

The **CORPORATE LIFECYCLE**

BUSINESS,
INVESTMENT, AND
MANAGEMENT
IMPLICATIONS

**ASWATH
DAMODARAN**

THE CORPORATE LIFE CYCLE – MEASURES & DETERMINANTS

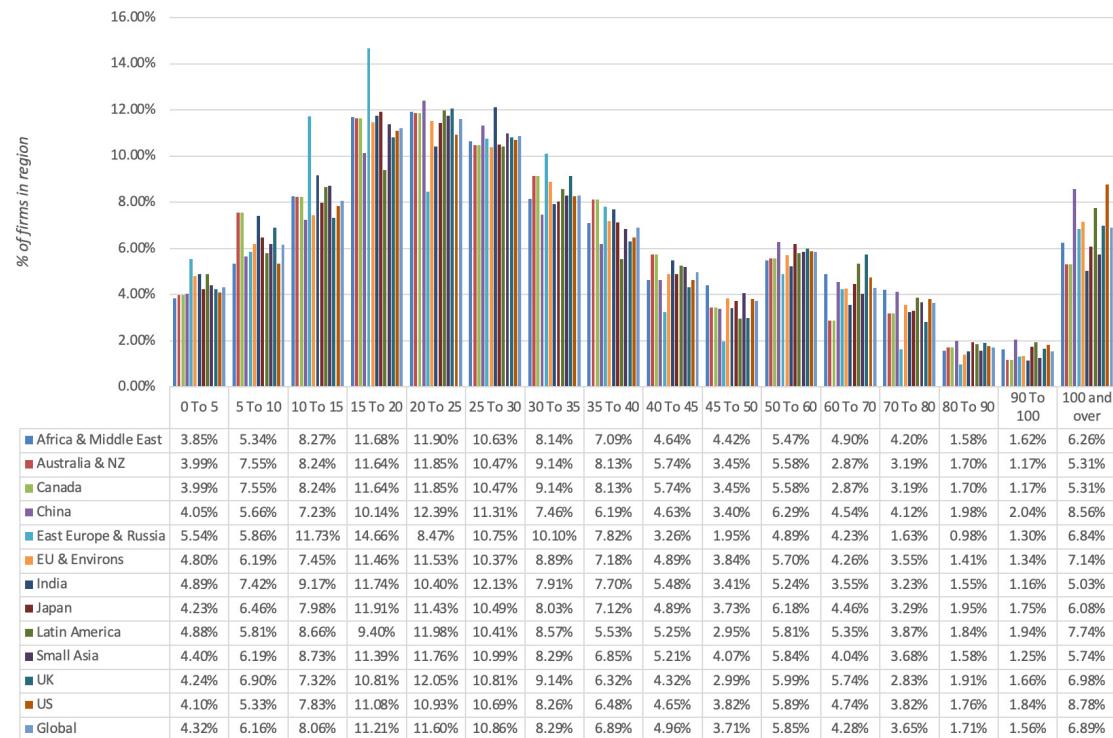
Aswath Damodaran



MEASURES OF CORPORATE LIFE

1. AGE

Figure 3.1: Corporate Age by Region in July 2022



Corporate Age (in years)

	Africa & Middle East	Australia & NZ	Canada	China	East Europe & Russia	EU & Environs	India	Japan	Latin America	Small Asia	UK	US	Global
Average	38.87	32.44	31.52	27.96	38.29	49.51	35.88	58.74	48.43	35.32	45.79	38.54	39.00
1st Quartile	19.00	15.00	14.00	18.00	18.00	18.00	25.00	18.00	20.00	15.00	11.00	17.00	
Median	32.00	23.00	25.00	24.00	28.00	32.00	31.00	54.00	37.00	31.00	26.00	25.00	29.00
3rd Quartile	49.00	38.00	38.00	30.00	47.00	62.00	43.00	81.00	69.00	46.00	47.75	44.00	48.00



