



Street Earnings Understated for 25% of S&P 500 at End of 2022

Our report on [Overstated Street Earnings in 2022](#) shows Street Earnings (based on [Zacks Earnings](#)) overstate profits for the majority of S&P 500 companies in 2022. However, there are over 150 S&P 500 companies whose 2022 Street Earnings are lower than their true profits, i.e. [Core Earnings](#)^{1,2}. These companies are more profitable than investors realize and, in many cases, undervalued.

This report shows:

- the magnitude of understated Street Earnings in the S&P 500
- why Street Earnings (and GAAP earnings) are flawed
- five S&P 500 companies with understated Street Earnings and Very Attractive [Stock Ratings](#)

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Over 150 S&P 500 Companies Have Understated Street Earnings

For 154 companies in the S&P 500, or 31%, Street Earnings are lower than [Core Earnings](#) in the TTM ended 4Q22. In the TTM ended 3Q22, Street Earnings were understated for 143 companies.

When Street Earnings are lower than Core Earnings, they are understated by an average of 18% per company, per Figure 1. For 10% of the S&P 500 (50 companies), Street Earnings are understated by more than 10% vs. Core Earnings.

Figure 1: Street Earnings Understated by 18% on Average in 2022

Understated Street Earnings	Understated by >10%	Average Understated % ³
154 companies	50 companies	18%

Sources: New Constructs, LLC and company filings.

The 154 companies with understated Street Earnings represent 25% of the market cap of the S&P 500 as of 3/8/23, which is up from 22% in the TTM ended 3Q22.

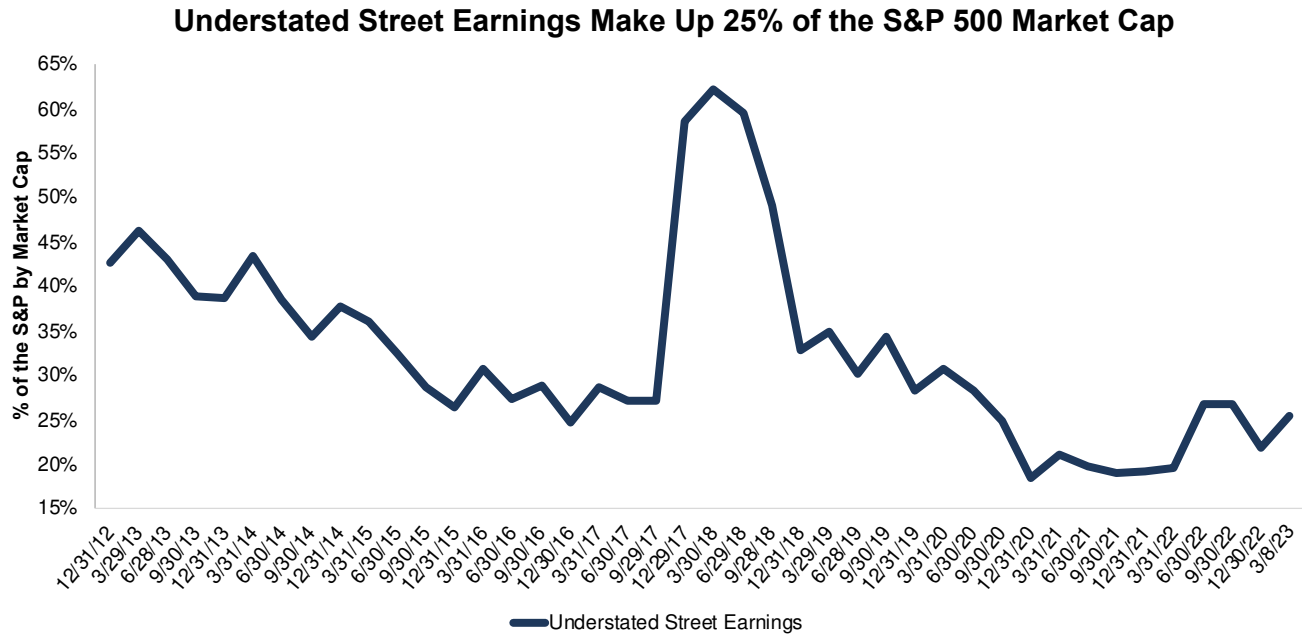
¹ [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).

² Our Core Earnings research is based on the latest audited financial data, which is the calendar 2022 10-K in most cases. Price data as of 3/8/23.

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



Figure 2: Understated Street Earnings as % of Market Cap: 2012 through 3/8/23



Sources: New Constructs, LLC and company filings.

The Five Most Understated Earnings in the S&P 500

Figure 3 shows five S&P 500 stocks with Very Attractive [Stock Ratings](#) and the most understated Street Earnings (based on Street Distortion as a % of Street Earnings per share) in the TTM ended 4Q22. “Street Distortion” equals the difference between Core and Street Earnings on a per share basis. Investors relying only on Street Earnings miss the true profitability of these businesses.

Figure 3: S&P 500 Companies with Most Understated Street Earnings: 2022

Ticker	Name	Street EPS	Core EPS	Understated %*	Stock Rating
AIG	American International Group	\$4.51	\$13.91	208%	Very Attractive
PFG	Principal Financial Group	\$6.67	\$19.67	195%	Very Attractive
ZION	Zions Bancorporation	\$5.80	\$9.66	67%	Very Attractive
MRNA	Moderna, Inc.	\$19.96	\$25.16	26%	Very Attractive
AFL	Aflac Inc.	\$5.40	\$6.54	21%	Very Attractive

Sources: New Constructs, LLC and company filings.

