



Non-Operating Income Distorts Earnings

Gains and losses from investments in public securities can materially impact GAAP net income. This report highlights how our [Robo-Analyst identified disclosures in a recent 10-Q that reveal how a company reported meaningfully overstated earnings](#).

Learn more about the best fundamental research

Our [cutting-edge technology](#) creates [superior data](#), as proven in The Journal of Financial Economics. Specifically, our research sees through accounting loopholes to provide clients with a [cleaner and more comprehensive](#) measure of [Core Earnings](#)¹.

New Constructs Analyst Sam Moorhead found unusual non-operating items related to an investment in equity securities in Worthington Industries (WOR) fiscal 1Q21 and 2Q21 10-Q's, which resulted in GAAP net income materially misrepresenting the firm's true profits.

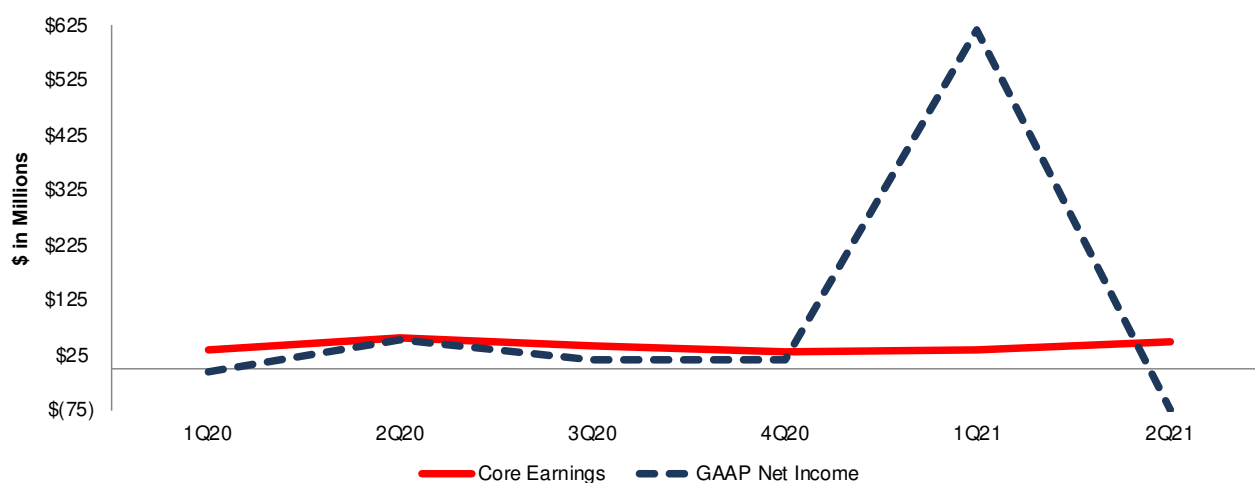
Worthington's Investment Treatment's Effect on Fundamentals

In fiscal 1Q21, Worthington Industries (a metals manufacturer) reported a [\\$796 million](#) gain on its investment in Nikola (NKL). Without this non-operating income, the firm would have reported a GAAP pre-tax loss of \$14 million.

We remove this [non-operating income](#) in our calculation of Core Earnings to determine the true, recurring operating profits of a business. After all adjustments, we find that Worthington's Core Earnings were just \$33 million in fiscal 1Q21 compared to GAAP net income of \$617 million. Figure 1 show the impact of non-recurring items on the volatility of reported earnings.

Figure 1: Worthington's Core Earnings vs. GAAP Net Income: Fiscal 1Q20 – 2Q21

Core Earnings Are a Better Measure of Recurring Profits



Sources: New Constructs, LLC and company filings.

¹ Our reports utilize our Core Earnings, a superior measure of profits, as demonstrated in [Core Earnings: New Data & Evidence](#), a paper by professors at Harvard Business School (HBS) & MIT Sloan. Recently accepted by the Journal of Financial Economics, the paper proves that our data is superior to all the metrics offered elsewhere.



Recognizing non-operating income as operating in this situation create even more volatility in GAAP net income in fiscal 2Q21 when Worthington recognized a [\\$144 million](#) loss on their investment in Nikola. Without this non-operating loss, the firm would have had a pre-tax gain of \$56 million instead of a pre-tax loss of \$88 million. After all adjustments, we find that Worthington's Core Earnings are \$49 million in fiscal 2Q21 compared to GAAP net income of -\$74 million.

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 the non-operating income noted above was reported directly on the income statement, without finding and adjusting for all unusual items, you'll never know when an adjustment will materially impact a firm's true fundamentals, and in turn, its valuation.

Such diligence is why institutions from both the public and private sectors have written papers that [prove the superiority](#) of our proprietary fundamental data, earnings models, investment ratings, and research for stocks, bonds, ETFs, and mutual funds.

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Disclosure: David Trainer, Sam Moorhead, 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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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Below, we present three different papers from both the public and private sectors that prove the superiority of our proprietary fundamental data, earnings models, investment ratings, and research for stocks, bonds, ETFs, and mutual funds.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves the superiority of our [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 *IBSPI Adjustments*, *OIADP Adjustments*, or *OPE Adjustments* individually.” – pp. 14, 1st 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, 2nd para.

Superior Models

A top accounting firm features the superiority of our [NOPAT](#), [Invested Capital](#), and [ROIC](#) research on four mega-cap companies in [“Getting ROIC right: how an accurate view of ROIC can drive improved shareholder value”](#).

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 [the New Constructs method] can investors get an accurate calculation of ROIC.” – pp. 8, 5th 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, 2nd para.

See the [Appendix](#) for direct comparison of our analysis of DOW’s 2015 results to Capital IQ and Bloomberg.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

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, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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