



Featured Stock in December's Exec Comp & ROIC Model Portfolio

Three new stocks make December's Exec Comp Aligned with ROIC Model Portfolio, available to members as of December 14, 2018.

Recap from November's Picks

The best performing stock in the portfolio was up 10%. Overall, seven out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P in November.

Since inception, this model portfolio is up 19% while the S&P 500 is up 19%.

Get the best fundamental research

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

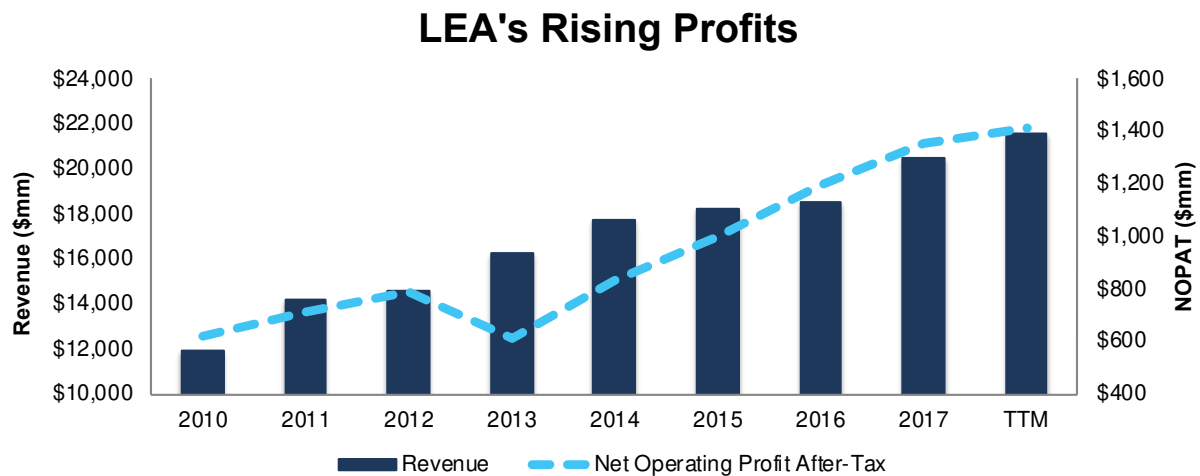
New Stock Feature for December: Lear Corp (LEA: \$122/share)

Lear Corp (LEA) is the featured stock in December's Exec Comp Aligned with ROIC Model Portfolio. LEA was previously featured as a Long Idea in [July 2016](#) and reiterated in [September 2017](#) and [October 2017](#). Automotive industry concerns have driven the stock down in recent months, and the market underappreciates LEA's continued profitability.

Since 2010, LEA has grown revenue by 8% compounded annually and after-tax operating profit ([NOPAT](#)) by 12% compounded annually. Trailing twelve months (TTM) NOPAT has increased further, to \$1.4 billion, which is up 8% over the prior TTM period. LEA's NOPAT margin has improved from 5% in 2010 to 7% TTM.

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.

**Figure 1: LEA's Revenue & NOPAT Since 2010**

Sources: New Constructs, LLC and company filings

Executive Compensation Plan Helps Drive Shareholder Value Creation

LEA has included return on invested capital as a performance metric in its [executive compensation plan](#) since 2011. Last year, two-thirds of performance shares under the long-term stock incentive plan were tied to ROIC performance. These long-term awards made up 54% of CEO pay and 44% of other executives' pay.

The focus on return on invested capital helps ensure executives are aligned with shareholders. Since bottoming at 14% in 2013, LEA has improved its ROIC to 19% TTM. LEA's executive compensation plan lowers the risk of investing in this stock because we know executives' interests are properly aligned with shareholders' interests

LEA Provides Significant Upside Potential

At its current price of \$122/share, LEA has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio means the market expects LEA's NOPAT to permanently decline by 50%. This expectation seems overly pessimistic for a firm that has grown NOPAT by 12% compounded annually since 2010.

If LEA can maintain TTM NOPAT margins (7%) and grow NOPAT by just 4% compounded annually, the stock is worth \$251/share today – a 106% 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 Lear Corp's 2017 10-K:

Income Statement: we made \$762 million of adjustments, with a net effect of removing \$70 million in [non-operating expense](#) (<1% of revenue). You can see all the adjustments made to LEA's income statement [here](#).

Balance Sheet: we made \$2.7 billion of adjustments to calculate invested capital with a net decrease of \$280 million. One of the largest adjustments was \$647 million due to [deferred tax assets](#). This adjustment represented 9% of reported net assets. You can see all the adjustments made to LEA's balance sheet [here](#).

Valuation: we made \$3.1 billion of adjustments with a net effect of decreasing shareholder value by \$2.9 billion. One of the largest adjustments to shareholder value was \$451 million in [operating leases](#). This adjustment represents 6% of LEA's market cap. Despite the net decrease in shareholder value, LEA remains undervalued.

This article originally published on [December 18, 2018](#).

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

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.



New Constructs® - Research to Fulfill the Fiduciary Duty of Care

Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

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.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
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.



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, “New Constructs”) is an independent organization with no management ties to the companies it covers. None of the members of New Constructs’ management team or the management team of any New Constructs’ affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs’ Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs’ reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.