

# NICHOLAS INVESTMENT PARTNERS

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## Investment Insights:

### Where Are Most Exceptional Growers?

As a dynamic growth investor, we believe finding companies that can deliver and sustain earnings growth is a vital part of the investment solution to generate above-average returns to meet our clients' long-term capital appreciation goals.

As a thought experiment, we recently examined US-listed companies within the broad-market Russell 3000 Index that have demonstrated sustained exceptional growth over the last three years, a cohort we called "Top Growers." It's a short time period, we acknowledge, yet we observed a few traits of Top Growers that readers may consider as they think about where to engage active managers:

- Top Growers delivered above-market returns over the last three years
- They were scarce, a small subset of the US equity universe
- They were predominantly small-cap companies
- Top Growers were concentrated in the most innovative sectors

As you can see below in Exhibit 1, Top Growers, companies we defined as those with 20% or higher sales growth rates in each of the last three consecutive years, generated above-market returns. Over the last three years, the median Top Growers returned 19% annually. That's nearly 2.5x higher than the 8% median company return in the Russell 3000 Index—and with less than a 25% increase in price volatility.

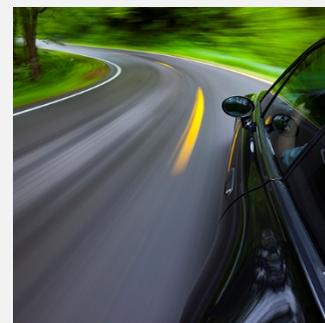
Yet Top Growers were scarce. Less than 5% or 132 of 3,000 stocks in the Russell 3000 Index grew at a 20% or greater clip in each of the last three years.



**Catherine Nicholas**  
Managing Partner and  
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### KEY TAKEAWAY

- To potentially generate above-average returns, investors may need to look for "Top Growers," which were concentrated in smaller-cap companies and in the most innovative sectors over the last three years.



### Exhibit 1: Sales Growth, Price Return and Volatility Comparison of Top Growers to Broad Market

	Top Growers (>20% Sales Growth)	Russell 3000 Index
# of Stocks	132	3,000
Avg. 1-Year Sales Growth* (median)	34.1%	8.0%
Trailing 1-Year Price Return (average)	37.2%	10.7%
Trailing 1-Year Price Return (median)	26.7%	6.7%
1-Year Annualized Price Volatility (average)	24.9%	17.9%
1-Year Annualized Price Volatility (median)	15.0%	10.5%
3-Year Annualized Price Return (average)	21.6%	6.9%
3-Year Annualized Price Return (median)	19.0%	7.9%
3-Year Annualized Price Volatility (average)	61.3%	44.0%
3-Year Annualized Price Volatility (median)	36.7%	29.6%

As of December 31, 2017. Source: FactSet. Price volatility is the annualized standard deviation of monthly price returns.

\* Average 1-Year Sales Growth over the last three calendar years

## Most Top Growers Were Small- to Mid-Cap Companies

As specialist in small- to mid-cap companies, we were not surprised to find that most Top Growers were generally smaller in capitalization, earlier in their corporate lifecycle. Top Growers' median market cap was \$1.8 billion and 77% had a market capitalization less than \$5 billion (Exhibit 2).

**Exhibit 2: Market Capitalization Breakdown of Top Growers**

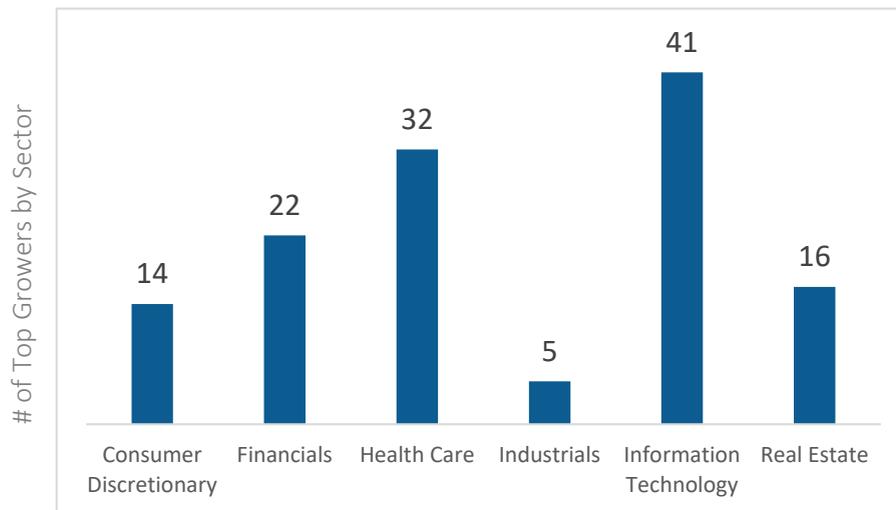
	# of Stocks	% of Total
Small Cap (<\$5B)	102	77%
Mid Cap (\$5B–\$30B)	25	19%
Large Cap (>\$30B)	5	4%

As of December 31, 2017. Source: FactSet.

## Concentrated in Innovative Sectors

Also, not a surprise to us, Top Growers were concentrated in the most innovative sectors (Exhibit 3). Over 50% were healthcare and technology companies, key market segments undergoing transformative advances propelling long and sustainable secular growth cycles.

**Exhibit 3: Innovative Sectors Have Greatest Potential for Exceptional Growth**



As of December 31, 2017. Source: FactSet.

## Conclusion

Unearthing and investing in Top Growers, companies that have shown the potential to deliver above-market rates of return with only modestly higher volatility, may require expertise in smaller-cap companies and research specialists in the most innovative sectors, such as technology and healthcare.

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The Russell 3000 Healthcare Index consists of healthcare stock components of the Russell 3000® Index, a market-capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire US stock market.

## ABOUT US

- Nicholas Investment Partners, L.P. is an independent, employee-owned and majority women-owned investment boutique focused on investing in dynamic, less efficient markets such as US small- and mid-cap equities and convertible bonds. We believe that change creates opportunity. We invest in dynamic companies with accelerating revenue and/or earnings growth in which our research confirms the company’s growth is sustainable and the company’s stock is a timely investment.
- Our edge comes from combining fundamental equity and credit research with the objectivity and efficiency of quantitative analytics. We have a results-driven and client-centric culture centered on building lasting and value-added relationships with a select group of institutional and private wealth clients and consultants.

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