Evidence on the Superiority of Our Earnings Data

In Core Earnings: New Data & Evidence, professors at Harvard Business School (HBS) & MIT Sloan demonstrate the superiority of the proprietary data produced by our Robo-Analyst technology and research.

Better Data than Compustat:
- “The results … suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete.” – pp. 26-27, 4th para.
- “These findings also suggest that Income before Special Items is not a good measure of operating or core income.” – p. 22, 1st para.
- “…many of the income-statement-relevant quantitative disclosures collected by New Constructs do not appear to be easily identifiable in Compustat…” – p. 14, last para.

Less Bias than Wall Street Consensus Estimates:
- “…the evidence suggests that the adjustments embedded in Street Earnings are not only an incomplete reflection of firms’ non-operating earnings but also reflect managerial biases.” – p. 29, 1st para.
- “…these empirical results are consistent with, and perhaps constitute a more direct test of…Doyle et al. (2013)”, which shows “managers define earnings to meet or beat analyst expectations.” – p. 29, 1st para.
- “because of the comprehensive nature of NC’s approach to identifying non-operating and transitory income-statement-related items, and because of its status as an independent research firm, the resulting measure of core earnings is less likely to exhibit the systematic bias that has been found in managers’ pro-forma earnings.” – p. 2, 3rd para.

Proprietary Details on Bias in Consensus Earnings & Estimates:
- “…for every dollar of income-increasing Core Earnings adjustments, only 55 cents is incorporated in [IBES] Street Earnings; similarly, for every dollar of income-decreasing Core Earnings adjustments, only 54 cents is incorporated in Street Earnings.” – p. 28, 2nd para.
- “These results are consistent with the earlier conclusion that the adjustments used to compute [IBES] Street Earnings are incomplete.” – p. 28, 2nd para.

Better Earnings for Models & Forecasting:
- “Core Earnings [from NC] is a superior accounting measure of a company’s operating earnings, and incremental to other measures when predicting future performance.” – p. 25, 1st para.
- “…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.” – p. 34, 1st para.

New Technology for Analysis of Financial Data:
- “…this is the most comprehensive dataset that captures what a fundamental analyst would be likely to identify as transitory or non-operating earnings items in detailed analyses of firms’ 10-Ks.” – p. 10, 4th para.
- “…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.” – p. 27, 4th para.

More Alpha:
- “Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract, 5th sentence
- “The findings…suggest that firms in the highest decile of Total Adjustments outperform firms in the lowest decile by approximately 9-10% in the year after firms’ 10K filings.” – p. 31-32, 4th para.

Access: Core Earnings Data Earnings Distortion Scores Research Investment Ratings
DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs’ management team or the management team of any New Constructs’ affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs’ Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs; nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs’ reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.