



Earnings Distortion Scorecard: Calendar 4Q19 Earnings Season Preview

Welcome to the first research service that identifies which companies are most likely to beat or miss their earnings estimates based on abnormally low or high earnings distortion.

We measure earnings distortion using a proprietary human-assisted ML methodology featured in a recent paper from [Harvard Business School \(HBS\) and MIT Sloan](#). This paper empirically shows that street earnings estimates are incomplete and less accurate since they do not consistently and accurately adjust for unusual gains/losses buried in footnotes.

Get the best fundamental research

Earnings Distortion from unusual items is an increasingly material force. Earnings for the S&P 500 were distorted **by an average of 22%** in 2018.

As corporate managers bury key data in footnotes to manipulate earnings, and investors miss them, investment opportunities arise because stocks prices tend to be driven by core earnings power.

Only our research gives investors the tools they need to accurately measure core earnings.

Every week during the upcoming earnings season, we will publish a special Earnings Distortion Score¹ for key companies reporting the following week. We will segment these companies into five categories:

1. Strong Beat
2. Beat
3. Inline
4. Miss
5. Strong Miss

These scores indicate how likely companies are to beat or miss estimates based on how much their estimates contain unusual gains/losses which cause earnings to be over/understated.

Earnings Season Weekly Reports

Starting the week of January 6, 2020, we'll break down the important earnings releases for the following week. In this analysis, you'll get-up-to date information regarding a stock's earnings release date and its earnings distortion score on the likelihood of beating or missing consensus expectations.

This report will be available to Gold and higher members.

Each week, we will focus on the following companies:

Week of 1/6/20: LEN, STZ, WBA

Week of 1/13/20: AXP, BAC, BK, BLK, C, CFG, CSX, DAL, FAST, FRC, GS, INFO, JPM, KMI, KSU, MS, MTB, NFLX, PBCT, PNC, PPG, RF, SCHW, SLB, STT, UAL, UNH, USB, VFC, WFC

Week of 1/20/20: AAL, ABBV, ABT, AEP, ALK, AMTD, APD, APH, BMY, CCI, CL, CMA, CMCSA, COF, CTXS, DFS, DH, EDU, ETFC, FCX, FFIV, HAL, IBM, INTC, ISRG, JBHT, JNJ, KEY, KMB, LRCX, LUV, LVS, MKC, NEE, NSC, NTRS, NVR, PG, PGR, PLD, RJF, RMD, ROL, SIVB, SLG, SWK, SYF, TAL, TDY, TEL, TER, TRV, TXN, TXT, UNP, URI, UTX, VAR, WAT, WDC, ZION

¹ Note that Earnings Distortion scores will be added to our website via a new column on the Screeners and Portfolios page in January 2020.



Week of 1/27/20: AAPL, ABC, ABMD, ADP, AFG, AGN, AIV, AJG, ALGN, ALLY, AMD, AMGN, AMP, AMZN, ANTM, AON, AOS, APTV, AVY, BA, BABA, BEN, BIIB, BKR, BLL, BRO, BXP, CAT, CE, CHKP, CHRW, CHTR, CMS, COP, CPT, CVX, D, DD, DHR, DOV, DRE, EA, EBAY, ELS, EMN, EPD, EQR, ESS, ETN, EW, FB, FBHS, FICO, GD, GE, GLW, GWW, HCA, HES, HOG, HOLX, HON, HP, HSY, IDXX, IEX, ILMN, IP, IR, ITW, IVZ, JCI, JNPR, KIM, KKR, KLAC, LHX, LLY, LMT, LYB, MA, MAA, MCD, MCK, MDLZ, MKTX, MMC, MMM, MMP, MO, MSCI, MSFT, MXIM, NDAQ, NLOK, NOC, NOW, NUE, PCAR, PFE, PFG, PH, PHM, PKG, PKI, PNR, PYPL, RCL, RHI, ROK, ROP, RTN, S, SBUX, SHW, SIRI, SPG, SYK, T, TMO, TROW, TSCO, UPS, V, VLO, VZ, WHR, WRB, WRK, WY, WYNN, XEL, XLNX, XOM, XRX, YUMC, ZBH

