

## Level Set - Where Is the Revenue Growth?

We wrote in our [year-ahead outlook](#), that revenue acceleration would be an important variable for stock selection in 2025. After gross margin growth was its most effective for stock selection in 2024 in over 20 years, we now think revenue growth and acceleration will matter more for stock pickers in 2025. To be clear, at the same time gross margin expansion worked for stock selection, stocks in the highest quintile of revenue acceleration in the last year UNDERPERFORMED stocks with the greatest revenue deceleration by the largest margin in 20 years in 2024 (see below). Why do we think revenue acceleration will now matter? Firstly, it is more sensible it would work than fail. Business where trends are improving should perform better than those where growth is deteriorating. Obviously, that statement doesn't account for starting valuations, expectations, and other key technical factors, but we can see below the long-term average factor efficacy is positive. Secondly, it is imminent that we will have many new US policy initiatives that will introduce volatility - driving above normal growth in some areas, below normal in others. Thirdly, global central banks and many underlying cyclical businesses, like Industrials, Housing, Oil & Gas, and Autos, to name a few, are not all synchronized. Companies that can show accelerating growth in this environment, are likely to succeed.

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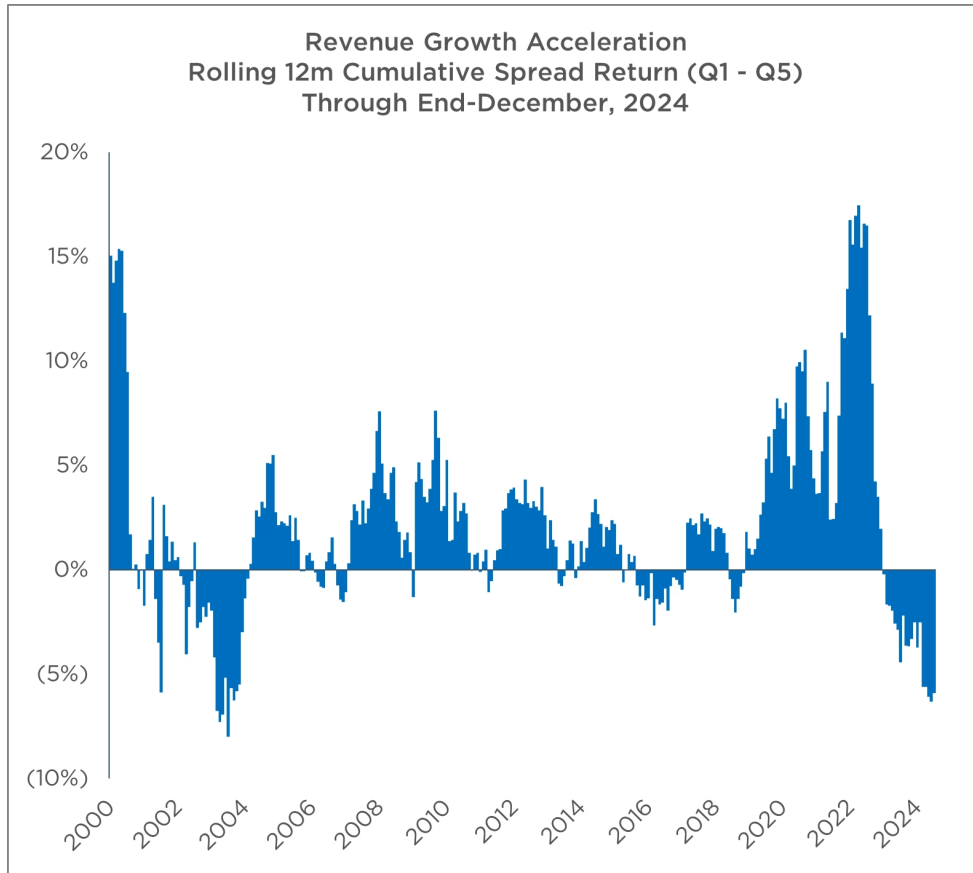
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## Revenue Acceleration Just Failed Its Most in 20 Years for Stock Selection



Source: Trivariate Research, LP

We were asked this past week about sectors, industries, and stocks where forecasted revenue acceleration is likely, and below we show the bottom-up consensus revenue growth, dollar-weighted, for the major industry groups. There are many possible reasons for revenue growth to be strong, however, an easy comparison from the year prior can be most helpful. Pricing power, recurring revenue, mix, and share gain from competitors or a category can all be crucial as well. More macro, it is about economic growth and interest rates from the policymakers.

Below we show the bottom-up consensus revenue growth projections, from the median analyst for each stock, dollar-weighted, for the last few data points of 2024 and all of 2025. Technology Hardware & Equipment is forecasted to grow 6.9% in 2025, above the 0.3% in 2024. In absolute terms, the fastest growing industry is projected to be Semiconductors and Semiconductor Capital Equipment, at 23%, though that is only slightly accelerating, by 2%, vs. the growth in 2024. Materials have low forecasted growth, and it is estimated to modestly decelerate. Most industries are forecasted to post revenue growth in 2025 above the 2024 level.

