



Street Earnings Overstated for 75% of S&P 500 in 3Q23

Street Earnings, as reflected in [Zacks Earnings](#), are marketed as being adjusted to remove unusual income and charges. Our [Core Earnings](#)¹ show Street Earnings fail to account for a material amount of unusual income and charges, which distorts investors' view of profitability across the S&P 500. This report shows:

- the prevalence and magnitude of overstated Street Earnings in the S&P 500,
- why Street Earnings (and GAAP earnings) are flawed and not adjusted as promised, and
- five S&P 500 companies with overstated Street Earnings and a Very Unattractive [Stock Rating](#).

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199 S&P 500 Companies Overstate EPS by More than 10%

For 363 companies in the S&P 500, or 73%, Street Earnings are higher than Core Earnings² for the trailing-twelve-months (TTM) ended 3Q23. In the TTM ended 2Q23, 357 companies overstated their earnings.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 22%, per Figure 1.

Figure 1: Street Earnings Overstated by 22% on Average in TTM Through 3Q23

Overstated Street Earnings	Overstated by >10%	Average Overstated % ³
363 companies	199 companies	22%

Sources: New Constructs, LLC and company filings.

The 363 companies with overstated Street Earnings make up 75% of the market cap of the S&P 500 as of 11/14/23, which is up from 70% in 2Q23.

Note that this analysis is based on our team analyzing the financial statements and footnotes for ~3,000 10-Ks and 10-Qs filed with the SEC in the last few weeks. We estimate that the cost of this work for most firms would be around \$1 million each quarter. To say the least, there is tremendous value in our rigorous analysis of these filings across so many companies so that our clients can discern the best and worst stocks with unrivaled diligence.

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 3Q23 10-Q in most cases. Price data as of 11/14/23. QoQ analysis is based on the change since [last quarter's report](#).

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



Figure 2: Overstated Street Earnings as % of Market Cap: 2012 through 11/14/23

Overstated Street Earnings Make Up 75% of the S&P 500 Market Cap

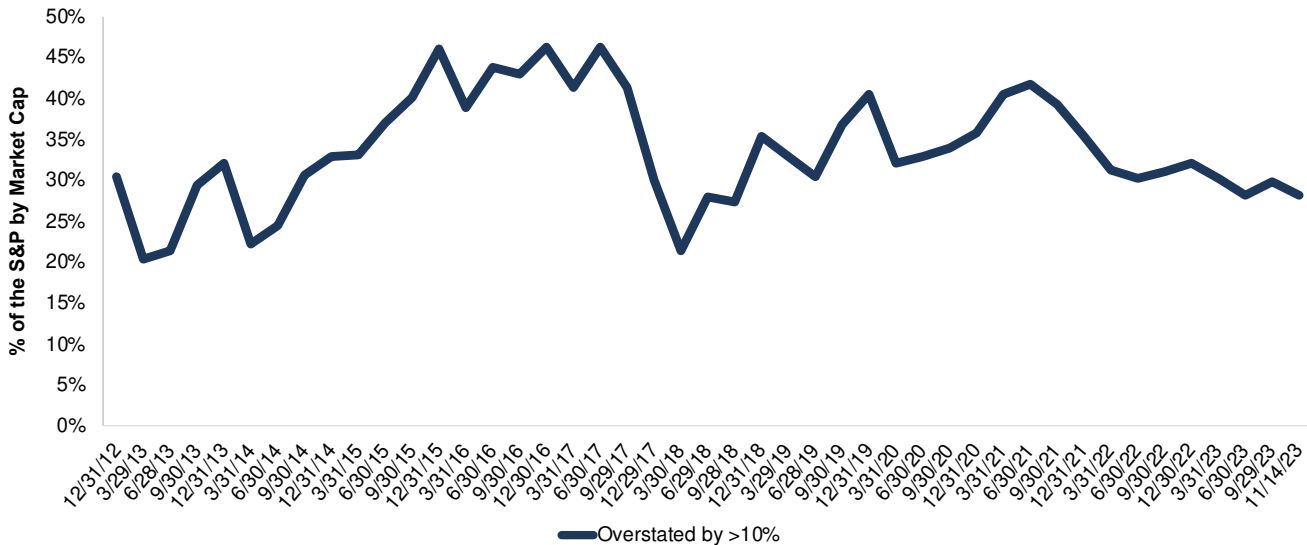


Sources: New Constructs, LLC and company filings.

For over a third of the S&P 500 (199 companies), Street Earnings are overstated by more than 10% vs. Core Earnings. These 199 companies make up 28% of the market cap of the S&P 500 as of 11/14/23. See Figure 3.

