



Featured Stock in July's Dividend Growth Model Portfolio

Six new stocks make our [Dividend Growth Stocks Model Portfolio](#) this month, which was made available to members on July 26, 2019.

Get the best fundamental research

The long-term success of our model portfolio strategies highlights the value of our [Robo-Analyst technology](#)¹, which scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks².

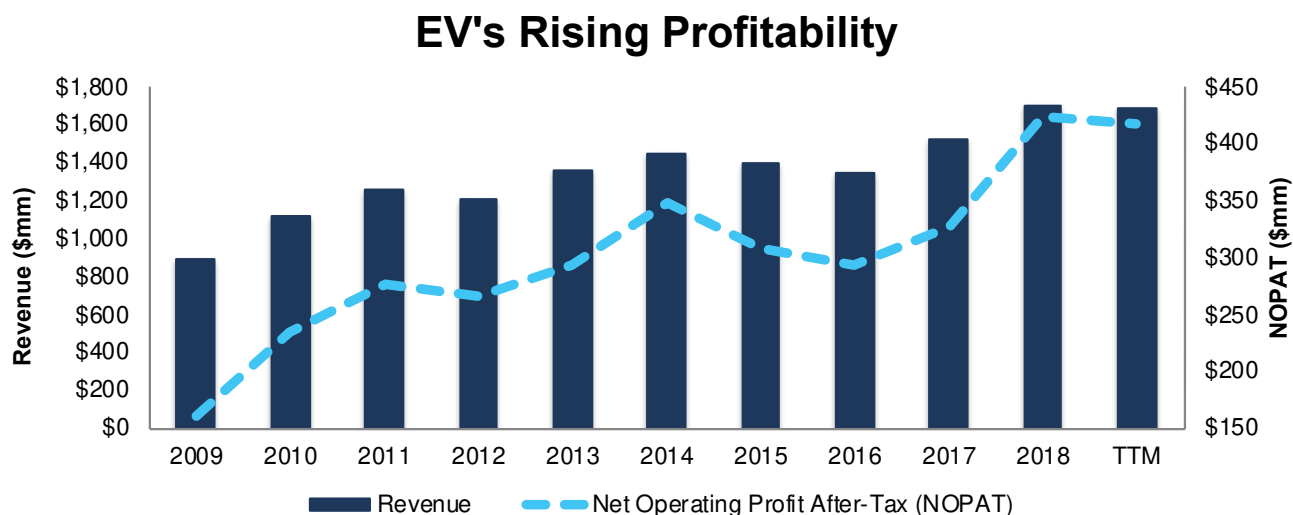
The methodology for this model portfolio mimics an All-Cap Blend style with a focus on dividend growth. Selected stocks earn an [Attractive or Very Attractive rating](#), generate positive free cash flow ([FCF](#)) and [economic earnings](#), offer a current dividend yield >1%, and have a 5+ year track record of consecutive dividend growth. This model portfolio is designed for investors who are more focused on long-term capital appreciation than current income, but still appreciate the power of dividends, especially growing dividends.

Featured Stock from July: Eaton Vance Corp (EV: \$45/share)

Eaton Vance (EV) is the featured stock from July's Dividend Growth Stocks Model Portfolio.

Since 2009, EV has grown revenue by 7% compounded annually and after-tax profit ([NOPAT](#)) by 11% compounded annually. Trailing twelve months (TTM) NOPAT of \$417 million is up 18% over the prior TTM period. EV's NOPAT margin improved from 18% in 2009 to 25% TTM while its return on invested capital ([ROIC](#)) improved from 20% to 21%.

