

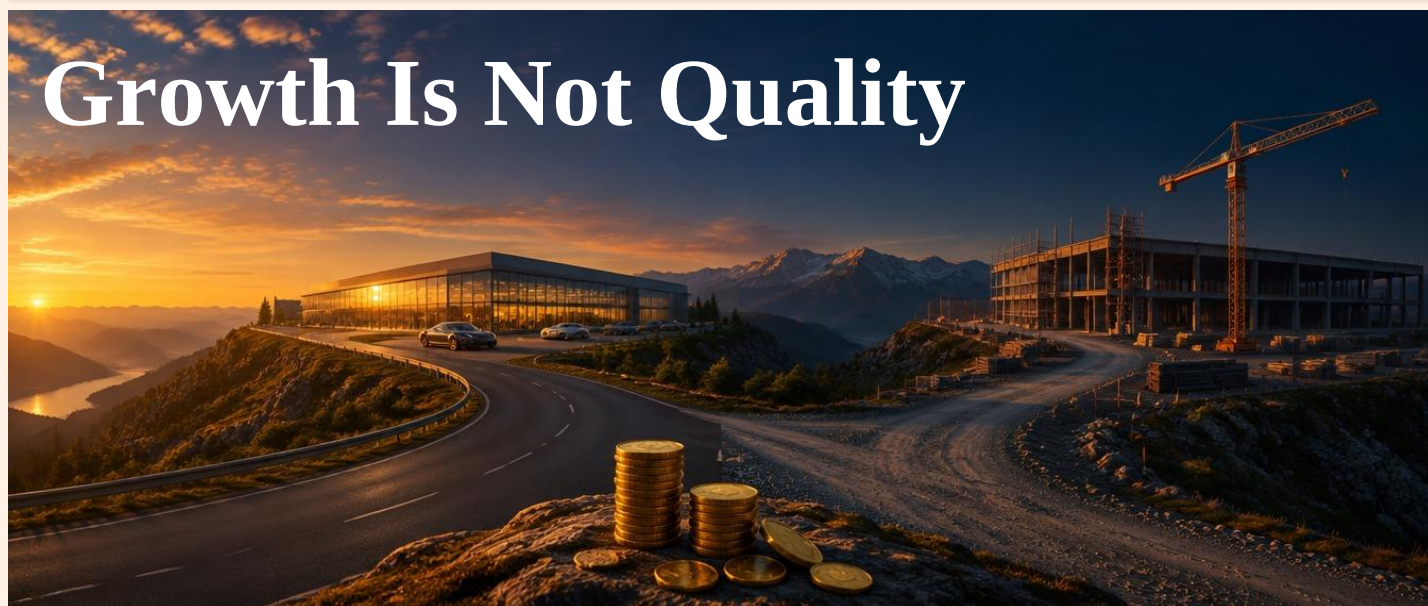
THE QUALITY PULSE

ONE INSIGHT. ONE PERSPECTIVE. EVERY WEEK.

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6 MIN READ



Growth Is Not Quality

What growth consumes, what it earns and how it is financed

Growth is an appealing part of an investment story. More customers, new products and rising sales suggest that a business is becoming more successful. Yet expansion also makes demands on that business: orders must be fulfilled, capacity built and products developed before the benefits

arrive. For shareholders, the outcome depends on whether those demands are comfortably met by the cash the company earns, and whether the investment ultimately earns an adequate return.

A LARGER COMPANY DOES NOT NECESSARILY LEAVE EACH SHAREHOLDER BETTER OFF.

WHY A GROWING BUSINESS CAN RUN SHORT OF CASH

Consider a manufacturer winning more orders. It may need to buy materials, hire staff and hold additional inventory before customers pay. If existing factories are full, another production line becomes necessary. Sales can therefore rise while cash becomes tighter. Borrowing or issuing shares can bridge the gap, but the future profits must then compensate for interest costs or be shared among more owners. A larger company does not necessarily leave each shareholder better off.

The income statement captures only part of this process. A company can report improving EBITDA while substantial cash goes into equipment and product development; interest also sits outside that measure. Free cash flow brings these demands into view by showing what remains after operating costs and investment. Over a reasonable investment cycle, a business that generates a surplus can finance its next stage of development with less dependence on lenders or new shareholders. That financial freedom is an important part of Quality.



