



1Q22 Earnings: Where Street Estimates Are Too Low & Who Should Beat

While [Street Earnings](#)¹ overstate profits for the majority of S&P 500 companies, as shown in [Street Earnings Overstated for Most S&P 500 Companies in 2021](#), there are many S&P 500 companies whose Street Earnings understate their true [Core Earnings](#).

This report shows:

- the prevalence and magnitude of understated Street Earnings in the S&P 500
- five S&P 500 companies with understated Street estimates likely to beat 1Q22 earnings
- how [Core Earnings](#)² and our [Earnings Distortion](#) factor provide a [new source of alpha](#).

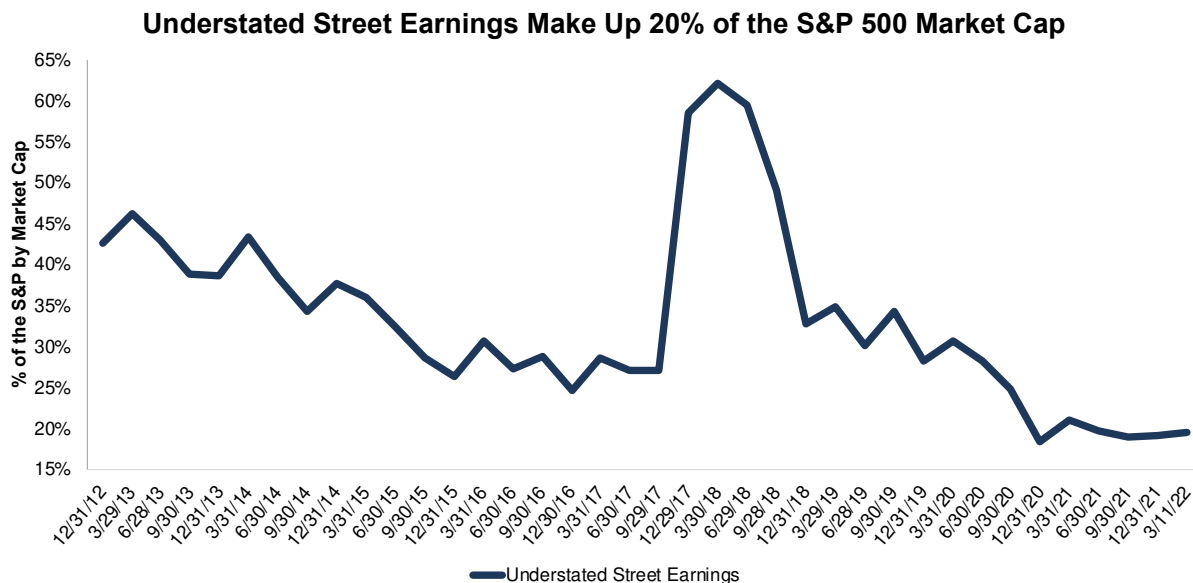
Get our report on the S&P 500 companies more likely to miss 1Q22 Street EPS estimates [here](#).

Learn more about the best fundamental research

Street Understates EPS for 136 S&P 500 Companies – Least Since 2012

The 155 companies with understated Street Earnings represent 20% of the S&P 500's market cap as of 3/11/22, which is the fourth-lowest percent since 2012 (earliest data available), measured with TTM data in each quarter.

Figure 1: Understated Street Earnings as % of Market Cap: 2012 through 3/11/22



Sources: New Constructs, LLC and company filings.

In the TTMs ended 3Q21 and for 2020 as a whole, Wall Street analysts understated earnings for 135 and 139 companies, respectively. When Street Earnings understate Core Earnings, they do so by an average of -12% per company, per Figure 2. Street Earnings understate Core Earnings by >10% for ~9% of S&P 500 companies.

¹ Street Earnings refer to [Zacks Earnings](#), which are adjusted to remove non-recurring items using standardized sell-side assumptions.

² [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).



Figure 2: Street Earnings Understated by -12% on Average in 2021

Understated Street Earnings	Understated by >10%	Average Understated % ³
155 companies	44 companies	-12%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Beat Calendar 1Q22 Earnings

Figure 3 shows five S&P 500 companies likely to beat calendar 1Q22 earnings based on understated Street EPS estimates. Below we detail the [hidden and reported](#) unusual items that have created Street Distortion and understated Street Earnings in 2021 for Akamai Technologies (AKAM). Contact us for the same details on the other companies.

Figure 3: Five S&P 500 Companies Likely to Beat 1Q22 EPS Estimates

Ticker	Name	Street EPS Estimate for 1Q22	Core EPS Estimate for 1Q22*	Street Estimate Understated by
MTCH	Match Group, Inc.	\$0.67	\$1.81	-170%
FANG	Diamondback Energy Inc.	\$4.71	\$7.04	-50%
TMUS	T-Mobile U.S. Inc.	\$0.44	\$0.65	-47%
SBAC	SBA Communication	\$2.86	\$4.20	-47%
AKAM	Akamai Technologies	\$1.42	\$1.75	-23%

Sources: New Constructs, LLC, company filings, and Zacks

*Assumes Street Distortion as a percent of Core EPS equals the same percent in 1Q22 as calendar year ended 2021

Akamai Technologies: The Street Understates Earnings for 1Q22 by \$0.33/share

The Street’s 1Q22 EPS estimate of \$1.42 for Akamai is understated by \$0.33/share. The cause, at least in part, was large write-offs of unused computer and networking equipment that was included in historical EPS.

