3Q23 Earnings: Where Street Earnings Are Too High & Who Should Miss

Wall Street analysts are too bullish on third quarter earnings expectations for most S&P 500 companies. Although down from record highs set in early 2021, the percentage of S&P 500 companies whose Street EPS exceeds our Core EPS[1] remains high at 71%.

This report shows:

- the frequency and magnitude of overstated Street Earnings[2] in the S&P 500 and
- five S&P 500 companies likely to miss 3Q23 earnings.

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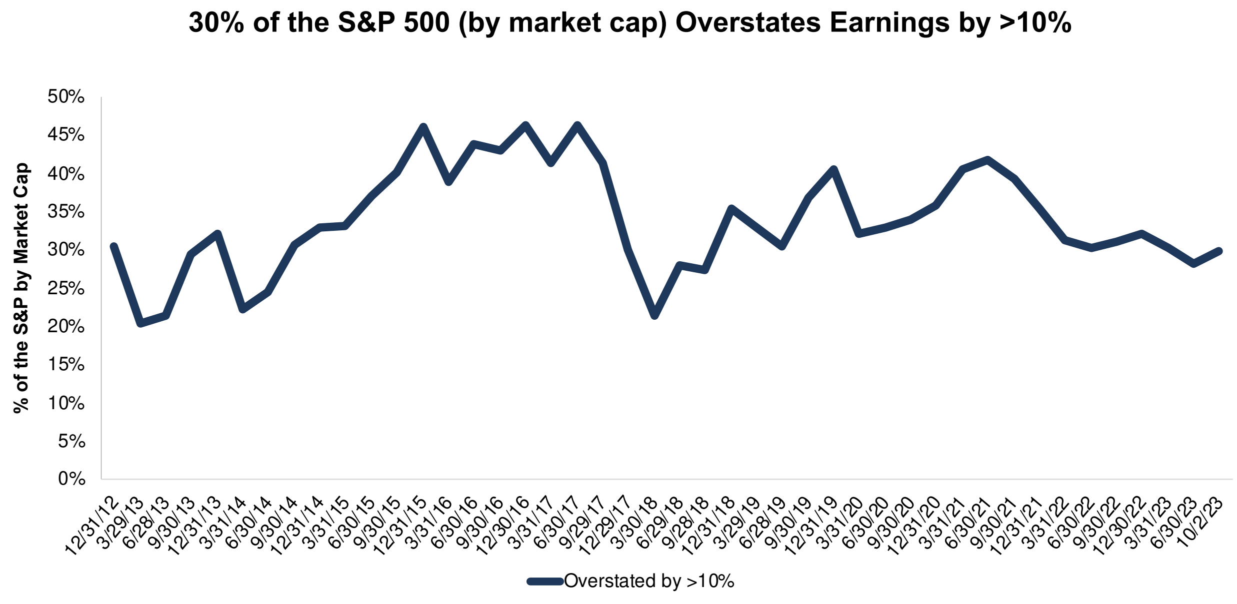
Street EPS Are Higher Than Core EPS for 357 S&P 500 Companies

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

The more interesting trend, however, is in the percentage of the S&P 500 where Street Earnings overstate Core Earnings by more than 10%. That number rose to over 40% (208 companies), which is up from 38% (191 companies) in the TTM ended 1Q23.

Those 208 companies make up 30% of the market cap of the S&P 500 as of 10/2/23, which is up from 28% of the market cap in 1Q23, measured with TTM data in each quarter. See Figure 1.

