



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

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

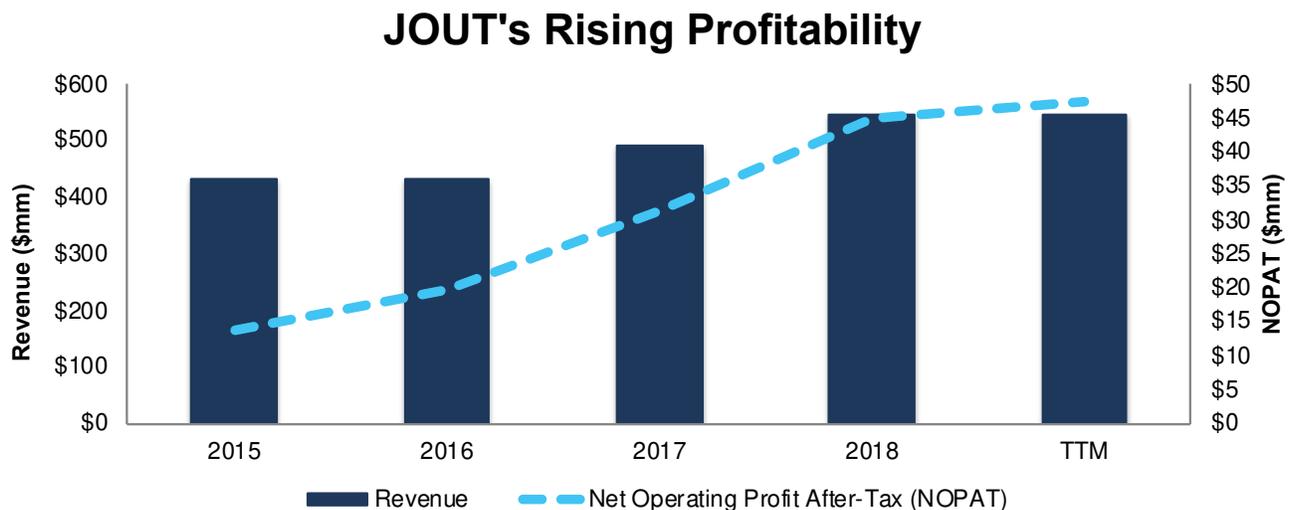
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder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

New Stock Feature for July: Johnson Outdoors (JOUT: \$72/share)

Johnson Outdoors (JOUT) is the featured stock in July's Exec Comp Aligned with ROIC Model Portfolio.

Since 2015, JOUT has grown revenue by 8% compounded annually and after-tax operating profit (NOPAT) by 49% compounded annually. Trailing twelve month (TTM) NOPAT is up 17% over the prior TTM period. Profit growth has been fueled by rising NOPAT margins, which are up from 3% in 2015 to 9% TTM.

Figure 1: JOUT Profit Growth Since 2015



Sources: New Constructs, LLC and company filings

Executive Compensation Plan Helps Drive Shareholder Value Creation

JOUT added return on invested capital (ROIC) to its executive compensation plan in fiscal 2016. Before ROIC was an executive compensation performance metric, JOUT's ROIC declined from 6% in 2013 to 5% in 2015. Since adding it, ROIC has improved to 14% TTM. Last year, equity based incentive awards were subject to downward adjustments in the event JOUT did not achieve a minimum ROIC each year in a three-year performance period.

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 This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.



JOUT's executive compensation plan lowers the risk of investing in this stock because we know executives' interests are tied to shareholders' interests.

JOUT Provides Significant Upside Potential

At its current price of \$72/share, JOUT has a price-to-economic book value ([PEBV](#)) ratio of 1.0. This ratio means the market expects JOUT's NOPAT to never meaningfully grow from its current levels. This expectation seems pessimistic given that JOUT has grown NOPAT by 10% compounded annually over the past two decades.

If JOUT can maintain 2018 NOPAT margins of 8% (below 9% TTM) and grow NOPAT by just 4% compounded annually for the next decade, the stock is worth \$91/share today – a 26% 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 Johnson Outdoors' 2018 10-K:

Income Statement: we made \$19 million of adjustments, with a net effect of removing \$4 million in [non-operating expense](#) (1% of revenue). You can see all the adjustments made to JOUT's income statement [here](#).

Balance Sheet: we made \$341 million of adjustments to calculate invested capital with a net increase of \$3 million. One of the largest adjustments was \$107 million in [asset write-downs](#). This adjustment represented 35% of reported net assets. You can see all the adjustments made to JOUT's balance sheet [here](#).

Valuation: we made \$81 million of adjustments with a net effect of increasing shareholder value by \$1 million. The largest adjustment to shareholder value was \$39 million in [operating leases](#). This adjustment represents 5% of JOUT's market cap. See all adjustments to JOUT's valuation [here](#).

This article originally published on [July 17, 2019](#).

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.