

STRICTLY CONFIDENTIAL AND NOT FOR DISTRIBUTION

TRIVARIATE RESEARCH

BROKEN COMPOUNDERS: AN INFERIOR ASSET CLASS

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

BACKGROUND AND RESEARCH SUMMARY

Background: Every once in awhile a previously well-regarded, darling stock has a shocking pullback. Three years ago, our favorite personal bank First Republic blew up. This past year, universally held United Healthcare (UNH) and previously well-regarded Fiserv (FISV) have strongly retreated. We thought it would make sense to look for compounders that materially break and see if there were any rules of thumb to apply about catching the “falling knife” or continuing to avoid it. We define “Broken Compounder” as Top 900 US stocks (Mid-Cap. or larger) excluding Biotechnology stocks where blow-ups are common, that were up more than 100% in 5 years with 5-year annualized Sharpe ratio of above 0.5 followed by a beta-adjusted drawdown of more than 30% in 1-month. We excluded periods of market selloff in 2000, 2008 and 2020 to focus on idiosyncratic breaks. This gives us 520 total “Broken Compounders” to evaluate over the last 20 years. In 2025, we have seen the third most Broken Compounders, after the Financial Crisis and COVID.

Attributes: About 80% of the Broken Compounders are mid-cap and growth stocks. Only 12 of the stocks we define as Broken Compounders are mega-caps, including UnitedHealthcare (UNH) and Oracle (ORCL) in 2025. There are plenty of high-quality broken compounders, with about the same number of top- and bottom-half quality over the last 20 years. Obviously, the highest percentage of Broken Compounders is going to come from the sector with the most compounders, and Technology, Consumer Discretionary, and Healthcare are the three sectors with the most stocks.

Valuation prior to breaking: We looked at the valuation of stocks that ultimately became Broken Compounders, right before they “broke” by comparing their price-to-forward earnings to their industry-group median. In some sectors, like Technology, Industrials, and Consumer Staples, the premiums were substantial. In others, like Healthcare, valuation compression was less of a cause than fundamental changes. In aggregate however, nearly 40% of all Broken Compounders were in the most expensive quintile of the market on price-to-forward earnings.

RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

In general, avoid Broken Compounders after the “break”: From the original period of ‘breaking’, the subsequent industry-relative return is quite weak over the following 12 months, implying **Broken Compounders are an inferior asset class**. On average one-week dead-cat bounces should be sold for large- and mid-caps, whereas mega-cap broken compounders tend to stabilize 6-months later, though admittedly the sample size is only 12 occurrences in the last twenty years.

Substance over style: Style doesn’t seem to matter for subsequent returns for Broken Compounders. Value compounders perform the worst following being broken. However, the highest-quality stocks tend to stabilize following the 21-day period we defined, whereas lower quality stocks continue to lag.

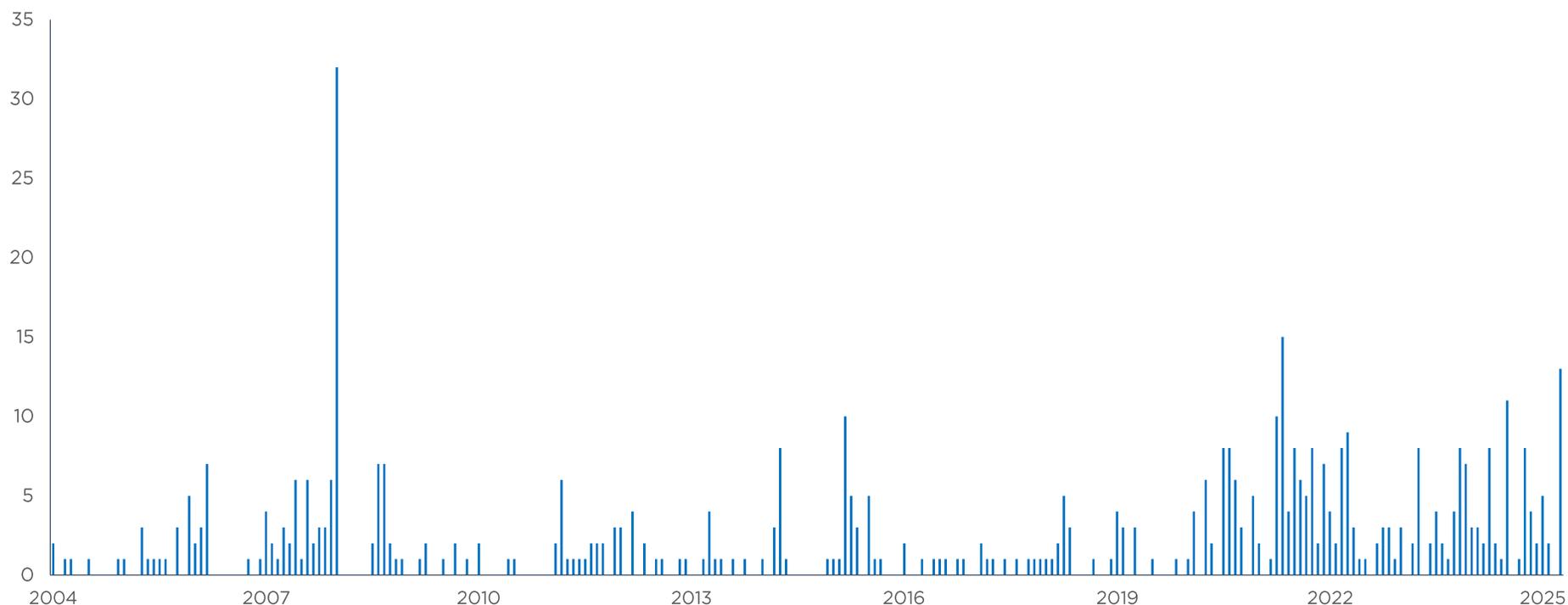
Rules for Broken Compounders: After a compounder breaks, we analyzed attributes of subsequent winners and losers. **Avoiding those with the highest forecasted EPS growth seems prudent**, as they underperform their industry average **by a further 950bps on average over the next three months**. Finding companies with high return on tangible equity growth can be a good idea, but avoiding those with weak return on tangible growth is crucial. **The poorest ROTE growth quintile of Broken Compounders goes on to lag its industry by an additional 14% over the next 3 months.**

