



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

Recap From January's Picks

Our Most Attractive Stocks (-3.0%) outperformed the S&P 500 (-3.3%) from January 5, 2022 through February 1, 2022 by 0.3%. The best performing large cap stock gained 11% and the best performing small cap stock was up 15%. Overall, 17 out of the 40 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (-6.3%) outperformed the S&P 500 (-3.3%) as a short portfolio from January 5, 2022 through February 1, 2022 by 3.0%. The best performing large cap short and small cap short stocks fell by 23% each. Overall, 19 out of the 35 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios outperformed as an equal-weighted long/short portfolio by 1.7%.

Buy the
Most Attractive Stocks Model Portfolio
for February

Buy the
Most Dangerous Stocks Model Portfolio
for February

More [reliable](#) & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and provides investors with a [new source of alpha](#). Our proprietary [Robo-Analyst Technology](#)¹ scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks² to produce an unrivaled database of fundamental data.

Seven new stocks made our Most Attractive list this month, and two new stocks fell onto the Most Dangerous list. February's Most Attractive and Most Dangerous stocks were made available to members on February 3, 2022.

Our Most Attractive stocks all share a high and rising return on invested capital (ROIC) and low [price to economic book value ratio](#). Most Dangerous stocks have [misleading earnings](#) and long [growth appreciation periods](#) implied by their market valuations.

Most Attractive Stocks Feature for February: HP Inc. (HPQ: \$38/share)

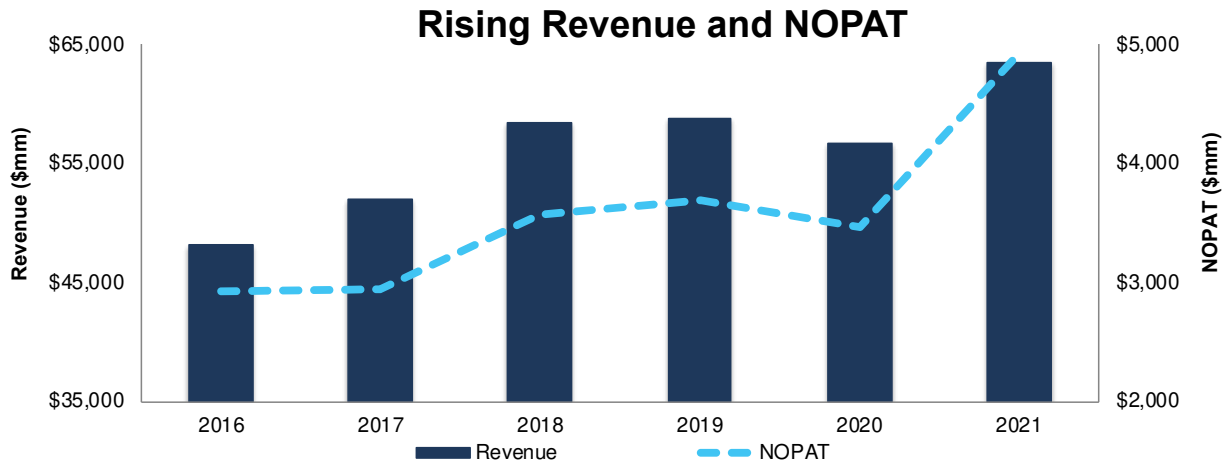
HP Inc. (HPQ) is the featured stock from February's [Most Attractive Stocks Model Portfolio](#).

HP has grown revenue by 6% compounded annually and net operating profit after-tax (NOPAT) by 11% compounded annually over the past five years.

The company's NOPAT margin increased from 6% in fiscal 2016 (FYE is 10/31) to 8% in fiscal 2021, while [invested capital turns](#) rose from 1.3 to 2.2 over the same period. Rising margins and improved invested capital turns drive HP's ROIC from 8% in fiscal 2016 to 17% in fiscal 2021.

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 Fiscal 2016**

Sources: New Constructs, LLC and company filings

HP Is Undervalued

At its current price of \$38/share, HPQ has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio means the market expects HP's NOPAT to permanently decline by 50%. This expectation seems overly pessimistic for a company that has grown NOPAT by 6% compounded annually over the past five years.

Even if HP's NOPAT margin falls to 6% (equal to 10-year average, compared to 8% in fiscal 2021) and the company's NOPAT falls by < 1% compounded annually for the next decade, the stock is worth \$64/share today – a 68% upside. [See the math behind this reverse DCF scenario](#). Should HP grow profits more in line with historical levels, the stock has even more upside.

Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

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

Income Statement: we made \$3.4 billion in adjustments, with a net effect of removing \$1.6 billion in [non-operating income](#) (2% of revenue). You can see all the adjustments made to HP's income statement [here](#).

Balance Sheet: we made \$28.7 billion in adjustments to calculate invested capital with a net increase of \$20.0 billion. One of the most notable adjustments was \$22.5 billion in [asset write-downs](#). This adjustment represented 237% of reported net assets. You can see all the adjustments made to HP's balance sheet [here](#).

