

Expectations vs Execution: Consistency Trumps Surprises

Good CEOs and teams are often at odds with the short-term perspective of Wall Street. Earnings season is an especially volatile period where, over a few weeks, thousands of firms are subject to snap analysis by both investors and short-term traders. The demarcation line for judgments is usually a consensus forecast which often varies from both guidance and historical trend substantially. The collective judgment of the fast trigger crowd can move prices substantially, in a matter of minutes and such anomalies can be opportunities for longer term investors.

We took a list of management teams that we think represent good quality stewardship for their firms (i.e. ranked either #1 or #2 relative to similar size peers) whose stock price has dropped more than 10% in the last three weeks during earnings season. We then checked to see if these “good quality” teams had, in fact, “missed” their numbers or simply not lived up to someone else’s projections. We used FactSet’s consensus Sales and consensus EPS to determine a demarcation line and the list below shows those management teams ranked highly for skill and quality by Management CV who:

1. Have a current management team quality rank of #1 Best or #2 Good.
2. Met or exceeded the FactSet consensus EPS and/or Sales estimate for the 3rd quarter in the last 3 weeks
3. Had a stock price drop of 10% or more since the earnings call.
4. Have had consistent or improving ROA and ROIC over the last 3 years.

Ticker	Company	TeamRank	Surprise Date	EPS Surprise %	% Price Impact
AZPN	Aspen Technology Inc.	2	10/29/2014	29.63	-13.27
NFLX	Netflix, Inc.	1	10/16/2014	4.83	-19.37
P	Pandora Media, Inc.	1	10/24/2014	17.07	-13.49
SAVE	Spirit Airlines, Inc.	1	10/09/2014	4.64	-11.40
CRUS	Cirrus Logic, Inc.	2	10/30/2014	25.00	-12.01
HTWR	HeartWare International, Inc.	1	10/30/2014	1.00	-11.50
THRM	Gentherm Inc.	1	10/30/2014	13.90	-13.45

The resulting list may represent some management teams that fail to impress Traders but whose execution and operating traction remain good and likely to drive long term shareholder returns. Companies like Pandora (P) and Netflix (NFLX) would seem to continue to be good quality stewards, growing their firm, improving returns, winning market share, etc... even though Wall Street Traders have suddenly turned bearish on their prospects. Long term, we would always bet on quality CEOs and management teams as too many Traders barely know their names!

If you would like us to run this screen on your portfolio or have any questions, please call or write us at info@managementcv.com or (301) 760-3102.