BEHIND THE NUMBERS
Quality of Earnings Analysis

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Post Holdings, Inc. (POST)
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 POST with a 3- (Minor Concern) rating.

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

Summary

POST has not been hitting earnings targets of late with a 50-cent miss in the fiscal 4Q (ended September 2021), meeting forecasts in 3Q, missing by 26 cents in 2Q, and beating by only 1 cent in 1Q21. Guidance is for EBITDA to decline slightly in fiscal 2022 due to commodity inflation and supply chain issues. What immediately caught our eye was POST makes as many as 22 adjustments to non-GAAP earnings. However, on the positive side, these adjustments are often not a major amount of earnings. For 4Q21, adjusted EPS was 44 cents vs. 39 cents under GAAP. For the full year, adjusted EPS was $2.39 vs. GAAP of $2.55.

What is more concerning to us is POST's operating model is focused more heavily on acquisitions. The actual returns on many of the deals are modest at best in our view with ROI only about 7% under the best of conditions and heavily influenced by cutting marketing. At this time, POST is in the process of spinning off one unit and has a SPAC set up to do another purchase within about 18 months. We wonder if a period of rising interest rates and higher market values will make it difficult for POST to repeat its history of deals.

POST produced cash flow by letting inventory levels decline last quarter. POST uses FIFO accounting so it should get some insulation from rising commodity prices, but the fact that it reduced inventory in September could mean it will need to replace it with even higher-priced

product and crimp its margins more than expected. In the 4Q, it already called out $18 million in plant inefficiencies and poor fixed cost absorption along with higher material costs plus $12 million in higher freight costs. That is about 35-cents of their 50-cent earnings miss.

What is strong?

- Many of POST's adjustments to non-GAAP earnings look tame to us. We give POST credit for NOT adding back stock compensation and that cost EPS 68-cents in 2021 with adjusted EPS of $2.39.

- The bulk of adjustments is mark-to-market changes for hedges and commodity costs. We consider acquisitions to be a way of life for POST and would consider restructuring and transaction costs an ongoing cost of doing business. But, we are impressed that restructuring was only 9 cents in 2021 and 3 cents in 2020. We consider that very low for a company that has made $9 billion in acquisitions.

- It does appear that the BellRing spin-off will unlock value by having its growth rewarded with a higher EBITDA multiple than POST. Of all the deals POST completed, this one has seen sales and EBITDA both rise. We estimate that POST's shares have about $36 in BellRing value in them at this point. The spinoff should result in shareholders benefiting from this and perhaps reducing POST's share count too.

What is weak?

- POST's inventory declined significantly to end fiscal 4Q21. This is alarming to us because of the commodity inflation that is impacting much of the economy. POST uses FIFO accounting which should mitigate some of the impact of inflation as it sells its cheapest products first against higher revenues reflecting price increases. However, Days of Inventory dropping 13 days in 4Q21 makes us think POST was hoping for inflation to slow before it replenished materials. We think POST will now have to buy inventory at even higher prices now than in August and September. That may pressure results even more than expected and POST is guiding to lower EBITDA this year already.

- Other than BellRing, we haven't seen much improvement in the other acquired companies. Sales and EBITDA were essentially flat from the acquisition date to the end of fiscal 2018. EBITDA rose by only $145 million with BellRing being about $85 million and cutting marketing by several hundred basis points – every 100bp added $62 million to EBITDA.

- ROI is only about 7% even with Covid's help and was only 6.6% in 2021. That is helped considerably by reduced marketing, repairs, and research as a percentage of sales. Those items fell from 7.9% of sales to only 5.1% last year. A bounce of 50bp would cost POST about 36-cents of EPS and it only earned $2.39 last year.

- Deconsolidating the private brands business as 8th Avenue has not jump-started growth or earnings. We also think they sold the business for a lower multiple than it paid to acquire those companies. POST is touting success because it received $875 million in cash and debt reduction and still holds 60.5% of the common equity. The problem we see is there was $250 million of preferred stock that is paid in kind and compounding at 11% on top of the common along with more debt. We think that may effectively make the common stock worthless. POST has already watched the value of its investment drop from $169 million to $66 million after three years.

What to Watch

- Will POST see impairments on Goodwill and Intangible assets increase? We believe this risk is increasing as interest rates rise, POST is not forecasting growth, its ROI is low, and its test in September showed Goodwill only exceeded its carrying value by 11%-15%.

