

## Growth and Value Creation: 10 years of CAC 40 performance

by

**Jean Berg**

Founding Partner, Strategia Partners

The CAC 40 has performed strongly over the past 10 years. It has generated a TSR<sup>1</sup> of 11.4% per annum. However, this performance has varied widely between sectors and companies. Luxury goods contributed over 40% of growth. Hermès generated a TSR of over 20% a year. The winners have activated the strategic levers of value creation.

### Reminder of value creation mechanisms

Value creation is the difference in a company's value between two time-horizons. It's a dynamic approach, not a static one. Trivially speaking, value is created when a company succeeds in transforming a house into a château, or a château into Versailles.

Value is often confused with value creation. The two notions need to be distinguished. If the company has simply maintained Versailles, there is no value creation. The owner takes the risk of losing Versailles without the opportunity to increase its value. For value to be created, the company must build a new Versailles (or at least a new château) in addition to the existing Versailles.

However, these developments must be sustainable over time: turning a shack into a house creates value if the house can survive. If it does not have solid foundations and is in danger of being destroyed by storms, there will be no value creation.

Financially, value creation is measured by the total annual return to shareholders (TSR<sup>1</sup>), which must be compared with the level of risk taken by the shareholder.

It integrates five major variables: sales growth, profitability trends, the level of investment, the level of risk (cost of capital) and time.

For low-value companies, the challenge is first to increase competitiveness, then to accelerate growth - in other words, to make the "transition from a shack to a solid, sustainable home".

For high-value companies, the challenge is to grow, in other words, to make the transition from "one Versailles to two Versailles".

In the long term, growth is the only way to create value. It is the condition for its longevity. A company that does not grow steadily and increase its value steadily loses its attractiveness and independence in the long term.

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<sup>1</sup> TSR (Total Shareholder Return) : Total annual shareholder return, including capital gains, dividends, bonus share issues, etc.

Luxury goods contributed over 40% of the CAC 40's performance

	TSR 2012- 2022	Share in CAC40	# of companies	Best performer
<b>Luxury</b>	17,4%	<b>41%</b>	5	Hermes (22%)
<b>Defense</b>	17,2%	4%	2	Thales (18%)
<b>Electrical equipment</b>	14,3%	6%	2	Legrand (19%)
<b>BotB Services</b>	9,3%	11%	9	Téléperformacne (26%)
<b>Financial Services</b>	8,9%	10%	4	Axa (12%)
<b>Automotive</b>	8,2%	2%	2	Stellantis (17%)
<b>Industry</b>	7,8%	16%	8	ST Microelectronics (25%)
<b>Energy</b>	7,5%	7%	2	TotalEnergie (8%)
<b>FMCG products and services</b>	4,8%	2%	3	Pernod Ricard (9%)
<b>Telecoms</b>	3,5%	1%	3	Orange (7%)
<b>Total</b>	<b>11,4%</b>	<b>100%</b>	<b>40</b>	

## CAC 40 performance over the last ten years

The CAC 40 has performed strongly over the past ten years. TSR has risen to 11.4% per annum. This means that an investment of 1 euro at the end of 2012 is worth 2.8 euros at the end of 2022 (including share price growth and reinvested dividends), i.e. a gain of 1.8 euros.

Global economic growth accounted for almost half of performance. It has been 5.2% a year over the past 10 years: 2.7% due to volume growth and 2.5% due to inflation (at a worldwide level).

In contrast to the previous period, when interest rates fell, they were close on average between 2012 and 2022, and therefore had little impact on value creation. This impact is different in 2023.



Financial performance is very different from one industry to another and, within each industry, from one company to another.

Luxury goods was the best-performing industry, with a TSR of 17%. It contributed over 40% of the CAC 40's performance, thanks in particular to LVMH, Hermès and L'Oréal.



