All Cap Index & Sectors: Free Cash Flow Yield Update for 1Q24 (Free, Abridged)

We have updated our analysis of the NC 2000 and all sector's free cash flow (FCF) yield through 5/16/24.

FCF yield for the NC 2000 remains above its long-term average. At the sector level there are mixed signals. Six sectors saw FCF yields go up while five saw them decline – and to varying degrees.

This report is an abridged and free version of All Cap Index & Sectors: Free Cash Flow Yield Update for 1Q24, one of our quarterly reports on fundamental market and sector trends. The full report is available to Institutional members.

The full version of this report analyzes[1,2] free cash flow, enterprise value, and the trailing FCF yield for the NC 2000 and each of its sectors (last quarter's analysis is here).

This report leverages our cutting-edge Robo-Analyst technology to deliver proven-superior[3] fundamental research and support more cost-effective fulfillment of the fiduciary duty of care.

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NC 2000 Trailing FCF Yield Analysis in 1Q24

Figure 1 in the full version of our report shows the FCF Yield for the NC 2000 from December 1998 through 5/16/24. The full report provides the same details on FCF and Enterprise value for the NC 2000 and each of its eleven sectors.

Six NC 2000 sectors saw an increase in trailing FCF yield from 3/28/24 to 5/16/24.

Sneak Peak on Select NC 2000 Sectors

Investors are getting the highest FCF for their investment dollar in the Telecom Services sector as of 5/16/24. On the flip side, the Utilities sector currently has the lowest trailing FCF yield of all NC 2000 sectors.

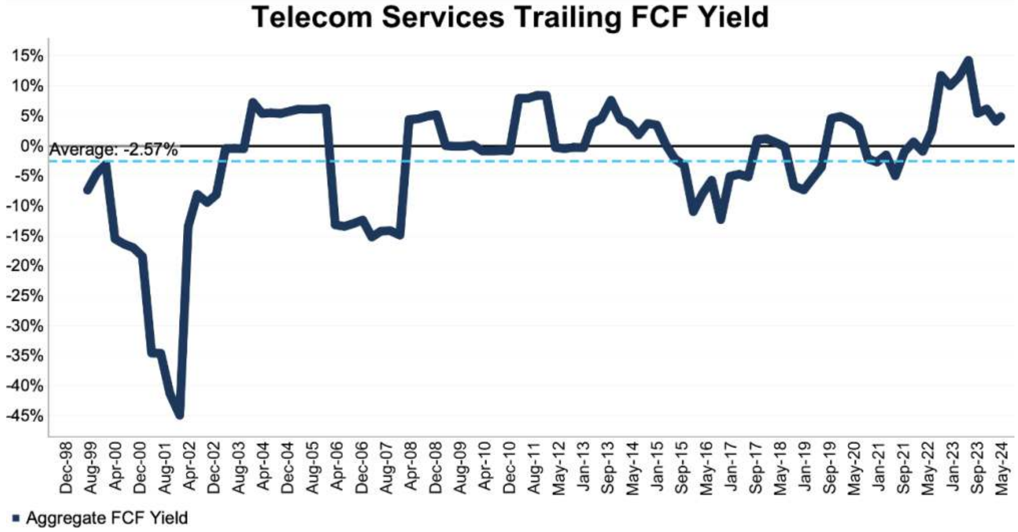
Below, we highlight the Telecom Services sector, which has the highest trailing FCF yield as of 5/16/24.

Sample Sector Analysis: Telecom Services[4]

Figure 1 shows the trailing FCF yield for the Telecom Services sector rose from 3/28/24 to 5/16/24.

[1] We calculate these metrics based on S&P Global's (SPGI) methodology, which sums up the individual NC 2000 constituent values for free cash flow and enterprise value before using them to calculate the metrics. We call this the "Aggregate" methodology.
[2] Our research is based on the latest audited financial data, which is the 1Q24 10-Q in most cases. Price data is as of 5/16/24.
[3] 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.
[4] The full version of this report provides a complete analysis of all other sectors of the NC 2000.

