



### Earnings Distortion Scorecard: Week of 2/3/20-2/7/20

For the week of 2/3/20-2/7/20, we focus on the [Earnings Distortion Scores](#) for 115 companies.

We measure [earnings distortion](#) using a proprietary human-assisted ML technology featured in [Core Earnings: New Data & Evidence](#). This paper empirically concludes that our “novel dataset” is superior to:

1. “Street Earnings” from Refinitiv’s IBES, owned by Blackstone (BX) and Thomson Reuters (TRI), and
2. “Income Before Special Items” from Compustat, owned by S&P Global (SPGI)

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The paper also shows that investors with [better earnings](#) research have a clear advantage in predicting:

1. Future earnings (Section 3.4)
2. Future stock prices (Section 4.3)

Our Earnings Distortion Scores<sup>1</sup> empower investors to make smarter investments with superior data as well as defend against management efforts to obfuscate financial performance. The aggregate level of earnings distortion recently reached [levels not seen since right before the tech bubble](#) and the financial crisis.

#### Weekly Earnings Distortion Insights

Figure 1 contains the 15 largest (by market cap) 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 February 3, 2020.

**Figure 1: Earnings Distortion Scorecard Highlights: Week of 2/3/20-2/7/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Alphabet Inc.	GOOGL	\$12.53	2/3/20	Miss
The Walt Disney Company	DIS	\$1.48	2/3/20	Miss
Becton Dickinson	BDX	\$2.64	2/3/20	Beat
Vertex Pharmaceuticals	VRTX	\$1.18	2/3/20	Strong Miss
TransDigm Group	TDG	\$4.42	2/3/20	Beat
Boston Scientific Corp	BSX	\$0.44	2/4/20	Beat
Humana Inc.	HUM	\$2.19	2/4/20	Miss
Regeneron Pharmaceuticals	REGN	\$6.87	2/4/20	Strong Miss
O'Reilly Automotive	ORLY	\$4.27	2/4/20	Miss
Qualcomm Inc.	QCOM	\$0.85	2/5/20	Strong Beat
General Motors	GM	\$0.07	2/5/20	Miss
Yum! Brands Inc	YUM	\$1.14	2/5/20	Strong Miss
WEC Energy Group	WEC	\$0.73	2/5/20	Miss
Phillips 66	PSX	\$2.50	2/6/20	Beat
Baxter International	BAX	\$0.86	2/6/20	Miss

Sources: New Constructs, LLC and company filings

<sup>1</sup> Note that Earnings Distortion scores will be added to our website on the Ratings and Portfolios pages in January 2020.



The appendix shows the Earnings Distortion Scores for all the S&P 500 companies, plus those with market caps greater than \$10 billion, that are expected to report earnings the week of February 3, 2020.

**Details: TDG's Earnings Distortion**

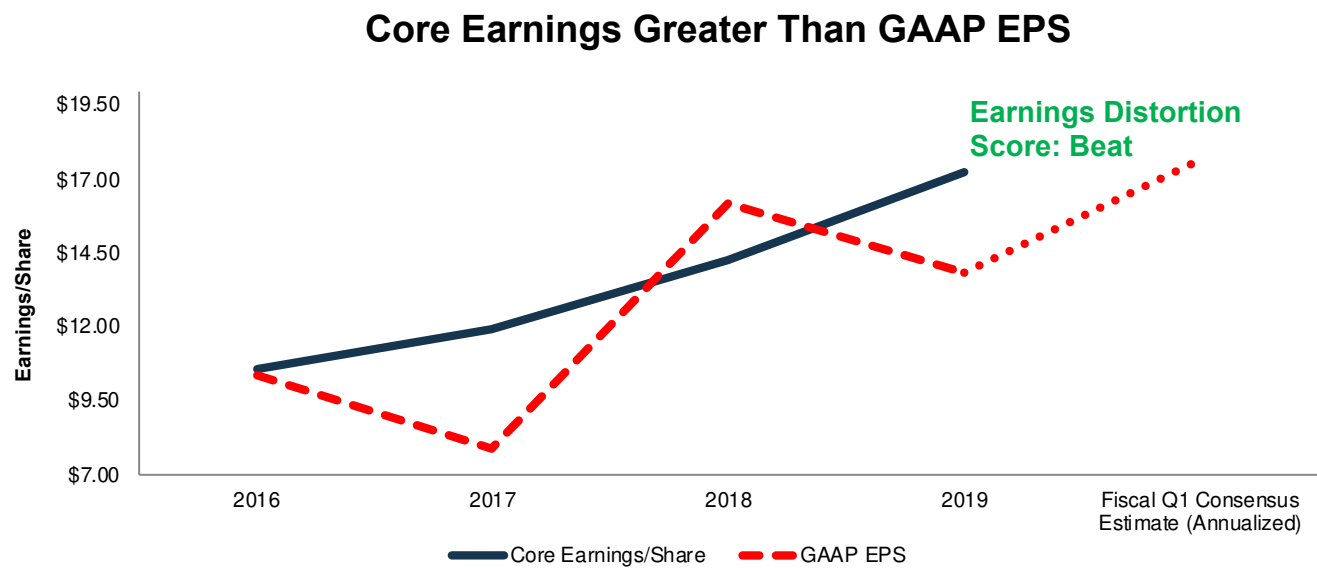
In 2019, TransDigm Group (TDG: \$657/share) had -\$193 million in net earnings distortion that cause earnings to be understated. Notable unusual expenses buried in the fine print of the firm's 2019 10-K include:

