



## Featured Stock in February's Exec Comp & ROIC Model Portfolio

Five new stocks make February's Exec Comp Aligned with ROIC Model Portfolio, available to members as of February 14, 2020.

### Recap from January's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (-4.2%) underperformed the S&P 500 (+2.8%) from January 15, 2020 through February 12, 2020. The best performing stock in the portfolio was up 8%. Overall, one out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from January 15, 2020 through February 12, 2020, and five had positive returns.

Get the best fundamental research

Only our research utilizes the superior data and earnings adjustments featured by the HBS & MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)." The success of this Model Portfolio highlights the value of our [Robo-Analyst technology](#)<sup>1</sup>, which scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks.

This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder value creation](#).<sup>2</sup>

### New Stock Feature for February: SYSCO Corporation (SYY: \$78/share)

SYSCO Corporation (SYY) is the featured stock in February's Exec Comp Aligned with ROIC Model Portfolio.

We made SYY a Long Idea on [December 13, 2017](#). Since then, the stock is up 27% (vs. S&P 500 up 27%) and remains undervalued.

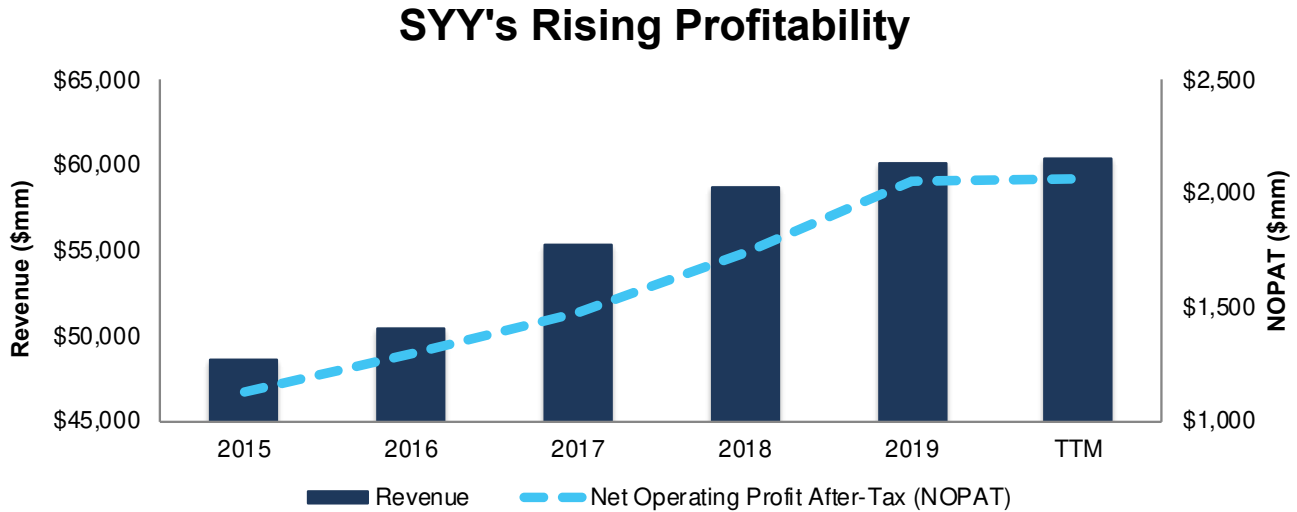
Over the past five years, SYY has grown revenue by 5% compounded annually and after-tax operating profit (NOPAT) by 13% compounded annually. Trailing twelve month (TTM) NOPAT is up 13% over the prior TTM period as well. Rising NOPAT margins, which are up from 2% in 2015 to 3% in 2019 have fueled SYY's profit growth.

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

<sup>2</sup> This [paper](#) compares our analytics on a mega cap company to Bloomberg and Capital IQ (SPGI) in a detailed appendix.



