Twitter Thread by Compounding Capital

Compounding Capital
@CompoundingCap1

Ran a screen:

1) US listing
2) Mkt cap > $500M
3) EBITDA margins >15%
4) ROE > 20%
5) 5-yr revenue and EBITDA CAGR > 5%
6) Net leverage < 3x

Far from perfect for various reasons, but solid list of quality companies to research.

Some quick observations:

Company like $HD not captured because ROE is negative (negative BV due to repo/divs).

Company like $AMZN not captured because not 15% EBITDA margin.

Highly acquisitive businesses ($CHTR, $WCN, etc.) not captured due to intangibles depressing ROE...

...this last element is a big issue I have with these screens...underlying unit economics may be excellent but GAAP accounting can obscure based on headline ROE.

End of the day, screens like this are backwards looking so far from perfect, but can glean some interesting insights.

2 more observations: great business like $COST is low margin but has high asset turns so generates high ROIC/ROE but not captured because of margin element I screened for.

Also, great businesses that can carry high leverage ($EQIX, $PLD, etc.) not captured due to leverage screen

Used Bloomberg to do this screen. Can also be done via CapIQ.