



Earnings Distortion Scorecard: Week of 2/10/20-2/14/20

For the week of 2/10/20-2/14/20, we focus on the [Earnings Distortion Scores](#) for 73 companies.

Our proprietary measure of [earnings distortion](#) leverages cutting-edge ML technology featured in [Core Earnings: New Data & Evidence](#). This paper empirically concludes that our adjusted core earnings is superior to:

1. “Street Earnings” from Refinitiv’s IBES, owned by Blackstone (BX) and Thomson Reuters (TRI), and
2. “Income Before Special Items” from Compustat, owned by S&P Global (SPGI)

Get the best fundamental research

The paper also shows that investors with [better earnings](#) research have a clear advantage in predicting:

1. Future earnings (Section 3.4)
2. Future stock prices (Section 4.3)

Our Earnings Distortion Scores¹ empower investors to make smarter investments with superior data as well as defend against management efforts to obfuscate financial performance. The aggregate level of earnings 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 (by market cap) 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 February 10, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 2/10/20-2/14/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Activision Blizzard Inc.	ATVI	\$1.20	2/10/20	Miss
Shopify Inc.	SHOP	\$0.24	2/10/20	Beat
Welltower Inc.	WELL	\$0.37	2/10/20	Miss
Progressive Corp	PGR	\$1.25	2/11/20	Miss
Hilton Worldwide Holdings	HLT	\$0.96	2/11/20	Miss
Williams Companies Inc.	WMB	\$0.24	2/11/20	Beat
Pioneer Natural Resources	PXD	\$2.07	2/11/20	Beat
MGM Resorts International	MGM	\$0.28	2/11/20	Beat
Healthpeak Properties	PEAK	\$0.09	2/12/20	Strong Miss
NVIDIA Corp	NVDA	\$1.66	2/12/20	Miss
Duke Energy Corp	DUK	\$0.90	2/12/20	Miss
PPL Corp	PPL	\$0.54	2/12/20	Miss
Incyte Corp	INCY	\$0.59	2/12/20	Strong Miss
Ameren Corp	AEE	\$0.30	2/12/20	Miss
PepsiCo Inc.	PEP	\$1.44	2/13/20	Strong Miss

Sources: New Constructs, LLC and company filings

¹ Note that Earnings Distortion scores are also available to clients of our website.



The appendix shows the Earnings Distortion Scores for all the S&P 500 companies, plus those with market caps greater than \$10 billion, that are expected to report earnings the week of February 10, 2020.

Details: WMB’s Earnings Distortion

Over the trailing twelve months (TTM), Williams Companies (WMB: \$21/share) had -\$939 million in net earnings distortion that cause earnings to be understated. Notable unusual expenses in the firm’s filings include:

- [\\$1.9 billion](#) in impairment of certain assets – Page 76 2018 10-K
- [\\$74 million](#) in impairment of equity-method investments – Page 6 1Q19 10-Q
- [\\$64 million](#) in impairment of certain assets – Page 6 2Q19 10-Q

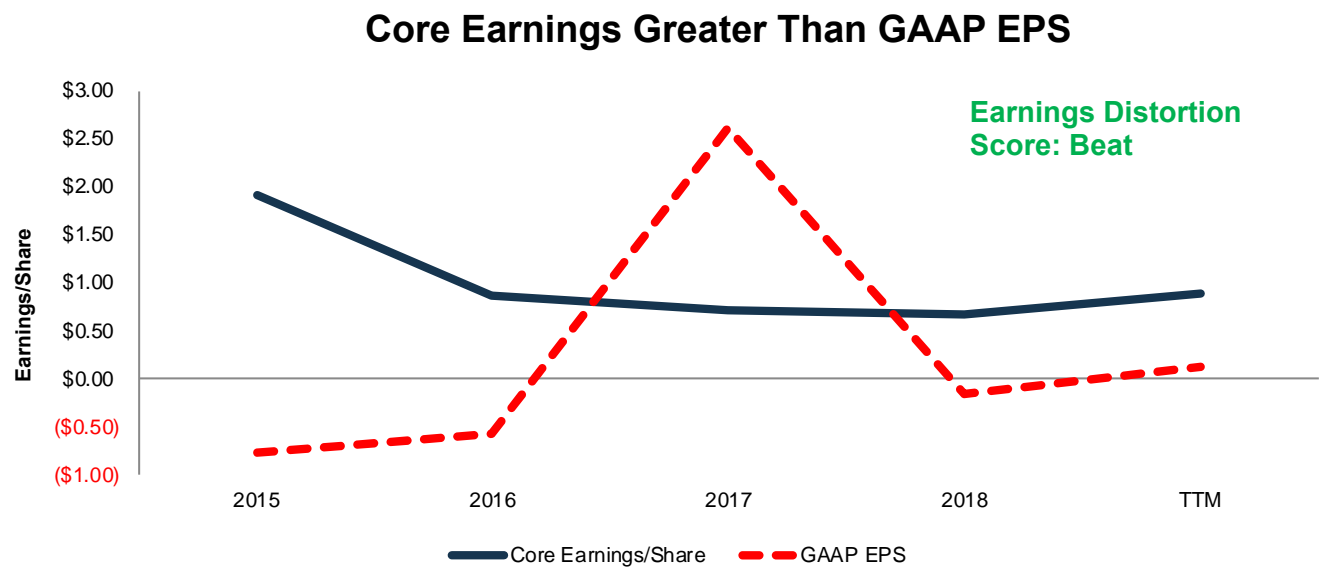
The largest impairment in WMB’s filings is a write-down in its operations in the Mid-Continent and Marcellus South regions, certain NGL pipeline assets, and an olefins pipeline project in the Gulf Coast. The other impairments related to WMB’s ownership in UEOM and certain assets in the Eagle Ford Shale.