- \$77 million in amortization of inventory step-up expenses – [Page F-7](#) (Page 78 overall)
- \$61 million in acquisition integration costs – [Page 25](#)
- \$31 million in acquisition transaction-related expenses – [Page 25](#)

In total, we identified \$3.42/share (25% of reported EPS) in net unusual expenses in TDG's 2019 results. After removing this earnings distortion from GAAP net income, we see that TDG's 2019 core earnings of \$17.26/share are significantly above its GAAP EPS of \$13.84.

The analyst consensus for TDG's fiscal Q1 2020 earnings is \$4.42/share, which comes out to \$17.68/share on an annualized basis. Based on GAAP earnings, current analysts' estimates imply an increase of 28% in annualized earnings. Figure 2 shows that, after removing earnings distortion, consensus estimates imply a much more conservative increase of just 2%.

**Figure 2: TDG Core Earnings Vs. GAAP: 2016- Fiscal 1Q 2020**



Sources: New Constructs, LLC and company filings

Figure 1 shows that TDG is one of four companies that earn our “Beat” rating for this week. One company earns a “Strong Beat” rating, which means we’re more confident in its potential to beat earnings expectations than we are of those companies that earn a “Beat” rating.

**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, 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.

This strategy produced abnormal returns of 7-to-10% a year. Click [here](#) for more details on our data offerings.

**We Provide 100% Audit-ability & Transparency**

Clients can audit all of the unusual items used in our calculations in the [Marked-Up Filings section](#) of each of our [Company Valuation models](#). We are 100% transparent about what goes into our research because we want investors to trust our work and see how much goes into building the best earnings quality and valuation models.



*This article originally published on [January 27, 2020](#).*

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

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**Appendix: All Major Companies That Report February 3-7**

Figure 3 shows all the S&P 500 companies, plus those with market caps greater than \$10 billion, that are expected to report earnings the week of February 3, 2020.

