



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

One new stock made August's [Exec Comp Aligned with ROIC Model Portfolio](#), available to members as of August 12, 2022.

Recap From July's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+10.0%) underperformed the S&P 500 (+11.1%) from July 14, 2022, through August 10, 2022. The best performing stock in the portfolio was up 29%. Overall, seven out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P 500 from July 14, 2022, through August 10, 2022.

Buy the Exec Comp Aligned with ROIC Model Portfolio

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)¹ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

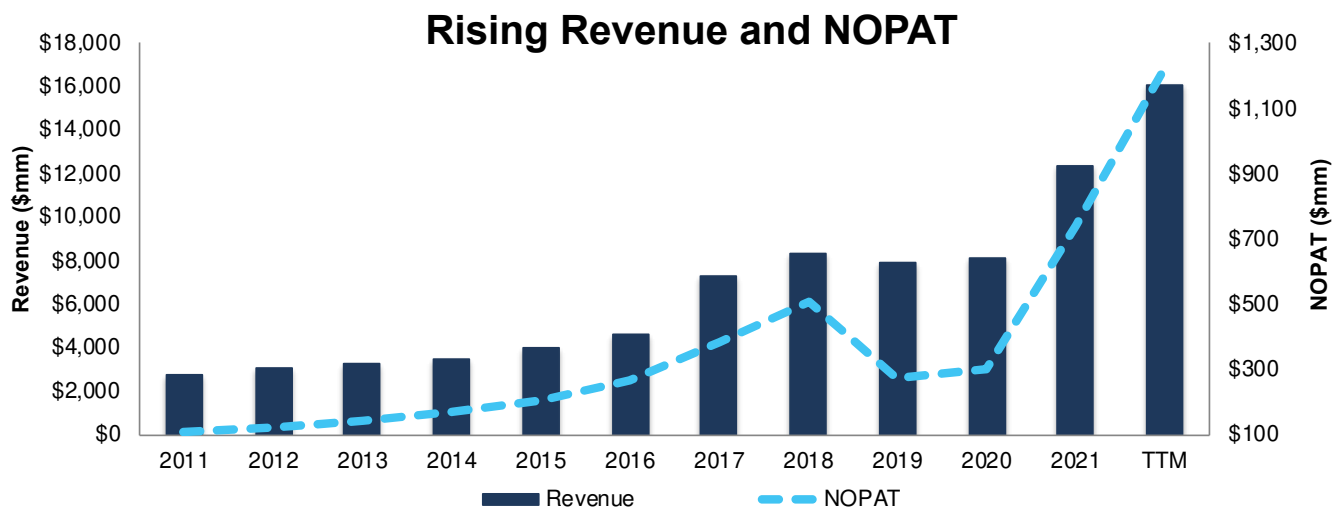
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. We think this combination provides a uniquely well-screened list of long ideas because return on invested capital (ROIC) is the [primary driver of shareholder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

New Feature Stock for August: Thor Industries, Inc. (THO: \$93/share)

Thor Industries, Inc. (THO) is the featured stock in August's Exec Comp Aligned with ROIC Model Portfolio.

Thor Industries has grown revenue and net operating profit after tax (NOPAT) by 16% and 21% compounded annually, respectively, over the past ten years. See Figure 1. The company's NOPAT margin rose from 4% in fiscal 2011 (fiscal year ends on July 31) to 8% over the trailing twelve months (TTM), while ROIC rose from 13% to 22% over the same time.

