



Position Close Update: Honest Company (HNST)

Honest Company (HNST: \$4/share) – Closing Short Position – down 82% vs. S&P down 5%

We put Honest Company in the [Danger Zone](#) in [May 2021](#), prior to its IPO. At the time of our report, the company earned an Unattractive rating. We pointed out that Honest Company's lack of profitability, significant incumbent competition, the unlikelihood of an acquisition, and high valuation, gave the stock poor risk/reward.

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#) fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#)¹.

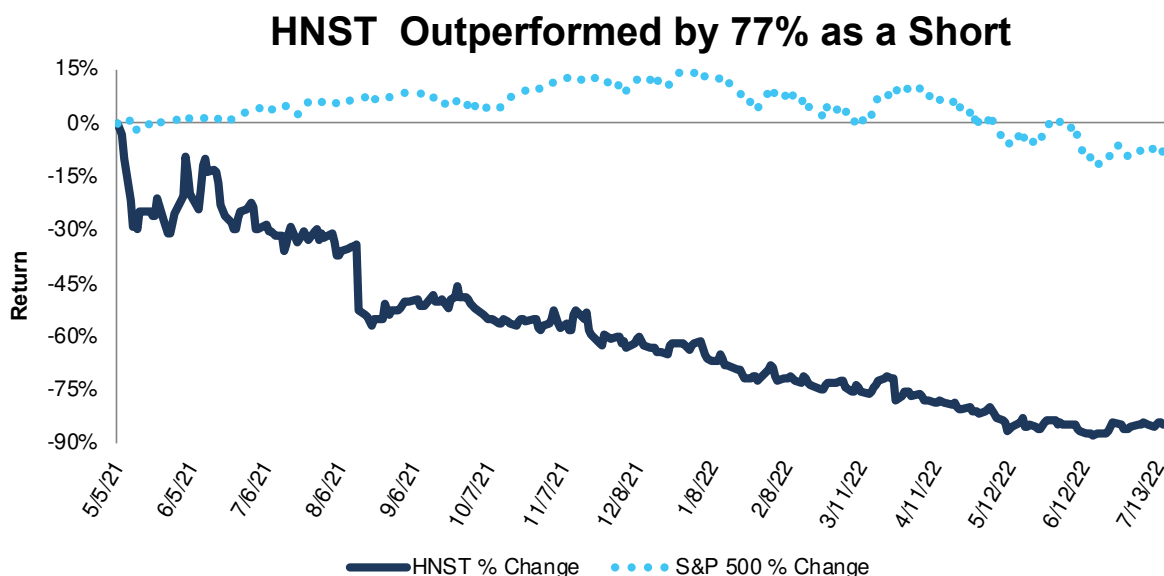
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During the 1+ year holding period, the stock has outperformed the S&P 500 as a short by 77%.

Since our report, Honest Company has proven it is not a "growth story" stock. The company's trailing-twelve-month (TTM) revenue is below 2021 levels and just 2% above 2020 levels. Even worse, profitability is not improving. Honest Company's return on invested capital ([ROIC](#)) has fallen from 0% in 2020 to -16% TTM.

Despite the deterioration of the company's fundamentals, the stock's 82% decline since its IPO, makes further downside less likely. However, should the company match its improved distribution (such as the [recent announcement](#) of availability in Walmart) with positive profitability, shares could have more upside from their current depressed levels. While we still doubt this company's turnaround story, we're taking the gains and walking away from any increased [stupid money risk](#).

Figure 1: HNST vs. S&P 500 – Price Return – Through 7/19/2022



Sources: New Constructs, LLC

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Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Brian Pellegrini receive no compensation to write about any specific stock, style, or theme.

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¹ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).



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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
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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.

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