Figure 3: Overstated Street Earnings by > 10% as % of Market Cap: 2012 through 11/14/23

28% of the S&P 500 (by market cap) Overstates Earnings by >10%



Sources: New Constructs, LLC and company filings.

The Five Worst Offenders in the S&P 500

Figure 4 shows five S&P 500 stocks with an Unattractive-or-worse [Stock Rating](#) and the most overstated Street Earnings (Street Distortion as a % of Street Earnings per share) over the TTM through 3Q23. “Street Distortion” equals the difference between Core Earnings per share and Street Earnings per share. Investors using Street Earnings miss the true profitability, or lack thereof, of these businesses.



Figure 4: S&P 500 Companies with Most Overstated Street Earnings: TTM 3Q23

Ticker	Name	Street EPS	Core EPS	Overstated %*	Stock Rating
ILMN	Illumina Inc.	\$0.87	(\$0.89)	202%	Very Unattractive
PRU	Prudential Financial	\$11.46	\$1.85	84%	Very Unattractive
IFF	International Flavors & Fragrances	\$3.59	\$1.34	63%	Very Unattractive
XRAY	Dentsply Sirona	\$1.85	\$0.73	60%	Very Unattractive
RVTY	Revvity Inc.	\$5.10	\$2.22	57%	Very Unattractive

Sources: New Constructs, LLC and company filings.
 *Measured as Street Distortion as a percent of Street EPS.

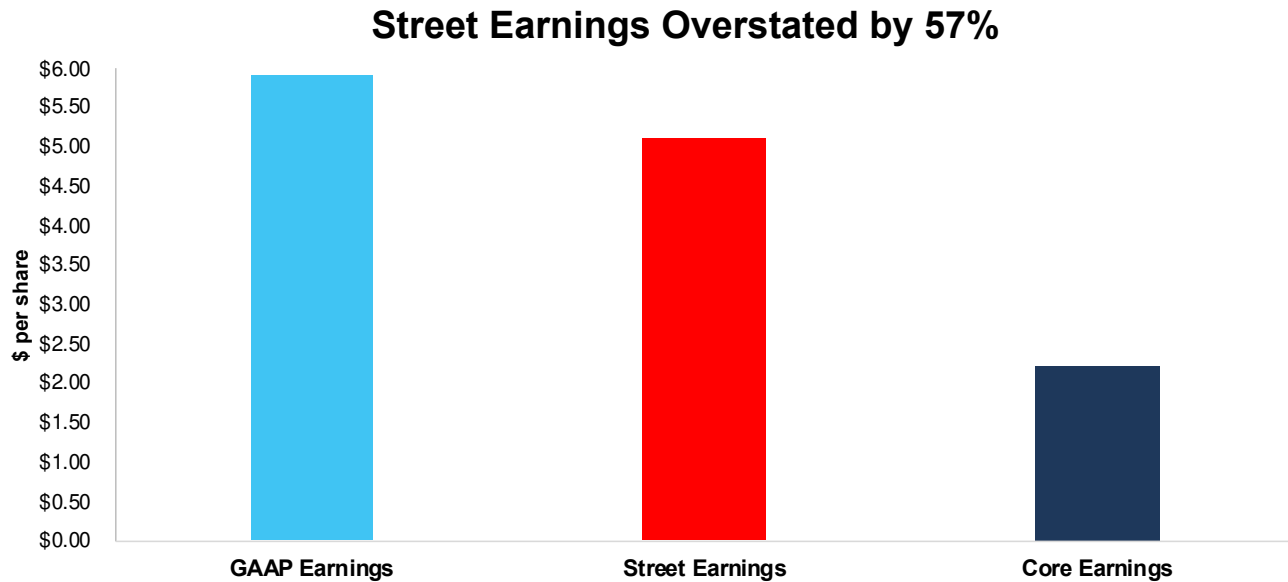
In the section below, we detail the [hidden and reported](#) unusual items that distort GAAP Earnings for Revvity (RVTY). All of these unusual income and charges are removed from Core Earnings.

Revvity’s 3Q23 TTM Street Earnings Overstated by \$2.88/share

The difference between, or Street Distortion in, Revvity’s Street Earnings (\$5.10/share) and Core Earnings (\$2.22/share) is \$2.88/share, or 57% percent of Street Earnings.

Revvity’s GAAP Earnings Distortion is higher at \$3.69/share, which indicates that Street Earnings are identifying some non-operating and unusual items. However, given the disconnect between Street and Core Earnings, it’s clear that Street Earnings still miss material unusual items.

