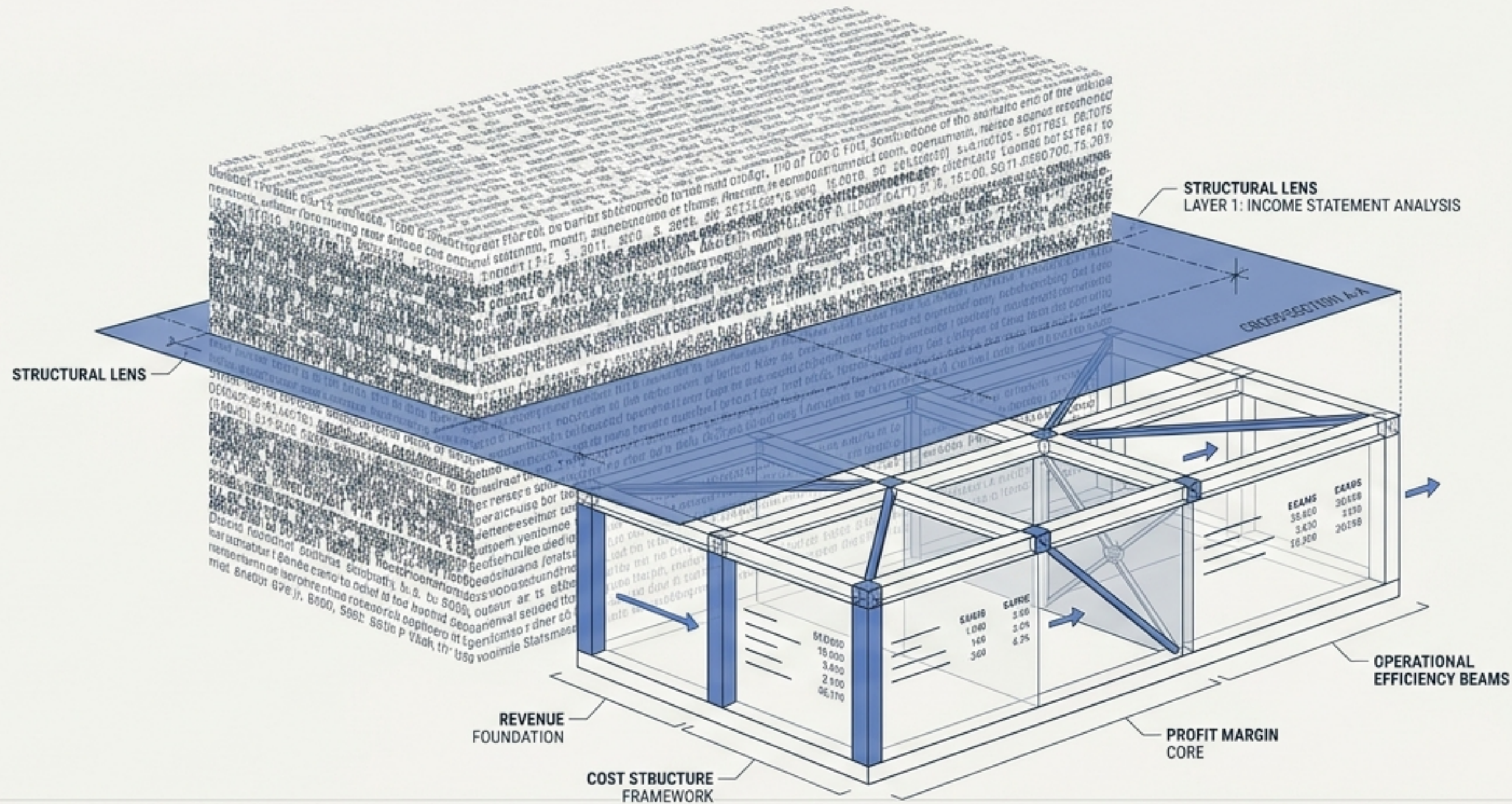


Reading a Company

Patterns, Not Pages. The AI-Native Investor's Guide to Financial Statements.



The Enron Anomaly

In 2000, Enron published a 308-page 10-K. Thousands of professional analysts read it. Only a handful of pattern-matchers caught the fraud.

Off-balance-sheet
debt structures

Upfront revenue
recognition

Related-party
transactions

The numbers were technically disclosed. The fraud wasn't hidden in the text; it was hidden in the shapes the numbers made.

