



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

Three new stocks made February's [Exec Comp Aligned with ROIC Model Portfolio](#), available to members as of February 16, 2023.

Recap From January's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+4.6%) outperformed the S&P 500 (+3.5%) from January 13, 2023 through February 14, 2023. The best-performing stock in the portfolio was up 16%. Overall, 9 out 15 Exec Comp Aligned with ROIC stocks outperformed the S&P 500 from January 13, 2023 through February 14, 2023.

[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](#).

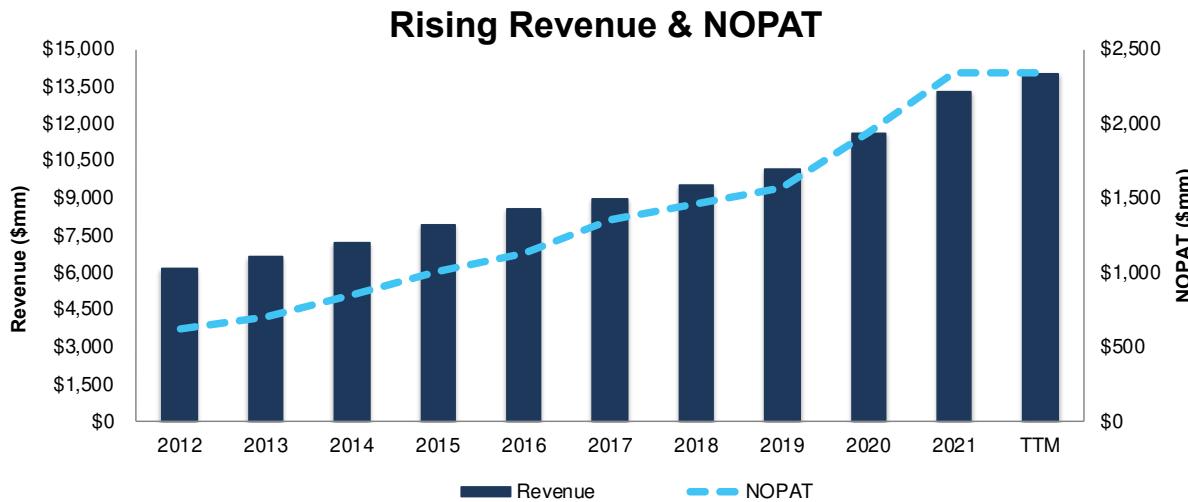
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the [primary driver of shareholder value creation](#) is return on invested capital ([ROIC](#)).

New Feature Stock for February: O'Reilly Automotive Inc (ORLY: \$841/share)

O'Reilly Automotive Inc (ORLY) is the featured stock in February's Exec Comp Aligned with ROIC Model Portfolio. We originally made O'Reilly a [Long Idea](#) in [March 2022](#). Since then, the stock is up 27% compared to a 7% decline for the S&P 500. The stock remains undervalued, as we highlighted in our recent report [here](#). Get all of our reports on O'Reilly [here](#).

O'Reilly has grown revenue and NOPAT by 10% and 12% compounded annually, respectively, since 2017. The company's NOPAT margin rose from 13% in 2016 to 17% over the trailing-twelve-months (TTM), while invested capital turns rose from 1.6 to 2.4 over the same time. Rising NOPAT margins and invested capital turns drive the company's return on invested capital ([ROIC](#)) from 21% in 2016 to 40% in the TTM.

Figure 1: O'Reilly's Revenue & NOPAT: 2012 – 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](#).

