



## Featured Stock in September's Dividend Growth Model Portfolio

Four new stocks made [September's Dividend Growth Stocks Model Portfolio](#), which was made available to members on September 28, 2023.

### Recap from August's Picks

On a price return basis, our Dividend Growth Stocks Model Portfolio (-5.4%) outperformed the S&P 500 (-5.6%) by 0.2% from August 30, 2023 through September 26, 2023. On a total return basis, the Model Portfolio (-5.1%) outperformed the S&P 500 (-5.2%) by 0.1% over the same time. The best performing stock was up 8%. Overall, 15 out of 28 Dividend Growth stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from August 30, 2023 through September 26, 2023.

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](#).

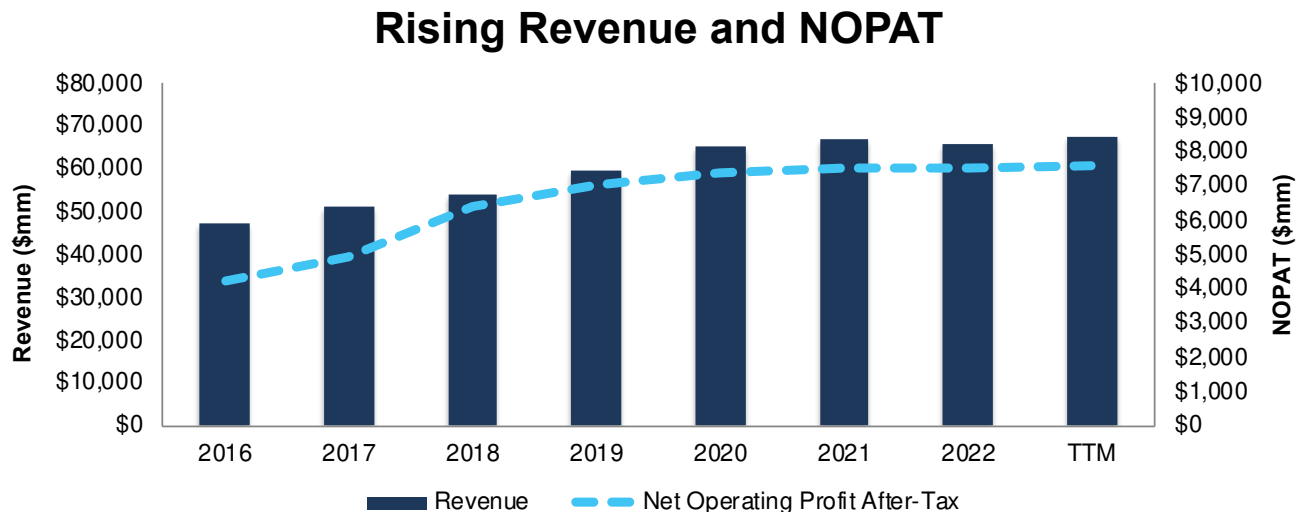
This Model Portfolio mimics an "All Cap Blend" style with a focus on dividend growth. Selected stocks earn an [Attractive or Very Attractive rating](#), generate positive free cash flow (FCF) and [economic earnings](#), offer a current dividend yield >1%, and have a 5+ year track record of consecutive dividend growth. This Model Portfolio is designed for investors who favor long-term capital appreciation over current income, but still appreciate the power of growing dividends.

### Featured Stock for September: Lockheed Martin Corp (LMT: \$404/share)

Lockheed Martin Corp (LMT) is the featured stock in September's Dividend Growth Stocks Model Portfolio.

Lockheed Martin has grown revenue by 6% compounded annually and net operating profit after tax (NOPAT) by 9% compounded annually since 2016. The company's NOPAT margin increased from 9% in 2016 to 11% over the TTM, while [invested capital turns](#) rose from 1.0 to 1.4 over the same time. Higher invested capital turns and NOPAT margins drive return on invested capital (ROIC) from 9% in 2016 to 16% in TTM.

**Figure 1: Lockheed Martin's Revenue & NOPAT Since 2016**



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](#).



