



Earnings Distortion Scorecard: Week of 7/13/20-7/17/20

For the week of 7/13/20-7/17/20, we focus on the [Earnings Distortion Scores](#) for 44 companies.

Our Earnings Distortion Scores¹ empower investors to make [smarter investments with superior data](#) as well as defend against management efforts to obfuscate financial performance.

Our proprietary measure of [earnings distortion](#) (as featured on [CNBC Squawk Box](#)) leverages proprietary data featured in [Core Earnings: New Data & Evidence](#). This paper shows that our adjusted core earnings are:

1. more accurate than “Operating Income After Depreciation” and “Income Before Special Items” from Compustat, owned by S&P Global (SPGI) and
2. remove significant bias from IBES Street Earnings from Refinitiv, owned by Blackstone (BX) and Thomson Reuters (TRI).

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

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

Weekly Earnings Distortion Insights

Figure 1 contains the 15 largest (by market cap) companies that earn a “Beat”, “Miss”, or “Strong Miss” Earnings Distortion Score and are expected to report the week of July 13, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 7/13/20-7/17/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Seattle Genetics Inc.	SGEN	-\$0.63	7/14/20	Beat
Cintas Corp	CTAS	\$1.21	7/14/20	Miss
Fastenal Co.	FAST	\$0.36	7/14/20	Miss
Domino's Pizza Inc.	DPZ	\$2.21	7/14/20	Strong Miss
United Airlines Holdings Inc.	UAL	-\$9.28	7/14/20	Beat
Progressive Corp	PGR	\$1.75	7/15/20	Miss
eBay Inc.	EBAY	\$1.05	7/15/20	Strong Miss
Microsoft Corp	MSFT	\$1.38	7/16/20	Miss
Danaher Corp	DHR	\$1.08	7/16/20	Miss
Nucor Corp	NUE	\$0.13	7/16/20	Beat
Snap-On Inc.	SNA	\$1.77	7/16/20	Miss
Gentex Corp	GNTX	\$0.12	7/16/20	Strong Miss
Sonoco Products Co.	SON	\$0.78	7/16/20	Beat
Kansas City Southern	KSU	\$1.22	7/17/20	Beat
NVR Inc.	NVR	\$42.00	7/17/20	Strong Miss

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 July 13, 2020.

Details: Snap-On Inc. (SNA): Earnings Distortion Score: Miss

Over the trailing-twelve months (TTM), Snap-On had \$14 million in net earnings distortion that cause earnings to be overstated by \$0.25/share. Notable unusual income [hidden and reported](#) in Snap-On's filings include:

¹ Earnings Distortion scores on ~3,000 stocks are also available to clients of our website.



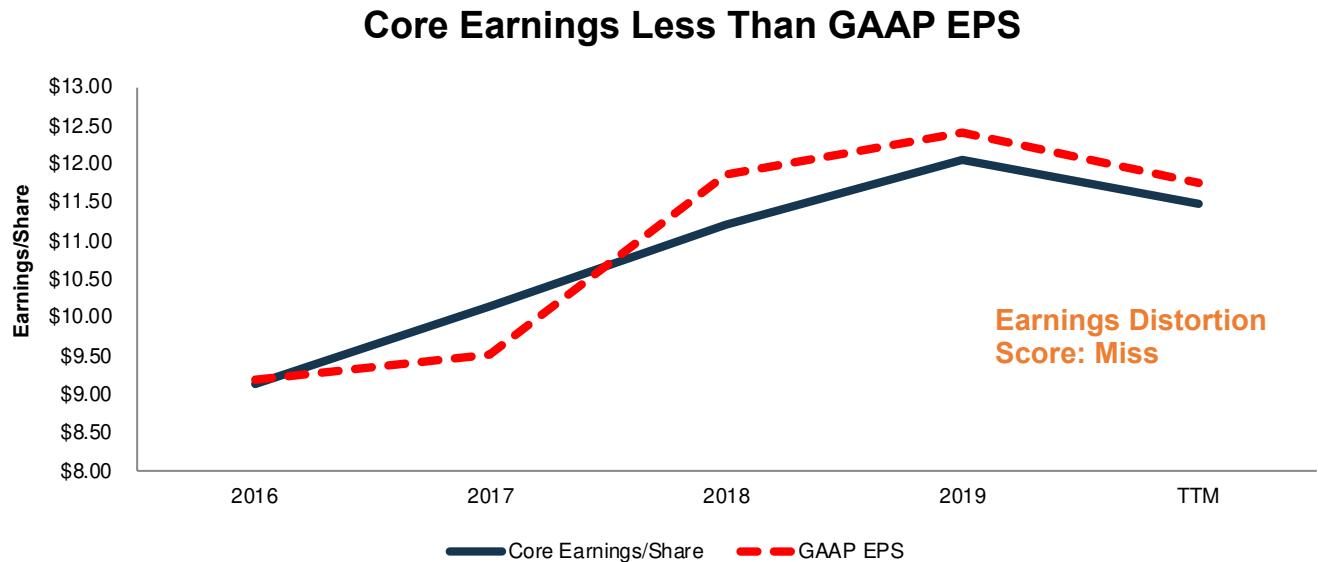
- [\\$12 million](#) in non-operating income recognized in “Operating expenses” as a result of the settlement of a patent-related litigation matter – 2019 10-K page 108
- [\\$2 million](#) in other income reported on the income statement – 1Q20 10-Q

In addition, we made a \$9.7 million adjustment for income tax distortion. This adjustment normalizes reported income taxes and removes the impact of unusual items on the taxes applied to core earnings.