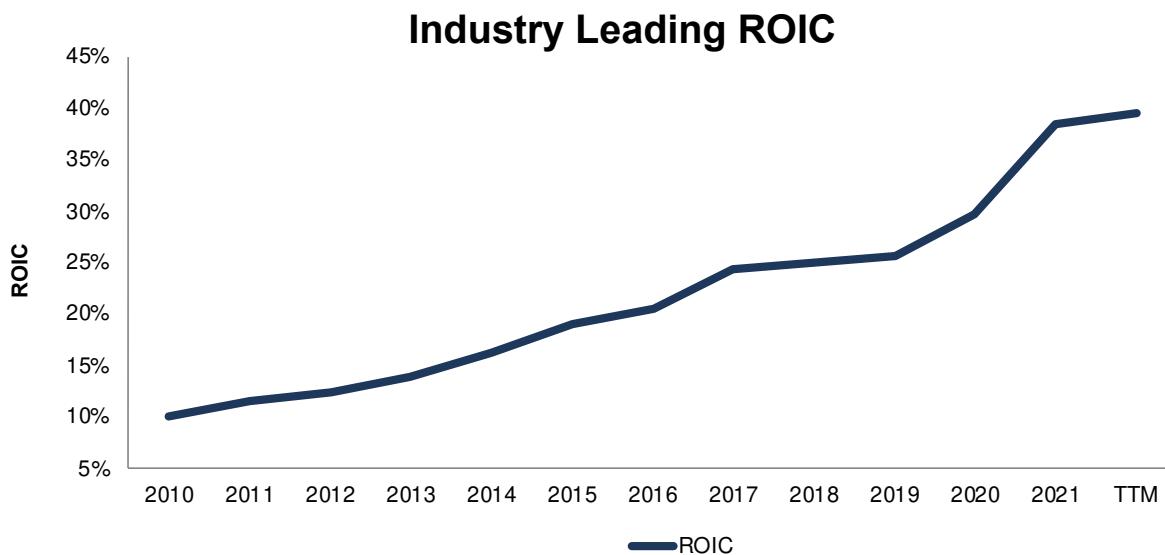


Executive Compensation Properly Aligns Incentives

O'Reilly's executive compensation plan aligns the interests of executives and shareholders by tying the payout of incentive compensation to specific performance metrics, which include return on invested capital and free cash flow.

The company's inclusion of ROIC as a performance goal has helped create shareholder value through rising ROIC and [economic earnings](#). O'Reilly's ROIC has increased from 10% in 2010 to 40% over the TTM, while economic earnings rose from \$237 million to \$2.0 billion over the same time.

Figure 2: O'Reilly's ROIC: 2010 – TTM



Sources: New Constructs, LLC and company filings

ORLY Has Further Upside

At the current price of \$841/share, ORLY has a price-to-economic book value ([PEBV](#)) ratio of 1.9. Though the company's PEBV ratio is higher than other Long Ideas, we believe O'Reilly's competitive moat positions it for further growth and the stock still holds upside potential.

If O'Reilly maintains its five-year average NOPAT margin of 16%, and the company grows revenue by 11% compounded annually (its three-year compound annual growth rate) from 2022 – 2031, the stock would be worth \$1,091/share today – a 30% upside. In this scenario, O'Reilly's NOPAT would grow 10% compounded annually over the next decade. [See the math behind this reverse DCF scenario.](#)

For reference, O'Reilly has had compound annual NOPAT growth of 15% over the last ten years. 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 made based on Robo-Analyst findings in O'Reilly's 10-Qs and 10-Ks:

Income Statement: we made \$315 million in adjustments with a net effect of removing \$179 million in [non-operating expenses](#) (1% of revenue). Clients can see all adjustments made to O'Reilly's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$356 million in adjustments to calculate invested capital with a net decrease of \$13 million. One of the largest adjustments was \$36 million (1% of reported net assets) in adjustments for [operating leases](#). Clients can see all adjustments made to O'Reilly's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$6.6 billion in adjustments, all of which decrease shareholder value. Apart from [total debt](#), the most notable adjustment to shareholder value was \$476 million in [outstanding employee stock options](#). This



adjustment represents 1% of O'Reilly's market cap. Clients can see all adjustments to O'Reilly's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [February 24, 2023](#).

Disclosure: David Trainer, Kyle Guske II, and Italo Mendonça 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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