Within the luxury goods sector, Hermès performed best: 22% per annum. An investment of one euro at the end of 2012 is worth almost 7 euros at the end of 2022. This performance is 75% attributable to growth: 60% to the sustainable growth of Hermès (13% per year between 2012 and 2022), 15% to the improvement in the multiple linked to accelerated growth, 20% to the improvement in margins and 5% to the dividend distribution policy.

On the other hand, telecoms generated low shareholder returns. Orange, for example, generated a TSR of 7%, with 20% coming from share price growth and 80% from dividend payouts. This poor performance is due to zero growth and, consequently, lower multiples. These levels do not cover the cost of capital, i.e. the risk taken by the shareholder.

Hermès generated a TSR of 22% p.a.  
thanks to accelerated growth

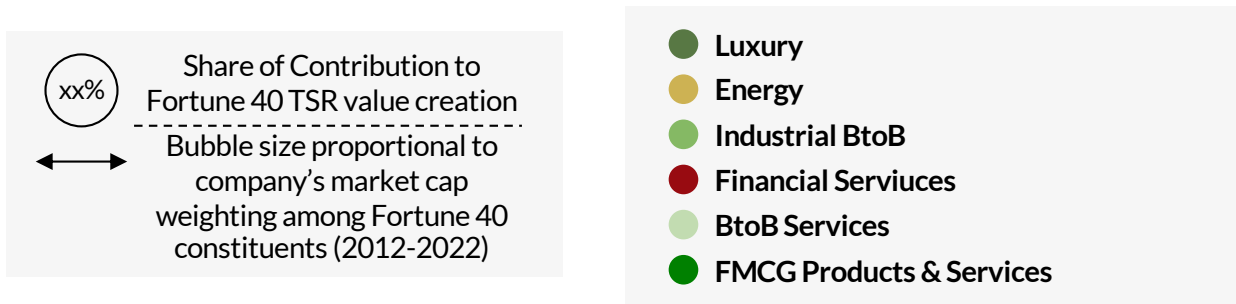
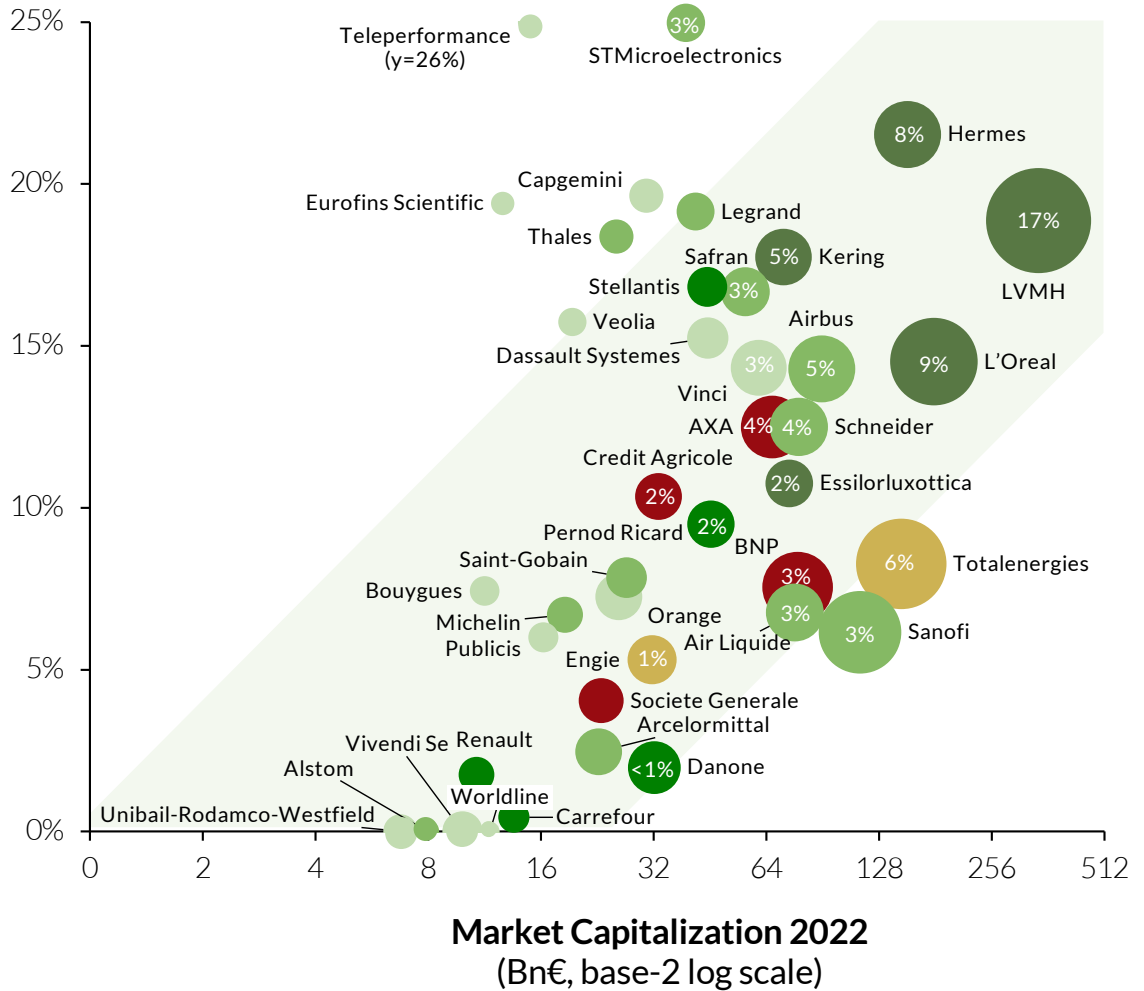
	2012		2022	Contribution to TSR
	Annual growth (%)			
Revenue (B€)	3,5	— 13% →	11,6	59%
EBIT (B€)	1,1	— 16% →	4,7	13%
EBIT (% of revenue)	32%		40%	
Net result (B€)	0,7	— 17% →	3,4	7%
PER (x)	32x	— 3% →	45x	15%
Market Capitalization (B€)	24	— 20% →	153	
# of shares (M)	106	— 0% →	106	0%
Share price (€)	226	— 20% →	1445	
Dividends (% of share price)		1% 		6%
TSR – Shareholder performance (%)		22%		100%

