



New Constructs®
Diligence | Independence | Performance

How Our Stock Rating System Works And What Our DCF Says About Netflix

Important Disclosure Information is contained on the last page of this report. The recipient of this report is directed to read these disclosures.

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1. How Our Stock Rating System Works
2. What Our DCF Says About Netflix
3. How do you protect yourself?
4. Get better research – for free

Part I

How Our Stock Rating System Works

HOW OUR RATINGS WORK

Based on 5 Criteria

Microsoft Corporation (MSFT)

Closing Price: \$128.90 (May 03, 2019)
Market Value: \$987,737 Million
Dividend Yield: 1.4%
Sector: [Technology](#)

Analyst Notes : New 10-Q & Forecast 4/25/19

Risk/Reward Rating ?	Quality of Earnings		Valuation		
	Economic vs Reported EPS ?	ROIC ?	FCF Yield ?	Price to EBV ?	Market-Implied GAP ?
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3
Actual Values					
MSFT	\$3.15 vs. \$4.48	32%	2%	2.3	> 100 yrs
Benchmarks ?					
Sector ETF (QQQ)	Positive EE	30%	2%	3.5	54 yrs
S&P 500 ETF (SPY)	Positive EE	18%	2%	2.8	43 yrs
Small Cap ETF (IWM)	Positive EE	6%	-1%	3.3	42 yrs

[Company Model](#)

[Download XLS](#)

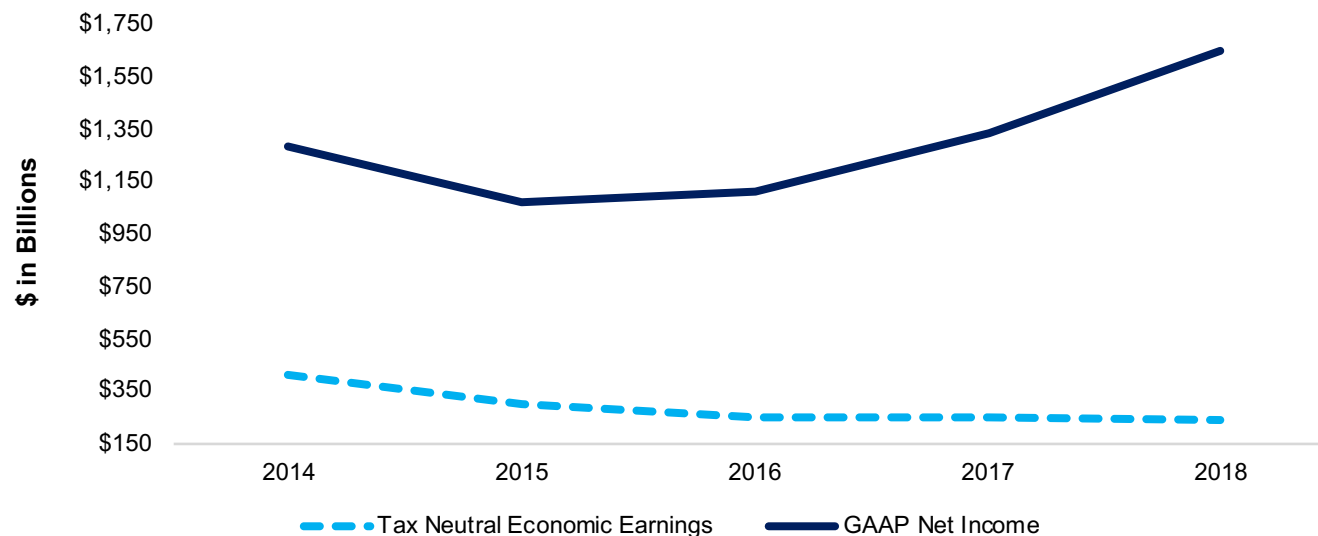
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ECONOMIC VS REPORTED EPS

(Unscrubbed) Earnings Trends Are Misleading

- “CFOs believe that in any given year a remarkable **one in five firms intentionally misrepresent** their earnings using discretion within generally accepted accounting principles (GAAP). The magnitude of the typical **misrepresentation is quite material: about 10 cents on every dollar.**” ([Source](#))
- Economic earnings, which adjust for earnings manipulation and the cost of capital, tell a different story

GAAP Earnings Rising, Economic Earnings Falling



*This graph was created based on information collected and analyzed by New Constructs, LLC. New Constructs regularly gathers information from over 3,000 companies' 10Ks, including the Notes to the Financial Statements and MD&A.

RETURN ON INVESTED CAPITAL (ROIC)

The Most Important Measure of Profitability

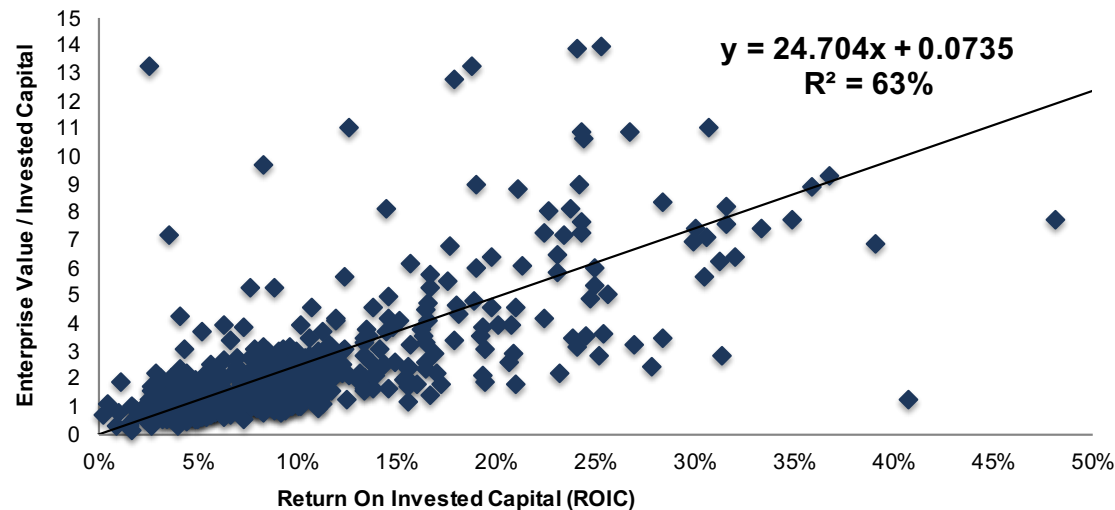
- Return on Invested Capital (ROIC) is the most important measure of profitability.

NOPAT/Average Invested Capital

Or

NOPAT/Revenue * Revenue/Average Invested Capital

ROIC Explains 63% of Valuation for S&P 500



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VALUATION – MR. MARKET IS THE FORTUNE TELLER

Getting to the Truth Behind Valuation



We use three metrics to quantify the growth expectations embedded in a company's stock price:

1. Free Cash Flow Yield

- Free cash flow divided by enterprise value

2. Price to Economic Book Value (PEBV)

- Ratio of market cap to the zero-growth value of the company

3. Growth Appreciation Period (GAP)

- Measures the years of growth required to justify the valuation
- Uses historical margins and consensus analyst forecasts for revenue growth in our [reverse DCF model](#)

Part II

What Our DCF Says About Netflix

WHY NETFLIX IS RISKY

What Our Rating Says

Ticker: [View Ratings](#) [Coverage](#) [Ratings Methodology](#)

Netflix Inc. (NFLX) Closing Price: \$385.03 (May 03, 2019)
Market Value: \$168,332 Million
Sector: [Technology](#)

Analyst Notes : New 10-Q & Forecast 4/22/19 | Added to the Focus List (Short) Model Portfolio Feb 2019

Risk/Reward Rating ?	Quality of Earnings		Valuation		
	Economic vs Reported EPS ?	ROIC ?	FCF Yield ?	Price to EBV ?	Market-Implied GAP ?
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
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Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3

Actual Values					
NFLX	-\$0.83 vs. \$2.80	8%	-2%	-119.4	> 100 yrs

Benchmarks ?					
Sector ETF (QQQ)	Positive EE	30%	2%	3.5	54 yrs
S&P 500 ETF (SPY)	Positive EE	18%	2%	2.8	43 yrs
Small Cap ETF (IWM)	Positive EE	6%	-1%	3.3	42 yrs

[Add to Portfolio](#)