OPERATING METRICS, BY AGE DECILE

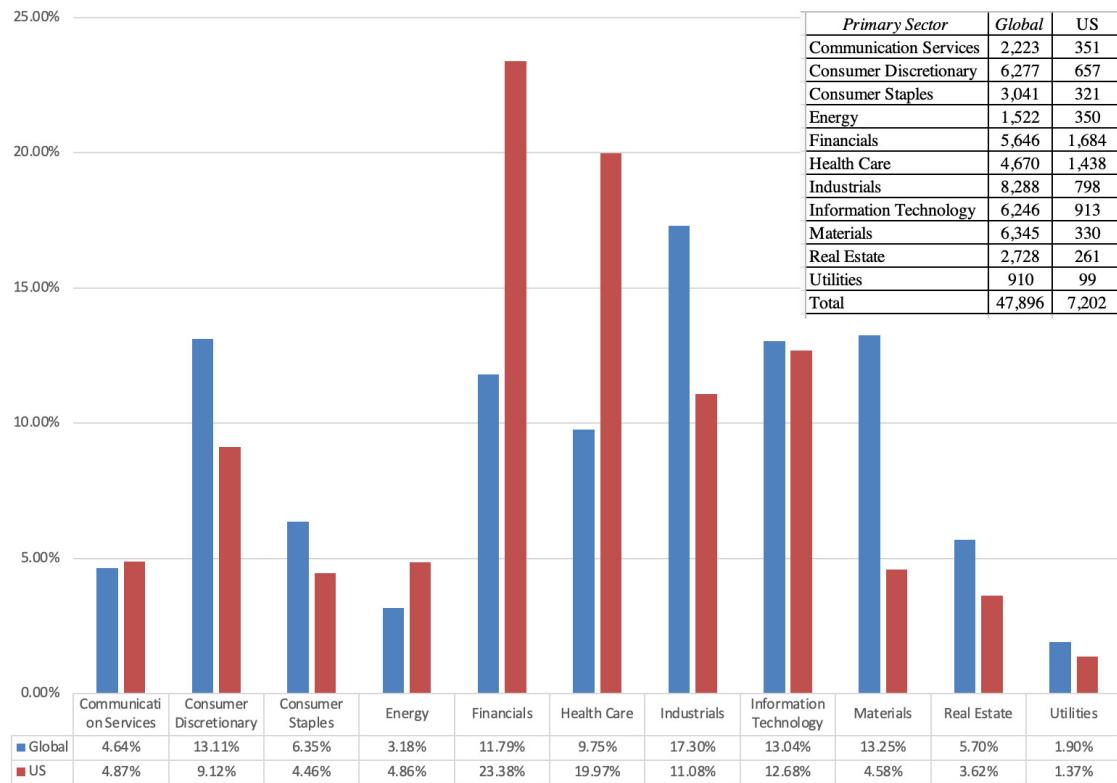
decile(Age)	# firms	Revenue Growth Rate (CAGR over last 3 years)			Operating Margin				
		First Quartile	Median	Third Quartile	% with negative growth	First Quartile	Median	Third Quartile	% with negative margins
Bottom decile	4,026	-4.86%	18.16%	72.42%	14.80%	-176.76%	-3.29%	12.22%	54.91%
2nd decile	4,164	-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%



MEASURES OF CORPORATE LIFE

2. SECTOR

Figure 3.2: Sector Breakdown- US and Global firms in July 2022



OPERATING METRICS: BY SECTOR

Primary Sector	# firms	Median Age	Revenue Growth Rate (CAGR over last 3 years)			Operating Margin			% with negative margins	
			First Quartile	Median	Third Quartile	% with negative growth	First Quartile	Median		
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%



Highest growth industry groups in 2022

Industry Group	# firms	Median Age	Revenue Growth Rate (CAGR over last 3 years)			Operating Margin			% with negative margins
			First Quartile	Median	Third Quartile	First Quartile	Median	Third Quartile	
Healthcare Information and Technology	447	20	2.91%	17.08%	40.44%	17.90%	-80.78%	-1.26%	14.78% 50.51%
Retail (Online)	381	17	-0.68%	14.90%	38.34%	23.62%	-16.93%	-0.21%	5.54% 50.86%
Software (Internet)	152	21	1.32%	13.41%	36.96%	21.71%	-22.93%	2.16%	11.26% 43.80%
Drugs (Biotechnology)	1,293	15	-23.51%	13.33%	59.02%	25.29%	-1439.25%	-267.69%	-15.53% 79.66%
Software (System & Application)	1,625	21	-1.18%	12.74%	31.93%	23.38%	-44.89%	-0.23%	11.99% 50.24%

