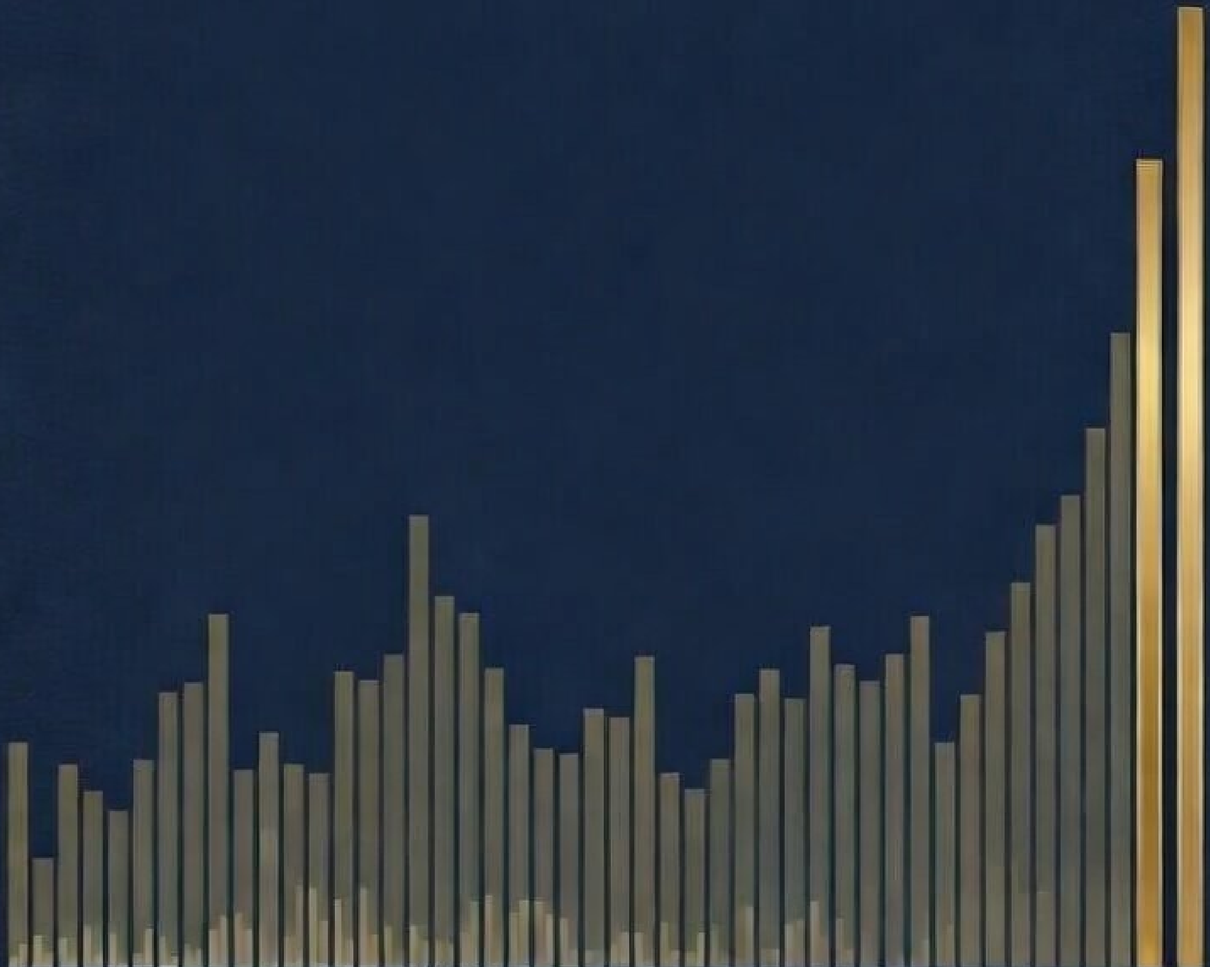
COMPOUND & CONQUER

/ Issue 4 /

The 70 businesses built to Compound & Conquer.
Markman Capital Insight



The Management Issue

The business matters. The people running it matter more.

