



September 2025

Examining the Relationship Between Revenue Growth, Earnings Growth, Price-to-Earnings Multiple Expansion and Stock Price Returns

Introduction

Fayez Sarofim & Co.'s comprehensive analysis of the MSCI World index reveals that long-term earnings per share (EPS) growth historically has been the most significant driver of long-term stock price performance. While revenue growth and valuation changes also play a role, their relationship with stock returns is weaker and less consistent over time.

Fayez Sarofim & Co.'s research concludes that an investment strategy focused on identifying companies capable of delivering consistent, high-magnitude, and recent earnings growth is best positioned to outperform the market over the long term.

Analysis

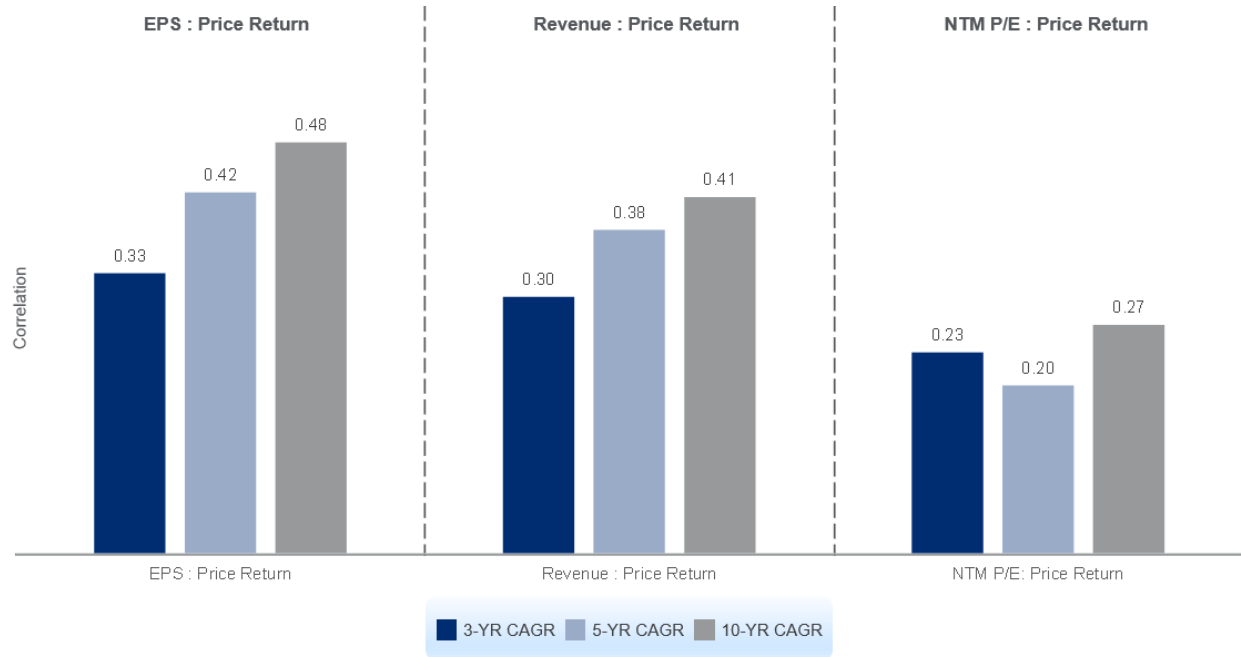
Establishing a relationship between returns and growth

Fayez Sarofim & Co.'s work began by correlating three key metrics: EPS growth, revenue growth, and valuation expansion (as measured by NTM P/E) with stock price returns over 3, 5, and 10-year periods.

EPS Growth showed the strongest correlation to stock returns, and this relationship strengthened over longer time horizons. Revenue Growth had the second-strongest correlation. NTM P/E Expansion showed the weakest and most inconsistent correlation, suggesting that relying on a company's valuation multiple to increase is a less reliable strategy for long-term returns (Exhibit 1).



