



## Position Close Update: 8x8 Inc. (EGHT)

### 8x8 Inc. (EGHT) – Closing Short Position – up 87% vs. S&P up 107%

We made 8x8 (EGHT: \$25/share) a Danger Zone pick on [August 15, 2016](#). At the time of the report, EGHT earned an Unattractive [rating](#). Our thesis pointed out that the firm’s revenue growth masked its dwindling profits, lagging profitability created competitive disadvantages, and the stock traded significantly above any level justified by the fundamentals of the firm.

This report, along with all of our research<sup>1</sup>, leverages our [more reliable fundamental data](#)<sup>2</sup> to get the truth about earnings, as shown in the Journal of Financial Economics paper, “[Core Earnings: New Data and Evidence](#).”

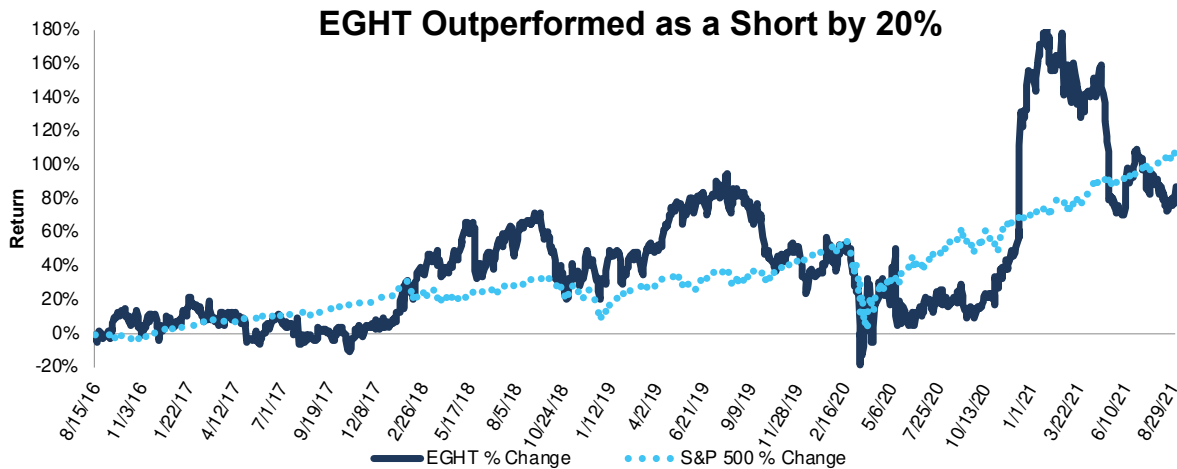
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During the 5+ year holding period, EGHT outperformed as a short position, rising 87% compared to a 107% gain for the S&P 500.

Our thesis has largely played out as we expected. 8x8’s return on invested capital (ROIC) fell from -2% in 2016 to -21% TTM, while [Core Earnings](#) fell from -\$4 million to -\$146 million over the same time. However, the firm’s revenue has more than doubled during that time, which has helped push shares higher.

With shares falling over 30% from early 2021 highs, we believe this stock no longer presents the same risk/reward, despite still earning an Unattractive rating. Given its position in a rapidly growing industry, along with cheap money in the current market, the [stupid money risk](#) is high. As a result, we’re closing this short position.

**Figure 1: EGHT vs. S&P 500 – Price Return – Successful Danger Zone**



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

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<sup>1</sup> Harvard Business School features our Robo-Analyst research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

<sup>2</sup> Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).



## **It's Official: We Offer the Best Fundamental Data in the World**

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, 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.

### **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, 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.

### **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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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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