



Position Close Update: Compass Inc. (COMP)

Compass Inc. (COMP) – Closing Short Position – down 24% vs. S&P up 11%

We made Compass Inc. (COMP: \$16/share) a Danger Zone pick on [March 29, 2021](#) before the firm's IPO on April 1, 2021. At the time of the report, COMP earned an Unattractive [rating](#). We felt the firm's flashy marketing and ability to burn cash failed to create lasting competitive advantages, and its expected IPO valuation implied unrealistic gains in market share.

This report, along with all of our research¹, 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](#)."

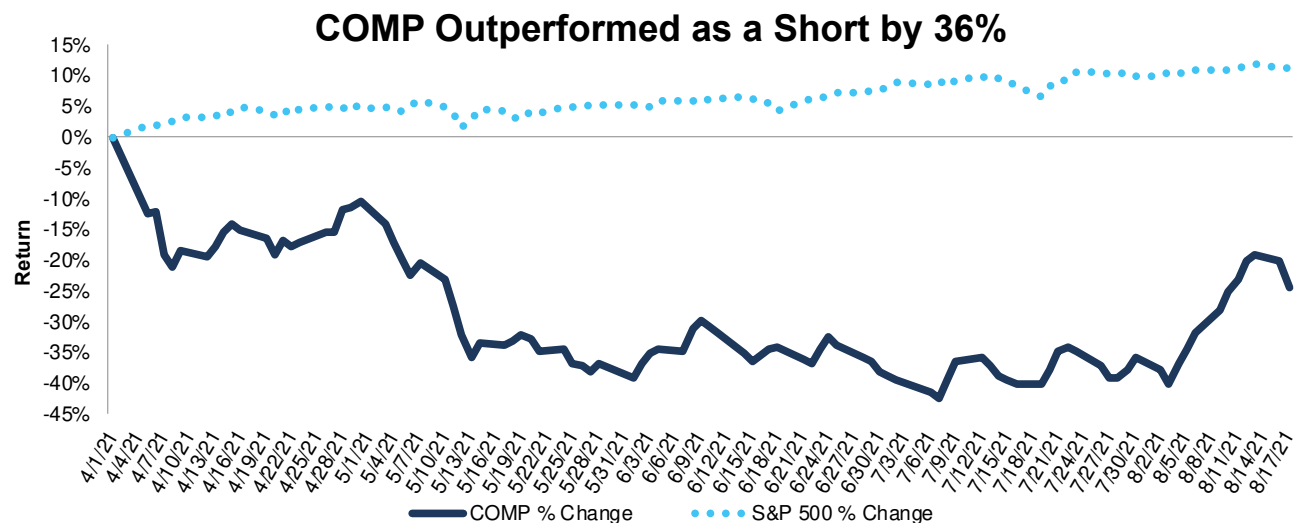
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During the 138-day holding period, COMP outperformed as a short position by 36% (94% annualized), falling 24% from its opening price compared to an 11% gain for the S&P 500.

Fundamentally, Compass looks no better than when we first put it in the Danger Zone in March 2021. The firm earns a -18% return on invested capital (ROIC) and burned through \$501 million in free cash flow (FCF) in 2Q21. Even after falling 20% from the opening price on its IPO day, COMP remains overvalued. If we assume the firm can improve net operating profit after-tax (NOPAT) margin, grow revenue at a 10% CAGR through 2030, and take 10% of the U.S. home sale market, the stock is worth just \$5.4 billion – an 18% downside to current prices.

With such strong outperformance in a short period of time, we're taking gains and closing this short position.

Figure 1: COMP vs. S&P 500 – Price Return – Successful Short Idea



Sources: New Constructs, LLC and company filings
 Note: Gain/Decline performance analysis excludes transaction costs and dividends.
 Return measured from opening prices on April 1, 2021, which is Compass' IPO date.

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](#).



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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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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.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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