Featured Stocks in March's Most Attractive/Most Dangerous Model Portfolios

Recap From February's Picks

Our Most Attractive Stocks (+4.3%) outperformed the S&P 500 (+1.9%) from February 3, 2021 through March 1, 2021 by 2.4%. The best performing large cap stock gained 30% and the best performing small cap stock was up 16%. Overall, 19 out of the 34 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (+8.7%) underperformed the S&P 500 (+1.9%) as a short portfolio from February 3, 2021 through March 1, 2021 by 6.8%. The best performing large cap stock fell by 3% and the best performing small cap stock fell by 10%. Overall, 5 out of the 12 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios underperformed as an equal-weighted long/short portfolio by 2.2%.

More reliable & proprietary fundamental data, proven in The Journal of Financial Economics , drives our research. Our proprietary Robo-Analyst Technology[1] scales our forensic accounting expertise (featured in Barron's) across thousands of stocks[2] to produce an unrivaled database of fundamental data.

31 new stocks make our Most Attractive list this month, and 18 new stocks fall onto the Most Dangerous list this month. March's Most Attractive and Most Dangerous stocks were made available to members on March 3, 2021.

Our Most Attractive stocks have high and rising returns on invested capital (ROIC) and low price to economic book value ratios. Most Dangerous stocks have misleading earnings and long growth appreciation periods implied by their market valuations.

Most Attractive Stocks Feature for March: National Beverage Corp (FIZZ: $56/share)

National Beverage Corp is the featured stock from March's Most Attractive Stocks Model Portfolio.

National Beverage Corp has grown revenue by 9% compounded annually and net operating profit after-tax (NOPAT) by 22% compounded annually over the past five years.

The firm's NOPAT margin increased from 9% in 2016 to 15% over the trailing-twelve-months (TTM) while its invested capital turns slightly declined from 3.8 to 3.7 over the same period. Rising margins offset the decline in invested capital turns and National Beverage Corp's ROIC improved from 34% in 2016 to 57% TTM. Since 2016, the firm has also generated $514 million (10% of market cap) in cumulative free cash flow (FCF). Over the TTM, National Beverage Corp generated $178 million in FCF.

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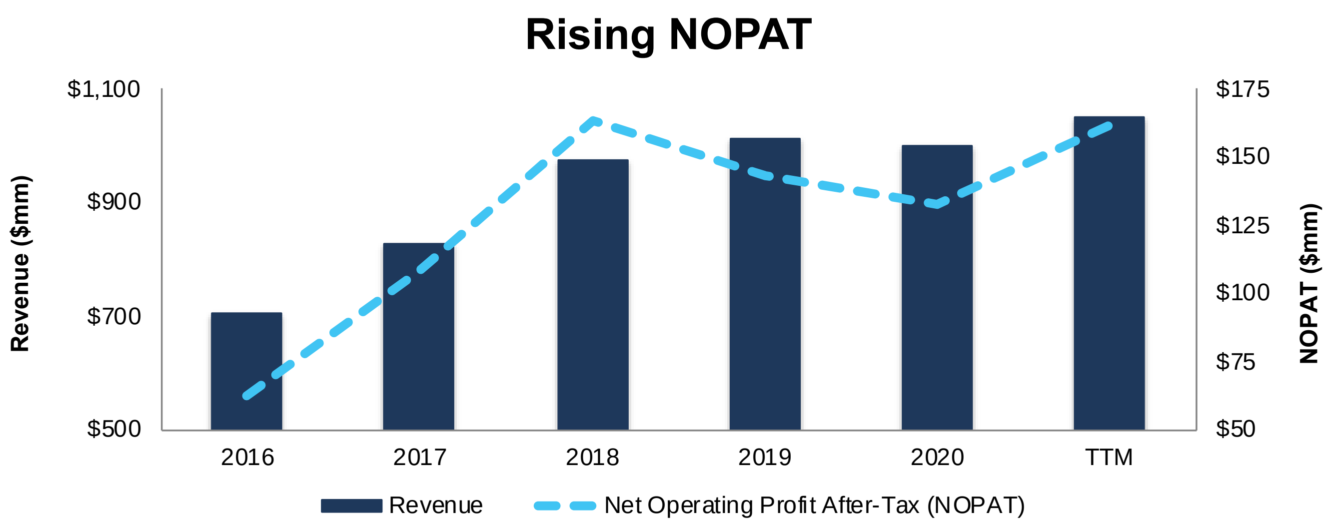
[1] Harvard Business School features our research automation technology in the case Disrupting Fundamental Analysis with Robo-Analysts.

[2] See how our models overcome flaws in Bloomberg and Capital IQ's (SPGI) analytics in the detailed appendix of this paper.

Figure 1: Revenue & NOPAT Since 2016



Sources: New Constructs, LLC and company filings

FIZZ Is Undervalued

At its current price of $56/share, FIZZ has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means the market expects National Beverage Corp's NOPAT to permanently decline by 10%. This expectation seems overly pessimistic for a firm that has grown NOPAT by 22% compounded annually over the past five years and 15% compounded annually over the past decade.

Even if National Beverage Corp's NOPAT margin falls to its five-year average of 13% (compared to 15% TTM) and the firm grows revenue by 5% compounded annually (equal to consensus revenue CAGR estimates for 2021-2023) for the next decade, the stock is worth $73/share today – a 30% upside. See the math behind this reverse DCF scenario.

Critical Details Found in Financial Filings by Our Robo-Analyst Technology

Fact: we provide more reliable fundamental data and earnings models – unrivaled in the world.
Proof: Core Earnings: New Data & Evidence, forthcoming in The Journal of Financial Economics.

