

STRICTLY CONFIDENTIAL AND NOT FOR DISTRIBUTION

TRIVARIATE RESEARCH

FROM COSTCO TO WALMART: THE PERILS OF PREMIUM VALUATIONS

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: In the Fall of 2024 we noticed that Costco (Ticker: COST) had ascended to a price-to-forward earnings (PEF) of over 50x. We published at that time (and in a subsequent *Op-Ed* in the *Financial Times*) that while we appreciated the many merits of Costco's unique business model, this was a lofty increase in valuation for a business whose topline growth was not expanding. COST's PEF peaked at nearly 58x early in 2025, and now has retreated, but remains at an elevated 45x.

The COST proxy: The specter of AI-led margin expansion has many investors eyeing companies with high revenue dollars, many employees, and low margins, under the thesis that predicting customer and employee behaviors will drive out costs. No company checks more of these boxes than Walmart (WMT). WMT's PEF sharply expanded in 2025, to over 37x, despite 2026 net margin expectations modestly retreating. While we appreciate that investors are expecting AI-fueled productivity to drive margin expansion, we revisit what absolute valuation levels are a problem in today's research.

What happens when you ascend to 40x?: We analyzed the top 900 US equities by market capitalization at each point in time to see how many stocks traded above 40x price-to-forward earnings for the first time in at least three years. On average this impacted 30 stocks out of the 900 per year, and 22 so far in 2025.

Valuation ascension by sector: The valuation ascension is most common in Technology, accounting for about one-quarter of all occurrences over the long-term, followed by Financials / Real Estate, and Consumer Discretionary. It is least common in Utilities and Consumer Staples. For reference, both WMT and COST are classified as Consumer Staples companies, even though they are "Retailers." In 2025, however, we have seen eight of the 22 new 40x multiple companies come from the Industrials sector, slightly more than in Technology, the 2nd highest sector with seven.

INVESTMENT CONCLUSIONS

Multiples contract: It is quite consistent that among the companies that reach 40x price-to-forward earnings, their multiples begin to contract, on average back to 32.6x 12 months after the initial “eclipse”. Twenty percent of the stocks go back to 14x a year later! In fact, only 38% of the companies in this category trade at 40x price-to-forward earnings or higher a year after this first occurred, and only 25% maintain this valuation two-years later. If you own a stock that just ascended to 40x for the first time in years, you need to be highly confident that earnings will grow fast enough to offset the high probability of eventual multiple contraction.

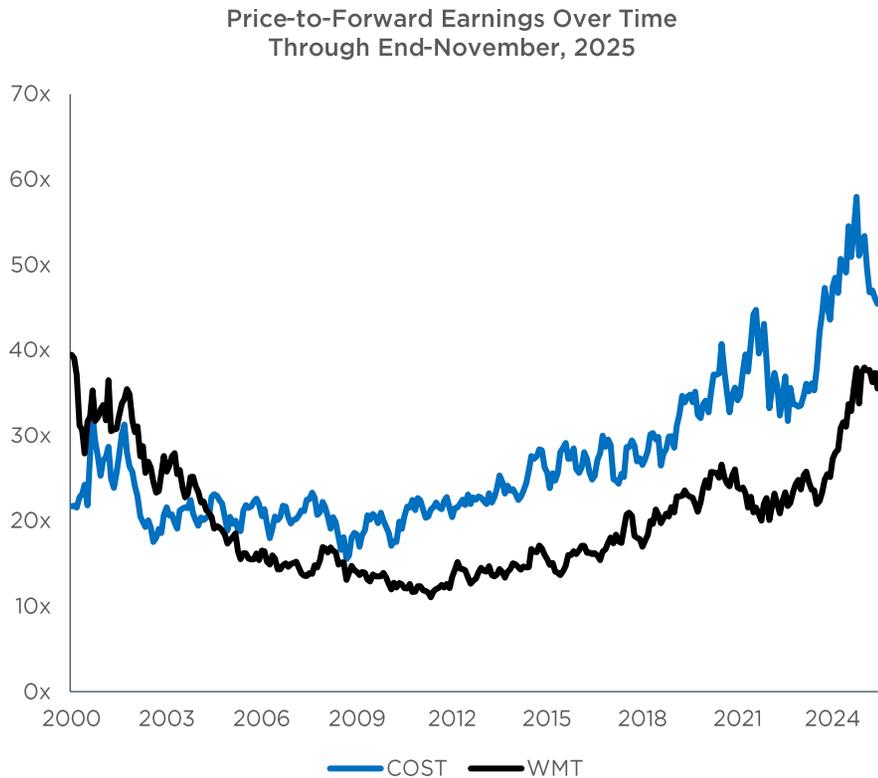
Stocks underperform: The median performance of those eclipsing 40x forward earnings is roughly in-line with the market for the first ten months and then begins to lag. Since 2003 (so eliminating the Technology Bubble unwind) the median stock lags the market on a beta-adjusted basis by 1200 basis points over the subsequent three years and only 39% of the stocks beat the market on a beta-adjusted basis over the same time period.