The Bottleneck Has Changed

The Old Way

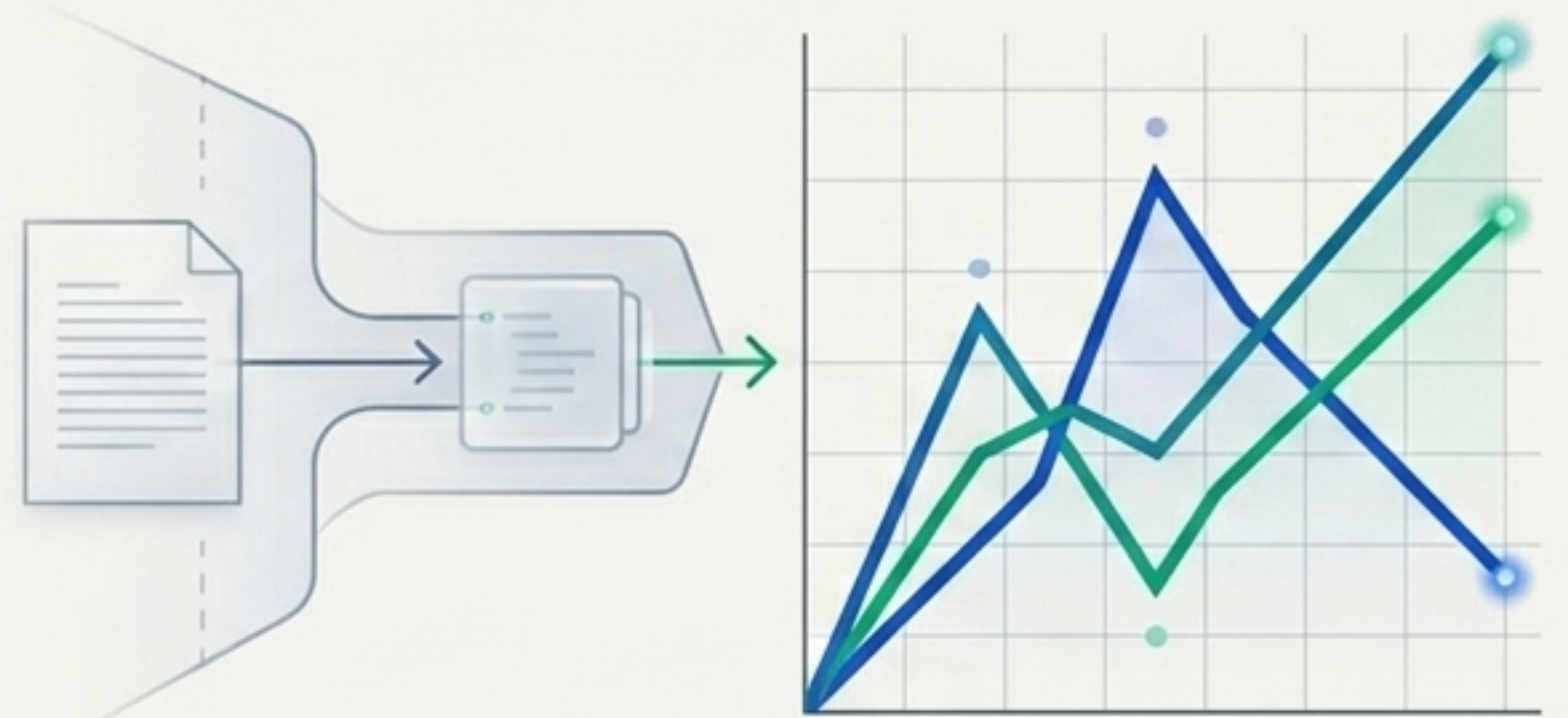
🕒 8 Hours



Absorbing noise. The footnote about pensions competes with boilerplate risk factors.

The New Way

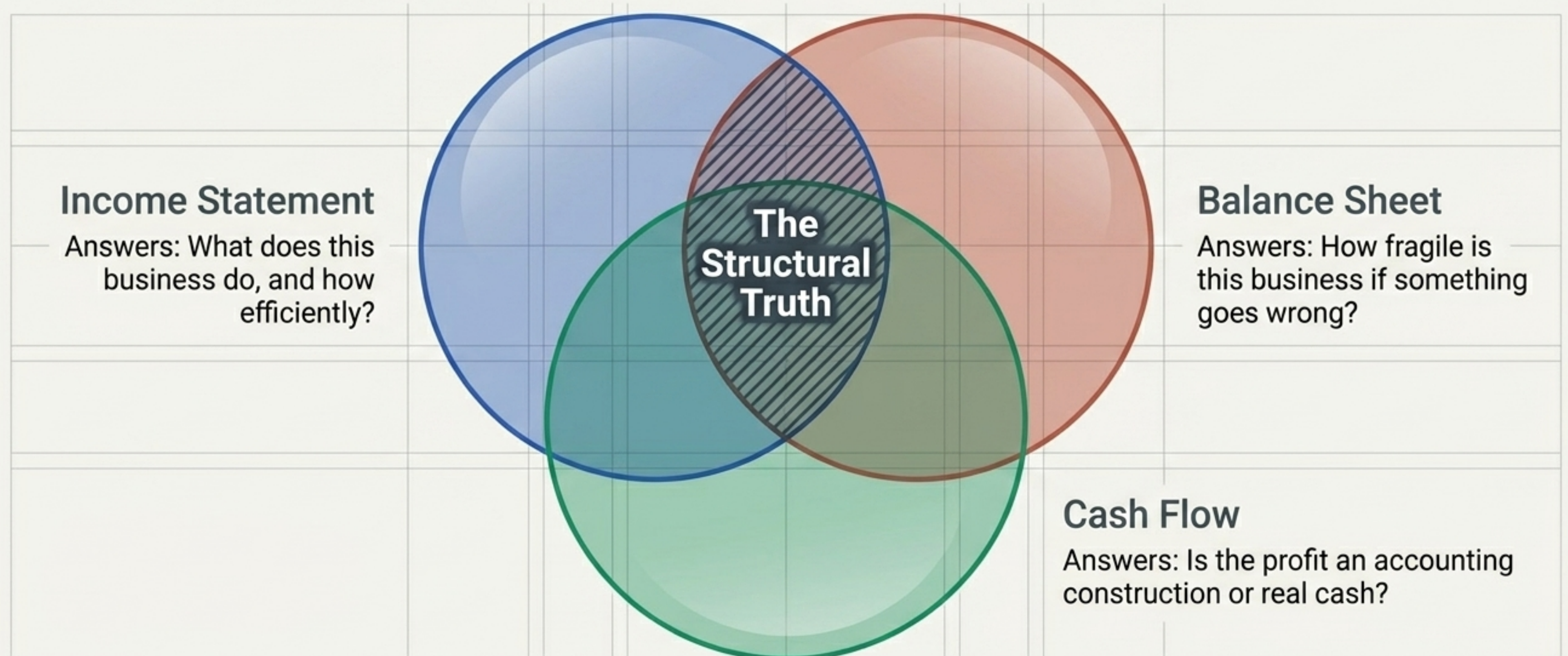
🕒 8 Seconds



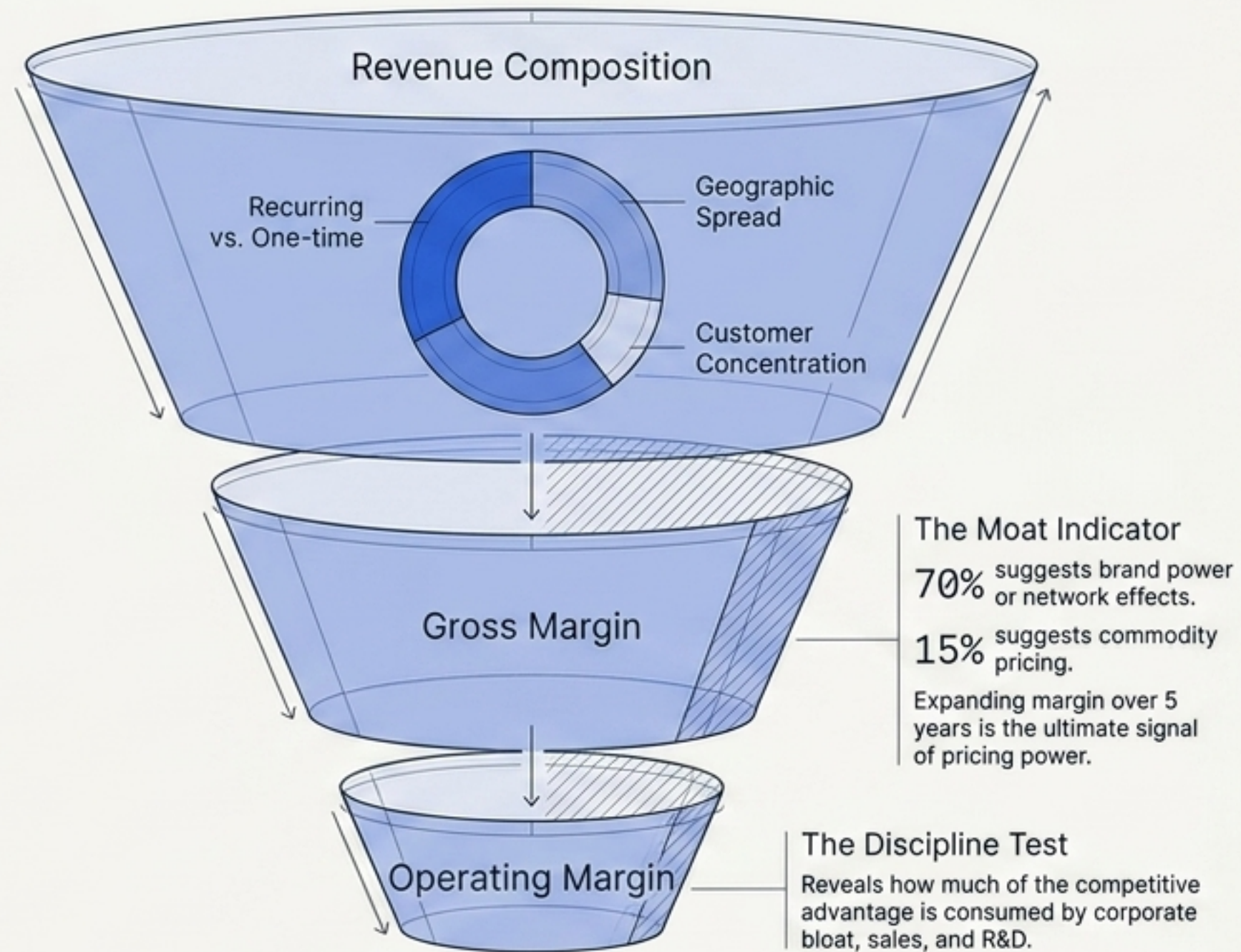
The agent extracts the data. You look for structural shapes and contradictions.

