



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

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

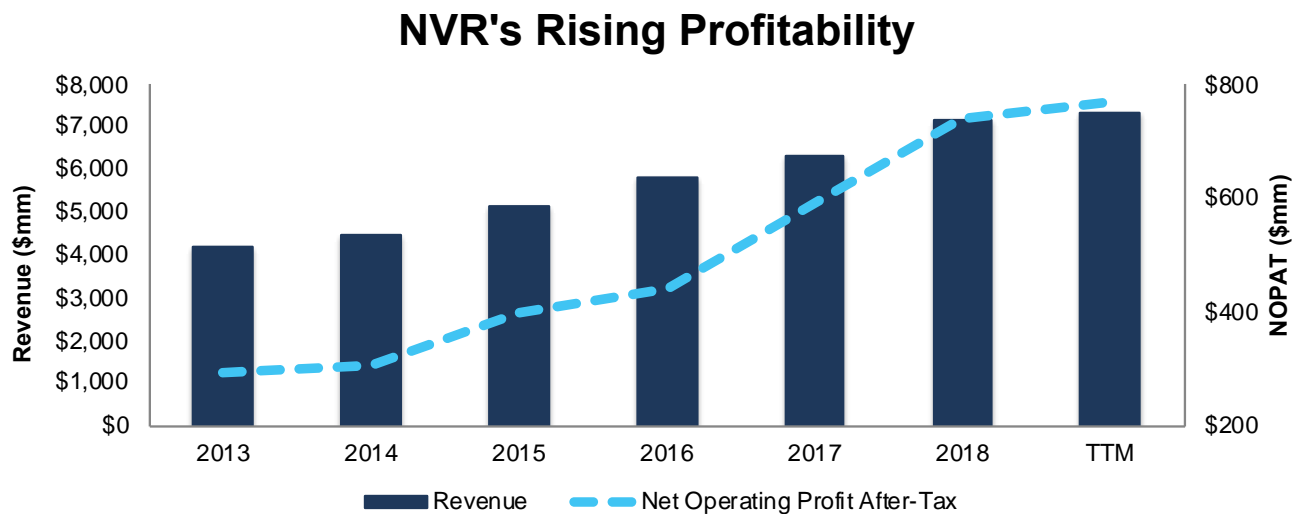
### New Stock Feature for June: NVR Inc. (NVR: \$3,450/share)

NVR Inc. (NVR) is the featured stock in June's Exec Comp Aligned with ROIC Model Portfolio.

We made NVR a Long Idea on [4/17/17](#), and reiterated the stock's upside potential on [2/20/19](#). The stock has outperformed the S&P 500 since our original report (up 59% vs. S&P up 24%).

Since 2013, NVR has grown after-tax operating profit ([NOPAT](#)) by 20% compounded annually. Trailing twelve month (TTM) NOPAT is up 19% over the prior TTM period. Profit growth has been fueled by rising NOPAT margins, which are up from 7% in 2013 to 10% TTM.

Figure 1: NVR Profit Growth Since 2013



Sources: New Constructs, LLC and company filings

<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.



### Executive Compensation Plan Helps Drive Shareholder Value Creation

NVR's return on invested capital ([ROIC](#)) has also improved from 19% to 32% over the same time.

NVR has included return on capital as a performance metric in its [executive compensation](#) plan since 2014. Last year, 50% of long-term stock options were tied to the firm's return on capital performance. For performance-based options, vesting is subject to NVR's return on capital relative to its peer group.

The focus on return on invested capital helps ensure intelligent capital allocation. Since adding ROIC to its compensation plan in 2014, NVR has improved its ROIC from 18% to 32% TTM. NVR's executive compensation plan lowers the risk of investing in the company's stock because we know executives' interests are tied to shareholders' interests.

### NVR Provides Significant Upside Potential

At its current price of \$3,450/share, NVR has a price-to-economic book value ([PEBV](#)) ratio of 1.1. This ratio means the market expects NVR's NOPAT to grow by no more than 10% over the remaining life of the firm. This expectation seems pessimistic given that NVR has grown NOPAT by 20% compounded annually since 2013 and 12% compounded annually since 1998.

If NVR can maintain TTM NOPAT margins (10%) and grow NOPAT by just 4% compounded annually for the next decade, the stock is worth \$4,299/share today – a 25% 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 NVR's 2018 10-K:

Income Statement: we made \$133 million of adjustments, with a net effect of removing \$55 million in [non-operating income](#) (1% of revenue). You can see all the adjustments made to NVR's income statement [here](#).

Balance Sheet: we made \$1.9 billion of adjustments to calculate invested capital with a net increase of \$539 million. One of the largest adjustments was \$396 million due to [asset write-downs](#). This adjustment represented 22% of reported net assets. You can see all the adjustments made to NVR's balance sheet [here](#).

Valuation: we made \$2.4 billion of adjustments with a net effect of decreasing shareholder value by \$1.6 billion. The largest adjustments to shareholder value was \$1.3 billion in [outstanding employee stock options](#). This adjustment represents 10% of NVR's market cap. See all adjustments to NVR's valuation [here](#).

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

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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**

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