Exhibit 1: Correlation of EPS growth, Revenue growth, NTM PE to stock price performance

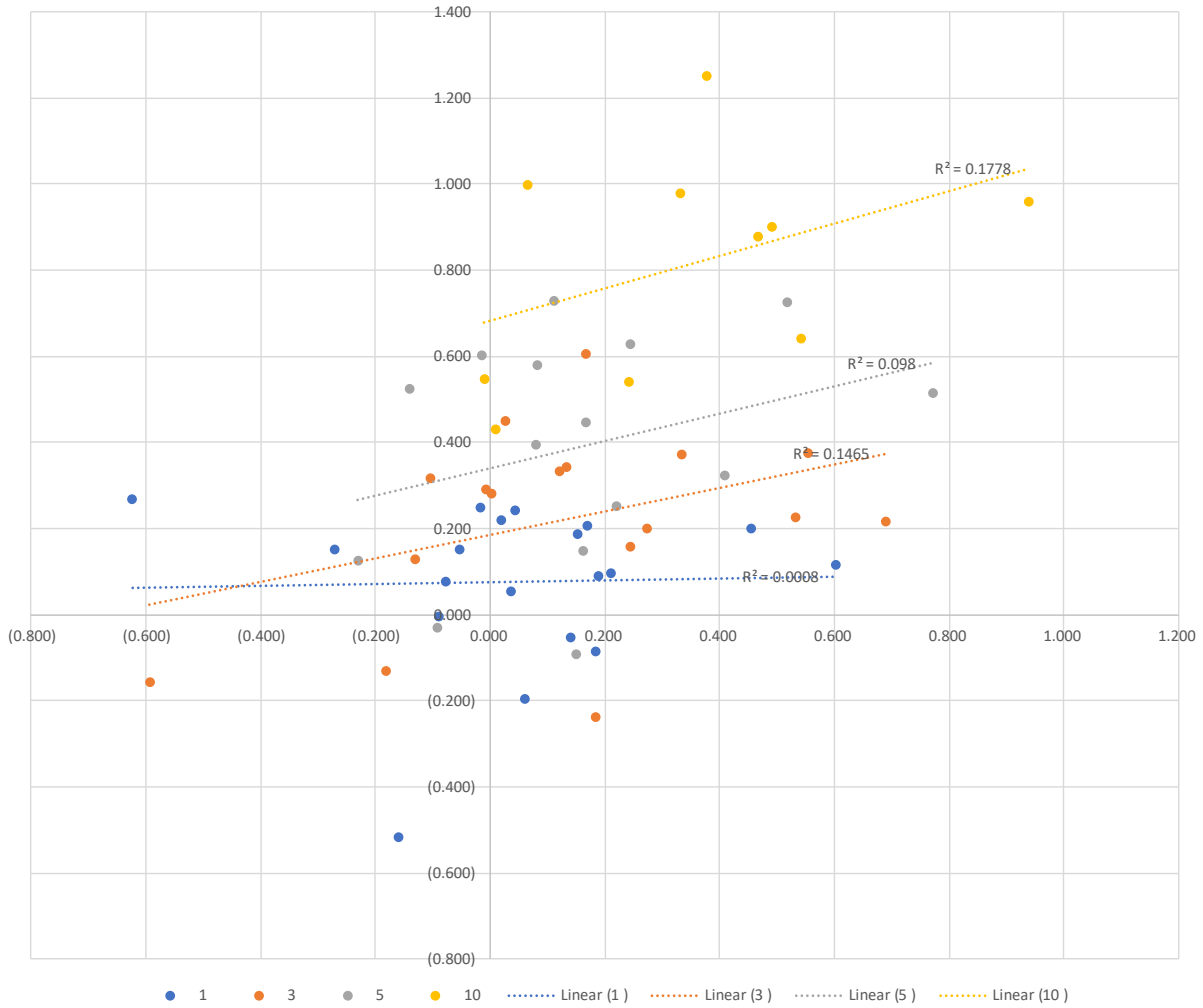


Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023

A separate analysis confirmed these findings, showing that over a rolling ten-year period, approximately 40% of the MSCI World's total return was attributable to earnings growth, 35% to dividends, and only 25% to P/E multiple expansion (Exhibit 2.1).