Slide 11 shows the most recent Broken Compounders and their key attributes. Avoiding high forecasted growth, like CVLT, MSTR, KTOS, and CELH is prudent. Companies with poor ROTE growth also materially lag. This list also includes MSTR and KTOS, as well as CDE, SMCI, and ASTS. High-quality stocks tend to perform better, potentially arguing for SNPS among this list.

WE EVALUATED THE PERFORMANCE OF >500 BROKEN COMPOUNDERS

We defined a compounder as a stock that is up 100% or more in the previous 5 years, with a relatively low volatility, defined as a Sharpe Ratio of 0.5 or greater. A broken compounder is defined as stocks that are down 30% or more on a beta-adjusted basis over a month. We studied the Top 900 stocks by market cap. (mid-cap or larger) excluding Biotechnology. This gives us 520 total “Broken Compounders” to evaluate over the last 20 years. In 2025, we have seen the third most Broken Compounders, after the Financial Crisis and COVID, so we thought evaluating strategies for investing after the blow-ups was timely.

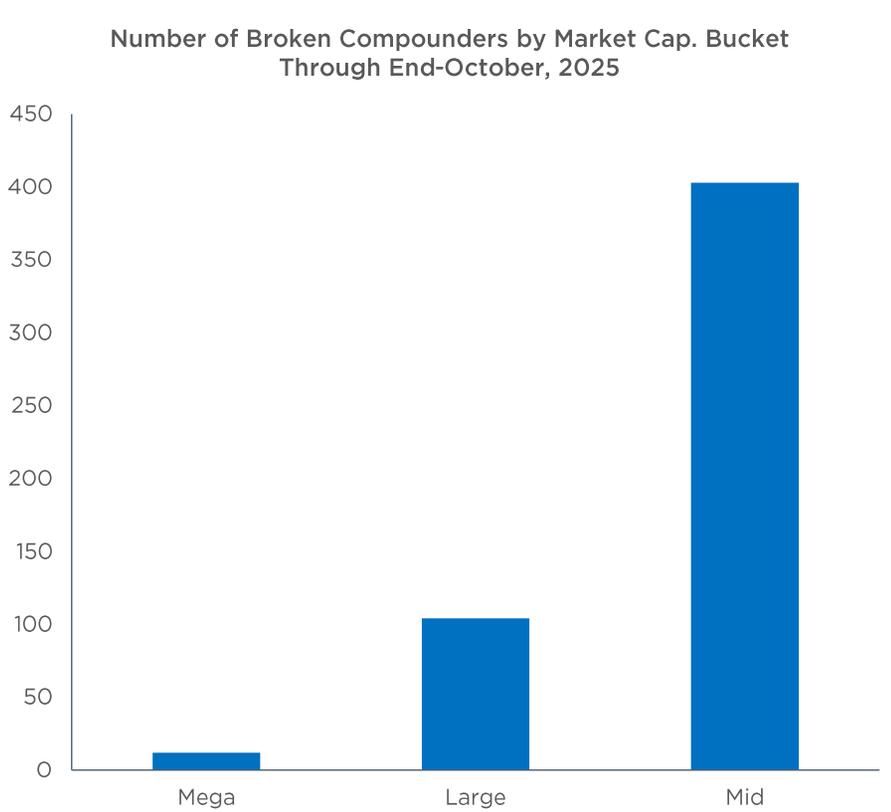
Number of Broken Compounders Per Month Since 2000
Through End-October, 2025