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



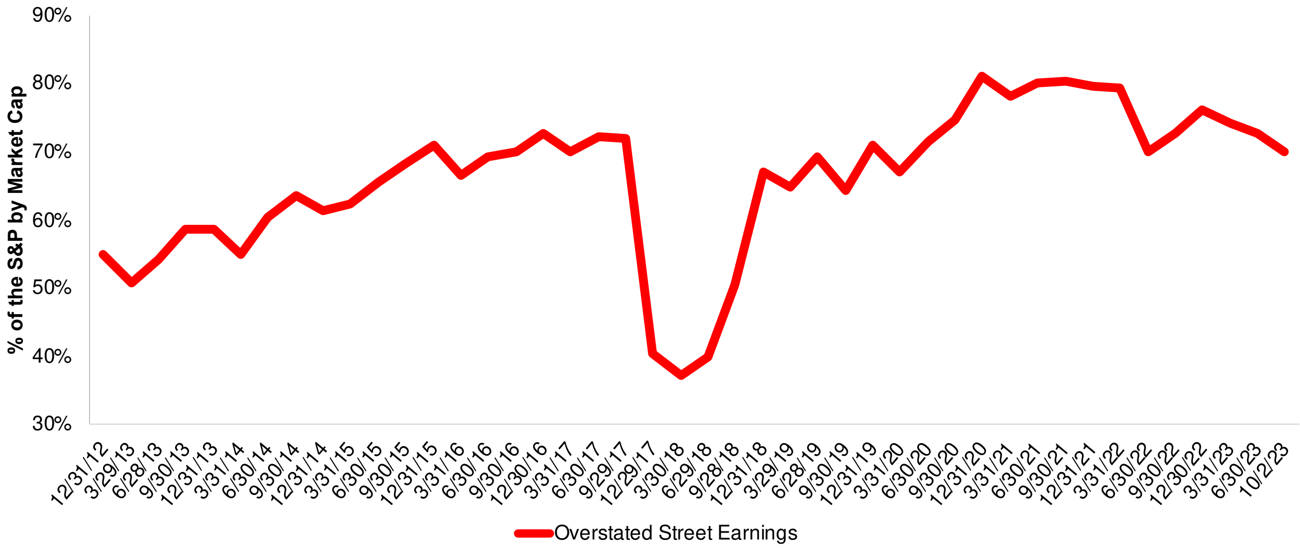
Sources: New Constructs, LLC and company filings.

The 357 companies with overstated (by any amount) Street Earnings make up 70% of the market cap of the S&P 500 as of 10/2/23, which is down from 72% in 1Q23, measured with TTM data in each quarter.

[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: Overstated Street Earnings as % of Market Cap: 2012 through 10/2/23

Overstated Street Earnings Make Up 70% of the S&P 500 Market Cap



Sources: New Constructs, LLC and company filings.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 24%, per Figure 3.

Figure 3: Street Earnings Overstated by 24% on Average in TTM Through 2Q23

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

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Miss 3Q23 Earnings

Figure 3 shows five S&P 500 companies likely to miss calendar 3Q23 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 2Q23 for Bio-Techne Corp (TECH: $67/share). 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 4: Five S&P 500 Companies Likely to Miss 3Q23 EPS Estimates

Ticker	Name	Street EPS Estimate for 3Q23	Core EPS Estimate for 3Q23*	Street Estimate Overstated by
PFG	Principal Financial Group	$1.71	$0.47	73%
TECH	Bio-Techne Corp	$0.45	$0.30	32%
TSLA	Tesla Inc.	$0.77	$0.64	16%
XEL	Xcel Energy Inc.	$1.32	$1.12	15%
TMUS	T-Mobile U.S. Inc.	$1.92	$1.69	12%

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

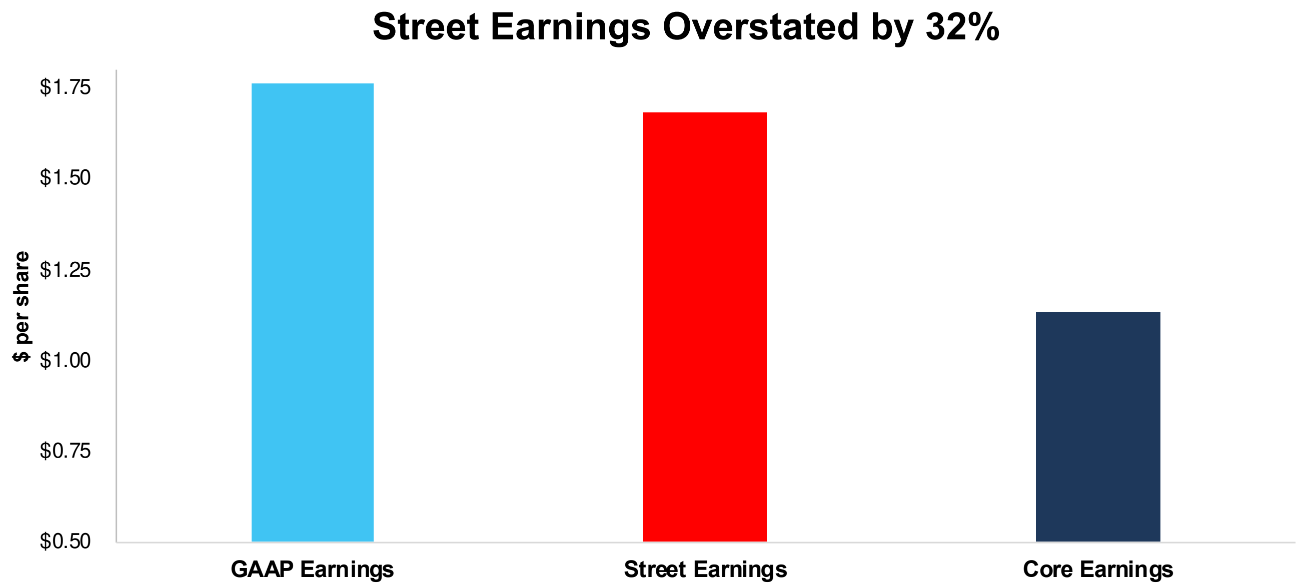
Bio-Techne: The Street Overestimates Earnings for 3Q23 by 32%

