



4Q22 Earnings: Where Street Estimates Are Too Low & Who Should Beat

While [Street Earnings](#)¹ overstate profits for the majority of S&P 500 companies, as shown in [Street Earnings Overstated for 76% of S&P 500 in 3Q22](#), there are many S&P 500 companies whose Street Earnings understate their true [Core Earnings](#)².

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 4Q22 earnings

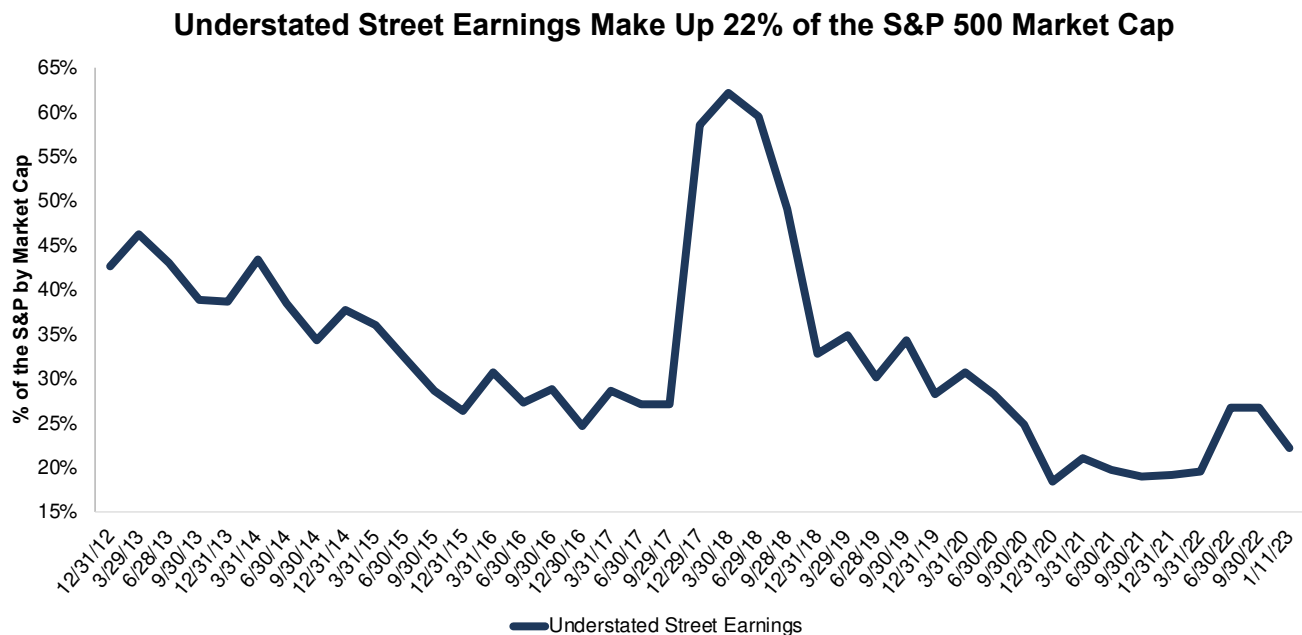
Get our report on the S&P 500 companies most likely to miss 4Q22 Street EPS estimates [here](#).

Learn more about the best fundamental research

Street Understates EPS for 143 S&P 500 Companies

143 companies with understated Street Earnings in 3Q22 represent 22% of the S&P 500 market cap as of 1/11/23, measured on a rolling four quarter basis. For comparison, 153 companies representing 27% of the S&P 500 market cap had overstated Street Earnings in the TTM ended [2Q22](#).

Figure 1: Understated Street Earnings as % of Market Cap: 2012 through 1/11/23



Sources: New Constructs, LLC and company filings.

When Street Earnings understate Core Earnings, they do so by an average of 75%. See Figure 2. Street Earnings understate Core Earnings by more than ten percent for 10% of S&P 500 companies.

