



## Featured Stock in April's Exec Comp & ROIC Model Portfolio

Three new stocks make April's Exec Comp Aligned with ROIC Model Portfolio, available to members as of April 14, 2023.

### Recap from March Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+3.1%) underperformed the S&P 500 (+4.8%) from March 15, 2023 through April 12, 2023. The best performing stock in the portfolio was up 13%. Overall, five out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from March 15, 2023 through April 12, 2023.

[Learn more about the best fundamental research](#)

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

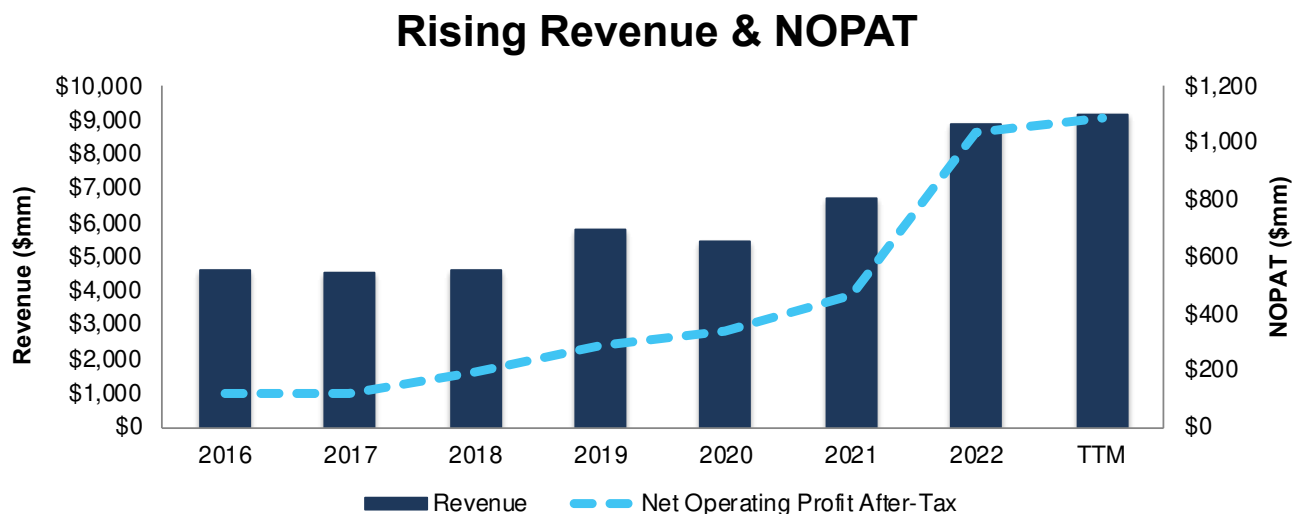
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the [primary driver](#) of shareholder value creation is return on invested capital ([ROIC](#)).

### New Stock Feature for April: Commercial Metals Company (CMC: \$48/share)

Commercial Metals Company (CMC) is the featured stock in April's Exec Comp Aligned with ROIC Model Portfolio.

Commercial Metals has grown revenue and NOPAT by 11% and 40% compounded annually, respectively, since 2016. The company's NOPAT margin improved from 3% in 2016 to 12% in the trailing twelve months (TTM), while invested capital turns rose from 1.5 to 1.6 over the same time. Rising NOPAT margins and invested capital turns drive the company's return on invested capital ([ROIC](#)) from 4% in 2016 to 19% in the TTM.

Figure 1: Commercial Metals' Revenue & NOPAT: 2016 – TTM



Sources: New Constructs, LLC and company filings

<sup>1</sup> 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](#).

