TRIVARIATE RESEARCH

BEAT, REVISE, REPEAT

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BACKGROUND AND RESEARCH SUMMARY

Background: Most fundamental research is grounded in a belief that revisions to sales, margins, earnings and cash flows matter. Yet, a quantitative strategy of buying stocks that have just posted upward revisions and shorting those that have just had downward revisions hasn't been considered efficacious for many years. We analyzed sell-side estimates of free cash flow, earnings, gross margin, and sales to see if there was any predictive power in the revisions of these metrics. We looked at many combinations but ultimately focused on the one-month change in the one-year forward estimates, meaning have there been recent changes to the one-year forward outlook. Often, these one-month changes come from earnings reports.

Revisions failed over 25 years but have worked recently: Over the last 25 years, the top vs. bottom quintile spreads of sales, earnings, margins, and FCF revisions have had low or negative Sharpe ratios, meaning that buying companies where estimates came down was on average not much worse than buying companies where estimates just got better. Revisions didn't matter. But, over the last five years, revision efficacy for free cash flow and earnings has worked far better. Of note, this has worked over the last five years on both sides, meaning buying the stocks that just had upward revisions and shorting those that just had downward revisions has been effective.

Style: Among growth stocks, while still cumulatively negative over the last 25 years, the top quintile of EPS revisions have started to work, and those with downward revisions, have started to fail. Interestingly, among value stocks, those with downward revisions consistently underperform, meaning betting on mean revision in the fundamentals has not been prudent. Recently, value stocks with upward revisions have failed, meaning perhaps there has not been a serial correlation of a "carry through" in good news.

RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

Sector: At the sector level, buying Consumer Discretionary stocks where EPS has risen (ostensibly that just beat) has been a great strategy over the last five years. Avoiding (shorting) Industrials with downward revisions has also worked quite well over the last few years. In fact, a revisions-based strategy in Industrials has largely been effective since COVID.

Revisions to gross margins: We analyzed the change in revisions to one-year forward gross margins, and while we didn't find broad-based efficacy, we did find that this was a helpful way to segment winners from losers in the small cap. universe since COVID. We have long-espoused that buying Semiconductors with gross margin expansion works, and changes to the one-year forward gross margins were highly effective at identifying winners from losers. Avoiding Semiconductors with downward gross margin revisions has been a consistently good idea.

Serial correlation: One reason it could fundamentally make sense to buy a stock after it already beats or sell a stock after it misses is if there is a serial correlation to revisions. That is cyclical but has been working more than usual in growth stocks recently, perhaps explaining the efficacy since COVID. At the sector level, that is true in Technology, but less true, as is sensible, in Energy.

Slide 10 shows long / short ideas excluding Consumer Discretionary and Industrials. Some of the short ideas are notable, and include PG, STZ, and GIS.

Slide 11 shows long / short ideas in the Consumer Discretionary sector, where revisions have been highly effective of late. AMZN, DASH, and FLUT should perform better than TSLA, NKE, and SBUX.

Slide 12 shows long / short Industrials ideas. GEV, AXON, and VRT are among those we expect to outperform DE, ADP, and PH.

REVISIONS TO FORWARD ESTIMATES HAVE NOT WORKED FOR 25 YRS

We analyzed free cash flow, earnings, gross margin, and sales revisions from sell-side estimates to see if there was any predictive power in these metrics. We looked at many combinations but ultimately focused on the one-month change in the one-year forward estimates, meaning have there been recent changes to the one-year forward outlook. The top part of the table below shows that over the last 25 years, the top vs. bottom quintile spreads have had low or negative Sharpe ratios, meaning that buying companies where estimates came down was on average not much worse than buying companies where estimates just got better. Revisions didn't matter. But, looking at the bottom of the table for the last five years, revision efficacy for free cash flow and earnings has worked far better.

Q1 vs. Q5 Spread Performance of 1-Month % Change in Select 1-Year Forward Estimates
Top 2,000 US Equities
Last 25 Years vs. Last 5 Years, As of End-July, 2025

