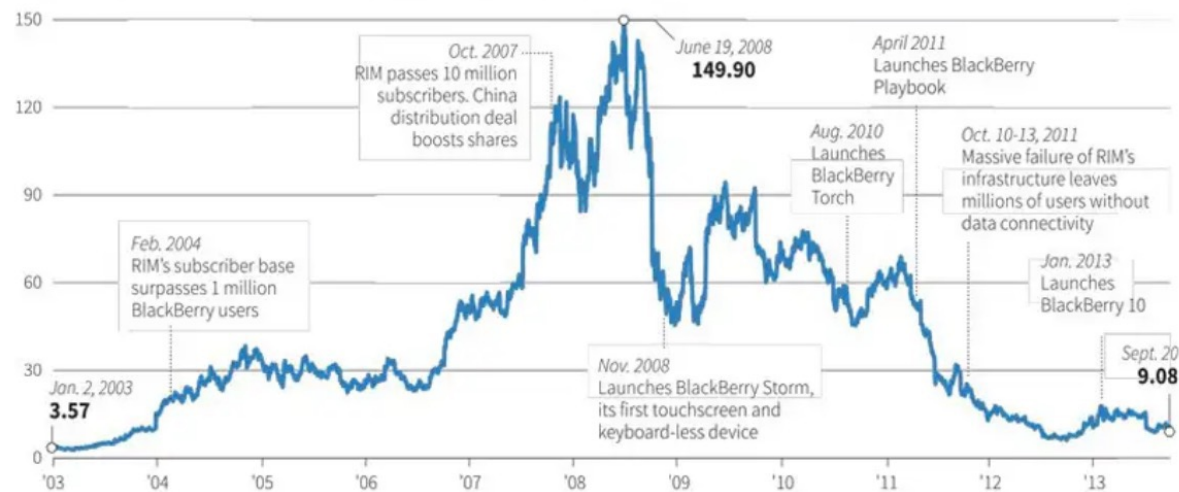
AZ QUOTES

1. Denial

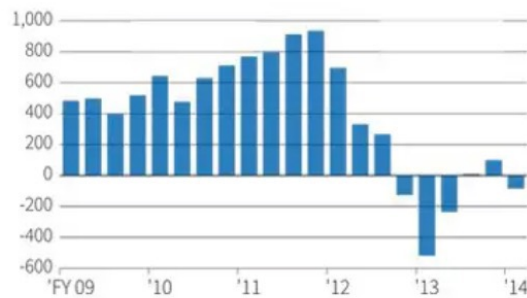
BlackBerry's rise and fall

BlackBerry expects to report a huge quarterly operating loss next week and will cut more than third of its global workforce.

