



Return on Gross Invested Capital (ROGIC): 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.

Return on gross invested capital (ROGIC) (seen in Figure 1) provides additional insights into the profitability of highly-capital intensive businesses. Depreciation policies may differ from firm to firm and can have a significant impact on both [NOPAT](#) and [invested capital](#). ROGIC helps to minimize the impact of different depreciation policies and asset write-down policies.

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 ROGIC and [GAAP-based ROIC](#).

Figure 1: How To Calculate Return on Gross Invested Capital (ROGIC)

Gross NOPAT / Average Gross Invested Capital

where

Gross NOPAT = (Net Operating Profit Before Tax + Depreciation and Amortization) * (1 - Income Tax Rate)

Gross Invested Capital = Net Working Capital + Adjusted Fixed Assets + Accumulated Depreciation and Amortization

Sources: New Constructs, LLC

We make it easy for the average investor 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 Large Cap Energy companies with the highest and lowest ROGICs.

Figure 2: Large Cap Energy Companies With Highest/Lowest ROGIC Over Last Twelve Months

Ticker	Company Name	ROGIC	Stock Rating
Highest ROGIC			
MMP	Magellan Midstream Partners	15%	Attractive
CLB	Core Laboratories N.V.	10%	Dangerous
BPL	Buckeye Partners	10%	Neutral
EPD	Enterprise Products Partners	9%	Neutral
PE	Parsley Energy Inc.	9%	Dangerous
Lowest ROGIC			
BHI	Baker Hughes, Inc.	0%	Very Dangerous
NOV	National-Oilwell Varco	0%	Dangerous
KOS	Kosmos Energy	0%	Dangerous
GLNG	Golar LNG, Ltd.	0%	Dangerous
AR	Antero Resources Corp	-1%	Dangerous

Sources: New Constructs, LLC and company filings.

Magellan Midstream Partners' (MMP) 15% ROGIC is the highest of all Large Cap Energy companies under coverage. Magellan has earned a positive ROGIC since 2012. See Magellan's ROGIC each year dating back to 2012 [here](#).

Core Laboratories N.V. (CLB), Buckeye Partners (BPL), Enterprise Products Partners (EPD), and Parsley Energy (PE) earn the second through fifth highest ROIC. However, ROIC alone doesn't mean a company earns an [Attractive-or-better rating](#). Core Laboratories and Parsley Energy both earn a Dangerous rating. See CLB's ROIC each year dating back to 2010 [here](#).

Antero Resources Corp (AR) earns the lowest ROIC of all Large Cap Energy companies under coverage. Golar LNG (GLNG), Kosmos Energy (KOS), National-Oilwell Varco (NOV), and Baker Hughes (BHI) round out the five lowest ROIC's across the Large Cap Energy sector. Baker Hughes' ROIC has fallen from 8% in 2014 to 0% TTM. See BHI's ROIC since 2011 [here](#). We include \$1.2 billion (5% of market cap) in depreciation and amortization costs when calculating Baker Hughes' ROIC.

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

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New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

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2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
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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