



## FAILURE IN THE STOCK MARKET

*Jason Del Vicario, CFA® & Steven Chen, CFA®*

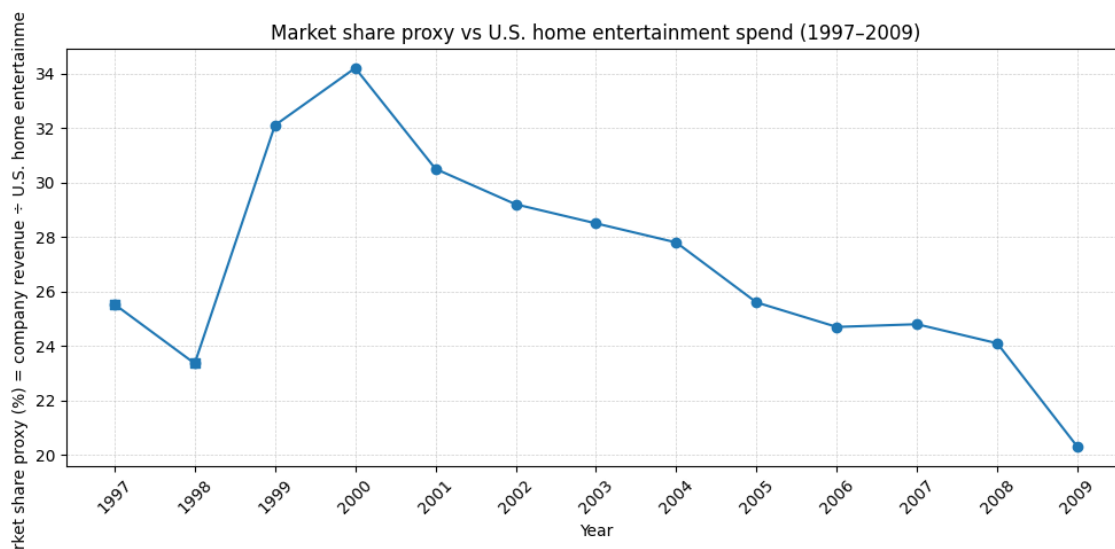
What does impending failure look like for a public company? We've been asked this a lot recently.

Unfortunately, while successful companies often look similar, failing companies tend to be “miserable” in their own unique ways, much like the old line: “all happy families are alike; each unhappy family is unhappy in its own way.” Still, there are common patterns worth watching for – here's an example that illustrates several of most frequent “miseries” which, more importantly (for investors), can often be identified - and sometimes avoided - earlier.

The company primarily operated in the US home entertainment industry. It went public in 1999 and filed for bankruptcy a little over 10 years later. A few highlights:

### 1. Market share (competitiveness)

The company began consistently losing market share almost immediately after listing - starting in 2000 - well before its main competitor's online streaming launch ultimately disrupted the industry. Persistent market-share erosion is often a signal of a competitive disadvantage in the company's offering.