CONCLUSION: In summary, the data suggest there is no need to panic sell a stock right when it first reaches a price-to-forward earnings multiple of 40x, but it does appear that beginning 6- to 9-months later, the probability of outperformance begins to deteriorate.

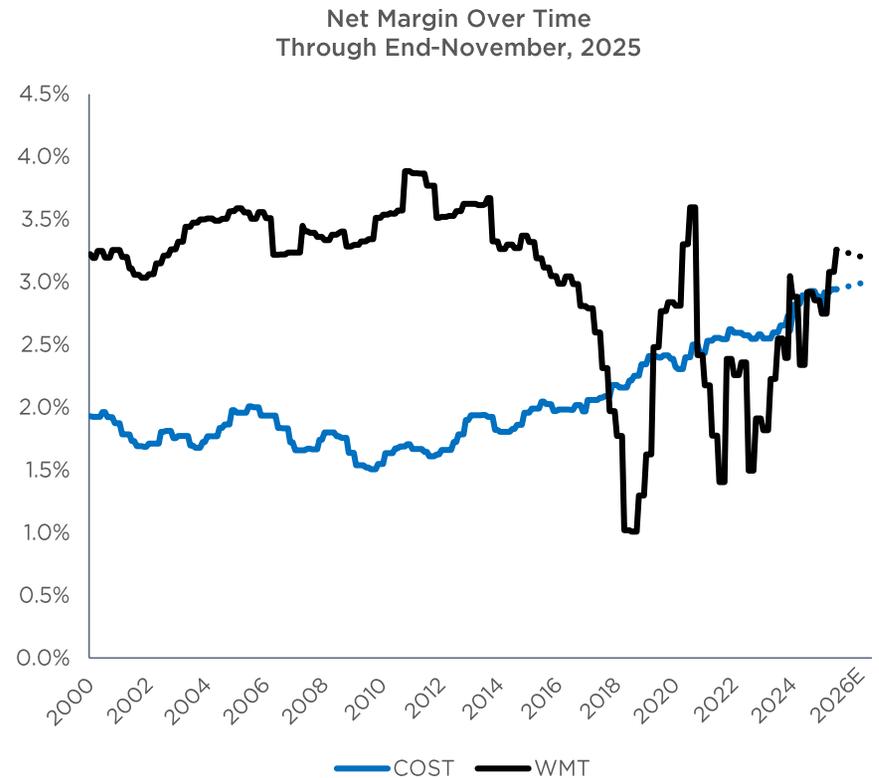
Recently, only five of the last 22 names to first eclipse 40x have generated positive subsequent beta-adjusted returns. Slide 10 shows examples that include high profile stocks like AVGO, NFLX, ORCL, and CIEN, among others.

