



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

Seven new stocks make February's Exec Comp Aligned with ROIC Model Portfolio, available to members as of February 12, 2021.

Recap from January's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+2.9%) underperformed the S&P 500 (+3.1%) from January 14, 2021 through February 10, 2021. The best performing stock in the portfolio was up 18%. Overall, six out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from January 14, 2021 through February 10, 2021.

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

More reliable & [proprietary](#) fundamental data, 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 stocks² to produce an unrivaled database of fundamental data.

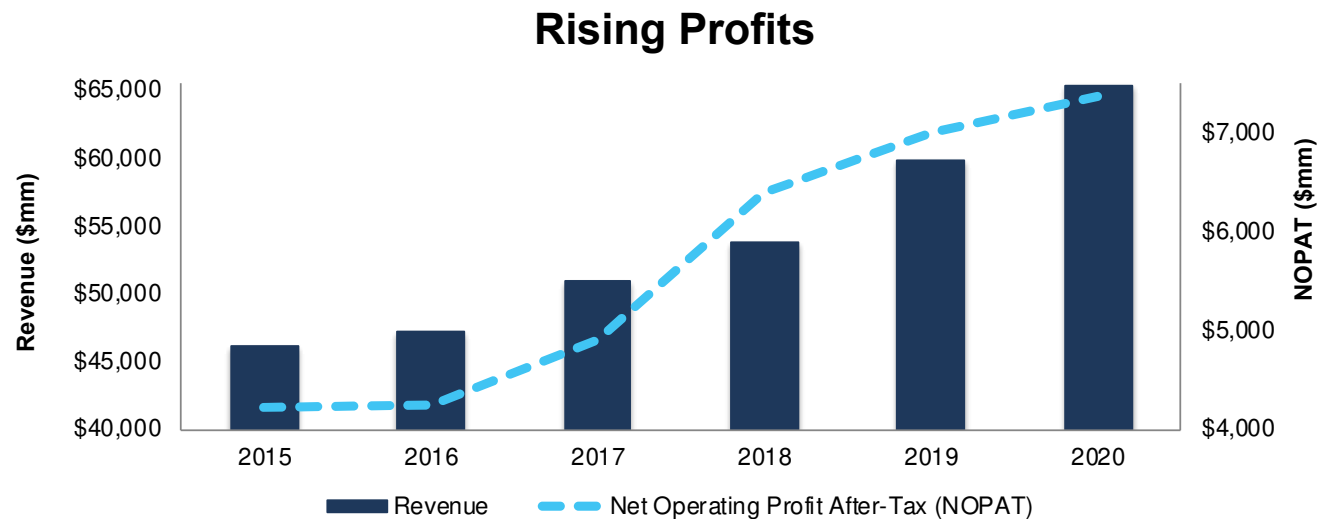
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital ([ROIC](#)) is the [primary driver of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

New Stock Feature for February: Lockheed Martin Corp (LMT: \$337/share)

Lockheed Martin (LMT) is the featured stock in February's Exec Comp Aligned with ROIC Model Portfolio.

Lockheed Martin has grown revenue by 7% compounded annually since 2015 and net operating profit after tax ([NOPAT](#)) by 12% compounded annually over the same time, per Figure 1. NOPAT margin increased from 9% in 2015 to 11% in 2020.

Figure 1: Consistent NOPAT Growth



Sources: New Constructs, LLC and company filings

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

² See how our models overcome flaws in Bloomberg and Capital IQ's (SPGI) analytics in the [detailed appendix of this paper](#).