In total, we identified \$0.25/share (2% of GAAP EPS) in net unusual income that cause Snap-On’s TTM GAAP results to be overstated. After removing this earnings distortion, Snap-On’s TTM core earnings of \$11.49/share are less than GAAP EPS of \$11.75, per Figure 2.

With overstated earnings, Snap-On gets our “Miss” Earnings Distortion Score and is likely to miss consensus expectations. While Snap-On looks more likely to miss upcoming estimates, we are more optimistic about the company’s long-term prospects. The firm’s rising [economic earnings](#), high return on invested capital ([ROIC](#)), and cheap valuation earn it our Attractive [Risk/Reward rating](#), which focuses on the long-term.

Figure 2: Snap-On Core Earnings Vs. GAAP: 2016 - TTM



Sources: New Constructs, LLC and company filings

Figure 1 shows that Snap-On is one of ten companies that earn our “Strong Miss” or “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 8% per year.” – Page 1 in [Core Earnings: New Data & Evidence](#)

In Section 5.2, 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 8% 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 July 13 – July 17**

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 July 13, 2020.

Figure 3: Earnings Distortion Scorecard: Week of 7/13/20-7/17/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
PepsiCo Inc.	PEP	\$1.25	7/13/20	In-line
J B Hunt Transport Services Inc.	JBHT	\$0.83	7/13/20	In-line
JPMorgan Chase & Co.	JPM	\$1.07	7/14/20	In-line
Citigroup Inc.	C	\$0.48	7/14/20	In-line
Wells Fargo & Co.	WFC	\$0.10	7/14/20	In-line
Charles Schwab Corp	SCHW	\$0.51	7/14/20	In-line
Seattle Genetics Inc.	SGEN	-\$0.63	7/14/20	Beat
Cintas Corp	CTAS	\$1.21	7/14/20	Miss
Fastenal Co.	FAST	\$0.36	7/14/20	Miss
First Republic Bank	FRC	\$1.17	7/14/20	In-line
Domino's Pizza Inc.	DPZ	\$2.21	7/14/20	Strong Miss
United Airlines Holdings Inc.	UAL	-\$9.28	7/14/20	Beat
Goldman Sachs Group Inc.	GS	\$3.21	7/15/20	In-line
U.S. Bancorp	USB	\$0.36	7/15/20	In-line
Progressive Corp	PGR	\$1.75	7/15/20	Miss
PNC Financial Services Group Inc.	PNC	\$0.96	7/15/20	In-line
eBay Inc.	EBAY	\$1.05	7/15/20	Strong Miss
Kinder Morgan Inc.	KMI	\$0.17	7/15/20	In-line
Bank of New York Mellon Corp	BK	\$0.87	7/15/20	In-line
Omnicom Group Inc.	OMC	\$0.92	7/15/20	In-line
Textron Inc.	TXT	-\$0.07	7/15/20	In-line
Microsoft Corp	MSFT	\$1.38	7/16/20	Miss
Johnson & Johnson	JNJ	\$1.47	7/16/20	In-line
UnitedHealth Group Inc.	UNH	\$5.02	7/16/20	In-line
Bank of America Corp	BAC	\$0.32	7/16/20	In-line
Netflix Inc.	NFLX	\$1.81	7/16/20	In-line
Abbott Laboratories	ABT	\$0.41	7/16/20	In-line
Danaher Corp	DHR	\$1.08	7/16/20	Miss
Honeywell International Inc.	HON	\$1.21	7/16/20	In-line
Morgan Stanley	MS	\$0.95	7/16/20	In-line
Truist Financial Corp	TFC	\$0.69	7/16/20	In-line
PPG Industries Inc.	PPG	\$0.70	7/16/20	In-line
Dover Corp	DOV	\$0.92	7/16/20	In-line
Nucor Corp	NUE	\$0.13	7/16/20	Beat
E*TRADE Financial Corp	ETFC	\$0.74	7/16/20	In-line
Snap-On Inc.	SNA	\$1.77	7/16/20	Miss
BlackRock Inc.	BLK	\$6.50	7/17/20	In-line
State Street Corp	STT	\$1.47	7/17/20	In-line
Kansas City Southern	KSU	\$1.22	7/17/20	Beat
NVR Inc.	NVR	\$42.00	7/17/20	Strong Miss

Sources: New Constructs, LLC and company filings



Figure 3: Earnings Distortion Scorecard: Week of 7/13/20-7/17/20 (continued)

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Citizens Financial Group Inc.	CFG	\$0.08	7/17/20	In-line
Regions Financial Corp	RF	\$0.07	7/17/20	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



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