



Invested Capital: Explanation & Examples

For those looking for the best financial analysis ratios in the business, you've come to the right place.

[Harvard Business School \(HBS\) and MIT Sloan](#) show that our first-ever database of footnotes disclosures provides superior data for measuring “core earnings”. See the Appendix of this [paper](#) for direct comparison of our analysis of Invested Capital on a mega cap company to other major research providers.

We give you the financial due diligence needed to [fulfill the Fiduciary Duty of Care](#).

Get the best fundamental research

Invested capital equals the sum of all cash that has been invested in a company over its life with no regard to financing form or accounting name. It's the total investment in the business from which operating profit is derived.

As the denominator in our return on invested capital (ROIC) calculation, invested capital is a very important value, and we place a great deal of importance on getting it right.

We calculate invested capital in two mathematically equivalent ways: financing and operating approach. Figure 1 provides the simplified formula for calculating invested capital.

Figure 1: How to Calculate Invested Capital – Simplified

<i>Financing</i>	<i>Operating</i>
Short Term Debt	Current Assets
+ Long-Term Debt	– NIBCLS*
+ All Leases	Net Working Capital
Total Debt & Leases	+ Tangible Assets **
+ Equity Equivalents	+ Intangible Assets
+ Common Equity	+ Other Assets
Invested Capital	Invested Capital

* Non-Interest-Bearing Current Liabilities

** Includes leased assets

Sources: New Constructs, LLC and company filings

When we calculate invested capital, we make [numerous adjustments](#) to close accounting loopholes and ensure apples-to-apples comparability across thousands of companies. A company shouldn't be able to hide from its history, for instance, through [write-downs or impairments](#).

Our new [Robo-Analyst](#)¹ technology provides easy access to high-quality fundamental research. There's no reason for investors not to take advantage of best-in-class calculations of a firm's invested capital. Figure 2 shows the level of rigor that goes into our invested capital calculation for all companies. We use our Dentsply Sirona (XRAY) model as an example.

Note all clients who subscribe to our [valuation models](#) get access to detailed analysis like that in Figure 2. Our models also offer access to all [our data in excel](#) and [audit-ability of all data](#) back to the original 10-Ks and 10-Qs upon which our models are built.

¹ HBS features our technology, the **only** technology that brings material footnotes data to investors, in the case study: "[New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#)."



Figure 2: How to Calculate Invested Capital – Detailed

Dentsply Sirona, Inc. (XRAY)

Analyst Notes : New 10-Q & Forecast 11/8/19 | Most Dangerous Stocks Model Portfolio Nov 2019

Overrides are currently inactive. To review overrides click on the [Overrides edit page](#) .

● = marks items on this page that can be overridden

● = marks items on this page that have active overrides in effect

[Download CSV](#)

