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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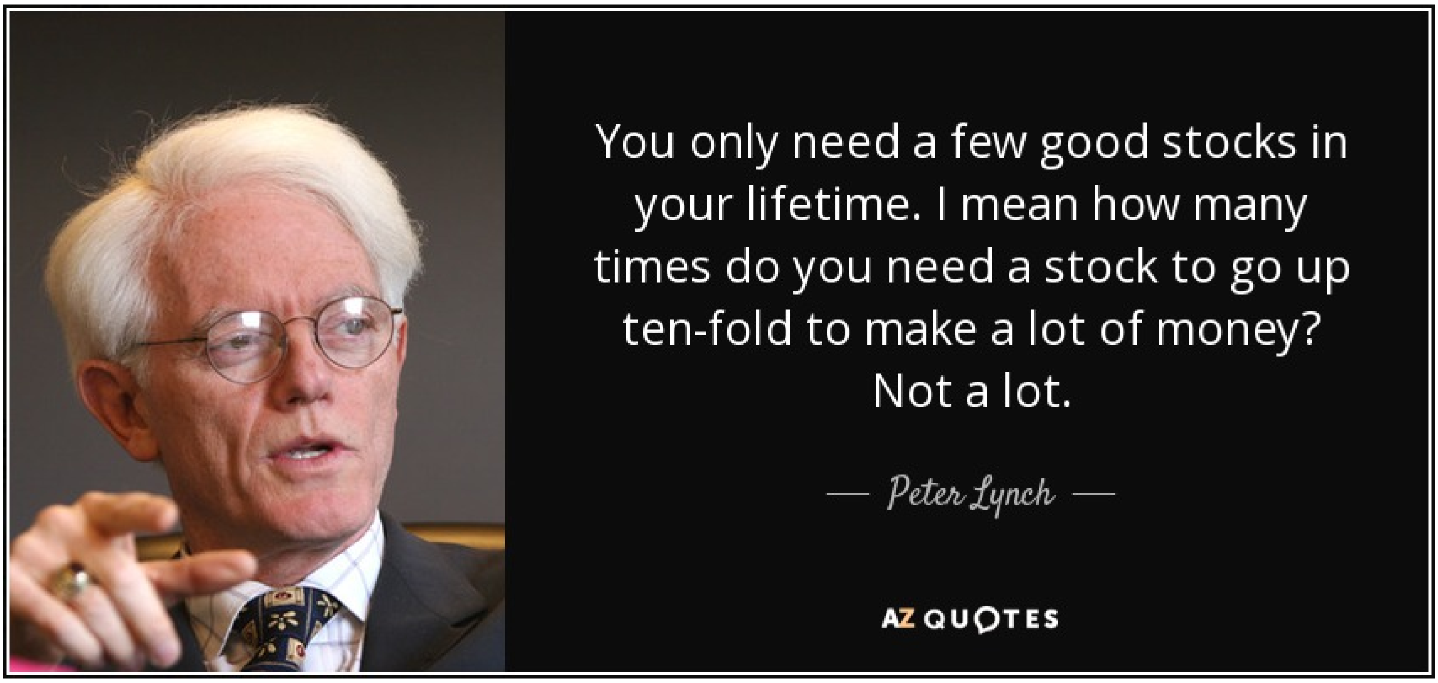
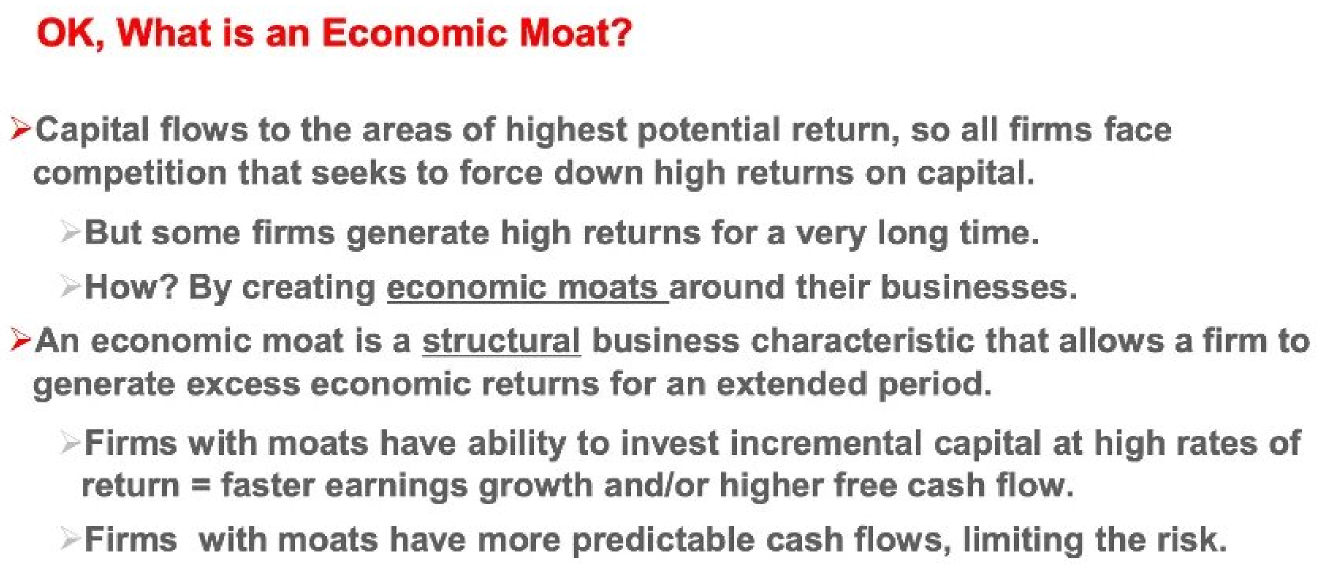


