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EARNINGS PREVIEW
7/6/23

2Q23 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 73% of S&P 500 in 1Q23](), there are many S&P 500 companies whose Street Earnings are lower than their true [Core Earnings]()[2].

This report shows:

- the frequency and magnitude of understated Street Earnings in the S&P 500
- five S&P 500 companies likely to beat 2Q23 earnings

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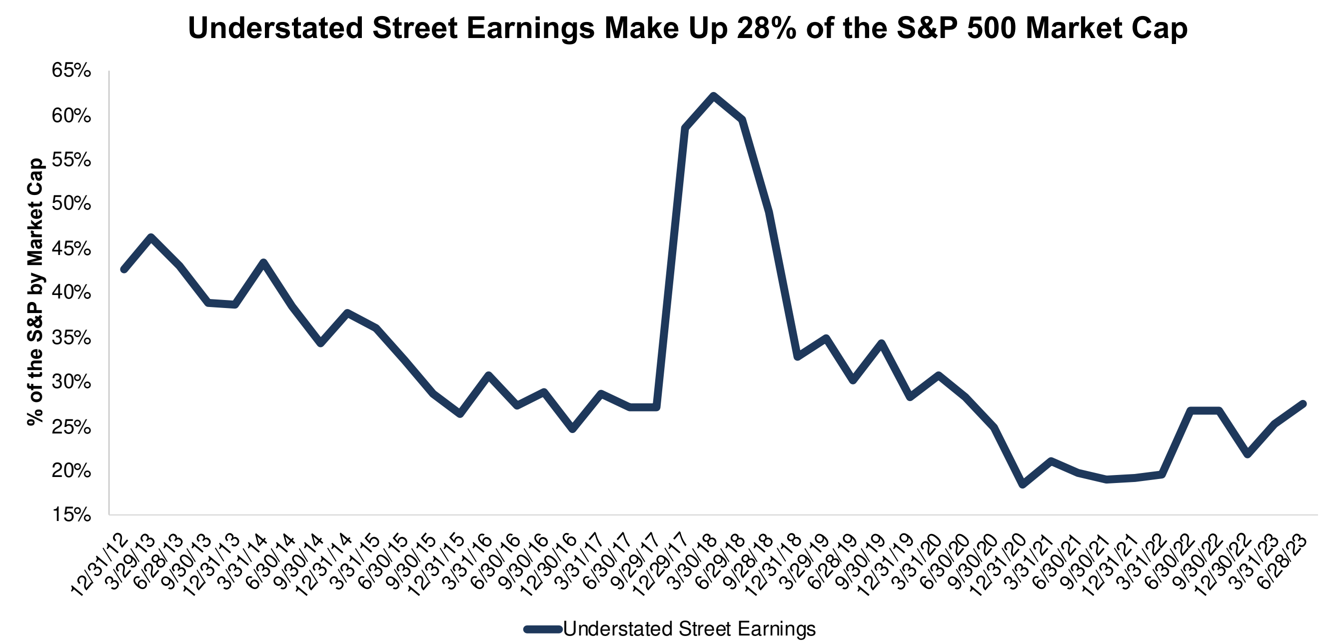
Street EPS Are Lower Than Core EPS for 146 S&P 500 Companies

For 146 companies in the S&P 500, or 29%, Street Earnings are lower than Core Earnings in the TTM ended 1Q23. In the TTM ended 4Q22, Street Earnings were understated for 154 companies.

The 146 companies with understated Street Earnings represent 28% of the market cap of the S&P 500 as of 6/28/23, which is up from 25% in the TTM ended 4Q22.

Figure 1: Understated Street Earnings as % of Market Cap: 2012 through 6/28/23



Sources: New Constructs, LLC and company filings.

When Street Earnings are lower than Core Earnings, they are understated by an average of 21% per company, per Figure 2. For 10% of the S&P 500 (51 companies), Street Earnings are understated by more than 10% vs. Core Earnings.

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

Figure 2: Street Earnings Understated by 21% on Average in TTM Through 1Q23

Understated Street Earnings	Understated by >10%	Average Understated %
146 companies	51 companies	21%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Beat Calendar 2Q23 Earnings

Figure 3 shows five S&P 500 companies likely to beat calendar 2Q23 earnings because their Street EPS estimates are understated. Below we detail the hidden and reported unusual items that caused the understated Street Earnings in the TTM ended 1Q23 for Moderna Inc. (MRNA).

Figure 3: Five S&P 500 Companies Likely to Beat 2Q23 EPS Estimates

Ticker	Name	Street EPS Estimate for 2Q23	Core EPS Estimate for 2Q23*	Street Estimate Understated by
MRNA	Moderna Inc.	($3.97)	($2.53)	-36%
CHTR	Charter Communications	$7.70	$8.57	-11%
MRO	Marathon Oil Corp	$0.49	$0.54	-9%
RHI	Robert Half International	$1.13	$1.18	-5%
COP	ConocoPhillips	$2.18	$2.23	-2%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percentage of Core EPS is the same in 2Q23 as the TTM ended 1Q23

