



## Street Earnings Overstated for 73% of S&P 500 in 1Q23

Street Earnings, as reflected in [Zacks Earnings](#), are marketed as being adjusted to remove non-recurring items. Our [Core Earnings](#)<sup>1</sup> show Street Earnings fail to account for a material amount of unusual items, which distorts investors' 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 a Very Unattractive [Stock Rating](#)

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### Over 190 S&P 500 Companies Overstate EPS by More than 10%

For 347 companies in the S&P 500, or 69%, Street Earnings are higher than Core Earnings<sup>2</sup> for the trailing-twelve-months (TTM) ended 1Q23. In the TTM ended 4Q22, 339 companies overstated their earnings.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 22%, per Figure 1.

**Figure 1: Street Earnings Overstated by 22% on Average in TTM Through 1Q23**

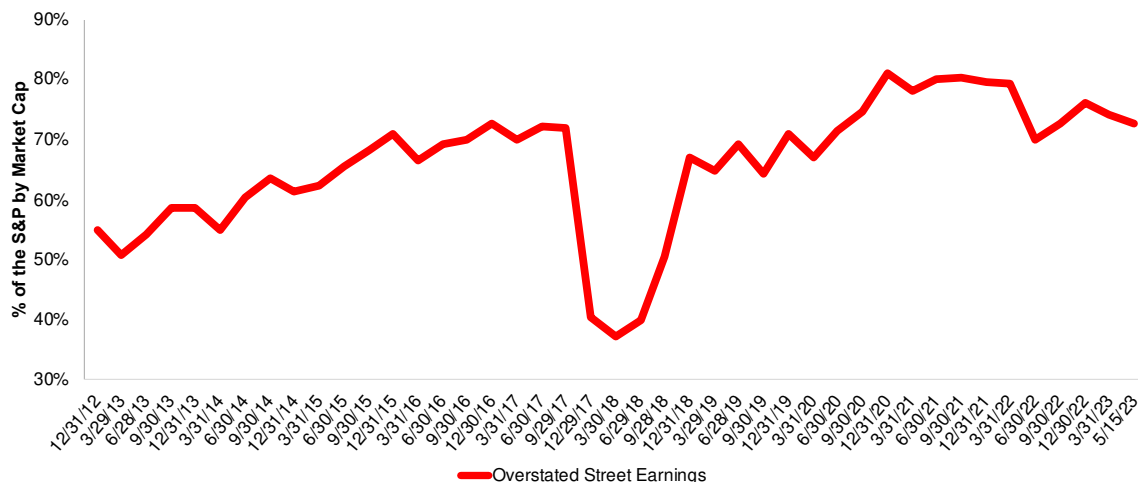
Overstated Street Earnings	Overstated by >10%	Average Overstated % <sup>3</sup>
347 companies	191 companies	22%

Sources: New Constructs, LLC and company filings.

The 347 companies with overstated Street Earnings make up 73% of the market cap of the S&P 500 as of 5/15/23, which is down from 74% in 4Q22, measured with TTM data in each quarter.

**Figure 2: Overstated Street Earnings as % of Market Cap: 2012 through 5/15/23**

### Overstated Street Earnings Make Up 73% of the S&P 500 Market Cap



Sources: New Constructs, LLC and company filings.

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

<sup>2</sup> Our Core Earnings research is based on the latest audited financial data, which is the calendar 1Q23 10-Q in most cases. Price data as of 5/15/23.

