



## Earnings Distortion Scorecard: Week of 2/17/20-2/21/20

For the week of 2/17/20-2/21/20, we focus on the [Earnings Distortion Scores](#) for 67 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 Scores<sup>1</sup> 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) companies that earn a “Strong Beat” or “Strong Miss” Earnings Distortion Score and are expected to report the week of February 17, 2020. These stocks are most likely to beat/miss expectations.

**Figure 1: Earnings Distortion Scorecard Highlights: Week of 2/17/20-2/21/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Devon Energy Corp	DVN	\$0.28	2/18/20	Strong Miss
Fluor Corp	FLR	\$0.30	2/18/20	Strong Beat
QEP Resources	QEP	\$0.08	2/18/20	Strong Beat
NetEase Inc.	NTES	\$3.51	2/19/20	Strong Miss
Copart Inc.	CPRT	\$0.66	2/19/20	Strong Miss
Vornado Realty Trust	VNO	\$0.61	2/19/20	Strong Miss
Cytokinetics	CYTK	-\$0.48	2/19/20	Strong Miss
Allscripts Healthcare Solutions	MDRX	\$0.19	2/19/20	Strong Miss
Conduent Inc.	CNDT	\$0.19	2/19/20	Strong Beat
Newmont Goldcorp Corp	NEM	\$0.51	2/20/20	Strong Miss
Momenta Pharmaceuticals Inc.	MNTA	-\$0.58	2/20/20	Strong Miss
Entercom Communications	ETM	\$0.37	2/20/20	Strong Beat
Cabot Oil & Gas Corp	COG	\$0.32	2/21/20	Strong Miss
HMS Holdings Corp	HMSY	\$0.31	2/21/20	Strong Miss
Harsco Corp	HSC	\$0.13	2/21/20	Strong Miss

Sources: New Constructs, LLC and company filings

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 the week of February 17, 2020.

<sup>1</sup> Note that Earnings Distortion scores are also available to clients of our website.



**Details: MDRX’s Earnings Distortion**

Over the trailing twelve months (TTM), Allscripts Healthcare Solutions Inc. (MDRX: \$9/share) had \$193 million in net earnings distortion that cause earnings to be overstated. Notable unusual income found in MDRX’s filings include:

- [\\$395 million](#) in income from discontinued operations – Page 59 2018 10-K
- [\\$172 million](#) in gains from the sale of businesses – Page 59 2018 10-K

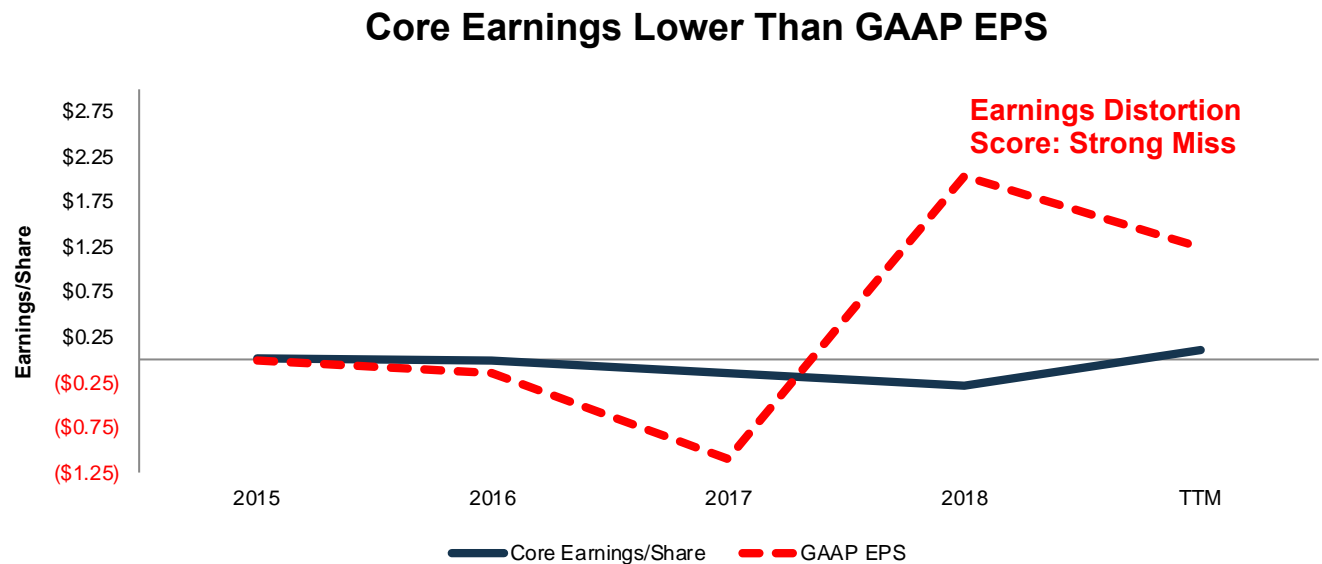
The income from discontinued operations stem from MDRX’s sale of its class A shares of Netsmart and the gain on sale is a result of MDRX’s divestiture of OneContent.

