



Earnings Distortion Scorecard: Week of 1/27/20-1/31/20

For the week of 1/27/20-1/31/20, we focus on the Earnings Distortion scores for 127 companies.

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

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

Our Earnings Distortion Scores¹ empower investors to combat management efforts to obfuscate financial performance. The aggregate level of distortion recently reached [levels not seen since right before the tech bubble](#) and the financial crisis.

Weekly Earnings Distortion Insights

Figure 1 contains the 15 largest S&P 500 companies, plus those with market caps greater than \$10 billion, that we expect to beat or miss earnings expectations the week of January 27, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 1/27/20-1/31/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Pfizer	PFE	\$0.57	1/28/20	Strong Miss
SAP	SAP	\$1.70	1/28/20	Beat
Boeing	BA	\$1.92	1/29/20	Miss
Alibaba	BABA	\$1.85	1/29/20	Strong Miss
General Electric	GE	\$0.18	1/29/20	Beat
Microsoft	MSFT	\$1.32	1/29/20	Miss
Novartis	NVS	\$1.30	1/29/20	Strong Miss
Qualcomm	QCOM	\$0.71	1/29/20	Strong Beat
Visa	V	\$1.47	1/29/20	Miss
Amazon	AMZN	\$3.98	1/30/20	Miss
Eli Lilly	LLY	\$1.49	1/30/20	Strong Miss
Altria Group	MO	\$1.01	1/30/20	Strong Beat
Royal Dutch Shell	RDS.A	\$1.08	1/30/20	Miss
Thermo Fisher Scientific	TMO	\$3.54	1/30/20	Miss
Verizon	VZ	\$1.15	1/30/20	Beat

Sources: New Constructs, LLC and company filings

The appendix to this report shows all the S&P 500 companies, plus those with market caps greater than \$10 billion, that report earnings the week of January 27, 2020.

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.



Details: QCOM’s Earnings Distortion

In 2019, Qualcomm (QCOM) had \$2.7 billion in net earnings distortion that cause earnings to be understated. Notable unusual expenses buried in the fine print of the firm’s 2019 10-K include:

- \$2.5 billion in non-recurring tax charges – [Page 94](#)
- \$203 million in asset impairment charges – [Page 75](#)
- \$135 million in investment impairment charges – [Page 45](#)

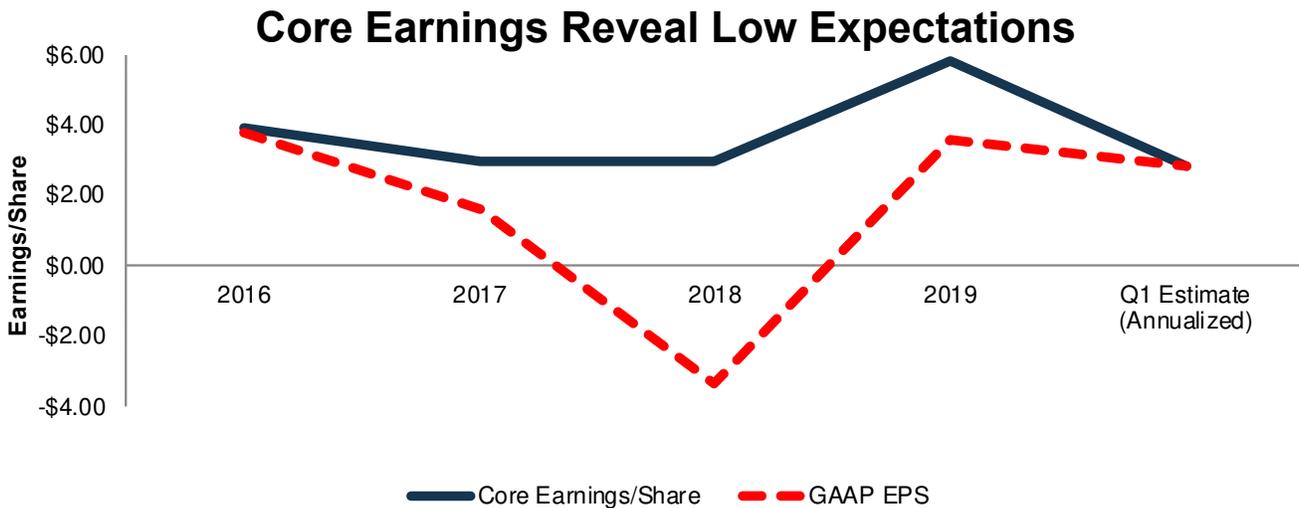
We previously featured QCOM as a Long Idea on October 16, 2019 in our article “[Novel Dataset Reveals Undervalued Tech Giant](#).” We showed at the time that the company’s earnings were significantly understated and projected that it would [beat expectations](#) when it reported earnings in November.

