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DILIGENCE PAYS
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Comparing the Cash Flow Expectations for IonQ (IONQ) to the Biggest Companies in the S&P 500

When you're analyzing stocks in emerging industries like quantum computing, putting context around the future cash flows baked into the current stock price can be very illuminating. In fact, doing so can make seemingly impossibly high future cash flow expectations seem possible.

Step 1: Expectations Investing Analysis on IONQ

As we do for all of our Reverse DCF Case Studies, we used model to reveal that to justify ~$38/share, IonQ Inc would have to:

1. grow revenue at 43% compounded annually for 21 years while also
2. improving its return on invested capital (ROIC) from -41% to ~534%, or higher than any company in the S&P 500 right now.

Very few companies have ever achieved a 500%+ ROIC, and none have been able to maintain it for more than a year or two. Those are some high expectations, for sure.

Read on and watch my video to see how high these expectations are compared to other companies.

Expectations Might Not Be As High As We Thought...

Step 2: Expectations Investing Analysis on IONQ

After quantifying the market's expectations for future cash flows, the next step in Expectations Investing is to determine whether one thinks those expectations are:

1. Too high (sell)
2. Too low (buy)
3. About right (hold)

The best way to assess how high/low the expectations for future cash flows are is to compare them to the current cash flow of other companies, e.g. the companies in the S&P 500.

That's exactly what we do in this private training session that we are sharing today. We show you how to use our powerful Dynamic Data Screener (available to Institutional clients) to quickly see how the market's expected revenue and net operating profit after-tax (NOPAT) for IONQ rank compared to S&P 500 companies.

And, the answer is, IonQ's implied

1. revenue of $42.5 billion ranked around 80th in the S&P 500
2. NOPAT of $7.3 billion ranked around 60th in the S&P 500.

When I see the expectations for future cash flows for IonQ benchmarked in this way, I think it might be possible for the company to beat those expectations. If IonQ is one of the big winners in the quantum computing space, it seems very reasonable that the company could exceed the revenue and NOPAT levels of S&P 500 companies ranked in the 60s and 80s.

I am not saying it is likely, but that it seems possible, much more possible than I thought when I only looked at the 43% revenue CAGR and ROIC going from -41% to 534%.

To be clear, an investor would still have to believe that the company's future performance would be significantly better than what's baked into the current price to believe there was material upside in the stock.

More Expectations Investing Case Studies

With our reverse DCF model, it's easy and only takes a few seconds to quantify the impact of anything that affects future revenues, margins, and cash flows.

If you're interested in seeing more examples of how our DCF model works, I recommend checking out the Reverse DCF Case Studies here in our Online Community. To join our Online Community, complete this form.

Our community is free to join as is access to the Reverse DCF case studies.

How To Avoid the Landmines

Whenever stocks get super expensive, it is only a matter of time before they fall back to earth as the law of competition inevitably proves the expectations for future cash flows to be overly optimistic.

We have multiple Model Portfolios, including our Zombie Stocks list, to warn investors of stocks to avoid and alert them to stocks that get our Attractive rating. We also provide best-in-class ratings for stocks, ETFs, and mutual funds.

We hope you enjoy this research. Feel free to share with friends and colleagues!

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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.

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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