2Q22 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 67% of S&P 500 Companies in 1Q22, there are many S&P 500 companies whose Street Earnings understate their true Core Earnings.

This report shows:

- the frequency and magnitude of understated Street Earnings in the S&P 500
- five S&P 500 companies with understated Street estimates likely to beat 2Q22 earnings

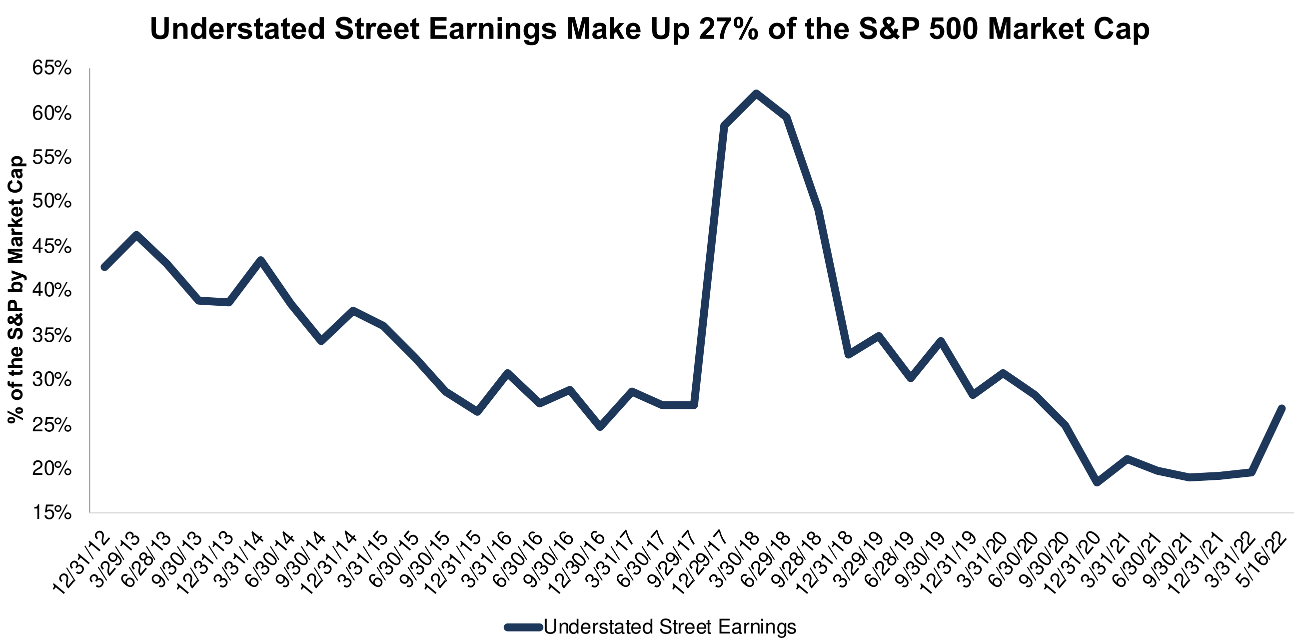
Get our report on the S&P 500 companies more likely to miss 2Q22 Street EPS estimates here.

Street Understates EPS for 152 S&P 500 Companies

152 companies with understated Street Earnings represent 27% of the market cap of the S&P 500 as of 5/16/22, which is up from 20% at the close of 2021, measured on a rolling four quarter basis.

The increase from the prior TTM period is driven largely by Microsoft (MSFT) and NVIDIA Corporation's (NVDA) Street Earnings swinging from overstated through 2021 to understated through 1Q22. Combined, these two firms make up 7% of the S&P 500 market cap through 5/16/22. For comparison, in 2021 there were 155 companies that had understated Street Earnings for the year.

Figure 1: Understated Street Earnings as % of Market Cap: 2012 through 5/16/22



Sources: New Constructs, LLC and company filings.

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

When Street Earnings understate Core Earnings[2], they do so by an average of -27% per company in 1Q22, per Figure 2. Street Earnings understate by >10% for ~9% of S&P 500 companies.

