



## Earnings Distortion Scorecard: Week of 3/30/20-4/3/20

For the week of 3/30/20-4/3/20, we focus on the [Earnings Distortion Scores](#) for 16 companies.

Our proprietary measure of [earnings distortion](#) (as featured on [CNBC Squawk Box](#)) leverages cutting-edge ML technology featured in [Core Earnings: New Data & Evidence](#). This paper empirically concludes that our adjusted core earnings are 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. Earnings distortion for the overall market recently reached [levels not seen since right before the tech bubble](#) and the financial crisis.

### Weekly Earnings Distortion Insights

Figure 1 contains the 12 largest (by market cap) companies that earn a “Strong Beat”, “Beat”, “Miss”, or “Strong Miss” Earnings Distortion Score and are expected to report the week of March 30, 2020.

**Figure 1: Earnings Distortion Scorecard Highlights: Week of 3/30/20-4/3/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Cal-Maine Foods Inc.	CALM	\$0.33	3/30/20	Miss
Hudson Global Inc.	HSO	\$0.19	3/30/20	Beat
Triumph Group Inc.	TGI	\$0.66	3/31/20	Strong Beat
Capital Senior Living Corp	CSU	-\$0.56	3/31/20	Beat
Lamb Weston Holdings Inc.	LW	\$0.95	4/1/20	Miss
PVH Corp	PVH	\$1.81	4/1/20	Miss
UniFirst Corp	UNF	\$1.65	4/1/20	Miss
iMedia Brands Inc.	IMBI	-\$0.63	4/1/20	Strong Beat
Mitcham Industries Inc.	MIND	\$0.01	4/1/20	Beat
Resources Connection Inc.	RECN	\$0.11	4/2/20	Miss
Constellation Brands Inc.	STZ	\$1.64	4/3/20	Strong Miss
Greenbrier Companies Inc.	GBX	\$0.29	4/3/20	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 March 30, 2020.

<sup>1</sup> Earnings Distortion scores on ~3,000 stocks are also available to clients of our website.



**Details: UniFirst Corporation’s (UNF) Earnings Distortion**

Over the trailing twelve months (TTM), UniFirst Corporation (UNF) has \$8 million in net earnings distortion that cause earnings to be overstated. Notable unusual income [hidden](#) in UNF’s 2019 10-K includes:

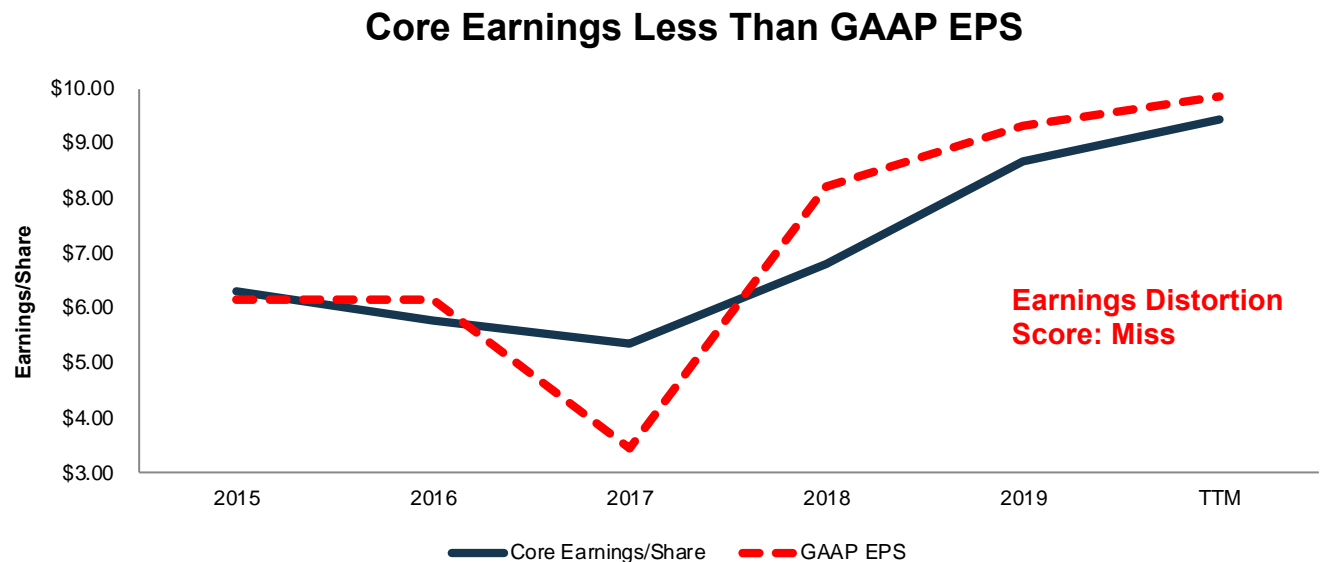
- [\\$21 million](#) in gains related to a settlement agreement that reduced selling and administrative expense – Page 63

This unusual income is partially offset by [\\$7 million](#) in one-time bonuses paid to employees disclosed on page 72.

In total, we identified \$0.44/share (4% of GAAP EPS) in net unusual income in UNF’s TTM GAAP results. After removing this earnings distortion, UNF’s TTM core earnings of \$9.43/share are lower than GAAP EPS of \$9.87, per Figure 2.

Accordingly, UNF gets our “Miss” Earnings Distortion Score and is likely to miss consensus expectations.

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



Sources: New Constructs, LLC and company filings

Figure 1 shows that UNF is one of six companies that earn our “Miss” or “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.*

*Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.*



***Appendix: All Major Companies Expected to Report March 30- April 3***

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 March 30, 2020.

**Figure 3: Earnings Distortion Scorecard: Week of 3/30/20-4/3/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
McCormick & Company Inc.	MKC	\$1.04	3/31/20	In-line
Conagra Brands Inc.	CAG	\$0.48	3/31/20	In-line
Lamb Weston Holdings Inc.	LW	\$0.95	4/1/20	Miss
PVH Corp	PVH	\$1.81	4/1/20	Miss
Walgreens Boots Alliance Inc.	WBA	\$1.46	4/2/20	In-line
Carmax Inc.	KMX	\$1.12	4/2/20	In-line
Constellation Brands Inc.	STZ	\$1.64	4/3/20	Strong Miss

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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