



Closing Danger Zone Pick: Verifone Systems (PAY)

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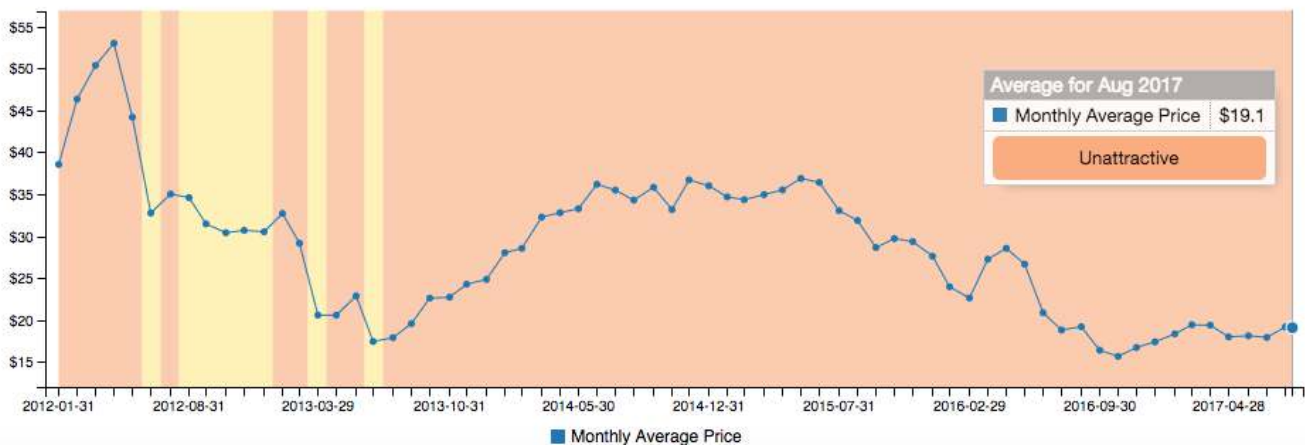
Verifone Systems (PAY: \$19/share) – Closing Short Position – Down 50% vs. S&P +20%

PAY was selected as a [Danger Zone pick on 12/18/14](#). The stock received an Unattractive rating at the time of the report. Our investment thesis highlighted: 1) declining margins, NOPAT and ROIC; 2) the commoditization of the point of service business; and 3) the overly optimistic expectations baked into the stock price.

During the subsequent 965 day holding period, PAY outperformed as a short position, falling 50% compared to a 20% gain for the S&P 500. This underperformance was largely a result of disappointing revenue results during 2016 that caused significant damage to forward earnings expectations. 2017 and 2018 Wall Street consensus estimates for PAY have declined ~30% over the past twelve months.

Figure 1: PAY Stock Price and Risk/Reward Rating History

▼ Normalized Rating History - Monthly Average*



Sources: New Constructs, LLC and company filings

Since our original Danger Zone report, PAY has retained its Unattractive rating. While fundamental issues remain, such as a bottom-quintile ROIC and a challenging competitive landscape, we are inclined to take profits. Consolidation within the payments industry increases “[stupid money risk](#).” We hope investors avoided this portfolio blowup or participated in the 50% short return.

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Disclosure: David Trainer, Kyle Guske II, and Kenneth James receive no compensation to write about any specific stock, style, or theme.

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