Exhibit 2.1: Contribution of earnings growth to total return.



Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023



Evaluating the contribution to return of different attributes of growth

The research went beyond this initial finding to identify three specific characteristics of earnings growth that have the strongest relationship with superior stock price performance: consistency, magnitude, and recency.

1. Consistency of Growth

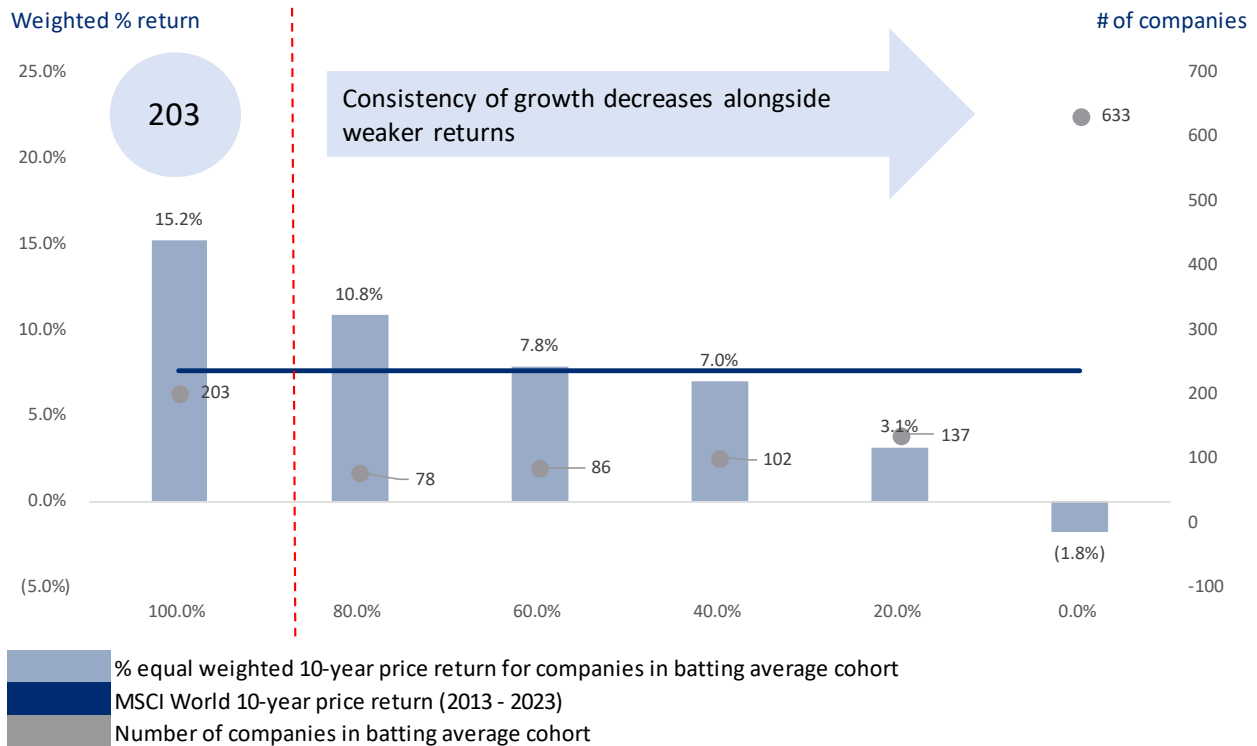
Consistent earnings growth is a powerful driver of returns. The analysis used a "hit rate" framework, where a "hit" occurs when a company's EPS growth and stock return both exceed the index in a given period.

The results showed a clear trend: the higher the hit rate, the higher the stock's returns. Companies that consistently outperformed the index (a 100% hit rate) on a rolling 10-year basis generated returns more than double that of the market. Furthermore, companies with lower earnings volatility delivered better returns than those with more erratic earnings, even within a group of high-growth peers (Exhibit 5.1).

