3Q23 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 70% of S&P 500 in 2Q23, there are many S&P 500 companies whose Street Earnings are lower than their 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 3Q23 earnings

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Street EPS Are Lower Than Core EPS for 136 S&P 500 Companies

For 136 companies in the S&P 500, or 27%, Street Earnings are lower than Core Earnings in the trailing-twelve-months (TTM) ended 2Q23. In the TTM ended 1Q23, Street Earnings were understated for 146 companies.

The percentage of the S&P 500 where Street Earnings understate Core Earnings by more than 10% fell to 9% (47 companies) in 2Q23, which is down from 10% (51 companies) in the TTM ended 1Q23.

Those 47 companies make up 11% of the market cap of the S&P 500 as of 10/2/23, which is up from 10% of the market cap in 1Q23, measured with TTM data in each quarter. See Figure 1.

Figure 1: Understated Street Earnings by >10% as % of Market Cap: 2012 through 10/2/23

11% of the S&P 500 (by market cap) Understates Earnings by >10%
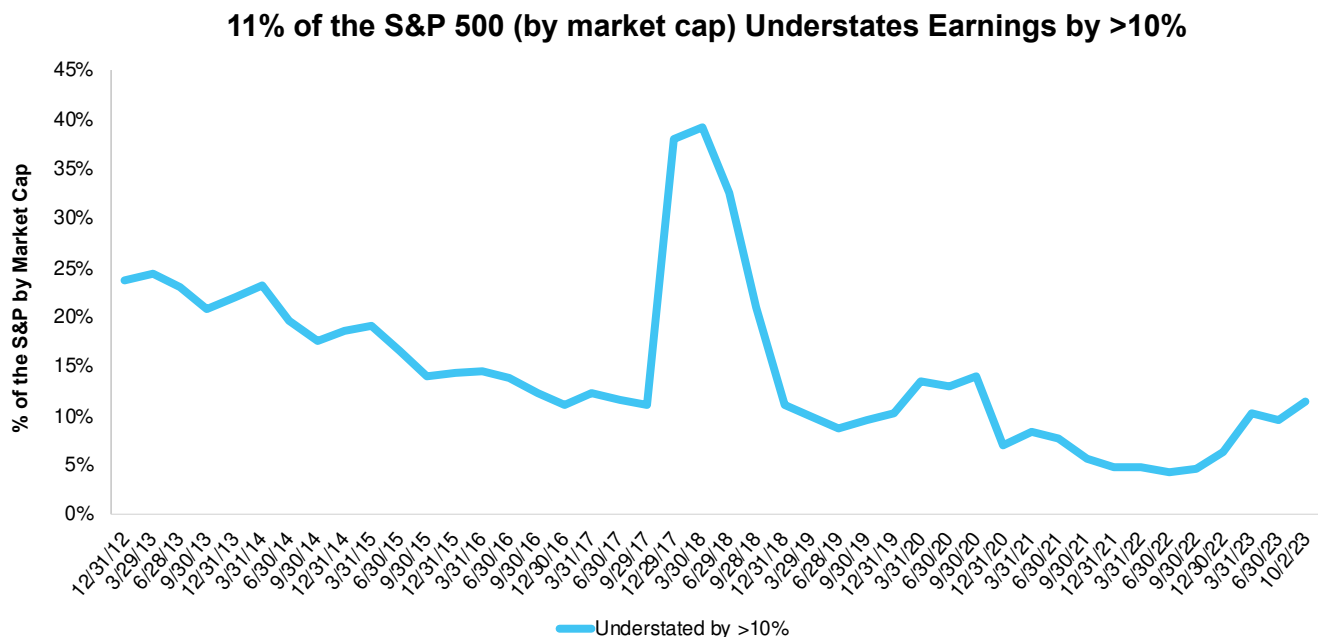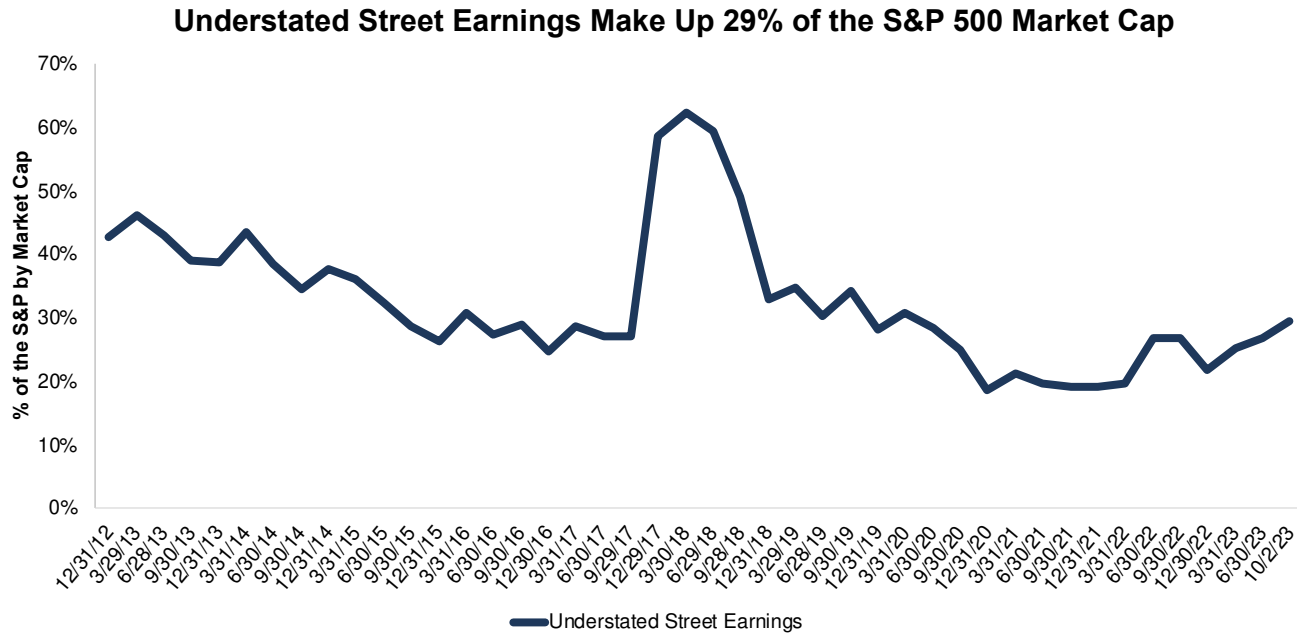
Sources: New Constructs, LLC and company filings.

