



Featured Stock in September’s Exec Comp & ROIC Model Portfolio

One new stock make [September’s](#) Exec Comp Aligned with ROIC Model Portfolio, available to members as of September 14, 2023.

Recap from August Picks

Our Exec Comp Aligned with ROIC Model Portfolio (-0.8%) underperformed the S&P 500 (+1.4%) from August 16, 2023 through September 12, 2023. The best performing stock in the portfolio was up 8%. Overall, 5 out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from August 16, 2023 through September 12, 2023.

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](#).

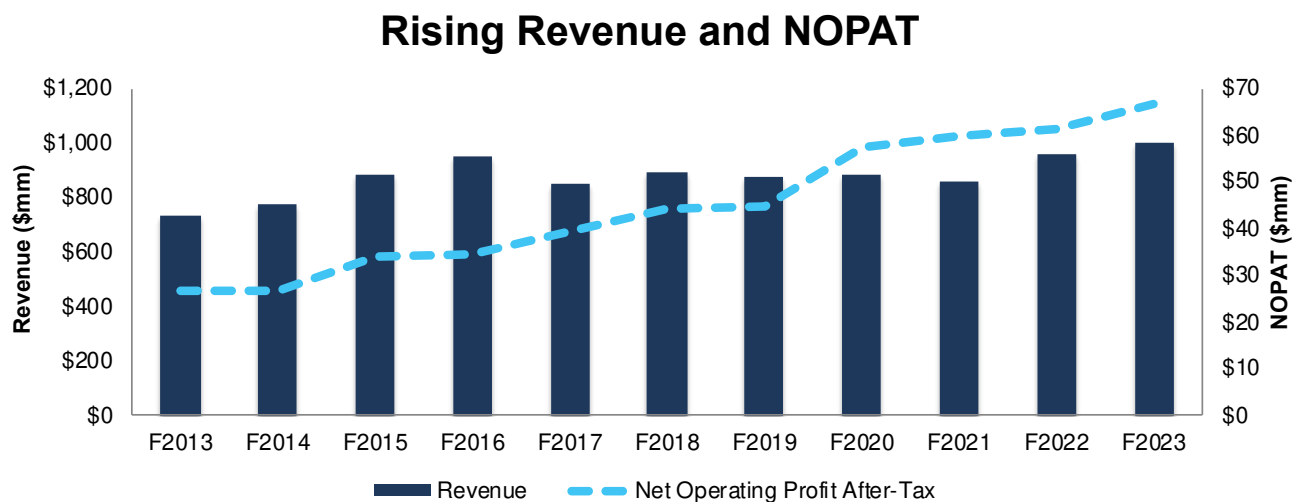
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the [primary driver](#) of shareholder value creation is return on invested capital ([ROIC](#)).

New Stock Feature for September: John B. Sanfilippo & Son, Inc. (JBSS: \$102/share)

John B. Sanfilippo & Son, Inc. (JBSS) is the featured stock in September’s Exec Comp Aligned with ROIC Model Portfolio.

John B. Sanfilippo & Son has grown revenue and net operating profit after tax ([NOPAT](#)) by 3% and 10% compounded annually, respectively, since fiscal 2013. The company’s NOPAT margin improved from 4% in fiscal 2013 to 7% in fiscal 2023 (year-ended June 29, 2023), while [invested capital turns](#) rose from 2.3 to 2.7 over the same time. Rising NOPAT margins and invested capital turns drive the company’s return on invested capital ([ROIC](#)) from 8% in fiscal 2013 to 18% in fiscal 2023.

Figure 1: John B. Sanfilippo & Son’s Revenue & NOPAT: Fiscal 2013 – Fiscal 2023



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](#).

