Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

www.btnresearch.com

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Behind the Numbers 4Q 2023 Focus List

Top Risks

Company	EQ Rating	Date Added	
DoorDash, Inc. (DASH)	2- Weak)	10/3/2023	p. 3
International Business Machines Corporation (IBM)	2- (Weak)	12/15/2023	p. 5
Marvell Technology, Inc. (MRVL)	3- (Minor Concern)	10/3/2023	p. 6
Post Holdings, Inc. (POST)	3- (Minor Concern)	12/15/2023	p. 9

On Deck Risks

Company	EQ Rating	Date Added	
Cintas Corporation (CTAS)	3- (Minor Concern)	12/2/2022	p.12
Teva Pharmaceutical Industries Limited (TEVA)	2- (Weak)	12/15/2023	p.12

Top Values

Company	EQ Rating	Date Added	
DocuSign (DOCU)	3+ (Minor Concern)	12/15/2023	p.14
Stanley Black & Decker, Inc. (SWK)	3- (Minor Concern)	10/3/2022	p.16
Warner Bros. Discovery, Inc. (WBD)	3+ (Minor Concern)	5/8/2023	p.18
WESCO International Inc. (WCC)	5- (Strong)	5/15/2023	p.20

On Deck Values

Company	EQ Rating	Date Added	
Ares Capital (ARCC)	4+ (Acceptable)	12/15/2023	p.22
AT&T Inc. (T)	5+ (Strong)	12/15/2023	p.22

Overview of the BTN Focus List

Our foundational belief at Behind the Numbers is that earnings quality matters. We believe that companies that are resorting to increasingly aggressive accounting such as slashing reserves, taking never-ending restructuring charges, or extending depreciable lives to meet earnings estimates will eventually face a day of reckoning in the form of an unexpected earnings disappointment. Likewise, companies with hidden assets, conservative accounting, or non-operational headwinds that will reverse are likely to produce better than anticipated results. This has been borne out time and again by academic research.

While our Earnings Quality ratings express our level of concern with the reliability and sustainability of a companyôs reported earnin fundamental factors such as valuation, sources of recent revenue growth, upcoming difficult comps, or other factors which might make an idea timelier. The *BTN Focus List* addresses this by documenting which companies under coverage we believe are getting closer to the point of materially underperforming or overperforming.

The list is divided into Top Risks and Top Values along with an ñOn Deckò believe have compelling points but may not warrant being on the top lists due to valuation factors. We will continue to publish the Focus List quarterly and will notify clients of the additions and subtraction to the list made during the quarter by e-mail.

DoorDash, Inc. (DASH)

DASHôs third-quarter beat forecasts for both Gross Order Volume (GOV) and Adjusted EBITDA. However, a closer look at the quarter reveals more, we saw multiple unsustainable cuts to key expenses that paved the way for the EBITDA beat. Investors should be aware of these cuts and the potential for them to reverse in upcoming quarters.

- 3Q guidance for GOV was only $15.8-$16.2 billion and 4Q for $16.0-$16.2 billion. The issue we had was GOV was already $16.5 for 2Q. After $16.75 billion in 3Q, DASH raised guidance for 4Q to $17.0-$17.4 billion ï this may be tougher to meet. Much of this growth is due to food inflation, which has reversed for several food ingredients.

- 3Q EBITDA guidance was for $220-$270 million after hitting $279 million in 2Q. Now after $344 million in 3Q ï guidance was raised for 4Q to $320-$380 million.

- A closer look at 3Q EBITDA shows that DASH showed declining adjusted operating costs which add back stock compensation. This was a huge part of the EBITDA beat. Can this repeat?

	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22
Adj. S&M cost	$413	$429	$416	$395	$386	$388
Adj. G&A	$170	$211	$200	$199	$211	$172
Adj. R&D	$126	$130	$129	$131	$122	$106
Total	$709	$770	$745	$725	$719	$666

EBITDA rose by $65 million from 2Q to 3Q. DASH picked up $61 million from cutting overhead costs. Wage growth slowed to a crawl too.

- Also, as lawsuits grow against DASH for employee classification and insurance ï DASH is adding back these growing cash costs to adjusted results too. This cost has tripled in recent quarters and this is helping EBITDA too.

