



## Street Earnings Understated for 24% of S&P 500 in 2Q24

Our report on Overstated Street Earnings in 2Q24 shows Street Earnings (based on [Zacks Earnings](#)) overstate profits for the majority of S&P 500 companies in 2Q24. However, there are 121 S&P 500 companies with TTM 2Q24 Street Earnings that are lower than their true profits, i.e. [Core Earnings](#)<sup>1,2</sup>. These companies are more profitable than investors realize and, in many cases, undervalued as well.

This report shows:

- the magnitude of understated Street Earnings in the S&P 500,
- that Street Earnings (and GAAP earnings) are flawed, and
- the S&P 500 company with the most understated Street Earnings and a Very Attractive [Stock Rating](#).

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### 121 S&P 500 Companies Have Understated Street Earnings

For 121 companies in the S&P 500, or 24%, Street Earnings are lower than Core Earnings in the trailing-twelve-months (TTM) ended 2Q24. In the TTM ended 1Q24, Street Earnings were understated for 122 companies.

When Street Earnings are lower than Core Earnings, they are understated by an average of 24% per company, per Figure 1.

**Figure 1: Street Earnings Understated by 24% on Average in TTM Through 2Q24**

Understated Street Earnings	Understated by >10%	Average Understated % <sup>3</sup>
121 companies	43 companies	24%

Sources: New Constructs, LLC and company filings.

The 121 companies with understated Street Earnings represent 33% of the market cap of the S&P 500 as of 8/15/24, which is up from 29% in the TTM as of 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.

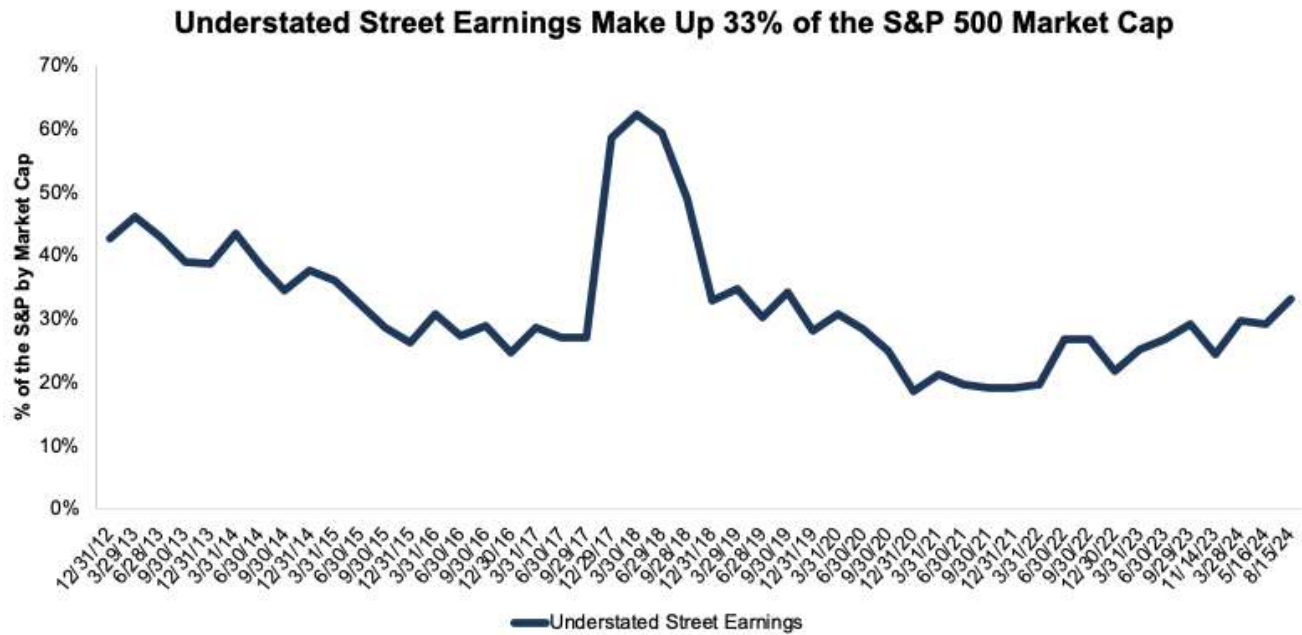
<sup>1</sup> [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).