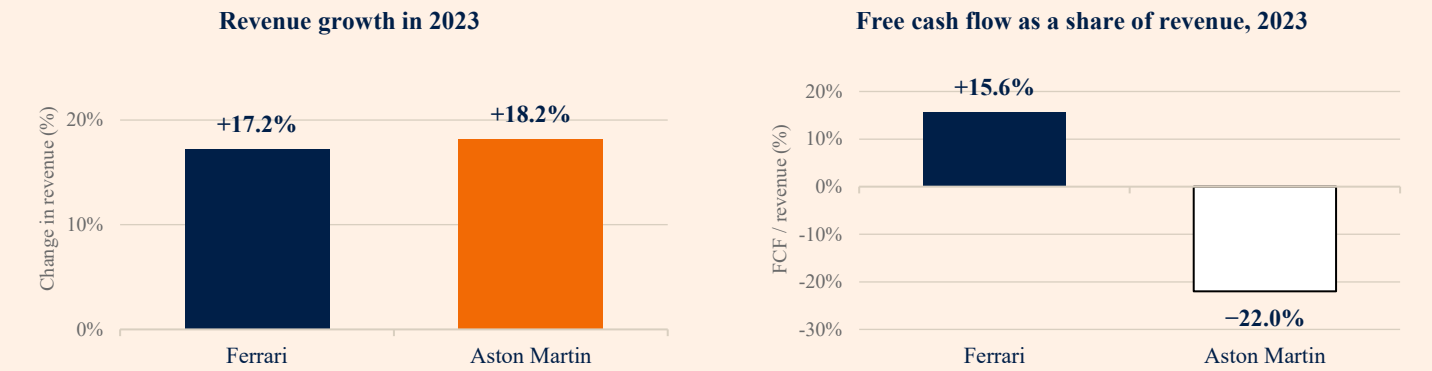
INVESTMENT TAKEAWAY

Free cash flow shows what remains after operating costs and investment. A business that generates a surplus can finance its next stage of development with less dependence on lenders or new shareholders. That financial freedom is an important part of Quality.

Similar revenue growth. Very different funding.

TWO LUXURY BRANDS WITH DIFFERENT GROWTH ECONOMICS

Ferrari and Aston Martin make the distinction tangible. Both sell desirable performance cars and must keep investing to sustain their appeal. In 2023, both increased revenue by roughly 18%. From the sales figures alone, their progress looked similar. Following the cash reveals how differently that progress was funded. [1, 2]



2023 company results. FCF / revenue calculated from reported figures. Ferrari uses industrial FCF, excluding financial services; Aston Martin uses group FCF after net interest. These are directional comparisons, not harmonised accounting measures.

SOURCES: FERRARI [1], ASTON MARTIN [2]

Ferrari’s revenue growth came largely from earning more on the cars it sold, through pricing, a richer model mix and personalisation: shipments rose only 3.3%. This matters because higher revenue did not require a similar increase in production volume. The company still invested €869m in tangible and intangible assets, yet generated €932m of industrial free cash flow. It could develop the business, reward shareholders and reduce net industrial debt within the same year. [1]

WHEN THE NEXT STAGE OF GROWTH NEEDS OUTSIDE FUNDING

Aston Martin was also investing in its future, including new models and electrification. Its 2023 revenue growth and 61% increase in adjusted EBITDA suggested progress. Yet operating cash of £146m could not cover £397m of investment and £109m of net cash interest. The £360m free cash outflow meant it still needed funding to carry those plans forward. [2]

+3.3%

Ferrari shipments 2023: revenue grew 17.2% while volume barely moved

SOURCE: FERRARI [1]

€932m

Ferrari industrial free cash flow 2023, after €869m of investment

SOURCE: FERRARI [1]

–£360m

Aston Martin free cash outflow 2023, despite +61% adjusted EBITDA

SOURCE: ASTON MARTIN [2]

£1.38b

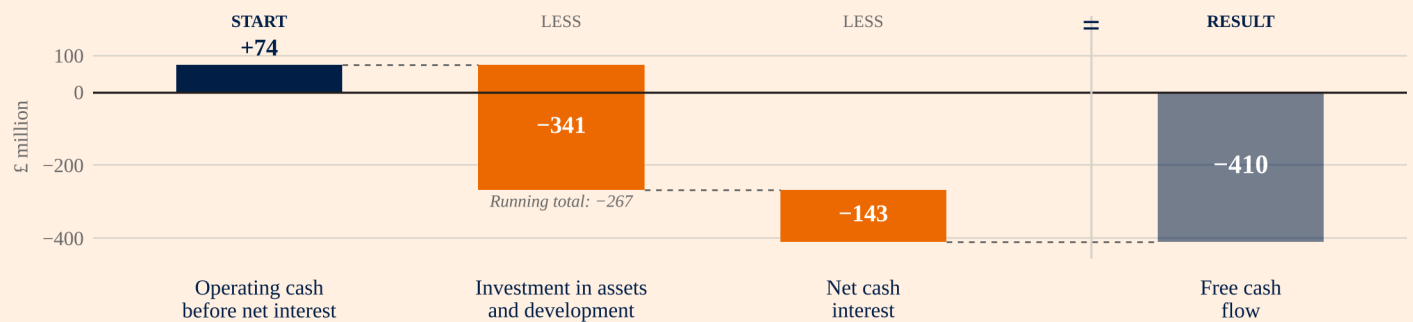
Aston Martin net debt at the end of 2025

