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MACRO FUNDAMENTALS
8/29/23

Street Earnings Overstated for 70% of S&P 500 in 2Q23

Street Earnings, as reflected in Zacks Earnings, are marketed as being adjusted to remove unusual income and charges. Our Core Earnings[1] show Street Earnings fail to account for a material amount of unusual income and charges, 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, and
- five S&P 500 companies with overstated Street Earnings and an Unattractive Stock Rating.

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

For 357 companies in the S&P 500, or 71%, Street Earnings are higher than Core Earnings[2] for the trailing-twelve-months (TTM) ended 2Q23. In the TTM ended 1Q23, 347 companies overstated their earnings.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 24%, per Figure 1.

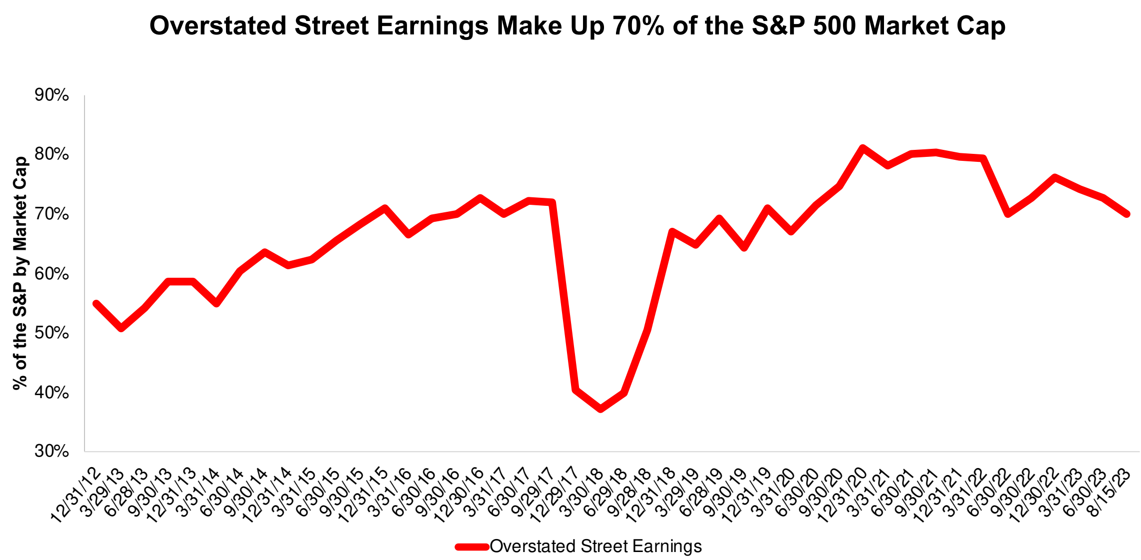
Figure 1: Street Earnings Overstated by 24% on Average in TTM Through 2Q23

Overstated Street Earnings	Overstated by >10%	Average Overstated %[3]
357 companies	208 companies	24%

Sources: New Constructs, LLC and company filings.

The 357 companies with overstated Street Earnings make up 70% of the market cap of the S&P 500 as of 8/15/23, which is down from 73% in 1Q23, measured with TTM data in each quarter.

