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TRIVARIATE RESEARCH

HOW SHOULD YOU PLAY EARNINGS RESULTS?

ADAM S. PARKER, Ph.D., FOUNDER
adam@trivariateresearch.com
646-734-7070

CHANG GE, ANALYST
chang@trivariateresearch.com
614-397-0038

MAXWELL ARNOLD, ANALYST
maxwell@trivariateresearch.com
347-514-1234

RYAN MCGOVERN, DIR. OF RESEARCH SALES
ryan@trivariateresearch.com
973-271-8017

COLIN COONEY, HEAD OF SALES
colin@trivariateresearch.com
617-910-7934

RESEARCH SUMMARY AND CONCLUSIONS

Background: The stock price moves before and after earnings results have raised questions among investors – Why are my correct beats fading post results? Why is the penalty for missing so harsh? How do I time when to change positions? We address some of those questions in today's work by evaluating performance ten days before through ten days after EPS results.

Pre-earnings strength fades quickly: Stocks typically rise before and on earnings day but tend to give back gains within two days, a pattern strongest among growth stocks.

Momentum signals expectations: High momentum into earnings implies elevated expectations—these stocks often underperform post-report, while laggards tend to beat expectations.

Market anticipates results: Companies that beat EPS estimates usually rally before their earnings release; misses are foreshadowed by stock price weakness. Most of the "earnings alpha" occurs before results are announced.

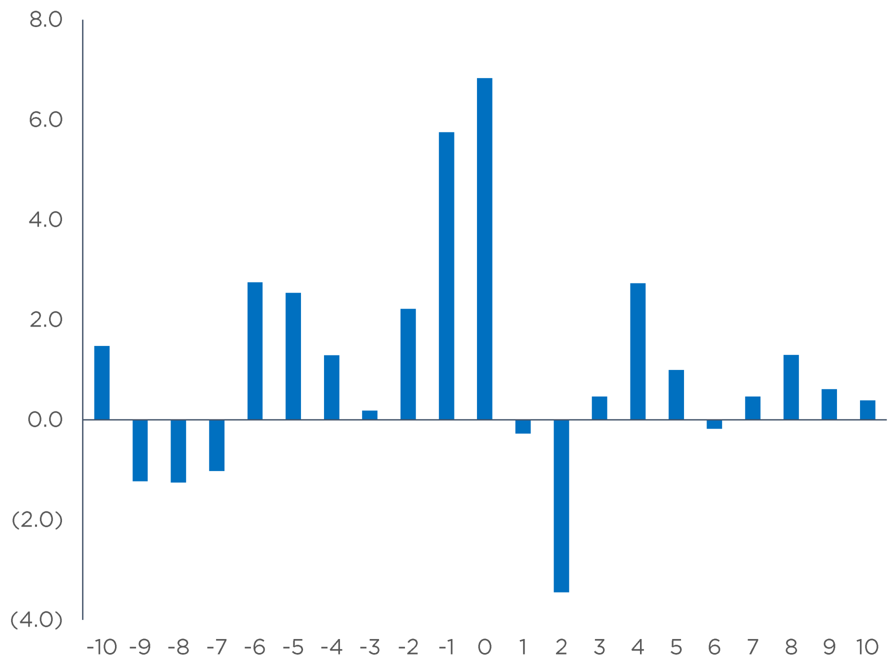
Penalty > reward in 2025: As the market continues to rally, the bar for a market response has risen. This year, stocks missing on EPS or revenue have underperformed by 3.6%, the steepest penalty in 25 years, while the reward for beating is near record lows (~1%).

Fundamentals matter selectively: Fundamentals have mattered most in 2025 for Technology Hardware, Diversified Telecom., and Biotechnology, but have not mattered for Pharmaceuticals and Transportation, among others (see slide 13).

CONSISTENT FLOWS BEFORE EARNINGS, FADE 2 DAYS AFTER

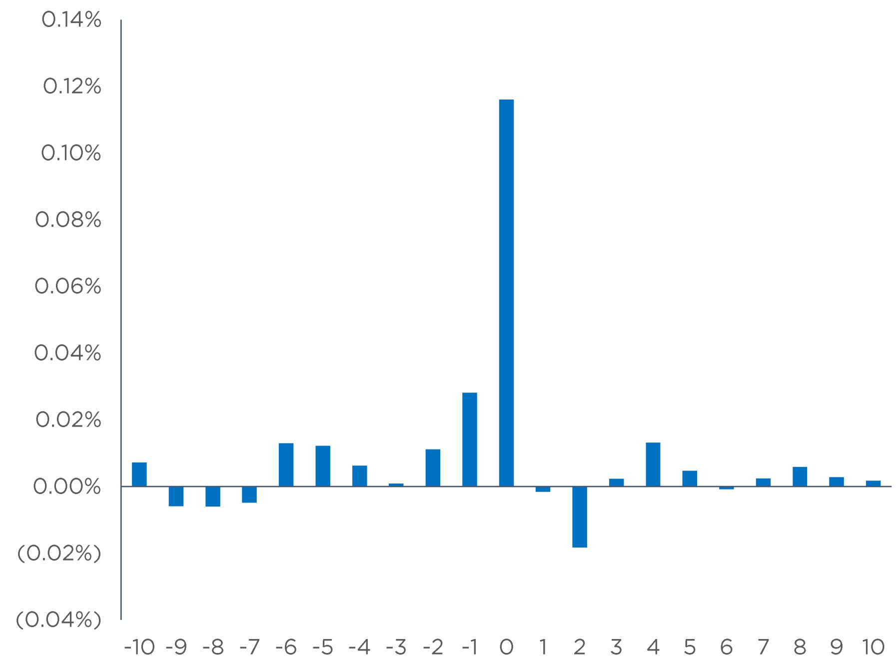
We studied the market's reaction to quarterly earnings releases since 1999, looking at industry group-relative returns of stocks from the ten trading days (2 trading weeks) before earnings to the ten trading days after earnings. The outperformance of stocks is statistically significant leading up to and on the day earnings, and "fade" on day 2 after earnings (left). As we are studying every quarterly earnings release for the top 2,000 US Equities since 1999 (>201k data points), the average effect size is small, with companies beating their industry group by an average of 12bps on the announcement (right).