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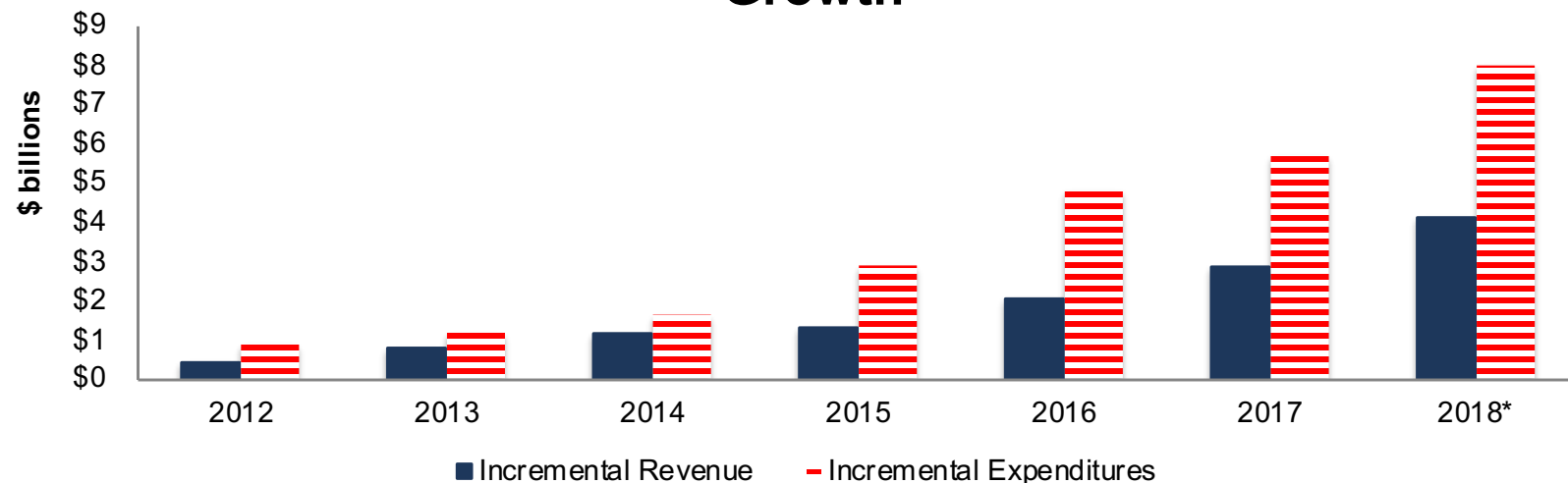
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WHY YOU SHOULD AVOID NETFLIX

Expenses Growing Faster than Revenue

1. NFLX spent \$13 billion on content last year, spending will likely rise to \$17.5 billion in 2019
2. Debt has increased from \$500 million in 2012 to \$11.5 billion currently, with \$2 billion more coming soon.

Revenue Growth Is 50% Slower Than Expenditure Growth



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WHY YOU SHOULD AVOID NETFLIX

Loss of Licensed Content

1. Netflix stands to lose content from Disney, Time Warner, and NBC Universal in the near future when those companies start their own streaming services.
2. Licensed content accounted for 3 of the top 4 streamed shows in November 2018
3. Licensed content accounts for ~2/3 of viewing hours

RANK	TITLE	STUDIO
1	THE OFFICE (U.S.)	NBC
2	CHILLING ADVENTURES OF SABRINA	NETFLIX
3	FRIENDS	Warner
4	GREY'S ANATOMY	ABC
5	HOUSE OF CARDS	NETFLIX
6	THE GREAT BRITISH BAKING SHOW	NETFLIX
7	MARVEL'S DAREDEVIL	NETFLIX
8	NARCOS: MEXICO	NETFLIX
9	THE HAUNTING OF HILL HOUSE	NETFLIX
10	CRIMINAL MINDS	CBS

*Source: [7Park Data](#)

WHY YOU SHOULD AVOID NETFLIX

Valuation Implies Unrealistic Growth

1. Our DCF shows that if NFLX maintains current pricing/margins, they need to hit 3.8 billion subscribers
 - [Math behind this scenario](#)
2. If they raise prices to \$20/month and achieve same margins as DIS, still need over 500 million subscribers
 - [Math behind this scenario](#)

	Monthly Subscription Price	Pre-Tax Margin	Implied by Current Stock Price	
			Revenue (\$mm)	Subscribers (million)
Scenario 1	\$13	11.2%	\$594,586	3,811
Scenario 2	\$20	25.3%	\$123,995	517

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Part III

How Do You Protect Yourself?

Core Problem: GAAP is exploitable.

Only Solution: Read the Footnotes and MD&A.

Traditional P&L

Revenues

- operating expenses

= pretax earnings

- taxes

= Reported Profit

Economic P&L

Revenues

- operating expenses

- **Hidden Incomes/Charges**

= pretax earnings

- taxes

= Profit

- **capital charge/hidden liabilities and assets**

= Economic Profit

WHY DILIGENCE IS NEEDED

Core Problem: Filings can be 200+ pages long

Only Solution: The Robo-Analyst

1. Robo-Analyst uses machine learning and natural language processing to read 200+ page filings instantly
2. Automatically collects and models thousands of data points, flags unusual items for human analysts to review
3. Technology makes a level of diligence previously reserved for institutional investors available to everyone



Scouring the Footnotes and MD&A of 10-Ks

- Hidden Expenses/Income
- Unrecorded Goodwill
- Impairments
- Unconsolidated Subsidiaries
- Minority Interests
- Unrealized Gains/Losses
- Changes in Accounting Rules
- Derivatives Exposure
- Customer Concentration
- FASB 159
- Employee Stock Options
- Option Valuation Assumptions
- Operating Leases
- Loan Loss/LIFO Reserves
- Pension Assumptions
- Excess Cash
- Pension Over/Under Funding
- Auditor's Opinions
- Carrying Value vs Fair Value
- Mid-year acquisitions

GETTING TO THE ECONOMICS

Measuring Key Results

- **NOPAT** ➡ core operating earnings after-tax
- **Invested Capital** ➡ all cash invested in the business
- **WACC** ➡ rent management must pay for use of capital

Return on Invested Capital = NOPAT/Avg Invested Capital

Economic Earnings = (ROIC – WACC) * Invested Capital

- Aka: “EVA”, economic profit, residual income

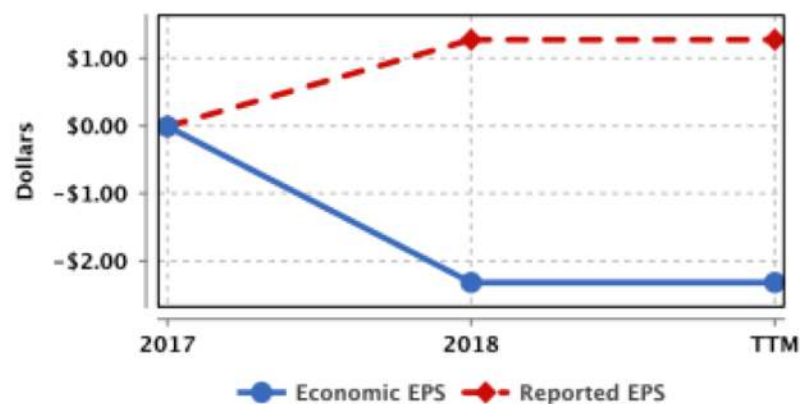
Part IV

Get Better Research – for free!

GET RESEARCH ON ECONOMIC EARNINGS

Compare reported vs economic results

Accounting vs Economic Earnings



Earnings & Valuation Diligence Summary

- UBER's accounting earnings overstate its economic earnings, which equal $(\text{ROIC} - \text{WACC}) * \text{Average Invested Capital}$.
- For UBER, we made a total of \$15,910 million in income statement and balance sheet adjustments to convert accounting earnings to economic earnings in FY18.
- We made \$9,369 million in adjustments in our DCF valuation of the stock.
- See Appendix 1 for details on our calculations of key metrics and Appendices 2 and 3 for details on our [adjustments](#).

