



## Earnings Distortion Scorecard: Week of 2/24/20-2/28/20

For the week of 2/24/20-2/28/20, we focus on the [Earnings Distortion Scores](#) for 55 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 24, 2020. These stocks are most likely to beat/miss expectations.

**Figure 1: Earnings Distortion Scorecard Highlights: Week of 2/24/20-2/28/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Keysight Technologies Inc.	KEYS	\$1.07	2/24/20	Strong Miss
Ionis Pharmaceuticals Inc.	IONS	\$1.14	2/26/20	Strong Miss
Etsy Inc.	ETSY	\$0.16	2/26/20	Strong Miss
WPX Energy Inc.	WPX	\$0.12	2/26/20	Strong Miss
AppFolio Inc.	APPF	\$0.03	2/26/20	Strong Miss
Apache Corp	APA	-\$0.13	2/26/20	Strong Beat
VEREIT Inc.	VER	\$0.03	2/26/20	Strong Beat
VMware Inc.	VMW	\$2.17	2/27/20	Strong Miss
Laureate Education Inc.	LAUR	\$0.44	2/27/20	Strong Beat
NRG Energy Inc.	NRG	\$0.48	2/27/20	Strong Miss
Sarepta Therapeutics Inc.	SRPT	-\$1.82	2/27/20	Strong Beat
PG&E Corp	PCG	\$0.72	2/27/20	Strong Beat
58.com Inc.	WUBA	\$0.77	2/27/20	Strong Miss
Nielsen Holdings PLC	NLSN	\$0.43	2/27/20	Strong Beat
Stericycle Inc.	SRCL	\$0.69	2/27/20	Strong Beat

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 24, 2020.

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



### Details: APA's Earnings Distortion

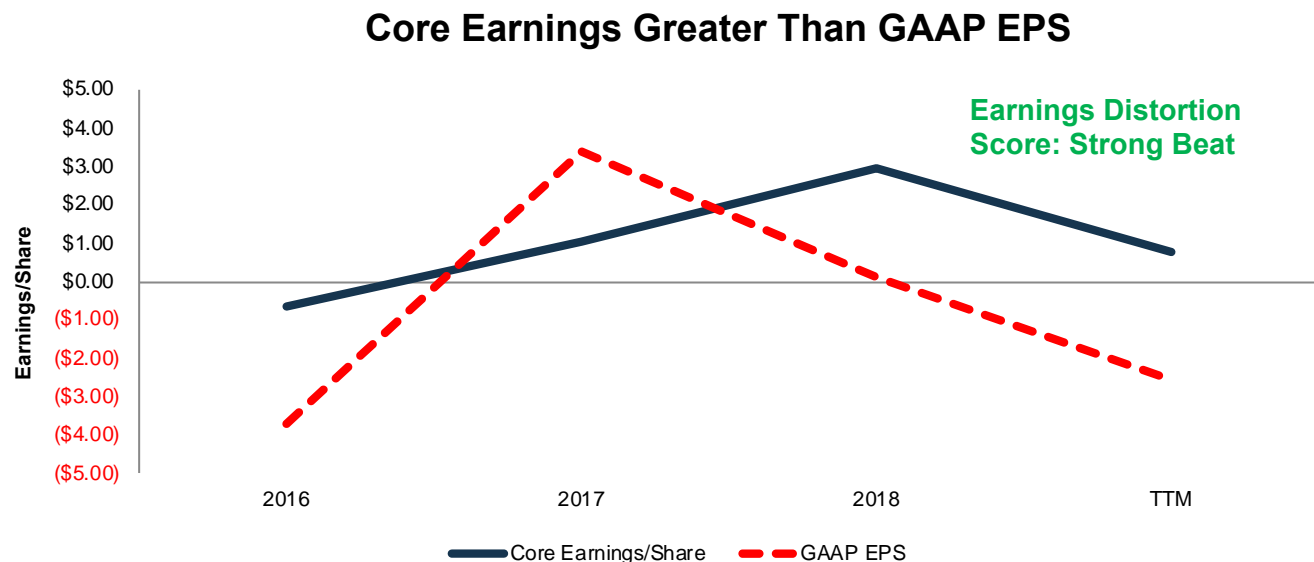
Over the trailing twelve months (TTM), Apache Corporation (APA: \$28/share) had -\$1.2 billion in net earnings distortion that cause earnings to be understated. Notable unusual expenses both [hidden and reported](#) in APA's filings include:

- [\\$511 million](#) in impairments associated with the company redirecting capital from non-core assets 2018 10-K
- [\\$240 million](#) in impairments associated with the sale of Western Anadarko Basin assets 2Q19 10-Q
- \$88 million in hidden total restructuring expenses, net - related to [unproved leasehold impairments](#) and [dry hole expenses](#) 2018 10-K

In total, we identified \$3.28/share (>100% of reported EPS) in net unusual expenses in APA's TTM GAAP results. After removing this earnings distortion from GAAP net income, we see that APA's TTM core earnings of \$0.74/share are significantly higher than GAAP EPS of -\$2.53, per Figure 2.