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[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.

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The recipient of this report is directed to read these disclosures.

The 136 companies with understated (by any amount) Street Earnings represent 29% of the market cap of the S&P 500 as of 10/2/23, which is up from 27% in the TTM ended 1Q23. See Figure 2.

Figure 2: Understated Street Earnings as % of Market Cap: 2012 through 10/2/23

Understated Street Earnings Make Up 29% of the S&P 500 Market Cap

Sources: New Constructs, LLC and company filings.

When Street Earnings are lower than Core Earnings, they are understated by an average of 28%, per Figure 3.

Figure 3: Street Earnings Understated by 28% on Average in TTM Through 2Q23

Understated Street Earnings	Understated by >10%	Average Understated %
136 companies	47 companies	28%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Beat Calendar 3Q23 Earnings

Figure 4 shows five S&P 500 companies likely to beat calendar 3Q23 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 2Q23 for American Tower Corp (AMT).

Figure 4: Five S&P 500 Companies Likely to Beat 3Q23 EPS Estimates

Ticker	Name	Street EPS Estimate for 3Q23	Core EPS Estimate for 3Q23*	Street Estimate Understated by
MRNA	Moderna Inc.	($1.42)	$0.48	134%
AMT	American Tower Corp	$2.18	$4.59	111%
LYV	Live Nation Entertainment	$1.26	$2.24	78%
TRGP	Targa Resources	$1.26	$1.95	54%
SBAC	SBA Communications	$3.22	$3.70	15%

Sources: New Constructs, LLC, company filings, and Zacks
*Assumes Street Distortion as a percentage of Core EPS is the same in 3Q23 as the TTM ended 2Q23

American Tower Corp: The Street Underestimates Earnings for 3Q23 by 111%

The Street's 3Q23 EPS estimate of $2.18/share for American Tower Corp is $2.41/share lower than our estimate for 3Q23 Core EPS of $4.59/share. Large foreign currency losses and impairment charges 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 American Tower Corp as one of the companies most likely to beat Wall Street analysts' expectations in its 3Q23 earnings report.

American Tower Corp's Earnings Distortion Score is Beat. Despite a short-term likelihood to beat earnings expectations, AMT does not provide quality risk/reward over the long-term. American Tower's Stock Rating is Unattractive, in part due to its low return on invested capital (ROIC) of 5%, negative economic earnings, and market-implied growth appreciation period (GAP) of >100 years.

Below, we detail the unusual expenses that materially reduced American Tower's TTM 2Q23 Street and GAAP Earnings. After removing all unusual items, we find that American Tower's TTM Core EPS are $4.36/share, which is higher than the TTM Street and GAAP EPS of $2.07/share.

Figure 5: Comparing American Tower's GAAP, Street, and Core Earnings: TTM Through 2Q23

Sources: New Constructs, LLC and company filings.

Figure 6 details the differences between American Tower's TTM 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 6: American Tower's GAAP Earnings to Core Earnings Reconciliation: TTM 2Q23

	TTM ($ per share)
GAAP Net Income	$2.07
– Hidden Unusual Expenses, Net	($0.18)
– Reported Unusual Expenses, Net	($2.27)
– Tax Distortion	$0.17
= Core Earnings	**$4.36**

Sources: New Constructs, LLC and company filings.

More details:

Total GAAP Earnings Distortion of -$2.29/share, which equals -$1.1 billion, is comprised of the following:

Hidden Unusual Expenses, Net = -$0.18/per share, which equals -$85 million and is comprised of:

- -$85 million in acquisition and merger related expenses and integration costs in the TTM period based on
  - -$2 million in acquisition and merger related expenses in 2Q23
  - -$8 million in integration costs in 2Q23
  - -$5 million in acquisition and merger related expenses in 1Q23
  - -$3 million in integration costs in 1Q23
  - -$19 million in acquisition and merger related expenses in 4Q22
  - -$6 million in integration costs in 4Q22
  - -$29 million in acquisition and merger related expenses in 3Q22
  - -$14 million in integration costs in 3Q22

Reported Unusual Expenses Pre-Tax, Net = -$2.27/per share, which equals -$1.1 billion and is comprised of:

- -$656 million in impairment charges in the TTM based on -$656 million charge in the 2022 10-K
- -$376 million in "other expenses" (which are mostly foreign currency gains/losses) in the TTM period based on
  - -$81 million in other expenses in 2Q23
  - -$98 million in other expenses in 1Q23
  - -$675 million in other expenses in 4Q22
  - $479 million in other income in 3Q22
- -$28 million loss on sale or disposal of assets in the TTM based on -$28 million loss in the 2022 10-K
- -$0.7 million in loss on retirement of long term obligations in the TTM period based on
  - -$0.3 million in 2Q23
  - -$0.4 million in 4Q22

Tax Distortion = $0.17 per share, which equals $78 million

The $2.29/share of Street Distortion in the TTM ended 2Q23 highlights that Core Earnings account for a more comprehensive set of unusual items when calculating American Tower's true profitability.

This article was originally published on October 10, 2023.

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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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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