Lowest growth industry groups in 2022

Industry Group	# firms	Median Age	Revenue Growth Rate (CAGR over last 3 years)			Operating Margin			% with negative margins
			First Quartile	Median	Third Quartile	First Quartile	Median	Third Quartile	
Air Transport	154	31	-27.38%	-17.35%	-7.62%	79.87%	-39.77%	-12.28%	5.20% 65.25%
Hotel/Gaming	644	32	-31.62%	-16.85%	-1.65%	71.74%	-48.83%	-10.09%	8.79% 62.29%
Transportation (Railroads)	51	47	-10.74%	-5.69%	2.59%	66.67%	-0.47%	4.55%	21.18% 26.00%
Restaurant/Dining	382	31	-15.49%	-5.20%	5.07%	60.47%	-11.54%	-0.49%	6.42% 51.82%
Publishing & Newspapers	334	38	-10.76%	-2.77%	7.27%	53.59%	-0.53%	5.03%	10.71% 26.86%

INDUSTRY
CONTRASTS:
HIGHEST AND
LOWEST GROWTH



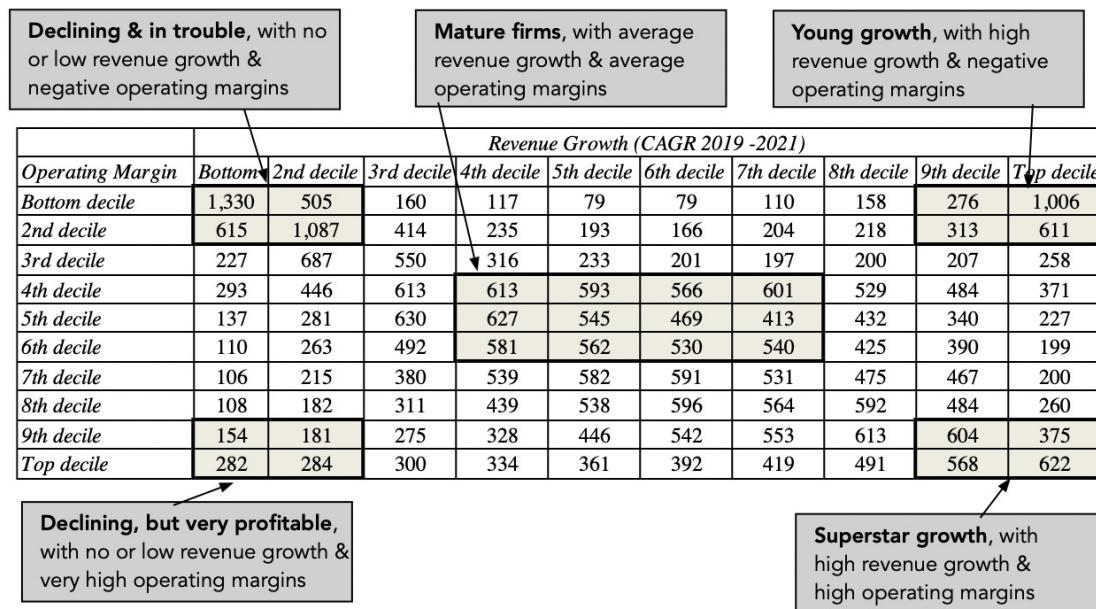
Life cycle stage	Start up	Young Growth	High Growth	Mature Growth	Mature Stable	Decline
Revenue Growth	NA at pre-revenue, Very high for initial revenues	Very High	High	Moderate	Low	Close to zero or negative
Operating Margin	Very negative	Negative, perhaps becoming more so over time.	Negative, but getting less so over time	Positive, and getting more so over time	Stable and predictable	Positive, but declining
Reinvestment	High	Very high	High, but stable, relative to revenues	High, but declining relative to revenues	Low, and a function of revenues	Divestment and shrinkage
Free cash flows	Very negative	Very negative, perhaps getting more so.	Negative, but getting less so over time	Positive, and growing faster than revenues and earnings	Positive and stable	More positive than earnings.

MEASURES OF CORPORATE LIFE- 3. OPERATING METRICS



OPERATING METRIC BREAKDOWN OF GLOBAL COMPANIES

Figure 3.3: A Operating Metrics Breakdown of Global Companies in July 2022



- The first is the **length of the life cycle**, the period over which a business exists, with some businesses a lot longer than others.
- The second is the **height of the life cycle**, characterizing the peak of the business.
- The third dimension is the **steepness in the life cycle curve**, reflecting how quickly a founder or business novice is able to scale up a company's size, as well as how quickly it scales down.
- The final dimension is the **flattening part of the life cycle**, a measure of how long a business is able to stay at the top, once it becomes mature.

