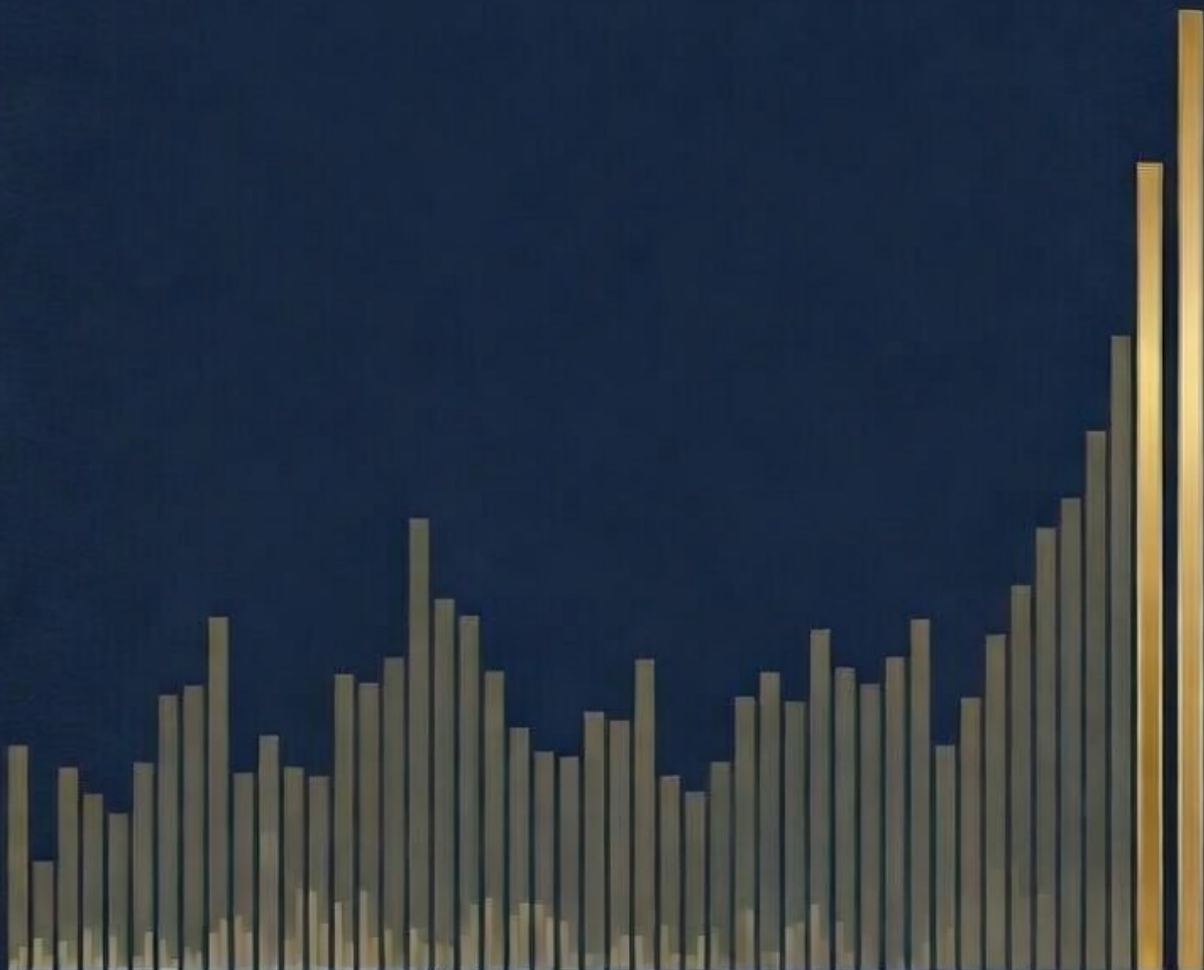


# COMPOUND & CONQUER

*/ Issue 2 /*

**The 70 businesses built to Compound & Conquer.**

**Markman Capital Insight**



# The Flywheel Issue

*Two compounders. Two engines that get stronger with use.*

Most great investments do not feel exciting while they are happening.

