



## Earnings Distortion Scorecard: Week of 5/4/20-5/8/20

For the week of 5/4/20-5/8/20, we focus on the [Earnings Distortion Scores](#) for 112 companies.

Our proprietary measure of [earnings distortion](#) (as featured on [CNBC Squawk Box](#)) leverages proprietary data featured in [Core Earnings: New Data & Evidence](#). This paper empirically concludes that our adjusted core earnings are superior to “Income Before Special Items” from Compustat, owned by S&P Global (SPGI).

COVID-19 is [not disrupting](#) our data collection and research. Our [Robo-Analyst](#) is more effective than ever.

Get the best fundamental research

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. 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” or “Strong Miss” Earnings Distortion Score and are expected to report the week of May 4, 2020.

**Figure 1: Earnings Distortion Scorecard Highlights: Week of 5/4/20-5/8/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Allergan PLC	AGN	\$3.97	5/5/20	Strong Beat
Newmont Corporation	NEM	\$0.42	5/5/20	Strong Miss
Electronic Arts Inc.	EA	\$0.98	5/5/20	Strong Miss
Equity Residential	EQR	\$0.33	5/5/20	Strong Miss
Western Union Co.	WU	\$0.42	5/5/20	Strong Miss
Henry Schein Inc.	HSIC	\$0.75	5/5/20	Strong Miss
Square Inc.	SQ	\$0.13	5/6/20	Strong Miss
Bio Rad Laboratories Inc.	BIO	\$1.61	5/6/20	Strong Miss
CenturyLink Inc.	CTL	\$0.35	5/6/20	Strong Beat
Jacobs Engineering Group Inc.	J	\$1.30	5/6/20	Strong Miss
Sarepta Therapeutics Inc.	SRPT	-\$1.87	5/6/20	Strong Beat
Booking Holdings Inc.	BKNG	\$6.19	5/7/20	Strong Miss
Microchip Technology Inc.	MCHP	\$1.34	5/7/20	Strong Miss
JD.com Inc.	JD	\$0.81	5/8/20	Strong Miss
Ubiquiti Inc.	UI	\$1.33	5/8/20	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 May 4, 2020.

<sup>1</sup> Earnings Distortion scores on ~3,0000 stocks are also available to clients of our website.



**Details: Western Union (WU): Strong Miss Earnings Distortion Score**

We first made Western Union (WU) a [Long Idea](#) in [September 2018](#) and reiterated the position in [October 2019](#). In 2019, Western Union had \$342 million in net earnings distortion that cause earnings to be overstated. Notable unusual income in WU’s 2019 10-K includes:

- [\\$525 million](#) gain on divestitures of businesses reported on the income statement