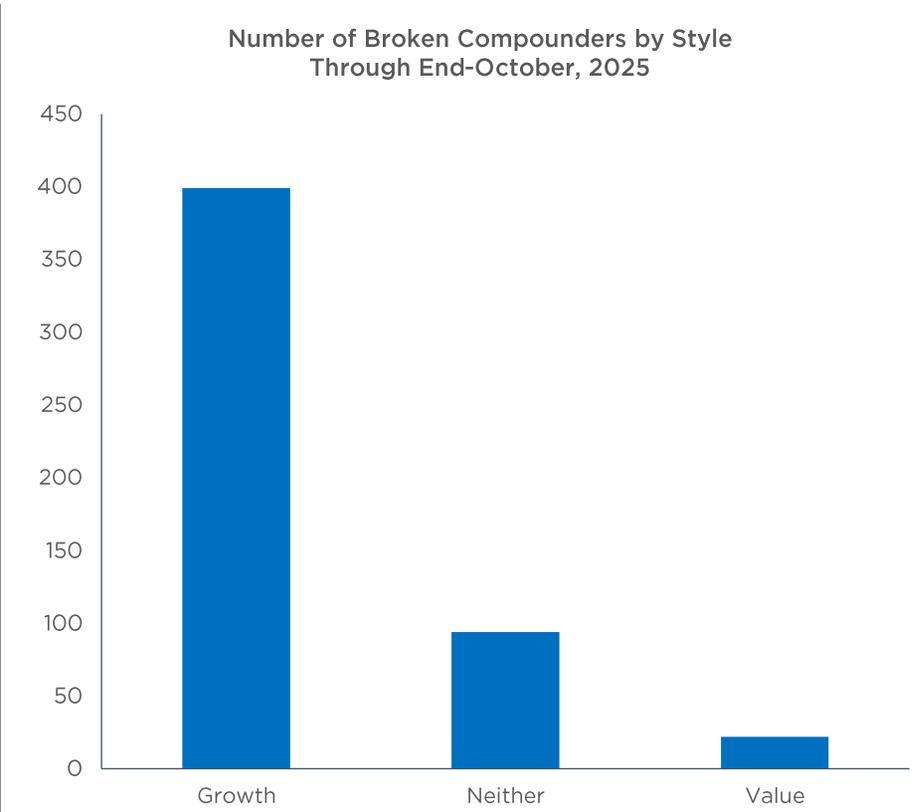
Source: Trivariate Research

MOST BROKEN COMPOUNDERS ARE MID-CAP. GROWTH STOCKS

About 80% of the Broken Compounds are mid-cap (left) and growth (right). Only 12 of the stocks we define as Broken Compounds are mega-caps, including UnitedHealthcare (UNH) and Oracle (ORCL) in 2025.