T-Statistic of Industry Group-Relative Return
by Days Around Earnings Release
Top 2,000 US Equities
2000 to End-September, 2025



Source: Trivariate Research

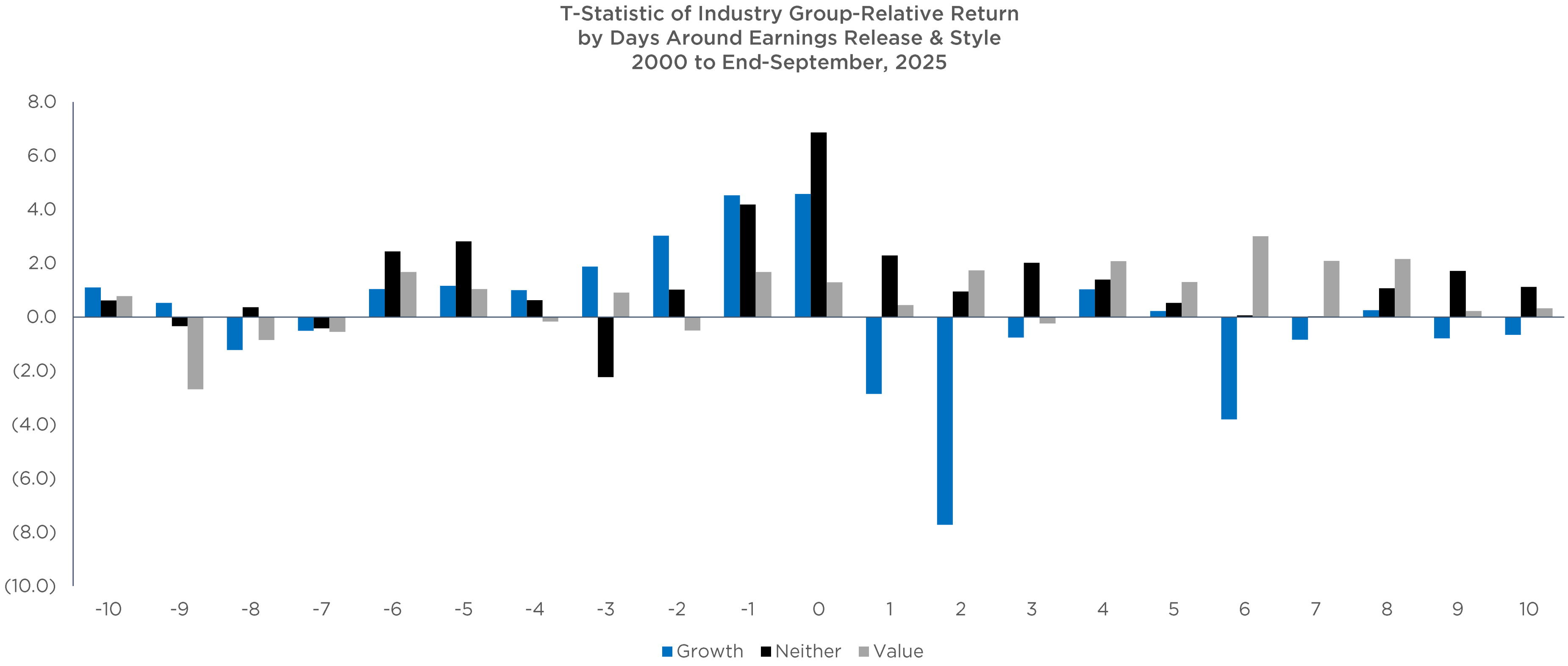
Mean Industry Group-Relative Return
by Days Around Earnings Release
Top 2,000 US Equities
2000 to End-September, 2025



Source: Trivariate Research

MARKET MOVES AROUND EPS REPORTS MATTER MOST FOR GROWTH

The positive returns leading up to earnings and subsequent fade is most significant among growth stocks. Earnings appear to create less of a reaction on average among value stocks. In the middle tertile of the growth-value spectrum which we call “neither” the post earnings fade does not appear.

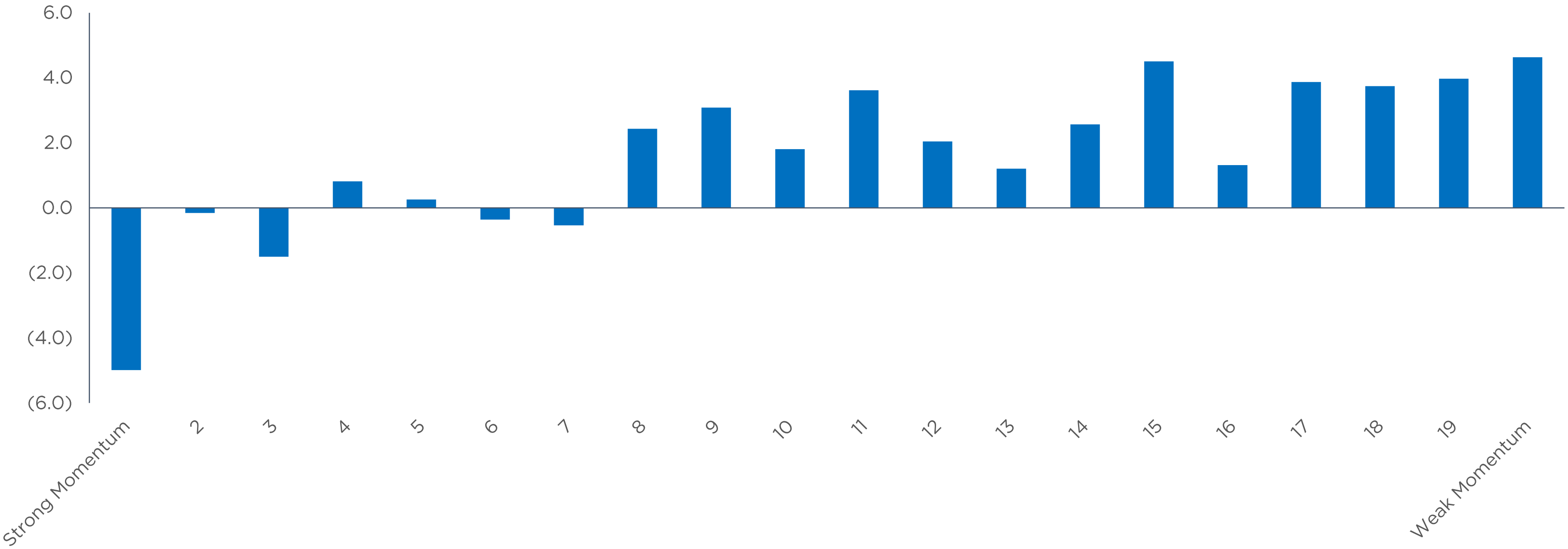


Source: Trivariate Research

STRONG MOMENTUM IS INDICATIVE OF HIGH EXPECTATIONS

Strong momentum in the two weeks leading up to earnings is indicative of high expectations. Stocks in the bottom half of industry group-relative momentum tend to beat expectations on the earnings release. Those in the highest vigintile of two-week momentum see a statistically significant underperformance on earnings. <u>This is an important result – on average big moves into earnings releases should be sold, and big laggards should be bought. The notion that on average EPS season should be avoided independent of pre-report stock performance doesn't appear to be true.</u>

T-Statistic of Industry Group-Relative Return On Earnings Release
By Prior 2-Week Momentum Vigintile
2000 to End-September, 2025

