Macro Roundup Artcile

Headline: Trading Stages in the Company Life Cycle

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Tweet: The spread between return on invested capital and the weighted average cost of capital is highest early in a firm's life cycle and then declines until late in a firm's life cycle. @mjmauboussin

Summary: We examined the spread between return on invested capital (ROIC) and weighted average cost of capital (WACC) for companies that did an initial public offering from 1990 to 2022. We expected to see low or negative spreads between ROIC and WACC for companies newly listed, rising spreads as they mature, and a decline in senescence. But what we found was nearly the opposite. The spread at the date of the IPO was high and narrowed before stabilizing around year five. Related: Birth, Death, and Wealth Creation and The Economics of Inequality in High-Wage Economies and Data Update 5 for 2023: Pathways to Profitability

Primary Topic: Intangibles

Topics: Intangibles, Investment, Op-Ed/Blog Post, Productivity

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