



Earnings Distortion Scorecard: Week of 4/13/20-4/17/20

For the week of 4/13/20-4/17/20, we focus on the [Earnings Distortion Scores](#) for 41 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)

COVID-19 is [not disrupting](#) our data collection and modeling. Our [Robo-Analyst](#) is more effective than ever.

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. 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 15 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 April 13, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 4/13/20-4/17/20

| Company | Ticker | EPS Estimate | Expected Earnings Date | Earnings Distortion Score |
|------------------------------|--------|--------------|------------------------|---------------------------|
| Johnson & Johnson | JNJ | \$2.08 | 4/14/20 | Beat |
| Fastenal Co. | FAST | \$0.34 | 4/14/20 | Miss |
| Progressive Corp | PGR | \$1.44 | 4/15/20 | Miss |
| Atlassian Corporation PLC | TEAM | \$0.21 | 4/15/20 | Strong Beat |
| Las Vegas Sands Corp | LVS | \$0.37 | 4/15/20 | Miss |
| Cohen & Steers Inc. | CNS | \$0.68 | 4/15/20 | Strong Miss |
| PolyOne Corp | POL | \$0.43 | 4/15/20 | Strong Miss |
| Danaher Corp | DHR | \$1.04 | 4/16/20 | Miss |
| Honeywell International Inc. | HON | \$2.01 | 4/16/20 | Miss |
| Intuitive Surgical Inc. | ISRG | \$2.69 | 4/16/20 | Strong Miss |
| Heartland Express Inc. | HTLD | \$0.13 | 4/16/20 | Strong Miss |
| Snap-On Inc. | SNA | \$2.97 | 4/16/20 | Miss |
| Sonoco Products Co. | SON | \$0.85 | 4/16/20 | Beat |
| Schlumberger | SLB | \$0.27 | 4/17/20 | Strong Beat |
| Kansas City Southern | KSU | \$1.75 | 4/17/20 | Beat |

Sources: New Constructs, LLC and company filings

¹ Earnings Distortion scores on ~3,0000 stocks 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 the week of April 13, 2020.

Details: The Progressive Corp (PGR) Earnings Distortion

In 2019, The Progressive Corp had \$568 million in net earnings distortion that cause earnings to be overstated. Notable unusual income [hidden](#) in PGR’s 2019 10-K includes:

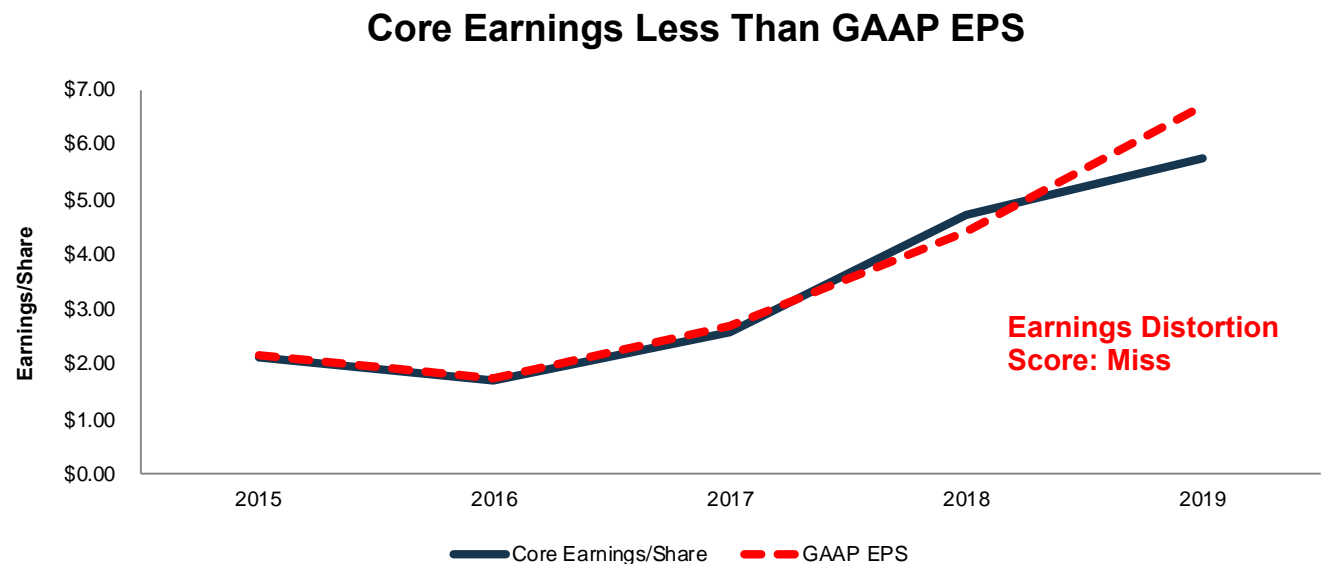
- [\\$740 million](#) in net holding period gains recognized during the period on equity securities held at period end – Page A-17

In addition, we made a \$160 million adjustment for income tax distortion. This adjustment normalizes reported income taxes and removes the impact of unusual or less persistent items on the taxes applied to core earnings.