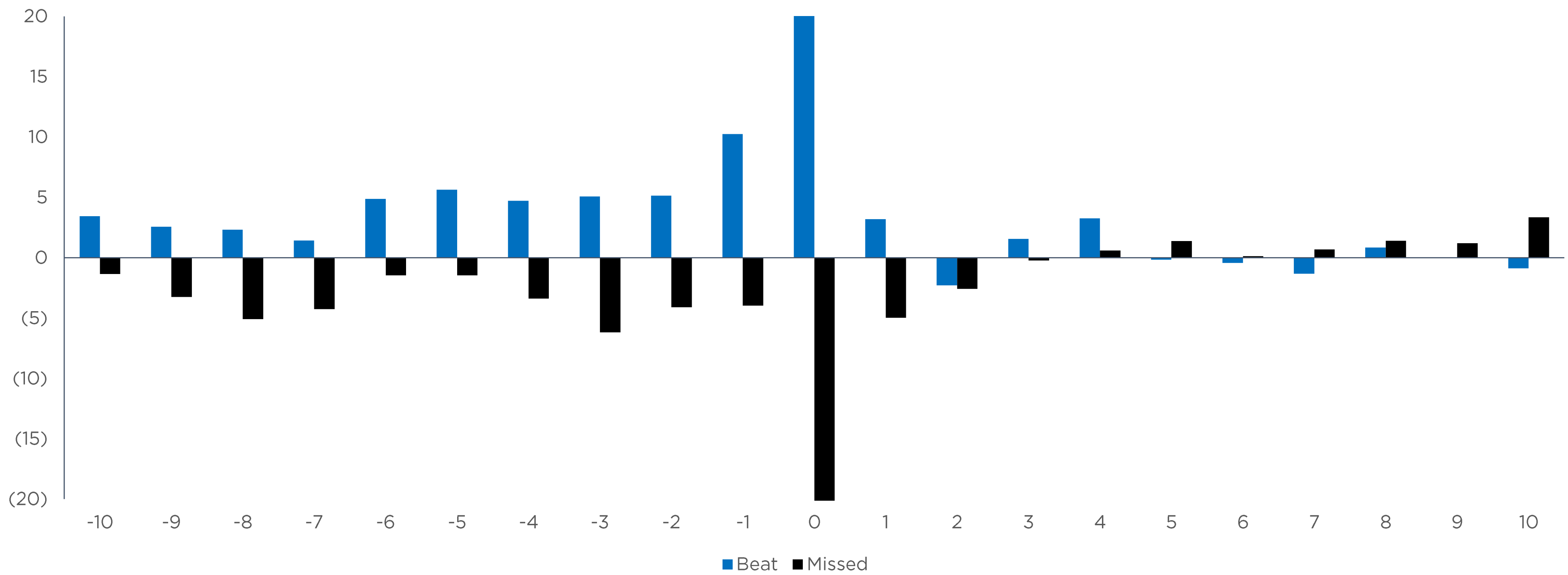


Source: Trivariate Research

THE MARKET PREDICTS BEATS AND MISSES

However, on the margin, the market does predict which companies will beat or miss sell-side consensus EPS estimates. Companies that end up beating on earnings see a statistically significant positive return leading up to the earnings release, and those that miss see a significant negative return prior to the earnings release. After the earnings release, there is little difference between those that beat and those that miss on average. <u>If an investor thinks a recent beat or miss is likely to repeat itself, there is no need, on average, for that investor to increase their position in the first two weeks following an earnings report, because the returns happened prior to the report in many cases.</u>

T-Statistic of Industry Group-Relative Return
by Days Around Earnings Release & Beat vs. Miss Consensus EPS Estimate
2000 to End-September, 2025

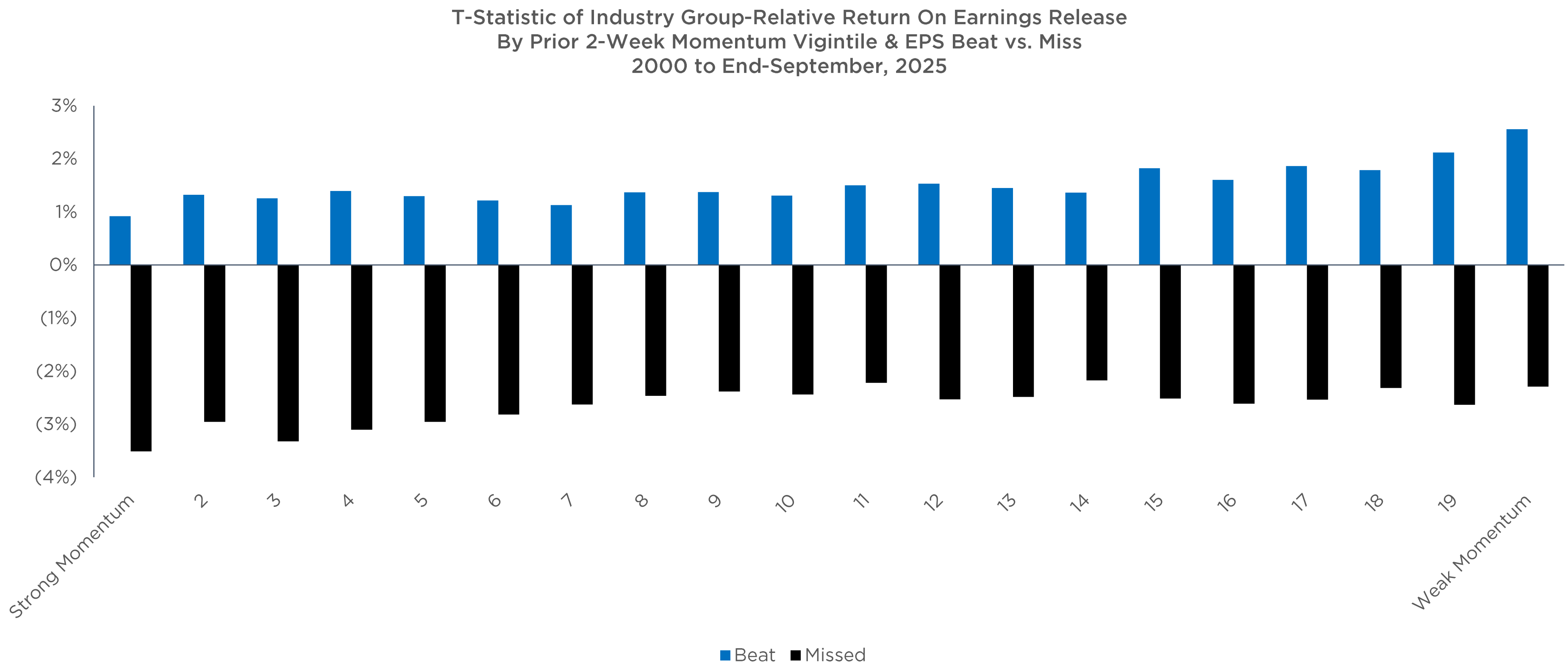


Note: The y-axis is truncated at +/- 20 to highlight the values leading up to earnings. The t-statistic for companies on the earnings announcement is 64 for those that beat and -78 for those that miss.

