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# TRIVARIATE RESEARCH

## THE DOUBLE WHAMMY

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## SUMMARY OF RESEARCH AND INVESTMENT CONCLUSIONS

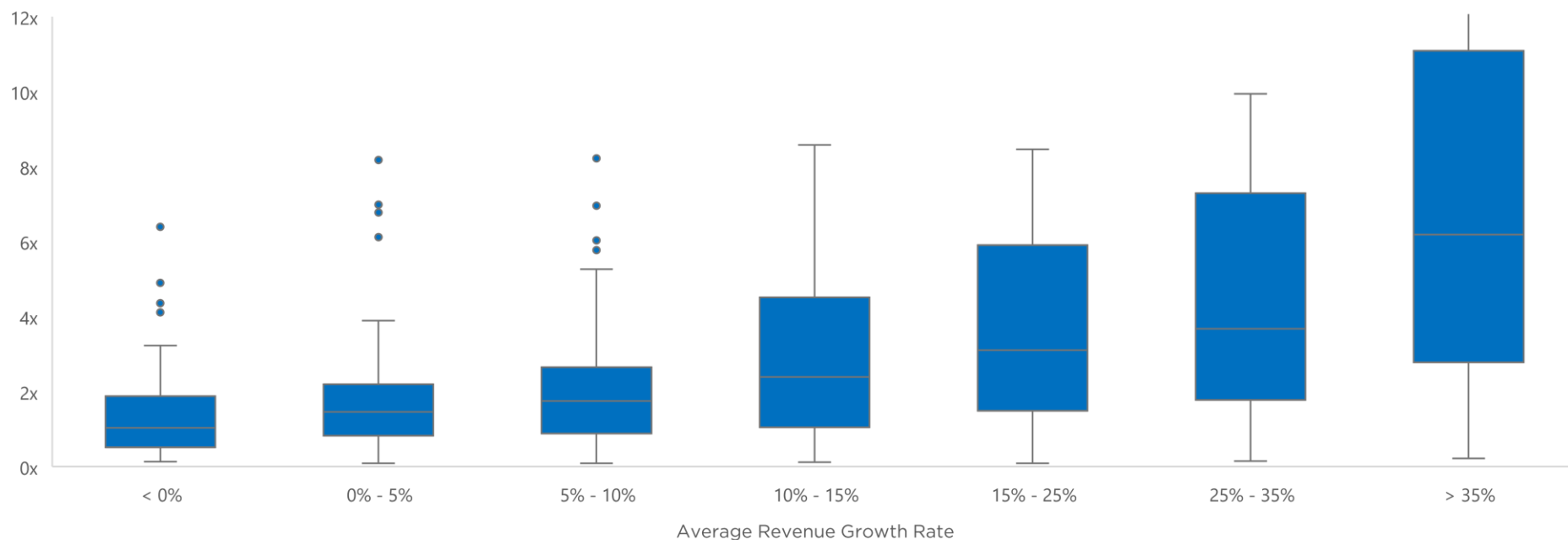
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- **Faster (slower) growth means disproportionately higher (lower) multiples:** We analyzed the revenue growth rates of all non-value companies and observed a sustained non-linear relationship between revenue growth and relative price-to-sales multiples. Each incrementally higher (lower) revenue growth rate carries with it a disproportionately higher (lower) multiple. Identifying stocks that will transition to a higher (lower) revenue growth bucket enables the potential “double-whammy” stocks- those that higher (lower) growth will also potentially come with a higher (lower) relative multiple. This revenue growth vs. valuation relationship strengthened beginning in 2017, but has been mostly statistically significant over the last twenty years
- **More volatile revenue growth doesn't seem to penalize multiples:** We do not observe different relative price-to-sales multiples for more volatile revenue growth across different revenue growth bands, meaning more volatile growth does not appear to be punished, against our prior. Over the past twenty years there has really been no relationship between stability of revenue growth and relative price-to-sales multiples.
- **Industry and stock opportunities:** At the industry level, energy is forecasted to grow 25% faster than its long-term average but is trading at less than half its average relative price-to-sales multiple. On the contrary, software is projected to grow 2% faster than its long-term average however is nearly 30% more relatively expensive. Stock ideas that are cheap (expensive) for their current revenue growth level are shown on slide 7. Clearly sustained profitability matters, with medical distribution appearing cheap, and payments expensive, however several valuation / growth dislocations merit investigation in our judgment. The double whammy stocks – those that are projected to grow materially faster (slower) and potentially merit higher (lower) multiples if the forecasts are accurate are shown on slide 8. Technology dominates the sell list.