Three Windows, One Room

A company can look profitable while bleeding cash, or solvent while hiding toxic debt. The discipline is looking through all three lenses and noticing where they disagree.



Lens 1: Business Structure



Lens 2: System Fragility

The balance sheet is a single-moment snapshot, valuing assets at historical cost. The patterns that matter are subtler than the total debt number.

Debt Trajectory

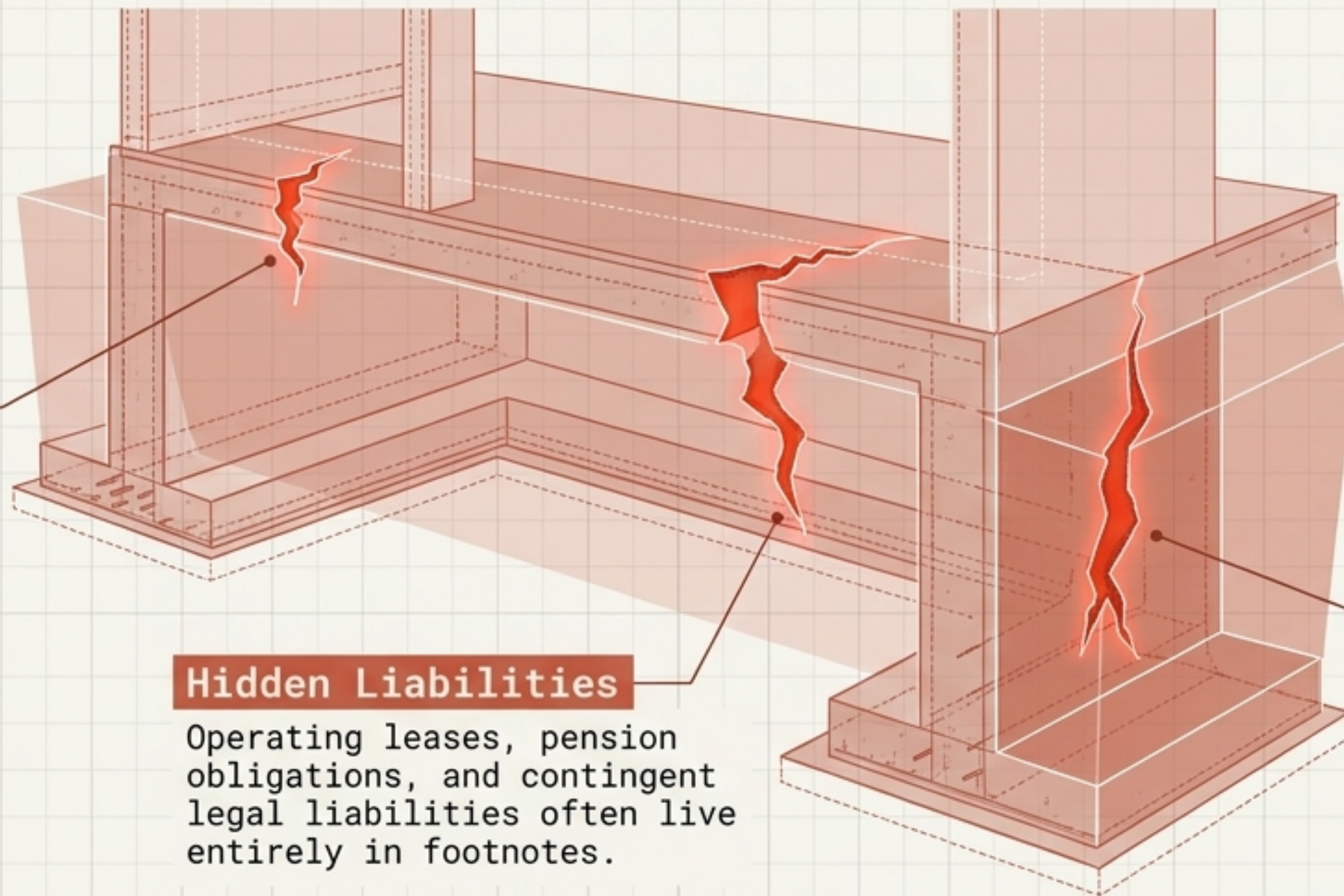
Debt rising while earnings are flat is a red flag. Debt relative to servicing ability matters more than the raw number.

