



Position Close Update: Post Holdings (POST)

Post Holdings (POST) – Closing Short Position – up 21% vs. S&P up 30%

We put Post Holdings (POST: \$82/share) in the [Danger Zone](#) on [February 15, 2016](#). At the time, POST received an Unattractive [rating](#). Our short thesis noted the firm's falling and negative [economic earnings](#), lagging profitability vs. competitors, poor corporate governance, and overvalued stock price.

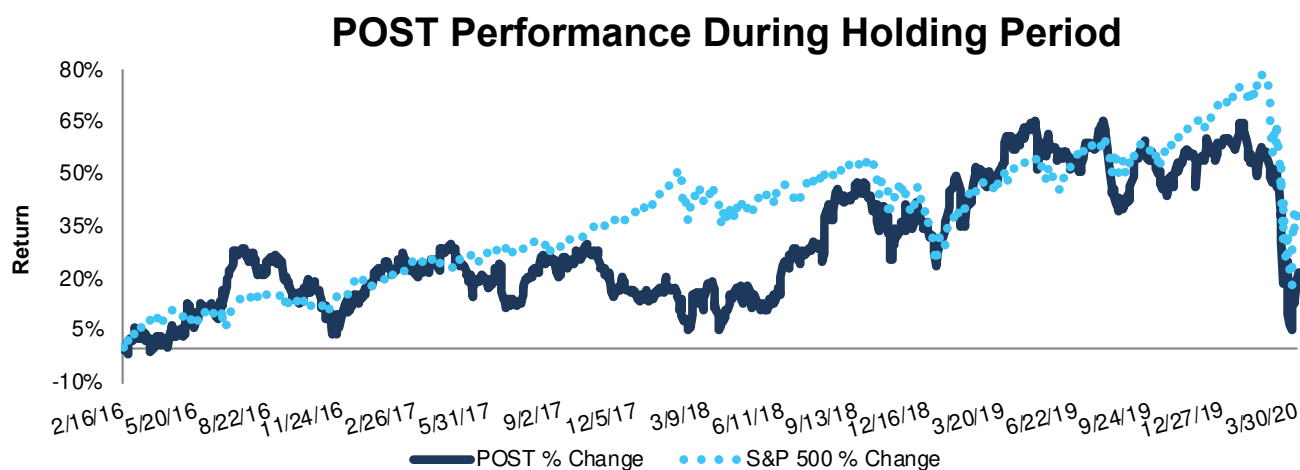
This Danger Zone report, along with all of our research, utilizes our “novel dataset”¹ of footnotes disclosures to get the truth about [core earnings](#), as shown in the Harvard Business School and MIT Sloan paper, “[Core Earnings: New Data and Evidence](#).”

Get the best fundamental research

During about a four-year holding period, POST outperformed as a short position, rising 21% compared to a 30% gain for the S&P 500.

POST's fundamentals have improved since our original report. Its return on invested capital (ROIC) improved from 4% at the time of our report to 5% over the trailing-twelve months (TTM) and economic earnings increased from -\$276 million to \$76 million over the same time. However, POST is down 25% year-to-date. This drop in valuation, along with improved fundamentals, means POST now earns an Attractive rating and no longer presents the same risk/reward. We believe it is time to take the gains and close this short position.

Figure 1: POST vs. S&P 500 – Price Return – Successful Short Call



Sources: New Constructs, LLC and company filings

Note: Gain/Dcline performance analysis excludes transaction costs and dividends.

This article originally published on [April 1, 2020](#).

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

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¹ In [Core Earnings: New Data & Evidence](#), professors at Harvard Business School (HBS) & MIT Sloan empirically show that data is superior to IBES “Street Earnings”, owned by Blackstone (BX) and Thomson Reuters (TRI), and “Income Before Special Items” from Compustat, owned by S&P Global (SPGI).



Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
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Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Learn [more](#).

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20

Pick better stocks:

“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract

Avoid losses from using other firms’ data:

“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14

Build better models:

“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4

Exploit market inefficiencies:

“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26

Fulfill fiduciary duties:

“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34



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