MULTIPLES VS. MARGINS: COST AND WALMART

We show the price-to-forward earnings (PEF) of Costco (Ticker: COST) and Walmart (WMT) over the last 25 years. COST's PEF went to 58x early in 2025 as net margins slowly went higher before retreating to a still lofty 45x more recently (left). WMT's PEF sharply expanded in 2025, to over 37x, despite 2026 net margin expectations modestly retreating (right). For both, investors are expecting AI-fueled productivity to drive more margin expansion; however, the absolute valuation levels are extremely high. Hence, we revisited our work from 2024 on stocks first elevating to 50x earnings, but reframed it to 40x earnings, where WMT appears to be nearing, in today's work.



Source: Trivariate Research

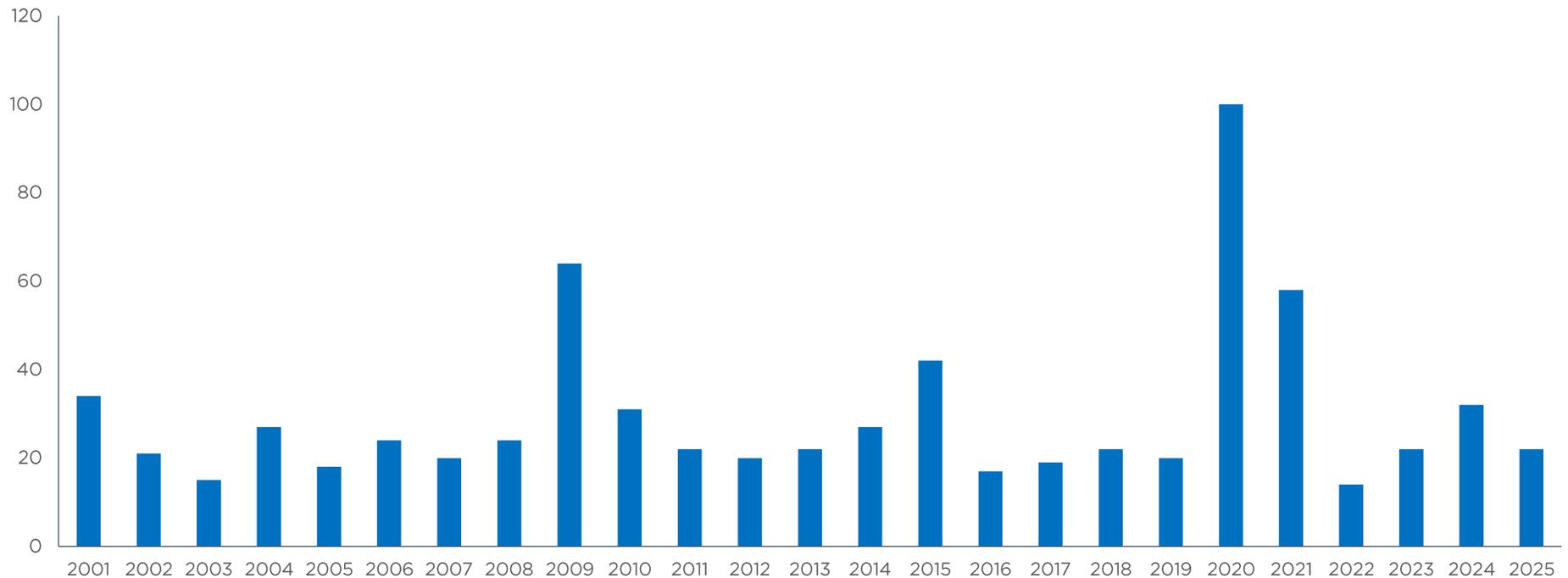


Source: Trivariate Research

22 STOCKS ARE AT 40X PEF THIS YEAR FOR THE 1ST TIME IN 3YRS

We analyzed our mega/large/mid-cap universes (the top 900 US equities by market capitalization at each point in time) to see how many stocks traded above 40x price-to-forward earnings for the first time in at least three years. The recovery periods of 2009 and 2020 saw multiple expansion of this magnitude for many stocks, but on average this impacted 30 stocks out of the 900 per year, and 22 so far in 2025. It is noteworthy with valuation extremes in certain areas, this year is below average for “first time forty times multiple” stocks.