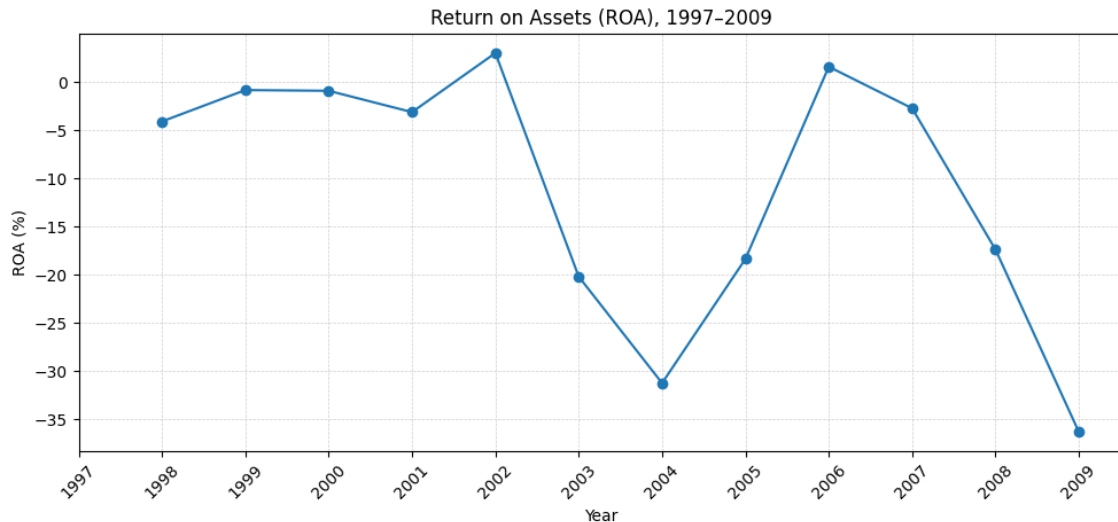


Source: chart generated by ChatGPT, March 2026.



## 2. Return on capital (sustainability)

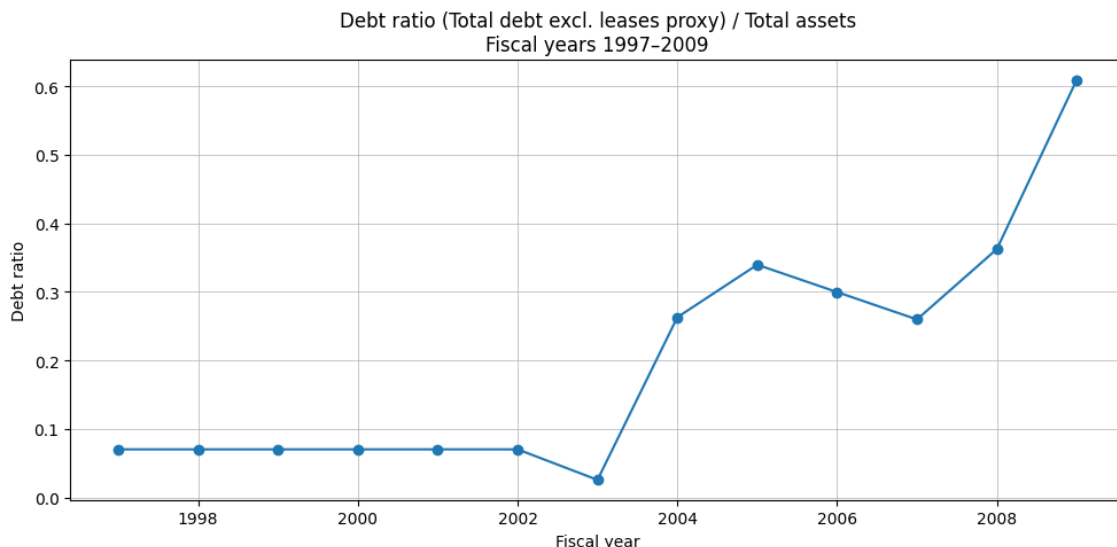
Across its public-market history, the company struggled to earn an attractive return on capital. In fact, it failed to break even in many years, raising questions about the viability of the underlying business model. We use return on assets (ROA) as a proxy rather than return on equity, given the company's high financial leverage (discussed next).



Source: chart generated by ChatGPT, March 2026.

## 3. Debt ratio (financial health)

Debt became the only remaining “growth” story. Borrowed capital funded the company's losing battle against competition and only temporarily masked a fundamental lack of profitability. Debt is often the coroner's report - not the illness itself. However, using leverage to sustain a low-profit (or unprofitable) business can accelerate the endgame when economic conditions finally tighten – as they did during the Global Financial Crisis.



Source: chart generated by ChatGPT, March 2026.



*Yes, the company was Blockbuster.*

## KEY TAKEAWAYS

1. Start with companies already able to earn high returns on capital;
2. Focus on indicators of underlying competitiveness (e.g., market share, net promoter score, customer retention, employee turnover);
3. Be cautious with businesses that rely on debt to stay alive.

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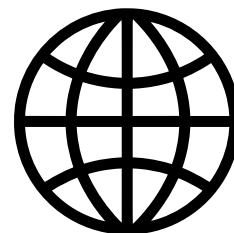
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