These unusual income items were partially offset by [\\$144 million](#) in other losses reported in MDRX’s 2Q19 10-Q. This unusual expense was part of a settlement with the Department of Justice related to a civil and criminal investigation into Practice Fusion.

In total, we identified \$1.13/share (91% of reported EPS) in net unusual income in MDRX’s TTM GAAP results. After removing this earnings distortion from GAAP net income, we see that MDRX’s TTM core earnings of \$0.11/share are significantly lower than GAAP EPS of \$1.24, per Figure 2.

With overstated earnings, and a “Strong Miss” Earnings Distortion Score, MDRX is likely to miss consensus expectations.

**Figure 2: MDRX Core Earnings Vs. GAAP: 2015 – TTM**



Sources: New Constructs, LLC and company filings

Figure 1 shows that MDRX is one of 11 companies that earn our “Strong Miss” rating for this week. Four companies earn our “Strong Beat” rating for this week.

**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.



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*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 Expected to Report February 17-21**

Figure 3 shows all the S&P 500 companies, plus those with market caps greater than \$10 billion, that are expected to report the week of February 17, 2020.

**Figure 3: Earnings Distortion Scorecard: Week of 2/17/20-2/21/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Ecolab Inc.	ECL	\$1.70	2/17/20	In-line
FirstEnergy Corp	FE	\$0.50	2/17/20	In-line
Verisk Analytics Inc.	VRSK	\$1.12	2/17/20	In-line
American Water Works Company Inc.	AWK	\$0.73	2/17/20	In-line
Cadence Design Systems Inc.	CDNS	\$0.53	2/17/20	Beat
Avangrid Inc.	AGR	\$0.75	2/17/20	In-line
Concho Resources Inc.	CXO	\$0.76	2/17/20	In-line
Leidos Holdings Inc.	LDOS	\$1.35	2/17/20	Miss
Genuine Parts Co.	GPC	\$1.31	2/17/20	Miss
Diamondback Energy Inc.	FANG	\$1.76	2/17/20	Miss
Allegion PLC	ALLE	\$1.30	2/17/20	Miss
Host Hotels & Resorts Inc.	HST	\$0.11	2/17/20	Beat
Aqua America Inc.	WTR	\$0.32	2/17/20	In-line
Continental Resources Inc.	CLR	\$0.48	2/17/20	In-line
Noble Energy Inc.	NBL	-\$0.09	2/17/20	Beat
Advance Auto Parts Inc.	AAP	\$1.36	2/17/20	In-line
Walmart Inc.	WMT	\$1.44	2/18/20	In-line
Medtronic PLC	MDT	\$1.38	2/18/20	In-line
CVS Health Corp	CVS	\$1.68	2/18/20	In-line
Southern Co.	SO	\$0.32	2/18/20	Miss
Analog Devices Inc.	ADI	\$1.00	2/18/20	In-line
Eversource Energy	ES	\$0.78	2/18/20	In-line
Agilent Technologies Inc.	A	\$0.81	2/18/20	Miss
Entergy Corp	ETR	\$0.74	2/18/20	Miss
Realty Income Corp	O	\$0.34	2/18/20	In-line
Synopsys Inc.	SNPS	\$0.92	2/18/20	Miss
Garmin Ltd	GRMN	\$1.02	2/18/20	Miss
Equifax Inc.	EFX	\$1.49	2/18/20	In-line
Extra Space Storage Inc.	EXR	\$0.79	2/18/20	In-line
Expeditors International of Washington	EXPD	\$0.94	2/18/20	Miss
Tyler Technologies Inc.	TYL	\$1.43	2/18/20	In-line
GoDaddy Inc.	GDDY	\$0.31	2/18/20	Miss
Alleghany Corp	Y	\$0.33	2/18/20	In-line

