



## Fake News Is Cheap for a Reason

We see so much fake news these days that it's hard to know what is real. The same is true of stock research. So much of it is designed to make the research producers (analysts and investment banks) money, not the readers. Wall Street might be the OG of fake news. Haha. You deserve better, and I am going to show you how to get it.

In this letter, I am going to show you clear examples of how misleading Wall Street and other research can be. I'm also going to show you how opaque their research is. Then, I am going to show you how our research is better and throw in a few free stock ratings. Now, you may be asking yourself, why do I keep giving away so much valuable information in these letters? The answers:

1. We genuinely believe in improving the integrity of the capital markets.
2. We hope to get your business one day.

The same cannot be said about our competitors. Here's the proof that they give away bad research on the cheap. Remember, when the product is free, you're the product.

Have you ever read the Disclaimers at the end of a Wall Street research report? You'll be surprised at what you might find. I have an example for you. From page 8 of a recent report from RBC Securities on Chord Energy Corp (CHRD)<sup>1</sup>. The investment bank admits their research:

1. does not have to be accurate and
2. can be conflicted because the author's compensation comes from a bank that makes money from investment banking.

### Figure 1: Disclaimers from a Wall Street Research Report

punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

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Scott Hanold (512) 708-6354; scott.hanold@rbccm.com 8

but, definitely, conflicted

Might not be accurate

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Sources: RBC Capital Markets, page 8 of the report on Chord Energy Corp (CHRD)

<sup>1</sup> I got a copy of this report from a client. I'm not sure I'm allowed to share the whole thing so I'm only sharing screen shots.



All Wall Street research reports have very similar disclaimers. Take a look. In fact, among Wall Street insiders, it is common knowledge that Wall Street research is unreliable. And, I am always surprised by how many investors do not realize how ridiculously misleading most investment research is. For a deep dive into the huge conflicts in Wall Street research, see [Why Investors Need Independent Research](#).

Figure 2 shows the RBC analyst's model for Free Cash Flow for Chord Energy Corp (CHRD). Wow, the free cash flow is quite positive according to RBC.

**Figure 2: Free Cash Flow Calculations from the RBC report**

| FREE CASH FLOW & RETURN OF CASH | 2018           | 2019         | 2020         | 2021         | 2022pt         | 2023         |
|---------------------------------|----------------|--------------|--------------|--------------|----------------|--------------|
| <b>Free Cash Flow</b>           |                |              |              |              |                |              |
| Discretionary Cash Flow         | \$828          | \$805        | \$449        | \$533        | \$2,031        | \$1,681      |
| Exploration & Development CAPEX | 1,122          | 645          | 223          | 170          | 722            | 922          |
| <b>Free Cash Flow</b>           | <b>(\$295)</b> | <b>\$159</b> | <b>\$226</b> | <b>\$362</b> | <b>\$1,309</b> | <b>\$759</b> |
| Reinvestment Rate               | 136%           | 80%          | 50%          | 32%          | 36%            | 55%          |

Sources: RBC Capital Markets, page 8 of the report on Chord Energy Corp (CHRD)

Figure 3 shows our numbers for Free Cash Flow....wait for it...surprise...our numbers are much lower, even negative. For 2022, RBC shows +\$1,309 vs. -\$2,122 for us. For 2023, RBC shows +\$759 vs. -\$20 for us. Our model does not cover the company prior to its transition in 2021 from Oasis Petroleum, so we show less history. But, you get the point, we have much lower numbers for Free Cash Flow. Why, you ask? Perhaps, since we are not trying to get investment banking business from this company, we're not incentivized to overstate its profitability, and, so, we can be trusted to plainly report the truth.

**Figure 3: Free Cash Flow Calculations from New Constructs**

| \$ Values in Millions | 2019 | 2020 | 2021 | 2022      | 2023   | Current/TTM thru 2024 Q1 10-Q |
|-----------------------|------|------|------|-----------|--------|-------------------------------|
| Free Cash Flow        |      |      |      | (\$2,122) | (\$20) | \$94.64                       |

Sources: New Constructs' Rating Breakdown details from Professional Membership

The truth is no one can be 100% sure of the motivations of RBC because of the conflicts of interest stated in their disclaimers.

However...that said, RBC could put all the doubts to rest if they gave us details on how they calculate free cash flow so that we could audit the results and ensure their accuracy. Hmm - good idea. Why doesn't RBC do that? Why don't all research analysts do that? Do they not have the data? Do they not want to share it?

We share it. 100% of the time, right down to the [exact details from the footnotes](#) where we get the most important data. We also provide all details on how we calculate [Free Cash Flow](#) (FCF) and all the metrics in our models ([here](#)). We do the same for the drivers of FCF: [NOPAT](#) and [Invested Capital](#).

