



September 2025

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

Introduction

The primary objective of an investment manager should be to deliver returns that consistently exceed a predetermined benchmark over that manager's stated investment horizon. To achieve this objective, investment managers employ a diverse array of strategies across various stated horizons. New strategies often with alluring promises frequently emerge, but achieving sustained outperformance in an evolving market environment remains a formidable challenge with success often elusive or fleeting. Given that few long-only equity investment managers consistently outperform the MSCI World over one-year, three-year, five-year, and ten-year horizons, an investment strategy that consistently outperforms its benchmark over a long-term horizon is rare.

Fayez Sarofim & Co.'s investment philosophy focuses on identifying dominant businesses in structurally attractive industries. This philosophy is rooted in a core principle: long-term stock price appreciation is based on long-term earnings growth. Because this principle is the foundation of our work, we studied factors that drive long-term stock price performance. First, we decomposed the contribution of revenue growth, earnings growth, and valuation expansion to global market returns (as measured by the MSCI World). Second, we pursued a more granular analysis by examining the correlation between revenue growth, earnings growth, or valuation expansion and stock price returns over different investment horizons. Third, we sought to further establish the relationship between earnings growth and stock price returns by expanding our scope to investigate the impact of factors such as consistency, magnitude, and recency of earnings growth on stock price performance. Ultimately, our work revealed a positive relationship between (a) long-term earnings growth and long-term stock price performance, (b) consistent earnings growth and long-term stock price performance, (c) above-market growth and long-term stock price performance, and (d) recent growth and long-term stock price performance. The findings from our analyses support our investment philosophy by reinforcing our view that earnings growth, particularly consistent, significant, and recent growth, is a key driver of long-term stock price performance.



Defining the Metrics Used in Our Analysis

We selected three metrics that are commonly associated with stock price performance: Revenue, Earnings per Share (EPS), and Price-to-Next-12-Month Earnings per Share (NTM PE). In our analysis, we used historical Revenue reported by the companies; historical Non-GAAP Earnings per Share calculated as Net Income minus preferred dividends divided by weighted average fully-diluted shares outstanding; and Price-to-Next-12-Month Earnings per Share calculated by dividing the current share price by projected earnings over the next twelve months. We used data provided by FactSet. We performed spot-checks by cross-referencing the data provided by FactSet to that reported by the companies; we did not cross-reference every data point for accuracy.

Examining How Fundamental Metrics Correlate to Stock Price Performance

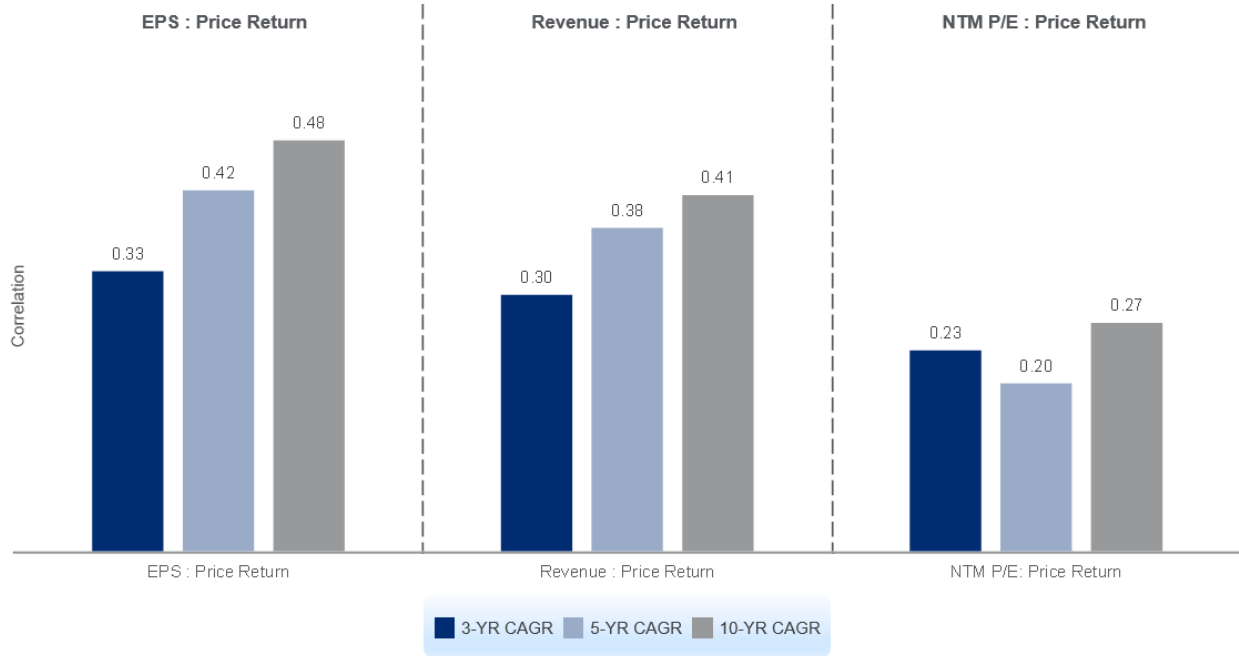
Our investment philosophy is based on the premise that earnings growth is the most important driver of stock price performance over our five-year investment horizon. If an investment manager, through a robust and repeatable research process, can identify businesses capable of above-market earnings growth, then that manager should outperform the market over its stated investment horizon. As a result, Fayez Sarofim & Co. prioritizes finding and investing in companies capable of generating above market earnings growth over our investment horizon. Our historical investment performance supports this assertion as our Global investment strategy has routinely outperformed the MSCI World Index on a rolling five-year basis. Beyond investment performance that (a) supports the assertion embedded in our philosophy and (b) demonstrates our research capability, we have not systematically evaluated the relationship between Revenue, EPS, NTM PE, and stock price performance to determine whether and to what extent these factors are correlated to long-term stock price outperformance. In the following analysis we take a multi-step approach to establish a fundamental relationship between these variables and long-term stock price performance.

In our first analysis, we calculated historical returns for the MSCI World index (“MSCI World” or the “Index”) over the three-year period starting December 31, 2016 and ending December 31, 2019; the five-year period starting December 31, 2014 and ending December 31, 2019; and the ten-year period starting December 31, 2009 and ending December 31, 2019. We selected December 31, 2019 as the end date of this analysis because selecting that date allows us to examine returns over contiguous periods that were unaffected by the COVID-19 pandemic. This statistically anomalous event caused significant abnormalities in the data. In this initial analysis, we want to examine the relationship between the metrics and stock price returns without these distorting effects. The next step in this analysis was to pull the constituents of the MSCI World as of December 31, 2009. We calculated the Revenue, EPS, and NTM PE growth rates for these constituents for the three-year, five-year, and ten-year periods that correspond to the time periods of the Index returns we calculated in the first step. Finally, we correlated the growth rates of each metric to the Index return over the corresponding period.



The results, presented in Exhibit 1, reveal a compelling pattern. Over each period we examined, EPS growth shows the strongest correlation to stock price returns. Revenue growth demonstrated the second strongest correlation to stock price returns. Finally, NTM PE growth showed the weakest correlation to stock price returns. Unlike EPS growth and Revenue growth, the correlation of NTM PE and stock price returns did not strengthen over time. This finding suggests that valuation expansion plays a role in stock price performance, but that role is inconsistent across time. Our analysis shows that fundamental metrics historically have been more correlated to stock price returns than valuation expansion, which suggests that investors could benefit from prioritizing the identification of companies with a robust and sustainable earnings growth potential.

