



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.

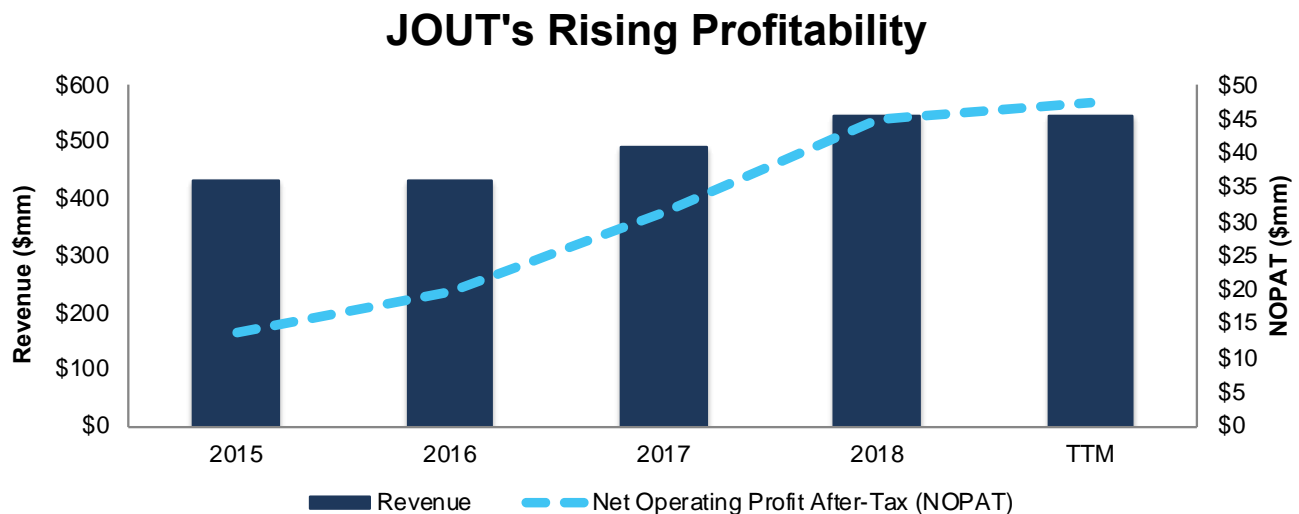
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital ([ROIC](#)) is the [primary driver of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

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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.



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