



Bitcoin – The Latest Tool to Manage Earnings

Reported earnings don't tell the whole story of a company's profits. They are based on [accounting](#) rules designed for debt investors, not equity investors, and are manipulated by [companies to manage earnings](#). This report highlights the latest loophole, Bitcoin, how its recorded in company's financial statements, and how we treat Bitcoin to calculate [more reliable](#) measures of profitability.

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Bitcoin Accounting and Its Impact on Fundamentals

As of yet, there are no formal rules for how to treat digital assets in U.S. GAAP. Instead, the American Institute of CPAs issued [guidance](#) in December 2019 that Bitcoin (and other cryptocurrency) should be accounted for as intangible assets, in alignment with Accounting Standards Codification (ASC) 305 Intangibles – Goodwill.

This accounting treatment, as opposed to recording cryptocurrency as a short-term cash equivalent or long-term investment, can have a material impact on reported financials. Recording Bitcoin as an intangible means companies can record [write-downs](#) and recognize losses on their income statement when the fair value of the firm's Bitcoin falls below its carrying value. On the flip side, companies can recognize large gains if they sell Bitcoin after an increase in value. This accounting treatment is in contrast to how unrealized gains/losses are [recorded for other investments, like equities](#).

How We Treat Cryptocurrency

We adjust for [all unusual items](#), both [hidden and reported](#), to calculate a [more accurate](#) measure of a firm's profitability. To account for Bitcoin and other digital assets, we will continue to

- remove gains/losses related to Bitcoin from net operating profit after-tax ([NOPAT](#)) and [Core Earnings](#), as they are [non-operating gains/losses](#)
- add write-downs (after tax) back to [invested capital](#) to hold management accountable for all the money that's been invested in the business

Bitcoin Examples from 2020 10-K Filing Season

We found several companies during [The Real Earnings Season](#) that disclosed Bitcoin as an indefinite-lived intangible asset instead of a short-term cash equivalent or a long-term investment. The following are a few notable examples: [Tesla](#) (TSLA), [MicroStrategy](#) (MSTR), and [Square Inc.](#) (SQ).

While Tesla and Square have not required any adjustments related to their Bitcoin assets as of yet, MicroStrategy's Bitcoin investment drove material [Earnings Distortion](#). In 2020, MicroStrategy recorded a [\\$71 million impairment charge](#) related to its Bitcoin assets, which was nearly 2x its 2020 Core Earnings. After removing all Earnings Distortion, which totals -\$4.47/share, or 575% of GAAP EPS, MicroStrategy's Core Earnings of \$3.69/share, are significantly higher than GAAP net income of -\$0.78/share.

Despite the negative effect on reported earnings in 2020, the firm [issued](#) \$1.05 billion in 0% interest convertible debt in February 2021 to purchase additional Bitcoin. MSTR is down ~35% since announcing their intention to issue the debt in mid-February, which could indicate investor's skepticism of the firm's plan to purchase such a highly volatile and non-core asset, which has already distorted earnings.

More details on MicroStrategy's Bitcoin purchase are in our report [here](#).

More details on Tesla's Bitcoin purchase are in our report [here](#).

No Substitute for Diligence

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, 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. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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, 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 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, 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.

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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