Hidden Liabilities

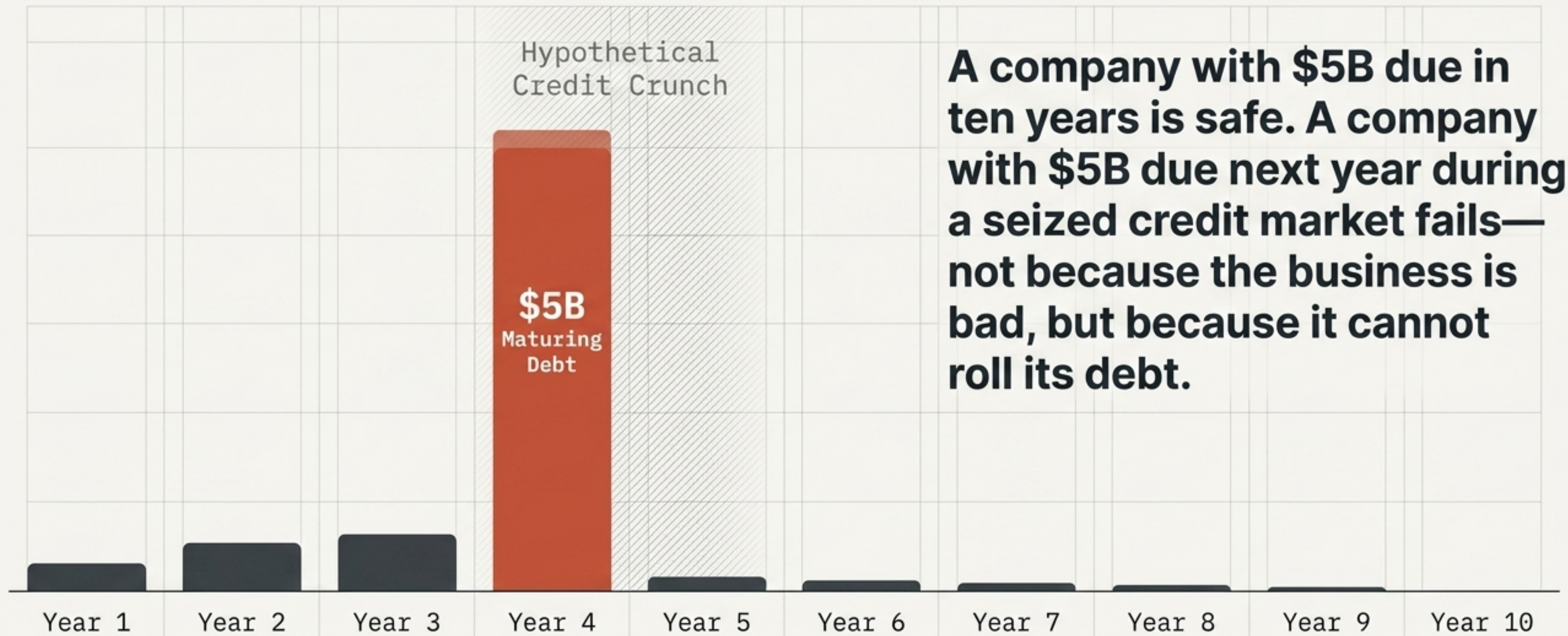
Operating leases, pension obligations, and contingent legal liabilities often live entirely in footnotes.

Goodwill Bloat

Goodwill >40% of assets suggests an empire-builder overpaying for acquisitions.

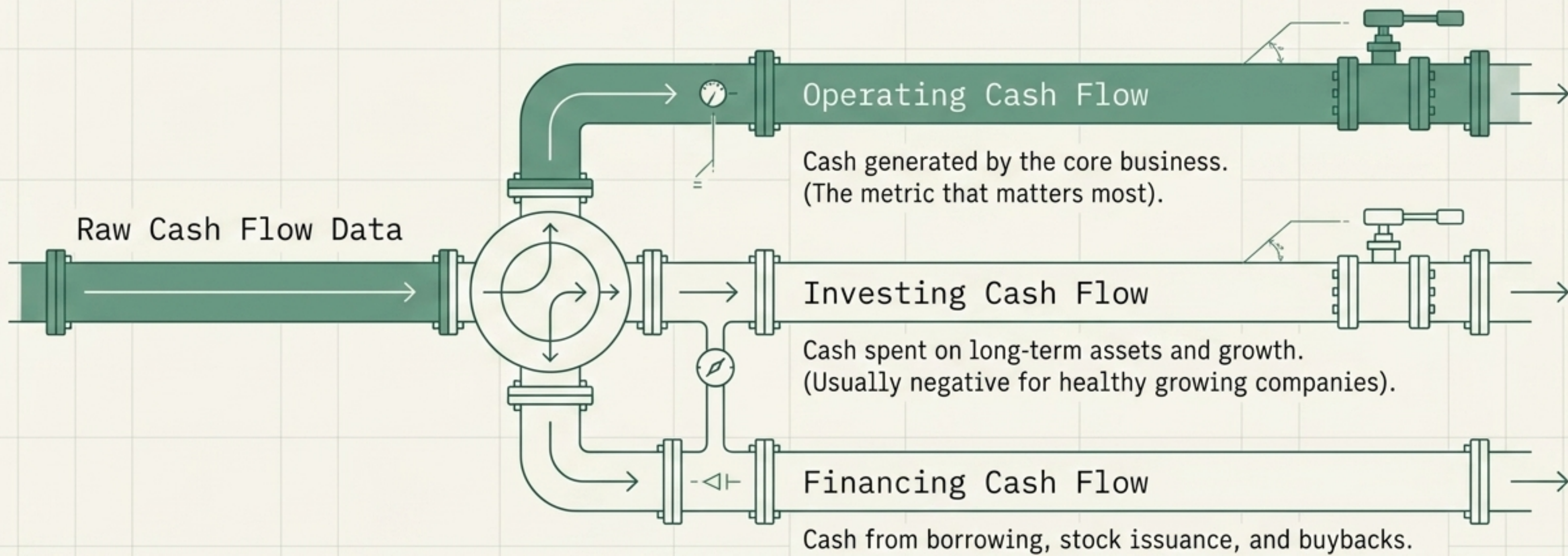


The Maturity Wall

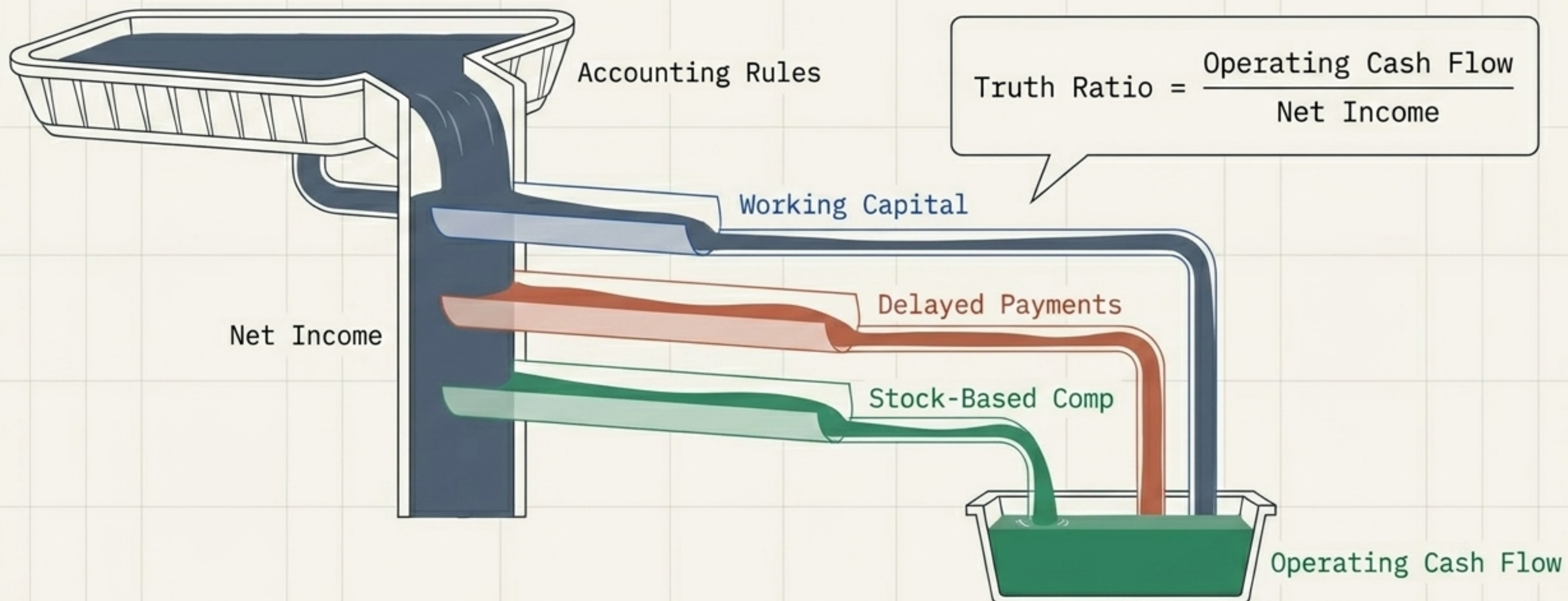


Lens 3: Ground Truth

If the income statement is what the company says happened, the cash flow statement is what the bank account confirms.



