



Street Earnings Overstated for 73% of S&P 500 in 2Q22

Street Earnings, as reflected in [Zacks Earnings](#), are marketed as being adjusted to remove non-recurring items. Our [Core Earnings](#)¹ show Street Earnings fail to account for a material amount of unusual items, which distorts investor's view of profitability across the S&P 500. This report shows:

- the prevalence and magnitude of overstated Street Earnings in the S&P 500
- why Street Earnings (and GAAP earnings) are flawed and not adjusted as promised
- five S&P 500 companies with overstated Street Earnings and an Unattractive-or-worse [Stock Rating](#)

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

Over 180 S&P 500 Companies Overstate EPS by More than 10%

For 340 companies in the S&P 500, or 68%, Street Earnings overstate Core Earnings² for the trailing-twelve-months (TTM) ended calendar 2Q22. In the TTM ended 2Q21, 371 companies overstated their earnings.

When Street Earnings overstate Core Earnings they do so by an average of 19%, per Figure 1. For over a third of the S&P 500 (186 companies) Street Earnings overstate Core Earnings by more than 10%.

Figure 1: Street Earnings Overstated by 19% on Average in TTM Through 2Q22

Overstated Street Earnings	Overstated by >10%	Average Overstated % ³
340 companies	186 companies	19%

Sources: New Constructs, LLC and company filings.

The 340 companies with overstated Street Earnings make up 73% of the market cap of the S&P 500 through 8/12/22, which is up from 70% through 1Q22, measured with TTM data in each quarter.

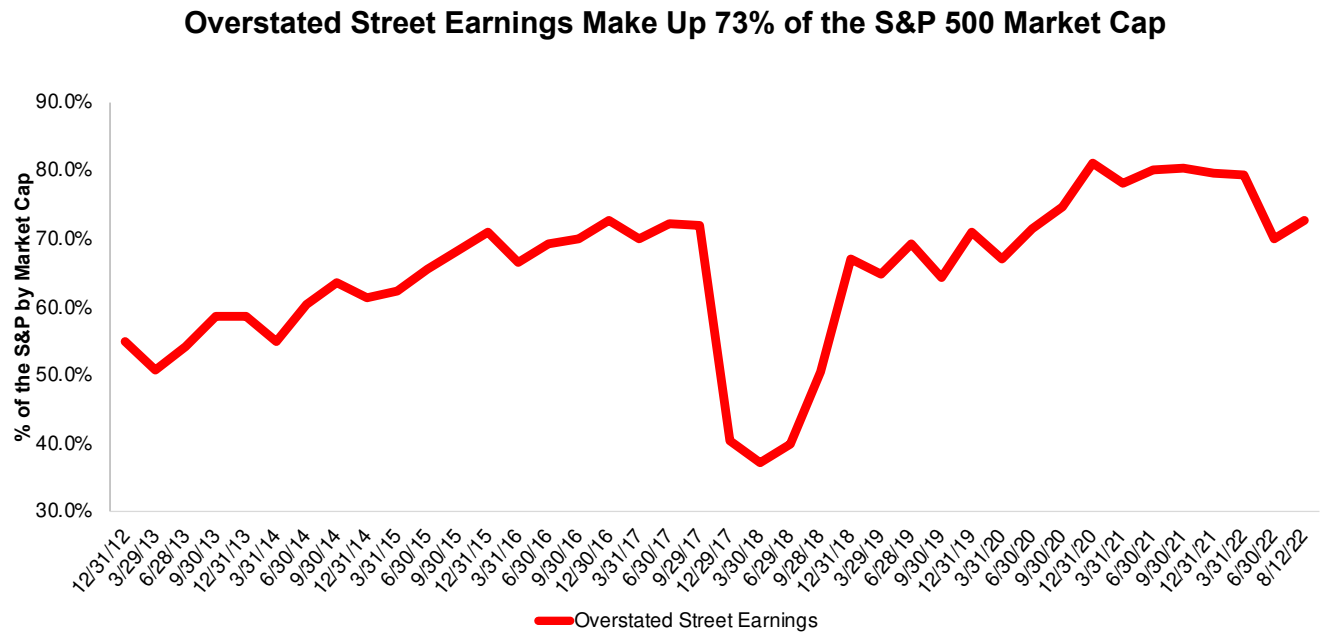
¹ [The Journal of Financial Economics features the superiority of our Core Earnings in Core Earnings: New Data & Evidence.](#)

² Our Core Earnings research is based on the latest audited financial data, which is the calendar 2Q22 10-Q in most cases. Price data as of 8/12/22.