DASH	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22
Litigation	$44	$49	$19	$19	$14	$15

International Business Machines Corporation (IBM)

IBM beat adjusted EPS by 7 cents in 3Q23. We did not see this as a quality beat and 4Q may be an inflection point where several headwinds could materialize. We see several levers that IBM normally pulls that may be played out:

- Bad debt was a credit of $9 million vs. a charge of $11 million ï this added 2 cents.
- The tax rate came in at 11.7% vs. guidance for mid-teens. This added 8-16 cents.
- Interest income rose to $156 million, adding 10 cents y/y. But, it was down from $201 million in 2Q. This earnings source looks over.
- Depreciation falling by more than accounting change to extend asset lives had been helping EPS growth early in the year but that source of earnings vanished in 3Q.
- Workforce rebalancing often jumps after an acquisition. It was only $34 million in 3Q after a $4.6 billion deal. We would expect this to rise in 4Q, and in 4Q22 it was only $4 million. Normally, this is at least $100 million.
- The large cut in warranty accruals in 2Q became a 1-cent headwind in 3Q which may no longer be a source of EPS growth.
- The financing unit showed a $35 million increase in gross profit on only a $12 million revenue boost in 3Q. Much of this was cutting bad debt reserves which seems unlikely to happen again to that degree.
- R&D came in flat as a percentage of sales in 3Q but IBM is saying wages are rising 8%-10%. That could be a headwind in 4Q too.
- After three quarters of lower advertising y/y ï 3Q saw a small headwind. The tough comps are now starting and could this could hurt 4Q more.

Marvell Technology, Inc. (MRVL)

MRVLôs 3Q24 non-GAAP EPS of $0.41 beat by only 1 cent. On the earnings call, MRVL confirmed weakness in several end markets and even noted it expects more weakness into next calendar year.

- MRVL adds back stock compensation to adjusted EPS. It rose to 11.2% of sales vs. 9.5% in 3Q23 ï that added 2.6 cents to non-GAAP EPS against the 1-cent beat. This added 2.5 cents in 1Q24 when MRVL beat by 2 cents. It added 2.7 cents to 2Q24 when MRVL beat by 1 cent.

- Gross margin added 41bp by having stock compensation as a percentage of sales rise above guidance too.

- MRVL is now adding back expenses related to legal challenges for product claims, which is boosting gross margin and adjusted EPS. These relate to patents and technology and look like ongoing costs. This is important because these likely involve cash payments and MRVL often buys/licenses tech from others. These have become meaningful parts of adjusted EPS:

Non-GAAP adj.	3Q24	2Q24	1Q24	4Q23	3Q23	2Q23	1Q23
Product Claims	$108.0	$90.2	$39.6	$19.7			
Inv. Step-ups				$12.7	$10.4	$6.3	$9.3
GAAP Gross Margin	38.9%	38.9%	42.2%	47.5%	50.6%	51.8%	51.9%
non-GAAP	60.6%	60.3%	60.0%	63.5%	64.0%	65.0%	65.5%
EPS from add-backs	$0.116	$0.099	$0.043				

- Added potential pressures for sales and gross margin are that MRVL noted key Chinese customers have big stocks of MRVL chips. The company leases foundry space with third parties to produce its chips. The production due to lower demand ï it does still has to pay and the higher costs run over fewer units. Inventory is down from the peak of 130 days to 99, but if the channel is still full and end markets are still weakening does MRVL see more problems here? We see capacity commitments remain high as does prepaid shipping:

Prepaid Ship	4Q	3Q	2Q	1Q
fiscal 24		$456.6	$498.7	$416.8
fiscal 23	$481.3	$433.5	$342.3	$305.0
fiscal 22	$215.9	$139.8	$172.3	$149.1

Prepaid Capacity	4Q	3Q	2Q	1Q
fiscal 24		$292.6	$291.3	$295.9
fiscal 23	$282.3	$226.9	$132.6	$116.1
fiscal 22	$54.6	$30.3	$0.0	$0.0

- Variable consideration was not a headwind for sales and margins last quarter. This is often a 7-cent swing +/-. This accrual allows for discounts, rebates, and price protection of chips already in distributor stocks. It lowers sales as the accrual rises. It has an easy comp for this quarter, but guidance will have to deal with a tough comp for fiscal 1Q:

Var Con/Sales	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
fiscal 24		$498.3	$501.5	$426.3		$1,418.6	$1,340.9	$1,321.7
fiscal 23	$572.8	$519.3	$387.0	$349.4	$1,418.4	$1,537.3	$1,516.9	$1,446.9
fiscal 22	$258.6	$197.2	$190.5	$170.5	$1,343.0	$1,211.2	$1,075.9	$832.9

- We noted that 2Q24 was the first time we had seen MRVL report a warranty accrual which was $58.9 million. In 3Q24, the accrual dr was used or reversed ï but the lower amount was worth another 0.7 cents EPS.

