



Street Earnings Understated for 27% of S&P 500 in 2Q22

Street Earnings (based on [Zacks Earnings](#)) overstate profits for the majority of S&P 500 companies, as shown in our note on [Overstated Street Earnings in 2Q22](#). However, there are many S&P 500 companies whose Street Earnings understate their true profits. These companies are more profitable than investors realize and, in most cases, undervalued as well.

This report shows:

- the prevalence and magnitude of understated Street Earnings in the S&P 500
- why Street Earnings (and GAAP earnings) are flawed
- five S&P 500 companies with understated Street Earnings and Very Attractive [Stock Ratings](#)

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Over 150 S&P 500 Companies Have Understated Street Earnings

For 153 companies in the S&P 500, or 31%, Street Earnings understate [Core Earnings](#)^{1,2} for the trailing-twelve-months (TTM) ended calendar 2Q22. In the TTMs ended 2Q21, 120 companies understated their earnings.

When Street Earnings understate Core Earnings, they do so by an average of -15% per company, per Figure 1. Street Earnings understate Core Earnings by more than 10% for ~10% of S&P 500 companies.

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

Understated Street Earnings	Understated by >10%	Average Understated % ³
153 companies	48 companies	-15%

Sources: New Constructs, LLC and company filings.

The 153 companies with understated Street Earnings represent 27% of the market cap of the S&P 500 as of 8/12/22, which is the same as through 1Q22, measured with TTM data in each quarter.

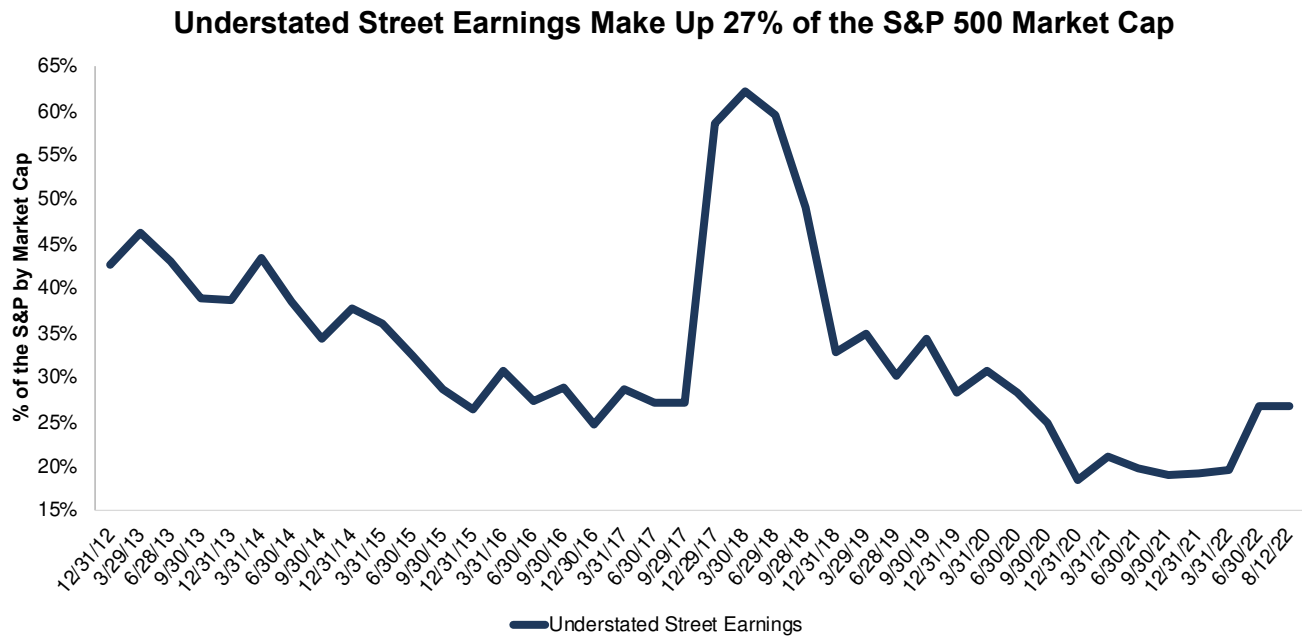
¹ [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).

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



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



Sources: New Constructs, LLC and company filings.

The Five Most Understated Earnings in the S&P 500

Companies that understate earnings are rarer than in years past, but you can find them if you know where to look.

Figure 3 shows five S&P 500 stocks with Very Attractive [Stock Ratings](#) and the most understated Street Earnings (based on 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 of these businesses.

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

Ticker	Name	Street EPS	Core EPS	Understated %*	Stock Rating
AIG	American International Group	\$5.04	\$13.75	-173%	Very Attractive
ZION	Zions Bancorporation	\$5.35	\$8.78	-64%	Very Attractive
FANG	Diamondback Energy Inc.	\$18.84	\$25.77	-37%	Very Attractive
VFC	VF Corporation	\$3.00	\$3.71	-24%	Very Attractive
DFS	Discover Financial Services	\$15.36	\$18.57	-21%	Very Attractive

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 VF Corporation (VFC). All these unusual items are removed from Core Earnings.

