Fundamental analysis is a technique that attempts to assess the value of corporate securities by examining key value-drivers such as earnings, growth, and competitive position. It uses information in financial statements to gain insights about a company’s future performance. However, a signal used in fundamental analysis may have different implications for future earnings under different circumstances. We use firm life cycle as a conditioning variable for fundamental analysis, and investigate how the implications of fundamental signals for evaluating firm performance vary according to life cycle stage. Using a sample of 81,613 firm-year observations from 1989 to 2014, we find that fundamental signals based on accounts receivable, capital expenditure, sales per employee, inventory, SG&A costs, and gross margin, are differentially informative about firm value across firm life-cycle stages. We find that signals that provide information about managers’ willingness to invest are particularly informative for intro-stage firms and that signals related to operating performance and efficiency are particularly informative for mature-stage firms. We also find that a simple trading strategy based on fundamental signals and firm life cycle is effective in separating winners from losers in terms of excess stock returns. Our findings provide insights about the use of accounting data in evaluating firms.

(Copies of the paper are attached)