Featured Stocks in July's Most Attractive/Most Dangerous Model Portfolios

Recap From June's Picks

Our Most Attractive Stocks (-2.2%) underperformed the S&P 500 (+3.6%) from June 3, 2021 through July 6, 2021 by 5.8%. The best performing large cap stock gained 14% and the best performing small cap stock was up 12%. Overall, 11 out of the 40 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (-5.1%) outperformed the S&P 500 (+3.6%) as a short portfolio from June 3, 2021 through July 6, 2021 by 8.7%. The best performing large cap stock fell by 17% and the best performing small cap stock fell by 14%. Overall, 32 out of the 37 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios outperformed as an equal-weighted long/short portfolio by 1.5%.

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 stocks[2] to produce an unrivaled database of fundamental data.

Seven new stocks make our Most Attractive list this month, and five new stocks fall onto the Most Dangerous list this month. July's Most Attractive and Most Dangerous stocks were made available to members on July 8, 2021.

Our Most Attractive stocks have high and rising returns on invested capital (ROIC) and low price to economic book value ratios. Most Dangerous stocks have misleading earnings and long growth appreciation periods implied by their market valuations.

Most Attractive Stocks Feature for July: Camping World Holdings, Inc. (CWH: $38/share)

Camping World Holdings, Inc. is the featured stock from July's Most Attractive Stocks Model Portfolio.

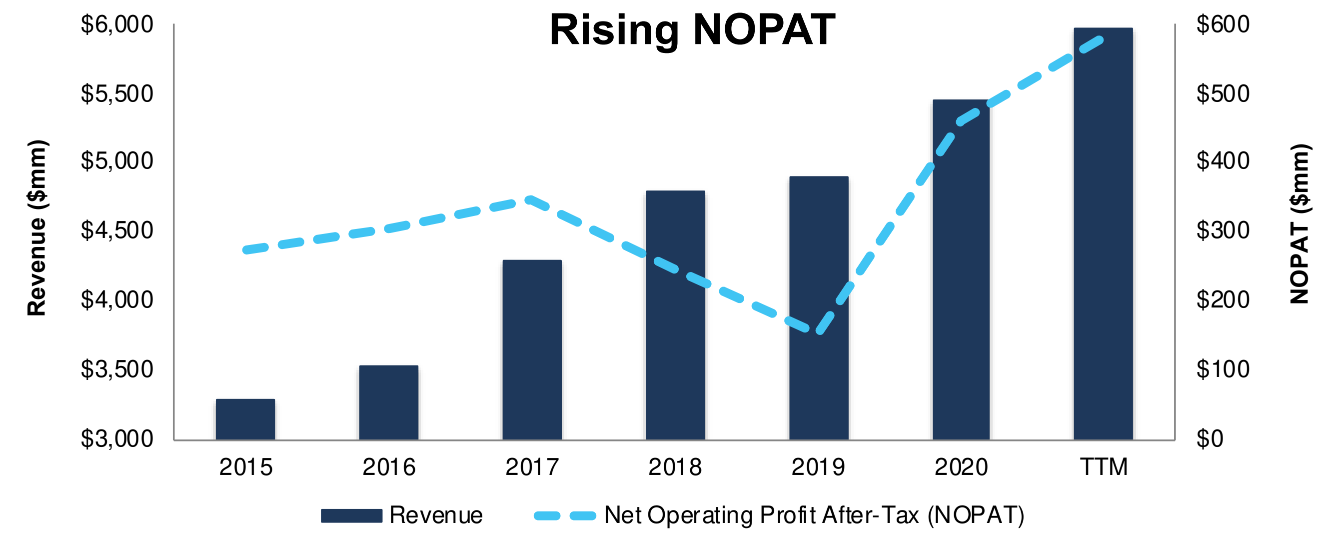
Camping World grew revenue and net operating profit after-tax (NOPAT) by 11% compounded annually over the past five years.

The firm's NOPAT margin increased from 8% in 2015 to 10% over the trailing twelve months (TTM), while its invested capital turns increased from 1.9 to 2.0 over the same period. Rising margins and invested capital turns drive an improvement in Camping World's ROIC from 16% in 2015 to 19% TTM.

Over the past five years, Camping World generated $261 million (8% of market cap) in cumulative free cash flow (FCF). Over the TTM, Camping World has generated $641 million in FCF.

[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.

Figure 1: Revenue & NOPAT Since 2015



Sources: New Constructs, LLC and company filings

CWH Is Undervalued

At its current price of $38/share, CWH has a price-to-economic book value (PEBV) ratio of 0.5. This ratio means the market expects Camping World's NOPAT to permanently decline by 50%. This expectation seems overly pessimistic for a firm that has grown NOPAT by 11% compounded annually over the past five years.

Even if Camping World's NOPAT margin falls to 6% (equal to its three-year average, compared to 10% TTM) and the firm grows NOPAT by just 3% compounded annually for the next decade, the stock is worth $67/share today – a 76% upside. See the math behind this reverse DCF scenario. Should Camping World grow profits in line with historical levels, the stock has even more upside.

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 Camping World's 10-K and 10-Qs:

Income Statement: we made $415 million of adjustments, with a net effect of removing $339 million in non-operating expenses (6% of revenue). You can see all the adjustments made to Camping World's income statement here.