Source: Trivariate Research

PENALTY FOR MISSING IS GREATER THAN THE REWARD FOR BEATING

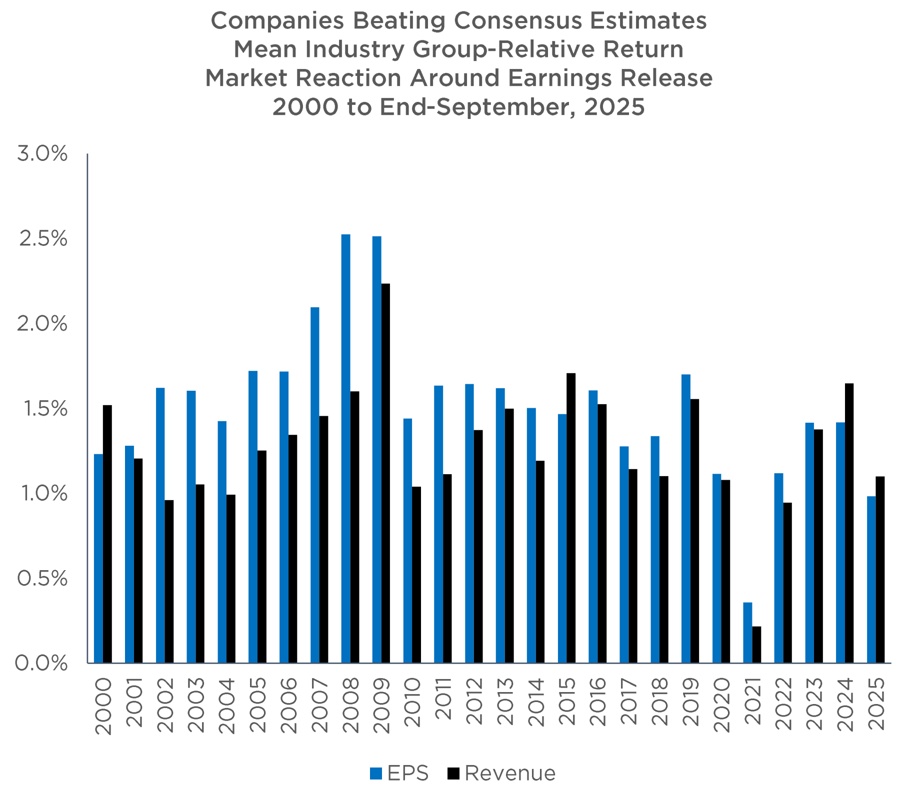
Momentum leading up to earnings is indicative of expectations. Companies in the highest vigintile of two-week momentum that beat EPS estimates outperform their industry group by 0.92% on the earnings release. However, those in the top vigintile of momentum that miss EPS estimates underperform by 3.5%. <u>The reward for beating is only greater than the penalty for missing for the worst performing 5% of stocks prior to the EPS report, where those that beat on EPS outperform by 2.5% while those that miss underperform by 2.3%.</u>



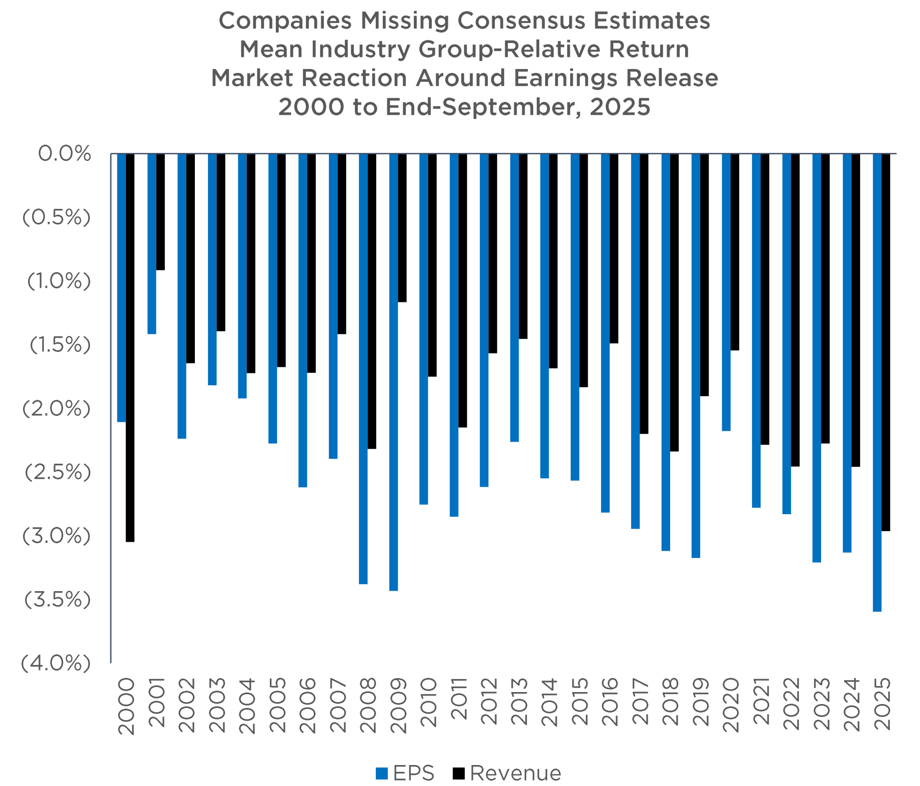
Source: Trivariate Research

THE PENALTY FOR MISSING HAS BEEN GREATER IN 2025

So far in 2025, the reward for beating EPS estimates has been the 2nd lowest in the last 25 years, after 2021, with an average outperformance of only 0.98% (left). On the contrary, the companies that missed on EPS estimates have underperformed by an average of 3.6% (right), which is greater than any year in the last 25 years. Those missing on revenue have also been greatly penalized, with an average underperformance of 3.0%. <u>The reward for beating on earnings has been far less than the penalty for missing, which makes sense given the huge market rally over the last 2.5 years.</u>