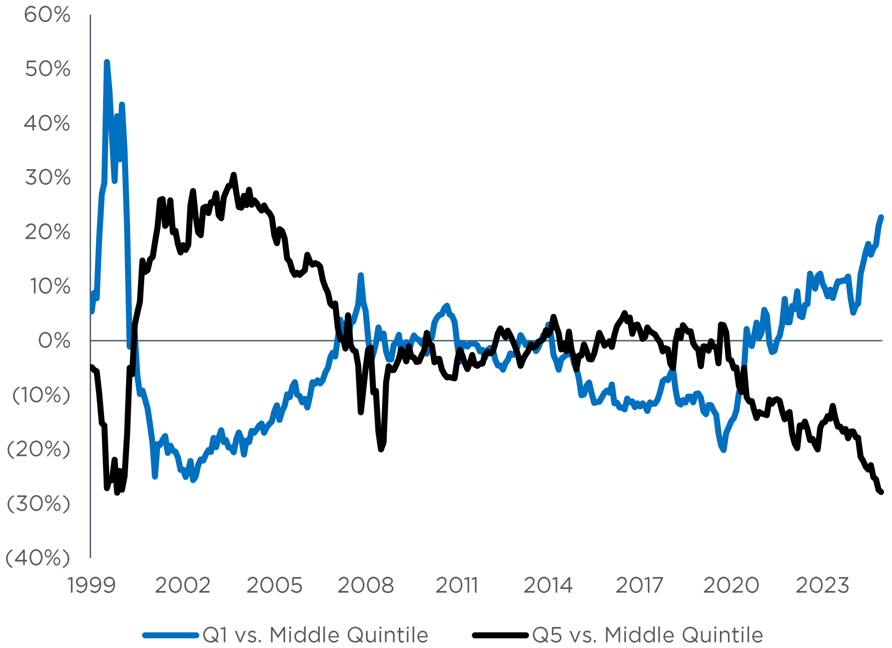
Performance Timeframe	Signal	Sharpe Ratio	Annualized Mean Return	Annualized Std. Dev of Returns	Hit Rate	Asymmetry	Number of Months
Last 25 Years	Free Cash Flow	0.14	0.9%	7%	57%	0.8x	175
	EPS	0.08	0.8%	10%	56%	0.9x	312
	Gross Margin	0.02	0.1%	5%	55%	0.8x	175
	Revenue	(0.38)	(4.2%)	11%	54%	0.6x	305
Last 5 Years	Free Cash Flow	0.92	5.8%	6%	58%	1.4x	60
	EPS	0.78	5.6%	7%	63%	1.1x	60
	Revenue	0.12	1.1%	9%	58%	0.8x	60
	Gross Margin	0.03	0.2%	7%	48%	1.1x	60

Source: Trivariate Research

BUT EPS REVISIONS HAVE WORKED THE LAST FIVE YEARS

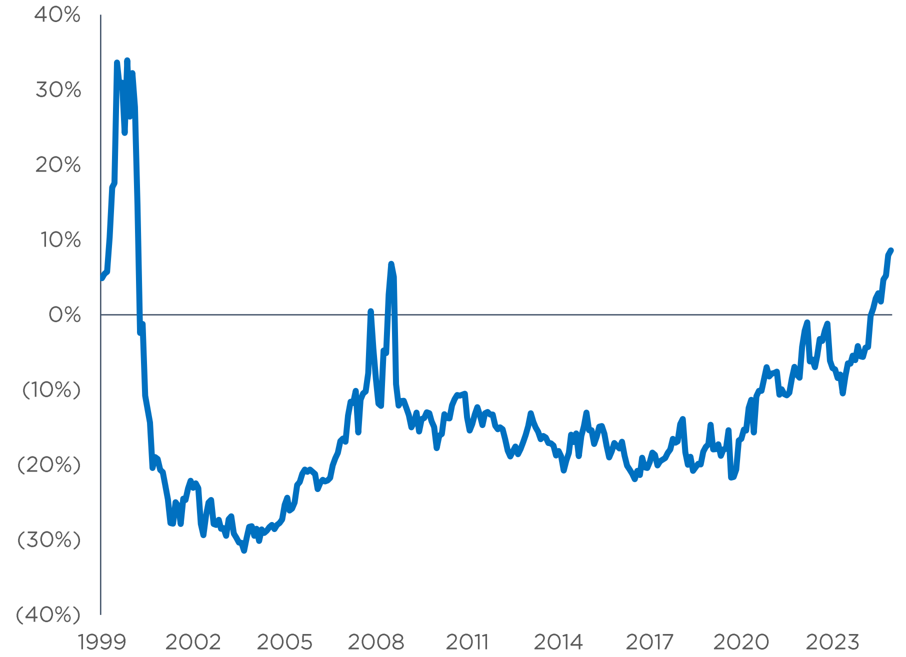
We show the performance of the top quintile (biggest upward revisions) and the bottom quintile (biggest downward revisions) on a month-over-month basis to the one-year forward outlook compared to the middle quintile (left). The blue line shows that the biggest upward revisions have worked, and the biggest downward have failed since COVID. Given the catalyst for most monthly changes to earnings estimates is the actual company report, this implies waiting until a company beats to buy it, or misses to sell it, has in aggregate been an effective strategy for the last five years. The Q1-Q5 spread (right), shows that cumulative performance over 25 years is now positive.