Valuation: we made \$10.5 billion of adjustments with a net effect of decreasing shareholder value by \$8.3 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$1.1 billion in [excess cash](#). This adjustment represents 3% of HP's market cap. See all adjustments to HP's valuation [here](#).

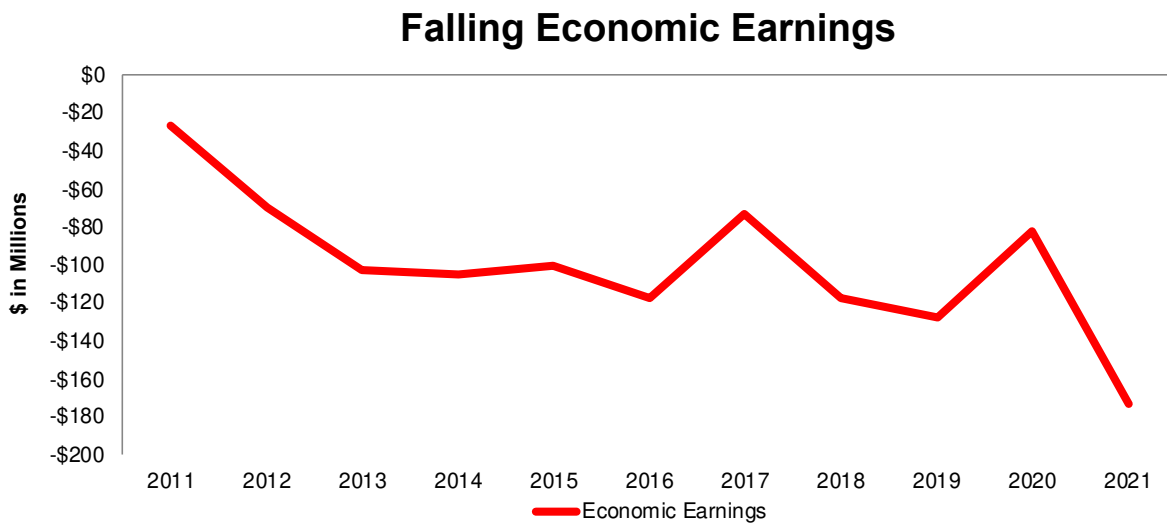
Most Dangerous Stocks Feature: Azenta Inc (AZTA: \$89/share)

Azenta Inc (AZTA) is the featured stock from February's [Most Dangerous Stocks Model Portfolio](#).

Azenta's [economic earnings](#), the true cash flows of the business, fell from -\$26 million in fiscal 2011 (FYE is 9/30) to -\$172 million in fiscal 2021. The company's NOPAT margin fell from 12% to -3%, while ROIC fell from 7% to -1% over the same time.



Figure 2: Economic Earnings Since Fiscal 2011



Sources: New Constructs, LLC and company filings

Azenta Provides Poor Risk/Reward

Despite its poor fundamentals, Azenta is priced for significant profit growth, and we believe the stock is overvalued.

To justify its current price of \$89/share, Azenta must improve its NOPAT margin to 12% (all-time high compared to -3% in fiscal 2021) and grow revenue by 26% compounded annually for the next decade, an [incredibly rare](#) achievement. [See the math behind this reverse DCF scenario.](#) In this scenario, Azenta NOPAT rises from -\$14 million in fiscal 2021 to \$616 million in fiscal 2031. Given that Azenta’s cumulative NOPAT over the past decade is just \$246 million, we think these expectations are overly optimistic.

Even if Azenta can achieve a NOPAT margin of 12% and grow revenue by 10% compounded annually for the next decade, the stock is worth just \$30/share today – a 66% downside to the current stock price. [See the math behind this reverse DCF scenario.](#) Should Azenta’s revenue grow at a slower rate or NOPAT margins not recover to fiscal 2011 levels, the stock has even more downside.

Each of these scenarios also assumes Azenta can grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely but allows us to create truly 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](#)

Below are specifics on the adjustments we make based on Robo-Analyst findings in Azenta’s 10-K:

Income Statement: we made \$195 million in adjustments, with a net effect of removing \$125 million in [non-operating income](#) (24% of revenue). You can see all the adjustments made to Azenta’s income statement [here](#).

Balance Sheet: we made \$1.9 billion in adjustments to calculate invested capital with a net increase of \$430 million. One of the most notable adjustments was \$812 million in [asset write-downs](#). This adjustment represented 55% of reported net assets. You can see all the adjustments made to Azenta’s balance sheet [here](#).

Valuation: we made \$642 million in adjustments, with a net decrease to shareholder value of \$437 million. The most notable adjustment to shareholder value was \$334 million in [net assets from discontinued operations](#). This adjustment represents 5% of Azenta’s market cap. See all adjustments to Azenta’s valuation [here](#).

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Disclosure: David Trainer, Kyle Guske II, 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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