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TRIVARIATE RESEARCH

HOW DO YOU IDENTIFY COMPOUNDERS?

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RESEARCH SUMMARY

Background: We are used to hearing from investors that they want to find “compounders” for multi-year investments. Because of large market volatility, several investors have told us they are going to just buy compounders and wait out the near-term noise. With that in mind we revisited some work we originally published in 2021 and evaluated four key growth metrics - gross margin growth, revenue growth, net margin growth, and prior price momentum - to assess their efficacy in identifying outperformers.

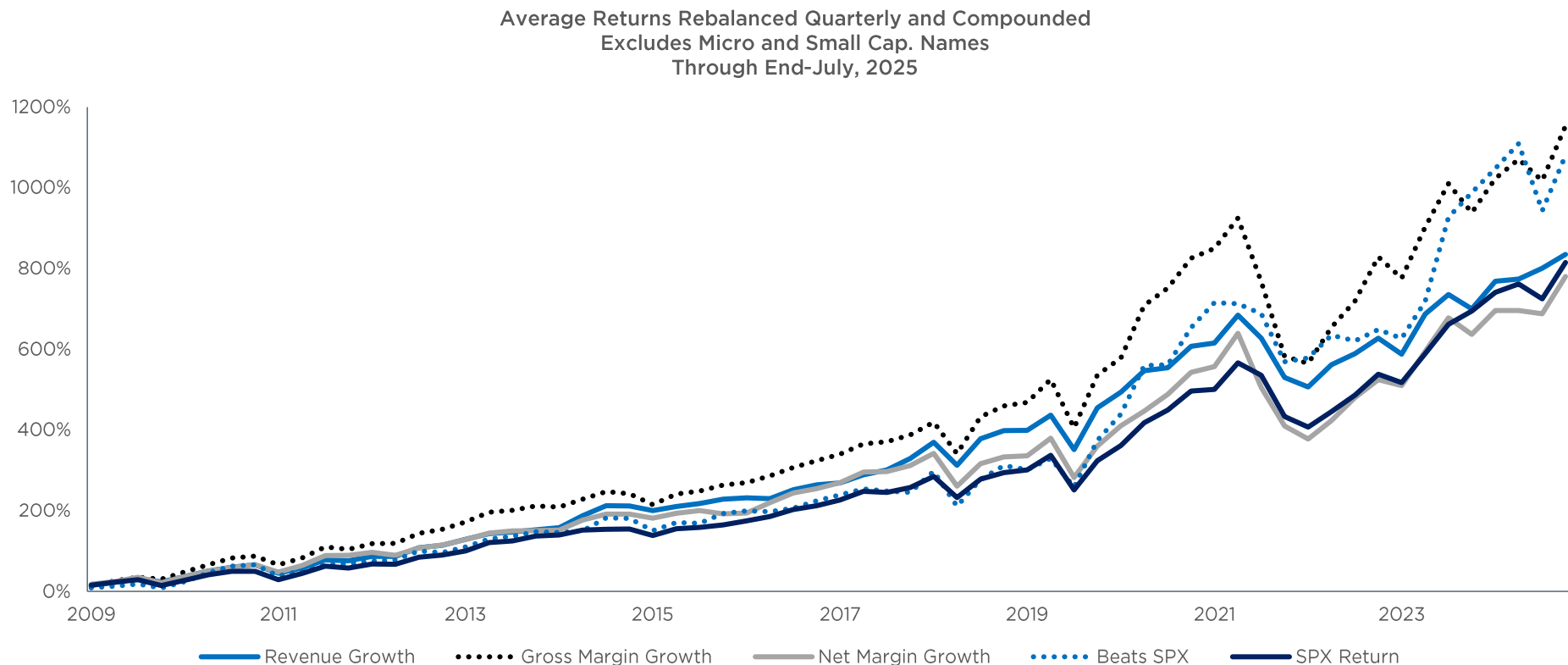
Identifying compounders - gross margin expansion matters: Of the four signals we studied, buying stocks in the top 10% of consistent previous gross margin expansion resulted in the best subsequent stock performance. Stocks that consistently beat the S&P500 (i.e., in the top quintile of price momentum the previous quarter) also performed well, but much of this was generated since COVID. Net margin growth was the weakest of the metrics we analyzed.

At present, there are 39 companies that have grown gross margins every quarter for 12 consecutive quarters. Among those, 22 are forecasted to continue to grow gross margins for the coming quarter. These stocks (Slide 5) include AMZN, T, ETN, APH, and TDG, among others.

For questions about methodology please don't hesitate reach out to us.

COMPOUNDERS HAVE CONSISTENT GROSS MARGIN EXPANSION

Of the four signals we studied, (prior relative stock performance, revenue growth, gross margin expansion, and net margin expansion) buying stocks in the top 10% of consistent previous gross margin expansion resulted in the best subsequent stock performance. Stocks that consistently beat the S&P500 (i.e., in the top quintile of price momentum the previous quarter) also performed well, but much of this was generated since COVID. Net margin growth was the weakest of the metrics we analyzed.

