



Earnings Distortion Scorecard: Week of 8/10/20-8/14/20

For the week of 8/10/20-8/14/20, we focus on the [Earnings Distortion Scores](#) for 20 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 “Strong Beat”, “Beat”, “Miss”, or “Strong Miss” Earnings Distortion Score and are expected to report the week of August 10, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 8/10/20-8/14/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Occidental Petroleum Corp	OXY	-\$1.65	8/10/20	Beat
ON Semiconductor Corp	ON	\$0.02	8/10/20	Beat
Adaptive Biotechnologies	ADPT	-\$0.28	8/10/20	Miss
ICU Medical Inc.	ICUI	\$1.24	8/10/20	Beat
National Health Investors	NHI	\$1.00	8/10/20	Miss
j2 Global Inc.	JCOM	\$1.46	8/10/20	Miss
JOYY Inc.	YY	\$0.69	8/11/20	Miss
Viavi Solutions Inc.	VIAV	\$0.13	8/11/20	Beat
Cisco Systems Inc.	CSCO	\$0.74	8/12/20	Beat
ZTO Express Inc.	ZTO	\$0.28	8/12/20	Strong Miss
Vipshop Holdings Ltd	VIPS	\$0.27	8/12/20	Beat
SmileDirectClub Inc.	SDC	-\$0.14	8/12/20	Beat
Alibaba Group Holding Ltd	BABA	\$1.97	8/13/20	Strong Miss
NVIDIA Corp	NVDA	\$1.97	8/13/20	Beat
Tapestry Inc.	TPR	-\$0.58	8/13/20	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 August 10, 2020.

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



Details: ICU Medical (ICUI): Earnings Distortion Score: Beat

Over the trailing-twelve months (TTM), ICU Medical has -\$44 million in net earnings distortion that cause earnings to be understated by \$2.03/share. Notable unusual expenses [hidden and reported](#) in ICU Medical’s filings include:

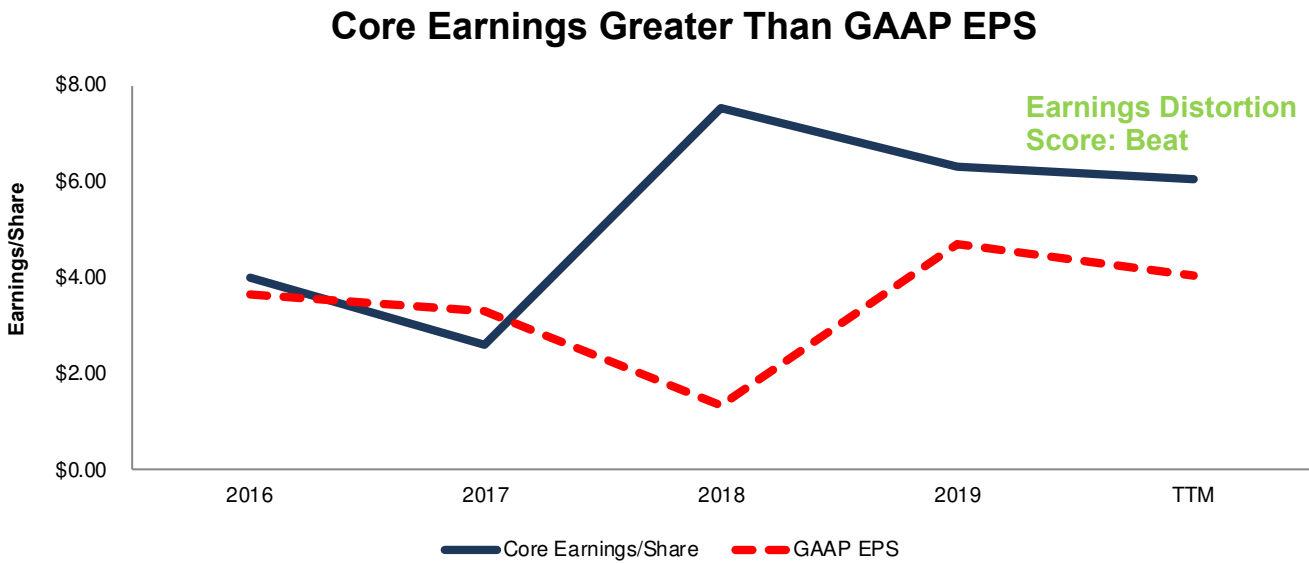
- [\\$81 million](#) in restructuring, strategic transaction and integration expenses reported on the income statement – 2019 10-K
- [\\$16 million](#) in one-time supply chain inventory optimization charges – Page 26 2019 10-K
- [\\$12 million](#) in restructuring, strategic transaction and integration expenses reported on the income statement – 1Q20 10-Q

These unusual expenses were partially offset by a [\\$47 million](#) gain on the change in fair value of contingent earn out reported on the firm’s 2019 income statement.

In total, we identified \$2.03/share (50% of GAAP EPS) in net unusual expense that cause ICU Medical’s TTM GAAP results to be understated. After removing this earnings distortion, ICU Medical’s TTM core earnings of \$6.06/share are much greater than GAAP EPS of \$4.03, per Figure 2.

With understated earnings, ICU Medical gets our “Beat” Earnings Distortion Score and is likely to beat consensus expectations.

Figure 2: ICU Medical Core Earnings Vs. GAAP: 2016 - TTM



Sources: New Constructs, LLC and company filings

Figure 1 shows that ICU Medical is one of nine companies that earn our “Beat” or “Strong Beat” 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.

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Appendix: All Major Companies Expected to Report August 10 – August 14

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 August 10, 2020.

Figure 3: Earnings Distortion Scorecard: Week of 8/10/20-8/14/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Duke Energy Corp	DUK	\$1.03	8/10/20	In-line
Simon Property Group Inc.	SPG	\$0.98	8/10/20	In-line
Occidental Petroleum Corp	OXY	-\$1.65	8/10/20	Beat
Sysco Corp	SYU	-\$0.30	8/11/20	In-line
Advance Auto Parts Inc.	AAP	\$1.86	8/11/20	In-line
Cisco Systems Inc.	CSCO	\$0.74	8/12/20	Beat
ZTO Express Inc.	ZTO	\$0.28	8/12/20	Strong Miss
Vipshop Holdings Ltd	VIPS	\$0.27	8/12/20	Beat
Alibaba Group Holding Ltd	BABA	\$1.97	8/13/20	Strong Miss
NVIDIA Corp	NVDA	\$1.97	8/13/20	Beat
Applied Materials Inc.	AMAT	\$0.95	8/13/20	In-line
Tapestry Inc.	TPR	-\$0.58	8/13/20	Strong Beat

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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