For example, here's a picture of where we find an unusual charge buried deep in the footnotes of Chord Energy Corp's last 10-Q filing.

**Figure 4: Example of Key Data Buried in Footnotes that Our Models Capture**

Marked-Up Filings

We build transparency tools into our models - because we want our clients to know how much work we do.

**Chord Energy Corp (CHRD)**  
 Analyst Notes : None  
 Select Document:  
 2024 | 10-Q1

**Balance Sheet**  
**Income Statement**  
**Cash Flow Statement**  
**Income Statement Adjustments\***  
**Net Non-Operating Expense Hidden in Operating Earnings**  
 Pre-Tax Net Non-Operating Expense/(Income) Hidden in Operating Earnings  
 • merger-related costs : 8.1

**Balance Sheet Adjustments**  
**Valuation Adjustments**  
**Earnings Distortion from Hidden Items, Net\***  
**Earnings Distortion from Reported Items Pre-Tax, Net**  
**Fair Value Hierarchy**  
**Other Disclosures**

The values in the Index Menu above appear exactly as disclosed in this filing. Note that values often appear in different denominations (millions, billions, etc) within a filing. You can verify the denomination of values in their original context by clicking on them.

\*For the Employee Stock Option Data Points menu, "No Location Information for Line Item" may appear because the most recently available Black-Scholes assumptions are collected from a previous filing or data had to be entered by an analyst because of disclosure.

or less, under the terms of these contracts, if we fail to deliver, transport or purchase the committed volumes we will be required to pay a deficiency payment for the volumes not tendered over the duration of the contract. We believe that for the substantial majority of these agreements our future production will be adequate to meet our delivery commitments or that we will be able to purchase sufficient volumes of crude oil, NGLs and natural gas from third parties to satisfy our minimum volume commitments. See "Item 1. Financial Statements (Unaudited)-Note 17-Commitments and Contingencies" for additional information on our volume delivery commitments.

Our material cash requirements from known obligations include repayment of outstanding borrowings and interest payment obligations related to our long-term debt, obligations to plug, abandon and remediate our oil and gas properties at the end of their productive lives, payment of income taxes, obligations associated with outstanding commodity derivative contracts that settle in a loss position, obligations to pay dividends on vested equity awards that include dividend equivalent rights and obligations associated with our leases. In addition, we have announced a return of capital plan pursuant to which we intend to return capital to stockholders through a mix of base and variable dividend payouts, supplemented by opportunistic share repurchases. There were no borrowings outstanding under the Credit Facility (defined below) as of March 31, 2024; however, on a quarterly basis, we pay a commitment fee on the average amount of borrowing base capacity not utilized during the quarter and fees calculated on the average amount of letter of credit balances outstanding during the quarter.

Merger-related costs. In connection with the Arrangement, we incurred certain costs for advisory, legal and other third-party fees which were recorded to G&A expenses on the Condensed Consolidated Statements of Operations. During the three months ended March 31, 2024, we incurred merger-related costs of \$8.1 million primarily related to legal and advisory services.

Revolving credit facility. We have a senior secured revolving credit facility (the "Credit Facility") with a borrowing base of \$2.5 billion and elected commitments of \$1.0 billion that is due July 1, 2027. As of March 31, 2024, we had no borrowings outstanding and \$8.9 million of outstanding letters of credit, resulting in an unused borrowing capacity of \$991.1 million. Additionally, we are permitted to incur term loans in addition to the revolving loans provided under the amended and restated credit agreement. We were in compliance with the financial covenants under the Credit Facility as of March 31, 2024. See "Item 1. Financial Statements (Unaudited)-Note 11-Long-Term Debt" for additional information.

We are expected to complete our semi-annual borrowing base redetermination in the second quarter of 2024. Senior unsecured notes. As of March 31, 2024, we had \$400.0 million of 6.375% senior unsecured notes outstanding (the "Senior Notes") that mature on June 1, 2026. Interest on the Senior Notes is payable semi-annually on June 1 and December 1 of each year. See "Item 1. Financial Statements (Unaudited)-Note 11-Long-Term Debt" for additional information.

34

Table of Contents  
 Cash Flows  
 Our cash flows for the three months ended March 31, 2024 and 2023 are presented below:

|   | Three Months Ended March 31,<br>2024 | 2023       |
|---|--------------------------------------|------------|
|   | (In thousands)                       |            |
| Net cash provided by operating activities | \$ 486,698                           | \$ 468,811 |

Sources: New Constructs and company filings

Now, in case you can't tell, I really enjoy comparing our research to other firms. And, recently, we found a [tweet](#) with a bunch of research and data from Morningstar. Jack pot!

