



Hidden Charges Make a Bad Year Look Worse & Other Findings From the Real Earnings Season

From the 231 filings our [Robo-Analyst](#) analyzed last week, we're highlighting unusual items in the filings of Ingersoll Rand (IR) and several other companies during the third week of [The Real Earnings Season](#).

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Ingersoll Rand's Hidden Non-Operating Items Make 2020 Look Even Worse

In its 2020 10-K, analyst Hunter Anderson found that Ingersoll Rand recorded multiple unusual charges that were [hidden](#) in "other operating expense, net." Detailed below, these hidden unusual items along with reported unusual items, amount to -\$153 million in [Earnings Distortion](#) and materially distort (by 459%) Ingersoll Rand's GAAP earnings:

Hidden Unusual Items = -\$146 million:

- [\\$93 million](#) restructuring charges – Page 108 2020 10-K
- [\\$44 million](#) acquisition related expenses bundled in other operating expense – Page 36 2020 10-K
- [\\$13 million](#) foreign currency transaction losses bundled in other operating expense – page 36 2020 10-K
- [\\$8 million](#) reimbursement of previously expensed legal defense costs – Page 105 2020 10-K
- [\\$3 million](#) severance, sign on, relocation, and executive search costs – Page 108 2020 10-K
- [\\$2 million](#) facility reorganization, relocation and other costs – Page 108 2020 10-K

Reported Unusual Items = -\$18 million:

- [\\$20 million](#) impairment of other intangible assets reported on the income statement – 2020 10-K
- [\\$8 million](#) other income reported on the income statement – 2020 10-K
- \$4 million adjustment for [contra earnings distortion from recurring pension costs disclosed in non-recurring items](#)
- [\\$2 million](#) loss on extinguishment of debt reported on the income statement – 2020 10-K

In addition, we made an \$11 million adjustment for income tax distortion to normalize reported income taxes by removing the impact of unusual items.

After removing Earnings Distortion, which totals -\$0.40/share, or 459% of GAAP EPS, Ingersoll Rand's 2020 Core Earnings of \$0.31/share are much greater than GAAP EPS of -\$0.09.

How We Treat Non-Operating Items: Non-operating items, such as [restructuring](#) or [foreign exchange](#) charges are [one of many reasons](#) why GAAP net income doesn't tell the whole story of a company's profitability.

Unlike other research firms¹, we remove all [unusual gains/losses](#), including restructuring charges, to calculate Ingersoll Rand's true recurring profits, i.e. [Core Earnings](#).

Without careful footnotes research, investors would never know that these non-recurring expenses distort GAAP numbers to the point where traditional, unscrubbed earnings for U.S. stocks are off [by an average of ~20%](#).

Other Material Earnings Distortions & Red Flags We Found

Since February 19, 2021, we have parsed 1,626 10-Q and 10-K filings, and Ingersoll Rand's hidden non-operating items aren't the only unusual items our analysts have found. Below are a few other highly material Earnings Distortions that we discovered while rigorously analyzing the footnotes and MD&A:

¹ [In Core Earnings: New Data & Evidence](#), professors from Harvard Business School & MIT Sloan [expose the flaws](#) in traditional, legacy fundamental data and research providers.



The Michaels Companies (MIK) – Unusual COVID-19 expenses

- While analyzing The Michaels Companies' fiscal 2020 10-K, analyst Devyn DeLange found that on page 40 The Michaels Companies recognized a [\\$20 million](#) COVID-19 expense, which included hazard pay, costs associated with furloughed employees, inventory charges, and sanitation supplies. We remove this non-operating charge from our measure of net operating profit after-tax (NOPAT) and Core Earnings to calculate the true recurring profits of the business. After removing all Earnings Distortion (31% of GAAP EPS in fiscal 2020), The Michaels Companies fiscal 2020 Core Earnings of \$2.61/share are greater than GAAP EPS of \$1.98, which could help explain why the firm recently [received an acquisition offer](#) from Apollo Global Management.

3D Systems (DDD) – Non-operating charge due to workforce reduction

- Analyst Robbie Woodward noticed on page F-38 (page 83 overall) of 3D System's 2020 10-K that the firm recognized [\\$20 million](#) in restructuring and exit activity costs related to organizational realignment, which included reducing its workforce by 20%. We remove this non-operating charge from our measure of NOPAT and Core Earnings to calculate the true recurring profits of the business. After removing all Earnings Distortion (71% of GAAP EPS in 2020), 3D System's Core Earnings improved from -\$0.50/share in 2019 to -\$0.37/share in 2020 while GAAP EPS fell from -\$0.61 to -\$1.27 over the same time.

The Power of the Robo-Analyst

We analyzed 231 10-K and 10-Q filings last week, from which our [Robo-Analyst](#)² technology collected 23,434 data points. Our analyst team made 3,230 forensic accounting [adjustments](#) with a dollar value of \$1.2 trillion. The adjustments were applied as follows:

- 1,211 income statement adjustments with a total value of \$62 billion
- 1,356 balance sheet adjustments with a total value of \$590 billion
- 663 valuation adjustments with a total value of \$593 billion

Figure 1: Filing Season Diligence for the Week of March 8 – March 12

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Filing Season Week 3	231	23,434	3,230	\$1,245
Filing Season Total	1,626	188,992	30,588	\$15,772

Sources: New Constructs, LLC and company filings.

Every year in this six-week stretch from mid-February through the end of March, we parse and analyze roughly 2,000 10-Ks to update our [models](#) for companies with 12/31 and 1/31 fiscal year ends. This effort is made possible by the combination of expertly trained human analysts with our “Robo-Analyst.” Featured by Harvard Business School in [“Disrupting Fundamental Analysis with Robo-Analysts”](#), our Robo-Analyst research automation technology uses machine learning and natural language processing to automate and improve financial modeling.

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](#), forthcoming in [The Journal of Financial Economics](#), reveals the problems with fundamental data provided by legacy firms like Bloomberg, Refinitiv, FactSet (FDS) and S&P Global (SPGI).

This article originally published on [March 22, 2021](#).

Disclosure: David Trainer, Hunter Anderson, Devyn DeLange, Robbie Woodward, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, sector, style, or theme.

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.

² Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



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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