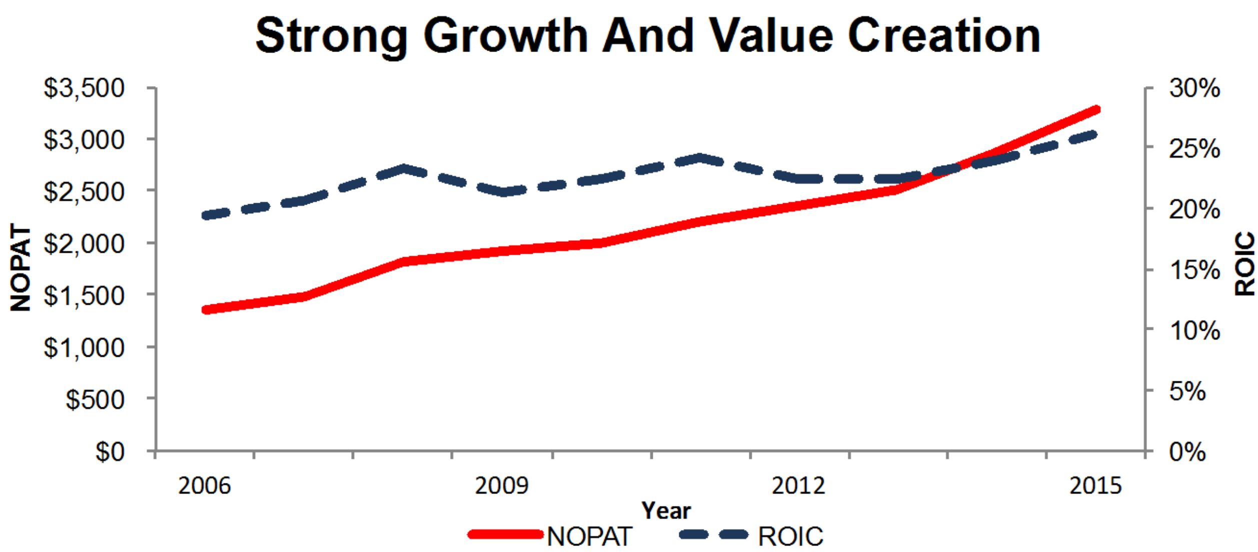
Fortune's "Businessperson Of The Year" List Shows The Market Values ROIC

Last month, Fortune released its list of the top 50 businesspeople of the year, according to their measures of profitability, growth, shareholder return, and subjective measures of leadership and strategic initiatives. Nike (NKE) CEO Mark Parker headlined the list, a choice we applaud given his impressive track record of value creation. As shown in Figure 1, since his promotion to CEO in 2006, Parker has nearly tripled after-tax profit (NOPAT) while improving return on invested capital (ROIC) from 19% to 26%.

Figure 1: Nike Profitability Under Parker



Sources: New Constructs, LLC and company filings.

In fact, a closer look at the list revealed a remarkable pattern. The top 10 CEOs from companies in our database all earn double-digit ROICs. Whether it's apparel, biotech, restaurants, or online services, these companies aren't just growing, they're also creating real value for investors.

Figure 2: Only High ROIC Companies Make The List

Executive	Company Name	Ticker	ROIC
Tim Cook	Apple	AAPL	235%
Ajay Banga	MasterCard	MA	118%
Andrew Wilson	Electronic Arts	EA	30%
George Scangos	Biogen	BIIB	30%
Larry Page	Alphabet	GOOGL	26%
Mark Parker	Nike	NKE	25%
Howard Schultz	Starbucks	SBUX	21%
Steve Ells & Montgomery Moran	Chipotle	CMG	17%
Mark Zuckerberg	Facebook	FB	15%
Mary Dillon	Ulta Salon	ULTA	12%

Sources: New Constructs, LLC and company filings.

In fact, you have to go all the way down to Matthew Missad at #45 to find a CEO of an American company with an ROIC below 10%. And even then, Missad's Universal Forest Products (UFPI) has a 9% ROIC that has been steadily increasing for several years in an industry with significant headwinds.

The recognition these CEO's are receiving shows that the market cares about ROIC, even if many investors aren't explicitly talking about it. We've shown that ROIC is the primary driver of valuation. This idea is hardly new. Michael Maboussin of Credit Suisse wrote extensively on the subject in the 1990's.

What's changed today is that we now have the tools and technology to create accurate models of ROIC for thousands of companies. Calculating ROIC is difficult and requires numerous adjustments to reverse accounting loopholes.

In the past, individuals had no way to create good ROIC-based models for a large number of companies. Today, with the technology to help our analysts quickly parse filings, we can reverse accounting distortions and don't have to rely on less reliable metrics or models.

Disclosure: David Trainer and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

New Constructs® – Profile

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We find it. You benefit. Cutting-edge technology enables us to scale our forensic accounting expertise across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our stock rating methodology instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

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Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. Accounting data must be translated into economic earnings to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. Economic earnings are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

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