



## 1Q23 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 74% of S&P 500 in 4Q22](#), there are many S&P 500 companies whose Street Earnings are lower than their true [Core Earnings](#)<sup>2</sup>.

This report shows:

- the frequency and magnitude of understated Street Earnings in the S&P 500
- five S&P 500 companies likely to beat 1Q23 earnings

Get our report on the S&P 500 companies most likely to miss 1Q23 Street EPS estimates [here](#).

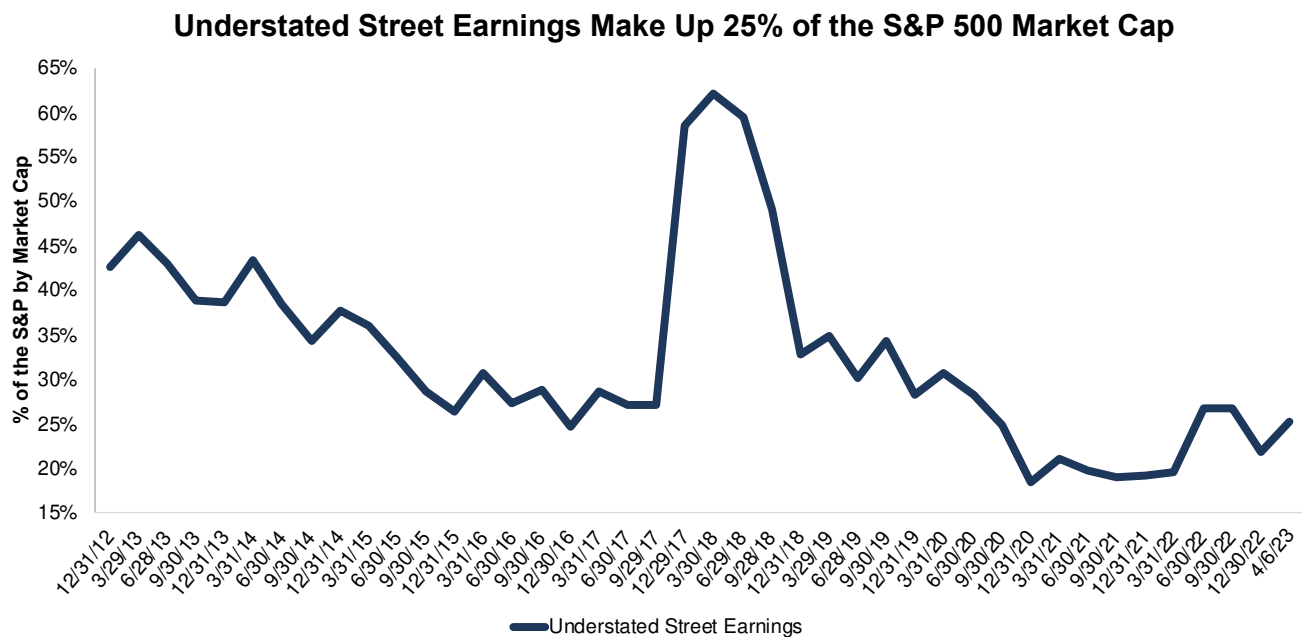
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### Street EPS Are Lower Than Core EPS for 154 S&P 500 Companies

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.

The 154 companies with understated Street Earnings represent 25% of the market cap of the S&P 500 as of 4/6/23, which is up from 22% in the TTM ended 3Q22.

**Figure 1: Understated Street Earnings as % of Market Cap: 2012 through 4/6/23**



Sources: New Constructs, LLC and company filings.

<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](#).



When Street Earnings are lower than Core Earnings, they are understated by an average of 18% per company, per Figure 2. For 10% of the S&P 500 (50 companies), Street Earnings are understated by more than 10% vs. Core Earnings.

**Figure 2: Street Earnings Understated by 18% on Average in TTM Through 4Q22**

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

Sources: New Constructs, LLC and company filings.

**Five S&P 500 Companies Likely to Beat Calendar 1Q23 Earnings**

Figure 3 shows five S&P 500 companies likely to beat calendar 1Q23 earnings because their Street EPS estimates are understated. Below we detail the [hidden and reported](#) unusual items that caused the understated Street Earnings in the TTM ended 4Q22 for T. Rowe Price Group (TROW).