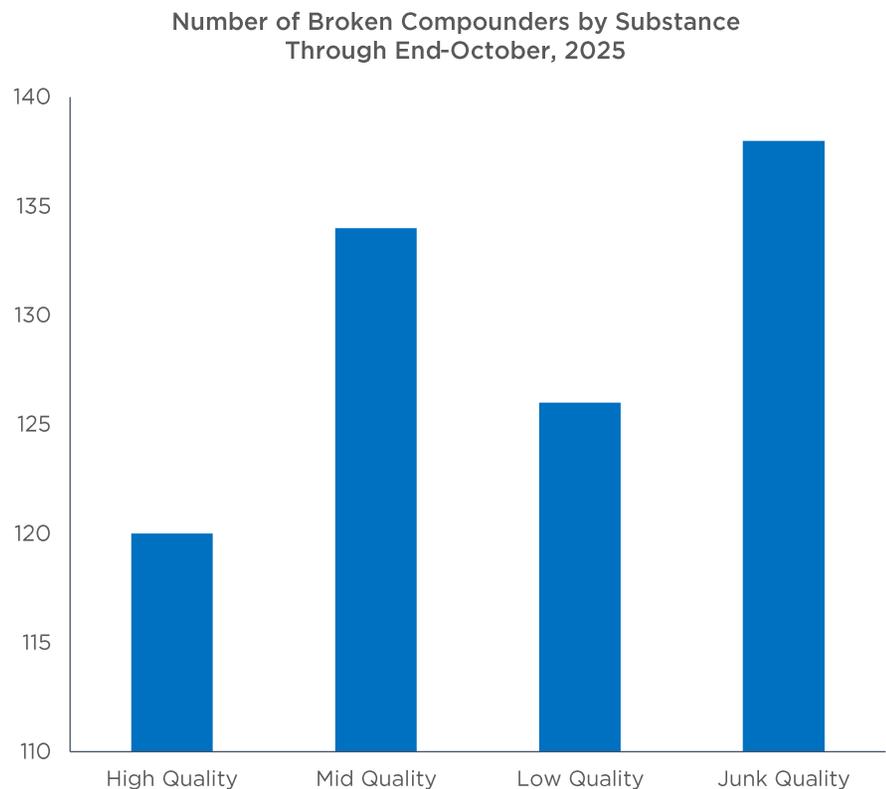
Source: Trivariate Research



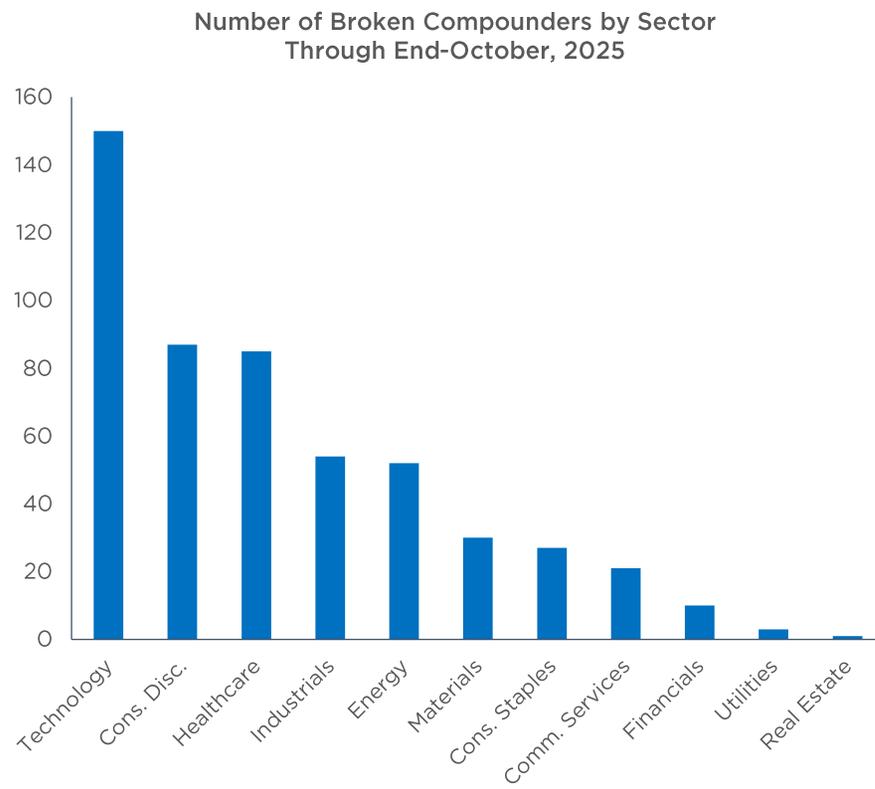
Source: Trivariate Research

THERE ARE PLENTY OF HIGH-QUALITY BROKEN COMPOUNDERS

Interestingly, there are plenty of high-quality broken compounders, with about the same number of top- and bottom-half quality over the last 20 years (left). Obviously, the highest percentage of broken compounders is going to come from the sector with the most compounders, and Technology, Consumer Discretionary, and Healthcare are the three sectors with the most stocks fitting these criterion.



