

# The Wolfe Weekend Howl

\*Sales and Trading Summary of this week's macro research highlights\*

## Wolfe Macro Highlights:

- Chris Senyek introduced Pt. 8 of his Late Cycle Accounting Watchlist focusing on Aggressive M&A Accounting.
- Yin Luo covered Multifactor Models in the Cryptocurrency Market via webcast.
- Rob Ginsberg analyses charts on Thursday pointing towards a growth scare.

## Upcoming Events:

Tuesday, June 28th at 11am ET - Yin Luo is hosting a Wolfe QES Webcast on Stock-Level ETF Ownership Signals  
[REGISTER HERE](#)

Tuesday, June 28th at 12pm ET - Chris Senyek is hosting a fireside chat with Christopher Leonard, the best selling author of The Lords of Easy Money: How the Federal Reserve Broke the American Economy  
[REGISTER HERE](#)

## Chris Senyek | Macro Research

### Late Cycle Accounting Watchlist Series Pt.8

Chris Senyek introduced Pt.8 of his Late Cycle Accounting Watchlist Series this week: this rendition focusing on M&A activity, which may remain relatively elevated as companies look to support growth by looking for bargains amid lower than recent valuations. The full series highlights areas where aggressive accounting practices could occur that could mask deteriorating business fundamentals given the current macro environment.

In the current environment, Post M&A, management teams typically feel pressure to, and are incentivized to, improve combined earnings and reduce future expenses. M&A accounting contains a multitude of subjective management accounting decisions and thus creates the perfect storm for earnings management, which can many times lead to low earnings quality. Chris Senyek highlighted 10 items in turn that acquiring companies may use to "stack the deck" in their favor.

In the note, Senyek includes a list of companies that have added material goodwill and intangibles to their balance sheets and also screen as having low Earnings Quality.

Late Cycle Accounting Watchlist Series:

Part VII: Managing earnings via reserves.

Part VI: Margins and expenses, and improper cost capitalization.

Part V: A/P Reverse factoring and potential for hidden debt.

Part IV: Debt and some complications that may come up when assessing leverage risks.

Part III: Cash taxes which are likely increasing at this point in Cycle.

Part II: Non-GAAP EPS, impact of stock compensation, and intangible amortization.

Part I: Deeper look into inventory and inflation.

