BEHIND THE NUMBERS
EARNINGS QUALITY & DIVIDEND SUSTAINABILITY RESEARCH

BTN Research

October 24, 2019 | www.btnresearch.com

Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

Contents

Philip Morris (PM) 3Q'19 Update- Maintain NEUTRAL p. 1

Snap-on (SNA(3Q'19 Update- Maintain SELL p. 8

Ford (F) EQ Update 3Q'19 p.13

PepsiCo (PEP) EQ Update 3Q'19 p.15

Philip Morris (PM) – 3Q'19 Update
Maintain NEUTRAL

We are maintaining our Neutral rating on PM after 3Q19 results. The company already announced it is no longer considering a merger with Altria. We think the best deals are often those that ARE NOT MADE and we view walking away as a positive for PM. As we noted in our September 12, 2019 issue, the cash flow situation at MO looks tighter than PM right now and more of the benefits would have flowed to MO, in our view, such as a backdoor dividend cut for MO and eliminating royalties on IQOS that will be paid to PM. PM is not immune to many of the issues impacting MO – but PM is not seeing the snowball of accelerating volume decay speeding up further as the company boosts price to offset it. At some point, that catalyst may intensify, but it is not critical yet.

- **On current guidance – PM's dividend consumes 90% of Free Cash Flow. It no longer buys back shares, and it already spent the tax cut savings on the dividend. We expect modest growth in this area at best.**

- **PM has a history of reducing guidance and that continued in 3Q'19.**

- **FX weakness is increasing mildly in 2019. We think half of PM's volume is sold in countries that would be considered troubled and therefore FX will nearly always be a drag on results.**

- **Pricing is driving sales and earnings. We do not see that as a permanent source of success, but PM is not close to seeing higher pricing lead to accelerating volume decay except in a couple of countries. Thus, we think PM has a few more years of single-digit growth overall.**

- **The long list of One-Time Events to adjust EPS seems aggressive to us. Reported EPS for 2018 was $5.08 and PM expects $4.73 this year. However, it is calling out $0.41 of one-time items and $0.14 of FX to add back to adjusted EPS to report growth.**

- **With FX being a drag essentially every year and litigation costs building and consuming cash – should these be viewed as one-time events?** They are lumpy to be sure, but they are recurring. Also, Russia's audit on intracompany sales to look for greater excise tax revenue looks one-time in nature – but they are the third country to do this. If cigarette volumes continue falling, this may become a more common event.

Current Guidance Does Not Point to Much Cushion on the Dividend

	2019e	2018	2017	2016
Cash Operations	$9,200	$9,478	$8,912	$8,077
CapEx/Inv in Subs	$1,054	$1,499	$1,659	$1,213
Free Cash	$8,146	$7,979	$7,253	$6,864
Dividend	$7,300	$6,885	$6,520	$6,378
Payout on CF	90%	86%	90%	93%
EPS	$4.73	$5.08	$4.72	$4.48
Div/Share	$4.62	$4.49	$4.22	$4.12
Payout on EPS	98%	88%	89%	92%

PM has not bought back any shares in recent years and guidance calls for none. PM hasn't bought shares since 2014 and had prior years when dividends and repurchases were roughly equal. It is obvious they cannot afford to do it anymore. Plus, they ramped up dividend growth from the normal 2% growth to 3% and then 6.5% as the tax cuts arrived. It has now

fallen back to 2.6%. Because earnings come from overseas, PM had an effective tax rate of about 28% when the US rate was 35%. With the US rate at 21% - PM is about 23%. Based on pretax income, PM gained $500-$600 million in income from the tax cuts – and they already spent it on the dividends.

More importantly, PM has a recent history of cutting guidance. Coming into 2018 – it expected EPS in the $5.04-$5.19 range and after a strong 1Q raised forecasts by a nickel before cutting the high end repeatedly the rest of the year and coming in at $5.08. Constant Currency revenue growth forecasts fell rapidly too.