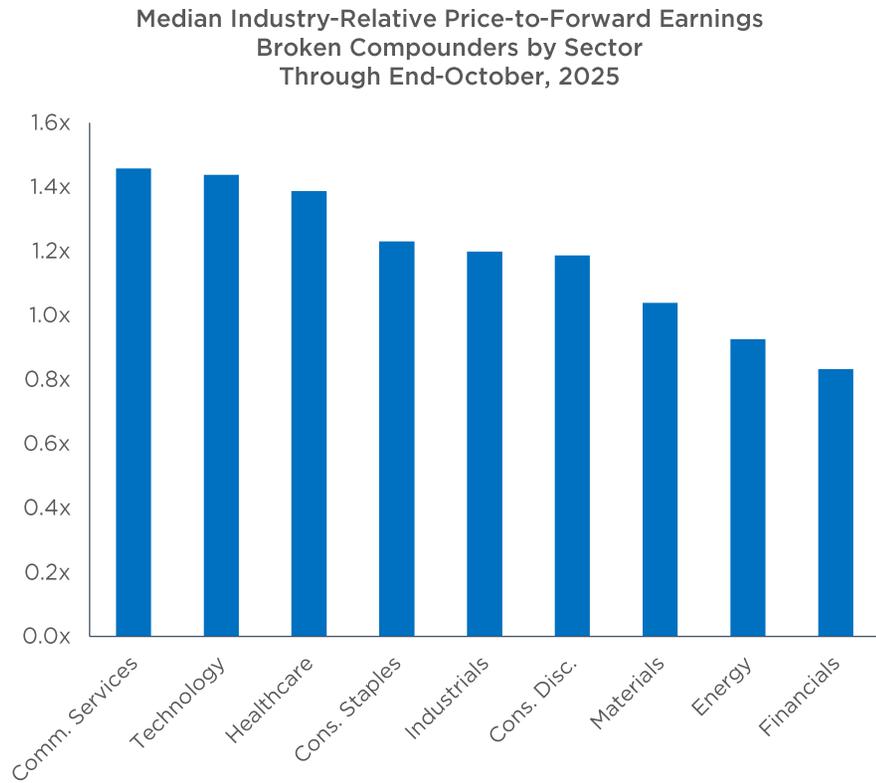
Source: Trivariate Research



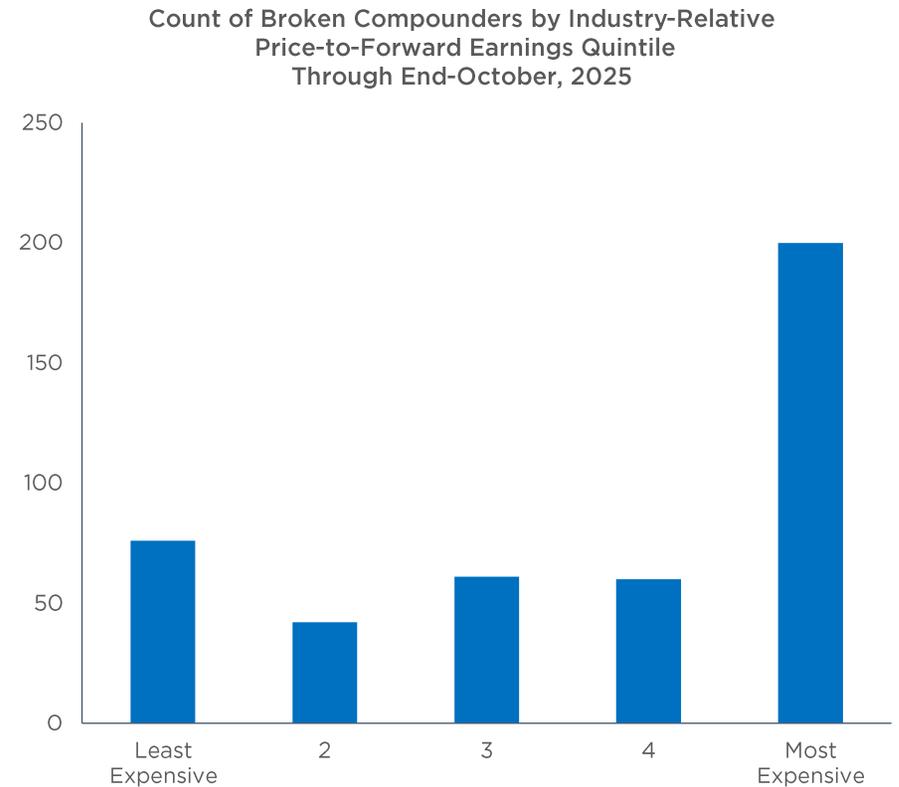
Source: Trivariate Research

MOST BROKEN COMPOUNDERS WERE EXPENSIVE VS. INDUSTRY AVG.

We looked at the valuation of stocks that ultimately became Broken Compounders, right before they “broke” by comparing their price-to-forward earnings to their industry-group median. In some sectors, like Technology, Industrials, and Consumer Staples, the premiums were substantial (left). In others, like Healthcare, valuation compression was less of a cause than fundamental changes. In aggregate however, nearly 40% of all Broken Compounders were in the most expensive quintile of the market on price-to-forward earnings (right).



