



Featured Stock in January's Exec Comp & ROIC Model Portfolio

Four new stocks make January's Exec Comp Aligned with ROIC Model Portfolio, available to members as of January 14, 2021.

Recap from December's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+2.5%) outperformed the S&P 500 (+2.3%) from December 16, 2020 through January 12, 2021. The best performing stock in the portfolio was up 12%. Overall, nine out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from December 16, 2020 through January 12, 2021.

[Learn more about the best fundamental research](#)

The best fundamental data in the world, proven in [The Journal of Financial Economics](#), drives our research. Our proprietary [Robo-Analyst technology](#)¹ scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks to produce an unrivaled database of fundamental data².

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](#).³

New Stock Feature for January: Insight Enterprises Inc (NSIT: \$81/share)

Insight Enterprises Inc (NSIT) is the featured stock in January's Exec Comp Aligned with ROIC Model Portfolio.

We made Insight Enterprises a [Long Idea](#) in [August 2018](#). Since then, the stock is up 46% while the S&P 500 is up 35% over the same time.

Insight has grown revenue by 10% compounded annually since 2015 and net operating profit after tax ([NOPAT](#)) by 23% compounded annually over the same time, per Figure 1. NOPAT margin increased from 1.6% in 2015 to 2.5% over the trailing twelve months (TTM).

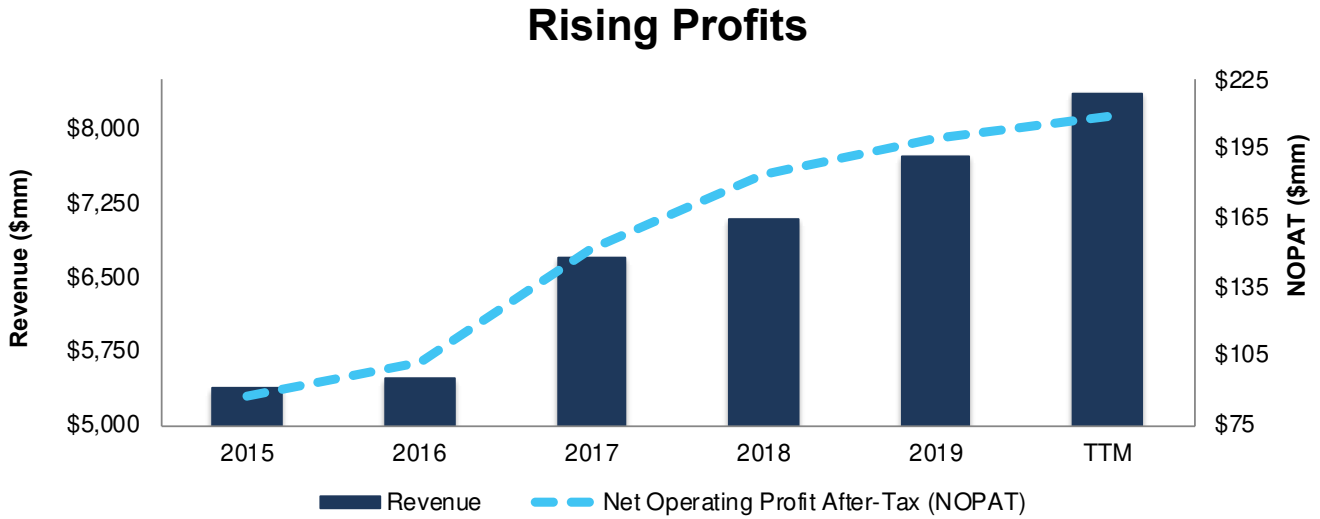
¹ Harvard Business School features our research automation technology in the case [Disrupting Fundamental Analysis with Robo-Analysts](#).

² Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).

³ See how our models and financial ratios are superior to Bloomberg and Capital IQ's (SPGI) analytics in the [detailed appendix of this paper](#).