Figure 2: Overstated Street Earnings as % of Market Cap: 2012 through 8/15/23

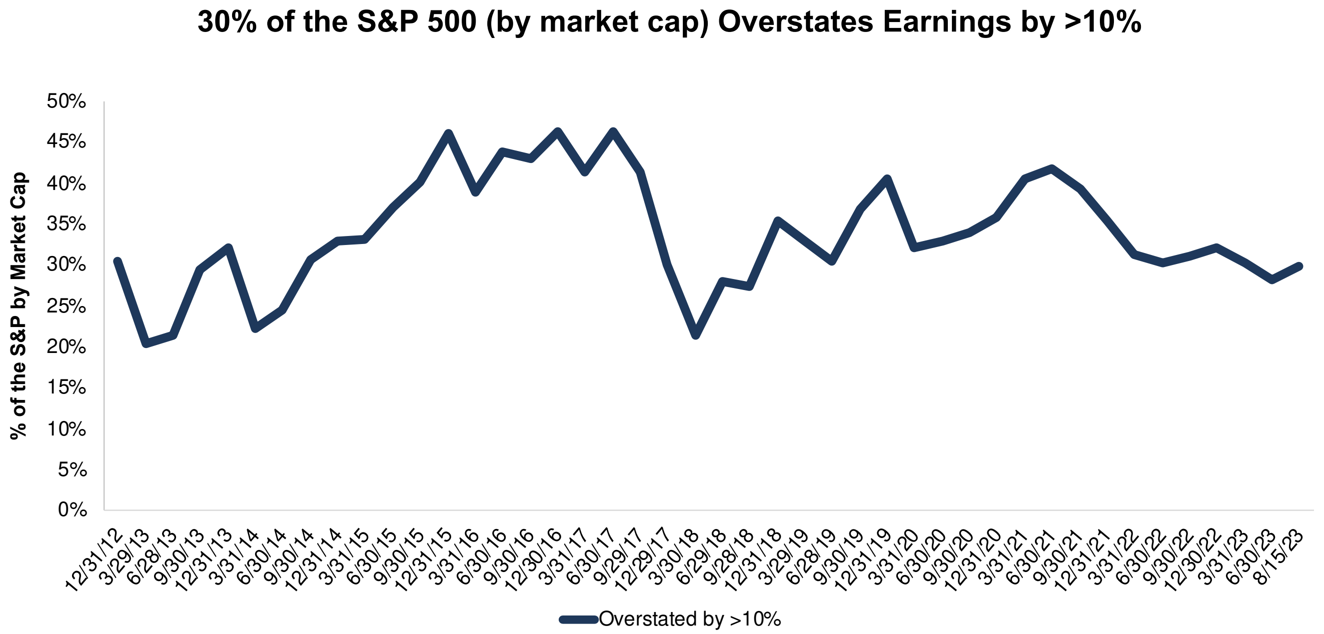


Sources: New Constructs, LLC and company filings.

[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 2Q23 10-Q in most cases. Price data as of 8/15/23.
[3] 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 (208 companies), Street Earnings are overstated by more than 10% vs. Core Earnings. These 208 companies make up 30% of the market cap of the S&P 500 as of 8/15/23. See Figure 3.

Figure 3: Overstated Street Earnings by > 10% as % of Market Cap: 2012 through 8/15/23



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 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 2Q23. "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 2Q23

Ticker	Name	Street EPS	Core EPS	Overstated %*	Stock Rating
MGM	MGM Resorts International	$0.33	($1.35)	509%	Unattractive
TTWO	Take Two Interactive	$1.68	($6.70)	499%	Unattractive
NRG	NRG Energy	$3.89	($9.06)	333%	Unattractive
WBD	Warner Bros. Discovery	$0.26	($0.54)	307%	Unattractive
STX	Seagate Technology	($0.35)	($1.16)	232%	Unattractive

Sources: New Constructs, LLC and company filings.
*Measured as Street Distortion as a percent of Street EPS.