Sure enough, QCOM had a strong earnings beat in Q4, and the stock is up 13% since our article vs. 9% for the S&P 500.

Now, after analyzing the company’s 2019 10-K, we find that its earnings are still understated. In total, we identified \$2.23/share (62% of reported EPS) in net unusual expenses in QCOM’s 2019 results. After removing this earnings distortion from GAAP net income, we see that QCOM’s 2019 core earnings of \$5.83/share are significantly above its GAAP EPS of \$3.60.

The analyst consensus for QCOM’s Q1 2020 earnings is \$0.71/share, which comes out to \$2.84/share on an annualized basis. Based on GAAP earnings, current analysts’ estimates imply a decline of 21% in annualized earnings. Figure 2 shows that, after removing earnings distortion, consensus estimates imply a much more significant decline of 51%.

Figure 2: QCOM Core Earnings Vs. GAAP: 2016-Q1 2020



Sources: New Constructs, LLC and company filings

Figure 1 shows that QCOM is one of two companies that earn our “Strong Beat” rating. Three companies earn a “Beat” rating, which means we expect them to beat earnings, but we’re not as confident as we are for QCOM. Six companies in Figure 1 earn a “Miss” rating, and four companies earn a “Strong Miss” rating.

How to Make Money with Earnings Distortion Data

“Trading strategies that exploit {adjustments provided by New Constructs} produce abnormal returns of 7-to-10% per year.” – Page 1 in [Core Earnings: New Data & Evidence](#)

In Section 4.3 of [Core Earnings: New Data and Evidence](#), professors from HBS & MIT Sloan present a long/short strategy that holds the stocks with the most understated EPS and shorts the stocks with the most overstated earnings. Positions are opened in the month each 10-K is filed and held until the next 10-K is filed, or about a year.



This simple, low turnover strategy produced abnormal returns of 7-to-10% a year. These abnormal returns show that the market misses important data in the footnotes and that investors who adjust for unusual items can make more money. Click [here](#) for more details on our data offerings.

For more on how to use core earnings and earnings distortion to pick better stocks, click [here](#).

This article originally published on [January 20, 2020](#).

Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

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**Appendix: All Major Companies That Report January 27-31**

Figure 3 shows all the S&P 500 companies, plus those with market caps greater than \$10 billion, that report earnings the week of January 27, 2020.

Figure 3: Earnings Distortion Scorecard: Week of 1/27/20-1/31/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Brown & Brown, Inc.	BRO	\$0.27	1/27/20	In-Line
Celanese Corporation	CE	\$2.15	1/27/20	In-Line
D.R. Horton, Inc.	DHI	\$0.92	1/27/20	In-Line
Equity Lifestyle Properties, Inc.	ELS	\$0.51	1/27/20	Miss
Juniper Networks, Inc.	JNPR	\$0.44	1/27/20	In-Line
Whirlpool Corporation	WHR	\$4.33	1/27/20	Miss
TD Ameritrade Holding Corporation	AMTD	\$0.76	1/28/20	In-Line
Canadian National Railway Company	CNI	\$0.93	1/28/20	Miss
Equity Residential	EQR	\$0.89	1/28/20	Miss
Harley-Davidson, Inc.	HOG	\$0.20	1/28/20	In-Line
Interactive Brokers Group, Inc.	IBKR	\$0.58	1/28/20	In-Line
Lockheed Martin Corporation	LMT	\$4.97	1/28/20	In-Line
McCormick & Company, Incorporated	MKC	\$1.63	1/28/20	Miss
Maxim Integrated Products, Inc.	MXIM	\$0.53	1/28/20	Strong Miss
Pfizer, Inc.	PFE	\$0.57	1/28/20	Strong Miss
Principal Financial Group Inc	PFG	\$1.41	1/28/20	In-Line
Koninklijke Philips N.V.	PHG	N/A	1/28/20	Beat
PulteGroup, Inc.	PHM	\$1.08	1/28/20	In-Line
Reinsurance Group of America, Incorporated	RGA	\$3.71	1/28/20	In-Line
SAP SE	SAP	\$1.70	1/28/20	Beat
W.R. Berkley Corporation	WRB	\$0.73	1/28/20	In-Line
Xilinx, Inc.	XLNX	\$0.64	1/28/20	In-Line
Automatic Data Processing, Inc.	ADP	\$1.45	1/29/20	In-Line
Align Technology, Inc.	ALGN	\$1.39	1/29/20	Miss
Ameriprise Financial Services	AMP	\$4.24	1/29/20	In-Line
Anthem, Inc.	ANTM	\$3.90	1/29/20	In-Line
Avery Dennison Corporation	AVY	\$1.68	1/29/20	Strong Beat
Boeing Company (The)	BA	\$1.92	1/29/20	Miss
Alibaba Group Holding Limited	BABA	\$1.85	1/29/20	Strong Miss
Banco De Chile	BCH	\$0.37	1/29/20	In-Line
Franklin Resources, Inc.	BEN	\$0.66	1/29/20	In-Line
Canon, Inc.	CAJ	N/A	1/29/20	In-Line
Check Point Software Technologies Ltd.	CHKP	\$1.81	1/29/20	In-Line

