

Growth and Value Creation: 10 Year Performance Comparison of Major Western Stock Markets

By

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The major Western stock markets (United States, Germany, United Kingdom and France) have experienced strong performance over the past 10 years. The total shareholder return (TSR)¹ of the major stock indices in these countries has exceeded 9% per year.

However, this performance has been very uneven across exchanges, across sectors, and across companies in the same sector.

One observation remains: growth is the most powerful lever for value creation.

I. Comparison of the performance of the most important stock indices

Value creation is the difference in a company's value between two time horizons. It is a dynamic, not a static, approach.

In financial terms, it is measured by total shareholder return, or TSR.⁽¹⁾ It should be compared with the level of risk taken by the shareholder.

It integrates five key variables: revenue growth, profitability development, investment level, risk level (cost of capital) and time.

The major Western stock markets have experienced strong performance over the past decade. In the United States, the TSR has exceeded 15% per year. This means that a €1 investment at the end of 2013 will be worth €4 at the end of 2023 (including price appreciation and reinvested dividends), for a net gain of €3.

At the end of 2023, the market capitalization of the benchmark indices of the four major Western stock exchanges will represent about 60% of the GDP of these countries: 48% for Germany, 57% for the United States, 63% for the United Kingdom and 93% for France.

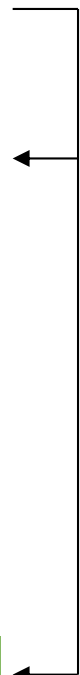
However, there are significant differences in the performance of the exchanges. The US stock market generated the highest TSR: 16%. France had a TSR of 11% and Germany and the UK had TSRs of 9%.

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

- Table 1 -

Between 2013 and 2023, the TSR has been above 9% per year on average with strong differences between stock markets.

Growth is the strongest value creation lever

	USA	France	United Kingdom	Germany	
Turnover	5%	3%	-1%	2%	 <p>Link between growth and value creation</p>
Net income	8%	11%	8%	7%	
PER (x)	3%	-2%	-5%	-3%	
Market capitalization	11%	9%	3%	4%	
Redemption/issuance of shares	-1%	1%	0%	1%	
Stock price	12%	8%	2%	3%	
Dividend Yield (%)	4%	3%	7%	6%	
	⬇	⬇	⬇	⬇	
TSR (%)	16%	11%	9%	9%	

II. Key Take Aways at the investor level

The analysis of the performance of the major Western stock markets allows us to draw five main lessons:

1. *The difference in value creation across stock markets is first and foremost a difference in company growth.*

When analyzing the different value creation levers across stock markets, we find that the performance of each market is indeed correlated with corporate growth. In the United States, the average annual growth of Fortune 40 companies is 5%, compared to 3% for France (CAC 40), 2% for Germany (DAX 40) and -1% for the United Kingdom (FTSE 40) (see Table 1).

This also has a direct impact on the evolution of multiples. Again, the evolution of multiples (and not just the level of multiples) is correlated with growth. In the United States, multiples has grown by 3% per year between 2013 and 2023, compared to -2% for France, -3% for Germany and -5% for the United Kingdom.

2. *The best-performing stocks are driven by large, growing and highly value-creating industries: technology, luxury and healthcare.*

The weight and performance of the leading industries explain the difference in stock market performance (see Table 2). Overall, the top three value-creating industries are technology, luxury and healthcare.

In the United States, the Fortune 40 is driven by Technology companies. The top five (Amazon, Microsoft, Alphabet, Meta, Apple) accounted for over 60% of value creation. Ten years ago, their weight in the index was 46%. They generated a TSR of 24%. The remaining companies generated a TSR of 10%.

In France, the CAC 40 is driven by Luxury companies. The five leaders (Hermès, L'Oréal, EssilorLuxottica, LVMH, Kering) accounted for 45% of value creation. They generated a TSR of 19% compared to 8% for other companies.

In Germany and the UK, the DAX 40 and the FTSE 40 do not have locomotives like the Technology sector in the US or the Luxury sector in France. In both countries, the strongest sector, pharmaceuticals, accounts for only 20% to 25% of value added. In the UK, it generated 16% TSR. In Germany, it generated only 9% TSR (like the other industries).

3. *The value creation structure between growth, profitability and dividends differs between stock markets.*

Americans prioritize profitable growth as a lever for value creation. The impact on TSR is 8 points (52% of global TSR) compared to 2 points for France (20% of global TSR), a difference of 6 points (see Table 2).