This find allows us to highlight the differences between our calculations of return on invested capital ([ROIC](#)), return on equity ([ROE](#)), and overall [stock rating](#) compared to Morningstar's research.

The bottom line: there are very large differences between our research and Morningstar's. For example:

- Morningstar shows Bristol Myers Squibb's (BMY) ROIC is -7.18%, and we show 8.3%.
- Morningstar shows Tencent Holdings' (TCEHY) ROIC is 9.67%, and we show 21.9%.
- Morningstar shows Huntington Ingalls' (HII) ROIC is 11.67%, and we show 5.9%.

More details in Figure 5.

**Figure 5: New Constructs vs. Morningstar ROIC**

| Ticker | Company Name             | Sector                | Morningstar ROIC | New Constructs ROIC | Difference |
|--------|--------------------------|-----------------------|------------------|---------------------|------------|
| BMJ    | Bristol Myers Squibb     | Healthcare            | -7.18%           | 8.30%               | -15.48%    |
| TCEHY  | Tencent Holdings Ltd     | Technology            | 9.67%            | 21.90%              | -12.23%    |
| GILD   | Gilead Sciences          | Healthcare            | 2.65%            | 11.40%              | -8.75%     |
| JD     | JD.com                   | Consumer Cyclical     | 4.90%            | 13.20%              | -8.30%     |
| BIDU   | Baidu Inc.               | Technology            | 4.81%            | 10.40%              | -5.59%     |
| BTI    | British American Tobacco | Consumer Non-cyclical | -11.74%          | -6.80%              | -4.94%     |
| NKE    | NIKE Inc.                | Consumer Cyclical     | 19.37%           | 21.50%              | -2.13%     |
| PFE    | Pfizer Inc.              | Healthcare            | 0.39%            | 1.90%               | -1.51%     |
| YUMC   | Yum China Holdings       | Consumer Cyclical     | 8.09%            | 9.10%               | -1.01%     |
| RHHBY  | Roche Holding AG         | Healthcare            | 21.97%           | 22.90%              | -0.93%     |
| EL     | Estee Lauder             | Consumer Non-cyclical | 4.86%            | 5.10%               | -0.24%     |
| ZBH    | Zimmer Biomet            | Healthcare            | 6.35%            | 5.70%               | 0.65%      |
| PII    | Polaris Inc.             | Consumer Cyclical     | 14.18%           | 12.00%              | 2.18%      |
| CMCSA  | Comcast Corporation      | Consumer Cyclical     | 9.85%            | 7.10%               | 2.75%      |
| ABEV   | Ambev S.A.               | Consumer Non-cyclical | 16.93%           | 11.90%              | 5.03%      |
| HII    | Huntington Ingalls       | Industrials           | 11.67%           | 5.90%               | 5.77%      |
| BUD    | Anheuser-Busch InBev     | Consumer Non-cyclical | n/a              | 7.10%               | n/a        |
| RBGLY  | Reckitt Benckiser Group  |                       | 13.14%           | not covered         | n/a        |

Sources: New Constructs, LLC and Morningstar data from [here](#)

We also see very large differences in the ROE values compared to our research. For example:

- Morningstar shows Bristol Myers Squibb's ROE is -22.11% and we show -37.3%.
- Morningstar shows British American Tobacco's (BTI) ROE is -21.81% and we show -28.20%.

See Figure 6.

**Figure 6: New Constructs vs. Morningstar ROE**

| Ticker | Company Name             | Sector                 | Morningstar ROE | New Constructs ROE | Difference |
|--------|--------------------------|------------------------|-----------------|--------------------|------------|
| BMJ    | Bristol Myers Squibb     | Healthcare             | -22.11%         | -37.30%            | 15.19%     |
| BTI    | British American Tobacco | Consumer Non-cyclicals | -21.81%         | -28.20%            | 6.39%      |
| PII    | Polaris Inc.             | Consumer Cyclical      | 30.10%          | 28.30%             | 1.80%      |
| HII    | Huntington Ingalls       | Industrials            | 18.40%          | 17.10%             | 1.30%      |
| BIDU   | Baidu Inc.               | Technology             | 8.76%           | 8.10%              | 0.66%      |
| EL     | Estee Lauder             | Consumer Non-cyclicals | 11.73%          | 11.20%             | 0.53%      |
| ABEV   | Ambev S.A.               | Consumer Non-cyclicals | 17.73%          | 17.40%             | 0.33%      |
| NKE    | NIKE Inc.                | Consumer Cyclical      | 36.90%          | 36.80%             | 0.10%      |
| ZBH    | Zimmer Biomet            | Healthcare             | 7.77%           | 7.70%              | 0.07%      |
| PFE    | Pfizer Inc.              | Healthcare             | -0.27%          | -0.30%             | 0.03%      |
| YUMC   | Yum China Holdings       | Consumer Cyclical      | 13.95%          | 14.10%             | -0.15%     |
| RHHBY  | Roche Holding AG         | Healthcare             | 44.23%          | 44.40%             | -0.17%     |
| TCEHY  | Tencent Holdings Ltd     | Technology             | 15.25%          | 15.60%             | -0.35%     |
| JD     | JD.com                   | Consumer Cyclical      | 10.93%          | 11.30%             | -0.37%     |
| CMCSA  | Comcast Corporation      | Consumer Cyclical      | 18.30%          | 18.70%             | -0.40%     |
| GILD   | Gilead Sciences          | Healthcare             | 2.17%           | 2.80%              | -0.63%     |
| BUD    | Anheuser-Busch InBev     | Consumer Non-cyclicals | n/a             | 6.50%              | n/a        |
| RBGLY  | Reckitt Benkiser Group   |                        | 24.42%          | not covered        | n/a        |