A famous Wall Street story goes like this: corporate raider Carl Icahn buys a company, hires a consultant, and asks a simple question: what, exactly, are all these managers doing? The answer, in effect, is that nobody really knows, and the business is worth more without the current team. That story became part of the mythology of 1980s takeover culture, and it endures because it captures a hard truth about public markets: many companies are mediocre, many are bloated, and many are run in ways that destroy rather than create value.

That may sound cynical, but it is also one of the most important ideas in investing.

The market is not a neat machine that steadily rewards all businesses for effort, growth, or size. It is a sorting mechanism. Over long periods, a relatively small number of companies account for a very large share of the market's wealth creation, while a large majority contribute little, or even destroy capital. The result is inequality in investment returns, but also in business quality, management quality, and capital allocation discipline.

That is why Hendrik Bessembinder's research matters so much. His exhaustive study of publicly traded companies found that the broad index looks smooth over time, but underneath that smoothness is an enormous dispersion of outcomes. A handful of exceptional businesses drive the compounding engine, while the rest are dead weight, value traps, or periodic disappointments. Put differently, the S&P 500's long-run gains are not the average result of 500 equally productive businesses. They are the result of a concentrated group of extraordinary winners.

That should change the way we think about public equities. It means stock selection is not only about finding good companies. It is about identifying the businesses that can survive long enough, reinvest intelligently enough, and compound capital efficiently enough to become the rare long-term winners. It also means management matters more than the headlines suggest. A weak management team can waste a strong franchise. A disciplined management team can transform an ordinary-looking business into a powerful compounding machine.

This is where the old takeover story comes back in. The core complaint of 1980s corporate raiders was not that companies were too small, or that markets were too cheap, or that Wall Street was too slow. It was that management had become complacent. Bureaucracy had thickened. Incentives had drifted. Capital was being allocated to preserve internal empires rather than maximize long-term per-share value. In that environment, the company's assets might still be valuable, but the operating structure around them was not. Sometimes the business really was worth more without the managers than with them.

That idea still resonates, because it is not confined to the 1980s. It shows up every cycle in different forms: empire-building, poor capital allocation, distracted leadership, defensive M&A, and companies that confuse scale with strategy. It also shows up in the market's reaction. When investors begin to lose confidence in management, valuation can collapse long before the business itself disappears. The market is often saying, in its own blunt way, that the same cash flows under different leadership would be worth more.

That lesson is not abstract. We owned PayPal until 2021, when management pursued a $45 billion takeover of Pinterest, an ad-based social media site. That did not fit the core digital payments thesis, so we sold. Now Stripe and Advent are reportedly considering a takeover of PayPal itself. The question, once again, is how much value comes from the business, and how much depends on the people running it?

That brings us to the companies in this month's issue.

Stay focused on the business.

Mondelez International (MDLZ)

Durable Brands, Durable Compounding

Ten-year total return: +31.7%. CAGR: 2.8%. Source: Fiscal.ai.

Mondelez International is one of those businesses that most investors know, but do not always stop to think about carefully. It makes Oreo cookies, Cadbury chocolate, Ritz crackers, Chips Ahoy, Trident gum, and a long list of snacks that sit in the center of everyday consumption. That matters because Mondelez is not selling a one-time product or a passing trend. It is selling familiar brands that people all around the world reach for repeatedly, in good times and bad.

That is the first reason the business has been so successful. Mondelez owns brands with staying power, and it has spent years turning that familiarity into a global snacking platform. The company does not need every product to be exciting. It needs consumers to keep buying, retailers to keep stocking, and management to keep protecting the value of the portfolio. That may sound simple and even defensive, but it is exactly the kind of discipline that creates durable shareholder value over time.

The second reason is execution. Mondelez management has shown a real ability to manage pricing, mix, and brand investment in a way that preserves the economics of the business. In the first quarter of 2026, the company reported net revenue of $10.08 billion, up 8.2% year over year, with organic net revenue up 3.0%. Pricing contributed meaningfully to that result, which is an important sign in a business built around recognizable consumer brands. Even with margin pressure from higher cocoa and other costs, management reaffirmed its 2026 outlook. The company is now calling for flat to 2% organic revenue growth and flat to 5% adjusted EPS growth on a constant-currency basis.

