

## **From Railroads to Apple and Amazon**

In early August Apple became the first U.S. corporation to reach a valuation of \$1 trillion (for those counting at home, that's a 1 with twelve 0s). In light of that remarkable achievement we went back in U.S. market history to examine other valuation milestones reached during the last 150 years. What we observed was that the largest companies were typically, but not always, companies involved in the new, exciting technology of the era. In addition, all these corporate titans saw their leadership decline due to the inherent innovation and competitive nature of American capitalism.

### **From Railroads to General Electric**

The exciting new technology of the mid-1800s was a new form of transportation that transformed the country: the railroad. Starting in 1845 railroads were built in every state and the largest companies by market cap in the nation were railroad companies. One of these companies was the New York Central Railroad, which went from New York to Boston in the east and Chicago and St. Louis in the Midwest. In 1878 New York Central Railroad became the first U.S. company to reach a valuation of \$100 million.

The next significant valuation breakthrough was reached 46 years later, again thanks to a new technology in the field of communications: the telephone. Dating back to the original Bell Telephone Company founded by Alexander Graham Bell, AT&T became a behemoth in the early part of the twentieth century. In 1924, thanks to a government-authorized phone service monopoly, AT&T became the first U.S. corporation to reach a market valuation of \$1 billion.

AT&T reigned supreme as the most valuable company in the U.S. until it was dethroned by General Motors in the mid-1950s. In 1955 General Motors became the first U.S. company to reach a valuation of \$10 billion. While General Motors was formed in 1908, it became a force to reckon with, as cars became more pervasive in American society and the Interstate Highway System was built.

We can remember how twenty-three years ago, in 1995, General Electric became the first U.S. company to reach a market cap of \$100 billion. At the time, General Electric was a conglomerate involved in many industries, from aircraft engines and appliances to financial services and media. Led by the charismatic CEO, Jack Welch, General Electric was a Wall Street darling through the late 1990s and everybody wanted to emulate the leadership style at the company.

### **Apple and Amazon**

Which brings us to today. Thanks to the ubiquitousness of the iPhone, Apple has become the most valuable company in the U.S., currently worth more than \$1 trillion. What is most remarkable is that Apple was just days away from declaring bankruptcy as recently as 1997. Today, Apple is an impressive cash machine, generating yearly revenues of more than \$250



billion and profits of more than \$56 billion. Its balance sheet is the envy of the corporate world (and many countries!) with cash and investments of more than \$200 billion.

Amazingly, just a short month after Apple reached its milestone, the \$1 trillion club welcomed another member: Amazon. The Internet retailer's climb to the top is even more impressive, due to the fact that its profits pale in comparison to that of Apple's. Amazon's profits in the last twelve months were just over \$6 billion, clearly illustrating that investors are very excited about future prospects. We find it fascinating that Amazon has a higher market cap than all of the following retailers, *combined*. The annual sales of these retailers total more than \$1 trillion, compared to Amazon's \$200 billion.

<b>Retailer</b>	<b>Market cap (in \$ billions)</b>
Wal-Mart Stores	284.6
Home Depot	235.6
Costco Wholesale	103.8
Lowe's	89.3
CVS	77.4
Target	46.8
Dollar General	29.5
Best Buy	22.1
Kohl's	13.5
Nordstrom	10.9
Macy's	10.8
L Brands (Victoria's Secret and Bath & Body Works)	7.4
Foot Locker	5.6
Dick's Sporting Goods	3.9
Michael's	2.9
Bed Bath & Beyond	2.5
Office Depot	1.8
Gamestop	1.6
JC Penney	0.54
Barnes & Noble	0.33
Sears Holdings	<u>0.17</u>
	\$951 billion

Source: CNBC (market cap as of 9/6/18)

## Conclusion

What will be the first company to reach a \$10 trillion valuation? Will it be Apple or Amazon? Will it be a company not currently on our radar? Based on what has happened with previous corporate titans due to the Darwinian nature of capitalism, we would not be surprised if Apple and/or Amazon are not the first companies to reach \$10 trillion. All the companies discussed



above, from the New York Central Railroad to General Electric, suffered a significant fall from grace after becoming the largest company by market cap in the U.S.

The New York Central Railroad merged with its rival the Pennsylvania Railroad to form Penn Central in 1968. Two years later Penn Central went bankrupt and merged with Conrail in 1976. Conrail was broken up in 1998 and portions of its system were transferred to CSX and Norfolk Southern, two of the four remaining railroad companies operating today in the U.S.

AT&T became so powerful in the eyes of the U.S. government that its monopoly was broken up by regulators in the 1980s. Ironically, as new technologies and competition arose, the company started unifying again starting in 1999. Of the eight companies that were part of the breakup of the Bell System, five are part of the current AT&T.

After its heyday in the 1950s, General Motors started to suffer a steady decline in market share, as the entry of foreign companies in the domestic auto market ate into its business. Increased pension liabilities and the financial crisis of 2008 proved too much for the company and it went bankrupt in 2009. The Obama administration saved the company from insolvency and while it still operates today, it is a shadow of its former self.

The financial crisis of 2008 also proved too much for General Electric, especially for its financial unit, GE Capital. After reaching a market cap of more than \$500 billion, General Electric today is worth less than it did when it hit the \$100 billion milestone in 1995.



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