BEHIND
THE NUMBERS
Quality of Earnings Analysis

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Behind the Numbers

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MongoDB, Inc. (MDB)
Earnings Quality Review

6- Exceptionally Strong
5- Strong
4- Acceptable
3- Minor Concern
2- Weak
1- Strong Concern
+ quality improving
- quality deteriorating

We are initiating earnings quality coverage of MDB with a 2- (Weak).

For an explanation of the EQ Review Rating scale, please refer to the end of this report.

Summary

MongoDB (MDB) reported 3Q23 earnings (ending October) this week. While we have yet to complete our full review, we wanted to report on some interesting items in the company's results.

MDB beat forecasts and posted a non-GAAP profit. Adjusted EPS was $0.23, beating by 40 cents. It also managed to retroactively post a profit for the 3Q22. A case can be made without some of these factors, MDB could still have posted a loss. Here are what we see in just pure accounting and sustainability issues:

- MDB changed the components of stock compensation in 1Q23 and did so retroactively. These changes added 16.5 cents to results for fiscal 2023 YTD (1.5 cents in 3Q) and 35.1 cents for the first three quarters of fiscal 2022.

- We saw that Accrued Liabilities of $73.9 million in 2Q23 fell to only $52.8 million in 3Q23. Non-GAAP operating margins rose from -4.1% to 5.9%. That was a $31 million sequential swing and accrued liabilities may be as much as $21 million of that change.

- Before 3Q23, Sales & Marketing and R&D expenses were increasing sequentially every quarter. In 3Q23, the non-GAAP levels of these expenses fell in dollar terms and as a percentage of sales despite a 10% bump in sequential sales. This added 15-28 cents to adjusted EPS.

- MDB talked down sales forecasts for 3Q on the 2Q call. Guidance was for revenue to be flat-to-down sequentially. Instead, it grew 10% and the $30 million in higher sales at the 74% gross margin added 28 cents to EPS.

- Guidance for 4Q looks like more of the same. Flat sales vs. 3Q, non-GAAP income from operations as low as one-third of 3Q's level, and EPS of 6-8 cents. Many of the levers pulled in 3Q do not look sustainable.

The Change in Definition for Stock Compensation Is a Material Boost to Non-GAAP EPS

MDB adds back five items to Non-GAAP earnings: stock compensation, amortization of acquired assets, amortization of time-based payments for prior acquisitions, and amortization of debt issuance costs, plus gains/losses on investments. The belief is these are non-cash costs or one-time events. We always argue that stock compensation is a real cost – try telling employees they

won't receive it. In that event, employees will want higher cash wages – which are not added back. At a minimum, stock compensation tends to dilute existing shareholders.

MDB changed its definition for stock compensation that it adds back to non-GAAP EPS. Through the 4Q22 (ending in January), MDB simply called out the stock compensation reported in GAAP earnings and on the cash flow statement:

> "*Non-GAAP operating expenses, non-GAAP loss from operations, non-GAAP net loss and non-GAAP net loss per share for the three- and twelve-month periods ended January 31, 2022 exclude: stock-based compensation expense"*

Beginning with 1Q23 the disclosure was been expanded:

> *"Non-GAAP operating expenses, non-GAAP income (loss) from operations, non-GAAP net loss and non-GAAP net loss per share exclude: expenses associated with stock-based compensation including employer payroll taxes upon the vesting and exercising of stock-based awards and expenses related to stock appreciation rights previously issued to our employees in China"*

Keep in mind that the logic behind adding back stock compensation to non-GAAP results is that they are not immediately made in cash. However, the associated taxes and SARs expenses related to China are incurred in cash. While we disagree with the logic of adding back any stock compensation, we see adding back cash expenses as even more aggressive.

How much did this help adjusted EPS in recent quarters? We would argue it has been a material benefit which is documented in the following table:

	3Q23	3Q22	2Q23	2Q22	1Q23	1Q22
Old Stock Comp Added Back (per GAAP)	$99,198	$68,708	$96,554	$57,705	$83,566	$50,914
New Stock Comp per GAAP	$99,198	$68,708	$96,554	$57,705	$83,566	$50,914
New Stock Comp added Back	$100,387	$78,511	$100,116	$65,215	$91,138	$56,480
Old non-GAAP EPS	$0.218	-$0.108	-$0.280	-$0.240	$0.099	-$0.154
New non-GAAP EPS	$0.232	$0.033	-$0.228	-$0.122	$0.198	-$0.064
Difference in Policy	$0.015	$0.142	$0.052	$0.118	$0.098	$0.091
* Wgt Avg Diluted Shares	80.39	78.51	68.33	63.43	77.00	61.36

It is important to see that under the old and new policies - the amount of stock compensation on the cash flow statement and the amount MDB lists as being part of GAAP expenses has remained the same. It initially looks odd as there is a footnote in the press releases showing this. But, in their non-GAAP measures - the new policy shows higher add-backs for the current year and the prior year. This is the new stock comp added back.