Orange has generated a weak performance over the last 10 years, below the cost of capital

	2012		2022
	Annual growth (%)		
Revenue (B€)	43,5	— 0% →	43,5
EBIT (B€)	4,1	— 2% →	4,8
EBIT (% of revenue)	9%		11%
Net result (B€)	0,8	— 10% →	2,1
PER (x)	27x	— -8% →	12x
Market Capitalization (B€)	22	— 2% →	26
# of shares (M)	2649	— 0% →	2658
Share price (€)	8	— 2% →	10
Dividends (% of share price)		6% 	
TSR – Shareholder performance (%)		7%	

## Hermès, L'Oréal and LVMH made the biggest contributions to CAC 40 performance

TSR 2012-22 (%)



## Lessons learned from CAC 40 performance

The analysis of the performance of CAC 40 companies highlights 6 key lessons about value creation strategies. Companies that have created significant value have activated six levers:

### **1. A strong ambition to grow.**

Growth is the main lever to value creation. Successful companies develop a culture of growth and market share gains through organic growth and/or acquisitions.

They set - and at the highest level of the company - the levels of ambition sufficient to maintain the necessary growth and TSR beyond 5 years, in line with or beyond what has already been achieved.

*They then deduce the (often disruptive) strategies required (organic market share gains or major structuring acquisitions; marginal extensions to the boundaries of the business or the development of new fields); assess the risks involved; take decisions; and provide themselves with the means (financial and human) to implement them.*

### **2. Allocation of resources between businesses.**

In the short term, it is difficult to arbitrate on resource allocation.