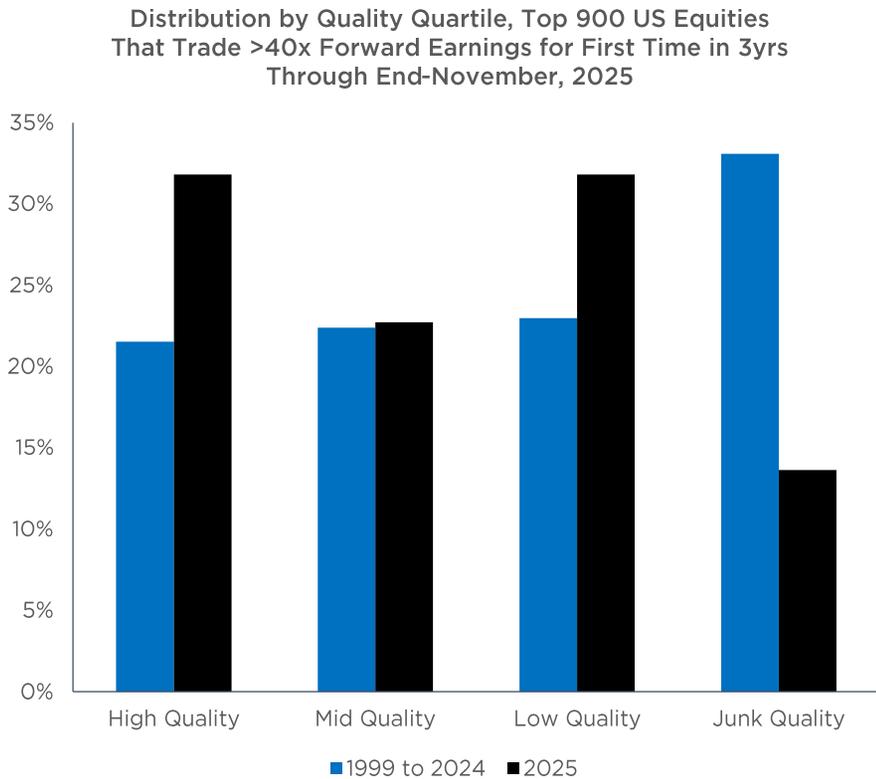
Number of Top 900 US Equities
That Trade >40x Forward Earnings for First Time in 3-Years, At Least 2 Years of Data
Through End-November, 2025



