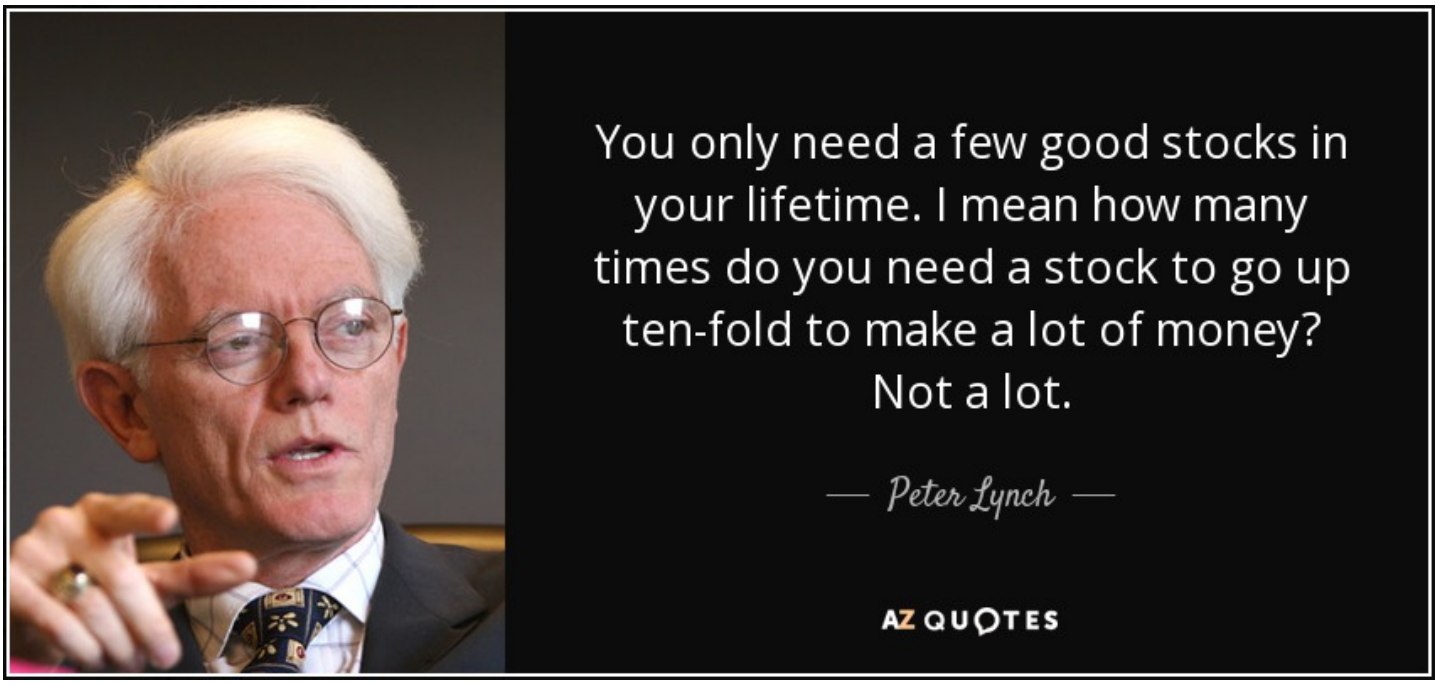
Twitter Thread by Compounding Quality

Compounding Quality
@QCompounding

■ It's every investor's dream to make a 10-bagger (a stock that goes up tenfold), or even a 100-bagger (a stock that goes up 100x).

In this thread we will learn you how to identify multibaggers together with 104 (!) concrete examples.

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Lesson 1: Look for business with a wide moat.

