Filing Season Finds: Wednesday, March 1

Forget all the "earnings season" analysis you read last month. The real earnings season—annual 10-K filing season—is happening right now.

Every year in this six-week stretch from mid-February through the end of March, we parse and analyze roughly 2,000 10-Ks to update our models for companies with a 12/31 fiscal year end. Our analysts work tirelessly to uncover red flags hidden in the footnotes and make our models the best in the business.

There's no way we could analyze so many filings in such a short time without our engineering team's help. Using machine learning and natural language processing, we automate much of the rote work of data gathering and modeling. Our technology frees our analysts up to spend more time on the complicated and unusual data points that other firms miss.

Investors understand that analyzing all financial statements and footnotes is an essential part of the diligence needed to fulfill the fiduciary duty of care. How else can one make the necessary adjustments to assess a company's true earnings and return on invested capital (ROIC)? Our innovation is to scale this diligence and make it easily accessible to our subscribers.

What We Accomplished Yesterday

Figure 1 shows the work our analysts did yesterday and over the entirety of this filing season so far.

Figure 1: Filing Season Diligence

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments ($Billions)
Yesterday	131	19,357	3,384	$1,302
Filing Season Total	634	93,514	15,951	$7,228

Sources: New Constructs, LLC and company filings.

Yesterday, our analysts parsed 131 filings and collected 19,357 data points. In total, they made 3,384 adjustments with a dollar value of $1.3 trillion. That breaks down into:

- 1,382 income statement adjustments with a total value of $89 billion
- 1,462 balance sheet adjustments with a total value of $528 billion
- 540 valuation adjustments with a total value of $685 billion

In particular, analyst Peter Apockotos found an unusual item yesterday in Chart Industries (GTLS: $36/share) 10-K.

On page 42 of the financial footnotes (page 95 overall), we found over $15 million in hidden non-operating income due to the recovery of warranty costs related to product lines acquired in 2012. This non-operating item represents 55% of Chart Industries' reported GAAP net income for 2016. Removing the impact of this unusual item, along with other adjustments, reveals that Chart Industries operating profit (NOPAT) declined by 39% in 2016, as opposed to the significant increase in its reported net income.

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Disclosure: David Trainer, Peter Apockotos, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

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We find it. You benefit. Cutting-edge technology enables us to scale our forensic accounting expertise across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.
Our stock rating methodology instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?
ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our forward-looking fund ratings are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating (details here) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. Accounting data must be translated into economic earnings to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. Economic earnings are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

Additional Information

Incorporated in July 2002, New Constructs is an independent publisher of investment research that provides clients with consulting and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. NOPAT, Invested Capital, and WACC, to create economic earnings models, which are necessary to understand the true profitability and valuation of companies. Visit the Free Archive to download samples of our research. New Constructs is a BBB accredited business and a member of the Investorside Research Association.

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