

# Self-Sustainability is the New Black

Quote:

*“Today is a sad day at [MasterClass]. I made the really hard decision to reduce our team by 20% to adapt to the worsening macro environment and get to self-sustainability faster.” – David Rogier, CEO of MasterClass*

## **Self-Sustainability is the New Black**

During the heat of the latest growth boom, most business operators and investors homed in on topline revenue as the key indicator of a growth company’s long-term prospects. As a result, cash-burning companies with tremendous topline growth but abysmal bottom lines fetched valuations that baffled traditional value investors. Growth investors, on the other hand, salivated at the idea of buying shares in companies that showed feverous expansion, often ignoring profit margins and profitability in favor of revenue growth, user growth or active users, and other key indicators of rocket ship-like momentum.

In a raging bull market coupled with a strong economy and low interest rates, this strategy proved profitable and rewarded the risk-on attitudes of investors. However, as recent months have shown, when market sentiment turns, cash-burning companies have a much more difficult time justifying lofty valuations and riding out down cycles on autopilot.

Most financial headlines today are focused on the Fed, inflation, the economy, and which direction markets are moving on a given day. Headlines around layoffs and hiring freezes have also become more prevalent – most notably within tech. Specifically, growth companies have reacted to an increasingly challenging and uncertain macro-economic environment by pivoting hiring plans to:

1. Extend runway – which is especially important for cash-burning companies that rely on equity and debt financings to stay in business.
2. Get to “self-sustainability” faster.

In the not-too-distant past, the concept of “self-sustainability” was taboo amongst high-flying growth companies. Investors steered operators to drive topline revenue growth and ignore all thoughts of free cash flow, knowing that “easy money” was sitting on the sidelines ready to be deployed. But, in a sign of the times, TechCrunch recently published an article that says it best: [MasterClass cuts 20% of 600-person staff to ‘get to self-sustainability faster’](#).

The subtext here is that growth companies as they existed are no longer in vogue and “growth at all costs” is no longer the prevailing spirit of the time. Instead, profit margin, profitability, and “self-sustainability” is becoming increasingly important. Unfortunately, that will likely mean a contracting hiring market as companies aim to “do more with less.”

One of my favorite Warren Buffett quotes is, “only when the tide goes out do you discover who's been swimming naked.” The recent market correction has certainly uncovered plenty of companies that have seen their price per share plummet due to shaky business models and shifting economic conditions. This has forced businesses to adapt growth plans and more of the same is expected in the months ahead. However, the silver lining is that reorienting around profit margin, profitability, and self-sustainability will create healthier businesses that are set up for success over the long run.



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