Position Close Update: FireEye (FEYE)

FireEye (FEYE) – Closing Short Position – down 25% vs. S&P up 27%

We put FireEye (FEYE: $11/share) in the Danger Zone on June 27, 2016. At the time, FEYE received an Unattractive rating. Our short thesis noted the firm's profitless revenue growth, industry-worst profitability, 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 earnings, as shown in the Harvard Business School and MIT Sloan paper, "Core Earnings: New Data and Evidence."

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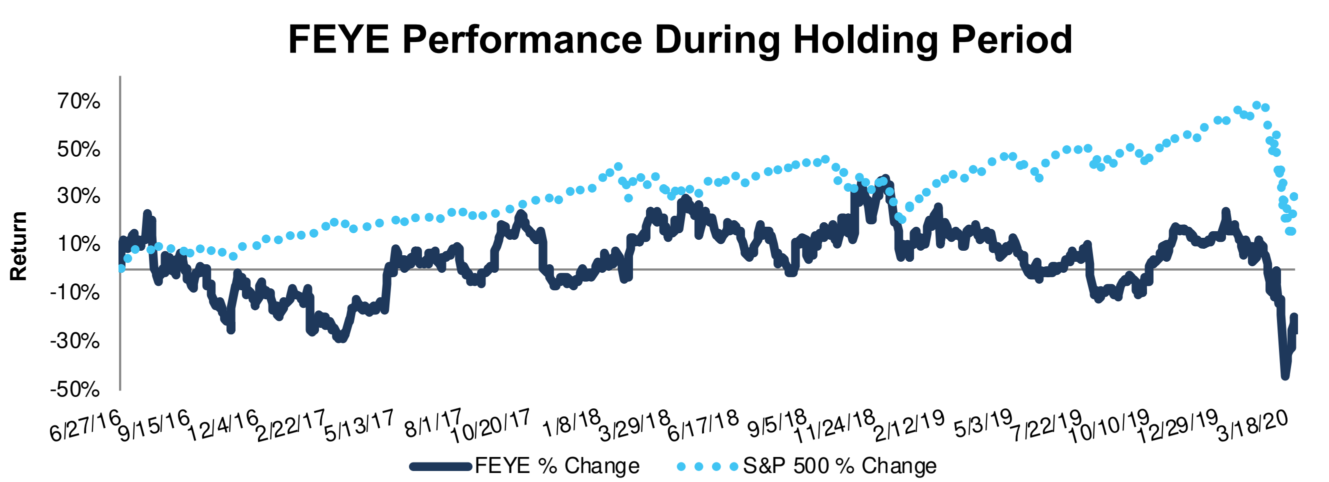
During the nearly four-year holding period, FEYE outperformed as a short position, falling 25% compared to a 27% gain for the S&P 500.

FEYE's fundamentals, while still weak, have improved since our original report. Its return on invested capital (ROIC) improved from -24% to -9% in 2019 and after-tax operating profit (NOPAT) margin increased from -62% to -22% over the same time. However, despite falling 33% year-to-date, FEYE is still overvalued. This performance, coupled with rumors that Cisco could be interested in acquiring the firm, lead us to take the gains and close this short position.

Figure 1: FEYE 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 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).

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The recipient of this report is directed to read these disclosures.

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.

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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:

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"…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

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"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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