1-Month % Change in 1yr Fwd EPS
Cumulative Return of Quintile Spreads
Top 2,000 US Equities
Through End-July, 2025



Source: Trivariate Research

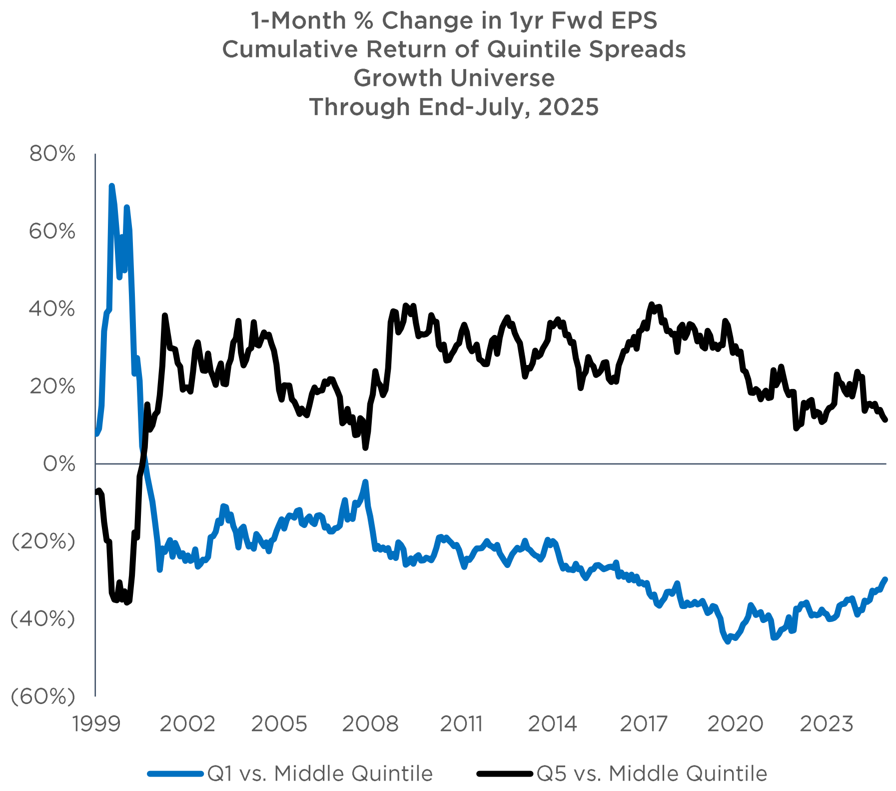
1-Month % Change in 1yr Fwd EPS
Cumulative Return of Q1 vs. Q5 Quintile Spread
Top 2,000 US Equities
Through End-July, 2025



Source: Trivariate Research

HISTORICALLY, REVISIONS WORKED BETTER IN VALUE THAN GROWTH

While still cumulatively negative over the last 25 years, the top quintile of EPS revisions have started to work among growth stocks (left), and those with downward revisions, which had cumulatively strongly outperformed those with upward revisions, have started to fail. Interestingly, among value stocks, those with downward revisions consistently underperform, meaning betting on mean revision in the fundamentals has not been prudent (right). Recently, value stocks with upward revisions have failed, meaning perhaps there has not been a serial correlation of a "carry through" in good news.