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



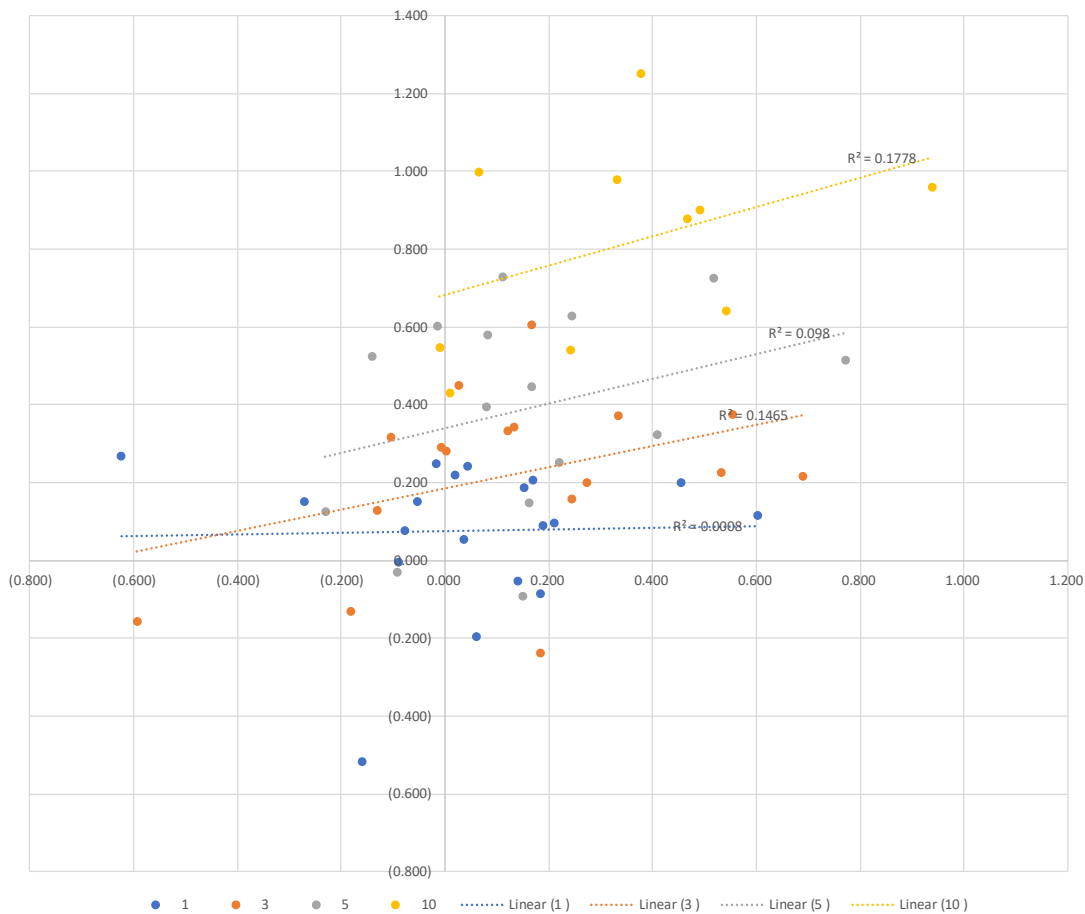
Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023

Our first analytical path towards establishing a relationship produced results that supported our intuition that fundamental metrics like revenue and earnings growth are associated with stock price performance. The preceding analysis was a discrete periodic one, which has shortcomings. So, we wanted to examine this relationship using a second logarithmically based analysis that decomposes Index returns over rolling one-year, three-year, five-year, and ten-year periods. For this analysis, we looked at compounded annual sales growth, compounded annual earnings growth, NTM PE expansion, dividend return, and total return. Specifically, we calculated the natural log (LN) of sales in period 1 divided by sales in period 0; the LN of the profit margin (calculated as earnings divided by sales) in period 1 divided by the profit margin in period 0; the LN of the NTM PE in period 1 divided



by the PE in period 0; and the LN of the Index total return price in period 1 divided by the index total return price in period 0. We calculated the contribution of the dividend return as the difference between the LN of the Index return and the LN of NTM PE expansion plus the LN of revenue growth plus the LN of the profit margin expansion. For each rolling period, we calculated the contribution of each variable to Index return and plotted the results using an XY scatter plot (Exhibit 2.1). The X-axis is the LN of earnings growth, and the Y-axis is total return. The yellow dots in Exhibit 2.1 below represent the intersection of earnings growth and Index return over a rolling ten-year period. The ten-year period exhibits the highest correlation and the least amount of variability suggesting a relationship between long-term earnings growth and Index returns. When we look at the average contribution to return over a rolling ten-year period, our analysis shows ~40% of the Index return is attributable to earnings growth, ~35% of the Index return is attributable to dividend growth, and ~25% of the Index return is attributable to NTM PE expansion.

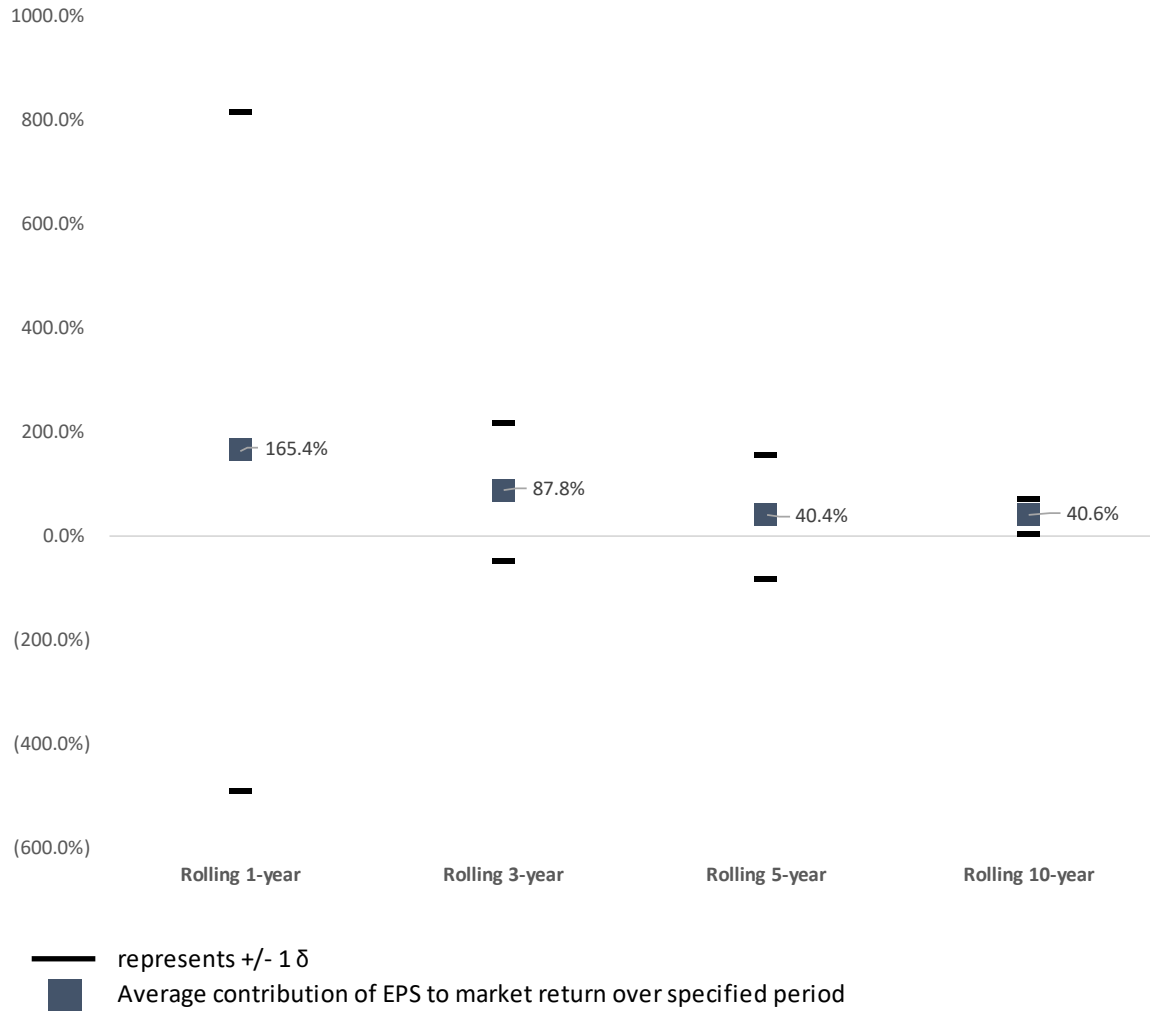
Exhibit 2.1: Contribution of earnings growth to total return.



