



Case Studies: Detailed Reconciliation of Net Income to NOPAT

This report provides case studies for exactly how we perform the [Detailed Reconciliation of Net Income to NOPAT](#) for the following companies:

- Cesca Therapeutics (THMO)
- Real Goods Solar Inc. (RGSE)
- Navidea Biopharmaceuticals (NAVB)
- ExpresSpa Group Inc. (XSPA)
- Outlook Therapeutics (OTLK)
- Exelixis Inc. (EXEL)
- Newell Brands (NWL)
- General Motors (GM)
- Fortive Corporation (FTV)

These case studies show the original source data used to perform all of our calculations and adjustments. They allow clients to audit our work and serve as supporting documentation for the [backtest dataset](#).

We provide original values and locations for all data.

Figure 1 shows the detailed reconciliation for Cesca Therapeutics (THMO). The other case studies are in this [excel file](#):

[Download the Case Studies](#)

GAAP earnings don't tell the whole story of a company's profits. They are based on accounting rules originally designed for debt investors, not equity investors, and are often [manipulated](#) by companies to manage earnings.

When we calculate net operating profit after-tax ([NOPAT](#)), we make [numerous adjustments](#) to close accounting loopholes and ensure apples-to-apples comparability across thousands of companies.

Leveraging our [Robo-Analyst technology](#), we analyze all the disclosures in the footnotes and MD&A of financial filings to remove non-core and non-recurring items. By doing so, we create a "novel dataset" of adjustments that we use to calculate a more accurate¹ measure of a firm's profitability.

Clients can audit all of the unusual items used in our calculations in the [Marked-Up Filings section](#) of each of our [Company Valuation models](#). We are 100% transparent about what goes into our research because we want investors to trust our work and see how much goes into building the best earnings quality and valuation models.

Figure 1 shows the detailed adjustments we make to reconcile Cesca Therapeutics's (THMO) 2018 net income to NOPAT, along with the location each item was found in its 2018 10-K.

¹ In [Core Earnings: New Data & Evidence](#), professors at Harvard Business School (HBS) & MIT Sloan empirically show that our "novel dataset" is superior to "Street Earnings" from Refinitiv's IBES, owned by Blackstone (BX) and Thomson Reuters (TRI), and "Income Before Special Items" from Compustat, owned by S&P Global (SPGI).



Figure 1: THMO GAAP Net Income to NOPAT Reconciliation – 2018 10-K

Datapoint	Original Line Item Text	Original Line Item Value	Original Line Item Location
GAAP Net Income	Net loss attributable to common stockholders	-\$39,716,000.00	Pg. 44
+ Total Hidden Non-Operating Expense, Net	TOTAL VALUE of items in Total Hidden Non-Operating Expense, Net	\$1,656,000.00	
+ Hidden Total Restructuring Expenses, Net	SUM of items in Hidden Total Restructuring Expenses, Net	\$1,656,000.00	
	Loss on disposal of equipment and leasehold improvements	\$1,360,000.00	Pg. 46
	restructuring	\$260,000.00	Pg. 28
	Restructuring	\$36,000.00	Pg. 28
+ Hidden Foreign Currency Expenses, Net		-	
+ Hidden Other Real Estate Owned Expenses, Net		-	
+ Hidden Acquisition and Merger Expenses, Net		-	
+ Hidden Legal, Regulatory, and Insurance Expenses, Net		-	
+ Hidden Derivative Related Expenses, Net		-	
+ Hidden Other Financing Expenses, Net		-	
+ Hidden Other Non-Recurring Expenses, Net		-	
+ Hidden Recurring Pension Expenses, Net		-	
+ Hidden Non-Recurring Pension Expenses, Net		-	
+ Hidden Company Defined Other Expenses, Net		-	
+ Reported Non-Operating Expense, Net	TOTAL VALUE of items in Reported Non-Operating Expense, Net	\$35,206,000.00	
+ Reported Derivative Related Expenses, Net	Fair value change of derivative instruments	-\$596,000.00	Pg. 44
+ Reported Other Financing Expenses, Net		-	
+ Reported Company Defined Other Non-Operating Expenses, Net	Other income and (expenses)	\$24,000.00	Pg. 44
+ Reported Acquisition and Merger Expenses, Net		-	
+ Reported Legal, Regulatory, and Insurance Related Expenses, Net		-	
+ Reported Interest Expense/(Income), Net	Interest Expense	\$2,697,000.00	Pg. 44
+ Reported Expenses/(Income) from Discontinued Operations, Net		-	
+ Reported Losses/(Income) from Unconsolidated Subsidiaries, Net		-	
+ Reported Foreign Currency Expenses, Net		-	
+ Reported Non-Operating Other Real Estate Owned Expense/(Income), Net		-	
+ Reported Other Non-Operating Expense/(Income), Net		-	
+ Reported Write-Downs (Non-Operating), Net	Impairment charges	\$33,081,000.00	Pg. 44
+ Reported Restructuring Expenses, Net		-	
+ Reported Other Non-Recurring Expense/(Income), Net		-	

Sources: New Constructs, LLC and company filings

**Figure 1: THMO GAAP Net Income to NOPAT Reconciliation – 2018 10-K (continued)**

Datapoint	Original Line Item Text	Original Line Item Value	Original Line Item Location
+ Total Derived Data for the Net Income to NOPAT Reconciliation	TOTAL VALUE of items in Total Derived Data for the Net Income to NOPAT Reconciliation	-\$5,148,250.11	
+ Change in Total Reserves	Calculated Datapoint	-\$811,000.00	Based on changes in reserves found here on page:
+ Goodwill Amortization Expense, Net		-	
- ESO Expense (Employee Stock Options)		-	
+ Interest for PV of Operating Leases	Calculated Datapoint	\$73,914.32	NA
+ Classification Disclosure Adjustments		-	
+ Non-Operating Taxes	Calculated Datapoint	-\$4,411,164.43	NA
+ Reported After-Tax Non-Operating Expense/(Income), Net	TOTAL VALUE of items in Reported After-Tax Non-Operating Expense/(Income), Net Loss attributable to non controlling interests	-\$1,224,000.00	
+ Reported Minority Interest Expense, Net		-\$1,224,000.00	Pg. 44
+ Reported Loss/(Gain) from Discontinued Operations After-Tax, Net		-	
+ Reported Preferred Dividends, Net		-	
+ Reported Dividends on Redeemable Preferred Stock, Net		-	
+ Reported Other Tax-Tax Charges, Net		-	
= NOPAT (Net Operating Profit After-Tax)		-\$9,226,250.11	

Sources: New Constructs, LLC and company filings

For more details on each of the adjustments in Figure 1, along with how you can access our net income to NOPAT dataset, [click here](#).

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

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Footnotes adjustments matter. We are the ONLY source.

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



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