That combination tells you a great deal about the company. Mondelez is not depending on a burst of novelty or a lucky product cycle. It is relying on a repeatable operating model. Management knows how to defend shelf space, how to keep pricing power intact, and how to use its scale to remain relevant in both developed and emerging markets. In other words, this is a company that understands what it does well and keeps doing it.

Businesses like Mondelez tend to look ordinary if you only glance at the products. But the economics tell a different story. When a company can keep its brands relevant, protect margins through inflation, and turn global distribution into steady cash flow, the result is not flashy growth. It is durable compounding. That is the kind of business investors should want to own.

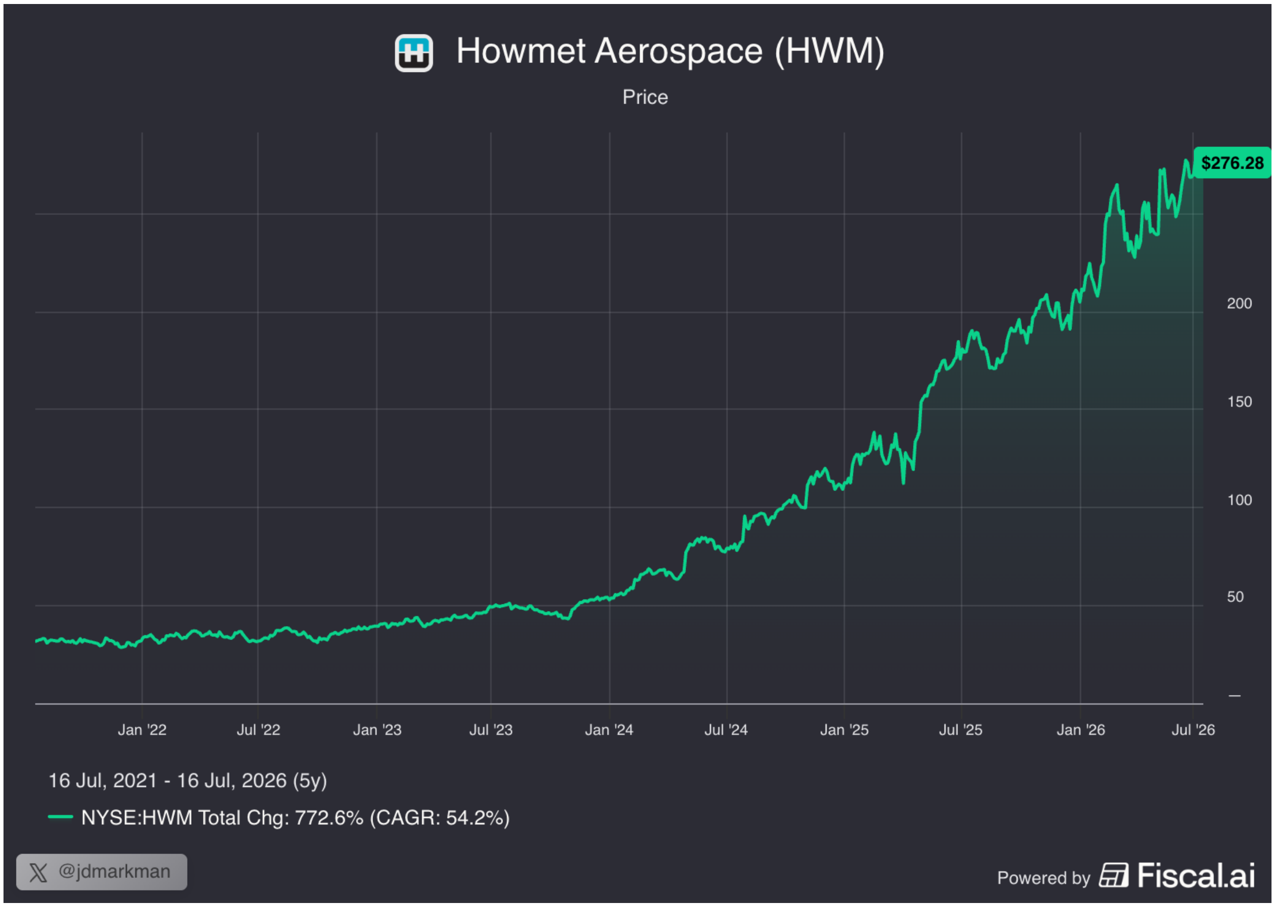
The proof shows up in the share price. In July 2006, Mondelez shares traded at a split-adjusted price of $11.75, excluding dividends. The current price is $59.80. That is an 8.48% compound annual growth rate. This means that $10,000 invested in 2006 would be worth about $50,894 today. That is a decent return for a business that sells cookies and chewing gum, products that do not go out of favor.

