



Featured Stocks in April's Exec Comp & ROIC Model Portfolio

Three new stocks make April's Exec Comp Aligned with ROIC Model Portfolio, available to members as of April 13, 2018.

Recap from March's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (-0.4%) outperformed the S&P 500 (-4.1%) last month. The best performing stock in the portfolio was Humana Inc. (HUM), which was up 4%. Overall, 13 out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P in March.

Since inception, this model portfolio is up 26% while the S&P 500 is up 23%.

The success of this Model Portfolio highlights the value of our [Robo-Analyst technology](#)¹, which scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks.

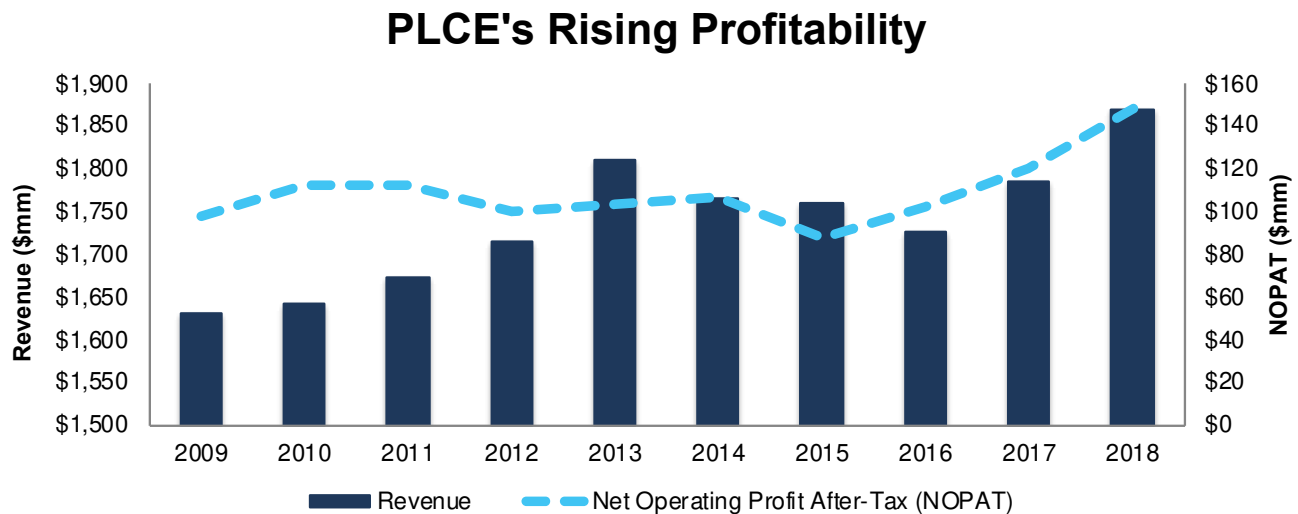
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder value creation](#).²

New Stock Feature for April: Childrens Place (PLCE: \$132/share)

Childrens Place (PLCE), a children's specialty apparel retailer, is the featured stock in April's Exec Comp Aligned with ROIC Model Portfolio. Childrens Place's strong fundamentals also earn it a spot in April's [Most Attractive Stocks Model Portfolio](#).

Since fiscal year 2009, PLCE has grown revenue by 2% compounded annually and after-tax profit (NOPAT) by 5% compounded annually. Longer-term, PLCE has grown NOPAT by 13% compounded annually since 1998.

Figure 1: PLCE's Revenue & NOPAT Since 2009



Sources: New Constructs, LLC and company filings

PLCE has managed this profit growth by increasing its NOPAT margin from 6% in fiscal 2009 to 8% in fiscal 2018. Further highlighting the strength of its business, PLCE has generated cumulative free cash flow (FCF) of \$923 million (41% of market cap) over the past five years.

¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² Ernst & Young's recent white paper, "[Getting ROIC Right](#)", proves the superiority of our research and analytics.