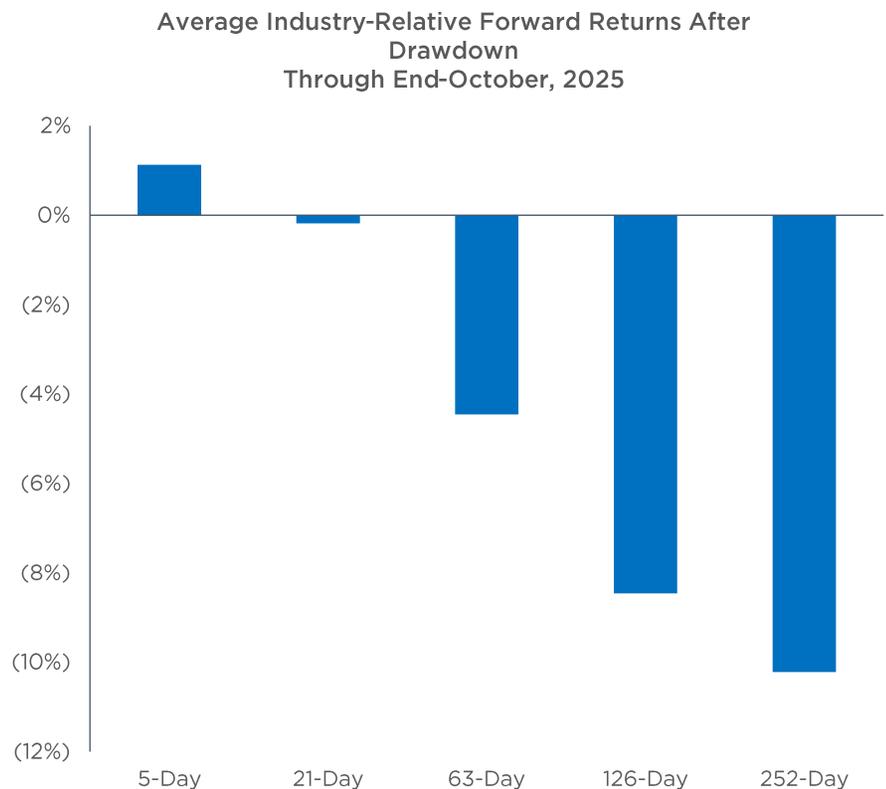
Source: Trivariate Research



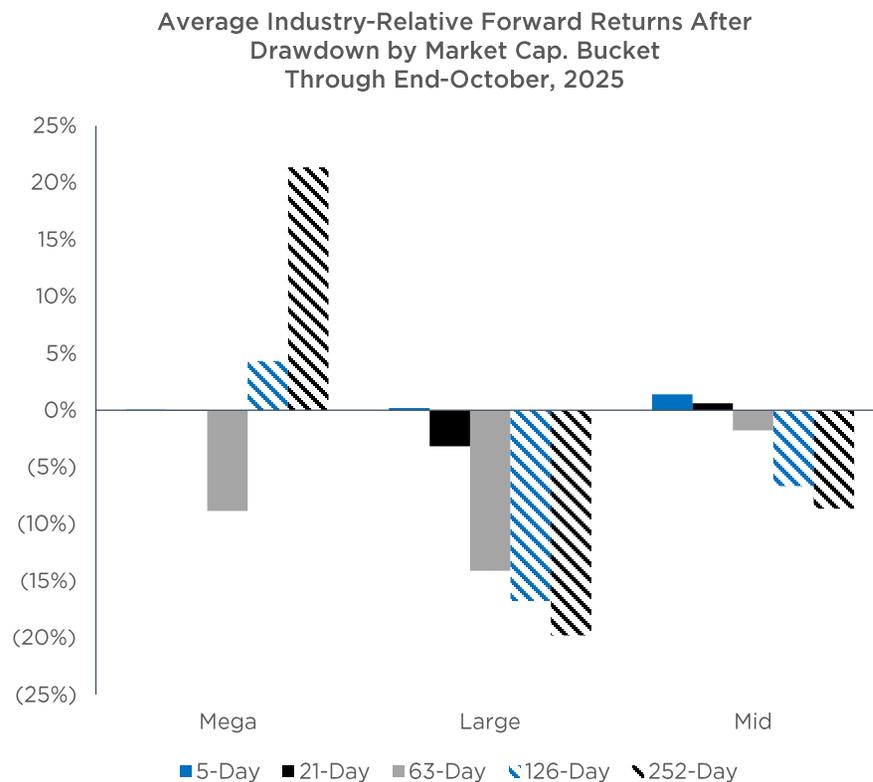
Source: Trivariate Research

INDUSTRY-RELATIVE RETURNS ARE POOR, EXCEPT FOR MEGA CAPS

From the original period of ‘breaking’, the subsequent industry-relative return is quite weak over the following 12 months, implying Broken Compounders are an inferior asset class (left). On average one-week dead-cat bounces should be sold for large- and mid-caps, whereas mega-cap broken compounders tend to stabilize 6-months later (right), though admittedly the sample size is only 12 occurrences in the last twenty years.