# FASTER GROWTH MEANS DISPROPORTIONATELY HIGHER MULTIPLES

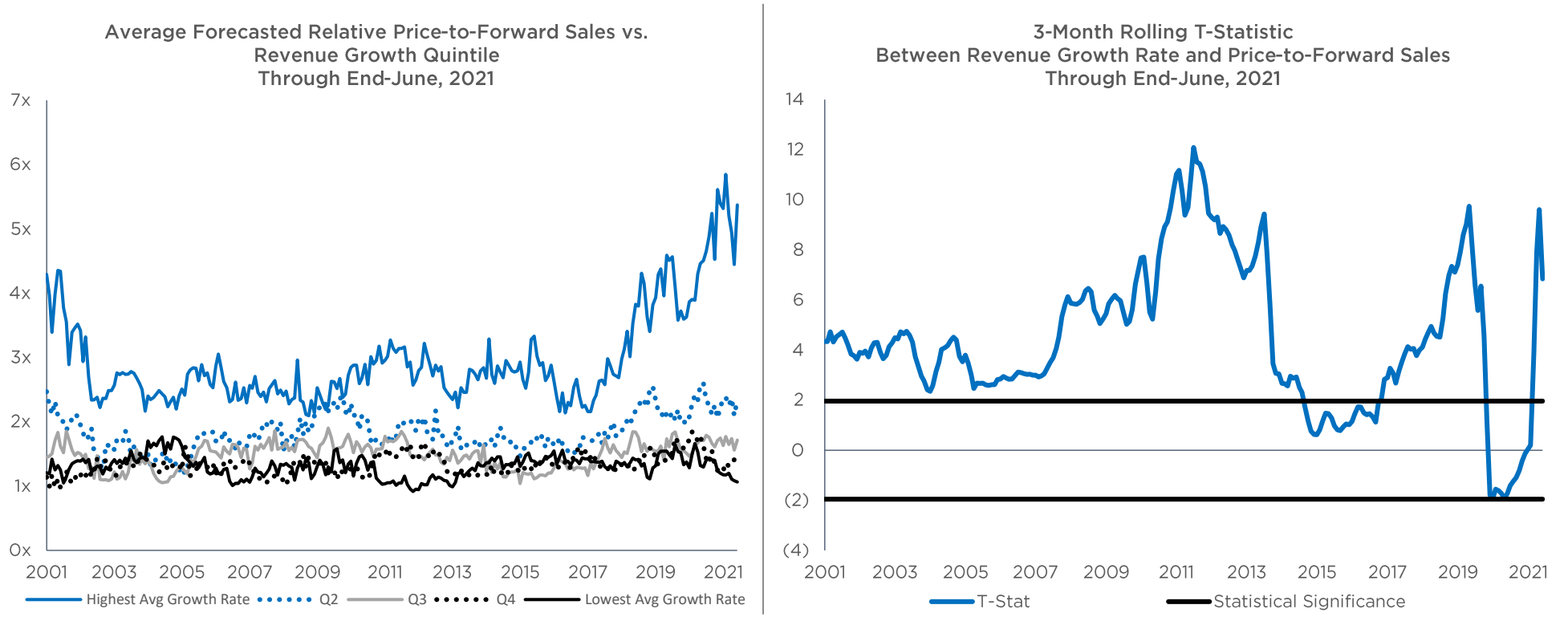
We analyzed the growth rates and relative to SP500 price-to-sales multiples for US stocks (excluding small / micro caps and value stocks). Growth / neither stocks with revenue growth below 0% have a relative price-to-sales multiple close to the market level, but as annual revenue growth exceeds 10%, the relative multiple begins to incrementally expand. Companies that grow 25-35% annual trade at nearly 4x the market multiple on sales on average, vs. 2x on average at 5-10% annual growth. **Higher growth means disproportionately higher multiples!**

Distribution of Relative to T500 Price-to-Forward Sales Multiple  
By Growth Rate Bucket  
June 30, 2021