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



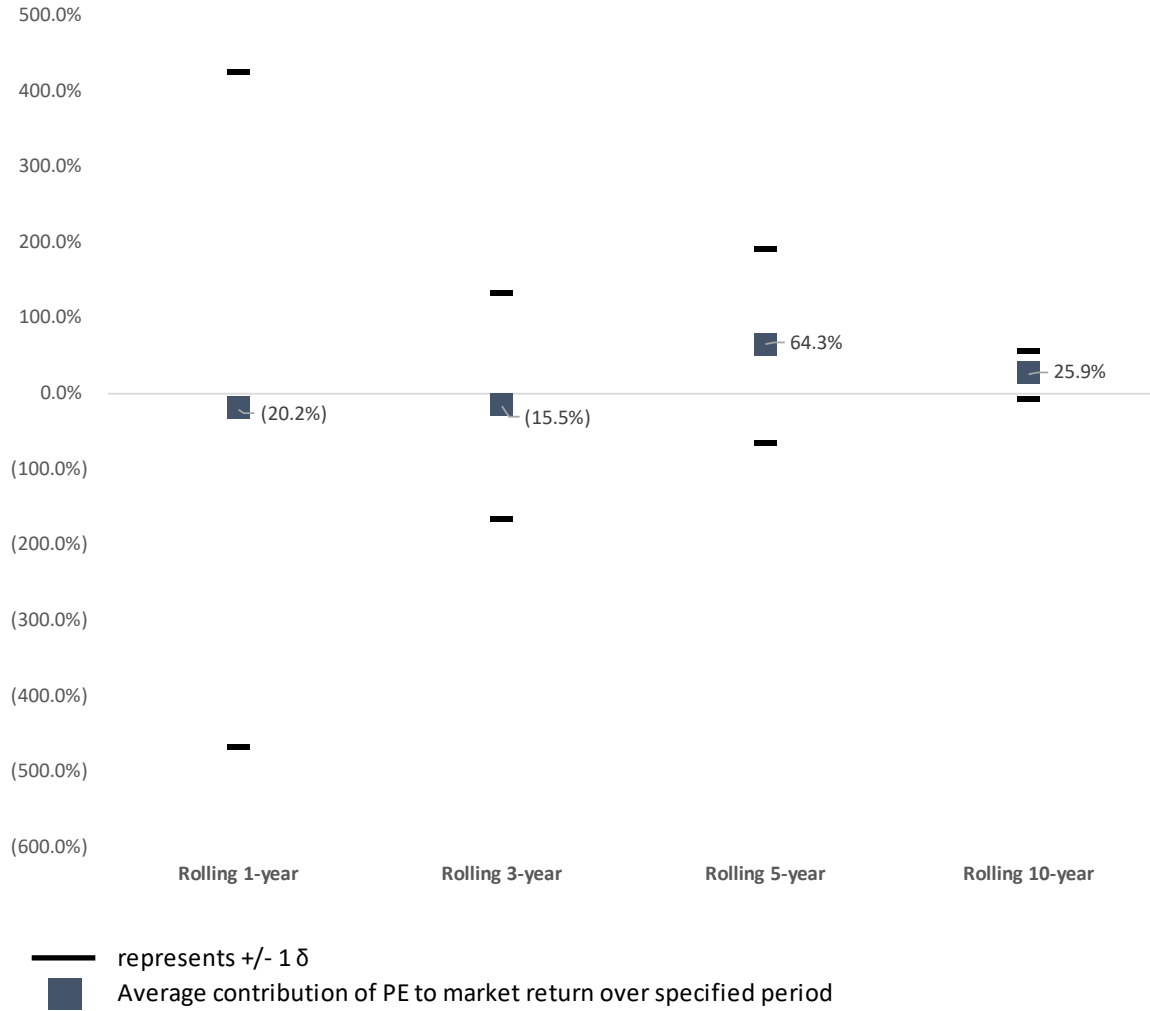
Exhibit 2.2: Contribution of earnings growth and standard deviations of growth over specified periods.



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



Exhibit 2.3: Contribution of NTM PE and standard deviations of NTM PE over specified periods.



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



Examining How Earnings Growth Consistency Relates to Stock Price Performance

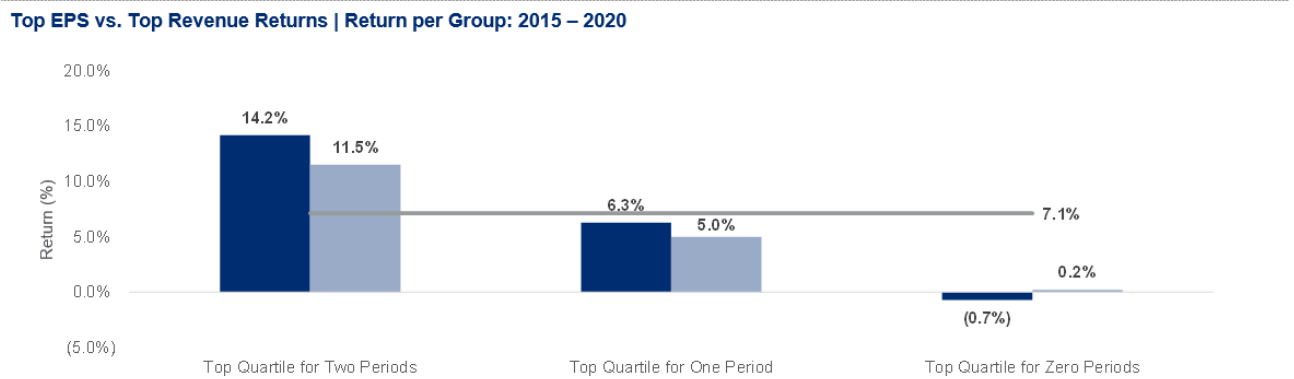
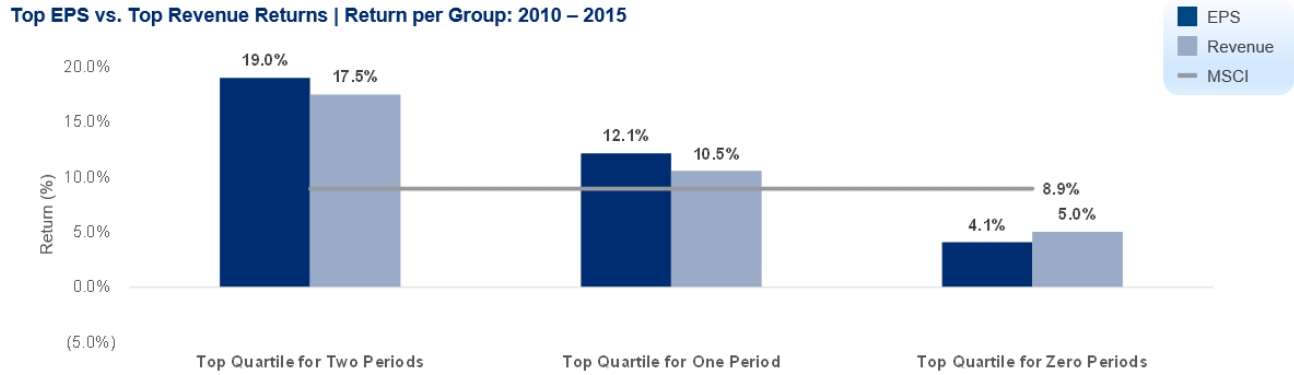
The preceding analyses sought to establish a correlation between fundamental metrics like revenue growth, earnings growth, and long-term stock price performance or Index performance. After establishing that relationship, we wanted to explore how the different characteristics of growth such as consistency and magnitude impact stock price returns. We began this analysis with the constituents of the Index as of 2010. We calculated the total return, compounded annual revenue growth, and compounded annual earnings growth for each Index constituent over two discrete periods: December 31, 2009 through December 31, 2014 (“P1”) and December 31, 2014 through December 31, 2019 (“P2”). After calculating the growth and return figures, we divided the constituents into quartiles for each period based on earnings growth. Then, we examined the companies in each quartile and identified those companies who were present in the top quartile for both periods, only one period, or never present. We categorized the companies into three distinct groups:

1. **T2P Companies:** Companies with EPS CAGRs in the top quartile for both periods (year-end 2009 – year-end 2014 and year-end 2014 – year-end 2019). These are our consistent high-growth companies.
2. **T1P Companies:** Companies with EPS CAGRs in the top quartile for only one of the two periods (year-end 2009 – year-end 2014 and year-end 2014 – year-end 2019). These companies exhibited growth, but it wasn't sustained across both periods.
3. **T0P Companies:** Companies with EPS CAGRs not in the top quartile for either period. These companies generally lacked earnings growth over both periods.

After categorizing the companies, we calculated the weighted-average stock price return for each group over P1 and P2. The results are presented in Exhibit 3 below. The top bar chart shows the results from year-end 2009 – year-end 2014, and the bottom chart shows the results from year-end 2014 – year-end 2019. The gray line across both bar charts represents the average return of all the constituents for each period.