CORPORATE LIFE CYCLE - DIMENSIONS

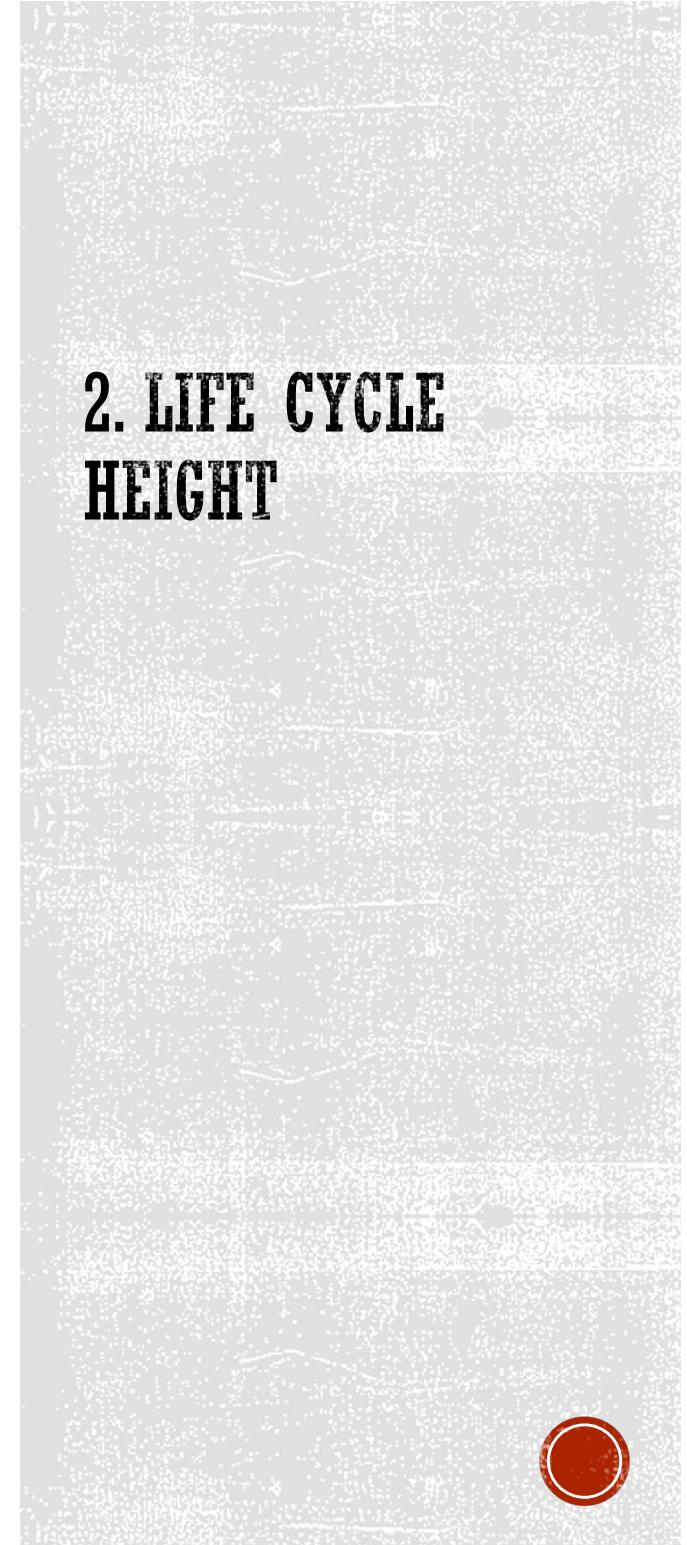


- **Type of Business:** There are some businesses that have more staying power than others, because the products and services they offer have durable demand.
- **Time to build business:** Businesses where it takes time to establish the business are more likely to have long lives than those that can ramp up production and be in business quickly.
- **Competitive barriers to entry:** The decline and demise of businesses often comes from new players entering the market and having strong and long-standing barriers to entry can allow companies to stay in business far longer than if they operate in free-for-all settings.
- **Macroeconomic conditions:** A business that operates in a more volatile macroeconomic environment will face more risks that could potentially shorten its life than an otherwise similar business in a stable environment.
- **Ownership structure and governance:** For a business to keep going, it needs management continuity. A business that is dependent on a key person or persons for its continued operations will have a shorter life than one that has a management team and well-established succession plans.
- **Time horizon:** In a point related to ownership structure, one reason why a successful family business may have a much longer life than a successful publicly traded company is the incentive structure of the decision makers who build the business, and how it may affect business life.