Exhibit 5.1: Earnings and return consistency over a rolling 10-year period

Earnings and Returns Consistency

Rolling 10-Year Returns and Rolling 10-Year Earnings Growth > MSCI World



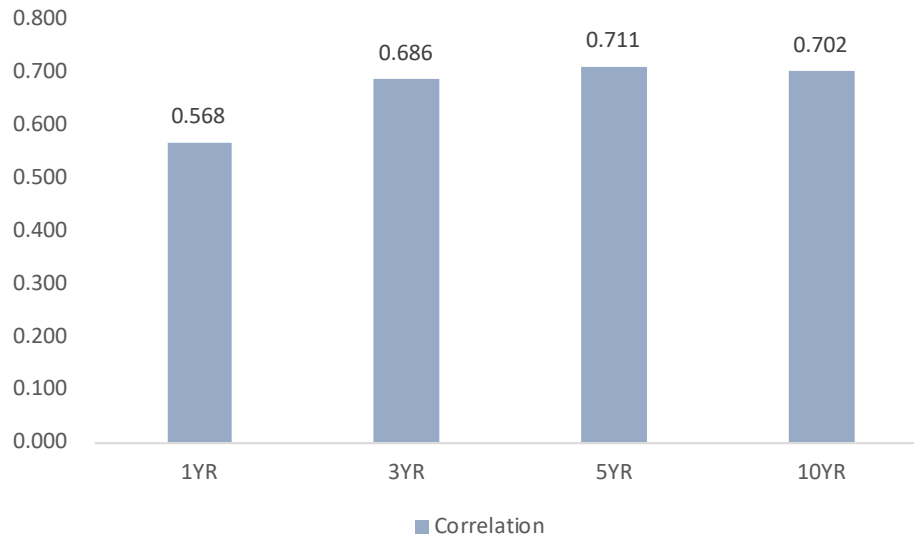
Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023



Exhibit 6: Correlation between 10-year returns and hit rate cohorts

Correlation of 10-Year Returns to Hit Rate

Correlation



Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023

2. Magnitude of Growth

While consistency is important, the sheer size or magnitude of earnings growth also has a profound impact on returns. This was highlighted by the case of Nvidia (NVDA), which delivered exceptional returns despite not being one of the most consistent growers due to its earnings volatility (Exhibit 7.1).



Exhibit 7.2: Companies achieving 1-year, 3-year, and 5-year hits and 10-year return

1-Year + 3-Year + 5-Year	1-YR CAGR Hit Rate	3-YR CAGR Hit Rate	5-YR CAGR Hit Rate	10-YR CAGR Hit Rate	10-Yr Return (2013 – 2023)
Total Possible Hit-Rate	14	12	10	5	
Broadcom Inc.	11	12	10	10	35.7%
Synopsys, Inc.	9	11	9	9	28.9%
Microsoft Corporation	9	9	9	9	26.0%
ASML Holding NV	10	10	9	9	25.9%
Apple Inc.	9	11	10	10	25.4%
Intuit Inc.	9	11	10	10	23.4%
OBIC Co., Ltd.	9	10	10	10	22.8%
Hermes International SCA	10	11	10	10	22.0%
UnitedHealth Group Incorporated	9	12	10	10	21.5%
Chugai Pharmaceutical Co., Ltd.	9	9	9	9	21.3%
S&P Global, Inc.	9	10	10	10	18.9%
Keyence Corporation	9	10	10	10	18.6%
Mastercard Incorporated Class A	10	11	10	10	17.7%
Moody's Corporation	10	11	9	9	17.4%
Visa Inc. Class A	11	9	10	10	16.7%
Motorola Solutions, Inc.	9	9	9	9	16.6%
Amphenol Corporation Class A	10	12	10	10	16.1%
Roper Technologies, Inc.	9	11	10	10	14.7%
CBRE Group, Inc. Class A	9	11	10	10	13.5%

Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023

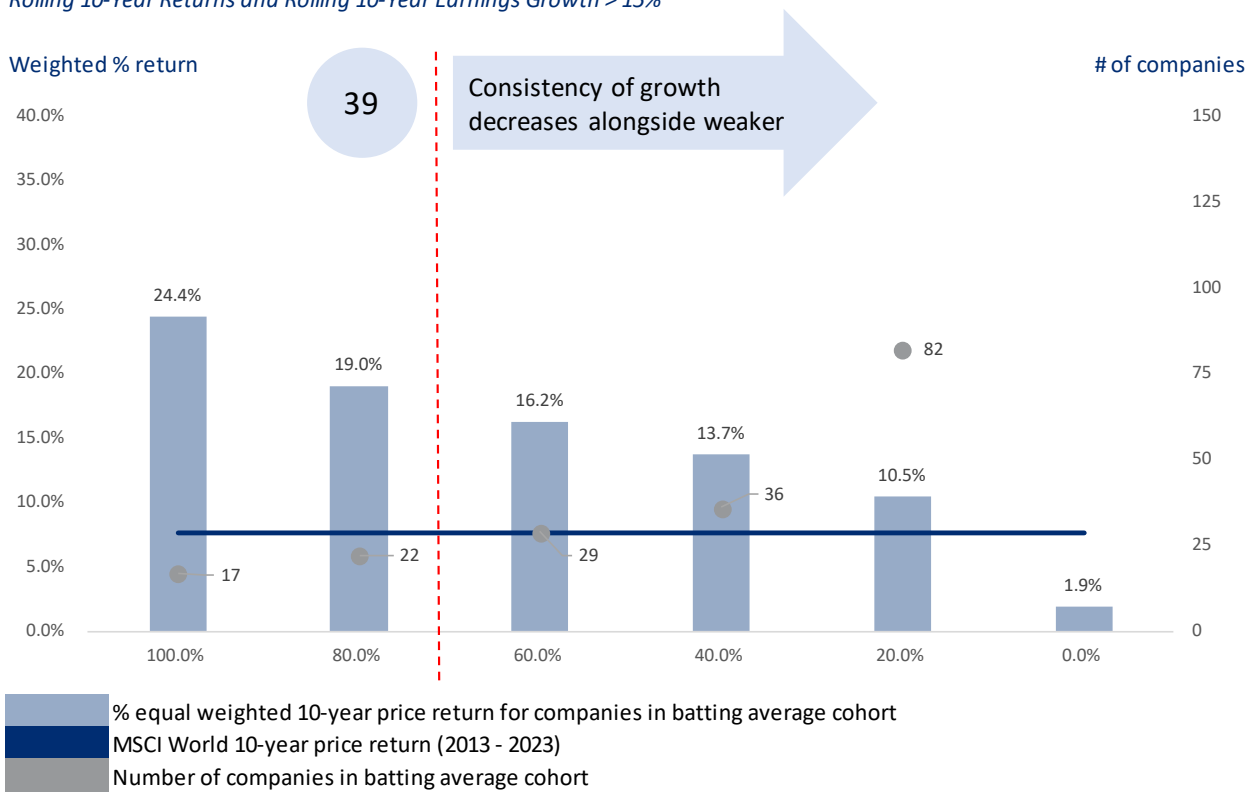


When the "hit rate" analysis was adjusted to require a higher threshold for a "hit" (>15% EPS growth and >15% return), the small group of companies that met this standard generated the highest returns of all, exceeding 19% (Exhibit 8.1). This shows that periods of exceptionally strong growth can significantly boost long-term performance (Exhibit 9.2).

Exhibit 8.1: Earnings growth magnitude and returns over rolling 10-year period

Earnings and Returns Consistency

Rolling 10-Year Returns and Rolling 10-Year Earnings Growth > 15%



Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023



Exhibit 9.2: Companies achieving 1-year, 3-year, and 5-year “high magnitude” hits and 10-year return