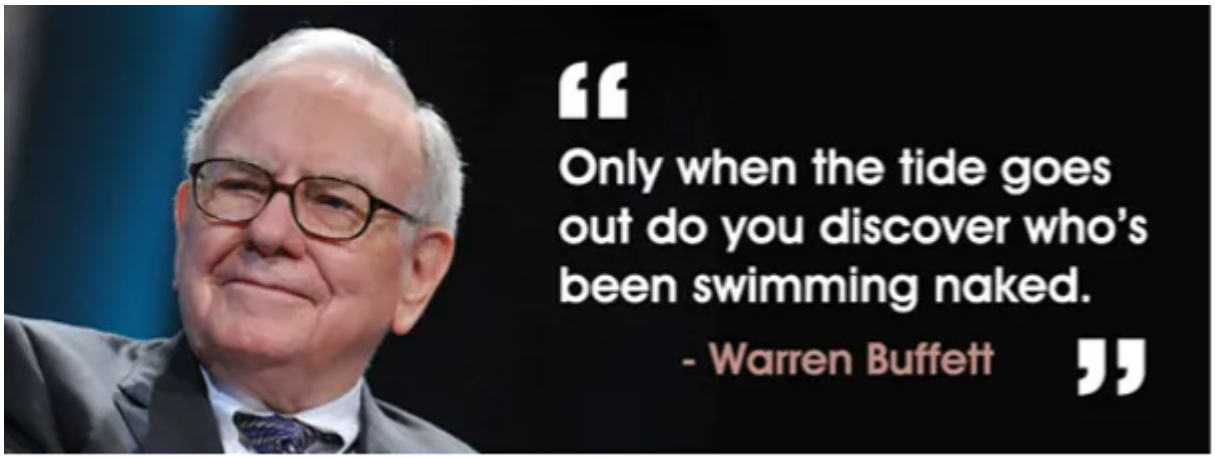
A wide moat is essential for every Quality Investment. Almost all multibaggers (91%) are characterized by a wide economic moat. Barriers to entry are the most preferred moat source for multibaggers (81%).

OK, What is an Economic Moat?

- Capital flows to the areas of highest potential return, so all firms face competition that seeks to force down high returns on capital.
  - But some firms generate high returns for a very long time.
  - How? By creating economic moats around their businesses.
- An economic moat is a structural business characteristic that allows a firm to generate excess economic returns for an extended period.
  - Firms with moats have ability to invest incremental capital at high rates of return = faster earnings growth and/or higher free cash flow.
  - Firms with moats have more predictable cash flows, limiting the risk.

Lesson 2: Invest in financially healthy companies.

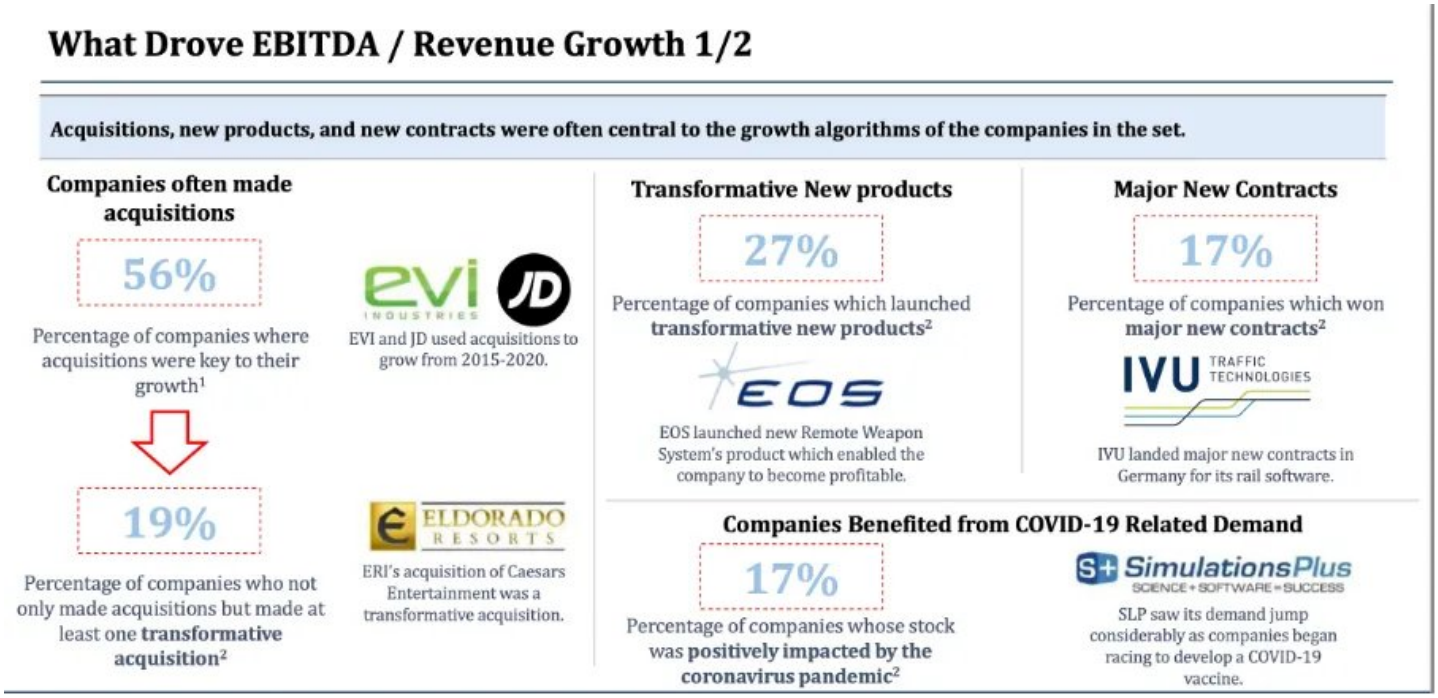
Great companies are very cash-generative and have a healthy balance sheet. Seek for companies with a low net debt / EBITDA and high interest coverage. When the company has a net cash position, this is a great surplus.



