BEHIND THE NUMBERS
EARNINGS QUALITY & DIVIDEND SUSTAINABILITY RESEARCH

BTN Research

Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

December 19, 2019 | www.btnresearch.com

Contents

Conagra Brands (CAG) 2Q '20 Update p. 1
Boeing (BA) EQ Review p. 5

Conagra Brands – 2Q '20
Maintain SELL

We are maintaining our SELL on CAG after beating adjusted EPS forecasts by 6-cents. A quick look shows that 3.3 cents of the beat came from cutting advertising as a percentage of sales. Given that CAG took a $27.6 million impairment to divest two smaller parts of the portfolio, we believe those units were not very profitable and removing them from adjusted results likely helped adjusted EPS too. It is interesting to note that both adjusted gross profit and adjusted operating margin still declined – down 105bp and 39bp. And as we noted last after 1Q, the company was relying on "easy comps" to boost sales in the 2Q – that won't be the case in 3Q.

- **Inventories remain very high at 79.9 days.** The 2Q'19 figure was skewed with the Pinnacle deal happening during the quarter and was 92.5 days. We will ignore that and look at prior years when **2Q inventories were 63.8 days in 2018 and 70.5 days in 2017. Just like 1Q20 – inventories still appear about 10-days too high.**

- **Inventories rose sequentially**, but 1Q and 2Q are the seasonal times for inventory build. Given the jump in 1Q and DSIs already running above historic levels by at about 10-days, we were still surprised to see inventories rise in dollar terms in 2Q'20, even the modest $15 million. **We believe that will still pressure gross margins and**

as noted, gross margin was down 105bp in the quarter y/y adding back one-time adjustments.

- **Easy comps came through and CAG posted a 1.6% organic growth figure** for the quarter on 1.0% volume growth and 0.6% on price/mix. **This was against a y/y comp of -2.2% on volume and sequential drop in volume of -2.5% from 1Q20.** We would hope CAG could do something against that, but a 1.0% volume growth figure does not impress us. 3Q20's comp is going to be tough again against this quarter and 1.2% growth in 3Q19.

- **CAG continues to slash advertising – that doesn't bode well for boosting prices and taking market share in our view.** They are arguing that some of the spending is going to retailer incentives, which are recorded as a reduction of sales. However, that was the case in prior years too. CAG is also saying that they are finding synergies in advertising with Pinnacle. **However, CAG was spending $330-$350 million as a stand-alone company and Pinnacle $30 million. The combined entity just spent $247 million** on advertising for the trailing 12 months with several product launches. **We think this is the largest source of CAG's cost-cutting and this looks like cuts to muscle not fat.**

Advertising	2Q10	1Q20	4Q19	3Q19	2Q19
Adv $	$60.7	$45.3	$73.9	$67.4	$69.4
Adv $ year ago	$69.4	$42.7	$59.5	$78.2	$86.0
Adv in bp	215	189	283	249	291
Adv in bp year ago	291	233	303	392	396
Adv cut bp	-76	-44	-20	-143	-105

This quarter saw a 76bp cut on top of 105bp cut last year. That's a considerable amount of margin gain for CAG – and yet operating margin still declined 39bp in 2Q20.

- **Key products are also matching against very easy comps and still posting negatives.** For example, Birdseye retail sales are still negative, at about -2% for the quarter. However, CAG saw a huge improvement in distribution stocking, which had been running -12% last year. Even against that easy comp and a graph showing a surge in distribution – the y/y figure remains negative. That was the largest part of the Pinnacle deal. Hunt's Tomatoes grew volume by 0.7% in 2Q, after posting -10.8% in 4Q and -8.9% in 1Q. Chef Boyardee had a -4.5% volume figure in 2Q, but that came

after two quarters of -6.7%. Wishbone came back to about a 0% figure against a -25% comp. **We see all of this as evidence that CAG has many key products that are still having problems and boosting prices will not be easy as CAG continues to tout value over volume. The lower gross margin shows this plan isn't producing much in results:**

CAG	2Q20	2Q19	2Q18*
Volume	1.0%	-2.2%	1.7%
Price/Mix	0.6%	0.6%	0.6%
Organic Growth	1.6%	-1.6%	2.3%
Gross Margin chg.	-105bp	-58bp	-100bp

*2Q18 had a 220bp positive increase in sales due to hurricane-related purchases

The weak volumes are simply offsetting pricing and hurting gross margins. This has been the case in looking at other quarters too. The last two 1Qs showed gross margin decay of 30bp and 60bp.

