



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

Fifteen stocks made July's [Exec Comp Aligned with ROIC Model Portfolio](#), available to members as of July 14, 2022.

### Recap From June's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+0.7%) outperformed the S&P 500 (+0.4%) from June 15, 2022, through July 12, 2022. The best performing stock in the portfolio was up 11%. Overall, eight out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P 500 from June 15, 2022, through July 12, 2022.

**Buy the Exec Comp Aligned with ROIC Model Portfolio**

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

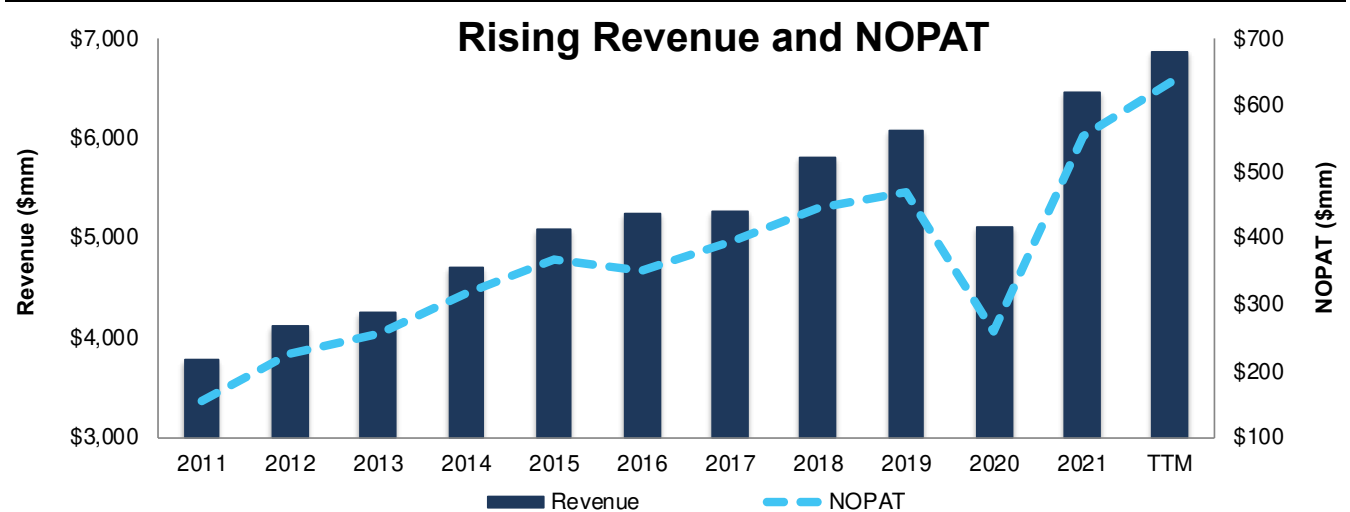
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital ([ROIC](#)) is the [primary driver of shareholder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

### New Feature Stock for July: Robert Half International, Inc. (RHI: \$84/share)

Robert Half International, Inc. (RHI) is the featured stock in July's Exec Comp Aligned with ROIC Model Portfolio.

After falling in 2020 due to the pandemic-driven decline in demand for its services, Robert Half's net operating profit after tax ([NOPAT](#)) over the trailing-twelve-months (TTM) has risen above pre-pandemic levels. Longer term, Robert Half has grown revenue and NOPAT by 6% and 14% compounded annually, respectively, over the past ten years. See Figure 1. The company's NOPAT margin rose from 4% in 2011 to 9% TTM, while [invested capital turns](#) improved from 3.7 to 5.2 over the same time. Rising NOPAT margins and invested capital turns drove the company's ROIC from 15% in 2011 to 48% TTM.

**Figure 1: Robert Half's NOPAT & Revenue Growth: 2011 – TTM**



Sources: New Constructs, LLC and company filings

<sup>1</sup> 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](#).