These expenses were partially offset by a [\\$692 million](#) gain on sale related to the divestiture of operations in the Gulf Coast and the Four Corners area of New Mexico and Colorado.

In total, we identified \$0.77/share (618% of reported EPS) in net unusual expenses in WMB’s TTM GAAP results. After removing this earnings distortion from GAAP net income, we see that WMB’s TTM core earnings of \$0.90/share are significantly above its GAAP EPS of \$0.13, per Figure 2.

With understated earnings, and a “Beat” Earnings Distortion Score, WMB is likely to beat the \$1.01/share IBES consensus estimate for fiscal 2019.

Figure 2: WMB Core Earnings Vs. GAAP: 2015 – TTM



Sources: New Constructs, LLC and company filings

Figure 1 shows that WMB is one of four companies that earn our “Beat” rating for this week. Eight companies earn our “Miss” rating for this week. Three companies earn a “Strong Miss” rating, which means we’re more confident in their potential to miss earnings expectations than we are of those companies that earn a “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, 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.

This strategy produced abnormal returns of 7-to-10% a year. Click [here](#) for more details on our data offerings.



We Provide 100% Audit-ability & Transparency

Clients can audit all of the unusual items used in our calculations in the [Marked-Up Filings section](#) of each of our [Company Valuation models](#). We are 100% transparent about what goes into our research because we want investors to trust our work and see how much goes into building the best earnings quality and valuation models.

This article originally published on [February 3, 2020](#).

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

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**Appendix: All Major Companies That Report February 10-14**

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

Figure 3: Earnings Distortion Scorecard: Week of 2/10/20-2/14/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Fidelity National Information Services	FIS	\$1.53	2/10/20	In-line
Activision Blizzard Inc.	ATVI	\$1.20	2/10/20	Miss
Shopify Inc.	SHOP	\$0.24	2/10/20	Beat
Occidental Petroleum Corp	OXY	\$0.02	2/10/20	In-line
Welltower Inc.	WELL	\$0.37	2/10/20	Miss
Southern Copper Corp	SCCO	\$0.48	2/10/20	In-line
Omnicom Group Inc.	OMC	\$1.85	2/10/20	In-line
Martin Marietta Materials Inc.	MLM	\$2.24	2/10/20	In-line
Loews Corp	L	\$0.72	2/10/20	In-line
UDR Inc.	UDR	\$0.05	2/10/20	Miss
RingCentral Inc.	RNG	\$0.21	2/10/20	In-line
Akamai Technologies Inc.	AKAM	\$1.13	2/10/20	In-line
Twilio Inc.	TWLO	\$0.01	2/10/20	In-line
Steris PLC	STE	\$1.43	2/10/20	In-line
FMC Corp	FMC	\$1.54	2/10/20	Beat
CNA Financial Corp	CNA	\$0.90	2/10/20	In-line
Everest Re Group Ltd	RE	\$4.89	2/10/20	Miss
Molson Coors Brewing Co.	TAP	\$0.80	2/10/20	Beat
Assurant Inc.	AIZ	\$2.41	2/10/20	In-line
IPG Photonics Corp	IPGP	\$0.82	2/10/20	In-line
TripAdvisor Inc.	TRIP	\$0.33	2/10/20	In-line
Global Payments Inc.	GPN	\$1.59	2/11/20	In-line
Equinix Inc.	EQIX	\$1.59	2/11/20	In-line
American International Group Inc.	AIG	\$0.98	2/11/20	In-line
Progressive Corp	PGR	\$1.25	2/11/20	Miss
Hilton Worldwide Holdings Inc.	HLT	\$0.96	2/11/20	Miss
Williams Companies Inc.	WMB	\$0.24	2/11/20	Beat
Pioneer Natural Resources Co.	PXD	\$2.07	2/11/20	Beat
CBRE Group Inc.	CBRE	\$1.35	2/11/20	In-line
MGM Resorts International	MGM	\$0.28	2/11/20	Beat
Healthpeak Properties Inc.	PEAK	\$0.09	2/11/20	Strong Miss
CenturyLink Inc.	CTL	\$0.33	2/11/20	Strong Beat