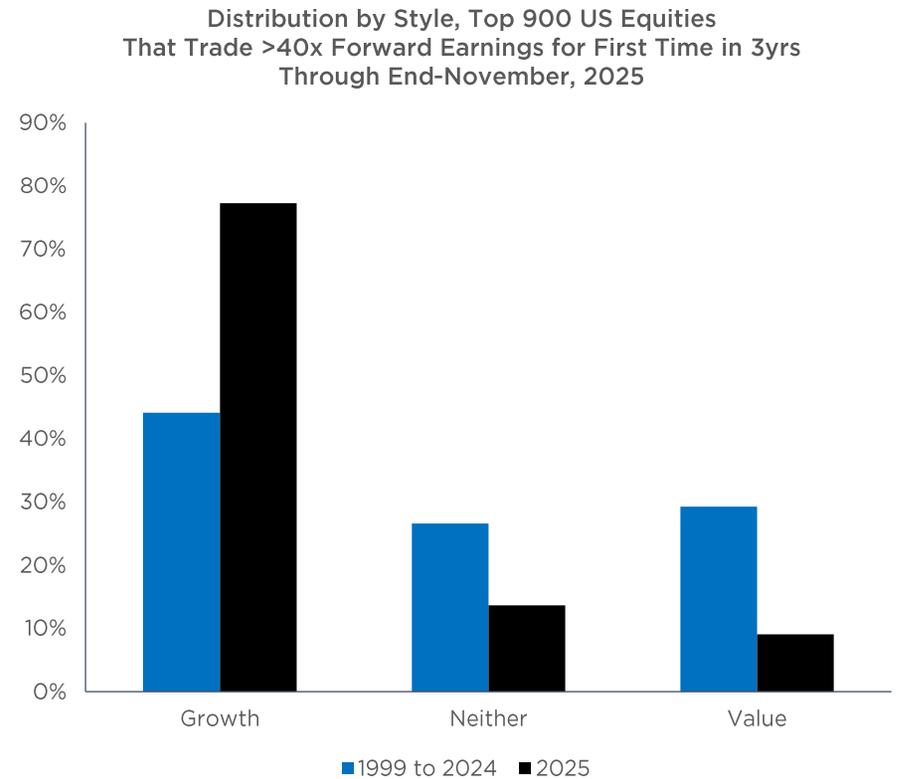
Source: Trivariate Research

THE STOCKS REACHING 40X ARE SPREAD OUT BY STYLE AND QUALITY

We analyzed the types of companies that trade at 40x price-to-forward earnings for the first time in three years by substance (left) and style (right). This is evenly distributed, with slightly more “junk” quality and growth companies making it than other combinations over the long-term and way more growth companies and an even amount of high- and low-quality so far in 2025. For reference, both WMT and COST are in the highest quality substance quartile and in the middle style tertile we call “Neither.”



Source: Trivariate Research



Source: Trivariate Research

TECH. SEES THE MOST 40X STOCKS, BUT ITS INDUSTRIALS IN 2025

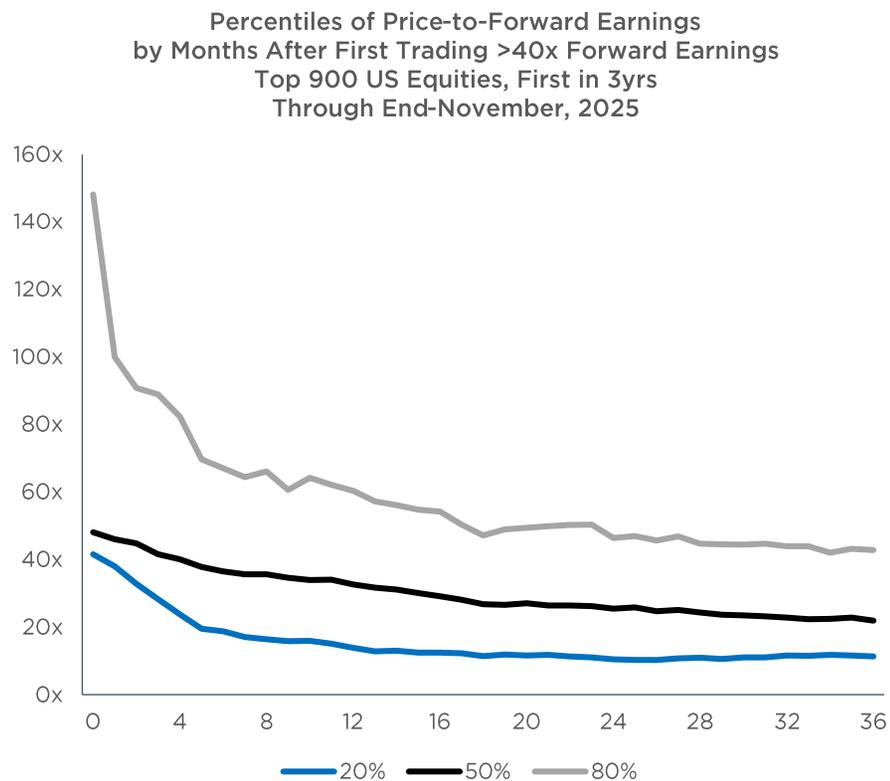
The valuation ascension is most common in Technology, accounting for about one-quarter of all occurrences over the long-term, followed by Financials / Real Estate, and Consumer Discretionary (left). It is least common in Utilities and Consumer Staples. For reference, both WMT and COST are classified as Consumer Staples companies, even though they are “Retailers.” In 2025, however (right), we have seen eight of the 22 new 40x multiple companies come from the Industrials sector, slightly more than in Technology, the 2nd highest sector with seven.