Key events and share price performance Daily close, in Canadian dollars

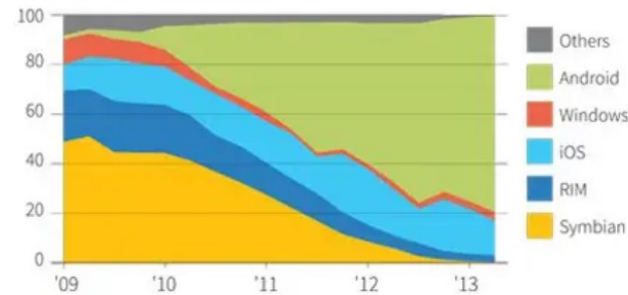


Net income Quarterly, in million US\$



Smartphone market share in %

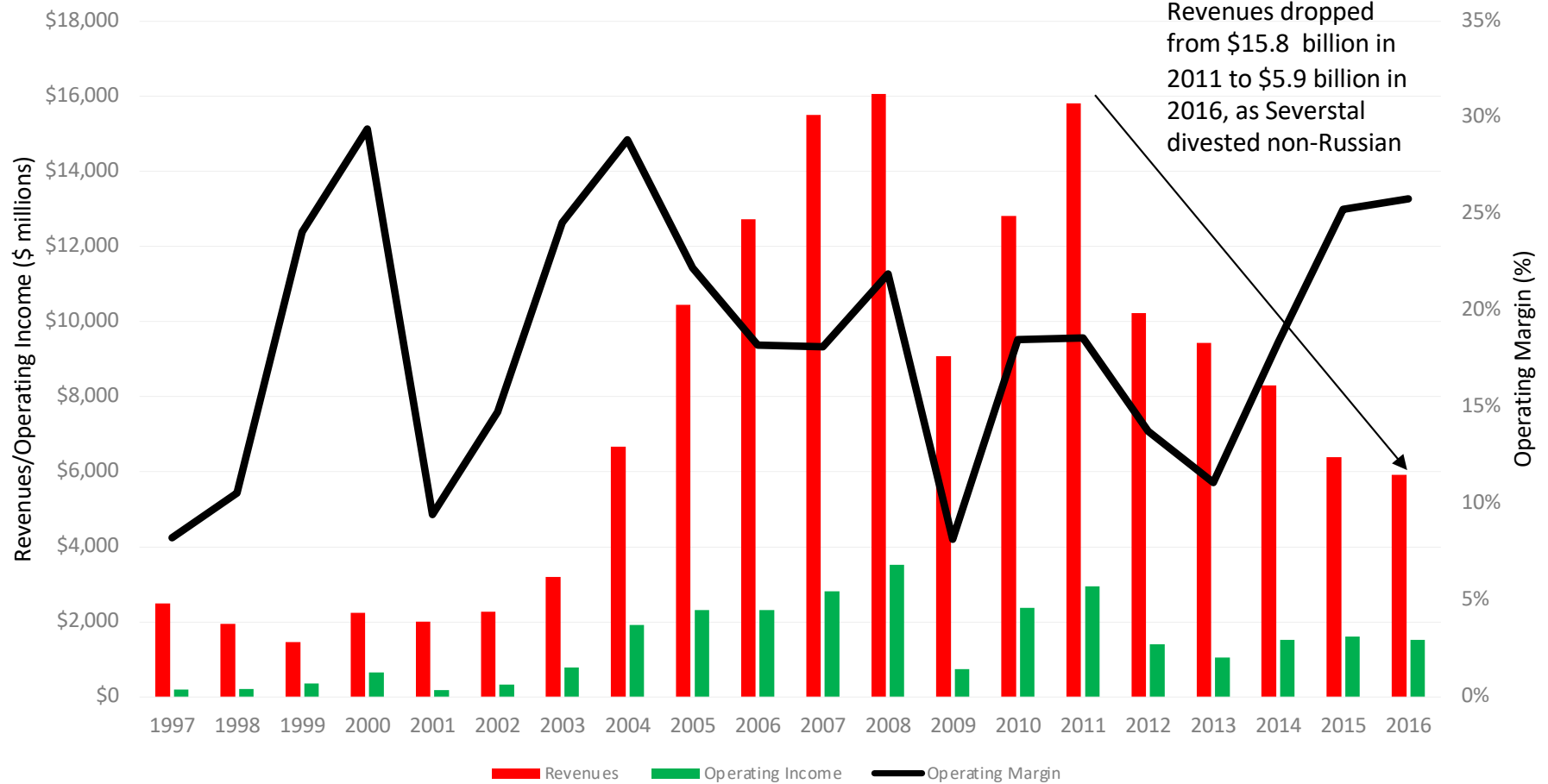
Quarterly, by operating systems



Sources: Reuters; Gartner Research In Motion changed its company name to BlackBerry in January 2013.