- Is the same acquisition playbook still available? POST has set up a SPAC to make a future deal in the next 5-6 quarters. However, in the past, POST was buying assets at cheaper multiples than some of those assets are trading for now and it was financing them with falling interest rates. Even then, ROI is only about 7% and a huge part of that has come from cutting marketing.

- POST's debt figure may top 7x EBITDA after the BellRing spin-off. That may require POST to devote some cash flow toward repayment and less on share buybacks. Share repurchases have added 7.2% to EPS growth in the last two years.

- In both 2021 and 2020 POST reported that it took pricing gains that exceeded the increase in raw material and freight costs. In 2021 that added 30-cents to reported EPS of $2.39. We expect more price hikes this year, but even POST seems to be guiding that the pricing will not fully offset inflation. This could become a headwind.

Inventory Levels Could Pose a Problem for Margins Going Forward

POST uses FIFO accounting which should help it offset some of the commodity inflation most companies are experiencing. However, we think investors should be concerned that in 4Q21 (ending in September) POST looks like it avoided purchasing higher-cost inventory. DSIs dropped 12 days sequentially and 13 days y/y:

DSIs	4Q	3Q	2Q	1Q
fiscal 2021	42.8	55.1	56.5	53.2
fiscal 2020	56.3	61.8	49.2	54.5
fiscal 2019	53.4	52.4	54.1	46.2

Already, margins were under pressure and POST has sought to boost prices. Prices actually were stronger than they look because POST noted on the earnings call that it drove pricing by reducing trade promotions that are recorded as a reduction to net sales. Adjusting for hedging gains and mark-to-market items, gross margin fell to 23.8% in 4Q21 from 30.3% in 4Q20. We can envision a stronger gross margin in 1Q22 when POST reports results in February given that it should have sold cheaper products. For 1Q21, POST's gross margin was only 27.4% down slightly from 27.9% in 1Q20.

The problem may come in 2Q22 (March 2022) when POST has to replace inventory at levels that have only risen more since POST delayed purchases in September 2021. This may be the biggest potential negative in the near term for POST.

Earnings Adjustments Are Not as Ugly as We First Suspected

Normally, when we see a company that lists as many as 22 adjustments to earnings, that would make us very likely to downgrade its earnings quality. However, as POST has done fewer deals in recent years, many of the adjustments are either very minor or represent items that make sense to call out as one-time in nature. For example, mark-to-market items for commodities and swaps to hedge those costs are the bulk of what POST saw for 4Q and fiscal 2021. Actual restructuring charges and transaction costs were added back but were largely immaterial:

	4Q21	4Q20	2021	2020
(Inc) expense on swaps	($0.27)	($0.07)	($1.88)	$2.67
refinancing fees			$1.16	$0.71
Mrk to Mrk hedges	($0.11)	($0.11)	($0.83)	$0.09
Accel Amortiz			$0.46	
Adj to Bargain Purchase	$0.02	($0.17)	($0.17)	(0$.17)
Legal Settlements			$0.23	$0.01
Mrk to Mrk Eq Inv.	$0.04	$0.02	($0.14)	$0.02
Asset disposal	$0.09		$0.09	
restructuring			$0.09	$0.03
transactions	$0.03		$0.09	$0.08
integration	$0.04	$0.01	$0.06	$0.05
inv. Adjustments	$0.02	$0.01	$0.05	$0.01
Advisory income			($0.01)	($0.01)
assets held for sale		$0.04	($0.01)	$0.04
FX on interco loans				($0.01)
Noncontroling Interest	$0.17		$0.09	
Taxes	$0.02	$0.21	$0.73	($0.64)
Total Adjustments	$0.05	($0.06)	$0.01	$2.88

First off, we are going to give POST high marks for not adding back stock compensation which many other companies do as though that is not a recurring cost. We do not have a problem with marking to market various hedges, swaps, and equity holdings. Nor, do we have an issue with a company saving money by refinancing debt.

- Accelerated Amortization is the result of POST discontinuing a brand name – that is certainly a one-time item in our view.

- Advisory Income comes from the 8th Avenue spin-off and is largely immaterial.

- The Bargain Purchase item also relates to the 8th Avenue spin-off and may disappear going forward.

- The non-controlling interest relates to the current BellRing situation where POST sold 28.8% in an IPO. As BellRing is completely spun off soon – that line item should go away.

Really, we are looking at primarily a company that grows through acquisition taking some restructuring charges and calling out transaction costs too. We would consider those to be a cost of doing business given the operating model POST uses and management believes doing deals represents their best skill factor. However, we can't fault POST too much even there as even the level of restructuring charges is fairly minor. We see other food companies that think nothing of taking multiple billion-dollar restructuring charges on a routine basis.