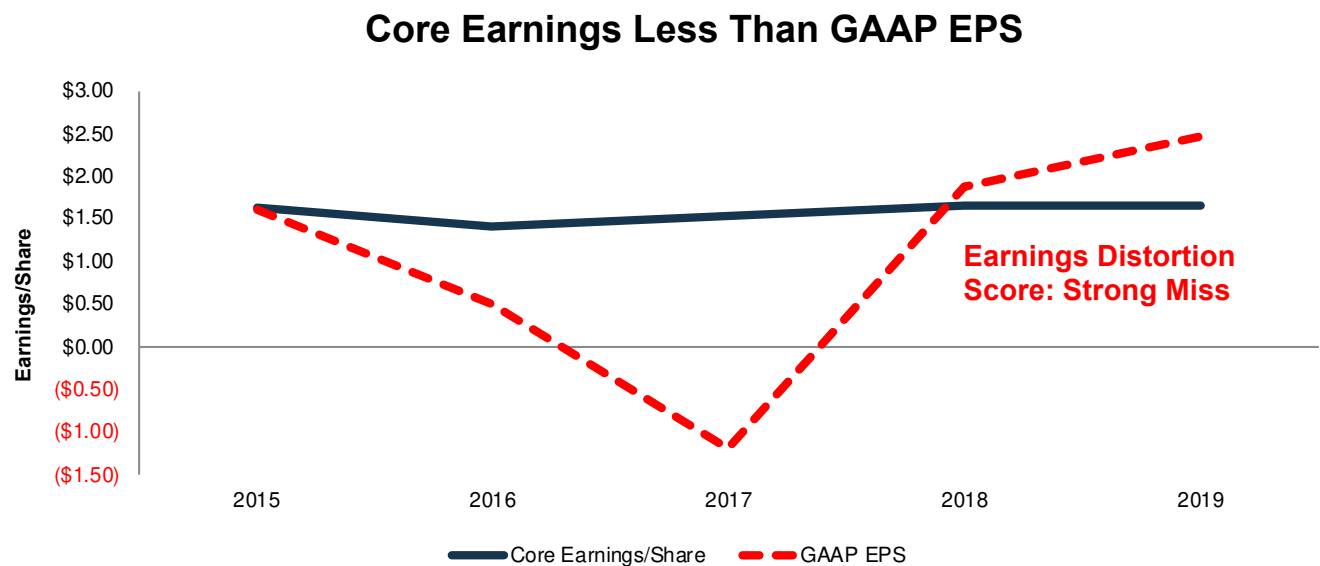
This unusual income was partially offset by notable unusual expenses [hidden](#) in WU’s 2019 10-K:

- [\\$76 million](#) in restructuring-related expenses included in selling, general, and administrative expense – Page 92
- [\\$40 million](#) in restructuring-related expenses included in cost of services – Page 92

In total, we identified \$0.79/share (32% of GAAP EPS) in net unusual income in WU’s 2019 GAAP results. After removing this earnings distortion, WU’s 2019 core earnings of \$1.66/share are lower than GAAP EPS of \$2.46, per Figure 2.

With overstated earnings, WU gets our “Strong Miss” Earnings Distortion Score and is likely to miss consensus expectations. While we expect WU to miss expectations in the short term, its high ROIC and cheap valuation earn it a Neutral [Risk/Reward rating](#), which focuses on the long term.

**Figure 2: WU Core Earnings Vs. GAAP: 2015 – 2019**



Sources: New Constructs, LLC and company filings

Figure 1 shows that WU is one of 11 companies that earn our “Strong Miss” score 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.

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



*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 May 4 – May 8**

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 May 4, 2020.