Figure 1: EV's Revenue & NOPAT Since 2009



Sources: New Constructs, LLC and company filings

¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

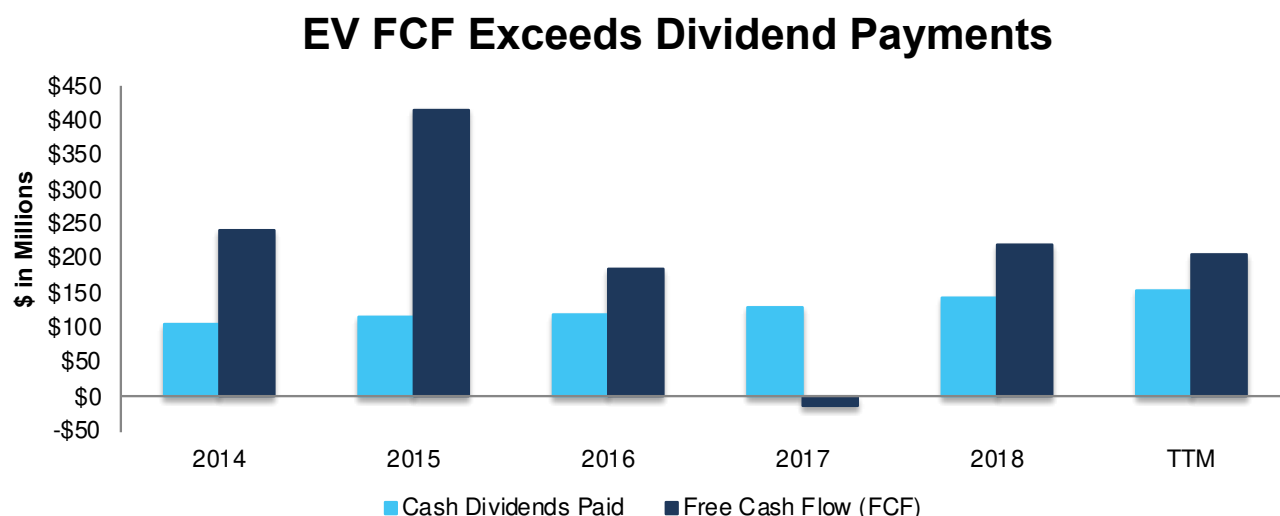
² This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

**Steady Dividend Growth Supported by FCF**

EV has increased its annual dividend every year since 1981. The company increased its annualized dividend from \$0.91/share in 2014 to \$1.40/share currently, a 9% compounded annual increase. Most importantly, EV easily generates the cash flow needed to continue paying and growing its dividend. Over the past five years, EV has generated a cumulative \$1.1 billion in FCF (20% of market cap) while paying \$614 million in dividends.

Companies with FCF well in excess of dividend payments provide higher quality dividend growth opportunities because we know the firm generates the cash to support a higher dividend. On the other hand, the dividend of a company where FCF falls short of the dividend payment over time cannot be trusted to grow or even stay the same because of inadequate free cash flow.

Figure 2: EV's Free Cash Flow (FCF) vs. Regular Dividend Payments



Sources: New Constructs, LLC and company filings

EV Holds Upside Potential

At its current price of \$45/share, EV has a price-to-economic book value ([PEBV](#)) ratio of 1.1. This ratio means the market expects EV to grow NOPAT by no more than 10% over the remaining life of the firm. This expectation seems rather pessimistic for a firm that has grown NOPAT by 11% compounded annually since 2009 and 14% compounded annually over the past two decades.

If EV can maintain 2018 margins (25%) and grow NOPAT by just 4% compounded annually for the next decade, the stock is worth \$54/share today – a 20% upside. [See the math behind this dynamic DCF scenario](#). Add in EV's 3.1% dividend yield and history of dividend growth, and it's clear why this stock is in July's Dividend Growth Stocks Model Portfolio.

Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

As investors [focus more](#) on fundamental research, research automation technology is needed to analyze all the critical financial [details in financial filings](#). Below are specifics on the adjustments we make based on Robo-Analyst findings in Eaton Vance's 2018 10-K:

Income Statement: we made \$106 million of adjustments with a net effect of removing \$42 million in [non-operating expense](#) (2% of revenue). See all adjustments made to EV's income statement [here](#).

Balance Sheet: we made \$1.3 billion of adjustments to calculate invested capital with a net decrease of \$605 million. The most notable adjustment was \$244 million (10% of reported net assets) related to [operating leases](#). See all adjustments to EV's balance sheet [here](#).

Valuation: we made \$1.8 billion of adjustments with a net effect of decreasing shareholder value by \$836 million. One of the most notable adjustments to shareholder value was \$341 million in minority interests. This adjustment



represents 7% of EV's market value. See all adjustments to EV's valuation [here](#). Despite these subtractions from shareholder value, EV remains undervalued.

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Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, style, or theme.

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2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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