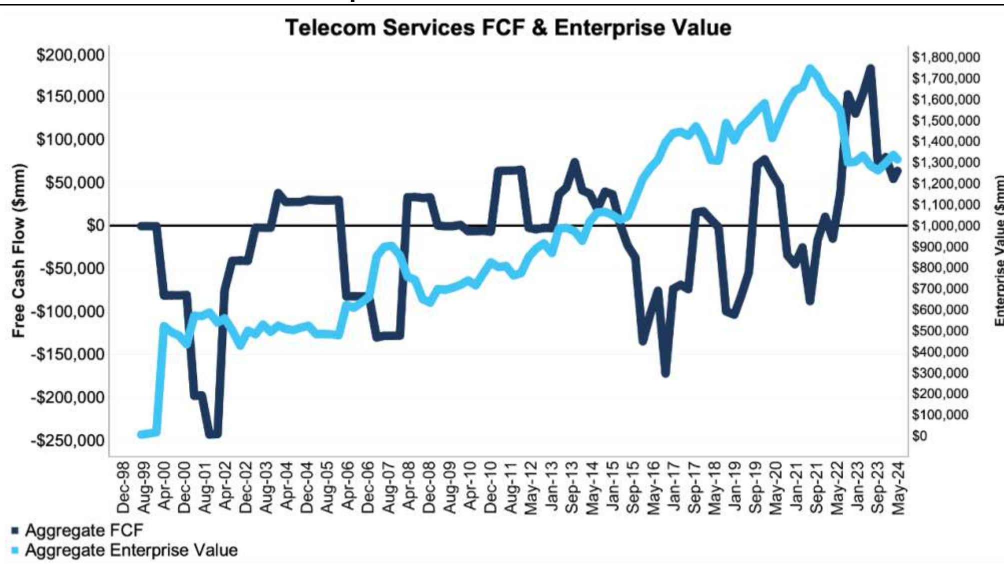
Figure 1: Telecom Services Trailing FCF Yield: Dec 1998 – 5/16/24



Sources: New Constructs, LLC and company filings.
The May 16, 2024 measurement period uses price data as of that date and incorporates the financial data from 1Q24 10-Qs, as this is the earliest date for which all of the 1Q24 10-Qs for the NC 2000 constituents were available.

Figure 2 compares the trends in FCF and enterprise value for the Telecom Services sector since 1998. We sum up the individual NC 2000/sector constituent values for free cash flow and enterprise value. We call this approach the “Aggregate” methodology, and it matches S&P Global’s (SPGI) methodology for these calculations.

Figure 2: Telecom Services FCF & Enterprise Value: Dec 1998 – 5/16/24



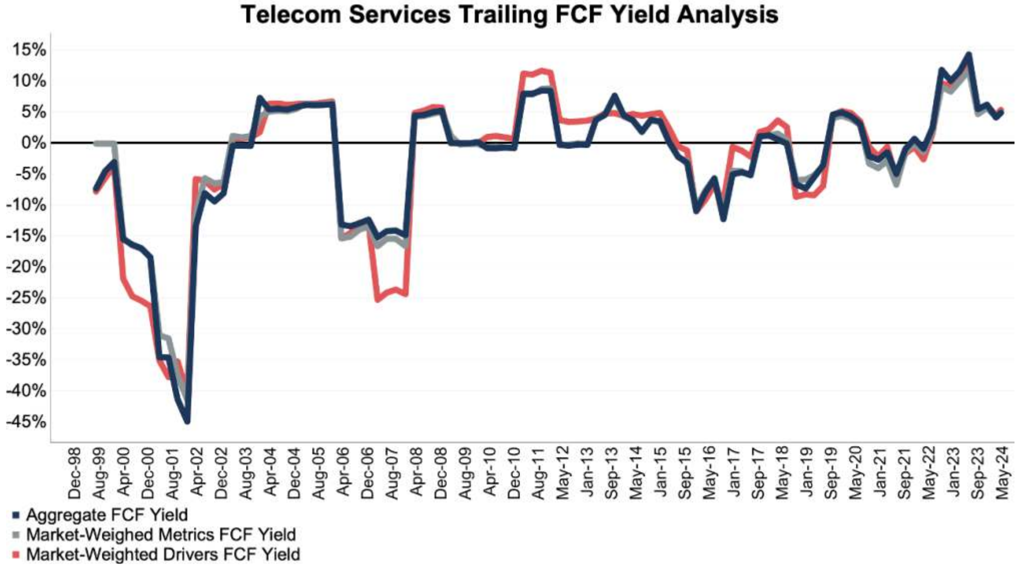
Sources: New Constructs, LLC and company filings.
The May 16, 2024 measurement period uses price data as of that date and incorporates the financial data from 1Q24 10-Qs, as this is the earliest date for which all of the 1Q24 10-Qs for the NC 2000 constituents were available.