2018 est	CC Rev	Op CF	CapX	EPS low	EPS high
4Q17	>8.0%	$9,000	$1,700	$5.04	$5.19
1Q18	8.0%	$9,000	$1,700	$5.09	$5.24
2Q18	3-4%	$9,000	$1,500	$5.09	$5.19
3Q18	3.0%	$9,000	$1,500	$5.09	$5.14

In 2019, the company is boosting its Constant Currency revenue forecasts, yet with a series of one-time events of late, it continues to reduce cash flow forecasts and EPS guidance. In 2019, the EPS guidance is listed as only the low-end:

2019 est	CC Rev	Op CF	CapX	EPS low
4Q18	5.0%	$10,000	$1,100	$5.37
1Q19	5.0%	$10,000	$1,100	$4.87
2Q19	6.0%	$9,500	$1,100	$4.94
3Q19	6.0%	$9,200	$1,000	$4.73

Also, in 3Q19, after boosting volume guidance in 2Q19 to -1.0% from the start of the year guidance of -1.5% to -2.0%, that figure was cut again to -1.0% to -1.5%. We should also add that Argentina's hyperinflation is expected to be 0.7% of the Constant Currency revenue growth.

Some of the decline in the guidance on EPS in 2019 is due to one-time items that we will explore below in more detail.

FX Weakness Accelerated in 2019 Again

The US dollar has remained strong and that hurts PM. We have long believed that it is unlikely to ever have much positive from FX because 40% of its volume is sold to five countries that would normally be considered troubled/third world: Russia, Turkey, Indonesia, Philippines, and Argentina. It's possible to get to 50% of PM's volume adding in Ukraine and North Africa.

FX $ in bills	Sep-19	2018	2017	2016	2015
Rev Growth $	$0.0	$0.9	$2.0	-$0.1	-$3.0
FX impact	-$0.9	-$0.1	-$0.4	-$1.3	-$4.7
Op inc Growth $	$0.2	-$0.2	$0.7	$0.3	-$1.1
FX impact	-$0.3	-$0.2	-$0.2	-$1.0	-$2.3

While this has improved from the days when oil was collapsing and lingering issues from the recession, FX remains a continual drag on both revenue and operating income. We should also add that of these weaker countries, only Russia has seen the roll-out of IQOS (Heated Tobacco) at this point. Also, PM specifically called out the Philippines and Turkey for weaker volume due to price increases.

FX continues to hurt EPS by 2%-4% in recent years and has periods of being well over 10%.

Pricing Continues to Outpace Volume Decay - Positive

One of the biggest reasons we have PM as a Neutral instead of a Sell is their plan to essentially offset lost volume with higher prices is still working. When we see Altria, the volume decay is now accelerating, and the higher prices only spur further decay. In some periods, the volume loss exceeds the pricing gain. **At this point, that is still not true at PM.**

Price/Vol $ bills	Sep-19	2018	2017	2016	2015
Rev Growth $	$0.0	$0.9	$2.0	-$0.1	-$3.0
Pricing	$1.0	$1.5	$1.4	$1.6	$2.1
Volume *	-$0.1	-$0.7	$1.1	-$0.5	-$0.3
Op Inc. Growth $	$0.2	-$0.2	$0.7	$0.3	-$1.1
Pricing	$1.0	$1.5	$1.4	$1.6	$2.1
Volume *	$0.0	-$0.9	$0.0	-$0.7	-$0.5
Y/Y Vol units	-0.4%	-2.1%	-2.7%	-4.1%	-1.0%

- Volume change is netted against deconsolidation of RBH

At this point, volume decay is being more than offset by price hikes. We do not think that lasts forever, but the acceleration may still be a couple of years away.

We still think the bigger issue here is IQOS taking share from traditional smoking and then people quitting IQOS or competition taking market share. As we have noted in several past reports the one universal outcome of IQOS is a permanent drop in cigarette sales. This is being offset by IQOS sales which continue to roll-out. Introductions to new countries continue to show sizeable first-year growth, and too many markets simply haven't matured yet. That is the other reason, we do not think the volume decay situation is critical yet.

One-Time Events May Not All Be Single Events

As noted above, PM's guidance has been coming down. The company calls out several items that are noteworthy in hurting EPS forecasts:

	2019e	2018
Reported EPS	$4.73	$5.08
tax items	-$0.04	$0.02
Asset Impairment	$0.04	
Canadian Litigation	$0.09	
Deconsolidation of RBH	$0.12	
Russia excise VAT audit	$0.20	
Net EPS from RBH	$0.00	-$0.26
Adj. EPS	$5.14	$4.84

The tax items – We believe these are one-time events. They relate to changes in various assumptions from the new tax laws that changed.

