Magnitude and Speed

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Structurally, the average cost of capital is simply long-term global economic growth plus dividends.

In a world of declining real economic growth (i.e. excluding inflation) (due to an aging population and falling productivity), the real cost of capital will also continue to decrease. Beyond significant market adjustments in 2022 and 2023, valuation multiples will keep rising for long-growth companies, significantly outperforming the broader economy.

For a company, maintaining strong long-term growth strategies (same real growth, higher nominal growth due to slightly higher inflation) in a slowing economic environment increases its growth differential relative to the overall economy. Consequently, this increases its valuation.

Creating this growth surplus may seem challenging, if not impossible, for large European corporations with mature markets and revenues already exceeding a few billion euros. Yet, among the top 100 European companies with revenues above €4 billion, 32% have grown at over 10% annually for the past decade. What is their secret?

Strategy

The choice of industries and geographies in which to compete is crucial. Some of Europe's leading companies in luxury goods, systems, fintech, semiconductor equipment, international logistics, healthcare, energy, and investment have been particularly well valued over the past decade—many of them outside traditional "technology" sectors. But strategy cannot be reduced to a single dimension: *direction* (where to invest?). It's a triptych whose two other dimensions are equally decisive: *scale and speed.*

Magnitude

Every year, some major European corporations execute dozens of acquisitions to consolidate their industries, enhance competitiveness, and refine their business portfolios—yet they often achieve no more than 3–5% annual growth, with stagnant stock values.

Acquiring targets with revenues of only a few tens of millions has little impact on a group generating over €10 billion in revenue—unless done systematically and at scale. The magnitude of each strategic move or acquisition must align with a company's size. For a €10 billion company growing at 3% organically, an additional €700 million in annual revenue is needed to reach 10% growth—not just €70 million.

While this may seem obvious, a review of major European corporations' strategic evolution suggests otherwise. How many have pursued a growth strategy akin to AB InBev's in the beer industry between 1980 and 2015, achieving 23% annual growth in a global market expanding at just 3%?

During this period, AB InBev systematically acquired targets commensurate with its (growing) size: small when it was small, medium when it was medium-sized, large when its sales had become significant.

In 1987, Piedboeuf and Artois merged (combined sales of 1.3 billion euros[1]) to form Interbrew; in 1995, Interbrew, with sales of 1.6 billion euros, acquired Labatt (sales of 1.8 billion euros); in 2004, with sales of 11 billion euros, it merged with AmBev (sales of 7 billion euros); in 2008, with sales of 24 billion euros, it merged with Anheuser Busch (sales of 17 billion euros); in 2015, with sales of 47 billion euros, it acquired SABMiller[2] (sales of 23 billion euros).

Growing beyond the growth of underlying markets requires strategic moves commensurate with the company's size. Long-term, significant, and steady growth demands periodic shifts in investment scale every four to five years (new markets, acquisitions…).

This, of course, requires a strong experience curve when it comes to managing the resulting acquisition processes and integrating these acquisitions, while firmly optimizing operational profitability.

This also means modifying the growth levers used over time, so that they adapt to the scale of impact required: innovation, market share gains, geographic expansion, build-up of small acquisitions, major acquisitions, extension of playing fields... The strategy must evolve, as must the means of deployment. There is no such thing as *long-term* growth within a closed field and with unchanged weapons.

Speed

Speed is the third critical element of strategy—it is not merely an operational execution advantage. Making a strategic move today instead of three years from now alters a company's growth trajectory, absolute and relative valuation, and financing capabilities. It determines whether a company becomes an industry leader or a takeover target.

Many small players have strategically and financially outperformed or even acquired large industry leaders because they are growing faster: Mittal vs. Arcelor, Adyen vs. Ingenico, Wabtec vs. Faiveley...

In electronic payments, Adyen has been developing since 2006 in the fast-growing "global online" and "omnichannel" segments for complex needs. As a result of this growth, its market capitalization now exceeds €40 billion[3] . At the same time, Ingenico, the slow-growing historical leader in payment terminals, which had been slow to expand into merchant services, was acquired by Wordline in 2020.

(Profitable) growth generates value, which in turn increases the room for maneuver to grow and change the structure of the industry.

Rapid execution does not necessarily require detailed long-term strategic plans. These often become obsolete, as every major strategic move reshapes future perspectives.

The three keys to speed are direction, execution capability and focus.

What is needed is a clear, long-term understanding of the entire playing field and its possible dynamics. In the short term, it is all about opportunities. Fast-growing companies rarely have detailed plans beyond three years.

The ability to integrate new teams of significant size is key, as is the ability to modify operating methods regularly in line with the size acquired, or to have a management team that is slightly oversized in relation to the needs of the existing organization at any given time.

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[1] 55 billion Belgian francs.
[2] Transaction finalized in 2016.
[3] After negative adjustment in 2022; before possible impact of further adjustment in 2023.

Finally, focusing actions is essential. It is better to reach critical mass and profitability in three years in a new activity than to deploy a dozen or so projects at the same time, with insufficient profitability for many years given a lack of clear priorities.

The growth differential

Global growth is slowing, making company growth even more valuable. However, value creation requires stronger and faster strategic moves. It is not just a matter of organization—it is a matter of ambition.

What bold move can be made today that will redefine the company's growth trajectory in two to three years—without compromising profitability?

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Estin & Co is an international strategy consulting firm based in Paris, London, Zurich, New York and Shanghai. The firm assists the general management of major European, North American and Asian groups in their growth strategies, as well as private equity funds in the analysis and valuation of their investments.