



2Q24 Earnings: Where Street Earnings Are Too High & Who Should Miss

Wall Street analysts are too bullish on second quarter earnings expectations for most S&P 500 companies. The percentage of S&P 500 companies whose Street EPS exceeds our Core EPS¹ equals 75% through 1Q24. For the stocks most likely to beat, see [2Q24 Earnings: Where Street Estimates Are Too Low & Who Should Beat](#).

This report shows:

- the frequency and magnitude of overstated Street Earnings² in the S&P 500 and
- five S&P 500 companies likely to miss 2Q24 earnings.

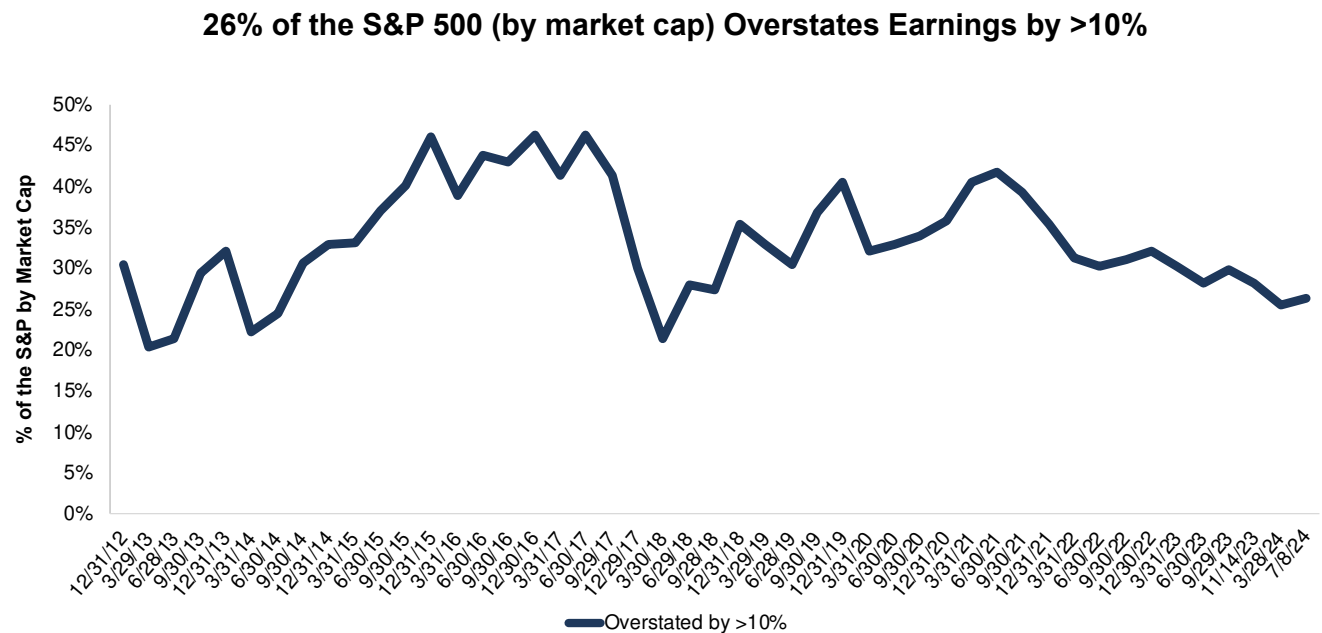
Street EPS Are Higher Than Core EPS for 373 S&P 500 Companies

For 373 companies in the S&P 500, or 75%, Street Earnings are higher than [Core Earnings](#) in the trailing twelve months (TTM) ended 1Q24. In the TTM ended 4Q23, Street Earnings were overstated for 370 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 equals 42% (212 companies), which is up from 41% (205 companies) in the TTM ended 4Q23.

Those 212 companies make up 26% of the market cap of the S&P 500 as of 7/8/24, which is up from 25% of the market cap in 4Q23, measured with TTM data in each quarter. See Figure 1.

Figure 1: Overstated Street Earnings by >10% as % of Market Cap: 2012 through 7/8/24



Sources: New Constructs, LLC and company filings.