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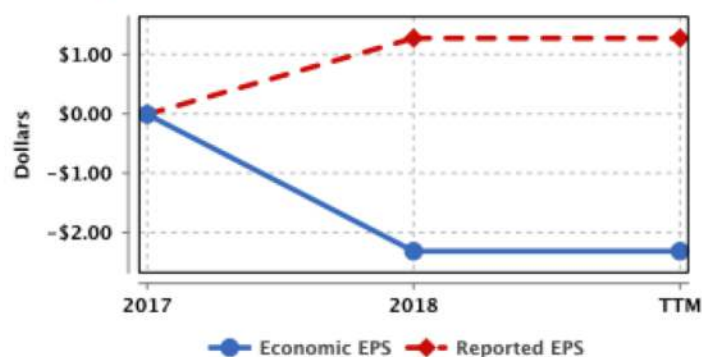
SEE HOW ECONOMIC EARNINGS AFFECT VALUATION

Get more details on drivers of value

Investment Rating Details

Risk/Reward Rating	Quality of Earnings		Valuation		
	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield	Price-to-EBV Ratio	Growth Appreciation Period (yrs)
Very Unattractive	Misleading Trend	Bottom Quintile	<-5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5%<-1%	2.4 < 3.5 or < -1	20 < 50
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Attractive	Positive EE	2nd Quintile	3%<10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	Top Quintile	>10%	0 < 1.1	0 < 3
Actual Values	(\$2.32) vs. \$1.27	-12%	-11%	-2.1	> 100
Sector ETF (QQQ)	Positive EE	30%	2%	3.5	54
S&P 500 ETF (SPY)	Positive EE	18%	2%	2.8	43

Accounting vs Economic Earnings



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New Constructs®

Analyst
Notes

New 10-Q & Forecast 4/30/19
Focus List (Short) Model Portfolio Feb 2019

ROBO-ANALYST RESEARCH

Closing Price as of 05/06/2019: \$255.34

Dividend Yield: -

Period End Date: 03/31/2019

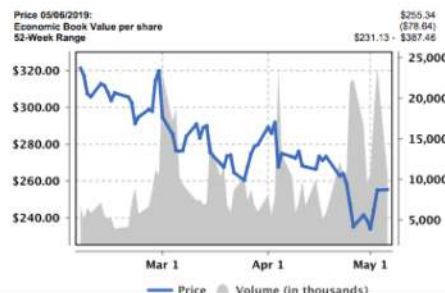
Tesla Inc (TSLA)

NASDAQ - Consumer Cyclical

Investment Recommendation

- We recommend investors sell TSLA.
- TSLA earns our Unattractive rating. See Investment Rating Details below.
- An Unattractive rating means this stock has more downside risk than upside potential.
- TSLA ranks in the 29th percentile of the 2800+ stocks we cover.
- Ranks 366th out of 438 Consumer Cyclical Sector stocks.

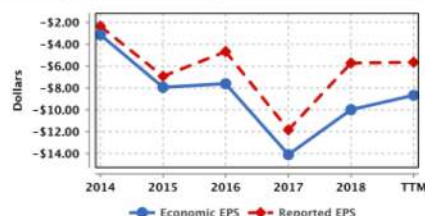
Unattractive



Investment Rating Details

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Attractive	Positive EE	2nd Quintile	3%<10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	Top Quintile	>10%	0 < 1.1	0 < 3
Actual Values	(\$8.67) vs. (\$5.65)	1%	-1%	-3.2	> 100
Sector ETF (XLY)	Rising EE	17%	3%	4.8	44
S&P 500 ETF (SPY)	Positive EE	18%	2%	2.8	43

Accounting vs Economic Earnings



Earnings & Valuation Diligence Summary

- TSLA's accounting earnings overstate its economic earnings, which equal $(ROIC - WACC) \times \text{Average Invested Capital}$.
- For TSLA, we made a total of \$9,201 million in income statement and balance sheet adjustments to convert accounting earnings to economic earnings in FY18.
- We made \$23,138 million in adjustments in our DCF valuation of the stock.
- See Appendix 1 for details on our calculations of key metrics and Appendices 2 and 3 for details on our [adjustments](#).

Stock Performance

Year to Date (23.3%)
Last 30 Days (7.1%)
Last 60 Days (7.7%)
Last 90 Days (20.5%)
Last Year (13.2%)

Key Market Statistics

Enterprise Value (MM) \$59,814
Market Value (MM) \$44,358
EV/EBITDA 29.71
EBV per Share (\$78.64)
Shares Outstanding (Thousands) 173,721
P/E (TTM) -45.20

About New Constructs

New Constructs is an independent equity research firm powered by machine learning. Ernst & Young demonstrated the superiority of our ROIC methodology, data & models. See our website for details.

www.newconstructs.com

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ROBO-ANALYST RESEARCH

05/07/2019

Economic vs Reported Earnings

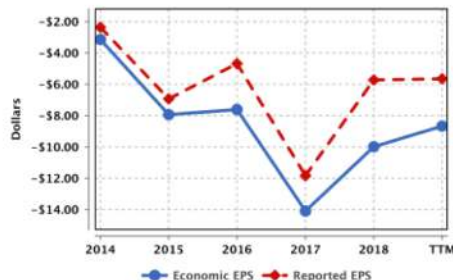
Economic Earnings are **Neutral**

Economic Earnings are almost always meaningfully different than reported earnings. We believe Economic Earnings provide a truer measure of profitability and shareholder value creation than reported earnings because they have been adjusted to remove over twenty accounting distortions.

The majority of data required to reverse accounting distortions is available only in the Footnotes and MD&A, which we analyze rigorously. Our core competency is gathering and analyzing all relevant financial data from filings so that we can deliver earnings analysis that best represents the true profitability of businesses.

Economic Earnings per share (EEPS) for TSLA for the trailing twelve months are (\$8.67) compared to reported earnings per share of (\$5.65) and earn a Neutral rating. See Appendix 1 for a detailed reconciliation.

Economic EPS vs Reported EPS



Return on Invested Capital (ROIC)

ROIC is **Very Unattractive**

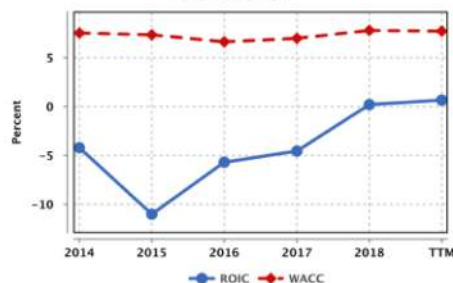
ROIC measures a company's return on all cash invested in the business. It is the truest measure of profitability. Stock valuations are more highly correlated to ROIC than any other metric.

Weighted-Average Cost of Capital (WACC) is the average of debt and equity capital costs that all publicly traded companies with debt and equity stakeholders incur as a cost of operating.

Companies must earn an ROIC greater than WACC to generate positive economic earnings and create value for shareholders.

TSLA's ROIC of 0.7% for the trailing twelve months earns a Very Unattractive rating. ROIC is calculated as NOPAT of \$139 million divided by Average Invested Capital of \$20,797 million. See Appendix 1 for a detailed reconciliation.

ROIC vs WACC



Free Cash Flow Yield (FCF Yield)

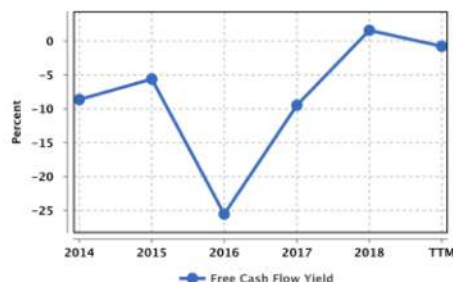
Free Cash Flow Yield is **Neutral**

Free Cash Flow reflects the amount of cash free for distribution to all stakeholders (including debt & equity). FCF Yield divides free cash flow by **enterprise value**.

Using Free Cash Flow Yield to pick stocks is not a new strategy. However, our strategy yields superior results because we use a better measure of Free Cash Flow. In the same way our Economic EPS are better measures of profitability than reported EPS, our measure of Free Cash Flow is better than traditional accounting-based Free Cash Flow.

TSLA's FCF is (\$456) million for the trailing twelve months and its current Enterprise Value is \$59,814 million. FCF Yield is (0.8%) and earns a Neutral rating. See Appendix 1 for a detailed reconciliation.

Free Cash Flow Yield



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ROBO-ANALYST RESEARCH

05/07/2019

Price-to-EBV Ratio

Price-to-EBV Ratio is **Unattractive**

Price-to-Economic Book Value (EBV) measures the difference between the market's expectations for future profits and the no-growth value of the stock.

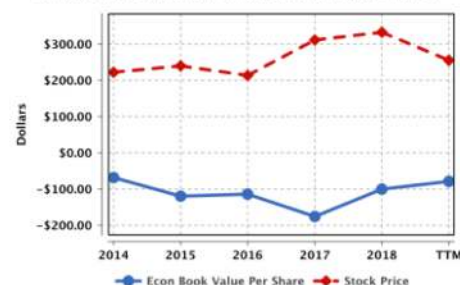
EBV measures the no-growth value of the company based on the company's current Net Operating Profit After Tax (NOPAT).

When prices are higher than EBV, the market predicts the NOPAT of the company will increase and expectations for profit growth are reflected in the stock. If the stock price equals EBV, the market predicts NOPAT will remain the same and there are no expectations for profit growth reflected in the stock. When stock prices are lower than EBV, the market predicts NOPAT will decrease and expectations for permanent profit decline are reflected in the stock.

In general, we like to buy stocks with low expectations for profit growth and sell/short stocks with high expectations for profit growth.

TSLA's current Price-to-EBV per share is (3.2) and earns an Unattractive rating. TSLA's stock price is \$255.34 and its EBV per share for the trailing twelve months is (\$78.64). See Appendix 1 for a detailed reconciliation.

Stock Price vs Economic Book Value (EBV) Per Share



Growth Appreciation Period

The Growth Appreciation Period is **Very Unattractive**

The market-implied duration of profit growth or **GAP** measures the number of years the company must maintain an edge over its competitors by earning ROIC greater than the weighted-average cost of capital on new investments.