We are also going to point out that POST has taken just over $1 billion in impairments since 2011. $566.5 million was taken in 2011 before POST went public. Several of the others relate to discontinuing products or as part of spin-offs. For example, in fiscal 2019, POST recognized an impairment of $63.3 million related to the 8th Avenue spin-off. It took a charge in 2018 of $124.9 million as an impairment of a trademark for Weetabix. For having made $9 billion in acquisitions since 2011, total impairments have been $1.1 billion with over half occurring before POST was public.

We do think investors should have some concerns that impairments may increase in the future. POST has $4.6 billion in goodwill and $3.1 billion in other intangible assets which exceeds its $2.75 billion equity balance. Why do we say that?

- POST noted that its goodwill assets only exceeded their carrying value by 11%-15% in September.
- POST should have enjoyed a declining discount rate for several years that would have given goodwill even more cushion – now rates are likely to rise which would lower the valuation.
- As we'll point out below, POST's ROI is only about 7%
- POST is forecasting lower EBITDA this year and inflation is crimping margins already.

Acquisitions in Total Have Not Shown Much Growth

POST likes to tout its growth path of diversification since the spin-off in 2012. It points to this for its SPAC deal. We will agree that the Active Nutrition areas saw growth (this is now BellRing and we will discuss it further below). On the surface, total sales of Post and the companies it acquired were not materially higher in September 2018 than they were for pre-spin Post and the sales those companies generated before Post's acquisition. From the spin-off to September 2018, there were twelve acquisitions. For the year ended September 2018, POST reported sales of $6.3 billion and adjusted EBITDA of $1.2 billion. Here is what those companies were doing before they were part of POST:

Company added	Sales	EBITDA	Pre-Post date
Post Spin Post	$968	$249	fiscal 2011
Hearthside	$94	$18	July 2013
Premier Nutrition	$170	$18	Sept 2013
Dakota Growers Pasta	$300	$43	Jan 2014
Golden Boy Foods	$205	$29	Feb 2014
Dymatize Enterprises	$195	$31	Feb 2014
Michaels Foods	$2,000	$265	June 2014
Nestle Power Bar	$175e	$25e	Oct 2014
MOM Brands	$760	$120	May 2015
Willamette Egg Farms	$80	$15	Oct 2015
Natl Pasteurized Eggs	$80e	$15e	Oct 2016
Weetabix	$500	$150	July 2017
Bob Evans	$480	$107	Jan 2018
	$6,007	$1,085	

- We estimated Nestle Power Bar at $175 in sales and $25 in EBITDA – the only reference we could find was Power Bar + Dymatize + Premier were approaching $550 million sales.

- We estimated Natl. Pasteurized Eggs figures based off the Willamette Egg deal – the purchase prices were very similar at $90 million and $93.5 million.

Active Nutrition started with sales of $540 million by our estimate and $74 million in adjusted EBITDA. By 2018, it posted sales of $827 million and EBITDA of $159 million. Gains in that area account for nearly all the total gains posted by POST's acquisition results.

The rest of the improvement can be found entirely from cutting marketing:

	f18	f17	f16	f15	f14	f13	f12
Sales	$6,257	$5,226	$5,027	$4,648	$2,411	$1,034	$959
Advertising	$153	$160	$184	$137	$122	$118	$126
Adv. % Sales	2.45%	3.06%	3.66%	2.95%	5.05%	11.45%	13.18%

We're not going to argue that advertising should be 13% of sales given all the changes. EBITDA rose by $145 million from what these companies were reporting prior to Post buying them to fiscal 2018. Growth from Active Nutrition looks like about $85 million and every 100bp of marketing reduction is $62 million.

Returns Have Been Poor Too

Post’s plan was to diversify away from being purely a cereal company. It certainly did that. However, its original business had a 26% adjusted EBITDA margin. Many of the companies it acquired had margins of 11%-14%. As a result, Return on Capital declined for years – falling from 7% to under 5% and recovering to only just under 8%:

	f18	f17	f16	f15	f14	f13	f12
Adj. EBIT	$801	$642	$614	$362	$174	$129	$147
Debt	$7,254	$7,171	$4,564	$4,527	$3,856	$1,409	$946
Equity	$3,061	$2,790	$3,009	$2,976	$2,283	$1,499	$1,232
Capital	$10,315	$9,961	$7,572	$7,503	$6,139	$2,907	$2,177
ROI	7.8%	6.4%	8.1%	4.8%	2.8%	4.5%	6.7%