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

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

**Figure 2: Street Earnings Understated by 75% on Average in TTM Through 3Q22**

Understated Street Earnings	Understated by >10%	Average Understated % ³
143 companies	50 companies	75%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Beat Calendar 4Q22 Earnings

Figure 3 shows five S&P 500 companies likely to beat calendar 4Q22 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 3Q22 for PulteGroup (PHM).

Figure 3: Five S&P 500 Companies Likely to Beat 4Q22 EPS Estimates

Ticker	Name	Street EPS Estimate for 4Q22	Core EPS Estimate for 4Q22*	Street Estimate Understated by
SBAC	SBA Communications Corporation	\$3.15	\$3.99	27%
ED	Consolidated Edison	\$0.86	\$1.04	21%
MRNA	Moderna, Inc.	\$4.75	\$5.38	13%
BF.B	Brown-Forman Corporation	\$0.47	\$0.53	12%
PHM	PulteGroup Inc.	\$2.90	\$3.15	9%

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

*Assumes Street Distortion as a percent of Core EPS equals the same percent in 4Q22 as the TTM ended 3Q22

PulteGroup: The Street Understates Earnings for 4Q22 by \$0.25/share

The Street's 4Q22 EPS estimate of \$2.90 for PulteGroup understates our estimate for 4Q22 Core EPS of \$3.15/share by \$0.25/share. Large hidden [capitalized interest](#) expenses in inventory and reported write-offs included in historical EPS drive the difference between the Street and Core EPS estimates. After removing these unusual expenses, our analysis of the entire S&P 500 reveals PulteGroup as one of the companies most likely to beat Wall Street analysts' expectations in its calendar 4Q22 earnings report. PulteGroup also had some of the most understated earnings through the TTM ended 3Q22, as detailed in our report [here](#).

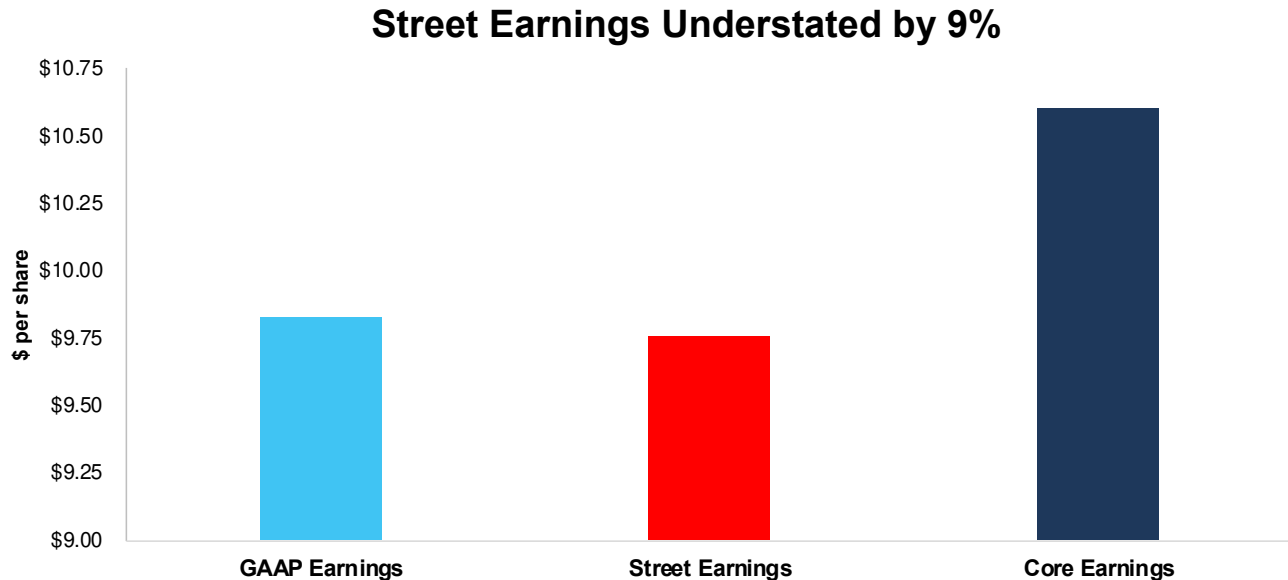
PulteGroup's [Earnings Distortion Score](#) is Beat and its [Stock Rating](#) is Very Attractive, in part due to its return on invested capital ([ROIC](#)) of 17% and price-to-economic book value ([PEBV](#)) ratio of 0.3.