*Measured as Street Distortion as a percent of Street EPS

In the section below, we detail the [hidden and reported](#) unusual items that distort GAAP Earnings for Moderna (MRNA). All these unusual items are removed from Core Earnings.

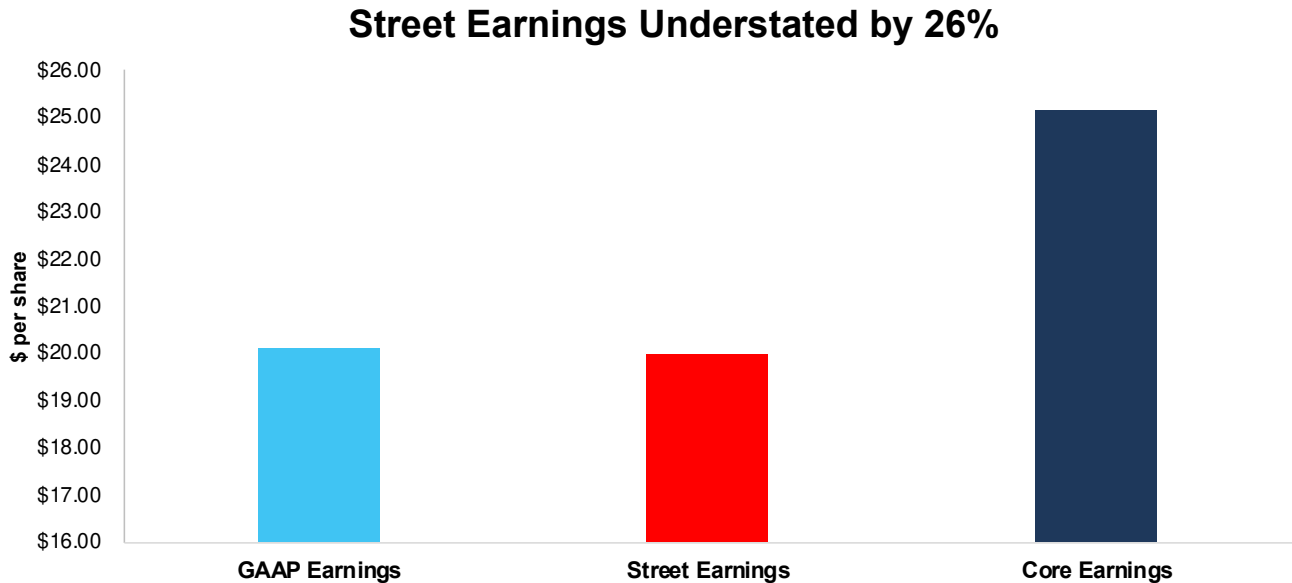
Moderna’s 2022 Street Earnings Understated by \$5.20/share

The difference between, or Street Distortion in, Moderna’s 2022 Street Earnings (\$19.96/share) and Core Earnings (\$25.16/share) is \$5.20/share, or 26% of Street Earnings.

Moderna’s 2022 GAAP Earnings (\$20.10/share) are \$5.06/share lower than Core Earnings, which indicates that Street Earnings are even more understated and miss more of the unusual items that distort GAAP Earnings for Moderna. Our proprietary process for adjusting financial filings corrects these inaccuracies and reflects true profitability.



Figure 4: Comparing Moderna’s GAAP, Street, and Core Earnings: 2022



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.

Moderna’s [Earnings Distortion Score](#) is Strong Beat and its Stock Rating is Very Attractive, in part due to its return on invested capital ([ROIC](#)) of 247% and price-to-economic book value ([PEBV](#)) ratio of 0.3.

Figure 5 details the differences between Moderna’s Core Earnings and GAAP Earnings.

Figure 5: Moderna’s GAAP Earnings to Core Earnings Reconciliation: 2022

	2022 (\$ per share)
GAAP Net Income	\$20.10
– Hidden Unusual Expenses, Net	(\$4.61)
– Reported Unusual Expenses, Net	(\$0.04)
– Tax Distortion	(\$0.41)
= Core Earnings	\$25.16

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of -\$5.06/share, which equals -\$2.1 billion, is comprised of the following:

Hidden Unusual Expenses, Net = -\$4.61/per share, which equals -\$1.9 billion and is comprised of:

- [-\\$1.3 billion](#) in inventory write-downs recorded in cost of sales
- [-\\$617 million](#) in losses on firm purchase commitments recorded in cost of sales

Reported Unusual Expenses, Net = -\$0.04/per share, which equals -\$16 million and is comprised of:

- [-\\$20 million](#) loss on investments
- [\\$4 million](#) in other income

[Tax Distortion](#) = -\$0.41/per share, which equals \$171 million

The similarities between Street Earnings and GAAP Earnings for Moderna indicate that Street Earnings miss many of the unusual items in GAAP Earnings. The \$5.20/share Street Distortion highlights that Core Earnings include a more comprehensive set of unusual items when calculating Moderna’s true profitability.



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Disclosure: David Trainer, Kyle Guske II, and Italo Mendonça 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.

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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