



# Revolutionizing Business Classification: The Impact of Syntax FIS on Standardizing Company Business Lines



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## The Impact of Syntax FIS on Standardizing Company Business Lines

### Key Takeaways

- Syntax FIS™ translates the unique language each public company uses to describe their business lines in their financial statements into common descriptions
- More than 9,000 individual business lines have been identified, offering users a precise and robust library to classify companies
- Company classifications are supported by citations linked to source data in financial statements, providing an audit trail
- FIS provides enhanced comparability of companies and the ability to identify peers, as well as the ability to screen for specific business lines with optimal

levels of precision

## Overview

The Securities and Exchange Commission helps investors by developing standards on what and how a company discloses about its business. For example, Form 10-K has required sections on business operations, risk factors, financial data, and management's discussion and analysis (MD&A). While this helps develop consistency across content shared by companies, how companies describe and categorize their underlying businesses and product lines is largely a subjective exercise. Recognizing this problem, Syntax's FIS industry classification system was designed to improve the comparability of companies, making for a more appropriate and relevant comparison.

To demonstrate our approach, let us focus on companies that provide Cloud Computing Services - one of the more than 9,000 business line classifications we have identified and created within FIS. These business lines are based on our review and classification of roughly 13,000 public companies over the past 15 years. Our process starts with a concise definition of the business activity; our definition of Cloud Computing Services is shown below.



### Cloud Computing Services

These companies provide access to a public cloud network of computing servers. Their customers can send tasks via the internet to be performed by the network, which will optimize the running of all customers tasks at the same time.

Next, we must decipher the language each company uses to describe their respective business lines and match it with one of our business lines descriptions. example of how four different companies in the Cloud Computing Services space describe their business in their annual statements, and how we translate that information into standardized classifications.

## AMAZON



Amazon's cloud computing business is called AWS (Amazon Web Services), which is how it is named in the company's 10-K. Since AWS is specific to Amazon, we take the description of the business in the annual statement and translate it into a standardized business description, which is "1708.1 Cloud Computing Services". We also capture the revenue associated with AWS as a percentage of Amazon's total revenue (15.79%).

## MICROSOFT



Microsoft's cloud services fall under their Azure business line, which offers a unique description to that which Amazon uses. Rather than refer to the business by its brand, Microsoft refers to it as "Server Products and Cloud Services". Microsoft's revenue for this product line is 39.87% of the total revenue.

## **ALPHABET**



Alphabet is like Amazon in that its financial statements refer to its cloud-related businesses under its brand name, Google Cloud. Cloud Computing Services were 10.76% of Alphabet's revenue in 2023.

## **DIGITAL OCEAN**



DigitalOcean is a smaller firm with 100% of its revenue tied to Cloud Computing Services. Whereas the other companies shown have multiple product lines, DigitalOcean is a one product company that refers to its business as simply Cloud Computing.

In the process of categorizing a company's business line, we create citations providing an audit trail to the source data. This includes the capturing of data tables and descriptions that support our business line categorizations. Below is a sample citation from Alphabet, Inc.'s annual report pulled directly from FIS.

*Google Cloud includes infrastructure and platform services, collaboration tools, and other services for enterprise customers. Google Cloud generates revenues primarily from consumption-based fees and subscriptions received from Google Cloud Platform services, Google Workspace communication and collaboration tools, and other enterprise services.*

**Source: page 86 of the Alphabet Inc. 2023 10-K**

## **Conclusion**

As demonstrated above, Syntax translates the language companies use in their financial statements to make business lines that are comparable across companies, and how our process of capturing citations improves transparency. This has significant

benefits to investment managers, including:

- FIS provides managers with an information advantage over other industry classification systems by more precisely identifying a company and its business model.
- Enhanced business line comparisons facilitate more robust peer comparisons, including the incorporation of specific themes (e.g., recurring revenues, government contracts as a percent of revenue) shared by companies based on the elaborate tagging system used to classify companies.
- Syntax's Affinity platform, our FIS™ client interface, allows users to screen for a universe of stocks using over 1,800 categories.

To learn more about the power and the potential applications for Syntax's revolutionary FIS industry classification system, and our Affinity Platform, visit us at [www.syntax.com](http://www.syntax.com).