- **We remain extremely skeptical of CAG's ever-rising synergy targets. Every time CAG has something that reduces sales or products have to be rebuilt – they immediately claim they found even more synergies that won't cost much money.** In our view, Pinnacle Foods was a company owned by a financial group who stripped out all the fat after a series of acquisitions. Yet, CAG announced it could find synergies amounting to 700bp of sales from Pinnacle. After Pinnacle became a revenue and product disappointment that required extensive rebuilding – Pinnacle raised its synergy target and lowered the cost it would need to achieve it. **Now after divesting two units this quarter and posting another decline in gross margin, CAG announced it found another $20 million of synergies that will all come through this year (even as the rest of the savings announced over a year ago won't be achieved until 2022).** That $20 million will be recycled back into retailer incentives to try to help sales and margins. Despite the headwinds of lower margin, new synergies are supposed to allow margin forecasts to remain flat:

CAG 2020 Guidance	Prior to 2Q20	After 2Q20
Org. Sales Growth	1.0%-1.5%	1.0%-1.5%
Adj. Oper. Margin	16.2-16.8%	16.2-16.8%
Adj. EPS	$2.08-$2.18	$2.07-$2.17

So far organic sales growth for the year is 0.1%. CAG has to match against positive sales comps y/y and sequentially for 3Q20. Gross margins are down 73bp YTD with operating margins up 21bp. We know the operating margins are being fueled by cuts to advertising too. The operating margin YTD is 16.5% well within the guidance, but if sales growth is weak in 3Q against tougher comps and advertising cannot be cut to the same degree, CAG could have a problem on that forecast too. If the $20 million of additional synergies come in as $5 million in 3Q and $15 million in 4Q, the 3Q results could look weaker as we would expect more brand-building investment sooner rather than later. That could hurt margins and sales.

Boeing (BA) EQ Review- Part 2

Current EQ Rating*	Previous EQ Rating
3-	na

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 initiate earnings quality coverage of Boeing (BA) with an EQ rating of 3- (Minor Concern)

Part 1 of our review of BA was published in September and took an in-depth look at the company's use of program accounting. BA uses program accounting for its commercial aircraft segment. It is the only major user of program accounting left and the method's dependence on assumptions regarding unit sales forecasts, prices and profits a decade in the future makes it a source of criticism for many. Our general view was that while program accounting is heavily dependent on estimates, so is percentage-of-completion accounting used by the defense contractors (and BA's defense business). Relative to Airbus's unit cost method, BA's results do report higher profits earlier in a program, but lower profits as the program wears on.

After completing our review of the company, we initiate earnings quality coverage with a 3- (Minor Concern) rating. This is a reflection of the large amount of deferred cost liabilities relating to the 787 program and the recent decision to cut 787 production rates back which increases the possibility of a charge related to that balance.

We note that the whole market is focused on BA's 737 MAX woes and recognize that the company securing recertification for the plane and resuming deliveries is quite literally a matter of survival. However, an educated discussion of the steps involved, potential pitfalls,

and the ultimate time frame are beyond the scope of this accounting review. Readers should keep in mind that while we do discuss the cash flow impacts of the 737 MAX grounding, the possibility for a longer-than-expected recertification time fame is not reflected in our rating.

With that in mind, we note the following points about recent results:

- On a positive note, the rate of amortization of deferred production costs for the 787 program rose to a level above what we estimate it needs to be to fully amortize the deferred production cost balance and avoid a charge.

- However, the company also stated in the 10-Q that it was reducing the 787 production rate to 12 per month from the 14 per month which was just established at the beginning of the second quarter. The company stated this was due to "*fewer orders than anticipated for our commercial aircraft… In the third quarter of 2019, we decided to reduce the production rate on the 787 program for approximately two years beginning in late 2020."* This is an item of concern as demand falling below expectations for any length of time increases the possibility that the company will be unable to sell a large enough number of 787s to satisfy the accounting quantity and that lower demand may result in lower prices which could prevent the company from fully amortizing the deferred costs. In fact, a lower production pace will likely increase the per plane cost and pressure margins.

- BA contended in the third quarter that it could have the 737 MAX recertified by the end of the year. However, that view was shattered this week when the company announced that the FAA has clearly stated that recertification will not happen in 2019, prompting the company to suspend production to save cash. BA had almost $10 billion in cash and over $6 billion in unused capacity on its revolver at the end of the 9/19 quarter. The cash burn rate in the third quarter of over $4 billion despite a payables buildup indicates that roughly half the cash may be gone by the end of the current quarter. The company has already reserved for about $6 billion in concessions to customers related to the matter but it is unclear when and how these reimbursements will be made. A $4.2 billion contractual cash outflow to invest in a JV with Embraer could also hit in early 2020. American Airlines and other customers are not anticipating a return of the 737 MAX before the March/April time frame. Moody's lowered its rating on BA's debt to A3 yesterday, so they are not projecting an immediate disaster. On the bright side, cash flow should rebound quickly when deliveries resume and the company's decision to not lay off or furlough workers, as

well as the declaration of December's dividend, seems to convey the company is putting its money behind its optimism.

