

## Quick Take For The Curious: The High Price of Predicting Progress

Your author's 11 year-old, like many her age, has become not just a purveyor of various games on Roblocks but has also written code for two games. She and her younger sister watched with grave disapproval as their father managed to suffer calamitous, early, and presumably avoidable deaths attempting to navigate the hellish obstacle courses she had designed. Looking to redeem my daughters' perceived confidence in me, I made the catastrophic decision to show her the "game daddy plays all day in his office."

Having secured her an app with stock prices, given her a brief primary on how stocks are not just slips of paper but also interests in real companies, her stock-picking began<sup>1</sup>. "This is easy dad," she quipped on a recent Friday. Her method is to find the stocks at the top of the list with green arrows....and pencil them down as picks. If they go down a few days in a row, she sells them. Her results rival the best managers of our time. **In this age of "helicopter parenting," where parents often herald the success of children, I share this story to show my intellectual honesty: my 11-year-old will be wrong!**

Many of us here at Kailash sport gray hair and have proven ourselves no match for the rip-roaring rise of tech-heavy index funds to even more concentrated specialty ETFs. While "growth" and "value" have traded blows for the majority of the post-2010 period, Kailash has documented, in Fig. 2 of [this paper](#) and Fig. 1 of [this paper](#), that the ballistic rise of many highly speculative firms occurred in the years since 2017. **Today Kailash believes market participants are standing on a dangerous precipice.** Below we have provided a list and some simple salient fundamentals of all the Tech stocks trading over 33x Price to Sales. Why 33x? More on that in a moment.

The list is ordered from most to least expensive. These firms trade at utterly ghastly multiples. **Even more remarkable is that excluding two firms, every one of these companies loses money and is issuing stock (negative shareholder yield) to fill the hole!**

### Tech stocks trading at over 33x price to sales are predominantly loss-making and issuing equity

Ticker	Company Name	Market Cap (\$m)	P/S	P/E	ROE	ROA	Margins	Shareholder Yield
SNOW	SNOWFLAKE INC	73,480.71	150.2x	-173.5x	-8.5%	-7.4%	-86.0%	-6.5%
BILL	BILL.COM HOLDINGS INC	13,549.63	73.8x	-282.6x	-5.5%	-1.2%	-23.9%	-2.5%
CRWD	CROWDSTRIKE HOLDINGS INC	47,726.06	62.7x	-467.7x	-12.5%	-5.8%	-9.2%	-0.1%
NET	CLOUDFLARE INC	22,710.94	58.4x	-200.1x	-13.7%	-8.3%	-16.0%	0.0%
ZS	ZSCALER INC	27,507.44	57.3x	-179.7x	-31.1%	-8.3%	-19.8%	-0.1%
ZM	ZOOM VIDEO COMMUNICATIONS INC	106,832.29	54.6x	250.2x	28.5%	14.0%	23.6%	-0.3%
DDOG	DATADOG INC	29,042.04	53.8x	-3874.3x	-0.8%	-0.4%	1.6%	-0.1%
TTD	TRADE DESK INC	37,809.03	51.6x	267.5x	17.0%	6.6%	16.1%	-0.1%
COUP	COUPA SOFTWARE INC	24,138.13	49.3x	-169.1x	-34.6%	-6.2%	-10.5%	-0.1%
OKTA	OKTA INC	33,858.30	44.1x	-140.5x	-35.4%	-7.6%	-21.5%	-0.2%
MDB	MONGODB INC	23,216.01	42.8x	-91.5x	-1163.6%	-18.7%	-32.1%	-0.1%
STNE	STONECO LTD	26,537.34	42.6x	159.1x	6.5%	3.1%	57.9%	-5.2%
PLTR	PALANTIR TECHNOLOG INC	41,267.80	41.3x	-35.1x	-94.1%	-45.2%	-112.8%	-2.3%
U	UNITY SOFTWARE INC	29,164.18	41.1x	-116.9x	-12.1%	-9.6%	-11.8%	-6.4%
APPN	APPIAN CORP	12,149.72	39.9x	-362.9x	-11.3%	-6.5%	-10.5%	-0.9%
TWLO	TWILIO INC	59,286.77	38.4x	-147.5x	-7.0%	-6.0%	-17.4%	-2.5%
TEAM	ATLASSIAN CORP PLC	59,439.74	33.0x	-50.1x	-701.9%	-33.3%	6.1%	0.0%
CSCO	CISCO SYSTEMS INC	438,201.56	32.7x	218.3x	14.5%	11.5%	20.8%	-0.2%

Source: Kailash Capital

<sup>1</sup> For our compliance officer: theoretical paper portfolio only!!!

