



Understated Profits & More From the Real Earnings Season

This week's Filing Season Finds report highlights some of the most interesting footnote disclosures in the 176 10-Ks and 10-Qs our [Robo-Analyst](#)¹ analyzed last week.

1. GlaxoSmithKline's (GSK) materially understated profits and
2. alarming and material disclosures in the 10-Ks of Squarespace (SQSP), VBI Vaccines (VBIV), and Research Frontiers (REFR).

Since 2005, we've reported how traditional earnings measures are unreliable due to [accounting loopholes](#) that allow companies to [manage earnings](#). Our [Economic Earnings](#) and [Core Earnings](#) research closes those loopholes and provides [more reliable](#)² analysis of profits that also deliver a [new source of alpha](#).

Learn more about the best fundamental research

Growing Profits + Cheap Valuation = Very Attractive Rating

In GlaxoSmithKline's 2021 20-F, our analyst Hunter Anderson highlighted how our Robo-Analyst found \$2.1 billion in non-operating charges on page 15, which consisted of:

- [\\$1.2 billion](#) in transaction related items
- [\\$626 million](#) in major restructuring costs
- [\\$314 million](#) in separation costs

These non-operating charges are not on the income statement. They can only be found with careful analysis of footnotes, which legacy firms tend not to do. After removing these non-operating items and other [Earnings Distortions](#) (net -\$2.5 billion, or 56% of GAAP earnings), we reveal that GlaxoSmithKline's 2021 Core Earnings of \$6.9 billion, or \$2.71/share, are much higher than GAAP earnings of \$4.4 billion, or \$1.73/share.

With higher profits than GAAP earnings indicate, an 11% return on invested capital ([ROIC](#)), and a valuation that implies the company's profits will decline permanently, GlaxoSmithKline earns a Very Attractive [Stock Rating](#), which was upgraded from Attractive after we analyzed its 2021 20-F.

Profits are an indication of a good *business*, but a good business is only worth buying at a good *price*. At its current price, GSK's price-to-economic book value ([PEBV](#)) ratio is 0.6. This ratio means the market expects GlaxoSmithKline's profit to permanently decline 40% from 2021 levels. GSK experienced a profit surge in 2020 that reversed in 2021, but the market is pricing in further declines. We view that assessment as overly pessimistic. GlaxoSmithKline has grown net operating profit after-tax ([NOPAT](#)) by 5% compounded annually over the past five years while also increasing its NOPAT margin by five percentage points during that time.

Other Material Earnings Distortions & Insights We Found

From disclosures in the footnotes and MD&A:

Squarespace (SQSP) – Still Unprofitable After Removing Unusual Expense

- In Squarespace's 2021 10-K, analyst Sam Moorhead noted that on [page 44](#) our Robo-Analyst found that the company bundled a one-time stock-based compensation expense of \$229 million related to its direct listing in general and administrative expenses. We remove this non-operating charge from our measure of NOPAT and Core Earnings to calculate the true recurring profits of the business. However, even after removing all Earnings Distortion (-\$230 million, or 92% of GAAP earnings), we reveal that Squarespace's 2021 Core Earnings are still negative, at -\$20 million, or -\$0.20/share, compared to

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

² Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).



GAAP earnings of -\$250 million, or -\$2.60/share. Squarespace’s negative profits and expensive valuation earn it an Unattractive rating, and a place in the Danger Zone, as we pointed out in our recent report [Square Peg Meets Round Hole](#).

VBI Vaccines (VBIV) & Research Frontiers (REFR) – Look Beyond the Fundamentals

- While most of the items we highlight pertain specifically to a company’s fundamentals, we also leverage our Robo-Analyst to identify specific disclosures that can better inform investors about a company’s business condition.
 - In VBI Vaccines’ 2021 10-K, analyst Garrett O’Grady noted that our Robo-Analyst identified the company’s independent auditor EisnerAmper LLP raised doubts about the company’s ability to continue as a [going concern](#). Specifically, it was noted that the company will require significant additional funds to continue as a going concern.
 - In Research Frontiers’ 2021 10-K, analyst Robin Ortega noted that our Robo-Analyst found the company’s independent auditor CohnReznick LLP identified a [material weakness in internal control](#) over financial reporting. Weaknesses in internal controls increase the risk that the company’s financials are fraudulent and/or misleading.

The Power of the Robo-Analyst

From the 176 10-K and 10-Q filings analyzed by our [Robo-Analyst](#) last week, we collected 21,845 data points. This data led to 2,687 Core Earnings, balance sheet, and valuation [adjustments](#) with a combined dollar value of \$1.0 trillion. The adjustments were applied as follows:

- 1,121 income statement adjustments with a total value of \$61 billion
- 1,058 balance sheet adjustments with a total value of \$442 billion
- 508 valuation adjustments with a total value of \$522 billion

Figure 1: Filing Season Diligence for Filing Season 2022

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Week 4	176	21,845	2,687	\$1,025
Filing Season Total	1,726	243,009	36,278	\$18,599

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 and 10-Qs to update our [models](#) for companies with 12/31 and 1/31 fiscal year ends. This combination of technology and human expertise enables investors to overcome the flaws in legacy fundamental research and make more informed investment decisions.

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Disclosure: David Trainer, Hunter Anderson, Sam Moorhead, Garrett O’Grady, Robin Ortega, Kyle Guske II, 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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