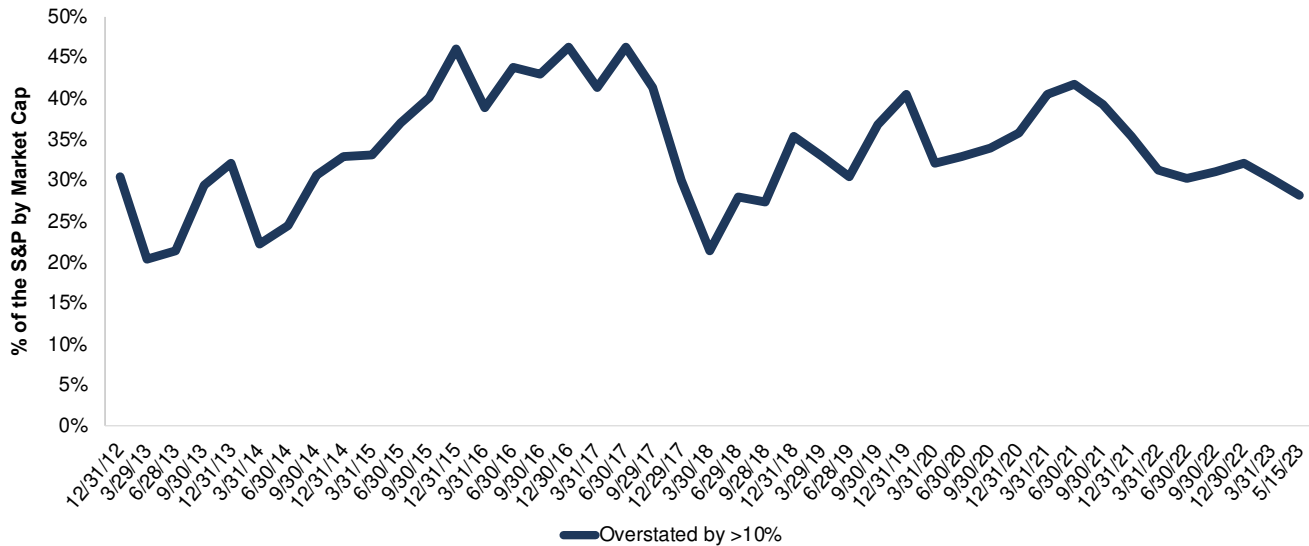
<sup>3</sup> Average overstated % is calculated as Street Distortion, which is the difference between Street Earnings and Core Earnings.



For over a third of the S&P 500 (191 companies), Street Earnings are overstated by more than 10% vs. Core Earnings. These 191 companies make up 28% of the market cap of the S&P 500 as of 5/15/23. See Figure 3.

**Figure 3: Overstated Street Earnings by > 10% as % of Market Cap: 2012 through 5/15/23**

**28% of the S&P 500 (by market cap) Overstates Earnings by >10%**



Sources: New Constructs, LLC and company filings.

**The Five Worst Offenders in the S&P 500**

Figure 4 shows five S&P 500 stocks with a Very Unattractive [Stock Rating](#) and the most overstated Street Earnings (Street Distortion as a % of Street Earnings per share) over the TTM through 1Q23. “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 4: S&P 500 Companies with Most Overstated Street Earnings: TTM 1Q23**

Ticker	Name	Street EPS	Core EPS	Overstated %*	Stock Rating
MGM	MGM Resorts International	(\$0.23)	(\$1.01)	341%	Very Unattractive
PCG	PG&E Corp	\$1.09	\$0.62	43%	Very Unattractive
BSX	Boston Scientific	\$1.79	\$1.13	37%	Very Unattractive
FISV	Fiserv Inc.	\$6.68	\$4.20	37%	Very Unattractive
PPL	PPL Corporation	\$1.47	\$0.94	36%	Very 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 MGM Resorts International). All of these unusual items are removed from Core Earnings.

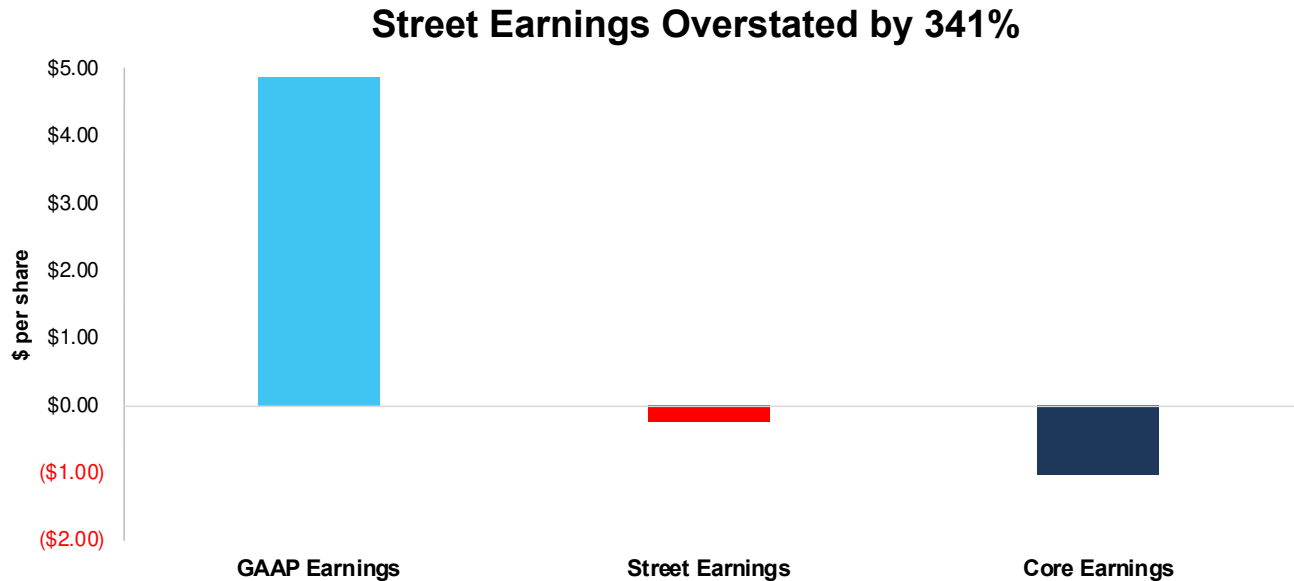
**MGM Resorts’ 1Q23 TTM Street Earnings Overstated by \$0.78/share**

