One Stock Most Likely to Miss 3Q24 Estimates

Wall Street analysts are too bullish on second quarter earnings expectations for most S&P 500 companies. The percentage of S&P 500 companies whose Street EPS exceeds our Core EPS[1] equals 74% through 2Q24. For the stocks most likely to beat, see 3Q24 Earnings: Where Street Estimates Are Too Low & Who Should Beat.

This report shows:

- the frequency and magnitude of overstated Street Earnings[2] in the S&P 500 and
- the S&P 500 company most likely to miss 3Q24 earnings.

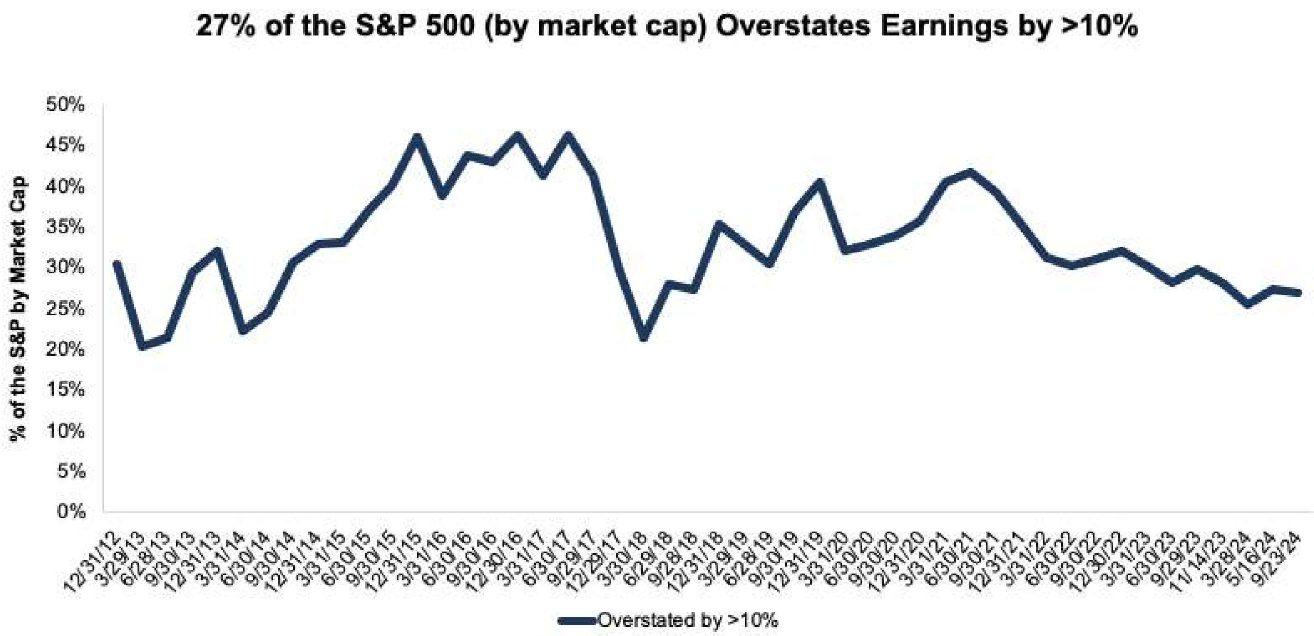
Street EPS Are Higher Than Core EPS for 369 S&P 500 Companies

For 369 companies in the S&P 500, or 74%, Street Earnings are higher than Core Earnings in the trailing twelve months (TTM) ended 2Q24. In the TTM ended 1Q24, Street Earnings were overstated for 373 companies.

The more interesting trend, however, is in the percentage of the S&P 500 where Street Earnings overstate Core Earnings by more than 10%. That number equals 42% (210 companies), which is slightly lower the 212 companies in the TTM ended 1Q24.

Those 210 companies make up 26.9% of the market cap of the S&P 500 as of 9/23/24, which is down from 27.4% of the market cap in 1Q24, measured with TTM data in each quarter. See Figure 1.

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



Sources: New Constructs, LLC and company filings.

The 369 companies with overstated (by any amount) Street Earnings make up 66% of the market cap of the S&P 500 as of 9/23/24, which is down from 71% in 1Q24, measured with TTM data in each quarter.

[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 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 higher than Core Earnings, they are overstated by an average of 19%, per Figure 3.

Figure 3: Street Earnings Overstated by 19% on Average in TTM Through 2Q24

Overstated Street Earnings	Overstated by >10%	Average Overstated %
369 companies	210 companies	19%

Sources: New Constructs, LLC and company filings.

S&P 500 Company Likely to Miss 3Q24 Earnings

Figure 4 shows S&P 500 company likely to miss calendar 3Q24 earnings because their Street EPS estimates are overstated. 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 Miss 3Q24 EPS Estimates

Ticker	Name	Street EPS Estimate for 3Q24	Core EPS Estimate for 3Q24*	Street Estimate Overstated by
TRGP	Targa Resources	$1.55	$0.87	44%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percent of Core EPS is the same for 3Q24 EPS as for TTM ended 2Q24.

This article was originally published on September 27, 2024.

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

Questions on this report or others? Join our online community and connect with us directly.

It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
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.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

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.

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.