We view Mondelez as a high-quality consumer staples business. The stock has pulled back since 2023 as investors became consumed with artificial intelligence and hyper growth. Mondelez has been overlooked.

Action: Buy at current levels. Price target $80 within 24 months (+33.8%). Long-term hold.

Howmet Aerospace (HWM)

A Narrow Lane, Run to Perfection



Five-year total return: +772.6%. CAGR: 54.2%. Source: Fiscal.ai.

Howmet Aerospace is a very different business, but it tells a similar story. The company makes precision-engineered components for aerospace and industrial markets, including jet engine parts, fastening systems, forged products, and other highly specialized hardware. This is not a business built around volume for volume's sake. It is built around making things that must perform under extreme conditions, where reliability, certification, and engineering trust matter more than almost anything else.

The real inflection point came in 2020. Howmet was separated from the broader Arconic structure and became a more focused aerospace and industrial company. That mattered. It made the business easier to understand, more exposed to the areas where it had the strongest economics, and better aligned with the customers and programs that can compound value over time. The market noticed. Since then, the stock has moved from being an overlooked industrial name to one of the stronger long-term performers in the group.

That focus is the source of its success. Howmet has spent years sharpening its position in end markets where customers value precision and consistency. Once a supplier proves it can deliver parts that perform at a high level, the relationship becomes hard to dislodge. That creates a favorable setup for a company like Howmet, because every program it wins tends to deepen the franchise rather than dilute it.

The recent performance shows that clearly. In the first quarter of 2026, Howmet reported revenue of $2.3 billion, up 19% from a year earlier. Adjusted earnings per share were $1.22, with record first-quarter free cash flow of $359 million. Management also repurchased $300 million of stock in the quarter, which tells you something important about how it views capital allocation. This is a company that is not trying to become something else. It is focused on running a very good business well, then returning capital in a way that benefits shareholders.

That discipline matters because Howmet's long-term opportunity is tied to durable demand, not temporary enthusiasm. Its commercial aerospace business still benefits from fleet renewal and higher content per aircraft. Defense aerospace adds another layer of demand. The industrial side gives the company another place to apply the same technical strengths. In the first quarter, those engines all worked together, and management raised full-year 2026 guidance as a result. That is what operational excellence looks like in practice.

Howmet shares traded at about $22.80 in 2020. The current stock price is $276.28. This translates to a 51.6% compound annual rate of return. A $10,000 investment made in 2020 is now worth approximately $121,175. We are not forecasting similar growth moving forward. The share price strength since 2020 reflects a re-rating of Howmet as a business, and we think that re-rating is deserved. The company is still executing well, and the foundation looks strong.

Howmet is a business that compounds because its management team chose a narrow lane and stayed excellent inside it. The company does not need to dominate every industrial category. It needs to remain indispensable in the ones it already serves. That kind of focus, combined with strong execution and disciplined capital returns, is exactly what turns a specialized supplier into a long-term shareholder value creator.

Action: Buy on pullbacks to $240. Price target $340 within 24 months (+41.7% from entry). Long-term hold.

Stay Focused on the Business

This month's takeaway.

This month started with a simple idea: the best companies are usually run by managers who stay focused on what they do well. That sounds obvious, but it is easy to forget when the market gets noisy. Investors get pulled toward the newest story, the fastest growth rate, or the loudest narrative. In the process they often overlook the businesses that keep compounding in plain sight.

Mondelez and Howmet are good examples of that pattern. Mondelez wins because it owns brands people know, trust, and buy again and again. Howmet wins because it makes the specialized parts that modern aerospace cannot function without. Different industries, different products, same lesson: focused management, durable economics, and steady execution matter more than surface-level excitement.

That is where the real value lives. The market may chase the next big theme, but long-term investors should keep looking for businesses that understand their lanes, protect their moats, and keep turning operational discipline into shareholder returns.