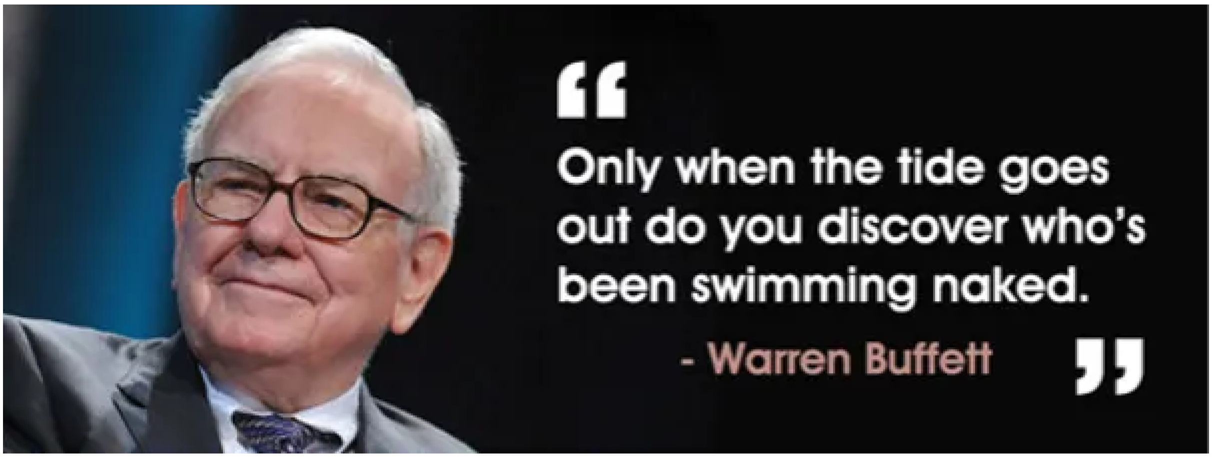
Lesson 1: Look for business with a wide moat.

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%).



Lesson 2: Invest in financially healthy companies.