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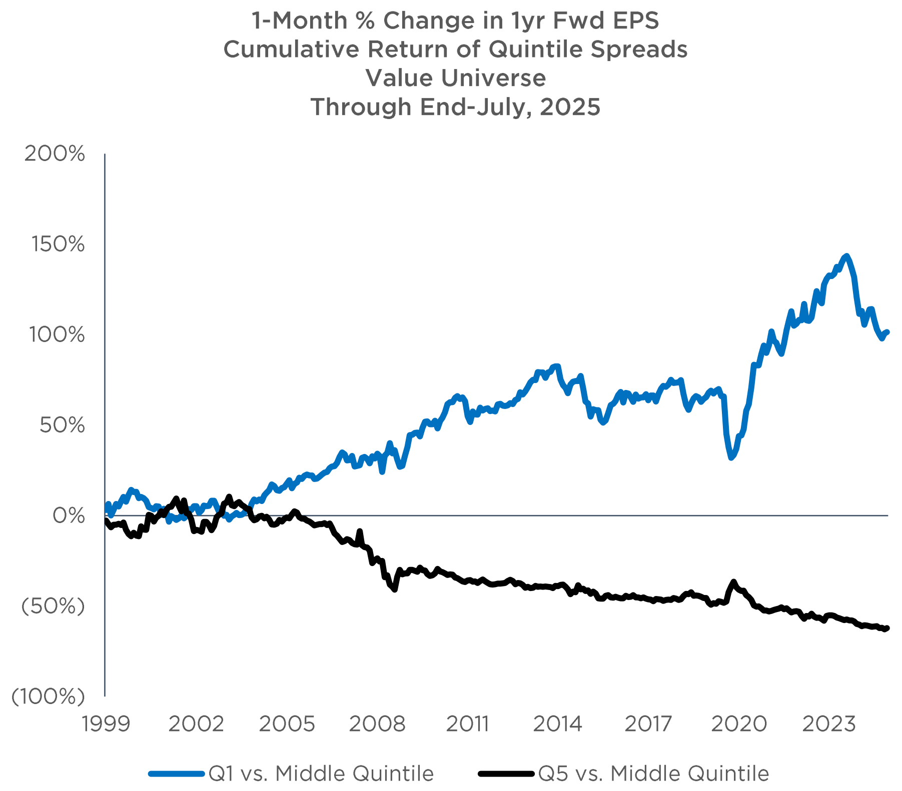
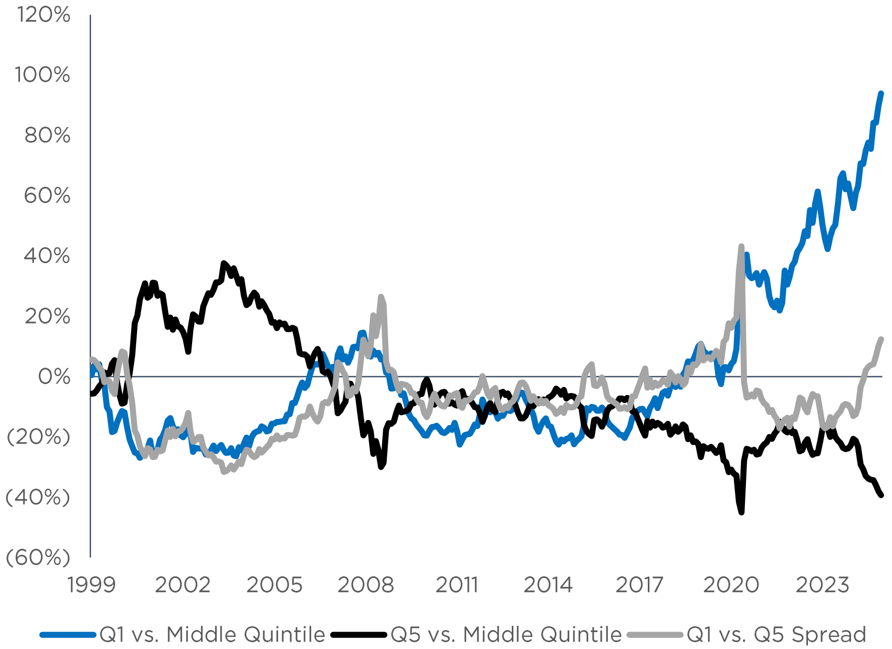


