



CALCBENCH

Tech Giants, Market Cap, and Profits: Is their weight on Wall Street deserved?

August 2020

Background: The MAGAF

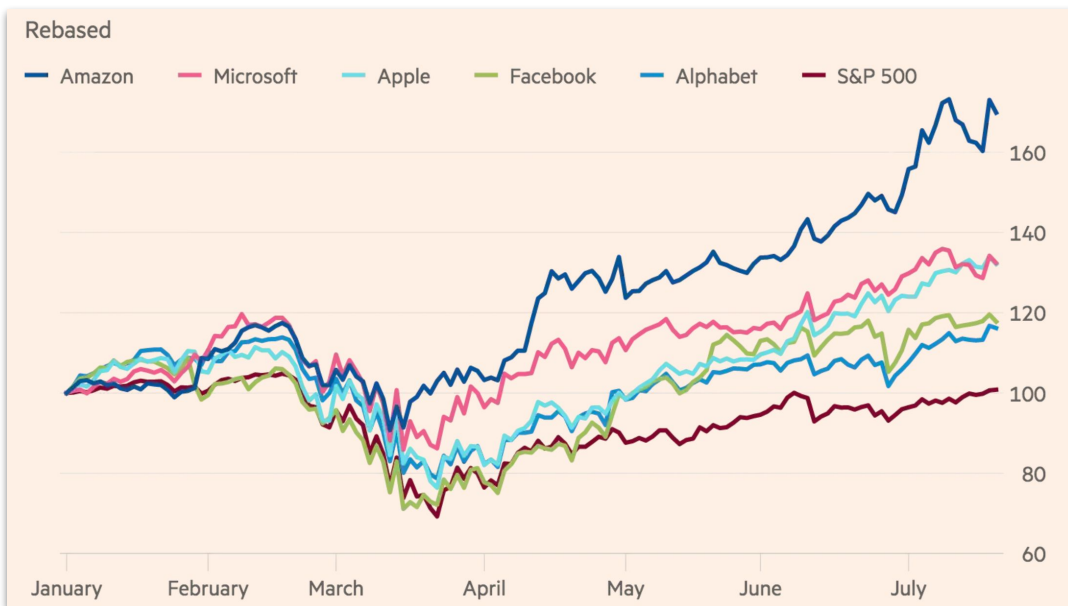
Over the last several years, the market capitalization of five large technology firms listed in the S&P 500 has grown to account for roughly 22.1 percent of the S&P 500's total market cap. They are:

Name	Ticker	Market Cap, in billions
Microsoft	\$MSFT	\$1,540
Amazon.com	\$AMZN	\$1,520
Google	\$GOOG	\$1,030
Apple	\$AAPL	\$1,640
Facebook	\$FB	\$658
MAGAF Total		\$6,388
S&P 500		\$28,909

We call these five firms the MAGAF Group.

Background: The MAGAF

Each MAGAF stock has also outperformed the S&P 500 index this year individually.



Credit: [Financial Times](#); 22 July 2020

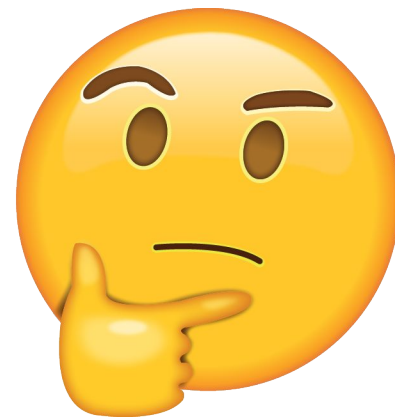
The rise of the MAGAF Group has led some to ask whether their market cap gains have created a top-heavy market.

That is, do their market cap gains push up the S&P 500 index so much that it masks poorer performance among the other 495 firms in the index?

Background: The MAGAF

Calcbench went to the data and asked:

- What portion of S&P 500 profit do the MAGAF generate?
- How has GAAP net income grown over the last several years?
- **Are the MAGAF actually worth their weight?**



What We Found

The MAGAF Group accounted for an outsized share of S&P 500 performance for Q1 2020* in every significant category.