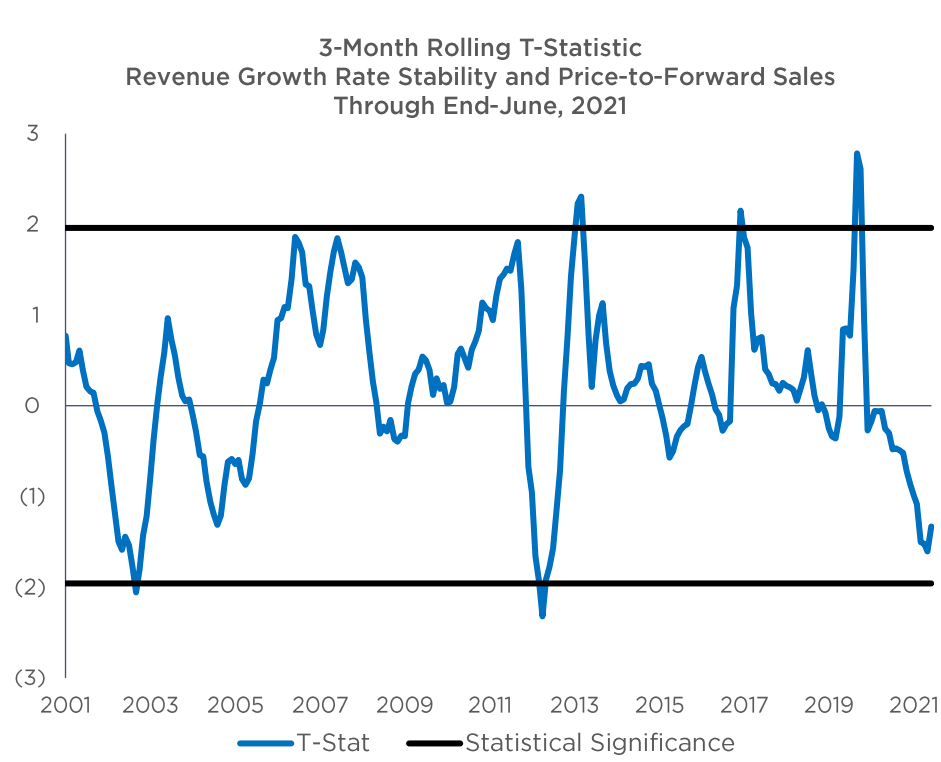
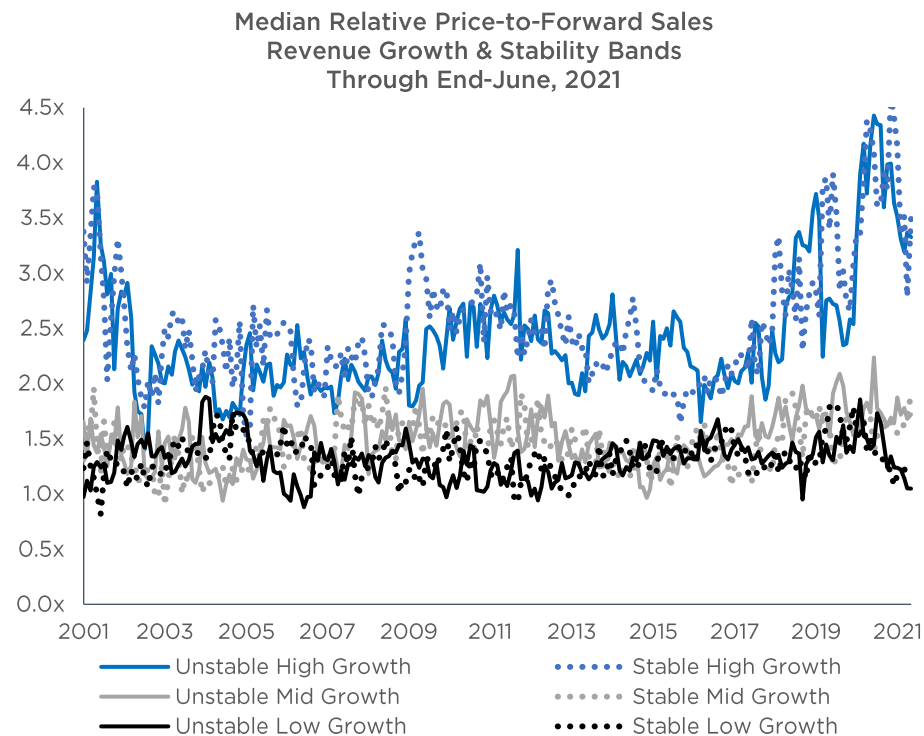
# THE RELATIONSHIP EXPANDED IN 2017 AND IS USUALLY SIGNIFICANT

