



3-Year Average Return on Invested Capital: Explanation & Examples

Return on invested capital ([ROIC](#)) is not only the most intuitive measure of corporate performance, but it is also the best. It measures how much profit a company generates for every dollar invested in the company.

3-year average return on invested capital (seen in Figure 1) provides additional insights into a firm's track record of prudent capital management. Companies with a high 3-year average ROIC consistently allocate capital to high return investments

Properly calculating ROIC, [the primary driver of stock prices](#), is key to measuring a firm's ability to generate returns on the capital invested in its business. Our [Robo-Analyst technology](#) allows us to perform the diligence needed to calculate an accurate ROIC and comparable metrics, such as , 3-year average ROIC, [ROIC](#) and [GAAP-based ROIC](#).

Figure 1: How To Calculate 3-Year Average Return on Invested Capital

$$\text{3-Year Average NOPAT} / \text{3-Year Average Invested Capital}$$

where

3-Year Average NOPAT = Average NOPAT over trailing three years

3-Year Average Invested Capital= Average of the average invested capital over trailing three years

Sources: New Constructs, LLC

We make it easy for clients to leverage the benefits of a high quality ROIC model and see a clear picture of a firm's true profitability. Figure 2 shows the Russell 1000 companies with the highest and lowest 3-year average ROICs.

Figure 2: Russell 1000 Companies With Highest/Lowest 3-Year Average ROIC Over Last Twelve Months

Ticker	Company Name	3-yr Average ROIC	Stock Rating
Highest 3-Year Average ROIC			
AAPL	Apple Inc.	210%	Neutral
MA	Mastercard Inc.	110%	Neutral
UTHR	United Therapeutics Corp	78%	Very Attractive
GILD	Gilead Sciences Inc.	76%	Very Attractive
MANH	Manhattan Associates	75%	Attractive
Lowest 3-Year Average ROIC			
SPLK	Splunk Inc.	-29%	Dangerous
ICPT	Intercept Pharmaceuticals	-39%	Dangerous
ACAD	ACADIA Pharmaceuticals	-51%	Dangerous
NOW	ServiceNow Inc.	-55%	Dangerous
NTNX	Nutanix Inc.	-76%	Dangerous

Sources: New Constructs, LLC and company filings.

Apple's 210% 3-year average ROIC is the highest of all Russell 1000 companies under coverage. See Apple's 3-year average ROIC each year dating back to 2010 [here](#).

Mastercard (MA), United Therapeutics (UTHR), Gilead Sciences (GILD), and Manhattan Associates (MANH) earn the second through fifth highest 3-year average ROIC. However, a high 3-year average ROIC alone doesn't

mean a company earns an [Attractive-or-better rating](#). Apple and Mastercard both earn a Neutral rating. See Mastercard's 3-year average ROIC each year dating back to 2010 [here](#).

Nutanix Inc. (NTNX) earns the lowest 3-year average ROIC of all Russell 1000 companies under coverage. NTNX has earned a negative ROIC each year since going public in 2015. ServiceNow (NOW), ACADIA Pharmaceuticals (ACAD), Intercept Pharmaceuticals (ICPT), and Splunk Inc. (SPLK) round out the five lowest 3-year average ROIC's across the Russell 1000.

ServiceNow, a [previous Danger Zone pick](#), has failed to earn a positive ROIC or 3-year average ROIC in any year since going public in 2012. 3-year average ROIC has actually declined from -45% in 2014 to -55% over the last twelve months. ServiceNow's strategy of revenue growth at all costs has been a clear destruction of shareholder value. See NOW's 3-year average ROIC since 2014 [here](#).

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. Providing multiple versions of a given metric is part of this transparency. We customize calculations and metrics for clients as they see fit. We are not in the business of selling any one particular methodology. Our focus is on providing clients with a higher quality data set with which to perform calculations with integrity across thousands of stocks, ETFs, and mutual funds.

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4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.

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