Street Earnings Overstated for 74% of S&P 500 in 2Q24

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,
- that Street Earnings (and GAAP earnings) are flawed and not adjusted as promised, and
- the S&P 500 company with the most overstated Street Earnings and a Very Unattractive Stock Rating.

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

For 369 companies in the S&P 500, or 74%, Street Earnings are higher than Core Earnings[2] for the trailing-twelve-months (TTM) ended 2Q24. In the TTM ended 1Q24, 373 companies overstated their earnings.

When Street Earnings are higher than Core Earnings, they are overstated by an average of 19%, per Figure 1.

Figure 1: Street Earnings Overstated by 19% on Average in TTM Through 2Q24

Overstated Street Earnings	Overstated by >10%	Average Overstated %[3]
369 companies	210 companies	19%

Sources: New Constructs, LLC and company filings.

The 369 companies with overstated Street Earnings make up 66% of the market cap of the S&P 500 as of 8/15/24, which is down from 71% in the TTM through 5/16/24.

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 after earnings season. 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.

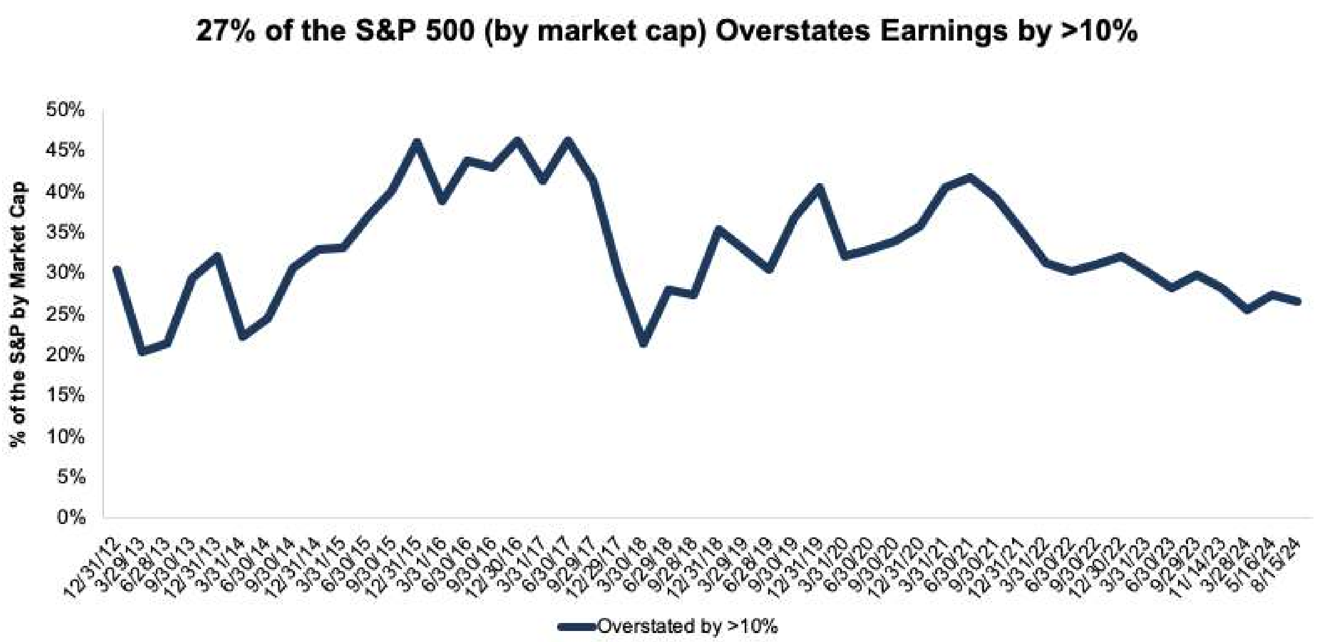
[1] The Journal of Financial Economics features the superiority of our Core Earnings in Core Earnings: New Data & Evidence.
[2] Our Core Earnings research is based on the latest audited financial data, which is the calendar 2Q24 10-Q in most cases. Price data as of 8/15/24. QoQ analysis is based on the change since last quarter.
[3] Average overstated % is calculated as Street Distortion, which is the difference between Street Earnings and Core Earnings.

Figure 2: Overstated Street Earnings as % of Market Cap: 2012 through 8/15/24

Sources: New Constructs, LLC and company filings.

For over a third of the S&P 500 (210 companies), Street Earnings are overstated by more than 10% vs. Core Earnings. These 210 companies make up 27% of the market cap of the S&P 500 as of 8/15/24. See Figure 3.

Figure 3: Overstated Street Earnings by > 10% as % of Market Cap: 2012 through 8/15/24



Sources: New Constructs, LLC and company filings.

The Worst Offender in the S&P 500

Figure 4 shows the S&P 500 stock with the most overstated Street Earnings (Street Distortion as a % of Street Earnings per share) over the TTM through 2Q24 and a Very Unattractive Stock Rating. "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 2Q24

Ticker	Name	Street EPS	Core EPS	Overstated %*	Stock Rating
DAY	Dayforce Inc.	$0.96	$0.30	69%	Very Unattractive

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

This article was originally published on September 3, 2024.

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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