



## Sanderson Farms: Selling Early Can Be Costly

Sanderson Farms (SAFM: \$193/share) [disclosed](#) on August 9, 2021 that it is being acquired for \$203/share, a 30% premium to the firm's valuation prior to the announcement. Despite long-term conviction in Sanderson Farms, we closed the long position on [November 23, 2020](#) (at \$136/share), after losing patience in the position.

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We originally made Sanderson Farms a [Long Idea](#) on [August 12, 2015](#) and reiterated our opinion on [August 17, 2017](#) and [January 30, 2019](#).

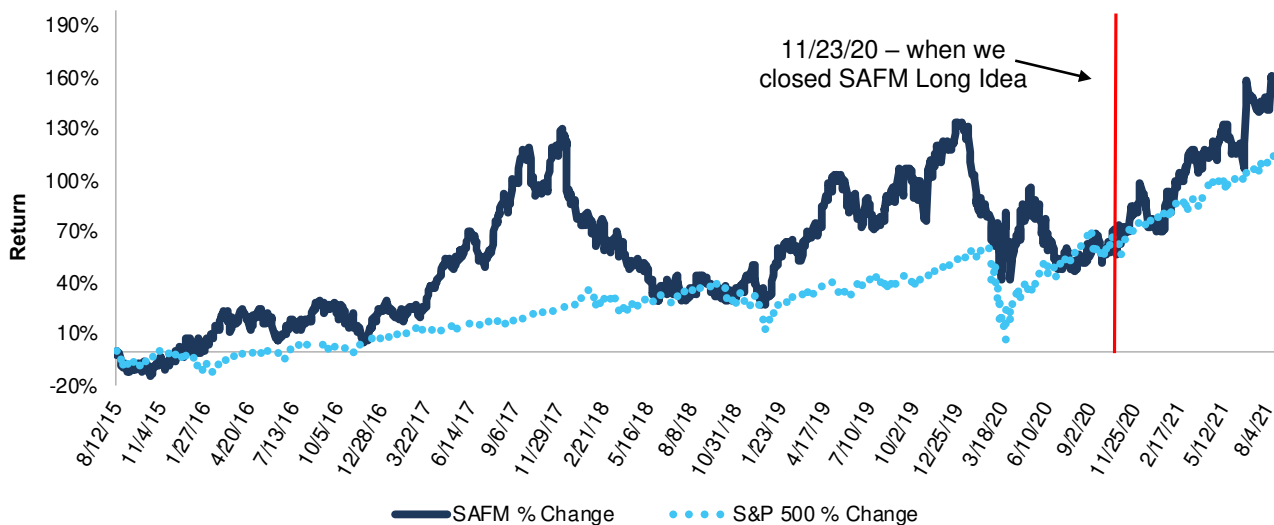
During the 5+ year holding period, SAFM outperformed as a long position, rising 80% compared to a 71% gain for the S&P 500. If we had held this position to the present day, SAFM would have outperformed the S&P 500 by 47% as opposed to the 9% outperformance when we closed the position.

Should the acquisition go through, (shares trading below the acquisition price indicate some skepticism by the market), outperformance would be even greater.

Sometimes, as in the case of Sanderson Farms, it pays to stand by your convictions. Luckily, this Long Idea still outperformed when we closed it, but those that held through the temporary decline in fundamentals stand to outperform even more.

**Figure 1: SAFM vs. S&P 500 – Price Return – Leaving Gains on the Table**

### SAFM Performance Since Original Long Idea



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, Alex Sword, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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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, 1<sup>st</sup> 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, 2<sup>nd</sup> para.

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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, 5<sup>th</sup> 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, 2<sup>nd</sup> para.

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