

Cmind EPS Beats Predictor

Sector Reports

Consumer Discretionary

3Q:22 Predictions

September, 2022

The Consumer Discretionary Sector

The Consumer Discretionary Sector comprises companies that manufacture or sell goods and services that consumers consider non-essential, but nice-to-have when household budgets allow. Services and goods included in the sector include travel, gambling, automobiles, footwear, apparel, and a wide variety of other products. Some specific industry examples include Apparel Manufacturing (e.g., Columbia Sportswear), Auto Parts & Auto Manufacturing (e.g., Tesla, Ford Motors), Footwear & Accessories (e.g., Nike, Crocs), Resorts & Casinos (e.g., Wynn Resorts, MGM Resorts International).

Consumer Discretionary is one of the worst-performing sectors of the S&P 500 in 2022 so far, amid soaring inflation, strained global supply chains, rising interest rates, and plummeting consumer sentiment. **As of September 30, 2022, the S&P Consumer Discretionary Sector has suffered a -31.8% return year to date (YTD) and a -21.4% 1-year return. In 2Q:22, 40% of Consumer Discretionary companies missed their consensus earnings estimates, while only 25% of companies in the S&P500 25% missed.** Meanwhile, macroeconomic headwinds continue to plague firms in the sector, as unfavorable external factors start to be reflected in firms' financial metrics, management commentaries and forward-looking guidance.

This macroeconomic context, combined with company guidance, points to a gloomier outlook for the sector in the forthcoming 3Q:22 earnings release season. The *Cmind EPS Beats Predictor* provides company-level insights that are consistent with this sector outlook. Typically for the Consumer Discretionary sector and others, investors incorporate industry trends, the macroeconomic environment, geopolitical risks, Fed monetary policies, and specific company performance to predict upcoming earnings. In contrast to this approach, Cmind's Predictor models the sensitivity of various accounting anomalies and language signals in earnings transcripts and management's discussion of results to predict earnings beats and misses. Cmind's philosophy is that regardless of the external factor, it will find its way to affect firm-level characteristics. For instance, supply chain constraints will ultimately affect either financial accounting items (e.g., inventory levels, profit margins) or the content and format of verbal communications of senior executives and analysts (e.g., evasiveness of CEOs/CFOs).

Cmind 3Q:22 Predictions

For 3Q:22, Cmind made 396 predictions on EPS beats/misses in this sector. These predictions are based on state-of-the-art machine learning algorithms that extract signals from accounting statements, earnings transcripts, management history, and macroeconomic variables. **Among the 396 predictions, Cmind predicts that 300 companies (76%) will miss their consensus forecasts and 96 (24%) will beat their consensus forecasts.** While this sector forecast based on the number of companies expected to miss or beat their earnings expectations appears quite weak, weighting the results by market cap yields a more balanced 57% (miss) vs 43% (beat). In fact, Cmind's EPS Predictor expects **29% of large caps to beat their consensus estimates while it forecasts that only 17% of small caps will beat.**

Figure 1 shows those results. We have defined large cap as over \$10B, mid-cap as \$2B-\$10B and small-cap as less than \$2B.

Figure 1: Cmind Consumer Discretionary Sector 3Q:22 EPS Predictions: Equal-Weighted vs Market-Cap Weighted