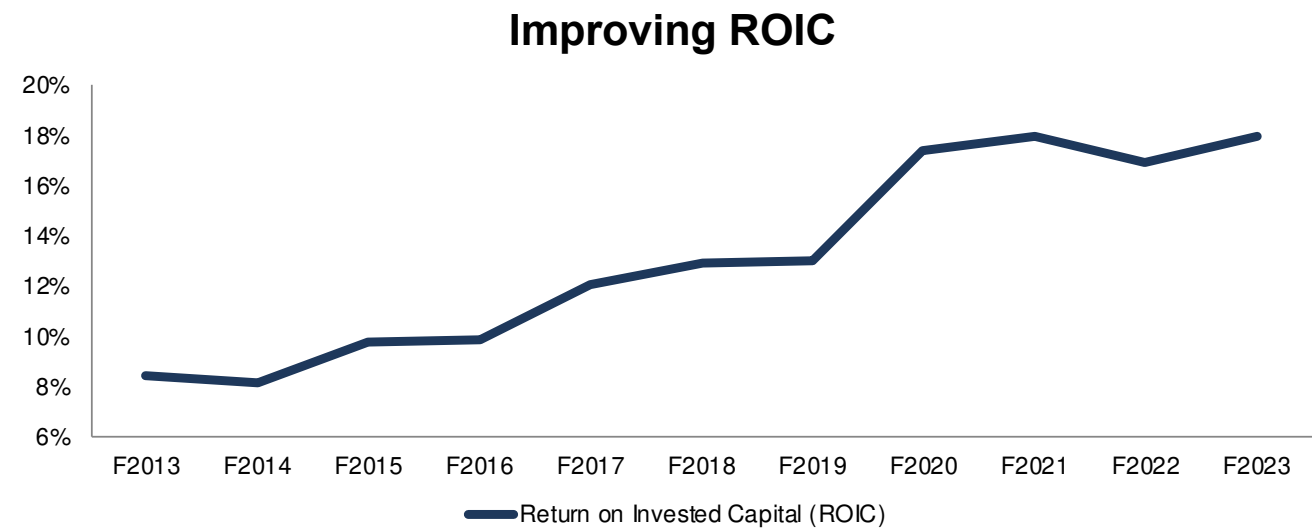


Executive Compensation Properly Aligns Incentives

John B. Sanfilippo & Son’s executive compensation plan aligns the interests of executives and shareholders by tying the payout of cash awards to a targeted improvement in economic profit, which is similar to our calculation of [economic earnings](#).

The company’s inclusion of economic profit as a performance goal has helped create shareholder value by driving higher ROIC and economic earnings. When we calculate ROIC using our [superior fundamental data](#), we find that John B. Sanfilippo and Son’s ROIC has increased from 8% in fiscal 2013 to 18% in fiscal 2023. Economic earnings rose from \$18 million to \$44 million over the same time.

Figure 2: John B. Sanfilippo & Son’s ROIC: Fiscal 2013 – Fiscal 2023



Sources: New Constructs, LLC and company filings

JBSS Has Further Upside

At the current price of \$102/share, JBSS has a price-to-economic book value ([PEBV](#)) ratio of 1.2. Though the company’s PEBV ratio is higher than other featured stocks, the stock still holds upside.

If we assume John B. Sanfilippo & Son’s NOPAT margin remains at 7% and the company grows revenue by 4% compounded annually (vs. 11% in fiscal 2022 and 5% in fiscal 2023) over the next decade, the stock would be worth \$122/share today – a 20% upside. [See the math behind this reverse DCF scenario](#). In this scenario, John B. Sanfilippo & Son’s NOPAT grows 4% compounded annually through 2033.

For reference, John B, Sanfilippo & Son has grown NOPAT by 10% compounded annually since 2013. 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 John B. Sanfilippo & Son’s 10-K:

Income Statement: we made \$7 million in adjustments with a net effect of removing \$3 million in [non-operating expenses](#) (<1% of revenue). Clients can see all adjustments made to John B. Sanfilippo & Son’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$32 million in adjustments to calculate invested capital with a net increase of \$24 million. One of the largest adjustments was \$9 million (3% of reported net assets) in [asset write-downs](#). Clients can see all adjustments made to John B. Sanfilippo & Son’s balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$43 million in adjustments, all of which decreased shareholder value. The largest adjustment to shareholder value was \$28 million in [underfunded pensions](#). This adjustment represents 2% of



John B. Sanfilippo & Son's market value. Clients can see all adjustments to John B. Sanfilippo & Son's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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Disclosure: Kyle Guske II owns JBSS. David Trainer, Kyle Guske II, Italo Mendonca, and Hakan Salt 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, 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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