In total, we identified \$0.97/share (14% of GAAP EPS) in net unusual income in PGR’s 2019 GAAP results. After removing this earnings distortion, PGR’s 2019 core earnings of \$5.75/share are lower than GAAP EPS of \$6.72, per Figure 2.

Accordingly, PGR gets our “Miss” Earnings Distortion Score and is likely to miss consensus expectations. While PGR looks more likely to miss upcoming estimates, we are more optimistic about the company’s long-term prospects. The firm’s rising [economic earnings](#), top-quintile return on invested capital ([ROIC](#)), and cheap valuation earn it our Very Attractive [stock rating](#), which focuses on the long-term.

Figure 2: PGR Core Earnings Vs. GAAP: 2015 – 2019



Sources: New Constructs, LLC and company filings

Figure 1 shows that PGR is one of 10 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.

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**Appendix: All Major Companies Expected to Report April 13 – April 17**

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 April 13, 2020.

Figure 3: Earnings Distortion Scorecard: Week of 4/13/20-4/17/20

| Company | Ticker | EPS Estimate | Expected Earnings Date | Earnings Distortion Score |
|-----------------------------------|--------|--------------|------------------------|---------------------------|
| J.B. Hunt Transport Services | JBHT | \$1.06 | 4/13/20 | In-line |
| Pentair PLC | PNR | \$0.47 | 4/13/20 | In-line |
| Johnson & Johnson | JNJ | \$2.08 | 4/14/20 | Beat |
| JPMorgan Chase & Co. | JPM | \$2.51 | 4/14/20 | In-line |
| Wells Fargo & Co. | WFC | \$0.74 | 4/14/20 | In-line |
| BlackRock Inc. | BLK | \$6.79 | 4/14/20 | In-line |
| Fastenal Co. | FAST | \$0.34 | 4/14/20 | Miss |
| Omnicom Group Inc. | OMC | \$1.21 | 4/14/20 | In-line |
| United Airlines Holdings Inc. | UAL | -\$2.14 | 4/14/20 | In-line |
| UnitedHealth Group Inc. | UNH | \$3.61 | 4/15/20 | In-line |
| Bank of America Corp | BAC | \$0.66 | 4/15/20 | In-line |
| Citigroup Inc. | C | \$1.87 | 4/15/20 | In-line |
| Morgan Stanley | MS | \$1.25 | 4/15/20 | In-line |
| Goldman Sachs Group Inc. | GS | \$4.41 | 4/15/20 | In-line |
| U.S. Bancorp | USB | \$0.88 | 4/15/20 | In-line |
| Progressive Corp | PGR | \$1.44 | 4/15/20 | Miss |
| Charles Schwab Corp | SCHW | \$0.62 | 4/15/20 | In-line |
| PNC Financial Services Group Inc. | PNC | \$2.38 | 4/15/20 | In-line |
| Atlassian Corporation PLC | TEAM | \$0.21 | 4/15/20 | Strong Beat |
| Kinder Morgan Inc. | KMI | \$0.27 | 4/15/20 | In-line |
| Las Vegas Sands Corp | LVS | \$0.37 | 4/15/20 | Miss |
| E*TRADE Financial Corp | ETFC | \$0.88 | 4/15/20 | In-line |
| Globe Life Inc. | GL | \$1.72 | 4/15/20 | In-line |
| Abbott Laboratories | ABT | \$0.66 | 4/16/20 | In-line |
| Danaher Corp | DHR | \$1.04 | 4/16/20 | Miss |
| Honeywell International Inc. | HON | \$2.01 | 4/16/20 | Miss |
| Intuitive Surgical Inc. | ISRG | \$2.69 | 4/16/20 | Strong Miss |
| Bank of New York Mellon Corp | BK | \$0.94 | 4/16/20 | In-line |
| Dover Corp | DOV | \$1.23 | 4/16/20 | In-line |
| KeyCorp | KEY | \$0.40 | 4/16/20 | In-line |
| Genuine Parts Co. | GPC | \$1.20 | 4/16/20 | In-line |
| Snap-On Inc. | SNA | \$2.97 | 4/16/20 | Miss |
| Schlumberger | SLB | \$0.27 | 4/17/20 | Strong Beat |
| State Street Corp | STT | \$1.42 | 4/17/20 | In-line |
| Kansas City Southern | KSU | \$1.75 | 4/17/20 | Beat |
| Regions Financial Corp | RF | \$0.35 | 4/17/20 | In-line |
| Citizens Financial Group Inc. | CFG | \$0.85 | 4/17/20 | In-line |

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.**
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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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