Below are specifics on the adjustments we make based on Robo-Analyst findings in National Beverage Corp's 10-Q's and 10-K:

Income Statement: we made $10 million of adjustments, with a net effect of removing $2 million in non-operating expenses (<1% of revenue). You can see all the adjustments made to National Beverage Corp's income statement here.

Balance Sheet: we made $280 million of adjustments to calculate invested capital with a net decrease of $235 million. One of the most notable adjustments was $5 million in other comprehensive income. This adjustment represented 1% of reported net assets. You can see all the adjustments made to National Beverage Corp's balance sheet here.

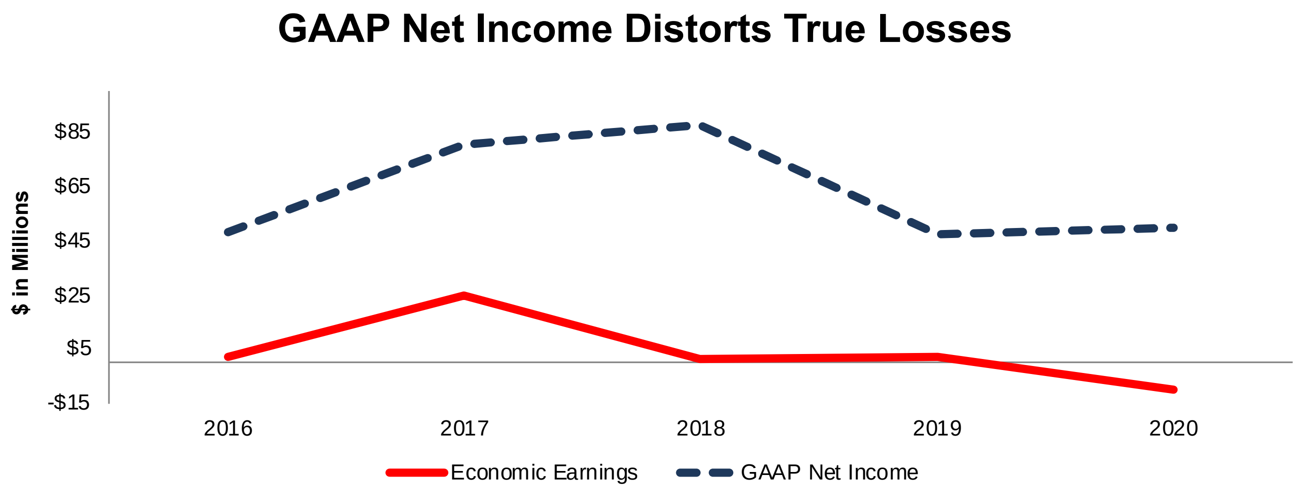
Valuation: we made $418 million of adjustments with a net impact of increasing shareholder value by $288 million. One of the most notable adjustments to shareholder value was $353 million in excess cash. This adjustment represents 7% of National Beverage Corp's market cap. See all adjustments to National Beverage Corp's valuation here.

Most Dangerous Stocks Feature: Rogers Corp (ROG: $183/share)

Rogers Corp (ROG) is the featured stock from March's Most Dangerous Stocks Model Portfolio.

While Rogers Corp's GAAP net income improved slightly from $48 million in 2016 to $50 million in 2020, the firm's economic earnings, the true cash flows of the business, fell from $2 million to -$10 million. The firm's NOPAT margin fell from 9% in 2016 to 8% in 2020, while ROIC fell from 7% to 6%.

Figure 2: Misleading GAAP Net Income vs. Economic Earnings



Sources: New Constructs, LLC and company filings

ROG Provides Poor Risk/Reward

Despite its poor fundamentals, ROG is still priced for significant profit growth and is overvalued.

To justify its current price of $183/share, Rogers Corp must immediately achieve an 11% NOPAT margin (three-year high, compared to 8% in 2020) and grow NOPAT by 14% compounded annually for the next decade. See the math behind this reverse DCF scenario. This expectation seems overly optimistic given the firm's NOPAT has fallen by 14% compounded annually over the past three years.

Even if Rogers Corp can improve its NOPAT margin to 10% (vs. 8% in 2020) and grow NOPAT by 8% compounded annually for the next 10 years, the stock is worth just $111/share today, a 39% downside to the current stock price. See the math behind this reverse DCF scenario.

Each of these scenarios also assumes Rogers Corp is able to grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely but allows us to create best-case scenarios that demonstrate how high expectations embedded in the current valuation are.

Critical Details Found in Financial Filings by Our Robo-Analyst Technology

Fact: we provide more reliable fundamental data and earnings models – unrivaled in the world.
Proof: Core Earnings: New Data & Evidence, forthcoming in The Journal of Financial Economics.

Below are specifics on the adjustments we make based on Robo-Analyst findings in Rogers Corp's 10-K:

Income Statement: we made $24 million of adjustments, with a net effect of removing $17 million in in non-operating expenses (2% of revenue). You can see all the adjustments made to Rogers Corp's income statement here.

Balance Sheet: we made $327 million of adjustments to calculate invested capital with a net decrease of $41 million. One of the largest adjustments was $79 million in asset write-downs. This adjustment represented 7% of reported net assets. You can see all the adjustments made to Rogers Corp's balance sheet here.

Valuation: we made $189 million of adjustments with a net effect of increasing shareholder value by $121 million. Apart from total debt, the most notable adjustment to shareholder value was $152 million in excess cash. This adjustment represents 5% of Rogers Corp's market cap. See all adjustments to Rogers Corp's valuation here.

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Disclosure: David Trainer, Kyle Guske II, Alex Sword, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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