Sources: New Constructs, LLC and company filings

**Figure 3: Earnings Distortion Scorecard: Week of 2/10/20-2/14/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
International Flavors & Fragrances	IFF	\$1.45	2/11/20	In-line
Annaly Capital Management Inc.	NLY	\$0.25	2/11/20	In-line
Marathon Oil Corp	MRO	\$0.10	2/11/20	Miss
Regency Centers Corp	REG	\$0.40	2/11/20	In-line
CF Industries Holdings Inc.	CF	\$0.39	2/11/20	In-line
Federal Realty Investment Trust	FRT	\$0.79	2/11/20	Miss
DaVita Inc.	DVA	\$1.66	2/11/20	Beat
Interpublic Group of Companies Inc.	IPG	\$0.83	2/11/20	In-line
FLIR Systems Inc.	FLIR	\$0.62	2/11/20	Miss
Cisco Systems Inc.	CSCO	\$0.76	2/12/20	In-line
NVIDIA Corp	NVDA	\$1.66	2/12/20	Miss
CME Group Inc.	CME	\$1.61	2/12/20	In-line
Duke Energy Corp	DUK	\$0.90	2/12/20	Miss
Zoetis Inc.	ZTS	\$0.88	2/12/20	In-line
Applied Materials Inc.	AMAT	\$0.92	2/12/20	In-line
Waste Management Inc.	WM	\$1.12	2/12/20	In-line
Iqvia Holdings Inc.	IQV	\$1.72	2/12/20	In-line
PPL Corp	PPL	\$0.54	2/12/20	Miss
Coca-Cola European Partners PLC	CCEP	\$0.63	2/12/20	In-line
Incyte Corp	INCY	\$0.59	2/12/20	Strong Miss
Vulcan Materials Co.	VMC	\$1.19	2/12/20	In-line
Ameren Corp	AEE	\$0.30	2/12/20	Miss
TransUnion	TRU	\$0.71	2/12/20	Miss
Invitation Homes Inc.	INVH	\$0.06	2/12/20	Miss
SS&C Technologies Holdings Inc.	SSNC	\$0.97	2/12/20	In-line
Arista Networks Inc.	ANET	\$2.11	2/12/20	Miss
NetApp Inc.	NTAP	\$1.18	2/12/20	Strong Miss
Quest Diagnostics Inc.	DGX	\$1.60	2/12/20	In-line
Zebra Technologies Corp	ZBRA	\$3.65	2/12/20	In-line
EPAM Systems Inc.	EPAM	\$1.45	2/12/20	In-line
West Pharmaceutical Services Inc.	WST	\$0.72	2/12/20	In-line
Huntington Ingalls Industries Inc.	HII	\$4.23	2/12/20	Miss
Iron Mountain Inc.	IRM	\$0.32	2/12/20	Miss
BorgWarner Inc.	BWA	\$0.98	2/12/20	In-line

Sources: New Constructs, LLC and company filings



Figure 3: Earnings Distortion Scorecard: Week of 2/10/20-2/14/20 (continued)

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
PepsiCo Inc.	PEP	\$1.44	2/13/20	Strong Miss
Deere & Co.	DE	\$1.28	2/13/20	In-line
Moody's Corp	MCO	\$1.94	2/13/20	In-line
Yandex NV	YNDX	\$0.39	2/13/20	Beat
Under Armour Inc.	UAA	\$0.10	2/13/20	In-line
Newell Brands Inc.	NWL	\$0.38	2/13/20	Beat

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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