SOURCE: ASTON MARTIN [3]

Spending ahead of a product launch can be reasonable, but later sales must generate enough cash to justify the commitment. Aston Martin’s 2025 results illustrate the vulnerability: revenue fell 21%, the company recorded an operating loss and free cash outflow reached £410m. Investment continued to absorb cash, while interest added another substantial claim on it. [3]

Aston Martin 2025 cash bridge | £ million

$$+74 - 341 - 143 = -410 \text{ £ million}$$



Operating cash includes working capital. Investment includes asset and development expenditure; the bridge excludes financing inflows and investment disposals. Figures rounded from the audited FY2025 results.

SOURCE: ASTON MARTIN [3]

With net debt at £1.38b, equity investment and the sale of its Formula 1 team stake helped support liquidity. Interest absorbs cash needed for future models, while new equity can dilute existing owners. Ferrari, meanwhile, grew revenue by 7% in 2025 and generated more than €1.5b of industrial free cash flow after approximately €950m of capital expenditure. Its funding capacity had persisted. [3, 4]

THE RETURN MATTERS AS MUCH AS THE FUNDING

The contrast raises a broader question: does a cash shortfall signal weak economics, or investment ahead of future returns? Negative free cash flow is not necessarily poor Quality. A factory or model programme can absorb cash for years before earning attractive returns; conversely, cash flow can look strong when necessary spending is deferred. What matters is the full investment cycle: capital committed, returns eventually earned and the ability to withstand setbacks along the way.

Negative free cash flow is not necessarily poor Quality. The full investment cycle decides.

The evidence adds perspective, rather than a simple rule. Cooper, Gulen and Schill (2008) found that companies with faster asset growth tended to deliver weaker subsequent US stock returns. That is a finding about share performance, not proof that investment itself destroys value. Research on financing adds a second dimension: Fazzari, Hubbard and Petersen (1988) explored how internal funds relate to corporate investment, while Kaplan and Zingales (1997) questioned whether cash-flow sensitivity reliably identifies financing constraints. The studies do not rank Ferrari against Aston Martin. They reinforce the need to examine both the returns promised by expansion and the financial capacity to see it through. [5–7]

Does a cash shortfall signal weak economics – or investment ahead of future returns?

WHAT SHOULD AN OWNER ASK BEFORE COMMITTING CAPITAL?

For an owner, the test is concrete. Before approving a new model, factory or acquisition: how much cash must be committed before customers pay? What return should that capital earn over its life? And can the business keep investing if demand falls short? Ferrari and Aston Martin show why similar revenue growth can conceal very different funding requirements. The objective is not to minimise investment, but to finance productive growth without surrendering financial flexibility or diluting value per share. For an investor, a final question remains: how much of that future value is already reflected in the share price?

THE PULSE



Growth is not the same as Quality. Ferrari and Aston Martin grew revenue at almost the same rate in 2023, yet one financed its growth from the cash it earned, while the other needed lenders and new shareholders to carry its plans forward.

The test is concrete: how much cash must be committed before customers pay, what return should that capital earn, and can the business keep investing if demand falls short?

The objective is not to minimise investment, but to finance productive growth without surrendering financial flexibility or diluting value per share – and to ask how much of that future value is already in the price.

SOURCES

1. Ferrari N.V. (2024), FY2023 results, 1 February 2024
2. Aston Martin Lagonda (2024), FY2023 results, 28 February 2024
3. Aston Martin Lagonda (2026), audited FY2025 results, 25 February 2026
4. Ferrari N.V. (2026), FY2025 preliminary results, 10 February 2026
5. Cooper, Gulen & Schill (2008), “Asset Growth and the Cross-Section of Stock Returns”, Journal of Finance, 63(4), 1609–1651
6. Fazzari, Hubbard & Petersen (1988), “Financing Constraints and Corporate Investment”, Brookings Papers on Economic Activity, 1988(1), 141–206
7. Kaplan & Zingales (1997), “Do Investment-Cash Flow Sensitivities Provide Useful Measures of Financing Constraints?”, Quarterly Journal of Economics, 112(1), 169–215



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