Values in Millions except per share amounts	2015	2016	2017	2018
Invested Capital - Operating Approach				
Cash and Equivalents (non-operating)	\$284.60	\$383.90	\$320.60	\$309.60
Long-Term Investments (non-operating)	\$0.00	\$0.00	\$0.00	\$0.00
Total Cash and Investments	\$284.60	\$383.90	\$320.60	\$309.60
Required Cash as % of Revenue	5.0%	5.0%	5.0%	5.0%
● Excess Cash	\$150.88	\$196.63	\$120.93	\$110.28
● Required Cash	\$133.72	\$187.26	\$199.67	\$199.31
Accounts Receivable	\$399.90	\$636.00	\$746.20	\$701.90
Inventory	\$340.40	\$517.10	\$623.10	\$598.90
LIFO Reserves	\$6.60	\$6.80	\$10.60	\$10.20
Inventory Reserves	\$36.30	\$37.50	\$71.70	\$92.50
Other Current or Investment Assets	\$101.40	\$173.50	\$312.60	\$277.60
Total Current Assets (adjusted)	\$1,018.31	\$1,558.16	\$1,963.87	\$1,880.41
Accounts Payable	\$133.60	\$223.00	\$284.40	\$283.90
Accrued Restructuring Charges	\$35.40	\$27.40	\$60.30	\$43.40
Current Deferred Revenue	\$2.20	\$14.10	\$8.90	\$29.30
Other NIBCL or Investment Liabilities	\$292.70	\$485.40	\$570.80	\$564.30
NIBCL (Non-Interest-Bearing Current Liabilities)	\$463.90	\$749.90	\$924.40	\$920.90
● Plug Override - Net Working Capital	\$0.00	\$0.00	\$0.00	\$0.00
Net Working Capital/Net Investment Assets	\$557.51	\$811.66	\$1,039.47	\$959.51
Net Property	\$558.80	\$799.80	\$876.00	\$870.60
Goodwill, net	\$1,987.60	\$5,952.00	\$4,539.20	\$3,431.30
Net Other Intangibles	\$600.70	\$2,957.60	\$2,800.70	\$2,420.30
Unconsolidated Subsidiary Assets (operating)	\$0.00	\$0.00	\$0.00	\$0.00
Other Fixed Assets	\$59.10	\$64.10	\$156.10	\$76.80
● Off-Balance-Sheet Operating Leases	\$84.97	\$117.45	\$128.32	\$128.58
● Asset Write-Downs After Tax	\$295.55	\$298.23	\$1,887.76	\$3,035.62
● Accumulated Unrecorded Goodwill	\$0.00	\$0.00	\$0.00	\$0.00
● Accumulated Goodwill Amortization	\$80.10	\$80.10	\$80.10	\$80.10
● Accumulated OCI (Other Comprehensive Income), Including Quarterly Estimates	\$594.00	\$705.70	\$291.00	\$478.70
Over Funded Pensions	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)
● Plug Override - Total Adjusted Fixed Assets	\$0.00	\$0.00	\$0.00	\$0.00
Total Adjusted Fixed Assets	\$4,243.91	\$10,952.18	\$10,715.37	\$10,503.40
Invested Capital	\$4,801.43	\$11,763.84	\$11,754.84	\$11,462.92
Average Invested Capital	\$4,884.68	\$10,503.07	\$11,942.96	\$11,517.13

Sources: New Constructs, LLC and company filings



Breaking out each adjustment also allows us to reconcile reported total assets with invested capital. See Figure 3 for the reconciliation for XRAY.

Figure 3: Adjustments to Reconcile Total Assets to Invested Capital: XRAY

Dentsply Sirona, Inc. (XRAY)

Analyst Notes : [New 10-Q & Forecast 11/8/19](#) | [Most Dangerous Stocks Model Portfolio Nov 2019](#)

Overrides are currently inactive. To review overrides click on the [Overrides edit page](#) .

● = marks items on this page that can be overridden

● = marks items on this page that have active overrides in effect

[Download CSV](#)

Values in Millions except per share amounts	2015	2016	2017	2018
Balance Sheet Adjustments				
Total Assets (unadjusted)	\$4,402.90	\$11,656.10	\$10,374.50	\$8,687.00
● Excess Cash	\$150.88	\$196.63	\$120.93	\$110.28
NIBCL (Non-Interest-Bearing Current Liabilities)	\$463.90	\$749.90	\$924.40	\$920.90
● Total Reserves	\$42.90	\$44.30	\$82.30	\$102.70
Total Reported Operating Lease Assets	0.0	0.0	0.0	0.0
● Off-Balance-Sheet Operating Leases	\$84.97	\$117.45	\$128.32	\$128.58
Total Discontinued Operations Assets	0.0	0.0	0.0	0.0
● Accumulated Goodwill Amortization	\$80.10	\$80.10	\$80.10	\$80.10
● Accumulated Asset Write-Downs After-Tax	\$295.55	\$298.23	\$1,887.76	\$3,035.62
● Accumulated Unrecorded Goodwill	\$0.00	\$0.00	\$0.00	\$0.00
Total Reported Deferred Tax Assets	70.4	172.1	0.0	0.0
Hidden Deferred Tax Assets Less Current Deferred Tax Liabilities	13.8	19.4	43.8	18.6
Total Reported Deferred Compensation Assets	0.0	0.0	0.0	0.0
Hidden Deferred Compensation Assets Less Current Deferred Compensation Liabilities	0.0	0.0	0.0	0.0
Over Funded Pensions	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)
● Accumulated OCI (Other Comprehensive Income), Including Quarterly Estimates	\$594.00	\$705.70	\$291.00	\$478.70
● Plug Override - Net Working Capital	\$0.00	\$0.00	\$0.00	\$0.00
● Plug Override - Total Adjusted Fixed Assets	\$0.00	\$0.00	\$0.00	\$0.00
Invested Capital	\$4,801.43	\$11,763.84	\$11,754.84	\$11,462.92
Average Invested Capital	\$4,884.68	\$10,503.07	\$11,942.96	\$11,517.13

