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EARNINGS PREVIEW
10/8/21

3Q21 Earnings: Where the Street Is Too Low & Who Should Beat

In theory, Wall Street analysts adjust EPS for unusual gains and losses that distort reported EPS. In reality, they do not. Street EPS estimates are materially misleading more often than investors realize[1].

The same is true for other well-known "adjusted" measures of earnings as we detail in S&P's "Operating Earnings" Remain Overstated in 2Q21.

This report shows:

- Five S&P 500 companies with understated Street estimates likely to beat 3Q21 earnings
- Why Street Earnings, GAAP Earnings, and consensus estimates are flawed
- How our Core Earnings[2] and Earnings Distortion factor generate novel alpha

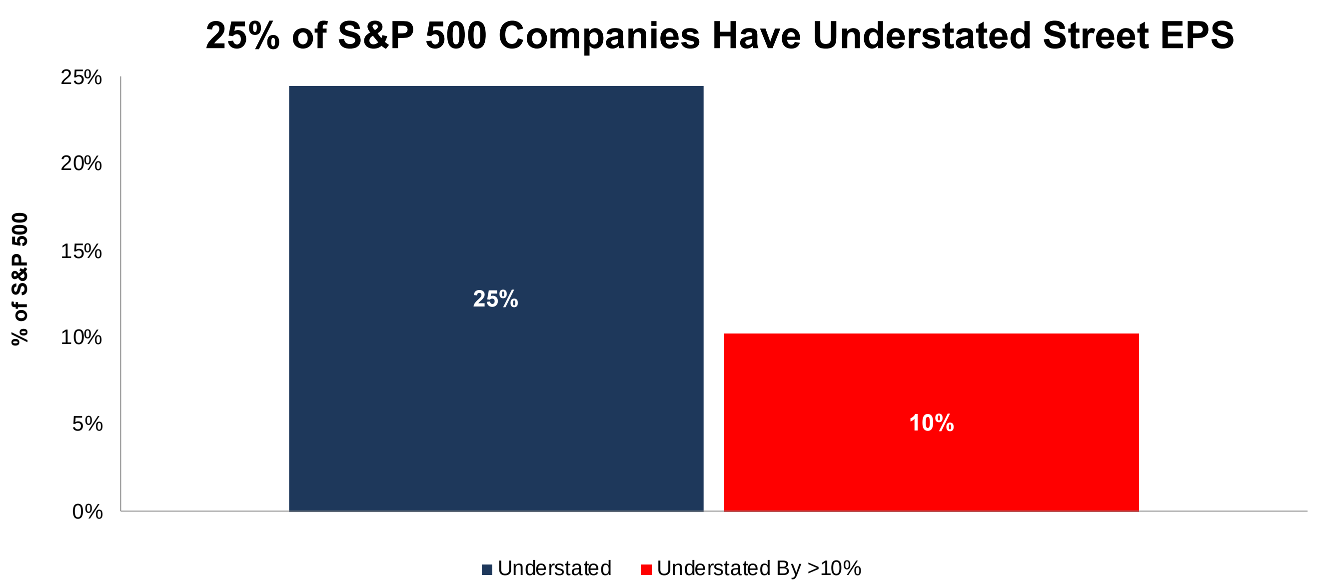
Get our report on the S&P 500 companies more likely to miss 3Q21 Street EPS estimates here.

Learn more about the best fundamental research

Street Understates EPS for 122 S&P 500 Companies

Per Figure 1, Street EPS understate Core EPS for 25% of S&P 500 companies for the trailing twelve months ended calendar 2Q21[3]. For 10% of S&P 500 companies, Street EPS are understated by more than 10% (examples are below).

Figure 1: Street Earnings Are Understated for a Large Amount of S&P 500 Companies



Sources: New Constructs, LLC and company filings.

When the Street understates EPS, it does so by an average of -23% per company, see Figure 2.

[1] The same is true for other well-known "adjusted" measures of earnings: S&P's "Operating Earnings" Remain Overstated in 2Q21.
[2] The Journal of Financial Economics proves that only Core Earnings enable investors to overcome the flaws in legacy fundamental data.
[3] The most recent Core Earnings and Street Earnings values are based on the latest audited financial data from calendar 2Q21 10-Qs.

Figure 2: Street Earnings Understate by -23% on Average

Understated Street Earnings	Understated by >10%	Average Understated %
122 companies	51 companies	-23%

Sources: New Constructs, LLC, and company filings

Five S&P 500 Companies Likely to Beat Calendar 3Q21 Earnings

Figure 3 shows five S&P 500 companies likely to beat calendar 3Q21 earnings based on understated Street EPS estimates. Below we detail the hidden and reported unusual items that have created Street Distortion, and understated Street Earnings, over the TTM for T-Mobile U.S. Inc (TMUS). Contact us for the same details on the other companies.