Lesson 3: Acquisitions can create a lot of value.

While many acquisitions fail to create value, the best performing stocks use acquisitions to bolster their returns.

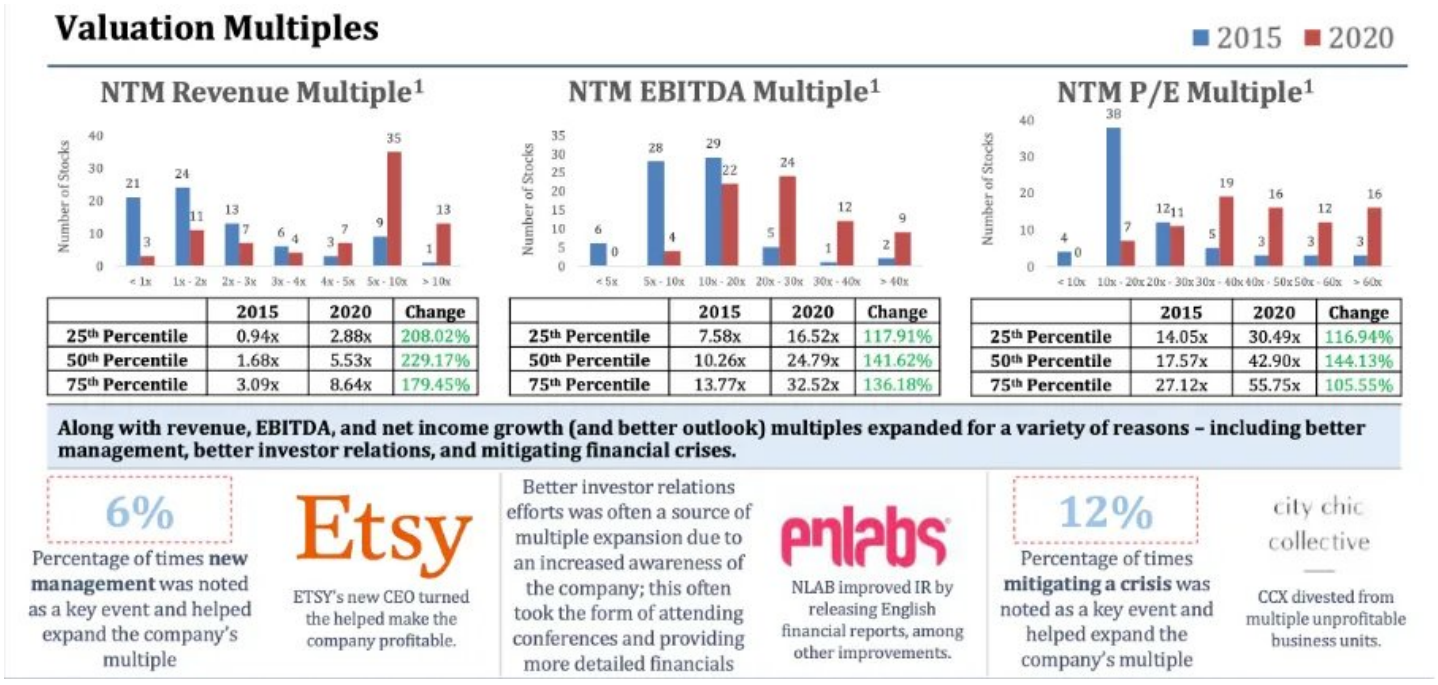
If you want phenomenal returns, find great acquirers. Constellation Software, and Lifco are beautiful examples.



Lesson 4: Don't rely on multiples.

When you want to buy something great, you have to pay for it.

While it's always better to buy a great business at a low multiple, many of the top performing stocks started compounding with multiples which were already high.



