Appendix

Variable definitions

Compustat data item #s are indicated in parentheses next to each item, where appropriate.

Accruals = change in current assets (4) - change in cash (1) - change in current liabilities (5) + change in debt included in current liabilities (34) + change in income taxes payable (71) - depreciation and amortization expense (14), all deflated by average total assets (6).

ΔCurLia = change in current liabilities (5) - change in debt included in current liabilities (34) - change in income taxes payable (71), all divided by average total assets (6). (This variable is multiplied by −1 to get the same directional effect as other components of accruals.)

ΔCurAss = change in current assets (4) - change in cash (1), scaled by average total assets (6).

Deprec = depreciation expense (14) divided by average total assets (6). (This variable is multiplied by −1 to get the same directional effect as other components of accruals.)

ΔAccRec = change in accounts receivable (2), deflated by average total assets (6).

ΔAccPay = change in accounts payable (70), deflated by average total assets (6). (This variable is multiplied by −1 to get the same directional effect as other components of accruals.)

ΔInvent = change in total inventory (3), deflated by average total assets (6).

Other Acc = Accruals (as defined above) minus change in accounts receivable (2) plus depreciation and amortization expense (14) minus change in inventory (3) plus change in accounts payable (70) deflated by average total assets

ΔRM Invent = change in raw material inventory (76), deflated by average total assets (6).

ΔWIP Invent = change in work-in-process inventory (77), deflated by average total assets (6).

ΔFG Invent = change in finished goods inventory (78), deflated by average total assets (6).

Size adjusted return is computed by taking the raw buy and hold return, inclusive of dividends and subtracting the buy and hold return on a size matched, value-weighted portfolio of firms (obtained from CRSP). The size portfolios are based on market value of equity deciles of NYSE and AMEX firms, as measured at January 1, each year.

$SAR_t = \prod_s (1 + r_{is}) - \prod_s (1 + r_{ps})$, where r_{is} and r_{ps} are the returns in s for firm i and size portfolio p

For annual periods monthly returns are used, and the portfolio holding periods begin 4 months after the fiscal year-end. For 3-day earnings announcement windows, daily returns are used, and the holding periods are from day −1 to +1 of the earnings announcement date (from Compustat).

Growth in Sales = current year's sales (12) minus previous fiscal year's sales, divided by previous year's sales.

Capital expenditure = Capital expenditure (30) divided by average total assets (6).

ROE = Income before extraordinary items, available for common stocks, (237) divided by ending common equity (60).

ROA = Operating income after depreciation (178) divided by average total assets (6).

SUE = The seasonal difference in quarterly primary EPS excluding extraordinary items (19), adjusted for stock splits using the Compustat adjustment factor (17), deflated by the closing price as of the third month of the quarter (14).

Growth PPE = change in net property, plant and equipment (8) divided by average total assets (6).

Growth ONA = change in ONA divided by average total assets (6). ONA is calculated by subtracting working capital (WC) and net PPE (NPPE) from net operating assets (NOA). NOA is defined as (total assets (6) – cash/equivalents (1)) – (total liabilities (181) – long term debt (9) – debt in current liabilities (34)). WC is defined as (current assets (4) – cash/equivalents (1)) – (current liabilities (5) – current debt (34) – taxes payable (71)). NPPE is net property, plant and equipment (8).