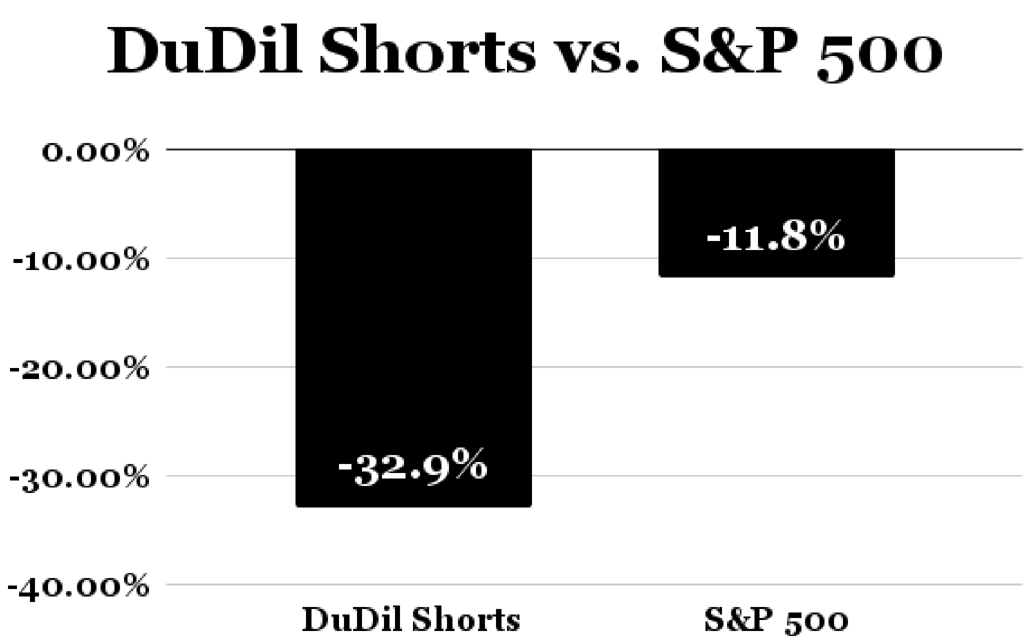
June 2022

DuDil
SHORTS

SUMMARY

- Two new stocks have been added, nine have been removed
- The names removed— the equivalent of covering a short position— generated excess returns of 21.1%
- The names removed fell 32.9%, outperforming the S&P 500 which fell 11.8%
- The updated DuDil Shorts list— which includes four remaining open positions— has underperformed the S&P 500 by 1.9%



Additions for June

We added two names to the DuDil Shorts in May.

Ticker	**Company**	**Reason**
HSIC	Henry Schein	Legal & Regulatory
POSH	PoshMark	Revenue Recognition

Henry Schein (HSIC)
The dental services firm was added May 3, 2022 after recently being suspended from receiving Medicare payments and is deferring millions in revenue pending the resolution of a federal audit. HSIC is allowed to continue performing and billing for Medicare service with payments being deposited in an escrow account pending the resolution of a federal audit. Henry Schein did not disclose which of its businesses was suspended. The company hasn't recognized revenue for the services being audited and has deferred a total of $8 million— $4 million in the fourth quarter 2021 and first quarter 2022. We're currently attempting to identify the business unit under audit and estimate how much money, if any, Medicare may be inclined to claw back under the False Claims Act, which allows for the collection of triple damages.

PoshMark (POSH)
The second-hand fashion marketplace was added May 16, 2022 after we discovered new accounting errors related to revenue while correcting three years of financials and has overstated revenue for a third consecutive year. The company originally revealed in its latest annual report that it had identified prior period errors in its previously issued financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019, as well as the first three quarters of 2021. Poshmark corrected its financials for the three months ended March 31, 2021, revealing it had overstated revenue by $229,000, its net loss by $381,000, & understated operating cash flow by $394,000. It's the third consecutive year Poshmark initially overstated its revenue. In 2019 and 2020, Poshmark overstated sales by a combined $718,000.

The DuDil Shorts List

The DuDil Shorts list currently includes four names:

Ticker	Company	Reason/ At Issue
HSIC	Henry Schein	Legal & Regulatory
POSH	PoshMark	Revenue Recognition
WDAY	Workday	Earnings Quality
MKC	McCormick	Capital Allocation

Workday (WDAY)
The SaaS company was added April 13, 2022 after we discovered the company had increased the cash component of certain employee compensation packages. Rather than performance based restricted stock units (PRSUs), Workday awarded $32 million in cash bonuses in the first quarter. Unlike stock based compensation (SBC)— a non-cash expense— the new cash bonus scheme reduces the company's operating cash flow. For example, with SBC the equivalent of 21.4% of 2021 revenue, Workday's 2021 operating cash flow would fall 65.6% to $550 million if SBC was paid in cash. The cash bonuses paid in the quarter are the equivalent of 10.27% of SBC expense. If the trend continues, our model indicates Workday has downside risk of between 12-23% as future earnings reports reveal operating cash flow pressure.