- Cash flow still needs to be adjusted for acquisitions and tech licenses. 3Q24 showed a big boost in free cash flow due to working capital being released via lower inventory and selling receivables. Those tend to be one-time events:

	3Q24	2Q24	1Q24	4Q23	3Q23	2Q23	1Q23
Cash Ops	$503	$113	208	352	411	332	195
CapEx	$54	$111	100	54	43	73	37
Free Cash	$449	$1	$109	$298	$368	$259	$158
Cash Ops	$503	$113	208	352	411	332	195
CapEx	$54	$111	$100	$54	$43	$73	$37
Purchase Tech	$0	$0	$3	$2	$5	$3	$2
Acquisitions	$0	$6	$0	$9	$4	$55	$44
Tech Licenses	$32	$29	$50	$39	$32	$22	$49
Adj. Free Cash	$417	($33)	$56	$247	$327	$180	$63
Working Capital	$205	-$123	$2	-$134	-$13	-$203	-$300

Post Holdings, Inc. (POST)

POST reported adjusted EPS of $5.34 for the fiscal year ending in September. Forecasts only have EPS falling this year to $4.93. We believe as pricing declines and some other costs rise, POST will see guidance fall throughout the year.

- The company took more pricing than justified. That drove EPS far above the normal $2-$2.50 that POST normally reports. Now commodity prices have already dropped after fiscal 2023 saw excess pricing of $229 million:

	4Q23	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22
Pricing	$12.9	$117.1	$229.8	$231.2	$234.8	$190.7	$85.1	$89.5
Raw Materials	($30.5)	$35.5	$160.4	$142.7	$111.7	$123.7	$51.6	$46.5
Manufacturing	$46.6*	$26.1	$23.1	$14.4	$20.6	$27.1	$23.7	$23.4
Freight	($20.6)	($23.4)	($21.0)	$0.0	$19.5	$27.4	$34.0	$27.7
Net Pricing	$8.4	$78.9	$67.3	$74.1	$83.0	$12.5	($24.2)	($8.1)

**$46.6 includes $6.6 in employee costs and $5.2 in warehousing cost*

- POSTôs guidance for Food Service to see a decline of $100 million per quarter should reduce total EPS forecasts more than current levels:

Food Service	4Q23	3Q23	2Q23	1Q23	F23	F22	F21	F20	F19
Adj EBITDA	$117.0	$144.5	$110.0	$109.0	$480.5	$292.3	$197.0	$144.0	$310.0
Pricing	-$49.4	$26.1	$126.6	$142.6	$218.2	$339.3	$69.3		

  - Going to $95 million would already be a $100 million loss of EBITDA. Against the $5.34 in adjusted EPS POST just reported, this would cost POST $1.18 in EPS (almost 3x the expected EPS decline).

  - We can see that cumulative Pricing vs. Raw Materials are up $170 million for Fiscal 2021-23. This may have further to go than $100 million in lost income. The incremental $70 million being lost is a

- A huge part of the pricing at Food Service was related to egg prices in calendar 2022 that have since plummeted. The Refrigerated Retail segment also has egg products and in terms of pricing exceeding raw material inflation ï this segment has picked up $54.7 in

excess pricing over raw materials. Every $10 million that POST could lose here is another 11.8 cents in headwind.

- Volume growth has really decelerated here and pricing last quarter was only 1.8%:

Ref Retail	4Q23	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22
Volumes	-8.2%	-11.0%	-11.0%	-4.6%	-7.1%	2.2%	1.9%

- This unit took a $42.2 million impairment *driven primarily by narrowing of the price gap between branded and private label competitors, resulting in* GLVWULEXWLRQ ORVVHV DQG GHFOLQLQJ SURILWDE

- Promotional spending is rising (which nets against sales and effectively reduces pricing). Advertising is rising too with plans for that to continue. Pre-Covid, POST was spending about $125-$150 on advertising, it was down to only $93 million in fiscal 2022, and rebounded to $124 million last year. $10 million of headwind here is 12 cents of EPS.

- POST noted that it is being hurt by a decline in SNAP benefits, the customers are trading down to lower-priced products and reducing the number of shopping trips. None of that sounds healthy for more pricing gains or reversing falling volume.

- POST also wants to switch to more cage-free eggs. That may help it hold onto some pricing gains, but it should also cost more.

- Interest income was up with interest rates. However, POST also had $345 million in cash related to its SPAC through the end of May 2023, which is 8 months of the fiscal year. We estimate this added $11-$12 million to interest income or 13-14 cents that may not