Sources: New Constructs, LLC and company filings

**Figure 3: Earnings Distortion Scorecard: Week of 1/27/20-1/31/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Duke Realty Corporation	DRE	\$0.38	1/29/20	Strong Miss
Essex Property Trust, Inc.	ESS	\$3.42	1/29/20	Miss
Facebook, Inc.	FB	\$2.50	1/29/20	In-Line
Fair Isaac Corporation	FICO	\$1.48	1/29/20	Miss
General Dynamics Corporation	GD	\$3.44	1/29/20	In-Line
General Electric Company	GE	\$0.18	1/29/20	Beat
Hess Corporation	HES	-\$0.35	1/29/20	Beat
Hologic, Inc.	HOLX	\$0.60	1/29/20	Strong Beat
IDEX Corporation	IEX	\$1.35	1/29/20	In-Line
Ingersoll-Rand plc (Ireland)	IR	\$1.42	1/29/20	In-Line
Invesco Plc	IVZ	\$0.68	1/29/20	Beat
Mastercard Incorporated	MA	\$1.86	1/29/20	In-Line
Mid-America Apartment Communities, Inc.	MAA	\$1.63	1/29/20	In-Line
McDonald's Corporation	MCD	\$1.96	1/29/20	In-Line
Mondelez International, Inc.	MDLZ	\$0.60	1/29/20	Strong Miss
MarketAxess Holdings, Inc.	MKTX	\$1.33	1/29/20	In-Line
Marathon Petroleum Corporation	MPC	\$1.10	1/29/20	In-Line
Microsoft Corporation	MSFT	\$1.32	1/29/20	Miss
Nasdaq, Inc.	NDAQ	\$1.27	1/29/20	Beat
ServiceNow, Inc.	NOW	\$0.15	1/29/20	Miss
Novartis AG	NVS	\$1.30	1/29/20	Strong Miss
PayPal Holdings, Inc.	PYPL	\$0.63	1/29/20	In-Line
QUALCOMM Incorporated	QCOM	\$0.71	1/29/20	Strong Beat
Royal Caribbean Cruises Ltd.	RCL	\$1.41	1/29/20	In-Line
Sirius XM Holdings Inc.	SIRI	\$0.06	1/29/20	Beat
Stanley Black & Decker, Inc.	SWK	\$2.16	1/29/20	Beat
AT&T Inc.	T	\$0.88	1/29/20	In-Line
T. Rowe Price Group, Inc.	TROW	\$1.87	1/29/20	In-Line
Tesla, Inc.	TSLA	\$0.08	1/29/20	Beat
United Rentals, Inc.	URI	\$5.49	1/29/20	In-Line
Visa Inc.	V	\$1.47	1/29/20	Miss
Varian Medical Systems, Inc.	VAR	\$1.21	1/29/20	Beat
Wynn Resorts, Limited	WYNN	\$0.93	1/29/20	Strong Miss
AmerisourceBergen Corporation	ABC	\$1.69	1/30/20	Beat
ABIOMED, Inc.	ABMD	\$1.09	1/30/20	Strong Miss
Aflac Incorporated	AFL	\$1.01	1/30/20	In-Line

