Stocks in motion

Approaching the late stages of the corporate Life Cycle

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- Understanding where a company sits in the corporate Life Cycle is vital when identifying investment opportunities
- Companies that have reached maturity are sometimes seen as past it, or purely as sources of income, but they have the potential to deliver more
- Rexford is a good example of a Mature company that has been through the Life Cycle, but still has something to offer

Fast-moving, disruptive growth stocks and quality compounders might grab investors' attention, but numerically many more companies are actually situated towards the latter phases of the corporate Life Cycle.

These companies have been through their slowing phase and can be easy to overlook, with investors taking the view that their best years are behind them. The returns generated by companies in the Mature stage trend around the cost of capital, producing growth around that of GDP through the economic cycle.

It can certainly be a challenging place for companies to operate and a dangerous, but potentially rewarding, place for investors to search of wealth creating opportunities. Managers of growth-focused investment strategies often have a lack of exposure to Mature companies in their portfolios. These companies may therefore offer contrarian opportunities when market sentiment shifts toward stability and income.

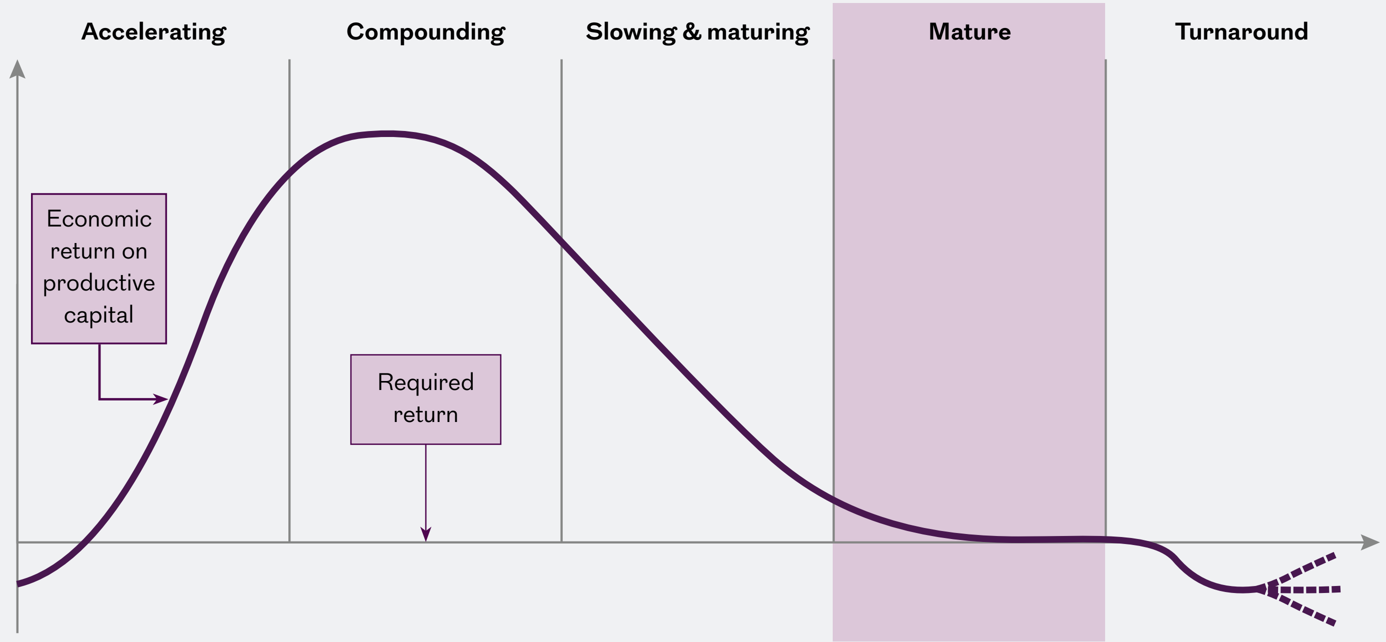
Rexford: the golden years

We believe one of those opportunities to be Rexford Industrial Realty (Rexford), an owner and operator of industrial properties throughout Southern California. It operates in the infill part of the real estate market, filling in the gaps between existing developments, and making use of existing or underutilised land. In the UK this is similar to what we refer to as 'brownfield' development.

Rexford makes money when rents increase, which is largely a function of the supply and demand dynamics in the market in which it operates. Operating and financial leverage then magnifies its funds from operations (akin to cash flow) which, given rental income is not taxed for REITs if passed through to shareholders, has resulted in an attractive and growing dividend over time.

Figure 1: Corporate Life Cycle

Corporate returns on productive capital and growth tend to progress along a Life Cycle. Every company can be located economically in a Life Cycle category.



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Surfing the supply chain

In the 2010s, scarce supply and growing tenant demand in a sought-after industrial end-market enabled Rexford to prosper when many REITs struggled. Over the long-term, demand has been supported by e-commerce growth. Real estate accounts for a relatively small percentage of total supply chain costs, fuelling demand for better located assets like those Rexford owns. With its buildings considered to be of superior quality, Rexford has been able to charge rents on average 19% higher than the wider market[1], further supporting its ability to generate potentially attractive returns for shareholders. Meanwhile, on the supply side Rexford has benefited from operating in one of the most supply-constrained warehouse and logistics markets in the US – surrounded by mountains, oceans, and dense population centres.

Yet Rexford, like any company that operates in capital intensive and somewhat commoditised industries like real estate, has been far from immune from demand shocks. Warehouse and logistics demand enjoyed a pandemic-induced boom, but this was followed by a subsequent unwind as supply chain pressures normalised. The capital cycle is a powerful force, and ultra-low interest rates fuelled a surge in construction starts in 2021 and 2022, at the worst possible time. The challenging market environment has recently been exacerbated for Rexford's portfolio, which is concentrated in the infill Southern Californian markets on the US West Coast, where tariffs and trade policies are driving concerns over the prospect of future flow of goods from Asia.

Opportunities in the OC

However, while it has been a difficult period for Rexford, we expect the external environment to become once again supportive to rental growth. Constructions starts have fallen to 30% below historic averages and Rexford's unique sourcing model, whereby 85% of acquisitions have been sourced 'off-market' or 'lightly marketed' over the last four years [1], gives us confidence it will be able to navigate the industry downturn, and return to its growth profile and premium rating.

For Mature businesses, we acknowledge the challenge of 'timing a cycle'. But we are more than comfortable gaining exposure to this market, which in our opinion contains the right ingredients for shareholder wealth creation.

References

1. https://d1io3yog0oux5.cloudfront.net/_fb865a23d51686bfdc6adf1f1549d97c/rexfordindustrial/db/924/9641/pdf/Rexford+Industrial+Investor+Presentation+Feb+2025+Final.pdf

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