The relationship between relative price-to-sales multiples and revenue growth materially expanded in 2017, with the fastest growing quintile of revenue growers beginning to incrementally get rewarded with higher relative price-to-sales multiples (left chart). For the most part, this relationship has been statistically significant over the last twenty years (right chart) with a brief reversal during COVID (statistical significant bands shown at +/- 1.96)



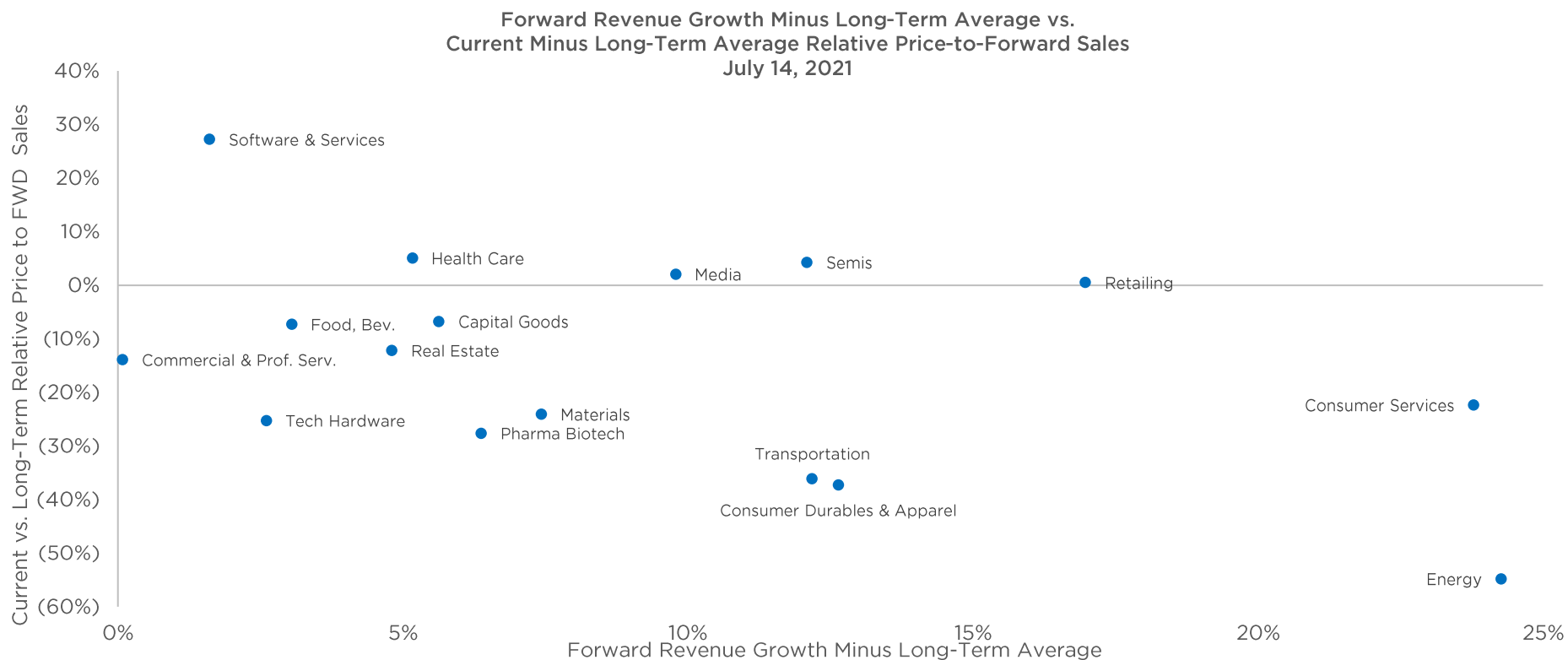
# STABILITY OF GROWTH IS NOT AS IMPORTANT

Our prior was that we would also see a relatively higher multiple for stable revenue growth than we would for volatile growth. However, the research does not bear that out. The left chart shows revenue growth broken into terciles (high, mid, low), and stability broken in two (unstable / stable). For all three revenue growth buckets, the relative to SP500 price-to-sales multiple is about the same over time for the stable and unstable groups



# INDUSTRY GROWTH RATES AND MULTIPLES SHOW DISLOCATIONS

We looked at industry-level revenue growth and relative to SP500 price-to-forward sales and compared the forecasted growth and multiples to historical averages. Every industry is forecasted to grow faster than its long-term average next year. Energy is expected to grow nearly 25% faster than its average over the next year, but its sales multiple is nearly half its long-term average. Software is expected to grow 2% faster than average but is nearly 30% more relatively expensive than average