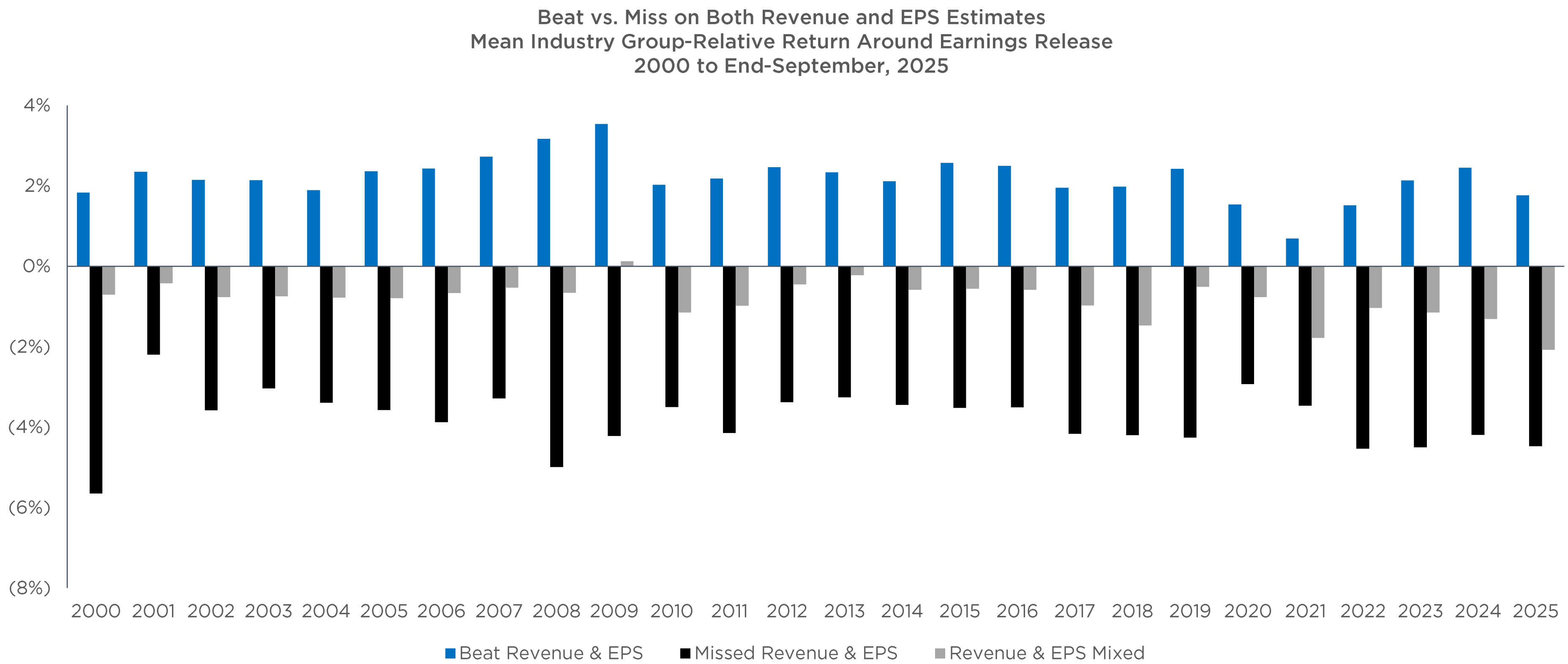
Source: Trivariate Research



Source: Trivariate Research

MISSING ON EPS OR REVENUE IS PENALIZED

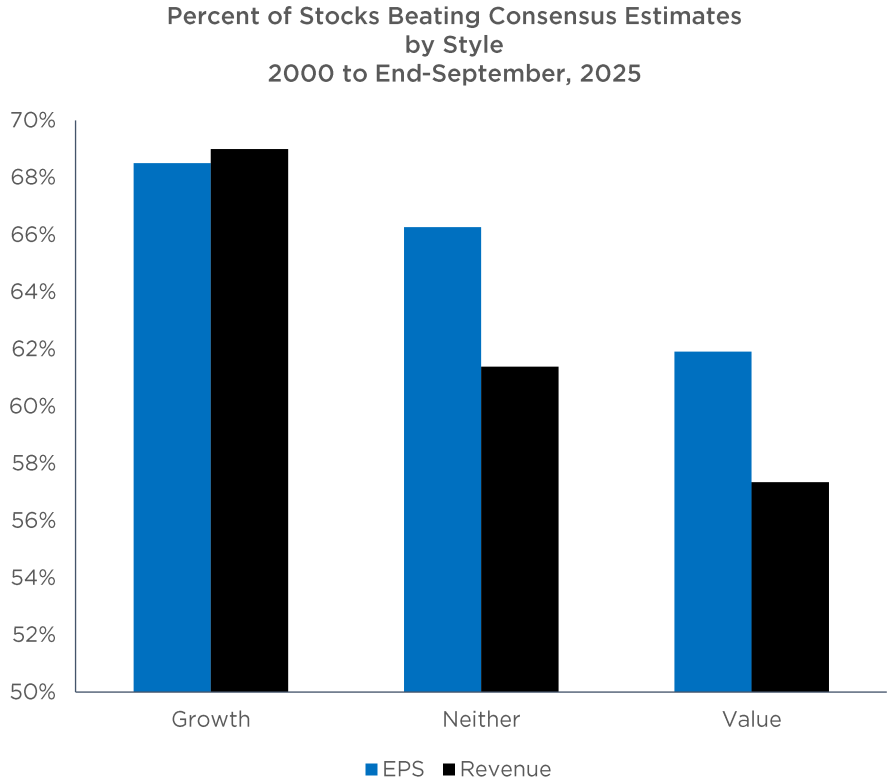
We studied the average industry group-relative return of stocks that beat on both revenue & EPS, those that miss on both revenue & EPS, and those with mixed results on revenue & EPS. Companies that beat on one metric and miss on the other generally underperform. In 2025, the penalty for mixed results has been greater than any time in the last 25 years, with companies averaging 2.1% underperformance on their earnings release.



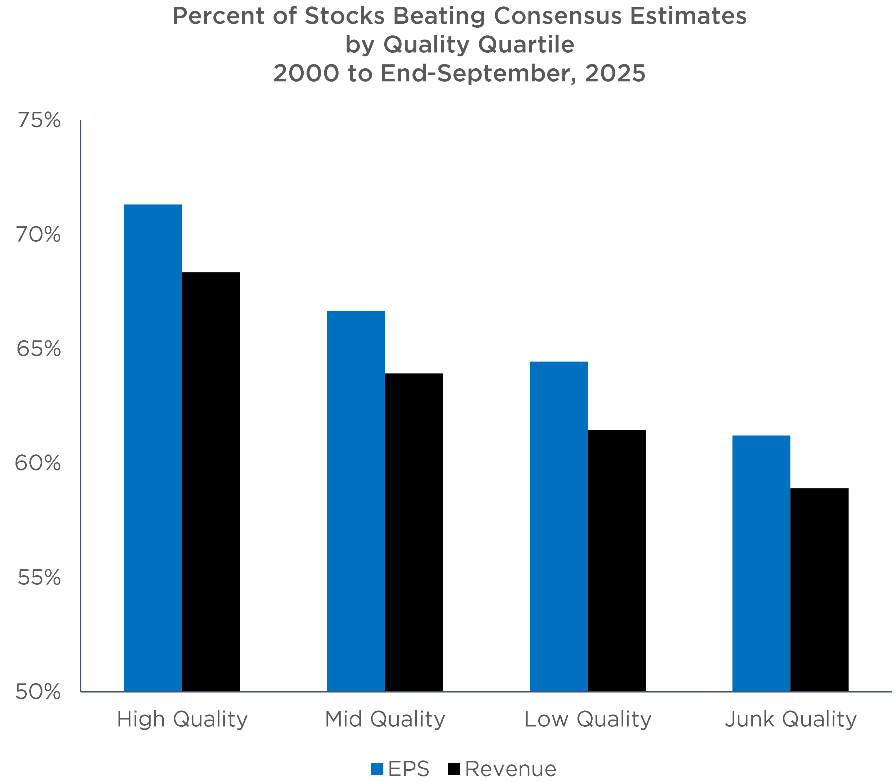
Source: Trivariate Research

VALUE STOCKS BEAT ESTIMATES LESS OFTEN THAN GROWTH

Over the last 25 years, growth stocks beat consensus earnings and revenue estimates more often than value stocks (left). Growth is the only cohort that beats revenue estimates more often than it beats on EPS estimates. Higher-quality companies tend to beat estimates more often than junk (right). It makes sense, ex-post, that the primary reason investors have gravitated toward high-quality growth stocks in the US over the last several years is better fundamental vs. expectations!