- BA records pension expense for its commercial segments under GAAP rules (FAS). However, pension expense for segments with government contracts are calculated under government rules (CAS) which provide for immediate cash reimbursement, are recorded in operating revenue, and typically exceed the non-cash expense FAS amounts. We have discussed in reviews of pure defense companies that a rise in CAS payments related to a change in method of selection of discount rates has led to artificial benefits to profits and cash flows for some of these companies. However, the CAS payments have been relatively steady for BA in recent periods and to its credit, it adds back both the FAS/CAS adjustment as well as the non-service component of pension costs to its non-GAAP results, thus removing any distortion.

- However, cash pension costs could increase soon. BA did not have to make cash pension contributions in 2018 and is not expected to in 2019 thanks to an increase in the discount rate assumption in 2018. However, this will likely reverse in 2020 as discount rates are likely to decline. A similar reversal in 2017 led to a $4 billion required contribution, but the company paid all but $500 million of that in stock. A decline in discount rates could also reduce the CAS reimbursement.

787 Deferred Production Amortization Figures Metrics Improved in 9/19 Quarter

We showed in Part 1 of our review of BA that the company's program accounting allows it to defer not only initial tooling and non-recurring setup costs, but also to capitalize the profits (and losses) on initial deliveries that fall below an estimated average profit margin per planes over the entire program run. We recommend readers revisit our overview of program accounting from Part 1 here.

For a quick review, the program accounting method requires the company to make assumptions regarding the eventual number of planes produced, average prices realized and average costs per plane. From this, the company calculates and average profit per plane. In the early parts of the run, profit per plane will fall below the average estimated profit and the shortfall is capitalized in "deferred production costs" as a component of inventory. Later in the production run when profit per plane rises above the estimated average, the deferred costs are amortized against earnings in the amount of the excess. To avoid a charge, the

company must sell the targeted amount of aircraft (the accounting quantity) at a high enough profit to fully amortize the deferred costs.

We observed in Part 1 that the company had approximately $31.5 million in deferred charges per remaining plane under the accounting quantity as of the end of the 6/19 quarter yet the deferred cost balance was only declining by about $29.5 million per plane delivered during the quarter. The pace of amortization of deferred cost per plane rose above the $31.5 million target in the 9/19 quarter as shown in the following table:

	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018
787 Deferred Production Costs	$19,825	$20,969	$22,029	$22,967	$23,584
787 Unamortized Tooling and Other Non-Recur.Costs	$2,215	$2,354	$2,532	$2,638	$2,774
Total 787 Deferred Production Costs	$22,040	$23,323	$24,561	$25,605	$26,358
.	.	.	.	.	.
787 Deliveries	35	42	36	39	34
787 Cumulative Deliveries	894	859	817	781	742
787 Program Accounting Quantities	1,600	1,600	1,600	1,600	1,500
787 Undelivered Under Firm Orders	529	555	596	604	638
787 Cumulative Firm Orders	1,423	1,414	1,413	1,385	1,380
Change in Deferred Production Costs	-$1,283	-$1,238	-$1,044	-$753	-$782
Per Delivery	-$36.66	-$29.48	-$29.00	-$19.31	-$23.00

On the surface, the notable acceleration in the amortization of deferred production costs per plane is a positive as it implies the company improved its realized profit per plane to a level which, if sustained, would allow the company to fully amortize the deferred costs and avoid a charge. However…

BA Announced a Reduction in the Monthly Production Rate of 787 in the Quarter Due to Lower Demand

Both selling the entire accounting quantity and keeping costs to a minimum are integral to the company fully amortizing its 787 deferred cost balance. We noted in Part 1 that BA increased its monthly production pace of 787s to 14 from 12 at the end of the first quarter of 2019. A higher production rate is a positive as it promotes more efficiency and higher margins. However, the higher production rate was unfortunately short-lived as the company

announced in the 9/19 quarter that it is returning to the 12 per month rate given global trade concerns. The 9/19 10-Q stated:

> *"The continued global trade tension has resulted in market unties and* ***fewer orders than anticipated for our commercial aircraft. In the third quarter of 2019, we decided to reduce the production rate on the 787 program for approximately two years beginning in late 2020.*** *We continue to monitor the potential for additional disruption and adverse revenue and/or cost impacts that may result from global trade tension including, the potential imposition of further tariffs, or other future geopolitical economic developments."*

This is a significant red flag as is the statement admitting that 787 orders are falling behind schedule which increases the possibility that BA won't be able to sell enough 787s to meet the accounting quantity or to do so, it will have to lower prices and realize inadequate profits to cover the deferred cost balance. The increase in deferred cost amortization per plane delivered we cited above likely benefitted from the higher production rate. We will continue to monitor that figure going forward for signs of deterioration from pricing pressure or a reduced production rate.

Accounting and Cash Flow Impacts of 737 MAX Problems

The only area of investor focus for BA right now is the 737 MAX problem. Deliveries of the aircraft were halted following the grounding of the plane this spring while production continued. This has led to a buildup of inventory seen in the table below which shows the inventory related to commercial aircraft production.

	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
Commercial Aircraft Programs	$63,518	$58,691	$55,490	$52,753	$53,568	$52,830

At the end of the year, roughly half the commercial aircraft related inventory was comprised of work-in-process (including deferred production costs) on the 787 program. The spike in inventories in the last three quarters gives an indication of the cash BA is spending to build 737 MAXs that are not being delivered to customers. BA management had previously stated that it expected to have the 737 MAX re-certified and for deliveries to resume before the end of 2019 while still cautioning it was conceivable that production could be trimmed or suspended. The news flow took a turn for the worse last week when it was announced that the FAA made it clear that recertification will not happen in 2019. Two days ago, BA also

announced it would be suspending production of the planes although it is not laying off or furloughing workers so production can be resumed quickly once the company gets the green light from the FAA. We note that American Airlines has stated it does not expect to fly the planes before April with other carriers removing it from schedules until at least March.

There are many factors impacting the company as a result of the grounding. A thorough investigation into the time frame of eventual re-certification is beyond the scope of this earnings quality review. However, we offer the following thoughts on the accounting and cash flow considerations involved.

- BA had $9.8 billion in cash and equivalents at the end of the 9/19 quarter and $6.6 billion in unused borrowing capacity on its revolving credit line. Free cash flow in the 9/19 quarter was a negative $2.9 billion with another $1.17 billion spent on the dividend. The company has suspended the buyback which leaves us with an approximate "bare bones" cash burn rate of over $4 billion, meaning the company has likely eaten through about half its cash balance in the current quarter. Note that accounts payable, which are typically relatively stable, jumped from $12.9 billion at the end of the year to over $15 billion at the end of the 9/19 quarter indicating the degree to which suppliers are already feeling the pinch. The production suspension will only worsen the pain for them. (We note that this will impact TransDigm (TDG) on which we initiated earnings quality coverage last week).

- In addition to the basic operating cash burn, the company is already negotiating payouts to airline customers to compensate for their lost revenue. The company established a liability in the second quarter of over $5.5 billion to cover concessions to reimburse customers for lost profits related to the delivery delay but the ultimate payment method and time frame remain uncertain.

- The following table shows the deferred production costs associated with the company's 737 program.

	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
Total 737 Deferred Production Costs	$2,003	$2,024	na	$934	na	na

Note that these amounts are minuscule compared to the comparable 787 balances as the 737 program has been around for decades and the initial tooling costs and losses from lower profitability on early production runs were much smaller and have long

been amortized. In fact, the company was no longer breaking out the 737 portion of deferred costs given it was so small. However, the delay in production and costs related to the grounding have resulted in an increase in the deferred cost balance. BA reduced the production rate of 737s to 42 from 57 at the start of the second quarter. This increased the cost to produce planes in the current accounting quantity by $1.1 billion in the first quarter, $1.8 billion in the second, and $872 million in the third. The company expects to be able to deliver all the existing 737s within a year of recertification. This will drive a huge rebound in cash flow, but these higher costs will permanently impair the overall profitability of the program. Nevertheless, should the 737 MAX and future variants deliver on their promises, we believe it is possible the company will be able to extend the accounting quantity further and the increase in deferred costs may ultimately be amortized without a one-time charge.

- The company declared a $2.055 per share dividend on December 16th, flat with the previous quarter. This marked the end of a long strong of December increases but seems to broadcast management's confidence the 737 MAX will fly again soon.