The Truth Ratio



Takeaway: Healthy companies consistently stay ≥ 1.0 . A persistent ratio below 1.0 means the company is reporting profits it has not collected.

The Diagnostic Matrix

A high-density, color-coded editorial matrix for rapid financial health assessment.

Green (Structural Strength)

- Margins stable/expanding.
- OCF > Net Income.
- Positive Free Cash Flow.
- Debt declining.

Yellow (Investigate Further)

- Margins declining slowly.
- Debt increasing but earnings increasing faster.
- Rising Goodwill.

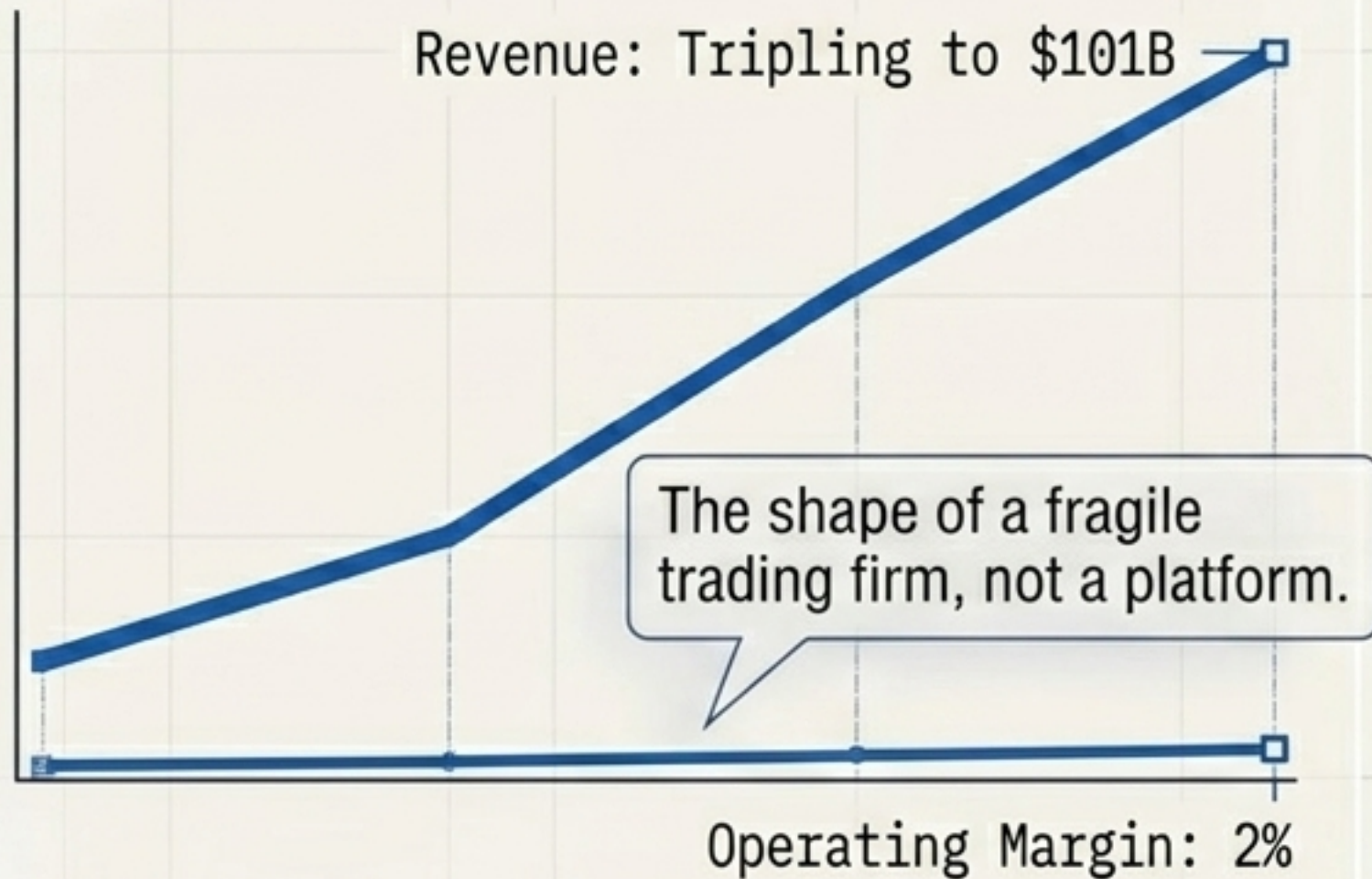
Yellow signals are questions, not warnings. Don't panic-sell; investigate context.

Red (Extreme Skepticism)