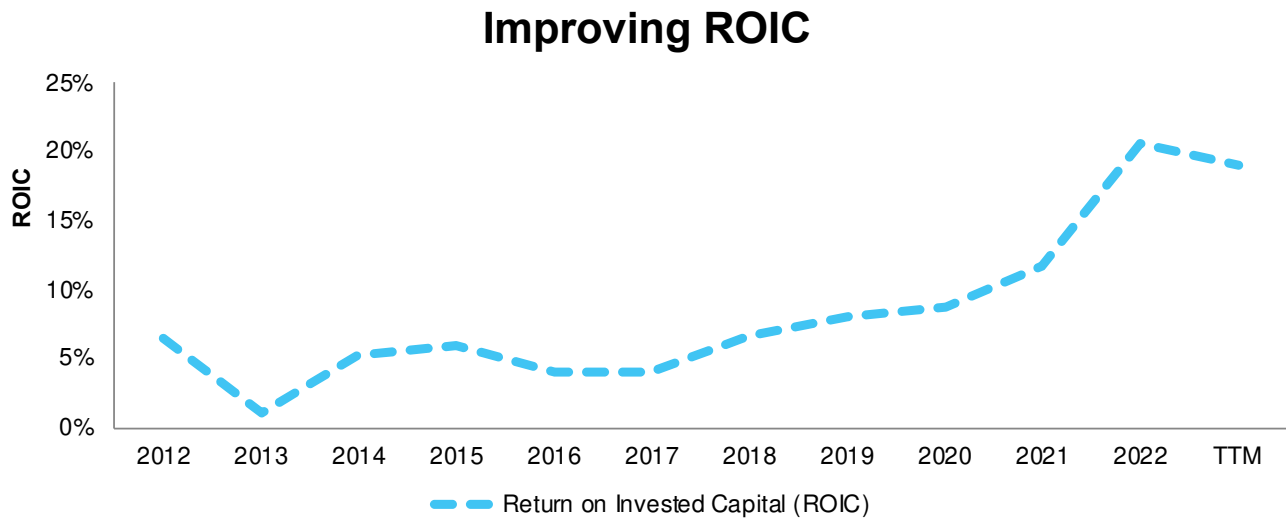


### Executive Compensation Properly Aligns Incentives

Commercial Metals’ executive compensation plan aligns the interests of executives and shareholders by tying a portion of its Annual Cash Incentive Plan to “Return on Invested Capital for Compensation Purposes”, according to the company’s proxy [statement](#).

The company’s inclusion of ROIC as a performance goal has helped create shareholder value through rising ROIC and [economic earnings](#). When we calculate ROIC using our [superior fundamental data](#), we find that Commercial Metals’ ROIC has increased from 6% in 2012 to 19% in the TTM. Economic earnings rose from \$68 million to \$631 million over the same time.

**Figure 2: Commercial Metals International’s ROIC: 2012 – TTM**



Sources: New Constructs, LLC and company filings

### CMC Has Further Upside

At the current price of \$48/share, CMC has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio implies the market expects Commercial Metals’ NOPAT to permanently fall by 50%. This expectation seems overly pessimistic for a company that has grown NOPAT 17% compounded annually over the past decade and 16% compounded annually over the past two decades.

If Commercial Metals’ NOPAT margin falls to 6% (vs. 12% in the TTM) and the company grows revenue by 7% compounded annually over the next decade, the stock would be worth \$80/share today – a 67% upside. [See the math behind this reverse DCF scenario](#). In this scenario, Commercial Metals’ NOPAT in 2032 would be unchanged from TTM levels.

For reference, Commercial Metals has grown NOPAT by 17% compounded annually over the past decade. 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 Commercial Metals’ 10-K:

Income Statement: we made \$367 million in adjustments with a net effect of removing \$184 million in [non-operating income](#) (2% of revenue). Clients can see all adjustments made to Commercial Metals’ income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$2.2 billion in adjustments to calculate invested capital with a net decrease of \$47 million. One of the largest adjustments was \$544 million (11% of reported net assets) in [asset write-downs](#). Clients can see all adjustments made to Commercial Metals’ balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.



Valuation: we made \$1.8 billion in adjustments, with a net effect of decreasing shareholder value by \$1.5 billion. The most notable adjustment to shareholder value was \$303 million in [deferred tax liabilities](#). This adjustment represents 5% of Commercial Metals' market cap. Clients can see all adjustments to Commercial Metals' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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

*Disclosure: David Trainer, Kyle Guske II, and Italo Mendonça receive no compensation to write about any specific stock, style, or theme.*

*Questions on this report or others? Join our [Society of Intelligent Investors](#) and connect with us directly.*



## *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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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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