Figure 1: Consistent NOPAT Growth



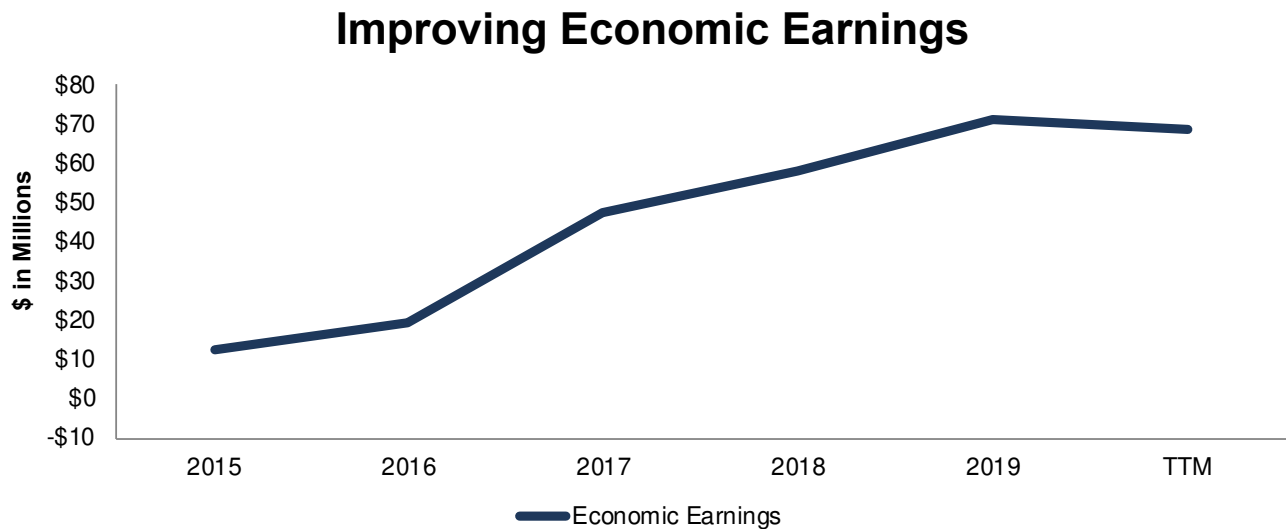
Sources: New Constructs, LLC and company filings

Performance-Based Pay Properly Incentivizes Executives

Insight's executive compensation plan aligns executives' interests with shareholder's interests by tying compensation to return on invested capital ([ROIC](#)). Apart from base salaries and short-term incentives, Insight's executives receive long-term equity compensation in the form of RSUs that are tied to a non-GAAP adjusted ROIC goal.

Insight's inclusion of ROIC as an executive compensation metric has helped drive shareholder value creation and economic earnings, per Figure 2. Insight's ROIC has improved from 7% in 2015 to 8% TTM while its [economic earnings](#) improved from \$13 million to \$68 million over the same time.

Figure 2: Long-term Improving Economic Earnings: 2015-TTM



Sources: New Constructs, LLC and company filings

**NSIT Is Undervalued**

At its current price of \$81/share, NSIT has a price-to-economic book value ([PEBV](#)) ratio of 0.8. This ratio means that the market expects Insight's NOPAT to permanently decline by 20%. This expectation seems overly pessimistic for a firm that has grown NOPAT by 10% compounded annually over the past two decades.

Even if Insight's NOPAT margin falls to 2.2% (equal to its five-year average vs. 2.5% TTM) and the firm grows NOPAT by just 1% compounded annually over the next 10 years, the stock is worth \$106/share today – a 31% upside. [See the math behind this reverse DCF scenario.](#)

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

Fact: we provide [superior fundamental data](#) and earnings models – unrivaled in the world.

Proof: [Core Earnings: New Data & Evidence](#), forthcoming in The Journal of Financial Economics.

Below are specifics on the adjustments we make based on Robo-Analyst findings in Insight's 10-K and 10-Qs:

Income Statement: we made \$57 million of adjustments, with a net effect of removing \$41 million in [non-operating expenses](#) (<1% of revenue). You can see all the adjustments made to Insight's income statement [here](#).

Balance Sheet: we made \$1.2 billion of adjustments to calculate invested capital with a net decrease of \$213 million. One of the largest adjustments was \$520 million for [midyear acquisitions](#). This adjustment represented 23% of reported net assets. You can see all the adjustments made to Insight's balance sheet [here](#).

Valuation: we made \$418 million of adjustments with a net effect of decreasing shareholder value by \$418 million. There were no adjustments that increased shareholder value. Apart from [total debt](#), one of the largest adjustments to shareholder value was \$37 million in [deferred tax liabilities](#). This adjustment represents 1% of Insight's market cap. See all adjustments to Insight's valuation [here](#). Despite these subtractions from shareholder value, NSIT remains undervalued.

This article originally published on [January 22, 2020](#).

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

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Below, we present three different papers from both the public and private sectors that prove the superiority of our proprietary fundamental data, earnings models, investment ratings, and research for stocks, bonds, ETFs, and mutual funds.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves the superiority of our [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *IBSPI Adjustments*, *OIADP Adjustments*, or *OPE Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our [NOPAT](#), [Invested Capital](#), and [ROIC](#) research on four mega-cap companies in [“Getting ROIC right: how an accurate view of ROIC can drive improved shareholder value”](#).

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [the New Constructs method] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

See the [Appendix](#) for direct comparison of our analysis of DOW’s 2015 results to Capital IQ and Bloomberg.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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