**Figure 3: Earnings Distortion Scorecard: Week of 2/3/20-2/7/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Alphabet Inc	GOOGL	\$12.53	2/3/20	Miss
The Walt Disney Company	DIS	\$1.48	2/3/20	Miss
Gilead Sciences Inc.	GILD	\$1.67	2/3/20	In-line
Becton Dickinson and Co.	BDX	\$2.64	2/3/20	Beat
Vertex Pharmaceuticals Inc.	VRTX	\$1.18	2/3/20	Strong Miss
Emerson Electric Co.	EMR	\$0.67	2/3/20	In-line
Sysco Corp	SYU	\$0.84	2/3/20	In-line
TransDigm Group Inc.	TDG	\$4.42	2/3/20	Beat
AvalonBay Communities Inc.	AVB	\$1.22	2/3/20	Miss
Microchip Technology Inc.	MCHP	\$1.23	2/3/20	Miss
Snap Inc.	SNAP	\$0.01	2/3/20	Miss
Digital Realty Trust Inc.	DLR	\$0.25	2/3/20	In-line
Alexion Pharmaceuticals Inc.	ALXN	\$2.54	2/3/20	Miss
Archer Daniels Midland Co.	ADM	\$0.72	2/3/20	In-line
Cerner Corp	CERN	\$0.74	2/3/20	In-line
Ametek Inc.	AME	\$1.03	2/3/20	In-line
Hartford Financial Services Group Inc.	HIG	\$1.26	2/3/20	In-line
Skyworks Solutions Inc.	SWKS	\$1.65	2/3/20	In-line
Clorox Co.	CLX	\$1.31	2/3/20	Miss
Alexandria Real Estate Equities Inc.	ARE	\$0.68	2/3/20	In-line
Church & Dwight Co Inc.	CHD	\$0.55	2/3/20	Miss
WellCare Health Plans Inc.	WCG	\$2.17	2/3/20	In-line
Paycom Software Inc.	PAYC	\$0.78	2/3/20	In-line
Markel Corp	MKL	\$8.81	2/3/20	Miss
Seagate Technology PLC	STX	\$1.32	2/3/20	Strong Miss
Gartner Inc.	IT	\$0.85	2/3/20	Miss
Atmos Energy Corp	ATO	\$1.49	2/3/20	In-line
Jack Henry & Associates Inc.	JKHY	\$0.89	2/3/20	Miss
Aramark	ARMK	\$0.61	2/3/20	Miss
Globe Life Inc.	GL	\$1.71	2/3/20	In-line
Ralph Lauren Corp	RL	\$2.44	2/3/20	Beat
Leggett & Platt Inc.	LEG	\$0.66	2/3/20	In-line
Unum Group	UNM	\$1.39	2/3/20	In-line

Sources: New Constructs, LLC and company filings

**Figure 3: Earnings Distortion Scorecard: Week of 2/3/20-2/7/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Affiliated Managers Group Inc.	AMG	\$4.10	2/3/20	In-line
Chubb Ltd	CB	\$2.54	2/4/20	In-line
Boston Scientific Corp	BSX	\$0.44	2/4/20	Beat
Humana Inc.	HUM	\$2.19	2/4/20	Miss
Metlife Inc.	MET	\$1.37	2/4/20	In-line
Regeneron Pharmaceuticals Inc.	REGN	\$6.87	2/4/20	Strong Miss
Aflac Inc.	AFL	\$1.02	2/4/20	In-line
Prudential Financial Inc.	PRU	\$2.53	2/4/20	In-line
NXP Semiconductors NV	NXPI	\$2.01	2/4/20	In-line
Allstate Corp	ALL	\$2.75	2/4/20	In-line
Ford Motor Co	F	\$0.16	2/4/20	In-line
Cognizant Technology Solutions Corp	CTSH	\$1.04	2/4/20	In-line
O'Reilly Automotive Inc.	ORLY	\$4.27	2/4/20	Miss
Spotify Technology SA	SPOT	-\$0.25	2/4/20	Beat
Centene Corp	CNC	\$0.73	2/4/20	In-line
Cummins Inc.	CMI	\$2.44	2/4/20	Miss
Fleetcor Technologies Inc.	FLT	\$3.13	2/4/20	Miss
Willis Towers Watson PLC	WLTW	\$4.86	2/4/20	In-line
Match Group Inc.	MTCH	\$0.44	2/4/20	In-line
Chipotle Mexican Grill Inc.	CMG	\$0.06	2/4/20	In-line
Twenty-First Century Fox Inc.	FOXA	-\$0.02	2/4/20	In-line
Fortinet Inc.	FTNT	\$0.70	2/4/20	Strong Miss
Cincinnati Financial Corp	CINF	\$1.08	2/4/20	Miss
Take-Two Interactive Software Inc.	TTWO	\$1.74	2/4/20	Strong Miss
Lincoln National Corp	LNC	\$2.37	2/4/20	In-line
Trimble Inc.	TRMB	\$0.47	2/4/20	Miss
Capri Holdings Ltd	CPRI	\$1.59	2/4/20	Beat
Merck & Co Inc.	MRK	\$1.15	2/5/20	In-line
Philip Morris International Inc.	PM	\$1.22	2/5/20	In-line
Qualcomm Inc.	QCOM	\$0.85	2/5/20	Strong Beat
Fiserv Inc.	FISV	\$1.14	2/5/20	In-line
S&P Global Inc.	SPGI	\$2.41	2/5/20	In-line
T-Mobile US Inc.	TMUS	\$0.84	2/5/20	In-line
General Motors Co.	GM	\$0.07	2/5/20	Miss
Marathon Petroleum Corp	MPC	\$1.18	2/5/20	In-line
Tyson Foods Inc.	TSN	\$1.62	2/5/20	In-line
Yum! Brands Inc.	YUM	\$1.14	2/5/20	Strong Miss

