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EARNINGS PREVIEW
4/12/23

1Q23 Earnings: Where Street Earnings Are Too High & Who Should Miss

Wall Street analysts are too bullish on first quarter earnings expectations for most S&P 500 companies. Although down from record highs set in recent quarters, the percentage of S&P 500 companies whose Street EPS exceeds our Core EPS[1] remains high at 68%.

This report shows:

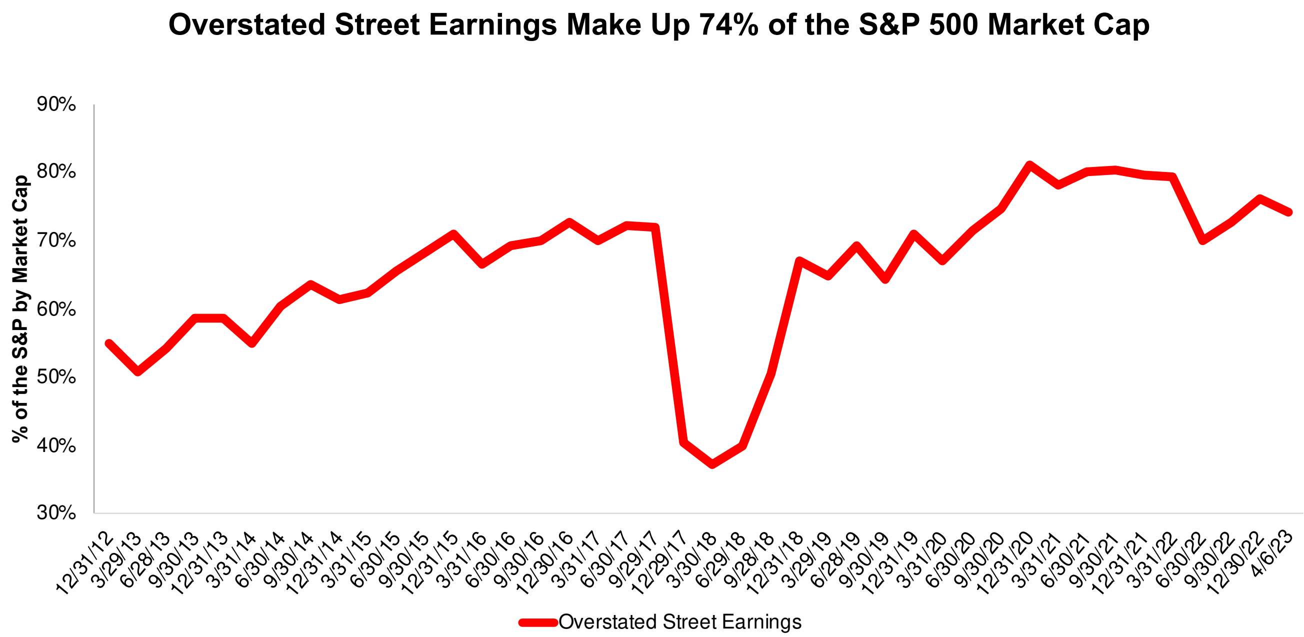
- the frequency and magnitude of overstated Street Earnings[2] in the S&P 500
- five S&P 500 companies likely to miss 1Q23 earnings

Get our report on the S&P 500 companies most likely to beat 1Q23 Street EPS estimates here.

Street Exceeds Core EPS for 339 S&P 500 Companies

339 companies with overstated Street Earnings make up 74% of the market cap of the S&P 500 as of 4/6/23, which is down from 76% in 3Q22, measured with TTM data in each quarter.

Figure 1: Overstated Street Earnings as % of Market Cap: 2012 through 4/6/23



Sources: New Constructs, LLC and company filings.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 19%, per Figure 2. For over a third of the S&P 500 (186 companies), Street Earnings are overstated by more than 10% vs. Core Earnings.

[1] The Journal of Financial Economics features the superiority of our Core Earnings in Core Earnings: New Data & Evidence.
[2] Street Earnings refer to Zacks Earnings, which are reported to remove non-recurring items using standardized assumptions from the sell-side.

Figure 2: Street Earnings Overstated by 19% on Average in TTM Through 4Q22

Overstated Street Earnings	Overstated by >10%	Average Overstated %
339 companies	186 companies	19%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Miss 1Q23 Earnings

Figure 3 shows five S&P 500 companies likely to miss calendar 1Q23 earnings because their Street EPS estimates are overstated. Below, we detail the hidden and reported unusual items that caused the overstated Street Earnings in the TTM ended 4Q22 for First Solar (FSLR). Because investors and analysts tend to anchor their earnings projections to historical results, errors in historical Street EPS lead to errors in Street EPS estimates.

Figure 3: Five S&P 500 Companies Likely to Miss 1Q23 EPS Estimates

Ticker	Name	Street EPS Estimate for 1Q23	Core EPS Estimate for 1Q23*	Street Estimate Overstated by
FSLR	First Solar, Inc.	$1.06	($1.10)	204%
INTC	Intel Corporation	($0.15)	($0.26)	72%
DISH	Dish Network Corp	$0.39	$0.25	35%
AWK	American Water Works	$0.95	$0.86	10%
ATO	Atmos Energy Corp	$2.50	$2.27	9%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percent of Core EPS is the same for 1Q23 EPS as for TTM ended 4Q22.