The asset impairment – This relates to the company right-sizing its manufacturing to match its shrinking volume for cigarette demand. Cigarette volumes are in long-term decay, so this is not a one-time event. Give PM credit – most companies we see taking long-term restructuring actions report charges far greater than this. But, it is debatable this will be a one-time item.

Canadian Litigation – We do not consider this a one-time event. PM has 10-pages in its latest 10-Q filing related to tobacco litigation. It took a $194 million charge in 2019, but these cases have been building for some time. Related to this is the Canadian unit filed for court restructuring to pay its claims (this is RBH). This caused PM to determine that it no longer controls the equity in RBH and therefore it deconsolidated it. Despite being in court working on a plan, PM's other operations are still being sued. We are not familiar with Canadian bankruptcy reorganizations, but we do know that in the US – torts tend to continue following any remaining deep pockets. We do not mind calling this out because payments are sporadic and lumpy – but we do not regard tobacco litigation payments and court costs as a one-time event.

Deconsolidation of RBH is a one-time event. PM determined separated the assets from its consolidated financial statements and payments made. While this relates heavily to the litigation that the company lost in Canada – they cannot remove RBH a second time.

The Russian tax issue is now the third country to investigate PM for intracompany sales of cigarettes. What the Russian government is looking at is if the sales were done at lower prices to reduce excise taxes paid to Russia and whether sales took place before excise tax increases to avoid taxes. Again, this lumpy and not a continual 5-cents every year, so pointing out the size is fine. But, we're not sure this is a one-time event either:

- Thailand and Korea have both audited PM for similar issues regarding intracompany sales and whether it reduced the excise taxes paid.
- We also know there were tax issues in Japan early on with IQOS because it uses less tobacco than normal cigarettes and the excise taxes were based on tobacco weight. This is not an audit issue – but the government boosted excise taxes on IQOS shortly after that. We are pointing to this as another example of governments watching tax revenue closely.
- Cigarette volumes are in decay. Heated tobacco offsets some of this, which is why we reported volume loss as 0.4% in 2019. Cigarette volumes fell 3.4% for 2019 and 5.9% in 3Q19. Lower volume means less excise taxes to governments and could bring more scrutiny.

FX is another item PM calls out and for 2019 they see a $0.14 drag on EPS. Again, when isn't FX a drag on results. We're fine calling it out and quantifying it – but to add it back does not seem realistic given the nature of PM's markets.

The Street is going to use the numbers that PM provides and add back all of these items. **We think the way to view this that in any given year, there is a decent risk that PM will see reported GAAP EPS fall due to FX and litigation.** Tax audits will be rarer but can be significant and the risk of something happening again – after it has happened three times – is therefore real. **In addition, the reason the cash flow forecasts are coming down is PM is writing checks for these issues.** This isn't a goodwill write-down, it paid Canada and Russia this year.

Snap-On (SNA) 3Q'19 Update
Maintain SELL

We maintain our SELL rating on SNA. The company continues to struggle to reignite much in the way of growth as modest organic growth in the US was more than offset by weakness in Europe. Earnings beat the consensus by 3 cps in the quarter but revenue missed the top-line target as the company dealt with negative FX impacts. Our original concerns remain intact and we note the following negative signs in the third-quarter results.

- Management continues to speak of lower originations of finance receivables (credit to end-customers) due to lower sales of big-ticket diagnostic products. The weak big-ticket sales is a concern in itself. Despite the slowdown in originations, finance receivable days of sales continued to rise indicating an increase in the extension of credit for the purchase of hand tools.

- Credit metrics for the finance receivables portfolio remain stable. Allowances were flat as a percentage of gross finance receivables while lower provision expense added about a penny to EPS in the quarter.

- Contract receivables represent credit extended directly to franchisees to fund, among other things, purchases of tools from SNA. Short-term contract receivable days of sales were flat year-over-year, but long-term contract receivable days rose by 3.5 indicating more credit being extended to franchisees.

- Contract receivables credit metrics showed slight sequential deterioration in the quarter with a 7 jump in past due amounts spread evenly across all time frames. Net loss rate rose 4 bps sequentially and 9 bps year-over-year. A jump in provision for bad debt expense cost the company about 2 cps, more than offsetting the boost from the decline in finance receivables provision expense.

