



## Earnings Distortion Scorecard: Calendar 2Q20 Earnings Season Preview

Welcome to our quarterly review of which companies are most likely to beat or miss earnings estimates based on abnormally low or high [earnings distortion](#).

The COVID-driven economic shutdown is hurting corporate earnings, but not as much as Wall Street analysts would have you think. We scrub the numbers to provide our clients with a [better measure of earnings and valuation](#).

Superior analysis of core earnings, as shown by [Harvard Business School \(HBS\) and MIT Sloan](#), enables us to identify which firms have the most distortion (i.e. unusual gains/losses) in their reported numbers. Note that metrics like Street Earnings (from Refinitiv) and Operating Earnings (from S&P Global) are missing \$0.45 out of every \$1.00 of earnings distortion found by our Robo-Analyst according to [HBS and MIT Sloan](#).

[Learn more about the best fundamental research](#)

As corporate managers bury key data in footnotes to manipulate earnings, and investors miss them, investment opportunities arise because stocks' prices tend to be driven by [core earnings](#) power.

Only our research gives investors the tools they need to accurately measure core earnings<sup>1</sup>.

**Every week** during the upcoming earnings season, we will publish an [Earnings Distortion Scorecard](#) focused on key companies reporting the following week. We segment these companies into five categories:

1. Strong Beat
2. Beat
3. In-line
4. Miss
5. Strong Miss

These [Earnings Distortion Scores](#) are a short-term predictor of the likelihood of a company to miss expectations in the next quarter based on how much their estimates contain unusual gains/losses which cause earnings to be over/understated.

### Earnings Season Weekly Reports

Starting the week of July 6, 2020, we'll break down the important earnings releases for the following week. In this analysis, you'll get-up-to date information regarding a stock's earnings release date and its Earnings Distortion Score on the likelihood of beating or missing consensus expectations.

This report will be available to Gold and higher members.

Each week, we will focus on the following companies:

<sup>1</sup> Our core earnings are a superior measure of profits, as demonstrated in [Core Earnings: New Data & Evidence](#) a paper by professors at Harvard Business School (HBS) & MIT Sloan. The paper empirically shows that our data is superior to "Operating Income After Depreciation" and "Income Before Special Items" from Compustat, owned by S&P Global (SPGI).



**Week of 7/6/20:** ABT, BAC, BK, BLK, C, CFG, CTAS, DHR, DOV, DPZ, EBAY, ETFC, FAST, FRC, GS, HON, JBHT, JNJ, JPM, KMI, KSU, MS, MSFT, NFLX, NUE, NVR, OMC, PEP, PGR, PNC, PPG, RF, SCHW, SGEN, SNA, STT, TFC, TXT, UAL, UNH, USB, WFC

**Week of 7/13/20:** AAL, ABBV, ADS, AEP, AGR, AJG, ALGN, ALK, ALLE, ALXN, AMGN, AMP, AMZN, APD, APH, AVY, AXP, BA, BIIB, BKR, CDNS, CE, CERN, CHKP, CMA, CMG, CMS, CNC, COF, COG, CSX, CTXS, DFS, EDU, ELS, ESS, EW, FE, FTV, GD, GOOGL, HAL, HAS, HOG, HSY, HSY, IBM, IEX, INTC, IPG, ISRG, ITW, KKR, KO, LH, LMT, LUV, LVS, LW, MTB, NEM, NSC, ORLY, PCAR, PKG, PLD, PM, PNR, POOL, RCL, RHI, ROK, RTX, SCCO, SLB, SLG, SNAP, SUI, SYF, T, TEAM, TEL, TER, TRV, TSCO, TWTR, TXN, UNP, V, VFC, VMC, VTR, VZ, WHR, WRB, YNDX, ZION

**Week of 7/20/20:** AAPL, ABC, ABMD, ADM, ADP, AEE, AFL, AIV, AKAM, AMD, AME, AMT, ANET, ANTM, AON, AOS, APA, APO, APTV, ARE, ATUS, AVB, AYX, BAH, BAX, BEN, BIO, BLL, BMRN, BR, BRO, BSX, BXP, CAT, CB, CBRE, CCI, CDAY, CDW, CF, CGNX, CHD, CHRW, CHTR, CI, CINF, CL, CLX, CMCSA, CME, CMI, COP, CSGP, CTSH, CTVA, CVX, CXO, D, DD, DHI, DISH, DLR, DRE, DVA, DXCM, EA, ECL, ED, EIX, EPD, EQIX, EQR, ES, ETN, ETR, ETSY, EXAS, EXC, EXR, F, FBHS, FICO, FLS, FMC, FTI, FTNT, GDDY, GE, GILD, GPC, GPN, GRMN, HBI, HCA, HES, HIG, HII, HOLX, HWM, ICE, IDXX, INCY, INVH, IP, IGP, IR, IRM, IT, JCI, JNPR, K, LDOS, LEG, LHX, LIN, LKQ, LLY, LNT, LRCX, LYB, MA, MAA, MAS, MASI, MCD, MCK, MDLZ, MELI, MET, MKL, MLM, MMC, MMM, MO, MOH, MPWR, MRK, MSCI, MSI, MTD, MXIM, MYL, NBIX, NBL, NI, NLSN, NOC, NOV, NWL, NXPI, OKE, OXY, PAYC, PEAK, PEG, PFE, PFG, PG, PINS, PKI, PSA, PSX, PWR, PYPL, QCOM, QRVO, REG, RL, RNG, SBUX, SHOP, SHW, SIRI, SO, SPGI, SPOT, SQ, SRE, SSNC, STX, SWK, SYK, TAP, TDOC, TFX, TRMB, TROW, TRU, TT, TWLO, TYL, UAA, UDR, UNM, URI, URI, VLO, VRSK, VRTX, W, WAB, WAT, WDC, WELL, WLTW, WM, WMB, WPC, WRK, WU, WY, XEL, XLNX, XOM, XRAY, XYL, YUM, YUMC, ZBRA, ZEN

**Week of 7/27/20:** AES, AIG, ALB, ALL, ALNY, ANSS, ATO, ATVI, AVLR, AWK, BAP, BAP, BKI, BKNG, BMY, BWA, CABO, CAH, CNP, CTL, CVNA, CVS, DIS, DUK, DVN, DXC, EMR, EOG, EPAM, EVRG, EXPD, FANG, FIS, FLT, FOXA, FRT, HFC, HSIC, HST, HUM, HZNP, IAC, IFF, J, KDP, KHC, KIM, KLAC, L, LBRDK, LNC, LNG, LYFT, MAR, MCHP, MNST, MOS, MPC, MRO, MTCH, NCLH, NET, NLOK, NRG, NWSA, O, PH, PNW, PODD, PPL, PRGO, PRU, PTON, PXD, RE, REGN, ROKU, RSG, SBAC, SEE, SRPT, STE, SWKS, TDG, TECH, TSN, TTD, TTWO, UBER, UI, VNO, WEC, WMG, WTRG, WYNN, ZBH, ZG, ZTS

**Week of 8/3/20:** A, AAP, AMAT, BABA, CSCO, DDOG, NVDA, PGR, SPG, SY, TPR, VIPS, ZTO

**Week of 8/10/20:** ADI, BIDU, CRM, DE, EL, GPS, HD, HPQ, HRL, INTU, JKHY, JWN, KEYS, KSS, LB, LOW, NDSN, NTAP, ROST, SNPS, SPLK, TGT, TJX, VMW, WMT

See past Earnings Distortion Scorecard reports [here](#).

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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.*

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## ***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:**

- **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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