Using Relative Valuation and Earnings Momentum to Measure the Returns to Stocks within Industry Groups

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The Relationship Between Firm Size and Earnings Growth/Momentum in the Consumer Goods Sector

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Study Objectives
- Determine the relationship between size and earnings growth
- Determine the relationship between firm size and sales growth
- Determine the relationship between firm size and earnings/sales momentum

Study Description
- Period of Analysis 2012
- Firms ordered by size (market capitalization)
- Firms divided into groups of twenty
- Four groups selected for analysis
  1. Very Large Cap (VLC)
  2. Large Cap (LC)
  3. Mid Cap (MC)
  4. Very Small Cap (VSC)

Analysis of Data
- Both very large cap and very small cap have the highest EPS growth sales for next year and next five years
- Large cap has the highest sales growth the past five years, both very large cap and very small cap are ranked second
- Very large cap and mid cap have the greatest earnings growth momentum over next five years
- Very small cap generates more earnings growth per unit rate of growth in sales; past 5 years

Conclusions
- Both very large size and very small size firms have significantly higher short and long term earnings growth rates than intermediate size firms
- From a momentum perspective very large firms have a higher rate of earnings momentum than very small firms
- Very small firms generate a much higher earnings growth per unit of sales growth, when compared to intermediate and very large firms