At the secondary level, Americans use share buybacks more than Europeans (2 points difference in TSR).

- Table 2 -

The best performing markets are driven by large growing industries

	USA	France	United Kingdom	Germany
TSR 2013-23 (%)	16%	11%	9%	9%
Main industry	Technology	Luxury	Health	Health
Share of the main industry (%)	62%	45%	21%	24%
Main industry TSR (%)	24%	19%	16%	9%
TSR of other industries (%)	10%	9%	8%	8%
Largest contributors (share in value creation)	Apple (25%) Microsoft (25%)	LVMH (19%) L'Oréal (11%)	AstraZeneca (19%) London Stock Exchange Group (10%)	Merck (17%) SAP (11%)

(1) In the creation of value between 2013 and 2023

- Table 2 -

Americans prioritize and value profitable growth.
At a secondary level, they use the lever of share buybacks more than Europeans

	USA	France	United Kingdom	Germany
Weight of different levers				
Growth	52%	20%	-65%	-10%
Marge	18%	62%	113%	55%
Share buybacks and dividends	30%	18%	78%	55%

The Germans and the British pay more dividends than the French: their companies have less growth (and certainly fewer investment opportunities) and must maintain the attractiveness of their investment through dividends.

4. *Within each industry, companies succeeded in creating value by implementing six value creation levers.*

Positioning within an industry relative to another is a factor in value creation. The financial performance of technology companies has averaged 21% per year over the past decade. That of energy, entertainment, or media companies has been 8% to 9% (see Table 3).

However, some companies have managed to create value in lower performing industries. The most emblematic example is certainly Tesla in the industrials sector. It generated a TSR of 46%, while General Electric generated a TSR of 0%.

Similarly, in consumer staples, Costco has outperformed by more than 20% (TSR of 21%), while Carrefour has destroyed value over the past decade (TSR of -4%).

In the entertainment and media sector, Walt Disney generated a low TSR (3%), while Flutter Entertainment, which specializes in sports betting, multiplied its value by 20 in ten years (36% TSR; 14 billion euros in revenue; 25 billion euros in market capitalization).

All the companies that have "outperformed" the market have implemented the 6 value creation levers (see III. Implications at the level of corporate strategies).

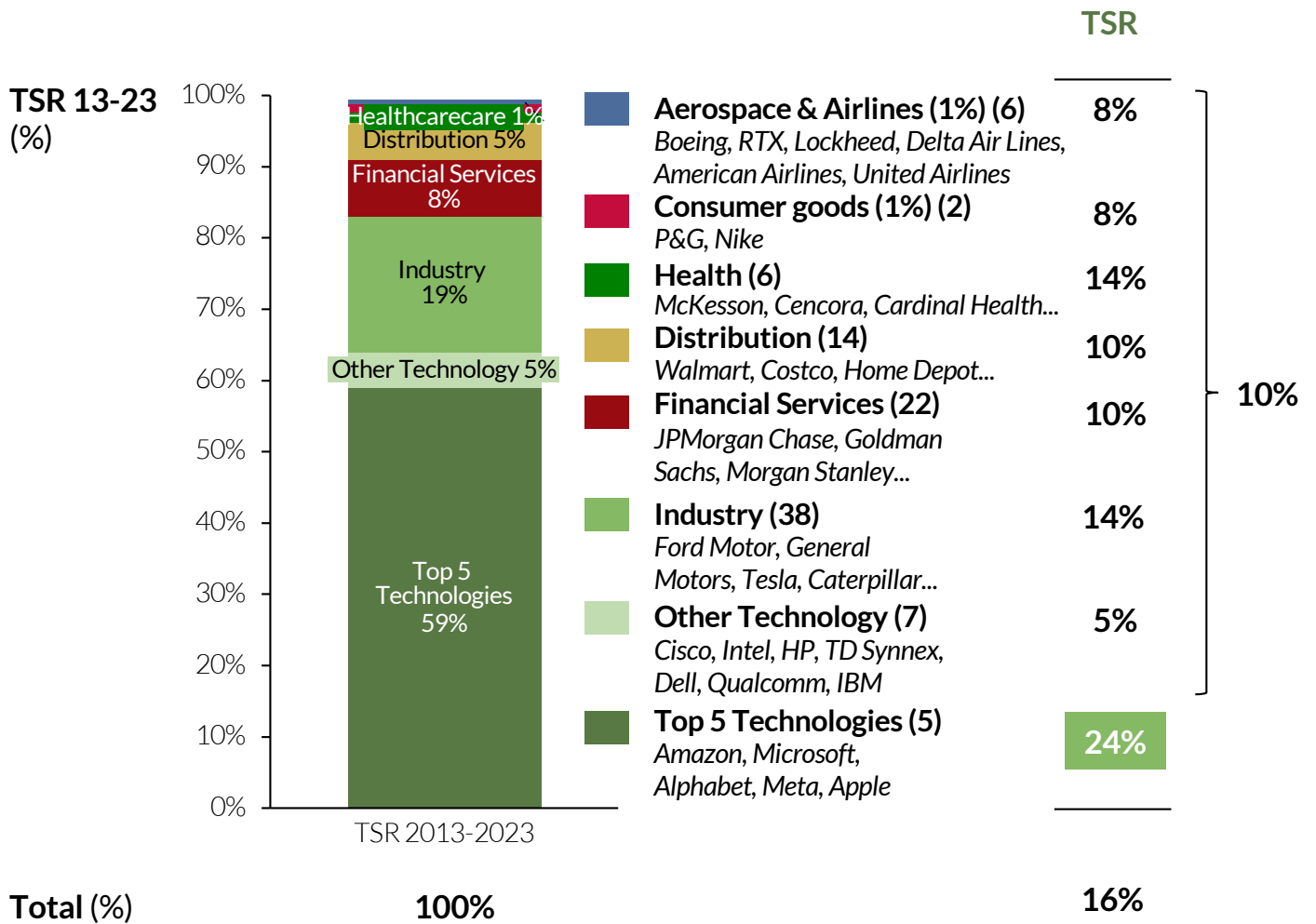
5. *Within an industry, the companies that create the most value are those that grow the fastest thanks to an attractive positioning and a relevant business model.*

