



## Tesla's Bitcoin Gamble Used to Manipulate Earnings

This report highlights Tesla's chosen accounting treatment of its recent purchase of \$1.5 billion in Bitcoin and how it will impact GAAP net income. Ultimately, Tesla's purchase of Bitcoin is a [distraction](#) from the [numerous challenges](#) the company faces.

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### Bitcoin Treatment and Its Impact on Fundamentals

While analyzing Tesla's 2020 10-K, analyst Hunter Anderson found that Tesla plans to account for its Bitcoin assets as long-term intangibles as opposed to short-term cash equivalents. This distinction means Tesla will record [write-downs](#) on its Bitcoin assets as they fall in value. On the other hand, it can also record large accounting gains should it sell those assets after an increase in value.

In other words, Tesla's chosen accounting treatment gives the firm the ability to potentially manipulate earnings using a non-core, non-operating, and notoriously volatile asset. See the disclosure from the firm's 2020 10-K [here](#).

While it might make conceptual sense to treat Bitcoin as an intangible asset, assuming the company plans to hold it long term, it also goes against the narrative that Bitcoin is a liquid store of value. Companies already use [numerous accounting loopholes](#) to manage earnings and it appears Bitcoin could be used in a similar manner.

### No Substitute for Diligence

We adjust for [all unusual items](#), both [hidden and reported](#), on the income statement and balance sheet to calculate a more accurate measure of a firm's profitability. While Tesla's Bitcoin purchase doesn't require any adjustment yet, without being aware of all unusual items, you'll never know when an adjustment will be necessary and materially impact a firm's true fundamentals, and in turn, its valuation.

Only our "novel dataset", which leverages our [Robo-Analyst](#) technology, enables investors to overcome flaws with legacy fundamental datasets to apply [reliable fundamental data](#) in their research. [Core Earnings: New Data & Evidence](#), accepted for publication by [The Journal of Financial Economics](#) also proves the superiority of our [fundamental data](#), [Core Earnings](#) models, and securities [research](#).

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

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Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1<sup>st</sup> para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2<sup>nd</sup> para.

### **Superior Models**

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5<sup>th</sup> para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2<sup>nd</sup> para.

### **Superior Stock Ratings**

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Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

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