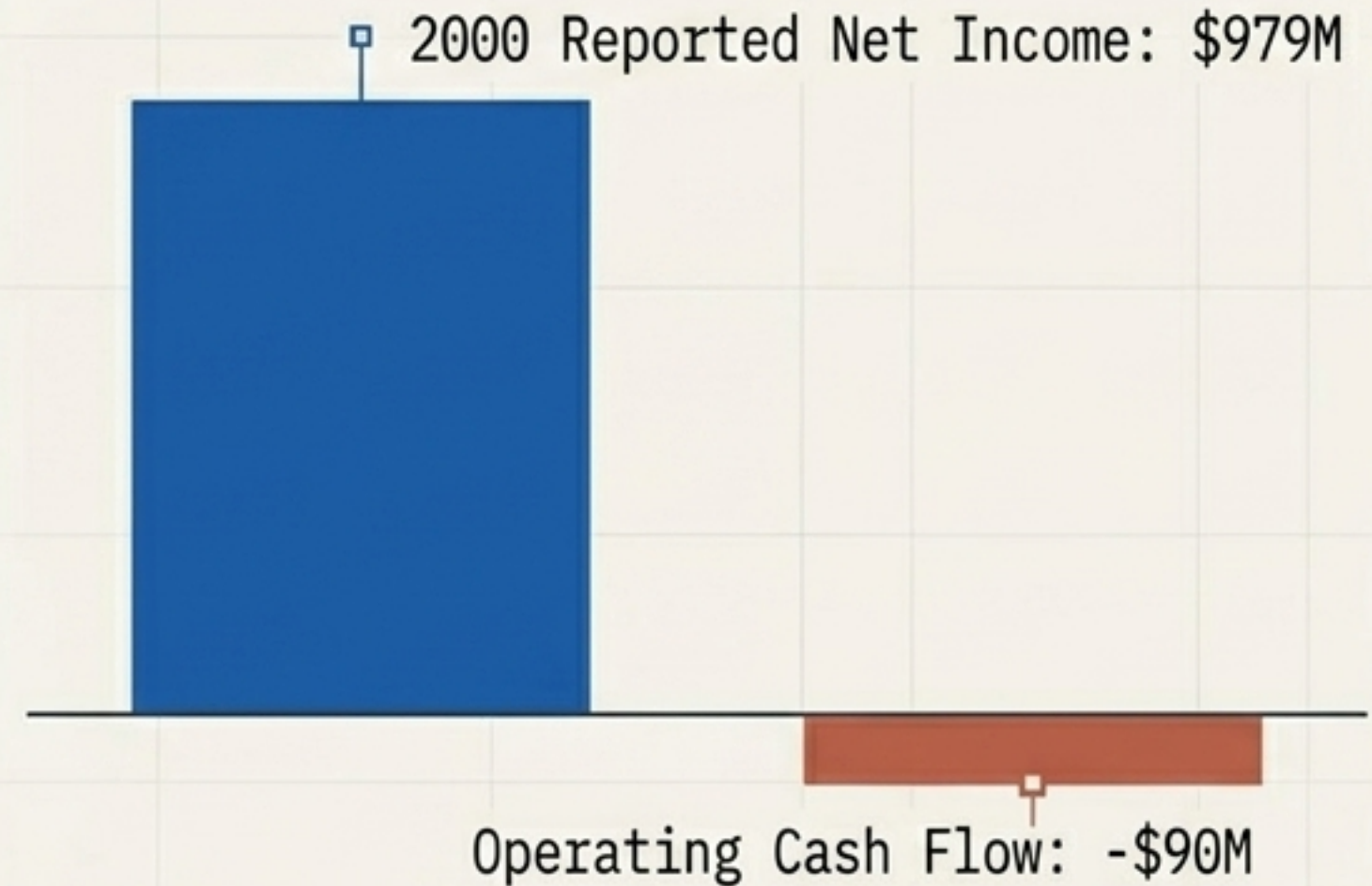
- OCF persistently < Net Income.
- Debt rising while earnings decline.
- Related-party transactions.
- Spiking footnote complexity.

Enron's Fatal Contradictions

The Income Shape



The Truth Shape



Takeaway: All three lenses disagreed. The company reported record profit while bleeding cash to fund day-to-day operations.

Surface Metrics vs. Structural Shapes

Walmart and Costco teach what different strategic choices look like through the three lenses.

Walmart

Revenue: 4x Costco

Gross Margin: ~24%

Strategic Model: Buy goods, sell at a markup.

