



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

Two new stocks make May's [Exec Comp Aligned with ROIC Model Portfolio](#), available to members as of May 13, 2022.

Recap From April's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (-7.6%) outperformed the S&P 500 (-10.3%) from April 14, 2022, through May 11, 2022. The best performing stock in the portfolio was up 9%. Overall, nine out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P 500 from April 14, 2022, through May 11, 2022.

Buy the Exec Comp Aligned with ROIC Model Portfolio

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)¹ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

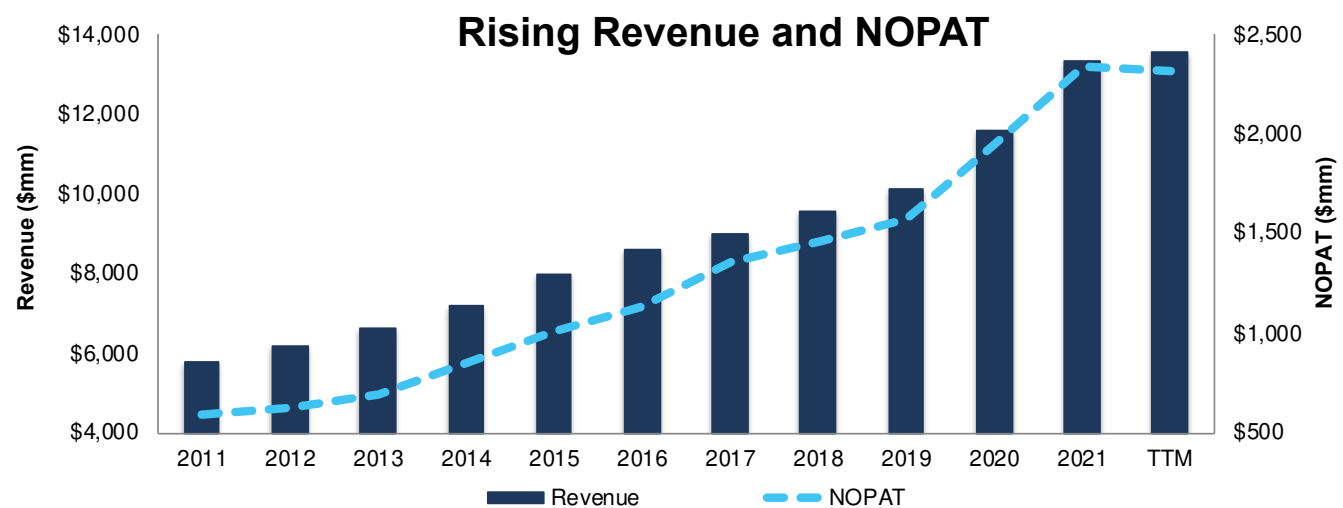
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder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

New Feature Stock for May: O'Reilly Automotive (ORLY: \$600/share)

O'Reilly Automotive (ORLY) is the featured stock in May's Exec Comp Aligned with ROIC Model Portfolio. We made ORLY a [Long Idea](#) on [March 9, 2022](#). Since then, the stock is down 11% versus a 9% decline for the S&P 500.

O'Reilly has grown revenue and net operating profit after tax (NOPAT) by 9% and 15% compounded annually, respectively, over the past ten years. See Figure 1. The company's NOPAT margin rose from 10% in 2011 to 17% over the trailing twelve months (TTM), while [invested capital turns](#) improved from 1.1 to 2.2 over the same time. Rising NOPAT margins and invested capital turns drive the company's ROIC from 12% in 2011 to 38% TTM.