The difference between, or Street Distortion in, MGM Resorts’ Street Earnings (-\$0.23/share) and Core Earnings (-\$1.01/share) is \$0.78/share, or 341% percent of Street Earnings.

MGM Resorts’ GAAP Earnings Distortion is higher at \$5.89/share, which indicates that Street Earnings are identifying some non-operating and unusual items. However, given the disconnect between Street and Core Earnings, it’s clear that Street Earnings still miss material adjustments.



**Figure 5: Comparing MGM Resorts' GAAP, Street, and Core Earnings: TTM 1Q23**



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 Street Earnings.

MGM Resorts' [Earnings Distortion Score](#) is Strong Miss and its Stock Rating is Very Unattractive. MGM Resorts receives a Very Unattractive rating largely due to its negative economic earnings, negative return on invested capital (ROIC) of -1%, and the expensive valuation of its stock. Despite trading at \$39/share, MGM has an economic book value (EBV), or no-growth value, of -\$6/share. Negative ROIC and an expensive valuation land MGM Resorts in our [Most Dangerous Stocks Model Portfolio](#) in June as well.

Figure 6 details the differences between MGM Resorts' Core Earnings and GAAP Earnings.

**Figure 6: MGM Resorts' GAAP Earnings to Core Earnings Reconciliation: TTM 1Q23**

	TTM (\$ per share)
GAAP Net Income	\$4.88
– Hidden Unusual Gains, Net	\$0.00
– Reported Unusual Gains Pre-Tax, Net	\$9.73
– Tax Distortion	(\$3.76)
– Reported Unusual Gains After-Tax, Net	(\$0.08)
<b>= Core Earnings</b>	<b>(\$1.01)</b>

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of \$5.89/share, which equals \$2.3 billion, is comprised of the following:

Reported Unusual Gains Pre-Tax, Net = \$9.73/per share, which equals \$3.9 billion and is comprised of:

- \$3.8 billion in gains on property transactions in the TTM based on
  - [\\$396 million](#) gain on property transactions in 1Q23
  - [\\$1.1 billion](#) gain on sale of the operations of The Mirage in 4Q22
  - [\\$12 million](#) gain on property transactions in 3Q22
  - [\\$2.3 billion](#) gain on REIT transactions in 2Q22
  - [\\$19 million](#) gain on property transactions in 2Q22



- \$95 million in “other income in the TTM based on
  - [\\$46 million](#) in other income in 1Q23
  - [\\$106 million](#) in other income in 4Q22
  - [-\\$14 million](#) in other expense in 3Q22
  - [-\\$43 million](#) in other expense in 2Q22
- [-\\$30 million](#) in other property transactions expense in the 2022 10-K

[Tax Distortion](#) = -\$3.76/per share, which equals -\$1.5 billion

Reported Unusual Gains After-Tax, Net = -\$0.08/per share, which equals -\$32 million and is comprised of:

- [-\\$32 million](#) in adjustments related to redeemable noncontrolling interests in the 2022 10-K

Given that the Earnings Distortion listed above is all reported, unknowing investors may assume Street Earnings properly adjust for these items. However, given the \$0.78/share Street Distortion in MGM Resorts' earnings, it's clear that Core Earnings include a more comprehensive set of unusual items when calculating true profitability.

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*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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3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

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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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

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