They feel like waiting. They feel like sitting through quarters where the stock price drifts, the headlines are angry, and the business looks ordinary from the outside. Yet, in the background, something more powerful is at work. The company is reinvesting its profits, expanding its reach, and deepening its advantages. Over time, the business becomes larger and more resilient, and the wealth it creates for shareholders begins to accelerate in a way that was hard to see at the start.

This issue of Compound & Conquer is about that quiet engine of value. We call it the flywheel. The idea comes from Jim Collins, who in his book *Good to Great*, described long run corporate success not as a series of dramatic breakthroughs, but as many small, consistent pushes on the same system until it finally builds real momentum. At first, the wheel is hard to turn. Each push seems to produce little visible result. But after enough aligned effort, the system starts to spin on its own. Then each additional push becomes easier and more productive.

In investing, the flywheel is the simple yet powerful habit of finding a great business, buying it, and letting it work. You buy the business. You hold it. You reinvest the cash flow if it is returned to you. You let the company reinvest its earnings into new products, new stores, new capabilities, and new customers. Over time, the business compounds. The returns are generated by the enterprise itself, not by the investor's cleverness.

The natural temptation is to intervene. To sell when the price is high, to buy back when the price is low, to switch between companies that seem more promising at the moment. But in practice, the biggest obstacle to long term wealth is not volatility. It is interruption. Every time you sell a healthy compounder, you reset the compounding clock. You trade the future earnings stream of that business for a new, uncertain one. You also pay friction in the form of taxes, spreads, and the mental cost of constant decision making.

Compounding is the secret of building true wealth. It is not speculation, not timing, and not chasing what professional money managers call short term alpha. It is the patient recognition that a business with a working flywheel, once owned, is best left to spin. The investor's job isn't to manage the stock price, but to manage their own behavior. To buy thoughtfully, to hold with discipline, and to sell only when the underlying flywheel is truly broken.

This month, we will look at two companies that show this idea in action: Eli Lilly and Costco. Each has a clear, repeatable loop that turns capital into higher quality growth over time. Each has turned a

strong core franchise into a multi decade compounding engine. And each illustrates why the apparently passive act of owning a compounder is, in practice, the most active and thoughtful thing an investor can do.

*Stay in the flywheel.*

# Eli Lilly (LLY)

*A Flywheel Built on Scientific Success*



*Five-year total return: +436.6%. CAGR: 39.9%. Source: Fiscal.ai.*

Eli Lilly is often described today through the lens of its obesity drugs. That is understandable, but incomplete. The bigger story isn't that Lilly found one winning product. It is that the company built a system that keeps turning scientific progress into commercial success, and commercial success back into more scientific progress. That is the flywheel.

Following the first-quarter financial results in late April, executives at Eli Lilly raised full-year 2026 revenue guidance from \$82 billion to \$85 billion. They also lifted adjusted earnings guidance to \$35.50 to \$37.00 per share, citing surging demand for Mounjaro and Zepbound that outpaced the company's earlier expectations. In the same quarter, Mounjaro generated about \$8.7 billion in sales and Zepbound delivered about \$4.2 billion, reinforcing the point that Lilly's current engine is producing extraordinary cash flow at scale.

At the center of Lilly's flywheel is a simple loop. The company invests heavily in research and development. That work produces medicines that address large and growing categories of disease. Those medicines generate strong profits, which give Lilly more capital to invest in the next wave of drugs, manufacturing capacity, and commercial infrastructure. As that cycle repeats, the company becomes more capable, more trusted, and more valuable. Each success does not stand alone. Each success strengthens the odds of the next one.

That distinction matters. A product story says one drug is winning. A flywheel story says one win improves the economics of the whole enterprise. Lilly's obesity and diabetes franchises are doing more than driving near-term earnings. They are funding new trials, new production, broader market access, and future therapies. In other words, the current success is not only an outcome. It is also an input into the next phase of growth.

That next phase is already visible. Lilly won U.S. approval in March 2026 for its oral obesity pill, orforglipron. This opens a new front in the battle for the next generation of obesity treatment. The importance of an oral option is straightforward. It gives Lilly another format, another path to reach patients, and another way to widen the overall market. Earlier in March, Lucas Montarce, chief financial officer, said the company expected to begin shipping the drug about one week after approval, a sign that Lilly was pairing scientific progress with operational readiness. That is what a working flywheel looks like. Innovation moves quickly because the rest of the business is already prepared to support it.