2020 Q1 TTM	S&P 500	'S&P 495' w/o MAGAF	MAGAF Group	MAGAF as Pct of All
Revenue	\$12,168,767,362,000	\$11,225,779,362,000	\$942,988,000,000	7.75%
Operating income	\$1,413,678,592,000	\$1,219,859,592,000	\$193,819,000,000	13.71%
Operating cash flow	\$2,040,370,293,000	\$1,775,177,293,000	\$265,193,000,000	13.00%
Assets	\$38,611,311,015,000	\$37,372,450,015,000	\$1,238,861,000,000	3.21%
Net income	\$1,052,327,024,000	\$882,804,024,000	\$169,523,000,000	16.11%

What We Found

So are the MAGAF over-weighted?

- 22.1 percent of all market cap, for 16.1 percent of all net income. Is that disproportionate or not?

But remember...

- Share price, and therefore market cap, is a function of expectation for **future** earnings.
- So what does data about **prior** earnings growth suggest for **future** earnings growth?



What We Found

Calcbench examined quarterly net income growth, Q1 2018 through Q1 2020, among S&P 500, S&P 495, and the MAGAF Group.

Thought experiment: If you could ‘buy’ \$1 of equally weighted net income in Q1 2018, what would that be worth in Q1 2020, given net income trends over the intervening two years?

- S&P 500 would be worth \$0.99
- S&P 495 would be worth \$0.92
- **MAGAF Group would be worth \$1.57**

What We Found

Notice the plunge in net income growth in Q1 2020 as the pandemic arrived.

That's not a surprise, but...

- A reminder that MAGAF Group is resistant to pandemic pressures; and
- MAGAF Group had been pulling ahead on net income growth already

So the acceleration in MAGAF market cap does have a logic to it, borne out by data.

	S&P 500	S&P 495	MAGAF Group
2018-Q1	\$1.000	\$1.000	\$1.000
2018-Q2	\$1.057	\$1.057	\$1.063
2018-Q3	\$1.124	\$1.120	\$1.167
2018-Q4	\$1.131	\$1.095	\$1.450
2019-Q1	\$1.153	\$1.124	\$1.410
2019-Q2	\$1.164	\$1.128	\$1.477
2019-Q3	\$1.138	\$1.101	\$1.473
2019-Q4	\$1.211	\$1.173	\$1.546
2020-Q1	\$0.990	\$0.924	\$1.577

What We Found

Another measure of corporate performance is **Return on Assets** (net income divided by assets, to measure how efficiently the company generates profit per dollar of assets). Again, the MAGAF Group far exceeded the rest of the S&P 500 on RoA. See below.

	Q1 2020 Assets	Q1 2020 Net Income	Return on Assets
S&P 500	\$38,611,311,015,000	\$1,052,327,024,000	2.73 pct
S&P 495 w/o MAGAF	\$37,372,450,015,000	\$882,804,024,000	2.36 pct
MAGAF Group	\$1,238,861,000,000	\$169,523,000,000	13.68 pct

Conclusions

- The MAGAF Group do indeed account for a disproportionate amount of market cap among the S&P 500, but they account for a disproportionate amount of net income, too.
- The MAGAF Group have grown net income at a much faster rate than the rest of the S&P 500, a trend well underway **before** the pandemic arrived.
- While the pandemic is enormously disruptive, those disruptions play to the MAGAF Group's strengths.
- The MAGAF Group have outperformed on Return on Assets as well.
- What else are we missing? Let us know at info@calcbench.com.

Ways Calcbench Can Help

Standardized financial data. Our [Multi-Company database](#) lets you search revenue, operating income, net income, assets, and other financial data across large groups of firms. All metrics can be searched for one firm, peer groups you create, or standard groups such as the S&P 500.

Bulk data query. Our [Bulk Data Query page](#) also lets users research aggregate financial data and key operating metrics such as Return on Assets, and quickly explore that data to Excel. Data can be searched for one period or over longer periods of time.

Footnote disclosures. The good stuff is always in the fine print. Our [Interactive Disclosure database](#) lets you search for any disclosures by type (Income Taxes, Goodwill & Impairment, Contingencies, and more), or search for specific terms in the text.



Thank you, that's all!



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