Source: Trivariate Research

REVISIONS HAVE WORKED WELL IN DISCRETIONARY AND INDUSTRIALS

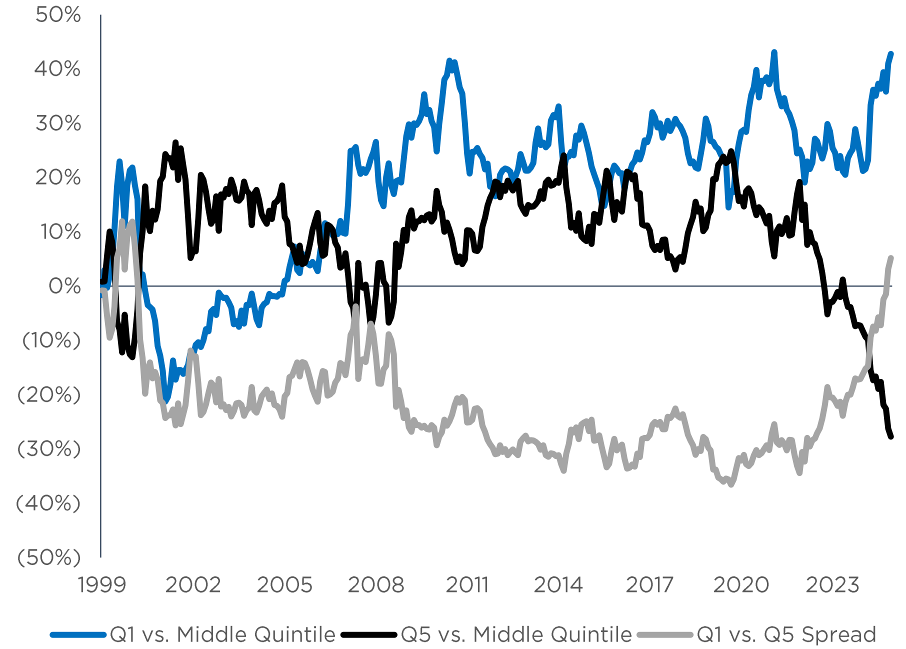
At the sector level, buying Consumer Discretionary stocks where EPS has risen (ostensibly that just beat) has been a great strategy over the last five years (left). Avoiding (shorting) Industrials with downward revisions has also worked quite well over the last few years. In fact, a revisions-based strategy in Industrials has largely been effective since COVID.

1-Month % Change in 1yr Fwd EPS
Cumulative Return of Quintile Spreads
Consumer Discretionary GICS Sector
Through End-July, 2025



Source: Trivariate Research

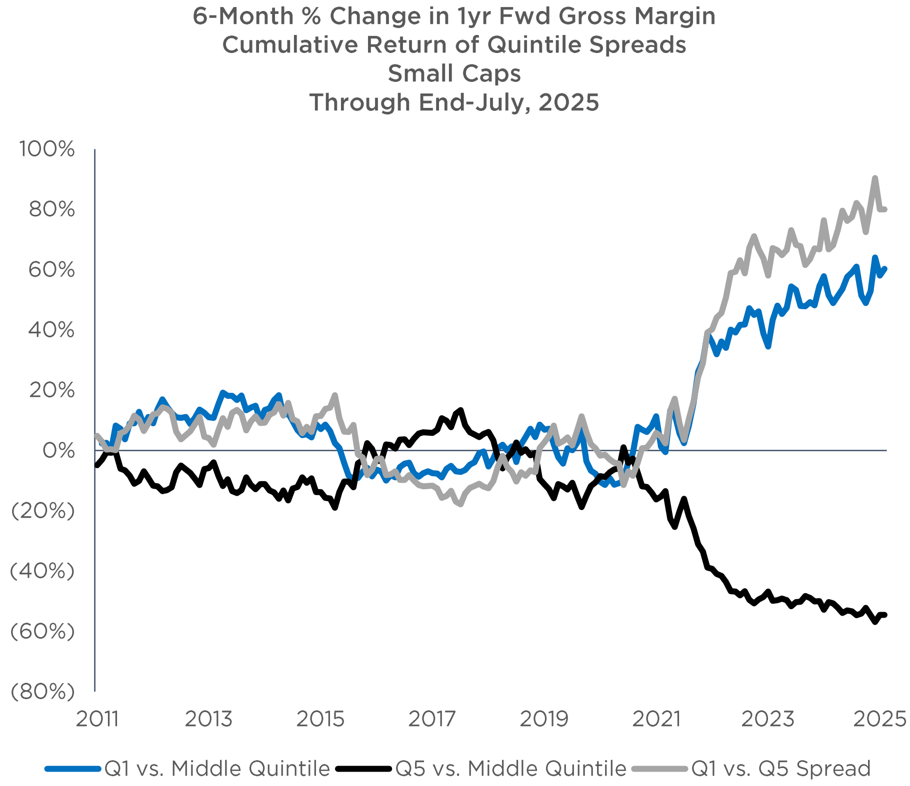
1-Month % Change in 1yr Fwd EPS
Cumulative Return of Quintile Spreads
Industrials GICS Sector
Through End-July, 2025



Source: Trivariate Research

REVISIONS TO GROSS MARGINS WORKS IN SMALLS CAPS AND SEMIS

We analyzed the change in revisions to one-year forward gross margins, and while we didn't find broad-based efficacy, we did find that this was a helpful way to segment winners from losers in the small cap. universe since COVID (left). We have long-espoused that buying Semiconductors with gross margin expansion works, and we were not surprised to show that 6-month changes to one-year forward gross margins estimates were highly effective at identifying winners from losers. In fact, note the SHARPLY bigger y-axis on the Semiconductors charts. Avoiding Semiconductors with downward gross margin revisions has been a consistently good idea.



