



# EARNINGS WHISPERS

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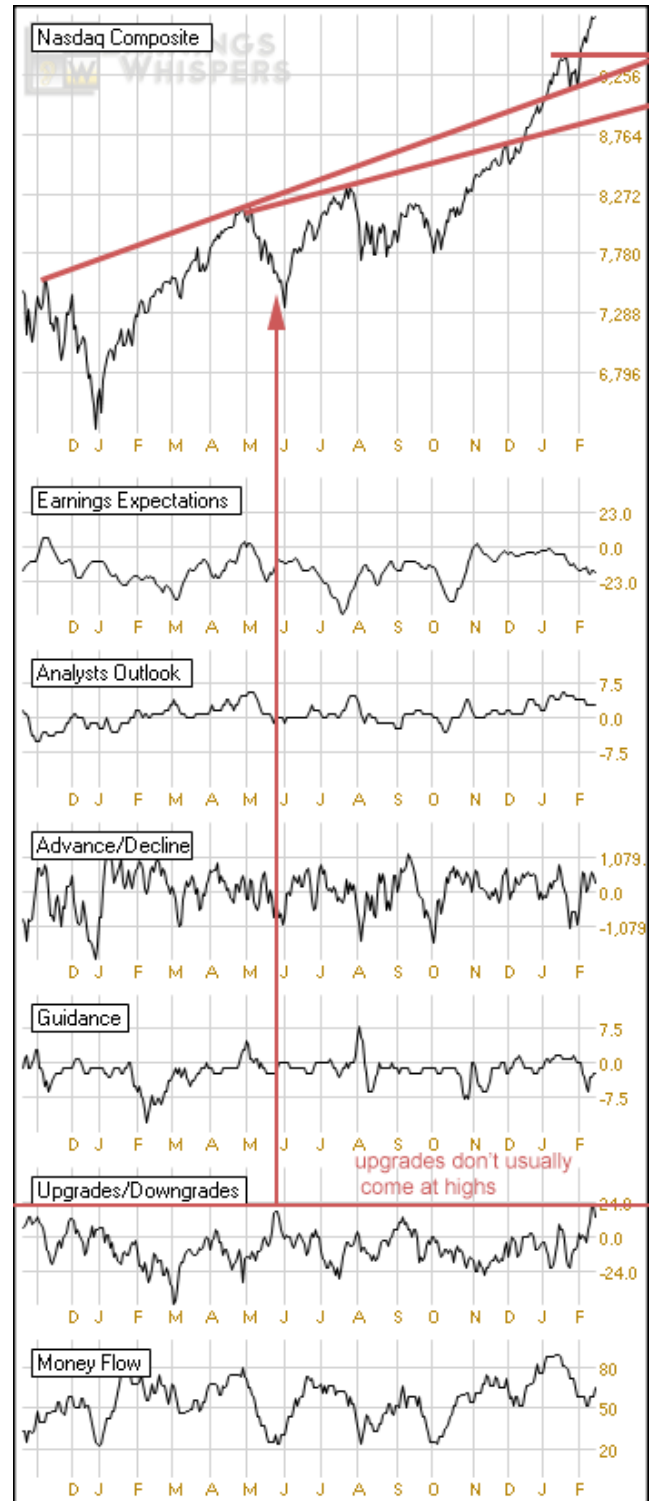
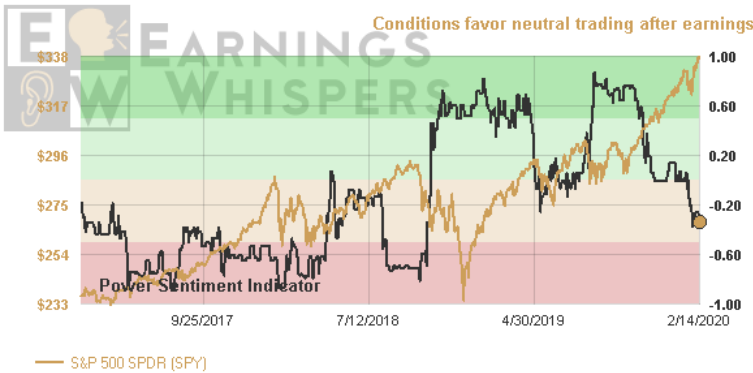
The Whisper Report ®  
Number 786

Prepared on Tuesday, February 18, 2020

## Current Trading Strategy

Primarily trading long ahead of earnings while the S&P 500 remains above 3,215, but trading both long and short after the news

- The fundamentals still support earnings in the near-term, but there are some divergences as guidance softens.
- Texas Roadhouse – meet or beat with upside room
- Domino's Pizza – setting up for a breakout
- Sprouts Farmers Market – analysts' sentiment at a low, but the chart agrees



## Statistics for the month of January 2020

	Positive	Negative	In-line	Ratio	Normal Ratio*
Guidance	78	123	311	38.8%	39.7%
EPS Surprises	552	296	91	65.1%	62.4%
Whisper Surprises	218	157	37	58.1%	51.2%
Revenue Surprises	597	281	-	68.0%	60.2%

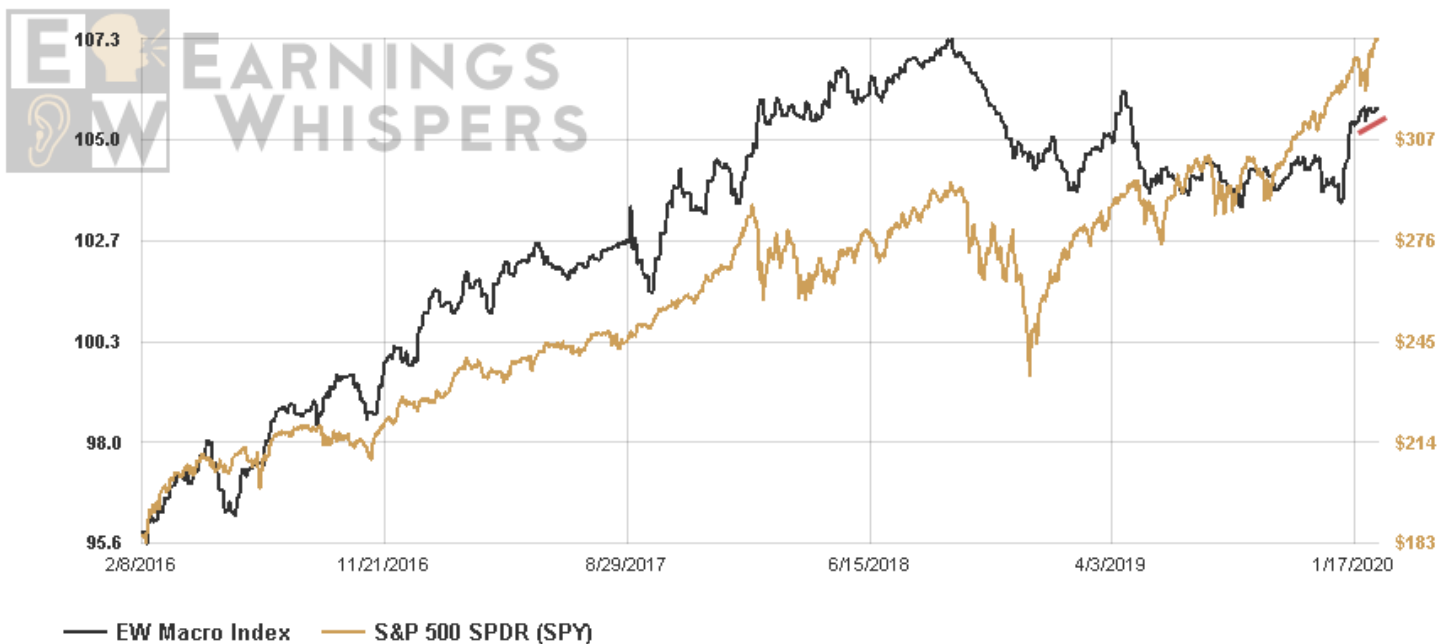
\* The average ratio for the month of January

## Key Market Events

- 2/18 February Empire Manufacturing
- 2/19 January PPI
- 2/19 January Housing Starts/Permits
- 2/19 FOMC Minutes
- 2/20 Initial Jobless Claims
- 2/21 January Existing Home Sales

Monday		Tuesday		Wednesday		Thursday		Friday
Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open

It is a holiday-shortened trading week and the main economic data scheduled to be released have little impact on stock prices and do little to give us an indication of where prices are heading. The economic indicators we have had, despite the weakness in such items as Industrial Production, have held steady over the past week. The chart below shows our index of macroeconomic indicators the correlate closely to stock prices, along with the S&P 500 SPDR (SPY). The two lines have generally moved closer than we've seen since last fall, but a disconnect really started sometime after the two lines peaked and rolled over at the end of 2018. Since the start of the year, however, the macro data has picked up at an attempt to rejoin the move in stock prices. It isn't there yet, and we didn't see much of an improvement last week, but the data is still trending higher to start the year and that is supportive of stock prices – particularly on a pullback.