This policy change added 1.5 cents to EPS in 3Q23 and 14.2 cents to 3Q22, retroactively. It has added 5-10 cents in several other quarters. Also take note that when MDG swings to a non-GAAP adjusted profit, the share count rises because convertible items are no longer anti-dilutive.

As far as the change in policy for the appreciation rights for Chinese employees – MDB only discusses this program in the 10-K. Here is the note for this plan. **Note that this has been a cash expense that it is now adding back to non-GAAP EPS**. Also, note that this cash expense could continue for a few more years:

> *"In April 2016, the Company adopted the 2016 China Stock Appreciation Rights Plan (as amended, the "China SAR Plan") for its employees in China. These awards, which are granted to new employees, generally vest over four years with 25% vesting on the one year anniversary of the award and the remainder vesting monthly over the next 36 months of the grantee's service to the Company. Awards granted to existing employees generally vest quarterly over a period of four years, subject to the grantee's continued service to the Company.* ***The China SAR Plan units are cash settled upon exercise and will be paid as a cash bonus equal to the difference between the strike price of the vested plan units and the fair market value of common stock at the end of each reporting period.***
>
> *For the years ended January 31, 2022, 2021 and 2020 the Company granted 5,532, 2,763 and 5,975 units of the China SAR Plan, respectively, at a weighted average strike price of $386.23, $165.08 and $129.89 per share, respectively. During the years ended January 31, 2022, 2021 and 2020, upon the vesting of 1,296, 4,316 and 4,958 units, respectively,*

the total expense recognized related to China SAR was $1.6 million, $2.6 million and $2.1 million, respectively. As of January 31, 2022 and 2021, the Company's liability balance related to the China SAR Plan was $6.5 million and $5.9 million, respectively. *These amounts were recorded as part of the accrued compensation and benefits on the Company's consolidated balance sheet and recognized as bonus expense in the Company's consolidated statement of operations. During the year ended January 31, 2022, the Company paid $0.1 million in cash upon the exercise of 479 units.* ***As of January 31, 2022, there were 18,324 China SAR Plan units outstanding of which 1,526 units remained unvested.***

As of November 1, 2021, the Company does not expect to grant stock appreciation rights in the future and will instead grant RSUs to its employees in China."

Margins and Non-GAAP EPS Benefitted by Cutting Key Costs in 3Q

One thing that jumped out to us was how much accrued liabilities jumped from 1Q23 to 2Q23 and then promptly fell back in 3Q23:

	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22
Accrued Liabilities	$52.8	$73.9	$49.2	$48.8	$46.5	$35.1	$27.4

Accrued liabilities of $74 million in 2Q look out of line. An increase in an accrued liability account means expenses were recognized on the income statement. This is a concern if expenses that should have been matched to 3Q23 were incurred in 2Q23 as it would artificially (and unsustainably) inflate 3Q23 profits. This may very well have been a factor in the wild swing in margins and profits from 1Q to 2Q to 3Q. The following table shows non-GAAP income, profit margin, and the change in dollars versus the change in accrued liabilities for the last three quarters:

	3Q23	2Q23	1Q23
Non-GAAP Income from Ops.	$18.7	-$12.4	$17.5
Profit Margin	5.6%	-4.1%	6.1%
Profit Swing in Dollars	$31.1	-$29.9	
Swing in Accrued Liabilities	-$21.1	$24.7	

It is also interesting that this unusual swing in accrued liabilities coincided with an unusual sequential decline in key operating expenses which had, until 3Q23, been showing significant sequential growth.