We believe TSLA embeds a Very Unattractive level of market expectations because there is a very large difference between the expected financial performance implied by its market price and the company's historical performance.

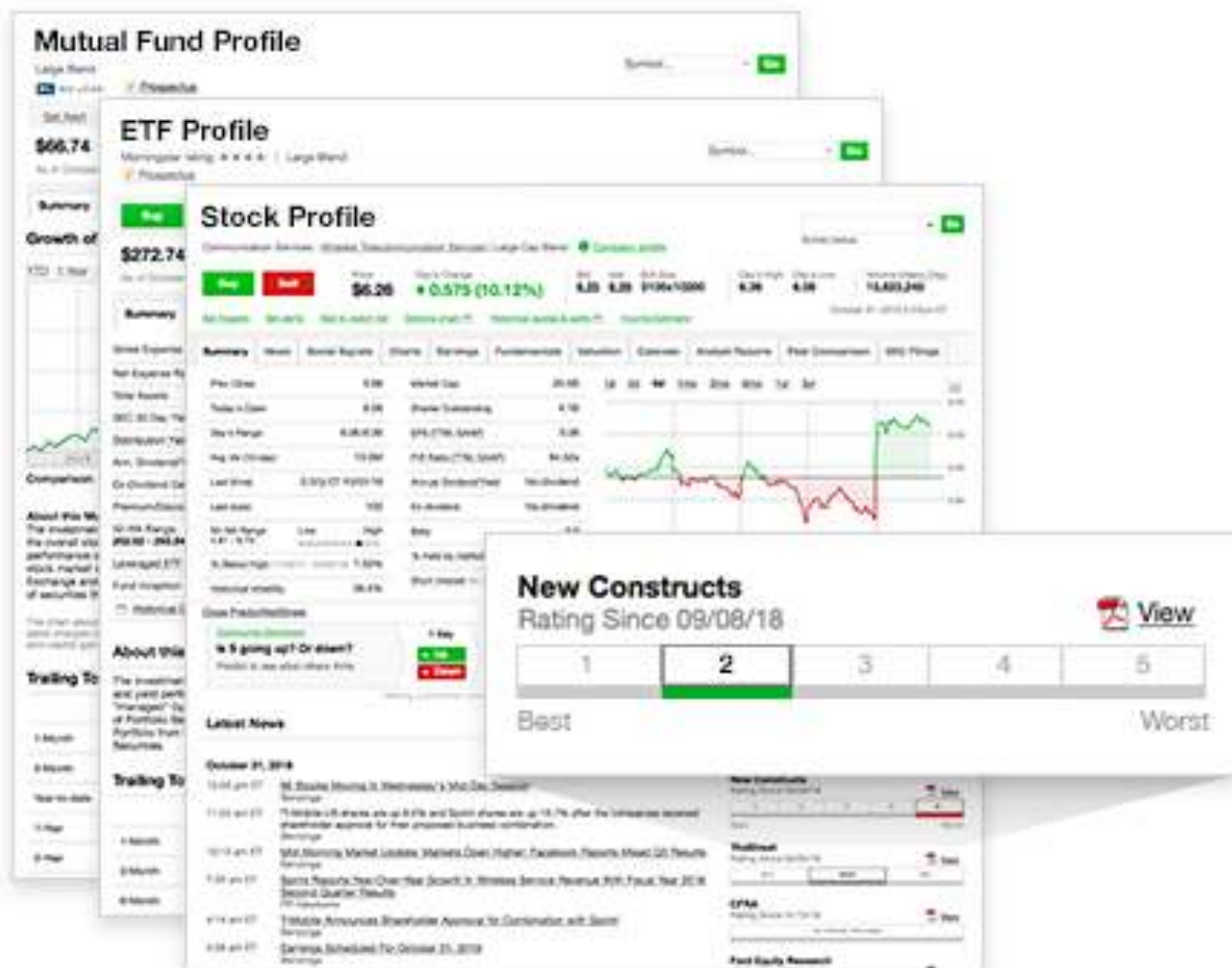
At TSLA's current stock price of \$255.34, the market is expecting revenue to grow at 5.2% for more than 100 years. Over this period, TSLA is also expected to generate an average Economic Earnings Margin of 3.3%.

These results are derived using our [dynamic discounted cash flow model](#).

Performance Hurdles	Historical Performance			Market Expectations
	5 Yr	3Yr	Last FY	Default <small>Based on Current Price</small>
Stock Price	\$222.41	\$213.69	\$332.80	\$255.34
Revenue CAGR	60.9%	75.1%	81.2%	5.2%
ROIC - WACC	(10.0%)	(10.0%)	(7.2%)	3.3%
Growth Appreciation Period	-	-	-	> 100 years

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Stock Analyst Reports

Communication Services - Wireless Telecommunication Services / Large Cap Blend Consensus: Buy

Buy
Sell
Price: **\$6.26**
Day's Change: **+0.575 (10.12%)**
Bid: **6.25** Ask: **6.26** 500x10000
 Day's High: **6.26** Day's Low: **6.06** Volume: **2,345**

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October 20, 2018 2:05pm ET


New Constructs®

1 2 3 4 **5**

Best Worst


Rating Since September 8, 2018

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The Street Ratings

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 Quantitative-driven Fundamental Analysis

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CFRA

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CFRA Trends & Ideas

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 September 11, 2018

Commodities Surge Drifts & Mexico/Canada Trade Agreements are Positive Catalysts
 September 4, 2018

Macroeconomic Indicators and Machinery Industry Trends Signal Top-Down Growth
 August 13, 2018

SECTORS: A SOAR DEVELOPMENT FOR SOME GROWING OIL SPONGE PRODUCTIONS
 July 25, 2018

SECTORS: Shift Towards and Upgrades for the Industrial Sectors
 June 20, 2018

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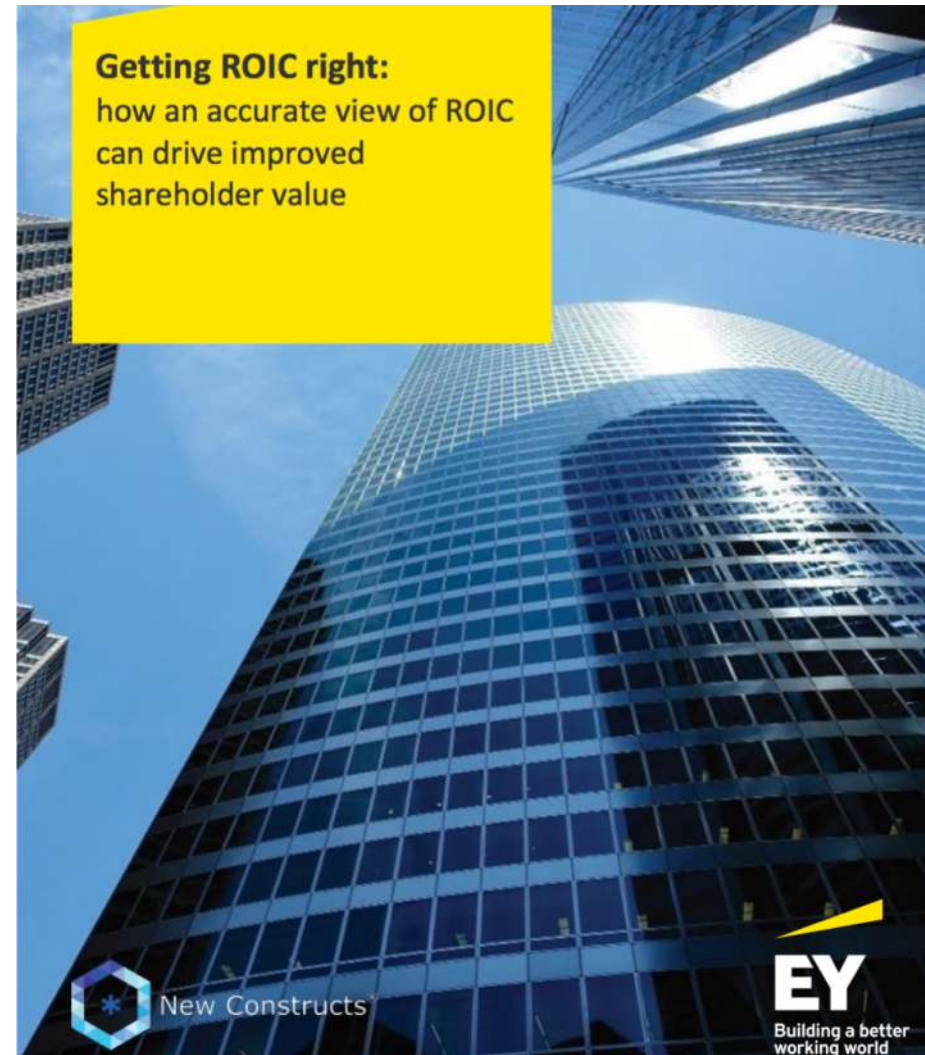
ERNST & YOUNG SHOWS OUR RIGOR MATTERS

White Paper: Investors Deserve Better Data



- It's not often that a big 4 accounting firm like E&Y features the material superiority of a research firm's analytics.
- The white paper provides specific examples for specific companies.
- Google "Revenue 48,778", "long-term debt 16,215" to see which company is "Peer 1".