The Street's 3Q23 EPS estimate of $0.45/share for Bio-Techne is $0.15/share higher than our estimate for 3Q23 Core EPS of $0.30/share. Large gains on investments and acquisition related gains 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 Bio-Techne as one of the companies most likely to miss Wall Street analysts' expectations in its calendar 3Q23 earnings report.

Bio-Techne's Earnings Distortion Score is Strong Miss and its Stock Rating is Very Unattractive, in part due to its -2% free cash flow (FCF) yield, price-to-economic book value (PEBV) ratio of 5.3, and market-implied growth appreciation period (GAP) of >100 years. Bio-Techne's economic book value, or no growth value, is just $13/share, or 81% below its current price.

Below, we detail the unusual gains that materially boost and distort Bio-Techne's TTM 2Q23 Street and GAAP earnings. After removing all unusual items, we find that Bio-Techne's TTM 2Q23 Core EPS are $1.42/share, which is lower than TTM 2Q23 Street EPS of $1.68/share and GAAP EPS of $1.76/share.

Figure 5: Comparing Bio-Techne's GAAP, Street, and Core Earnings: TTM Through Calendar 2Q23



Sources: New Constructs, LLC and company filings.

Figure 5 shows the differences between Bio-Techne's TTM 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 6: Bio-Techne's GAAP Earnings to Core Earnings Reconciliation: TTM Calendar 2Q23

	TTM ($ per share)
GAAP Net Income	$1.76
– Hidden Unusual Gains, Net	$0.11
– Reported Unusual Gains Pre-Tax, Net	$0.30
– Tax Distortion	($0.06)
– Reported Unusual Expenses After-Tax, Net	<($0.01)
= Core Earnings	**$1.42**

Sources: New Constructs, LLC and company filings.

More details:

Total GAAP Earnings Distortion of $0.35/share, which equals $56 million, is comprised of the following:

Hidden Unusual Gains, Net = $0.11/share, which equals $18 million and is comprised of

- $12 million gain in the fair value adjustment to contingent consideration payable – Page 50 fiscal 2023 10-K

- $10 million in acquisition related gains bundled in selling, general, and administrative – Page 37 fiscal 2023 10-K
- -$0.4 million in costs recognized on sale of acquired inventory – Page 50 fiscal 2023 10-K
- -$0.8 million in asset impairment charges bundled in selling, general, and administrative – page 56 fiscal 2023 10-K
- -$1.3 million in severance charges bundled in selling, general, and administrative – Page 56 fiscal 2023 10-K
- -$1.7 million in restructuring expense in the TTM based on
  - -$0.8 million incurred in fiscal second quarter of 2023 – Page 56 fiscal 2023 10-K
  - -$0.9 million incurred in fiscal fourth quarter of 2023 – Page 56 fiscal 2023 10-K

Reported Unusual Gains Pre-Tax, Net = $0.30/share, which equals $49 million and is comprised of

- $49 million gain on investment bundled in other non-operating expense in the fiscal 2023 10-K
- $0.7 million in foreign currency gains in the fiscal 2023 10-K
- $0.4 million in rental income in the fiscal 2023 10-K
- $0.04 million in miscellaneous income in the fiscal 2023 10-K
- -$1.8 million in real estate taxes, depreciation, and utilities expenses bundled in “other” in the fiscal 2023 10-K

Tax Distortion = -$0.06/per share, which equals -$10 million

Reported Unusual Expenses After-Tax, Net = <-$0.01/share, which equals $70,000 and is comprised of

- -$0.07 million in income allocated to participating securities in fiscal 2023 10-K

The $0.54/share of Street Distortion in the TTM ended calendar 2Q23 highlights that Core Earnings account for a more comprehensive set of unusual items when calculating Bio-Techne’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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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
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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

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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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