Sources: New Constructs, LLC and company filings

**Figure 3: Earnings Distortion Scorecard: Week of 1/27/20-1/31/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Arthur J. Gallagher & Co.	AJG	\$0.55	1/30/20	Miss
Amcor plc	AMCR	\$0.14	1/30/20	In-Line
Amazon.com, Inc.	AMZN	\$3.98	1/30/20	Miss
Apollo Global Management, Inc	APO	\$0.73	1/30/20	Beat
Aptiv PLC	APTV	\$1.02	1/30/20	In-Line
Baxter International Inc.	BAX	\$0.86	1/30/20	Miss
Biogen Inc.	BIIB	\$7.94	1/30/20	In-Line
Ball Corporation	BLL	\$0.68	1/30/20	In-Line
CMS Energy Corporation	CMS	\$0.75	1/30/20	In-Line
Camden Property Trust	CPT	\$1.22	1/30/20	In-Line
Deutsche Bank AG	DB	N/A	1/30/20	In-Line
DuPont de Nemours, Inc.	DD	\$0.96	1/30/20	Beat
Electronic Arts Inc.	EA	\$2.26	1/30/20	Strong Miss
Eastman Chemical Company	EMN	\$1.37	1/30/20	In-Line
Enterprise Products Partners L.P.	EPD	\$0.54	1/30/20	In-Line
Eaton Corporation, PLC	ETN	\$1.41	1/30/20	In-Line
Edwards Lifesciences Corporation	EW	\$1.48	1/30/20	Beat
Fortune Brands Home & Security, Inc.	FBHS	\$0.97	1/30/20	In-Line
W.W. Grainger, Inc.	GWW	\$4.03	1/30/20	In-Line
Hershey Company (The)	HSY	\$1.23	1/30/20	In-Line
International Paper Company	IP	\$1.02	1/30/20	Beat
Kimco Realty Corporation	KIM	\$0.37	1/30/20	Beat
Eli Lilly and Company	LLY	\$1.49	1/30/20	Strong Miss
McKesson Corporation	MCK	\$3.44	1/30/20	Beat
Mizuho Financial Group, Inc.	MFG	N/A	1/30/20	In-Line
Marsh & McLennan Companies, Inc.	MMC	\$1.18	1/30/20	In-Line
Magellan Midstream Partners L.P.	MMP	\$1.17	1/30/20	In-Line
Altria Group	MO	\$1.01	1/30/20	Strong Beat
MSCI Inc	MSCI	\$1.62	1/30/20	Strong Miss
NortonLifeLock Inc.	NLOK	\$0.02	1/30/20	Strong Miss
Northrop Grumman Corporation	NOC	\$4.78	1/30/20	Strong Miss
Nokia Corporation	NOK	\$0.14	1/30/20	Beat
Open Text Corporation	OTEX	\$0.45	1/30/20	In-Line
Parker-Hannifin Corporation	PH	\$2.27	1/30/20	In-Line
Pinterest, Inc.	PINS	-\$0.17	1/30/20	In-Line
PerkinElmer, Inc.	PKI	\$1.32	1/30/20	In-Line

Sources: New Constructs, LLC and company filings

**Figure 3: Earnings Distortion Scorecard: Week of 1/27/20-1/31/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Ferrari N.V.	RACE	\$0.99	1/30/20	In-Line
Royal Dutch Shell PLC	RDS.A	\$1.08	1/30/20	Miss
Raytheon Company	RTN	\$3.11	1/30/20	In-Line
Sprint Corporation	S	-\$0.05	1/30/20	Beat
Sherwin-Williams Company	SHW	\$4.40	1/30/20	In-Line
Sumitomo Mitsui Financial Group	SMFG	\$0.19	1/30/20	In-Line
Thermo Fisher Scientific Inc	TMO	\$3.54	1/30/20	Miss
Tractor Supply Company	TSCO	\$1.24	1/30/20	Miss
United Parcel Service, Inc.	UPS	\$2.10	1/30/20	In-Line
Valero Energy Corporation	VLO	\$1.69	1/30/20	Strong Miss
Verizon Communications Inc.	VZ	\$1.15	1/30/20	Beat
WEC Energy Group, Inc.	WEC	\$0.73	1/30/20	Miss
Xcel Energy Inc.	XEL	\$0.53	1/30/20	Miss
Xylem Inc.	XYL	\$0.89	1/30/20	In-Line
Booz Allen Hamilton Holding	BAH	\$0.76	1/31/20	Miss
Caterpillar, Inc.	CAT	\$2.38	1/31/20	In-Line
Charter Communications, Inc.	CHTR	\$2.56	1/31/20	In-Line
Colgate-Palmolive Company	CL	\$0.73	1/31/20	In-Line
Chevron Corporation	CVX	\$1.56	1/31/20	In-Line
Phillips 66	PSX	\$2.34	1/31/20	Beat
Weyerhaeuser Company	WY	\$0.07	1/31/20	Beat
Exxon Mobil Corporation	XOM	\$0.71	1/31/20	In-Line

Sources: New Constructs, LLC and company filings



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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