**Figure 3: Earnings Distortion Scorecard: Week of 5/4/20-5/8/20**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Sempra Energy	SRE	\$2.16	5/4/20	Miss
Public Service Enterprise Group Inc.	PEG	\$1.01	5/4/20	Miss
Tyson Foods Inc.	TSN	\$1.03	5/4/20	Miss
Williams Companies Inc.	WMB	\$0.26	5/4/20	In-line
American International Group Inc.	AIG	\$0.74	5/4/20	In-line
Realty Income Corp	O	\$0.45	5/4/20	In-line
Skyworks Solutions Inc.	SWKS	\$1.33	5/4/20	Miss
Steris PLC	STE	\$1.60	5/4/20	In-line
Pioneer Natural Resources Co.	PXD	\$1.46	5/4/20	Beat
Vornado Realty Trust	VNO	\$0.15	5/4/20	Strong Miss
Diamondback Energy Inc.	FANG	\$1.43	5/4/20	Beat
Mosaic Co.	MOS	-\$0.08	5/4/20	Strong Beat
Leggett & Platt Inc.	LEG	\$0.34	5/4/20	In-line
Unum Group	UNM	\$1.38	5/4/20	In-line
Walt Disney Co.	DIS	\$0.88	5/5/20	Miss
Dominion Energy Inc.	D	\$1.14	5/5/20	Beat
Allergan PLC	AGN	\$3.97	5/5/20	Strong Beat
Regeneron Pharmaceuticals Inc.	REGN	\$6.27	5/5/20	Miss
Activision Blizzard Inc.	ATVI	\$0.38	5/5/20	Miss
Newmont Corporation	NEM	\$0.42	5/5/20	Strong Miss
Electronic Arts Inc.	EA	\$0.98	5/5/20	Strong Miss
Allstate Corp	ALL	\$3.42	5/5/20	Miss
DuPont de Nemours Inc.	DD	\$0.74	5/5/20	Beat
Sysco Corp	SYZ	\$0.61	5/5/20	In-line
Equity Residential	EQR	\$0.33	5/5/20	Strong Miss
Verisk Analytics Inc.	VRSK	\$1.13	5/5/20	In-line
KLA Corp	KLAC	\$2.28	5/5/20	Miss
Match Group Inc.	MTCH	\$0.34	5/5/20	Miss
Prudential Financial Inc.	PRU	\$2.79	5/5/20	In-line
Trane Technologies PLC	TT	\$0.52	5/5/20	In-line
Fleetcor Technologies Inc.	FLT	\$2.86	5/5/20	Miss
TransDigm Group Inc.	TDG	\$4.40	5/5/20	Beat
Marathon Petroleum Corp	MPC	-\$0.30	5/5/20	Beat
Marathon Petroleum Corp	MPC	-\$0.30	5/5/20	Beat
Arista Networks Inc.	ANET	\$1.81	5/5/20	Miss
Leidos Holdings Inc.	LDOS	\$1.19	5/5/20	Miss
Healthpeak Properties Inc.	PEAK	\$0.02	5/5/20	In-line
Xylem Inc.	XYL	\$0.37	5/5/20	Beat
Expeditors International	EXPD	\$0.64	5/5/20	In-line
Occidental Petroleum Corp	OXY	-\$0.62	5/5/20	Beat

Sources: New Constructs, LLC and company filings



Figure 3: Earnings Distortion Scorecard: Week of 5/4/20-5/8/20 (continued)

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
PerkinElmer Inc.	PKI	\$0.55	5/5/20	Beat
DaVita Inc.	DVA	\$1.47	5/5/20	In-line
Gartner Inc.	IT	\$0.32	5/5/20	Miss
Mylan NV	MYL	\$0.87	5/5/20	Beat
Western Union Co.	WU	\$0.42	5/5/20	Strong Miss
Westrock Co.	WRK	\$0.61	5/5/20	In-line
Henry Schein Inc.	HSIC	\$0.75	5/5/20	Strong Miss
A. O. Smith Corp	AOS	\$0.35	5/5/20	Miss
Sealed Air Corp	SEE	\$0.58	5/5/20	Beat
Shopify Inc.	SHOP	-\$0.18	5/6/20	In-line
Zoetis Inc.	ZTS	\$0.86	5/6/20	Beat
Equinix Inc.	EQIX	\$1.79	5/6/20	In-line
Waste Management Inc.	WM	\$0.90	5/6/20	In-line
General Motors Co.	GM	\$0.36	5/6/20	In-line
Metlife Inc.	MET	\$1.44	5/6/20	In-line
Square Inc.	SQ	\$0.13	5/6/20	Strong Miss
American Water Works Company Inc.	AWK	\$0.66	5/6/20	In-line
ANSYS Inc.	ANSS	\$0.80	5/6/20	Miss
RingCentral Inc.	RNG	\$0.18	5/6/20	In-line
IAC/InterActiveCorp	IAC	\$0.13	5/6/20	Miss
Fortinet Inc.	FTNT	\$0.51	5/6/20	Miss
Essex Property Trust Inc.	ESS	\$1.46	5/6/20	Miss
Carvana Co.	CVNA	-\$0.61	5/6/20	In-line
Bio Rad Laboratories Inc.	BIO	\$1.61	5/6/20	Strong Miss
Atmos Energy Corp	ATO	\$1.94	5/6/20	In-line
Mid-America Apartment Communities	MAA	\$0.59	5/6/20	Miss
Invitation Homes Inc.	INVH	\$0.05	5/6/20	Miss
CenturyLink Inc.	CTL	\$0.35	5/6/20	Strong Beat
UDR Inc.	UDR	\$0.03	5/6/20	Miss
Jacobs Engineering Group Inc.	J	\$1.30	5/6/20	Strong Miss
Everest Re Group Ltd	RE	\$6.61	5/6/20	Miss
Albemarle Corp	ALB	\$0.83	5/6/20	In-line
Federal Realty Investment Trust	FRT	\$0.73	5/6/20	Miss
Lincoln National Corp	LNC	\$2.19	5/6/20	In-line
BorgWarner Inc.	BWA	\$0.63	5/6/20	In-line
Coty Inc.	COTY	\$0.02	5/6/20	Strong Beat
Marathon Oil Corp	MRO	-\$0.12	5/6/20	Miss
Bristol-Myers Squibb Co.	BMJ	\$1.48	5/7/20	In-line
Becton Dickinson and Co.	BDX	\$2.37	5/7/20	Beat
Booking Holdings Inc.	BKNG	\$6.19	5/7/20	Strong Miss
Xcel Energy Inc.	XEL	\$0.60	5/7/20	Miss
Digital Realty Trust Inc.	DLR	\$0.27	5/7/20	Miss
Cognizant Technology Solutions Corp	CTSH	\$0.93	5/7/20	Beat

