



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

Three new stocks made November's [Exec Comp Aligned with ROIC Model Portfolio](#), available to members as of November 16, 2022.

Recap From October's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+10.0%) underperformed the S&P 500 (+10.5%) from October 14, 2022 through November 14, 2022. The best-performing stock in the portfolio was up 23%. Overall, eight out of the 15 Exec Comp Aligned with ROIC stocks outperformed the S&P 500 from October 14, 2022 through November 14, 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](#).

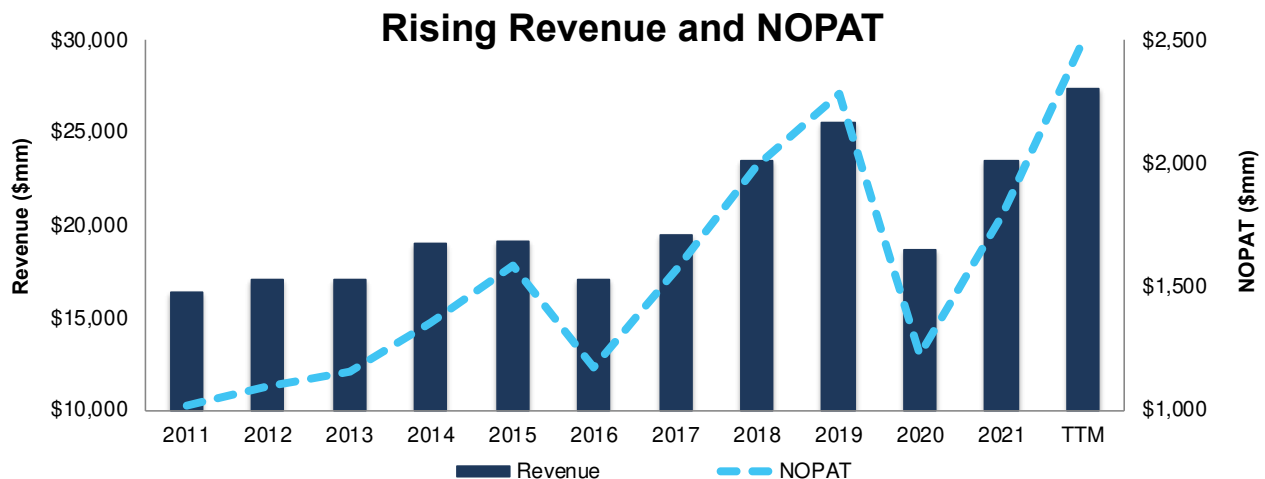
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the [primary driver of shareholder value creation](#) is return on invested capital ([ROIC](#)).

New Feature Stock for November: PACCAR Inc. (PCAR: \$104/share)

PACCAR Inc. (PCAR) is the featured stock in November's Exec Comp Aligned with ROIC Model Portfolio. We made PCAR a [Long Idea](#) in [July 2020](#) as one of our "[See Through the Dip](#)" stocks. Since then, the stock is up 30% compared to a 22% gain for the S&P 500. See all of our reports on PACCAR [here](#).

Though PACCAR's profits fell during the pandemic, net operating profit after tax ([NOPAT](#)) soared to all-time highs over the trailing-twelve-months (TTM). PACCAR has grown revenue and NOPAT by 5% and 9% compounded annually, respectively, since 2011. The company's NOPAT margin rose from 6% in 2011 to 9% over the TTM, while return on invested capital ([ROIC](#)) rose from 17% to 21% over the same time.

Figure 1: PACCAR's Revenue & NOPAT: 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](#).

