



Free Stock Pick from our Exec Comp Aligned with ROIC Model Portfolio for January 2025

If the current market volatility does not please you, then this free stock pick might be the best thing that happens to you all week.

If you haven't heard already, DeepSeek, a Chinese AI model company, rocked the markets earlier this week after investors realized it can build better AI models for much cheaper than most U.S. companies. As a result, once high-flying stocks like NVDA are down a lot in a short amount of time. As we [wrote earlier this week](#), DeepSeek is a wake-up call that the "monopoly" market share expectations priced into certain stocks create immense risk for investors, and they should steer clear. The hype driving NVDA and many other stocks is not logical. Maybe, logic doesn't matter to some people, but it matters to us.

The dramatic fall in NVDA and other stocks reminds us of the many warnings we've issued on many overvalued stocks. We understand that it's tempting get caught up in chasing returns in hyped-up stocks, and we hope the juice has been worth the squeeze thus far. Now is the time, however, to focus more on reliable stocks and companies you can trust.

As David Trainer, our CEO, said many times in this [special training](#), the Exec Comp Aligned with ROIC Model Portfolio provides you with companies and stocks you can trust the most. This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC.

We truly believe that incentivizing executives to increase ROIC is the BEST form of corporate governance and makes the market more efficient. Honestly, if you asked David, he may tell you it should be a crime that all executives are not paid based on ROIC or economic earnings performance. It's a mystery to us as to why more companies do not tie compensation to metrics that measure real shareholder value creation.

We are proud to provide you the Exec Comp Aligned with ROIC Model Portfolio. And, we are excited to give you a free stock pick from this Model Portfolio.

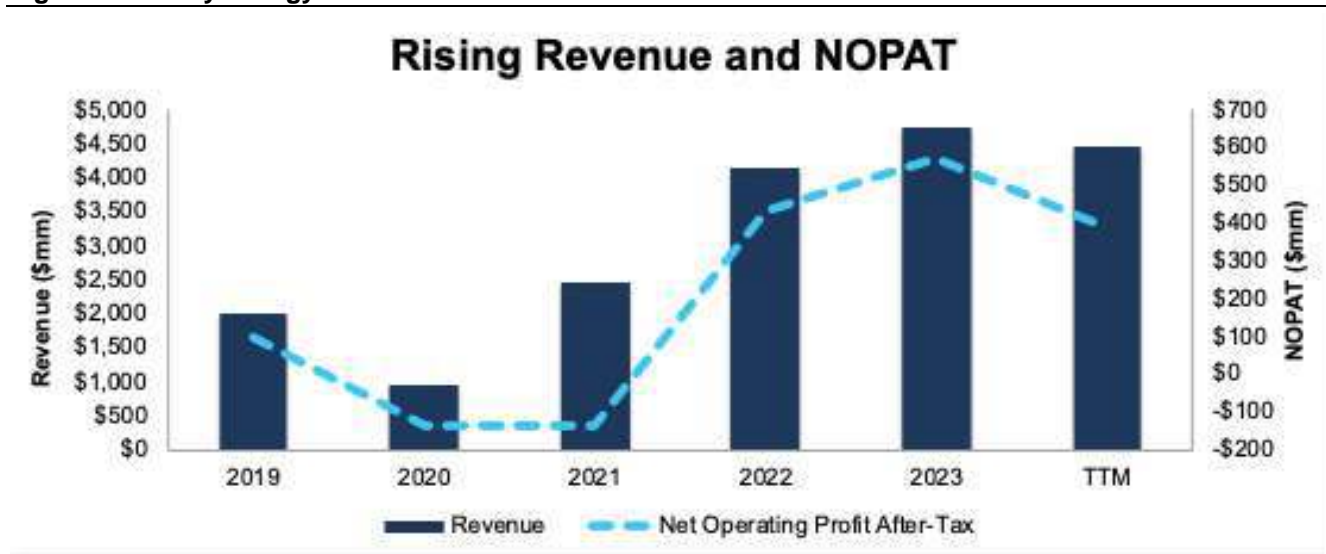
The goal behind sharing these features with you is to give you insight into the uniquely high value-add of our research. We want you to know how hard we work, how we do research, so you know how reliable research looks and how real AI and machine learning work.

We update this Model Portfolio monthly, and [January's](#) Exec Comp Aligned with ROIC Model Portfolio was updated and published for clients on January 16, 2025.

Stock Feature for January: Liberty Energy (LBRT: \$21/share)

Liberty Energy (LBRT) is the featured stock in January's Exec Comp Aligned with ROIC Model Portfolio.

Liberty Energy has grown revenue and net operating profit after tax ([NOPAT](#)) by 18% and 34% compounded annually, respectively, since 2019. The company's NOPAT margin improved from 5% in 2019 to 9% over the trailing-twelve-months (TTM). [Invested capital turns](#) fell from 1.9 to 1.8 over the same time. Rising NOPAT margins are enough to offset falling invested capital turns and drive the company's return on invested capital ([ROIC](#)) from 9% in 2019 to 15% in the TTM.