In the long term, on the other hand, a group that remains in structurally declining businesses or geographies, or those that are poorly structured from a competitive or regulatory standpoint, has little chance to create value.

*Successful companies regularly and proactively review their mix of businesses and geographies and avoid continuing to invest too heavily in mature businesses with no potential.*

### **3. A higher level of investment than competitors.**

No growth without investment. No investment without risk-taking.

High-performance companies choose to focus their resources and, consequently, choose strong, differentiating investment priorities (Capex and Opex), often against the established organization.

### **4. Focus these resources on growth segments.**

It is necessary to look for growth where it is. Successful companies have a business portfolio in which high-growth countries or activities account for at least 35% of sales, and where the company is growing much faster than the market in these countries or products.

They devote more than 60% of their investments to these segments. In addition, they focus their actions on a small number of ambitious objectives.

*5. Business models that are more relevant than those of competitors, and therefore make better use of resources.*

## CAC 40 value creation stems from a limited number of high-performance models in long-term growing markets

### KEY MESSAGES

- Growth is the only way to create value in the long term.
- A company that does not grow by more than 7.5% per year (i.e., a doubling of revenue every 10 years) loses its attractiveness and independence in the long term.
- The CAC 40 has delivered an annual performance of 11% (TSR) over the past 10 years: an investment of 1 euro in 2012 is worth 2.8 euros at the end of 2022, and has therefore generated a gain of 1.8 euros between 2012 and 2022.
- Global economic growth has contributed almost half of this performance. It has been 5.2% per year over the past 10 years: 2.7% due to volume growth and 2.5% due to inflation.
- Luxury goods was the best-performing industry, with a TSR of 17%. It contributed over 40% of the CAC 40's performance, thanks in particular to LVMH, Hermès and L'Oréal.
- In contrast, telecoms generated a low return of 3.5% per annum, due to weak growth.
- The best-performing companies have successfully implemented growth strategies based on six levers:
  - A positioning in long-growth markets;
  - A competitive, constantly evolving business model to continue improving customer appeal and creating competitive advantages;
  - A focus of investments on the differentiating levers of this business model;
  - A high level of investment, in line with growth ambitions;
  - An integration of environmental and human dimensions;
  - A strong operational capacity to implement.



These business models are based on a superior vision of market dynamics, customer expectations, technologies, price dynamics, margins, value chains, how to fit into them, and how to influence them. Successful companies develop new approaches and different ways of working, so that a euro invested generates more value than for a competitor.

#### ***5. Integrating three perspectives: strategic and financial, environmental and human.***

Successful companies invest more to reduce their environmental footprint and develop model greens: second-hand, rental, repair and circularity. They are developing more sophisticated and refined human approaches. They also do so because they have more room to maneuver.

#### ***6. A strong operational capacity for implementation.***

This capacity must be based on a clear strategy, accountability for key issues, and effective decision-making at the right level. Successful companies combine strong steering, arbitration and control powers from the top with decentralized implementation of operations.

#### ***What to conclude?***

The CAC 40 has performed strongly over the past 10 years. It has been driven by the luxury goods industry, which accounted for 40% of its value creation.

Three companies - Hermès, L'Oréal and LVMH - contributed more than a third of this value creation.

They have pursued relevant strategies with an ambition for growth. Few groups grow faster than the average economy (5% p.a.) over the long term.

Beyond the strategic challenges, the real barrier to overcome is cultural. Growth is first and foremost a strategic decision at the highest level.



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***Strategia Partners** is an international strategy consulting firm based in Europe (Paris & Zurich), the United States (New York & Seattle) and China (Shanghai). It assists Boards, CEOs, Executive Committees of major European and North American groups in their growth strategy. His approach integrates 3 perspectives: strategic and financial performance, environmental performance and human performance.*

**Contact : [jean.berg@strategiapartners.com](mailto:jean.berg@strategiapartners.com)**

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