

Inviting Comments on Proposed Definition of “Returns on Corporate Capital”

The workshop project initiated last year* has produced what we believe is a sensible analytical process, and a source of reliable data, that allows valid industry-based company comparisons of “Returns on Corporate Capital” (“ROCC”).

The workshop’s proposed definition of ROCC “Methodology and Specifications” [follows](#) for your review, and a “beta” test version of the proposed graphing tool is now [posted on the Forum website](#) for your examination.



It should be emphasized that both the definition of ROCC and the graph design are preliminary, and are being presented now to invite Forum participants’ suggestions of refinements to make this analytical tool as useful to you as possible.

GL – June 14, 2017

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* See the [June 16, 2016 Forum Report: Defining a Simple Measure of “Returns on Corporate Capital.”](#)

Methodology and Specifications for Returns on Corporate Capital™

(June 14, 2017 workshop version: for review and comment)

The definition of “Returns on Corporate Capital” (“ROCC”) summarized below was developed in a Shareholder Forum workshop project that was initiated in 2016* to address both corporate and investor interests in analyzing a company’s performance based on its *use of capital to generate income from the production of goods and services*, as the ultimate basis for competitive corporate success and long term shareholder value.

Purpose of consistently defined metric

The standard calculation of ROCC has been developed to provide a broadly applicable measurement of a company’s use of available capital, in essentially the same way that corporate managers and investors commonly measure the merits of a proposed or continuing business enterprise. In this context, the measurements are intended to provide relevant comparisons only among companies with similar industry operations, and for the limited purposes of preliminary review to determine whether more detailed, situation-specific analysis is justified.

The ROCC calculation is similar to some variations of the commonly used “ROIC” (returns on invested capital), but has been carefully defined to provide a more consistently defined metric by standardizing its calculation and carefully specifying data elements that can be obtained directly from public sources, according to professional and academic practices allowing any user to compare or test analyses presented by other users.

Calculations based on GAAP-defined amounts

The following calculation of ROCC is based strictly on GAAP-defined amounts as they are reported by companies in audited statements filed with the U.S. Securities and Exchange Commission (SEC), without any researcher “normalization” or other judgmental adjustments:

$$\frac{\text{net income plus interest expense and income taxes,}}{\text{divided by}} \\ \text{prior year ending balances of} \\ \text{total assets less current liabilities other than interest-bearing debt}$$

* See the [June 16, 2016 Forum Report: Defining a Simple Measure of “Returns on Corporate Capital.”](#)

Industry competitor aggregates

The ROCC of each company's industry competitors is based on the same calculations of the total asset and income results for all SEC-reporting companies in the relevant industry other than the subject company, providing an economically meaningful measurement of competitor performance reflecting market contribution rather than an average of unweighted ratios. (It should be noted that the exclusion of the subject company from its industry competitor aggregates, while analytically rigorous, produces different industry competitor results for each company in an industry. ROCC calculations including all companies in an industry can be provided upon request.) The industry of each company is based on the company's specification of its Standard Industrial Classification (SIC) in its SEC filings; if a 4-digit SIC industry definition is specified by fewer than ten companies, its broader 3 or 2 digit SIC industry group classification is assigned to support statistically meaningful competitor comparisons.

Universe of companies

For purposes of consistency and integrity, the standard ROCC graphs published by the Shareholder Forum provide analyses of only the approximately 8,000 companies currently reporting investment information to the SEC for registered equity securities, and include only such companies in their specified industry averages. Special projects can be developed using other companies, such as OTC-traded or non-U.S. companies, but the data available for these companies may not be reliably comparable.

Source of data

ROCC analyses are produced by the Shareholder Forum using data provided by the [EDGAR Online](#) division of Donnelley Financial Solutions from SEC records of each subject company's reports.



Requests for variations of the standard ROCC data reports to address specific analytical requirements are welcomed, and can be addressed to rocc@shareholderforum.com.

– June 14, 2017