Week of 2/3/20: ADM, ADS, AFL, ALL, ALNY, ALXN, AME, AMG, ARE, ARMK, ATO, AVB, BAP, BAX, BDX, BR, BSX, CAH, CB, CBOE, CDW, CERN, CHD, CI, CINF, CLX, CMG, CMI, CNC, COTY, CPRI, CTSH, DIS, DLR, DTE, DXC, EL, EMR, EXC, EXPE, F, FISV, FLT, FOXA, FTNT, FTV, GILD, GL, GM, GOOGL, HAS, HBI, HIG, HUM, IAC, ICE, IT, JKHY, K, LEG, LH, LNC, MAC, MAS, MCHP, MET, MHK, MKL, MPC, MPW, MRK, MSI, MTCH, MTD, NBIX, NOV, NWSA, NXPI, ODFL, ORLY, PAYC, PM, PRU, PSX, QCOM, QRVO, REGN, RL, RSG, SEE, SGEN, SNA, SNAP, SPGI, SPOT, STX, SWKS, SY, TDG, TMUS, TPR, TRMB, TSN, TTWO, TWTR, UI, UNM, VRSN, VRTX, VTR, WCG, WEC, WLTW, WU, XYL, YUM

Week of 2/10/20: AEE, AIG, AIZ, AKAM, AMAT, ANET, ATVI, BWA, CAN, CBRE, CCEP, CF, CME, CSCO, CTL, DE, DGX, DISH, DUK, DVA, EPAM, EQIX, FIS, FLIR, FMC, FRT, GPN, HII, HLT, IFF, INCY, INVH, IPG, IPGP, IQV, IRM, KO, L, MCO, MGM, MLM, MRO, NLY, NTAP, NVDA, NWL, OMC, OXY, PEAK, PEP, PGR, PPL, PXD, RE, REG, RNG, SCCO, SHOP, SSNC, STE, TAP, TRIP, TRU, TWLO, UAA, UDR, VMC, WELL, WM, WMB, WST, YNDX, ZBRA, ZTS

Week of 2/17/20: A, AAP, ADI, AGR, ALB, ALLE, AWK, BIDU, BMRN, CDNS, CLR, COG, CPRT, CVS, CXO, DPZ, DVN, DXCM, ECL, ED, EFX, ES, ETR, EXAS, EXPD, EXR, FANG, FE, FLS, GDDY, GPC, GRMN, HFC, HPE, HRL, HSIC, HST, INTU, KEYS, KHC, LDOS, LNT, MDT, MLCO, MOS, NBL, NCLH, NEM, NI, NTES, O, PNW, PWR, ROKU, SNPS, SO, SUI, TFX, TTD, TUS, TYL, VER, VNO, VRSK, WMT, WPC, WTR, XEC, Y

Week of 2/24/20: ADSK, AES, AMT, ANSS, APA, AZO, BBY, BIO, BKNG, CNP, CPB, CSGP, DISCA, EIX, EOG, EV, GPS, HD, HEI, HPQ, JD, JWN, KDP, LB, LBRDK, LKQ, LNG, LOW, LYV, M, MAR, MELI, MNST, MYL, NLSN, NRG, OKE, PANW, PEG, PGR, PODD, PRGO, PSA, SJM, SPLK, SQ, SRE, TJX, UHS, VEEV, VMW, VST, WAB, WDAY, XRAY

Week of 3/2/20: BURL, COO, COST, CRM, DLTR, HRB, KR, KSS, MRVL, ROST, TCOM, TGT, WB

Week of 3/9/20: ADBE, AVGO, DG, ORCL, PGR, ULTA, ZTO

Week of 3/16/20: CAG, CTAS, DRI, FDX, GIS, MU, NKE, TIF

Week of 3/23/20: ACN, FDS, INFO, KMX, LEN, LULU, MKC, PAYX, PVH

Week of 3/30/20: LW, WBA

For more on how to use core earnings and earnings distortion to pick better stocks, see these reports.

1. ["Novel Dataset" Reveals Undervalued Tech Giant](#)
2. [Earnings Data Is Wrong & How You Can Make More Money](#)
3. [Earnings Data Is Wrong & Why it Can Cost You Money](#)
4. [Earnings Distortion Makes This Stock A Buy](#)
5. [Earnings Distortions Make This Stock a Sell](#)
6. [Earnings Distortion Alert: Jacobs Engineering Group \(JEC\)](#)
7. [Earnings Distortion Alert: This Pharmacy Giant Has Understated Earnings](#)
8. [Consensus Earnings Are Wrong & How Much Is It Costing You?](#)
9. [Earnings Distortion Alert: Avoid This Game Developer](#)
10. [Earnings Distortion Analysis Reveals Opportunity in Defensive Sectors](#)
11. [Big Tech Leads Decline in Core Earnings](#)

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Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Learn [more](#).

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20

Pick better stocks:

“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract

Avoid losses from using other firms’ data:

“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14

Build better models:

“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4

Exploit market inefficiencies:

“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26

Fulfill fiduciary duties:

“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34



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