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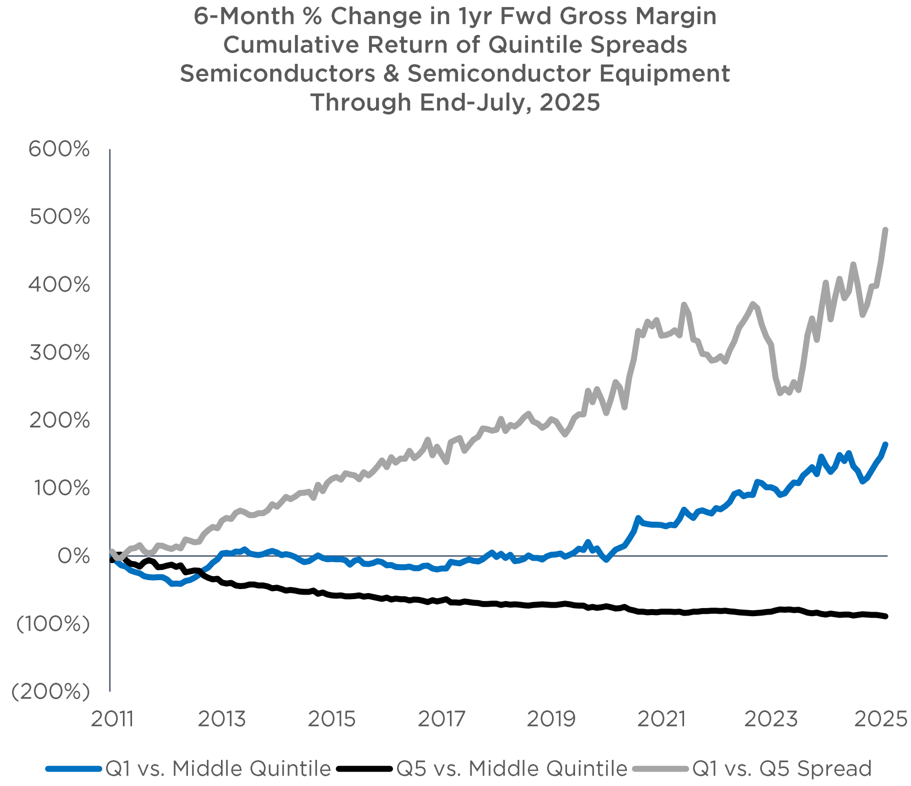
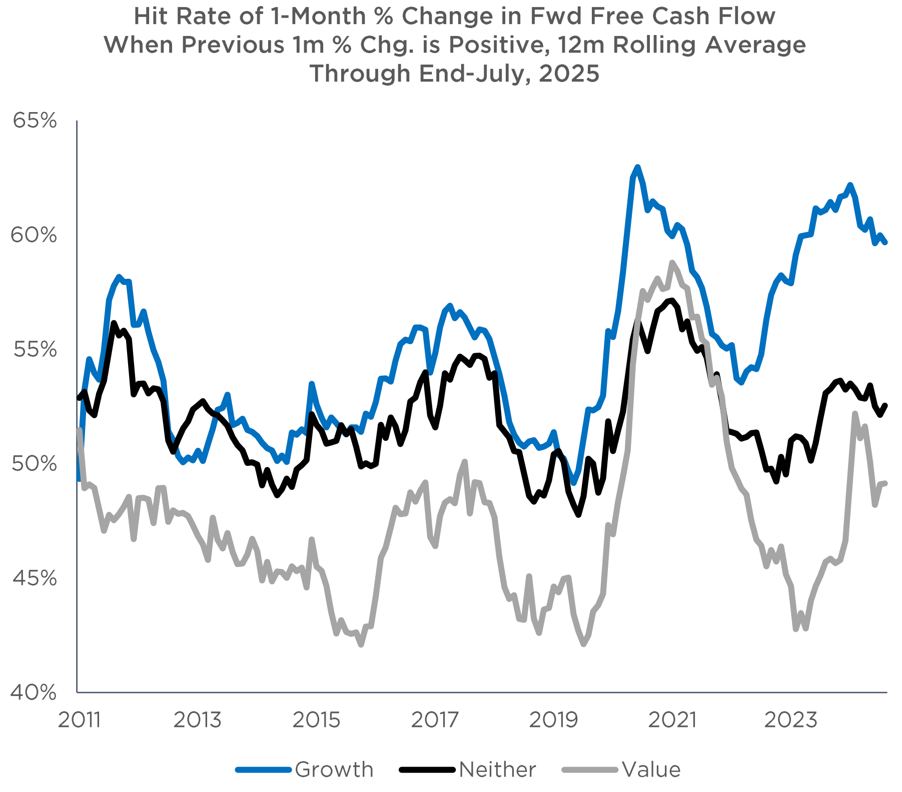