Below, we detail the unusual expenses that materially reduced PulteGroup's 3Q22 Street and GAAP Earnings. After removing all unusual items, we find that PulteGroup's TTM 3Q22 Core EPS are \$10.60/share, which is better than the TTM 3Q22 Street EPS of \$9.76/share and GAAP EPS of \$9.83/share.

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



Figure 4: Comparing PulteGroup’s GAAP, Street, and Core Earnings: TTM Through 3Q22



Sources: New Constructs, LLC and company filings.

Figure 5 details the differences between PulteGroup’s 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: PulteGroup’s GAAP Earnings to Core Earnings Reconciliation: TTM Through 3Q22

	TTM 3Q22 (\$ per share)
GAAP Net Income	\$9.83
– Hidden Unusual Expenses, Net	(\$0.56)
– Reported Unusual Expenses Pre-Tax, Net	(\$0.12)
– Tax Distortion	(\$0.02)
– Reported Unusual Expenses After-Tax, Net	(\$0.07)
= Core Earnings	\$10.60

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of $-\$0.77/\text{share}$, which equals $-\$185$ million, is comprised of the following:
 Hidden Unusual Expenses, Net = $-\$0.56/\text{per share}$, which equals $-\$135$ million and is comprised of

- $-\$159$ million in [capitalized interest](#) in the TTM period based on
 - [\\$41 million](#) in 3Q22 – disclosed in a Note on Page 13 of the 3Q22 10-Q
 - [\\$38 million](#) in 2Q22 – disclosed in a Note on Page 13 of the 2Q22 10-Q
 - [\\$34 million](#) in 1Q22 – disclosed in a Note on Page 12 of the 1Q22 10-Q
 - [\\$46 million](#) in 4Q21 – disclosed in a Note on Page 53 of the 2021 10-K
- [\\$25 million](#) in adjustments to previously recorded reserves in 4Q21

Reported Unusual Expenses Pre-Tax, Net = $-\$0.12/\text{per share}$, which equals $-\$29$ million and is comprised of

- $-\$38$ million in write-offs of deposits and pre-acquisition costs in the TTM period based on
 - [-\\$24 million](#) in 3Q22
 - [-\\$5 million](#) in 2Q22
 - [-\\$4 million](#) in 1Q22
 - [-\\$5 million](#) in 4Q21



- \$9 million in miscellaneous income in the TTM period based on
 - [\\$1 million](#) in 3Q22
 - [\\$3 million](#) in 2Q22
 - [\\$3 million](#) in 1Q22
 - [\\$2 million](#) in 4Q21

[Tax Distortion](#) = -\$0.02/per share, which equals \$4.6 million

Reported Unusual Expenses After-Tax, Net = -\$0.07/per share, which equals \$17 million and is comprised of

- -\$16 million in undistributed earnings allocated to participating securities in the TTM period based on
 - [-\\$4 million](#) in 3Q22
 - [-\\$4 million](#) in 2Q22
 - [-\\$3 million](#) in 1Q22
 - [-\\$6 million](#) in 4Q21
- -\$0.9 million in earnings distributed to participating securities in the TTM period based on
 - [-\\$0.2 million](#) in 3Q22
 - [-\\$0.2 million](#) in 2Q22
 - [-\\$0.2 million](#) in 1Q22
 - [-\\$0.3 million](#) in 4Q21

While not exactly equal, the similarities between Street Earnings and GAAP Earnings for PulteGroup indicate that Street Earnings miss many of the unusual items in GAAP Earnings. The \$0.84/share Street Distortion highlights that Core Earnings include a more comprehensive set of unusual items when calculating PulteGroup's true profitability.

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Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Italo Mendonça 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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