Earnings Distortion Scorecard: Week of 3/16/20-3/20/20

For the week of 3/16/20-3/20/20, we focus on the Earnings Distortion Scores for 18 companies.

Our proprietary measure of earnings distortion (as featured on CNBC Squawk Box) leverages cutting-edge ML technology featured in Core Earnings: New Data & Evidence. This paper empirically concludes that our adjusted core earnings are 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)

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[1] empower investors to make smarter investments with superior data as well as defend against management efforts to obfuscate financial performance. Earnings distortion for the overall market 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) companies that earn a "Strong Beat', "Beat", or "Miss" Earnings Distortion Score and are expected to report the week of March 16, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 3/16/20-3/20/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Uniti Group Inc.	UNIT	$0.02	3/16/20	Miss
Revlon Inc.	REV	$0.00	3/16/20	Beat
One Liberty Properties Inc.	OLP	$0.19	3/16/20	Miss
Contango Oil & Gas Co.	MCF	-$0.08	3/16/20	Strong Beat
FedEx Corp	FDX	$1.73	3/17/20	Beat
AAR Corp	AIR	$0.66	3/17/20	Beat
Designer Brands Inc.	DBI	-$0.06	3/17/20	Beat
Michaels Companies Inc.	MIK	$1.29	3/17/20	Beat
General Mills Inc.	GIS	$0.76	3/18/20	Miss
Herman Miller Inc.	MLHR	$0.69	3/18/20	Miss
Worthington Industries Inc.	WOR	$0.68	3/18/20	Beat
Guess? Inc.	GES	$1.11	3/18/20	Beat
Raven Industries Inc.	RAVN	$0.05	3/18/20	Miss
Cintas Corp	CTAS	$2.02	3/19/20	Miss
Actuant Corp	EPAC	$0.12	3/19/20	Strong Beat

Sources: New Constructs, LLC and company filings

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 the week of March 16, 2020.

[1] Note that Earnings Distortion scores are also available to clients of our website.

Details: FDX's Earnings Distortion

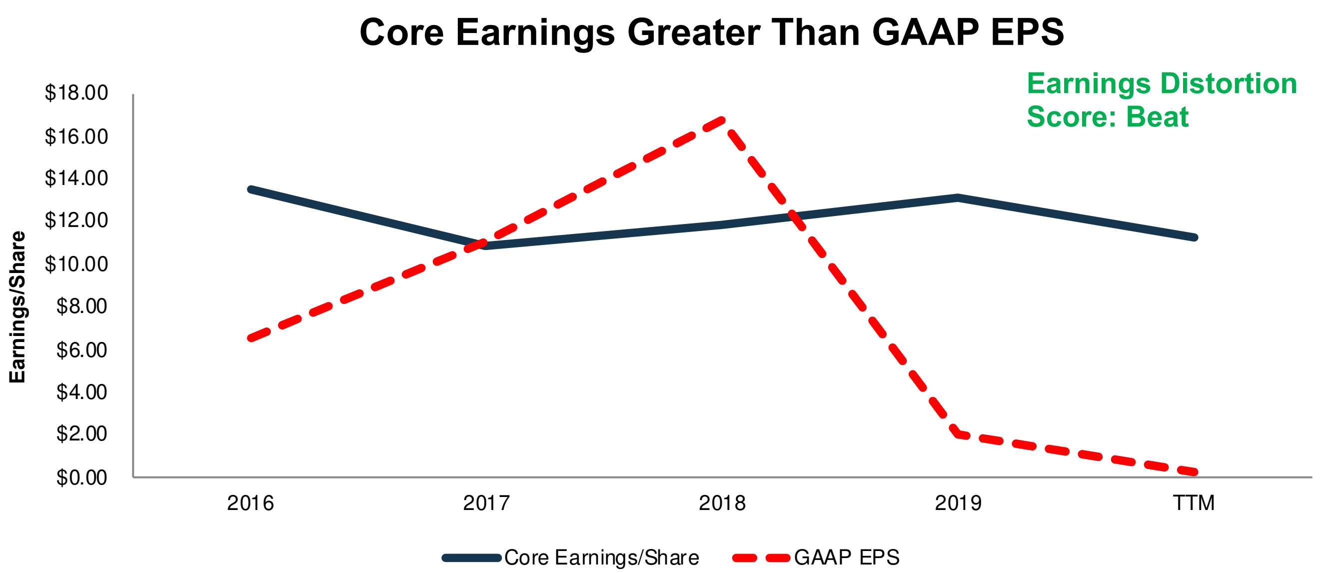
Over the trailing twelve months (TTM), FDX had -$2.9 billion in net earnings distortion that cause earnings to be understated. Notable unusual expenses both hidden and reported in FDX's 2019 10-K include:

- $3.3 billion in other retirement plan expense – Page 102
- $388 million in integration expenses related to the acquisition of TNT Express – Page 53
- $320 million in business realignment costs – Page 102
- $46 million in costs related to a FedEx Ground legal settlement – Page 133

In total, we identified $10.97/share (>100% of GAAP EPS) in net unusual expenses in FDX's TTM GAAP results. After removing this earnings distortion, FDX's TTM core earnings of $11.25/share are significantly higher than GAAP EPS of $0.28, per Figure 2.

With understated earnings, and a "Beat" Earnings Distortion Score, FDX is likely to beat consensus expectations.

Figure 2: FDX Core Earnings Vs. GAAP: 2016 – TTM



Sources: New Constructs, LLC and company filings

Figure 1 shows that FDX is one of nine companies that earn our "Beat" or "Strong Beat" rating for this week.

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.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler 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 Expected to Report March 16-20

Figure 3 shows all the S&P 500 companies, plus those with market caps greater than $10 billion, that are expected to report the week of March 16, 2020.

Figure 3: Earnings Distortion Scorecard: Week of 3/16/20-3/20/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
FedEx Corp	FDX	$1.73	3/17/20	Beat
General Mills Inc.	GIS	$0.76	3/18/20	Miss
Cintas Corp	CTAS	$2.02	3/19/20	Miss
Conagra Brands Inc.	CAG	$0.50	3/19/20	In-line
Darden Restaurants Inc.	DRI	$1.87	3/19/20	In-line
Tiffany & Co.	TIF	$1.77	3/20/20	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

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