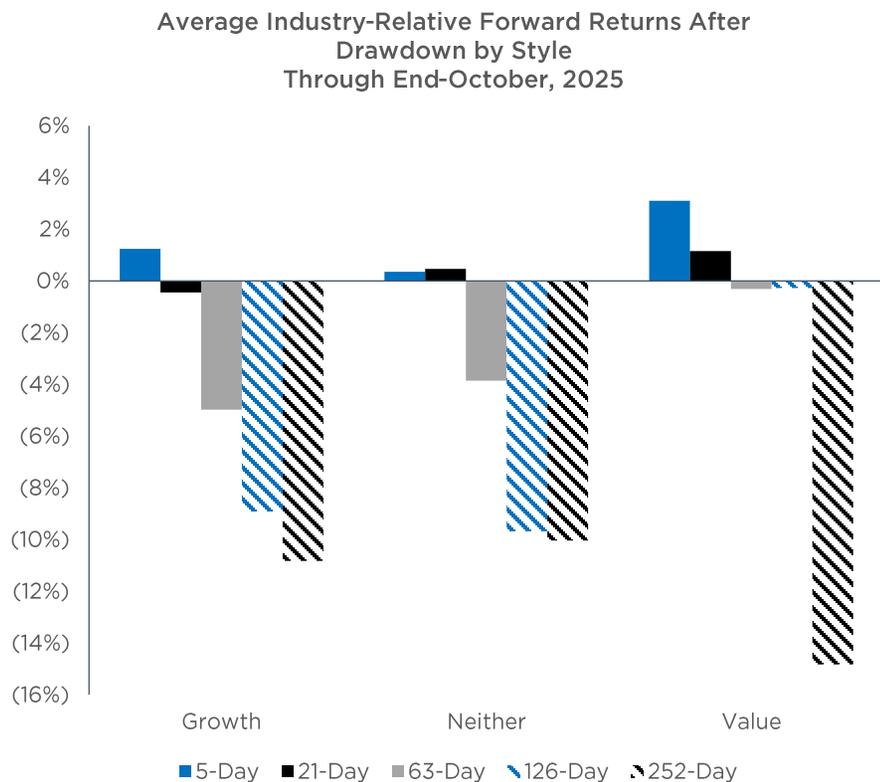
Source: Trivariate Research



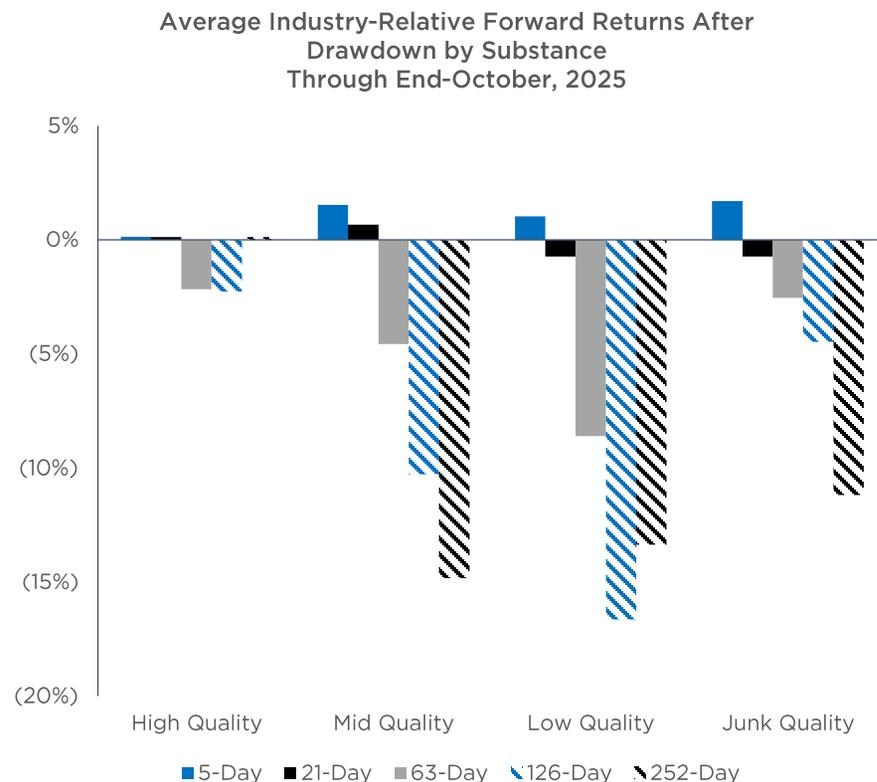
Source: Trivariate Research

STYLE DOESN'T MATTER, HIGH-QUALITY SUBSEQUENTLY LAGS LEAST

Style doesn't seem to matter for subsequent returns for Broken Compounders (left). Value compounders perform the worst following being broken. However, the highest-quality stocks tend to stabilize following the 21-day period we defined, whereas lower quality stocks continue to lag (right).



