



Earnings Distortion Scorecard: Week of 8/17/20-8/21/20

For the week of 8/17/20-8/21/20, we focus on the [Earnings Distortion Scores](#) for 24 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 17, 2020.

Figure 1: Earnings Distortion Scorecard Highlights: Week of 8/17/20-8/21/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Cree Inc.	CREE	-\$0.19	8/18/20	Strong Beat
Walmart Inc.	WMT	\$1.23	8/18/20	Miss
Home Depot Inc.	HD	\$3.42	8/18/20	Miss
Agilent Technologies Inc.	A	\$0.66	8/18/20	Beat
Jack Henry & Associates Inc.	JKHY	\$0.78	8/18/20	Miss
Nordson Corp	NDSN	\$1.33	8/18/20	Miss
Synopsys Inc.	SNPS	\$1.34	8/19/20	Miss
Keysight Technologies Inc.	KEYS	\$0.84	8/19/20	Miss
58.Com Inc.	WUBA	\$0.64	8/19/20	Strong Miss
L Brands Inc.	LB	-\$0.45	8/19/20	Strong Beat
Estee Lauder Companies Inc.	EL	-\$0.20	8/20/20	Beat
VMware Inc.	VMW	\$1.45	8/20/20	Strong Miss
Ross Stores Inc.	ROST	-\$0.30	8/20/20	Beat
Hormel Foods Corp	HRL	\$0.34	8/20/20	Miss
HP Inc.	HPQ	\$0.43	8/20/20	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 17, 2020.

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

**Details: Ross Stores (ROST): Earnings Distortion Score: Beat**

Over the trailing-twelve months (TTM), Ross Stores has -\$196 million in net earnings distortion that cause earnings to be understated by \$0.55/share. Notable unusual expenses [hidden](#) in Ross Stores' filings include:

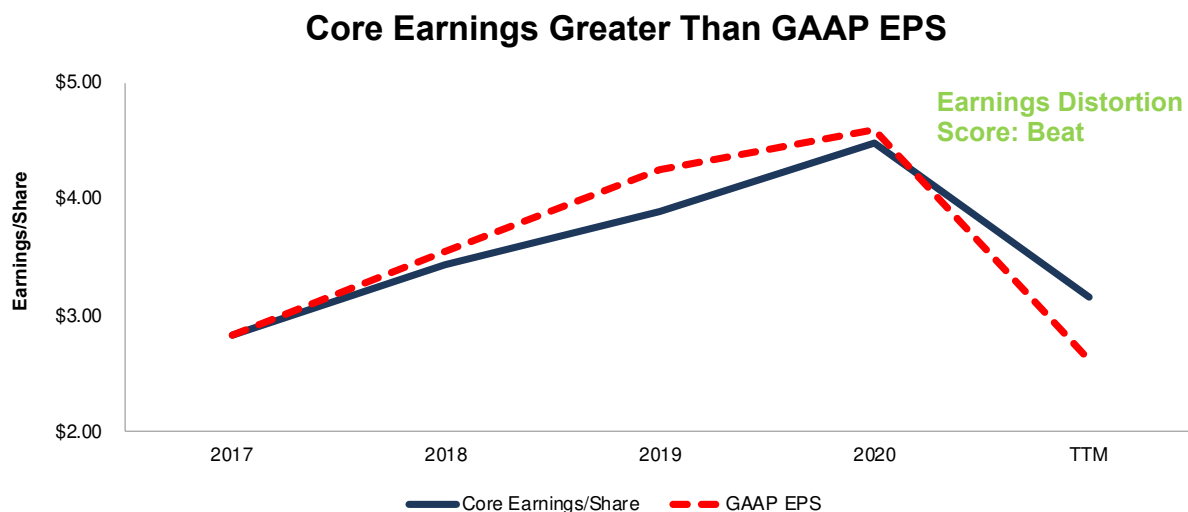
- [\\$313 million](#) inventory valuation charge for the portion of inventory the firm expects to sell below original cost – Page 19 Fiscal 1Q21 10-Q

In addition, we made a \$117 million adjustment for income tax distortion. This adjustment normalizes reported income taxes by removing the impact of unusual items.

In total, we identified \$0.55/share (21% of GAAP EPS) in net unusual expense that cause Ross Stores' TTM GAAP results to be understated. After removing this earnings distortion, Ross Stores' TTM core earnings of \$3.16/share are much greater than GAAP EPS of \$2.61, per Figure 2.

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

Figure 2: Ross Stores Core Earnings Vs. GAAP: 2016 - TTM



Sources: New Constructs, LLC and company filings

Figure 1 shows that Ross Stores is one of six 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.

This article originally published on [August 10, 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 August 17 – August 21***

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 17, 2020.

Figure 3: Earnings Distortion Scorecard: Week of 8/17/20-8/21/20

Company	Ticker	EPS Estimate	Expected Earnings Date	Earnings Distortion Score
Walmart Inc.	WMT	\$1.23	8/18/20	Miss
Home Depot Inc.	HD	\$3.42	8/18/20	Miss
TJX Companies Inc.	TJX	-\$0.16	8/18/20	In-line
Agilent Technologies Inc.	A	\$0.66	8/18/20	Beat
Jack Henry & Associates Inc.	JKHY	\$0.78	8/18/20	Miss
Nordson Corp	NDSN	\$1.33	8/18/20	Miss
Kohls Corp	KSS	-\$0.98	8/18/20	Beat
Lowe's Companies Inc.	LOW	\$2.66	8/19/20	In-line
Target Corp	TGT	\$1.46	8/19/20	In-line
Analog Devices Inc.	ADI	\$1.26	8/19/20	In-line
Splunk Inc.	SPLK	-\$0.33	8/19/20	In-line
Synopsys Inc.	SNPS	\$1.34	8/19/20	Miss
Keysight Technologies Inc.	KEYS	\$0.84	8/19/20	Miss
L Brands Inc.	LB	-\$0.45	8/19/20	Strong Beat
Salesforce.com Inc.	CRM	\$0.67	8/20/20	In-line
Estee Lauder Companies Inc.	EL	-\$0.20	8/20/20	Beat
VMware Inc.	VMW	\$1.45	8/20/20	Strong Miss
Ross Stores Inc.	ROST	-\$0.30	8/20/20	Beat
Hormel Foods Corp	HRL	\$0.34	8/20/20	Miss
HP Inc.	HPQ	\$0.43	8/20/20	Beat
Gap Inc.	GPS	-\$0.41	8/20/20	Strong Beat
Deere & Co.	DE	\$1.12	8/21/20	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



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.