Earnings Distortion Scorecard: Week of 10/12/20-10/16/20

For the week of 10/12/20-10/16/20, we focus on the Earnings Distortion Scores for 42 companies.

Our Earnings Distortion Scores[1] empower investors to make smarter investments with superior data as well as defend against management efforts to obfuscate financial performance.

Our proprietary measure of earnings distortion (as featured on CNBC Squawk Box) leverages proprietary data featured in Core Earnings: New Data & Evidence. This paper shows that our adjusted core earnings are more accurate than "Operating Income After Depreciation" and "Income Before Special Items" from S&P Global (SPGI).

Learn more about the best fundamental research

Weekly Earnings Distortion Insights

Figure 1 contains the 15 largest (by market cap) companies that earn a "Strong Beat", "Beat", or "Miss" Earnings Distortion Score and are expected to report the week of October 12, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 10/12/20-10/16/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Fastenal Company	FAST	$0.37	10/13/20	Miss
PNC Financial Services	PNC	$1.75	10/14/20	Miss
Kinder Morgan Inc.	KMI	$0.21	10/14/20	Beat
Cohen & Steers Inc.	CNS	$0.60	10/14/20	Beat
Umpqua Holdings Corp	UMPQ	$0.32	10/14/20	Strong Beat
Alcoa Corp	AA	-$0.95	10/14/20	Beat
Atlassian Corporation	TEAM	$0.27	10/15/20	Strong Beat
Pool Corporation	POOL	$2.17	10/15/20	Beat
Gentex Corporation	GNTX	$0.40	10/15/20	Miss
Intuitive Surgical, Inc.	ISRG	$2.03	10/15/20	Miss
Commercial Metals Company	CMC	$0.59	10/15/20	Miss
Schlumberger, Ltd.	SLB	$0.12	10/16/20	Strong Beat
NVR Inc.	NVR	$59.47	10/16/20	Miss
Vicor Corporation	VICR	$0.08	10/16/20	Miss
Sensient Technologies Corp	SXT	$0.68	10/16/20	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 October 12, 2020.

Details: Sensient Technologies (SXT): Earnings Distortion Score: Beat

Over the trailing-twelve months (TTM), Sensient Technologies has -$22 million in net earnings distortion that cause earnings to be understated by $0.52/share or 33% of EPS. Notable unusual expenses hidden and reported in Sensient Technologies' filings include:

- $44 million loss on divestitures – 2019 10-K
- $11 million loss on divestitures – 2020 1Q 10-Q
- $1 million net gain on assets – 2019 10-K

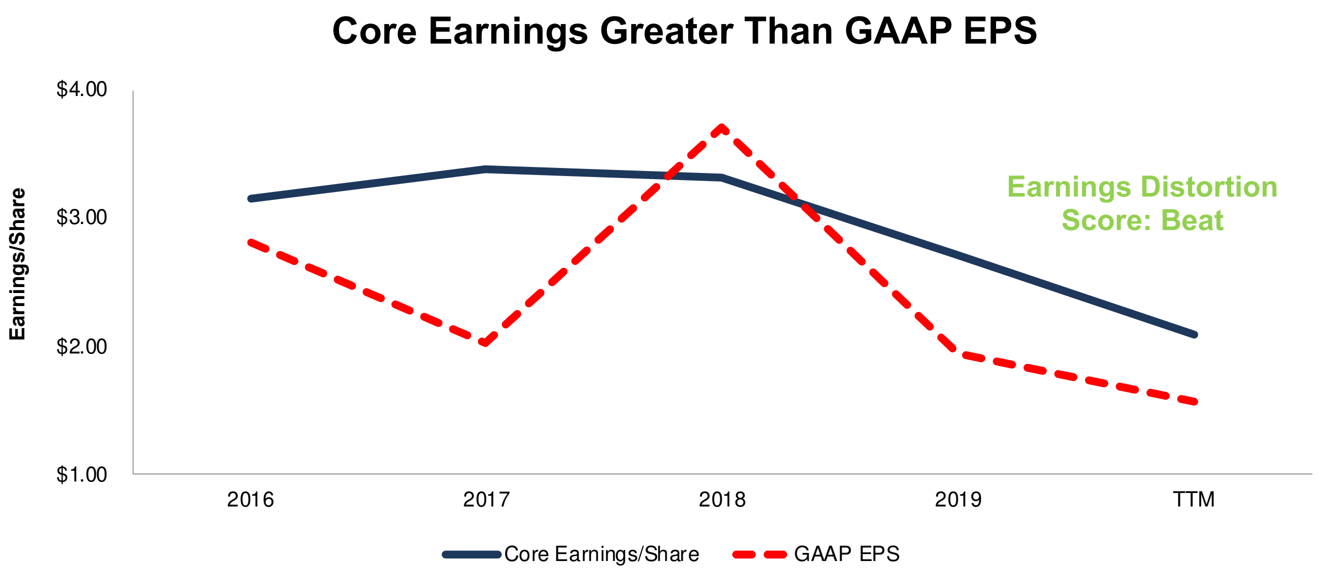
[1] Earnings Distortion scores on ~3,000 stocks are also available to clients of our website.