- Inventory continued to rise with an almost ten-day year-over-year jump in DSI centered in finished goods, continuing a trend we have cited in past reviews. In the past, management has cited new product introductions and a desire to increase service levels. This quarter, it cited an influx of new orders as well. Regardless,

inventories are at historic highs and the risk remains that the company will have to idle production in future quarters at the expense of future margins.

- The trend of lower amortization expense continued into the quarter, adding about a penny to EPS.

Extension of Credit Continues

Finance Receivables

SNA has noted in recent quarters that originations of finance receivables slowed versus the year-ago period, a trend which continued into the current quarter. Management noted in the call "total loan originations of $253.5 million decreased $13.5 million or 5.1%, primarily due to a decrease in originations of finance receivables, resulting from lower year-over-year Snap-on Tools franchisee sales of big-ticket items that utilize extended credit." While originations may have slowed, the rise in credit balances continues to outstrip sales growth

Remember that finance receivables represent credit extended to end customers for the purchase of big-ticket items like diagnostic equipment. The following table shows long and short-term finance receivables on a days of Tool Group sales basis.

Note that in the past we have calculated this on a days of total company sales basis to reflect the possibility that some commercial sales were financed, and this was more conservative given that the non-Tool Group sales were growing faster. However, we believe it is more appropriate to utilize Tool Group sales for the calculation of finance receivable days.

	9/28/2019	6/29/2019	3/30/2019	12/29/2018	9/29/2018	6/30/2018
Tool Group Sales	$385.2	$405.8	$410.2	$407.4	$389.8	$411.9
ST Finance Receivables	$533.5	$529.0	$525.9	$518.5	$519.0	$514.4
ST Finance Receivables Days	126.4	119.0	117.0	116.1	121.5	114.0
LT Finance Receivables	$1,084.7	$1,089.0	$1,077.1	$1,074.4	$1,058.3	$1,051.3
LT Finance Receivables Days	257.0	244.9	239.6	240.6	247.7	232.9

While originations may have slowed, short-term finance receivable days jumped by 4.9 while long-term finance receivable days rose by over 9. Both of these numbers represent

decelerations in year-over-year days of sales increases, yet the company's sales growth still appears to be receiving a tailwind from extending more credit. The company's explanation for lower originations indicates that a higher percentage of big-ticket diagnostic equipment is financed compared to other products like wrenches and sockets. Management indicated on the call that sales of hand tools have been especially strong. However, we note that while sales fell by $4.6 million from the year-ago quarter, short-term receivables jumped by $14.5 million and long-term receivables jumped by $25.7 million. The fact that finance receivables growth still outstripped revenue, which had a higher concentration of hand tools sales, seems to be indicating that a larger portion of hand tools sales are being financed than in the past.

Credit metrics for finance receivables remained stable in the quarter. Past-due finance receivables as a percentage of the total were flat or down versus the year-ago figures across all time ranges as were non-performing finance receivables and the charge-off rate. The allowance for bad debt percentage remained flat at 3.6% while lower provision expense added about a penny per share to EPS growth in the period.

Contract Receivables

A similar trend can be seen in contract receivables. Contract receivables primarily include credit extended to franchisees for working capital loans (purchases of tools from SNA), funding new franchises or van leases, and expanding existing franchises. The following table shows long and short-term contract receivables on a days of Snap-on Tool Group sales basis:

	9/28/2019	6/29/2019	3/30/2019	12/29/2018	9/29/2018	6/30/2018
Snap-on Tools Groups Sales	$385.2	$405.8	$410.2	$407.4	$389.8	$411.9
ST Contract Receivables	$102.7	$91.5	$92.9	$98.3	$105.6	$87.6
ST Contract Days	24.3	20.6	20.7	22.0	24.7	19.4
LT Contract Receivables	$348.6	$347.5	$345.1	$344.9	$338.1	$332.6
LT Contract Days	82.6	78.1	76.8	77.3	79.1	73.7
Total Contract Receivables	451.3	439.0	438.0	443.2	443.7	420.2
Total Contract Receivables Days	106.9	98.7	97.4	99.3	103.9	93.1

While short-term contact receivable days were essentially flat year-over-year, long-term contract days rose by 3.5, indicating a continuing trend of more credit being extended to franchisees to purchase tools from SNA.