Sources: New Constructs, LLC and Morningstar data from [here](#)

Not surprisingly, our Ratings on the stocks are also quite different. Morningstar ratings are much more positive than ours. For example:

- Morningstar gives Pfizer (PFE) a 1 and we give them a 4, or Unattractive rating.
- The same goes for Zimmer Biomet (ZBH), Estee Lauder (EL), Huntington Ingalls, and British American Tobacco.

For reference, 1 is the best rating and 5 is the worst for both firms. See Figure 7.



**Figure 7: New Constructs vs. Morningstar Stock Ratings**

| Ticker | Company Name             | Sector                 | Morningstar Rating | New Constructs Rating | Difference |
|--------|--------------------------|------------------------|--------------------|-----------------------|------------|
| PFE    | Pfizer Inc.              | Healthcare             | 1                  | 4                     | -3         |
| ZBH    | Zimmer Biomet            | Healthcare             | 1                  | 4                     | -3         |
| EL     | Estee Lauder             | Consumer Non-cyclicals | 1                  | 4                     | -3         |
| HII    | Huntington Ingalls       | Industrials            | 1                  | 4                     | -3         |
| BTI    | British American Tobacco | Consumer Non-cyclicals | 1                  | 4                     | -3         |
| CMCSA  | Comcast Corporation      | Consumer Cyclical      | 1                  | 3                     | -2         |
| TCEHY  | Tencent Holdings Ltd     | Technology             | 1                  | 3                     | -2         |
| NKE    | NIKE Inc.                | Consumer Cyclical      | 1                  | 3                     | -2         |
| BMJ    | Bristol Myers Squibb     | Healthcare             | 1                  | 3                     | -2         |
| BUD    | Anheuser-Busch InBev     | Consumer Non-cyclicals | 1                  | 3                     | -2         |
| GILD   | Gilead Sciences          | Healthcare             | 1                  | 2                     | -1         |
| JD     | JD.com                   | Consumer Cyclical      | 1                  | 2                     | -1         |
| YUMC   | Yum China Holdings       | Consumer Cyclical      | 1                  | 2                     | -1         |
| BIDU   | Baidu Inc.               | Technology             | 1                  | 2                     | -1         |
| PII    | Polaris Inc.             | Consumer Cyclical      | 1                  | 2                     | -1         |
| RHHBY  | Roche Holding AG         | Healthcare             | 1                  | 1                     | 0          |
| ABEV   | Ambev S.A.               | Consumer Non-cyclicals | 1                  | 1                     | 0          |
| RBGLY  | Reckit Benkiser Group    |                        | 1                  | not covered           | n/a        |

Sources: New Constructs, LLC and Morningstar data from [here](#)

I hope you've enjoyed this letter as much as I enjoyed writing it. We deliver extremely high value to our clients, and one of the best ways to demonstrate that value is direct comparisons to what our competitors pass off as research.

I also hope this letter helps you see that we genuinely believe in improving the integrity of the stock market and that you get what you pay for when it comes to New Constructs.

There's a lot of research out there...most of it is fake news. I'm not fake. New Constructs is not fake, and I think it's hard to make a straight-faced argument that there's another investment research firm in the world that delivers more value than we do.

Want even more transparency? We regularly review our work and research on Long Ideas and Danger Zone Ideas with clients. We want you to know how much work we do! Get some free samples here:

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3. Check out the huge amount of media coverage we get [here](#), including my [recent interview on Bloomberg TV](#).

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Diligence matters,  
David

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*Disclosure: David Trainer, Kyle Guske II, and Hakan Salt, receive no compensation to write about any specific stock, sector, style, or theme.*

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## ***It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

### **Best Fundamental Data in the World**

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**

Ernst & Young 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 Harvard Business School. 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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