Exhibit 3: Equal-weighted portfolio returns by growth quartile



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

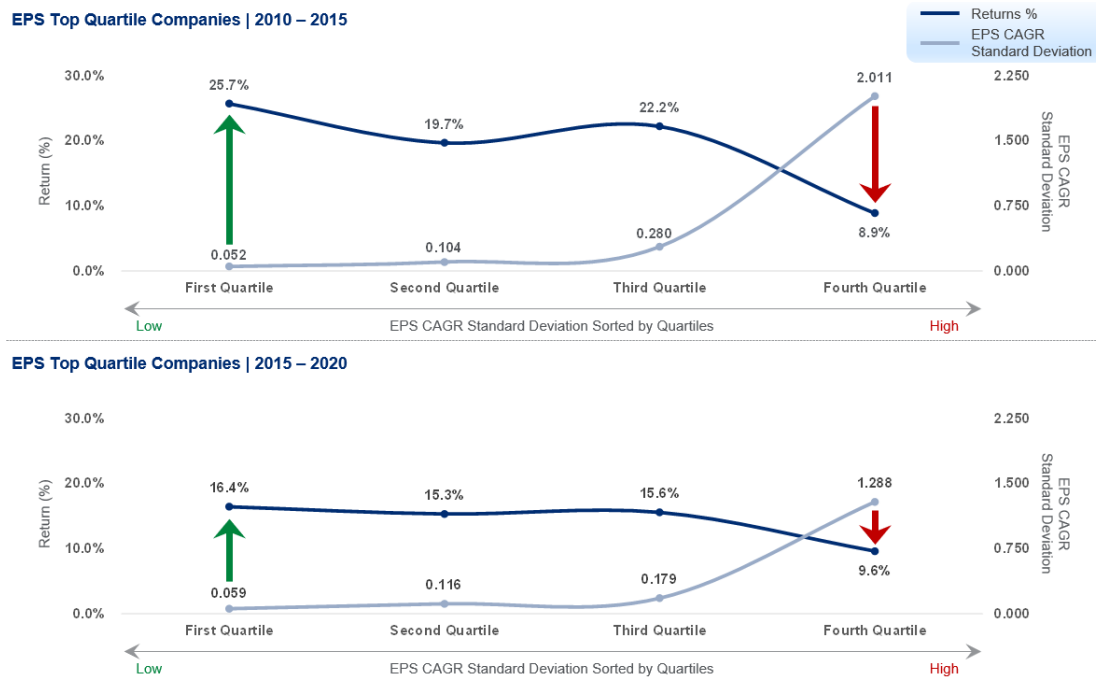
As Exhibit 3 illustrates, the EPS and Revenue T2P groups outperformed the Index in both periods. Notably, the EPS T2P group outperformed the Revenue T2P group, suggesting that consistent earnings growth has a stronger relationship to return than does consistent revenue growth (a finding also supported by our earlier analysis). Interestingly, the T1P companies, which exhibited earnings growth in only one period, outperformed the average return of the Index, highlighting the potential benefits of capturing periods of high growth even if that growth is not sustained over the long term.

As fundamental analysts, we were curious to look more deeply at those companies in the T1P group. In doing so, we observed a surprisingly wide dispersion of returns within this group, which suggested that the market historically has valued attributes of growth beyond consistency. We wanted to understand what those attributes might be; so, we sub-divided the T2P companies into quartiles based on stock price returns. We then analyzed the earnings variability of each quartile. We found that companies with less earnings variability as measured by standard deviation delivered superior stock price returns. Conversely, companies with more earnings variability as measured by standard deviation delivered inferior returns.



We show the results of this analysis in Exhibit 4 below. The dark blue line is the weight average stock price return for each quartile, and the light blue line with the standard deviation of earnings growth. In both periods, weighted average stock price returns deteriorate as earnings growth variability as measured by standard deviation increases. This analysis reinforces the importance of earnings stability in driving stock price performance. Companies with consistent and predictable earnings growth tend to generate better returns than those with more volatile earnings patterns.

Exhibit 4: Equal-weighted portfolio return and earnings growth variability of T2P companies by return cohort



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

These analyses yielded two key takeaways. The first is that consistent EPS growth as measured by the ability to grow earnings at top quartile rates across two discrete periods produced weighted average stock price returns that exceeded the Index and companies who did not exhibit that same ability (i.e., the weighted average stock price returns for T2P companies exceeded the Index return and that of T1P and TOP companies. This finding reinforces our conviction that consistent earnings growth could drive stock price returns that exceed the Index. The second is that earnings growth stability enhances weighted average stock price return. Even within the T2P companies, we observed a significant difference in returns based on the variability of earnings growth. Companies with more stable and less volatile earnings growth produced better returns, highlighting the importance of consistent growth.



These analyses sought to establish a relationship between earnings growth and stock price returns, and whether consistency of growth impacted those returns. While the preceding analyses provided valuable insights, they were limited by their focus on discrete time periods. To address this limitation and gain a more comprehensive understanding of how consistent earnings growth drives long-term stock price appreciation, we developed a new analytical framework that we call “hit rate” analysis.

Examining the relationship between earnings growth attributes such as consistency, magnitude, and recency using the “hit rate” framework

The relationship between consistency and return

Earlier, we discussed our rationale for looking at a discrete period to establish a relationship between revenue growth, earnings growth, NTM PE expansion, and stock price performance. We recognize that discrete analyses are inherently limited because they include certain exogenous variables that impact returns while ignoring others. To increase the robustness of our conclusions, we wanted to correct for this limitation. To do so, we created a new analytical framework that we call the “hit rate.” We define “hit rate” as the number of times over a specified period that a company's earnings growth rate and price return simultaneously exceeded that of the Index. For example, if Company XYZ grew earnings 10% and delivered a share price return of 12% over a three-year period while the Index grew earnings 8% and delivered a share price return of 9% over that same three-year period the Company XYZ would be awarded a “hit.”

Once again, we started with the Index constituents as of December 31, 2009. We calculated the earnings growth rate and price return for each constituent and the Index over rolling five-year and ten-year periods. For example, period one began on December 31, 2009, and ended on December 31, 2014. We calculated compounded annual earnings growth and total annual price return over period one for each Index constituent. Period two began on December 31, 2010, and ended on December 31, 2015. We calculated compounded annual earnings growth and total annual price return over period two for each Index constituent. After completing that exercise, we compared compounded annual earnings growth and annualized price return for each constituent to that of the Index recording hits in cases where both earnings growth and return exceeded the corresponding figures for the Index. By analyzing the frequency of these hits, we could assess a company's ability to outperform the market in terms of both earnings growth and stock price returns. A higher hit rate indicates a greater ability to consistently deliver strong earnings growth and generate superior returns for investors.

Our analysis revealed that there were 96 companies who delivered a hit rate of 90% or higher over a five-year rolling period, meaning that these companies grew earnings and delivered stock price returns higher than the Index on a rolling five-year basis in nine of the ten periods examined. Our analysis revealed that there were 203 companies who delivered a hit rate of 100% or higher over a ten-year rolling period, meaning that these companies grew earnings and delivered stock price returns higher than the Index on a



