



3Q24 Earnings: Where Street Estimates Are Too Low & Who Should Beat

While Street Earnings¹ overstate profits for the majority of S&P 500 companies, as shown in [Street Earnings Overstated for 74% of S&P 500 in 2Q24](#), there are many S&P 500 companies whose Street Earnings are [lower](#) than their [Core Earnings](#)².

This report shows:

- the frequency and magnitude of understated Street Earnings in the S&P 500,
- the S&P 500 company with a Strong Beat [Earnings Distortion Score](#) most likely to beat 3Q24 earnings.

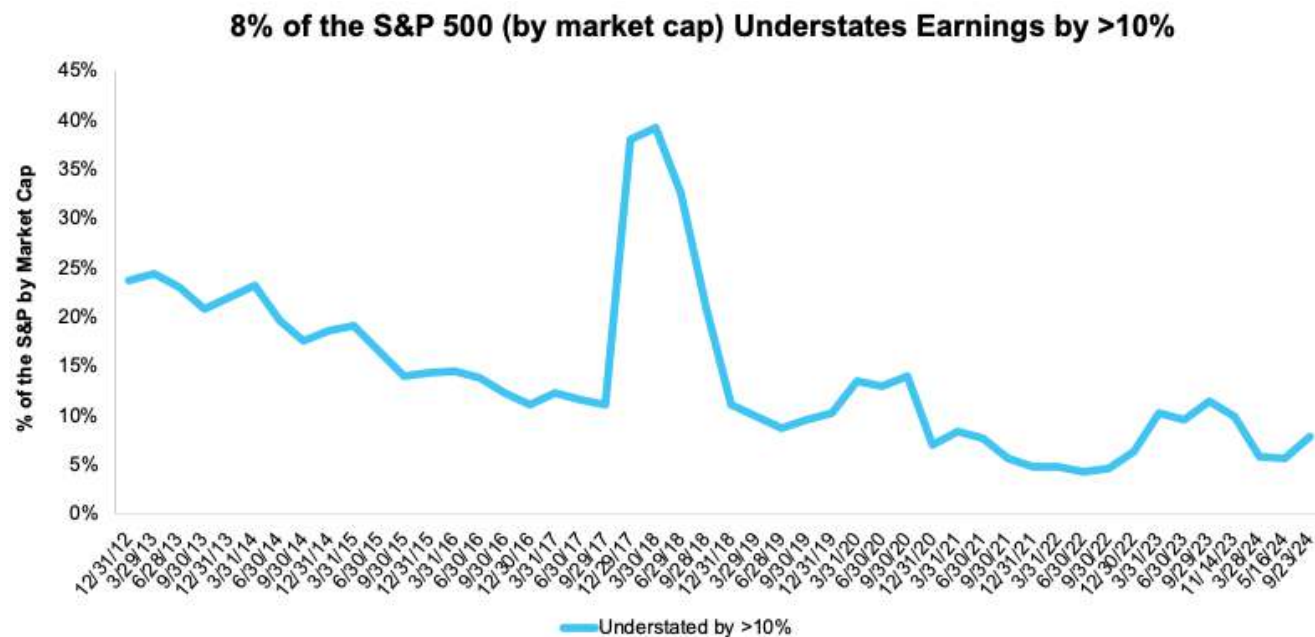
Street EPS Are Lower Than Core EPS for 121 S&P 500 Companies

For 121 companies in the S&P 500, or 24%, Street Earnings are lower than [Core Earnings](#) in the trailing-twelve-months (TTM) ended 2Q24. In the TTM ended 1Q24, Street Earnings were understated for 122 companies.

The percentage of the S&P 500 where Street Earnings understate Core Earnings by more than 10% equals 9% (43 companies) in 2Q24, which is up from 41 companies in the TTM ended 1Q24.

Those 43 companies make up 8% of the market cap of the S&P 500 as of 9/23/24, which is up from 6% of the market cap in 1Q24, measured with TTM data in each quarter. See Figure 1.

