



## 3Q22 Earnings: Where Street Estimates Are Too Low & Who Should Beat

While [Street Earnings](#)<sup>1</sup> overstate profits for the majority of S&P 500 companies, as shown in [Street Earnings Overstated for 73% of S&P 500 in 2Q22](#), there are many S&P 500 companies whose Street Earnings understate their true [Core Earnings](#).

This report shows:

- the frequency and magnitude of understated Street Earnings in the S&P 500
- five S&P 500 companies with understated Street estimates likely to beat 3Q22 earnings

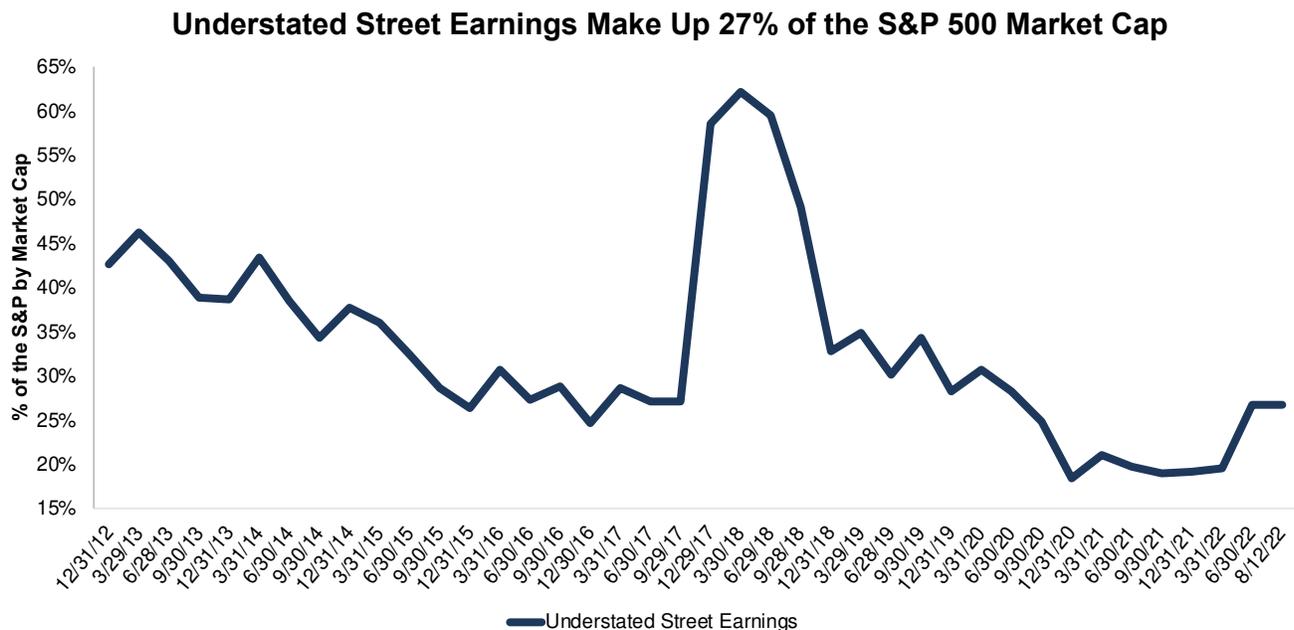
Get our report on the S&P 500 companies more likely to miss 3Q22 Street EPS estimates [here](#).

Learn more about the best fundamental research

### Street Understates EPS for 153 S&P 500 Companies

153 companies with understated Street Earnings represent 27% of the market cap of the S&P 500 as of 8/12/22, measured on a rolling four quarter basis. For comparison, 152 companies representing 27% of the S&P 500 market cap had overstated Street Earnings in the [previous quarter](#).

**Figure 1: Understated Street Earnings as % of Market Cap: 2012 through 8/12/22**



Sources: New Constructs, LLC and company filings.

When Street Earnings understate [Core Earnings](#)<sup>2</sup>, they do so by an average of -15%, per Figure 2. Street Earnings understate by >10% for ~10% of S&P 500 companies.