- BA has been in negotiations over the last year to establish a strategic partnership with Embraer S.A in which BA will acquire 80% interest in the commercial aircraft and service operations of Embraer and a joint venture to promote a develop the KC-390. The deal requires a $4.2 billion payment from BA and as of the filing of the 10-Q, the company expected the dealt to close in "early 2020." This could be a sizeable cash outflow coming at a bad time.

- As a result of the above, Moody's lowered its rating on the company's debt to A3 earlier this week. This is still well above junk status and we read it to be an acknowledgment of an increased risk level while still not yet sounding an all-out alarm with regards to the company's ability to service its debt.

A Quick Look at the Pension

While the bulk of the company's business is in commercial aviation, it has a sizeable portion of its operations coming from defense contracts with the government. Pension expense related to employees of the commercial business segments is calculated under GAAP accounting rules (FAS) while pension expense for employees in segments working on government contracts are calculated under government rules (CAS). The government

reimburses the company for the CAS expenses in the period incurred with the amounts recorded in revenue while the FAS expenses are non-cash. CAS amounts regularly exceed FAS amounts which results in a boost to reported operating income as well as cash flow. We have noted in past review of defense companies that changes to CAS aligning discount rate assumptions with FAS produced a situation where CAS income was rising faster than FAS expense providing an artificial benefit to earnings growth. Clients can see a more detailed discussion of this in our recent review of the impact of changes in pension accounting on major defense companies here.

To BA's credit, it adds back the excess of CAS payments over what amounts would have been under FAS (FAS/CAS adjustment) to its non-GAAP earnings. In addition, it adds back non-service components of its FAS pension costs. The following table shows the reconciliation from GAAP to non-GAAP for the last eight quarter:

	9/30/2019	6/30/2019	3/31/2019	12/31/2018
GAAP Diluted EPS	$2.05	-$5.21	$3.75	$5.93
Company Non-GAAP EPS Adjustments				
Pension FAS/CAS Service Cost Adjustment	-$0.48	-$0.49	-$0.48	-$0.39
Postretirement FAAS/CAD Service Cost Adjustment	-$0.16	-$0.16	-$0.16	-$0.14
Non-Operating Pension Expense	-$0.16	-$0.17	-$0.16	-$0.08
Non-Operating Postretirement Expense	$0.05	$0.05	$0.05	$0.04
Provision for Deferred Income Taxes on Adjustments	$0.16	$0.16	$0.16	$0.12
Non-GAAP EPS	$1.45	-$5.81	$3.16	$5.48

	9/30/2018	6/30/2018	3/31/2018	12/31/2017
GAAP Diluted EPS	$4.07	$3.73	$4.15	$5.49
Company Non-GAAP EPS Adjustments				
Pension FAS/CAS Service Cost Adjustment	-$0.45	-$0.40	-$0.47	-$0.52
Postretirement FAAS/CAD Service Cost Adjustment	-$0.13	-$0.14	-$0.14	-$0.12
Non-Operating Pension Expense	-$0.09	-$0.01	-$0.07	-$0.05
Non-Operating Postretirement Expense	$0.05	$0.04	$0.04	$0.05
Provision for Deferred Income Taxes on Adjustments	$0.13	$0.11	$0.13	$0.22
Non-GAAP EPS	$3.58	$3.33	$3.64	$5.07

We can see that the FAS/CAS adjustment has been sizeable but relatively constant over the last two years. Looking at non-GAAP earnings effectively eliminates any artificial boost or drag from changes in the adjustment.

CAS amounts are essentially immediately reimbursement by the government, so they have an immediate impact on cash flow whereas FAS amounts are non-cash with the company making cash contributions to in compliance with ERISA guidelines.

The following table shows the company's key assumptions used in the calculation of its pension obligation:

	2018	2017	2016
Pension Discount Rate	4.20%	3.60%	4.00%
Expected Return on Plan Assets	6.80%	6.80%	6.80%

The increase in the discount rate in 2018 led to a large cut in the benefit obligation at the end of the year. The company did not have to make cash contributions in 2018 and it is not expected to in 2019. However, we would expect to see a reduction in the discount rate in the 2019 10-K given the lower rate environment which will result in a boost to the benefit obligation which could trigger required company contributions to resume in 2020. Note that the reduction in discount rate in 2017 contributed to a $5.6 billion actuarial loss, driving up the pension obligation. That year, the company made $4.0 billion in pension contributions consisting of $3.5 billion in stock with the balance in cash. It is also conceivable that lower rates could lead to reduced CAS reimbursements next year as well.

With regards to the assumed rate of return, plan assets were 48% invested in fixed income assets at the end of 2018 with the remainder in equity, real estate and hedge funds. The 6.8% return assumption does not look overly unrealistic.

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.