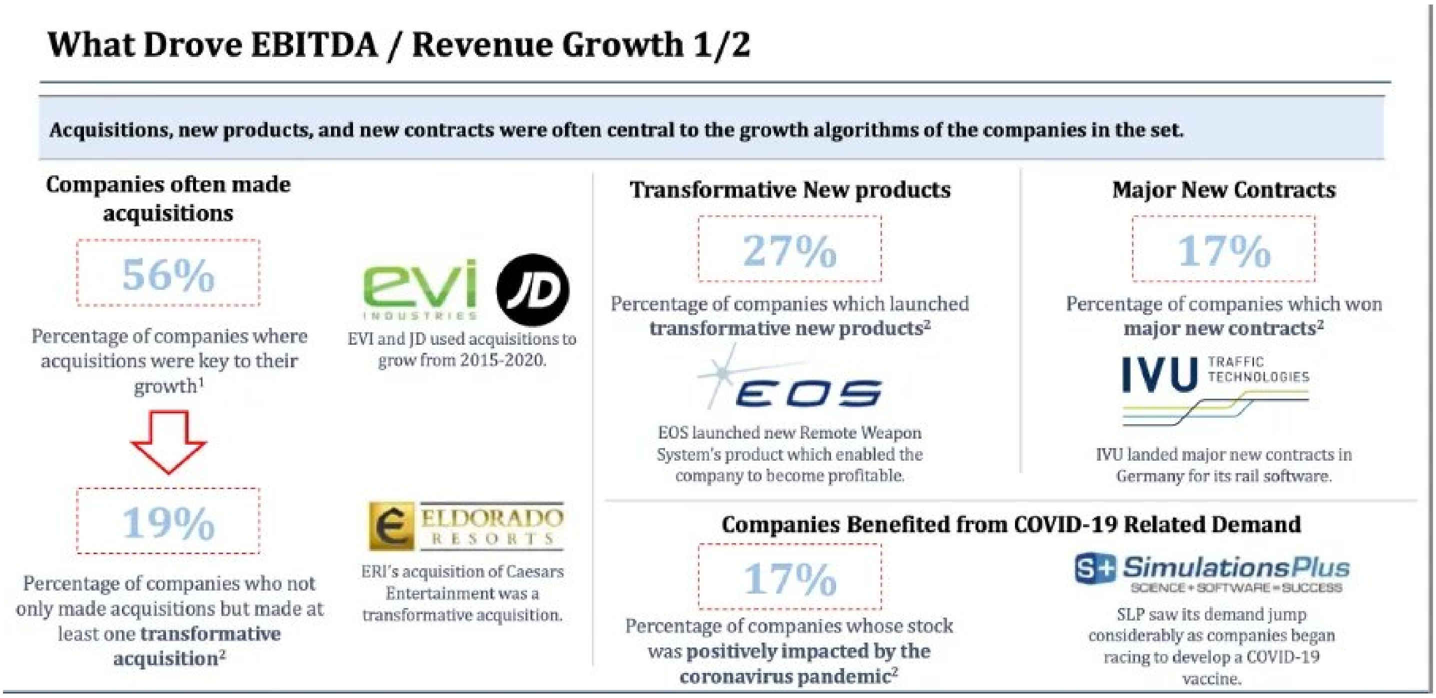
Great companies are very cash-generative and have a healthy balance sheet. Seek for companies with a low net debt / EBITDA and high interest coverage. When the company has a net cash position, this is a great surplus.



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.

