2Q23 Earnings: Where Street Earnings Are Too High & Who Should Miss

Wall Street analysts are too bullish on first quarter earnings expectations for most S&P 500 companies. Although down from record highs set in early 2021, the percentage of S&P 500 companies whose Street EPS exceeds our Core EPS[1] remains high at 69%.

This report shows:

- the frequency and magnitude of overstated Street Earnings[2] in the S&P 500 and
- five S&P 500 companies likely to miss 2Q23 earnings.

Get our report on the S&P 500 companies most likely to beat 2Q23 Street EPS estimates here.

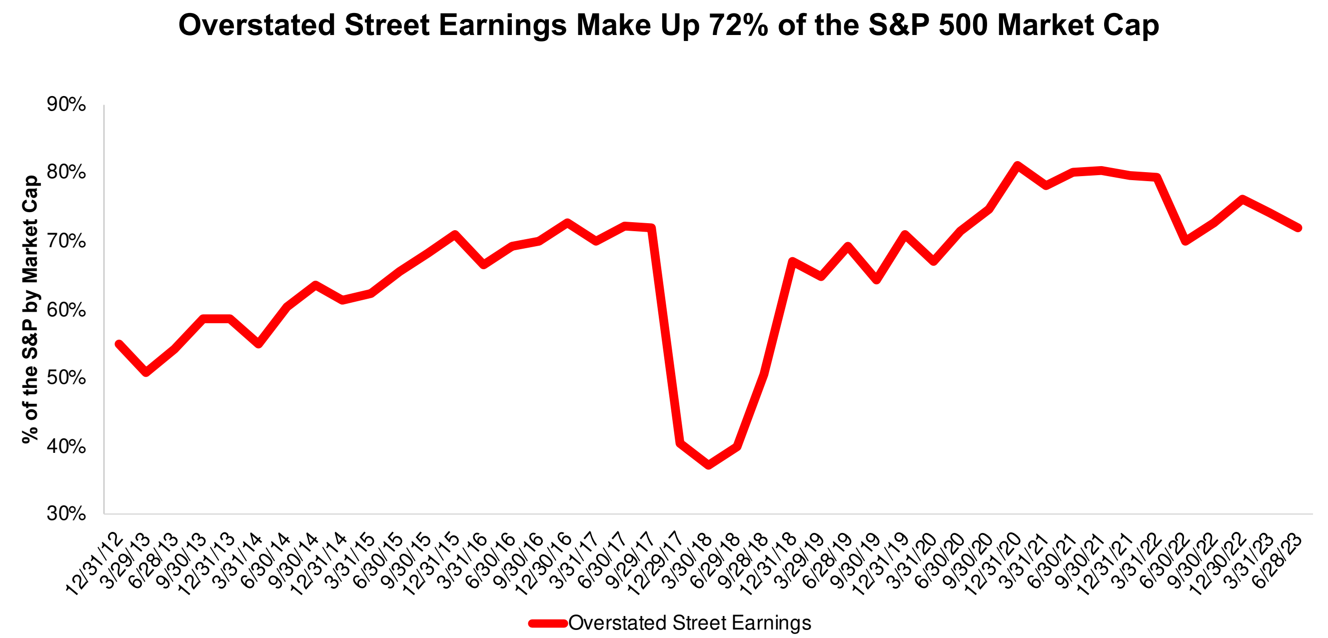
Learn more about the best fundamental research

Street EPS Are Higher Than Core EPS for 347 S&P 500 Companies

For 347 companies in the S&P 500, or 69%, Street Earnings are higher than Core Earnings in the TTM ended 1Q23. In the TTM ended 4Q22, Street Earnings were overstated for 339 companies.

The 347 companies with overstated Street Earnings make up 72% of the market cap of the S&P 500 as of 6/28/23, which is down from 74% in 4Q22, measured with TTM data in each quarter.