Figure 1: O'Reilly's NOPAT & Revenue Growth: 2011 – TTM



Sources: New Constructs, LLC and company filings

¹ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

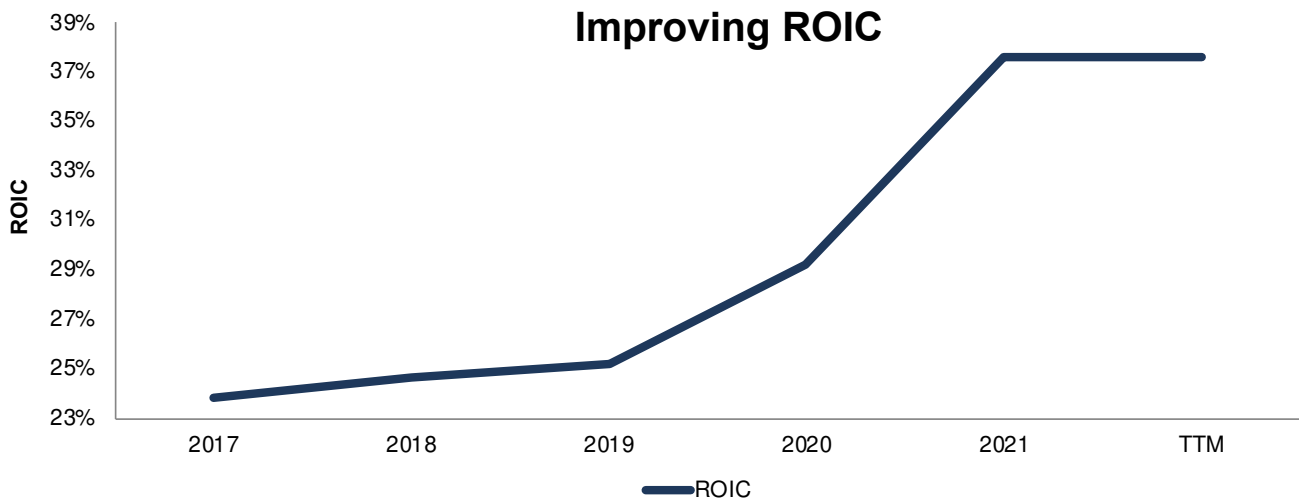


Executive Compensation Properly Aligns Executive Incentives

O'Reilly's executive compensation plan aligns the interests of management with those of shareholders by tying 20% of the annual cash bonus for executives to a target ROIC.

O'Reilly's inclusion of ROIC as a performance goal has helped create shareholder value through rising ROIC and [economic earnings](#). O'Reilly's ROIC improved from 24% in 2017 to 38% TTM and the company's economic earnings nearly doubled from \$1.1 billion to \$2.0 billion over the same period.

Figure 2: O'Reilly's ROIC: 2017 – TTM



Sources: New Constructs, LLC and company filings

O'Reilly Is Undervalued

At its current price of \$600/share, ORLY has a price-to-economic book value ([PEBV](#)) ratio of 1.0. This ratio means the market does not expect O'Reilly's NOPAT to meaningfully grow above TTM levels. This expectation seems overly pessimistic for a company that has grown NOPAT by 20% compounded annually over the past two decades.

If O'Reilly maintains TTM NOPAT margins of 17% and the company grows NOPAT by 6% compounded annually over the next 10 years, the stock is worth \$1,000/share today – a 67% upside. [See the math behind this reverse DCF scenario](#). Should the company 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](#)

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

Income Statement: we made \$315 million in adjustments, with a net effect of removing \$179 million in [non-operating expenses](#) (1% of revenue). Clients can see all adjustments made to O'Reilly's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$356 million in adjustments to calculate invested capital with a net decrease of \$13 million. One of the largest adjustments was \$36 million (1% of reported net assets) in [operating leases](#). Clients can see all adjustments made to O'Reilly's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$6.4 billion in adjustments all of which decrease shareholder value. Apart from [total debt](#), the most notable adjustment to shareholder value was \$308 million in [outstanding employee stock options \(ESO\)](#). This adjustment represents 1% of O'Reilly's market cap. Clients can see all adjustments to O'Reilly's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article originally published on [May 19, 2022](#).



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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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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