



December 2024: Featured Stock from our Exec Comp Aligned with ROIC Model Portfolio

Markets do not like the Fed's outlook for 2025. The Dow fell for the 10th straight day, which is its longest losing streak since 1974. As we watch Thursday's dead-cat bounce peter out, one thing is for sure – markets are teetering. Insider selling is at all-time highs. Wall Street insiders know what's going on...

This is not the time to follow Roaring Kitty.

In times like these, trustworthy research is more valuable than ever. Let us prove it to you with a free stock pick.

We provide you with diligent and rigorous research, so you can make informed and educated decisions. Our coverage universe provides you with over ratings on over 3,350 stocks and 7,600 ETF and mutual funds, so you can sleep well at night.

As David Trainer, our CEO, said many times in this [special training](#), the Exec Comp Aligned with ROIC Model Portfolio is his favorite. 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](#)).

We truly believe that incentivizing executives to increase ROIC or economic earnings is the BEST form of corporate governance. Honestly, if you asked David, he would tell you it's a crime that all executives are not held to that standard. It's a mystery to us why more companies do not tie compensation to metrics that measure shareholder value creation.

Well, the good news, is that we do the hard work to find those companies. This portfolio provides stocks that not only get our Attractive or Very Attractive Rating, but they are also relative safe havens for investors. They have upside potential and downside protection. What's better than that?

Today, we're giving you a free stock pick. We are sharing this month's featured stock for the Model Portfolio.

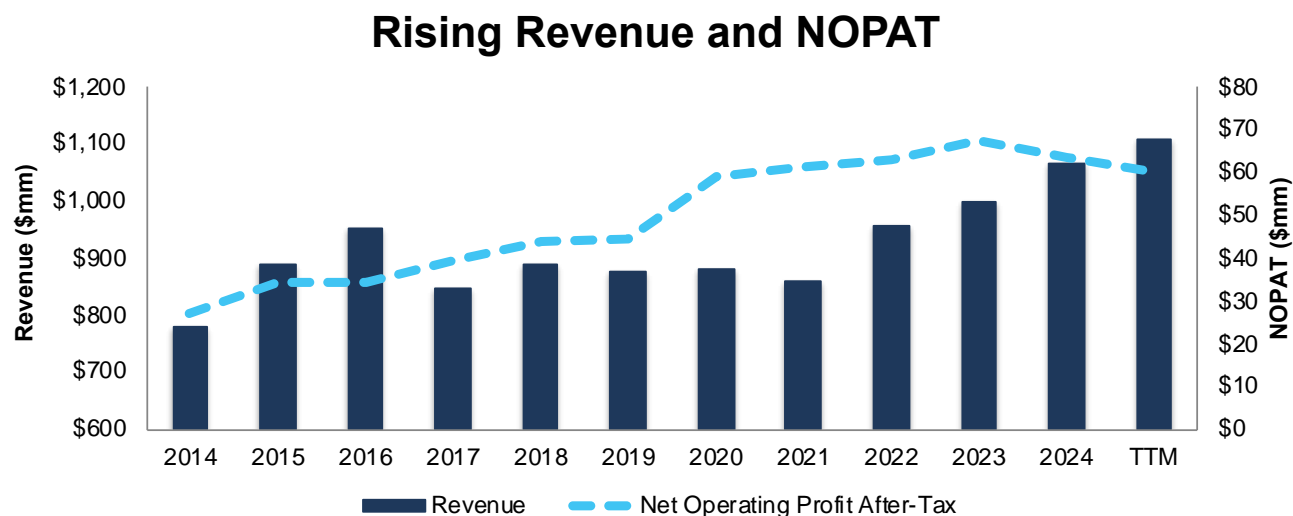
The idea behind featuring stocks and sharing these features with you is to give you insights into the uniquely high value-add of our research. We want you to know how we do research, so you know more about how reliable research looks and how real AI and machine learning work.

We update this Model Portfolio monthly, and [December's](#) Exec Comp Aligned with ROIC Model Portfolio was updated and published for clients on December 13, 2024.

Stock Feature for December: John B. Sanfilippo & Son, Inc. (JBSS: \$89/share)

John B. Sanfilippo (JBSS) is the featured stock in December's Exec Comp Aligned with ROIC Model Portfolio.

John B. Sanfilippo has grown revenue and net operating profit after tax ([NOPAT](#)) by 4% and 8% compounded annually, respectively, since fiscal 2014. The company's NOPAT margin improved from 3.5% in fiscal 2014 to 5.4% over the trailing-twelve-months (TTM). [Invested capital turns](#) increased from 2.4 to 2.7 over the same time. Rising NOPAT margins and invested capital turns drive the company's return on invested capital ([ROIC](#)) from 8% in fiscal 2014 to 15% in the TTM.