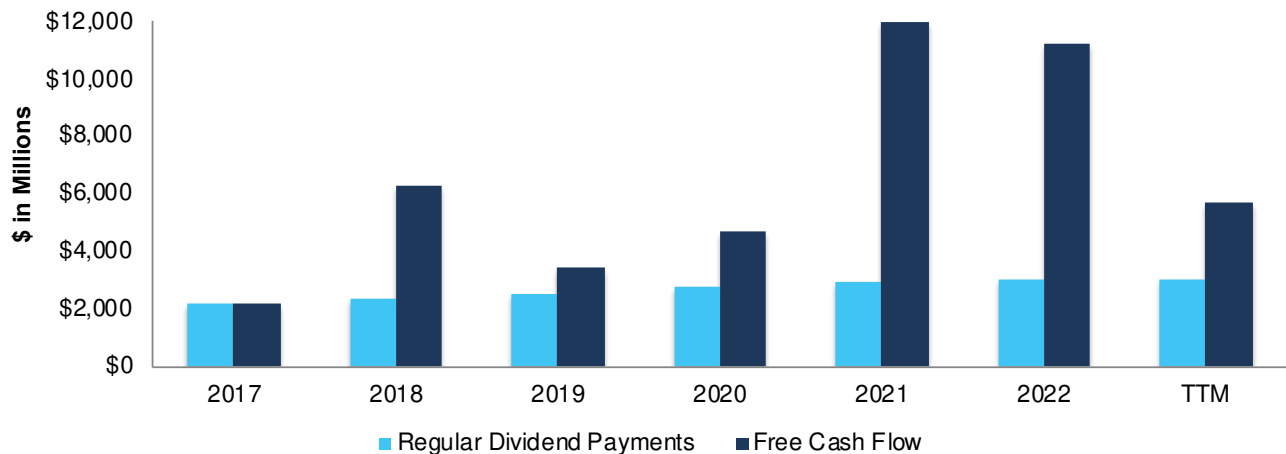
### Free Cash Flow Supports Regular Dividend Payments

Lockheed Martin has increased its regular dividend from \$1.82/share in 4Q16 to \$3.00/share in 2Q23. The current quarterly dividend, when annualized, equals \$12.00/share and provides a 3.0% dividend yield.

More importantly, Lockheed Martin's free cash flow (FCF) easily exceeds its regular dividend payments. From 2017 through 2Q23, Lockheed Martin generated \$42.0 billion (33% of current [enterprise value](#)) in FCF while paying \$17.3 billion in dividends. See Figure 2.

**Figure 2: Lockheed Martin's FCF vs. Regular Dividends Since 2017**

### Cumulative FCF Exceeds Dividends



Sources: New Constructs, LLC and company filings

Companies with FCF well above dividend payments provide higher-quality dividend growth opportunities. On the other hand, dividends that exceed FCF cannot be trusted to grow or even be maintained.

### LMT Is Undervalued

At its current price of \$404/share, Lockheed Martin has a price-to-economic book value (PEBV) ratio of 1.0. This ratio means the market expects Lockheed Martin's NOPAT to stay not increase ever again. This expectation seems overly pessimistic given that Lockheed Martin has grown NOPAT by 9% compounded annually since 2016 and 13% compounded annually since 2000.

Even if Lockheed Martin's NOPAT margin remains at 11% (five-year average), and revenue grows only by 4% compounded annually through 2032, the stock would be worth \$523/share today – a 29% upside. [See the math behind this reverse DCF scenario.](#) In this scenario, Lockheed Martin's NOPAT would increase only 4% compounded annually through 2032. Should the company's NOPAT grow more in line with historical growth rates, the stock has even more upside.

Add in Lockheed Martin's 3.0% dividend yield and a history of dividend growth, and it's clear why this stock is in September's Dividend Growth Stocks Model Portfolio.

### 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 Lockheed Martin's 10-K and 10-Qs:

Income Statement: we made \$2.8 billion in adjustments with a net effect of removing \$1.8 billion in [non-operating expenses](#) (3% of revenue). Clients can see all adjustments made to Lockheed Martin's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$22.5 billion in adjustments to calculate invested capital with a net increase of \$11.8 billion. The most notable adjustment was \$8 billion (22% of reported net assets) in [other comprehensive income](#).



See all adjustments made to Lockheed Martin's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$24.3 billion in adjustments, with a net decrease in shareholder value of \$23.7 billion. The most notable adjustment to shareholder value was \$17.9 billion in [total debt](#). This adjustment represents 18% of Lockheed Martin's market value. See all adjustments to Lockheed Martin's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

*This article was originally published on [October 5, 2023](#).*

*Disclosure: David Trainer, Kyle Guske II, Italo Mendonça, and Hakan Salt 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, 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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