



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

One new stock made [October’s](#) Exec Comp Aligned with ROIC Model Portfolio, available to members as of October 13, 2023.

Recap from September Picks

Our Exec Comp Aligned with ROIC Model Portfolio (-2.4%) outperformed the S&P 500 (-3.1%) from September 14, 2023 through October 11, 2023. The best performing stock in the portfolio was up 12%. Overall, 9 out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from September 14, 2023 through October 11, 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](#).

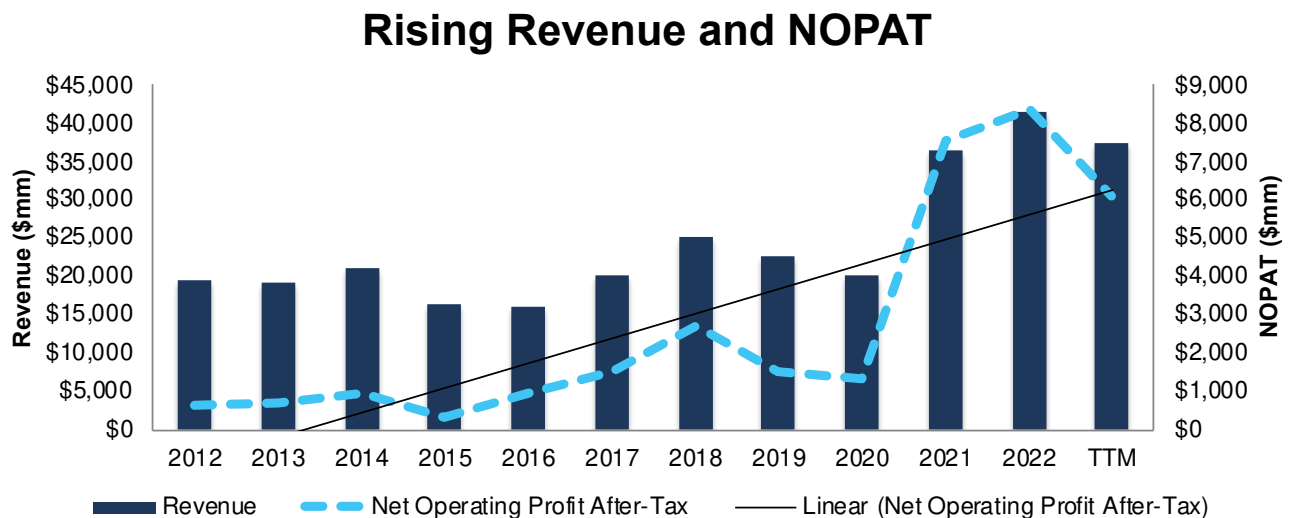
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the [primary driver](#) of shareholder value creation is return on invested capital ([ROIC](#)).

New Stock Feature for October: Nucor Corporation (NUE: \$145/share)

Nucor Corporation (NUE) is the featured stock in October’s Exec Comp Aligned with ROIC Model Portfolio. We first wrote about Nucor Corporation in [June of 2023](#).

Nucor has grown revenue and net operating profit after tax ([NOPAT](#)) by 6% and 24% compounded annually, respectively, since 2012. The company’s NOPAT margin improved from 3% in 2012 to 16% in the trailing twelve months (TTM), while [invested capital turns](#) fell from 1.5 to 1.4 over the same time. Rising NOPAT margins are enough to offset falling IC turns and drive the company’s return on invested capital ([ROIC](#)) from 5% in 2012 to 22% in the TTM.

Figure 1: Nucor’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](#).