1-Year + 3-Year + 5-Year + 10-Year	1-YR CAGR Hit Rate	3-YR CAGR Hit Rate	5-YR CAGR Hit Rate	10-YR CAGR Hit Rate	10-Yr Return (2013 – 2023)
Total Possible Hit-Rate	14	12	10	5	
NVIDIA Corporation	6	8	8	5	61.9%
Advanced Micro Devices, Inc.	6	6	7	3	43.9%
Broadcom Inc.	6	9	10	5	35.7%
ASML Holding NV	6	8	7	4	25.9%
Netflix, Inc.	7	7	6	5	24.9%
Amazon.com, Inc.	6	7	7	4	22.5%
O'Reilly Automotive, Inc.	7	10	9	5	22.1%
Stellantis N.V.	6	6	6	4	21.9%
Edwards Lifesciences Corporation	8	7	7	5	21.4%
AutoZone, Inc.	6	8	6	5	18.4%
Mastercard Incorporated Class A	7	6	8	5	17.7%
Salesforce, Inc.	7	8	8	4	16.9%
Visa Inc. Class A	9	7	7	5	16.7%
Home Depot, Inc.	9	8	7	4	15.5%

Source: FactSet, Faye Sarofim & Co. analysis, Data as of 12/31/2023

3. Recency of Growth

The analysis demonstrates that investors are forward-looking and place a premium on recent and accelerating growth.

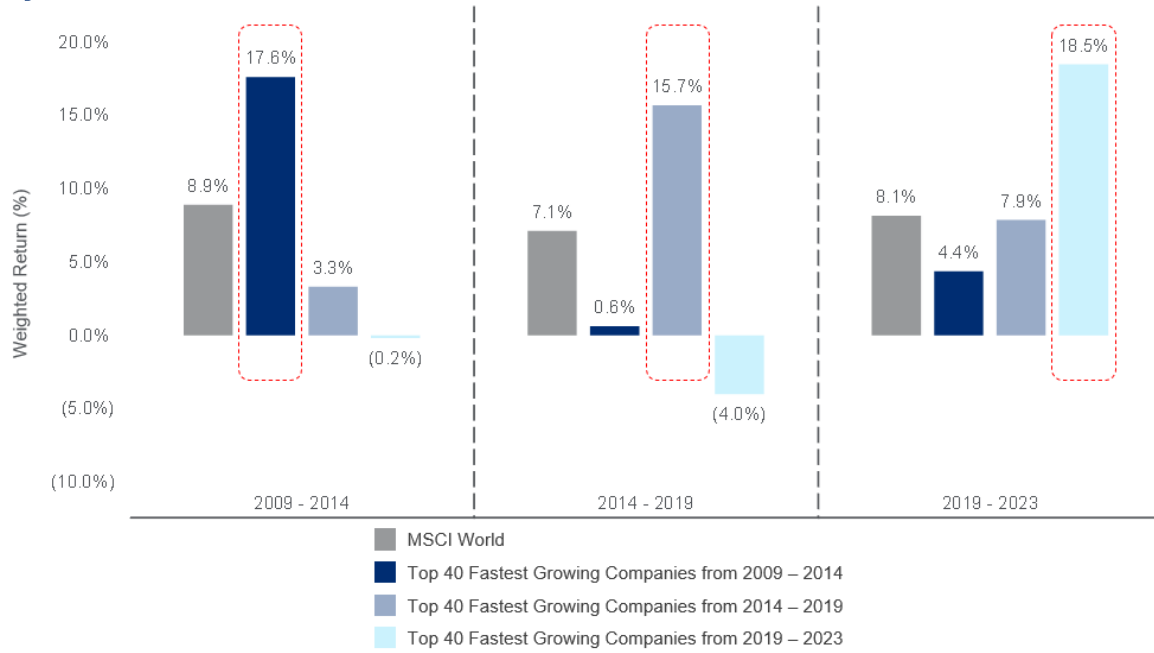
A portfolio of the fastest-growing companies from a past period (e.g., 2009-2014) significantly underperformed in the subsequent period (2014-2019) (Exhibit 10). In contrast, an analysis of "hit rates" showed that companies whose hits were accelerating in the more recent half of the study period delivered far superior portfolio returns than companies whose growth was decelerating (Exhibit 11). This highlights the danger of relying on "yesterday's winners" and the need to continuously identify the next generation of high-growth companies.