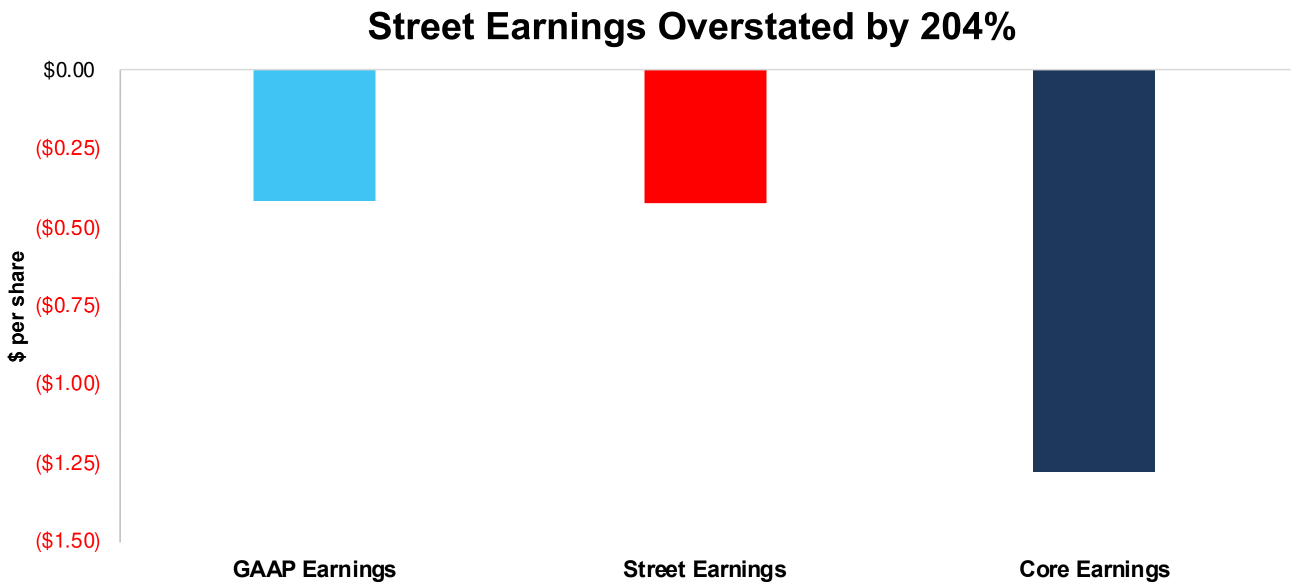
First Solar: The Street Overestimates Earnings for 1Q23 by 204%

The Street's 1Q23 EPS estimate of $1.06/share for First Solar is $2.16/share higher than our estimate for 1Q23 Core EPS of -$1.10/share. Large gains due to the sale of a business and "other income" drive much of the difference between Street and Core EPS estimates. After removing these non-recurring gains, our analysis of the entire S&P 500 reveals First Solar as one of the companies most likely to miss Wall Street analysts' expectations in its 1Q23 earnings report.

First Solar's Earnings Distortion Score is Miss and its Stock Rating is Unattractive, in part due to its bottom-quintile return on invested capital (ROIC) of -2%, 0% free cash flow (FCF) yield, and price-to-economic book value (PEBV) ratio of 74.4.

Below we detail the unusual gains that materially boost and distort First Solar's 2022 Street and GAAP earnings. After removing all unusual items, we find that First Solar's 2022 Core EPS are -$1.28/share, which is lower than 2022 Street EPS of -$0.42/share and GAAP EPS of -$0.41/share.

Figure 4: Comparing First Solar's GAAP, Street, and Core Earnings: TTM Through 4Q22



Sources: New Constructs, LLC and company filings.

Figure 5 shows the differences between First Solar's Core Earnings and GAAP Earnings so readers can audit our research. Given the small difference between GAAP and Street Earnings, the adjustments that drive the difference between Core and Street Earnings are likely mostly the same.

Figure 5: First Solar's GAAP Earnings to Core Earnings Reconciliation: 2022

	2022 ($ per share)
GAAP Net Income	($0.41)
– Hidden Unusual Expenses, Net	($0.59)
– Reported Unusual Gains, Net	$2.52
– Tax Distortion	($1.06)
= Core Earnings	**($1.28)**

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of $0.86/share, which equals $91.8 million, is comprised of the following:

Hidden Unusual Expenses, Net = -$0.59/per share, which equals $63.3 million and is comprised of

- $63.3 million impairments and net losses on disposal of long-lived assets

Reported Unusual Gains, Net = $2.52/per share, which equals $268.3 million and is comprised of

- $253.5 million gain on sales of businesses
- $31.2 million in "other income"
    - First Solar disclosed in the notes that, in connection with its sale of the Luz del Norte plant, creditors agreed to forgive $30.2 million in loan balances, which was recorded as a gain in "Other Income"
- -$16.4 million foreign currency loss

Tax Distortion = -$1.06/per share, which equals $113.2 million

Core Earnings are a more comprehensive measure of profits and capture all unusual items to ensure we calculate First Solar's true profitability.

This article was originally published on April 12, 2023.

Disclosure: David Trainer, Kyle Guske II, and Italo Mendonça 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.

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