McCormick (MKC)
The spice and hot sauce maker was added March 30, 2022 after tallying the company's seemingly never ending special charges and declining ROIC. McCormick's special items— charges associated with reducing fixed costs and business streamlining initiatives— are not unusual, one-off items that deserve to be excluded from profitability calculations. If we include the current quarter, McCormick has recorded special charges totaling $248.5 million since 2013. If special charges occur in 2023 as stated, our analysis reveals McCormick will have taken such charges in each of the last eleven years. These charges do not include costs associated with integrating acquisitions, which we also argue are a recurring part of McCormick's business. Though McCormick is a serial acquirer, it's not clear if management is allocating capital as well as it might. Since 2013, our analysis indicates ROIC has declined from 12.2% to 8.2% in 2021. Though they haven't for a decade, we believe shareholders will tire of McCormick spending billions on acquisitions that reduce returns on invested capital.

Removals for June

We removed nine names from the DuDil Shorts list— which is the equivalent of covering a short position— with explanations provided after the chart.

Ticker	Company
CRNC	Cerence
AVYA	Avaya
OKTA	Okta
GTX	Garrett Motion
ZM	Zoom
AI	C3.ai
BDL	Flanigan's Enterprises
ARRY	Array
NOW	ServiceNow

Cerence (CRNC)
We added Cerence January 6, 2022 after discovering three accounting errors that resulted in the inaccurate reporting of revenue, net income and other items in multiple periods. The company's books were such a mess that in the quarter ended March 31, 2020 it understated net income by 2.5%. The company has struggled to accurately account for its performance since being spun off from Nuance Communications in 2019. We removed Cerence May 6, 2022 after the stock was little changed following a less than impressive earnings report.

Avaya (AVYA)
We added Avaya January 6, 2022 after discovering two years of revenue recognition trouble had inflated 2021 sales by $15 million. The call center solutions provider   Revenue that should have been recognized in 2019 and 2020 was simply added to its 2021 total. Adjusted for taxes, the revisions also resulted in a $13 million decrease in Avaya's 2021 net loss. Even so, management concluded its internal controls over financial reporting were effective. The company's auditor, PwC, also had no problem with the effectiveness of Avaya's controls. We removed Avaya May 11, 2022 after shares fell following a disappointing earnings release.

Okta (OKTA)
We added Okta March 8, 2022 after the company lapped a change we suspected would negatively impact reported billings. The year prior we estimated Okta pulled forward tens of millions of dollars in calculated billings by changing the timing of its customer invoicing practices. Payment is now due Okta the moment

a customer signs a contract rather than the date the contract commences. In the year ended January 31, 2022, 94.8% of billings growth was attributable to the change. We suspected billing growth would disappoint and had planned to maintain the position through Okta's June 2, 2022 earnings. However, we removed Okta May 25, 2022 after a significant decline on little or no news.

Garrett Motion (GTX)
We added Garrett February 17, 2022 after discovering the company had made material errors in its EPS calculations 10-months after emerging from bankruptcy. The company blamed "complex contracts" for the error which resulted in a significant EPS overstatement the entire time the company relisted on the Nasdaq post-bankruptcy. In the 9-months ending September 30, 2021, Garrett reported basic EPS of $4.34, or 172% more than the corrected full year tally of $1.56 per basic share. We removed Garrett May 11, 2022 after a sharp move lower ahead of earnings.

Zoom (ZM)
We added Zoom March 8, 2022 after the company modified its employee equity award policy that provided employees additional equity the lower the stock fell. Though it was the first quarter Zoom had awarded additional RSUs to employees, we anticipated the practice would last approximately four years as we did not find an update to the original equity incentive plan in the quarterly filing's exhibit index. Year-over-year (YoY) stock based compensation nearly doubled to $1.4 billion, which the company said included the impact of the RSU modification. The number of unvested RSUs increased YoY by more than one million, or 22.95%, to 5.5 million which was the equivalent of 1.84% of current shares outstanding. We removed Zoom May 15, 2022 after the stock jumped following the announcement of an acquisition.