Click [here](#) for a copy.



POWERFUL RESEARCH AUTOMATION HAS ARRIVED

Technology Provides Only Solution Big Data



Harvard Business School Case Study features our Research Automation technology. “Disrupting Fundamental Analysis with Robo-Analysts”

Click [here](#) for a copy.



New Constructs: Disrupting Fundamental Analysis with Robo-Analysts

CEO David Trainer and COO Lee Moneta-Koehler of New Constructs had just met with a potential client. Their pitch was simple: New Constructs “leverages the only parsing technology capable of reviewing every detail of every 10-K and 10-Q” to deliver quality fundamental analysis at scale. After the presentation, the client responded, “You know, you might be right. Your data probably is better. But, as long as everybody’s using the same bad data, I’m OK with that.” This was a familiar response to Trainer and Moneta-Koehler: they were frustrated by investors who did not see the value of New Constructs’ data or technology. They were concerned about the role of quality fundamental analysis in a market increasingly focused on more technical and other short-term trading strategies.

New Constructs

Trainer began working on Wall Street at Credit Suisse First Boston (CSFB) as a stock analyst in 1996, where he honed his skills in financial modeling and fundamental analysis. At CSFB, he spearheaded an effort to develop a consistent framework for measuring, comparing, and analyzing the economic earnings and profitability across all firms and industries globally. After reading through thousands of corporate filings, he realized that “the complexities of what’s going on in modern day business are so much greater than what the current accounting standards can capture in the income statement and balance sheet.” To construct a more accurate economic picture of the firm and to facilitate more meaningful comparisons of performance, his financial models incorporated quantitative details hidden in footnotes and the management’s discussion and analysis (MD&A) section, such as operating lease obligations or components of income or expenses that are transitory in nature.

Although these adjustments were often meaningful to his overall assessment of a firm’s operating performance and valuation, integrating these details into financial models was not the norm among many sell-side analysts. Trainer believed this was due to a few reasons. For one, the increasing length and complexity of corporate filings and the differences in the application of accounting rules across firms for similar transactions made the execution of such detailed financial models impractical. Even for Trainer, this mode of analysis was difficult to scale.

Professor Charles C.Y. Wang and Research Associate Kyle Thomas prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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THE TECHNOLOGY WORKS = DILIGENCE WITH SCALE

3rd-Party Validation By Harvard Business School & MIT Sloan

The Relation between Earnings and Future Cash Flows: A New Perspective*

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Massachusetts Institute of Technology

Sloan School of Management

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July 2018

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Abstract

We provide new evidence on the usefulness of financial accounting in valuation analysis. A fundamental assumption in the use of GAAP financial statements for valuation is that accrual-based measures of firms' performance convey information about future cash flows incremental to current cash flows. However, recent evidence casts doubt on this assumption. We revisit this issue using a novel dataset that details *all* quantitative disclosures in firms' annual reports and identifies non-core revenues and expenses from net income, including those reported on the income statement and those hidden in the footnotes or the MD&A. Using these data to adjust GAAP net income, we show the resulting measure of core earnings offers forecasting power for future cash flows and earnings that are incremental to traditional measures of performance. These adjustments also better explain contemporaneous market prices and returns. Together, our results suggest that accounting information remains relevant for valuation and highlight the importance of careful accounting analysis for distilling information relevant for forecasting future performance.

Quotes from the initial draft of the paper:

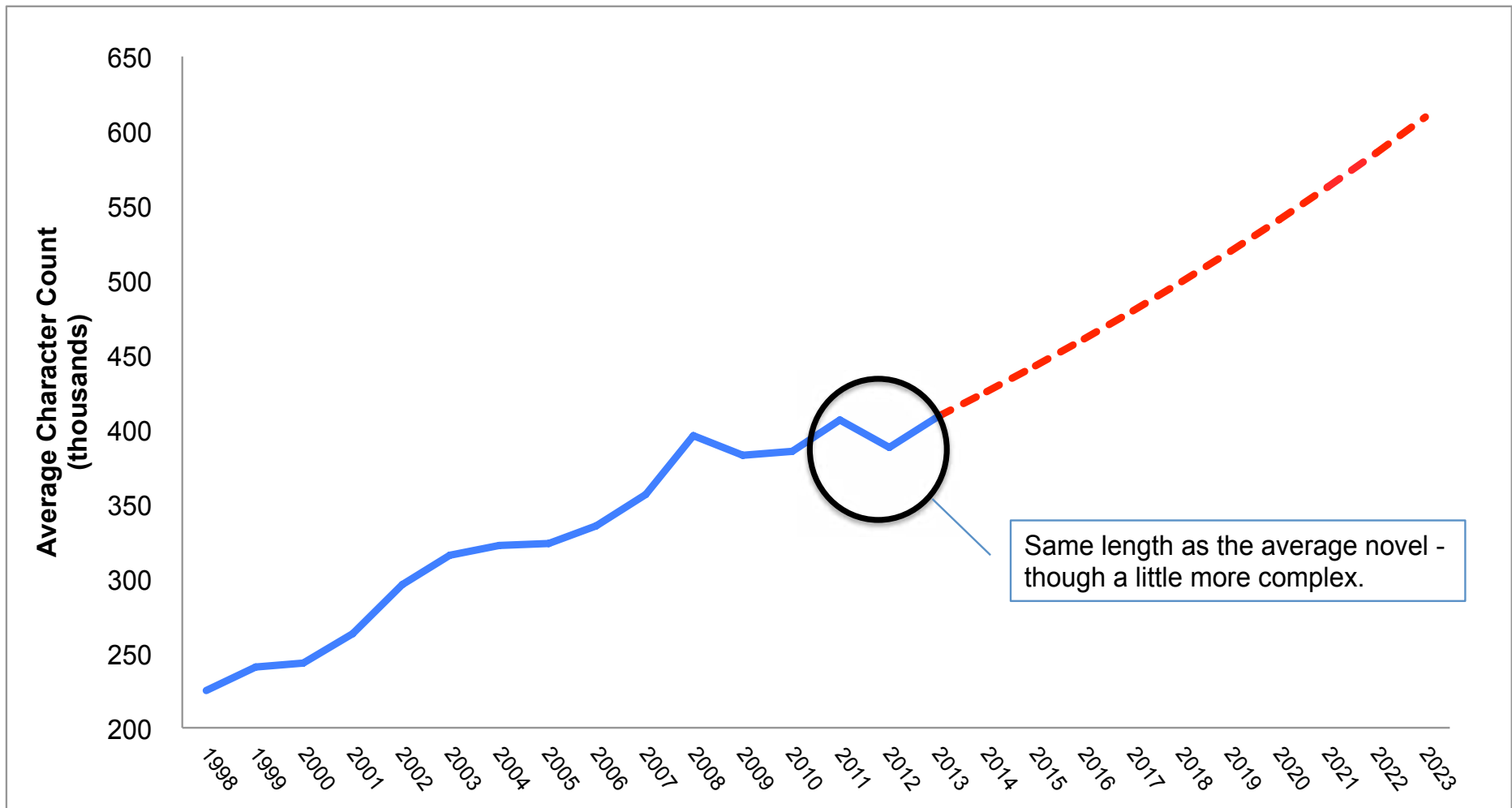
- “this paper serves as a warning for researchers seeking to examine the value relevance of earnings.”
- “Data aggregators like Compustat do not appear to collect and provide data on many non-operating or less persistent income-related items, even when managers make these adjustments in non-GAAP disclosures.”
- “We find that, in many instances, Compustat does not report these disclosures— which can appear on the income statement as a separate line item or in the footnotes or the MD&A—in any of its fields.”
- “These shortcomings make it difficult for users to construct a complete picture of a firm’s earnings, but taking additional steps to adjust to GAAP net income can provide valuable insights.”

Part V

Why you need protection now more than ever.

FILINGS GETTING LONGER & LONGER

Keeping Up With Disclosures Is Nearly Impossible



*This graph was created based on information collected and analyzed by New Constructs, LLC. New Constructs regularly gathers information from over 3,000 companies' 10Ks, including the Notes to the Financial Statements and MD&A.