- Adjusted EBIT is POST’s definition of Adjusted EBITDA less Depreciation & Amortization plus stock compensation.
- The ROI is negatively impacted in fiscal 2014 because the very large Michaels Foods deal happened late in the year and thus had a smaller impact on EBIT and a full impact on capital. It is likely closer to 4.5% of fiscal 2013 and 2015.
- As noted in the prior section – the amount spent on marketing as a percentage of sales had dropped significantly. Had marketing been only 100bp higher in fiscal 2018, that would have cut ROI to only 7.2%.
- In 2021, Adj. EBIT was $647.1 million and total capital $9.8 billion for an ROI of only 6.6%.

There are some positives to many of the acquisitions too. For one thing, they bought much of these companies fairly inexpensively. Michael’s Foods brought in $2 billion in sales at only 9.3x EBITDA. MOM Brands added $760 million of sales at 9.6x EBITDA. Golden Boy was only 10.3x EBITDA. The bigger question as POST wants to run the same playbook with a SPAC and capitalize on its experience is, “can they still find deals at bargain-basement prices?” Weetabix in 2017 cost 12.6x EBITDA and Bob Evans Farms was 14.3x in 2018. These were all huge acquisitions in terms of price and sales added. Since 2018, POST found zero deals in 2019, spent a mere $20 million in 2020, and $290 million in 2021.

It’s also important to recognize that while many of these companies came with declining sales in some areas, we’re still talking about some food assets. This isn’t Kodak’s film business four years after the iPhone’s release. The decay is relatively slow and the companies can still produce solid cash flow. The bigger risk in our view is, “Will POST find it necessary to invest

more in these businesses to maintain cash flow?" In 2014, POST was spending 7.9% of sales on maintenance type spending and in 2016, it was still 6.8%:

	f21	f20	f19
Advertising	$151	$146	$146*
Repairs	$136	$140	$157
Research	$33	$29	$26
Capital	$320	$315	$329
Sales	$6,227	$5,699	$5,681
% of sales	5.1%	5.5%	5.8%

**Adjusted for an accounting change moved $23.7 million of advertising to the sales line.*

An extra 2% of sales going toward these expenses would cost POST $125 million in operating income, which is about $1.44-$1.52 in adjusted EPS. That compares to the EPS of $2.39 POST reported for fiscal 2021 and it is guiding to adjusted EBITDA being down modestly in 2022. We're not forecasting a 200bp increase overnight in this area, but even 50bp is 36-38 cents.

Deconsolidating 8th Avenue Foods Still Didn't Help Margins and Returns

Post is cheering that it monetized its Private Brands business in October 2018. This was the collection of nut butters, dried fruit & nuts, pasta, and granola businesses at POST. POST received $875 million - $250 million in cash and 8th Avenue assumed $625 million in debt. POST also retained 60.5% of the common equity. POST touted that this transaction fully monetized its investment and it still owns 60.5% showing their value creation. However:

- This business was still in decay after being owned by POST. There are three years of results for the full operation as the granola business was not transferred over to this unit until 2018. Margins were falling:

8th Ave	f18	f17	f16
Sales	$849	$791	$811
EBIT	$61	$58	$71
EBITDA	$102	$107	$118

Keep in mind, during these years, POST discontinued some low-margin businesses which would have hurt sales in 2017 but should have helped income. There is little evidence of that.

- The adjusted EBITDA was $103 million for fiscal 2018. THL paid $250 million for preferred stock and assumed $625 million in debt for $875 million. That sounds like 8.5x EBITDA. We know POST paid 10.3x EBITDA for Golden Boy Foods in February 2014 and 8.6x EBITDA for Dakota Growers Pasta. This doesn't sound like they sold for much of a premium. POST initially valued its remaining 60.5% equity stake at $169 million (and booked a gain of $126.6 million), which would value all the common equity at $280 million. If we add that in, that's 11.2x EBITDA. But there are problems with that valuation.

- First, THL's $250 million bought 2.5 million shares of 11% PIK preferred stock. That sits on top of the common equity POST still owns. The amount due to the preferred stock is rising rapidly:

8th Ave	f21	f20	f19
PIK Dividends	$37	$33	$29

The preferred stock should be $348.1 million now. On top of that, 8th Ave now has more debt- $786.5 million is the current total. That's obviously above the equity as well.