In the automotive industry, there is a strong relationship between revenue growth and TSR. Value creation has been exceptional for Tesla (46% TSR on 47% annual revenue growth). It has been strong for Stellantis due to the successful merger and synergies with FCA: TSR of 19% on 13% compound annual growth rate. It has been weak (TSR of -2% for Volkswagen, 0% for Renault and 1% for General Motors) for companies that have experienced low growth, lower than global growth.

Long-term growth is therefore the most powerful lever for value creation. The time management spends managing what it has, even if it is very profitable, does not create value. It simply preserves it. Value creation requires deep and regular changes in the direction, profitability, or mix of activities, or achieving and sustaining strong, long, and profitable growth trends.

- Table 3 -

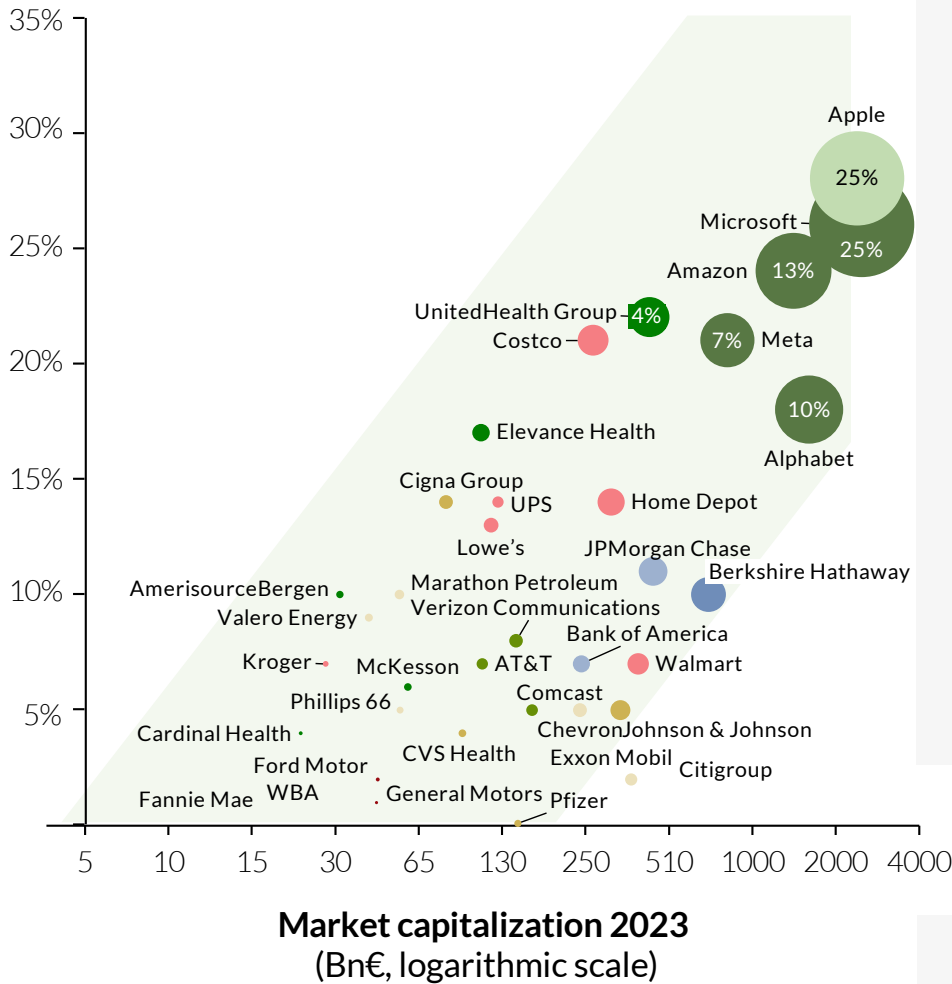
In the United States, the 5 technology leaders (Amazon, Microsoft, Alphabet, Meta, and Apple) contributed to nearly 60% of the value creation between 2013 and 2023.