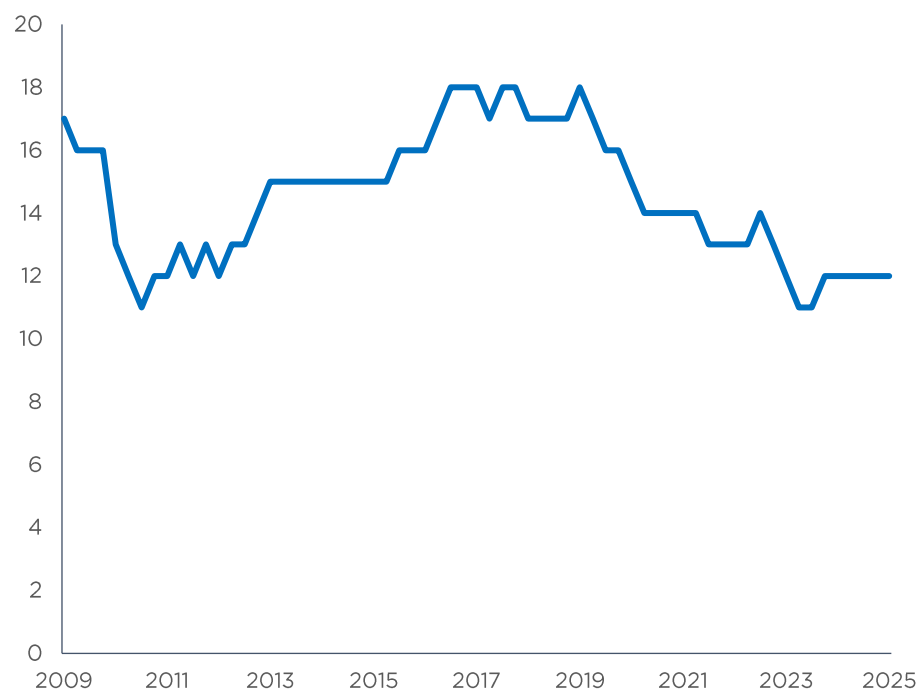


Source: Trivariate Research

SEVERAL COMPANIES HAVE EXPANDED MARGINS FOR 12Q STRAIGHT

Of the 383 companies with at least 2 consecutive quarters of gross margin growth this last quarter (on a year-over-year basis), 39 companies (top decile) had quarterly year-over-year gross margin expansion for at least 12 straight quarters.

Gross Margin Growth Compounders
Min. Number of Consecutive Quarters of Growth
Through End-July, 2025



Source: Trivariate Research

Number of Companies with ≥ 12 Quarters of GM Expansion
Excluding Small and Micro Caps, Financials, & Biotech.
Through End-July, 2025



Source: Trivariate Research

TOP STOCK IDEAS

Below are the suggested gross margin expansion “compounders”.

Gross Margin Growth Compounders Forecasted to Grow Their Gross Margin End-July, 2025

Ticker	Company	Industry	Market Cap. (US\$ Bil.)
AMZN	Amazon.com, Inc.	Broadline Retail	2,329.12
T	AT&T Inc.	Diversified Telecommunication Services	208.24
ETN	Eaton Corporation plc	Electrical Equipment	139.69
APH	Amphenol Corporation	Electronic Equipment, Instruments & Components	119.45
TDG	TransDigm Group Incorporated	Aerospace & Defense	85.41
ABNB	Airbnb, Inc.	Hotels, Restaurants & Leisure	81.68
CPNG	Coupang, Inc.	Broadline Retail	54.40
EA	Electronic Arts Inc.	Entertainment	40.13
HUBS	HubSpot, Inc.	Software	29.36
EXPE	Expedia Group, Inc.	Hotels, Restaurants & Leisure	21.44
NTNX	Nutanix, Inc.	Software	20.49
FTV	Fortive Corporation	Machinery	17.72
CSL	Carlisle Companies Incorporated	Building Products	16.11
ACM	AECOM	Construction & Engineering	14.90
FTI	TechnipFMC plc	Energy Equipment & Services	14.44
APG	APi Group Corporation	Construction & Engineering	14.13
CRS	Carpenter Technology Corporation	Metals & Mining	13.76
AMH	American Homes 4 Rent	Residential REITs	13.35
ATI	ATI Inc.	Aerospace & Defense	12.18
KD	Kyndryl Holdings, Inc.	IT Services	9.71
RRX	Regal Rexnord Corporation	Electrical Equipment	9.62
HSIC	Henry Schein, Inc.	Health Care Providers & Services	8.89

Source: Trivariate Research

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