Note: Our analysis excludes all "value" stocks, financials, and all small and micro cap. stocks

# STOCK IDEAS WHERE VALUATION IS DISLOCATED FROM GROWTH

The top of the chart shows the cheapest stocks in relative price-to-sales relative to their revenue growth rate. The medical distribution companies (incredibly low margin), BERY (plastic), homebuilders (fears of cyclicity) are among those that stand out. The bottom are expensive stocks – payments stand out because they are incredibly profitable, but others like CDAY and LSCC seem quite expensive

Buy Cheap Relative to Growth Bucket, Sell Expensive Relative to Growth Bucket  
July 14, 2021

## Long

| Ticker | Company Name                   | Industry Group                   | Market Cap (\$ US. Bil) | Price to Forward Sales | Bucket Median Price to Forward Sales | Upside |
|--------|--------------------------------|----------------------------------|-------------------------|------------------------|--------------------------------------|--------|
| DELL   | Dell Technologies Inc.         | Technology Hardware & Equipment  | 71.84                   | 0.27                   | 4.24                                 | 1492%  |
| HUM    | Humana Inc.                    | Health Care Equipment & Services | 59.36                   | 0.72                   | 5.81                                 | 705%   |
| DHI    | D.R. Horton, Inc.              | Consumer Durables & Apparel      | 31.28                   | 0.99                   | 5.81                                 | 485%   |
| LEN    | Lennar Corporation             | Consumer Durables & Apparel      | 29.41                   | 0.90                   | 7.00                                 | 678%   |
| W      | Wayfair Inc.                   | Retailing                        | 29.23                   | 1.35                   | 13.76                                | 919%   |
| CVNA   | Carvana Co.                    | Retailing                        | 25.46                   | 2.52                   | 13.76                                | 447%   |
| ABC    | AmerisourceBergen Corporation  | Health Care Equipment & Services | 23.55                   | 0.19                   | 4.24                                 | 2081%  |
| CAH    | Cardinal Health, Inc.          | Health Care Equipment & Services | 16.56                   | 0.19                   | 4.24                                 | 2081%  |
| FANG   | Diamondback Energy, Inc.       | Energy                           | 15.31                   | 3.03                   | 13.76                                | 355%   |
| CLF    | Cleveland-Cliffs Inc.          | Materials                        | 10.91                   | 0.54                   | 13.76                                | 2460%  |
| BERY   | Berry Global Group, Inc.       | Materials                        | 8.89                    | 0.68                   | 7.00                                 | 933%   |
| JBL    | Jabil Inc.                     | Technology Hardware & Equipment  | 8.32                    | 0.27                   | 5.81                                 | 2063%  |
| IIVI   | II-VI Incorporated             | Technology Hardware & Equipment  | 7.61                    | 2.27                   | 13.76                                | 506%   |
| PFGC   | Performance Food Group Company | Food & Staples Retailing         | 6.38                    | 0.19                   | 7.00                                 | 3503%  |
| SNX    | SYNNEX Corporation             | Technology Hardware & Equipment  | 6.06                    | 0.28                   | 5.81                                 | 2007%  |

## Short

| Ticker | Company Name                      | Industry Group                           | Market Cap (\$ US. Bil) | Price to Forward Sales | Bucket Median Price to Forward Sales | Downside |
|--------|-----------------------------------|--|-------------------------|------------------------|--------------------------------------|----------|
| V      | Visa Inc.                         | Software & Services                      | 524.65                  | 15.13                  | 3.42                                 | (77%)    |
| MA     | Mastercard Incorporated           | Software & Services                      | 387.30                  | 20.50                  | 4.24                                 | (79%)    |
| AMT    | American Tower Corporation (REIT) | Real Estate                              | 127.94                  | 14.10                  | 4.24                                 | (70%)    |
| ISRG   | Intuitive Surgical, Inc.          | Health Care Equipment & Services         | 113.09                  | 20.88                  | 5.81                                 | (72%)    |
| PSA    | Public Storage                    | Real Estate                              | 54.76                   | 17.19                  | 3.42                                 | (80%)    |
| MTCH   | Match Group, Inc.                 | Media & Entertainment                    | 43.71                   | 14.94                  | 2.45                                 | (84%)    |
| VRSN   | VeriSign, Inc.                    | Software & Services                      | 25.97                   | 19.51                  | 3.42                                 | (82%)    |
| CGNX   | Cognex Corporation                | Technology Hardware & Equipment          | 14.92                   | 14.61                  | 3.42                                 | (77%)    |
| CDAY   | Ceridian HCM Holding Inc.         | Software & Services                      | 14.33                   | 14.12                  | 4.24                                 | (70%)    |
| MANH   | Manhattan Associates, Inc.        | Software & Services                      | 8.96                    | 14.01                  | 3.42                                 | (76%)    |
| LSCC   | Lattice Semiconductor Corporation | Semiconductors & Semiconductor Equipment | 7.20                    | 14.93                  | 3.42                                 | (77%)    |
| EGP    | EastGroup Properties, Inc.        | Real Estate                              | 6.86                    | 17.13                  | 4.24                                 | (75%)    |
| STAA   | STAAR Surgical Company            | Health Care Equipment & Services         | 6.09                    | 27.43                  | 7.00                                 | (74%)    |