- Table 4 -

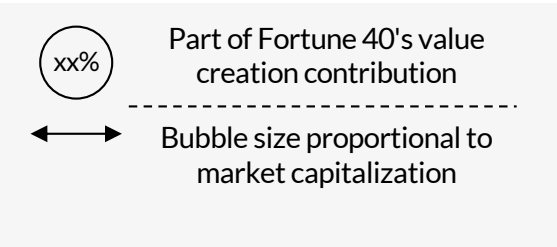
In the United States, Apple and the other 4 technology leaders contributed the most to value creation in the Fortune 40 between 2013 and 2023.

TSR 2013-23
(%)



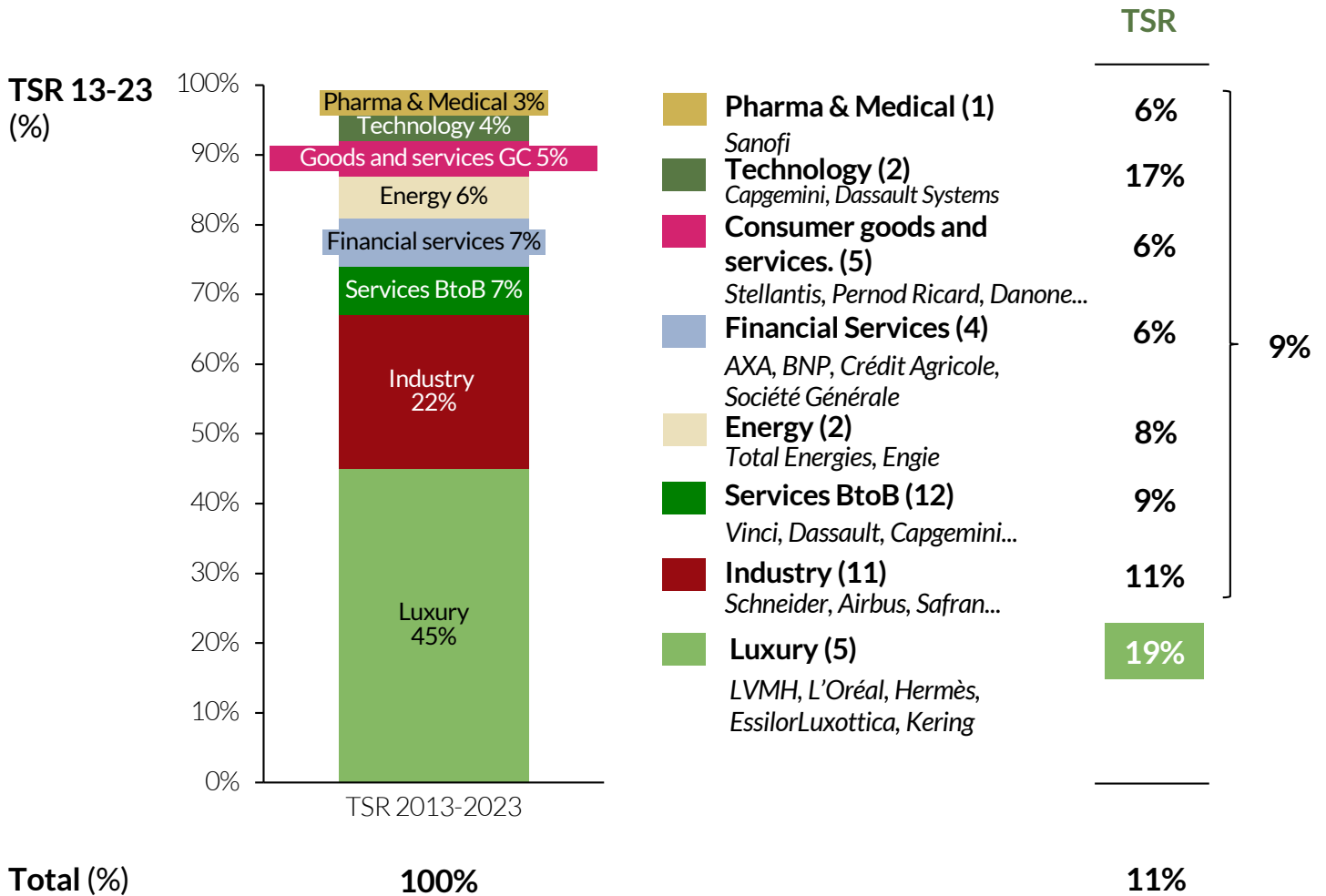
- LEGEND -

Industry	TSR
Distribution	12%
Technology	23%
Energy	4%