### Largest Increase in Goodwill & Intangibles

Ticker	Company	Sector	Market Cap. (\$ in millions)	2022 YTD Return	2022E P/E	2022E FCFY Yield	Short Interest / Float %	1Q22 EQ Score (0=Worst, 100=Best)	GW & Int. / MC YoY Chg.
CABO	Cable ONE	Comm. Svcs.	7,934	-30%	18.7x	4.0%	5.6%	15	25%
VSTO	Vista Outdoor Inc.	Cons. Disc.	2,026	-26%	4.6x	12.4%	8.5%	5	27%
HRB	H&R Block, Inc.	Cons. Disc.	5,683	49%	10.0x	-0.4%	7.5%	12	19%
BC	Brunkow Corp.	Cons. Disc.	5,492	-33%	6.6x	7.0%	5.0%	7	17%
ETSY	Etsy, Inc.	Cons. Disc.	11,027	-67%	31.5x	4.2%	10.8%	20	15%
AEO	American Eagle Outfitters, Inc.	Cons. Disc.	2,387	-54%	9.5x	-6.8%	26.9%	16	14%
PLNT	Planet Fitness, Inc.	Cons. Disc.	6,548	-30%	41.3x	2.6%	4.5%	18	12%
HELE	Helen of Troy Limited	Cons. Disc.	4,217	-35%	12.2x	1.5%	9.1%	3	9%
LCII	LCI Industries	Cons. Disc.	2,958	-27%	6.1x	6.9%	6.8%	18	8%
HSY	The Hershey Co.	Cons. Staples	43,413	8%	25.7x	3.0%	1.6%	13	3%
EL	The Estée Lauder Companies Inc.	Cons. Staples	96,721	-35%	33.6x	2.7%	1.2%	0	3%
NFE	New Fortress Energy Inc.	Energy	10,461	73%	18.1x	-0.6%	7.5%	20	8%
NEX	NexTier Oilfield Solutions Inc.	Energy	2,906	181%	11.7x	5.9%	1.8%	2	4%
REGI	Renewable Energy Group, Inc.	Energy	3,121	45%	23.0x	NA	8.5%	9	2%
ILMN	illumina Inc.	Healthcare	36,688	-50%	45.9x	-0.4%	1.3%	9	25%
AHCO	AdaptHealth Corp.	Healthcare	2,427	-29%	12.3x	5.1%	17.3%	16	13%
SGRY	Surgery Partners, Inc.	Healthcare	3,489	-42%	114.0x	4.9%	9.7%	9	13%
LHCG	LHC Group, Inc.	Healthcare	5,185	18%	28.0x	3.4%	5.8%	1	11%
SGFY	Signify Health, Inc.	Healthcare	3,026	-16%	43.0x	3.8%	10.0%	6	11%
TMO	Thermo Fisher Scientific, Inc.	Healthcare	217,503	-24%	22.2x	3.1%	0.9%	9	10%
CERT	Certara, Inc.	Healthcare	3,055	-37%	36.0x	2.0%	3.1%	13	10%
COO	The Cooper Companies Inc.	Healthcare	17,071	-25%	23.9x	3.2%	3.7%	3	10%
AMED	Amedisys Inc.	Healthcare	3,766	-31%	20.9x	5.5%	3.8%	6	8%
OMCL	Omnicef, Inc.	Healthcare	5,366	-39%	28.1x	2.2%	8.2%	0	7%
ITGR	Greatbatch, Inc.	Healthcare	2,516	-17%	16.0x	3.1%	2.5%	18	5%
BSX	Boston Scientific Corp.	Healthcare	56,127	-17%	19.9x	3.3%	1.1%	14	5%
APG	API Group Corp.	Industrials	4,244	-39%	11.7x	4.5%	3.1%	8	59%
AVAV	AeroVironment, Inc.	Industrials	2,314	31%	46.3x	1.6%	3.9%	0	18%
PWR	Quanta Services, Inc.	Industrials	18,745	8%	19.7x	3.3%	3.8%	8	15%
CSL	Carlisle Companies Inc.	Industrials	13,925	-1%	14.3x	6.0%	1.3%	8	11%
MIDD	Middleby Corp.	Industrials	8,064	-33%	13.8x	5.0%	10.2%	15	9%
ST	Sensata Technologies Holding	Industrials	7,617	-29%	11.3x	6.0%	2.3%	8	9%
ROK	Rockwell Automation Inc.	Industrials	25,085	-42%	21.4x	5.1%	1.6%	8	9%
EFX	Equifax Inc.	Industrials	24,079	-41%	21.1x	2.8%	1.9%	15	8%
HRI	Herc Rentals Inc.	Industrials	3,739	-33%	8.6x	-1.8%	2.4%	14	7%
GNRC	Generac Hldgs.	Industrials	18,891	-32%	20.2x	3.2%	4.6%	4	7%
MRCY	Mercury Systems, Inc.	Industrials	3,590	6%	24.3x	-0.2%	6.8%	0	6%
APPS	Digital Turbine, Inc.	Info. Tech.	2,071	-75%	9.1x	-1.7%	6.5%	9	44%
AMD	Advanced Micro Devices	Info. Tech.	165,519	-40%	20.1x	4.3%	2.1%	17	30%
SWKS	Skyworks Solutions Inc.	Info. Tech.	17,164	-40%	8.3x	6.9%	1.7%	1	15%
BR	Broadridge Financial	Info. Tech.	17,193	-26%	20.8x	2.3%	1.7%	1	15%
CRM	salesforce.com, inc.	Info. Tech.	189,633	-35%	34.6x	2.3%	1.4%	12	14%
AMBA	Ambarella, Inc.	Info. Tech.	3,177	-66%	56.2x	-1.6%	4.1%	6	10%
SON	Sonoco Products Co.	Materials	5,760	-4%	10.4x	4.6%	2.0%	12	14%
GPK	Graphic Packaging Holding Co.	Materials	6,857	5%	9.8x	6.6%	2.4%	8	14%
SMG	The Scotts Miracle-Gro Co.	Materials	5,171	-46%	16.1x	4.5%	5.1%	3	5%

Note: Increase in GW & Int / MC based on change in asset balance / 1 year ago market cap. Includes cos. in top 15% of sector and 20 or below EQ score.  
Source: Wolfe Research Accounting & Tax Policy Research; Company filings; FactSet; Standard & Poor's. Market data as of 6/14/22. PE and FCFY based on 2022 consensus.

## Yin Luo | Quantitative Research

### Multifactor Models in Cryptocurrency Market Webcast

Yin Luo and Wolfe QES discussed their suite of tools and models for the cryptocurrency markets via webcast this past week. You can watch a [Replay Here](#).