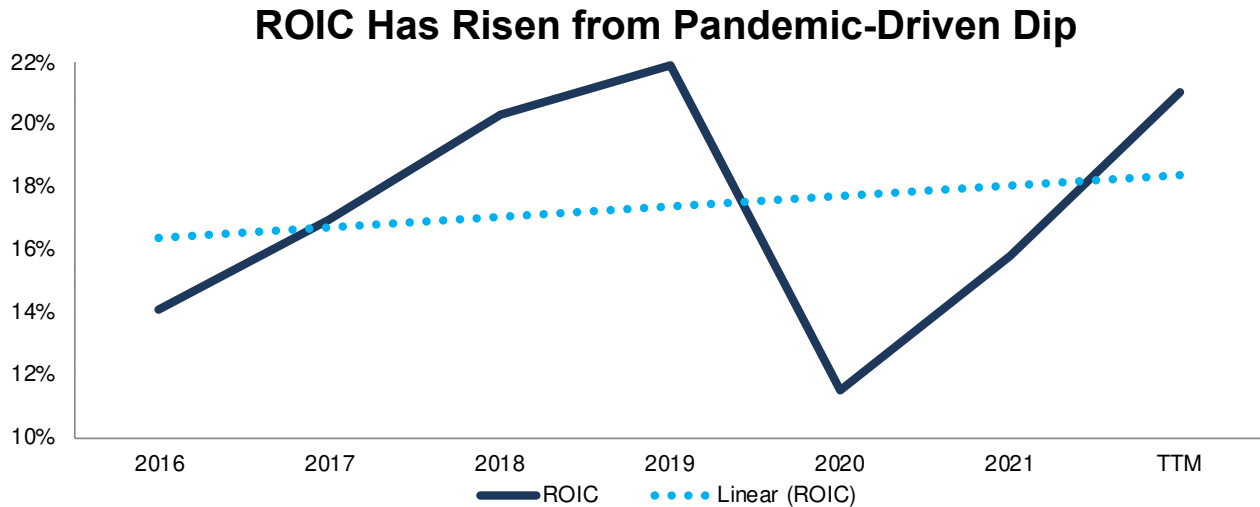


Executive Compensation Properly Aligns Incentives

PACCAR’s executive compensation plan aligns the interests of executives and shareholders by tying the payout of equity- and cash-based awards to a three-year target return on capital, which is similar to our calculation of return on invested capital ([ROIC](#)).

The company’s inclusion of return on capital as a performance goal has helped create shareholder value through rising ROIC and [economic earnings](#). PACCAR’s ROIC improved from 14% in 2016 to 21% over the TTM and the company’s economic earnings rose from \$735 million to \$1.8 billion over the same period.

Figure 2: PACCAR’s ROIC: 2016 – TTM



Sources: New Constructs, LLC and company filings

PCAR Is Undervalued

At its current price of \$104/share, PCAR has a price-to-economic book value ([PEBV](#)) ratio of 0.9. This ratio means the market expects PACCAR’s NOPAT to permanently fall by 10%. This expectation seems overly pessimistic for a company that has grown NOPAT by 9% compounded annually since 2011.

If PACCAR’s NOPAT margin falls to 8% (compared to TTM margin of 9%), and the company grows revenue by just 5% compounded annually over the next 10 years, the stock would be worth \$130/share today – a 25% upside. In this scenario, PACCAR’s NOPAT would grow just 6% compounded annually over the next decade (compared to 9% since 2011). [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 PACCAR’s 10-Qs and 10-Ks:

Income Statement: we made \$122 million in adjustments with a net effect of removing \$56 million in [non-operating income](#) (<1% of revenue). Clients can see all adjustments made to PACCAR’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$5.6 billion in adjustments to calculate invested capital with a net decrease of \$3.1 billion. One of the largest adjustments was \$921 million (7% of reported net assets) in [other comprehensive income](#). Clients can see all adjustments made to PACCAR’s balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$4.3 billion in adjustments with a net effect of increasing shareholder value by \$3.2 billion. The most notable adjustment to shareholder value was \$3.4 billion in [excess cash](#). This adjustment represents 9% of PACCAR’s market cap. Clients can see all adjustments to PACCAR’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 Italo Mendonça 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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