Costco

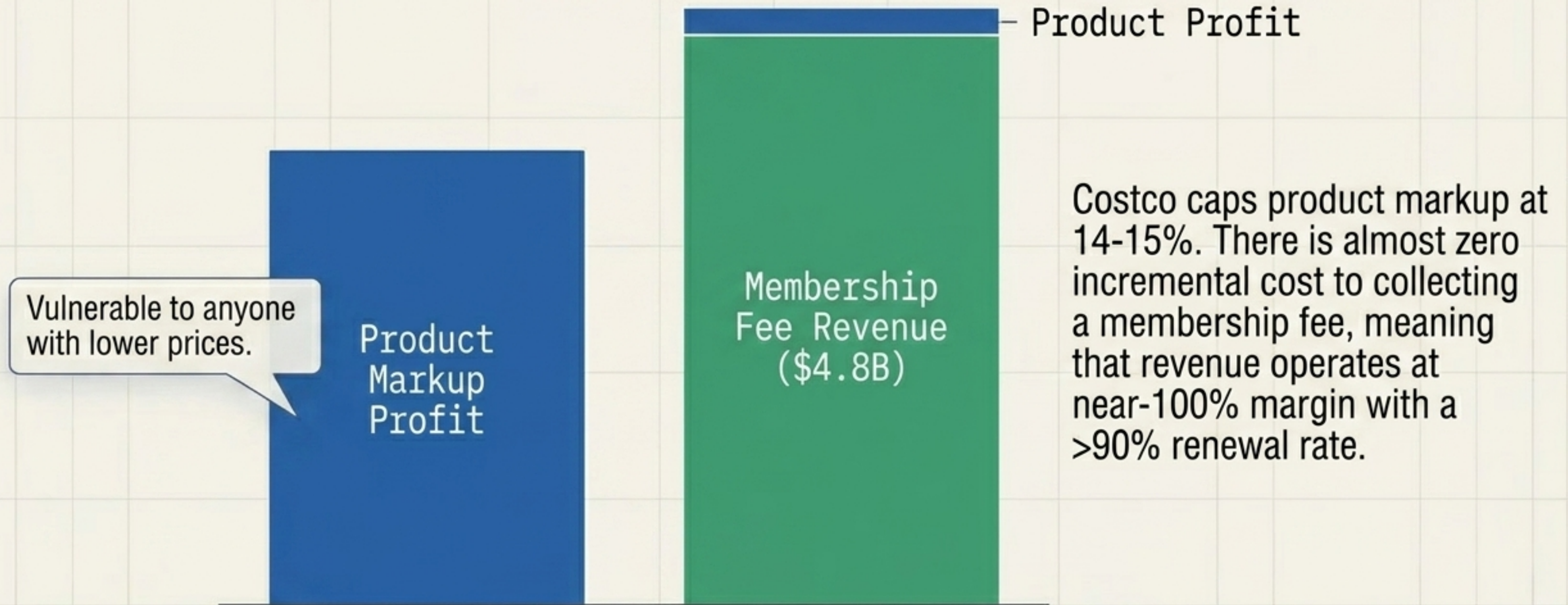
Revenue: 1x

Gross Margin: ~13%

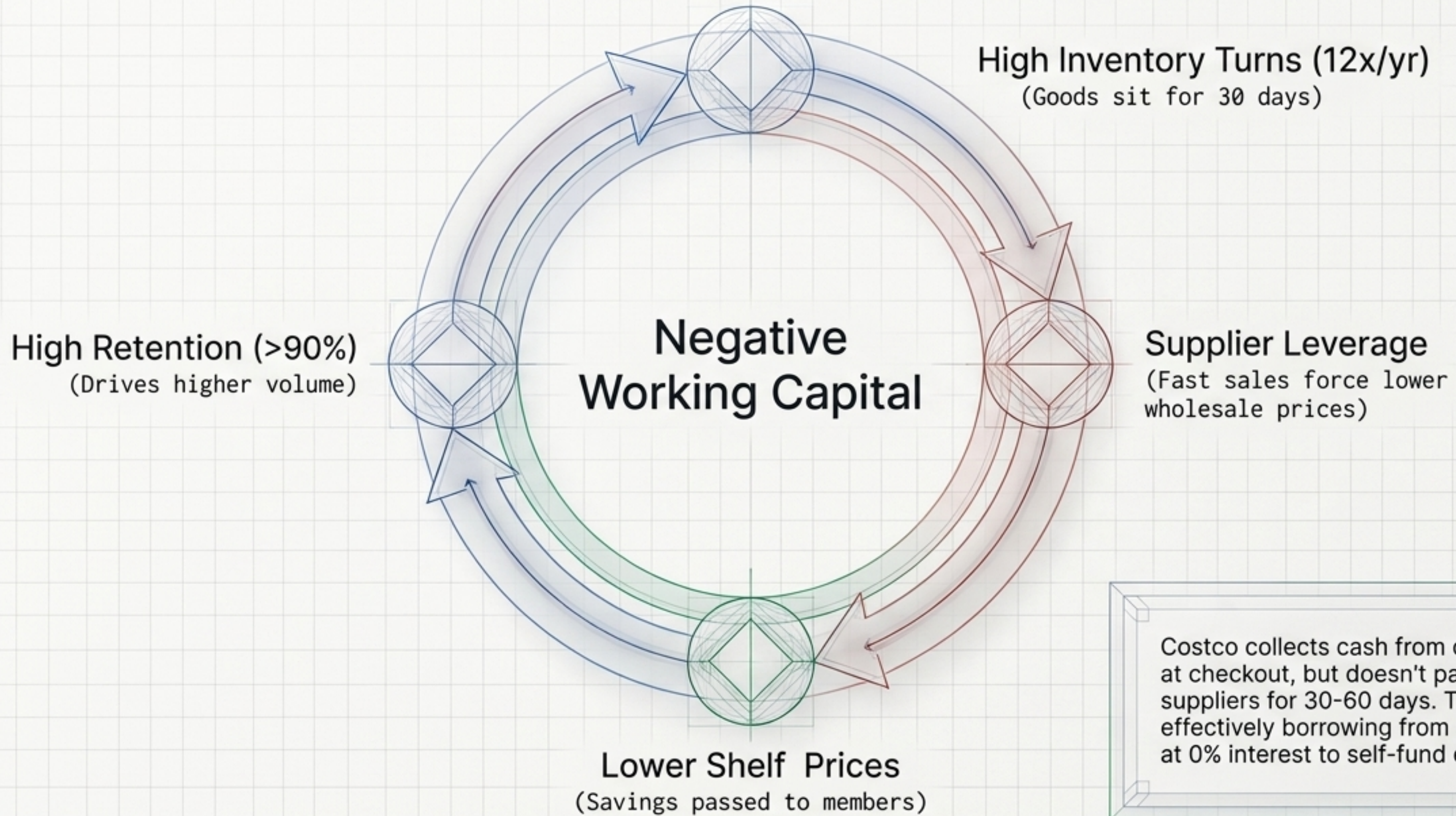
Strategic Model: Sell goods at near-cost, charge for access.

A surface-level reading says Walmart is vastly more profitable.
A structural reading reveals Costco's deliberate, self-reinforcing moat.

The Membership Moat



The Inventory Turnover Loop



Costco collects cash from customers at checkout, but doesn't pay suppliers for 30-60 days. They are effectively borrowing from suppliers at 0% interest to self-fund expansion.

The Tech Earnings Illusion

Stock-based compensation (SBC) is a real cost via dilution, but it does not require cash. Accounting rules subtract it from income but add it back to cash flow, systematically **flattering** tech companies.

Revenue:	\$25B
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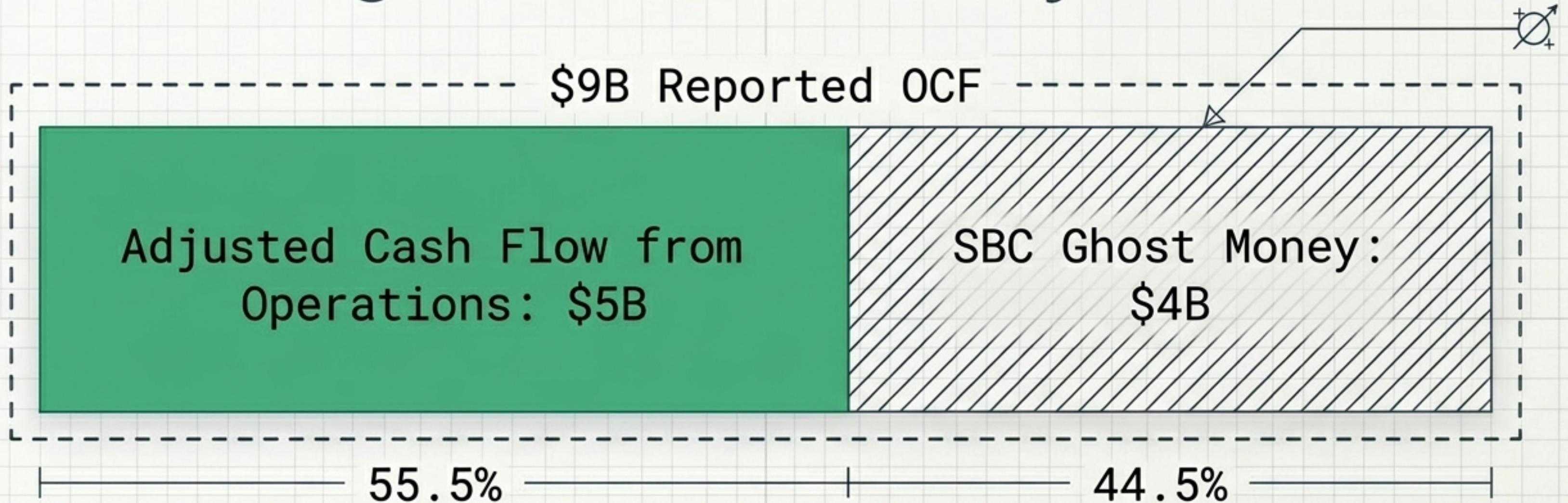
Net Income:	\$6B
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Operating Cash Flow:	\$9B
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Strong Generation!