1. LIFE CYCLE LENGTH



- **Potential market for product or service:** The choices made by a business on whether to offer a product or service to a niche market or a mass market can determine how much it can scale up.
- **Geographical reach:** In the last three decades, companies all over the world have learned to look past their local markets for growth. That has allowed companies that would have been historically constrained to be small, because they operated in small domestic markets, to expand in foreign markets, and increase their size.
- **Technological and Economic Innovation:** There have been innovations in history that have opened the door for firms to expand to levels they could not, prior to those innovations. The internet and smart phones have allowed for scaling up in many businesses that were local and constrained before they came along.
- **Networking benefits:** One feature of the tech revolution has been a competitive advantage that is endows companies that are able to establish dominance early in a market. These companies find that their dominance makes it easier for them to attract customers and resources, as they get bigger, i.e., networking benefits. In this winner-take-all environment, you can end up with two or three very large players in a market, with each of these players capable of delivering much higher revenues
- **Regulatory constraints:** The potential for a company to grow can be restricted by laws that crack down on oligopolies and natural monopolies, putting caps on market share and growth for larger companies.



- **Capital intensity:** It takes more time to build a business and start generating positive cash flows in capital intensive industries than in capital light settings.
- **Capital access:** Even for capital-light businesses like Airbnb and Uber, access to capital to fund investments is critical for rapid growth. When capital is freely accessible and available as it is in large quantities, companies can climb the life cycle quicker than when there is limited or no capital access.
- **Customer inertia:** In marketing, customer inertia refers to the phenomenon of customers remaining attached to offering from the status quo (existing businesses that dominate the market), reluctant to try products or services from newcomers. What sets customer inertia apart from customer loyalty is that this attachment to existing offerings is rooted less in their meeting customer needs and more from a fear of trying something new. That said, customer inertia varies across different businesses, sometimes across cultures and perhaps across age groups.
- **Regulatory restrictions:** Start-ups in businesses that require licensing or regulatory approval to expand are, by their very nature, constrained in how quickly they can start showing operating success.

