Reading an earnings report at working depth

> **WORKING DEPTH**
>
> Enough accounting to read a results release critically in twenty minutes: revenue and its direction, margins and their trend, cash against profit, and guidance against consensus. Not an analyst's model - a trader's audit, sufficient to know what the release actually said before the market's retelling of it hardens.

Module 2 taught reading the tape raw. This lesson is what to do inside the release - the twenty-minute audit that separates what the company reported from what the headline writers decided it meant.

The four reads, in order

Revenue, and where it came from: growing or shrinking, and driven by volume, price, or acquisition - three different businesses wearing one growth number. The segment table usually tells you which.Margins, and their direction: a business earning more per unit of revenue is improving in a way growth alone cannot show; margin trend across quarters is the machine's health gauge.Cash against profit: profits are opinions, cash is arithmetic - a widening gap between reported earnings and cash generated is the oldest warning light in accounting, and it sits in plain sight in the cash flow statement.Guidance against consensus: the number that usually moves the price - module 2's expectation machinery - and the one management chooses most carefully.

The traps at working depth

Adjusted numbers flatter: companies headline the earnings measure that looks best, and the adjustments - 'exceptional' costs that recur, share-based pay waved away - live in the reconciliation table. One-offs cut both ways and cluster suspiciously. And the comparative base matters: growth against a collapsed quarter is arithmetic, not achievement. None of this needs an accountant's training - it needs the reconciliation table read and the same four questions asked every quarter, which is what working depth means.

What this reading is for

The audit produces the business half of lesson 1's decomposition: is the machine improving, deteriorating, or as expected - in the company's own numbers, before the crowd's retelling. Module 6 will turn recurring reads into rules; module 2's gap lessons already handle the price reaction. This lesson's output is narrower and prior to both: knowing what was actually reported, which a surprising fraction of the market never checks.

Check your understanding

1. Why does cash flow get a mandatory read beside profit?

a. Cash flow determines the dividend

b. Profits are opinions - accounting choices - while cash is arithmetic: a widening gap between them is the oldest warning light a report can show

c. Regulators audit cash more strictly

Answer: b. Earnings pass through judgement; cash through the bank. The two should rhyme over time, and their divergence is readable in twenty minutes by anyone who looks.

2. Revenue grew 15%. What must the working-depth read establish before crediting the business?

a. Whether the CEO commented on it

b. What drove it - volume, price or acquisition - and what base it grew from: three different machines produce the same headline number

c. Whether competitors grew faster

Answer: b. Growth bought by acquisition, or measured against a collapsed comparative, is a different fact from organic volume growth. The segment table and the base check take five of the twenty minutes.