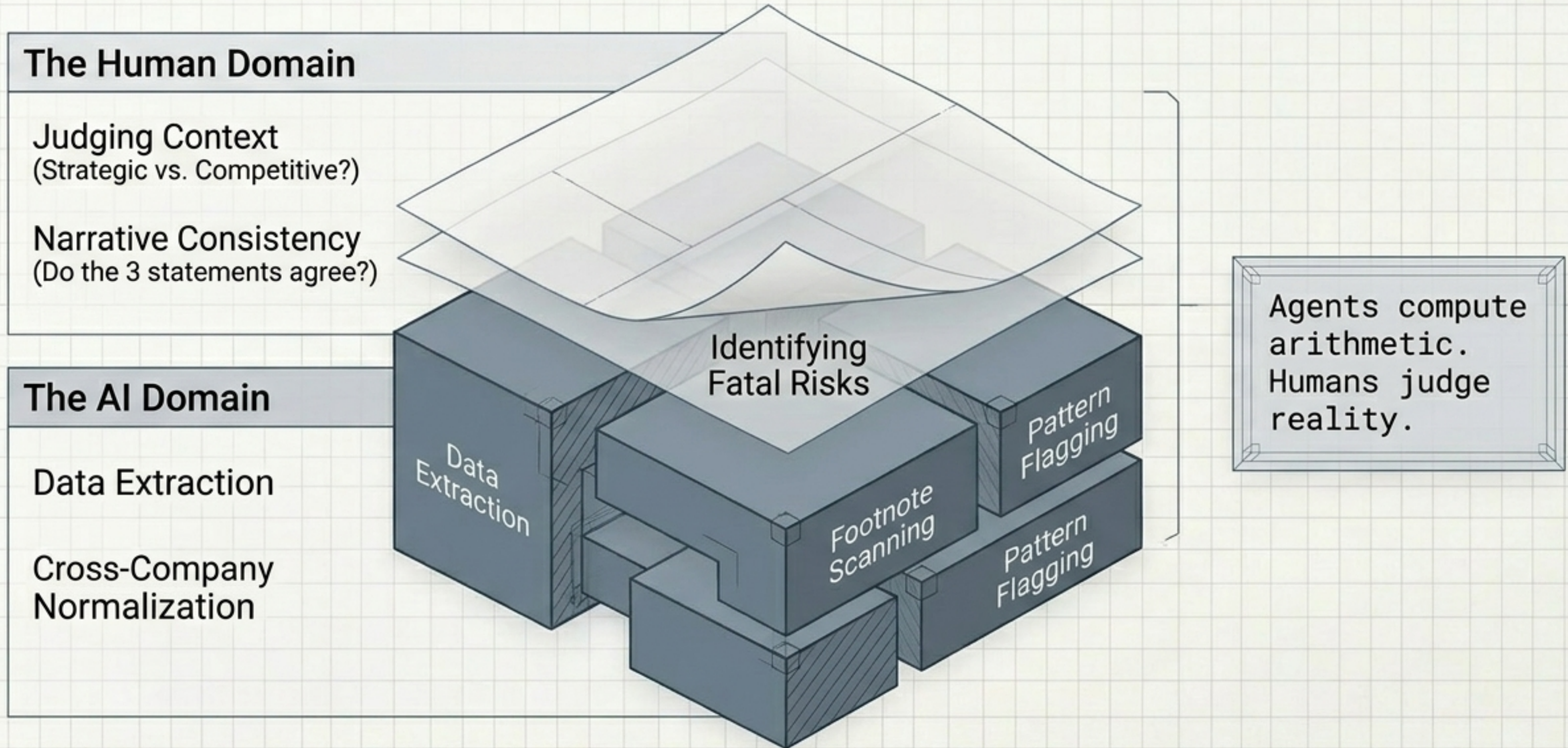
* Stock-Based Comp:	\$4B
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Extracting the Ghost Money

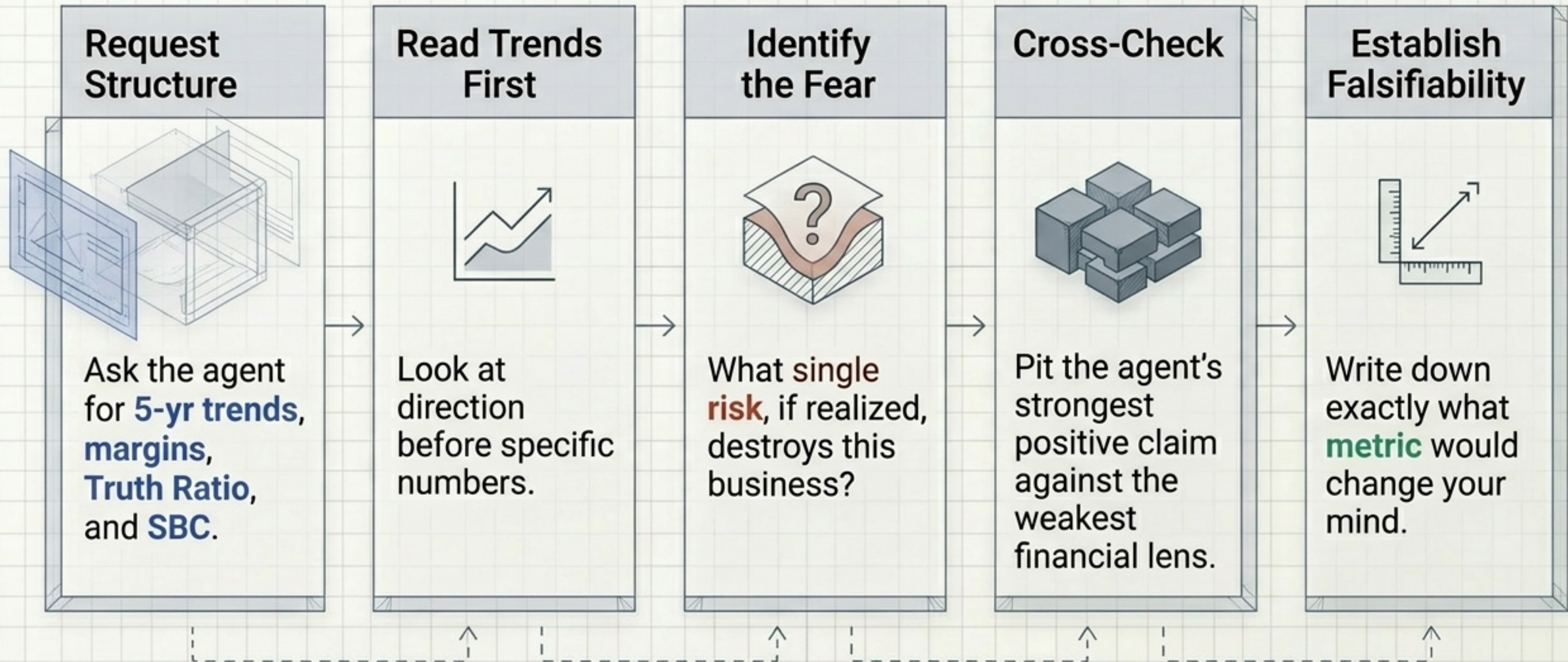


The unadjusted \$9B ignores dilution. The adjusted \$5B protects you from overvaluation. Knowing to demand this adjustment is the human's job.

The Division of Labor Stack



The 5-Step Validation Protocol



The Boundaries of Pattern Recognition

Industry Accounting

(Banks use Net Interest Income; REITs use FFO).

Cycle Position

(Cyclical companies look healthiest right before they collapse).

Competitive Dynamics

(Moat erosion takes 2-3 years to hit the income statement).

Management Quality

(Capital allocation skill is visible over decades, not 2 years).

The framework catches obvious structural advantages and traps.
It does not replace deep sector expertise.

The Capstone Workshop

Company A

Company B

1. Pick a company you use. Pick its closest competitor.
2. Ask your AI agent to run the 3-lens analysis on both.
3. Compare them lens by lens, applying the Green/Yellow/Red signal matrix.
4. Answer: Which company's financial shape scares you more? If you had to own one for a decade, which would it be?

The answer is always a story. And the story is yours.