MDB is also adamant about continuing to invest in the business by funding more sales efforts and additional research:

2Q23 call :

> "*And so,* ***we continue to invest in sales and marketing and in the R&D of the platform to position ourselves to capitalize on that long-term opportunity.***"

1Q23 call:

> "*And we've also said that we have a tiny share of the market. We're vastly underpenetrated. We have a really seasoned team. We know how to execute. And so* ***we're continuing to add more capacity into our sales organization across all the different geos and the segments.***"

The following table shows non-GAAP sales and marketing, research and development, and general and administrative expenses for the last seven quarters:

	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22
Sales	$333.6	$303.7	$285.5	$266.5	$226.9	$198.8	$181.7
Non-GAAP S&M	$138.4	$143.8	$115.7	$116.3	$90.4	$84.2	$75.4
Non-GAAP R&D	$62.6	$64.7	$57.3	$55.5	$47.5	$44.5	$41.5
Non-GAAP G&A	$27.0	$27.2	$23.4	$35.6	$21.9	$19.4	$17.4

These costs were rising sequentially every quarter with the exception of G&A in 1Q23. That's part of MDB's growth model. But look at the last quarter. Now, look at the spending as a percentage of sales in the table below. Ten-percent sales growth should give some leverage, but these costs are at very low levels compared to recent results:

	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22
Non GAAP S&M % Sales	41.5%	47.3%	40.5%	43.6%	39.8%	42.3%	41.5%
Non GAAP R&D % Sales	18.8%	21.3%	20.1%	20.8%	20.9%	22.4%	22.8%
Non GAAP G&A % Sales	8.1%	9.0%	8.2%	13.4%	9.7%	9.7%	9.6%

- If Sales and marketing should really be 43-45% of sales – MDB picked up 6-15 cents in EPS in the 3Q right here.

- If R&D should always be 21-22% of sales – MDB picked up 9-13 cents here.

- G&A doesn't look that out of line, but if it should be 9.1% - it added 4 cents here.

- It is likely that some of these cost reductions are in the drop in accrued liabilities, so we don't want to double-count these items. For a company that reported non-GAAP EPS of 23 cents and had 1.5 cents from adding back more stock compensation to results than last year, without these additional expense cuts profits could have easily swung to a loss.

- MDB's guidance for 4Q income from operations falling from $18.7 million to $6-$8 million tells us how unsustainable these cost cuts may be.

MDB Talked Down 3Q Sales Forecasts and Isn't Projecting Much for 4Q

Investors should remember that this big earnings beat for 3Q22 came against guidance from management for flat sequential sales growth of $300-$303 million vs. 304 million in 2Q and loss from operations of -$10 to -$8 million vs -$12 million in 2Q. We would expect MDB to budget much of its overhead costs for the next quarter in advance. That would make sales a wildcard in the short term and having sales come in $30 million above forecast at a 74% gross profit would add 28 cents to EPS. This adds to the cost issues above in what may not be sustainable and even trying to avoid double-counting – we think there are more than enough issues to offset all of MDB's 23 cents in Non-GAAP profit.

On their 2Q23 conference call which was well into 3Q23, management told investors several times that it sees sales headwinds:

> *"You'll recall that **we experienced slower than historical consumption growth in Europe in Q1 and in the U.S. in May. The May consumption patterns generally continued for the remainder of Q2** and self-serve did modestly better than our expectations."*

*"**Our expectation that the mid-market slowdown we saw in Europe in Q1 would become global in Q2. This is what we experienced, but the slowdown was more significant than we had expected**, specifically the digit layer subset of the mid-market experienced slower growth in their applications as a result of macroeconomic conditions, and therefore, their underlying consumption growth of MongoDB slowed as well."*

*"**Finally, turning to enterprise, our largest channel.** As in Q1, we had not seen an impact on consumption but we expected a modest impact to manifest itself in Q2. **Here, consumption growth was above our expectations in North America, while in Europe, we experienced greater-than-expected macroeconomic headwinds.** The slowdown in Europe was evidenced across all sub-regions and industries."*

*"First, **we expect the Atlas consumption trends we experienced in Q2 to continue for the remainder of the year.** Second, **in the second half of last year, as we called out at the time, we had exceptionally strong Atlas consumption growth leading to difficult Atlas year-over-year compares to the back half of the year.** And third, **we expect a sequential decline in Enterprise Advance in Q3 as the renewal base is sequentially lower**."*

For 4Q, MDB is not calling for much sales growth either. It is expected to be flat vs. 3Q at $334-337 million. However, on the positive front, deferred revenues did grow in 3Q for the first time this year:

	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22
Deferred Rev.	$398.2	$375.2	$375.5	$375.2	$297.9	$249.3	$248.3

We will be completing our review of this name over the next week and will update as appropriate.

