



Featured Stock in June’s Exec Comp & ROIC Model Portfolio

Four new stocks make June’s Exec Comp Aligned with ROIC Model Portfolio, available to members as of June 15, 2023.

Recap from May Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+10.0%) outperformed the S&P 500 (+6.1%) from May 12, 2023 through June 13, 2023. The best performing stock in the portfolio was up 20%. Overall, 13 out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from May 12, 2023 through June 13, 2023.

Join Our Live Webinars

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](#).

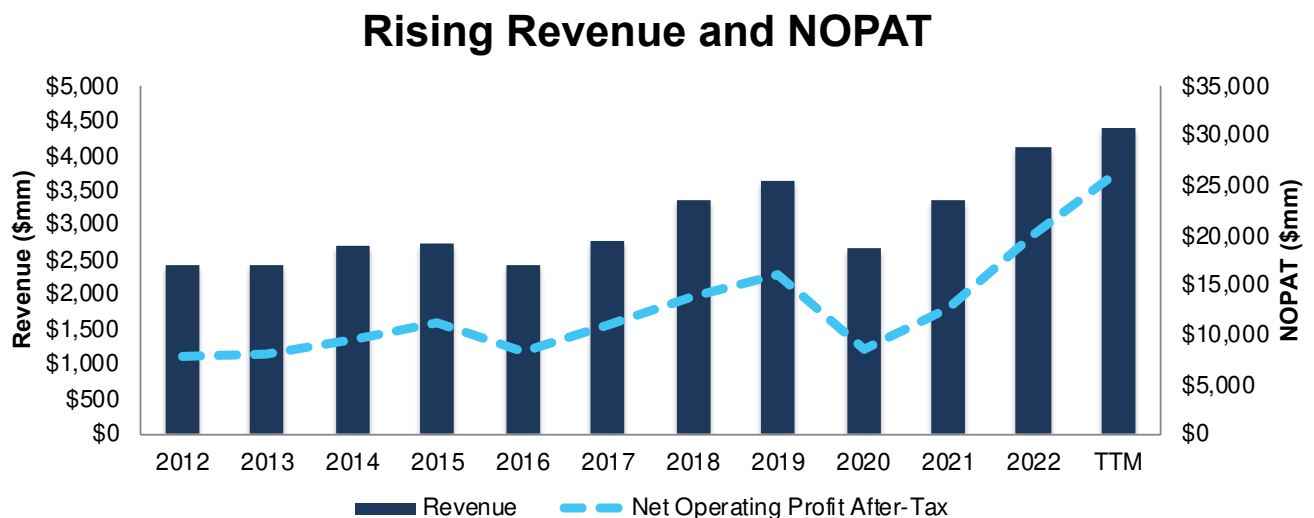
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the [primary driver](#) of shareholder value creation is return on invested capital ([ROIC](#)).

New Stock Feature for June: Paccar Inc. (PCAR: \$79/share)

Paccar Inc. (PCAR) is the featured stock in June’s Exec Comp Aligned with ROIC Model Portfolio. We originally made Paccar a Long Idea in [June 2020](#) and the stock remains undervalued.

Paccar Inc. has grown revenue and net operating profit after tax ([NOPAT](#)) by 10% and 21% compounded annually, respectively, since 2016. The company’s NOPAT margin improved from 7% in 2016 to 12% in the trailing twelve months (TTM), while [invested capital turns](#) rose from 2.0 to 2.6 over the same time. Rising NOPAT margins and invested capital turns drive the company’s return on invested capital ([ROIC](#)) from 14% in 2016 to 32% in the TTM.

Figure 1: Paccar’s Revenue & NOPAT: 2012 – 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](#).