Electronics	20%
Health	15%
Pharmacy	6%
Assurance & asset management	14%
Industry	2%
Financial services	8%
Telecoms	7%
Total Fortune 40	18%



- Table 5 -

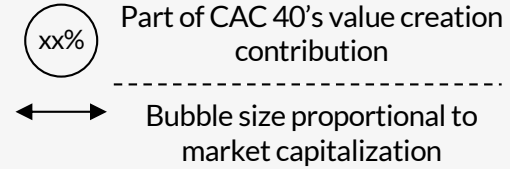
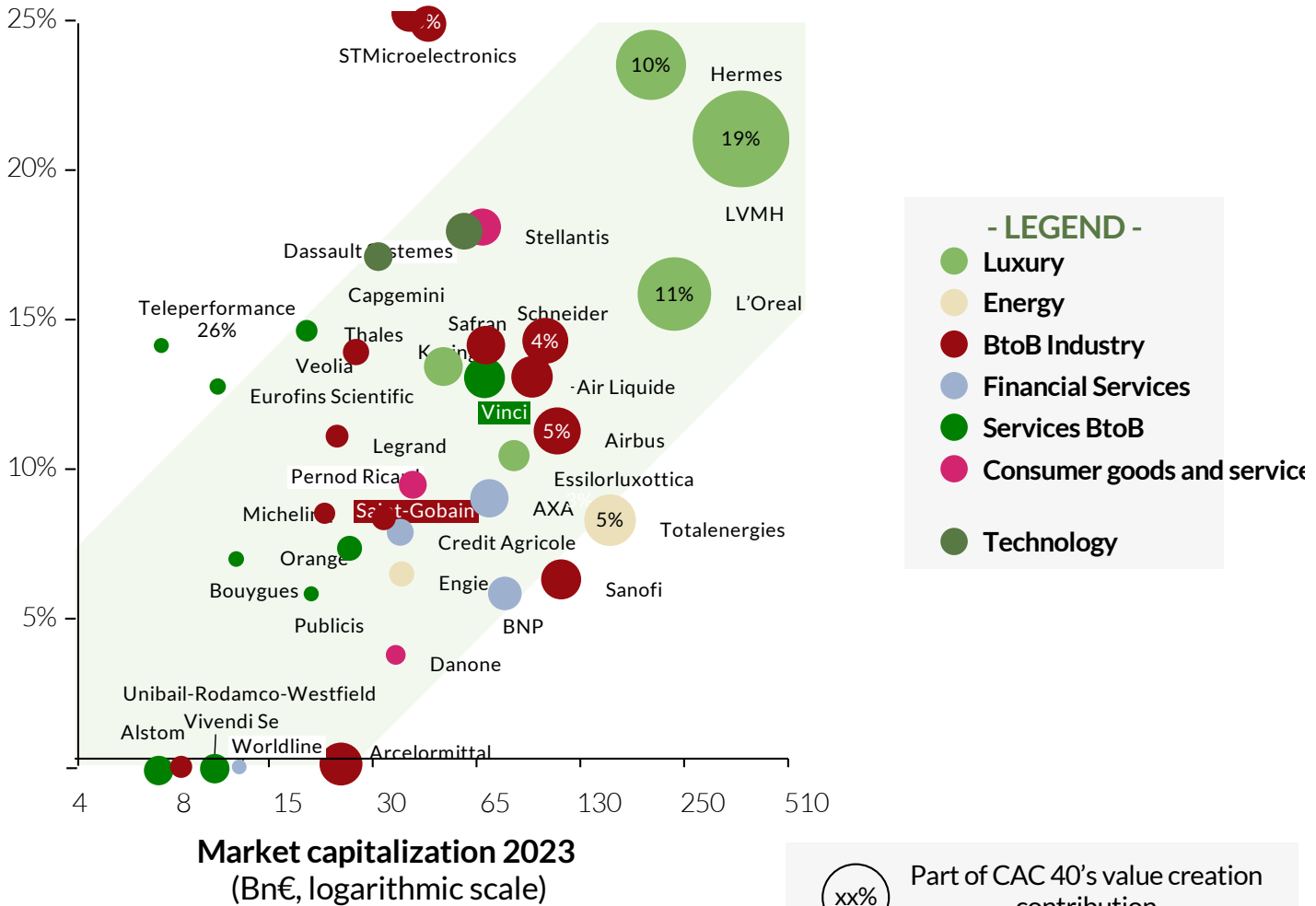
In France, luxury represented 45%
of the CAC40's Value Creation between 2013 and 2023