Figure 3: Five S&P 500 Companies Likely to Beat 3Q21 EPS Estimates

Ticker	Name	Street EPS Estimate for 3Q21	Core EPS Estimate for 3Q21*	Street Estimate Understated by
CNP	CenterPoint Energy Inc.	$0.32	$0.88	-174%
TMUS	T-Mobile U.S. Inc.	$0.55	$1.00	-82%
WYNN	Wynn Resorts, Ltd.	($1.15)	($0.87)	-24%
IPGP	IPG Photonics Corp	$1.30	$1.51	-16%
LYV	Live Nation Entertainment	($0.18)	($0.15)	-15%

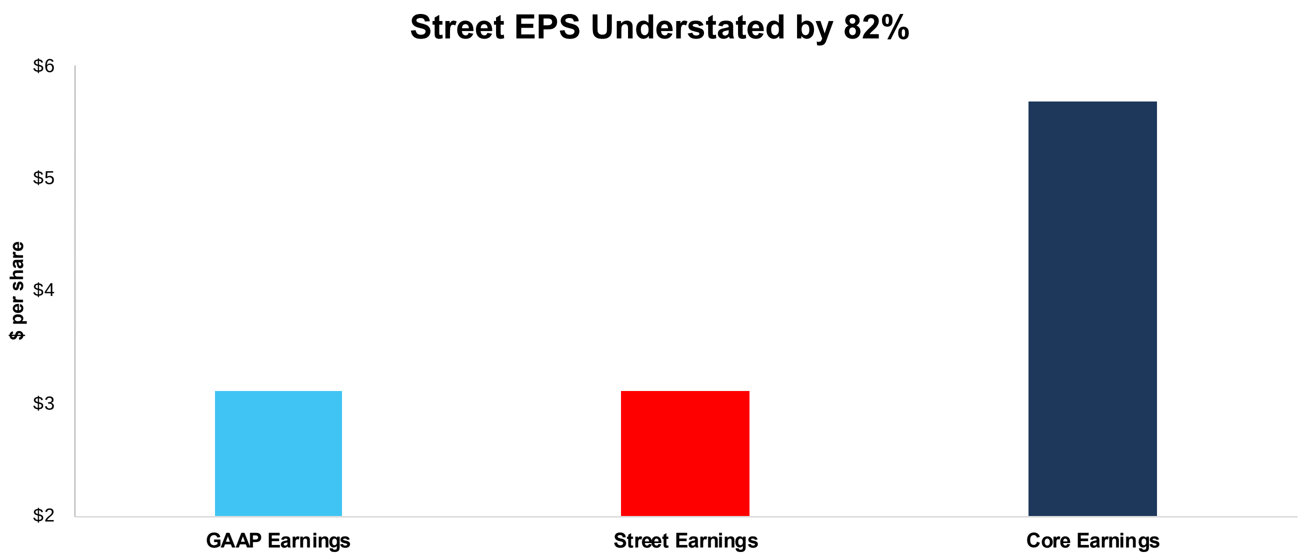
Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percent of Core EPS equals the same percent in 3Q21 as TTM ended 2Q21

T-Mobile: The Street Understates Earnings for 3Q21 by $0.45/share

The Street's 3Q21 EPS estimate of $0.55 for T-Mobile is understated by $0.45/share due, at least in part, to large restructuring costs in historical EPS. Our Core EPS estimate is $1.00, which makes T-Mobile one of the companies most likely to beat Wall Street analysts' expectations in its calendar 3Q21 earnings report.

Unusual expenses, which we detail below, materially reduced T-Mobile's 2Q21 TTM Street and GAAP Earnings and make profits look worse than Core EPS. When we adjust for all unusual items, we find that T-Mobile's 2Q21 TTM Core EPS are $5.68, which is better than the 2Q21 TTM Street and GAAP EPS of $3.12.

Figure 4: Comparing T-Mobile's Core, Street, and GAAP Earnings: TTM as of 2Q21



Sources: New Constructs, LLC, company filings

Below, we reconcile the differences between T-Mobile's 2Q21 TTM Core EPS and GAAP EPS so readers can audit our work. Usually, we cannot reconcile Core EPS to Street EPS because we do not have the details as to exactly what makes Street EPS differ from GAAP EPS. However, given that Street and GAAP EPS are the same, Street EPS are likely missing the same unusual gains/losses as GAAP EPS.

