



## Position Close Update: Levi Strauss & Co (LEVI)

**Levi Strauss & Co (LEVI) – Closing Long Position – down 17% vs. S&P up 44%**

We made Levi Strauss & Co (LEVI: \$18/share) a Long Idea on [March 22, 2019](#), the date of its IPO. LEVI earned a Very Attractive [rating](#) at the time of our report. We believed rising [economic earnings](#), diversification of its revenue streams, growing direct-to-consumer business, and relatively cheap pre-IPO valuation gave the stock lots of upside.

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](#)<sup>1</sup>.

Learn more about the best fundamental research

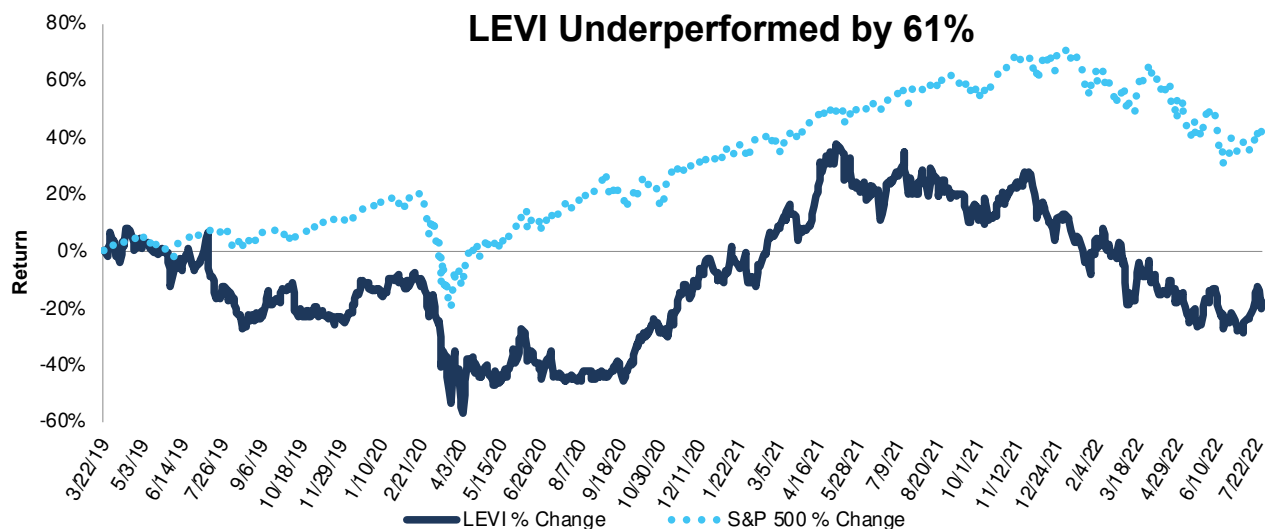
During the more than three-year holding period, LEVI underperformed as a long position, falling 17% compared to a 44% gain for the S&P 500.

Levi Strauss' strong fundamentals have helped the company recover from pandemic-related disruptions in 2020, and its [Core Earnings](#) over the trailing twelve months (TTM) are 40% above 2019 levels. However, as we look ahead, rising material costs, the strong possibility of a slowdown in consumer spending, and the growing risk of trade restrictions present near-term headwinds to the company's improving profitability.

Longer term, the company's strategy to grow sales in China exposes Levi Strauss to more geopolitical risk at a time when relations between the West and China are becoming increasingly strained. Furthermore, Levi Strauss' expansion into the women's products market is likely to be costly given ever-changing fashion trends and ample competition.

Given the unfavorable outlook for near- and long-term profit growth, Levi Strauss' stock holds limited upside potential. We believe there are better opportunities in this market that present much more favorable risk/reward and are closing this long position.

**Figure 1: LEVI vs. S&P 500 – Price Return – Unsuccessful Long Idea**



Sources: New Constructs, LLC and company filings  
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

<sup>1</sup> 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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*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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## ***It's Official: We Offer the Best Fundamental Data in the World***

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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, 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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