Source: Trivariate Research

SERIAL CORRELATION OF REVISIONS IN TECH BUT NOT ENERGY

One reason it could fundamentally make sense to buy a stock after it already beats or sell a stock after it misses is if there is a serial correlation to revisions, meaning if the probability of an upward revision next month is higher if you had an upward revision the previous month. That is cyclical but has been working more than usual in growth stocks recently, perhaps explaining the efficacy since COVID (left). At the sector level (right), that is certainly true in Technology, but less true, as is sensible, in Energy.



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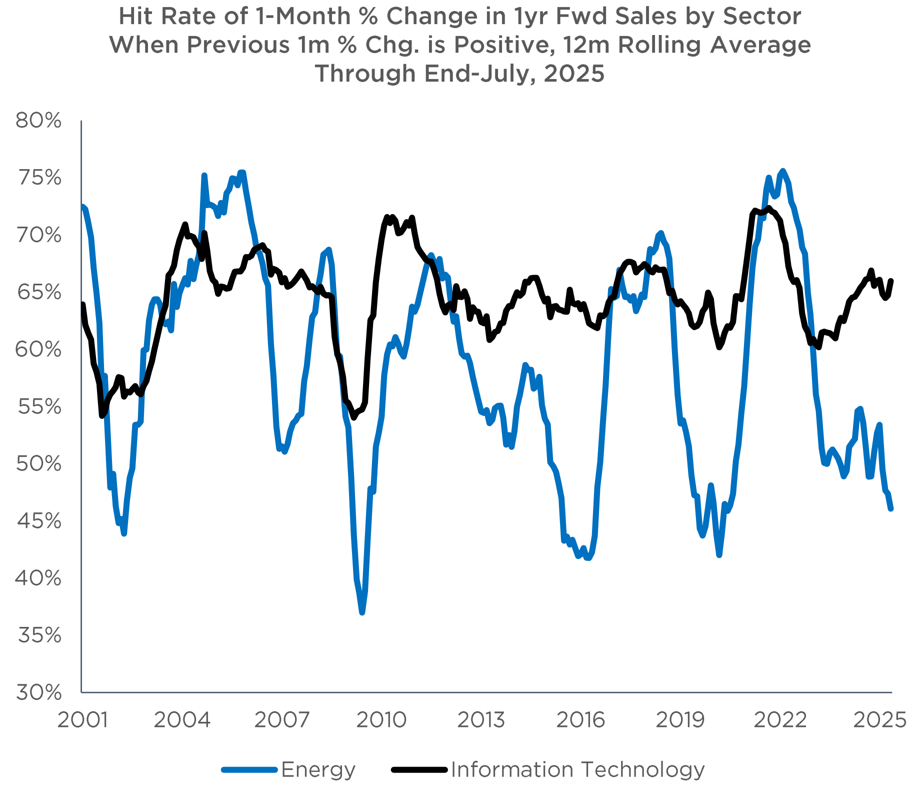

Source: Trivariate Research

LONG AND SHORT IDEAS BASED ON EPS AND FCF REVISIONS

Based on this one-month revision factor to changes in one-year forward earnings and free cash flow, we would expect the stocks on the left, to strongly outperform the stocks on the right.

Long Screen, Ex-Discretionary & Industrials
Stocks in Top Quintile of 1-Month % Chg. in Fwd EPS & Fwd FCF
As of August 20th, 2025

Ticker	Company	Market Cap. ($Bn.)
TLN	Talen Energy Corporation	16.45
CELH	Celsius Holdings, Inc.	15.98
TKO	TKO Group Holdings, Inc.	15.00
LIF	Life360, Inc.	10.17
DINO	HF Sinclair Corporation	8.72
JAZZ	Jazz Pharmaceuticals plc	7.22
HL	Hecla Mining Company	5.03
WK	Workiva Inc.	4.28
OS	OneStream, Inc.	3.70
TGNA	TEGNA Inc.	3.38
APPN	Appian Corporation	2.15

Source: Trivariate Research

Short Screen, Ex-Discretionary & Industrials
Stocks in Bottom Quintile of 1-Month % Chg. in Fwd EPS & Fwd FCF
As of August 20th, 2025