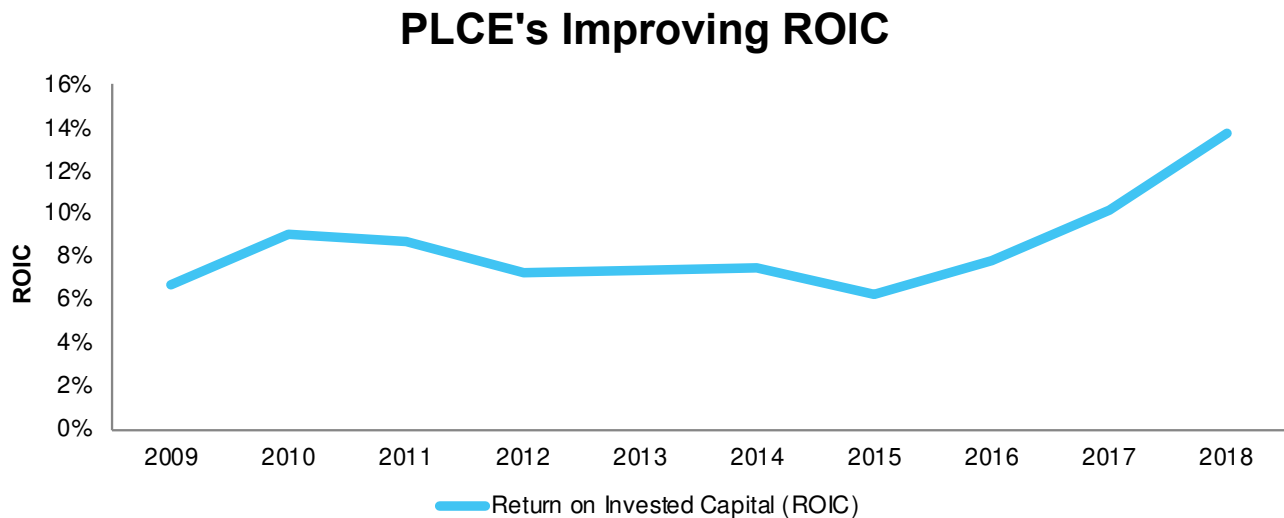
Executive Compensation Plan Helps Drive Shareholder Value Creation

Childrens Place added “adjusted ROIC” to its executive compensation plan in fiscal 2015. This metric was added after the compensation committee found in its outreach activities that “a number of our shareholders called-out ROIC as a preferred performance metric.” As we wrote in “[ISS Buying EVA Dimensions Signals More Focus on Fundamental Research](#),” sophisticated investors have pushed many companies and institutions to focus on ROIC over the past several years.

PLCE believes ROIC “directly measures progress being made on the company’s strategic growth initiatives.” In fiscal 2018, 25% of performance based restricted stock units were tied to adjusted ROIC.

Per Figure 2, PLCE’s ROIC was largely flat from fiscal 2009-2015. Since adding ROIC to its executive compensation plan, PLCE’s ROIC has improved from 6% in fiscal 2015 to 14% in fiscal 2018. PLCE’s exec comp plan lowers the risk of investing in the company’s stock because we know [executives are held accountable](#) for creating real profits.

Figure 2: Children Place’s ROIC Since 2009



Sources: New Constructs, LLC and company filings

PLCE’s Valuation Provides Strong Upside Potential

Since adding ROIC to its executive compensation plan, PLCE is also up 61% while the S&P 500 is up just 31%. The stock remains undervalued despite outperforming the market. At its current price of \$132/share, PLCE has a price-to-economic book value ([PEBV](#)) ratio of 0.8. This ratio means the market expects PLCE’s NOPAT to permanently decline by 20%. This expectation seems rather pessimistic for a firm that has grown NOPAT by 13% compounded annually over the past two decades.

If PLCE can maintain fiscal 2018 margins (8%) and grow NOPAT by just 3% compounded annually for the next decade, the stock is worth \$206/share today – a 56% upside. [See the math behind this dynamic DCF scenario here](#).

Critical Details Found in Financial Filings By Our [Robo-Analyst Technology](#)

As investors [focus more](#) on fundamental research, research automation technology is needed to analyze all the critical financial [details in financial filings](#). Below are specifics on the adjustments we make based on Robo-Analyst findings in Children Place’s fiscal 2018 10-K:

Income Statement: we made \$68 million of adjustments, with a net effect of removing \$64 million in non-operating expense (3% of revenue). We removed \$2 million in [non-operating income](#) and \$66 million in [non-operating expenses](#). You can see all the adjustments made to PLCE’s income statement [here](#).



Balance Sheet: we made \$865 million of adjustments to calculate invested capital with a net increase of \$503 million. One of the largest adjustments was \$483 million due to [operating leases](#). This adjustment represented 83% of reported net assets. You can see all the adjustments made to PLCE's balance sheet [here](#).

Valuation: we made \$673 million of adjustments with a net effect of decreasing shareholder value by \$341 million. Apart from \$504 million in [total debt](#), which includes the \$483 million in [operating leases](#) noted above, the largest adjustment to shareholder value was \$166 million in [excess cash](#). This adjustment represents 7% of PLCE's market cap. Despite the net decrease in shareholder value, PLCE remains undervalued.

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

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New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

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3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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