Lesson 5: Invest in small caps.

In general, small caps perform better than large cap stocks because they have more upside potential.

When you can find an owner-operator small cap stock which is a market leader in a niche with high margins, you have found a (potential) goldmine.

Size of the Companies

While some large companies were included in the set, smaller companies were represented more often and returned larger TSRs on average.





	Nano-Cap (< $50M)	Micro-Cap ($50M - $300M)	Small-Cap ($300M - $2B)	Mid-Cap ($2B - $10B)	Large-Cap (> $10B)
Average	1855%	682%	590%	459%	413%
Median	1114%	508%	431%	414%	403%

Investors need to be willing to look at small, under looked, and under covered stocks to find some of the biggest winners:

ENDOR xebec GENOVIS

But with that said, many companies with >1B market caps outperformed as well:

Entegris Etsy JD

Lesson 6: Margin expansion is great.

As a quality investor, you should love margin expansion.

When the profit margin of a company doubles, the EPS of the company doubles too.

In the long term, earnings growth is the leading factor for stock price performance.

Financial Metrics





Gross Margin

	FY 2015	FY 2019	Change
25th Percentile	30.42%	31.69%	127 bps
50th Percentile	46.40%	49.19%	279 bps
75th Percentile	61.39%	66.68%	529 bps

SG&A Percentage

	FY 2015	FY 2019	Change
25th Percentile	53.57%	45.11%	-846 bps
50th Percentile	34.43%	30.27%	-416 bps
75th Percentile	16.30%	14.35%	-195 bps

EBITDA Margin

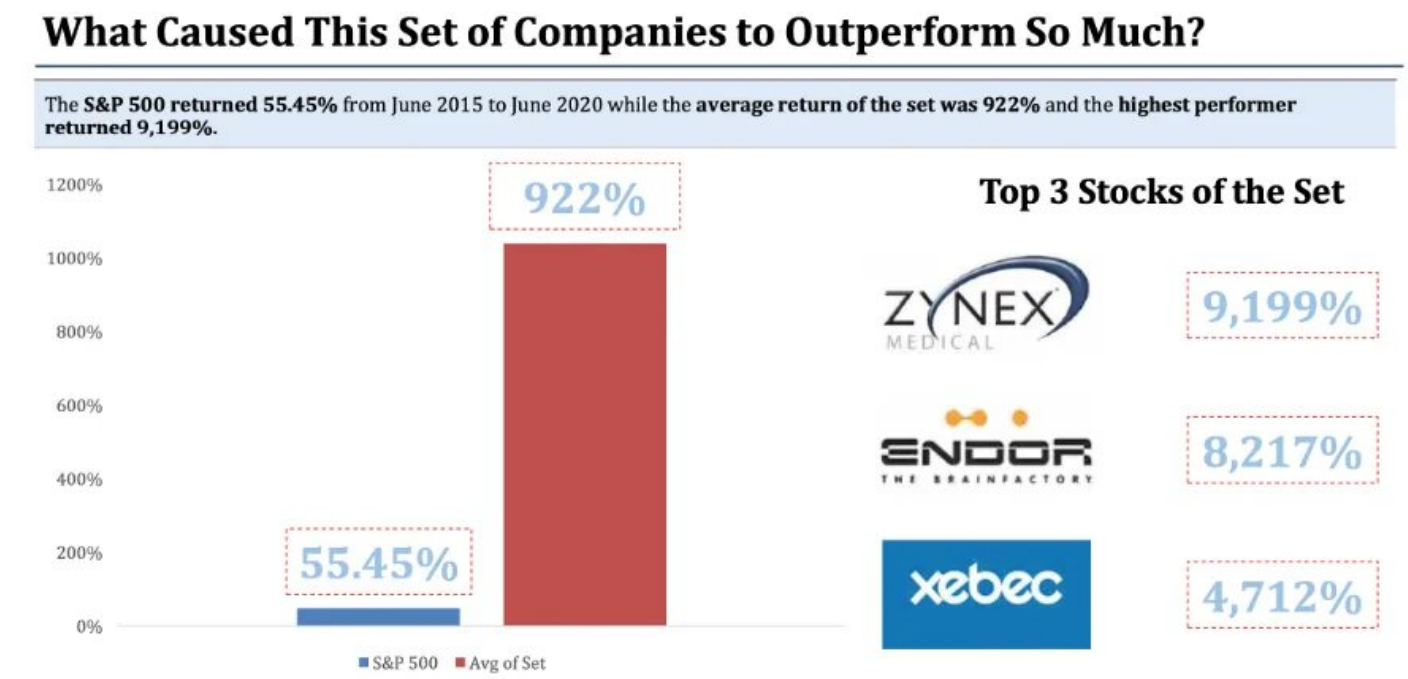
	FY 2015	FY 2019	Change
25th Percentile	4.75%	11.43%	668 bps
50th Percentile	10.22%	17.75%	753 bps
75th Percentile	17.88%	27.16%	928 bps

Lesson 7: Let your winners run.

