Position Close Update: Thor Industries (THO)

Thor Industries (THO) – Closing Long Position – up 90% vs. S&P up 16%

Thor Industries (THO: $116/share) was featured as a Long Idea on 3/27/19. At the time, Thor Industries received a Very Attractive rating. Our long thesis highlighted the firm's industry leading profitability, long-term secular demand for RVs, and the stock's cheap valuation.

This report, along with all of our research[1], utilizes our superior data[2] 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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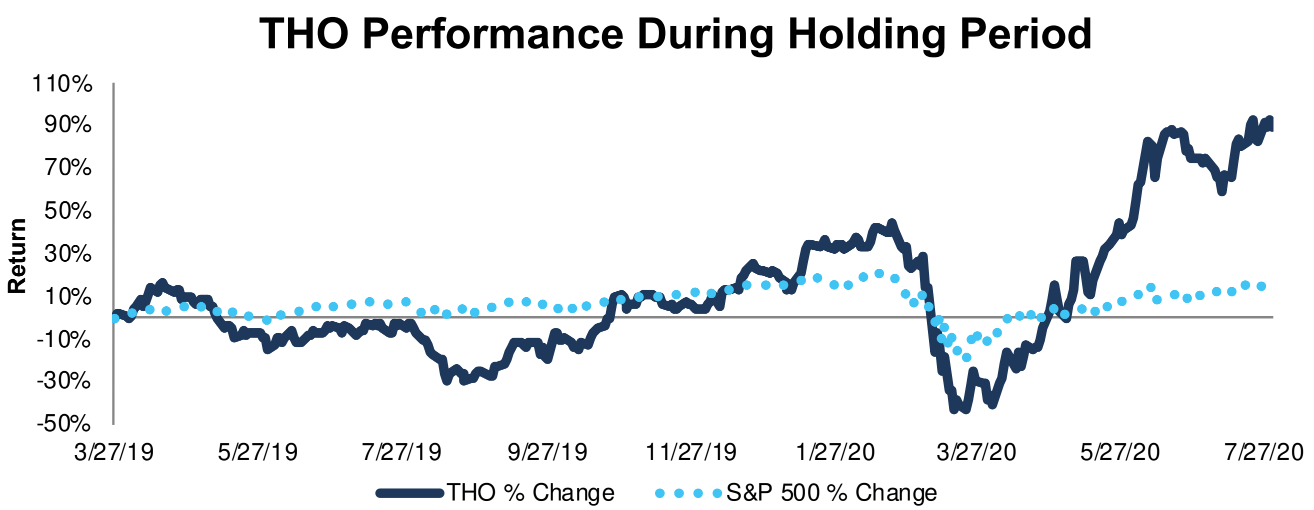
During the 492 day holding period, THO outperformed as a long position, rising 90% compared to a 16% gain for the S&P 500.

Thor's profitability fell in 2019, as inventory and demand returned to more normal levels after a record 2018, and that trend has continued into the trailing-twelve-month (TTM) period. The firm's return on invested capital (ROIC) has fallen from 17% at the time of our report to 6% TTM.

The deterioration in fundamentals, coupled with a soaring stock price (+60% year-to-date) due to optimism over RV demand during and after the COVID-19 pandemic, means THO no longer presents the same risk/reward. The firm now receives our Very Unattractive rating. We believe it is time to take the gains and close this long position.

Figure 1: THO vs. S&P 500 – Price Return – Successful Long Call



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

This article originally published on July 31, 2020.

[1] Harvard Business School features the powerful impact of our research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

[2] Our core earnings are a superior measure of profits, as demonstrated in Core Earnings: New Data & Evidence a paper by professors at Harvard Business School (HBS) & MIT Sloan. The paper empirically shows that our data is superior to "Operating Income After Depreciation" and "Income Before Special Items" from Compustat, owned by S&P Global (SPGI).

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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We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

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- **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.

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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