Free Stock Pick from our Exec Comp Aligned with ROIC Model Portfolio for April 2025

As earnings season rolls on, many large companies are pulling guidance due to an uncertain economic outlook. We don't really care about guidance. It's mostly a game for Wall Street insiders to manipulate unsuspecting investors' expectations. We do care about earnings, however, because they come with new financial filings, which is where we find the insights that drive our proven-superior research. In fact, CEO David Trainer recently hosted an earnings watch party to discuss what the earnings for Tesla (TSLA), General Electric (GE), Verizon (VZ), and many others says about the current market.

We also care about incentives, especially executive compensation incentives. When companies that tie executive compensation plan incentives to return on invested capital (ROIC), we think they are more likely to create shareholder value. Our Exec Comp Aligned with ROIC Model Portfolio only includes companies that have Attractive-or-better ratings and tie executive compensation to ROIC.

We are proud to offer the Exec Comp Aligned with ROIC Model Portfolio, and we are excited to give you a free stock pick from this Model Portfolio.

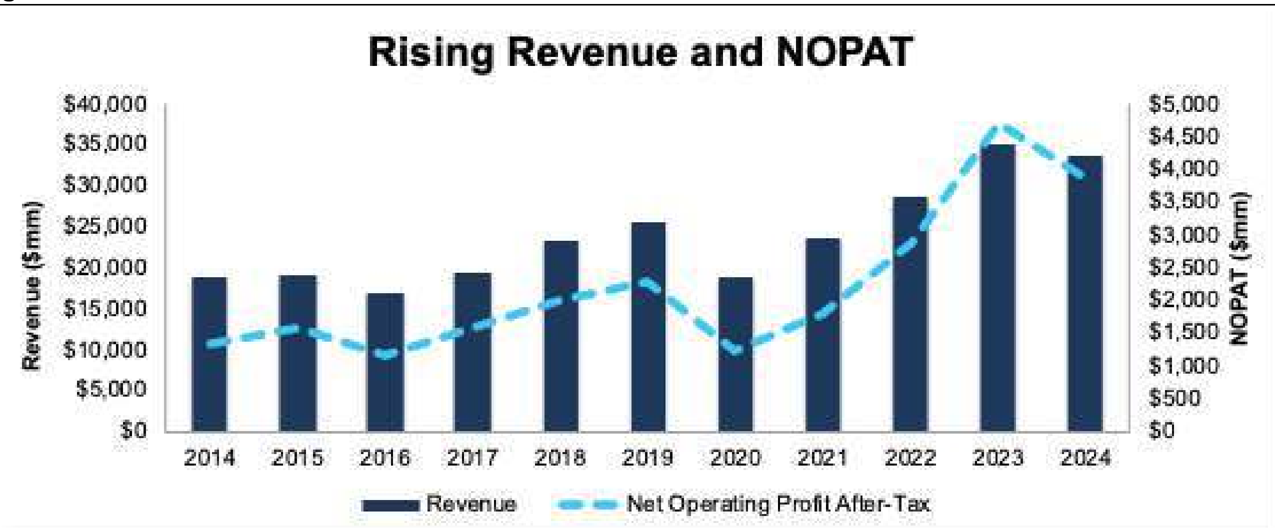
The goal behind sharing these free features with you is to deliver insight into the uniquely high value-add of our research. We want you to know how hard we work and how we do research, so you know how reliable research looks and how real AI and machine learning work.

We update this Model Portfolio monthly, and April's Exec Comp Aligned with ROIC Model Portfolio was updated and published for clients on April 16, 2025.

Free Stock Feature for April: Paccar Inc. (PCAR: $93/share)

Paccar has grown revenue and net operating profit after tax (NOPAT) by 6% and 11% compounded annually, respectively, since 2014. The company's NOPAT margin improved from 7% in 2014 to 11% in 2024 and invested capital turns rose from 2.3 to 2.5 over the same time. Rising NOPAT margins and invested capital turns drive the company's return on invested capital (ROIC) from 17% in 2014 to 29% in 2024.

