Position Close Update: Jacobs Engineering Group (JEC)

Jacobs Engineering Group (JEC) – Closing Short Position – down 10% vs. S&P up 2%

We put Jacobs Engineering Group (JEC: $86/share) in the Danger Zone on 11/11/19. At the time, JEC received a Very Unattractive rating and had among the most overstated earnings on our Earnings Distortion Scorecard.

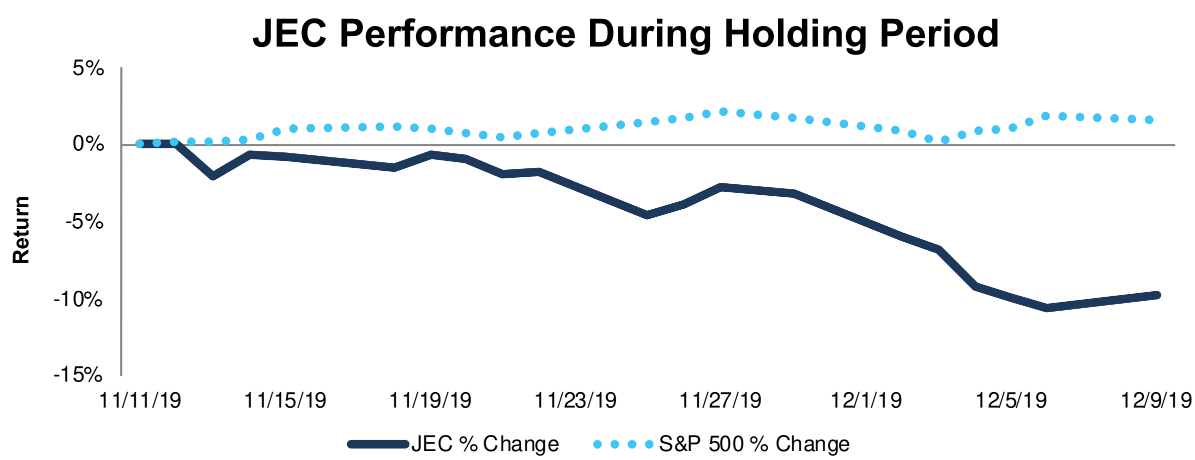
Now that our technology is making Earnings Distortion free and easy for everyone to see, analysts would be remiss for not factoring better earnings research[1] into their models. What analyst wants to base their estimates off incomplete, and biased (as proven by this Harvard Business School & MIT Sloan paper), earnings?

Despite beating expectations in its 4Q19 earnings release, it's clear that skepticism over the quality of Jacobs Engineering Group's earnings weighs on the stock as analysts recently revised their EPS estimates down for both 2020 and 2021.

During the 29 day holding period, JEC outperformed as a short position, falling 10% compared to a 2% gain for the S&P 500.

This lower valuation means the risk in this stock has decreased and it now earns a Neutral rating. We believe it is time to take these gains and close this short position.

Figure 1: JEC vs. S&P 500 – Price Return – Successful Short Call



Sources: New Constructs, LLC and company filings
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

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

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[1] *…Core Earnings [calculated using New Constructs' novel dataset] is a superior accounting measure of a company's operating earnings, and incremental to other measures when predicting future performance. – Core Earnings: New Data and Evidence – pg. 25*

Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies (featured by Harvard Business School), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, Core Earnings: New Data and Evidence, shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This paper compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Learn more.

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

"…the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications." – page 20

Pick better stocks:

"Trading strategies that exploit cross-sectional differences in firms' transitory earnings produce abnormal returns of 7-to-10% per year." – Abstract

Avoid losses from using other firms' data:

"…many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat…" – page 14

Build better models:

"Core Earnings [calculated using New Constructs' novel dataset] provides predictive power for various measures of one-year-ahead performance…that is incremental to their current-period counterparts." – page 4

Exploit market inefficiencies:

"These results … suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures." – page 26

Fulfill fiduciary duties:

"An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A." – page 33-34

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