

Does the Stock Market Penalise Fast-growing Firms?

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Presentation on the Occasion of Eurofins' 15-Year
Anniversary, 5 November 2012

Motivation and Background

- There is a large literature concerning the effects on stock returns of IPOs, SEOs, acquisitions, significant capital investments.
- This research mainly finds that they “destroy shareholder value”
- Yet this is puzzling and perhaps counter-intuitive.

Objectives of the Study

- To examine the link between firms' accounting data and their stock returns.
- To use Eurofins as an exemplar of a very fast growing firm to look at the link between them more closely.

The Companies Examined

- All stocks that were part of the CAC All-Shares on 1 September 2012.
- We collect data for September 1997 – September 2012
- A total of approximately 500 firms.
- The first part of the study uses all available firms (5288 firm-years).
- The second part examines Eurofins in relation to only firms that existed for the whole sample period (approx 280).

Total Asset Growth (TAG) and Returns

- The contemporaneous relationship averaged across all firms is negative for 11 out of 15 years examined
 - It is also negative when averaged over all firms and years
- Form decile portfolios sorted on the previous year's TAG
 - Highest TAG decile portfolio : 12.2% return
 - Lowest TAG decile portfolio: 18% return
- The relationship between current returns and lagged TAG is negative for five years but *turns positive thereafter*
- This is a key finding – have existing academic studies focused on too short a time period?

Key Performance Measures for Eurofins

	<i>Total Stock Returns</i>	<i>Information Ratio</i>	<i>Treynor Ratio</i>	<i>Growth in assets per share (%)</i>	<i>Growth in sales revenue (%)</i>	<i>Growth in net cash (%)</i>	<i>Growth in dividends per share (%)</i>	<i>ROE</i>	<i>ROA</i>
1998	275.20	12.55	-	85.71	87.56	-28.69	-	8.26	5.83
1999	-1.35	-0.05	-	56.41	128.30	99.94	-	7.57	3.81
2000	151.58	6.72	-	130.60	113.56	357.02	-	8.27	4.31
2001	-46.05	-1.28	-	-2.61	57.98	-90.60	-	-0.42	-0.23
2002	8.29	0.46	-	-2.43	189.82	35.13	-	-3.85	-1.36
2003	-11.17	-0.58	-0.19	0.75	11.70	22.08	-	-0.27	-0.08
2004	31.64	6.16	0.15	19.06	4.78	219.86	-	8.51	3.22
2005	145.84	21.63	1.72	19.75	12.84	-31.33	-	14.69	4.53
2006	55.12	4.33	0.29	23.61	45.31	388.51	-	15.14	3.53
2007	38.01	5.38	0.30	10.11	53.29	-19.72	-	7.36	2.85
2008	-5.23	-0.48	0.27	1.40	29.80	126.32	0	16.73	2.87
2009	-44.40	-2.60	-0.30	-14.47	15.46	-70.09	0	10.59	1.65
2010	4.21	0.40	0.19	28.68	0.56	119.55	0	-4.11	-0.59
2011	60.33	5.44	0.70	31.77	12.28	109.53	100	27.79	4.01
2012	76.71	8.61	0.68	-	21.10	-	300	35.39	5.55
Arithmetic Average	49.25	4.45	0.38	27.74	52.29	88.39	80	10.11	2.66

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Top Companies by Total Shareholder Returns 1997-2012

<i>Company</i>	<i>Market Cap Sep 1997</i>	<i>Market Cap Sep 2012</i>	<i>Average Annual Return 15 Years (%)</i>	<i>Return 2012 (%)</i>	<i>Total Compounded 15-year Return (%)</i>
EUROFINS SCIENTIFIC	21.5	1485.78	30	77	5108
ACANTHE DVPPT.	5.4	47.12	29	97	4461
FIEBM	2.18	15.44	26	9	3191
SECHILIENNE	146.42	316.39	24	-18	2310
JACQUES BOGART	31.14	177.41	23	36	2187
INTL.PL.TNS.D HEVEAS	18.08	323.89	22	-17	1915
BENETEAU	54.22	708.68	22	-25	1860
FONCIERE DES MURS	5.9	1123.91	21	6	1611
UNIBAIL-RODAMCO	835.61	14911.52	19	14	1318
AST GROUPE		45.29	19	15	1285
FONCIERE DES REG.	21.41	3235.46	19	4	1279
CAMBODGE (CIE DU)	225.55	1879.53	19	6	1260
ODET (FINC DE L')	174.33	2403.56	19	18	1248
EUROSIC	11.69	733.16	19	0	1198
VINCI	801.58	19901.86	18	0	1152
CANAL +	4677.57	584.17	18	11	1101
VALLOUREC	453.91	4484.37	18	-38	1031
HERMES INTL.	2838.15	24170.12	17	-12	976
THERMADOR GPE.	63.07	235.35	17	10	929
DASSAULT AVIATION	2053.12	7103.82	17	3	916

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Top Companies by Information Ratio 1997-2012

<i>Company</i>	<i>Information Ratio – Average 15 years</i>	<i>Information Ratio 2012</i>	<i>Total Compounded 15- year Return (%)</i>
SOFIBUS PATRIMOINE	13.68	-1.82	100
EUROFINS SCIENTIFIC	3.69	7.24	5108
AST GROUPE	3.67	0.03	1285
VERNEUIL PARTICIPAT.	3.56	-1.21	133
EUROSIC	3.04	-5.46	1198
SECHILLENNE	2.97	-2.86	2310
FONCIERE DES REGIONS	2.84	-0.63	1279
DASSAULT AVIATION	2.60	-0.58	916
VALLOUREC	2.46	-1.97	1031
THERMADOR GPE.	2.41	-0.39	929
REMY COINTREAU	2.32	7.19	764
VINCI	2.01	-0.75	1152
UNIBAIL-RODAMCO	1.82	1.43	1318
WENDEL	1.78	1.08	364
CAMBODGE (CIE DU)	1.77	-1.58	1260
AFFINE R E	1.74	-3.73	557
VM MATERIAUX	1.73	-7.31	321
LVL MEDICAL GROUPE	1.73	4.44	32
BENETEAU	1.72	-3.45	1860
SARTORIUS STEDIM BIO.	1.71	4.68	449

Conclusions

- Yes, the stock market does penalise fast-growing firms.
- Thereafter stock prices catch up.
- Shareholders should take a long-term view (5 yrs +).
- Thereafter we get the perhaps more intuitive result that investors are actually rewarded for funding fast-growing firms.