

Cmind EPS Beats Predictor
Sector Reports
Information Technology

4Q:22 Predictions

January, 2023

Cmind Sector Report

4Q:22

Sector: Information Technology

Sector Description

The Information Technology sector includes all companies that manufacture computer hardware, software, or related components. It includes internet companies. As of 4Q:22 the sector includes 555 companies in our coverage universe with a combined market cap of \$10.7 trillion.

Cmind Model Changes and Enhancements

The Cmind Revenue Beat/Miss and EPS Beat/Miss prediction algorithms consume various inputs including financial statements, earnings call transcripts, SEC filings, competitor results and sentiment, and macro-economic factors to generate predictions that companies will beat or miss the consensus revenue and EPS forecasts in each quarter.

We have not made any notable changes to the Cmind EPS Beat/Miss or Revenue Beat/Miss prediction models during the quarter.

Results of Prior Quarter EPS Predictions

For the purposes of this analysis, Cmind defines companies that our algorithms identify with an 80% or higher likelihood of beating estimates as “very likely to beat estimates.” Similarly, companies with a 20% or lower probability of beating estimates are “very likely to miss estimates.” Likewise, those with a 60-80% probability are considered “likely to beat” and 20-40% probability are considered “likely to miss.” Those with 40-60% are classified as marginal, however we still classify each stock as a beat or miss prediction for the sake of accuracy measurements of our predictions below (where 50-60% are marginal beats, and 40-50% are marginal misses).

For 3Q:22, Cmind’s models identified 154 companies in the sector very likely to beat EPS estimates, and 64 companies very likely to miss them. These two cohorts yielded prediction accuracies of 84% and 81% respectively. Note that poorer accuracy for misses in large cap and mid cap names is likely due to statistical noise inherent in their very small sample sizes.

Prediction Cohort	Large Cap		Mid Cap		Small Cap		Total	
	#	Accuracy	#	Accuracy	#	Accuracy	#	Accuracy
V. Likely Beat	45	80%	52	90%	57	81%	154	84%
Likely Beat	25	68%	47	74%	77	79%	149	76%
Marginal	11	55%	36	78%	76	72%	123	72%
Likely Miss	5	60%	15	40%	80	70%	100	65%
V. Likely Miss	3	33%	7	57%	54	87%	64	81%

Next Quarter Forecast

Looking forward to 4Q:22 results, we have identified 286 Information Technology companies that are expected to beat consensus EPS estimates and 269 expected to miss consensus EPS estimates. Of these, 82 are considered very likely to beat consensus EPS estimates, and 72 are considered very likely to miss.

Prediction Cohort	Large Cap		Mid Cap		Small Cap		Total	
	#	%	#	%	#	%	#	%
V. Likely Beat	28	31%	33	21%	21	7%	82	15%
Likely Beat	30	33%	47	29%	54	18%	131	24%
Marginal	16	18%	46	29%	75	25%	137	25%
Likely Miss	13	14%	25	16%	95	31%	133	24%
V. Likely Miss	4	4%	9	6%	59	19%	72	13%

Analysis

The macro-economic environment in 4Q:22 has been shaped by a continued increase in interest rates along with a modest stock market rally as investors continue to anticipate a slower pace of rate increases from the Fed. Higher interest rates have hurt long duration assets, including many Information Technology companies, some of which are not earning money yet. The more a stock's valuation is based on the company's terminal value, the greater the discount to the implied valuation by higher interest rates. Companies with stronger competitive positions, balance sheets, and less leverage are more likely to weather the storm, while weaker ones will experience tougher earnings results. This is evident in the above table, which shows that of the 72 "very likely misses" only 4 of these are large cap companies, which, on average, tend to have stronger balance sheets, more pricing power, more cash, and less debt.

Notable predictions amongst Large Cap names

The five large cap names with highest probability of beating their Q4 consensus EPS are:

Name	Ticker	Probability of EPS Beat
Cadence Design Systems	CDNS	94%
NetApp	NTAP	94%
Analog Devices	ADI	93%
Adobe	ADBE	93%
HP	HPQ	93%

The four large cap names with lowest probability of beating their Q4 consensus EPS are:

Name	Ticker	Probability of EPS Beat
PagSeguro Digital	PAGS	20%
Corning	GLW	17%
Open Text	OTEX	17%
AppLovin	APP	10%

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

About Cmind Inc

Cmind combines management commentary analytics, leading-edge accounting principles, 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.