Figure 5: T-Mobile's GAAP Earnings to Core Earnings Reconciliation: TTM as of 2Q21

	TTM
GAAP EPS	**$3.12**
- Hidden Unusual Expenses, net	($3.22)
- Reported Unusual Expenses, net	($0.26)
- Tax Distortion	$0.91
Core EPS	**$5.68**

Sources: New Constructs, LLC and company filings.

More details[4]:

Hidden Unusual Expenses, Net = -$3.22/per share, which equals -$4.0 billion and is comprised of:

- -1.0 billion in merger costs recorded in selling, general, and administrative in the TTM period, based on
  - -$632 million in the TTM based on -$1.3 billion in 2020
  - -$145 million in 1Q21
  - -$251 million in 2Q21
- -$750 million in merger-related costs in the TTM based on -$1.5 billion in merger-related costs in 2020
- -$732 million in merger costs recorded in cost of services in the TTM period, based on
  - -$323 million in the TTM based on -$646 million in 2020
  - -$136 million in 1Q21
  - -$273 million in 2Q21
- -$612 million in restructuring plan expenses in the TTM period, based on
  - -$530 million in the TTM based on -$1.1 billion in 2020
  - -$34 million in 1Q21
  - -$48 million in 2Q21
- -$461 million in accelerating amortization expenses in the TTM, based on
  - -$77 million in the TTM based on -$153 million in 2020
  - -$123 million in 1Q21
  - -$261 million in 2Q21
- -$229 million in COVID-19 costs in the TTM based on -$458 million in COVID-19 costs in 2020
- -$118 million in transaction costs in the TTM period, based on
  - -$8 million in 3Q20
  - -$97 million in the TTM based on -$201 million in 2020
  - -$13 million in 1Q21
- -$107 million in merger costs recorded in cost of equipment sales in the TTM period, based on
  - -$3 million in the TTM based on -$6 million in 2020
  - -$17 million in 1Q21
  - -$87 million in 2Q21
- -$35 million non-cash impairment in 4Q20
- $30 million gain on receivables in the TTM period, based on
  - $18 million in 1Q21
  - $12 million in 2Q21

Reported Unusual Expenses, Net = -$0.26/per share, which equals $326 million and is comprised of:

- -$326 million in "other expenses" in the TTM period, based on
  - -$99 million in 3Q20

[4] For unusual items found only in the latest 10-K, we show the amount applied to TTM calculation and link to the disclosure in the 10-K.

- -$101 million in 4Q20
- -$125 million in 1Q21
- -$1 million in 2Q21

Tax Distortion = $0.91/per share, which equals $1.1 billion

- We remove the tax impact of unusual items on reported taxes when we calculate Core Earnings. It is important that taxes get adjusted so they are appropriate for adjusted pre-tax earnings.

Conclusion: Generate Novel Alpha with More Reliable Core Earnings

As demonstrated above, Core Earnings do a better job of excluding unusual gains and losses and provide a more reliable earnings measure. All Core Earnings adjustments to GAAP Earnings are 100% transparent; so users can audit and trust the research.

To enable you to easily monetize our novel factor, Earnings Distortion, we present multiple trading strategies that drive alpha. Learn more below.

- ExtractAlpha presents a long/short market-neutral strategy that generates 9.3% annualized return net of Fama-French 5 factors, momentum, short-term reversal, and 12 sectors. More details here.
- CloudQuant presents two strategies to monetize the alpha in Earnings Distortion:
  - the long-only portfolio outperformed the S&P 500 by an average of 4% per annum over 10 years
  - the dollar-neutral long-short portfolio returned 60% over 10 years with a Sharpe Ratio of ~1 over the last five years. More details here.
- AltHub presents three strategies to monetize the alpha in Earnings Distortion:
  - Earnings Distortion S&P 500 Smart Beta Portfolio: 10-yr annualized return of 13.9% vs 12.1% for the S&P 500 with a Sharpe Ratio of 0.97.
  - Earnings Distortion ML Model S&P 500 Smart Beta Portfolio: 3-yr annualized return of 18.2% vs 13.7% for the S&P 500 with a Sharpe Ratio of 0.82.
  - Truth Stocks (Companies without Earnings Distortion) Portfolios:
    - S&P 500 Universe: 10-yr annualized return of 16.8% vs 12.8% for the S&P 500 with a Sharpe Ratio of 0.7.
    - Russell 3000 Universe: 9.5-yr annualized return of 28.4% vs 12.6% for the S&P 500 with a Sharpe Ratio of 1.
  - More details here.

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Disclosure: David Trainer, Kyle Guske II, Alex Sword, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.

- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.

- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.

- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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