3. LIFE CYCLE SHAPE

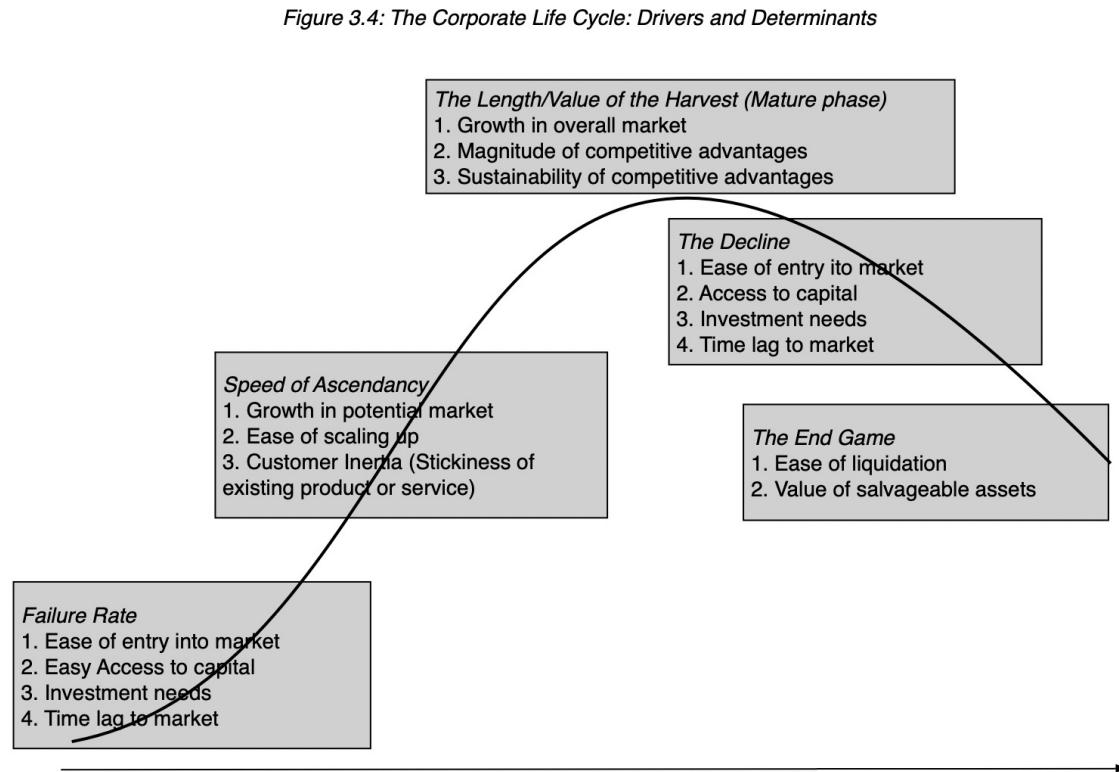


	Brand Name	Switching Costs	Network Effect	Cost Advantages	Efficient Scale
Wide	Coca Cola: Just sugar water but consumers pay a premium	Oracle: Ties to integrated databases make switching very expensive	Chicago Mercantile Exchange: Clearing house function creates captive volume.	UPS: Past logistics investments result in low marginal costs of delivery	International Speedway: Owns the one NASCAR track that each metro area can support.
Narrow	Snapple: Solid brand, but with less pricing power	Salesforce: Popular, but weaker costs to switching	NYSE Euronext: Leader in market, but leadership does not create as much of a network effect.	FedEx: Higher fixed-costs from air express segment create smaller cost advantages	Southern Company: Natural geographic monopoly, backed by regulators.
No Moat	Cott: Generic player with no brand loyalty or pricing power	TIBCO: High-end software but low or no costs to switching to competitors	Knight Capital: An order-taker/market maker, with little in networking benefits.	Con-way: Trucking company, but fragmented business with few cost advantages.	Valero: Refiner that has to be a price-taker in a commodity business

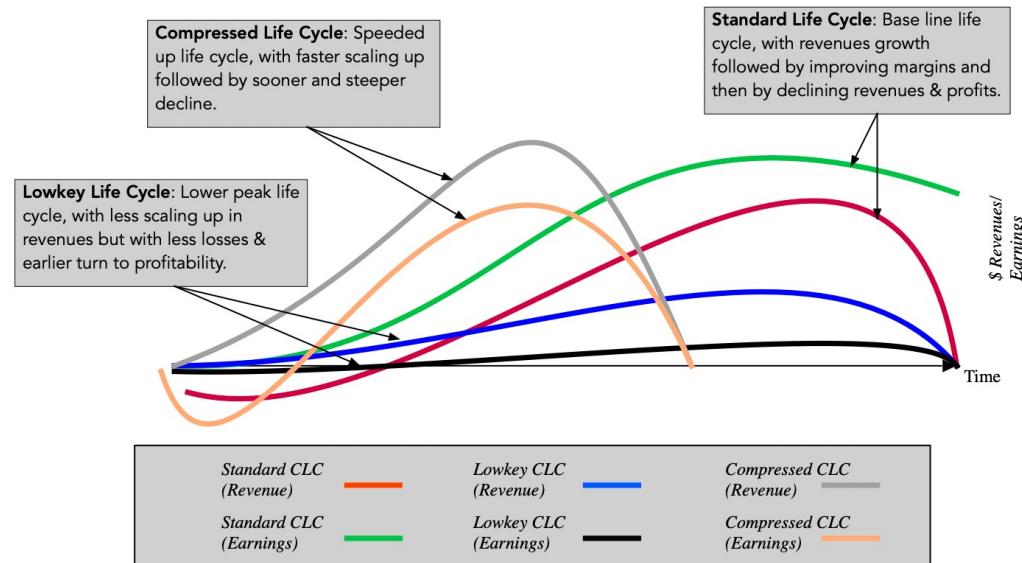
4. LIFE CYCLE FLATNESS (STAY AT THE TOP)