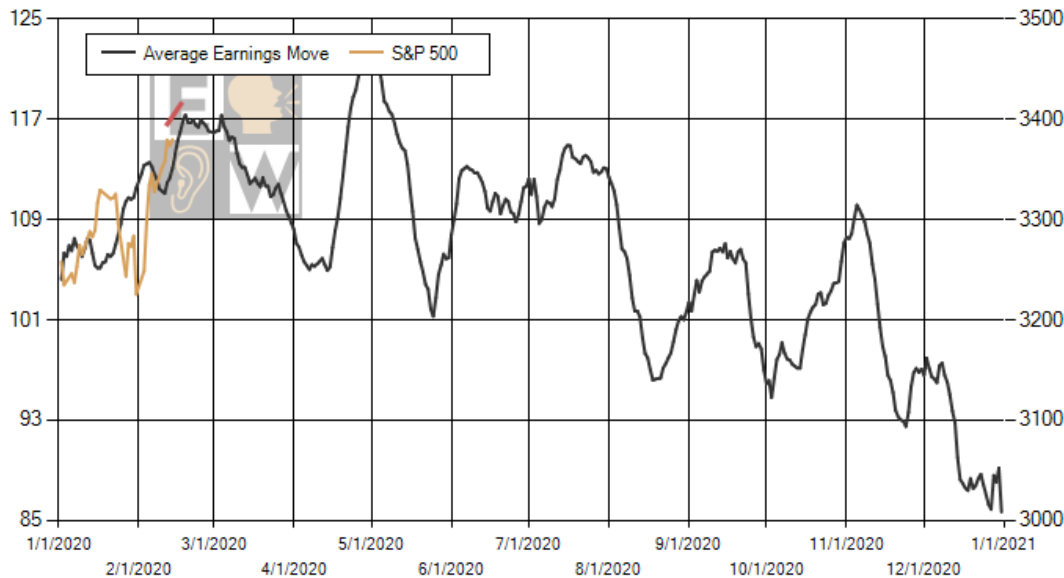
The data is more highly correlated with stock prices, but there is also a high correlation between our macroeconomic index and earnings. The chart at the top of the next page shows the same macroeconomic index, but instead of stock prices, the chart includes rolling earnings of U.S. traded stocks – two quarters of past results plus two quarters of forward estimates. The latest data is subject to revisions

as analysts update their estimates following a company's earnings, which is why there is a dip lower from the recent high set in the chart for earnings. Recall we said at the start of earnings season that the push higher in the macroeconomic data after earnings have pulled back, favored trading long ahead of earnings. Now earnings have moved back up to highs and our economic data supports still strong earnings, but

much of the upside is now in, and there is less upside to trading long ahead of earnings. There is still likely more upside than downside though as trends are positive and, as the next chart shows, seasonality remains positive as well.



The chart below shows the average price action of earnings throughout the year if the stock is bought four days before the company's earnings release and sold two days after. As also pointed out at the start of earnings season, this seasonality supported trading long ahead of earnings at the start of the reporting period but, as the reporting season ends, so does the strength in the seasonality. The fourth quarter reporting period is the longest of the year as more companies report year-end results and, thus, the period lasts through the end of February. The performance of those reporting earnings tends to peak this week, however, as the news becomes known.



Adding to the still favorable conditions for trading long ahead of earnings is the 3% earnings beat for the S&P 500 that has helped total earnings growth, as shown on page eight of this report, to push increasingly into the positive territory.

**Market Overview**

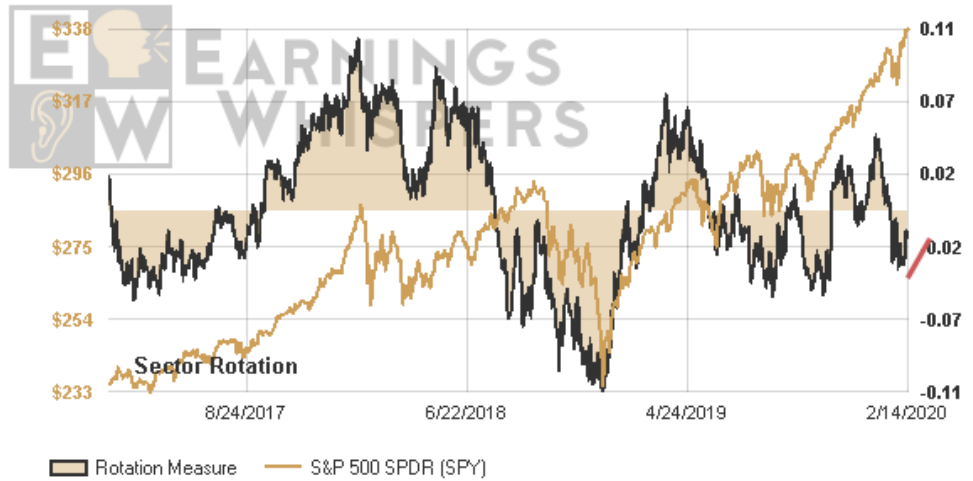
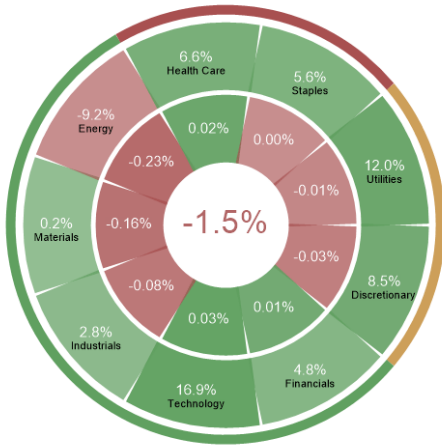
It is still too early, but over the holiday weekend, Apple (AAPL) warned that the coronavirus was going to prevent the company from reaching its previous guidance and we've seen a slew of companies provide weaker than usual guidance, as we've discussed recently. That, by itself, isn't as much of an issue, but Apple tends to be a market driver and the chart below shows the makings of a bearish divergence as stocks move to new highs with less participation as indicated in our advance/decline oscillator.



We say it is still too early because more upside could easily drive other stocks higher as well and help lift the market's breadth, but it adds support that a move below the recent support level of 3,215 for the S&P 500 would trigger a potential bigger move lower. As it is now, however, we are maintaining our strategy of primarily trading long ahead of earnings.

