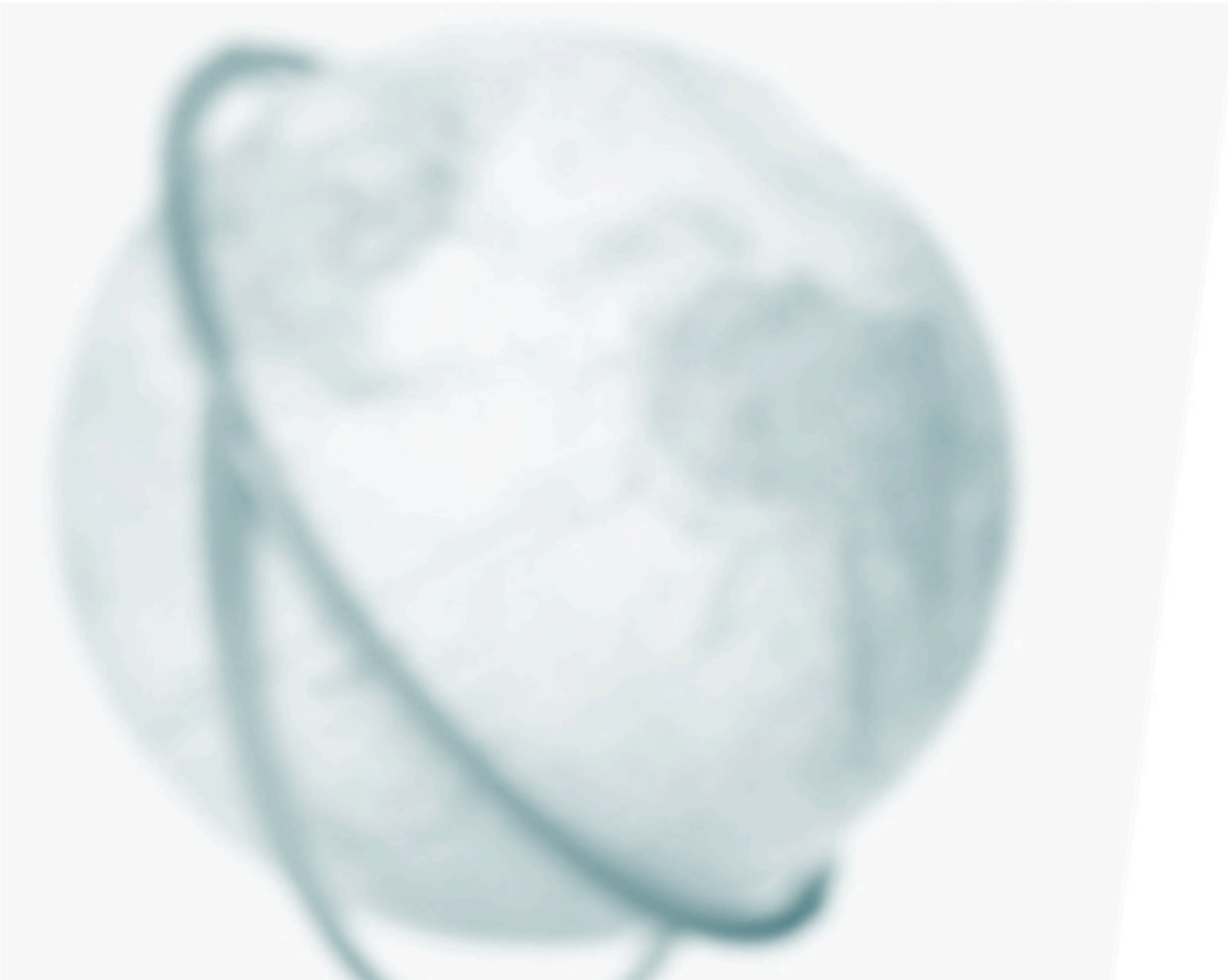

GROWTH TESTS

Aswath Damodaran

The compounding effect…

- Assume that you are looking at Linkedin and that the revenues currently are $ 200 million. Assume also that you are assuming a growth rate of 30% a year in revenues for the next 10 years. Without using your calculator, estimate how much you will have as revenues (approximately) in year 10:
  a. $ 500 million
  b. $ 1 billion
  c. $ 2 billion
  d. $ 3 billion
  e. $ 4 billion

The compounding effect doubled…

- What would your revenues be in year 10, if you doubled the growth rate?
  a. $ 1 billion
  b. $ 2 billion
  c. $ 4 billion
  d. $ 6 billion
  e. $ 8 billion
  f. None of the above

Growth in different items….

- For many US companies, you can access analysts' estimates of growth in the future on public sites. The consensus growth rate reported is usually
  a. Growth rates in revenues
  b. Growth rates in operating income
  c. Growth rates in net income
  d. Growth rates in EPS
  e. Growth rates in all of the above

Fundamental Growth

- Fundamental growth is tied to how much a company reinvests back into the business and how well it reinvests. A company reports after-tax operating income of $ 75 million on revenues of $ 1 billion (thus generating a return on capital of 7.5%). It does not plan to reinvest in new assets, but will maintain existing assets and its current return on capital. What follows?
  a. The company cannot grow
  b. The company cannot grow in the short term
  c. The company cannot have sustainable long term growth
  d. The company will shrink

Efficiency and Growth?

- If this company thinks that it can improve its return on capital on existing assets to 10% next year by making them more efficient, what growth rate will you see in operating income next year? (You can still assume no reinvestment)