Sources: New Constructs, LLC and company filings

Figure 4 shows the companies with the most under/overstated reported total assets as compared to invested capital in fiscal 2018.



Figure 4: Companies with Most Understated/Overstated Assets in Fiscal 2018

Ticker	Name	Invested Capital	Total Assets	Difference
Most Understated Total Assets (in \$mm)				
PBR	Petroleo Brasileiro S.A.	\$424,510	\$222,068	\$202,442
PFE	Pfizer Inc.	\$259,035	\$159,423	\$99,612
VIAV	Viavi Solutions, Inc.	\$61,620	\$2,023	\$59,598
XOM	Exxon Mobil Corp	\$401,319	\$346,196	\$55,123
COP	ConocoPhillips	\$123,258	\$69,980	\$53,278
Most Overstated Total Assets (in \$mm)				
BAC	Bank of America Corp	\$332,020	\$2,354,507	(\$2,022,487)
FMCC	Freddie Mac	\$13,681	\$2,063,060	(\$2,049,379)
HSBC	HSBC Holdings, PLC	\$239,197	\$2,558,124	(\$2,318,927)
JPM	JPMorgan Chase	\$297,809	\$2,622,532	(\$2,324,723)
MUFG	Mitsubishi UFJ Financial	\$161,450	\$2,828,232	(\$2,666,782)

Sources: New Constructs, LLC and company filings.

Petroleo Brasileiro's (PBR) invested capital is significantly higher than its reported total assets. Our invested capital calculation for PBR can be seen [here](#). The \$202 billion discrepancy stems from nearly \$70 billion in [operating leases](#), which we include in invested capital, \$76 billion in accumulated [asset write-downs](#), and \$95 billion in [accumulated other comprehensive loss](#).

Pfizer (PFE), Viavi Solutions (VIAV), Exxon Mobil (XOM), and ConocoPhillips (COP) are the other companies with the most understated reported total asset value. We believe transparency always helps investors, which is why all our calculations are visible throughout each company model. See the adjustments made to XOM's total assets [here](#) and our invested capital calculation [here](#).

On the other hand, Mitsubishi UFJ Financial Group's (MUFG) invested capital is significantly lower than its reported total assets. See our invested capital calculation for MUFG [here](#). The discrepancy between total assets and invested capital in fiscal 2018 stems from MUFG's \$2.7 trillion in non-interest bearing current liabilities. Per Figure 1 above, we remove NIBCL's from our calculation of invested capital. Our calculation of MUFG's 2018 invested capital also takes into account \$15 billion in operating leases and nearly \$19 billion in accumulated asset write-downs.

JPMorgan Chase (JPM), HSBC Holdings (HSBC), Freddie Mac (FMCC), and Bank of America Corp (BAC) also have some of the most overstated reported total assets in fiscal 2018.

We focus on the economics of business, and, in the process, our models transcend the accounting loopholes and idiosyncrasies that make building good models difficult. Our models and calculations are 100% transparent because we want our clients to know how much work we do to ensure we give them the best earnings quality and valuation models in the business.

This article updated on [November 21, 2019](#).

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

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.



Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

[Learn more.](#)

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20

Pick better stocks:

“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract

Avoid losses from using other firms’ data:

“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14

Build better models:

“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4

Exploit market inefficiencies:

“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26

Fulfill fiduciary duties:

“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

New Constructs is affiliated with Novo Capital Management, LLC, the general partner of a hedge fund. At any particular time, New Constructs' research recommendations may not coincide with the hedge fund's holdings. However, in no event will the hedge fund receive any research information or recommendations in advance of the information that New Constructs provides to its other clients.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.