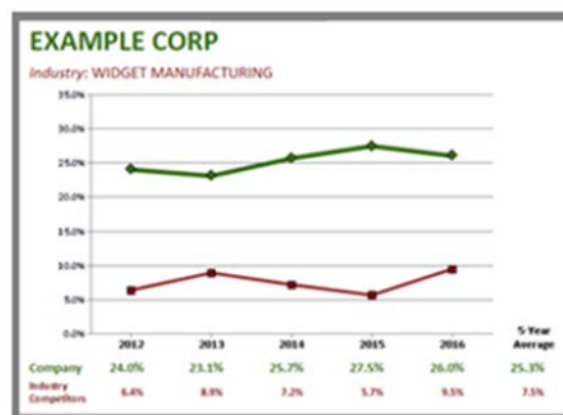


## Concluding Refinements of Methodology for “Returns on Corporate Capital”

With thanks to all the invited experts who contributed views as well as technology, we now have a final definition of “Returns on Corporate Capital” (“ROCC”) that can be presented in easily understood form for free public reference. The graphing tool, with a search input developed for our requirements to find and present ROCC for any of the 5,700 “public companies” currently subject to U.S. SEC reporting requirements, is now [posted on the Forum website](#) for your use.



The final definition of “[Methodology and Specifications](#)” for calculating ROCC has also been posted. The most significant refinements from the June version are the calculation of returns based on the same year’s asset and income data rather than prior period assets, and a policy of reporting industry comparisons only if there are at least 4 companies to make the industry numbers meaningful. More detailed explanations of these and other analytical decisions are presented in the posted report, and any questions about the issues that were considered will be welcomed.

It should of course be understood that there are – and *should* be – continuing debates about “the right way” to measure and compare the returns companies generate from their use of capital. Our objective for this project was simply to establish a metric that is (a) viewed by professionals as an acceptably reasonable basis for analysis, (b) consistently defined, so that different users can effectively compare and test what others present, and (c) calculated from reliably sourced, independently verifiable data.

We never expected to develop a metric that everyone considered perfect, but I believe that everyone who contributed to this project can be proud of a best possible solution, and one that all of us can effectively present to encourage investor focus on the essential use of corporate capital to produce goods and services.

*GL – October 20, 2017*

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## Methodology and Specifications for Returns on Corporate Capital™

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 reliably consistent metric. By following professional and academic practices to standardize its calculation and specify data elements that can be obtained directly from public sources, ROCC can be used by anyone to compare or test analyses presented by others.

### 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) in Form 10-K annual reports, without any researcher “normalization” or other judgmental adjustments:

$$\frac{\text{net income plus interest expense and income taxes,}}{\text{divided by}} \cdot$$

*total assets less current liabilities other than interest-bearing debt*

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\* See the [June 16, 2016 Forum Report: Defining a Simple Measure of “Returns on Corporate Capital](#). For other reports and publications addressing issues considered in the project, see its [“ROCC Research Reference”](#) page.

**Industry competitor aggregates**

The ROCC of each company's industry competitors is based on the same calculations of the aggregated amounts of total asset and income results for all other public companies that specify the same Standard Industrial Classification (SIC code) in their SEC reports as 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 ROCC graph will not report industry competitor analyses, however, if the number of other companies specifying the same industry classification is fewer than four. (Such analyses, or aggregates based on broader industry classifications, can be provided upon request.)

**Universe of companies**

For purposes of consistency and integrity, the standard ROCC graphs published by the Shareholder Forum provide analyses based on audited statements presented in the Form 10-K annual reports required by the SEC for "public companies." There were approximately 5,670 such SEC-regulated public companies reporting an aggregate \$54 trillion assets for their 2016 fiscal year, and a total of approximately 7,100 public companies filing 10-K annual reports with the SEC for at least some of the years since 2010. Industry aggregates for each year include the asset and income amounts for all companies that reported for that fiscal year.

Special projects can be developed using other companies, such as privately traded or non-U.S. companies, but the data available for these companies does not always conform with SEC reporting standards and may not be statistically 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 reports to address specific analytical requirements are welcomed, and can be addressed to [rocc@shareholderforum.com](mailto:rocc@shareholderforum.com).

– October 20, 2017