Forecasted Bottom-Up Consensus Revenue Growth by Industry Group			
Dollar-Weighted			
As of End-December, 2024			
Industry Group	2024	2025	Difference
Technology Hardware & Equipment	0.3%	6.9%	6.6%
Consumer Durables & Apparel	(1.6%)	4.2%	5.9%
Capital Goods	1.3%	7.0%	5.6%
Food, Beverage & Tobacco	(0.3%)	2.3%	2.6%
Energy	(2.2%)	0.2%	2.4%
Semiconductors & Semiconductor Equipment	21.1%	23.0%	2.0%
Commercial & Professional Services	3.7%	5.5%	1.8%
Software & Services	9.5%	11.3%	1.7%
Consumer Discretionary Distribution & Retail	5.3%	6.8%	1.5%
Household & Personal Products	0.6%	2.0%	1.4%
Transportation	4.2%	5.4%	1.2%
Telecommunication Services	0.2%	1.1%	0.9%
Automobiles & Components	2.6%	3.3%	0.7%
Consumer Staples Distribution & Retail	3.5%	4.2%	0.6%
Materials	1.2%	0.7%	(0.5%)
Pharmaceuticals, Biotechnology & Life Sciences	6.3%	5.8%	(0.5%)
Media & Entertainment	8.4%	7.7%	(0.8%)
Consumer Services	7.9%	6.9%	(1.0%)
Health Care Equipment & Services	8.8%	7.1%	(1.7%)

Source: Trivariate Research, LP

Quarterly growth can sometimes give a different picture than annual growth. With that in mind, we analyzed the bottom-up consensus revenue estimates by quarter. Semiconductors and Semiconductor Equipment, for example, show very stable forecasted top-line growth throughout 2025. Software & Services expectations are slightly, but consistently higher in 2025 than 2024. Capital Goods, however, owing to easy “comparisons” from this year, are expected to grow much stronger in the 2H of 2025. On the contrary, Materials, Telecommunication Services, and Energy are forecasted to have declining year-over-year growth during at least one quarter in the second half of this year.

Forecasted Bottom-Up Consensus Revenue Growth by Industry Group, Quarterly, Dollar-Weighted								
As of End-December, 2024								
Industry Group	2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Semiconductors & Semiconductor Equipment	22.0%	20.9%	23.5%	20.1%	23.2%	23.0%	21.2%	21.7%
Software & Services	9.8%	8.4%	9.4%	8.8%	9.4%	10.7%	10.8%	11.2%
Capital Goods	5.6%	2.0%	2.4%	(1.1%)	0.2%	4.3%	8.5%	8.3%
Media & Entertainment	10.7%	9.4%	11.6%	8.5%	7.4%	7.6%	6.1%	7.3%
Technology Hardware & Equipment	(4.9%)	0.1%	3.3%	4.2%	5.9%	5.6%	5.9%	7.1%
Health Care Equipment & Services	8.8%	8.7%	11.3%	7.7%	7.6%	7.2%	6.5%	7.1%
Consumer Discretionary Distribution & Retail	5.8%	4.5%	6.0%	5.7%	6.7%	6.5%	6.4%	6.5%
Consumer Services	8.8%	8.0%	7.5%	5.0%	5.8%	6.7%	7.3%	6.5%
Pharmaceuticals, Biotechnology & Life Sciences	(1.0%)	4.0%	8.6%	6.7%	5.5%	4.0%	3.7%	6.4%
Automobiles & Components	1.3%	4.0%	3.6%	0.0%	4.2%	1.3%	2.6%	6.1%
Consumer Durables & Apparel	2.7%	1.2%	0.1%	(2.6%)	(0.4%)	2.5%	6.1%	4.8%
Energy	(4.6%)	6.6%	(5.9%)	(4.5%)	(0.9%)	(5.3%)	(1.2%)	4.1%
Commercial & Professional Services	10.5%	8.2%	5.2%	4.5%	2.5%	3.4%	4.9%	3.7%
Consumer Staples Distribution & Retail	3.9%	4.2%	3.2%	3.0%	3.9%	3.9%	4.2%	3.6%
Household & Personal Products	10.2%	1.0%	0.2%	(0.9%)	0.9%	1.7%	2.6%	2.7%
Food, Beverage & Tobacco	(1.1%)	(2.6%)	(1.1%)	0.4%	1.7%	3.1%	2.9%	2.0%
Transportation	1.9%	3.9%	5.1%	5.1%	4.5%	4.2%	3.9%	1.7%
Telecommunication Services	(0.4%)	0.3%	0.4%	0.5%	0.0%	0.3%	0.7%	(1.0%)
Materials	(2.2%)	4.3%	10.2%	3.4%	1.2%	(0.3%)	0.2%	(1.9%)

Source: Trivariate Research, LP

We checked to see if the dollar-weighted assessment was materially different if we analyzed the median forecasted revenue growth for each company in an industry group. The growth projections are quite close in most industry groups, with Semiconductors (for instance, NVDA has higher growth) a notable exception where the dollar-weighted is forecasted to grow way faster than the median (23.0% vs. 14.8%). On the contrary, the median Energy stock (5.8%) are forecasted to grow faster than the dollar-weighted (0.2%).