DISCLOSURE TRENDS ARE NOT YOUR FRIEND

More Data, More Noise, More Complexity

- Filings have grown to **200+ pages**
(That's longer than the average novel.)
- Increasingly complex and time-consuming work
- Accounting rules are constantly changing



RISE ABOVE RECORD LEVELS OF NOISE

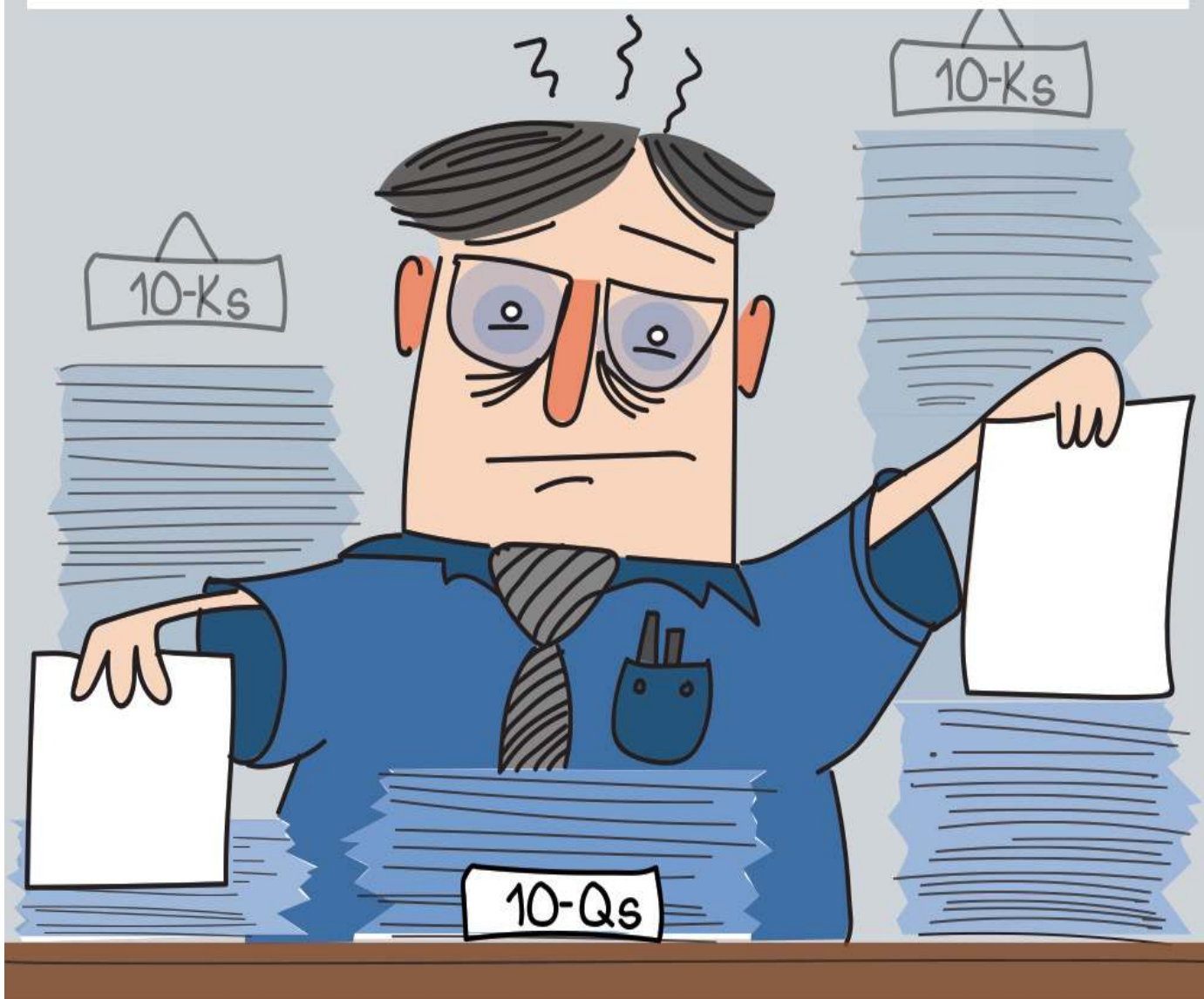
Superior Research Gives You an Edge



TECHNOLOGY TO CLOSE THE RESEARCH GAP

Machine are better than humans at some things

WHO HAS TIME TO READ 200+ PAGE FILINGS?



MACHINE LEARNING FROM EXPERTS

Human-Validated Parsing Instructions from 140,000+ Filings



GET THE DILIGENCE YOU DESERVE

LEVERAGE THE LATEST TECHNOLOGY AND GET AN EDGE
WITH OUR RESEARCH ON STOCKS, ETFS AND MUTUAL FUNDS



Appendix

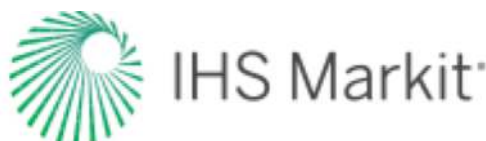
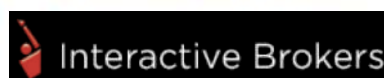
SUCCESS WITH ELITE INSTITUTIONAL CLIENTS

Self-Directed Clients Are Natural Fit for Simpler Products

- Top hedge fund and institutional money managers
- Top wealth management firms
- Top advisors
- Top accounting, insurance & consulting firms



Harvard Business School
&
MIT Sloan



HOW THE WEALTH INDUSTRY WORKS WITH US

Multiple models, Great Flexibility



- **Institutions:** full access to models and tool, including database feeds. Directly access thru our website



- **Advisors/RIAs:** firm or group-wide access to unlimited research. Direct access via our website or thru partners.



- **Retail:** individual sign up for Gold, Platinum or Pro subscriptions. Direct access via our website or thru partners.

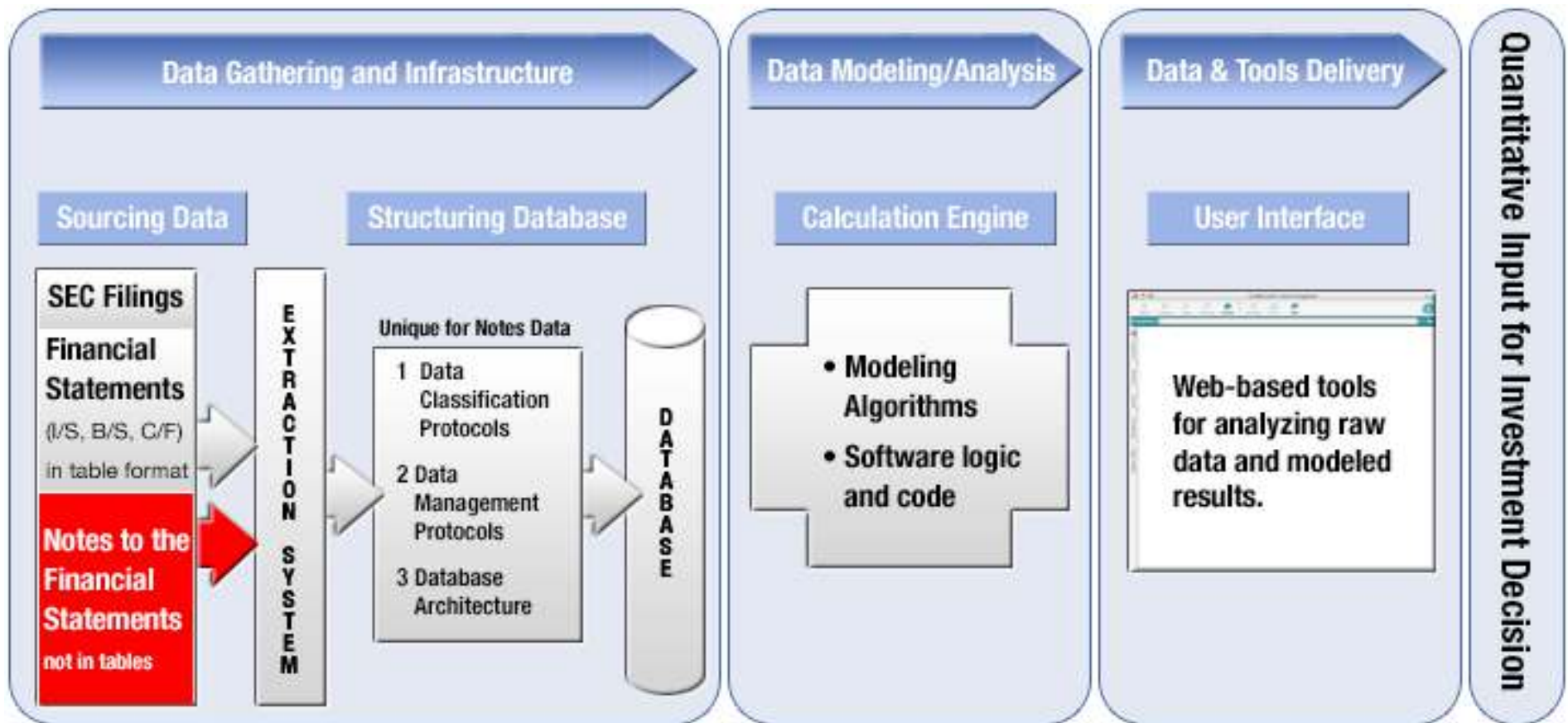


- **Consultants/Corporates:** custom engagements focused on enterprise value optimization and investor relations strategy. Direct access via our website along with custom work and consultation via partners.