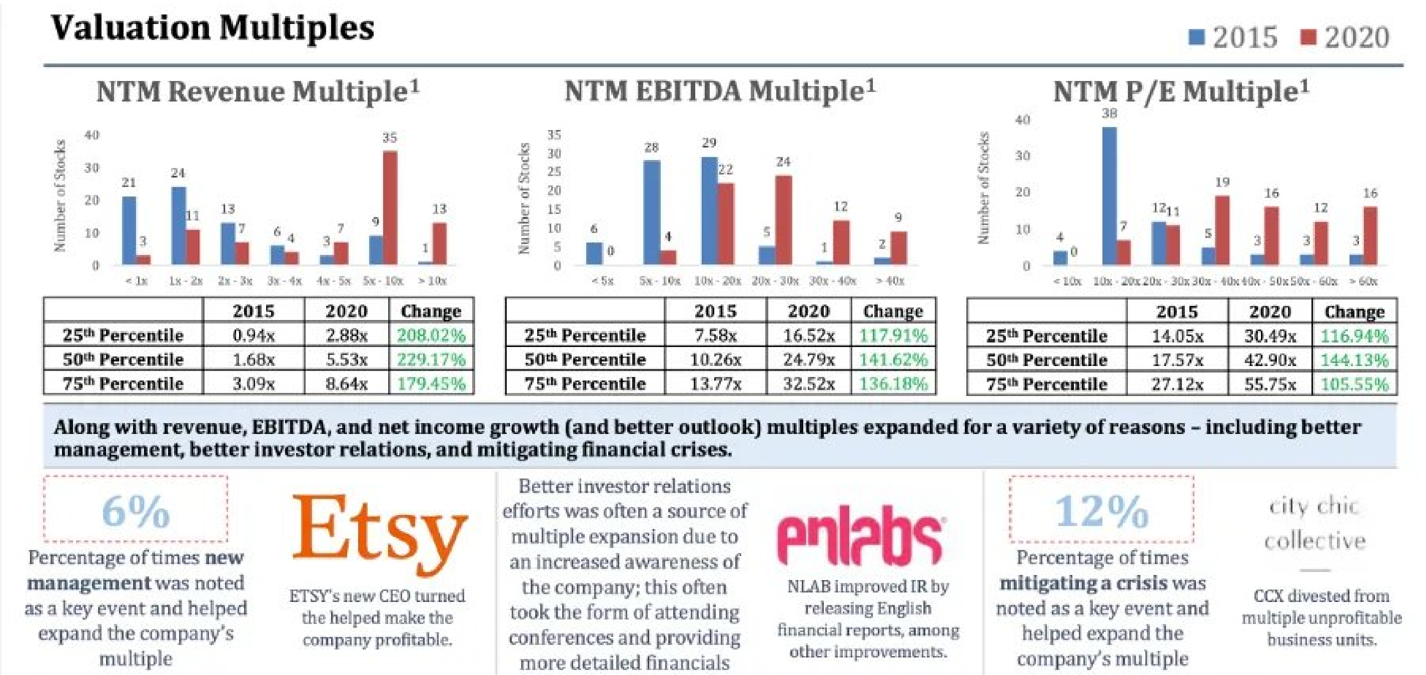
If you want phenomenal returns, find great acquirers. Constellation Software, and Lifco are beautiful examples.



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.



NTM Revenue Multiple

	2015	2020	Change
25th Percentile	0.94x	2.88x	208.02%
50th Percentile	1.68x	5.53x	229.17%
75th Percentile	3.09x	8.64x	179.45%

NTM EBITDA Multiple

	2015	2020	Change
25th Percentile	7.58x	16.52x	117.91%
50th Percentile	10.26x	24.79x	141.62%
75th Percentile	13.77x	32.52x	136.18%

NTM P/E Multiple

	2015	2020	Change
25th Percentile	14.05x	30.49x	116.94%
50th Percentile	17.57x	42.90x	144.13%
75th Percentile	27.12x	55.75x	105.55%

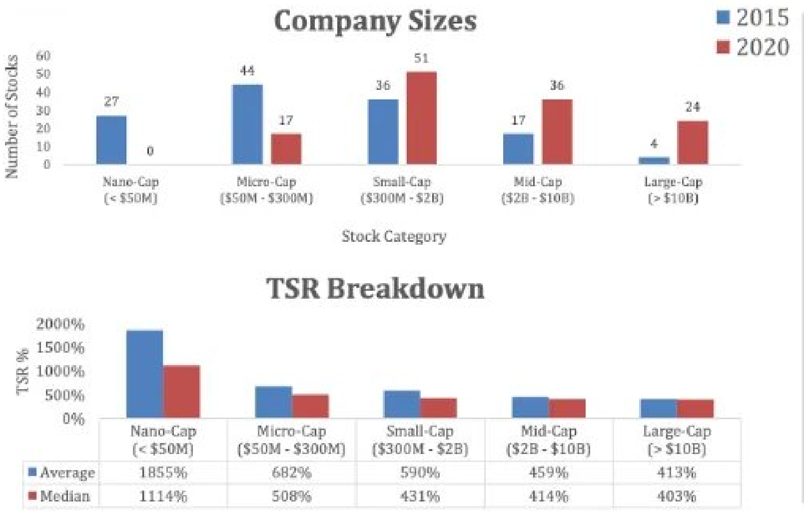
Lesson 5: Invest in small caps.

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.