Figure 1: SY Y Revenue & NOPAT Growth Since 2015



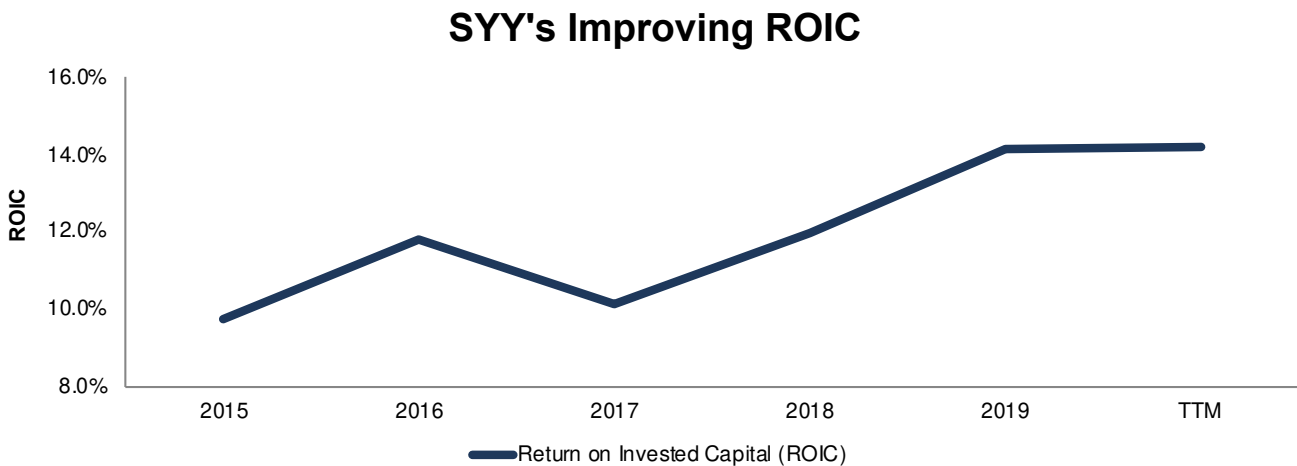
Sources: New Constructs, LLC and company filings

### Executive Compensation Plan Helps Drive Shareholder Value Creation

SY Y has included ROIC as a performance metric in its [executive compensation](#) plan since 2012. Last year, 33% of performance stock awards were tied to the firm's ROIC performance. When combined with stock options, annual incentives, and salaries, ROIC was tied to ~12-14% of total executive compensation.

The focus on ROIC helps ensure intelligent capital allocation. Per Figure 2, SY Y has improved its ROIC from 10% in 2015 to 14% TTM. SY Y's compensation plan lowers the risk of investing in the company's stock because we know executives' interests are aligned with shareholders' interests.

Figure 2: SY Y's ROIC Since 2015



Sources: New Constructs, LLC and company filings

### SY Y is Undervalued

At its current price of \$78/share, SY Y has a price-to-economic book value ([PEBV](#)) ratio of 1.0. This ratio means the market expects SY Y's NOPAT to never meaningfully grow from current levels. This expectation seems pessimistic given that SY Y has grown NOPAT by 13% compounded annually over the past five years and 9% compounded annually over the past two decades.



If SYY can maintain TTM NOPAT margins (3%) and grow NOPAT by just 4% compounded annually for the next decade, the stock is worth \$103/share today – a 32% upside. [See the math behind this reverse DCF scenario.](#)

### **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 as shown in the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)".

Below are specifics on the adjustments we make based on Robo-Analyst findings in SYSCO Corporation's 2019 10-K:

**Income Statement:** we made \$1.1 billion of adjustments, with a net effect of removing \$382 million in [non-operating expenses](#) (<1% of revenue). You can see all the adjustments made to SYY's income statement [here](#).

**Balance Sheet:** we made \$2.7 billion of adjustments to calculate invested capital with a net increase of \$2.6 billion. One of the largest adjustments was \$1.6 billion related to [other comprehensive income](#). This adjustment represented 14% of reported net assets. You can see all the adjustments made to SYY's balance sheet [here](#).

**Valuation:** we made \$10.9 billion of adjustments with a net effect of decreasing shareholder value by \$10.9 billion. There were no adjustments that increased shareholder value. Apart from [total debt](#), one of the largest adjustments to shareholder value was \$695 million in [underfunded pensions](#). This adjustment represents 2% of SYY's market cap. See all adjustments to SYY's valuation [here](#).

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

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## ***Footnotes adjustments matter. We are the ONLY source.***

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We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

**HBS & MIT Sloan research** reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

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

**Learn [more](#).**

Quotes from HBS & MIT Sloan professors on our research:

### **Get better research:**

*“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20*

### **Pick better stocks:**

*“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract*

### **Avoid losses from using other firms’ data:**

*“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14*

### **Build better models:**

*“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4*

### **Exploit market inefficiencies:**

*“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26*

### **Fulfill fiduciary duties:**

*“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34*



## **DISCLOSURES**

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