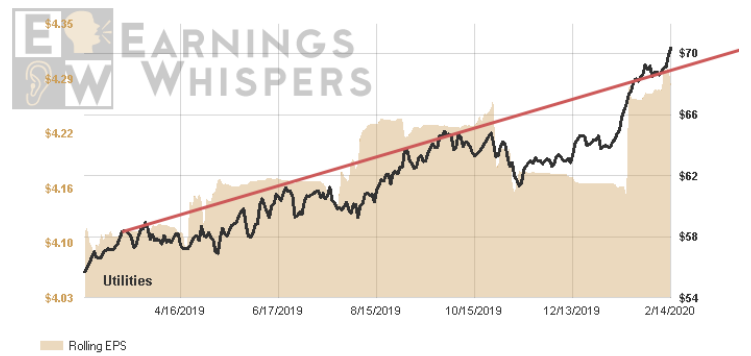
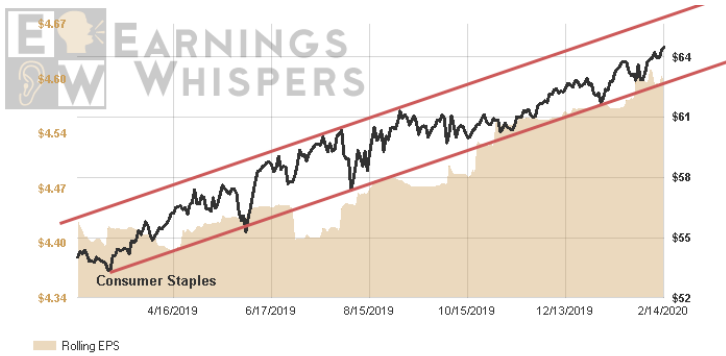
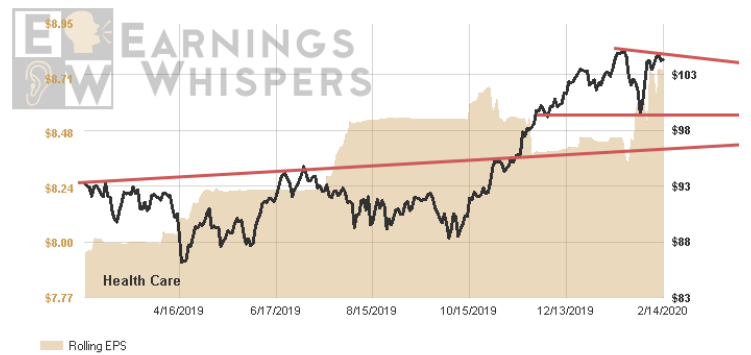
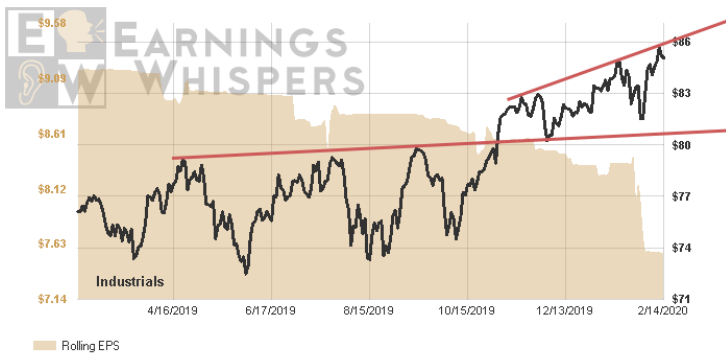
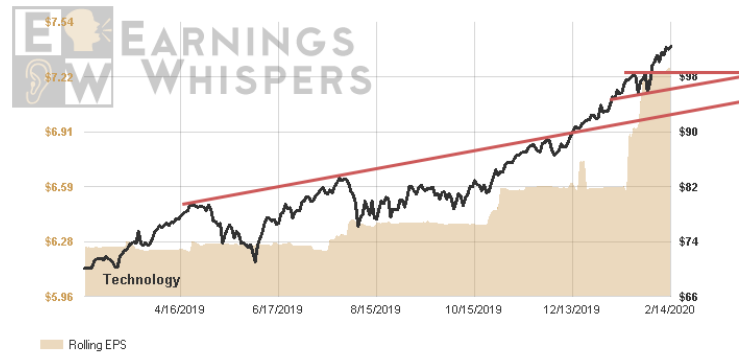
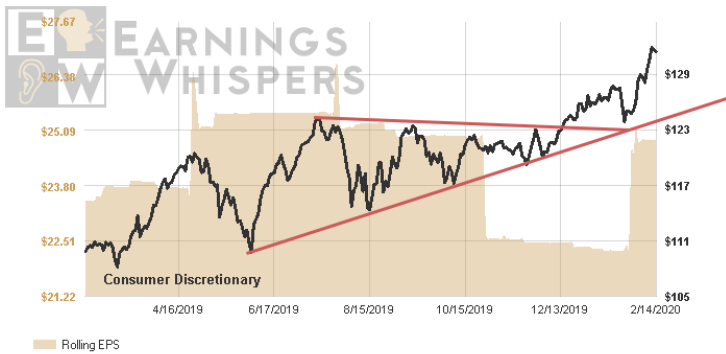
Our Power Sentiment Indicator on page one of this report remains in the neutral area, which suggests there is little edge to trading long or short after earnings and, therefore, we are trading neutral after the news by maintaining our strategy of trading in both directions.

**Sector Performance**

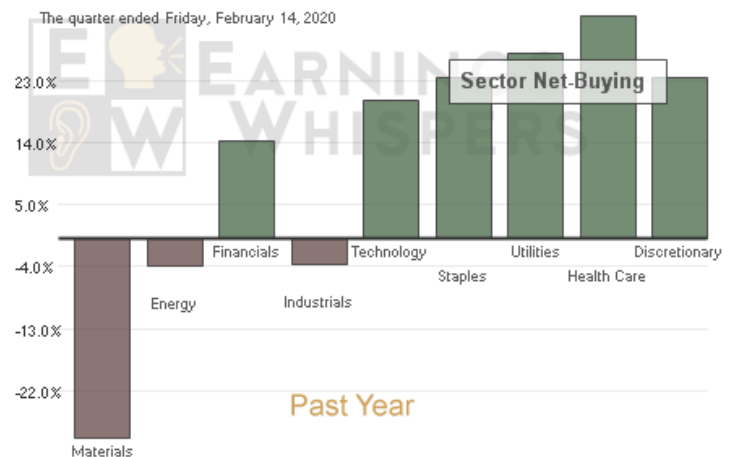
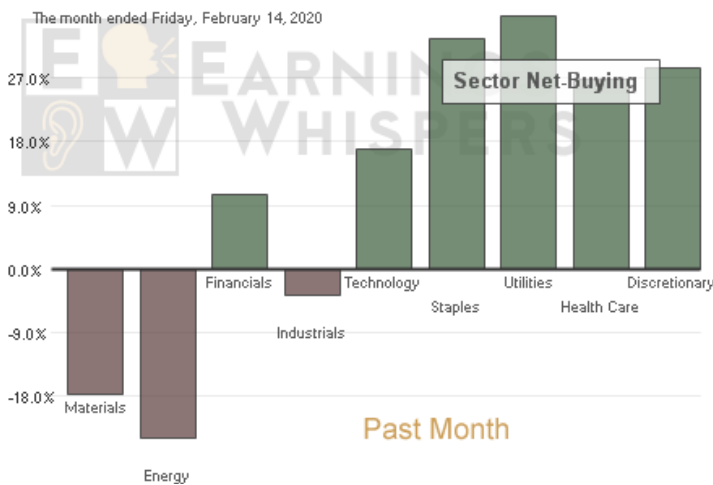
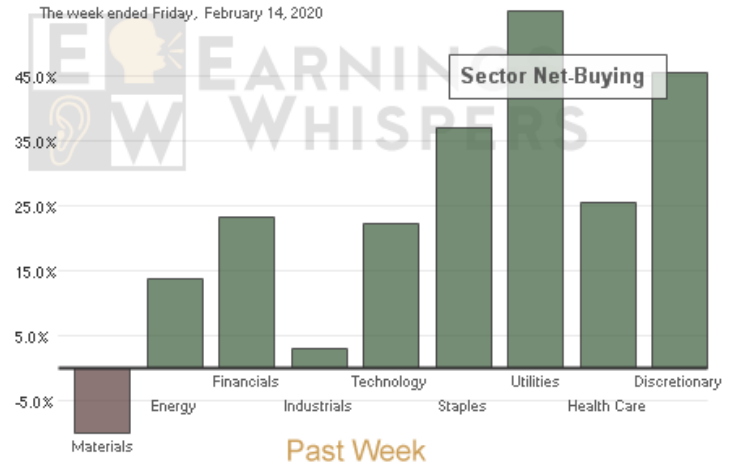
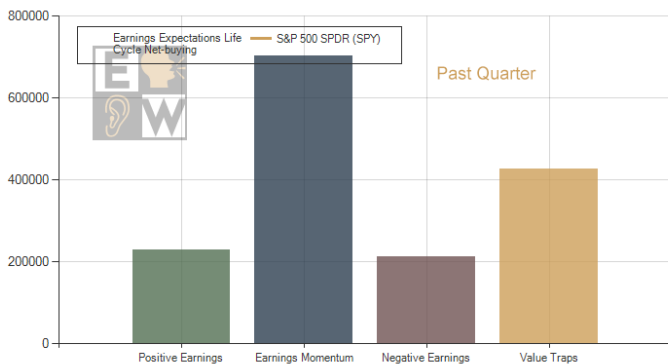
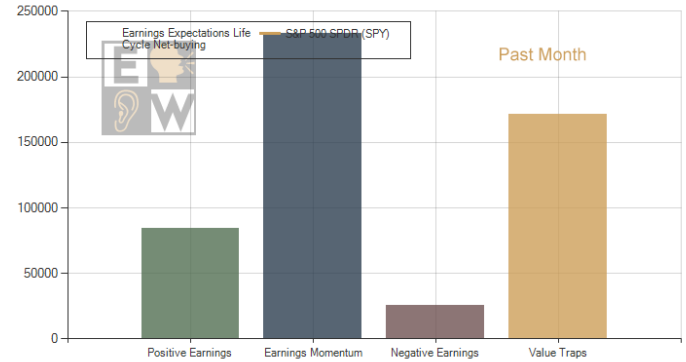
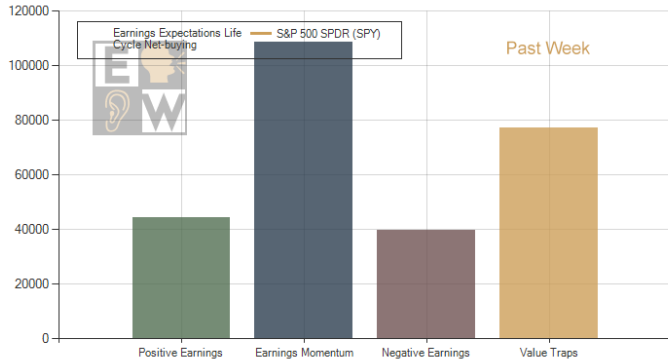


In the sector charts on the next page, we see a number of interesting items, including the continued uptrend in the Staples and the weakening earnings for the Industrials, but we are sticking with the Financials as our focus because we see this as the biggest sign for the bullish case in the market. Yes, other sectors have more strength, but the Financials tend to be the leading early-cycle sector and its strength tends to point for more strength for the other sectors in the future. Currently, estimates have moved to a high, and the sector is working on pushing through resistance to breakout to new highs. If so, there is little reason to be cautious the rest of the market for the longer-term.