VF Corporation’s (VFC) TTM 2Q22 Street Earnings Understated by \$0.71/share

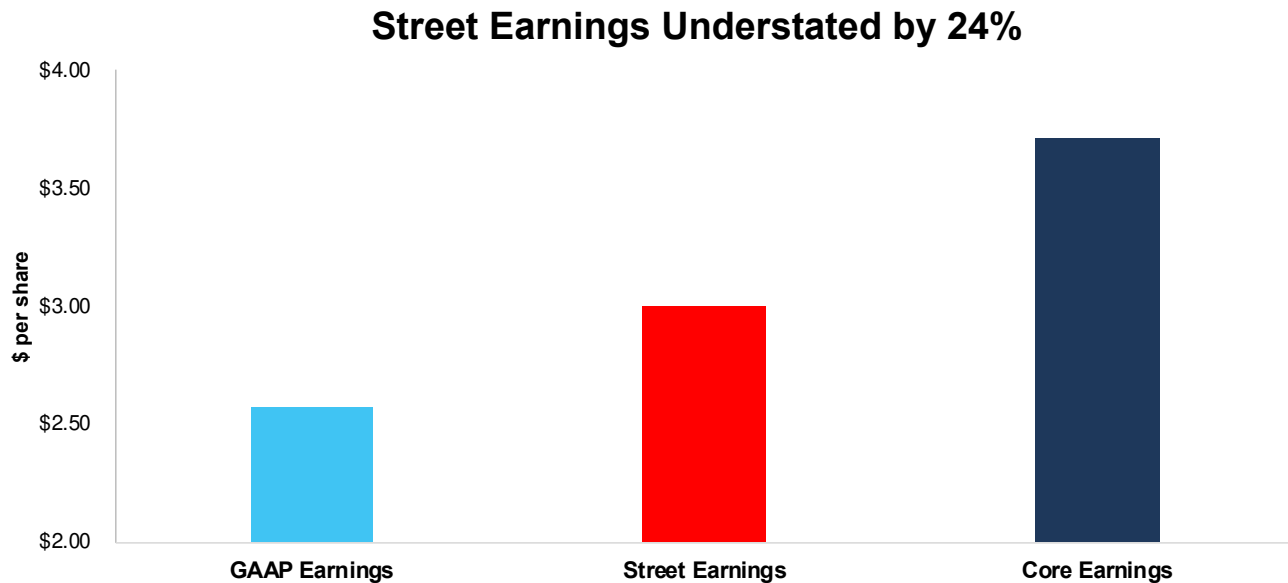
The difference between VF Corporation’s TTM 2Q22 Street Earnings (\$3.00/share) and Core Earnings (\$3.71/share) is \$0.71/share, per Figure 4. We call that difference “Street Distortion,” which equals 24% of Street Earnings.

VF Corporation’s TTM 2Q22 GAAP Earnings (\$2.58/share) understate Core Earnings by \$1.14/share.

This example shows how Street Earnings suffer from many of the same shortcomings as GAAP measures of earnings. Our proprietary process for gathering and adjusting financial filings overcomes these shortcomings.



Figure 4: Comparing VF Corporation’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.

VF Corporation’s [Earnings Distortion Score](#) is Strong Beat and its Stock Rating is Very Attractive, in part due to its return on invested capital (ROIC) of 11% and price-to-economic book value (PEBV) ratio of 0.9.

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

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

TTM 2Q22 (\$ per share)	
GAAP Net Income	\$2.58
– Hidden Unusual Expenses, Net	(\$1.11)
– Reported Unusual Expenses Pre-Tax, Net	(\$0.27)
– Tax Distortion	\$0.25
– Reported Unusual Gains After-Tax, Net	<\$0.01
= Core Earnings	\$3.71

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of -\$1.14/share, which equals -\$444 million, is comprised of the following:

Hidden Unusual Expenses, Net = -\$1.11/per share, which equals -\$436 million and is comprised of

- -\$436 million in hidden restructuring expenses in the TTM period based on
 - [-\\$4 million](#) in accelerated depreciation in fiscal 1Q23
 - [-\\$2 million](#) in severance and employee related benefits in fiscal 1Q23
 - [-\\$0.3 million](#) in contract termination and other charges in fiscal 1Q23
 - [-\\$410 million](#) reduction in the carrying amount of right-of-use assets in fiscal 4Q22
 - [-\\$3 million](#) in accelerated depreciation in fiscal 4Q22
 - [-\\$5 million](#) in severance and employee related benefits in fiscal 4Q22
 - [-\\$0.7 million](#) in contract termination and other charges in fiscal 4Q22
 - [-\\$4 million](#) impairment recorded in lease costs in fiscal 4Q22
 - [-\\$0.6 million](#) in accelerated depreciation in fiscal 3Q22



- [-\\$3 million](#) in severance and employee-related benefits in fiscal 3Q22
- [-\\$2 million](#) in accelerated depreciation in fiscal 2Q22
- [-\\$1 million](#) in severance and employee-related benefits in fiscal 2Q22
- [\\$0.7 million](#) reduction to allowance for doubtful accounts in fiscal 4Q22

Reported Unusual Expenses Pre-Tax, Net = $-\$0.27$ /per share, which equals $-\$105$ million and is comprised of

- $-\$78$ million in other expense in the TTM period based on
 - [-\\$95 million](#) expense in fiscal 1Q23
 - [\\$10 million](#) income in fiscal 4Q22
 - [-\\$0.1 million](#) expense in fiscal 3Q22
 - [\\$8 million](#) income in fiscal 2Q22
- [-\\$4 million](#) loss on debt extinguishment in fiscal 3Q22
- $\$24$ 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](#) = $\$0.25$ /per share, which equals $\$96$ million

Reported Unusual Expenses After-Tax, Net = $<\$0.01$ /per share, which equals $\$399$ thousand and is comprised of

- [\\$0.4 million](#) income from discontinued operations in fiscal 4Q22

While not equal, the similarities between Street Earnings and GAAP Earnings for VF Corporation indicates that Street Earnings miss many of the unusual items in GAAP Earnings, and the $\$0.71$ /share Street Distortion highlights that Core Earnings include a more comprehensive set of unusual items when calculating VF Corporation's true profitability.

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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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