Figure 2: Street Earnings Understated by -28% on Average in TTM Through 1Q22

Understated Street Earnings	Understated by >10%	Average Understated %[3]
152 companies	44 companies	-27%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Beat Calendar 2Q22 Earnings

Figure 3 shows five S&P 500 companies likely to beat calendar 2Q22 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 the TTM ended 1Q22 for Match Group (MTCH) and Long Idea The Hershey Company (HSY).

Figure 3: Five S&P 500 Companies Likely to Beat 2Q22 EPS Estimates

Ticker	Name	Street EPS Estimate for 2Q22	Core EPS Estimate for 2Q22*	Street Estimate Understated by
MTCH	Match Group, Inc.	$0.68	$1.76	-159%
ED	Consolidated Edison, Inc.	$0.55	$0.66	-21%
MPWR	Monolithic Power Systems	$2.94	$3.21	-9%
HSY	The Hershey Company	$1.66	$1.80	-8%
IPGP	IPG Photonics Corp	$1.12	$1.20	-7%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percent of Core EPS equals the same percent in 2Q22 as the TTM ended 1Q22

Match Group: The Street Understates Earnings for 2Q22 by $1.08/share

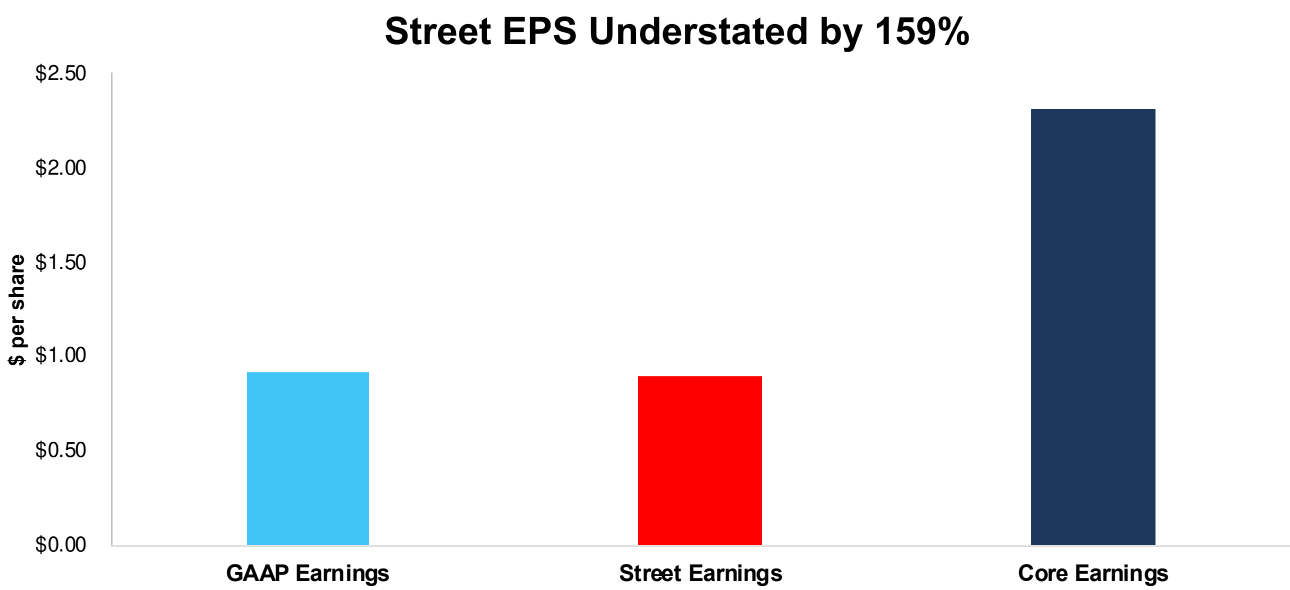
The Street's 2Q22 EPS estimate of $0.68 for Match Group is understated by $1.08/share. The difference is driven by the large "other expense" included in historical EPS. Our estimate for 2Q22 Core EPS of $1.76/share significantly exceeds the Street EPS estimate, leading us to forecast Match Group as one of the companies most likely to beat Wall Street analysts' expectations in its calendar 2Q22 earnings report. Match Group's Earnings Distortion Score is Strong Beat while its Stock Rating is Neutral.