The Aggregate methodology provides a straightforward look at the entire NC 2000/sector, regardless of market cap or index weighting, and matches how S&P Global (SPGI) calculates metrics for the S&P 500.

For additional perspective, we compare the Aggregate method for free cash flow with two other market-weighted methodologies. Each method has its pros and cons, which are detailed in the Appendix.

Figure 3 compares these three methods for calculating the Telecom Services sector’s trailing FCF yields.

Figure 3: Telecom Services Trailing FCF Yield Methodologies Compared: Dec 1998 – 5/16/24



Sources: New Constructs, LLC and company filings.
The May 16, 2024 measurement period uses price data as of that date and incorporates the financial data from 1Q24 10-Qs, as this is the earliest date for which all of the 1Q24 10-Qs for the NC 2000 constituents were available.

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

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Appendix: Analyzing Trailing FCF Yield with Different Weighting Methodologies

We derive the metrics above by summing the individual NC 2000/sector constituent values for free cash flow and enterprise value to calculate trailing FCF yield. We call this approach the "Aggregate" methodology.

The Aggregate methodology provides a straightforward look at the entire NC 2000/sector, regardless of market cap or index weighting, and matches how S&P Global (SPGI) calculates metrics for the S&P 500.

For additional perspective, we compare the Aggregate method for free cash flow with two other market-weighted methodologies. These market-weighted methodologies add more value for ratios that do not include market values, e.g. ROIC and its drivers, but we include them here, nonetheless, for comparison:

1. **Market-weighted metrics** – calculated by market-cap-weighting the trailing FCF yield for the individual companies relative to their sector or the overall NC 2000in each period. Details:
    a. Company weight equals the company's market cap divided by the market cap of the NC 2000/ its sector
    b. We multiply each company's trailing FCF yield by its weight
    c. NC 2000/Sector trailing FCF yield equals the sum of the weighted trailing FCF yields for all the companies in NC 2000/sector
2. **Market-weighted drivers** – calculated by market-cap-weighting the FCF and enterprise value for the individual companies in each sector in each period. Details:
    a. Company weight equals the company's market cap divided by the market cap of the NC 2000/ its sector
    b. We multiply each company's free cash flow and enterprise value by its weight
    c. We sum the weighted FCF and weighted enterprise value for each company in the NC 2000/each sector to determine each sector's weighted FCF and weighted enterprise value
    d. NC 2000/Sector trailing FCF yield equals weighted NC 2000/sector FCF divided by weighted NC 2000/sector enterprise value

Each methodology has its pros and cons, as outlined below:

Aggregate method

Pros:

- A straightforward look at the entire NC 2000/sector, regardless of company size or weighting.
- Matches how S&P Global calculates metrics for the NC 2000.

Cons:

- Vulnerable to impact of companies entering/exiting the group of companies, which could unduly affect aggregate values. Also susceptible to outliers in any one period.

Market-weighted metrics method

Pros:

- Accounts for a firm's market cap relative to the NC 2000/sector and weights its metrics accordingly.

Cons:

- Vulnerable to outlier results from a single company disproportionately impacting the overall trailing FCF yield.

Market-weighted drivers method

Pros:

- Accounts for a firm's market cap relative to the NC 2000/sector and weights its free cash flow and enterprise value accordingly.
- Mitigates the disproportionate impact of outlier results from one company on the overall results.

Cons:

- More volatile as it adds emphasis to large changes in FCF and enterprise value for heavily weighted companies.

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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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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.

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