The only thing you need during a successful investment career, is a few big winners.

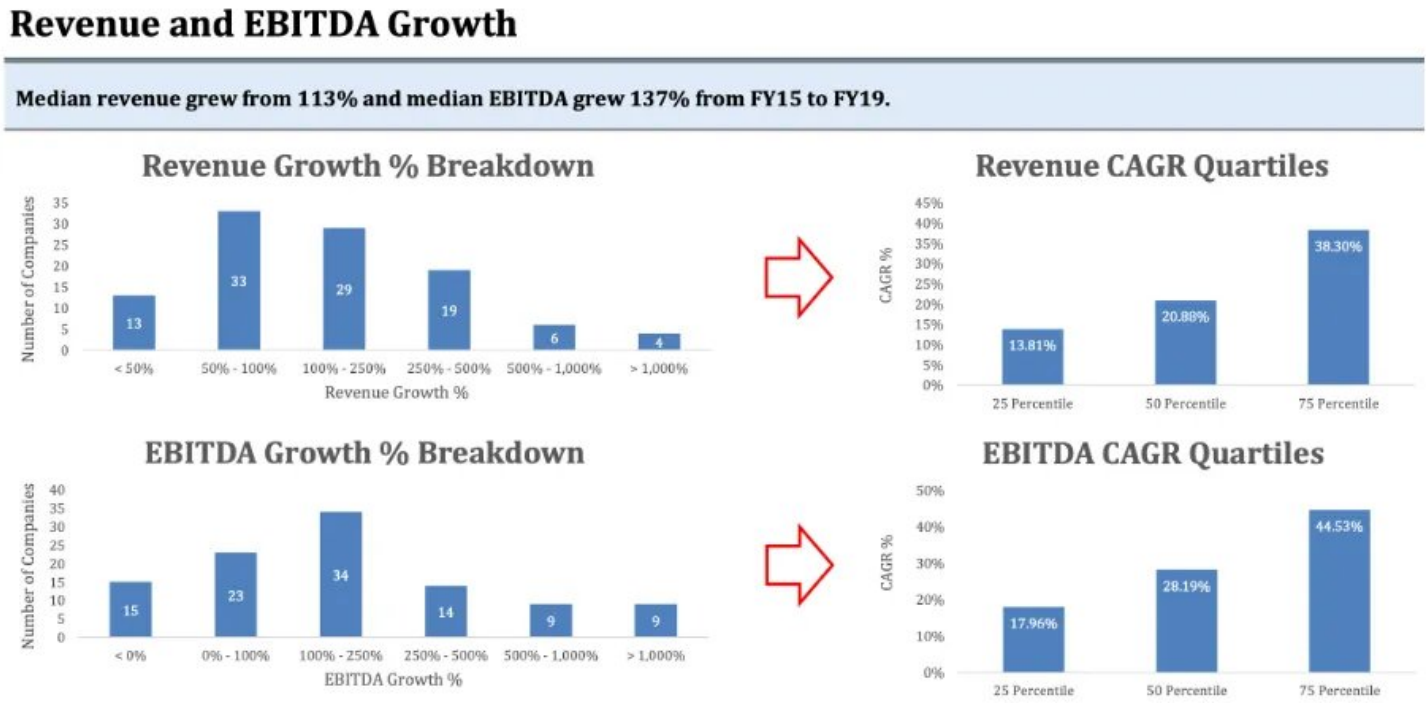
Between June 2015 and June 2020 Zynex Medical, the best performing stocks over the studied period, returned almost

9200% (!) to shareholders.



Lesson 8: Organic growth is the most preferred source of growth.

When you can buy companies which can reinvest a lot of their FCF in organic growth opportunities at high margins, the company's earnings will explode over time.



Lesson 9: Learn with concrete examples.

Do you want to learn more? Download all 104 (!) multibagger stocks which where studied here:

https://t.co/LQOtuyqLVp