



## Stock Option Liabilities Add Risk in Today's Filing Season Find

For February 21, our forensic accounting needle in a haystack comes from a car manufacturer with a massive spike in outstanding employee stock options.

Get the best fundamental research

Analyst Peter Apockotos found an unusual item in Tesla's (TSLA) 2018 10-K.

On [page 121](#) TSLA disclosed that its outstanding employee stock options nearly tripled from 10.9 million at the end of 2017 to 31.2 million (18% of shares outstanding) at the end of 2018.

Based on this increase in outstanding options and the change in the company's stock price, we calculate that TSLA's [employee stock option liability](#) increased from \$1.6 billion in 2017 to [\\$3.5 billion](#) (7% of market cap) in 2018.

A significant portion of the increase in outstanding options comes from the performance award that the board of directors granted to Elon Musk last January (a decision [we criticized at the time](#)). TSLA disclosed on [page 123](#) of its 10-K that they recorded \$175 million (1% of revenue) in stock compensation expense related to the performance award.

Tesla's valuation already implies an [unrealistic level of growth and profitability](#). The more Tesla dilutes existing shareholders to enrich its CEO, the harder it will be for the company to create value for any other investors.

### The Power of the Robo-Analyst

We analyzed 79 10-K filings yesterday, from which our [Robo-Analyst](#)<sup>1</sup> technology collected 8,328 data points. Our analyst team used this data to make 1,691 forensic accounting [adjustments](#) with a dollar value of \$909 billion. The adjustments were applied as follows:

- 676 income statement adjustments with a total value of \$60 billion
- 732 balance sheet adjustments with a total value of \$423 billion
- 283 valuation adjustments with a total value of \$426 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, Peter Apockotos, and Sam McBride 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](#).



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

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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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