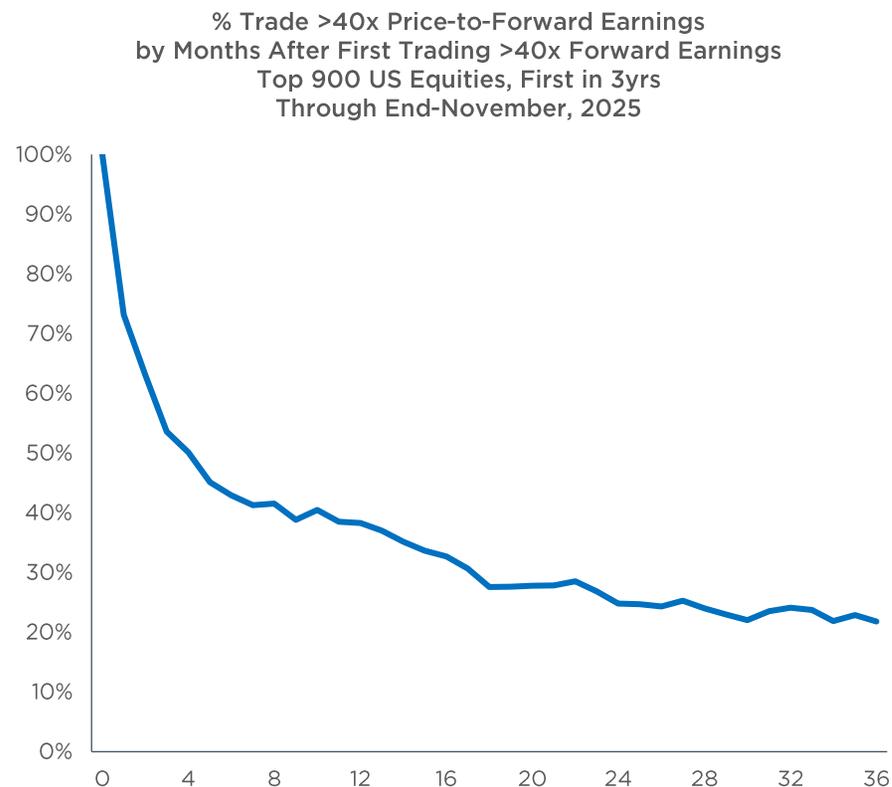
Source: Trivariate Research

ONCE HITTING 40X, 32.6X IS THE AVERAGE A YEAR LATER

It is quite consistent that among the companies that reach 40x price-to-forward earnings, their multiples begin to contract, on average back to 32.6x (left) 12 months after the initial “eclipse”. Twenty percent of the stocks go back to 14x a year later! In fact, only 38% of the companies in this category trade at 40x price-to-forward earnings or higher a year after this first occurred (right), and only 25% maintain this valuation two-years later.



