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EARNINGS PREVIEW
4/8/22

1Q22 Earnings: Where Street Earnings Are Too High & Who Should Miss

Wall Street analysts are too bullish on first quarter earnings expectations for most S&P 500 companies. At 79%, the percent of S&P 500 companies whose Street EPS exceed our Core EPS remains near record highs.

This report shows:

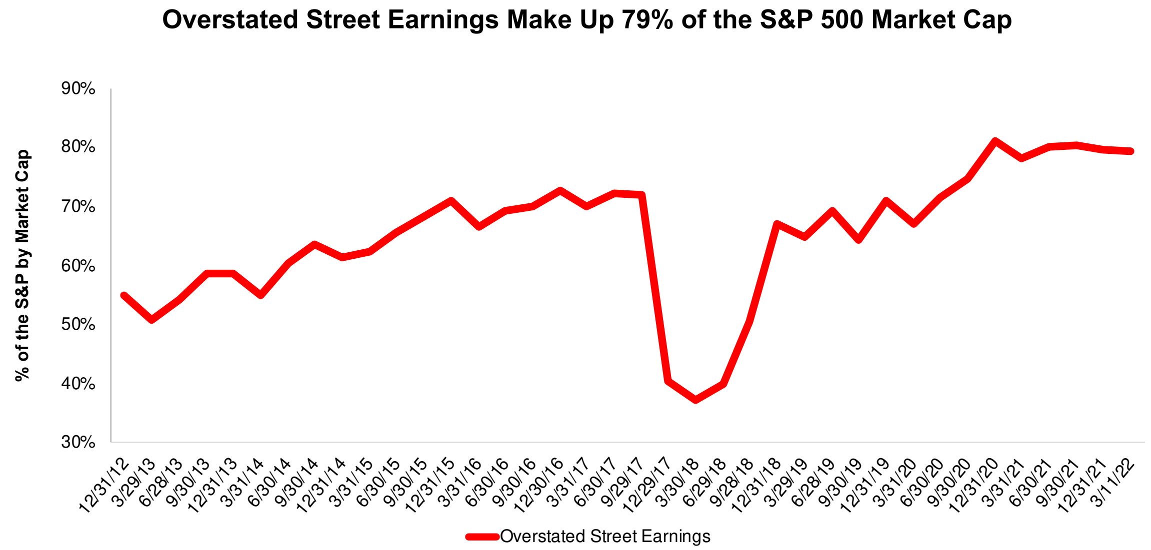
- the prevalence and magnitude of overstated Street Earnings[1] in the S&P 500
- five S&P 500 companies with overstated Street estimates likely to miss 1Q22 earnings
- how Core Earnings[2] and our Earnings Distortion factor provide a new source of alpha.

Get our report on the S&P 500 companies more likely to beat 1Q22 Street EPS estimates here.

Street Overstates EPS for 336 S&P 500 Companies

336 companies with overstated Street Earnings make up 79% of the S&P 500's market cap as of 3/11/22, which is the fifth-highest percent since 2012 (earliest data available), measured with TTM data in each quarter. Figure 1 shows that 79%, by market cap, of the S&P 500 has overstated Street Earnings for most of the last two years.

Figure 1: Overstated Street Earnings as % of Market Cap: 2012 through 3/11/22



Sources: New Constructs, LLC and company filings.

In the TTM ended 3Q21 and 2020 as a whole, Wall Street analysts overstated earnings for 360 companies and 351 companies, respectively. On average, Street Earnings overstate Core Earnings by 21% per company. See Figure 2. For over a third of S&P 500 companies, Street Earnings overstate Core Earnings by >10%.

[1] Street Earnings refer to Zacks Earnings, which are reported to be adjusted to remove non-recurring items using standardized assumptions from the sell-side.
[2] The Journal of Financial Economics features the superiority of our Core Earnings in Core Earnings: New Data & Evidence.

