



## Abnormal Tax Rates Are Today's Filing Season Find

For February 28, 2020, our forensic accounting needle in a haystack comes from abnormal tax rates across three companies.

Get the best fundamental research

Analysts Robbie Woodward, Lucas DeSantis, and Hunter Anderson found unusual items in three companies' 2019 10-Ks.

In 2019, Hertz Global Holdings, Inc. (HTZ) had a reported effective tax rate of [500%](#) due to a significant increase in its tax provision from the prior year. After removing the [tax impact of unusual gains and losses](#) in HTZ's filings, we find the firm's cash tax rate is just 31% in 2019. When we remove all unusual gains and losses, we see that HTZ's 2019 after-tax profit ([NOPAT](#)) was \$583 million compared to its 2019 GAAP net income of -\$58 million.

Boston Scientific Corp (BSX) recorded a tax benefit of \$4.1 billion related to asset transfers within wholly-owned subsidiaries, which led to a reported effective tax rate of [-584%](#) in 2019. Our calculations show BSX's cash tax rate is 8%. Without the impact of this tax benefit, BSX's NOPAT in 2019 was \$2.4 billion compared to GAAP net income of \$4.7 billion.

Lastly, Univar Solutions Inc. (UNVR) had a reported effective tax rate of [-9,500%](#) in 2019 due to increased international tax impacts and tax gains on the sale of a business. After removing the impact of unusual gains and losses, we find the firm had a cash tax rate of 7%. After making all adjustments for unusual gains and losses, we see that UNVR's 2019 NOPAT was \$371 million compared to its 2019 GAAP net income of -\$100 million.

We remove the tax impact of non-operating items to ensure an accurate [measure of profits](#), including taxes. We do the hard work to provide the best [models](#) available.

### The Power of the Robo-Analyst

We have analyzed 242 filings since February 22, 2020, from which our [Robo-Analyst](#)<sup>1</sup> technology collected 28,620 data points. Our analyst team made 6,058 forensic accounting [adjustments](#) with a dollar value of \$5.0 trillion. The adjustments were applied as follows:

- 2,450 income statement adjustments with a total value of \$349 billion
- 2,547 balance sheet adjustments with a total value of \$2.2 trillion
- 1,061 valuation adjustments with a total value of \$2.5 trillion

### No Substitute for Diligence

Our technology enables us to deliver diligence on fundamentals at a previously impossible scale. We believe this research is necessary to uncover the true profitability of a firm and make sound investment decisions. "[Core Earnings: New Data and Evidence](#)," a recent paper from professors at Harvard Business School and MIT Sloan, shows how our adjustments create a measure of core earnings that is more predictive of future earnings than comparable metrics from Compustat and IBES.

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*Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, sector, style, or theme.*

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<sup>1</sup> Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



## ***Footnotes adjustments matter. We are the ONLY source.***

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We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

**HBS & MIT Sloan research** reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

**Learn [more](#).**

Quotes from HBS & MIT Sloan professors on our research:

### **Get better research:**

*“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20*

### **Pick better stocks:**

*“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract*

### **Avoid losses from using other firms’ data:**

*“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14*

### **Build better models:**

*“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4*

### **Exploit market inefficiencies:**

*“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26*

### **Fulfill fiduciary duties:**

*“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34*



## **DISCLOSURES**

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