Figure 5: Comparing Revvity’s GAAP, Street, and Core Earnings: TTM 3Q23



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 Street Earnings.

Revvity’s [Earnings Distortion Score](#) is Strong Miss and its Stock Rating is Very Unattractive. Revvity receives a Very Unattractive rating largely due to its misleading economic earnings, low return on invested capital (ROIC) of 2%, and the expensive valuation of its stock. Despite trading at \$89/share, RVTY has an economic book value ([EBV](#)), or no-growth value, of \$7/share.

Figure 6 details the differences between Revvity’s Core Earnings and GAAP Earnings.

**Figure 6: Revvity's GAAP Earnings to Core Earnings Reconciliation: TTM 3Q23**

	TTM (\$ per share)
GAAP Net Income	\$5.91
– Hidden Unusual Expenses Pre-Tax, Net	(\$0.49)
– Reported Unusual Expenses Pre-Tax, Net	(\$0.29)
– Tax Distortion	\$0.17
– Reported Unusual Gains After-Tax, Net	\$4.30
= Core Earnings	\$2.22

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of \$3.69/share, which equals \$463.8 million, is comprised of the following:

Hidden Unusual Expenses Pre-Tax, Net = -\$0.49/share, which equals -\$61 million and is comprised of:

- -\$48 million in acquisition and divestiture related costs in the TTM period based on
 - [-\\$13 million](#) in costs in 3Q23
 - [-\\$29 million](#) in costs in 2Q23
 - [-\\$18 million](#) in costs in 1Q23
 - [\\$11 million](#) in gains in 4Q22
- -\$15 million in restructuring and other expenses and gains on disposition of businesses in the TTM period based on
 - [-\\$11 million](#) restructuring in 3Q23
 - [-\\$2 million](#) restructuring in 2Q23
 - [-\\$3 million](#) restructuring in 1Q23
 - [\\$1 million](#) gain on disposition of businesses and assets in 4Q22
- -\$2 million in change in fair value of contingent consideration charges in the TTM period based on
 - [-\\$1 million](#) in 3Q23
 - [-\\$2 million](#) in 2Q23
 - [\\$1 million](#) in 1Q23
 - [-\\$1 million](#) in 4Q22
- \$3 million in pension income in the TTM based on [\\$3 million](#) in pension income in the 2022 10-K

Reported Unusual Expenses Pre-Tax, Net = -\$0.29/share, which equals -\$35.9 million and is comprised of:

- -\$14 million in the change in fair value of financial securities in the TTM period based on
 - [-\\$14 million](#) in losses in 3Q23
 - [-\\$2 million](#) in losses in 2Q23
 - [\\$3 million](#) in gains in 1Q23
 - [-\\$1 million](#) in losses in 4Q22
- -\$36 million in foreign exchange losses and other expense in the TTM period based on
 - [-\\$3 million](#) in 3Q23
 - [-\\$1 million](#) in 2Q23
 - [-\\$30 million](#) in 1Q23
 - [-\\$2 million](#) in 4Q22
- \$21 million in other components of net periodic pension benefit in the TTM period based on
 - [-\\$1 million](#) cost in 3Q23
 - [-\\$2 million](#) cost in 2Q23
 - [-\\$2 million](#) cost in 1Q23
 - [\\$26 million](#) benefit in 4Q22
- \$28 million reversal of restructuring expenses disclosed in 2022 10-Qs but no longer broken out in the 2022 10-K



- \$35 million contra adjustment for [recurring pension costs](#). These recurring expenses are reported in non-recurring line items, so we add them back and exclude them from Earnings Distortion.

[Tax Distortion](#) = \$0.17/per share, which equals \$21 million

Reported Unusual Gains After-Tax, Net = \$4.30/share, which equals \$539 million and is comprised of:

- \$539 million in income from discontinued operations in the TTM period based on
 - [-\\$23 million](#) in losses in 3Q23
 - [-\\$23 million](#) in losses in 2Q23
 - [\\$545 million](#) in income in 1Q23
 - [\\$41 million](#) in income in 4Q22

Given that the majority of Earnings Distortion listed above is reported, unknowing investors may assume Street Earnings properly adjust for these items. However, given the \$2.88/share Street Distortion in Revvity's earnings, it's clear that Core Earnings include a more comprehensive set of unusual items when calculating true profitability.

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Disclosure: David Trainer, Kyle Guske II, Italo Mendonça, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.

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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
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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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