C3.ai (AI)
We added C3 March 3, 2022 after noting a significant increase in the company's customer concentration risk. Specifically, revenue from C3.ai's top customer more than doubled that quarter and accounted for more than one third of sales. Separately, C3 also modified how it defines and counts customers. Unsurprisingly, the revised calculation significantly increased C3.ai's customer count. Under the revised methodology, C3.ai reports 218 customers as of January 31, 2022, up 81.6% from 120 the prior year. Under the old calculation method, C3.ai's customer count would have totaled 110 as of January 31, 2022, up 46.6% from 75 the prior year. With a suspicion customer growth was slowing, we intended to hold the position into earnings. We removed C3.ai May 9, 2022 ahead of a conference in which we assumed management had only agreed to participate to deliver good news.

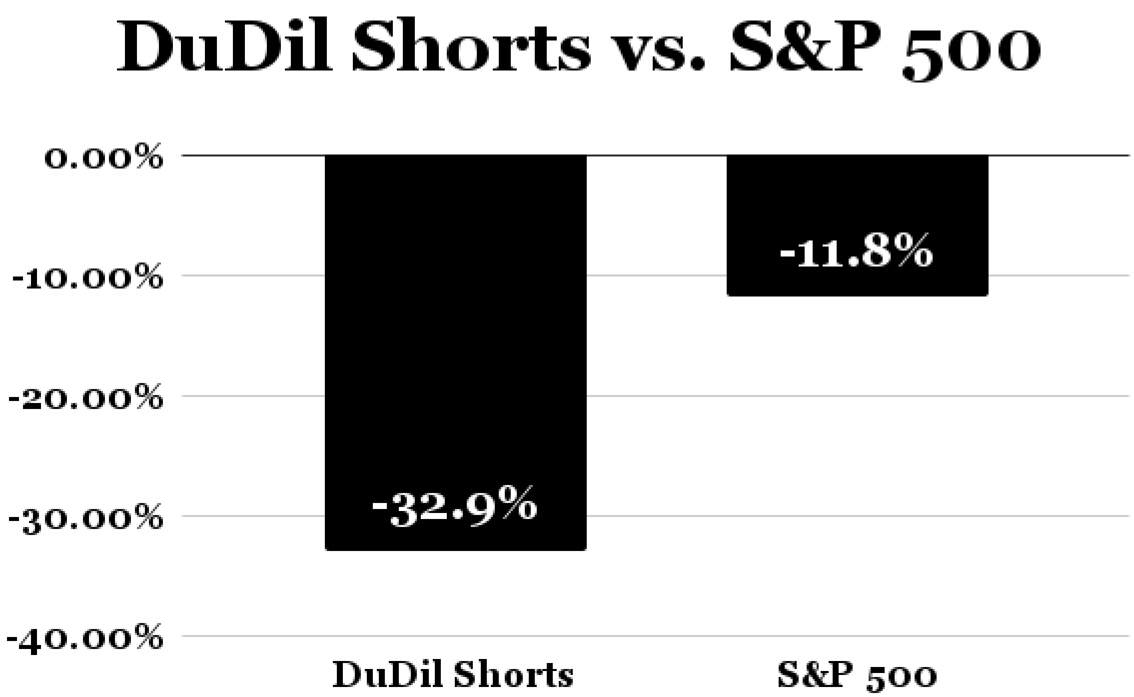
Flanigan's Enterprises (BDL)
We added Flanigan's January 20, 2022 after discovering lease accounting trouble in the company's belatedly filed annual report. The company provided little detail after disclosing it had trouble distinguishing between operating and finance leases. Though initially receptive to answering our questions, Flanigan's CFO went silent after we noted year-over-year increases of 28.9% and 33.4% in operating lease assets and liabilities and asked if anything needed to be reconciled or reclassified. We removed Flanigan's May 31, 2022 after the company reported earnings that were well received.

Array Technologies (ARRY)
We added Array March 28, 2022 after noting shares had run up more than 30% despite a recent disclosure the company would not be able to file its annual report on time due to potential accounting issues. We suspected Array had recognized revenue too aggressively and one month later the company restated financials for the first 9-months of 2021. The company overstated sales by 1.15%, operating income by 105%, and net income by 20.3%. We removed Array May 11, 2022 after the company announced U.S. Government policy on Chinese solar panel dumping would result in a $250 million revenue hit in 2022.