- Not only is 8th Avenue losing money, but its profit margin also looks lower:

8th Ave	f21	f20	f19
Sales	$901	$924	$839
Net Loss	-$24	-$6	-$18
PIK Dividend	-$36	-$33	-$29
Loss to Equity Inv.	-$61	-$39	-$47

Gross profit was only $132 million in fiscal 2021 and $140 million in fiscal 2019. There would still be SG&A expenses to deal with after that. The debt and preferred stock would get the first $1.13 billion in value. If EBITDA is $100-$120 million – that's 9.5-11.4x EBITDA and would make the common stock worthless.

- The net loss and the preferred dividend continue to reduce the value of POST's investment which is recorded under the equity method – meaning it adds/subtracts its

share of net income/losses and subtracts any dividends received. After starting at $169 million, POST is valuing its 8th Avenue investment at only $66 million after 3-years.

Our conclusion – this is painted as a success story because POST received $875 million for these assets, which fully cashed them out and they still own 60.5% of the common equity. We disagree. We believe the common equity will ultimately have little if any value as the preferred stock continues to compound at 11%. That means POST received $875 million for the total deal or 8.5x EBITDA for companies it paid 8.6x and 10.3x for after it owned it for four years and applied their expertise to the unit. It certainly does not look like three years after the sale that 8th Avenue is growing and boosting its results enough to cover rising debt and rising preferred stock.

Spinning-Off BellRing May Work Well

Some financial engineering is positive and reflects some real work. For example, POST bought Willamette Egg Farms and Natl. Pasteurized Eggs for only about 6x EBITDA. It later rolled that supply into Bob Evans Farms and its line of refrigerated/frozen egg meals. It has since added Egg Beaters and Almark, which deals in hard-cooked eggs. It can also be the creation of the Active Nutrition business – now called BellRing. By late 2014, many of these assets were in place and it was one of POST's better growth vehicles:

BellRing	**f21**	**f20**	**f19**	**f18**	**f17**	**f16**
Sales	$1,247	$988	$854	$828	$713	$575
Adj. Op. Profit	$204	$166	$175	$133	$96	$45

**Adjustments are fairly minor: $9 million in litigation accrual in 2018, $1.5 million in transaction costs in 2020, and $35.5 million in accelerated amortization and depreciation to reflect discontinued product.*

BellRing was largely acquired through:

- Premier Nutrition in September 2013 for $186 million for 10x EBITDA
- Dymatize Enterprises in Feb 2014 for $380 million for 16.5x EBITDA
- PowerBar from Nestle $150 million for our estimate of 6-7x EBITDA

POST was successful in growing this business when it sold 33% (39.5 million Class A shares) in a IPO for $524 million in October 2019 at a multiple of 11.7x with its debt. It also gave POST

a tracking stock that should trade at a higher multiple as it was their primary growth vehicle. POST retained a Class B share with 67% of the voting power and 97.5 million LLC shares that are convertible into the publicly held Class A shares. It now plans to recapitalize the company and eliminate the Class B shares and the LLC units. The new BellRing will take its current debt off the POST balance sheet and POST will contribute cash to BellRing in exchange for notes. That cash will be distributed to BellRing shareholders. BellRing's total debt figure will be less than 4x adjusted EBITDA. POST will receive 71.2% of the new company and spin-off at least 80% of its shares (57% of BellRing) to shareholders or exchange the BellRIng shares for POST stock and lower the share count.

Right now, BellRing has a market cap of $3.36 billion based on the current shares' $24.50 price and the LLC units that will convert into more of those shares. Currently, BellRing has $445 million in net debt. On the $234 million of adjusted EBITDA, BellRing is trading for 16.2x EBITDA.

The goal is to keep BellRing under 4x EBITDA in net debt. We take that to mean about 3.75x or $875 million in total. Thus, we expect BellRing will incur about $430 million in additional debt payable to POST and distribute that amount of cash. At 16.2x EBITDA, BellRing stock would be about $21.25/share after taking on extra debt and distributing that amount of cash (about $3.20 per BellRing share – but that amount has not been set yet). That would mean about $36-$37 per POST share, with 20% of that held by POST and 80% distributed to POST shareholders. When valuing POST, we would deduct BellRing EBITDA and about $36 from POST's share price. The market cap would be $5 billion at $77 per share + $6.6 billion in debt with EBITDA of about $800 million – giving POST a valuation of 14.3x EBITDA.

In retrospect, it appears BellRing worked in that POST grew the sales and the EBITDA since acquisition. It also has the market assigning it a higher multiple.

How Much More Financial Engineering Can Be Done?

