New Constructs®
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DANGER ZONE
1/31/22

Falling Knife You Don't Want to Catch – Part 4

We counsel investors to take care not to be cut by falling knives – stocks that have seen steep declines but still have further to fall. As the market rotates away from high-flying growth names to more stable cash generators, investors need reliable fundamental research, more than ever, to protect their portfolios from falling knives.

We continue to post an exceptional hit rate on spotting overvalued stocks. Currently, 62 out of our 65 Danger Zone stock picks are down from their 52-week highs by more than the S&P 500. Figure 1 lists the open Danger Zone picks that are down at least 40% from their 52-week highs. Our Focus List Stocks: Short Model Portfolio, the best-of-the-best of our Danger Zone picks, outperformed the S&P 500 as a short portfolio by 36% in 2021 with 29 out of our 31 picks outperforming the index.

This report highlights one particularly dangerous falling knife: DoorDash (DASH: $104/share). We highlight four other falling knives in other reports published today: Uber (UBER: $35/share) here, Affirm (AFRM: $60/share) here, Rivian (RIVN: $60/share) here, and Warby Parker (WRBY: $35/share) here. Each of these stocks have dropped at least 40% from all-time highs, yet still carry at least 40% additional downside risk.

Figure 1: Danger Zone Picks Down >40% From 52-Week High – Performance through 1/28/22

Company	Ticker	Off 52-Week High
Koss Corp	KOSS	-94%
Robinhood Markets Inc.	HOOD	-85%
Peloton Interactive Inc.	PTON	-84%
GameStop Corporation	GME	-80%
AMC Entertainment Holdings, Inc.	AMC	-79%
Cronos Group Inc.	CRON	-78%
Beyond Meat Inc.	BYND	-71%
Pinterest Inc.	PINS	-70%
Rivian Automotive Inc	RIVN	-68%
Express Inc.	EXPR	-68%
Affirm Holdings Inc.	AFRM	-66%
Allbirds Inc	BIRD	-64%
Snap Inc.	SNAP	-63%
LivePerson Inc.	LPSN	-63%
Carvana Co.	CVNA	-61%
DoorDash, Inc.	DASH	-60%
Wayfair, Inc.	W	-59%
Coinbase Global Inc.	COIN	-59%
Spotify Technology S.A.	SPOT	-55%
Domo Inc.	DOMO	-55%
Squarespace Inc.	SQSP	-53%
Shake Shack, Inc.	SHAK	-53%
Eventbrite Inc.	EB	-51%
Shopify Inc	SHOP	-51%
Diebold Nixdorf, Inc.	DBD	-49%
Sweetgreen Inc	SG	-48%
LYFT Inc.	LYFT	-48%
PROS Holdings, Inc.	PRO	-46%
Netflix Inc.	NFLX	-45%
Uber Technologies Inc.	UBER	-45%
Zendesk, Inc.	ZEN	-43%
Warby Parker Inc.	WRBY	-42%
Nutanix Inc	NTNX	-41%

Sources: New Constructs, LLC

Falling Knife: DoorDash (DASH): Down 60% from 52-Wk High & 67%+ Downside Remaining

We named DoorDash (DASH) one of the most dangerous stocks for fiduciaries in November 2020 when we called it The Most Ridiculous IPO of 2020. Since the opening price on IPO date, the stock is down 43% while the S&P 500 is up 20%, and DoorDash shares could fall another 67%. We detail DoorDash's lack of profitability, low-switching costs in the delivery industry, and other challenges facing the company in our most recent report here.

Valuation Implies DoorDash Owns 94% of 2030 TAM

A reverse DCF analysis shows DoorDash's stock price implies huge improvement in market share and profit margins, metrics that are unlikely to improve simultaneously in a competitive market.

To justify its current price of ~$104/share, DoorDash must:

- Immediately improve its NOPAT margin to 7.6% (average of logistics providers United Parcel Service and FedEx's TTM NOPAT margin, compared to DoorDash's margin of -15% in 2020 and -7% in 3Q21),
- grow revenue by consensus estimates in 2021, 2022, and 2023, and
- grow revenue by 25% (above consensus estimate in 2023 and 2.5x expected industry growth) each year thereafter through 2030.

In this scenario, DoorDash would earn nearly $36 billion in revenue in 2030. At its 3Q21 take rate of 12.2%, this scenario equates to ~$294 billion in marketplace gross order volume (GOV) for DoorDash in 2030. Take rate measures the percentage of GOV DoorDash captures as revenue.

In other words, to justify DoorDash's current price of ~$103/share, the firm must capture 94% of the projected 2030 global food delivery TAM[1], compared to ~32% over the trailing twelve months.

67% Downside Even if DoorDash Matches Industry Growth

DoorDash's economic book value, or no growth value, is negative $33/share, which illustrates the overly optimistic expectations in its stock price.