ServiceNow (NOW)
We added ServiceNow April 28, 2022 after shares jumped approximately 8% on earnings that were inflated by a change in useful life estimates. Without the change, adjusted operating margin would have declined more significantly from the prior year— by 370 bps to 23.6%. The change accounted for 4.8% of the quarter's operating income and 5.7% of diluted earnings per share (EPS). We removed ServiceNow May 9, 2022 after a sharp decline due to general market volatility.

Performance Update: DuDil Shorts Outperform the S&P 500 by21.1%

DuDil Shorts generated excess returns of 21.1%. The names removed fell 32.9%, outperforming the S&P 500 which fell 11.8% .



Performance is measured from the first day a name is added to the DuDil Shorts list to the last day a name is removed. For the nine stocks removed, the period is January 6, 2022 to May 31, 2022. We calculate the S&P 500's return over the same period using the SPDR S&P 500 ETF Trust (SPY). Below are results for each of the none stocks we removed.

Ticker	**Name**	**Return**
CRNC	Cerence	-63.3%
AVYA	Avaya	-70.2%
OKTA	Okta	-48.2%
GTX	Garrett Motion	-16.2%
ZM	Zoom	-12.6%

AI	C3.ai	-37.3%
BDL	Flanigan’s Enterprises	15.3%
ARRY	Array	-47.5%
NOW	ServiceNow	-15.5%

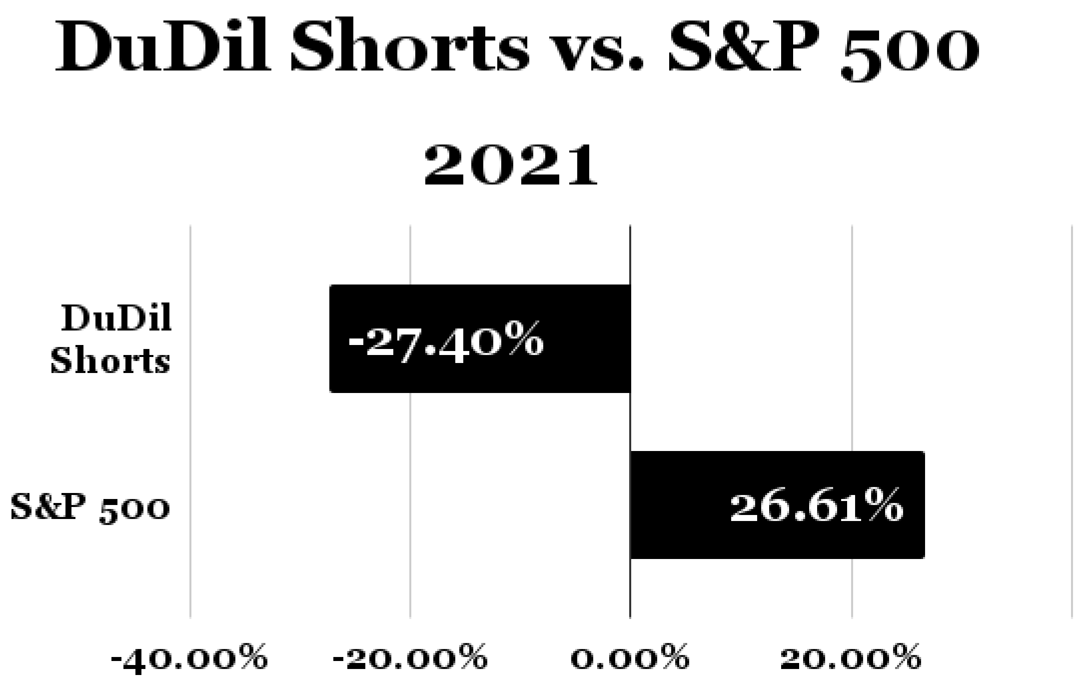
The current DuDil Shorts list— which includes the four remaining open positions— has underperformed the S&P 500 by 1.9%%.

DuDil Shorts has generated an average return of -7.6% vs. the S&P 500’s return of -9.5% over the same period.

Performance is measured from the first day a name is added to the DuDil Shorts list to the end of the month prior to this report— March 30, 2022 to May 27, 2022. We calculate the S&P 500’s return over the same period using the SPDR S&P 500 ETF Trust (SPY). Below is the performance of the latest DuDil Shorts list vs. the S&P 500:

Ticker	**Company**	**Return**
HSIC	Henry Schein	4.7%
POSH	PoshMark	-0.2%
WDAY	Workday	-30.6%
MKC	McCormick	-4.4%
SPY	S&P 500	-9.5%

In 2021, DuDil Shorts, as a short portfolio, generated excess returns of 54.01%, falling 27.4% vs. the S&P 500's gain of 26.61%.



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