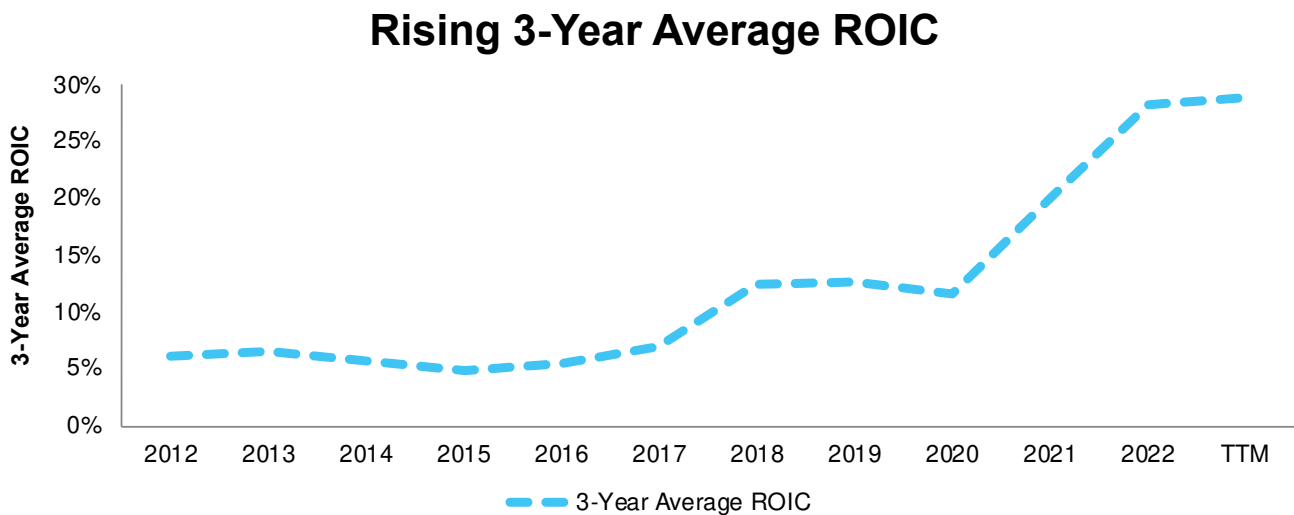


Executive Compensation Properly Aligns Incentives

Nucor’s executive compensation plan aligns the interests of executives and shareholders by tying 25% of its annual incentive awards and 50% of the cash and restricted stock portion of long-term incentive awards to annual Return on Average Invested Capital (ROAIC) relative to the “Steel Comparator Group”. The remaining 50% of the cash and restricted stock award is tied to ROAIC relative to the “General Industry Comparator Group.” According to Nucor’s proxy [statement](#), the company’s executive compensation, which includes ROAIC as a key indicator of performance, is “designed to create long-term value for our stockholders and to reinforce a strong culture of ownership.”

The company’s inclusion of ROAIC, a variation of ROIC, 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 Nucor’s ROIC has increased from 5% in 2012 to 22% in the TTM. Economic earnings rose from -\$13 million to \$3.7 billion over the same time.

Figure 2: Nucor’s 3-Year Average ROIC: 2012 – TTM



Sources: New Constructs, LLC and company filings

NUE Has Further Upside

At the current price of \$145/share, NUE has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio implies the market expects Nucor’s NOPAT to permanently fall by 50%. This expectation seems overly pessimistic for a company that has grown NOPAT 24% compounded annually over the past decade.

Even if Nucor’s

- NOPAT margin falls to 12% (below its 5-year average of 13%) and
- the company’s revenue grows at consensus estimates in 2023 (-14%) and 2024 (-8%) and, then, grows only 3% compounded annually from 2025 to 2032 (compared to 6% compounded annually since 2012),

the stock would be worth \$191/share today – a 32% upside. [See the math behind this reverse DCF scenario](#). In this scenario, Nucor’s NOPAT still falls 5% compounded annually through 2032.

For reference, Nucor has grown NOPAT by 24% compounded annually since 2012. 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 Nucor’s 10-Qs and 10-K:

Income Statement: we made \$893 million in adjustments with a net effect of removing \$796 million in [non-operating expenses](#) (2% of revenue). Clients can see all adjustments made to Nucor’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.



Balance Sheet: we made \$6.6 billion in adjustments to calculate invested capital with a net decrease of \$3.9 billion. One of the largest adjustments was \$1.1 billion (4% of reported net assets) in [asset write downs](#). Clients can see all adjustments made to Nucor's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$12 billion in adjustments, with a net effect of decreasing shareholder value by \$5 billion. Apart from [total debt](#), the most notable adjustment to shareholder value was \$1.2 billion in [net deferred tax liability](#). This adjustment represents 3% of Nucor's market value. Clients can see all adjustments to Nucor's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [October 20, 2023](#).

Disclosure: David Trainer, Kyle Guske II, Hakan Salt, 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, 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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