



Our ROIC Research Versus Morningstar's: Big Differences

This report highlights a rare opportunity to compare our research to a competitor's and show how our [proven-superior research](#)¹ provides our clients with insights they cannot get anywhere else.

Specifically, we highlight the differences between our calculations of return on invested capital ([ROIC](#)), return on equity ([ROE](#)), and overall [stock rating](#) compared to Morningstar's research, as provided in this [tweet](#).

The bottom line: there are very large differences between our research and Morningstar's. For example:

- Morningstar shows Bristol Myers Squibb's (BMY) ROIC is -7.18%, and we show 8.3%.
- Morningstar shows Tencent Holdings' (TCEHY) ROIC is 9.67%, and we show 21.9%.
- Morningstar shows Huntington Ingalls' (HII) ROIC is 11.67%, and we show 5.9%.

More details in Figure 1.

Figure 1: New Constructs vs. Morningstar ROIC

Ticker	Company Name	Sector	Morningstar ROIC	New Constructs ROIC	Difference
BMY	Bristol Myers Squibb	Healthcare	-7.18%	8.30%	-15.48%
TCEHY	Tencent Holdings Ltd	Technology	9.67%	21.90%	-12.23%
GILD	Gilead Sciences	Healthcare	2.65%	11.40%	-8.75%
JD	JD.com	Consumer Cyclical	4.90%	13.20%	-8.30%
BIDU	Baidu Inc.	Technology	4.81%	10.40%	-5.59%
BTI	British American Tobacco	Consumer Non-cyclical	-11.74%	-6.80%	-4.94%
NKE	NIKE Inc.	Consumer Cyclical	19.37%	21.50%	-2.13%
PFE	Pfizer Inc.	Healthcare	0.39%	1.90%	-1.51%
YUMC	Yum China Holdings	Consumer Cyclical	8.09%	9.10%	-1.01%
RHHBY	Roche Holding AG	Healthcare	21.97%	22.90%	-0.93%
EL	Estee Lauder	Consumer Non-cyclical	4.86%	5.10%	-0.24%
ZBH	Zimmer Biomet	Healthcare	6.35%	5.70%	0.65%
PII	Polaris Inc.	Consumer Cyclical	14.18%	12.00%	2.18%
CMCSA	Comcast Corporation	Consumer Cyclical	9.85%	7.10%	2.75%
ABEV	Ambev S.A.	Consumer Non-cyclical	16.93%	11.90%	5.03%
HII	Huntington Ingalls	Industrials	11.67%	5.90%	5.77%
BUD	Anheuser-Busch InBev	Consumer Non-cyclical	n/a	7.10%	n/a
RBGLY	Reckitt Benkiser Group		13.14%	not covered	n/a

Sources: New Constructs, LLC and Morningstar data from [here](#)

We also see very large differences in the ROE values compared to our research. For example:

- Morningstar shows Bristol Myers Squibb's ROE is -22.11% and we show -37.3%.
- Morningstar shows British American Tobacco's (BTI) ROE is -21.81% and we show -28.20%.

See Figure 2.

¹ [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).

**Figure 2: New Constructs vs. Morningstar ROE**

Ticker	Company Name	Sector	Morningstar ROE	New Constructs ROE	Difference
BMJ	Bristol Myers Squibb	Healthcare	-22.11%	-37.30%	15.19%
BTI	British American Tobacco	Consumer Non-cyclicals	-21.81%	-28.20%	6.39%
PII	Polaris Inc.	Consumer Cyclical	30.10%	28.30%	1.80%
HII	Huntington Ingalls	Industrials	18.40%	17.10%	1.30%
BIDU	Baidu Inc.	Technology	8.76%	8.10%	0.66%
EL	Estee Lauder	Consumer Non-cyclicals	11.73%	11.20%	0.53%
ABEV	Ambev S.A.	Consumer Non-cyclicals	17.73%	17.40%	0.33%
NKE	NIKE Inc.	Consumer Cyclical	36.90%	36.80%	0.10%
ZBH	Zimmer Biomet	Healthcare	7.77%	7.70%	0.07%
PFE	Pfizer Inc.	Healthcare	-0.27%	-0.30%	0.03%
YUMC	Yum China Holdings	Consumer Cyclical	13.95%	14.10%	-0.15%
RHHBY	Roche Holding AG	Healthcare	44.23%	44.40%	-0.17%
TCEHY	Tencent Holdings Ltd	Technology	15.25%	15.60%	-0.35%
JD	JD.com	Consumer Cyclical	10.93%	11.30%	-0.37%
CMCSA	Comcast Corporation	Consumer Cyclical	18.30%	18.70%	-0.40%
GILD	Gilead Sciences	Healthcare	2.17%	2.80%	-0.63%
BUD	Anheuser-Busch InBev	Consumer Non-cyclicals	n/a	6.50%	n/a
RBGLY	Reckitt Benkiser Group		24.42%	not covered	n/a

Sources: New Constructs, LLC and Morningstar data from [here](#)

Not surprisingly, our Ratings on the stocks are also quite different. Morningstar ratings are much more positive than ours. For example:

- Morningstar gives Pfizer (PFE) a 1 and we give them a 4, or Unattractive rating.
- The same goes for Zimmer Biomet (ZBH), Estee Lauder (EL), Huntington Ingalls, and British American Tobacco.

For reference, 1 is the best rating and 5 is the worst for both firms. See Figure 3.

**Figure 3: New Constructs vs. Morningstar Stock Ratings**

Ticker	Company Name	Sector	Morningstar Rating	New Constructs Rating	Difference
PFE	Pfizer Inc.	Healthcare	1	4	-3
ZBH	Zimmer Biomet	Healthcare	1	4	-3
EL	Estee Lauder	Consumer Non-cyclicals	1	4	-3
HII	Huntington Ingalls	Industrials	1	4	-3
BTI	British American Tobacco	Consumer Non-cyclicals	1	4	-3
CMCSA	Comcast Corporation	Consumer Cyclical	1	3	-2
TCEHY	Tencent Holdings Ltd	Technology	1	3	-2
NKE	NIKE Inc.	Consumer Cyclical	1	3	-2
BMY	Bristol Myers Squibb	Healthcare	1	3	-2
BUD	Anheuser-Busch InBev	Consumer Non-cyclicals	1	3	-2
GILD	Gilead Sciences	Healthcare	1	2	-1
JD	JD.com	Consumer Cyclical	1	2	-1
YUMC	Yum China Holdings	Consumer Cyclical	1	2	-1
BIDU	Baidu Inc.	Technology	1	2	-1
PII	Polaris Inc.	Consumer Cyclical	1	2	-1
RHHBY	Roche Holding AG	Healthcare	1	1	0
ABEV	Ambev S.A.	Consumer Non-cyclicals	1	1	0
RBGLY	Reckitt Benkiser Group		1	not covered	n/a

Sources: New Constructs, LLC and Morningstar data from [here](#)

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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.
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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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