Past due contract receivables improved versus last year's third quarter with total past due receivables falling from 1.56% of the total to 0.90%. However, the 0.90% represented a slight sequential deterioration from the 6/19 quarter's 0.83% with the deterioration spread across all past due time frames. The net loss rate on contract receivables also rose to 0.22% from 0.18% in the 6/19 quarter and 0.13% in the 9/18 quarter. While not a dramatic decline, this warrants close attention in upcoming quarters.

The company increased its allowance for bad contract receivables slightly, requiring $1.5 million in incremental bad debt expense which cost the company about 2 cps in earnings.

Inventory Continue to Climb

SNA's inventories continue to climb faster than sales resulting in another almost 10-day year-over-year jump in DSI as shown below:

	9/28/2019	6/29/2019	3/30/2019	12/29/2018
Total Inventories	$753.5	$725.8	$707.0	$673.8
COGS	$453.7	$477.5	$450.1	$495.1
DSI	151.5	138.7	143.3	124.2

	9/29/2018	6/30/2018	3/31/2018	12/30/2017
Total Inventories	$690.6	$668.3	$678.8	$638.8
COGS	$444.2	$467.5	$463.9	$509.0
DSI	141.9	130.4	133.5	114.5

One can also see in the following table that the bulk of the increase in DSI was once again centered in finished goods:

	9/28/2019	6/29/2019	3/30/2019	12/29/2018
Finished Goods DSI	130.9	119.0	122.5	106.3
Work in Process DSI	11.2	10.5	10.6	10.3
Raw Materials DSI	42.3	41.8	41.0	40.9

	9/29/2018	6/30/2018	3/31/2018	12/30/2017
Finished Goods DSI	120.2	110.7	113.6	97.1
Work in Process DSI	10.7	9.5	9.8	9.7
Raw Materials DSI	42.1	39.4	39.3	36.4

Management indicated in the conference call that the increase in inventory was *"primarily to support higher levels of demand across critical industries, including demand for U.S. manufactured hand tools, new products as well as to improve service levels to our customers."*

Management also implied the increase in inventory was to match orders it received in its industrial division:

> *"Second, what makes it – the order is taken to the SFC, we're well above the sales that we had in terms of the quarter. So while orders don't necessarily equals sales, we like having stronger orders coming out of the SFC and that's why we feel pretty good that the inventory we have built as a home to go to as we roll through the future quarters."*

We continue to view the inventory increase with skepticism given how long it has been going on. If these orders do solidify in the coming quarters, we should see the buildup in DSIs level off. However, if the company must idle production to stem the increase, it will put pressure on future margins.

Ford Motor Co. (F) EQ Update 3Q '19

Current EQ Rating*	Previous EQ Rating
4-	4-

6- "Exceptionally Strong"
5- "Strong"
4- "Acceptable"
3- "Minor Concern"
2- "Weak"
1- "Strong Concerns"

Note that a "+" sign indicates the earnings quality improved in the most recent quarter while a "–" sign indicates deterioration

*For a more detailed explanation of the EQ Review Rating scale, please refer to the end of this report

We are maintaining the 4- (Acceptable) rating on Ford after 3Q results.

From an accounting standpoint, we still have very few points of major concern regarding Ford. **Working capital ratios for receivables, inventories, and payables all improved slightly y/y,** which we regard as a positive.

Working Cap Ratios	3Q19	2Q19	1Q19	4Q18
Total A/R DSO	149.7	152.0	152.6	140.7
Inv. DSI	36.0	34.0	33.2	29.3
Payables Days	64.3	62.3	62.7	56.1

Working Cap Ratios	3Q18	2Q18	1Q18	4Q17
Total A/R DSO	153.1	146.3	145.9	138.8
Inv. DSI	36.2	34.5	31.6	26.4
Payables Days	65.8	62.5	65.0	59.8

Working Cap Ratios	3Q17	2Q17	1Q17	4Q16
Total A/R DSO	149.8	137.5	138.2	135.3
Inv. DSI	33.9	30.4	29.4	24.2
Payables Days	71.0	64.5	64.9	58.0

Ford did lower guidance specifically related to two issues we called out in August as potential drags on performance – warranties rising faster than sales and higher incentives needed to lower inventories. *"However, fourth-quarter headwinds – higher warranty costs, higher than planned incentives in North America, and lower volumes in China – have*

intensified since Ford last gave financial guidance for 2019. As a result, Ford is lowering its guidance for full-year company adjusted EBIT to between $6.5 billion and $7.0 billion, compared with $7.0 billion in 2018."