# THE DOUBLE WHAMMY STOCKS

Stocks that get the double whammy of higher (lower) revenue growth and higher (lower) multiples if the revenue projections are accurate are shown here. Many “reopening” plays are on the long ideas list. Technology stocks are on the sell list

Buy Cheap Relative to Future Growth Bucket, Sell Expensive Relative to Future Growth Bucket  
July 14, 2021

## Long

| Ticker | Company Name                             | Industry Group                   | Market Cap (\$ US. Bil) | Price to Forward Sales | Future Bucket Median Price to Forward Sales | Upside |
|--------|--|----------------------------------|-------------------------|------------------------|---|--------|
| MAR    | Marriott International, Inc.             | Consumer Services                | 45.47                   | 3.38                   | 13.76                                       | 308%   |
| CCL    | Carnival Corporation & plc               | Consumer Services                | 25.20                   | 2.69                   | 13.76                                       | 411%   |
| LNG    | Cheniere Energy, Inc.                    | Energy                           | 21.15                   | 1.72                   | 13.76                                       | 702%   |
| STLD   | Steel Dynamics, Inc.                     | Materials                        | 12.93                   | 0.77                   | 7.00  | 804%   |
| BWA    | BorgWarner Inc.                          | Automobiles & Components         | 11.38                   | 0.74                   | 5.81  | 681%   |
| LAD    | Lithia Motors, Inc.                      | Retailing                        | 10.79                   | 0.54                   | 7.00  | 1205%  |
| TRGP   | Targa Resources Corp.                    | Energy                           | 9.84                    | 0.80                   | 5.81  | 622%   |
| BLDR   | Builders FirstSource, Inc.               | Capital Goods                    | 8.69                    | 0.52                   | 8.65  | 1565%  |
| FLEX   | Flex Ltd.                                | Technology Hardware & Equipment  | 8.39                    | 0.33                   | 3.42  | 943%   |
| ARW    | Arrow Electronics, Inc.                  | Technology Hardware & Equipment  | 8.30                    | 0.24                   | 4.24  | 1650%  |
| USFD   | US Foods Holding Corp.                   | Food & Staples Retailing         | 7.89                    | 0.28                   | 3.42  | 1102%  |
| H      | Hyatt Hotels Corporation                 | Consumer Services                | 7.86                    | 1.10                   | 8.65  | 686%   |
| CASY   | Casey's General Stores, Inc.             | Food & Staples Retailing         | 7.17                    | 0.62                   | 5.81  | 829%   |
| THC    | Tenet Healthcare Corporation             | Health Care Equipment & Services | 7.13                    | 0.36                   | 3.42  | 843%   |
| VAC    | Marriott Vacations Worldwide Corporation | Consumer Services                | 6.68                    | 1.74                   | 13.76                                       | 693%   |
| X      | United States Steel Corporation          | Materials                        | 6.27                    | 0.35                   | 5.81  | 1556%  |

## Short

| Ticker | Company Name         | Industry Group                   | Market Cap (\$ US. Bil) | Price to Forward Sales | Future Bucket Median Price to Forward Sales | Downside |
|--------|----------------------|----------------------------------|-------------------------|------------------------|---|----------|
| WDAY   | Workday, Inc.        | Software & Services              | 57.34                   | 8.72                   | 7.00  | (20%)    |
| GPN    | Global Payments Inc. | Software & Services              | 56.98                   | 7.42                   | 7.00  | (6%)     |
| DXCM   | DexCom, Inc.         | Health Care Equipment & Services | 42.60                   | 17.87                  | 8.65  | (52%)    |
| PFPT   | Proofpoint, Inc.     | Software & Services              | 10.03                   | 8.19                   | 7.00  | (15%)    |



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