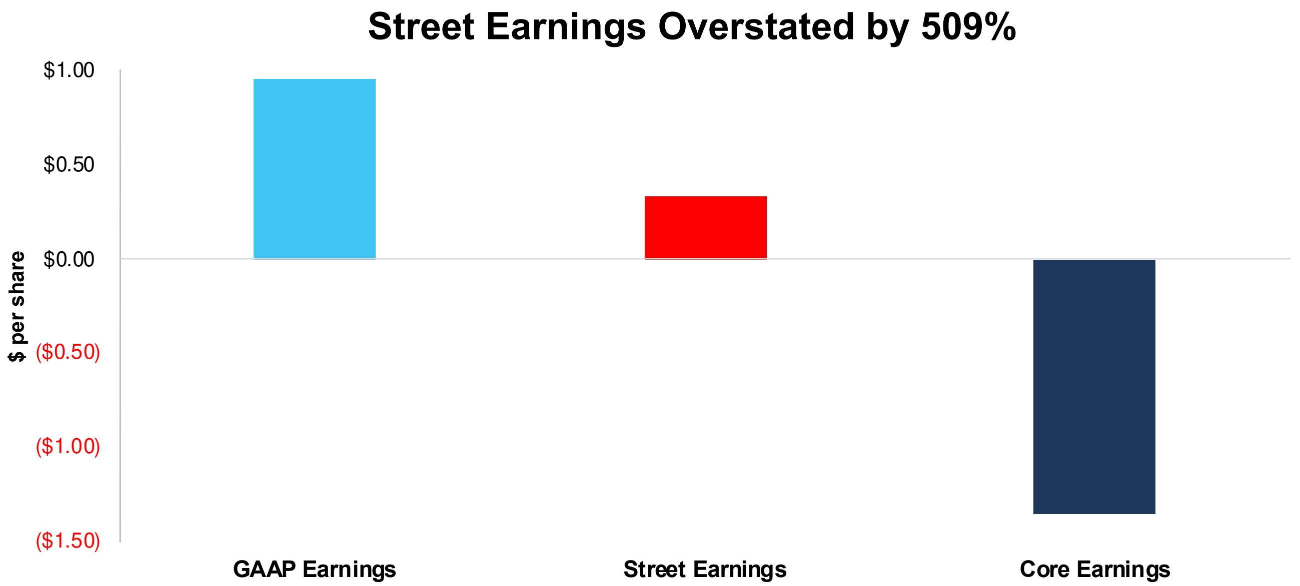
In the section below, we detail the hidden and reported unusual items that distort GAAP Earnings for MGM Resorts International). All of these unusual income and charges are removed from Core Earnings.

MGM Resorts' 2Q23 TTM Street Earnings Overstated by $1.68/share

The difference between, or Street Distortion in, MGM Resorts' Street Earnings ($0.33/share) and Core Earnings (-$1.35/share) is $1.68/share, or 509% percent of Street Earnings.

MGM Resorts' GAAP Earnings Distortion is higher at $2.31/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 unusual items.

Figure 5: Comparing MGM Resorts' GAAP, Street, and Core Earnings: TTM 2Q23



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 Unattractive. MGM Resorts receives an 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 $42/share, MGM has an economic book value (EBV), or no-growth value, of -$2/share. Negative ROIC and an expensive valuation land MGM Resorts in our Most Dangerous Stocks Model Portfolio in August 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 2Q23

	TTM ($ per share)
GAAP Net Income	$0.96
– Hidden Unusual Gains, Net	($0.07)
– Reported Unusual Gains Pre-Tax, Net	$4.24
– Tax Distortion	($1.79)
– Reported Unusual Gains After-Tax, Net	($0.08)
= Core Earnings	**($1.35)**

Sources: New Constructs, LLC and company filings.

More details:

Total Earnings Distortion of $2.31/share, which equals $882.5 million, is comprised of the following:

Hidden Unusual Gains, Net = -$0.07/share, which equals -$25 million and is comprised of:

- reversal of $25 million gain previously reported in quarterly filings but no longer broken out in the annual 2022 10-K

Reported Unusual Gains Pre-Tax, Net = $4.24/per share, which equals $1.6 billion and is comprised of:

- $1.5 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
- $162 million in "other income in the TTM based on
    - $24 million in other income in 2Q23
    - $46 million in other income in 1Q23
    - $106 million in other income in 4Q22
    - -$14 million in other expense in 3Q22
- -$35 million in property transaction expense in the TTM based on
    - -$6 million in 2Q23
    - -$30 million in 4Q22

Tax Distortion = -$1.79/per share, which equals -$685 million

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 $1.68/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, Italo Mendonça, and Hakan Salt 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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