Ticker	Company	Market Cap. ($Bn.)
PG	The Procter & Gamble Company	373.63
STZ	Constellation Brands, Inc.	29.31
GIS	General Mills, Inc.	26.54
FOXA	Fox Corporation	25.10
CASY	Casey's General Stores, Inc.	19.09
IT	Gartner, Inc.	18.49
GWRE	Guidewire Software, Inc.	18.20
UTHR	United Therapeutics Corporation	13.86
TECH	Bio-Techne Corporation	8.52
SLGN	Silgan Holdings Inc.	4.96
COTY	Coty Inc.	4.24

Source: Trivariate Research

CONSUMER DISCRETIONARY LONG / SHORT IDEAS

Given how well the revisions factor has been working in the Consumer Discretionary sector, we recommend the following long (left) and short (right) ideas. AMZN, DASH, and FLUT are among those we expect to outperform TSLA, NKE, and SBUX.

Consumer Discretionary Long Screen
Stocks in Top Quintile of 1-Month % Change in Fwd EPS
As of August 20th, 2025

Ticker	Company	Market Cap. ($Bn.)
AMZN	Amazon.com, Inc.	2,386.91
DASH	DoorDash, Inc.	104.16
FLUT	Flutter Entertainment plc	51.77
LVS	Las Vegas Sands Corp.	36.81
DKNG	DraftKings Inc.	22.66
AS	Amer Sports, Inc.	20.61
RL	Ralph Lauren Corporation	17.34
SGI	Somnigroup International Inc.	17.00
DUOL	Duolingo, Inc.	15.53
HAS	Hasbro, Inc.	11.18
W	Wayfair Inc.	10.37
MGM	MGM Resorts International	9.88

Source: Trivariate Research

Consumer Discretionary Short Screen
Stocks in Bottom Quintile of 1-Month % Change in Fwd EPS
As of August 20th, 2025

Ticker	Company	Market Cap. ($Bn.)
TSLA	Tesla, Inc.	1,044.72
NKE	NIKE, Inc.	112.63
SBUX	Starbucks Corporation	101.75
AZO	AutoZone, Inc.	69.56
DRI	Darden Restaurants, Inc.	24.28
TOL	Toll Brothers, Inc.	12.69
SKX	Skechers U.S.A., Inc.	9.45
KMX	CarMax, Inc.	8.68
LKQ	LKQ Corporation	7.88
GAP	The Gap, Inc.	7.74
MUSA	Murphy USA Inc.	7.61
LNW	Light & Wonder, Inc.	7.56

Source: Trivariate Research

INDUSTRIALS LONG / SHORT IDEAS

Given how well the revisions factor has been working in the Industrials sector, we recommend the following long (left) and short (right) ideas. GEV, AXON, and VRT are among those we expect to outperform DE, ADP, and PH. Obviously, there is a bit of an AI-factor bet on with these names in the short-term.

Industrials Long Screen
Stocks in Top Quintile of 1-Month % Change in Fwd EPS
As of August 20th, 2025

Ticker	Company	Market Cap. ($Bn.)
GEV	GE Vernova Inc.	164.58
AXON	Axon Enterprise, Inc.	59.73
VRT	Vertiv Holdings Co	48.70
EME	EMCOR Group, Inc.	27.09
FIX	Comfort Systems USA, Inc.	23.98
GRAB	Grab Holdings Limited	20.51
LUV	Southwest Airlines Co.	16.38
MAS	Masco Corporation	15.29
XPO	XPO, Inc.	14.92
NVT	nVent Electric plc	14.17
MTZ	MasTec, Inc.	13.39
LECO	Lincoln Electric Holdings, Inc.	13.17

Source: Trivariate Research

Industrials Short Screen
Stocks in Bottom Quintile of 1-Month % Change in Fwd EPS
As of August 20th, 2025

Ticker	Company	Market Cap. ($Bn.)
DE	Deere & Company	133.44
ADP	Automatic Data Processing, Inc.	125.18
PH	Parker-Hannifin Corporation	94.94
CTAS	Cintas Corporation	87.34
TDG	TransDigm Group Incorporated	79.01
UPS	United Parcel Service, Inc.	73.69
FDX	FedEx Corporation	53.61
PAYX	Paychex, Inc.	50.03
GWW	W.W. Grainger, Inc.	47.81
CPRT	Copart, Inc.	46.04
FERG	Ferguson Enterprises Inc.	45.46
ODFL	Old Dominion Freight Line, Inc.	31.58

Source: Trivariate Research

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