



Position Close Update: CoStar Group (CSGP)

CoStar Group (CSGP) – Closing Short Position – up 210% vs. S&P up 81%

We made CoStar Group (CSGP: \$85/share) a Danger Zone pick on [July 17, 2017](#). At the time of the report, CSGP earned an Unattractive [rating](#). We felt the firm’s roll-up acquisition strategy destroyed shareholder value, balance sheet inefficiency drove down profitability, and an expensive valuation created dangerous risk/reward.

This report, along with all of our research¹, leverages our [more reliable fundamental data](#)² to get the truth about earnings, as shown in the Journal of Financial Economics paper, “[Core Earnings: New Data and Evidence](#).”

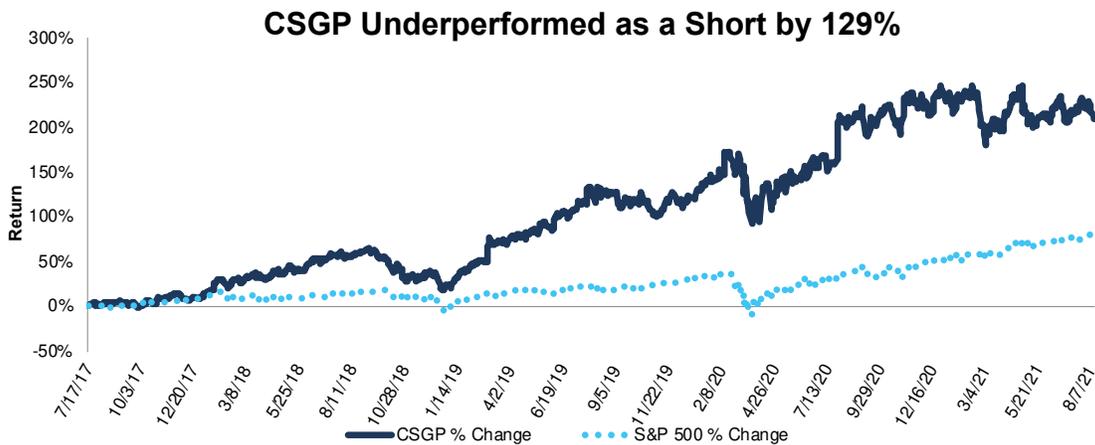
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During the 4+ year holding period, CSGP underperformed as a short position, rising 210% compared to an 81% gain for the S&P 500.

CoStar Group effectively combined its numerous acquisitions, leveraged its proprietary database of commercial real estate information, and expanded its rental platform to build a consistently profitable business. The firm’s [Core Earnings](#) improved from \$16 million in 2010 to \$274 million in 2020 and ROIC is up from 1% in 2015 to 10% over the TTM. CoStar Group must still improve its current margins to all-time highs and grow at consensus estimates for a decade to justify the current stock price, so it’s not cheap.

However, since it’s more difficult to make a case to short the stock given the improving fundamentals, [rising demand for rental properties](#), and the expected rebound in commercial real estate post COVID-19, we’re closing this short position.

Figure 1: CSGP vs. S&P 500 – Price Return – Unsuccessful Short Idea



Sources: New Constructs, LLC and company filings
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

This article originally published on [August 13, 2021](#).

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 Harvard Business School features our Robo-Analyst research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).



It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

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