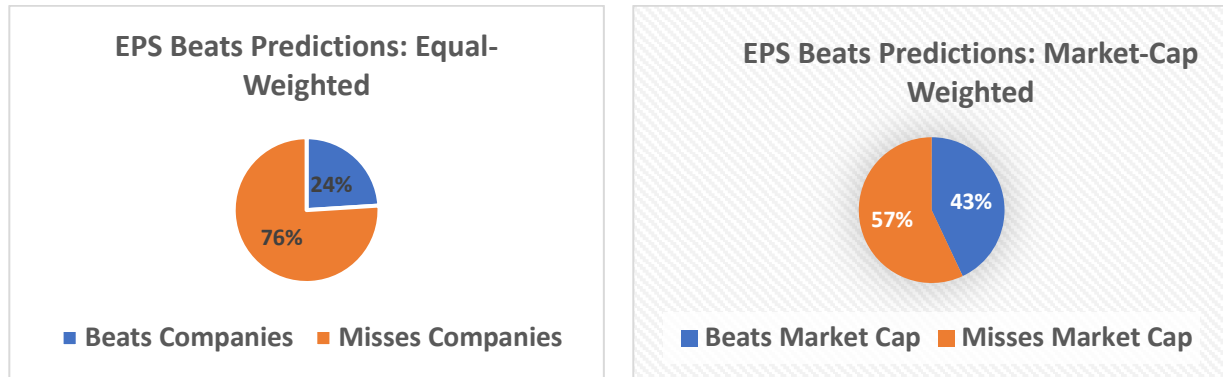


Table 1 shows the breakdown of the predictions by market cap. The Cmind EPS Predictor forecasts a very high proportion of misses to beats (83% vs 17%) in the small cap companies within this sector. In mid-cap, the beats proportion shifts slightly, with a forecast that 35% will beat EPS expectations vs. 17% for small caps. The “EPS beat” forecast for large caps, at 29%, is in between. As market observers have noted over the last several quarters, in 3Q mid- and large-cap companies seem to have greater ability to counter the negative macroeconomic headwinds than do their small cap competitors.

Table 1: Cmind 2Q:22 predictions by market cap

Caps	# of Companies with Predictions	# (%) of Predicted Beats	# (%) of Predicted Misses
Small	206	38 (17%)	182 (83%)
Mid	120	43 (35%)	81 (65%)
Large	51	15 (29%)	71 (57%)

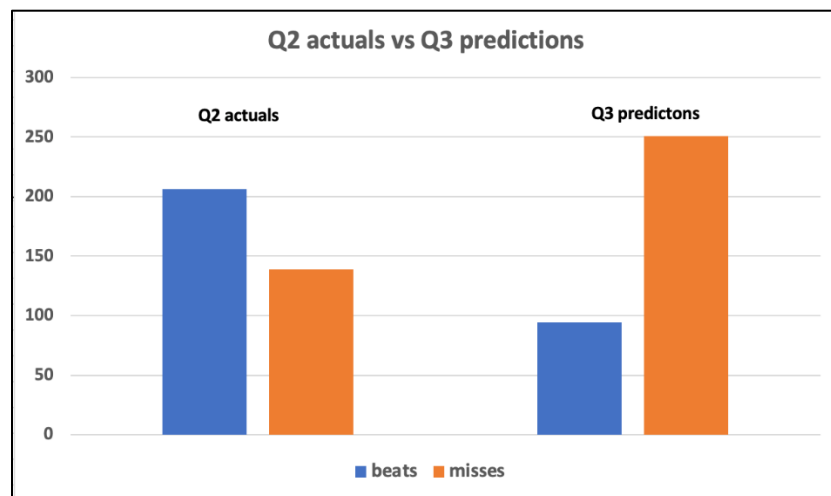
To benchmark the Cmind 3Q:22 market outlook, we compared 2Q actual earnings for companies in the sector with the Cmind 3Q predictions. We chose 345 firms for which our data vendors had actual data for 2Q earnings beats and misses, and the Cmind EPS Predictor generated a 3Q prediction. We found that in 2Q, 206 (139) Consumer Discretionary companies actually beat (missed) their earnings targets. The Cmind EPS Predictor forecasts that 94 (251) companies will beat (miss) their consensus 3Q EPS forecast. This means that 112 more companies are expected to miss EPS forecasts in 3Q than in 2Q.

In summary, the 3Q:22 Cmind EPS Beats Predictor results show that:

1. More Consumer Discretionary companies will miss their consensus EPS forecast in 3Q:22 than 2Q:22,
2. In 3Q:22, the aggregated market cap of the companies that are predicted to miss is larger than that to beat,
3. In 3Q:22, mid-size Consumer Discretionary companies will do slightly better than large-cap and small companies.