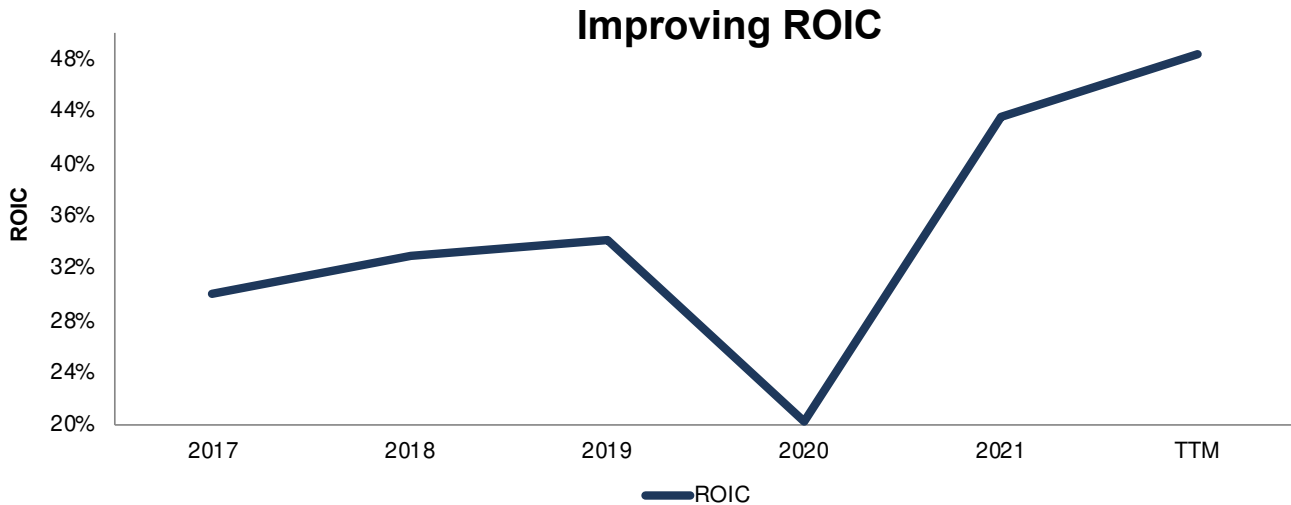


**Executive Compensation Properly Aligns Executive Incentives**

Robert Half’s [executive compensation plan](#) aligns the interests of management with those of shareholders by tying awarded performance share units (PSUs) to the company’s three-year cumulative ROIC ranking relative to a peer group.

Robert Half’s inclusion of ROIC as a performance goal has helped create shareholder value through rising ROIC and [economic earnings](#). Robert Half’s ROIC improved from 30% in 2017 to 48% over the TTM and the company’s economic earnings rose from \$309 million to \$559 million over the same period.

**Figure 2: Robert Half’s ROIC: 2017 – TTM**



Sources: New Constructs, LLC and company filings

**Robert Half Is Undervalued**

At its current price of \$84/share, RHI has a price-to-economic book value ([PEBV](#)) ratio of 0.9. This ratio means the market expects Robert Half’s NOPAT to permanently fall by 10%. This expectation seems overly pessimistic for a company that has grown NOPAT by 14% compounded annually over the past 10 years and 9% compounded annually over the past two decades.

If Robert Half’s NOPAT margin falls to its pre-pandemic three-year average (2017 – 2019), of 8% (vs. 9% TTM), and the company grows NOPAT by just 4% compounded annually over the next 10 years, the stock would be worth \$100/share today – a 19% 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 Robert Half’s 10-Q’s and 10-K:

Income Statement: we made \$78 million in adjustments, with a net effect of removing \$44 million in [non-operating income](#) (1% of revenue). Clients can see all adjustments made to Robert Half’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$1.6 billion in adjustments to calculate invested capital with a net decrease of \$439 million. One of the largest adjustments was \$1.0 billion (65% of reported net assets) in [deferred compensation assets](#). Clients can see all adjustments made to Robert Half’s balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$476 million in adjustments with a net effect of decreasing shareholder value by \$64 million. Apart from [total debt](#), the most notable adjustment to shareholder value was \$206 million in [excess cash](#). This adjustment represents 2% of Robert Half’s market cap. Clients can see all adjustments to Robert Half’s valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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*Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Brian Pellegrini 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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