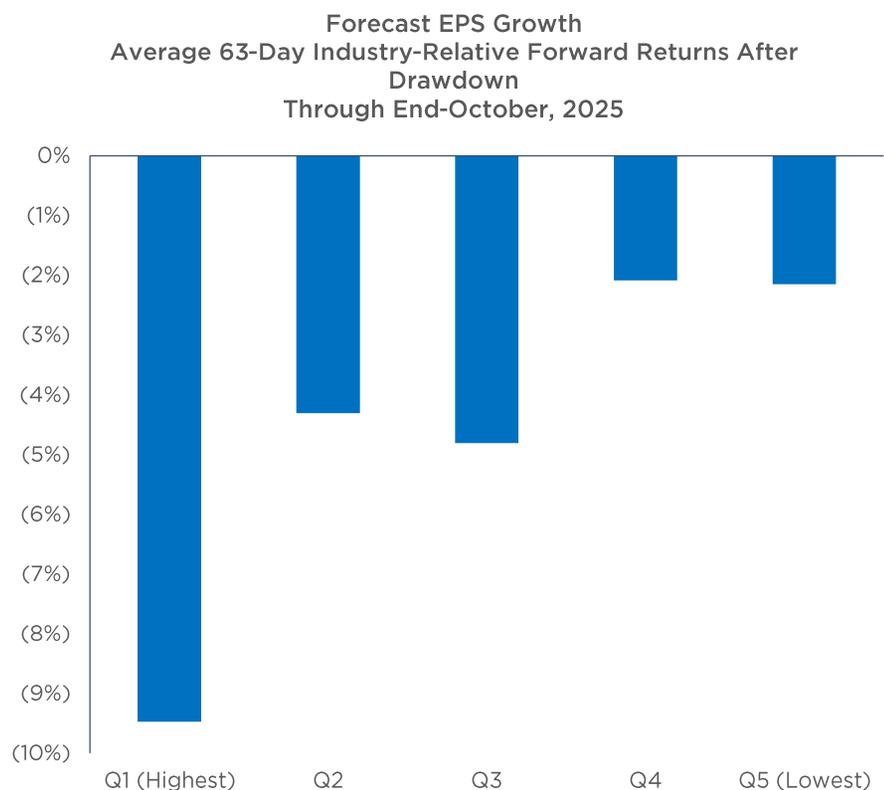
Source: Trivariate Research



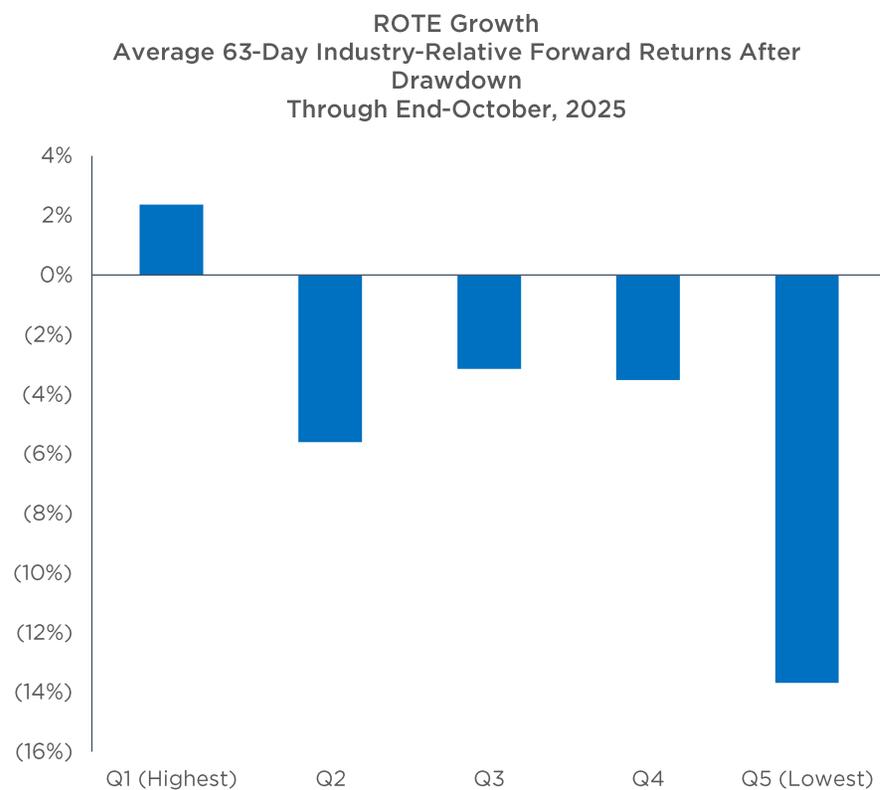
Source: Trivariate Research

AVOID HIGH FORECASTED EPS GROWTH AND POOR ROTE GROWTH

After a compounder breaks, we analyzed attributes of subsequent winners and losers. Avoiding those with the highest forecasted EPS growth seems prudent (left), as they underperform their industry average by a further 950bps on average over the next three months. Finding companies with high return on tangible equity growth can be a good idea, but avoiding those with weak return on tangible growth is prudent (right).



Source: Trivariate Research



Source: Trivariate Research

RECENT BROKEN COMPOUNDERS

Avoiding high forecasted growth, like CVLT, MSTR, KTOS, and CELH is prudent. Companies with poor ROTE growth also materially lag. This list also includes MSTR and KTOS, as well as CDE, SMCI, and ASTS. High-quality stocks tend to perform better, potentially arguing for SNPS among this list.

Latest 15 Broken Compounders
As of November 17th, 2025

Break Start Date	End Date	Ticker	Company	Sector	Market Cap. (US\$ Bil.)	5Y Return Before Break	Beta-Adjusted 1-Month Drawdown	Return Since Break End Date	Forecast EPS Growth Quintile (1=high)	Trailing ROTE Growth Quintile (1=high)	Substance
08/11/2025	09/10/2025	SNPS	Synopsys, Inc.	Technology	117.22	205.2%	(40.8%)	0.6%	5	4	High Quality
09/30/2025	10/29/2025	CVLT	Commvault Systems, Inc.	Technology	8.39	374.0%	(30.4%)	(10.2%)	1	4	High Quality
10/06/2025	11/04/2025	MSTR	Strategy Inc	Technology	92.84	2302.9%	(32.6%)	(20.9%)	1	5	Low Quality
10/08/2025	11/06/2025	KTOS	Kratos Defense & Security Solutions	Industrials	15.42	444.7%	(31.0%)	(3.0%)	1	5	Junk Quality
10/08/2025	11/06/2025	CDE	Coeur Mining, Inc.	Materials	12.06	175.0%	(30.7%)	0.1%	2	5	Mid Quality
10/08/2025	11/06/2025	SMCI	Super Micro Computer, Inc.	Technology	28.49	1549.1%	(30.4%)	(15.5%)	3	5	Low Quality
10/08/2025	11/06/2025	ELF	e.l.f. Beauty, Inc.	Cons. Staples	7.86	665.1%	(46.6%)	(4.9%)	2	3	Mid Quality
10/09/2025	11/07/2025	CELH	Celsius Holdings, Inc.	Cons. Staples	14.83	737.1%	(35.4%)	(3.3%)	1		Low Quality
10/10/2025	11/10/2025	FFIV	F5, Inc.	Technology	18.57	164.6%	(32.2%)	(5.0%)	4	4	High Quality
10/10/2025	11/10/2025	HIMS	Hims & Hers Health, Inc.	Healthcare	12.82	582.0%	(34.1%)	(13.3%)	2	1	Low Quality
10/13/2025	11/11/2025	RIOT	Riot Platforms, Inc.	Technology	7.03	563.6%	(34.0%)	(14.0%)		1	Junk Quality
10/13/2025	11/11/2025	MARA	MARA Holdings, Inc.	Technology	6.76	222.3%	(35.0%)	(21.3%)	5	1	Junk Quality
10/13/2025	11/11/2025	ASTS	AST SpaceMobile, Inc.	Comm. Services	13.35	579.3%	(30.9%)	(16.6%)		5	Low Quality
10/13/2025	11/11/2025	MP	MP Materials Corp.	Materials	11.88	238.5%	(36.8%)	(8.0%)		1	Junk Quality
10/16/2025	11/14/2025	ORCL	Oracle Corporation	Technology	801.76	448.8%	(31.3%)	(1.3%)	5		Low Quality

Source: Trivariate Research

DISCLOSURES

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, “Trivariate”).

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute “forward-looking statements” that can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “forecasted,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are “forward-looking statements” and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words “include,” “includes,” “including” and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak (“COVID” or “COVID-19”). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.