Unusual expenses, which we detail below, materially reduced Match Group's TTM 1Q22 Street and GAAP Earnings and make profits look worse than Core EPS. Once all unusual items have been removed, we find that Match Group's TTM 1Q22 Core EPS are $2.31/share, which is better than the TTM 1Q22 Street EPS of $0.89/share and TTM 1Q22 GAAP EPS of $0.92/share.

The large disconnect between Street and Core Earnings indicates that Street Earnings fail to capture all unusual items.

[2] The Journal of Financial Economics features the superiority of our Core Earnings in Core Earnings: New Data & Evidence.
[3] Average understated % is calculated as Street Distortion, which is the difference between Street Earnings and Core Earnings.

Figure 4: Comparing Match Group's Core, Street, and GAAP Earnings: TTM Through 1Q22



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 Match Group's Core Earnings and GAAP Earnings.

Figure 5: Match Group's GAAP Earnings to Core Earnings Reconciliation: TTM Through 1Q22

	TTM 1Q22 ($ per share)
GAAP Net Income	$0.92
– Hidden Unusual Expenses, Net	-
– Reported Unusual Expenses Pre-Tax, Net	($1.50)
– Tax Distortion	$0.11
– Reported Unusual Expenses, After-Tax, Net	<($0.01)
= Core Earnings	**$2.31**

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of -$1.39/share, which equals -$428 million, is comprised of the following:

Reported Unusual Expenses Pre-Tax, Net = -$1.50/per share, which equals -$463 million and is comprised of

- -$463 million in other expenses in the TTM period based on
    - $1 million in income in 1Q22
    - -$424 million in expenses in 4Q21
    - -$39 million in expenses in 3Q21
    - <-$1 million in expenses in 2Q21

Tax Distortion = $0.11/per share, which equals $34 million

Reported Unusual Expenses After-Tax, Net = <-$0.01/per share, which equals -$509 thousand and is comprised of

- $509 thousand in income in the TTM period based on $509 thousand in earnings from discontinued operations in 2Q21

The similarity between Street Earnings and GAAP Earnings for Match Group indicates that Street Earnings fail to account for most of the unusual items in GAAP Earnings, even as the unusual items are reported directly on Match Group's income statement. Core Earnings on the other hand include a more comprehensive set of unusual items when calculating Match Group's true profitability.

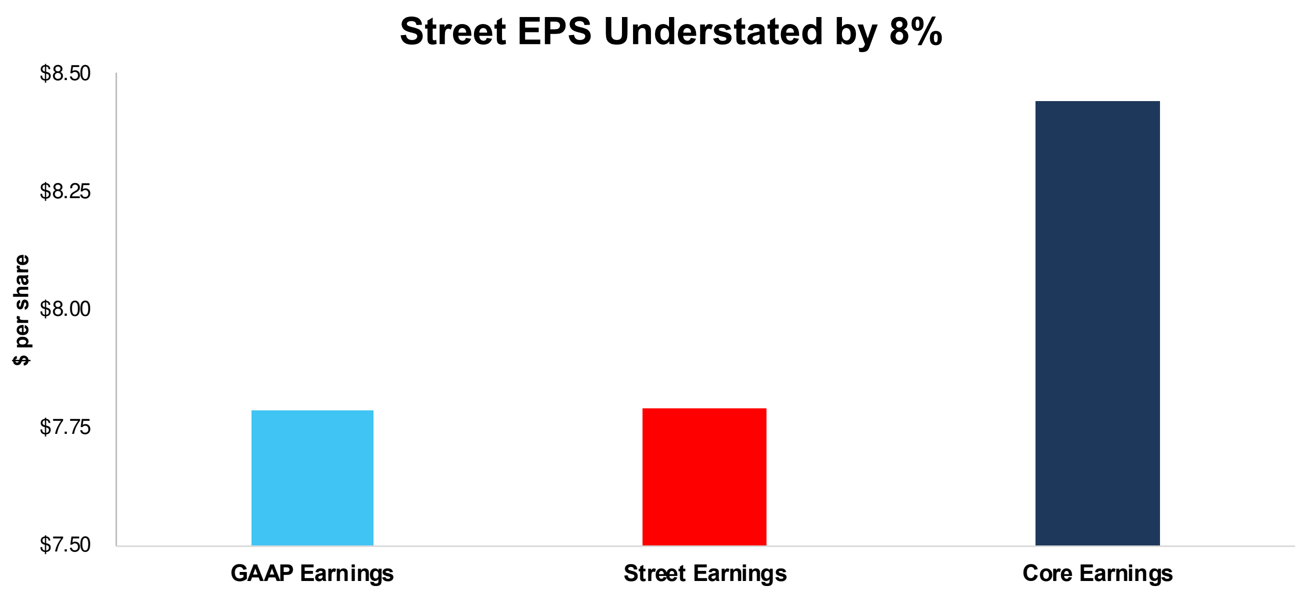
The Hershey Company: The Street Understates Earnings for 2Q22 by $0.14/share

