

The Fortune 500 list through a profitability lens: who rises and who falls?

by Anoushka Barkawitz and Alec Hudnut

April 28, 2023



It seems the word of the day is “profitability”. And, why not? There is a possible recession looming. Supply chain price increases are eating away at margins. Inflation is still running hot in most countries. Debt is harder to source and is at higher rates, so generating your own cash to fund growth becomes more and more important. Revenue growth for growth’s sake alone? Buying your competitors to take share? Forget about it. If the action doesn’t translate into greater long-term profitability, don’t do it. It’s no longer OK. It’s all about the profits. As it should be, by the way.

In that vein, where profitability is now king again, it is great to see that Fortune online, in its fabled Fortune 500 list, is also tracking the profitability of the Fortune 500. Not just the revenue size of the company or the market cap, but also now the net earnings of each company. Perfect! We are so glad.

Take a look (you will need a subscription; for a while it was only \$1 for a trial):

<https://fortune.com/ranking/fortune500/2022/search/?profitable=true>



Let's dig into this profitability data. What happens to the 2022 Fortune 500 list when we apply a profitability lens?

Thirty-seven of the companies on the Fortune 500 list are not profitable. So, they just fall off the list, and go away entirely. They are losing money. There are some pretty big names, too, in the unprofitable category. GE, #48 on the Fortune 500 list, lost \$6.5 billion in 2022. Big loss. GE would be off the list, if looked at through the lens of profitability. Top US airlines, American Airlines (#114) and United Airlines (#148) both lost about \$1.9B in 2022. Off the list, too. And some of the greatest brand names: P&G for consumer goods (#168), and Fluor for engineering and construction (#259). Both losing a lot of money. And a personal favorite, Icahn Enterprises (#328), the takeover specialist and profitability champion. Mr. Icahn, the cost reduction cobbler, has no shoes in 2022. Maybe the Fortune 500 list should have a new caveat, you also have to be profitable. If that was the rule, thirty-seven big companies would be off the list in 2022.

Let's see how the Top 10 on the Fortune 500 list change if we factor in profitability as the governing variable.

The Top 10 2022 Fortune 500 companies ranked as they are today by revenue size are:

1. Walmart
2. Amazon
3. Apple
4. CVS Health
5. UnitedHealth Group
6. ExxonMobil
7. Berkshire Hathaway
8. Alphabet

9. McKesson
10. AmerisourceBergen

But if we rank them by \$s generated in profit in 2022, it is a very different list. Four companies (Apple, Berkshire Hathaway, Alphabet and ExxonMobil) stay on the list. They are very profitable. And there are six newcomers added to the profitability list (Microsoft, JP Morgan Chase, Meta Platforms, Amazon, Bank of America, and Fannie Mae). The Top 10 on the profitability list earned over \$516 billion in 2022 profits. That's 29% of the profits of all the Fortune 500 companies. It's good to be at the top of the profitability list!



The Top 10 most profitable companies by profit dollars generated in 2022 are:

1. Apple (\$94B)
2. Berkshire Hathaway (\$89B)
3. Alphabet (\$76B)
4. Microsoft (\$61B)
5. JP Morgan Chase (\$48B)
6. Meta Platforms (\$39B)
7. Amazon (\$33B)
8. Bank of America (\$31B)
9. ExxonMobil (\$23B)
10. Fannie Mae (\$22B)



Or, you could slice profitability another way, by net income margin. Not just the total \$s earned, but the \$s earned as a percent of sales. Now, we get a very different list, this time with all new companies. On the best “net income margin” Fortune 500 list, the pharma companies and the credit card companies dominated in 2022. Makes sense in a pandemic year where lots of drugs were sold and lots of people used their credit cards to order food and groceries and other items. These companies, with the highest net income margins, may be the up and comers for future years, or they may have just had a very good, cyclical year. But it is interesting that if you sort by net income margin, the list is completely different than the first two lists.

Take a look at the list by net income margin:

1. Moderna (66%)
2. Visa (51%)
3. Regeneron Pharmaceutical (50%)
4. Coinbase Global (46%)
5. Mastercard (46%)
6. Intercontinental Exchange (44%)
7. Texas Instruments (42%)
8. Discover Financial Services (41%)
9. T. Rowe Price (40%)
10. Capital One Financial (38%)

So, which list would you rather be on? The Fortune 500 ranked by revenue size (the usual way) or ranked by profitability? In the long run, it is very likely that the companies that are the most profitable year after year are the ones that win (unless of course they are over-leveraged).

Wall Street’s obsession with EPS makes sense. Profitability is important. Perhaps the most important long-term determinant of success. It’s what will keep your company healthy, our country continuing to improve, and the global economy humming along.

Get to it. Focus on the profits. It’s why you are in business.

Anoushka Barkawitz is a research associate at Vici Partners, an earnings growth consulting firm.

Alec Hudnut is the Managing Partner at Vici Partners and can be reached at ahudnut@vicipartners.com.

www.vicipartners.com