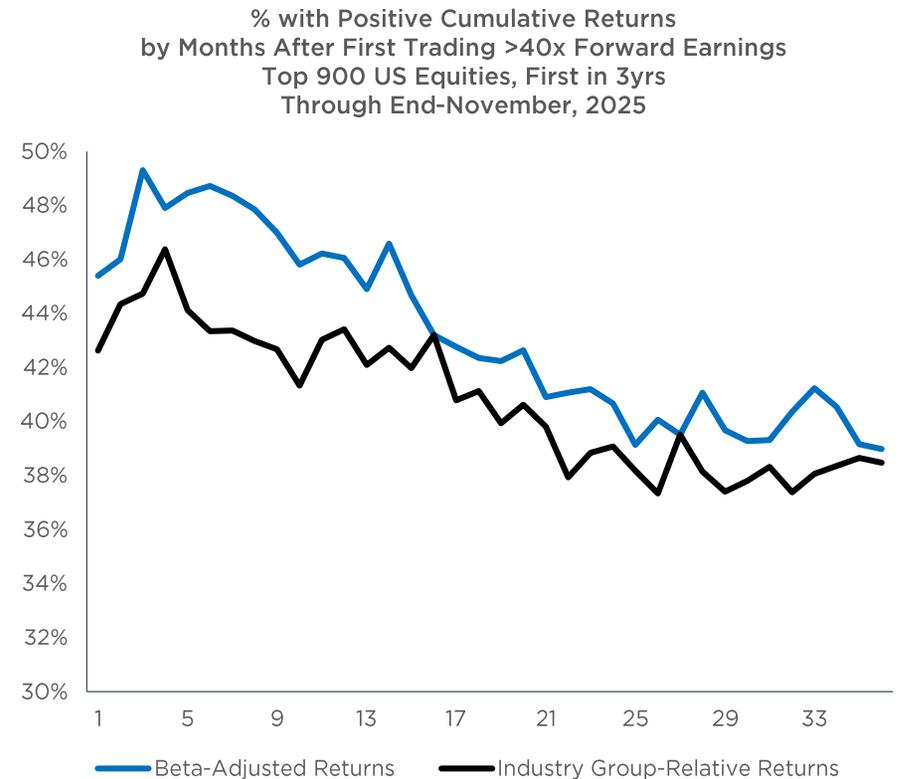
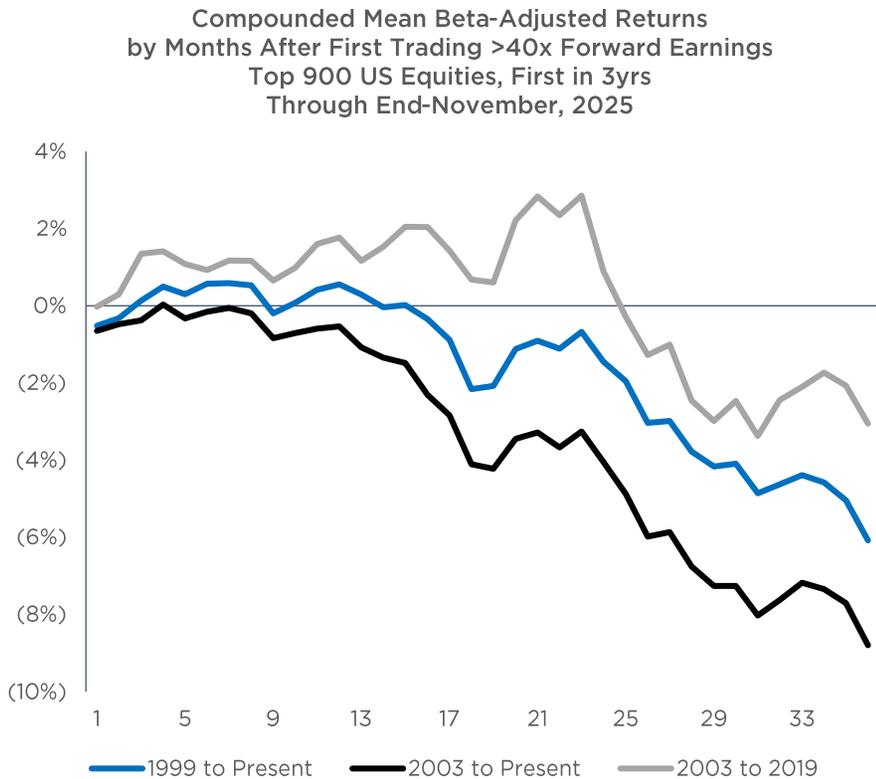
Source: Trivariate Research