Based on how much our Core EPS estimate of \$1.75/share exceeds the Street EPS estimate, Akamai is one of the companies most likely to beat Wall Street analysts’ expectations in its calendar 1Q22 earnings report. Akamai’s [Earnings Distortion Score](#) is Beat and its [Stock Rating](#) is Attractive.

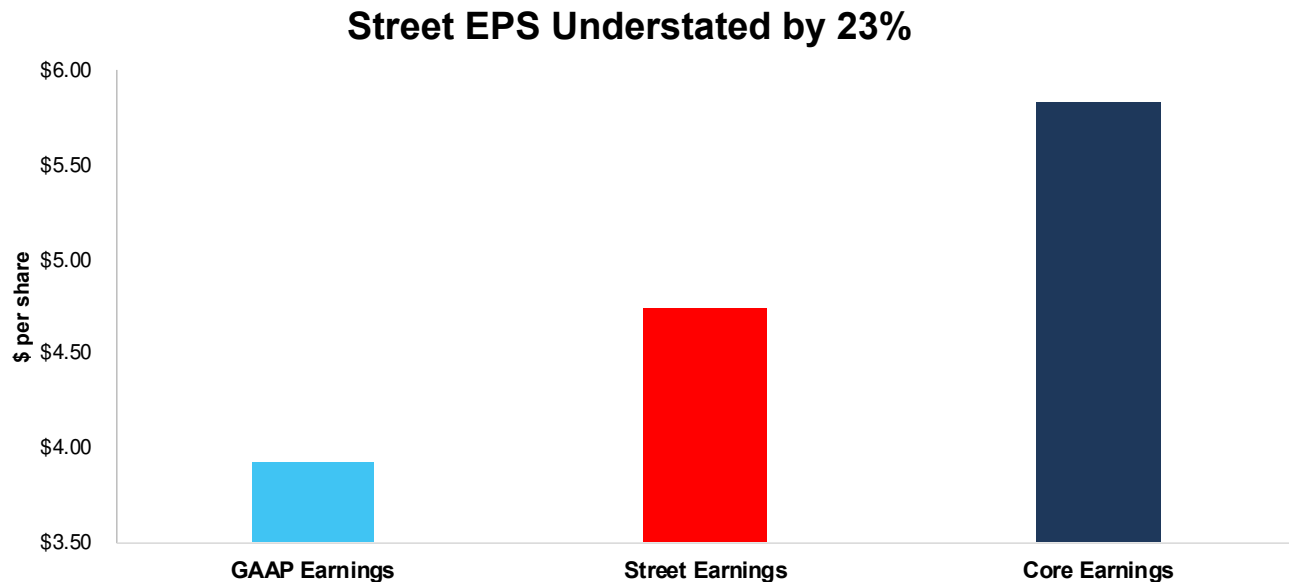
Unusual expenses, which we detail below, materially reduced Akamai’s 2021 Street and GAAP Earnings and make profits look worse than Core EPS. Once all unusual items have been removed, we find that Akamai’s 2021 Core EPS are \$5.72/share, which is better than the 2021 Street EPS of \$4.74/share and 2021 GAAP EPS of \$3.93/share.

Street Earnings clearly capture some unusual items, but the disconnect between Street and Core Earnings indicates that Street Earnings fail to capture all unusual items.

³ Average understated % is calculated as Street Distortion, which is the difference between Street Earnings and Core Earnings.



Figure 4: Comparing Akamai's 2021 Core, Street, and GAAP Earnings



Sources: New Constructs, LLC, company filings

Below, we detail the differences between Core Earnings and GAAP Earnings so readers can audit our research. We would be happy to reconcile our Core Earnings with Street Earnings but cannot because we do not have the details on how analysts calculate their Street Earnings.

Figure 5 details the differences between Akamai's Core Earnings and GAAP Earnings.

Figure 5: Akamai's GAAP Earnings to Core Earnings Reconciliation 2021

	2021 (\$ per share)
GAAP Net Income	\$3.93
– Hidden Unusual Expenses, Net	(\$1.66)
– Reported Unusual Expenses, Net	(\$0.47)
– Tax Distortion	\$0.35
= Core Earnings	\$5.72

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of $-\$1.79/\text{share}$, which equals $-\$296$ million, is comprised of the following:

Hidden Unusual Expenses, Net = $-\$1.66/\text{per share}$, which equals $-\$276$ million and is comprised of:

- [-\\$283 million](#) write-off of computer and networking equipment and software no longer in use – Page 66
- [-\\$13 million](#) acquisition related costs – Page 36
- [\\$21 million](#) in sublease income – Page 78

Reported Unusual Expenses, Net = $-\$0.47/\text{per share}$, which equals $-\$79$ million and is comprised of

- [-\\$70 million](#) in amortization of debt discount and issuance costs
- [-\\$11 million](#) restructuring charge
- [\\$2 million](#) in other income

[Tax Distortion](#) = $\$0.35/\text{per share}$, which equals $\$58$ million



The gap between Street Earnings and GAAP Earnings for Akamai indicates that Street Earnings account for some of the unusual items in GAAP Earnings. However, the $-\$1.09/\text{share}$ Street Distortion in 2021 highlights that Core Earnings includes a more comprehensive set of unusual items when calculating Akamai's true profitability.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

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