The long-term winning high multiple stocks

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Nvidia became the highest price-to-sales (P/S) ratio in the S&P 500 at the end of March 2023 and, up until mid-August 2023, returned a total of 52.6% compared to the S&P 500's 8.7%[1].

Our past research showed that the highest multiple stocks often see momentum enabling them to outperform for the following year, before they often start to underperform.

But a notable few of the 99 companies that historically reached the highest multiple status broke through to be long-term winners – and we reveal that list below.

Figure 1: Comparative performance of Nvidia vs S&P 500 from 31 March to 10 August 2023



Source: Performance data from Yahoo Finance, calculated 31 March 2023 to 10 August 2023. Historical performance is not an indication of future performance and any investments may go down in value.

Historical winners from top P/S stocks

Our previous blog showed that stocks with the top price-to-sales (P/S) ratio return, on average, -2% annually over the next five years, while the broader market showcased an average return of 10% during the same periods.

To better understand which companies managed to avoid these disappointing returns, we looked at the winners and their sales growth.

Figure 2: Five-year winners from top P/S position and their sales growth

Name	Top P/S Date	Sector	Start P/S	5 Yr		
				End P/S	Ret	Sales CAGR
A S A GOLD & PRECIOUS METALS LTD	5/31/1973	FIN	42	19	2.7%	17.1%
MESA PETROLEUM CO	1/30/1976	ENE	5	5	48.9%	38.0%
CRAY RESEARCH INC	6/30/1980	TECH	42	4	38.3%	46.5%
GENENTECH INC	7/29/1983	HLTH	18	6	16.2%	52.4%
LIN BROADCASTING CORP	8/31/1988	COMM	13	9	28.4%	22.8%
P T C INC	10/30/1992	TECH	17	6	28.2%	67.1%
LINEAR TECHNOLOGY CORP	4/28/1995	TECH	10	32	50.8%	20.4%
MICROSOFT CORP	3/31/1997	TECH	12	13	21.3%	23.4%
YAHOO INC	12/31/1997	DISC	46	10	13.6%	69.9%
GILEAD SCIENCES INC	5/31/2002	HLTH	24	11	35.9%	65.1%
EBAY INC	12/31/2002	DISC	17	6	14.4%	44.6%
WYNN RESORTS LTD	9/30/2004	DISC	12969	3	8.9%	502.2%
CELGENE CORP	3/31/2006	HLTH	25	7	5.4%	45.5%
REGENERON PHARMACEUTICALS INC	4/30/2012	HLTH	20	8	23.5%	51.7%
CHENIERE ENERGY INC	3/28/2013	ENE	26	2	13.8%	90.9%
MIX TELEMATICS LTD	3/31/2014	TECH	69	91	11.4%	3.1%
LIBERTY BROADBAND CORP	5/31/2016	COMM	118	59	23.5%	43.1%

Source: Jeremy Siegel with Jeremy Schwartz, research for Stocks for the Long Run, 6th ed., 2022. **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 3: Five-year median sales growth top P/S winners vs losers

W/L	Count	Start P/S		5 Yr			
				Returns		Sales Growth	
		Stock	S&P 500	Stock	S&P 500	Stock	S&P 500
Winners	17	23.7	1.3	21.3%	12.9%	45.5%	4.9%
Losers	41	22.3	1.0	-10.9%	11.4%	29.9%	4.8%

When we look at Figure 3, with the aggregated statistics on the sales growth for winners and losers, it's clear that just growing sales faster than the market is not enough. Even the losing companies grew their sales more than 6 times faster than the market and still had huge negative returns. Median sales growth for the winning companies is almost 50% annually.

The sales growth that a company must sustain to continue to stay competitive and justify its high multiples doesn't become easier on longer horizons either.
For every surviving company that also beat the S&P 500 over the next five years, there were 2.4 that underperformed.

Figure 4: Ten-year winners from top P/S position and their sales growth

Name	Top P/S Date	Sector	Start P/S	10 Yr		
				End P/S	Ret	Sales CAGR
DIGITAL EQUIPMENT CORP	3/31/1970	TECH	10	1	5.7%	34.0%
A S A GOLD & PRECIOUS METALS LTD	5/31/1973	FIN	42	18	19.6%	23.1%
MESA PETROLEUM CO	1/30/1976	ENE	5	0.5	17.3%	18.4%
CRAY RESEARCH INC	6/30/1980	TECH	42	1	19.3%	33.5%
LINEAR TECHNOLOGY CORP	4/28/1995	TECH	10	12	17.5%	15.3%
MICROSOFT CORP	3/31/1997	TECH	12	6	11.0%	17.6%
YAHOO INC	12/31/1997	DISC	46	4	18.3%	59.0%
BIOGEN INC	2/28/2002	HLTH	33	5	6.4%	33.3%
GILEAD SCIENCES INC	5/31/2002	HLTH	24	4	18.8%	40.7%
EBAY INC	12/31/2002	DISC	17	5	11.6%	27.8%
WYNN RESORTS LTD	9/30/2004	DISC	12969	3	19.0%	163.5%
CELGENE CORP	3/31/2006	HLTH	25	8	16.3%	31.9%
INTERCONTINENTALEXCHANGE GRP INC	1/31/2007	FIN	22	6	8.8%	33.1%
REGENERON PHARMACEUTICALS INC	4/30/2012	HLTH	20	5	17.2%	38.0%

Source: Jeremy Siegel with Jeremy Schwartz, research for Stocks for the Long Run, 6th ed., 2022. **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 5: Ten-year median sales growth top P/S winners vs losers

W/L	Count	Start P/S		10 Yr			
				Returns		Sales Growth	
		Stock	S&P 500	Stock	S&P 500	Stock	S&P 500
Winners	14	22.9	1.3	17.2%	7.7%	33.2%	5.2%
Losers	25	22.3	1.0	-0.3%	9.4%	23.2%	4.7%

Looking at those that outperform for the next decade, there are even less survivors. The losing companies experienced negative annual returns, even with their sales growing 23.2% annually. The winners grew their sales at 33.2% per year, whereas the market only achieved a 5.2% annual growth rate.