Cmind EPS Beat/Miss Predictor will continue to closely monitor the fast-evolving situation and generate renewed signals on firms' quarterly earnings forecasted beats and misses.

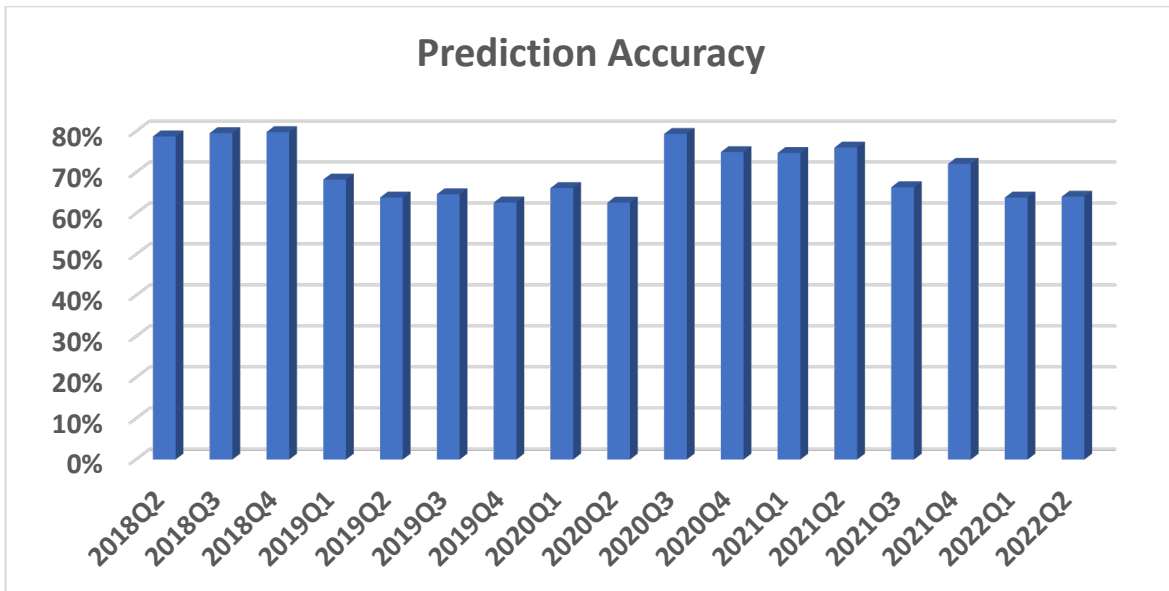
Figure 2: 2Q:22 vs 3Q:22 Benchmark Comparison



Historical Performance and 3Q:22 Predictions

Cmind has back tested its EPS Beats Predictor in the Consumer Discretionary sector using more than 4 years of historical data. Figure 3 shows the prediction accuracy for all reporting quarters. Averaged over 4 years, the model's accuracy is 70.4%.

Figure 3: Historical Accuracy of Cmind’s EPS Beats Predictor in the Consumer Discretionary sector



Earnings Beat Predictions are placed into one of five categories (Very Likely Beat, Likely Beat, Marginal, Likely Miss, and Very Likely Miss). Tables 5 and 6 below show summary data for Cmind 2Q:22 predictions for the Consumer Discretionary sector. As expected, prediction accuracy was higher for the companies in the “Very Likely” category.

Table 2: Number of Companies by Cohort for 2Q:22 EPS Beats Predictions

Cohort	Large Cap	Mid Cap	Small Cap	Total
V. Likely Beat	12	34	27	73
Likely Beat	13	28	23	64
Marginal	6	23	28	57
Likely Miss	10	20	39	69
V. Likely Miss	11	15	63	89
Total	52	120	180	352

Table 3: EPS Beat/Miss Prediction Success by Cohort for 2Q:22

Cohort	Large Cap	Mid Cap	Small Cap	Total
V. Likely Beat	92%	85%	89%	88%
Likely Beat	62%	75%	70%	70%
Marginal				
Likely Miss	20%	40%	59%	48%
V. Likely Miss	55%	53%	71%	66%

Note that we grey out prediction results for Marginal names as modeled Beat/Miss probabilities are too close to random chance. As expected, model accuracy was highest for companies predicted to be “Very Likely” to beat (88% overall), with accuracy much better than a coin-flip (50%) for companies in the “Likely Beat” and “Very Likely Miss” cohorts.