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

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

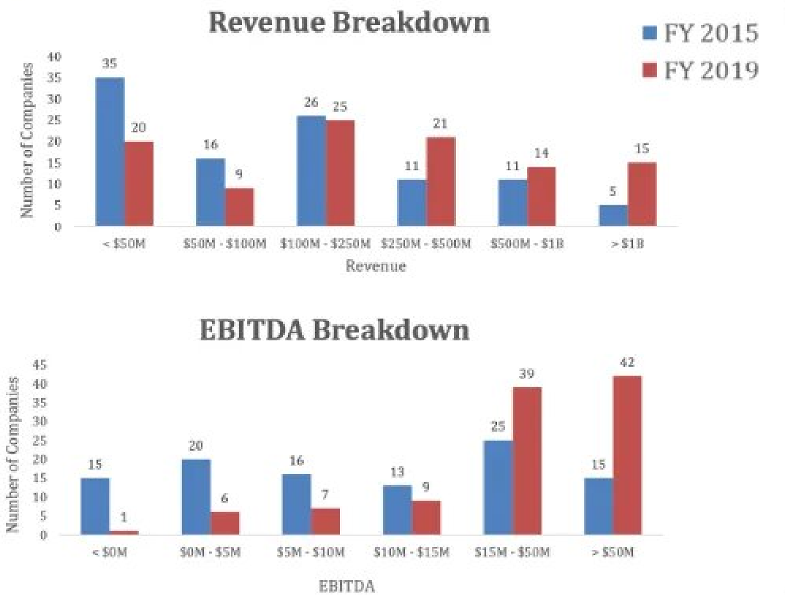
Lesson 6: Margin expansion is great.

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

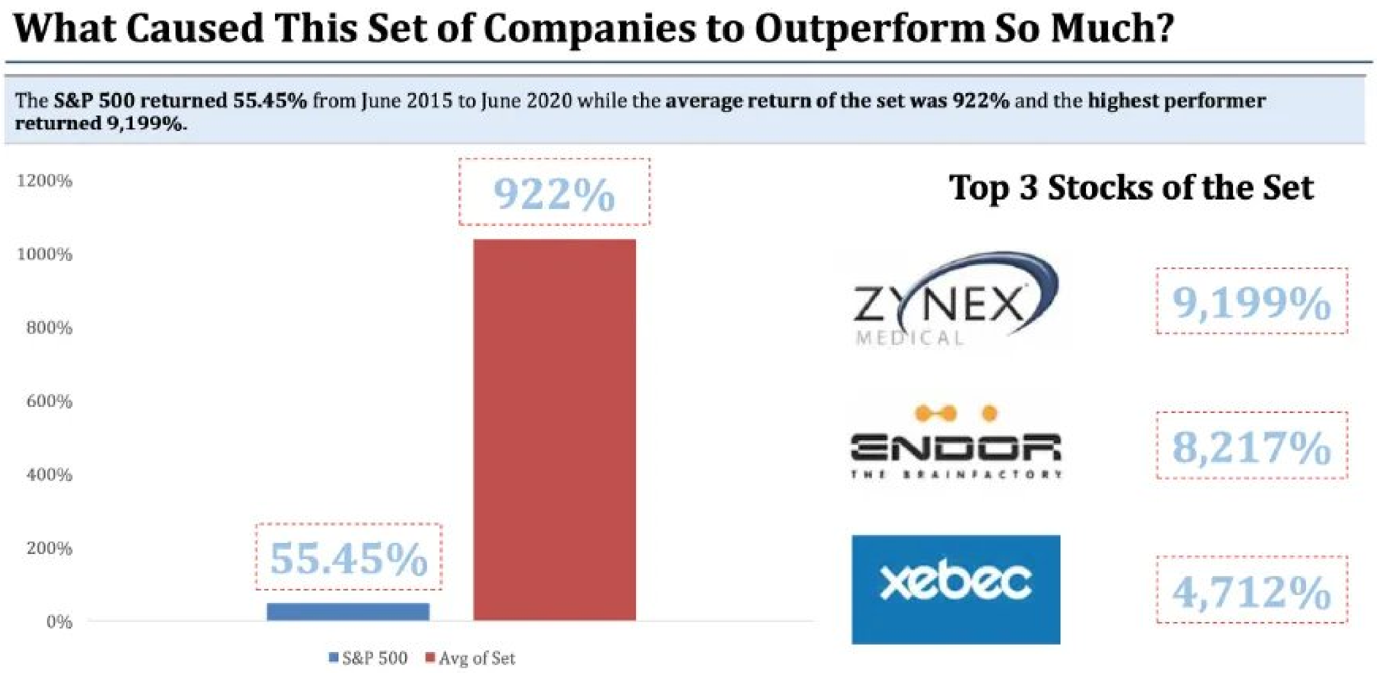
	FY 2015	FY 2019	Change
25th Percentile	4.75%	11.43%	668 bps
50th Percentile	10.22%	17.75%	753 bps
75th Percentile	17.88%	27.16%	928 bps