**Figure 3: Five S&P 500 Companies Likely to Beat 1Q23 EPS Estimates**

Ticker	Name	Street EPS Estimate for 1Q23	Core EPS Estimate for 1Q23*	Street Estimate Understated by
CEG	Constellation Energy Group	\$0.96	\$2.97	-210%
AMT	America Tower Corp	\$2.42	\$2.78	-15%
SNPS	Synopsys Inc.	\$2.47	\$2.76	-12%
TROW	T. Rowe Price Group	\$1.62	\$1.81	-11%
CHTR	Charter Communications Inc.	\$7.27	\$7.89	-9%

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

\*Assumes Street Distortion as a percentage of Core EPS is the same in 1Q23 as the TTM ended 4Q22

**T. Rowe Price: The Street Underestimates Earnings Expectations for 1Q23 by \$0.19/share**

The Street’s 1Q23 EPS estimate of \$1.62/share for T. Rowe Price is \$0.19/share lower than our estimate for 1Q23 Core EPS of \$1.81/share. Large acquisition costs included in historical EPS drive most of the difference between the Street and Core EPS estimates. After removing these unusual expenses, our analysis of the entire S&P 500 reveals T. Rowe Price as one of the companies most likely to beat Wall Street analysts’ expectations in its 1Q23 earnings report.

T. Rowe Price’s [Earnings Distortion Score](#) is Beat and its [Stock Rating](#) is Attractive, in part due to its top-quintile return on invested capital ([ROIC](#)) of 15% and high [free cash flow \(FCF\) yield](#).

Below, we detail the unusual expenses that materially reduced T. Rowe Price’s TTM 4Q22 Street and GAAP Earnings. After removing all unusual items, we find that T. Rowe Price’s TTM Core EPS are \$7.41/share, which is higher than the TTM Street EPS of \$6.65/share and GAAP EPS of \$6.70/share.



**Figure 4: Comparing T. Rowe Price’s GAAP, Street, and Core Earnings: TTM Through 4Q22**



Sources: New Constructs, LLC and company filings.

Figure 5 details the differences between T. Rowe Price’s Core and GAAP Earnings so readers can audit our research. Given the small difference between GAAP and Street Earnings, the adjustments that drive the difference between Core and Street Earnings are likely mostly the same.

**Figure 5: T. Rowe Price’s GAAP Earnings to Core Earnings Reconciliation: 2022**

	2022 (\$ per share)
GAAP Net Income	\$6.70
– Hidden Unusual Expenses, Net	<(\$0.01)
– Reported Unusual Expenses Pre-Tax, Net	(\$0.54)
– Tax Distortion	(\$0.01)
– Reported Unusual Expenses After-Tax, Net	(\$0.16)
<b>= Core Earnings</b>	<b>\$7.41</b>

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of  $-\$0.71/\text{share}$ , which equals  $-\$161$  million, is comprised of the following:

Hidden Unusual Expenses, Net =  $-\$0.01/\text{per share}$ , which equals  $-\$0.9$  million and is comprised of:

- [-\\$0.9 million](#) in acquisition-related costs – Page 71

Reported Unusual Expenses Pre-Tax, Net =  $-\$0.54/\text{per share}$ , which equals  $-\$122$  million and is comprised of:

- [-\\$284 million](#) acquisition-related amortization and impairment costs
- [\\$161 million](#) change in fair value of contingent consideration

Reported Unusual Expenses After-Tax, Net =  $-\$0.16/\text{per share}$ , which equals  $-\$36$  million and is comprised of:

- [-\\$36 million](#) net income allocated to outstanding restricted stock and stock unit holders

[Tax Distortion](#) =  $-\$0.01/\text{per share}$ , which equals  $\$2.1$  million

The  $\$0.19/\text{share}$  Street Distortion highlights that Core Earnings include a more comprehensive set of unusual items when calculating T. Rowe Price’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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## ***It's Official: We Offer the Best Fundamental Data in the World***

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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, 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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