Balance Sheet: we made $1.1 billion in adjustments to calculate invested capital with a net increase of $795 million. One of the most notable adjustments was $166 million in deferred tax assets. This adjustment represented 7% of reported net assets. You can see all the adjustments made to Camping World's balance sheet here.

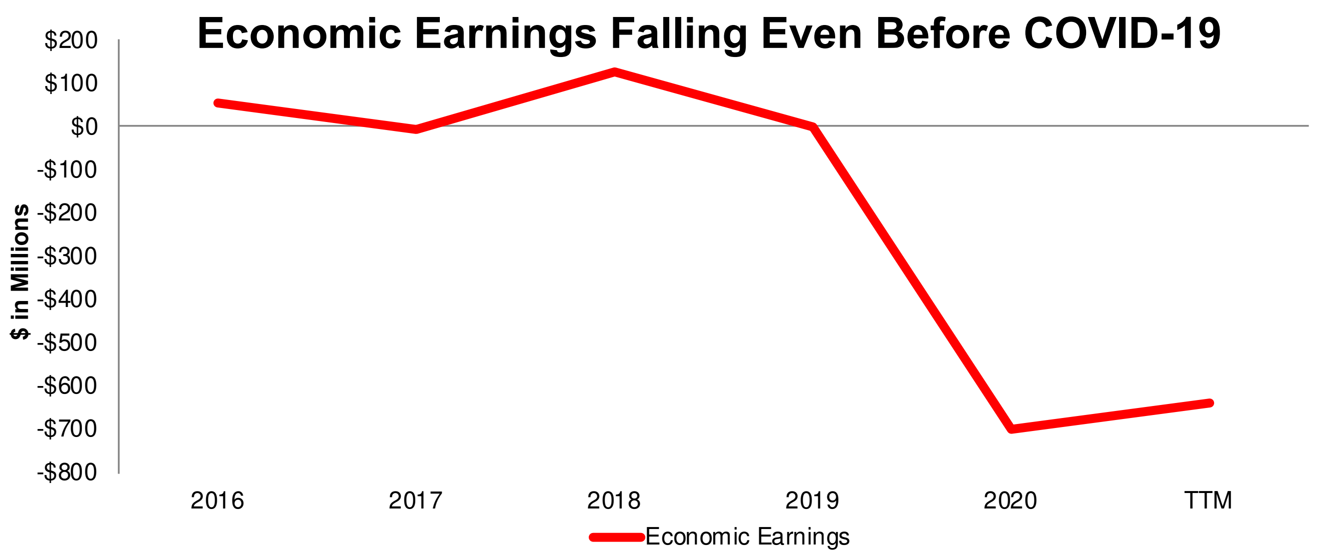
Valuation: we made $2.8 billion of adjustments with a net impact of decreasing shareholder value by $2.8 billion. There were no adjustments that increased shareholder value. Apart from total debt, one of the most notable adjustments to shareholder value was $36 million in minority interests. This adjustment represents 1% of Camping World's market cap. See all adjustments to Camping World's valuation here.

Most Dangerous Stocks Feature: Penn National Gaming Inc. (PENN: $73/share)

Penn National Gaming (PENN) is the featured stock from July's Most Dangerous Stocks Model Portfolio.

Penn National's economic earnings, the true cash flows of the business, fell from $55 million in 2016 to -$638 million over the TTM. The firm's NOPAT margin fell from 13% in 2016 to 11% TTM, while invested capital turns fell from 0.4 to 0.2 over the same time. Falling NOPAT margins and invested capital turns drive Penn National's ROIC from 6% in 2016 to 3% TTM.

Figure 2: Economic Earnings Since 2016



Sources: New Constructs, LLC and company filings

PENN Provides Poor Risk/Reward

Despite its poor fundamentals, PENN is still priced for significant profit growth and is overvalued.

To justify its current price of $73/share, Penn National must improve its NOPAT margin to 18% (20-year high vs. 11% TTM) and grow NOPAT by 15% compounded annually for the next decade. See the math behind this reverse DCF scenario. Given Penn National has grown NOPAT by just 1% compounded annually over the past five years, we think these expectations are overly optimistic.

Even if Penn National improves its NOPAT margin to pre-pandemic levels of 15% and grows NOPAT by 12% compounded annually for the next decade, the stock is worth just $34/share today – a 53% downside to the current stock price. See the math behind this reverse DCF scenario.

This scenario assumes Penn National grows revenue by 7% (equal to estimated consensus sector median revenue CAGR through 2022) compounded annually over the next 10 years. Should Penn National's revenue grow at a slower rate, the stock has even more downside.

Each of these scenarios also assumes Penn National is able to grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely but allows us to create best-case scenarios that demonstrate how high expectations embedded in the current valuation are.

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 Penn National's 10-K and 10-Qs:

Income Statement: we made $1.9 billion in adjustments, with a net effect of removing $1.0 billion in in non-operating expenses (29% of revenue). You can see all the adjustments made to Penn National's income statement here.

Balance Sheet: we made $6.6 billion in adjustments to calculate invested capital with a net increase of $2.8 billion. One of the largest adjustments was $2.7 billion in asset write-downs. This adjustment represented 20% of reported net assets. You can see all the adjustments made to Penn National's balance sheet here.

Valuation: we made $14.8 billion in adjustments with a net effect of decreasing shareholder value by $10.9 billion. Apart from total debt, the most notable adjustment to shareholder value was $2.0 billion in excess cash. This adjustment represents 18% of Penn National's market cap. See all adjustments to Penn National's valuation here.

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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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