Position Close Update: SPS Commerce (SPSC)

SPS Commerce (SPSC) – Closing Short Position – up 330% vs. S&P up 104%

We made SPS Commerce (SPSC: $143/share) a Danger Zone pick on August 29, 2016 and reiterated our opinion on the stock on August 26, 2019. SPSC earned a Very Unattractive rating when we published our first report and an Unattractive rating when we published our second report. Our thesis pointed out that the firm's revenue growth wasn't translating into profits, and the stock's valuation implied the firm would take an unrealistic level of market share.

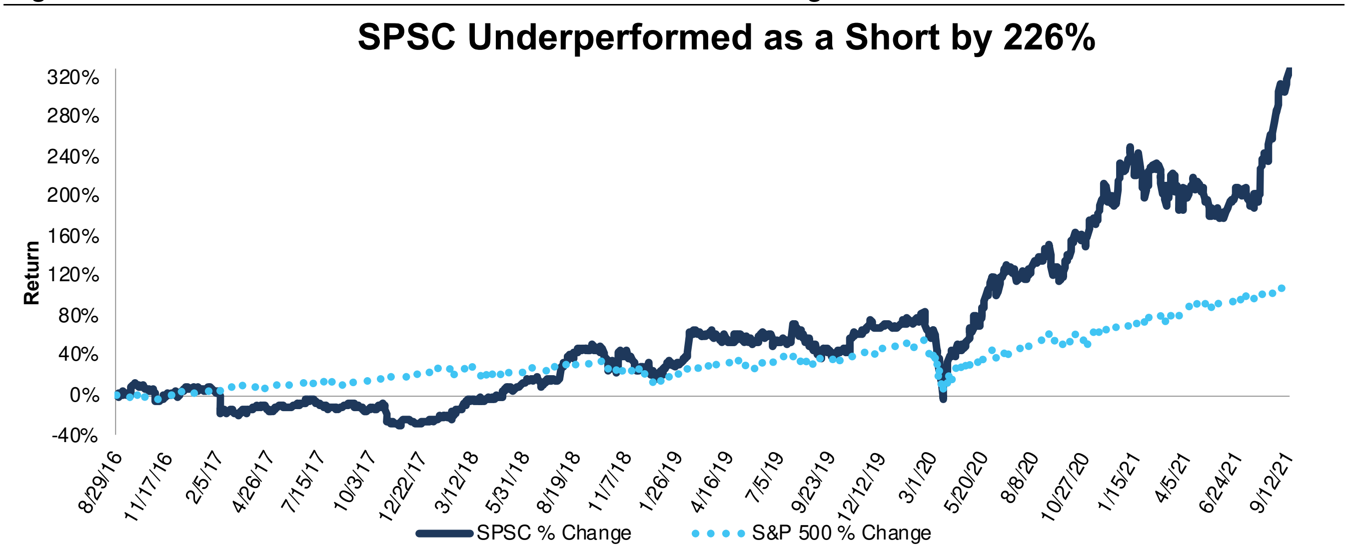
This report, along with all of our research[1], leverages our more reliable fundamental data[2] to get the truth about earnings, as shown in the Journal of Financial Economics paper, "Core Earnings: New Data and Evidence."

During the 5+ year holding period, SPSC underperformed as a short position, rising 330% compared to a 104% gain for the S&P 500.

Our thesis played out as expected, in that SPSC could not maintain 30%+ year-over-year (YoY) revenue growth rates and improve margins. But, the firm did improve profitability, net operating profit after-tax (NOPAT) margin improved from 3% in 2016 to 13% TTM, but YoY revenue growth rates fell to the low teens.

However, investors didn't punish the stock for slower growth, as we've seen with other high-flying growth stocks when the growth story ends. Now, while the stock remains expensive relative to its fundamentals, its position in the fast-growing ecommerce and retail data solutions markets could provide continued momentum to push shares higher. As a result, we're closing this short position.

Figure 1: SPSC vs. S&P 500 – Price Return – Unsuccessful Danger Zone



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

This article originally published on September 15, 2021.

[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.

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

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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.

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