



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

Two new stocks make August's [Exec Comp Aligned with ROIC Model Portfolio](#), available to members as of August 13, 2021.

### Recap From July's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+3.8%) outperformed the S&P 500 (+2.1%) from July 15, 2021 through August 11, 2021. The best performing stock in the portfolio was up 18%. Overall, nine out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P 500 from July 15, 2021 through August 11, 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](#)<sup>1</sup> scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks<sup>2</sup> to produce an unrivaled database of fundamental data.

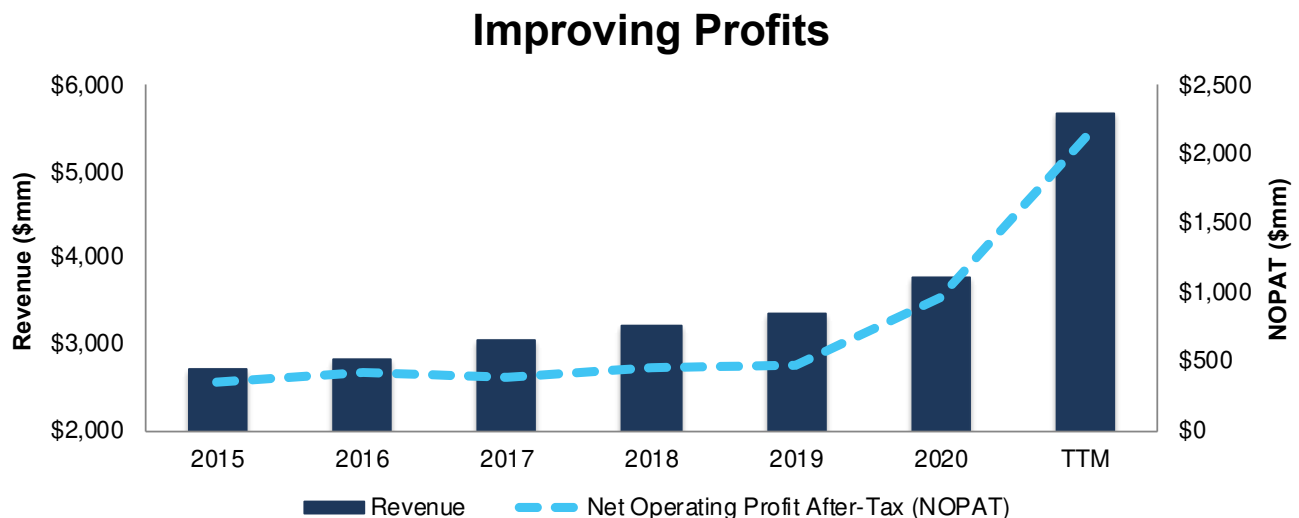
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder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

### New Stock Feature for August: Hologic Inc. (HOLX: \$77/share)

Hologic Inc. (HOLX) is the featured stock in August's Exec Comp Aligned with ROIC Model Portfolio.

Hologic has grown revenue by 7% compounded annually and net operating profit after tax (NOPAT) by 15% compounded annually since fiscal 2015, per Figure 1. NOPAT margin improved from 13% in fiscal 2015 to 37% over the trailing-twelve-months (TTM).

