



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

Two new stocks make April's Exec Comp Aligned with ROIC Model Portfolio, available to members as of April 12, 2019.

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.

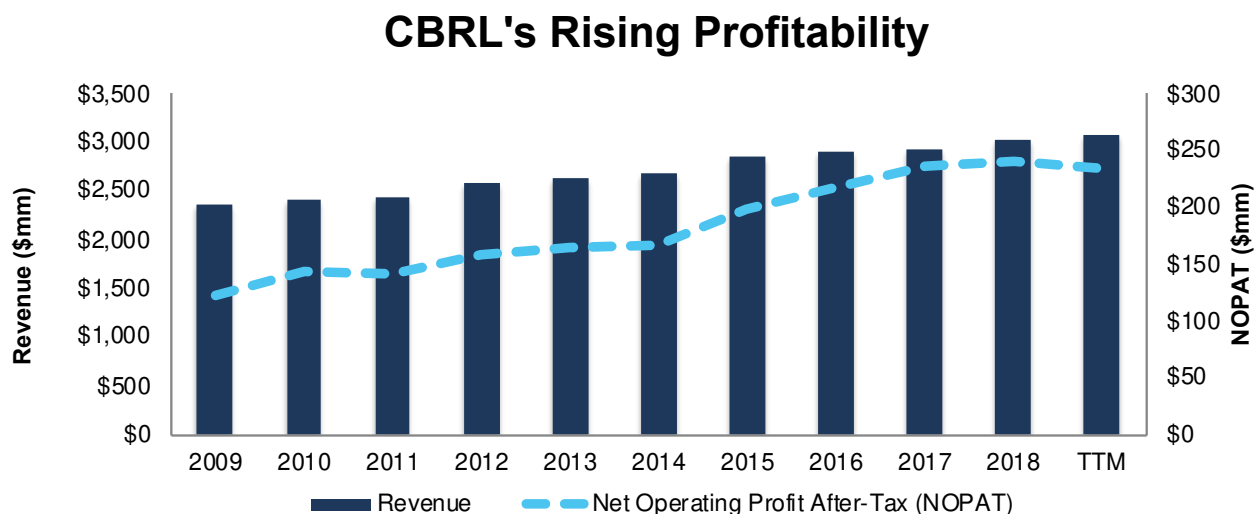
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital ([ROIC](#)) is the [primary driver of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

New Stock Feature for April: Cracker Barrel Old Country Store, Inc (CBRL: \$155/share)

Cracker Barrel (CBRL) is the featured stock in [April's Exec Comp Aligned with ROIC Model Portfolio](#). We previously highlighted CBRL in our [November 2018](#) report and made it a Long Idea in [March 2017](#). This position was closed in [June 2018](#). However, CBRL is underperforming the S&P 500 (-3% vs. S&P 16%) this year and looks undervalued again.

Over the past decade, CBRL has grown revenue by 3% compounded annually and after-tax operating profit ([NOPAT](#)) by 7% compounded annually. CBRL has grown profits faster than revenue by improving its NOPAT margin from 5% in 2009 to 8% in the trailing twelve months (TTM). Further highlighting the strength of its business, CBRL has generated cumulative free cash flow ([FCF](#)) of \$752 million (20% of market cap) over the past five years.

Figure 1: CBRL's Revenue & NOPAT Since 2009



Sources: New Constructs, LLC and company filings

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](#)" demonstrates the superiority of our stock research and analytics.

**Executive Compensation Plan Helps Drive Shareholder Value Creation**

CBRL has included ROIC as a performance metric in its [executive compensation](#) plan since 2011. Last year, 50% of CBRL's long-term performance incentive program was tied to the achievement of a target ROIC.

The focus on return on invested capital helps ensure intelligent capital allocation. Since adding ROIC to its compensation plan in 2011, CBRL has improved ROIC from 9% to 14% TTM. CBRL's executive compensation plan lowers the risk of investing in the company's stock because we know executives' interests are tied to shareholders' interests.

CBRL Provides Significant Upside Potential

At its current price of \$155/share, CBRL has a price-to-economic book value ([PEBV](#)) ratio of 0.9. This ratio means the market expects CBRL's NOPAT to permanently decline by 10%. This expectation seems pessimistic given that CBRL has grown NOPAT by 7% compounded annually since 2009.

If CBRL can maintain TTM NOPAT margins (8%) and grow NOPAT by just 4% compounded annually, the stock is worth \$234/share today – a 53% 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 CBRL's 2018 10-K:

Income Statement: we made \$97 million of adjustments, with a net effect of removing \$7 million in [non-operating income](#) (<1% of revenue). You can see all the adjustments made to CBRL's income statement [here](#).

Balance Sheet: we made \$584 million of adjustments to calculate invested capital with a net increase of \$482 million. One of the largest adjustments was \$451 million in to [operating leases](#). This adjustment represented 39% of reported net assets. You can see all the adjustments made to CBRL's balance sheet [here](#).

Valuation: we made \$918 million of adjustments with a net effect of decreasing shareholder value by \$886 million. Apart from [total debt](#), which includes the [operating leases](#) noted above, one of the largest adjustments to shareholder value was \$51 million in [net deferred tax liability](#). This tax adjustment represents 1% of CBRL's market cap. See all adjustments to CBRL'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.



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