Figure 1: Understated Street Earnings by >10% as % of Market Cap: 2012 through 9/23/24



Sources: New Constructs, LLC and company filings.

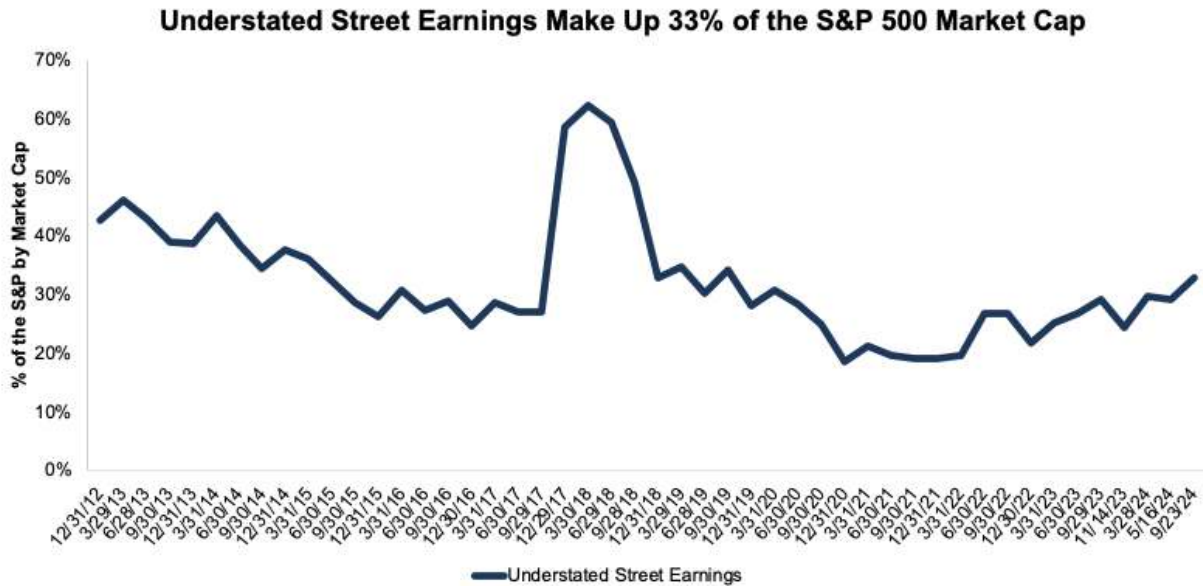
The 121 companies with understated (by any amount) Street Earnings represent 33% of the market cap of the S&P 500 as of 9/23/24, which is up from 29% in the TTM ended 1Q24. See Figure 2.

¹ Street Earnings refer to [Zacks Earnings](#), which are adjusted to remove non-recurring items using standardized sell-side assumptions.

² [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).



Figure 2: Understated Street Earnings as % of Market Cap: 2012 through 9/23/24



Sources: New Constructs, LLC and company filings.

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 after earnings season. We [estimate](#) that the cost of this work for most firms would be over \$2 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.

When Street Earnings are lower than Core Earnings, they are understated by an average of 24%, per Figure 3.

Figure 3: Street Earnings Understated by 24% on Average in TTM Through 2Q24

Understated Street Earnings	Understated by >10%	Average Understated %
121 companies	43 companies	24%

Sources: New Constructs, LLC and company filings.

S&P 500 Company Most Likely to Beat Calendar 3Q24 Earnings

Figure 4 shows the S&P 500 company with a Strong Beat Earnings Distortion Score likely to beat calendar 3Q24 earnings because their Street EPS estimates are understated. 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: S&P 500 Company Likely to Beat 3Q24 EPS Estimates

Ticker	Name	Street EPS Estimate for 3Q24	Core EPS Estimate for 3Q24*	Street Estimate Understated by
WBD	Warner Bros. Discovery	\$0.07	\$0.12	78%

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

*Assumes Street Distortion as a percentage of Core EPS is the same in 3Q24 as the TTM ended 2Q24

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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. The stock market is missing footnotes – and only we have that critical data.
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3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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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