



Filing Season Finds: Thursday, March 16

Our latest forensic accounting red flag is from a small medical device company with unsustainable growth driven by a one-time gain.

We pulled this highlight from yesterday's research of 48 10-K filings, from which our [robo-analyst](#) technology collected 6,034 data points. Our analyst team used this data to make 964 forensic accounting [adjustments](#) with a dollar value of \$135 billion. The adjustments were applied as follows:

- 390 income statement adjustments with a total value of \$11 billion
- 407 balance sheet adjustments with a total value of \$55 billion
- 167 valuation adjustments with a total value of \$69 billion

Figure 1: Filing Season Diligence

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Yesterday	48	6,034	964	\$135
Filing Season Total	1,723	241,978	41,067	\$13,167

Sources: New Constructs, LLC and company filings.

We believe this research is necessary to close the gap between the suitability and [fiduciary standard](#) of investment advice services.

Today's Forensic Accounting Needle In A Haystack Is For Health Care Investors

Analyst Lindsay Bohannon found an unusual item yesterday in OraSure Technologies' (OSUR) 10-K.

On [page 62](#), OSUR disclosed \$5.4 million in non-recurring revenue as the result of the early termination of a promotion agreement with AbbVie (ABBV). This [hidden non-operating income](#) helped OSUR report GAAP earnings of ~\$20 million, a 140% gain from 2015. Removing this non-operating income, along with other adjustments, revealed that OSUR's net operating profit after tax ([NOPAT](#)) grew by 80% to ~\$14 million.

2016 was still a great year for OSUR, and it earned its best return on invested capital ([ROIC](#)) in over a decade. Our research in the footnotes shows, however, that its growth trajectory is not as impressive as GAAP numbers suggest.

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

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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.

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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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