Position Close Update: Host Hotels & Resorts (HST)

Host Hotels & Resorts (HST) – Closing Short Position – down 7% vs. S&P up 13%

Host Hotels & Resorts (HST: $17/share) was originally put in the Danger Zone on 2/5/19, alongside two other stocks that appeared cheap based on their P/E ratios, but were actually expensive based on price to economic book value (PEBV). This report, along with all of our research, utilizes our one of a kind database of footnotes disclosures to get the truth about earnings, as shown in the Harvard Business School and MIT Sloan paper, "Core Earnings: New Data and Evidence."

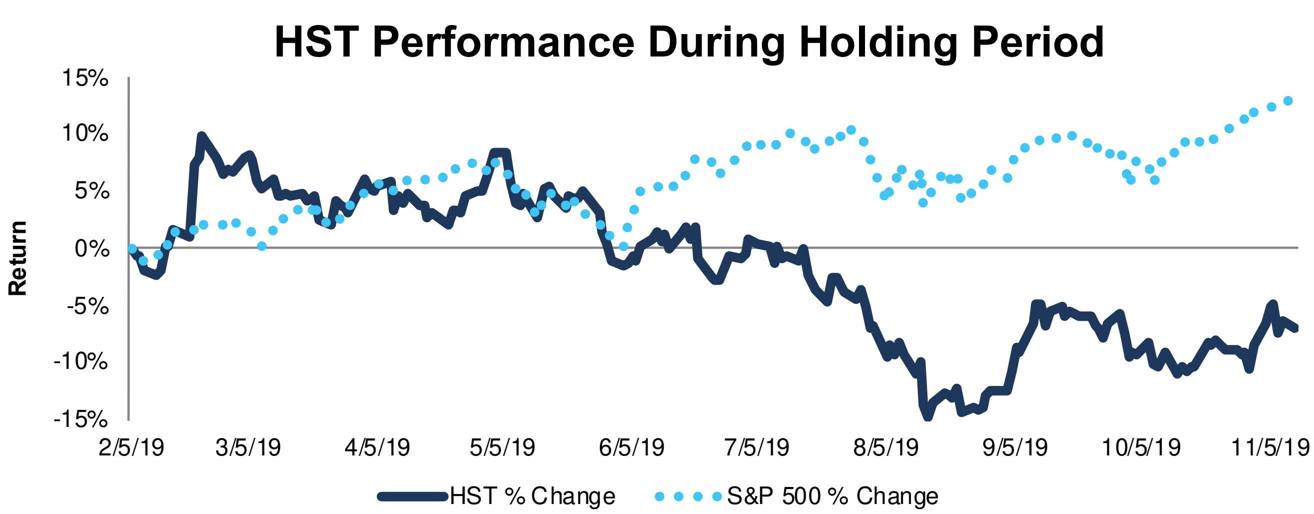
The three stocks from the original report, Landec Corporation (LNDC), Brooks Automation (BRKS), and Host Hotels & Resorts are up by an average of 9% compared to 13% for the S&P 500.

At the time of the report, HST received a Very Unattractive rating. Our short thesis pointed out the firm's misleading GAAP net income and high growth expectations implied by its stock price.

During the 180 day holding period, HST outperformed as a short position, falling 7% compared to a 13% gain for the S&P 500.

Since our article, HST's after-tax operating profit (NOPAT) has grown significantly, and it now earns positive economic earnings. The company's improved fundamentals, combined with its lower valuation, means the risk in this stock has decreased. We believe it is time to take the gains and close this short position.

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



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

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

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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.**
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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.

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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