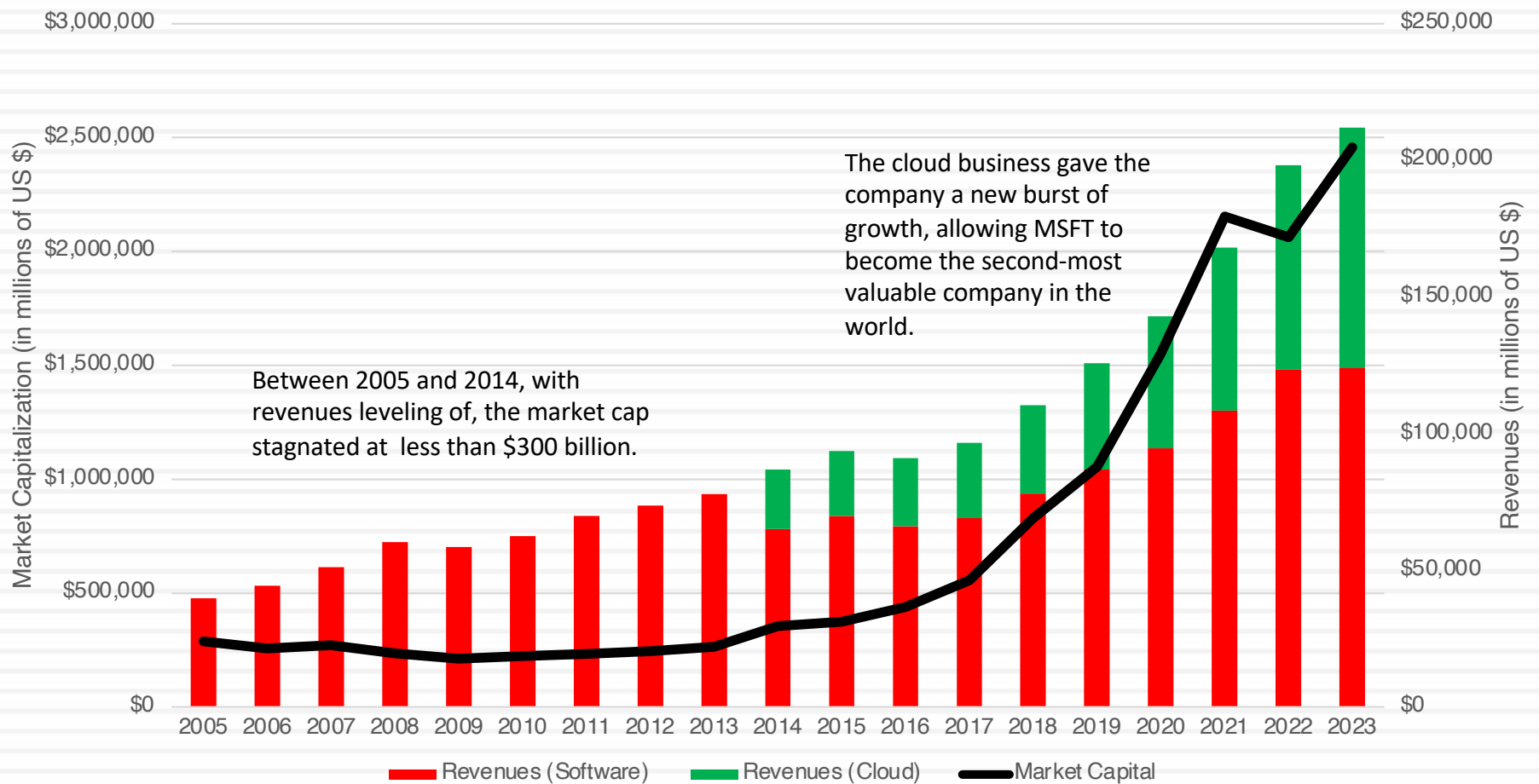
2. Acceptance

Revenues, Operating Income and Operating Margins – Severstal



3. Reincarnation

Microsoft: The Cloud Reincarnation





“Growing old is mandatory, Growing up is optional”

Amvath Jawdeen