



## Featured Stock in March's Exec Comp & ROIC Model Portfolio

Eight new stocks make March's Exec Comp Aligned with ROIC Model Portfolio, available to members as of March 15, 2019.

Get the best fundamental research

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

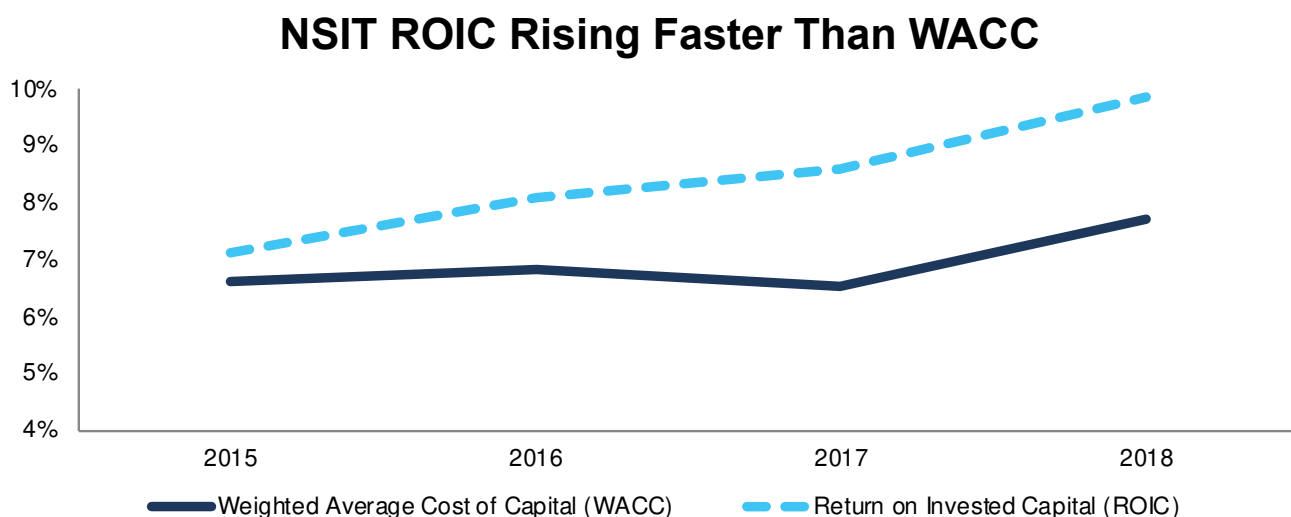
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder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

### New Stock Feature for March: Insight Enterprises (NSIT: \$56/share)

Insight Enterprises (NSIT) is the featured stock in [March's Exec Comp Aligned with ROIC Model Portfolio](#). We highlighted NSIT as a Long Idea in [August 2018](#), and since then it has outperformed (+2% vs. S&P -1%). Despite this outperformance, the stock remains undervalued.

Since 2015, NSIT has grown after-tax profit ([NOPAT](#)) by 25% compounded annually. This profit growth has helped NSIT improve its return on invested capital ([ROIC](#)) from 7% in 2015 to 10% in 2018. As Figure 1 shows, NSIT's ROIC has grown faster than its weighted average cost of capital ([WACC](#)) over the past four years, which drives growth in [economic earnings](#), the true cash flows of the business.

Figure 1: NSIT's ROIC and WACC Since 2015



Sources: New Constructs, LLC and company filings

### Executive Compensation Plan Helps Drive Shareholder Value Creation

NSIT executives receive long-term equity compensation in the form of performance and time-based restricted stock units (RSU's). The performance-based RSU's account for 60% of long-term executive compensation and are tied to non-GAAP ROIC performance goals. RSU's made up 43% of the CEO's pay in 2017 (the most recent

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

<sup>2</sup> Ernst & Young's recent white paper "[Getting ROIC Right](#)" demonstrates the superiority of our stock research and analytics.



year for which we have data) so it is no coincidence that NSIT has improved ROIC in recent years - executives' bonuses depend on it.

The focus on improving ROIC [aligns the interests of executives and shareholders](#), helps to ensure prudent stewardship of capital, and lowers the risk of investing in the business.

### **NSIT Remains Undervalued**

At its current price of \$56/share, NSIT has a price-to-economic book value ([PEBV](#)) ratio of 1.1. This ratio means the market expects NSIT's NOPAT will grow by no more than 10% for the remainder of its corporate life. This expectation seems pessimistic given NSIT has grown NOPAT by 12% compounded annually over the past two decades.

If NSIT can maintain 2018 NOPAT margins (2%) and grow NOPAT by just 3% compounded annually over the next decade, the stock is worth \$69/share today – a 21% upside. [See the math behind this dynamic DCF scenario](#).

### **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 Insight Enterprises' 2018 10-K:

Income Statement: we made \$61 million of adjustments, with a net effect of removing \$7 million in [non-operating expenses](#) (1% of revenue). You can see all the adjustments made to NSIT's income statement [here](#).

Balance Sheet: we made \$602 million of adjustments to calculate invested capital with a net increase of \$494 million. One of the largest adjustments was \$432 million in accumulated [asset write-downs](#). This adjustment represented 35% of reported net assets. You can see all the adjustments made to NSIT's balance sheet [here](#).

Valuation: we made one adjustment with a net effect of decreasing shareholder value by \$260 million. There were no adjustments that increased shareholder value. Despite the net decrease in shareholder value, NSIT remains undervalued. You can see the adjustment made to NSIT's valuation [here](#).

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*Disclosure: David Trainer, Kyle Guske II, Sam McBride and Andrew Gallagher 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.

### ***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**

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