



Hidden Items Understate Growth in Today's Filing Season Find

For February 20, our forensic accounting needles in a haystack come from a chemicals company with significant hidden non-operating expenses.

Get the best fundamental research

Analyst Hunter Anderson found two unusual items in The Chemours Company's (CC) 2018 10-K.

On [page 32](#) of the [financial footnotes](#), CC disclosed a \$35 million increase to its [LIFO reserves](#).

On [page 60](#), CC disclosed \$91 million in non-recurring legal and transaction costs.

Combined, these items decreased pre-tax reported earnings by \$126 million (11% of reported pre-tax earnings). Without these adjustments, CC grew GAAP net income at an impressive 33% in 2018. However, when we remove these non-operating items, we see that CC grew net operating profit after tax ([NOPAT](#)) by 47%. Without analyzing the footnotes, investors would significantly understate CC's true profits.

The Power of the Robo-Analyst

We analyzed 89 10-K filings yesterday, from which our [Robo-Analyst](#)¹ technology collected 9,139 data points. Our analyst team used this data to make 1,599 forensic accounting [adjustments](#) with a dollar value of \$1.3 trillion. The adjustments were applied as follows:

- 649 income statement adjustments with a total value of \$78 billion
- 675 balance sheet adjustments with a total value of \$624 billion
- 275 valuation adjustments with a total value of \$551 billion

We believe this research is necessary to fulfill the [Fiduciary Duty of Care](#). Ernst & Young's white paper, "[Getting ROIC Right](#)", demonstrates how these adjustments contribute to meaningfully superior models and metrics.

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

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



New Constructs® - Research to Fulfill the Fiduciary Duty of Care

Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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