POST Holdings (POST) Earnings Quality Update

6- Exceptionally Strong
5- Strong
4- Acceptable
3- Minor Concern
2- Weak
1- Strong Concern
+ quality improving
- quality deteriorating

We are maintaining our earnings quality rating of POST at 2- (Weak).

For an explanation of the EQ Review Rating scale, please refer to the end of this report.

Summary

POST's adjusted EPS of $0.85 beat by 15 cents in 4Q22 (ending in September) and it beat by 14 cents in 3Q22 (ending in June). We do not consider either to be quality beats and can find enough items of poor quality or low sustainability to account for both quarters:

- POST cuts advertising regularly and now spends less than it did during Covid. For 4Q, the y/y cut was $5.3 million, or 7 cents of EPS. For 3Q, the y/y cut was $6.5 million, or 8 cents of EPS.

- POST added back costs associated with damaged assets that it expects to be indemnified for. This was 5 cents of 3Q income that was reversed out as a 7-cent headwind in 4Q. This adjustment was not happening before from 2018 through the first half of 2022.

- POST is carrying almost no bad debt reserve. It is at $2.3 million, or 42bp of receivables. Its largest customer is Walmart at over 14% of sales and is well-known for taking rapid payment discounts on invoices – yet POST lists its total sales allowance for discounts, rebates, and promotions at only 1% of sales. FX for foreign sales can also impact the amount received. Having this bad debt allowance at even 1% would have cost POST 4 cents in EPS.

- R&D was cut again by $3 million which added 4 cents to full 2022 EPS, or perhaps 1 cent per quarter.

- POST stopped reporting its spending on repairs in the 2022 10-K. Repairs were $149-$163 million per year between 2017-2019. POST cut them to $140 million in 2020 and to $135.6 million in 2021. There was no mention of a surge in spending in 2022. If POST has been running $10-$15 million light in this area for the last three years, that is adding 3-5 cents to quarterly EPS and seems unlikely to be sustainable for long.

- POST is repurchasing shares to boost EPS growth, but it is borrowing some of the money to do this. With an ROI of 6%, we doubt this can continue amid higher interest rates. That added 1 cent in 4Q22.

- For 4Q, pricing jumped by 18% (largely driven by egg inflation). If that increase had been 17%, it would have cost POST 20 cents in EPS. For 3Q, pricing was up 16% y/y. If pricing had been up only 15%, it also would have cost POST 20 cents in EPS. The company is not far from missing forecasts badly.

- It doesn't look better when we consider how much pricing exceeded cost growth for raw materials, higher manufacturing costs, and freight costs. For 3Q, pricing growth exceeded cost growth by $17 million, or 22 cents of EPS. For 4Q, pricing growth exceeded cost growth by $85 million, or $1.05.

- POST just posted adjusted EBITDA of $280 million in 4Q and $251 million in 3Q – yet guidance for fiscal 2023 is only $990-$1040 million. It doesn't look like POST expects all this pricing to hold.

What to Watch

- Even with all the pricing gains exceeding cost gains, we still see POST only posted ROI of 6.3% in fiscal 2022 for adjusted operating income. Not only is that barely above their cost of debt (which for non-convertible securities is running from 4.5%-5.75%), we also see several areas that look unsustainable such as continued cuts to marketing and

repairs as well as pricing that exceeds commodity-related costs. It wouldn't take much negative change in those areas to push ROI into the 5's. (**See below for details)**

- Plus, how does POST justify doing more acquisitions? Its debt after the latest BellRing Equity for Debt exchange should be $5.8 billion, or close to 6x forecasted adjusted EBITDA. It borrowed and refinanced debt before the FED's recent actions. Would POST get 5% money or even 8% now? Can it keep a growth-related P/E ratio without deals or repurchasing stock?

- The 60.5% retained equity stake in 8th Avenue investment that POST initially valued at $169 million in 2018 and booked a gain on the sale of $127 million – is all gone. The 11% PIK preferred stock sitting on top of POST's common equity stake plus the continued losses of 8th Avenue ate up the value. POST now values this investment at $0 in September 2022.

- BellRing is officially gone. This has been the best deal POST ever made and it was able to milk it for significant cash. It was also one of the few deals where there were growth products that were created after 1922, so it was able to place products into new channels to drive further growth. We don't see much else in the portfolio of cereal, peanut butter, and eggs that has that type of potential. **(See below for details)**

- Food Service showed enormous growth bouncing back from Covid and now Avian Flu wiping out egg-laying hens. This was entirely due to higher pricing and this unit is the bulk of pricing gains for all of POST. We doubt this lasts much longer – maybe the December quarter with holiday baking demand driving egg purchasing amid lower supply. Then, pricing gains could drop off considerably. **(See below for details)**

Food Service Pricing Is Driving Results – but For How Long?