<b>2025 Forecasted Bottom-Up Consensus Revenue Growth by Industry Group</b>			
<b>Dollar-Weighted Minus Median</b>			
<b>As of End-December, 2024</b>			
<b>Industry Group</b>	<b>Dollar-Weighted</b>	<b>Median</b>	<b>Difference</b>
Energy	0.2%	5.8%	(5.6%)
Pharmaceuticals, Biotechnology & Life Sciences	5.8%	10.0%	(4.2%)
Materials	0.7%	4.0%	(3.3%)
Consumer Staples Distribution & Retail	4.2%	5.4%	(1.3%)
Health Care Equipment & Services	7.1%	8.1%	(1.0%)
Software & Services	11.3%	12.2%	(0.9%)
Household & Personal Products	2.0%	2.6%	(0.6%)
Automobiles & Components	3.3%	3.8%	(0.5%)
Telecommunication Services	1.1%	1.5%	(0.5%)
Food, Beverage & Tobacco	2.3%	2.7%	(0.4%)
Consumer Durables & Apparel	4.2%	4.5%	(0.2%)
Commercial & Professional Services	5.5%	5.5%	0.0%
Transportation	5.4%	5.1%	0.3%
Technology Hardware & Equipment	6.9%	6.6%	0.3%
Consumer Services	6.9%	6.5%	0.5%
Capital Goods	7.0%	5.8%	1.2%
Media & Entertainment	7.7%	5.5%	2.2%
Consumer Discretionary Distribution & Retail	6.8%	3.2%	3.5%
Semiconductors & Semiconductor Equipment	23.0%	14.8%	8.3%

Source: Trivariate Research, LP

At the stock level, we searched for long and short ideas based on this revenue acceleration theme. Stocks in the top half of our quality model (high-or-mid-quality), not in the top 1/3 of beta, that have accelerating revenue are considered candidates for “buy” ideas, and stocks in the bottom-half of our quality model, that are high beta and are forecasted to have decelerating revenue growth are short ideas. Looking at the list, we notice there are some industry groups with no short ideas, which on the margin, makes us slightly more optimistic.

## Long and Short Ideas

<b>Long and Short Ideas Based on Forecasted 2025 Revenue Acceleration / Deceleration</b>			
<b>Longs: Top 1/2 Quality, Not High Beta, Accelerating Revenue</b>			
<b>Shorts: Bottom 1/2 Quality, High Beta, Decelerating Revenue</b>			
<b>As of Mid-January, 2025</b>			
<b>Industry Group</b>	<b>Market Cap. (US \$Tril.)</b>	<b>Long Ideas</b>	<b>Short Ideas</b>
Software & Services	7.37	ACN, FTNT, ADSK	APP, MARA, CORZ
Semiconductors & Semiconductor Equipment	6.08		AVGO, MU, NXPI
Media & Entertainment	5.25	GOOGL, NFLX, DIS	SPHR
Technology Hardware & Equipment	4.70	AAPL, FFIV, MIR	WDC, VSAT
Capital Goods	3.95	HON, PH, CARR	URI, HUBB, RRX
Consumer Discretionary Distribution & Retail	3.79	ORLY, EBAY, PAG	GAP, ABG, GCT
Pharmaceuticals, Biotechnology & Life Sciences	3.69	LLY, ABBV, VRTX	
Health Care Equipment & Services	2.64	UNH, ISRG, ABT	GH, RDNT, PRCT
Energy	2.19	EOG, WMB, FANG	LEU
Automobiles & Components	1.55	DORM	RIVN
Materials	1.54	LIN, SHW, SCCO	AVNT, SLVM, ASPN
Consumer Services	1.53	MCD, SBUX, MAR	RCL, CCL, DKNK
Consumer Staples Distribution & Retail	1.43	CASY, CART	
Insurance	1.37	MMC, AON, AJG	
Food, Beverage & Tobacco	1.36	PEP, MDLZ, MNST	
Utilities	1.34	SO, DUK, AEP	
Commercial & Professional Services	1.05	WM, PAYX, BR	INOD
Transportation	0.96	UBER, UNP, ODFL	XPO
Household & Personal Products	0.66	PG	ELF
Consumer Durables & Apparel	0.64	LULU, LEN, NVR	SN, IBP, PTON
Telecommunication Services	0.62	TMUS, VZ, T	GSAT

Source: Trivariate Research, LP

CONCLUSION: Investors should focus on revenue growth and acceleration during this earnings season and throughout 2025. Long / short ideas based on this theme can serve as a good starting point. Please don't hesitate to reach out if you want to discuss other ways to generate ideas based on this theme.

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