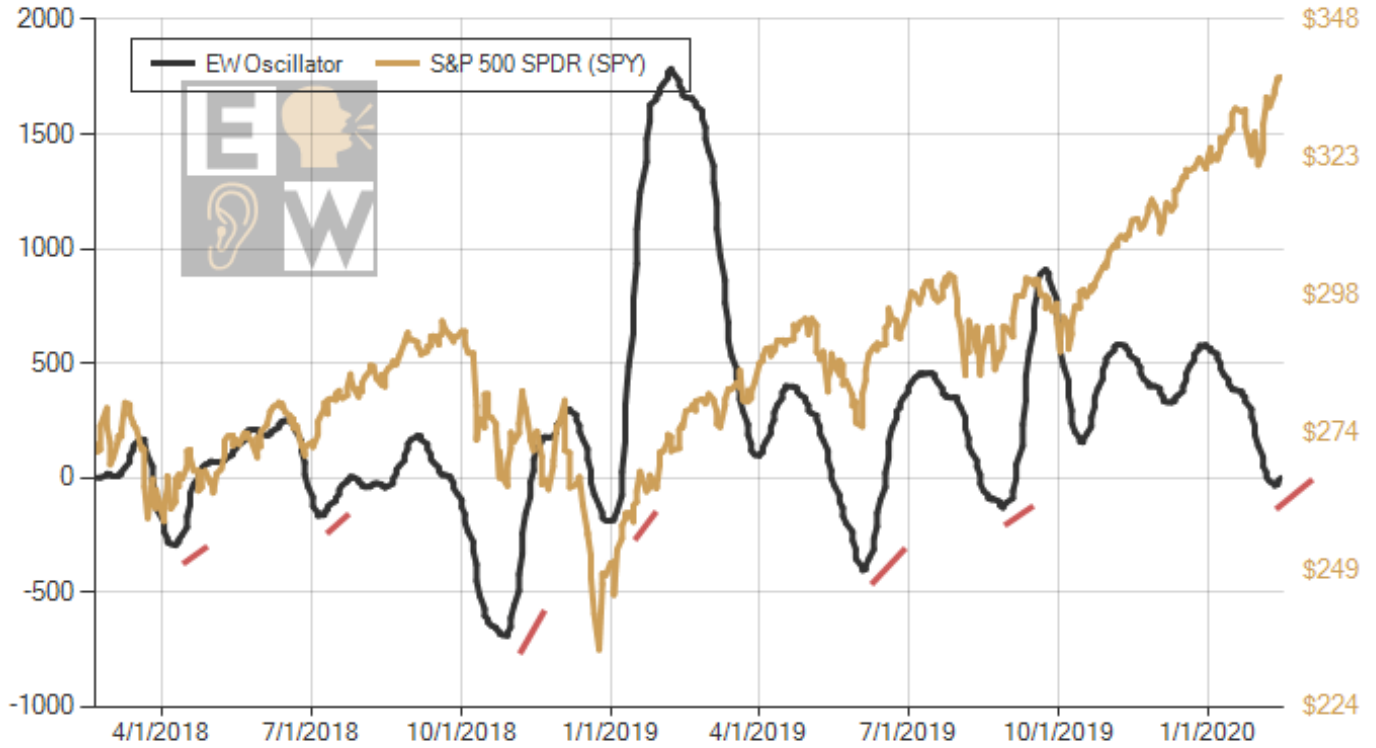




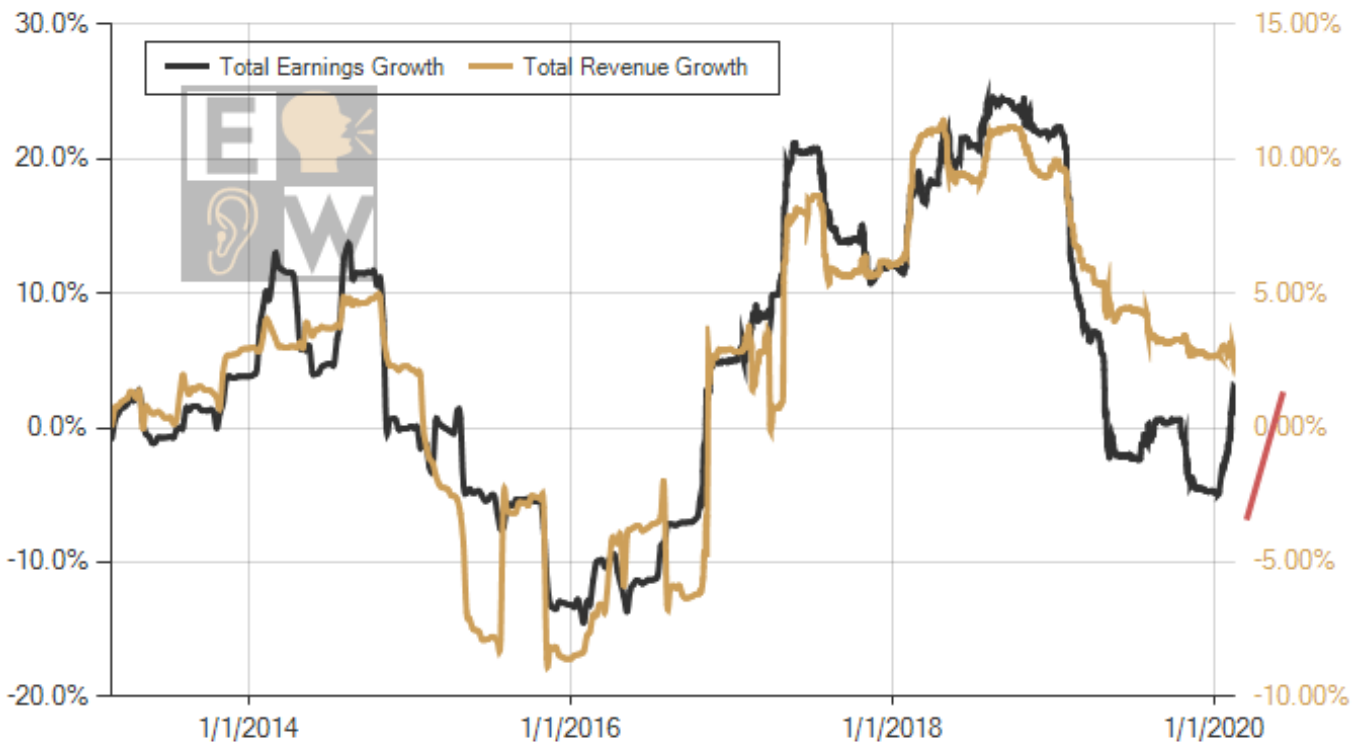
**Money Flows**



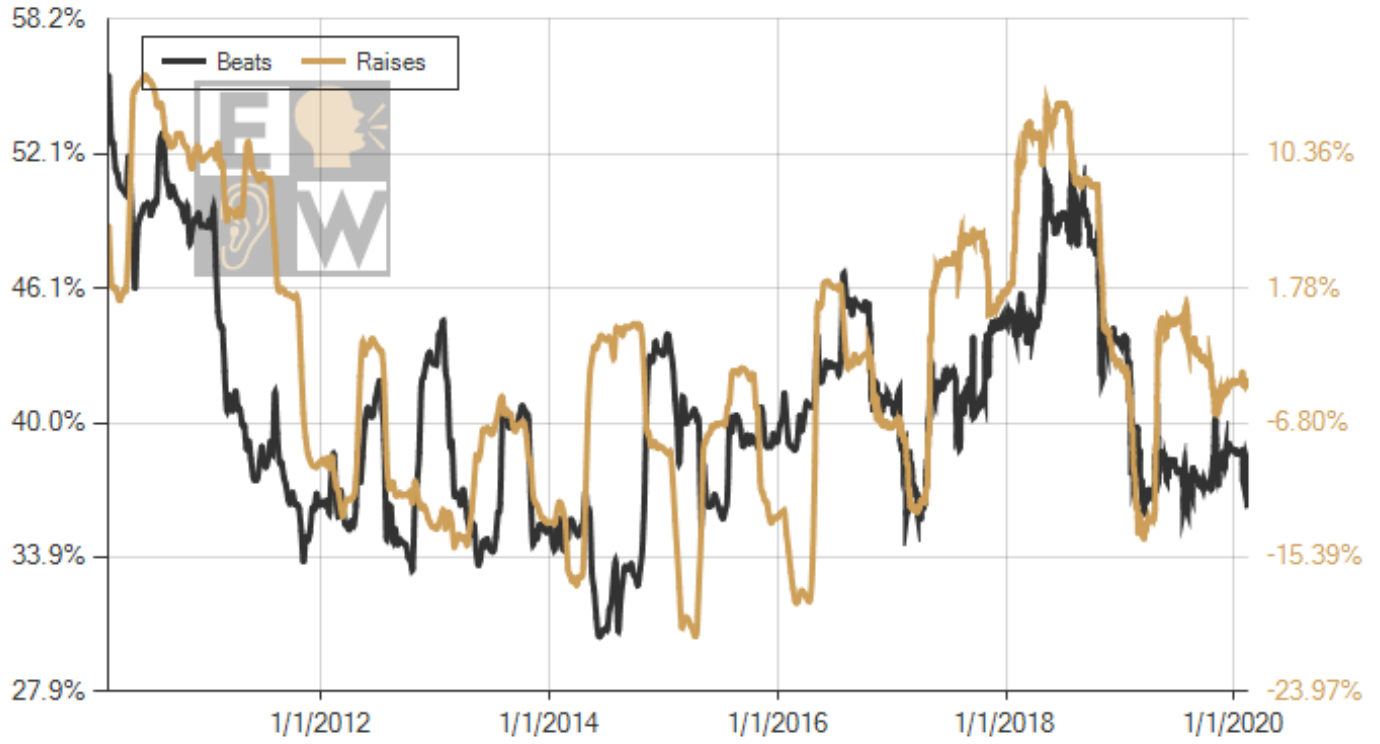
We are still seeing some relative strength in the Value Traps, but a pickup in the Positive Earnings stocks as well as strong buying in the Earnings Momentum names has started to push higher our oscillator of price action among Positive Earnings stocks vs Negative Earnings stocks, as shown on the next page. We have marked previous times below zero over the past couple of years that we've seen this indicator begin higher from below zero and all have led to at least a short-term rally and typically, it was the start of a much bigger trend higher.



**Earnings Trends**

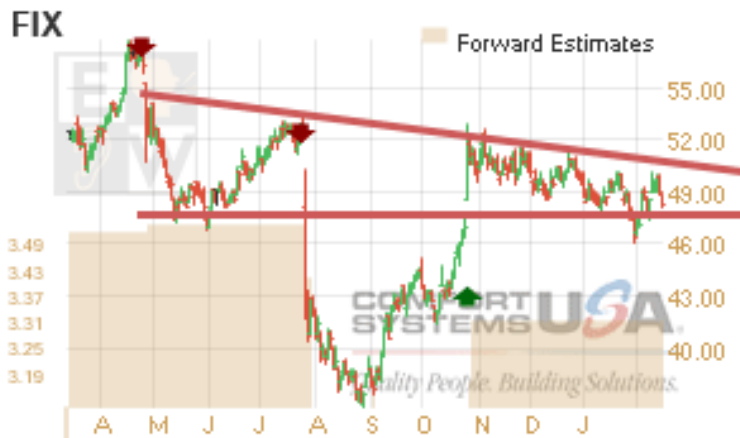


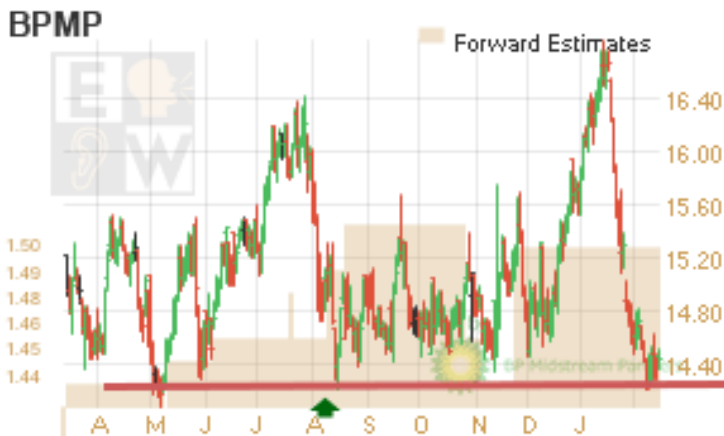
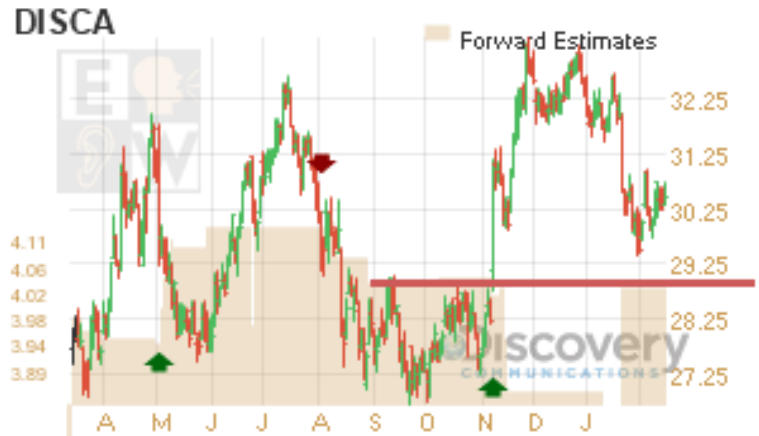




**Upcoming Releases with Favorable Earnings Whisper Scores**

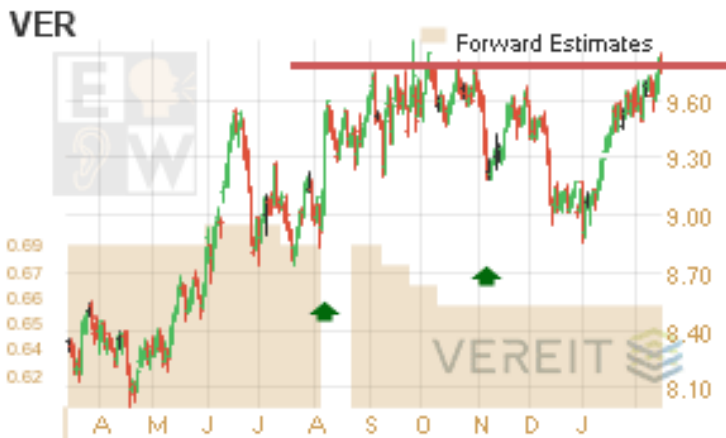






**Upcoming Releases with Unfavorable Earnings Whisper Scores**







**Bottom-Up**

Our Bottom-Up analysis is a preview of key earnings releases scheduled in the coming week. Inclusion in our Bottom-Up analysis does not, necessarily, imply the stock is a trade ahead of