We were concerned that Ford was overly dependent on taking pricing and that continued into 3Q. We still believe when the company is dealing with rising incentives and trying to work down inventories – taking pricing is tougher to do:

Auto Y/Y EBIT Chg.	3Q19	2Q19	1Q19
Volume/Mix	-$175	-$23	-$275
Pricing	$937	$855	$1,057
Costs	-$679	-$367	-$50
FX	-$205	-$245	-$224
Other (JVs)	$49	-$4	-$231
Y/Y Chg EBIT	-$73	$216	$277

Ford Credit continues to hold its managed leverage ratio between 8-9x. However, it did tick up last quarter to 8.8x. We also noted some deterioration in its dealer credit quality. Overall, it still appears higher quality than GM. Group III credits are defined as having *"marginal to weak financial metrics."* As total dealer receivables fell by $2.9 billion, Grade III credits rose from $1.6 billion to $2.0 billion. Overall, that is still only 6% of the total.

PepsiCo (PEP) EQ Update- 3Q '19

Current EQ Rating*	Previous EQ Rating
3-	3-

6- "Exceptionally Strong"
5- "Strong"
4- "Acceptable"
3- "Minor Concern"
2- "Weak"
1- "Strong Concerns"

Note that a "+" sign indicates the earnings quality improved in the most recent quarter while a "–" sign indicates deterioration

*For a more detailed explanation of the EQ Review Rating scale, please refer to the end of this report

We maintain our earnings quality rating of 3- (Minor Concern)

Our main concern with PEP remains its recent extension of restructuring charges with the 2019 Multi-Year Productivity Plan. This was introduced soon after the wrap-up of the 2014 Multi-Year Productivity Plan. PEP incurred $98 million in charges and paid $95 million in cash restructuring costs in the 9/19 quarter, up from $35 million in the year-ago quarter with cash costs of $53 million. The company adds these charges back to its non-GAAP earnings numbers which calls into question the quality of the adjusted earnings.

In addition to this issue, several more minor red flag trends continued to pop up in the company's results:

- DSOs continued to rise, jumping by 2.2 days over the year-ago third quarter. As we have noted in recent reviews, we suspect the increase may be due to the SodaStream acquisition in the 12/18 quarter.

- Likewise, inventory DSIs continued to rise, climbing by more than 5 days versus the 9/18 quarter. As with DSOs, we suspect this is being driven by the SodaStream deal. We will, therefore, be more concerned if the trend in both measures does not flatten in the 12/19 quarter when the SodaStream deal has lapped.

- Accounts receivable allowance as a percentage of gross receivables fell to 1.3% from 1.5% in the year-ago quarter. We have noted this trend in the last three quarters and

observe that it would take an approximate 3 cps charge to return the allowance to 1.8-1.9% range of the 2017 time frame. This is not a huge concern but could represent a mild headwind should credit conditions worsen and the company is forced to increase in the reserve.

Explanation of EQ Rating Scale

Rating	Description
6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor "red flag", but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company's recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company's recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

Disclosure

BTN Research is a research publication structured to provide analytical research to the financial community. Behind the Numbers, LLC is not rendering investment advice based on investment portfolios and is not registered as an investment adviser in any jurisdiction. Information included in this report is derived from many sources believed to be reliable (including SEC filings and other public records), but no representation is made that it is accurate or complete, or that errors, if discovered, will be corrected.

The authors of this report have not audited the financial statements of the companies discussed and do not represent that they are serving as independent public accountants with respect to them. They have not audited the statements and therefore do not express an opinion on them. Other CPAs, unaffiliated with Mr. Middleswart, may or may not have audited the financial statements. The authors also have not conducted a thorough "review" of the financial statements as defined by standards established by the AICPA.

This report is not intended, and shall not constitute, and nothing contained herein shall be construed as, an offer to sell or a solicitation of an offer to buy any securities referred to in this report, or a "BUY" or "SELL" recommendation. Rather, this research is intended to identify issues that investors should be aware of for them to assess their own opinion of positive or negative potential.

Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them may have a position in, and from time-to-time purchase or sell any of the securities mentioned in this report. Initial positions will not be taken by any of the aforementioned parties until after the report is distributed to clients, unless otherwise disclosed. It is possible that a position could be held by Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them for stocks that are mentioned in an update, or a BTN Thursday Thoughts.