Smashing investors' expectations

123RF/isaincuz

We are nearing the end of the second quarter's earnings results season in the US. This quarter is on track to be the best yet for reported revenue growth year on year (more than 20%) and the best for reported earnings growth year on year since the fourth quarter of 2009 (more than 80%).

Admittedly, the depressed base of last year due to Covid is the main reason for the strong growth rates being reported now, but many companies are indeed growing strongly, even measured on a normalised basis.

While expectations were already sky-high coming into the results season, some companies still managed to surprise on the upside. Here are some that delivered such blow-out results that their shares spiked on the news.

Align Technology

Align dominates the market for clear aligners, which are transparent plastic orthodontic devices used to adjust teeth positioning. The cost of clear aligners is typically lower than that for traditional metal braces. The company was founded in 1997 and patents for Align's Invisalign system started to expire in 2017. But by then its products had become so popular with dentists that no competitor has been able to dislodge them since. Align put a smile on shareholders' faces when it reported adjusted earnings of $3.04 a share for the second quarter, against a consensus estimate of $2.52. The share price promptly rose by 9%. Many adults apparently decided to use the imposition of mandatory mask-wearing in public as a chance to improve their smiles — adults now represent two-thirds of Invisalign's users.

In the US, this quarter is on track to be the best yet for reported revenue growth and the best for reported earnings growth since the fourth quarter of 2009

Chipotle Mexican Grill

Shares of the quick-service restaurant chain surged by 11.5% as the company announced adjusted second-quarter earnings of $7.46 a share, while analysts had expected $6.53. Founder Steve Ells, a graduate of the Culinary Institute of America, opened the first Chipotle restaurant in 1993. The public loved the idea of express healthy Mexican food, and the chain has expanded rapidly. McDonald's invested in the business early on but sold its 90% stake in 2006 for $1.5bn when Chipotle went public. Bad move. Chipotle's market capitalisation is now around $50bn. There were some food safety issues in 2015, when the policy of using fresh ingredients and no preservatives lead to bacteria-control challenges, but that seems to be a distant memory in the minds (and tummies) of hungry patrons.

Dexcom

Dexcom shares rose by 13% on the day of its recent results release, with the company reporting 76c of earnings a share vs the consensus estimate of 44c. It develops, manufactures and distributes continuous glucose monitoring (CGM) systems for diabetes management. Diabetes is a top-10 cause of death worldwide, with roughly one in every 11 adults suffering from the condition. Dexcom's revolutionary CGM system uses a tiny sensor, which can be worn for up to 10 days, being inserted painlessly under the skin. It is connected to a small transmitter that sends data to a smartphone and uses an app to alert the wearer when blood-sugar levels are low. Dexcom got shareholders' pulses racing with the announcement that its latest CGM system, the G7, will be launched before the end of 2021.

HCA Healthcare

Hospital Corp of America (HCA) was founded in Nashville, Tennessee in 1968 by two doctors and a venture capitalist, Jack C Massey. (Massey also owned KFC for a while after buying it from Col Harland Sanders in 1964 for $2m.) HCA listed on the New York Stock Exchange in 1969 and has been a popular private equity target, having been delisted in 1988, relisted in 1992, delisted again in 2006 and relisted again in 2011. Today, HCA is the largest owner and operator of hospitals in the US. It is in rude financial health and the share price jumped 14.4% on the day of its second-quarter results announcement. Full-year earnings a share guidance was increased to a range of $16.30-$17.10, while the consensus estimate was pegged at $14.09.

Nike

The shoe giant set the pace early on in the results season, when its record-smashing earnings release propelled Nike shares higher by 15.5%. It expects revenue for the coming fiscal year to exceed $50bn for the first time, as its pivot towards direct-to-consumer sales gains momentum. The group is drastically reducing wholesale distribution in favour of the Nike Direct division, which stepped up sales by 73% in the past quarter. The resumption of sports events has led to demand for its shoes and apparel growing in leaps and bounds, with plenty potential for the brand's global ambitions.

All eyes will be on next quarter's financial results to see if the high bar can be maintained. **x**

Verster is CEO of Protea Capital Management