**Figure 1: Hologic's NOPAT Growth: Fiscal 2015 – TTM**



Sources: New Constructs, LLC and company filings

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

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

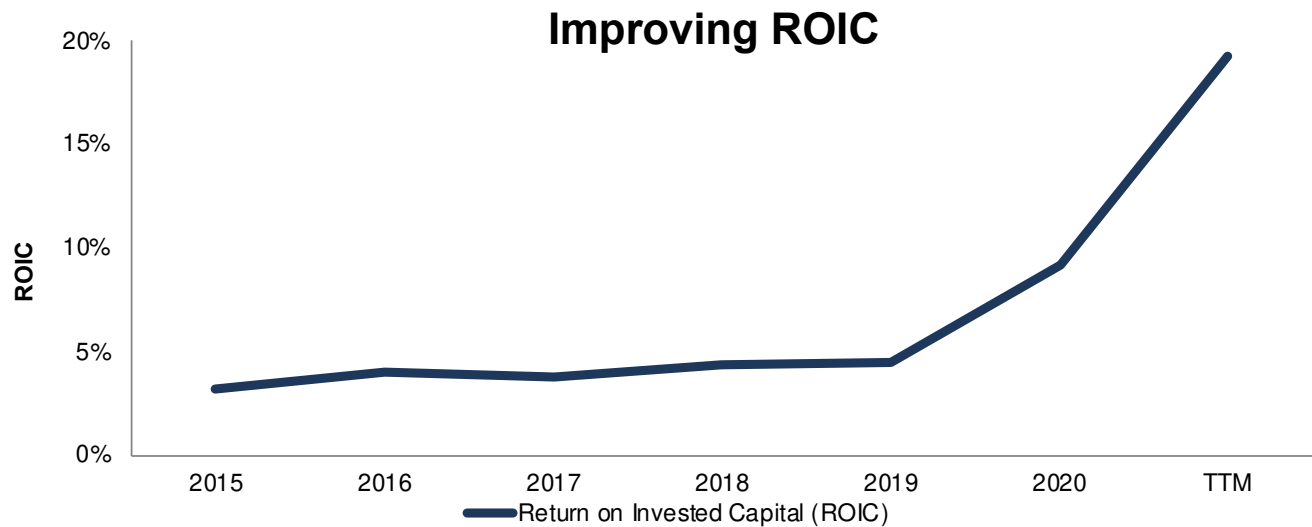


**ROIC-Based Pay Properly Incentivizes Executives**

Hologic’s executive compensation plan aligns executives’ interests with shareholder’s interests by tying its performance stock unit awards to a three-year ROIC performance goal.

Hologic’s inclusion of ROIC as an executive compensation performance goal has helped drive shareholder value creation through rising ROIC and [economic earnings](#). Hologic’s ROIC improved from 3% in fiscal 2015 to 19% TTM while its economic earnings grew from -\$201 million to \$1.6 billion over the same time.

**Figure 2: Hologic’s Return on Invested Capital: Fiscal 2015 - TTM**



Sources: New Constructs, LLC and company filings

**HOLX Is Undervalued**

At its current price of \$77/share, HOLX has a price-to-economic book value ([PEBV](#)) ratio of 0.4. This ratio means the market expects Hologic’s NOPAT to permanently decline by 60%. This expectation seems overly pessimistic for a firm that has grown NOPAT by 39% compounded annually since fiscal 2002.

Even if Hologic’s NOPAT margin falls to 25% (equal to 2020 margin, compared to 38% TTM) and the firm grows NOPAT by just 5% compounded annually over the next 10 years, the stock is worth \$112/share today – a 45% upside. [See the math behind this reverse DCF scenario](#). For reference, Hologic has grown NOPAT by 15% compounded annually over the past five years and 6% compounded annually over the past decade. Should the firm grow NOPAT more in line with historical growth rates, 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 Hologic’s 10-K and 10-Qs:

Income Statement: we made \$491 million in adjustments, with a net effect of removing \$159 million in [non-operating income](#) (4% of revenue). You can see all the adjustments made to Hologic’s income statement [here](#).

Balance Sheet: we made \$6.6 billion in adjustments to calculate invested capital with a net increase of \$4.5 billion. One of the largest adjustments was \$5.1 billion (86% of reported net assets) in [asset write downs](#). You can see all the adjustments made to Hologic’s balance sheet [here](#).

Valuation: we made \$4.5 billion in adjustments with a net effect of decreasing shareholder value by \$3.0 billion. Apart from [total debt](#), the most notable adjustment to shareholder value was \$714 million in [excess cash](#). This adjustment represents 4% of Hologic’s market cap. See all adjustments to Hologic’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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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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