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EARNINGS PREVIEW
1/12/23

4Q22 Earnings: Where Street Earnings Are Too High & Who Should Miss

Wall Street analysts are too bullish on fourth quarter earnings expectations for most S&P 500 companies. Although down from record highs set in recent quarters, the percentage of S&P 500 companies whose Street EPS exceeds our Core EPS[1] remains high at 68%.

This report shows:

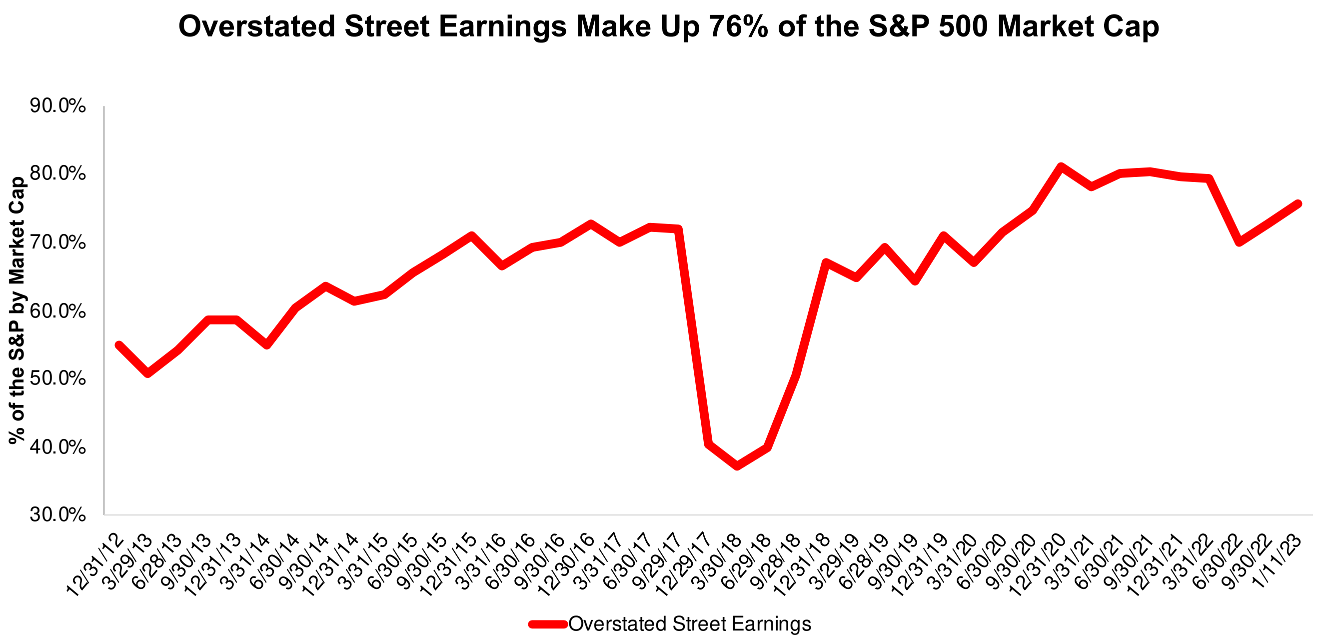
- the frequency and magnitude of overstated Street Earnings[2] in the S&P 500
- five S&P 500 companies with overstated Street estimates likely to miss 4Q22 earnings

Get our report on the S&P 500 companies most likely to beat 4Q22 Street EPS estimates here.

Street Overstates EPS for 339 S&P 500 Companies

339 companies with overstated Street Earnings in 3Q22 make up 76% of the S&P 500 market cap as of 1/11/23, measured on a rolling four quarter basis. For comparison, 341 companies representing 73% of the S&P 500 market cap had overstated Street Earnings in the TTM ended 2Q22.

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



Sources: New Constructs, LLC and company filings.

When Street Earnings overstate Core Earnings, they do so by an average of 19%. See Figure 2. For over a third of the S&P 500 (186 companies), Street Earnings overstate Core Earnings by more than 10%.

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

Figure 2: Street Earnings Overstated by 19% on Average in TTM Through 3Q22

Overstated Street Earnings	Overstated by >10%	Average Overstated %[3]
339 companies	186 companies	19%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Miss 4Q22 Earnings

Figure 3 shows five S&P 500 companies likely to miss calendar 4Q22 earnings because their Street EPS estimates are overstated. Below, we detail the hidden and reported unusual items that caused Street Distortion and overstated Street Earnings in the TTM ended 3Q22 for Tesla Inc. (TSLA). Because investors and analysts tend to anchor their earnings projections to historical results, errors in historical Street EPS lead to errors in Street EPS estimates.

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

Ticker	Name	Street EPS Estimate for 4Q22	Core EPS Estimate for 4Q22*	Street Estimate Overstated by
DD	Dupont De Nemours Inc.	$0.79	$0.60	24%
SPGI	S&P Global Inc.	$2.48	$1.91	23%
TSLA	Tesla Inc.	$1.14	$0.94	18%
NFLX	Netflix Inc.	$0.45	$0.38	17%
DOV	Dover Corporation	$2.15	$1.86	14%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percent of Core EPS is same for 4Q22 EPS as for TTM ended 3Q22.