This unit sells largely to restaurants via Sysco and US Foods. Many of the products are egg and potato-related. With many restaurants closed or operating at low capacity or for take-out only, Covid caused volumes to collapse at this unit which began to rebound by spring of 2021 (April-June):

	4Q22	3Q22	2Q22	1Q22	4Q21	3Q21	2Q21	1Q21	4Q20	3Q20
Foodservice Vol.	4%	6%	11%	12%	23%	53%	-13%	-20%	-13%	-42%

Covid allowed POST to take some pricing via less trade promotion. Inflation allowed POST to boost pricing more in this area by late 2021 too. But Avian Flu hit the hens in the US in early 2022 and caused many egg production centers to lose about 10% of the hens. This dropped egg volumes and the pricing for eggs began to really soar by the spring of 2022 as seen in POST's pricing. This has been the area for the most gains in pricing seen by POST:

	4Q22	3Q22	2Q22	1Q22	4Q21	3Q21	2Q21	1Q21	4Q20	3Q20
Foodservice Price	33%	27%	10%	8%	12%	19%	7%	4%	0%	1%

We know for all of POST, 4Q22 pricing gains were 19%. Foodservice was 57% of that despite being only one-third of sales. In 3Q22, pricing gains for the whole company were 16% with Foodservice being 59% of that total. Here are the problems we see wih forecasting this to continue:

- Chickens grow fast, so the birds that will replace those killed by Avian Flu should be laying eggs by the end of calendar 2022 and early 2023.

- Holiday demand was up for Thanksgiving and is up for Christmas baking as well. That is likely bumping prices for eggs even more amid shortages for POST's fiscal 1Q23.

- We think the number of hens will probably be back at full capacity and seasonal demand will drop off in January and February. The younger hens will start to produce more eggs per bird as well. So egg supply could grow as seasonal demand wanes.

- Already, other key ingredients for POST products like wheat and corn have dropped in price. That doesn't impact eggs as much, but it certainly impacts cereal production, and POST has taken pricing there of 9% in the last two quarters.

- Big retailers that carry POST products are already pushing back against higher prices. They follow the prices of commodities too.

- POST's guidance for EBITDA for fiscal 2023 is $990-$1040 million. That is below the annualized rate of 4Q22's EBITDA of $280 million and even 3Q's $251 million. Losing 1% of pricing is worth $55-$60 million in annual EBITDA unless POST can grow volume to offset some of that. Volume growth has been poor already too.

ROI Remains Very Low Despite Pricing Gains – ROI Is Likely Below POST's Cost of New Money

There is still a very poor Return on Capital here. We talked about this when we saw that the majority of its acquisitions have had modest at best sales growth and the only source of margin gains was cutting marketing. We will use the company's definition of adjusted operating income (adjusted EBITDA less depreciation and amortization). Even after all the pricing gains, ROI is still only about 6%:

	Fiscal 22	**Fiscal 21**
Adj. EBITDA	$963.5	$889.4
Less Dep/Amortiz	$380.2	$366.5
Adj. EBIT	$583.3	$522.9
Debt	$5,957.7	$6,443.7
Equity	$3,265.7	$2,754.2
Capital	$9,223.4	$9,197.9
Adj. ROI	6.3%	5.7%

This is a company that actively looks to make acquisitions and improve the situation. We have to wonder if POST is more dependent on a zero-percent interest world. To POST's credit, it has locked in interest rates on its debt of 2.5%-5.75% and there are not maturities until 2027. All the debt will roll over by 2031. At the moment, POST's ROI exceeds its cost of financing. But, how does POST do additional deals? If the cost of new capital is 8%-10%, that's a problem for its growth model in our view.

- For readers who believe we should be using EBITDA rather than operating earnings, realize that POST has hefty cash needs every year for capital spending and minor acquisitions to maintain its growth premium valuation. This shows to us that depreciation and amortization are recurring cash costs.

