



## Position Close Update: Mondelez International (MDLZ)

### Mondelez International (MDLZ) – Closing Short Position – up 3% vs. S&P down 9%

We put Mondelez International (MDLZ: \$51/share) in the [Danger Zone](#) on [April 8, 2019](#). At the time, MDLZ received an Unattractive [rating](#). Our short thesis noted the firm's declining [economic earnings](#), poor corporate governance, low profitability vs. peers, and overvalued stock price.

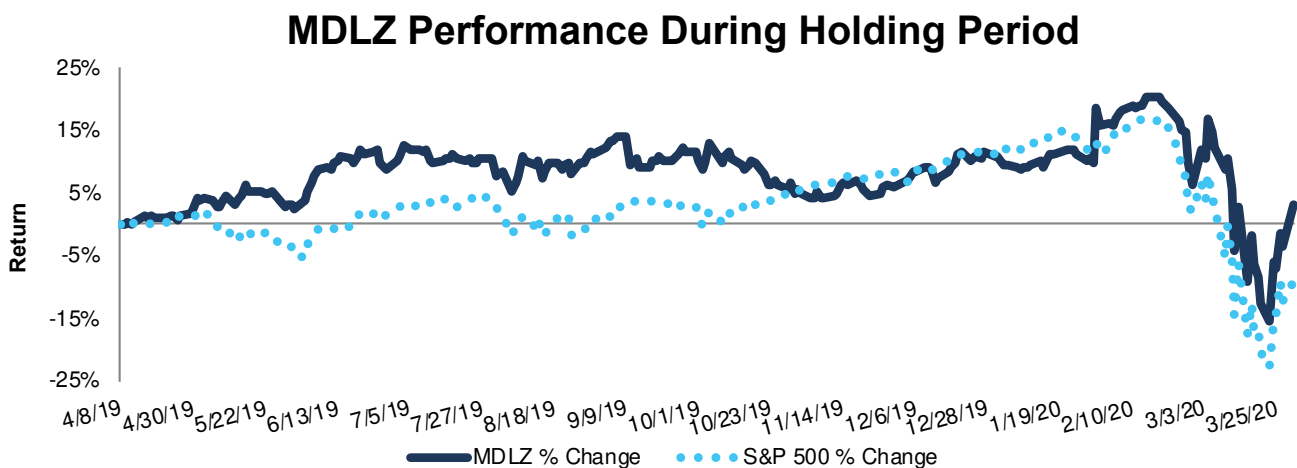
This Danger Zone report, along with all of our research, utilizes our “novel dataset”<sup>1</sup> of footnotes disclosures to get the truth about [core earnings](#), as shown in the Harvard Business School and MIT Sloan paper, “[Core Earnings: New Data and Evidence](#).”

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During the 357-day holding period, MDLZ underperformed as a short position, rising 3% compared to a 9% drop for the S&P 500.

MDLZ's fundamentals have slightly improved since our original report. Its return on invested capital ([ROIC](#)) improved from 5% at the time of our report to 6% in 2019 and NOPAT margin increased from 14% to 15% over the same time. Improved fundamentals, combined with a decreased valuation since the market crash began in mid-February, mean MDLZ now earns an Attractive rating (from Neutral). MDLZ no longer presents the same risk/reward as when we placed it in the Danger Zone and as a result, we are closing this short position.

Figure 1: MDLZ vs. S&P 500 – Price Return – Unsuccessful 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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<sup>1</sup> 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.***

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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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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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