<sup>1</sup> Street Earnings refer to [Zacks Earnings](#), which are adjusted to remove non-recurring items using standardized sell-side assumptions.

<sup>2</sup> [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).

**Figure 2: Street Earnings Understated by -15% on Average in TTM Through 2Q22**

Understated Street Earnings	Understated by >10%	Average Understated % <sup>3</sup>
153 companies	48 companies	-15%

Sources: New Constructs, LLC and company filings.

**Five S&P 500 Companies Likely to Beat Calendar 3Q22 Earnings**

Figure 3 shows five S&P 500 companies likely to beat calendar 3Q22 earnings because their Street EPS estimates are understated. Below we detail the [hidden and reported](#) unusual items that caused Street Distortion and understated Street Earnings in the TTM ended 2Q22 for SolarEdge (SEDG).

**Figure 3: Five S&P 500 Companies Likely to Beat 3Q22 EPS Estimates**

Ticker	Name	Street EPS Estimate for 3Q22	Core EPS Estimate for 3Q22*	Street Estimate Understated by
PENN	PENN Entertainment	\$0.41	\$0.63	-53%
SBAC	SBA Communications Corporation	\$3.03	\$4.12	-36%
ED	Consolidated Edison	\$1.43	\$1.76	-23%
DFS	Discover Financial Services	\$3.74	\$4.52	-21%
SEDG	SolarEdge Technologies Inc.	\$1.48	\$1.78	-21%

Sources: New Constructs, LLC, company filings, and Zacks

\*Assumes Street Distortion as a percent of Core EPS equals the same percent in 3Q22 as the TTM ended 2Q22

**SolarEdge Technologies: The Street Understates Earnings for 3Q22 by \$0.30/share**

The Street's 3Q22 EPS estimate of \$1.48 for SolarEdge understates our estimate for 3Q22 Core EPS of \$1.78/share by \$0.30/share. Large financial expense and exchange rate losses included in historical EPS drive the difference between the Street and Core EPS estimates and lead us to forecast SolarEdge as one of the companies most likely to beat Wall Street analysts' expectations in its calendar 3Q22 earnings report.

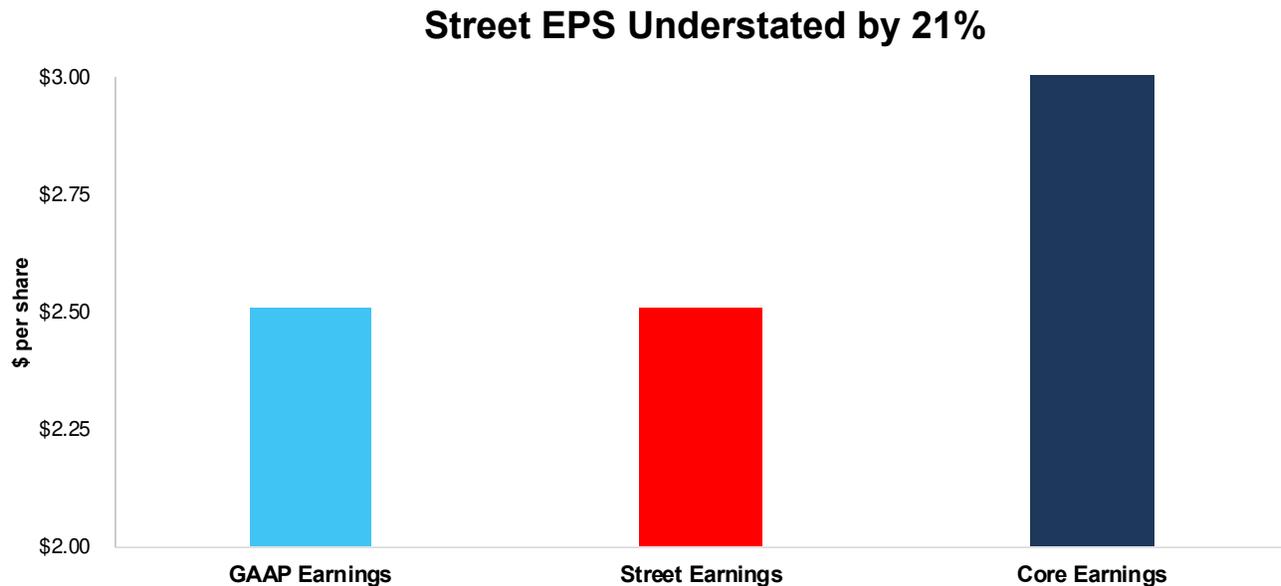
SolarEdge's [Earnings Distortion Score](#) is Beat. However, its [Stock Rating](#) is Unattractive, which indicates that while the short-term likelihood of an earnings beat is high, the long-term risk/reward of the stock is unattractive.