The pipeline makes the story even stronger. Lilly is not confined to one product, one format, or even one disease category. Industry coverage at the start of 2026 highlighted six additional early-stage clinical programs and 34 discovery programs, with efforts spanning incretins, amylin, and other targets across obesity, diabetes, cardiovascular, renal, hepatic, neuroscience, and oncology. Drug development is never a straight line, and not every program will succeed. But that is not the right standard. The right standard is whether the company has used today's success to create a broader platform for tomorrow's growth. Lilly clearly has.

Lilly is also making a major bet on artificial intelligence to accelerate that platform. The company has formed a joint AI lab with Nvidia and is investing up to \$1 billion in a new facility aimed at speeding up drug discovery and lab work. Lilly signed a deal with Insilico Medicine worth up to \$2.75 billion for AI-designed drug candidates. It has also entered multiple other AI-driven collaborations across discovery, clinical trials, and manufacturing. In practice, the company is using AI to optimize plant operations for higher-volume production of its leading injectable weight-loss and diabetes medicines such as Mounjaro and Zepbound. For investors, the point is simple: these are not side projects. They are central to the next layer of the flywheel, where Lilly's cash flow from today's drugs funds an even more powerful R&D engine for the future.

This is why the business deserves to be understood over a multi-year horizon rather than through the narrow lens of the next quarter. Investors naturally focus on prescription trends, pricing, and product launches. Those are important, but they are not the deepest source of value. The deeper source of value is Lilly's ability to renew the core business. A great compounder does not simply harvest one successful drug cycle and then wait for decline. It uses present success to widen its advantage and improve the probability of future wins.

Of course, no flywheel spins without friction. Lilly still faces meaningful risks. The obesity market is highly competitive, regulators continue to scrutinize safety and post-marketing data for newer therapies, and pricing pressure remains a permanent feature of the global pharmaceutical business. Those are real constraints. But they are also normal tests for a large and successful drug company. They do not, by themselves, suggest that the flywheel has broken.

To put the power of this flywheel in perspective, consider the stock itself. In May 2006, Eli Lilly shares traded at \$52.30. Today, the same share price is about \$1,004.92. Over that 20-year period, the price alone has compounded at roughly 15.93% per year. With dividends reinvested, the annualized return climbs to about 18.11%. A single \$10,000 investment in Lilly at that 2006 starting price would be worth approximately \$279,083 today.

Past returns do not guarantee future returns, and there are business risks of scale, competition, and regulation. However, as long as Lilly continues to convert scientific success into cash flow, and cash flow into broader scientific and commercial advantage, the compounding process remains alive. Lilly has built a business that gets stronger as it succeeds. That is what a true flywheel does, and it is why Eli Lilly has been one of our favorite businesses for more than a decade. Management understands how to compound shareholder value by repeatedly feeding the same engine with new opportunities.

**Action: Buy on any pullback to \$960. Price target \$1,200 within 24 months (+25%).  
Long-term hold.**

# Costco (COST)

*A Flywheel Built on Membership and Trust*



*Five-year total return: +159.1%. CAGR: 21.0%. Source: Fiscal.ai.*

Costco is easy to describe as a warehouse club. It is harder, and more useful, to describe it as a membership business in disguise. The company's real strength is not that it sells in bulk. It is that it has built a system that turns low prices and a simple value proposition into recurring membership income, and recurring income back into deeper scale, better prices, and even more loyal customers. That is the flywheel.

The core of Costco's business is almost absurdly simple. The company sells a limited assortment of high-quality goods at very low margins. To buy those goods, customers must first pay an annual fee. That fee creates a steady, high-margin stream of membership income. Those fees allow Costco to keep selling at low prices, which in turn attracts more members and pulls through more volume from suppliers. The lower prices attract more customers. The happier customers are with Costco's pricing, the more likely they are to renew, and the more membership revenue can be used to keep prices low. The loop is not flashy. It is self-reinforcing.