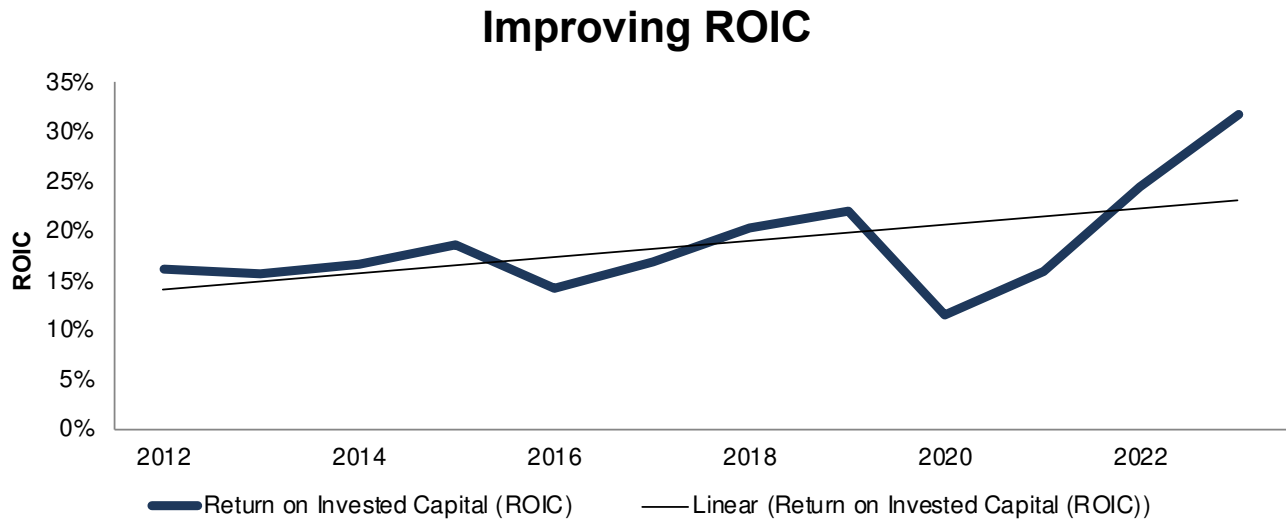


Executive Compensation Properly Aligns Incentives

Paccar’s executive compensation plan aligns the interests of executives and shareholders by tying a portion of its long-term cash awards to return on capital according to the company’s proxy [statement](#).

The company’s inclusion of return on capital, a variation on ROIC, as a performance goal has helped create shareholder value by driving higher ROIC and [economic earnings](#). When we calculate ROIC using our [superior fundamental data](#), we find that Paccar’s ROIC has increased from 16% in 2012 to 31% in the TTM. Economic earnings rose from \$805 million to \$2.9 billion over the same time.

Figure 2: Paccar’s ROIC: 2012 – TTM



Sources: New Constructs, LLC and company filings

PCAR Has Further Upside

At the current price of \$79/share, PCAR has a price-to-economic book value ([PEBV](#)) ratio of 0.7. This ratio implies the market expects Paccar’s NOPAT to permanently fall by 30%. This expectation seems overly pessimistic for a company that has grown NOPAT 13% compounded annually over the past decade.

Even if Paccar’s NOPAT margin falls to 8% (5-year average, compared to 12% in the TTM) and the company’s revenue grows 6% compounded annually over the next decade (equal to compound annual growth rate over past decade), the stock would be worth \$97/share today – a 25% upside. [See the math behind this reverse DCF scenario](#). In this scenario, Paccar’s NOPAT grows 4% compounded annually through 2032.

For reference, Paccar has grown NOPAT by 12% compounded annually over the past decade. 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 made based on Robo-Analyst findings in Paccar’s 10-K and 10-Qs:

Income Statement: we made \$212 million in adjustments with a net effect of removing \$130 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 \$6.7 billion in adjustments to calculate invested capital with a net decrease of \$4.5 billion. One of the largest adjustments was \$953 million (6% 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 \$5.4 billion in adjustments, with a net effect of increasing shareholder value by \$4.5 billion. The most notable adjustment to shareholder value was \$4.4 billion in [excess cash](#). This adjustment represents



11% of Paccar's market value. Clients can see all adjustments to Paccar's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [June 20, 2023](#).

Disclosure: David Trainer, Kyle Guske II, Hakan Salt, and Italo Mendonça receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our [Society of Intelligent Investors](#) and connect with us directly.



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](#).



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.