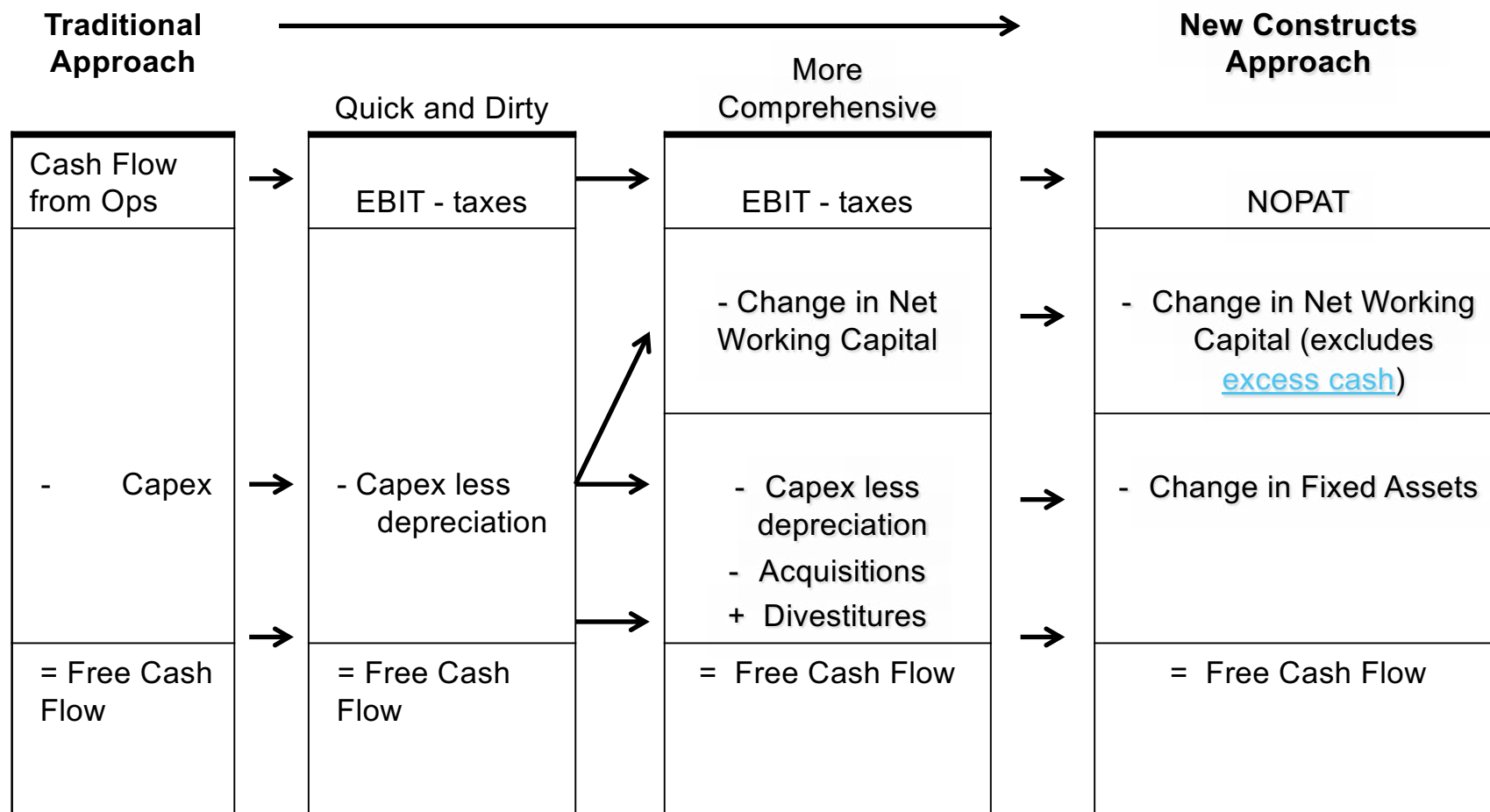
RESEARCH TECHNOLOGY PLATFORM

Data Collection & Modeling Under One Roof

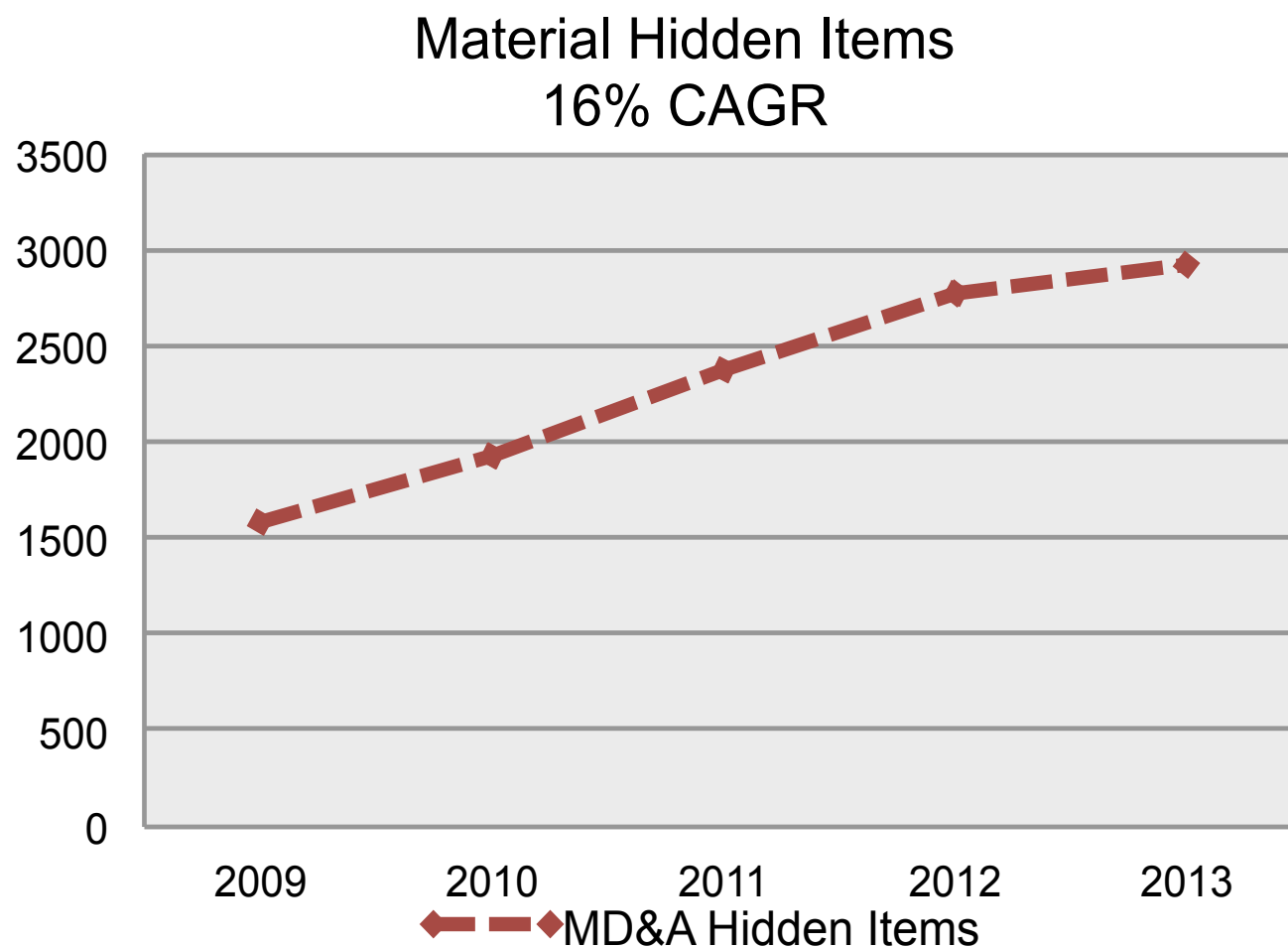


We created our own data collection technology to provide high integrity models to clients. Traditional data feeds are not trustworthy for sophisticated financial modeling.