Source: Trivariate Research

THE AVG 40X STOCK LAGS BY 1200 BPS OVER THE NEXT THREE YEARS

The median performance of those stocks eclipsing 40x forward earnings is roughly in-line with the market for the first ten months and then begins to lag. Since 2003 (so eliminating the Technology Bubble unwind) the median stock lags the market on a beta-adjusted basis by 1200 basis points over the subsequent three years (left). Only 39% of the stocks beat the market on a beta-adjusted basis over the next three years (right). In summary, the data suggest there is no need for investors to panic and immediately sell when a stock initially reaches a PEF of 40x, but it does appear that beginning 6- to 9-months later, the probability of outperformance begins to deteriorate.



ONLY 5 OF THE LAST 22 COMPANIES TO GET TO 40X HAVE DONE WELL

Below are the most recent examples of companies that hit 40x forward earnings for at least the first time in three years. If history proves correct, selling these names six- to nine- months after the initial date of surpassing 40x earnings would seem prudent. More recently, only five of the last 22 names to first eclipse 40x have generated positive subsequent beta-adjusted returns.

Recent Stocks First Trading >40x Forward Earnings in 3 Years
Top 900 US Equities, At Least 2 Years of Data
As of December 19th, 2024

Month Stock First Got to 40x	Ticker	Company	Sector	Market Cap. (US Bil.) At Time When First >40x Forward Earnings	Price-to-Forward Earnings	Beta-Adjusted Return Since Date
12/19/2025	CRCL	Circle Internet Group, Inc.	Information Technology	20.28	72x	N/A
12/19/2025	TSEM	Tower Semiconductor Ltd.	Information Technology	13.37	41x	N/A
11/28/2025	MTSI	MACOM Technology Solutions	Information Technology	13.11	42x	(0%)
11/28/2025	AVGO	Broadcom Inc.	Information Technology	1902.92	43x	(3%)
10/31/2025	CIEN	Ciena Corporation	Information Technology	26.79	43x	7%
10/31/2025	SAIL	SailPoint, Inc.	Information Technology	12.07	78x	(15%)
10/31/2025	PSTG	Pure Storage, Inc.	Information Technology	32.44	43x	(10%)
10/31/2025	CW	Curtiss-Wright Corporation	Industrials	22.45	42x	(8%)
9/30/2025	KRMN	Karman Holdings Inc.	Industrials	9.55	144x	(14%)
9/30/2025	ORCL	Oracle Corporation	Information Technology	801.76	41x	(31%)
8/29/2025	ROKU	Roku, Inc.	Communication Services	14.23	194x	(11%)
7/31/2025	TTAN	ServiceTitan, Inc.	Information Technology	10.58	200x	(29%)
7/31/2025	FAST	Fastenal Company	Industrials	52.94	41x	(17%)
6/30/2025	BWXT	BWX Technologies, Inc.	Industrials	13.16	41x	10%
6/30/2025	QXO	QXO, Inc.	Industrials	14.44	53x	(23%)
6/30/2025	WLK	Westlake Corporation	Materials	9.74	78x	(19%)
6/30/2025	TLN	Talen Energy Corporation	Utilities	13.23	52x	13%
6/30/2025	DRS	Leonardo DRS, Inc.	Industrials	12.37	43x	(35%)
6/30/2025	NKE	NIKE, Inc.	Consumer Discretionary	104.85	42x	(16%)
5/30/2025	ULS	UL Solutions Inc.	Industrials	14.34	40x	16%
4/30/2025	NFLX	Netflix, Inc.	Communication Services	481.63	44x	(21%)
4/30/2025	DOW	Dow Inc.	Materials	21.62	79x	(37%)
3/31/2025	CORT	Corcept Therapeutics Incorporated	Health Care	12.05	62x	(45%)
2/28/2025	HWM	Howmet Aerospace Inc.	Industrials	55.33	42x	23%

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.