



# GROWTH TESTS

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# Fundamental Growth

- Fundamental growth is tied to how much a company reinvests back into the business and how well it reinvests. A company reports after-tax operating income of \$ 75 million on invested capital of \$ 1 billion (thus generating a return on capital of 7.5%). It does not plan to reinvest in new assets, but will maintain existing assets and its current return on capital. What follows?
  - a. The company cannot grow
  - b. The company cannot grow in the short term
  - c. The company cannot have sustainable long term growth
  - d. The company will shrink

# Efficiency and Growth?

- If this company thinks that it can improve its return on capital on existing assets to 10% next year by making them more efficient, what growth rate will you see in operating income next year? (You can still assume no reinvestment)