Free Cash Flow: NOPAT minus Change in Invested Capital *How We Compare to traditional approaches to FCF*



BIGGER HAYSTACKS, MORE NEEDLES



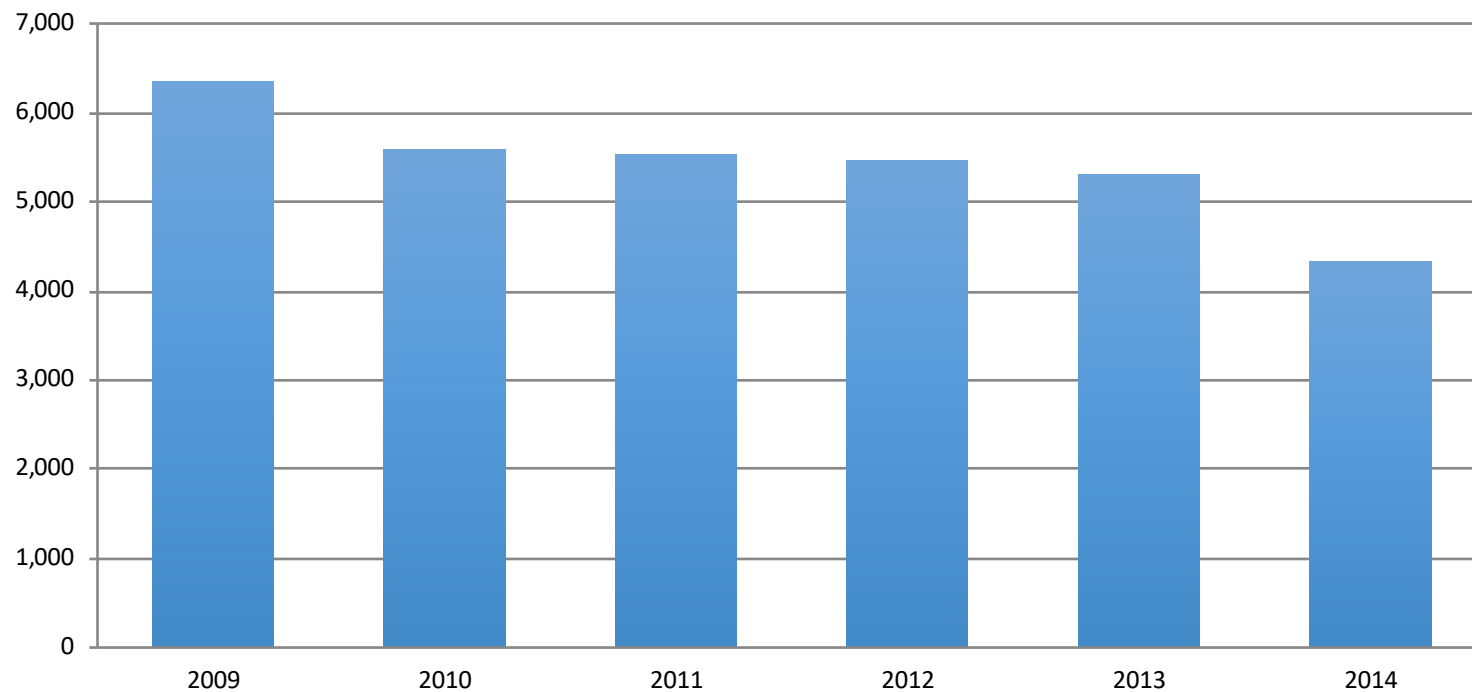
Items found only in the MD&A (e.g. gains, charges, deferred items, etc) that distort income statement results are rising rapidly.

ASSET WRITE-DOWNS ARE A RED FLAG

32,583

Over the last 5+ Years, we found 32,583 write-downs.

of Write-Downs



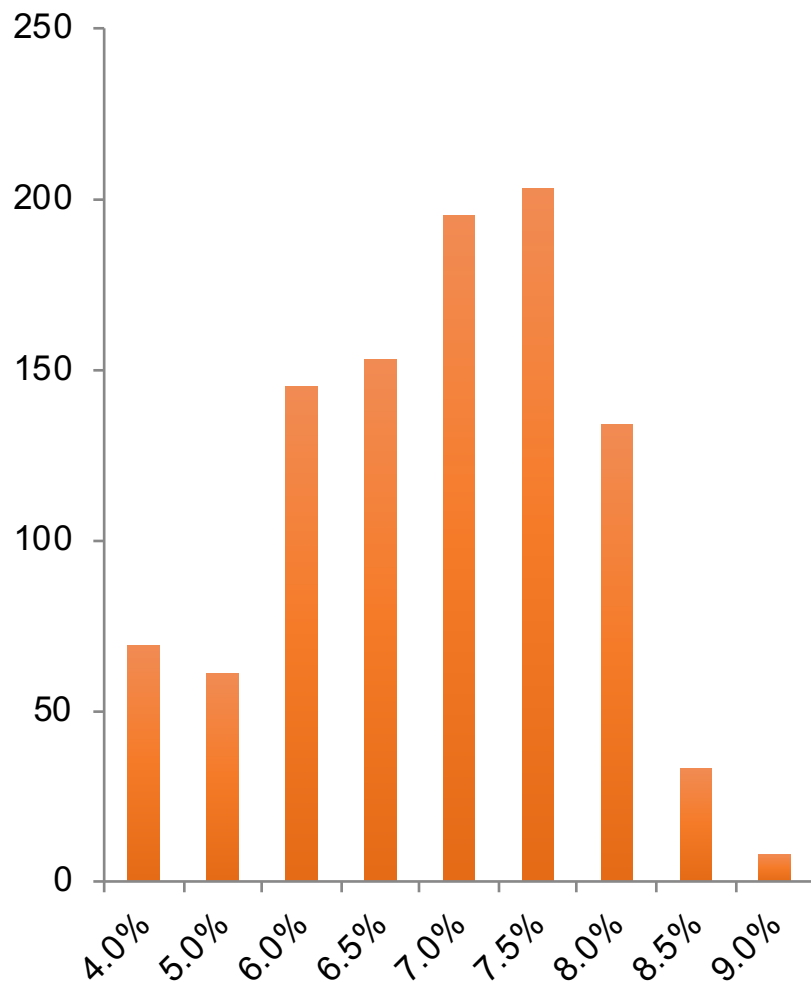
■ Total - 3000+ companies

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Confidential - New Constructs, LLC

MANAGEMENT'S INFLUENCE ON PROFITS

**Distribution of Return On Plan
Asset Assumptions**



Auditors & investors need to know this data.

- Raising the expected Return on Plan Assets (EROPA) reduces reported pension expense.
- The mean EROPA for 2014 was 6.5%. Roughly 55% of companies expect a long-term return on plan assets between 6.5% and 7.5%.
- Virtusa Corp (VRTU) has the most aggressive assumptions, with EROPA of 10.38%, followed by Exlservice Holdings (EXLS) at 9%.

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New Constructs has no trading, corporate or banking ties – no conflicts.

- *Morningstar gets paid by fund companies. Fund companies must license ratings from Morningstar to use them in marketing materials.*

New Constructs = unadulterated expertise in accounting, finance and SEC filings.

HOW HAS INVESTING CHANGED OVER THE YEARS?

Shorter Holding Periods for Stocks

- Until mid-1960's average holding period was seven years
- Today, average holding period is less than one year and annual portfolio turnover is more than 100%¹

Major Reactions to Quarterly Earnings

- Stock prices make large moves in response to earnings surprises
- Suggests that long-term cash flows are less important

Amateur Individual Investors - Growth Market

- Schwab, TD Waterhouse, Scottrade
- Day trading

Media - Growth Market

- TV: Mad Money, CNBC Squawk Box, and Squawk on the Street
- Print: Wall Street Journal, Investors Business Daily, local newspapers
- Web: Motley Fool, TheStreet.Com, CBS MarketWatch

¹Rappaport, Alfred. "The Economics of Short-Term Performance Obsession." *Financial Analysts Journal*, vol. 61, no. 3 (May/June): 65-79.

WHICH ARE YOU: INVESTOR OR SPECULATOR?

Speculator

“If you are a speculator, your decision to buy or sell is based on what you believe about the near-term direction of price.”
- Ben Graham

“...speculation is the activity of forecasting the psychology of the market.”
- John Maynard Keynes

Vs.

Investor

“If you are an investor, your decision to buy and sell is based on the underlying economics of the stock you own.”
- Ben Graham

“Investing is an activity of forecasting the yield on assets over the life of the asset...”
- John Maynard Keynes

ONLY 3 WAYS TO BEAT THE MARKET

Better Data - difficult and expensive to obtain

- Gathering and analyzing data from the Notes to the Financial Statements provides a competitive advantage.

Better Analysis - not just your neighbor, one must out-think the entire market

- Better data means better models.
- Better models provide better analysis.

Better Discipline - stick to your guns, don't follow the herd.

- Long and short strategy is built on specific, quantifiable thresholds derived from a model we can trust.
- Our models do all the number crunching to supply our human capital with superior information and decision-making capabilities.

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