>> WOLFE TRAHAN

>> Practical (and profitable) insights into the corporate life cycle

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This report provides a very simple and straightforward fundamental-factor model to classify the corporate life cycle of any company.

There are 5 basic fundamental factors:

1. Age of firm
2. Dividend payout ratio
3. Capex to sales ratio
4. Gross margins
5. 3-year growth in sales

And simply calculate the "Life cycle score" as average of factor quintiles.

By using this simple model, different companies with different scores are classified as in different life cycles: 1.Innovation 2.Expansion 3.Leadership 4.Mature 5.Stagnant

Then the report apply this model to all S&P, Russell companies to analysis the entire investment universe, and analysis the common profiles of companies that fall in the same life cycle. Showing us the fundamental characteristics of each life cycle.

Base on above analysis, the report then propose the ideas how this model and corresponding analysis could be applied into the investment process with following conclusions:

1. Companies in Leadership/Maturity life cycle have highest excess returns
2. Life cycle segmentation works across most sectors, but different sectors might have different attribution for each life cycle.
3. The "older" life cycle, the less earnings surprise, upside surprise most significant for mature firms.
4. The "older" life cycle, the higher accrual levels (normally). "Young" companies with high accruals are usually punished by investors and most likely underperform the market.

In the end, the report apply the model do show some interesting results on the market:

1. By applying the model to S&P index, the entire market is becoming "younger" in the past 25 years. It also provides a heat map by aggregating life cycle scores into different (industry) sectors.
2. Show the analyst's coverage and ratings are inconsistent with historical returns. Which might reflects the analyst's personal bias...
3. The survivorship shows like a U-curve across the life cycle. And although leadership/maturity companies are supposed to have good performance, the risk that fall into the stagnant phase also at a remarkably high rate ~15%.

Overall, this report makes sense to me, but the model and conclusion is a little bit subjective, and they ignore all outliers. Just using this model to select investment target is too weak, combining it with a statistical model might provide more convincing and promising result.