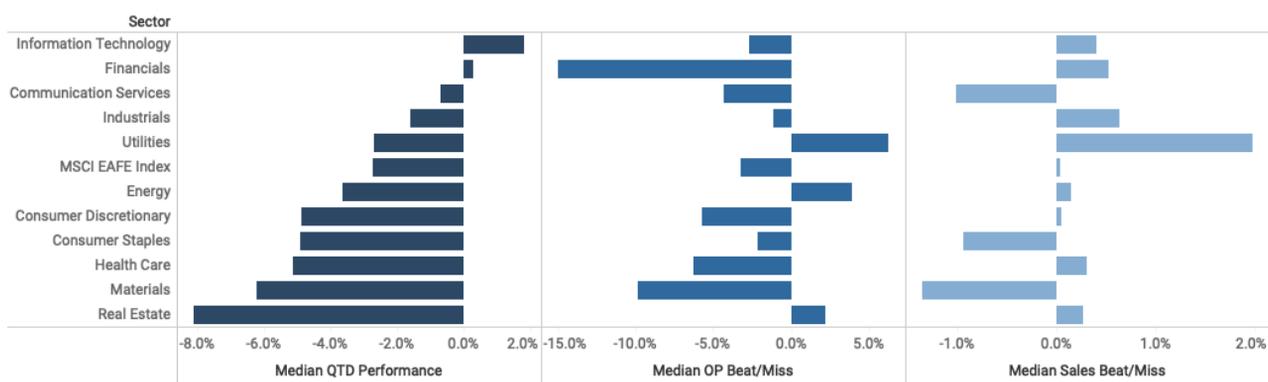


Mid-Quarter Earnings Delta Analysis

Blackcrane Capital's investment philosophy and process focus on a historically proven source of alpha in global equities markets, which may be extracted when an investor can consistently and accurately identify the gaps between perception (Wall Street consensus estimates) and reality (reported results) in a company's quarterly earnings and sales. Here we analyze median earnings (operating profits) and median sales surprises by sector, alongside each sector's median quarter-to-date (QTD) performance. We include QTD data as of May 15, 2019, when a majority of companies (73%) within the MSCI EAFE Index have published their financial reports for the previous quarter. The analysis comprises the 459 companies in the index that had reported both sales and operating profits (OP) results by mid-2Q19 and for which there existed consensus estimates for both metrics.

MSCI EAFE QTD Performance vs. Earnings/Sales Deltas

As of May 15, 2019



Source: Bloomberg Professional. Past performance does not guarantee future results. Investors cannot invest directly in an index. See important disclosures on the following page.

Stocks generally continued reacting as expected to earnings beats and misses to date this quarter (as of 5/15/19).

In aggregate, the median stock performance was -2.7%, with a median sales surprise of +0.0%, and a median operating profit surprise of -3.2%.

Information Technology achieved the best median stock performance of any sector, with its -2.7% median operating profit surprise ahead of the aggregate. Industrials and Utilities also posted better median stock performances than the aggregate, as would be expected given their -1.1% and +6.2% median operating profit surprises.

Of the five sectors that had median stock performances that were better than the aggregate, most of them also posted superior median operating profit surprises. And of the six sectors which had worse median stock performances than the index, half of them posted worse median operating profit surprises.

So far this quarter, we believe we are seeing a more typical outcome compared to 4Q18, where the reverse happened i.e. most sectors with better median stock performances had worse median operating profit surprises and most sectors with worse median stock performances had better median operating profit surprises.

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Mid-Quarter Earnings Delta Analysis

How We Define Earnings Delta

At Blackcrane, we define the term “earnings delta” as the degree to which any given name (or sector) beats or misses consensus earnings estimates. In our investment process, which targets a 10% forecasted earnings beat for each name in our portfolio, we tend to use operating profits (OP) to measure the deltas; however, in some sectors, such as Financials, we instead focus on divergences between consensus estimates and reported earnings per share.

Important Disclosures

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