Source: Trivariate Research

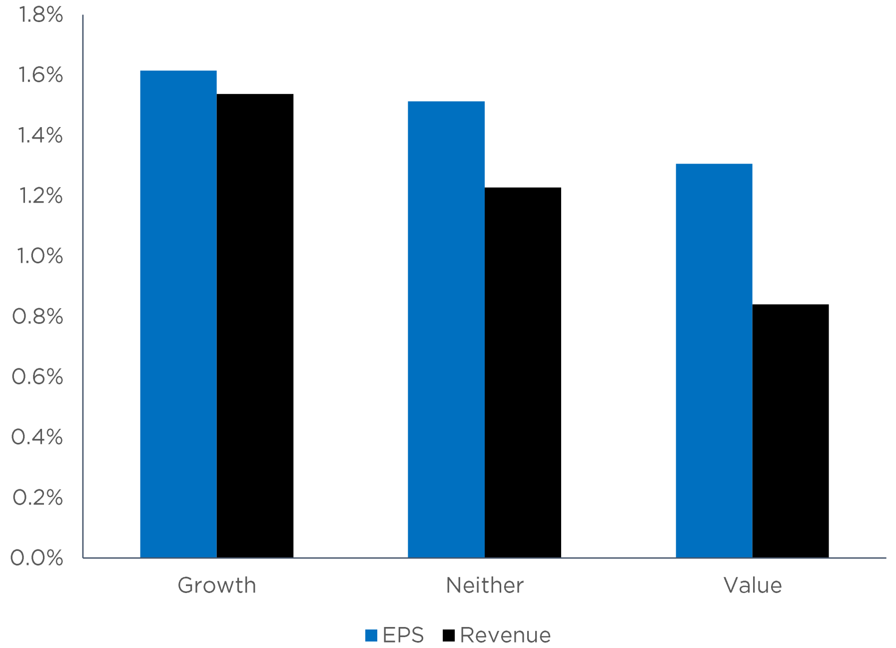


Source: Trivariate Research

…BUT THE PENALTY FOR MISSING IS FAR GREATER IN GROWTH

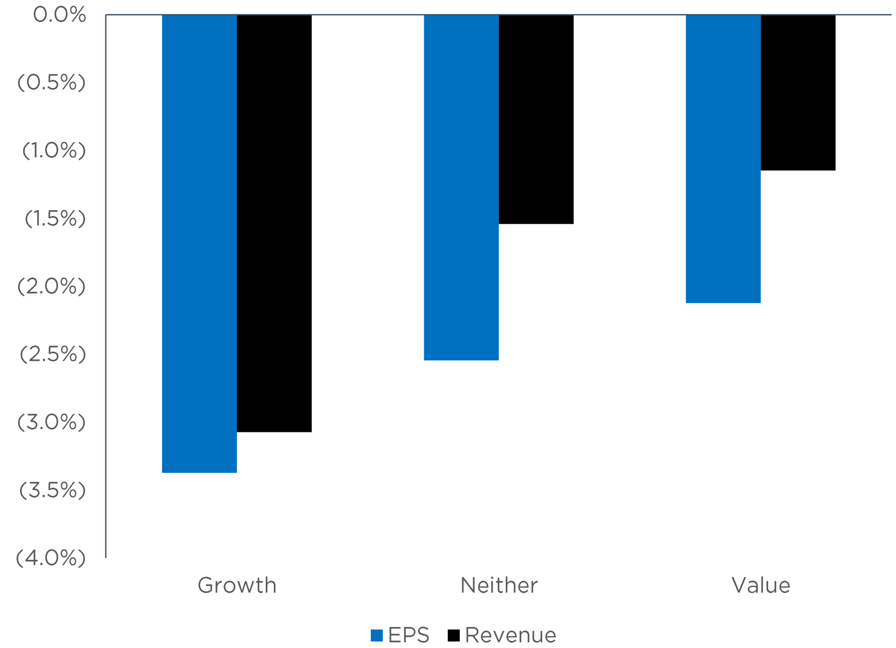
While growth stocks beat estimates more often than value, the market also rewards beating more than value stocks (left). However, the penalty for missing estimates is greater in growth than value, with growth stocks missing EPS estimates underperforming on the earnings release by an average of 3.4%, while value stocks only underperform by an average of 2.1%.

Companies Beating Consensus Estimates
Mean Industry Group-Relative Return
Around Earnings Release
2000 to End-September, 2025



Source: Trivariate Research

Companies Missing Consensus Estimates
Mean Industry Group-Relative Return
Around Earnings Release
2000 to End-September, 2025

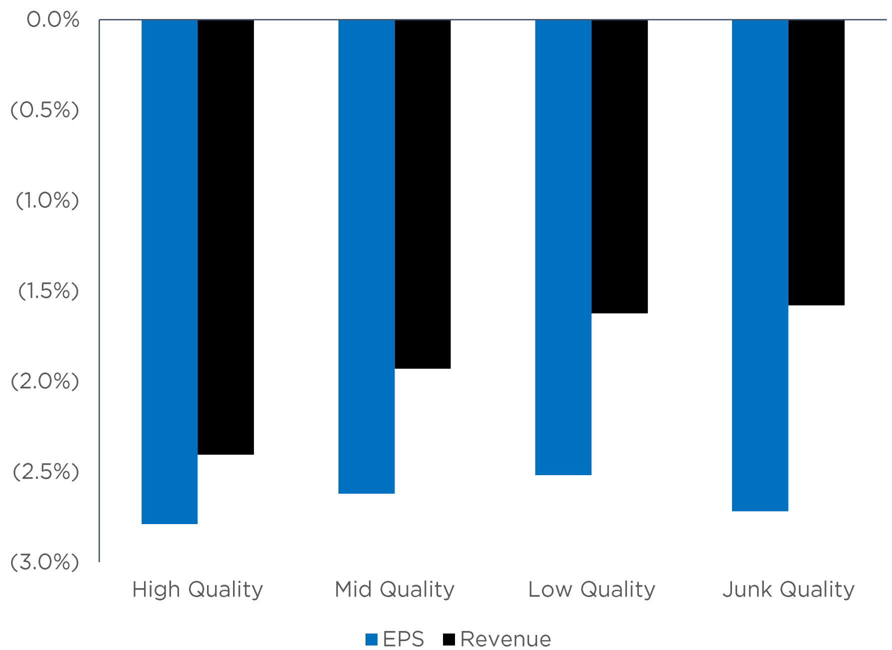


Source: Trivariate Research

JUNK STOCKS THAT BEAT EPS EXPECTATIONS GO UP THE MOST

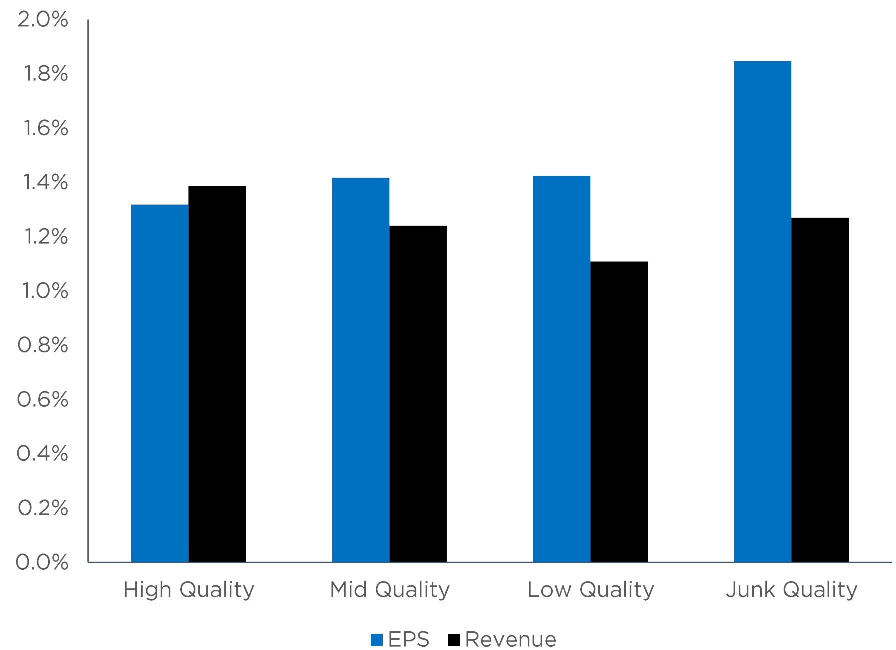
Companies missing on EPS perform similarly across the high quality-to-junk spectrum (left). High quality companies are penalized for missing on revenue more than junk. However, junk stocks that beat on EPS tend to outperform by 1.8% vs. high quality which outperforms by 1.3% (right).