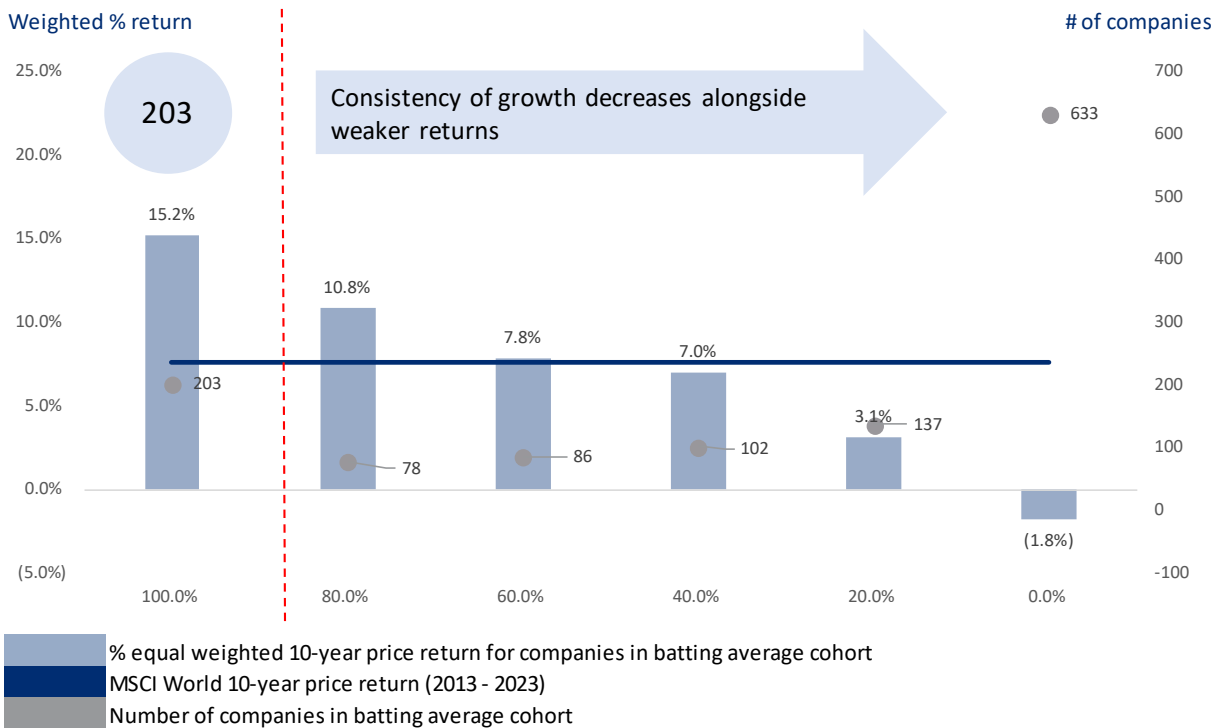
rolling ten-year basis in all five periods examined. These companies generated the highest weighted-average returns. Conversely, companies with lower hit rates generated inferior returns. This finding further supports our early conclusion that consistent earnings growth drives superior returns. The hit rate analysis shows that even companies who experience occasional but short periods of underperformance can still deliver above-market returns. This finding accommodates another conclusion: the market tolerates short-term fluctuations in earnings growth so long as the long-term trend remains intact suggesting that investors should not overreact to short-term fluctuations in earnings growth.

We display the output of the hit rate analysis for 10-year period in Exhibit 5.1 and for the 5-year period in Exhibit 5.2, where we divided the companies into cohorts based on their hit rate percentages (i.e., the number of hits in a period divided by the total number of periods). The grey dot in Exhibit 5.1 is the number of companies in each cohort (e.g., in the 100% cohort there are 203 companies). The x-axis shows the hit rate percentage for each cohort (e.g., companies with that hit 90% of the time are in the 90% cohort). The y-axis shows the weighted average return for companies within each hit rate cohort. The solid blue line represents the ten-year Index price return (2013 – 2023).

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



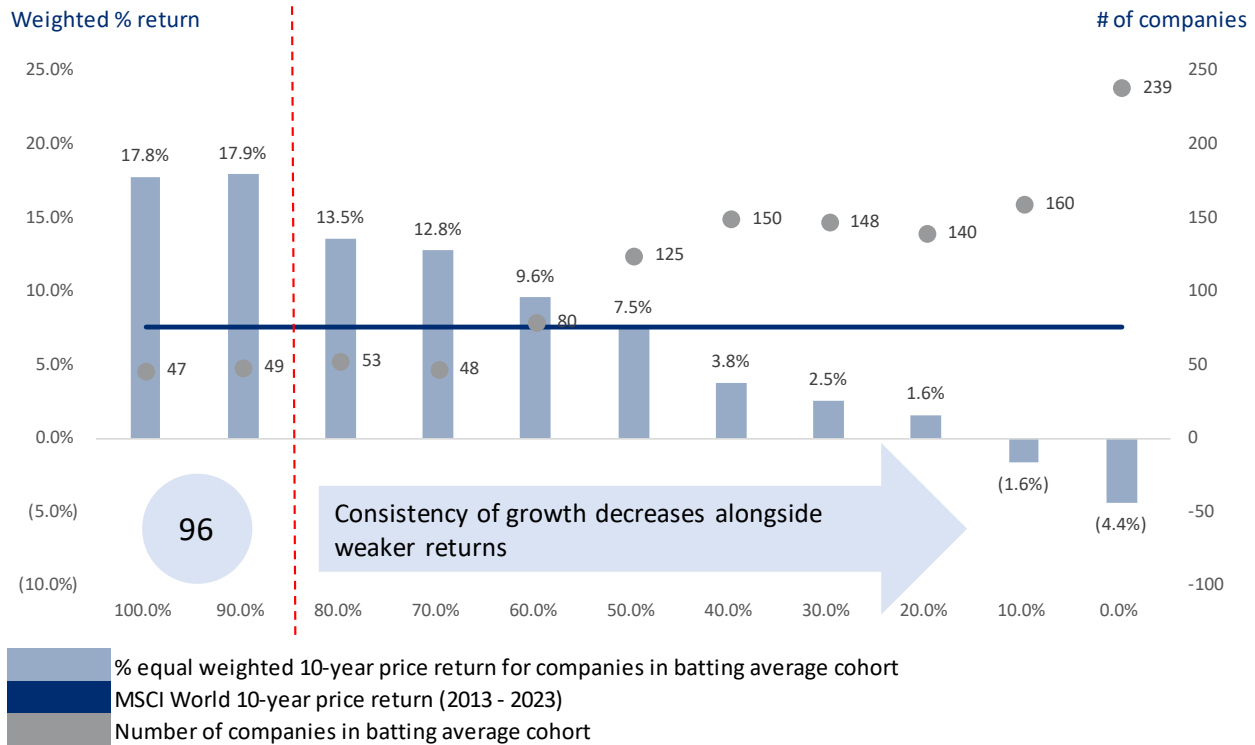
Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023



Exhibit 5.2: Earnings and return consistency over a rolling 5-year period

Earnings and Returns Consistency

Rolling 5-Year Returns and Rolling 5-Year Earnings Growth > MSCI World



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

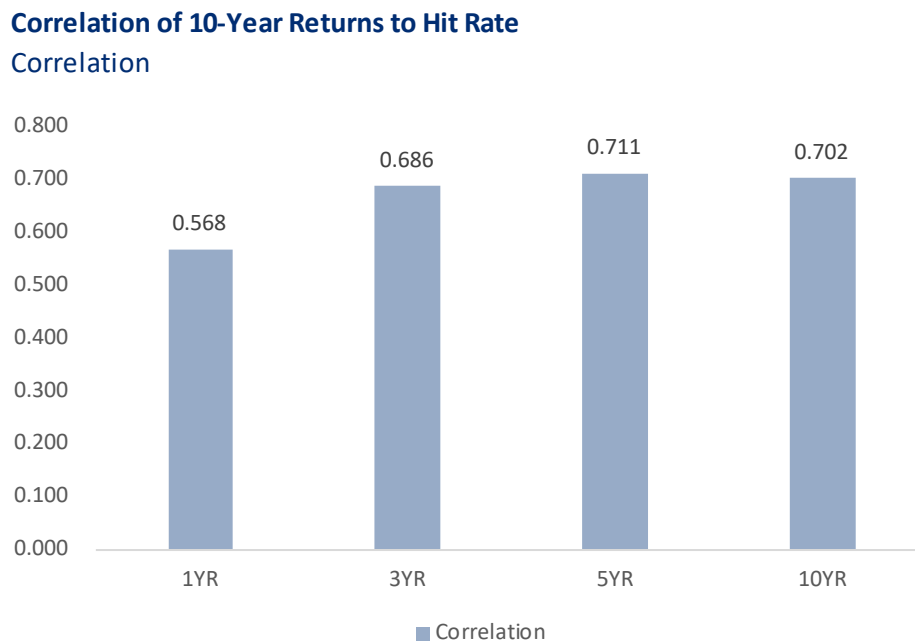
Notably, 203 and 47 companies achieved a perfect hit rate of 100% over ten years and five years, respectively. Those companies outperformed the market in every rolling 10-year and 5-year period. In the 10-year analysis, another 78 companies achieved a hit rate of 80%. In the five-year analysis, another 49 companies achieved a hit rate of 90%. From the ten-year analysis, an equal weighted portfolio of companies in the 100% cohort produced returns two times greater than the market return. From the five-year analysis, an equal weighted portfolio of companies in the 100% cohort or in the 90% cohort produced returns that exceeded the Index by 2.5 times (~17.8% for cohort 1 and ~17.9% for cohort 2 versus ~7.6% for the index). Remarkably, even a portfolio of companies with a hit rate of just 60% still managed to beat the index.