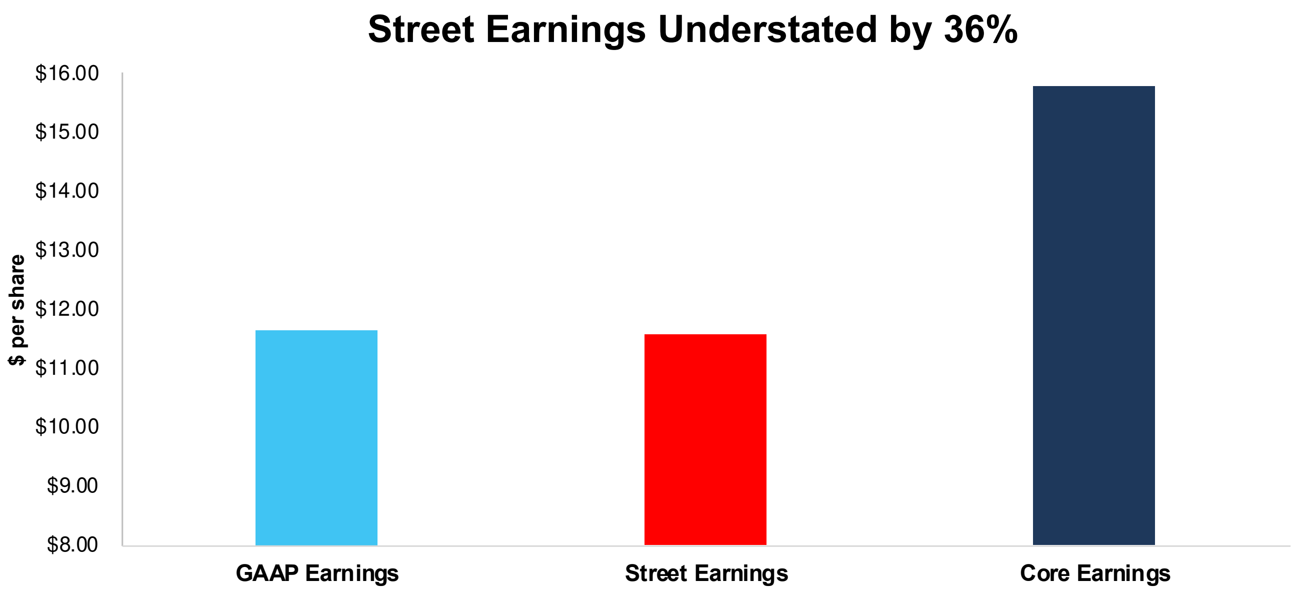
Moderna Inc.: The Street Underestimates Earnings Expectations for 2Q23 by $1.44/share

The Street's 2Q23 EPS estimate of -$3.97/share for Moderna is $1.44/share lower than our estimate for 2Q23 Core EPS of -$2.53/share. Large inventory write-downs and losses on purchase commitments included in historical EPS drive most of the difference between the Street and Core EPS estimates. After removing these unusual expenses, our analysis of the entire S&P 500 reveals Moderna as one of the companies most likely to beat Wall Street analysts' expectations in its 2Q23 earnings report.

Moderna's Earnings Distortion Score is Strong Beat and its Stock Rating is Attractive, in part due to its top-quintile return on invested capital (ROIC) of 178% and price-to-economic book value (PEBV) ratio of 0.5.

Below, we detail the unusual expenses that materially reduced Moderna's TTM 1Q23 Street and GAAP Earnings. After removing all unusual items, we find that Moderna's TTM Core EPS are $15.78/share, which is higher than the TTM Street EPS of $11.57/share and GAAP EPS of $11.65/share.

Figure 4: Comparing Moderna's GAAP, Street, and Core Earnings: TTM Through 1Q23



Sources: New Constructs, LLC and company filings.

Figure 5 details the differences between Moderna's Core 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: Moderna's GAAP Earnings to Core Earnings Reconciliation: TTM 1Q23

	TTM ($ per share)
GAAP Net Income	$11.65
– Hidden Unusual Expenses, Net	($4.57)
– Reported Unusual Expenses, Net	($0.12)
– Tax Distortion	$0.55
= Core Earnings	**$15.78**

Sources: New Constructs, LLC and company filings.

More details:

Total GAAP Earnings Distortion of -$4.13/share, which equals -$1.7 billion, is comprised of the following:

Hidden Unusual Expenses, Net = -$4.57/per share, which equals -$1.9 billion and is comprised of:

- -$1.4 billion in inventory write downs in the TTM period based on
  - -$148 million in 1Q23
  - -$279 million in 4Q22
  - -$333 million in 3Q22
  - -$499 million in 2Q22
- -$617 million in losses on firm purchase commitments in the 2022 10-K

Reported Unusual Expenses Pre-Tax, Net = -$0.12/per share, which equals -$48 million and is comprised of:

- -$49 million in losses on investments in the TTM period based on
  - -$35 million in 1Q23
  - -$2 million in 4Q22
  - -$4 million in 3Q22
  - -$8 million in 2Q22
- $1 million in other income in the TTM period based on

- o -$4 million in expenses in 1Q23
- o $5 million in income in 3Q22

Tax Distortion = $0.55 per share, which equals $227 million

The $4.21/share of Street Distortion in the TTM ended 1Q23 highlights that Core Earnings account for a more comprehensive set of unusual items when calculating Moderna's true profitability.

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Disclosure: David Trainer, Kyle Guske II, Hakan Salt, 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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