Sources: New Constructs, LLC and company filings



**Figure 3: Earnings Distortion Scorecard: Week of 5/4/20-5/8/20 (continued)**

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
EOG Resources Inc.	EOG	\$0.70	5/7/20	In-line
Liberty Broadband Corp	LBRDK	\$0.56	5/7/20	In-line
Ball Corp	BLL	\$0.60	5/7/20	In-line
HP Inc.	HPQ	\$0.45	5/7/20	Beat
Microchip Technology Inc.	MCHP	\$1.34	5/7/20	Strong Miss
AmerisourceBergen Corp	ABC	\$2.27	5/7/20	Beat
Mettler-Toledo International Inc.	MTD	\$3.80	5/7/20	Miss
CBRE Group Inc.	CBRE	\$0.72	5/7/20	Miss
Insulet Corp	PODD	\$0.01	5/7/20	In-line
Credicorp Ltd	BAP	\$3.98	5/7/20	In-line
EPAM Systems Inc.	EPAM	\$1.39	5/7/20	In-line
Qorvo Inc.	QRVO	\$1.33	5/7/20	Miss
AES Corp	AES	\$0.30	5/7/20	Beat
CenterPoint Energy Inc.	CNP	\$0.44	5/7/20	Beat
Wynn Resorts Ltd	WYNN	-\$0.72	5/7/20	In-line
Huntington Ingalls Industries Inc.	HII	\$4.53	5/7/20	In-line
Regency Centers Corp	REG	\$0.36	5/7/20	In-line
Apartment Investment	AIV	\$0.08	5/7/20	Strong Miss
News Corp	NWSA	\$0.02	5/7/20	Beat
HollyFrontier Corp	HFC	\$0.42	5/7/20	Beat
Norwegian Cruise Line Holdings Ltd	NCLH	-\$0.31	5/7/20	In-line
JD.com Inc.	JD	\$0.81	5/8/20	Strong Miss
Exelon Corp	EXC	\$0.85	5/8/20	Miss
Marriott International Inc.	MAR	\$0.93	5/8/20	In-line
Broadridge Financial Solutions Inc.	BR	\$1.72	5/8/20	Miss
Pinnacle West Capital Corp	PNW	\$0.15	5/8/20	Miss
Kimco Realty Corp	KIM	\$0.18	5/8/20	In-line

Sources: New Constructs, LLC and company filings



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

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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:

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- **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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