Even if we assume DoorDash:

- improves its NOPAT margin to 6% (equal to FedEx's TTM NOPAT margin),
- grows revenue by consensus estimates in 2021, 2022, and 2023, and
- grows revenue by 11% (expected industry CAGR through 2028) each year thereafter through 2030, then

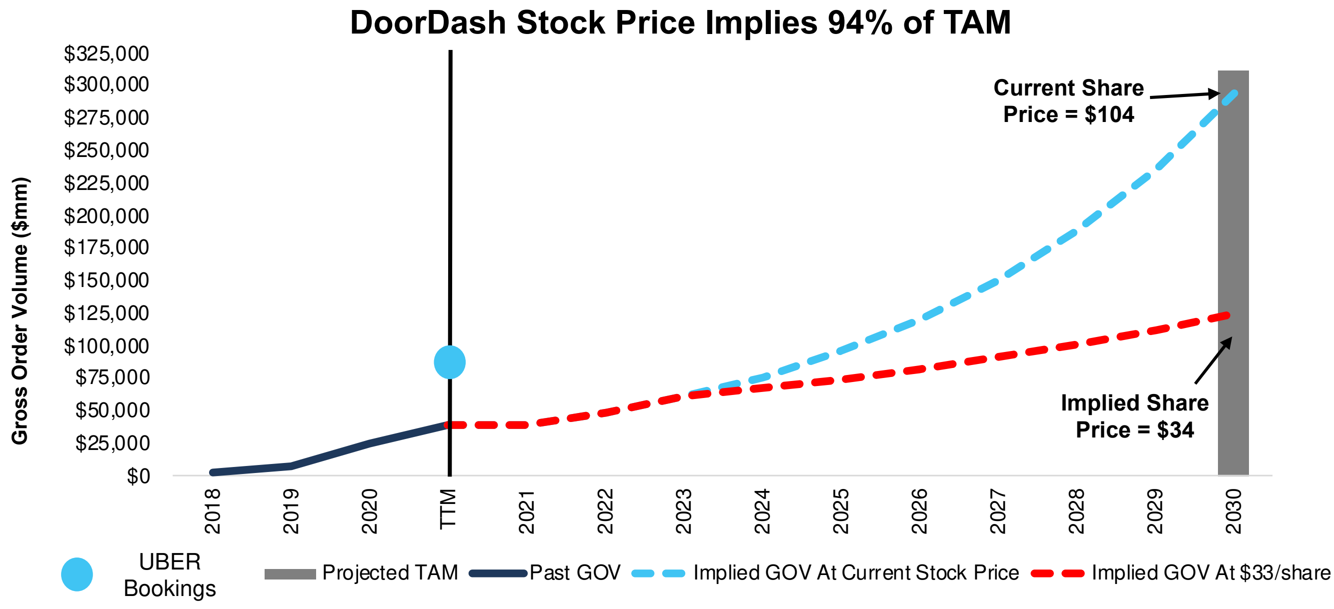
the stock is, optimistically, worth just $34/share today – a 67% downside. Even in this scenario, DoorDash would earn $15.3 billion in revenue in 2030. At its 3Q21 take rate, this scenario equates to over $125 billion in gross order volume in 2030, which would equal 40% of the projected 2030 TAM.

This scenario may prove too optimistic as it assumes a significant improvement in NOPAT margin in an increasingly commoditized industry.

Figure 2 compares DoorDash's implied future gross order volume in these scenarios to its historical GOV. For reference, we also include the bookings of Uber, which represent the total dollars spent on Uber's platform, similar to DoorDash's GOV metric. DoorDash's current stock price implies its GOV ten years from now will be nearly four times greater than Uber's TTM bookings.

[1] 2030 TAM estimate equals a $312 billion global food delivery market, which assumes the global food delivery market continues growing at 10.9% annually from 2028-2030 (consistent with Research and Market's estimated CAGR through 2028).

Figure 2: Historical GOV vs. Implied GOV: DCF Scenarios



Sources: New Constructs, LLC and company filings.

Each of the above scenarios assume DoorDash grows revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is highly unlikely but creates best-case scenarios that demonstrate how high expectations embedded in the current valuation are. For reference, DoorDash's invested capital increased $813 million (92% of 2019 revenue) year-over-year in 2019 and $3.9 billion (137% of 2020 revenue) YoY in 2020.

Fundamental Research Provides Clarity in Frothy Markets

2022 has quickly shown investors that fundamentals matter and stocks don't only go up. With a better grasp on fundamentals, investors have a better sense of when to buy and sell – and – know how much risk they take when they own a stock at certain levels. Without reliable fundamental research, investors have no way of gauging whether a stock is expensive or cheap.

As shown above, disciplined, reliable fundamental research shows that even after plummeting, Uber, Affirm, Rivian, DoorDash, and Warby Parker still hold significant downside.

Check out this week's Danger Zone interview with Chuck Jaffe of Money Life.

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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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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, 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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