- Table 6 -

In France, Hermès and the other 4 luxury leaders contributed the most to the CAC 40's value creation between 2013 and 2023

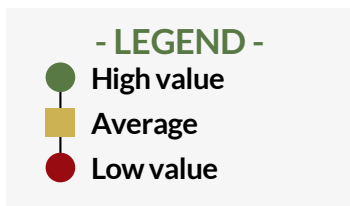
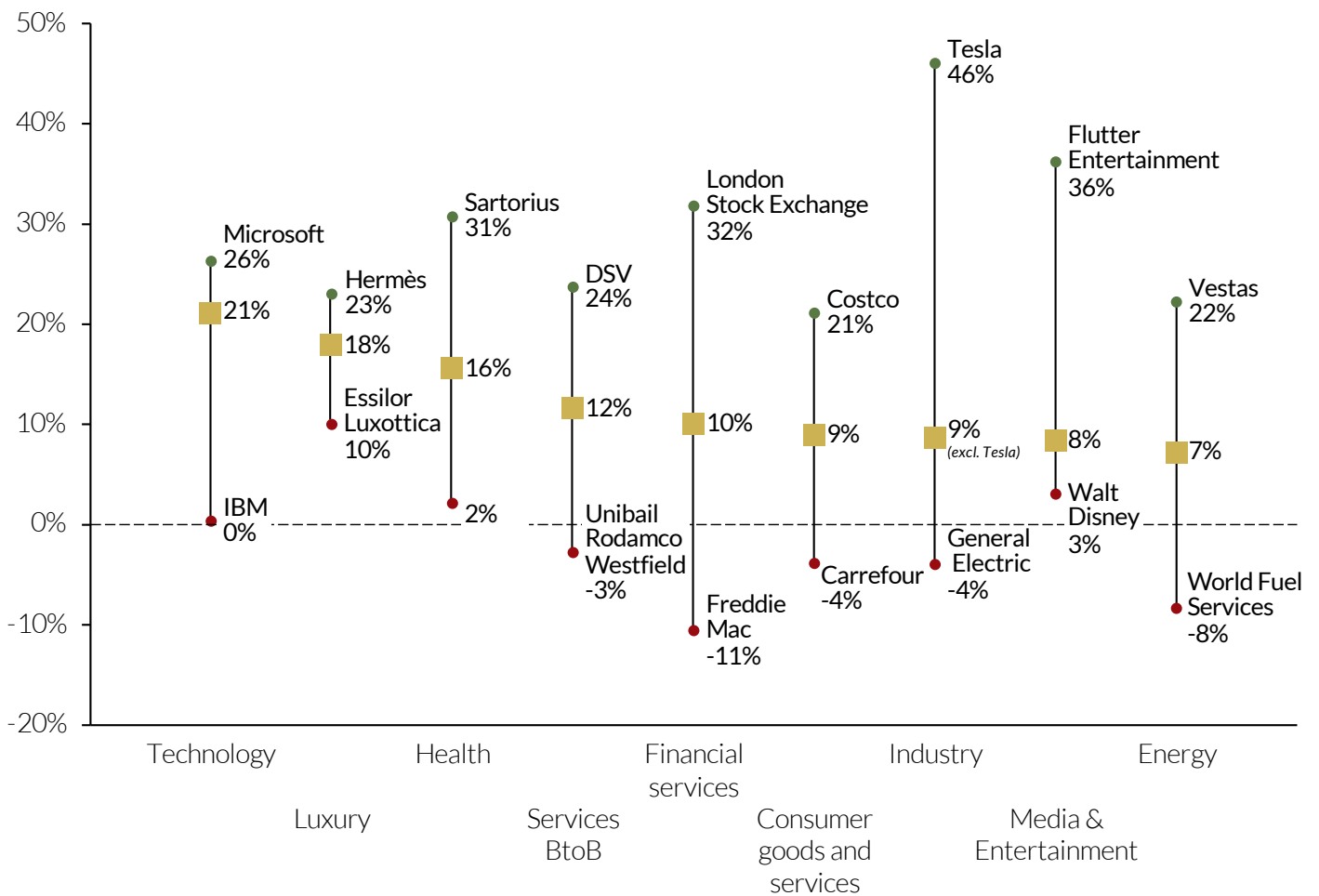
TSR 2013-23
(%)