What makes this flywheel durable is how clearly it's calibrated around member value. Costco caps its retail markups at around 14% above cost on almost all items, far below the 20% or more that many competitors aim for. The company is also famous for keeping its \$1.50 hot dog-and-soda combo unchanged for decades, a small, visible signal that it is willing to sacrifice some margin for the credibility of its value story. Because prices are low and consistent, shoppers keep coming back. Because they keep coming back, membership renewals hold near historically high levels.

In the first quarter of fiscal 2026, worldwide membership renewal rates held near historical highs, with the global rate at about 89.7% and the U.S. and Canada rate at 92.1%. These numbers are not merely good; they are the evidence that the flywheel is working. For a retailer with close to 140 million cardholders, a renewal rate above 90% in the largest markets means the company is not only retaining customers; it is renewing them into a long-term relationship. Membership fees are a subscription-like asset, and Costco's renewal profile looks more like a utility than a discretionary retailer.

Operationally, the company is also using its scale more intelligently. Costco has expanded into areas like pharmacy, grocery, travel, and private label with its Kirkland Signature brand. All of these businesses are designed to deepen the value of the membership rather than simply chase higher margins. The company has also begun to layer in retail-media and digital tools, but management has been careful to keep the hierarchy clear: the first priority is merchandise value and member experience; the second is the low-cost, high-velocity assortment; and only then does advertising or other higher-margin activity get layered on. The result is a business where every dollar of incremental spending tends to pull through more volume, more loyalty, and more recurring income.

Like any long-run compounding story, Costco's success is also visible in the math of the stock. In 2006, Costco shares traded at about \$36.03, reflecting stock splits and the treatment of dividends. Today, the same share price is about \$1,048.95. Over that 20-year period, the price has compounded at roughly 18.36% per year. A single \$10,000 investment in Costco at that 2006 starting price would be worth approximately \$291,138.16 today. Past returns are not a guarantee of future performance, but they do show the power of a business that keeps its flywheel intact.

The warehouse club is not a frictionless machine, though. Competition is intense, labor costs and logistics are rising, and any misstep in price discipline or service quality can erode the hard-won trust of members. Effective September 1, 2024, Costco raised the annual fee for Gold Star members and Business memberships from \$60 to \$65, and for Executive memberships from \$120 to \$130 in the U.S. and Canada. These changes are small in dollar terms, but they test the patience of the consumer.

The key distinction for investors is whether these changes are normal growing pains or a sign the flywheel is breaking. Costco is still opening new stores, still expanding its digital footprint, and still reporting strong renewal rates and comp sales. The business remains focused on the same core

promise: unbeatable value for members. As long as Costco keeps membership value at the center of its strategy, and keeps reinvesting its scale and cash flow into lower prices, better assortment, and higher loyalty, the compounding engine remains intact.

For longer-term investors, the implication is straightforward. Costco is not a cyclical merchant to trade around economic headlines. It is a membership-based flywheel to own for years. Moreover, Costco operates only 941 stores worldwide, in 15 countries. By contrast, Walmart, its nearest competitor, operates 10,995 stores globally.

**Action: Buy below \$1,050. Price target \$1,300 within 24 months (+24%). Long-term hold.**

## Stay in the Flywheel

*This month's takeaway.*

This month started with a simple idea: the greatest mistake long-term investors make is not volatility. It is interruption. Great businesses with intact flywheels are best owned, not traded. Their value compounds quietly, then visibly, as long as the investor does not walk away from the process.

Eli Lilly and Costco are not the same businesses. One operates in pharmaceuticals, the other in retail. Yet they share a common pattern: each has built a system that turns today's success into tomorrow's advantage. Each has a clear, repeatable loop that becomes more powerful over time. The investor's job is not to optimize around the next headline, the next quarter, or the next price move. It is to buy thoughtfully, to hold with discipline, and to sell only when the underlying flywheel is truly impaired.

The 20-year compounding stories of both companies show what happens when ownership aligns with that process. Complex strategies, algorithmic trading, and expensive teams of economists and strategists rarely help active managers beat the unmanaged S&P 500 over time. By contrast, simply holding shares of great businesses and letting them compound often does. What matters is recognizing a working flywheel and staying in the chair. That is the core of Compound & Conquer this month, and it is the core of building true wealth over time.