



Earnings Distortion Scorecard: Week of 1/13/20-1/17/20

For the week of 1/13/20-1/17/20, we focus on the Earnings Distortion scores for 31 companies.

We measure earnings distortion using a proprietary human-assisted ML methodology featured in a recent paper from [Harvard Business School \(HBS\) and MIT Sloan](#). This paper empirically shows that street earnings estimates are incomplete and less accurate since they do not consistently and accurately adjust for unusual gains/losses buried in footnotes.

Get the best fundamental research

As corporate managers bury key data in footnotes to manipulate earnings, and investors miss them, investment opportunities arise because stock prices tend to be driven by core earnings power.

Our Earnings Distortion Scores¹ empower investors to combat management efforts to obfuscate financial performance. The aggregate level of distortion recently reached [levels not seen since right before the tech bubble](#) and the financial crisis.

Weekly Earnings Distortion Insights

Figure 1 contains the S&P 500 companies, plus those with market caps greater than \$10 billion, that we expect to beat or miss earnings expectations the week of January 13, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 1/13/20-1/17/20

Company	Ticker	EPS Estimate	Earnings Date	Earnings Distortion Score
Delta Air Lines Inc	DAL	\$1.39	1/13/20	Miss
CSX Corp	CSX	\$1.02	1/14/20	Miss
Netflix Inc	NFLX	\$0.52	1/15/20	Miss
PPG Industries Inc	PPG	\$1.34	1/15/20	Beat
Atlassian Corporation PLC	TEAM	\$0.27	1/15/20	Strong Beat
VF Corp	VFC	\$1.21	1/16/20	Beat
Schlumberger NV	SLB	\$0.38	1/17/20	Strong Beat
Fastenal Co	FAST	\$0.32	1/17/20	Miss

Sources: New Constructs, LLC and company filings

The appendix to this report shows all the S&P 500 companies, plus those with market caps greater than \$10 billion, that report earnings the week of January 13, 2020.

Details: CSX's Earnings Distortion

Over the trailing twelve months (TTM) period, CSX had \$221 million in net earnings distortion that cause earnings to be overstated. Notable unusual income buried in the fine print of the firm's 2018 10-K include:

- \$154 million in gain on property dispositions – [Page 57](#)
- \$74 million in other income – [Page 94](#)

The gain on property dispositions comes from CSX selling off some of its real estate assets and rail lines. CSX's other income is primarily from non-operating pension plan gains.

¹ Note that Earnings Distortion scores will be added to our website via a new column on the Screeners and Portfolios page in January 2020.



In total, we identified \$0.27/share (6% of reported EPS) in net unusual expenses in CSX's TTM results. After removing this earnings distortion from GAAP net income, we see that CSX's TTM core earnings of \$3.92/share are significantly below its GAAP EPS of \$4.19.

The analyst consensus for CSX's Q4 2019 earnings is \$1.02/share, which comes out to \$4.08/share on an annualized basis. Investors who only look at GAAP net income will think that analysts are projecting CSX's earnings to decline. By removing earnings distortion, we show that consensus estimates imply significant growth. As a result, we expect CSX to miss earnings estimates.

Figure 1 shows that CSX is one of four companies we expect to miss earnings expectations for the week of 1/13. Two companies get our "Beat" rating, and two more are "Strong Beat", which means we are especially confident that those stocks will beat expectations.

How to Make Money with Earnings Distortion Data

"Trading strategies that exploit {adjustments provided by New Constructs} produce abnormal returns of 7-to-10% per year." – Page 1 in [Core Earnings: New Data & Evidence](#)

In Section 4.3 of [Core Earnings: New Data and Evidence](#), professors from HBS & MIT Sloan present a long/short strategy that holds the stocks with the most understated EPS and shorts the stocks with the most overstated earnings. Positions are opened in the month each 10-K is filed and held until the next 10-K is filed, or about a year.

This simple, low turnover strategy produced abnormal returns of 7-to-10% a year. These abnormal returns show that the market misses important data in the footnotes and that investors who adjust for unusual items can make more money. Click [here](#) for more details on our data offerings.

For more on how to use core earnings and earnings distortion to pick better stocks, click [here](#).

This article originally published on [January 6, 2020](#).

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

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.

**Appendix: All Major Companies That Report January 13-17**

Figure 2 shows all the S&P 500 companies, plus those with market caps greater than \$10 billion, that report earnings the week of January 13, 2020.

Figure 2: Earnings Distortion Scorecard: Week of 1/13/20-1/17/20

Company	Ticker	EPS Estimate	Earnings Date	Earnings Distortion Score
UnitedHealth Group Inc	UNH	\$3.77	1/13/20	In-Line
Delta Air Lines Inc	DAL	\$1.39	1/13/20	Miss
IHS Markit Ltd	INFO	\$0.61	1/13/20	In-Line
United Airlines Holdings Inc	UAL	\$2.63	1/13/20	In-Line
First Republic Bank	FRC	\$1.27	1/13/20	In-Line
JPMorgan Chase & Co	JPM	\$2.30	1/14/20	In-Line
Wells Fargo & Co	WFC	\$1.10	1/14/20	In-Line
Citigroup Inc	C	\$1.87	1/14/20	In-Line
BlackRock Inc	BLK	\$7.34	1/14/20	In-Line
Charles Schwab Corp	SCHW	\$0.63	1/14/20	In-Line
CSX Corp	CSX	\$1.02	1/14/20	Miss
Kinder Morgan Inc	KMI	\$0.26	1/14/20	In-Line
Bank of America Corp	BAC	\$0.70	1/15/20	In-Line
Netflix Inc	NFLX	\$0.52	1/15/20	Miss
American Express Co	AXP	\$2.02	1/15/20	In-Line
U.S. Bancorp	USB	\$1.09	1/15/20	In-Line
Morgan Stanley	MS	\$1.09	1/15/20	In-Line
Goldman Sachs Group Inc	GS	\$5.57	1/15/20	In-Line
PNC Financial Services Group	PNC	\$2.93	1/15/20	In-Line
PPG Industries Inc	PPG	\$1.34	1/15/20	Beat
Atlassian Corporation PLC	TEAM	\$0.27	1/15/20	Strong Beat
M&T Bank Corp	MTB	\$3.46	1/15/20	In-Line
People's United Financial Inc	PBCT	\$0.33	1/15/20	In-Line
Bank of New York Mellon Corp	BK	\$0.99	1/16/20	In-Line
VF Corp	VFC	\$1.21	1/16/20	Beat
State Street Corp	STT	\$1.65	1/16/20	In-Line
Kansas City Southern	KSU	\$1.87	1/16/20	In-Line
Schlumberger NV	SLB	\$0.38	1/17/20	Strong Beat
Fastenal Co	FAST	\$0.32	1/17/20	Miss
Citizens Financial Group Inc	CFG	\$0.95	1/17/20	In-Line
Regions Financial Corp	RF	\$0.39	1/17/20	In-Line

Sources: New Constructs, LLC and company filings



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



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 15 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.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.