earnings or even that it is setting up for a trade after the news. Trades are listed online at <http://eps.sh/plays>, discussed in our trade notes at <http://eps.sh/notes>, and/or included in our morning emails.

**Texas Roadhouse**  
**TXRH**



**Earnings Whisper**  
**\$0.54**

Earnings Estimate:  
**\$0.52**  
Revenue Estimate:  
**\$713.75 million**

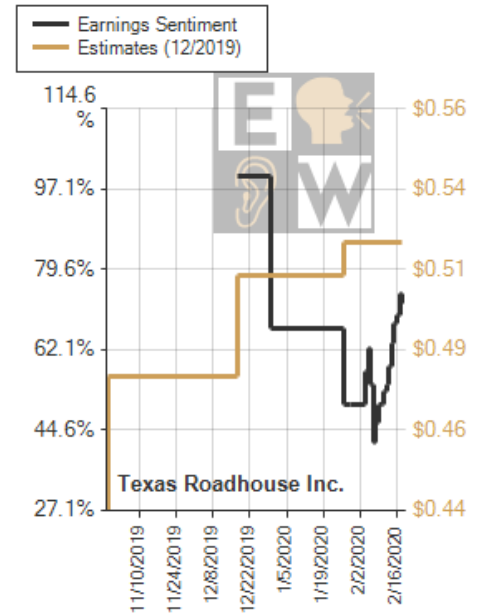
**Thursday**  
**Feb 20**  
4:00 PM ET

**Volatility**  
Priced into options:  
**8.5%**  
Average move:  
**8.0%**



The consumer has been strong and, while there are some secular changes with food delivery, the consumer has been spending more at restaurants. In fact, retail sales at restaurants bottomed around the end of 2016 and rebounded into a spike in 2018. Since then, restaurant sales have generally been trending higher since with recent industry checks showing an acceleration of late. We will have more restaurants reporting in the weeks ahead, but this week we get Texas Roadhouse (TXRH) and with the trend in restaurant sales, it is interesting to note that company's shares peaked around the time restaurant sales growth peaked and are now starting to rally as restaurant sales growth shows signs of acceleration.