Bucketing winners and losers by P/S ratio

In our previous blog, we looked at the top P/S stocks in one view, then took a step back to look at every entry in the largest 500 companies. We can do the same here and examine their sales growth.

Figure 6: One-year median sales growth winners vs losers

Medians			Frequency	Start P/S		1 Yr			
						Returns		Sales Growth	
Time Frame	P/S	W / L		Stock	S&P 500	Stock	S&P 500	Stock	S&P 500
1 Yr	All	Winners	46%	1.2	1.1	30.1%	13.4%	10.0%	6.3%
		Losers	54%	1.3	1.1	-4.3%	14.1%	7.5%	6.4%
	> 25	Winners	21%	40.6	2.1	46.7%	11.8%	77.3%	5.4%
		Losers	79%	45.0	2.3	-53.4%	-9.0%	58.3%	4.9%
	25 - 30	Winners	24%	26.9	2.1	48.7%	10.2%	53.7%	2.8%
		Losers	76%	27.1	2.4	-42.2%	-4.6%	39.2%	9.5%
	30 - 40	Winners	20%	33.8	2.2	48.1%	12.5%	71.7%	6.2%
		Losers	80%	33.4	2.4	-53.4%	-10.4%	48.9%	5.0%
	> 40	Winners	21%	67.8	2.1	46.5%	11.8%	113.2%	6.5%
		Losers	79%	71.1	2.3	-58.9%	-9.0%	87.3%	4.9%

For the next 12 months, we see that the odds of a stock outperforming aren't that bad. It is right under half for all stocks, sitting at 46% historically. At higher multiples, these odds halve and result in about a quarter of the higher valuation stocks outperforming.

Figure 7: Five-year median sales growth winners vs losers

On the five-year horizon we see a huge difference between the chances that a company outperforms the market. As a base rate, we see 36% of the stocks outperform the S&P 500 but, when we look at higher multiples, we find the chance that it outperforms is four times less likely, with only 9% of stocks outperforming.

Figure 8: Ten-year median sales growth winners vs losers

Medians			Frequency	Start P/S		10 Yr			
						Returns		Sales Growth	
Time Frame	P/S	W / L		Stock	S&P 500	Stock	S&P 500	Stock	S&P 500
10 Yr	All	Winners	28%	1.0	1.0	16.1%	10.7%	8.8%	5.0%
		Losers	72%	1.1	0.9	5.7%	13.4%	5.4%	4.8%
	> 25	Winners	8%	49.0	1.6	13.0%	4.5%	43.0%	4.3%
		Losers	92%	50.4	2.2	-13.8%	-0.4%	17.8%	3.4%
	25 - 30	Winners	7%	27.3	1.7	16.3%	3.0%	34.6%	3.9%
		Losers	93%	27.2	2.2	-6.1%	-0.1%	11.3%	3.3%
	30 - 40	Winners	6%	34.8	1.7	7.1%	3.6%	36.7%	4.5%
		Losers	94%	34.0	2.3	-13.3%	-0.4%	12.1%	3.4%
	> 40	Winners	9%	63.6	1.4	13.7%	7.2%	46.5%	4.2%
		Losers	91%	73.6	2.3	-17.0%	-0.4%	19.7%	3.4%

Across the different time horizons, there's a discernible trend in the relationship between P/S ratios, sales growth, and stock performance. Looking from one-year horizons to ten-year horizons, winners consistently achieve long-term astronomical sales growth rates that eclipse not only the broader market but also their high P/S peers.

For example, in the elevated P/S category (> 40), winners achieve annual sales growth rates of 113.2% over one year, 51.7% over five years, and 46.5% over a decade.

These figures starkly contrast with their underperforming counterparts in the same P/S bracket, even though the losers grow faster than the market.

This pattern underscores a key insight: for companies trading at high P/S ratios, strong sales growth is not an optional advantage—it's a lifeline.

The data paints a compelling picture—while robust sales growth is commendable, to truly outperform in the high P/S arena companies need to deliver growth that's not just good, but consistently exceptional.

Allowing a forward-looking P/S ratio for Nvidia puts it into the >25 P/S bucket where winners have on median grown their sales over 50% a year. For the 12 months prior to 30 April 2023, Nvidia had total sales of around 26 billion dollars. Growing that at 50% a year means that, in 2028, its annual sales would reach over $197 billion a year—a staggering sales number that only about 30 companies worldwide surpass currently.

This number becomes even more daunting when we consider the fact that estimates put the total size of the artificial intelligence (AI) graphics processing unit (GPU) market at between $120 and $150 billion by 2028[2].

This makes it very unlikely that Nvidia can grow its sales 50% a year (even if it has 100% of the market) if demand doesn’t even grow at that rate.

One of the most promising things that investors can look for is proof that Nvidia can hold onto its share of the market, estimated to be between 80% to 90% right now[3]. There aren’t many examples of companies in this position to learn from, but the one that resembles Nvidia today the most is Cisco in the early 2000s. We will review some similarities with Cisco in our next piece in this series.

[1] Time period is defined as 31 March 2023 to 10 August 2023.

[3] Source: Reuters. (2023, June 13). With No Big Customers Named, AMD’s AI Chip Challenge to Nvidia Remains Uphill Fight.

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