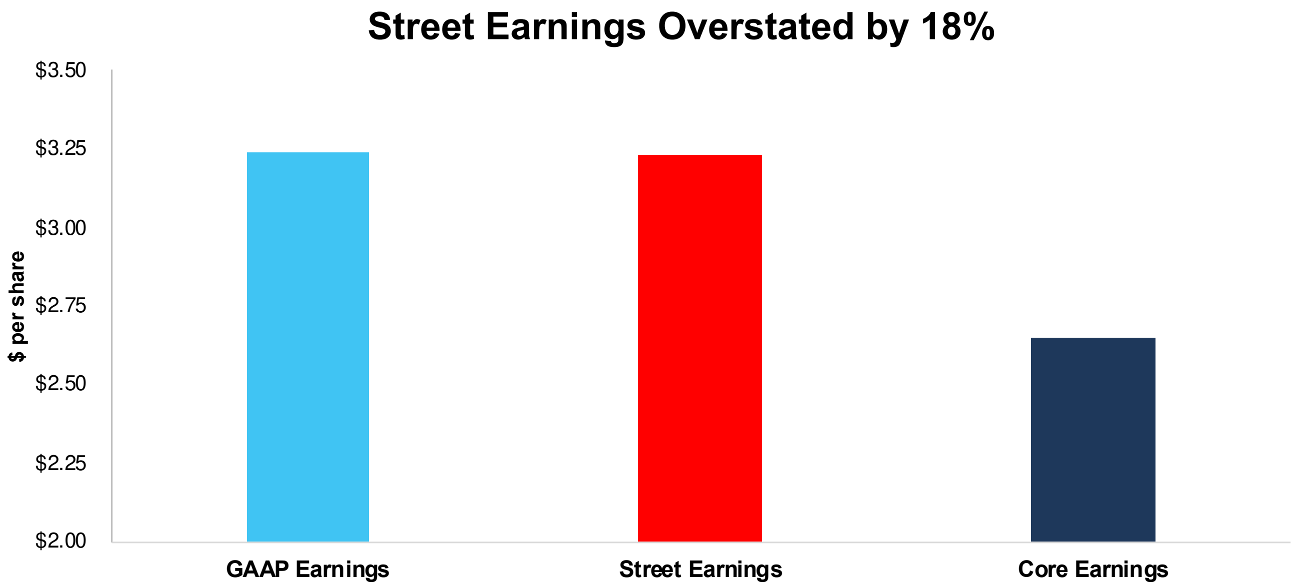
Tesla Inc.: The Street Overstates Earnings for 4Q22 by 18%

The Street's 4Q22 EPS estimate of $1.14/share for Tesla overstates our estimate for 4Q22 Core EPS of $0.94/share by $0.20/share. Large gains due to regulatory credits and "other income" drive the difference between Street and Core EPS estimates. As a long-standing Danger Zone pick with a 'Strong Miss' Earnings Distortion Score, Tesla is one of the S&P 500 companies we consider most likely to miss Wall Street's estimates. See our latest report on why the stock remains significantly overvalued here.

Below we detail the unusual gains that materially boost and distort Tesla's TTM 3Q22 Street and GAAP earnings. After removing all unusual items, we find that Tesla's TTM 3Q22 Core EPS are $2.65/share, which is worse than TTM 3Q22 Street EPS of $3.23/share and GAAP EPS of $3.24/share.

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

Figure 4: Comparing Tesla's GAAP, Street, and Core Earnings: TTM Through 3Q22



Sources: New Constructs, LLC and company filings.

Figure 5 shows the differences between Tesla'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: Tesla's GAAP Earnings to Core Earnings Reconciliation: TTM Through 3Q22

	TTM 3Q22 ($ per share)
GAAP Net Income	$3.24
– Hidden Unusual Gains, Net	$0.05
– Reported Unusual Gains, Net	$0.36
– Tax Distortion	$0.18
= Core Earnings	**$2.65**

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of $0.59/share, which equals $2.0 billion, is comprised of the following:

Hidden Unusual Gains, Net = $0.05/per share, which equals $184 million and is comprised of

- $314 million in automotive regulatory credits in 4Q21[4]
- -$130 million in inventory and purchase commitment write-downs in the TTM period based on
  - -$60 million in 3Q22
  - -$25 million in 2Q22
  - -$33 million in 1Q22
  - -$12 million in 4Q21

Reported Unusual Gains, Net = $0.36/per share, which equals $1.2 billion and is comprised of

[4] We treat the automotive regulatory credits as hidden in 4Q21 due to how Tesla disclosed them in prior quarters. While Tesla moved this line item to the Income Statement in its 2021 10-K, the credits were not disclosed on the income statement but in a separate table that broke down Tesla's revenue by source in the 2021 10-Q. Therefore, we must use both values to calculate the 4Q21 amount.

- $1.3 billion in automotive regulatory credits[5] in the TTM period based on
  - $286 million in 3Q22
  - $344 million in 2Q22
  - $679 million in 1Q22
- $67 million in other income in the TTM period based on
  - -$85 million expense in 3Q22
  - $28 million income in 2Q22
  - $56 million income in 1Q22
  - $68 million income in 4Q21
- -$142 million in restructuring and other expense in the TTM period based on
  - -$142 million in 2Q22

Tax Distortion = $0.18/per share, which equals $612 million

The similarities between Street and GAAP Earnings for Tesla indicate that Street Earnings overlook many of the same unusual items as GAAP Earnings. Core Earnings are a more comprehensive measure of profits and capture all unusual items to ensure we calculate Tesla'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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[5] We treat the automotive regulatory credits as reported items in the 2022 10-Qs because they are reported directly on the income statement. In prior quarters, these credits were only disclosed in a table separate from the Income Statement, which is why we treated them as Hidden in past periods.

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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