Sources: New Constructs, LLC and company filings



Figure 3: Earnings Distortion Scorecard: Week of 2/17/20-2/21/20 (continued)

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
NiSource Inc.	NI	\$0.42	2/18/20	Miss
Henry Schein Inc.	HSIC	\$0.91	2/18/20	In-line
Albemarle Corp	ALB	\$1.76	2/18/20	In-line
HollyFrontier Corp	HFC	\$0.71	2/18/20	In-line
Flowserve Corp	FLS	\$0.65	2/18/20	In-line
Cimarex Energy Co.	XEC	\$1.19	2/18/20	In-line
Intuit Inc.	INTU	\$1.04	2/19/20	Miss
Baidu Inc.	BIDU	\$1.86	2/19/20	Beat
NetEase Inc.	NTES	\$3.51	2/19/20	Strong Miss
Consolidated Edison Inc.	ED	\$0.80	2/19/20	In-line
Hormel Foods Corp	HRL	\$0.44	2/19/20	Miss
Copart Inc.	CPRT	\$0.66	2/19/20	Strong Miss
DexCom Inc.	DXCM	\$0.71	2/19/20	Beat
Hewlett Packard Enterprise Co.	HPE	\$0.44	2/19/20	Beat
Keysight Technologies Inc.	KEYS	\$1.07	2/19/20	Strong Miss
Teleflex Inc.	TFX	\$3.21	2/19/20	Miss
Altice USA Inc.	ATUS	\$0.18	2/19/20	In-line
Biomarin Pharmaceutical Inc.	BMRN	-\$0.06	2/19/20	Miss
Roku Inc.	ROKU	-\$0.14	2/19/20	Miss
Sun Communities Inc.	SUI	\$0.25	2/19/20	In-line
Alliant Energy Corp	LNT	\$0.43	2/19/20	Miss
Vornado Realty Trust	VNO	\$0.61	2/19/20	Strong Miss
Trade Desk Inc.	TTD	\$1.17	2/19/20	Miss
Norwegian Cruise Line Holdings Ltd	NCLH	\$0.70	2/19/20	In-line
Exact Sciences Corp	EXAS	-\$0.36	2/19/20	Miss
Domino's Pizza Inc.	DPZ	\$2.98	2/19/20	Miss
Devon Energy Corp	DVN	\$0.28	2/19/20	Strong Miss
Mosaic Co.	MOS	\$0.10	2/19/20	Beat
Quanta Services Inc.	PWR	\$0.83	2/19/20	In-line
Newmont Goldcorp Corp	NEM	\$0.51	2/20/20	Strong Miss
WP Carey Inc.	WPC	\$0.49	2/20/20	Miss
Pinnacle West Capital Corp	PNW	\$0.43	2/20/20	Miss
Nordson Corp	NDSN	\$1.05	2/20/20	In-line
Cabot Oil & Gas Corp	COG	\$0.32	2/20/20	Strong Miss

Sources: New Constructs, LLC and company filings



## ***Footnotes adjustments matter. We are the ONLY source.***

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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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