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Return on Equity (ROE) by industry

Return on Equity (ROE) is a pivotal financial metric that measures the amount of net income returned as a percentage of shareholders' equity, essentially quantifying a company's ability to generate profits from its equity investments. The formula for calculating ROE is given by:

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Return on Equity = Net Income / Average Shareholders Equity
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ROE is esteemed for its capacity to reveal the efficiency with which a company employs shareholders' equity to produce income, serving as a critical indicator of financial health and operational efficiency. It enables investors to gauge the profitability and potential for a company's future growth relative to its equity base.

Average ROE by Industry

The average ROE varies significantly by industry. Here is a table showing the average ROE by industries in the US as of Sep 2024:

Industry	Average ROE	Number of companies
Advertising Agencies	-9.9	22
Aerospace & Defense	5	49
Agricultural Inputs	4.9	11
Airlines	5.7	13
Apparel Manufacturing	13.5	16
Apparel Retail	16.1	28
Asset Management	10.1	72
Auto Manufacturers	1.1	16

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Auto & Truck Dealerships	10.3	14
Banks - Diversified	12.8	6
Banks - Regional	8.6	271
Beverages - Non-Alcoholic	28.6	9
Beverages - Wineries & Distilleries	14	7
Biotechnology	-64.5	481
Broadcasting	-17.4	16
Building Materials	20.6	7
Building Products & Equipment	19.1	28
Business Equipment & Supplies	8.1	7
Capital Markets	13.4	33
Chemicals	6.4	17
Communication Equipment	-7.4	47
Computer Hardware	-4.8	28
Conglomerates	4.3	11
Consulting Services	11.3	16
Consumer Electronics	-10.1	12
Credit Services	9.2	44
Department Stores	19.5	5
Diagnostics & Research	-27.5	64
Discount Stores	18.9	9
Drug Manufacturers - General	26.7	12
Drug Manufacturers - Specialty & Generic	-36.5	47
Education & Training Services	9	15
Electrical Equipment & Parts	7.8	39
Electronic Components	0.9	30

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Electronics & Computer Distribution	11.5	5
Engineering & Construction	11.2	30
Entertainment	-16.9	38
Farm & Heavy Construction Machinery	13.8	22
Farm Products	7.9	17
Financial Data & Stock Exchanges	14.2	10
Food Distribution	5.5	9
Footwear & Accessories	16.9	11
Furnishings, Fixtures & Appliances	9.9	18
Gambling	16.6	10
Gold	0.9	26
Grocery Stores	15.5	10
Healthcare Plans	-12.1	12
Health Information Services	-23.7	30
Home Improvement Retail	-0.2	6
Household & Personal Products	8.5	23
Industrial Distribution	13.5	17
Information Technology Services	7.5	52
Insurance Brokers	9.3	12
Insurance - Diversified	12.7	11
Insurance - Life	14	12
Insurance - Property & Casualty	12.9	36
Insurance - Reinsurance	15	7
Insurance - Specialty	10.5	16
Integrated Freight & Logistics	13.1	15
Internet Content & Information	-4	36

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Leisure	7.4	22
Luxury Goods	5.5	5
Marine Shipping	14.2	22
Medical Care Facilities	-10.7	39
Medical Devices	-35.5	95
Medical Distribution	8.7	7
Medical Instruments & Supplies	-29.7	43
Metal Fabrication	12	13
Mortgage Finance	8	17
Oil & Gas Drilling	8.6	6
Oil & Gas E&P	13.8	60
Oil & Gas Equipment & Services	9.1	42
Oil & Gas Integrated	11	6
Oil & Gas Midstream	19.7	34
Oil & Gas Refining & Marketing	13.5	18
Other Industrial Metals & Mining	-9.6	15
Other Precious Metals & Mining	0	12
Packaged Foods	10.3	41
Packaging & Containers	12.2	21
Paper & Paper Products	-13.6	5
Personal Services	15.9	10
Pharmaceutical Retailers	-47.4	7
Pollution & Treatment Controls	6.4	7
Publishing	1.5	7
Railroads	18	8
Real Estate - Development	3.6	9

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Real Estate Services	2.6	25
Recreational Vehicles	-3.6	14
REIT - Diversified	4	17
REIT - Healthcare Facilities	2.1	15
REIT - Hotel & Motel	2.2	15
REIT - Industrial	5.2	16
REIT - Mortgage	0.8	35
REIT - Office	-2.8	24
REIT - Residential	3.4	18
REIT - Retail	7.2	21
REIT - Specialty	8.2	15
Rental & Leasing Services	13.6	17
Residential Construction	19.7	20
Resorts & Casinos	9.1	18
Restaurants	12.8	40
Scientific & Technical Instruments	5.3	24
Security & Protection Services	16.2	14
Semiconductor Equipment & Materials	8.9	26
Semiconductors	2.3	62
Software - Application	-5.2	184
Software - Infrastructure	0.8	88
Solar	-12.1	12
Specialty Business Services	10.3	25
Specialty Chemicals	10.2	44
Specialty Industrial Machinery	11.1	72
Specialty Retail	10	39