Below, we detail the unusual expenses that materially reduced SolarEdge's 2Q22 Street and GAAP Earnings. After removing all unusual items, we find that SolarEdge's TTM 2Q22 Core EPS are \$3.03/share, which is better than the TTM 2Q22 Street and GAAP EPS of \$2.51/share.

<sup>3</sup> Average understated % is calculated as Street Distortion, which is the difference between Street Earnings and Core Earnings.



**Figure 4: Comparing SolarEdge’s Core, Street, and GAAP Earnings: TTM Through 2Q22**



Sources: New Constructs, LLC, company filings

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 SolarEdge’s Core Earnings and GAAP Earnings.

**Figure 5: SolarEdge’s GAAP Earnings to Core Earnings Reconciliation: TTM Through 2Q22**

TTM 2Q22 (\$ per share)	
GAAP Net Income	\$2.51
– Hidden Unusual Expenses, Net	(\$0.07)
– Reported Unusual Expenses Pre-Tax, Net	(\$0.62)
– Tax Distortion	\$0.17
<b>= Core Earnings</b>	<b>\$3.03</b>

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of  $-\$0.52/\text{share}$ , which equals  $-\$29$  million, is comprised of the following:

Hidden Unusual Expenses, Net =  $-\$0.07/\text{per share}$ , which equals  $-\$4$  million and is comprised of

- $-\$4$  million in loss on disposal of assets and inventory write-downs in the TTM period based on
  - [-\\$0.7 million](#) loss on assets in 2Q22
  - [\\$0.4 million](#) gain on assets in 1Q22
  - $-\$3.6$  million inventory write-down in the TTM based on [-\\$7.1 million](#) write-down in 4Q21
  - [<\\$0.1 million](#) gain on assets in 3Q21

Reported Unusual Expenses Pre-Tax, Net =  $-\$0.62/\text{per share}$ , which equals  $-\$35$  million and is comprised of

- $-\$22$  million exchange rate loss in the TTM based on a [-\\$22 million](#) loss in the 2021 10-K
- $-\$15$  million financial expenses in the TTM period based on
  - [-\\$14.3 million](#) financial expense in 2Q22
  - [-\\$5.5 million](#) financial expense in 1Q22
  - [-\\$2.9 million](#) convertible note expense in 4Q21
  - [-\\$2.0 million](#) bank charges in 4Q21



- [\\$15 million](#) financial income in 4Q21
- [-\\$5.8 million](#) financial expense in 3Q21
- -\$7 million in reported write downs in the TTM based on
  - [-\\$4 million](#) impairment of goodwill and intangible assets in 2Q22
  - [-\\$0.7 million](#) write off of property, plant and equipment in 2Q22
  - [-\\$2.2 million](#) write off of long-lived assets in 4Q21
- [\\$9 million](#) hedging income in the TTM based on a \$9 million gain in the 2021 10-K

[Tax Distortion](#) = \$0.17/per share, which equals \$9.7 million

The similarity between Street Earnings and GAAP Earnings for SolarEdge indicates that Street Earnings fail to account for most of the unusual items in GAAP Earnings, even as some of the unusual items are reported directly on SolarEdge's income statement. Core Earnings on the other hand include a more comprehensive set of unusual items when calculating SolarEdge's true profitability.

*This article originally published on [October 5, 2022](#).*

*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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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.

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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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

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