



## Improving our Total Debt Calculation and Credit Rating

We are improving the Total Debt calculation used in our [Credit Ratings](#) for all companies under coverage. Specifically, we are updating the calculation to use Carrying Value of Debt instead of Fair Value of Debt.

This update allows us to provide more accurate measures of a company's creditworthiness. Prior to this change, using the fair value of debt in our Total Debt calculation created two related issues:

1. Companies under threat of bankruptcy could appear more credit worthy, as the fair value of their debt drops and, in effect, understates the true claims on the company's future cash flows.
2. The fair value of the debt for companies whose debt trades at a premium overstates the claims debtors have on cash flows and makes some of the metrics that drive our credit ratings look worse.

By updating our Total Debt calculation to use carrying value of debt, we more accurately represent the debt a company actually owes, not what the market would pay for that debt.

For instance, if a company borrows \$100, and the fair market value of the debt is \$50, the company still owes the \$100 and pays interest on that \$100 value. Conversely, if a company borrows \$100, and the fair market value of the debt is \$150, the company does not owe more than the \$100 plus interest. By making this update, we ensure our Credit Ratings are not impacted by the swings in fair market values for debt.

As a result of this change, Credit Ratings will be:

1. worse for companies with a fair value of debt significantly below carrying value, and
2. better for companies with a fair value of debt significantly higher than carrying value of debt.

We expect this update to affect our Credit Ratings as follows:

- improved one level for 5 companies.
- worse by one level for 51 companies.

We expect these changes to be live in our Credit Ratings on 8/25/23.

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*Disclosure: David Trainer, Kyle Guske II, Hakan Salt, and Italo Mendonça 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***

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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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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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