Figure 2: Street Earnings Overstated by 21% on Average in 2021

Overstated Street Earnings	Overstated by >10%	Average Overstated %[3]
336 companies	163 companies	21%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Miss Calendar 1Q22 Earnings

Figure 3 shows five S&P 500 companies likely to miss calendar 1Q22 earnings based on overstated Street EPS estimates. Below we detail the hidden and reported unusual items that caused Street Distortion and overstated Street Earnings in 2021 for Invesco, LTD (IVZ) and Amazon.com (AMZN). Contact us for the same details on the other companies.

Figure 3: Five S&P 500 Companies Likely to Miss 1Q22 EPS Estimates

Ticker	Name	Street EPS Estimate for 1Q22	Core EPS Estimate for 1Q22*	Street Estimate Overstated by
IVZ	Invesco, Ltd.	$0.69	$0.39	43%
AMZN	Amazon.com Inc.	$9.33	$5.62	40%
WFC	Wells Fargo & Company	$0.84	$0.70	17%
IRM	Iron Mountain, Inc.	$0.70	$0.59	16%
XEL	Xcel Energy, Inc.	$0.71	$0.61	13%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percent of Core EPS is same for 1Q22 EPS as for calendar year ended 2021.

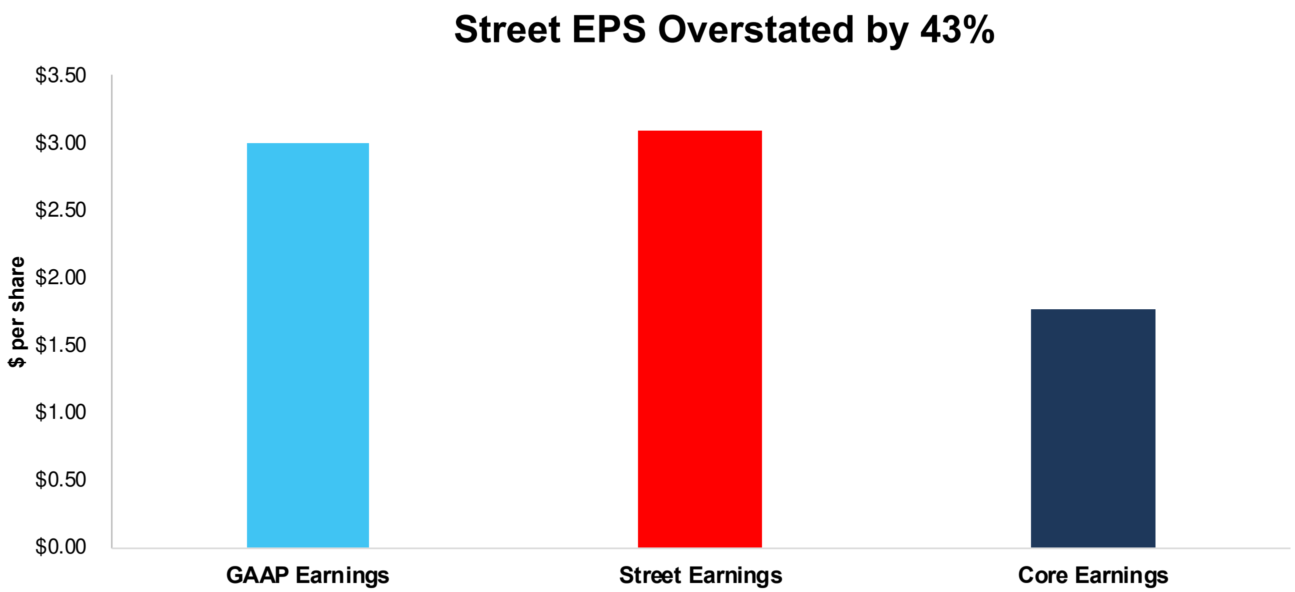
Invesco Ltd: The Street Overstates Earnings for 1Q22 by $0.30/share

The Street's 1Q22 EPS estimate of $0.69/share for Invesco is overstated by $0.30/share due, at least in part, to gains on investments in consolidated investments product (CIP) included in historical Street EPS. Based on how much the Street EPS estimate exceeds our Core EPS of $0.39/share, we consider Invesco as one of the S&P 500 companies most likely to miss Wall Street's expectations. Invesco's Earnings Distortion Score is Strong Miss and its Stock Rating is Neutral.