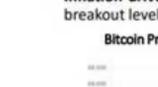
Luo and team start the webcast with a Cryptocurrency Primer and a broad overview of this emerging asset class, the underlying technologies and various ways to gain access. Next they elaborated on the three prototype Multifactor Models for Cryptocurrencies, which they published on late last year (a Fama-French type model, a statistical risk model, and a Bayesian VAR macroeconomic model). They detailed their Bella (Bitcoin Exposure Language Learning Analysis) model, which identifies public companies with significant exposures to the cryptocurrency market. Additionally, a top academic researcher in the crypto space demonstrated how to derive value from blockchain information for cryptocurrency investing. And lastly, a leading crypto data vendor walked through their on-chain datasets which can unveil fundamental analyses for crypto-assets.

Presenters included:

Yin Luo, Vice Chairman, Wolfe Research QES

Kai Wu, Research Associate, Wolfe Research QES

Yukun Liu, Assistant Professor of Finance, Simon Business School at University of Rochester



## Cryptos as an Inflation Hedge?

- **Inflation-driven Rally:** On November 2, 2021, both Bitcoin and Ethereum rallied to all-time highs. Interestingly, their breakout levels occurred immediately after the release of the October CPI data.

Bitcoin Price Reaction

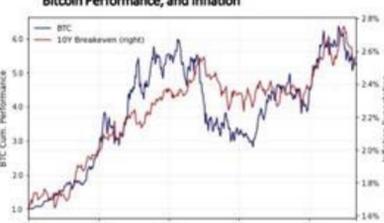


Ethereum Price Reaction

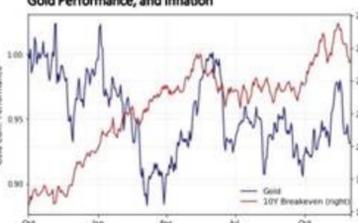


- **BTC Thrives while Gold Retreats:** (As of November 2021) Bitcoin price rallied five folds since October 2020, whereas our gold spot index has lost -7% during the same period. If we compare the price trends of both assets with the inflation expectation (represented by 10-year Breakeven Rate), obviously Bitcoin has been more correlated with inflation than gold, the traditional go-to asset for inflation hedging.

Bitcoin Performance, and Inflation



Gold Performance, and Inflation



Sources: CoinMarketCap, CoinSeko, Bloomberg Finance LLP, Haver Analytics, Wolfe Research Luo's QES

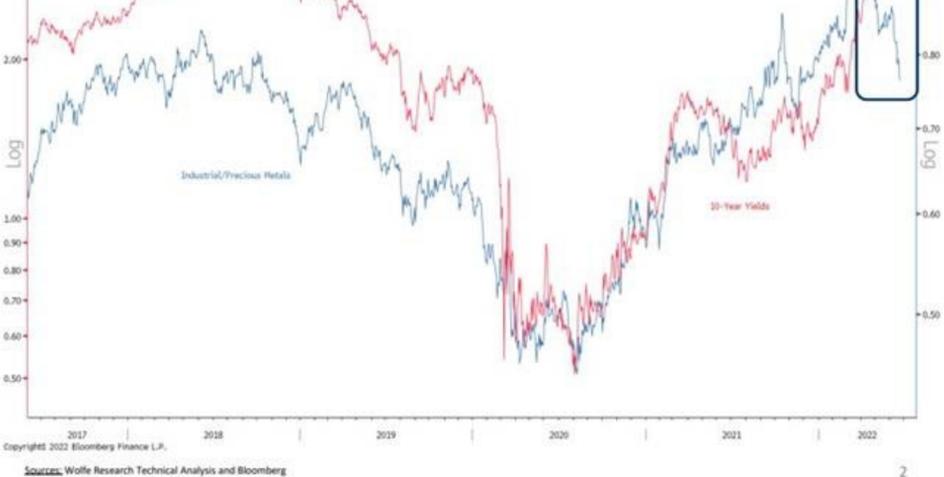
## Rob Ginsberg | Technical Analysis

### A Painful Waterfall

In Thursday's charts, Rob Ginsberg noted that high yield and leveraged growths continue to paint an ominous picture. Similarly, Industrial Metals charts seem to be pointing towards a growth scare, as failure to respond to oversold signals at support is always a concern. Copper and FCX seem to be heading towards a downturn, and Rob looks into what a market bottom could look like dependent on how the Fed reacts. Biotech is facing a test in resistance, but there's another buying opportunity in Energy and Rob looks at charts for COP, CTVA, and HES which are all attractive buying opportunities at the moment.



## Growth Scare Next? The Sharp Break in Industrial Metals Seems to Be Sniffing Something Out



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