Sources: New Constructs, LLC and company filings

**Figure 3: Earnings Distortion Scorecard: Week of 2/3/20-2/7/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
WEC Energy Group Inc.	WEC	\$0.73	2/5/20	Miss
Republic Services Inc.	RSG	\$0.85	2/5/20	Miss
Motorola Solutions Inc.	MSI	\$2.78	2/5/20	In-line
Fortive Corp.	FTV	\$0.98	2/5/20	Strong Miss
Verisign Inc.	VRSN	\$1.33	2/5/20	Strong Miss
DTE Energy Co.	DTE	N/A	2/5/20	Miss
Kellogg Co.	K	\$0.85	2/5/20	In-line
IAC/InterActiveCorp	IAC	\$1.11	2/5/20	Strong Miss
CDW Corp	CDW	\$1.48	2/5/20	In-line
Mettler-Toledo International Inc.	MTD	\$7.68	2/5/20	Miss
Seattle Genetics Inc.	SGEN	-\$0.46	2/5/20	Beat
Laboratory Corporation of America	LH	\$2.80	2/5/20	In-line
Credicorp Ltd	BAP	\$4.20	2/5/20	In-line
Old Dominion Freight Line Inc.	ODFL	\$1.85	2/5/20	Miss
Expedia Group Inc.	EXPE	\$1.19	2/5/20	In-line
Cardinal Health Inc.	CAH	\$1.24	2/5/20	Strong Beat
Broadridge Financial Solutions Inc.	BR	\$0.71	2/5/20	In-line
Masco Corp	MAS	\$0.52	2/5/20	Beat
Alnylam Pharmaceuticals Inc.	ALNY	-\$2.23	2/5/20	In-line
Qorvo Inc.	QRVO	\$1.67	2/5/20	Miss
Western Union Co.	WU	\$0.43	2/5/20	Strong Miss
Medical Properties Trust Inc.	MPW	\$0.24	2/5/20	In-line
Mohawk Industries Inc.	MHK	\$2.20	2/5/20	Miss
Snap-On Inc.	SNA	\$0.01	2/5/20	Miss
DXC Technology Co.	DXC	\$1.11	2/5/20	Strong Beat
News Corp	NWSA	\$0.15	2/5/20	Beat
Tapestry Inc.	TPR	\$0.99	2/5/20	In-line
Sealed Air Corp	SEE	\$0.74	2/5/20	Miss
Alliance Data Systems Corp	ADS	\$4.41	2/5/20	In-line
HanesBrands Inc.	HBI	\$0.51	2/5/20	Beat
Macerich Co.	MAC	\$0.19	2/5/20	In-line
Estee Lauder Companies Inc.	EL	N/A	2/6/20	In-line
Cigna Corp	CI	\$4.20	2/6/20	In-line
Intercontinental Exchange Inc.	ICE	\$0.98	2/6/20	In-line
Phillips 66	PSX	\$2.50	2/6/20	Beat

Sources: New Constructs, LLC and company filings



**Figure 3: Earnings Distortion Scorecard: Week of 2/3/20-2/7/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Baxter International Inc.	BAX	\$0.86	2/6/20	Miss
Exelon Corp	EXC	\$0.75	2/6/20	In-line
Twitter Inc.	TWTR	\$0.28	2/6/20	Strong Miss
Ventas Inc.	VTR	\$0.28	2/6/20	Miss
Xylem Inc.	XYL	\$0.89	2/6/20	In-line
Hasbro Inc.	HAS	\$0.97	2/6/20	Beat
CBOE Global Markets	CBOE	\$1.13	2/6/20	In-line
Ubiquiti Inc	UI	\$1.47	2/6/20	Strong Beat
National Oilwell Varco	NOV	\$0.16	2/6/20	Strong Beat
Coty Inc.	COTY	\$0.25	2/6/20	Strong Beat

Sources: New Constructs, LLC and company filings



## ***Footnotes adjustments matter. We are the ONLY source.***

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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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