**Companies Missing Consensus Estimates
Mean Industry Group-Relative Return
Around Earnings Release
2000 to End-September, 2025**



Source: Trivariate Research

**Companies Beating Consensus Estimates
Mean Industry Group-Relative Return
Around Earnings Release
2000 to End-September, 2025**



Source: Trivariate Research

WHERE HAVE FUNDAMENTALS MATTERED IN 2025?

Below we show the results of a linear regression to predict the market's reaction to earnings based on the percentage beat or miss on EPS and revenue for GICS Industries in 2025. This list includes industries where fundamentals have mattered more in 2025 vs. history (percentile rank vs. other years >90%) or less (percentile rank <10%). A t-statistic greater than 1.96 indicates statistical significance of fundamentals on the market's reaction to earnings. Fundamentals have mattered a lot in Diversified Telecomm. Services, Electric Utilities, Health Care Tech, and Technology Hardware, where has market reactions to quarterly earnings have not been fundamentally related in Personal Care Products, Ground Transportation, Pharmaceuticals and Health Care Providers, among others.

Linear Regression: EPS and Revenue % Beat or Miss vs. Quarterly Earnings Reaction by GICS Industry
As of End-September, 2025

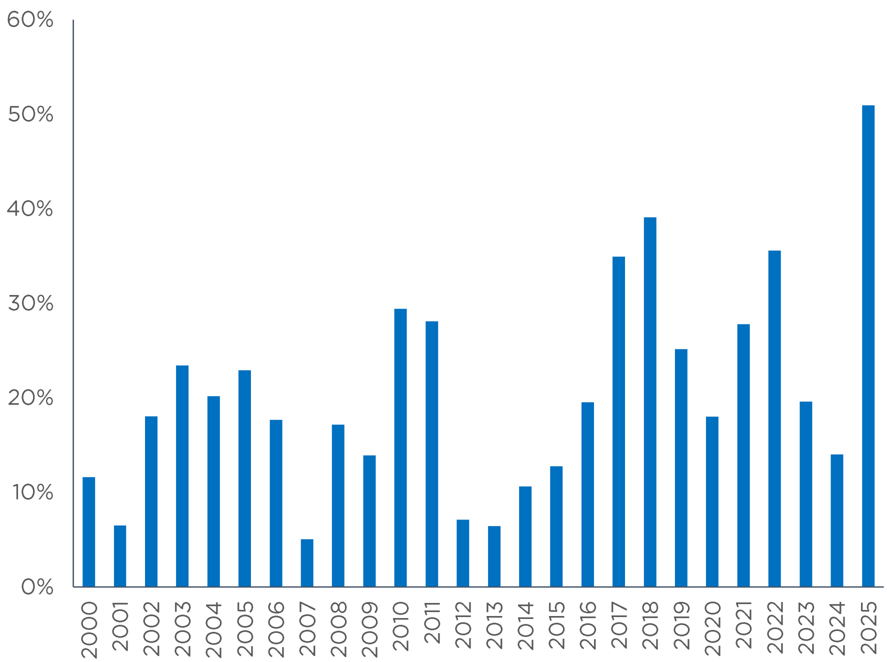
Industry	R-Squared of 2025 Regression	Percentile Rank of 2025 R-Squared vs. History	2025 EPS and Revenue T-Statistic	2025 Revenue T-Statistic	2025 EPS T-Statistic	# of Stocks	Largest 3 Companies
Electric Utilities	61%	91%	28.4	(0.0)	3.6	27	NEE, SO, CEG
Aerospace & Defense	39%	96%	20.7	1.6	4.2	47	GE, RTX, BA
Life Sciences Tools & Services	43%	95%	19.1	3.9	(0.1)	41	TMO, DHR, A
Media	43%	100%	13.8	3.8	1.6	44	CMCSA, CHTR, FOXA
Biotechnology	29%	92%	13.3	4.5	(0.5)	221	ABBV, AMGN, GILD
Technology Hardware, Storage & Peripherals	51%	100%	11.4	4.6	2.2	18	AAPL, DELL, STX
Health Care Technology	56%	100%	7.1	4.8	(0.5)	18	VEEV, DOCS, WAY
Communications Equipment	24%	92%	4.9	0.9	1.6	28	CSCO, ANET, MSI
Health Care REITs	37%	100%	4.5	4.1	1.8	17	WELL, VTR, ARE
Specialized REITs	15%	100%	4.0	0.5	1.9	24	AMT, EQIX, DLR
Diversified Telecommunication Services	69%	100%	3.4	(1.0)	2.5	17	T, VZ, ASTS
Insurance	5%	4%	2.9	0.8	1.3	92	PGR, CB, MMC
Commercial Services & Supplies	7%	8%	2.8	2.1	1.0	43	WM, CTAS, RSG
Leisure Products	48%	100%	2.7	1.1	1.7	17	HAS, MAT, GOLF
Hotel & Resort REITs	30%	100%	2.6	1.8	0.4	12	HST, RHP, APLE
Health Care Providers & Services	4%	0%	2.2	1.4	0.5	71	UNH, HCA, MCK
Chemicals	5%	4%	1.9	1.4	0.8	56	LIN, SHW, ECL
Pharmaceuticals	2%	4%	0.5	0.8	0.8	77	LLY, JNJ, MRK
Ground Transportation	2%	8%	0.4	0.7	(0.2)	27	UBER, UNP, NSC
Personal Care Products	2%	0%	0.2	(0.7)	0.6	16	EL, KVUE, ELF
Water Utilities	4%	0%	0.1	0.1	(0.5)	12	AWK, WTRG, AWR
Marine Transportation	1%	5%	0.0	(0.3)	(0.3)	12	KEX, MATX, SBLK

Source: Trivariate Research

FUNDAMENTALS HAVE MATTERED IN TECH HARDWARE & TELECOM.