Figure 1: Overstated Street Earnings as % of Market Cap: 2012 through 6/28/23

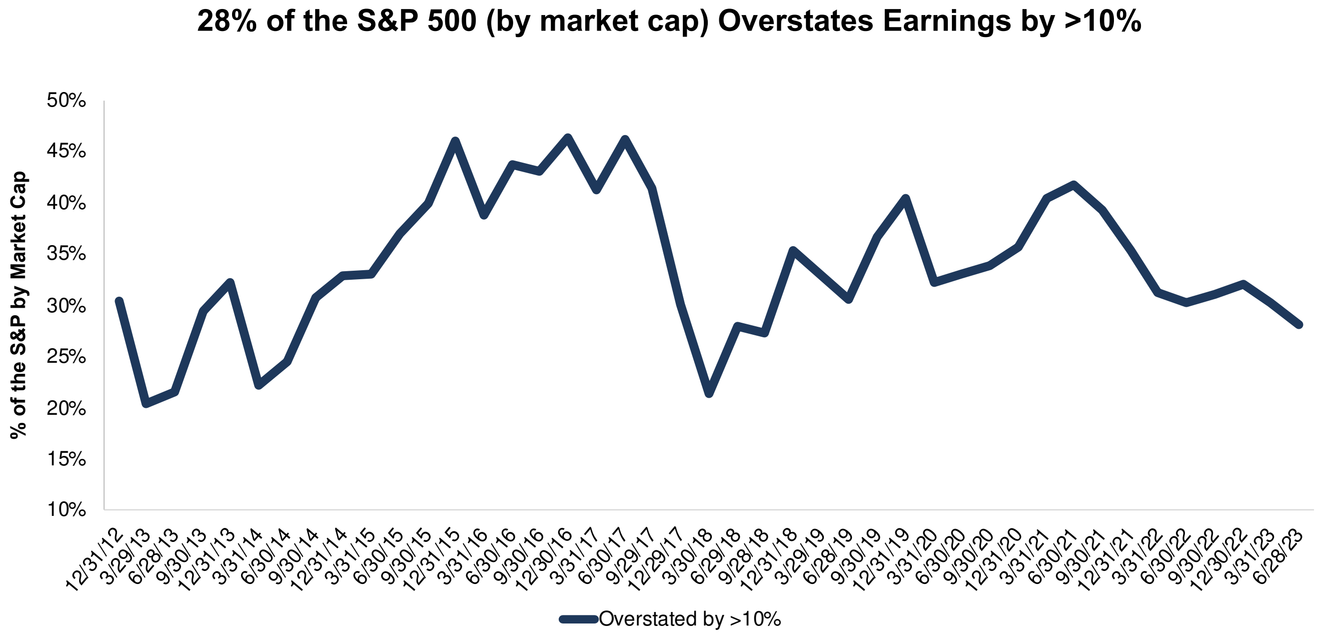


Sources: New Constructs, LLC and company filings.

For over a third of the S&P 500 (198 companies), Street Earnings are overstated by more than 10% vs. Core Earnings.

[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: Overstated Street Earnings by >10% as % of Market Cap: 2012 through 6/28/23



Sources: New Constructs, LLC and company filings.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 22%, per Figure 3.

Figure 3: Street Earnings Overstated by 19% on Average in TTM Through 1Q23

Overstated Street Earnings	Overstated by >10%	Average Overstated %
347 companies	191 companies	22%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Miss 2Q23 Earnings

Figure 3 shows five S&P 500 companies likely to miss calendar 2Q23 earnings because their Street EPS estimates are overstated. Below, we detail the hidden and reported unusual items that caused the overstated Street Earnings in the TTM ended 1Q23 for DISH Network (DISH: $7/share). 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 4: Five S&P 500 Companies Likely to Miss 2Q23 EPS Estimates

Ticker	Name	Street EPS Estimate for 2Q23	Core EPS Estimate for 2Q23*	Street Estimate Overstated by
FSLR	First Solar Inc.	$1.15	($1.94)	269%
DISH	Dish Network Corp	$0.30	$0.19	36%
XEL	Excel Energy, Inc.	$0.63	$0.55	13%
AWK	American Water Works	$1.27	$1.15	9%
NFLX	Netflix Inc.	$2.81	$2.55	9%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percent of Core EPS is the same for 2Q23 EPS as for TTM ended 1Q23.