To further support our view that long-term earnings growth has a relationship to long-term return, we expanded our hit rate analysis to look at multiple rolling periods (1-year, 3-year, 5-year, and 10-year). We calculated the hits for each index constituent over each rolling period. We also calculated the ten-year price return for each company from December 31, 2013 through December 31, 2023. Once again, we used a correlative analysis to establish a



relationship between the frequency of hits and the ten-year return. The results of that analysis are shown in Exhibit 6 below. The ten-year returns are highly correlated to earnings growth across all rolling periods, but the correlation is strongest over a five-year rolling period. The results of this analysis further reinforce our earlier conclusion that the market is willing to overlook short-term growth aberrations so long as the company in question has a demonstrated ability to deliver consistent long-term growth.

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



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

The final step our hit rate analysis was to look at the individual companies who consistently delivered hits over one-year, three-year, five-year, and ten-year rolling bases (i.e., companies consistently outperformed the market in terms of both earnings growth and price return over the specified periods). While the preceding hit rate analysis showed 203 companies that delivered a 100% hit rate on a rolling ten-year basis and 47 companies that delivered a 100% hit rate on a rolling five-year basis, there are only 19 companies that did so across each rolling one-year, three-year, five-year, and ten-year period. Our earlier work showed that this level of consistent earnings growth was not essential to deliver stock price performance that exceeded the Index. So, we wanted to analyze whether and to what extent these 19 companies delivered stock price performance that exceeded the index. These companies along with their 10-year returns are listed in Exhibit 7.1 below. Exhibit 7.2 demonstrates a relationship: more hits translate to higher returns. This further supports



our thesis that long-term earnings growth is a primary driver of long-term stock price performance.

Exhibit 7.1: Overlap of companies achieving 1-year, 3-year, and 5-year hits

1-Year + 3-Year	1-Year + 5-Year	3-Year + 5-Year	3-Year + 5-Year (Cont.)	1-Year + 3-Year + 5-Year
Chugai Pharmaceutical Co., Ltd. OBIC Co., Ltd. Keyence Corporation Apple Inc. Ameriprise Financial, Inc. Amphenol Corporation Class A ASML Holding NV Broadcom Inc. Booking Holdings Inc. CBRE Group, Inc. Class A Intuit Inc. Mastercard Incorporated Class A	Chugai Pharmaceutical Co., Ltd. OBIC Co., Ltd. Keyence Corporation Apple Inc. Ameriprise Financial, Inc. Amphenol Corporation Class A ASML Holding NV Broadcom Inc. Booking Holdings Inc. CBRE Group, Inc. Class A Intuit Inc. Mastercard Incorporated Class A	Chugai Pharmaceutical Co., Ltd. OBIC Co., Ltd. Keyence Corporation Apple Inc. Amphenol Corporation Class A ASML Holding NV Broadcom Inc. CBRE Group, Inc. Class A Intuit Inc. Mastercard Incorporated Class A Microchip Technology Incorporated Moody's Corporation Marsh & McLennan Companies, Inc. Monster Beverage Corporation Microsoft Corporation Motorola Solutions, Inc. Nasdaq, Inc. Northrop Grumman Corp. NVIDIA Corporation O'Reilly Automotive, Inc. PulteGroup, Inc. Hermes International SCA Roper Technologies, Inc.	Shin-Etsu Chemical Co Ltd HOYA CORPORATION Bandai Namco Holdings Inc. Itochu Corporation Tokyo Electron Ltd. Accenture Plc Class A Automatic Data Processing, Inc. Applied Materials, Inc. AMETEK, Inc. Aon Plc Class A Arrow Electronics, Inc. AutoZone, Inc. BlackRock, Inc. Capgemini SE Costco Wholesale Corporation Canadian Pacific Kansas City Limited Salesforce, Inc. Dollar General Corporation D.R. Horton, Inc. DSV A/S Dassault Systemes SA Elevance Health, Inc. Edwards Lifesciences Corporation Ferguson Plc Goodman Group Republic Services, Inc. Home Depot, Inc. Hexagon AB Class B Intercontinental Exchange, Inc. 3i Group plc Intuitive Surgical, Inc. Keurig Dr Pepper Inc. KLA Corporation Lowe's Companies, Inc. Lam Research Corporation	Chugai Pharmaceutical Co., Ltd. OBIC Co., Ltd. Keyence Corporation Apple Inc. Amphenol Corporation Class A ASML Holding NV Broadcom Inc. CBRE Group, Inc. Class A Intuit Inc. Mastercard Incorporated Class A Moody's Corporation Microsoft Corporation Motorola Solutions, Inc. Hermes International SCA Roper Technologies, Inc. Synopsys, Inc. S&P Global, Inc. UnitedHealth Group Incorporated Visa Inc. Class A

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

*Note: 1-year + 3-year + 5-year + 10-year not shown because all companies in 1-year + 3-year + 5-year were also in that category



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

However, one striking observation emerged from this analysis: Nvidia (NVDA) is not on the list. This absence, despite NVDA being a top performer over the past 1-year, 3-year, 5-year, and 10-year periods, raises an important question: While consistency is clearly important, are there other factors beyond simply achieving consistent hits that contribute to a company's success? This finding drove us to explore the role earnings growth magnitude and earnings growth recency play in long-term stock price performance.

The relationships between magnitude and return

The absence of certain high-performing companies like NVDA from our list of consistent "hitters" led us to consider factors beyond consistency. On a rolling five-year basis, NVDA delivered hits in nine-of-ten possible periods. However, its performance on a rolling one-year-basis and rolling three-year basis are modestly less consistent, which impairs its position in our hit rate analysis. Specifically, NVDA’s rolling earnings growth profile has been volatile and characterized by years of extremely high growth followed by periods of lower or negative growth. Despite that volatility, NVDA’s stock price performance has been exceptional. When looking at its stock price performance alongside its earnings growth profile, we hypothesized that the magnitude of earnings growth could have a meaningful relationship to long-term stock price performance.

To assess the impact of magnitude, we recalibrated our hit rate analysis by modifying the benchmark. Instead of comparing a company's earnings growth and stock price return to

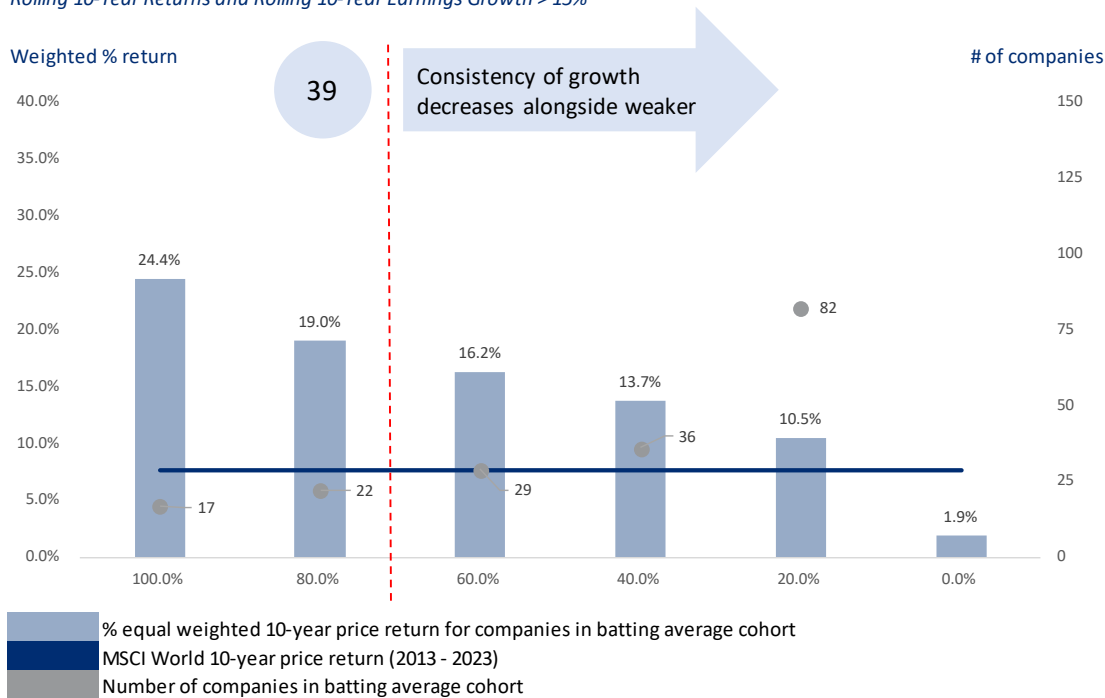


the Index, we set a higher “hit” threshold of 15% for both earnings growth and stock price return. As expected, fewer companies were able to clear the higher hurdle. In fact, only 39 companies achieved a hit rate of 80% or higher over a 10-year rolling period, and only 27 companies achieved a hit rate of 60% or higher over a 5-year rolling period. However, these companies, which consistently delivered significant earnings growth and price returns, generated the highest weighted-average returns exceeding 19% (10-year) and 20% (5-year). This finding underscores the importance of not only consistent growth but also growth of significant magnitude. Exhibits 8.1 and 8.2 below illustrate the relationship between hit rate and weighted-average return when applying the 15% threshold.