In addition, we made a $6 million adjustment for income tax distortion. This adjustment normalizes reported income taxes by removing the impact of unusual items.

In total, we identified $0.52/share (33% of GAAP EPS) in net unusual expense that cause Sensient Technologies' TTM GAAP results to be understated. After removing this earnings distortion, Sensient Technologies' TTM core earnings of $2.09/share are much greater than GAAP EPS of $1.57, per Figure 2.

With understated earnings, Sensient Technologies gets our "Beat" Earnings Distortion Score and is likely to beat consensus expectations.

Figure 2: Sensient Technologies Core Earnings Vs. GAAP: 2016 - TTM



Sources: New Constructs, LLC and company filings

Figure 1 shows that Sensient Technologies is one of eight companies that earn our "Beat" or "Strong Beat" score for this week.

How to Make Money with Earnings Distortion Data

"Trading strategies that exploit {adjustments provided by New Constructs} produce abnormal returns of 8% per year." – Page 1 in Core Earnings: New Data & Evidence

In Section 5.2, 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 8% 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 October 12 – 16

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 October 12, 2020.

Figure 3: Earnings Distortion Scorecard: Week of 10/12/20-10/16/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Johnson & Johnson	JNJ	$1.96	10/13/20	In-line
JPMorgan Chase & Company	JPM	$1.96	10/13/20	In-line
Citigroup Inc.	C	$0.85	10/13/20	In-line
BlackRock Inc.	BLK	$7.67	10/13/20	In-line
Goldman Sachs Group, Inc.	GS	$4.66	10/13/20	In-line
The Charles Schwab Corp	SCHW	$0.50	10/13/20	In-line
Fastenal Company	FAST	$0.37	10/13/20	Miss
First Republic Bank	FRC	$1.38	10/13/20	In-line
J.B. Hunt Transport Services	JBHT	$1.23	10/13/20	In-line
Omnicom Group, Inc.	OMC	$1.05	10/13/20	In-line
United Airlines Holdings Inc.	UAL	-$7.41	10/13/20	In-line
UnitedHealth Group, Inc.	UNH	$3.07	10/14/20	In-line
Bank of America Corp	BAC	$0.43	10/14/20	In-line
Wells Fargo & Company	WFC	$0.39	10/14/20	In-line
The Progressive Corp	PGR	$1.70	10/14/20	In-line
US Bancorp	USB	$0.80	10/14/20	In-line
PNC Financial Services	PNC	$1.75	10/14/20	Miss
Kinder Morgan Inc.	KMI	$0.21	10/14/20	Beat
Honeywell International, Inc.	HON	$1.48	10/15/20	In-line
Intuitive Surgical, Inc.	ISRG	$2.03	10/15/20	Miss
Morgan Stanley	MS	$1.16	10/15/20	In-line
Truist Financial Corp	TFC	$0.78	10/15/20	In-line
Atlassian Corporation	TEAM	$0.27	10/15/20	Strong Beat
PPG Industries, Inc.	PPG	$1.43	10/15/20	In-line
Dover Corporation	DOV	$1.31	10/15/20	In-line
Pool Corporation	POOL	$2.17	10/15/20	Beat
E*TRADE Financial Corp	ETFC	$0.71	10/15/20	In-line
Textron Inc.	TXT	$0.38	10/15/20	In-line
Snap-On Inc.	SNA	$2.16	10/15/20	In-line
Bank Of New York Mellon	BK	$0.94	10/16/20	In-line
Schlumberger, Ltd.	SLB	$0.12	10/16/20	Strong Beat
State Street Corp	STT	$1.41	10/16/20	In-line
Kansas City Southern	KSU	$1.76	10/16/20	In-line
NVR Inc.	NVR	$59.47	10/16/20	Miss
Citizens Financial Group Inc	CFG	$0.65	10/16/20	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.**
- **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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