But what really stands out to us is the fact that while earnings also peaked around the time the stock peaked in 2018, rolling earnings – two quarters of trailing earnings plus two quarters of estimates – have



already returned to new highs. In other words, the stock is now cheaper at \$65 than it was last time it was at \$65 and there is support for the stock to return to new highs. For that to happen, then earnings likely need to continue higher, and there are some mixed views on that, but Chris O'Cull at Stifel said he expects the company to meet or beat estimates at Nick Setyan at Wedbush said their checks point to results coming in-line to slightly above consensus estimates.



In the past, when Texas Roadhouse has beaten consensus estimates, the stock has gapped higher 78% of the time for an average gap of 3.4%.

Technically, the setup is telling us the same thing. While there is trend line resistance before \$70 on the weekly chart, the chart below shows



an earnings-island-reversal from the gap lower back in April that reversed after the company reported earnings last quarter. Such moves tend to be starts of new trends higher and, while it might not mean the stock is going to gap higher on the news, it does imply that unless something new is announced with earnings, weakness should likely be bought.



Domino's Pizza

**DPZ**



**Earnings Whisper**  
**\$2.99**

Earnings Estimate:  
**\$2.93**  
Revenue Estimate:  
**\$1.12 billion**

**Thursday**  
**Feb 20**

7:30 AM ET

**Volatility**  
Priced into options:  
**6.0%**  
Average move:  
**6.5%**



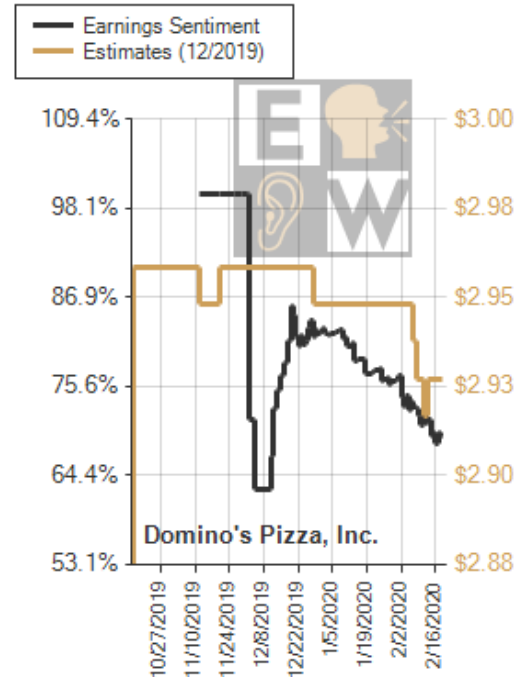
The chart below shows shares of Domino's Pizza (DPZ) since late 2016. After pushing above \$220 to start 2018, the stock soon rallied up to \$300. Since the summer of 2018, the stock has made several attempts at pushing above \$300 but has failed. All along, earnings just kept moving higher. As we often say, stocks of companies with earnings reaching new highs eventually see stock prices reach new highs, so if the trend in earnings continue, then it is just a matter of time before the stock finally pushes through \$300, which would give us an upside technical target of around \$375.

Domino's has China exposure and, therefore, has headwinds from the coronavirus, but overall expectations are positive going into earnings for the company to deliver and provide a favorable outlook. Katherine Fogertey at Goldman Sachs said she expects

the company to continue gaining market

share and Stephen Anderson at Maxim the continued U.S. trend in takeout should help drive profitability through next year. Andrew Charles at Cowen said the company's menu innovations should drive results in the first half of the year and he recommends using any weakness to buy the stock.

We, however, prefer to buy it on strength on a potential push through \$300 and, should that come on earnings, there should likely be time to buy it after the news. In the past, after beating the consensus estimate, the stock has gapped higher 67% of the time, but it has only averaged a gap higher of 1.0%. The stock has had bigger moves of late, but when it has beaten in the past, it also



continued to drift higher in both the short-term and long-term, but still only averaging an increase of 1.3% over the next 30 days.

**Trough Analysts Ratings**  
for the week beginning  
**February 17, 2020**

<b>CUBE</b> AMC  Net Buy Rating: <b>-20.0%</b> Earnings Date: <b>Feb 20</b>	<b>SPTN</b> AMC  Net Buy Rating: <b>-20.0%</b> Earnings Date: <b>Feb 19</b>	<b>OPI</b> BMO  Net Buy Rating: <b>-20.0%</b> Earnings Date: <b>Feb 20</b>	<b>LTC</b> AMC  Net Buy Rating: <b>-16.7%</b> Earnings Date: <b>Feb 20</b>	<b>JBT</b> AMC  Net Buy Rating: <b>-16.7%</b> Earnings Date: <b>Feb 19</b>	<b>ADSW</b> AMC  Net Buy Rating: <b>-16.7%</b> Earnings Date: <b>Feb 20</b>
<b>DISH</b> BMO  Net Buy Rating: <b>-10.0%</b> Earnings Date: <b>Feb 19</b>	<b>SFM</b> AMC  Net Buy Rating: <b>-9.1%</b> Earnings Date: <b>Feb 20</b>	<b>MD</b> BMO  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 20</b>	<b>PEB</b> AMC  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 20</b>	<b>OLED</b> AMC  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 20</b>	<b>SNBR</b> AMC  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 19</b>
<b>KL</b> AMC  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 19</b>	<b>LTHM</b> AMC  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 20</b>	<b>TRN</b> AMC  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 19</b>	<b>GEL</b> BMO  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 19</b>	<b>TMST</b> AMC  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 20</b>	<b>FELE</b> BMO  Net Buy Rating: <b>0.0%</b> Earnings Date: <b>Feb 18</b>

**Sprouts Farmers Market**

**SFM**



**Earnings Whisper**

**\$0.15**

Earnings Estimate:

\$0.14

Revenue Estimate:

**\$1.36 billion**

**Thursday**

**Feb 20**

4:00 PM ET

**Volatility**

Priced into options:

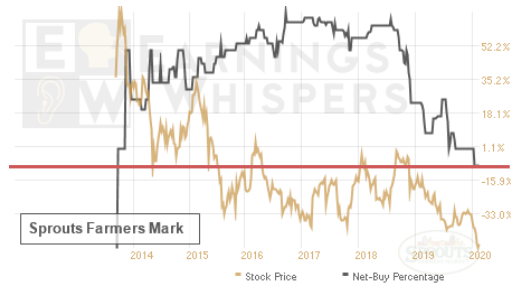
**11.8%**

Average move:

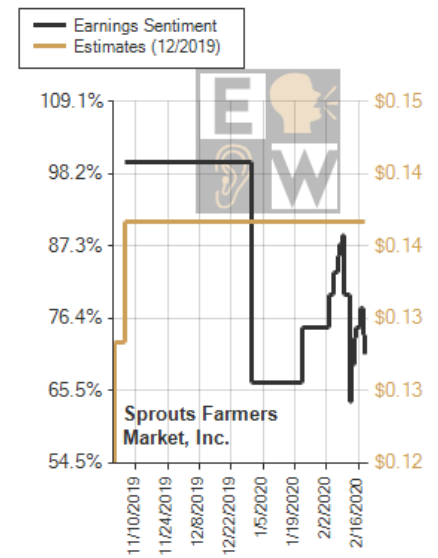
**5.4%**



The infographic above shows companies scheduled to report earnings this week that have analysts' recommendations at a multi-year low. For Sprouts Farmers Market (SFM), which went public in 2013, soon had analysts start recommending the stock. They liked it a little more as the stock fell, until the stock started moving lower in late 2018. When the selling picked up in 2019, the analysts started downgrading the stock and both the analysts' recommendations and the stock price accelerated to the downside in 2020 so far. As the chart on the left shows, this puts the Net-buy rating at its lowest since right after its IPO.



Analysts tend to recommend clients buy stocks the most at their highs and are more likely to recommend selling a stock at its lows, so the three analysts recommending clients sell the stock compared to just two that recommend buying and six that suggest holding, are probably wrong. After all, the stock has



never been cheaper than it is right now, trading at 13.6 times 2020 estimates (well, actually it has traded at 12.7 times estimates recently). While it likely isn't relevant until estimates start moving higher, but to get back to its historical multiple of 26.7, the stock would need to rally up to \$32 using current estimates for 2021.

The chart, however, is pointing towards more downside. We've got a line drawn at \$17.85, which was actually first touched in 2015 before the stock rallied. It tested it again a couple of times in 2017 and then, again, last summer. However, when the stock went to try the level out again to start 2020, it failed to hold. Now, the implication is that as long as the stock holds below \$17.85, it has more to fall – perhaps even to the \$8 range.



Mark Carden at UBS said heightened competition and supply chain challenges create risks while Edward Kelly at Wells Fargo said falling margins and weak comps suggest the stock will underperform going forward.