	Fiscal 22	Fiscal 21	Fiscal 20	Fiscal 19	Fiscal 18
Capital Spending	$225.3	$190.9	$232.5	$273.9	$225.0
Acquisitions	$24.8	$290.3	$19.9	$0.0	$1,454.4
Inv. in Partnerships	$9.0	$22.1	-	-	-
Total	$259.1	$503.3	$252.4	$273.9	$1,679.4

- It is important to remember that the 6% ROI has been boosted by several items, including higher pricing, lower marketing, lower repairs, lower R&D, and repurchasing shares which lowers the equity base used to calculate ROI:
    - On pricing, 2022 was huge for POST in this area and it far exceeded the cost pressures they noted too. Price increases were $599 million in 2022. Against that, POST reported $335 million in higher raw materials, $109 million in higher freight costs, and $99 million in higher manufacturing/warehouse costs. That's still $56 million in pricing exceeding these costs – which is 10% of their adjusted operating income and would cut ROI to 5.7%.
    - Most consumer companies we follow saw advertising and promotional spending drop during Covid and then return in 2021 and 2022. Not POST- their marketing dropped from $153.4 million for the year ending September 2018 to $122.3 million in the year BEFORE Covid in September 2019. It has since declined in 2021 and dropped another $19.1 million in fiscal 2022 to only $93 million. $20 million of higher EBIT from reduced advertising added 20bp to ROI.
    - POST expenses repairs rather than reporting them via capital spending and depreciating them over time. POST stopped reporting repair spending for fiscal 2022. But we know it was declining from $157 million in 2019 to $140 million in 2020 to $136 million in 2021. We think POST could be helping EBIT by about $15 million – that's adding 16bp to ROI.
    - R&D is not as blatant other than simply being a small line item at 32bp of sales. It still dropped $3 million y/y in 2022.
    - POST has repurchased over $1.4 billion in treasury stock in recent years. They are borrowing to do much of these stock purchases, so again a low ROI is a problem with borrowing costs increasing. The repurchases not only help EPS

growth, but ROI would drop from 6.3% to 5.5% if there was an additional $1.4 billion in the capital figure.

Give POST an A Grade for BellRing – What's the Encore?

In 2013 and 2014, POST made a series of acquisitions that became its Active Nutrition unit with protein shakes and power bars. These three deals cost just over $700 million. Starting in 2019, POST began a multi-year process of monetizing this unit. Here are the highlights:

- October 2019, POST takes out a $1.225 billion bridge loan. BellRing assumes the debt and completes an IPO for 28.8% of the stock for $524.4 million. So POST nets $1.225 billion of cash.

- In 2022, POST borrows another $840 million and it cleans up different classes of stock at BellRing by sending those shares and $550 million in cash to BellRing in exchange for $840 million in BellRing notes. The $840 million in BellRing notes are used to repay POST debt. POST nets $290 million of value.

- In March of 2022, POST distributes the bulk of its remaining BellRing shares to POST shareholders.

- In August of 2022, POST sends 14.8 million shares of BellRing to lenders to retire $342 million in debt.

- In November of 2022, POST announced it will send the last 4.6 million shares of BellRing to lenders to retire $130 million of debt.

In terms of operations, this unit grew sales from $555 million in fiscal 2015 to $854 million in fiscal 2019 before the separation. That was primarily due to the initial stocking of Ready to Drink health shakes into new sales channels. POST did not report much growth or had negative growth in other product lines.

Profits rose from $26.5 million in 2015 before acquisition cost items to $175.7 million in 2019. There was definitely some leverage on fixed costs with higher volumes. But we also noted in the discussion of results that POST benefited from declining raw material costs in each year,

lower advertising in some of the years, and some variable increases or declines in freight costs. POST has little if any control over those costs. We'll give credit for rolling out product into new markets, but not for the benefit of declining raw material costs.

We think the important points to remember about BellRing are:

- It's 100% gone from POST at this point – it cannot contribute to cash flow anymore.

- There is not much else in the POST portfolio that can grow via expanding sales channels to stock. It would have to displace existing products.

- Recent deals are for long-established products that are unlikely to grow much such as Eggbeaters, Treehouse Food's line of private-label cereals, or Peter Pan nut butters.

We will give POST credit for making BellRing into a good growth story. And, it unlocked more value because the market would pay a higher multiple for those results than the rest of POST's businesses. However, we see nothing else in the portfolio that can use the same blueprint.

Explanation of EQ Rating Scale

6- (Exceptionally Strong)- Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises

5 (Strong)- Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.

4 (Acceptable)- Indicates the company may have exhibited a minor “red flag”, but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement

3 (Minor Concern)- Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.

2 (Weak) Indicates the company’s recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.

1 (Strong Concern)- Indicates that the company’s recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely

In addition to the numerical rating, the EQ Review Rating also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into upcoming quarters. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

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