- Table 7 -

Financial performance varies between industries.
In every industry, some companies manage to develop innovative and differentiating models

TSR 2013-23 (%)



Industries

III. Implications at the level of corporate strategies

The analysis of the performance of companies listed on the world's major stock markets allows us to draw 6 key lessons about value creation strategies.

Companies that have created significant value have activated six levers:

1. A strong commitment to growth. Growth is the only lever for value creation in the long-term. High performers develop a culture of growth and market share gains through organic growth and/or acquisitions. They set - at the highest level of the company - the level of ambition required to sustain the necessary growth and TSR over the next five years, in line with or above what has already been achieved. They then derive the necessary strategies (often disruptive) (organic market share gains or major structuring acquisitions; marginal extensions of the boundaries of activity or the development of new areas), assess the risks, decide, and provide the means (financial and human) for their implementation.

2. Differentiate the allocation of resources between businesses. In the short term, resource allocation decisions are difficult. In the long term, however, a group that remains in structurally declining businesses or geographies, or that is poorly structured from a competitive or regulatory perspective, is unlikely to create value. Successful companies regularly and proactively challenge the mix of businesses and geographies and avoid continuing to invest heavily in mature businesses without potential.

3. Focus these resources on growing segments. Look for growth where it is. Successful companies have a portfolio of operations in which high-growth countries or activities account for at least 35% of operations and where the company is growing much faster than the market in those countries or products. They allocate more than 50% of their investments to these segments. They also focus on a small number of ambitious targets.