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%



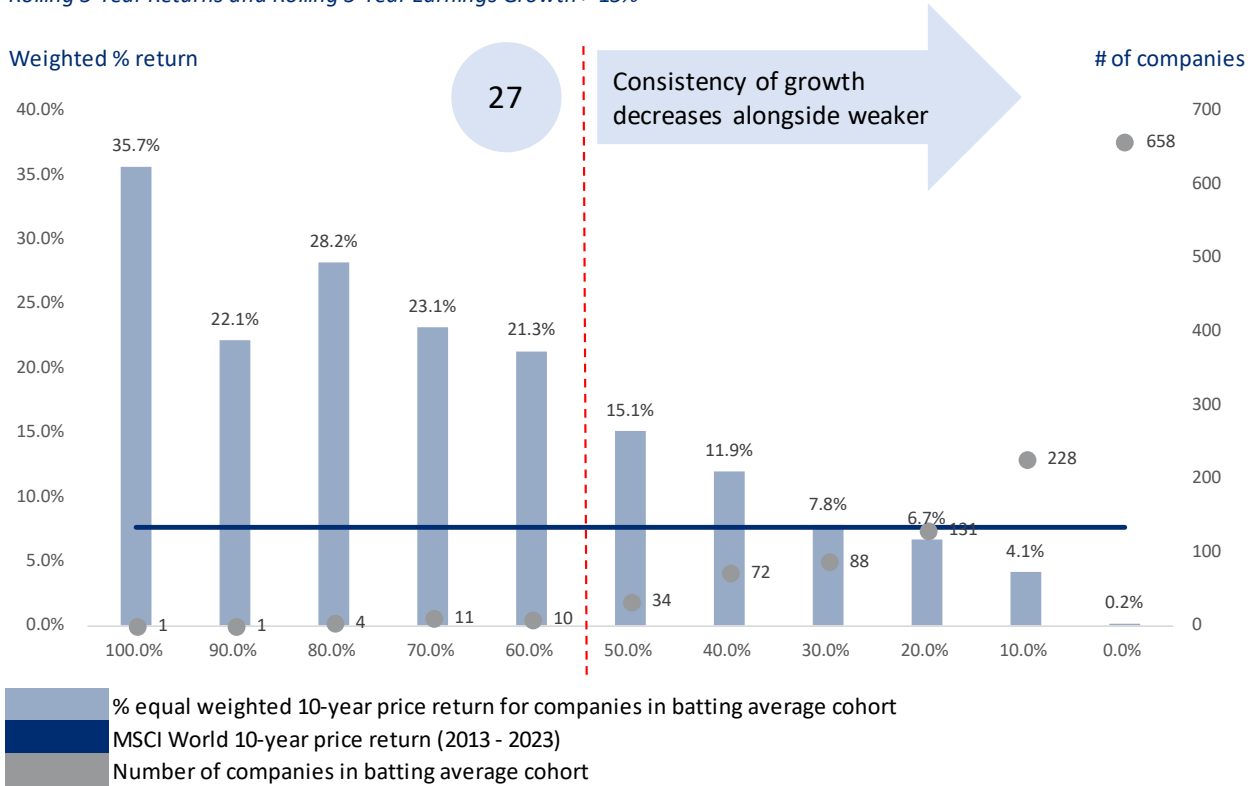
Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023



Exhibit 8.2: Earnings growth magnitude and returns over rolling 5-year period

Earnings and Returns Consistency

Rolling 5-Year Returns and Rolling 5-Year Earnings Growth > 15%



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

Furthermore, when we examined the list of companies that consistently achieved hits with this higher threshold (Exhibit 9.1), we found that NVDA now appeared at the top of the list (Exhibit 9.2), alongside other high-performing companies. When recalibrated for magnitude, the hit rate analysis confirms a relationship between the magnitude of earnings growth and long-term stock price performance.



Exhibit 9.1: Overlap of Companies Achieving 1-year, 3-year, and 5-year “high magnitude” hits

1-Year + 3-Year	1-Year + 5-Year	3-Year + 5-Year	1-Year + 3-Year + 5-Year
Name	Name	Name	Name
Adobe Inc.		Sony Group Corporation	Advanced Micro Devices, Inc.
Airbus SE		Nintendo Co., Ltd.	Amazon.com, Inc.
		Tokyo Electron Ltd.	ASML Holding NV
Advanced Micro Devices, Inc.	Advanced Micro Devices, Inc.	Advanced Micro Devices, Inc.	Broadcom Inc.
Amazon.com, Inc.	Amazon.com, Inc.	Amazon.com, Inc.	AutoZone, Inc.
ASML Holding NV	ASML Holding NV	ASML Holding NV	Salesforce, Inc.
Broadcom Inc.	Broadcom Inc.	Broadcom Inc.	Edwards Lifesciences Corporation
AutoZone, Inc.	AutoZone, Inc.	AutoZone, Inc.	Home Depot, Inc.
Chipotle Mexican Grill, Inc.			Mastercard Incorporated Class A
Salesforce, Inc.	Salesforce, Inc.	Salesforce, Inc.	Netflix, Inc.
	DSV AS	D.R. Horton, Inc.	NVIDIA Corporation
Edwards Lifesciences Corporation	Edwards Lifesciences Corporation	Edwards Lifesciences Corporation	O'Reilly Automotive, Inc.
Home Depot, Inc.	Home Depot, Inc.	Home Depot, Inc.	Stellantis N.V.
Intuit Inc.		Logitech International S.A.	Visa Inc. Class A
Marriott International, Inc. Class A		Lam Research Corporation	
Mastercard Incorporated Class A	Mastercard Incorporated Class A	Mastercard Incorporated Class A	
Moody's Corporation		Neste Corporation	
Netflix, Inc.	Netflix, Inc.	Netflix, Inc.	
NVIDIA Corporation	NVIDIA Corporation	NVIDIA Corporation	
O'Reilly Automotive, Inc.	O'Reilly Automotive, Inc.	O'Reilly Automotive, Inc.	
		PulteGroup, Inc.	
		Sherwin-Williams Company	
Stellantis N.V.	Stellantis N.V.	Stellantis N.V.	
Visa Inc. Class A	Visa Inc. Class A	Visa Inc. Class A	

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

*Note: 1-year + 3-year + 5-year + 10-year not shown because all companies in 1-year + 3-year + 5-year were also in that category



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

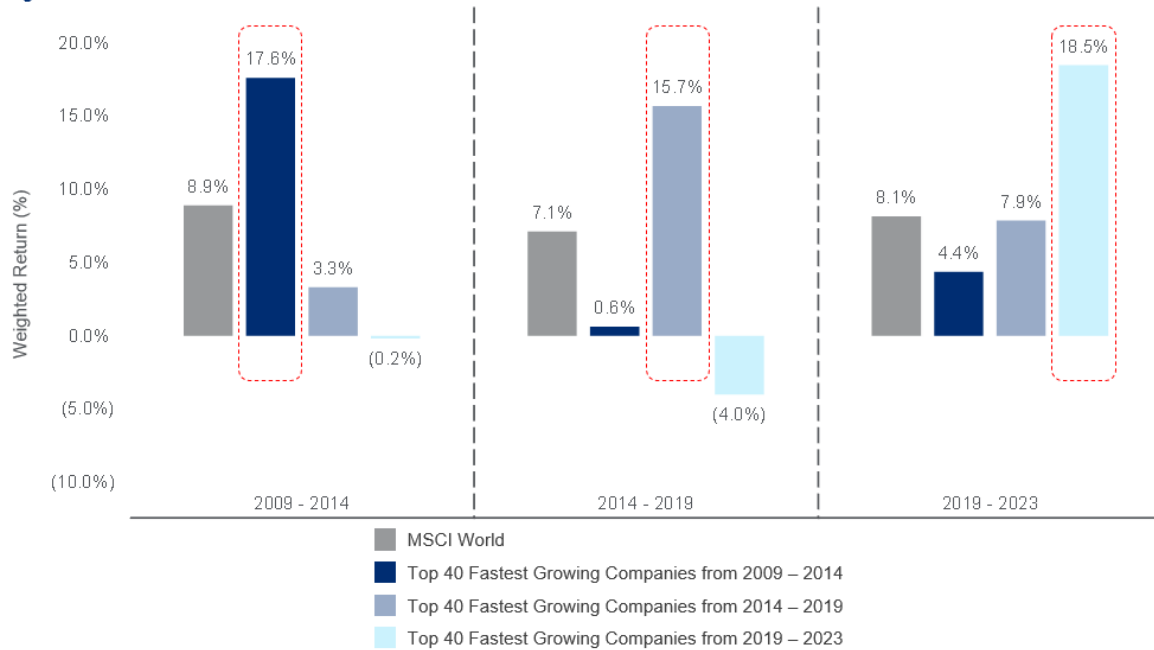
The relationships between recent earnings growth and return