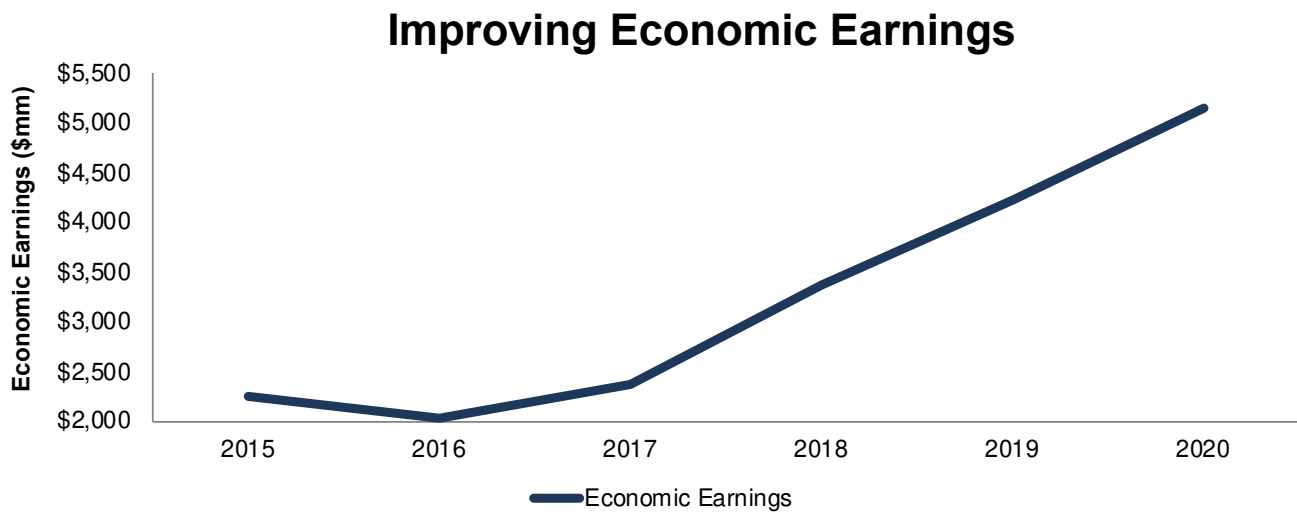


Performance-Based Pay Properly Incentivizes Executives

Lockheed Martin’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, Lockheed Martin’s executives receive long-term compensation in the form of performance stock units (PSUs) and cash bonuses that are tied to an ROIC performance goal.

Lockheed Martin’s inclusion of ROIC as an executive compensation metric has helped drive shareholder value creation and [economic earnings](#), per Figure 2. Lockheed Martin’s ROIC has improved from 10% in 2015 to 14% in 2020 while its economic earnings more than doubled from \$2.2 billion to \$5 billion over the same time.

Figure 2: Lockheed Martin’s Economic Earnings: 2016 to 2020



Sources: New Constructs, LLC and company filings

LMT Is Undervalued

At its current price of \$337/share, LMT has a price-to-economic book value ([PEBV](#)) ratio of 0.6. This ratio means that the market expects Lockheed Martin’s NOPAT to permanently decline by 40%. This expectation seems overly pessimistic for a firm that has grown NOPAT by 14% compounded annually over the past two decades.

Even if Lockheed Martin’s NOPAT margin falls to 9.6% (10-year average, compared to 11.3% in 2020) and the firm grows revenue by 4% (equal to compound annual estimate from 2021 to 2025) compounded annually over the next 10 years, the stock is worth \$627/share today – an 86% upside. [See the math behind this reverse DCF scenario](#). In this scenario, Lockheed Martin’s NOPAT actually falls 1% compounded annually over the next decade.

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

Fact: we provide [more reliable 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 Lockheed Martin’s 10-K:

Income Statement: we made \$1.5 billion of adjustments, with a net effect of removing \$537 million in [non-operating expenses](#) (<1% of revenue). You can see all the adjustments made to Lockheed Martin’s income statement [here](#).

Balance Sheet: we made \$31 billion of adjustments to calculate invested capital with a net increase of \$17 billion. One of the largest adjustments was \$16 billion in [other comprehensive income](#). This adjustment represented 44% of reported net assets. You can see all the adjustments made to Lockheed Martin’s balance sheet [here](#).



Valuation: we made \$31 billion of adjustments with a net effect of decreasing shareholder value by \$31 billion. There were no adjustments that increased shareholder value. Apart from [total debt](#), one of the largest adjustments to shareholder value was \$14 billion in [underfunded pensions](#). This adjustment represents 15% of Lockheed Martin's market cap. See all adjustments to Lockheed Martin's valuation [here](#). Despite these subtractions from shareholder value, LMT remains undervalued.

This article originally published on [February 19, 2021](#).

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. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [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 S&P Global’s (*SPGI*) *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 ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

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 [as New Constructs does] 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.

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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