Unusual gains, which we detail below, materially increased Invesco's 2021 Street and GAAP earnings and makes profits look better than Core EPS. When we adjust for all unusual items, we find that Invesco's 2021 Core EPS are $1.76/share, which is worse than 2021 Street EPS of $3.09/share and 2021 GAAP EPS of $2.99/share.

[3] Average overstated % is calculated as Street Distortion, which is the difference between Street Earnings and Core Earnings.

Figure 4: Comparing Invesco's GAAP, Street, and Core Earnings: 2021



Sources: New Constructs, LLC and company filings.

Below, we detail the differences between Core Earnings and GAAP Earnings so readers can audit our research. We would be happy to reconcile our Core Earnings with Street Earnings but cannot because we do not have the details on how analysts calculate their Street Earnings.

Figure 5 details the differences between Invesco's Core Earnings and GAAP Earnings.

Figure 5: Invesco's GAAP Earnings to Core Earnings Reconciliation: 2021

	2021 ($ per share)
GAAP Net Income	$2.99
– Hidden Unusual Gains, Net	<$0.01
– Reported Unusual Gains, Net	$1.48
– Tax Distortion	($0.26)
= Core Earnings	**$1.76**

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of $1.23/share, which equals $573 million, is comprised of the following:

Hidden Unusual Gains, Net = <$0.01/per share, which equals $2 million and is comprised of

- $2 million in sublease income – page 102

Reported Unusual Gains, Net = $1.48/per share, which equals $690 million and is comprised of

- $509 million in other income of CIP
- $66 million in transaction, integration, and restructuring benefits
- $58 million gain on equity investments and total return swap, net
- $57 million in "other realized gains"
- $10 million gain on contingent consideration liability
- $3 million net foreign exchange gains
- -$1 million in non-service pension losses
- -$5 million contra adjustment for recurring pension costs. These recurring expenses are reported in non-recurring line items, so we add them back and exclude them from Earnings Distortion.

- -$7 million in “other-than-temporary impairment” charges

Tax Distortion = -$0.26/per share, which equals -$119 million

Given the similarities between Street Earnings and GAAP Earnings for Invesco, our research shows both Street and GAAP earnings fail to capture significant unusual items both hidden and reported directly on Invesco’s income statement.