Next, we present the Cmind model’s accuracy for the past three quarters for the 15 largest companies in the Consumer Discretionary sector by market cap (excluding ADRs).

Table 4: EPS Beat/Miss Prediction Success for 15 Largest Names in Sector

Ticker	Name	'22 Q2 Prediction	'22 Q2 Result	'22 Q1 Prediction	'22 Q1 Result	'21 Q4 Prediction	'21 Q4 Result
AMZN	Amazon.com	Likely Beat	Correct	Likely Beat	Incorrect	Marginal	Correct
TSLA	Tesla	V. Likely Beat	Correct	V. Likely Beat	Correct	Likely Beat	Correct
MCD	McDonald's	Likely Miss	Incorrect	Marginal	Correct	Likely Beat	Incorrect
NKE	Nike	V. Likely Beat	Correct	Likely Beat	Correct	Likely Beat	Correct
SBUX	Starbucks	Likely Beat	Correct	Marginal	Correct	Likely Beat	Incorrect
TJX	TJX Companies	Likely Miss	Incorrect	Likely Beat	Incorrect	Marginal	Correct
BKNG	Booking Holdings	V. Likely Beat	Correct	Likely Beat	Incorrect	Marginal	Correct
F	Ford Motor	Likely Beat	Correct	Likely Beat	Correct	Marginal	Correct
GM	General Motors	V. Likely Beat	Incorrect	V. Likely Beat	Correct	Likely Beat	Correct
ORLY	O'Reilly Automotive	Likely Beat	Incorrect	V. Likely Beat	Incorrect	Likely Beat	Correct
MAR	Marriott International	Likely Beat	Correct	Likely Beat	Correct	Likely Beat	Correct
AZO	AutoZone	Likely Beat	Correct	V. Likely Beat	Correct	Likely Beat	Correct
CMG	Chipotle Mexican Grill	V. Likely Beat	Correct	Likely Beat	Correct	Likely Beat	Correct
HLT	Hilton Worldwide Holdings	V. Likely Miss	Incorrect	Likely Beat	Correct	Marginal	Correct
YUM	Yum Brands	Marginal	Correct	Likely Beat	Incorrect	Likely Beat	Incorrect

Our 3Q:22 sample predictions results are presented in the following table for 10 sample large cap companies.

Table 5: 3Q:22 EPS Beats Predictions for 10 Large Companies

Ticker	Est Earnings Release	Earnings Prediction	Forecast Date
TSLA	11/6/2022	V. Likely Beat	7/25/2022
DHI	10/26/2022	V. Likely Beat	7/21/2022
AZO	10/27/2022	V. Likely Beat	5/24/2022
LEN	11/7/2022	V. Likely Beat	6/21/2022
GPC	11/6/2022	Likely Beat	7/27/2022
W	11/2/2022	V. Likely Miss	8/4/2022
WYNN	10/13/2022	V. Likely Miss	8/9/2022
CCL	11/6/2022	V. Likely Miss	6/24/2022
DKNG	11/7/2022	V. Likely Miss	8/5/2022
NCLH	10/17/2022	V. Likely Miss	8/9/2022



To learn more about our Cmind's EPS beat predictions for other companies or sectors, please contact us at info@cmind-ai.com.

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Cmind combines management commentary analysis, financial accounting data, and artificial intelligence to provide investors, accountants, and lawyers with unique and timely forecasts of company risks, events, and financial performance. Cmind enables its clients to make fast and accurate decisions about corporate valuations, credit, and sustainability.