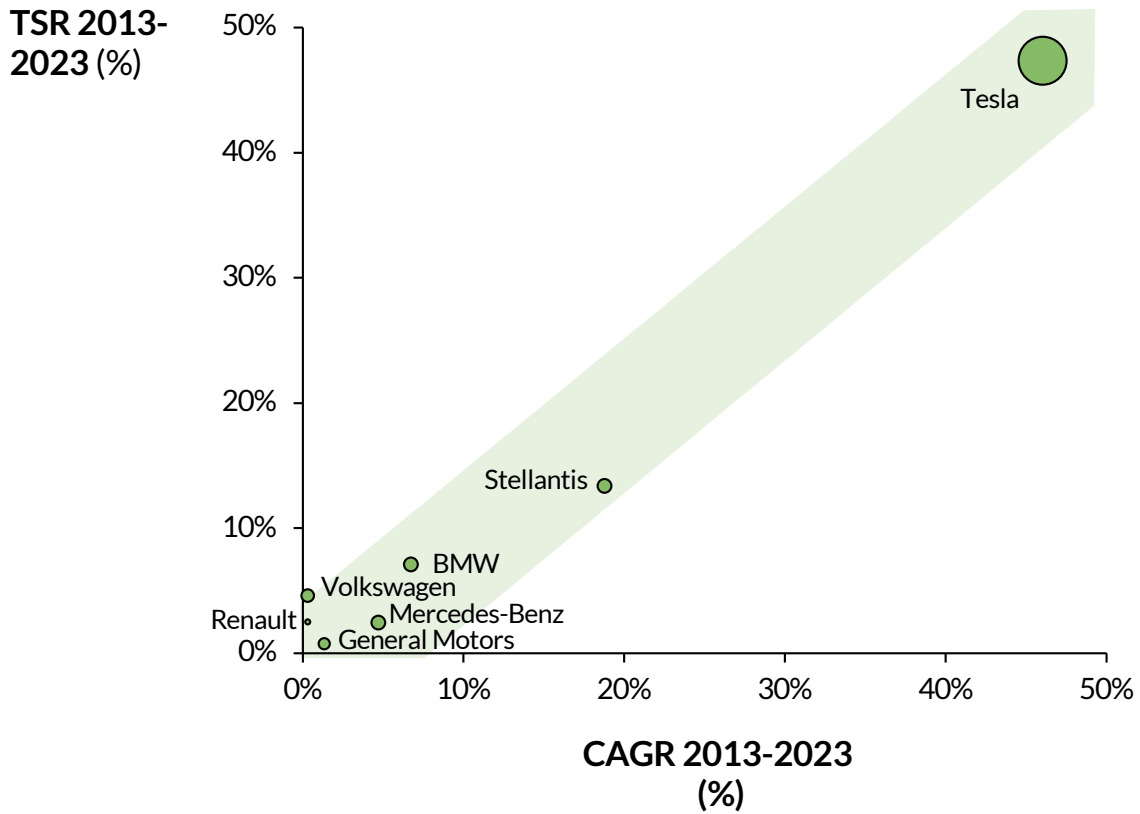
4. Invest more than competitors in superior business models. No growth without investment. No investment without risk. High-performing companies make choices to focus their resources and, as a result, set strong and differentiating investment priorities (capex and opex), often at odds with the established organization.

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

5. The integration of three perspectives: strategic and financial, environmental, and human. High performers invest more to reduce their environmental footprint and develop green models: opportunity, leasing, repair and circularity. They develop more sophisticated and refined human approaches. They also do so because they have greater latitude to do so.

- Table 8 -

Within the same industry, some players manage to grow and create value.
In the automotive industry, Tesla and Stellantis have created value over the past 10 years.



6. *Strong operational execution* through clear strategy, accountability for key issues, and effective decision making at the right level. High-performing companies combine strong leadership, direction and control from the top with decentralized operational execution.

What to conclude?

Western stock markets have performed strongly over the past 10 years. This performance has been driven by three industries: technology, luxury and healthcare, each of which accounts for about 40% to 50% of their value creation.

In each industry, companies have been able to create significant value by using six levers.

For companies that have experienced low performance, as well as for the stars, a new race begins. It involves using different levers, different growth modes, different positioning, and different long-term playing fields to grow at the right level.

It requires choosing to grow, to give up in order to focus better, to simplify in order to move faster, to take risks within a coherent and structured framework.

It is the role of the President and his General Management to create the necessary conditions and turns for growth.

The Value Creation of the major Western stock markets comes from a limited number of successful models in high-growth markets

- KEY MESSAGES -

- To create long-term value, it is necessary to grow steadily by more than 7,5% per year, which means doubling the turnover in 10 years.
- The major global stock exchanges have delivered an annual performance of over 9% (TSR) over the past 10 years: an investment of 1 euro in 2013 is worth 4 euros by the end of 2023.
- Global economic growth contributed to nearly a quarter of the performance. It was 5,2% per year over the past 10 years: 2,7% related to volume growth and 2,5% related to inflation.
- Three industries have driven stock market performance, representing 40% to 50% of value creation over the past 10 years: technology, luxury, and healthcare.
- The most successful companies have implemented growth strategies based on six key drivers:
 - A positioning on long-term growing markets;
 - A competitive and constantly evolving business model to continue improving its attractiveness to customers and creating advantages over competitors;
 - A focus of investments on the differentiation levers of this business model;
 - A strong level of investment, consistent with the growth ambition;
 - Integration of environmental and human dimensions;
 - A strong operational implementation capacity.
- For everyone, a new race begins. It requires making the choice of growth, giving up to better focus, simplifying to go faster, taking calculated and supervised risks.
- It is the role of the President and his General Management to create the necessary conditions and inflections for growth.



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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 the top management of large European and North American companies in their growth strategy. Its approach integrates 3 perspectives: strategic and financial performance, environmental performance, and human performance.*

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