The Street's 2Q22 EPS estimate of $1.66 for The Hershey Company is understated by $0.14/share. The difference is driven by large write-downs of equity investments included in historical EPS. Our estimate for 2Q22 Core EPS of $1.80/share significantly exceeds the Street EPS estimate, leading us to forecast The Hershey Company as one of the companies most likely to beat Wall Street analysts' expectations in its calendar 2Q22 earnings report. The Hershey Company's Earnings Distortion Score is Beat and its Stock Rating is Attractive.

Unusual expenses, which we detail below, materially reduced The Hershey Company's TTM 1Q22 Street and GAAP Earnings and make profits look worse than Core EPS. Once all unusual items have been removed, we find that The Hershey Company's TTM 1Q22 Core EPS are $8.44/share, which is better than the TTM 1Q22 Street and GAAP EPS of $7.79/share.

The large disconnect between Street and Core Earnings indicates that Street Earnings fail to capture all unusual items.

Figure 6: Comparing The Hershey Company's Core, Street, and GAAP Earnings: TTM Through 1Q22



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 7 details the differences between The Hershey Company's Core Earnings and GAAP Earnings.

Figure 7: The Hershey Company's GAAP Earnings to Core Earnings Reconciliation: TTM Through 1Q22

	TTM 1Q22 ($ per share)
GAAP Net Income	$7.79
– Hidden Unusual Expenses, Net	($0.05)
– Reported Unusual Expenses Pre-Tax, Net	($0.66)
– Tax Distortion	$0.05
= Core Earnings	**$8.44**

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of -$0.65/share, which equals -$136 million, is comprised of the following:

Hidden Unusual Expenses, Net = -$0.05/per share, which equals -$11 million and is comprised of

- -$1 million in cost of sales and selling, marketing, and administrative expense associated with business realignment activities in 1Q22
- -$10 million in cost of sales and selling, marketing, and administrative expense associated with business realignment activities in the TTM based on -$13 million in 2021

Reported Unusual Expenses, Net = -$0.66/per share, which equals -$136 million and is comprised of

- -$123 million in write-downs of equity investments in partnerships qualifying for historic and renewable energy tax credits in the TTM period based on
  - -$13 million in 1Q22
  - -$85 million in 4Q21
  - -$21 million in 3Q21
  - -$5 million in 2Q21
- -$3 million in non-service cost components of net periodic benefit costs in the TTM period based on
  - $2 million benefit in 1Q22
  - -$1 million cost in 4Q21
  - -$2 million cost in 3Q21
  - -$2 million cost in 2Q21
- -$3 million in business realignment costs in the TTM period based on
  - <-$1 million in 1Q22
  - -$1 million in 4Q21
  - <-$1 million in 3Q21
  - -$1 million in 2Q21
- <-$1 million in other expense in the TTM period based on
  - <-$1 million in 1Q22
  - <-$1 million in 4Q21
  - <-$1 million in 3Q21
  - <-$1 million in 2Q21
- $7 million contra adjustment for recurring pension costs. These recurring expenses are reported in non-recurring line items, so we add them back and exclude them from Earnings Distortion.

Tax Distortion = $0.05/per share, which equals $11 million

The similarity between Street Earnings and GAAP Earnings for The Hershey Group indicates that Street Earnings fail to account for most of the unusual items in GAAP Earnings, even as most of the unusual items are reported directly on The Hershey Group's income statement. Core Earnings, in contrast, account for materially more unusual items and enable us to measure earnings more accurately for The Hershey Group.

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

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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.

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