The Relationship Between Firm Size and Earnings Growth/Momentum in the Consumer Goods Sector

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Study Objectives

- Determine the relationship between size and earnings growth
- Determine the relationship between firm size and sales growth
- Determine the relationship between firm size and earnings/sales momentum

Study Description

- Period of Analysis 2012
- Firms ordered by size (market capitalization)
- Firms divided into groups of twenty
- Four groups selected for analysis
    1. Very Large Cap (VLC)
    2. Large Cap (LC)
    3. Mid Cap (MC)
    4. Very Small Cap (VSC)

Analysis of Data

- Both very large cap and very small cap have the highest EPS growth sales for next year and next five years
- Large cap has the highest sales growth the past five years, both very large cap and very small cap are ranked second
- Very large cap and mid cap have the greatest earnings growth momentum over next five years
- Very small cap generates more earnings growth per unit rate of growth in sales; past 5 years

EPS Growth Rates			
SIZE	Next Year EPS Growth	Next 5 Years EPS Growth	Sales Growth Last 5 Years
(VLC)	24%	29%	7.28%
(LC)	16%	13%	16.91%
(MC)	13%	13%	2.41%
(VSC)	22%	21%	7.82%

Momentum Ratios	
SIZE	EPS Growth Next 5 Yrs./ EPS Growth Last 5 Yrs.
(VLC)	3.791
(LC)	1.916
(MC)	3.765
(VSC)	0.609
SIZE	Avg. EPS Growth Last 5 Yrs./Avg. Sales Growth Last 5 Years
(VLC)	0.71
(LC)	0.72
(MC)	0.7
(VSC)	5.04

Conclusions

- Both very large size and very small size firms have significantly higher short and long term earnings growth rates than intermediate size firms
- From a momentum perspective very large firms have a higher rate of earnings momentum than very small firms
- Very small firms generate a much higher earnings growth per unit of sales growth, when compared to intermediate and very large firms