Lesson 7: Let your winners run.

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

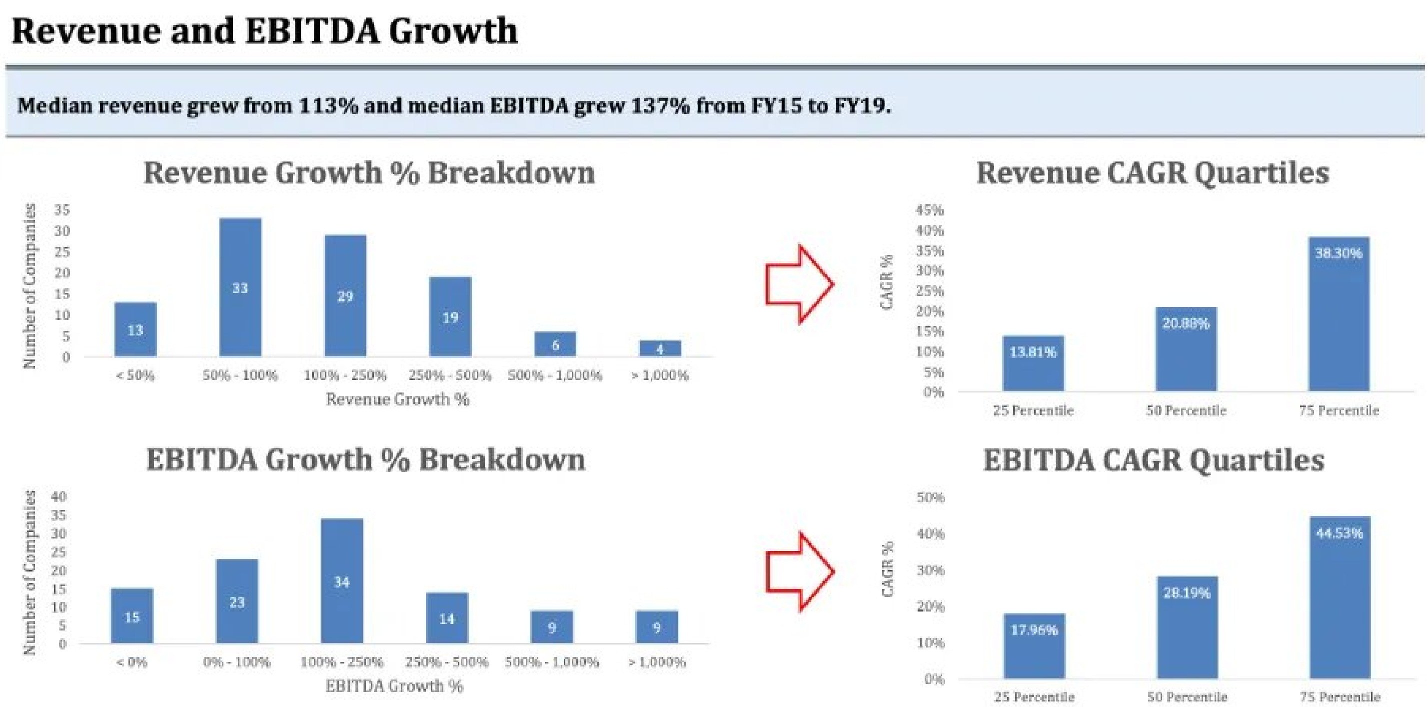
Between June 2015 and June 2020 Zynex Medical, the best performing stocks over the studied period, returned almost

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