Raising prices more than Raw Material and Freight costs has been another area that we would call financial engineering as that is tough to do every year. POST is guiding to a backloaded fiscal 2022 and lower adjusted EBITDA with a very challenging 1Q. But it was picking up earnings from having pricing exceed raw material and freight cost changes in recent years. We had to closely disassemble the results by segment via management commentary but here is what we saw:

- Fiscal 2021, pricing gains exceeded raw material and freight cost hikes by $24.8 million. At a 21% tax rate, that's 30-cents of EPS vs. POST's reported $2.39 in adjusted EPS.

- Fiscal 2020, pricing gains exceeded raw material and freight costs hikes by $22.4 million. At a 21% tax rate, that's 25 cents of EPS vs. POST's reported $2.89 in adjusted EPS.

- Fiscal 2019 had no information on the refrigerated unit for pricing or raw material and freight costs. The remaining units showed $75.7 million in higher pricing vs. cost increases. That added 80 cents to adjusted EPS of $5.03 that year.

There were years when the reverse was true such as 2013 and 2014 – costing POST 16 cents and 39 cents respectively. Our view is the largest customers are huge companies like Kroger and Walmart, who are focused on keeping prices low for their shoppers. These price/cost metrics can get out of whack in POST's favor at times, but it is unlikely to be a long-term source of consistent profits. That is especially true when POST has lowered supporting investments like advertising and promotion.

It is worth noting that POST's low Return on Capital has been helped by falling interest rates. ROI was 7.2% in fiscal 2021 and only 7.8% for fiscal 2020 with Covid. That's with the company cutting marketing and enjoying price hikes greater than cost increases. Losing 50bp of marketing cuts and having 2021 be neutral on pricing vs. cost increases would cut 60bp off 2021's ROI. It's probably fair to say POST has been generating an ROI of under 7%.

The problem we see is POST is still carrying 6.3x EBITDA in debt. It has refinanced much of its debt to a cost of 4.5%-5.75%. Thus, it's out-earning its cost of capital. However, it was paying 5.5%-6.0% in 2018 and paying 7.0%-8.0% in 2015. Kudos for taking advantage of the market conditions and reducing the cost of capital. The problem we see is the cost of funding is now going up again and if POST makes more deals, it may have to pay more to finance them. That does not mean that it will have to roll over current fixed-rate debt in the short-term, but investors should be aware that 100bp of interest cost is just over $70 million or 85-cents in EPS. That's a material amount of POST's earnings. Again, that source of earnings is not going away this year or even next year. However, it appears likely to pressure earnings if POST borrows more money or refinances any debt.

It's worth noting that POST has not paid down debt in recent years even with smaller outlays for acquisitions. It has focused more on share repurchases.

	f21	f20	f19	f18	f17
Cash from Ops	$588	$626	$688	$719	$387
Capital Exp	$193	$235	$274	$225	$190
Free Cash flow	$396	$391	$414	$494	$196
Acquisitions	$290	$20	$0	$1,454	$1,915
Divestments	$0	$0	$267	$0	$0
Partner investmts	$367	$0	$0	$0	$0
Adj. Free Cash	-$262	$371	$681	-$960	-$1,719
Change in Debt	$8	-$91	-$169	$713	$2,612
Share Repo	-$397	-$589	-$322	-$219	-$318
IPO Proceeds	$305	$524	$0	$0	$0

- POST has already monetized 8th Ave Foods and didn't use the proceeds to retire debt.

- It is spinning off BellRing to shareholders and that will not take much debt with it. **BellRing has just under $600 million in debt of the total of $7 billion and will remove 21% of the adjusted EBITDA. That will raise the debt/EBITDA figure over 7x.**

- Buying back shares lowers shareholders' equity. Receiving cash from 8th Ave's sale is one thing, but it has cut the equity balance with cash it doesn't have. **Every $300 million in lower equity adds 20bp to ROI – and ROI is still very low.**

- The repurchases are driving EPS growth, but can POST sustain them if debt is increasing without BellRing? **For both fiscal 2021 and 2020, POST added 7.2% to EPS growth with repurchases.**

A SPAC Deal?

POST issued an IPO for a SPAC (Special Purpose Acquisition Company) called Post Holdings Partnering Corporation in late May 2021. It has two years to find something to acquire and then apply the POST magic to it. There's nothing nefarious about this. POST essentially has some funding in place and a future exit plan should something materialize. POST effectively owns 31% of the SPAC. We'll see what materializes going forward, but consider this a minor sideshow at the moment.

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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