## Why 33x Sales?

As documented in our historically informed brief on the [catastrophic folly](#) of investing in companies trading at 10x price to sales, massive multiples like this are a recipe for disaster. Kailash decided to jump to 33x sales after reading a brief but [brilliant missive](#)<sup>2</sup> by Jamie Powell in the Financial Times. In it, he documents Cisco's meteoric 236% rise into the peak of the internet bubble "...backed by a crazed-enthusiasm for the technological shifts brought about by the internet. The Thesis was solid: as a provider of networking equipment for both telecom players and other businesses, Cisco was the shovel-seller in a dot com gold rush. What could go wrong?"

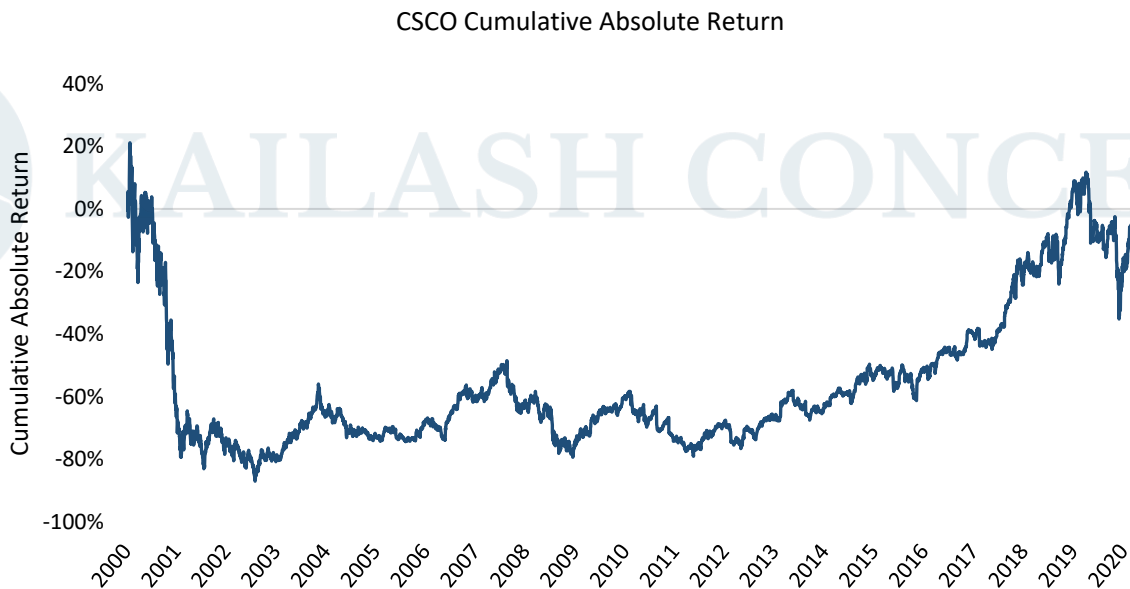
**You may not have noticed but the last name on the list above was CISCO – and the fundamentals and valuations were as of MARCH 2000.** The list above is merely "all the tech stocks that are MORE expensive than 2000 at its peak." Look at the list again. What is remarkable is that Cisco is the CHEAPEST of that group, and it also had the second-best margins in the group. **Compared to Cisco, the rest of the stocks listed above have the fundamental optics of a burning dumpster fire.**

With hindsight, investors' faith in the company's fundamental prospects proved to be well placed. As documented by Powell, over the ensuing 21 years, Cisco would see its profits quintupled and the company averaging a 17% ROE. **Similar to our analog between [Carvana today and Akami in 1999](#), even if you had perfect foresight to know that Cisco would be a massive growth compounding engine, investing in the stock was a disaster. After suffering an -80% decline, you had to hang on for 21 years to get your money back.**

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### CSCO Cumulative Absolute Return – Dot.Com Peak to Today

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Source: Kailash Capital; Data from 2/29/2000-3/15/2021

**Kailash urges investors to contemplate the brutal and unforgiving arithmetic lesson in the charts above.**

**EVEN WITH PERFECT FORESIGHT, YOU PAY TOO MUCH; YOUR RETURNS WILL BE HORRIBLE.**

<sup>2</sup> If you are not a paid-up subscriber to the Financial Times you truly are missing out

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