TELLUSANT QUICK READS

THE ROARING FORTY—AMERICA'S LARGEST COMPANIES IN 2023

Tellusant's first official Roaring Forty list is out. It ranks the largest U.S. companies by value added—economists' preferred way to measure size.

Alphabet rose to the top in 2023, overtaking Apple.

Before discussing our list, a few words on why we use value added as the size metric and our methods.

Definitions

There are at least five ways to define corporate size:

- Value Added (VA)
- Assets (net operating assets)
- (number of) Employees
- Revenue
- Cash Flow (free cash flow)

The first three—VA, assets, employees—tell a size story. Revenue does not, while cash flow is too variable to be useful.

Why not revenue, which is so often used? Consider the following example:

Let us say that you sell us a pen for 1 trillion and 1 dollars (1,000,000,000,001). We immediately sell it back to you for 1 trillion dollars.

You have suddenly created the world's largest company by revenue (and we the second largest). Yet your value added is only 1 dollar; not noteworthy.

In real life, trading companies are close to the example: enormous revenue, little VA. Distributors are next, followed by retailers. Banks and biotech, on the other hand, have high VA relative to revenue.

In our analysis that resulted in the list of 40 the largest companies, Cardinal Health has 3% VA as share of revenue. Morgan Stanley has the highest ratio at 87%. We call this density (see below).

Thus, **revenue is a meaningless metric** for comparing companies.

Methods

What is VA for a company? It is what is created internally. This is the sum of labor and capital that belong to the company. It excludes external purchases, which are VA of other companies. VA = revenue minus purchases = labor plus capital expenses (including tax payments). We call this General VA.

The sum of VA from companies and other entities in a country equals gross domestic product.[1]

VA is the preferred size metric of governments and economists who hardly look at revenue.

In our case, we use Specific VA. This differs from General VA by excluding non-asset specific activities. With this, VA equals operating profits plus operating expenses (with some adjustments). This in turn is gross profit in most cases.[2]

Specific VA = Operating profits + Operating expenses = Gross margin

120 companies were evaluated for calendar year 2023. If their fiscal year differ from calendar year, we use the sum of the four calendar year quarters. If companies have off-quarter reporting, we use the quarters closest to the calendar year (max one month off).

The Roaring Forty

The Roaring Forty list for 2023 is shown in the graph on the next page. A few themes stand out:

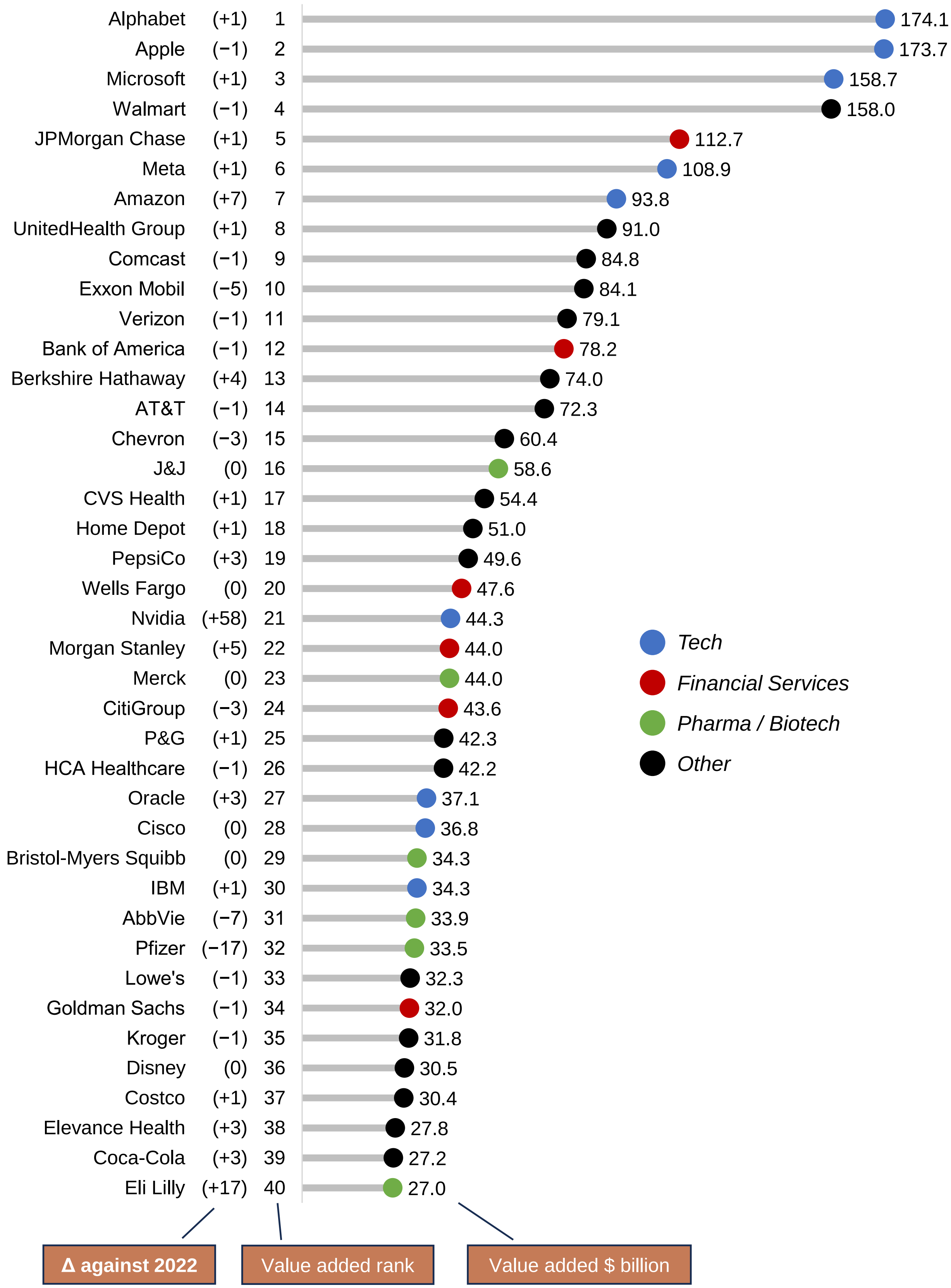
The Tech Juggernaut

The U.S. has by far the most vibrant tech sector in the world. Many countries have entrepreneurs and startups, but only the U.S. has managed to scale a few such companies to make half of the Top 10. Facebook, now Meta, was founded less than 20 years before the 2023 list. Google, now Alphabet, a few years earlier.

This success is not self-made by the younger companies. They stand on the shoulder of earlier giants like Hewlett-Packard, IBM, and Microsoft (still in the race), Intel, or Texas Instruments.

THE ROARING FORTY IN 2023

Top 40 U.S. public companies by value added



Source: Corporate 10-K; Yahoo Finance; Tellusant analysis

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The Churn

There is constant churn of the largest companies in America. Over the decade, expect half of the companies to be new entrants. A defining characteristic of capitalism is the reallocation of capital to the best opportunists.

2023 shows this with significant movements in the list. See how Nvidia gained 58 places and entered at 21. Look at Amazon's inexorable increase in the ranking. ConocoPhillips left the list, dropping from #35 in 2022 to #66 in 2023.

The Top

Alphabet has the honor of being the largest company in 2023. A narrow win but nevertheless impressive. Few know that Alphabet is such a behemoth. Large, yes, but the largest? Revenue rankings deceive.

Apple left the top spot. 2023 was a tough year for the company with headwind in China and stalling iPhone sales. It grew far below inflation in 2023. On current trends, it will be neck and neck with Microsoft for the number two spot in 2024.

Walmart has surprising longevity. That a retailer can be in the top five is remarkable. On the one hand it still has growth opportunities in the U.S. (e-commerce and more). On the other hand, it has succeeded in building a position globally.

JPMorgan Chase is by far the largest financial institution. It is truly an excellent company with more or less flawless execution and an ability to shift priorities within its chosen strategy.

Amazon grows quickly. 2023 saw a renewed focus on e-tail execution combined with the strongest position in cloud management services. Its Achilles heel is still that it plays in too many irrelevant businesses. Expect it to reach the fifth position in 2024.

The Notables

NVIDIA is climbing fast. It is now at #21, climbing from #79 in 2022. With current momentum, it could crack the Top 10 next year. An astonishing performance.

Berkshire Hathaway has a solid position in the teens. Like General Electric many years ago, its performance defies logic. It is likely to fade and be broken up over the next decade.

Pfizer plunged due to its Covid-related revenue. As the CEO says: “First, the hard truth. We missed our initial projections, largely due to the decline in sales of our COVID-19 products.”

Finally, how much did the Roaring Forty grow between 2022 and 2023? 4.2%. That is, after taking inflation into account, they shrank. This shows how hard it is to be at the top.

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This concludes this year's review of the largest companies. This is from now an annual publication by Tellusant.

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[1] Governments diligently collects VA though. It is published at the industry level and not by company.

[2] Asset specificity is a well-established concept within transaction cost theory.