Exhibit 10: Equal-weighted portfolio returns of top 40 fastest growing companies over discrete 5-year time periods

Portfolio Return of Top 40 Fastest Growing Companies Over a 5-Year Period

Equal-Weighted Portfolio Returns



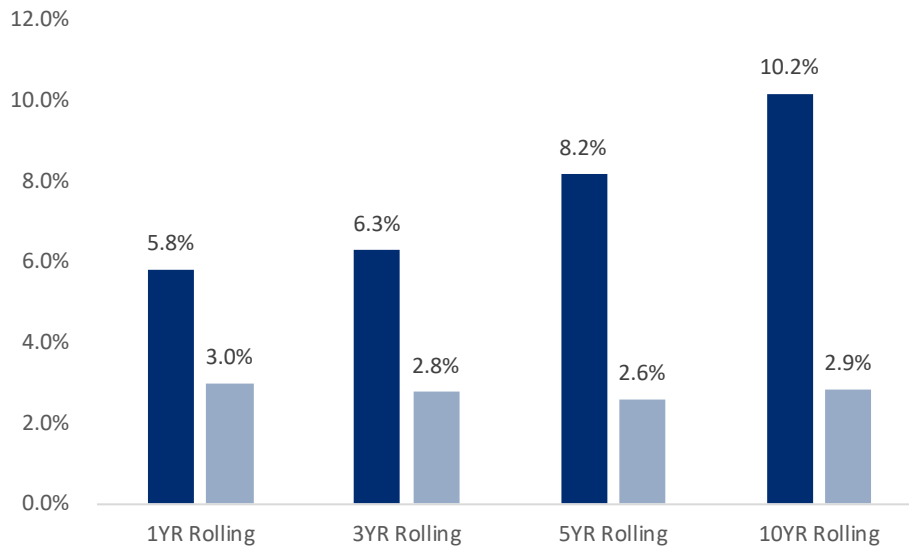
Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023



Exhibit 11: Equal-weighted portfolio returns of accelerating hit rate companies versus decelerating hit rate companies

Impact of Hit Frequency by Period and Return

% Return



Source: FactSet, Fayed Sarofim & Co. analysis, Data as of 12/31/2023

Key Takeaways for Investors

Focus on Fundamentals: An investment process should prioritize identifying companies with the potential for robust and sustainable earnings growth over chasing valuation expansion.

Consistency is Crucial: Companies that can consistently grow earnings faster than the market are rare (about 1 in 15), but they historically have produced returns that consistently beat the market.

Be Forward-Looking: The fastest-growing companies change over time. A dynamic research process is essential to identify companies with recent, accelerating growth rather than relying on past performance.

The study plans to continue this research by exploring these dynamics within specific sectors and analyzing other financial metrics like free cash flow.



IMPORTANT INFORMATION

This White Paper and the information herein is provided for informational purposes only and should not be construed as investment, tax or other advice. This document is confidential and intended solely for the recipient and may not be published, reproduced or distributed without the express written consent of Fayez Sarofim and Co. (“Sarofim”).

This material is intended for sophisticated and institutional investors. The information herein is neither an offer to sell nor a solicitation of any offer to buy any securities, investment products or investment advisory services. Past performance is not indicative of future results.

Charts and tables are provided for illustrative purposes and are not indicative of the past or future performance of any Sarofim product or strategy. Any projections, market outlooks or estimates expressed in this letter are forward looking statements and are based on certain assumptions. Such projections, outlooks and assumptions should not be construed to be indicative of the actual events that will occur and do not constitute investment advice.

Opinions and information included herein are current opinions and information only as of December 31, 2024 unless otherwise noted, and are subject to change without notice. Additionally, while information presented above is believed to be accurate and/or derived from sources which Sarofim believes to be reliable, Sarofim disclaims any and all liability as to the completeness or accuracy of the information contained herein.

Neither Sarofim nor any of its affiliates has provided any legal, tax or investment advice and the information contained herein should not be construed as such. The specific securities identified and described herein do not represent all of the securities purchased, sold or recommended for a portfolio or strategy, and it should not be assumed that investments in the securities identified were or will be profitable. Past performance is not indicative of future results. Material market factors and economic conditions can affect performance.