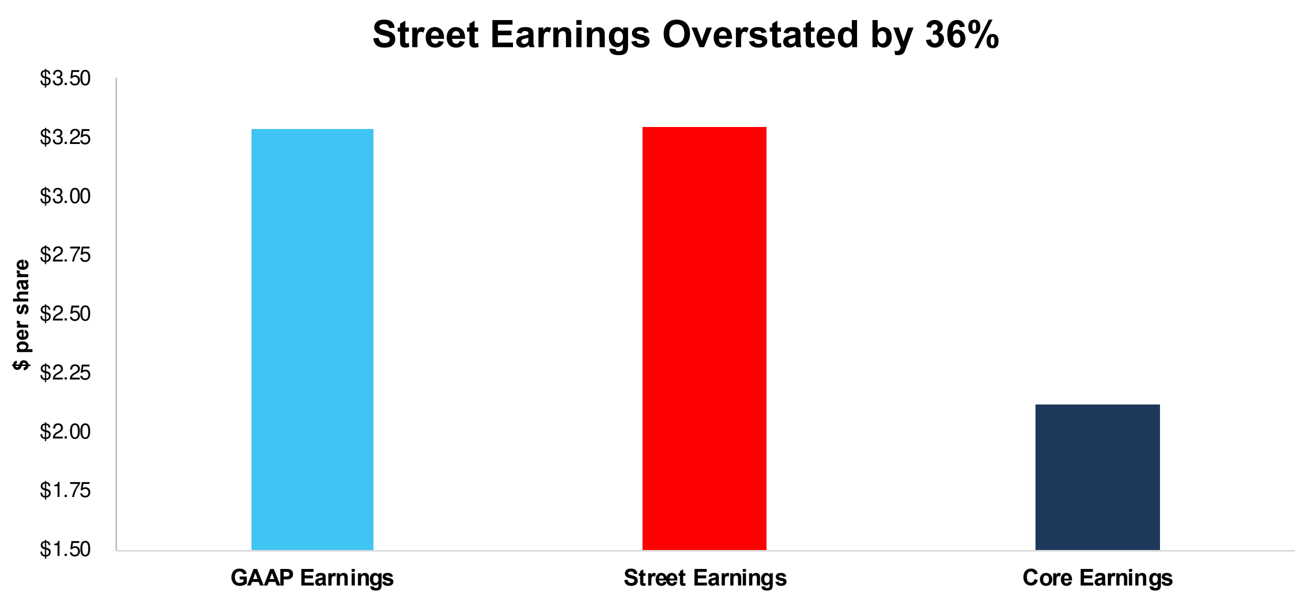
DISH Network: The Street Overestimates Earnings for 2Q23 by 36%

The Street's 2Q23 EPS estimate of $0.30/share for DISH Network is $0.11/share higher than our estimate for 2Q23 Core EPS of $0.19/share. Large gains on derivatives and investment securities drive much of the difference between Street and Core EPS estimates. After removing these non-recurring gains, our analysis of the entire S&P 500 reveals DISH Network as one of the companies most likely to miss Wall Street analysts' expectations in its 2Q23 earnings report.

DISH Network's Earnings Distortion Score is Strong Miss and its Stock Rating is Unattractive, in part due to its bottom-quintile return on invested capital (ROIC) of 3%, -13% free cash flow (FCF) yield, price-to-economic book value (PEBV) ratio of -0.3, and market-implied growth appreciation period (GAP) of >100 years.

Below we detail the unusual gains that materially boost and distort DISH Network's TTM 1Q23 Street and GAAP earnings. After removing all unusual items, we find that DISH Network's TTM 1Q23 Core EPS are $2.11/share, which is lower than TTM 1Q23 Street EPS of $3.29/share and GAAP EPS of $3.28/share.

Figure 5: Comparing DISH Network's GAAP, Street, and Core Earnings: TTM Through 1Q23



Sources: New Constructs, LLC and company filings.

Figure 5 shows the differences between DISH Network's Core Earnings 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 6: DISH Network's GAAP Earnings to Core Earnings Reconciliation: TTM 1Q23

	TTM ($ per share)
GAAP Net Income	$3.28
– Reported Unusual Gains, Net	$1.51
– Tax Distortion	($0.35)
= Core Earnings	**$2.11**

Sources: New Constructs, LLC and company filings.

More details:

Total GAAP Earnings Distortion of $1.17/share, which equals $745 million, is comprised of the following:

Reported Unusual Gains, Net = $1.51/per share, which equals $965 million and is comprised of

- $943 million in "Other Income (Expense)" due to derivative instruments in the TTM period based on
    - -$29 million loss in 1Q23
    - $923 million gain in 4Q22
    - $34 million gain in 3Q22
    - $15 million gain in 2Q22

    - DISH Network disclosed in the footnotes that these net gains were due to realized and/or unrealized gains on derivative instruments.

- -$1 million in costs related to early redemption of debt in the TTM period based on
  - <$0.1 million gain in 1Q23
  - $0.2 million gain in 4Q22
  - -$1 million cost in 2Q22
- -$4 million in "Other" in the TTM period based on
  - $0.2 million gain in 1Q23
  - -$1 million expense in 4Q22
  - -$2 million expense in 3Q22
  - -$1 million expense in 2Q22
- $26 million in marketable and non-marketable investment securities gains in the TTM period based on
  - -$0.3 million loss in marketable securities in 1Q23
  - $0.3 million loss in marketable securities in 4Q22
  - $0.4 million gain in non-marketable securities in 4Q22
  - -$0.5 million loss in marketable securities in 3Q22
  - $27 million gain in non-marketable securities in 3Q22
  - <$0.1 million gain in marketable securities in 2Q22

Tax Distortion = -$0.35/per share, which equals -$220 million

The $1.18/share of Street Distortion in the TTM ended 1Q23 highlights that Core Earnings account for a more comprehensive set of unusual items when calculating DISH Network's true profitability.

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Disclosure: David Trainer, Kyle Guske II, Hakan Salt, 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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