Given the extremely low sentiment among analysts and the fact that the company's fourth quarter results are expected to hold, our statistics are neutral going into the company's earnings release. A move higher that holds below \$17.85 should likely be sold whereas a move that holds above \$17.85 would market a reversal and a potential subsequent rally.



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Number 786

Prepared on Tuesday, February 18, 2020

## Most Anticipated Earnings Releases for the month beginning February 17, 2020

(only showing confirmed release dates)

Monday	Tuesday	Wednesday	Thursday	Friday
17	18 Walmart Medtronic enphase ENERGY Advance! Auto Parts INMODE TransUnion	19 BAUSCH+Health GARMIN. ANALOG DEVICES IMAX FIRST MAJESTIC	20 Wix.com Dropbox UNIVERSAL DISPLAY CORPORATION zscaler NEWMONT.	21 JOHN DEERE RBC W.P. CAREY Teck ITT hms
24 SHAKE SHACK EVOVIS ONCOLOGY TANDEM DIABETES CARE KEYSIGHT TECHNOLOGIES GUARDANT paloalto NETWORKS	25 smile macy's inc GW PHARMACEUTICALS AMERICAN TOWER	26 Square CHESAPEAKE ENERGY Etsy TELADOC. LOWE'S TJX	27 BEYOND MEAT Baidu theTradeDesk CLIFFS CRONOS GROUP IQIYI 爱奇艺	28 wayfair FOOT LOCKER, INC. AES BARINGS STRAYER EDUCATION INC. GIBALTAR
2 Livongo Dentsply Sirona WAVE LIFE SCIENCES boingo Crystal Clean Allscripts	3 TARGET Veeva sea AutoZone BENEFITFOCUS NORDSTROM	4 zoom splunk MARVELL BALLARD MAXAR TECHNOLOGIES Abercrombie & Fitch	5 COSTCO WHOLESALE okta Funko ciena Poffo loco EXTRACTION	6
9 STITCH FIX BIG LOTS! US AUTOPARTS EXPRESS Nine VAIL RESORTS	10 CLOUDERA DICK'S SPORTING GOODS SPARTAN COVIA PARSONS vivint. solar	11 WHEATON PRECIOUS METALS adidas unfi Vera Bradley BioLife Solutions KINGSTONE	12 Adobe BROADCOM ULTA BEAUTY slack Gap Inc. ZUORA	13 gogo Citi Trends contura energy
16 Bloomenergy coupa Tencent 腾讯 REPAY Atherys Apyx MEDICAL	17 FedEx smartsheet gevo RumbleOn	18 ACM RESEARCH Arco Chemical	19 CROWDSTRIKE	20

http://eps.sh/cal

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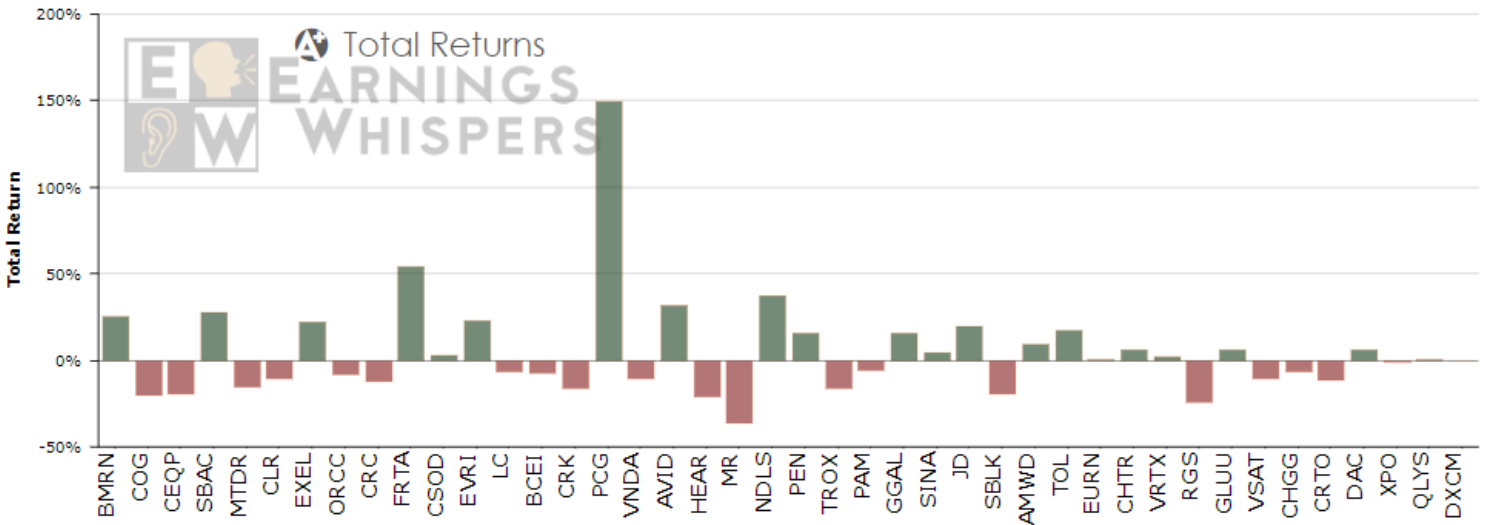
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## Earnings Whisper Grades

A current listing can be found at <http://eps.sh/apluses> and to learn more about the Earnings Whisper Grades, please go to <http://eps.sh/about-grade>. To get early morning alerts for all A+, please see your account settings at <http://eps.sh/account>

Chegg (CHGG), Critero (CRTO), Danaos (DAC), XPO Logistics (XPO), Qualys (QLYS), and DexCom (DXCM) reported A+ earnings last week. Companies that have reported A+ earnings this quarter are up 4.69%, on average, since reporting while the S&P 500 is up 7.55% so far.