Figure 1: Paccar's Revenue & NOPAT: 2014 - 2024



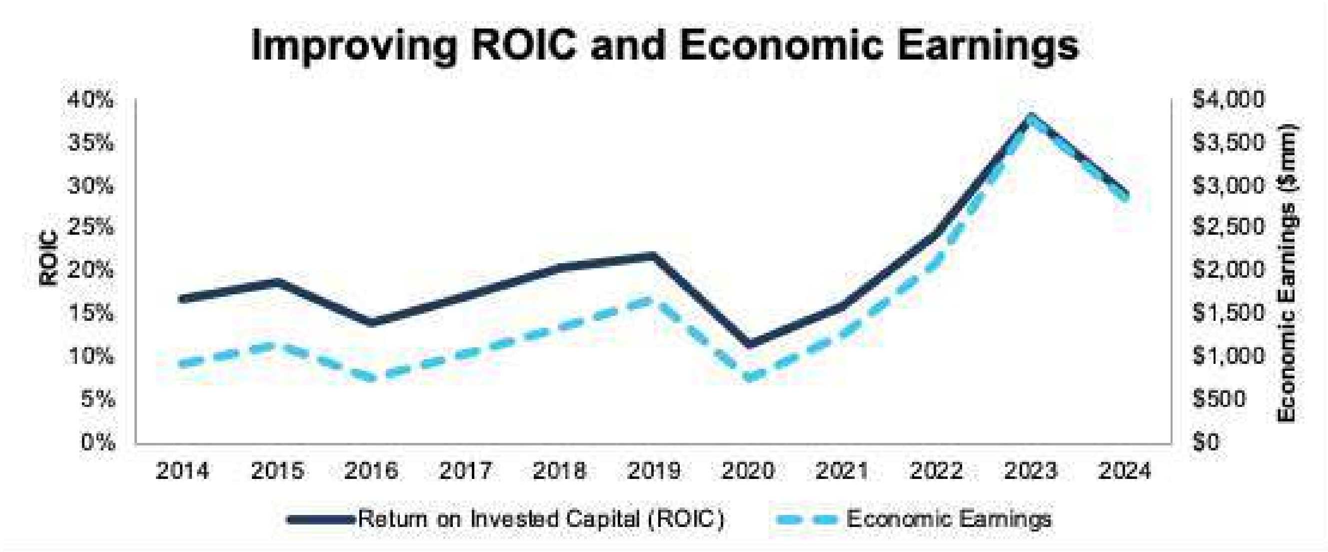
Sources: New Constructs, LLC and company filings

Executive Compensation Properly Aligns Incentives

Paccar's executive compensation plan aligns the interests of executives and shareholders by tying a portion of its long-term incentive compensation to return on capital (ROC), according to the company's proxy statement.

The company's inclusion of ROC, 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 Paccar's ROIC has increased from 17% in 2014 to 29% in 2024. Economic earnings rose from $916 million to $2.8 billion over the same time.

Figure 2: Paccar's ROIC & Economic Earnings: 2014 – 2024



Sources: New Constructs, LLC and company filings

PCAR Has Further Upside

At its current price of $93/share, PCAR has a price-to-economic book value (PEBV) ratio of 0.8. This ratio means the market expects Paccar's NOPAT to permanently fall 20% from current levels. This expectation seems overly pessimistic for a company that has grown NOPAT 11% and 6% compounded annually since 2014 and 2004, respectively.

Even if Paccar's

- NOPAT margin falls to 9% (below 10% five-year average and 11% TTM NOPAT margin) and
- revenue grows 4% (below five- and ten-year compound annual revenue growth of 6%) compounded annually through 2034 then,

the stock would be worth $112/share today – a 20% upside. Contact us for the math behind this reverse DCF scenario. In this scenario, Paccar's NOPAT would grow just 2% compounded annually from 2025 through 2034.

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 Paccar's 10-K:

Income Statement: we made over $700 million in adjustments with a net effect of removing just under $300 million in non-operating income. Professional members can see all adjustments made to Paccar's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made just under $11 billion in adjustments to calculate invested capital with a net decrease of over $8 billion. One of the most notable adjustments was for other comprehensive income. Professional members can see all adjustments made to Paccar's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over $9 billion in adjustments with a net increase of over $8 billion to shareholder value. The most notable adjustment to shareholder value was excess cash. Professional members can see all adjustments to Paccar's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on April 25, 2025.

Disclosure: Hakan Salt owns PCAR. David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our online community and connect with us directly.

It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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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