When looking at the hit rate analysis, we recognized a relationship between stock price returns and the period in which hits occurred. The periods in which a company delivered hits correlated to the stock price return a company delivered in that period. This relationship drove us to explore the relationship between the recency of earnings growth and stock price return. To do so, we performed two separate analyses. In the first analysis, we looked at the fastest growing companies over three discrete periods (year-end 2009 through year-end 2014, year-end 2014 through year-end 2019, and year-end 2019 through year-end 2023). We created an equal-weighted portfolio of these companies and looked at portfolio performance versus the Index over the corresponding time frames. An equal-weighted portfolio of the fastest growing companies from 2009-2014 would have delivered a 17.6% return over that time frame, which would have beaten the Index return of 8.9%. However, if one held that same portfolio for the following five-year period (2014-2019), it would have delivered a 0.6% return over that time frame, which would have underperformed the Index return of 7.1%. These findings are presented below in Exhibit 10. For each discrete period, an equal-weighted portfolio of the fastest growing companies always generated more return than that of the Index. However, holding that portfolio in the following period generated less return than the Index. This finding supports our hypothesis that a relationship exists between the recency of growth and stock price returns. The existence of this relationship implies investors need to be vigilant in identifying the next wave of consistent earnings growers.



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



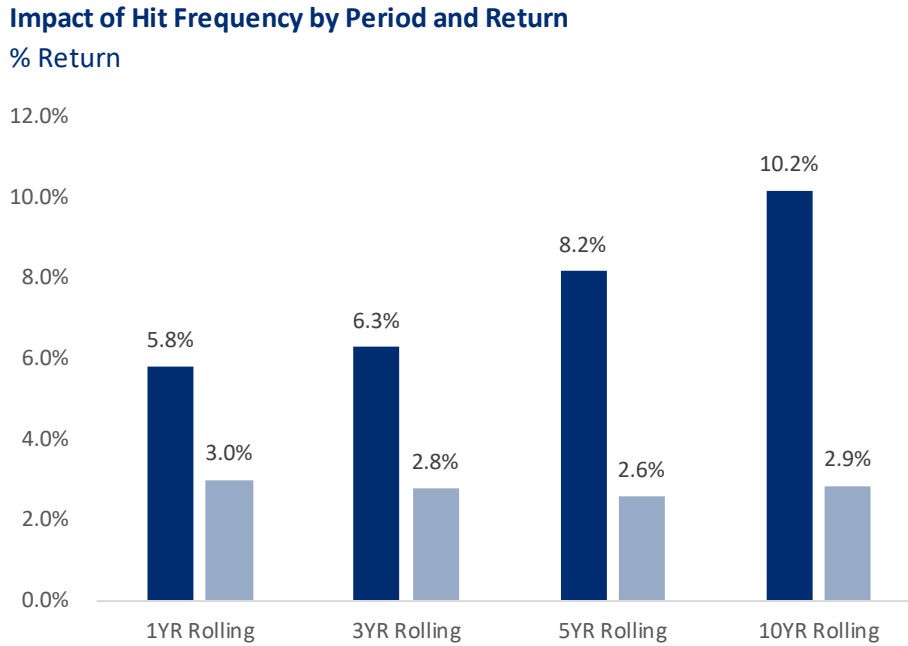
Source: FactSet, Fayez Sarofim & Co. analysis, Data as of 12/31/2023

The analysis above shares the same shortcoming that we have seen with the other discrete analyses in our work so far: a period-based analysis does not control for the impact of exogenous factors. To more firmly establish a relationship between the recency of earnings growth and stock price performance, we wanted to control for those factors to the extent possible. To do so, we once again revisited our hit rate analytical framework. This time, we divided our hit rate analysis into two distinct groups. Group 1 delivered more hits in Period 1; we labeled those companies as “Deceleration in 2nd Period.” Group 2 delivered more hits in Period 2; we labeled those companies as “Acceleration in 2nd Period.” The Periods were symmetrical, meaning that Period 1 for rolling one-year earnings growth and stock price returns extended from year-end 2009 through year-end 2016 while Period 2 for rolling one-year earnings growth extended from year-end 2016 through year-end 2023. We then created an equal-weighted portfolio of Group 1 companies “Deceleration in 2nd Period” and Group 2 companies “Acceleration in 2nd Period”. The results of this analysis are shown in Exhibit 11 below. We found that companies with a higher hit rate in the second period delivered better equal-weighted portfolio returns than those with a lower hit rate in the second period. The rolling period considered (1-year, 3-year, 5-year, or 10-year) did not impact these results. This analysis reinforces and deepens our understanding of the previously established relationship between the recency of earnings growth and stock price returns. These results highlight the imperative of finding “tomorrow’s winners” and not



relying on a portfolio built of “today’s winners” to generate returns capable of exceeding the Index.

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



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



Conclusion

The genesis of our analytical journey was the intuition underlying our investment philosophy: earnings growth drive long-term stock price returns. Because our analysis can never definitively prove causation, we sought instead to establish and solidify the relationship between long-term earnings growth and stock price performance. Our initial work found an existing relationship between revenue growth, earnings growth, NTM PE expansion and stock price performance. It found that the strongest relationship existed between earnings growth and stock price performance. It also found that the consistency and stability of earnings growth were related to stock price performance. In subsequent analyses we examined the relationship of earnings growth and stock price performance in more detail. To do so, we created the hit rate analytical framework to control for exogenous factors that could have impacted our initial analysis. We used that framework to establish that a relationship exists between earnings growth consistency and stock price performance. Further, we used that framework to establish a relationship between earnings growth magnitude and stock price performance as well as earnings growth recency and stock price performance.

From this analysis, we highlight three key takeaways:

1. The fastest growing companies change over time; consistent earnings growers change less frequently. A portfolio of fast-growing companies delivers returns like that of a portfolio of consistently growing companies. Because the fastest growing companies change meaningfully over a five-year period, we believe an investment strategy that focuses on consistently growing companies is more robust.
2. Driving earnings growth that consistently exceeds the Index rate of earnings growth is hard to achieve as only about 1 in 15 companies can do it. Companies whose growth consistently exceeds the growth rate of the market historically have produced investment returns that exceed the market.
3. Investors cannot be complacent and rely on yesterday's growers. The research process to identify these companies must be robust and the investment process dynamic. Investors should maintain a forward-looking perspective and continuously evaluate the evolving landscape of earnings growth. This is critical to long-term investment success.

These findings are important because they support our view that an investment strategy based on a robust and repeatable research process capable of identifying those few companies capable of consistent and above-peer earnings growth should deliver superior long-term investment performance. Our investment strategy relies on a robust research process that is purpose-built to identify these types of companies, and the success of that strategy and our process is reflected in our strategy's relative outperformance over the past ten years.



Next Steps

We intend to pursue future research that delves deeper into the nuances of the relationship between earnings growth and stock price performance by considering the following:

- **Sector-specific dynamics:** Are there certain sectors where EPS fluctuations have a more pronounced or muted impact on stock performance?
- **Alternative metrics:** A granular analysis of income statement components might reveal alternative metrics with even stronger correlations to returns than EPS. Expanding our analysis to encompass other financial measures, such as free cash flow, could also provide valuable insights.
- **Comparative analysis across indices:** Exploring these relationships within different stock indices could offer valuable comparative insights and further refine our understanding of the factors driving investment success.

These possibilities represent just a few potential directions for future research. Driven by our intense intellectual curiosity, we are eager to continue exploring the dynamics of earnings growth and its impact on long-term investment performance.



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