**Recent Positive Earnings with Positive Charts**

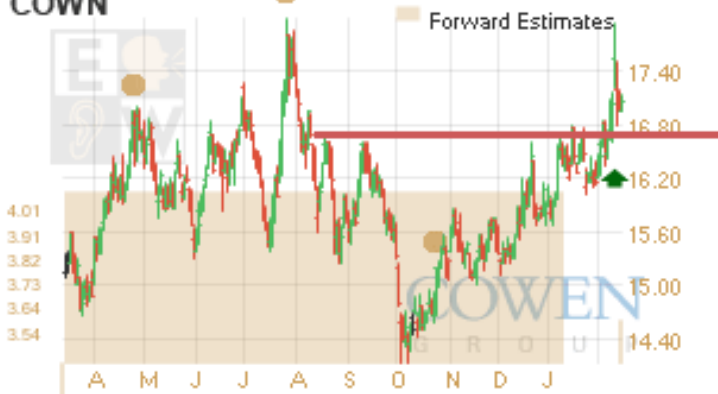
**DXCM**



**KGC**



**COWN**



**XPO**



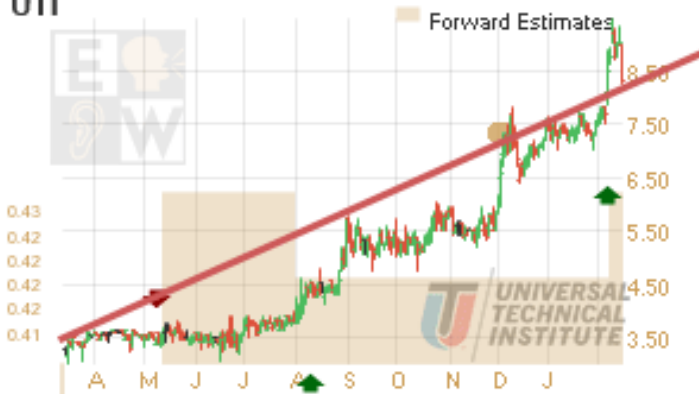
**AGN**



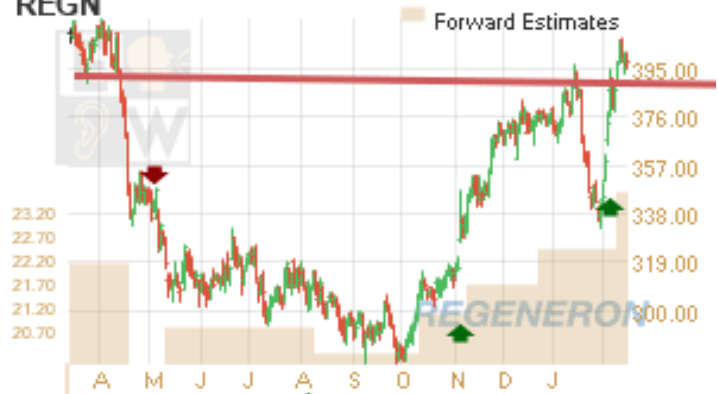
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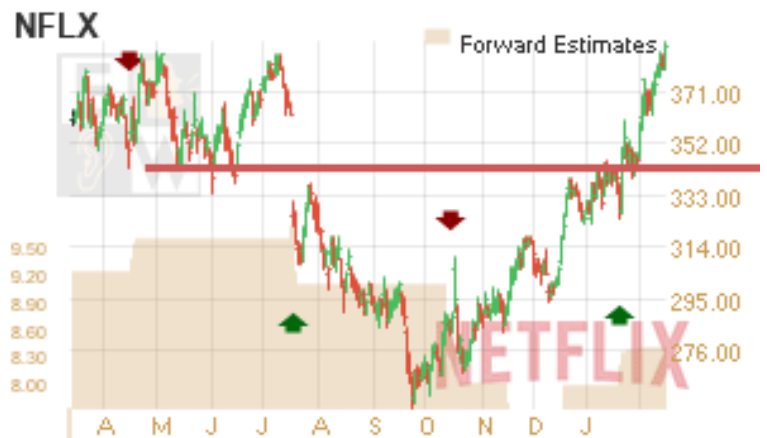
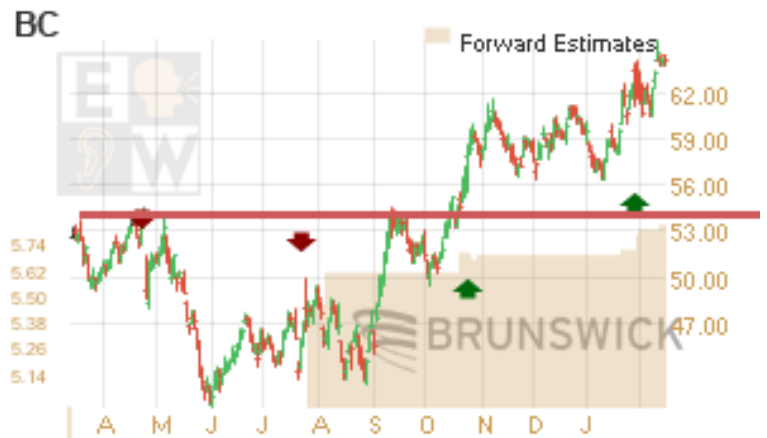
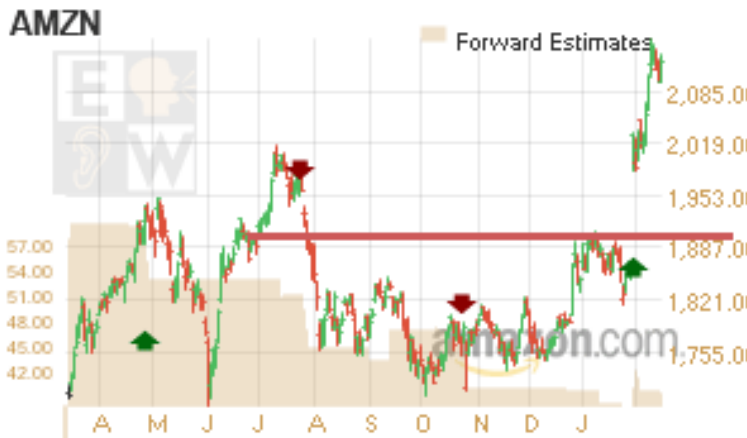


**UTI**

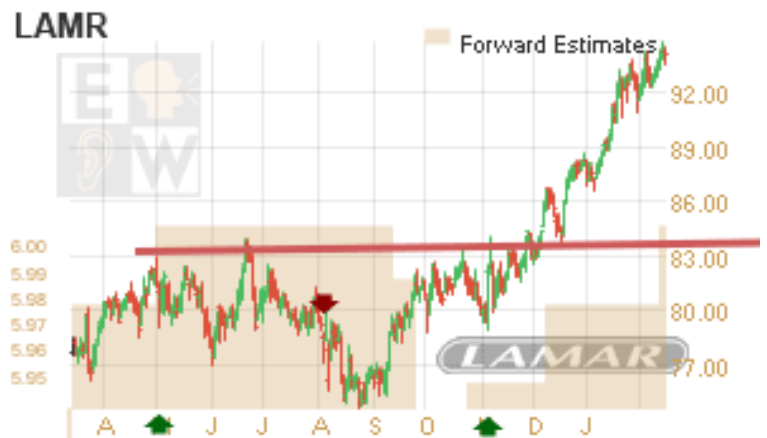


**REGN**

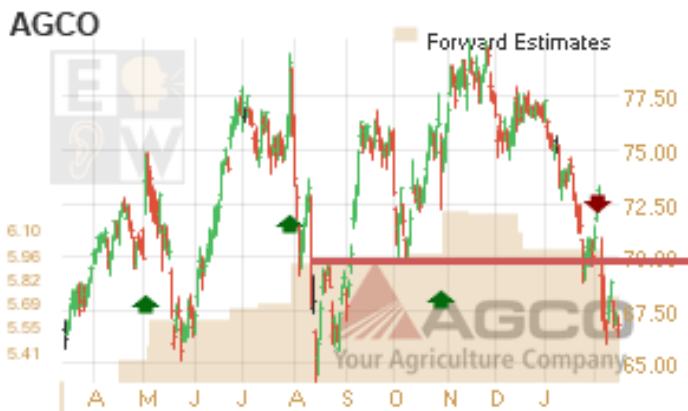


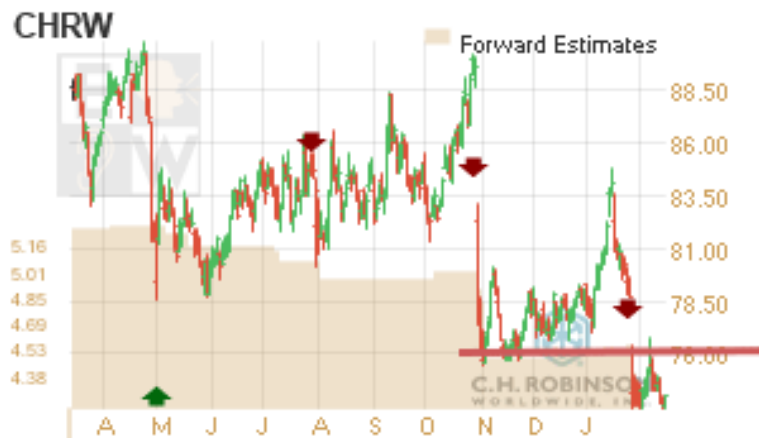
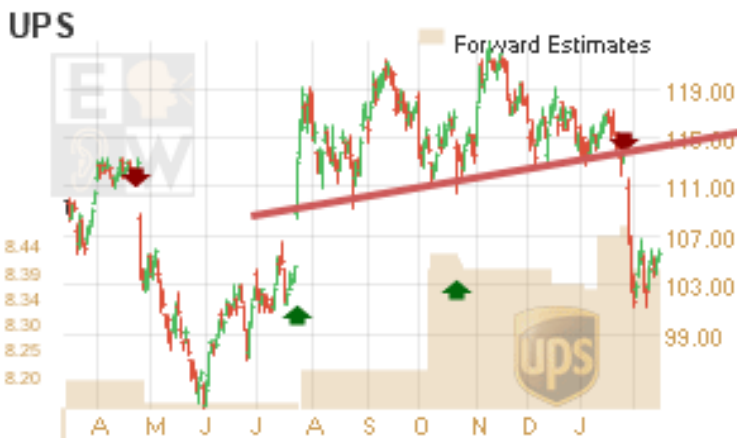
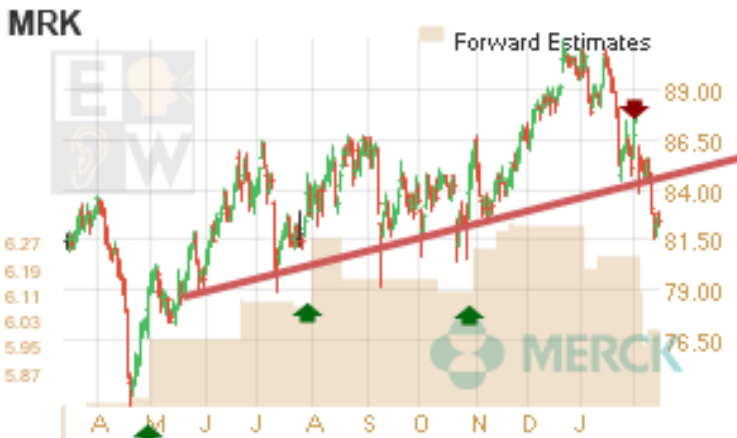






**Recent Negative Earnings with Negative Charts**





### Weekly Disclosures

The following positions discussed in this issue of the Whisper Report © were held by proprietors, management, or employees of Earnings Whispers as of the close on Friday:

We are net long the overall stock market.