<sup>2</sup> 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.

<sup>3</sup> Average understated % is calculated as Street Distortion, which is the difference between Street Earnings and Core Earnings.



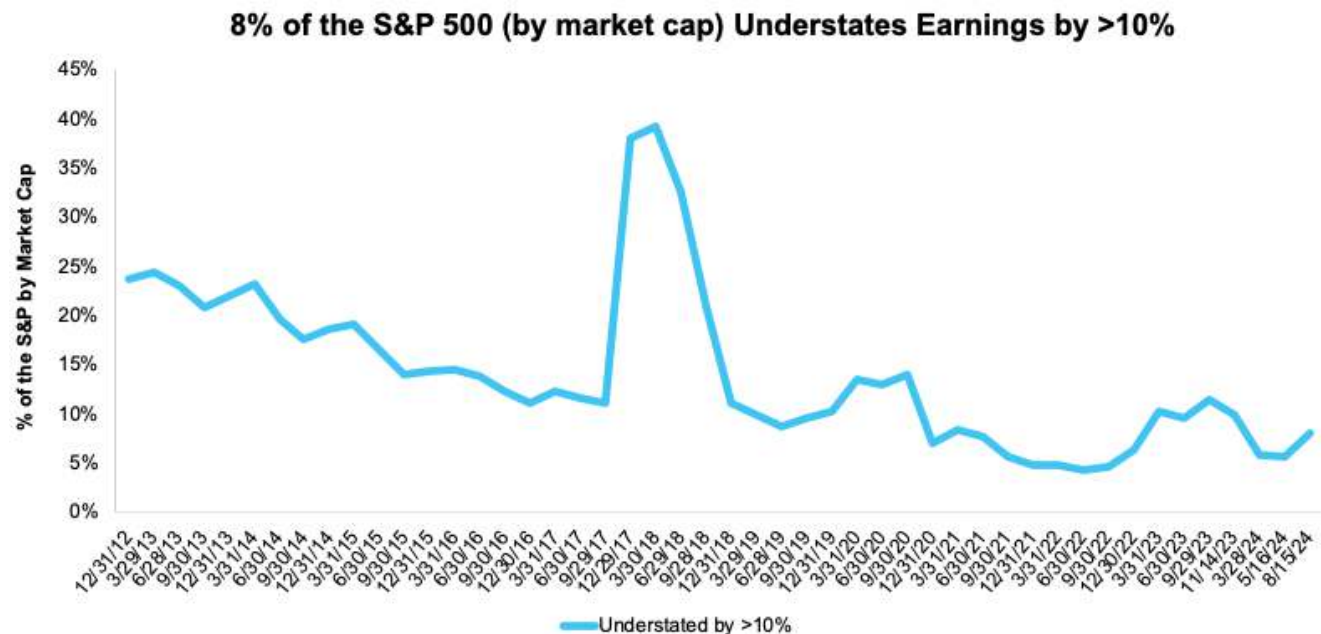
**Figure 2: Understated Street Earnings as % of Market Cap: 2012 through 8/15/24**



Sources: New Constructs, LLC and company filings.

For 43 companies, Street Earnings are understated by more than 10% vs. Core Earnings. These 43 companies make up 8% of the market cap of the S&P 500 as of 8/15/24. See Figure 3.

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



Sources: New Constructs, LLC and company filings.

**The Most Understated Earnings in the S&P 500**

Figure 4 shows the S&P 500 stock with the most understated Street Earnings (based on Street Distortion as a % of Street Earnings per share) in the TTM ended 2Q24 and a Very Attractive [Stock Rating](#). “Street Distortion” equals the difference between Core and Street Earnings on a per share basis. Investors relying only on Street Earnings miss the true profitability of these businesses.

**Figure 4: S&P 500 Company with Most Understated Street Earnings: TTM 2Q24**

Ticker	Name	Street EPS	Core EPS	Understated %*	Stock Rating
AFL	AFLAC Inc.	\$6.58	\$9.00	37%	Very Attractive

Sources: New Constructs, LLC and company filings.

\*Measured as Street Distortion as a percent of Street EPS

*This article was originally published on [September 4, 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***

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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. 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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

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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