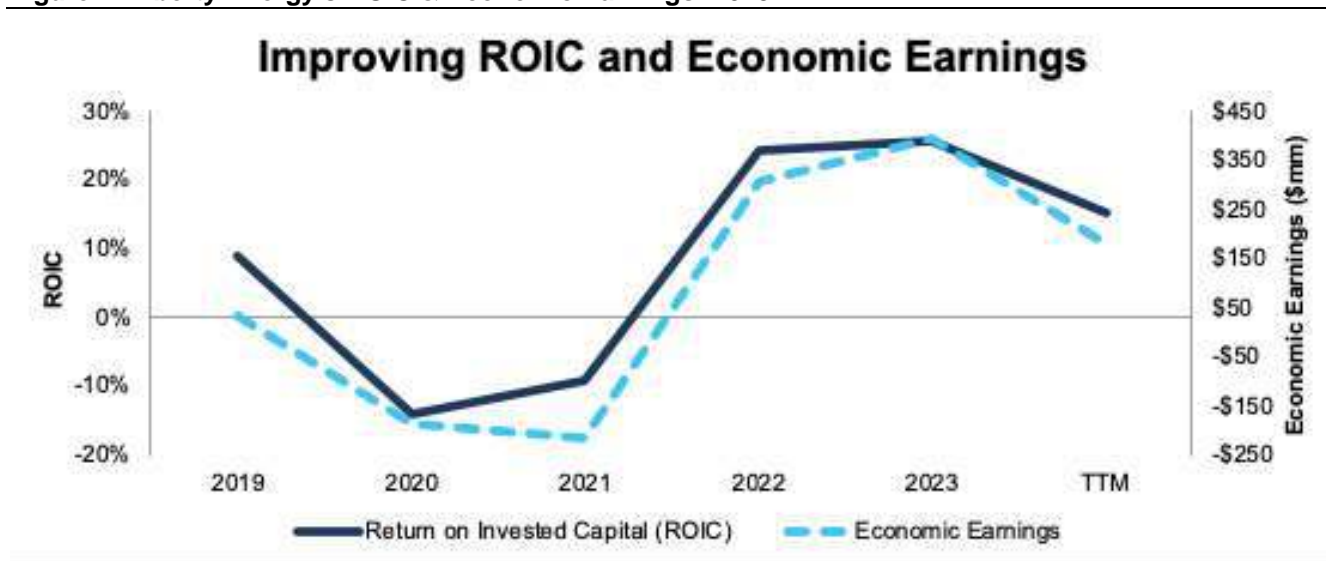
**Figure 1: Liberty Energy's Revenue & NOPAT: 2019 - TTM**

Sources: New Constructs, LLC and company filings

Executive Compensation Properly Aligns Incentives

Liberty Energy's executive compensation plan aligns the interests of executives and shareholders by tying a portion of its performance-based annual incentive payments to "Return on Capital Employed", according to the company's [proxy](#) statement.

The company's inclusion of ROCE, a variation of 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 Liberty Energy's ROIC has increased from 9% in 2019 to 15% in the TTM. Economic earnings rose from \$32 million to \$180 million over the same time.

Figure 2: Liberty Energy's ROIC & Economic Earnings: 2019 – TTM

Sources: New Constructs, LLC and company filings

LBRT Has Further Upside

At its current price of \$21/share, LBRT has a price-to-economic book value ([PEBV](#)) ratio of 0.8. This ratio means the market expects Liberty Energy's NOPAT to permanently fall 20% from current levels. This expectation seems



overly pessimistic for a company that has grown NOPAT 34% compounded annually since 2019 and 14% since 2017 (earliest data available).

Even if Liberty Energy's

- NOPAT margin falls to 7% (below TTM NOPAT margin of 9%) and
- revenue grows 3% (below five-year compound revenue growth of 19%) compounded annually through 2033 then,

the stock would be worth \$29/share today – a 36% upside. [See the math behind this reverse DCF scenario](#). In this scenario, Liberty Energy's NOPAT would grow fall 3% compounded annually from 2024 through 2033.

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 Liberty Energy's 10-Ks and 10-Qs:

Income Statement: we made around \$50 million in adjustments with a net effect of removing just under \$20 million in [non-operating expenses](#). Professional members can see all adjustments made to Liberty Energy's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made over \$320 million in adjustments to calculate invested capital with a net decrease of over \$180 million. One of the most notable adjustments was several million in [operating leases](#). Professional members can see all adjustments made to Liberty Energy's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made just under \$600 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 Liberty Energy's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [January 31, 2025](#).

Disclosure: 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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