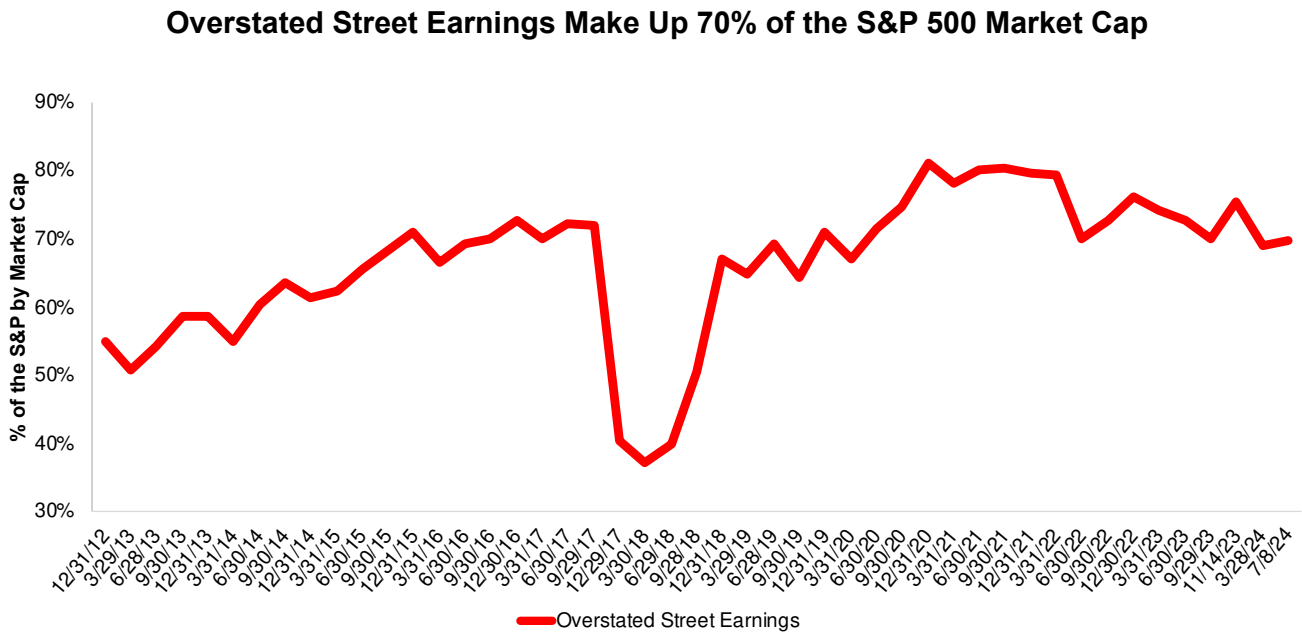
The 373 companies with overstated (by any amount) Street Earnings make up 70% of the market cap of the S&P 500 as of 7/8/24, which is up from 69% in 4Q23, measured with TTM data in each quarter.

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 7/8/24



Sources: New Constructs, LLC and company filings.

Note that this analysis is based on our team analyzing the financial statements and footnotes for ~3,000 10-Ks and 10-Qs filed with the SEC for 1Q24 results. We [estimate](#) that the cost of this work for most firms would be over \$2 million each quarter. To say the least, there is tremendous value in our rigorous analysis of these filings across so many companies so that our clients can discern the best and worst stocks with unrivaled diligence.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 19%, per Figure 3.

Figure 3: Street Earnings Overstated by 19% on Average in TTM Through 1Q24

Overstated Street Earnings	Overstated by >10%	Average Overstated %
373 companies	212 companies	19%

Sources: New Constructs, LLC and company filings.

Five S&P 500 Companies Likely to Miss 2Q24 Earnings

Figure 4 shows five S&P 500 companies likely to miss calendar 2Q24 earnings because their Street EPS estimates are overstated. 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 2Q24 EPS Estimates

Ticker	Name	Street EPS Estimate for 2Q24	Core EPS Estimate for 2Q24*	Street Estimate Overstated by
TRGP	Targa Resources	\$1.16	\$0.66	43%
SRE	Sempra Energy	\$1.03	\$0.80	22%
LNT	Alliant Energy Corp	\$0.73	\$0.58	20%
EXC	Exelon Corp	\$0.44	\$0.35	20%
HII	Huntington Ingalls Industries	\$3.59	\$3.04	15%

Sources: New Constructs, LLC, company filings, and Zacks

*Assumes Street Distortion as a percent of Core EPS is the same for 2Q24 EPS as for TTM ended 1Q24.

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Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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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We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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