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



Figure 2: Overstated Street Earnings as % of Market Cap: 2012 through 8/12/22



Sources: New Constructs, LLC and company filings.

The Five Worst Offenders in the S&P 500

Figure 3 shows five S&P 500 stocks with an Unattractive-or-worse [Stock Rating](#) and the most overstated Street Earnings (Street Distortion as a % of Street Earnings per share) over the TTM through 2Q22. “Street Distortion” equals the difference between Core Earnings per share and Street Earnings per share. Investors using Street Earnings miss the true profitability, *or lack thereof*, of these businesses.

Figure 3: S&P 500 Companies with Most Overstated Street Earnings: TTM Through 2Q22

Ticker	Name	Street EPS	Core EPS	Overstated %*	Stock Rating
VTR	Ventas Inc.	\$0.05	(\$0.12)	348%	Unattractive
EBAY	eBay Inc.	\$3.32	(\$4.85)	246%	Unattractive
ILMN	Illumina Inc.	\$3.84	(\$0.87)	123%	Unattractive
RTX	Raytheon Technologies	\$4.65	(\$0.42)	109%	Very Unattractive
CRM	Salesforce Inc.	\$2.30	\$0.21	91%	Unattractive

Sources: New Constructs, LLC and company filings.

*Measured as Street Distortion as a percent of Street EPS

In the section below, we detail the [hidden and reported](#) unusual items that distort GAAP Earnings for Salesforce Inc. (CRM). All these unusual items are removed from Core Earnings.

Salesforce Inc (CRM) TTM 2Q22 Street Earnings Overstated by \$2.09/share

The difference between, or Street Distortion in, Salesforce’s Street Earnings (\$2.30/share) and Core Earnings (\$0.21/share) is \$2.09/share, or 91% percent of Street Earnings.

Salesforce’s GAAP Earnings overstate Core Earnings by \$0.80/share, which indicates that Street Earnings are more overstated and miss many of the unusual items that distort GAAP Earnings for Salesforce.



Figure 4: Comparing Salesforce’s GAAP, Street, and Core Earnings: TTM Through 2Q22



Sources: New Constructs, LLC and 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.

Salesforce’s [Earnings Distortion Score](#) is Miss and its Stock Rating is Unattractive. Salesforce receives an Unattractive rating due to its low return on invested capital (ROIC) of 1% and an expensive valuation. Despite trading at \$184/share CRM has an economic book value (EBV), or no growth value, of just \$8/share.

Figure 5 details the differences between Salesforce’s Core Earnings and GAAP Earnings.

Figure 5: Salesforce’s GAAP Earnings to Core Earnings Reconciliation: TTM Through 2Q22

	TTM 2Q22 (\$ per share)
GAAP Net Income	\$1.01
– Reported Unusual Gains, Net	\$0.69
– Hidden Unusual Expenses, Net	(\$0.04)
– Tax Distortion	\$0.15
= Core Earnings	\$0.21

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of \$0.80/share, which equals \$793 million, is comprised of the following:

Reported Unusual Gains, Net = \$0.69/per share, which equals \$685 million and is comprised of:

- \$960 million in realized and unrealized gains on equity securities in the TTM period based on
 - [\\$712 million](#) in unrealized gains recognized on privately held equity securities in fiscal 4Q22
 - [\\$283 million](#) in realized gains on sales of securities in fiscal 4Q22
 - [-\\$35 million](#) in unrealized losses recognized on publicly traded equity securities in 4Q22
- [\\$7 million](#) in gains on strategic investments in fiscal 1Q23
- -\$37 million in impairments on privately held equity and debt securities in the TTM period based on [-\\$37 million](#) in fiscal 4Q22
- -\$245 million in other expenses in the TTM period based on
 - [-\\$56 million](#) in fiscal 1Q23



- [-\\$55 million](#) in fiscal 4Q22
- [-\\$102 million](#) in fiscal 3Q22
- [-\\$32 million](#) in fiscal 2Q22

Hidden Unusual Expenses, Net = $-\$0.04$ /per share, which equals $-\$41$ million and is comprised of:

- [-\\$41 million](#) in transaction costs associated with acquisitions in the TTM period based on $-\$54$ million reported in the fiscal 2022 10-K

[Tax Distortion](#) = $\$0.15$ /per share, which equals $\$149$ million

This article originally published on [August 26, 2022](#).

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

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.



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.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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 two 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.