With understated earnings, and a "Strong Beat" Earnings Distortion Score, APA is likely to beat consensus expectations. While APA looks like a good bet to beat expectations, we aren't necessarily optimistic about the company's long-term prospects. The company earns our Unattractive [Risk/Reward Rating](#) due to its low return on invested capital ([ROIC](#)) and high expectations for future profit growth baked into the stock price. Accordingly, the stock still looks risky for long-term investors.

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



Sources: New Constructs, LLC and company filings

Figure 1 shows that APA is one of seven companies that earn our "Strong Beat" rating for this week. Eight companies earn our "Strong Miss" 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 24-28**

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 24, 2020.

**Figure 3: Earnings Distortion Scorecard: Week of 2/24/20-2/28/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Sempra Energy	SRE	\$1.51	2/24/20	Miss
EOG Resources Inc.	EOG	\$1.08	2/24/20	In-line
Public Storage	PSA	\$2.02	2/24/20	Miss
MercadoLibre Inc.	MELI	-\$1.00	2/24/20	Beat
ONEOK Inc.	OKE	\$0.79	2/24/20	In-line
AutoZone Inc.	AZO	\$13.77	2/24/20	Miss
CoStar Group Inc.	CSGP	\$2.62	2/24/20	Miss
Palo Alto Networks Inc.	PANW	\$1.12	2/24/20	In-line
Veeva Systems Inc.	VEEV	\$0.52	2/24/20	Miss
Keysight Technologies Inc.	KEYS	\$1.07	2/24/20	Strong Miss
HEICO Corp	HEI	\$0.72	2/24/20	Miss
Discovery Inc.	DISCA	\$0.74	2/24/20	Beat
Westinghouse Air Brake Technologies	WAB	\$1.04	2/24/20	In-line
Cheniere Energy Inc.	LNG	\$0.61	2/24/20	In-line
Insulet Corp	PODD	\$0.11	2/24/20	In-line
Mylan NV	MYL	\$1.28	2/24/20	In-line
Home Depot Inc.	HD	\$2.11	2/25/20	Miss
American Tower Corp	AMT	\$1.02	2/25/20	Beat
Booking Holdings Inc.	BKNG	\$22.07	2/25/20	In-line
Monster Beverage Corp	MNST	\$0.46	2/25/20	Miss
Square Inc.	SQ	\$0.21	2/25/20	In-line
HP Inc.	HPQ	\$0.54	2/25/20	In-line
Public Service Enterprise Group	PEG	\$0.62	2/25/20	Miss
ANSYS Inc.	ANSS	\$1.99	2/25/20	Miss
Best Buy Co Inc.	BBY	\$2.74	2/25/20	In-line
Campbell Soup Co.	CPB	\$0.66	2/25/20	Beat
AES Corp	AES	\$0.35	2/25/20	In-line
Universal Health Services Inc.	UHS	\$2.58	2/25/20	In-line
Perrigo Company PLC	PRGO	\$1.03	2/25/20	Miss
Macy's Inc.	M	-\$0.21	2/25/20	Miss
Lowe's Companies Inc.	LOW	\$0.91	2/26/20	Beat
TJX Companies Inc.	TJX	\$0.77	2/26/20	In-line
JD.com Inc.	JD	\$0.07	2/26/20	In-line

Sources: New Constructs, LLC and company filings

**Figure 3: Earnings Distortion Scorecard: Week of 2/24/20-2/28/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Progressive Corp	PGR	\$1.25	2/26/20	Miss
Marriott International Inc.	MAR	\$1.47	2/26/20	In-line
Autodesk Inc.	ADSK	\$0.89	2/26/20	In-line
Workday Inc.	WDAY	\$0.41	2/26/20	Miss
Keurig Dr Pepper Inc.	KDP	\$0.35	2/26/20	In-line
Edison International	EIX	\$0.97	2/26/20	Beat
Splunk Inc.	SPLK	\$0.96	2/26/20	In-line
Liberty Broadband Corp	LBRDK	\$0.56	2/26/20	In-line
Live Nation Entertainment Inc.	LYV	-\$0.71	2/26/20	In-line
CenterPoint Energy Inc.	CNP	\$0.37	2/26/20	In-line
J M Smucker Co.	SJM	\$2.23	2/26/20	Beat
Vistra Energy Corp	VST	\$0.60	2/26/20	In-line
VEREIT Inc.	VER	\$0.03	2/26/20	Strong Beat
LKQ Corp	LKQ	\$0.52	2/26/20	In-line
Gap Inc.	GPS	\$0.35	2/26/20	In-line
L Brands Inc.	LB	\$1.97	2/26/20	Beat
Nordstrom Inc.	JWN	\$1.48	2/26/20	Miss
VMware Inc.	VMW	\$2.17	2/27/20	Strong Miss
Apache Corp	APA	-\$0.13	2/27/20	Strong Beat
NRG Energy Inc.	NRG	\$0.48	2/27/20	Strong Miss
Nielsen Holdings PLC	NLSN	\$0.43	2/27/20	Strong Beat
Dentsply Sirona Inc.	XRAY	\$0.74	2/28/20	In-line

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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