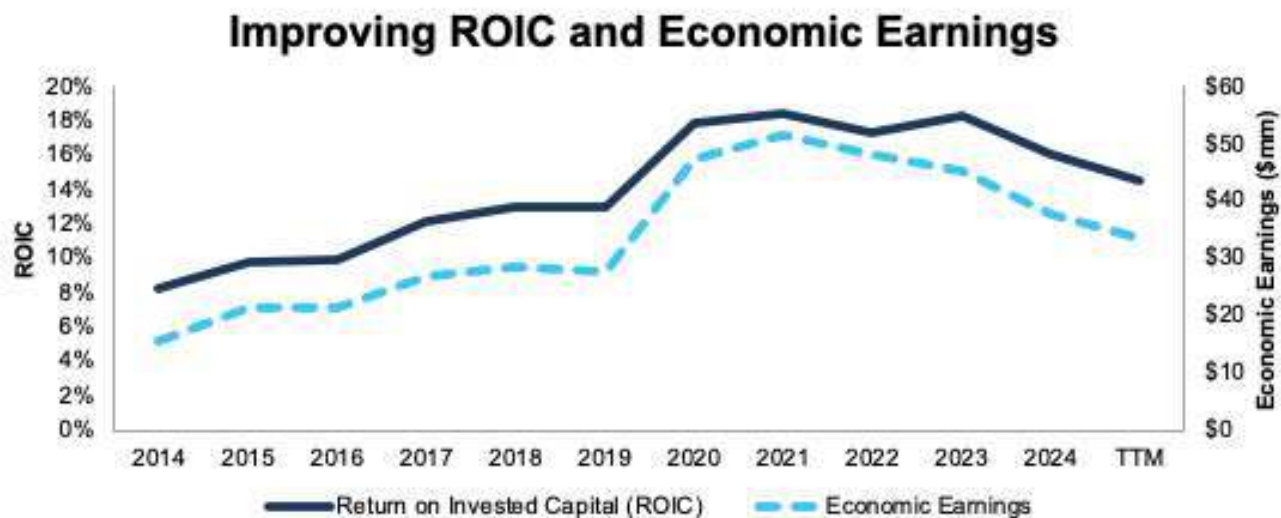
**Figure 1: John B. Sanfilippo's Revenue & NOPAT: Fiscal 2014 - TTM**

Sources: New Constructs, LLC and company filings

Executive Compensation Properly Aligns Incentives

John B. Sanfilippo's executive compensation plan aligns the interests of executives and shareholders by tying its annual bonus awards to a "Return on Capital/economic value added" model which, according to the company's [proxy](#) statement, the company calls the Sanfilippo-Value Added plan. Under the plan, executives are rewarded for year-over-year improvement in economic profit.

The company's inclusion of economic profit targets, which are similar to our economic earnings, has helped create shareholder value by driving higher ROIC and [economic earnings](#). When we calculate ROIC using our [superior fundamental data](#), we find that John B. Sanfilippo's ROIC has increased from 8% in fiscal 2014 to 15% in the TTM. Economic earnings rose from \$15 million to \$34 million over the same time.

Figure 2: John B. Sanfilippo's ROIC & Economic Earnings: Fiscal 2014 – TTM

Sources: New Constructs, LLC and company filings

JBSS Has Further Upside

At its current price of \$89/share, JBSS has a price-to-economic book value ([PEBV](#)) ratio of 1.2. Though the company's PEBV ratio is higher than other featured stocks, the stock still holds upside potential.



Even if John B. Sanfilippo's

- NOPAT margin remains at 5.4% and
- revenue grows 5% (equal to the past five-year compound revenue growth) compounded annually through fiscal 2034 then,

the stock would be worth \$105/share today – an 18% upside. [See the math behind this reverse DCF scenario](#). In this scenario, John B. Sanfilippo's NOPAT would grow just 4% compounded annually from fiscal 2025 through fiscal 2034.

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 John B. Sanfilippo's 10-Ks and 10-Qs:

Income Statement: we made over \$10 million in adjustments with a net effect of removing just under \$5 million in [non-operating expenses](#). Professional members can see all adjustments made to John B. Sanfilippo's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made over \$75 million in adjustments to calculate invested capital with a net decrease of over \$5 million. One of the most notable adjustments was several millions in [asset write downs](#). Professional members can see all adjustments made to John B. Sanfilippo's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over \$115 million in adjustments, all of which decreased shareholder value. The most notable adjustment to shareholder value was [total debt](#). Professional members can see all adjustments to John B. Sanfilippo's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [December 20, 2024](#).

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

Questions on this report or others? Join our [online community](#) and connect with us directly.



It's Official: We Deliver 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. 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.

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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