



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

Four new stocks make September's Exec Comp Aligned with ROIC Model Portfolio, available to members as of September 13, 2019.

Recap from August's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+6.3%) outperformed the S&P 500 (+3.9%) from August 16, 2019 through September 11, 2019. The best performing stock in the portfolio was up 20%. Overall, 10 out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P 500.

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.

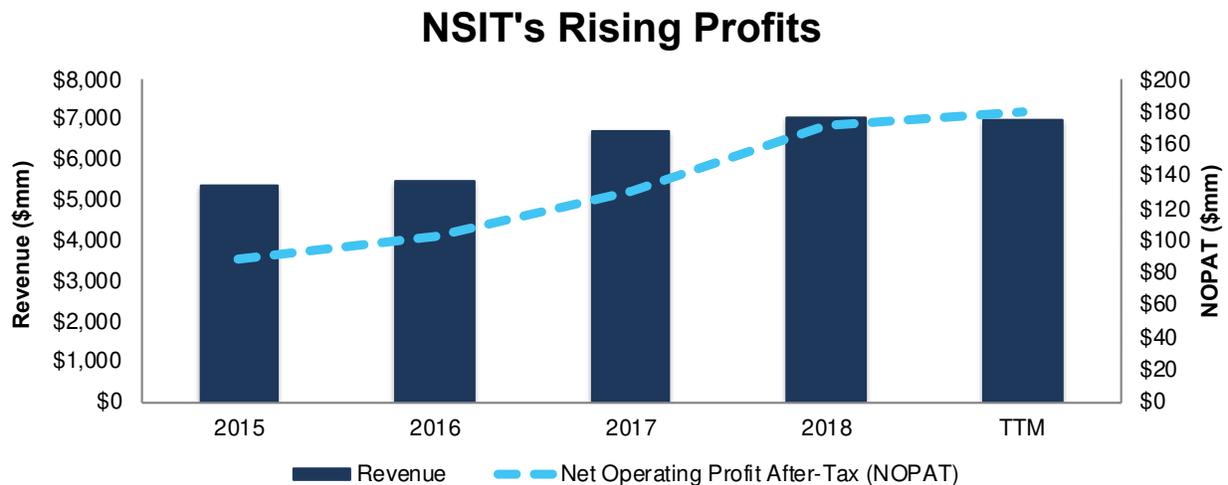
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder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

New Stock Feature for September: Insight Enterprises (NSIT: \$53/share)

Insight Enterprises (NSIT) is the featured stock in September's Exec Comp Aligned with ROIC Model Portfolio. We made NSIT a Long Idea in [August 2018](#) and the stock has underperformed (-5% vs. S&P 500 +4%) since the report. Now, the stock looks even more undervalued.

Since 2015, NSIT has grown after-tax operating profit (NOPAT) by 25% compounded annually. NOPAT over the trailing twelve months (TTM) is up 17% over the prior TTM period. Profit growth has been driven by 10% compound annual revenue growth and rising NOPAT margins, which have increased from 2% in 2015 to 3% TTM.

Figure 1: NSIT Revenue and NOPAT Since 2015



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



Executive Compensation Plan Helps Drive Shareholder Value Creation

NSIT added ROIC to its executive compensation plan in 2011. The company awards long-term restricted stock units based on the achievement of adjusted ROIC targets. Performance-based RSU's made up 36% of NSIT's CEO pay and 29% of other executives' pay last year. Since 2015, NSIT has improved its ROIC from 7% to 10% TTM.

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

NSIT Remains Undervalued

At its current price of \$53/share, NSIT has a price-to-economic book value ([PEBV](#)) ratio of 0.9. This ratio means the market expects NSIT's NOPAT to permanently decline by 10%. This expectation seems pessimistic given NSIT has grown NOPAT by 25% compounded annually since 2015 and 12% compounded annually over the past two decades.

If NSIT can maintain 2018 NOPAT margins (2.4%) and grow NOPAT by just 3% compounded annually over the next decade, the stock is worth \$67/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 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 \$110 million of adjustments with a net effect of decreasing shareholder value by \$110 million. There were no adjustments that increased shareholder value. The largest adjustment to shareholder value was \$110 million in [total debt](#), which includes \$63 million in [operating leases](#). This lease adjustment represents 3% of NSIT's market cap. See all adjustments to NSIT'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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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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