Figure 1: Thor Industries' NOPAT & Revenue Growth: Fiscal 2011 – TTM



Sources: New Constructs, LLC and company filings

¹ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

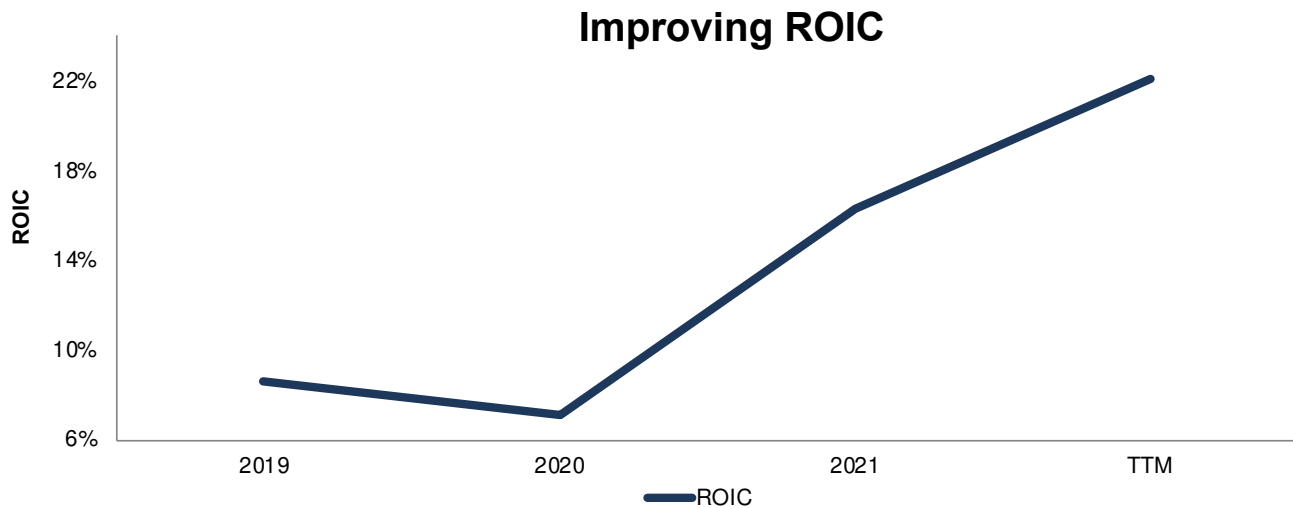


Executive Compensation Properly Aligns Executive Incentives

Thor Industries' executive compensation plan aligns executives' interests with shareholders' interests by tying the payout of performance share units to a three-year ROIC performance goal.

Thor Industries' inclusion of ROIC as a performance goal has helped create shareholder value through rising ROIC and [economic earnings](#). Thor Industries' ROIC improved from 9% in fiscal 2019 to 22% over the TTM, and the company's economic earnings rose from \$52 million to \$870 million over the same period.

Figure 2: Thor Industries' ROIC: Fiscal 2019 – TTM



Sources: New Constructs, LLC and company filings

Thor Industries Is Undervalued

At its current price of \$93/share, THO has a price-to-economic book value ([PEBV](#)) ratio of 0.3. This ratio means the market expects Thor Industries' NOPAT to permanently fall by 70%. This expectation seems overly pessimistic for a company that has grown NOPAT by 21% compounded annually over the past 10 years and 19% compounded annually over the past two decades.

If Thor Industries' NOPAT margin falls to its ten-year average of 5% (vs. 8% TTM), and the company's NOPAT falls 1% compounded annually over the next 10 years, the stock would be worth \$120+/share today – a 29% upside. [See the math behind this reverse DCF scenario](#). Should the company grow NOPAT more in line with historical growth rates, 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 Thor Industries' 10-Qs and 10-Ks:

Income Statement: we made \$179 million in adjustments, with a net effect of removing \$83 million in [non-operating expenses](#) (1% of revenue). Clients can see all adjustments made to Thor Industries' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$663 million in adjustments to calculate invested capital with a net decrease of \$307 million. One of the largest adjustments was \$123 million (3% of reported net assets) in [midyear acquisitions](#). Clients can see all adjustments made to Thor Industries' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$2.0 billion in adjustments, all of which decreased shareholder value. Apart from [total debt](#), the most notable adjustment to shareholder value was \$140 million in [net deferred tax liabilities](#). This adjustment represents 3% of Thor Industries' market cap. Clients can see all adjustments to Thor Industries' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article originally published on [August 18, 2022](#).



Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Brian Pellegrini 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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