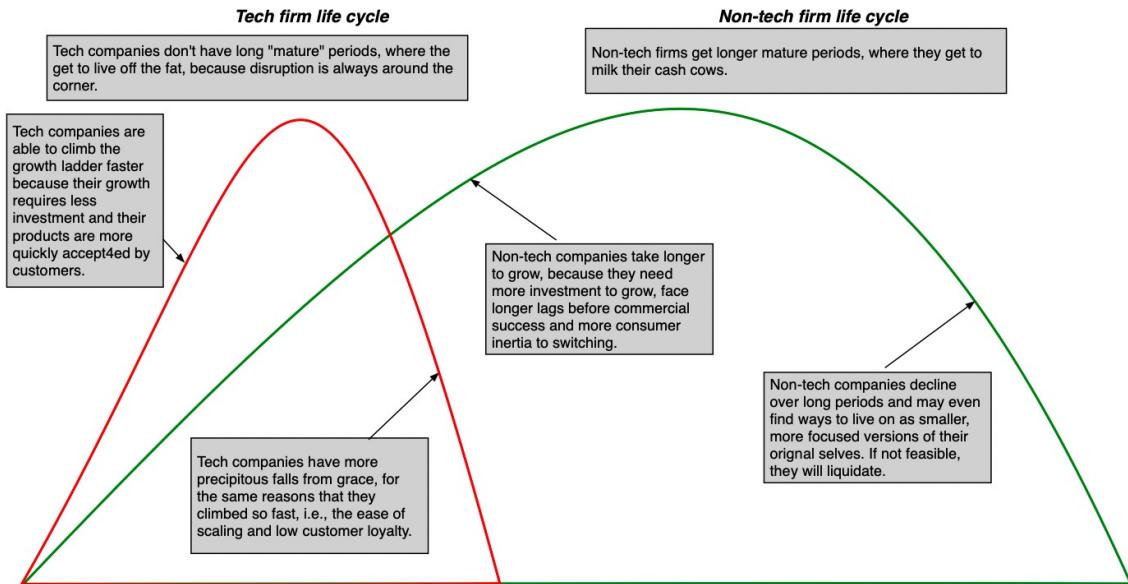
LIFE CYCLE DETERMINANTS



LIFE CYCLE CONTRASTS



TECH COMPANIES: THE COMPRESSED LIFE CYCLE



THE HOLDING COMPANY LIFE CYCLE

In 1868	Tata Group in 2021	
	<i>Sector</i>	<i>Tata Companies</i>
Jamsetji Tata founded a trading company that bought a bankrupt oil mill in Chinchpolki and coconverted it into a cotton mill.	Metals	Tata Seel, Tata Metaliks
	Technology	Tata Elexsi, Tata Consultancy Services
	Financial	Tata Capital, Tata AIG, Tata AIA
	Automotive	Tata Motors, Tata Autocomp, JLR
	Retail	Tata Starbucks, Tata Cliq, Tata Tanishq
	Infrastructure	Tata Power, Tata Projects
	Telecom	Tata Sky, Tata Telecom, Tata Teleservices
	Tourism	Taj & Ginger Hotels, Vivanta, Vistara, AirAsia
	Aerospace and Defense	Tata Advanced Systems
	Agriculture & Food	Tata Tea, Teltley, Tata Agrico
	Consumer Products	Titan, Voltas
	Housing	Tata Housing

Aswath Damodaran



- While much of the debate on disruption has focused on the disruptors, it is worth focusing just as much attention on the disrupted. Global ride-sharing companies have laid waste to the smaller and localized taxicab companies, and Google and Facebook have decimated traditional advertising businesses.
- From a practical standpoint, you could argue that there is now a far greater chance of being disrupted today, for companies in almost every business, than just a few years ago, and that must show up in business and investment practices.
 - First, the assumption of mean reversion that is at the heart of how many analysts run and evaluate businesses must be re-examined, i.e., a decline in margins at a company with a long history of earning high margins may not be temporary, if there is a chance of disruption, and assuming that there will be a bounce back to historical margins may not be merited.
 - Second, even companies with strong competitive advantages (brand name, licensing, economies of scale) should have contingency plans, since change from disruption, when it happens, will be abrupt and damaging.
 - Third, regulators and lawmakers must consider the possibilities that the rules and laws that they write to keep existing companies in check, often with the best of intentions (increase competition, protect customers), can handicap them, when disruptors enter the game.

THE DISRUPTOR EFFECT