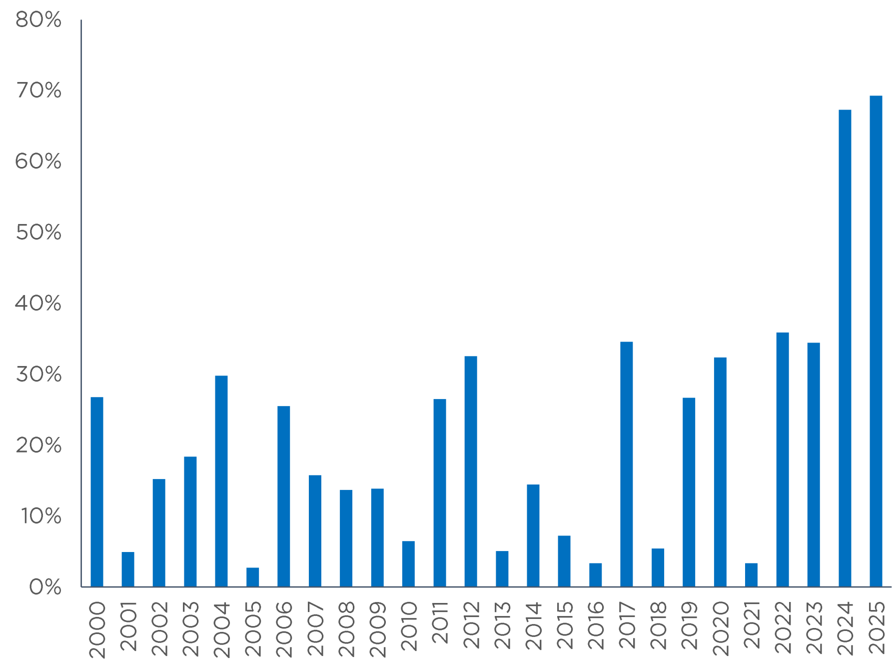
<u>In Technology Hardware (left) and Diversified Telecommunication Services (right), the percentage that companies beat or miss on consensus EPS and revenue estimates has explained the market's reaction to earnings more in 2025 than any year in the last 25 years</u>. This implies that the price moves on earnings releases have been more grounded in fundamentals.

Technology Hardware, Storage & Peripherals Industry
R-Squared Value of Regression
Beat vs. Miss % on EPS & Sales Predicting Market Reaction
2000 to End-September, 2025



Source: Trivariate Research

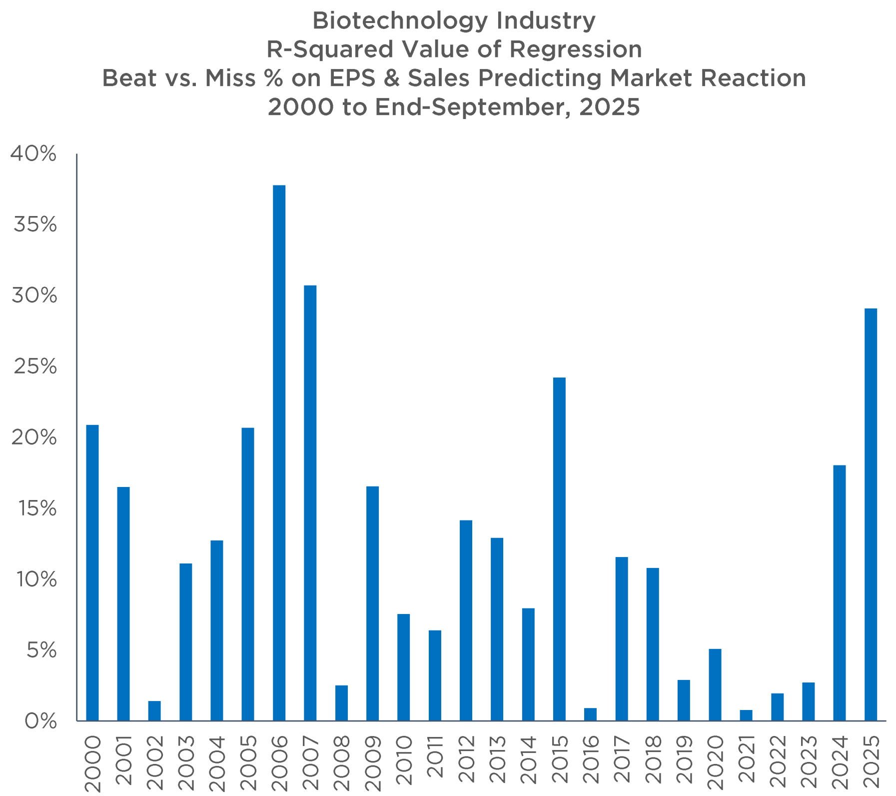
Diversified Telecommunication Services Industry
R-Squared Value of Regression
Beat vs. Miss % on EPS & Sales Predicting Market Reaction
2000 to End-September, 2025



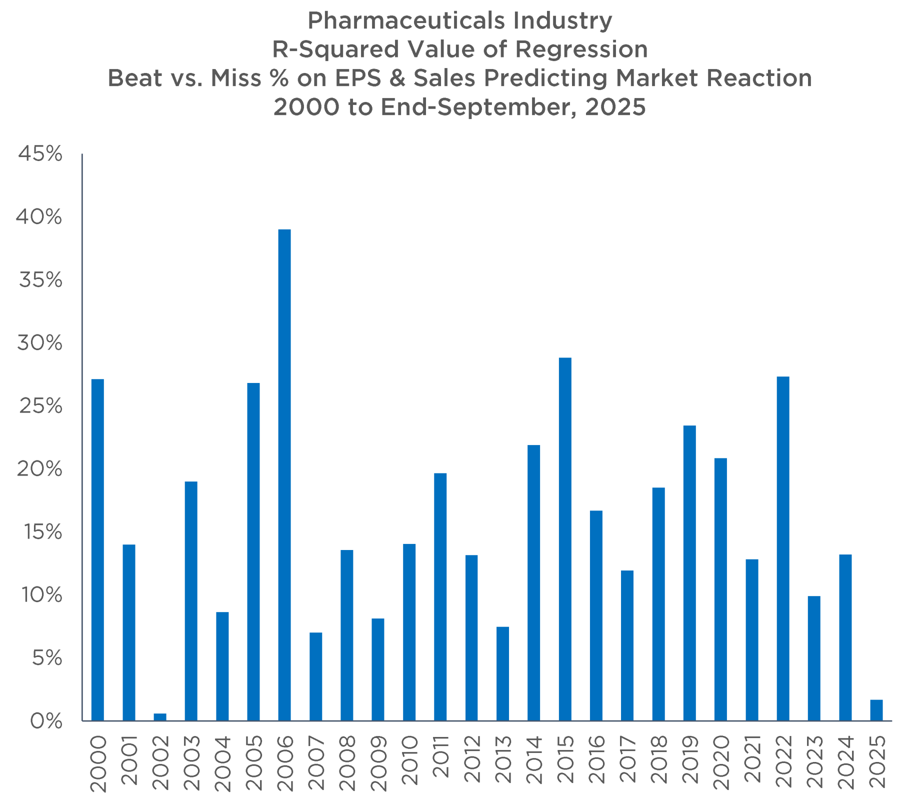
Source: Trivariate Research

DIVERGENCE BETWEEN BIOTECHNOLOGY AND PHARMACEUTICALS

While fundamentals have mattered in Biotechnology (left) over the last two years, the opposite is true in Pharmaceuticals (right). This could be explained by the market giving more weight to guidance vs. current quarter results for GLP-1 producing pharma companies.



Source: Trivariate Research



Source: Trivariate Research

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