Amazon.com Inc: The Street Overstates Earnings for 1Q22 by $3.71/share

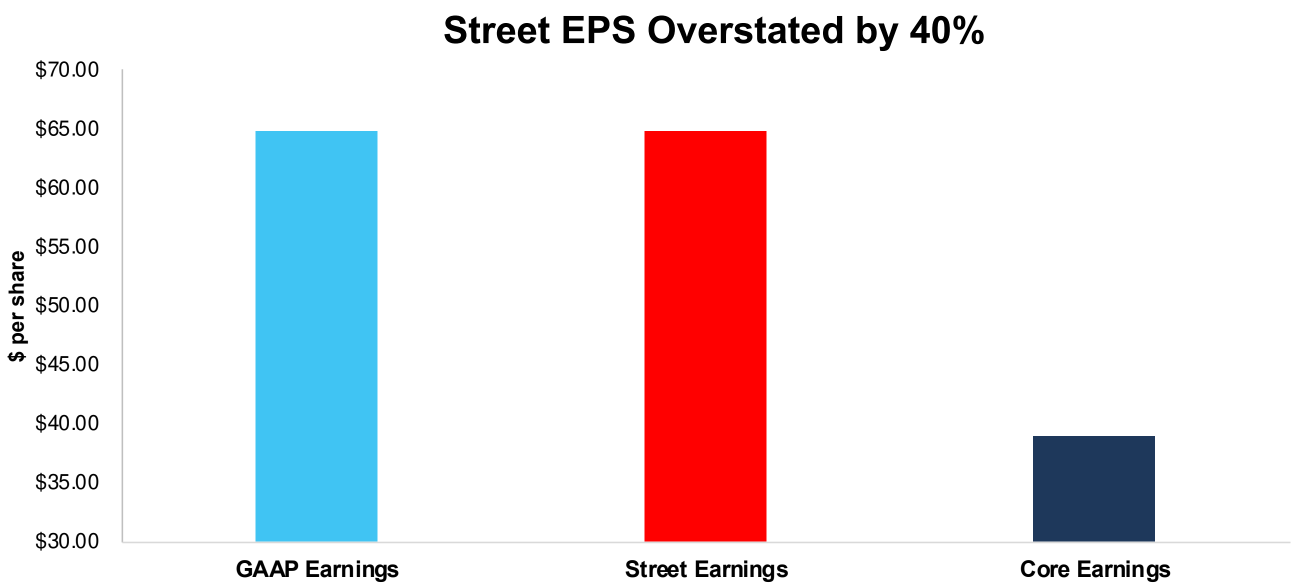
Amazon discloses unusual income directly on the income statement, which should make it easy for analysts to remove them from their estimates. However, the disconnect between Street Earnings and Core Earnings reveals the former misses even this straightforward adjustment.

The Street’s 1Q22 EPS estimate of $9.33/share for Amazon.com is overstated by $3.71/share largely due to a securities valuation gain related to Rivian’s 2021 IPO that is included in historical Street EPS.

Based on how much the Street EPS estimate exceeds our Core EPS estimate of $5.62/share, we consider Amazon as one of the S&P 500 companies most likely to miss Wall Street analyst’s expectations in its 1Q22 earnings report. Amazon’s Earnings Distortion Score is Strong Miss and its Stock Rating is Unattractive.

Unusual gains, which we detail below, materially increased Amazon’s 2021 Street and GAAP earnings and makes profits look better than Core EPS. When we adjust for all unusual items, we find that Amazon’s 2021 Core EPS are $39.05/share, which is worse than 2021 Street EPS and GAAP EPS of $64.78/share.

Figure 6: Comparing Amazon’ GAAP, Street, and Core Earnings: 2021



Sources: New Constructs, LLC and company filings.

Below, we detail the differences between Core Earnings and GAAP Earnings so readers can audit our research. We would be happy to reconcile our Core Earnings with Street Earnings but cannot because we do not have the details on how analysts calculate their Street Earnings.

Figure 7 details the differences between Amazon’s Core Earnings and GAAP Earnings.

Figure 7: Amazon's GAAP Earnings to Core Earnings Reconciliation: 2021

	2021 ($ per share)
GAAP Net Income	$64.78
– Hidden Unusual Gains, Net	$0.00
– Reported Unusual Gains, Net	$28.41
– Tax Distortion	($2.68)
= Core Earnings	**$39.05**

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of $25.73/share, which equals $13.3 billion, is comprised of the following:

Reported Unusual Gains, Net = $28.41/per share, which equals $14.6 billion and is comprised of

- $14.6 billion in "other income" reported on the income statement

Tax Distortion = -$2.68/per share, which equals -$1.4 billion

Amazon's "other income" was reported directly on the income statement, so analysts should be able to easily identify such an unusual gain. Furthermore, on page 27 of its 2021 10-K, in the MD&A, management provides additional disclosure that Other Income includes an $11.8 billion gain related its equity stake in Rivian Automotive (RIVN), which went public in 2021. We covered more beneficiaries of Rivian's IPO in our report here.

Given the similarities between Street Earnings and GAAP Earnings for Amazon, our research shows Street and GAAP earnings both fail to capture unusual items reported directly on Amazon's income statement and therefore give a misleading picture of the firm's profitability.

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Disclosure: David Trainer, Kyle Guske II, 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.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

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