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Steel	5	15
Telecom Services	-1.8	33
Textile Manufacturing	-6.6	4
Thermal Coal	18.4	9
Tools & Accessories	12.5	10
Travel Services	26.1	12
Trucking	9.6	11
Utilities - Diversified	9.1	15
Utilities - Regulated Electric	8.6	25
Utilities - Regulated Gas	10.4	14
Utilities - Regulated Water	9.6	12
Utilities - Renewable	4.3	10
Waste Management	4.2	12

The table shows that the **Beverages - Non-Alcoholic** industry has the highest average ROE of 28.6, followed by **Drug Manufacturers - General** at 26.7. On the other hand, the **Biotechnology** industry has the lowest average ROE of -64.5, followed by the **Pharmaceutical Retailers** industry at -47.4. This variation is due to several factors, including industry-specific earnings and growth prospects, and management's outlook on future performance

Industries with highest ROE

The following chart and table show industries with the highest ROE. You can filter the industries by sector in the chart below to see a breakdown of the top industries with the highest ROE for every sector.

All sectors

full ratio

Industry	Average ROE	Number of companies
Beverages - Non-Alcoholic	28.6	9
Drug Manufacturers - General	26.7	12
Travel Services	26.1	12
Building Materials	20.6	7
Residential Construction	19.7	20
Oil & Gas Midstream	19.7	34
Department Stores	19.5	5
Building Products & Equipment	19.1	28
Discount Stores	18.9	9
Thermal Coal	18.4	9

Industries with lowest ROE

The following chart and table presents industries with the lowest ROE. Within the chart below, you can also refine the industries by sector, allowing you to observe a breakdown of the top industries with the lowest ROE in each sector.

All sectors

Industry	Average ROE	Number of companies
Biotechnology	-64.5	481
Pharmaceutical Retailers	-47.4	7

full ratio

Medical Devices	-35.5	95
Medical Instruments & Supplies	-29.7	43
Diagnostics & Research	-27.5	64
Health Information Services	-23.7	30
Broadcasting	-17.4	16
Entertainment	-16.9	38
Paper & Paper Products	-13.6	5

Understanding ROE Components

At its core, ROE involves two primary components: net income and shareholders' equity. Net income, derived from the company's income statement, represents the profit after all expenses, taxes, and costs have been subtracted from total revenue. Shareholders' equity, found on the balance sheet, is the amount that would be returned to shareholders if all the company's assets were liquidated and all its debts repaid.

The relationship between these components underlines the importance of leveraging and financial strategy in influencing ROE. A company might employ debt financing to boost its ROE by increasing its net income through investments funded by borrowed money, albeit at the risk of higher volatility and financial risk.

ROE by Industry Analysis

ROE significantly varies across different industries, reflecting the diverse operational models, capital structures, and market conditions that characterize each sector:

- **High ROE Industries**: Technology and pharmaceuticals often showcase high ROE figures due to their low capital requirements and high-profit margins. Financial services also tend to have high ROE, attributed to leveraging customer deposits to generate income.
- **Low ROE Industries**: Utilities and transportation, characterized by high capital expenditures and regulatory constraints, typically exhibit lower ROE. Heavy machinery and similar capital-intensive sectors also face challenges in achieving high ROE due to the significant investment in physical assets required for operations.

These variations underscore the necessity to consider industry-specific factors, such as capital intensity, market dynamics, and regulatory environments, when evaluating ROE.

Several key factors influence ROE, varying by industry:

- **Profit Margins**: Industries with higher profit margins, such as technology and pharmaceuticals, can achieve higher ROE as they generate more income per dollar of sales.
- **Asset Turnover**: Sectors like retail might have lower profit margins but compensate with high asset turnover, indicating efficient inventory management and sales processes.
- **Financial Leverage**: Companies in capital-intensive industries, such as utilities, might employ more debt to finance their operations, affecting their ROE through the equity multiplier component.

Industry-specific risks, such as regulatory changes, market volatility, and economic cycles, also significantly impact ROE, underlining the importance of contextual analysis in financial evaluation.

Interpreting ROE in Investment Decisions

ROE, or Return on Equity, is an essential metric that investors use to evaluate a company's profitability and growth potential. However, it's important to note that a high ROE doesn't necessarily mean a company is doing well. The high ROE could be due to excessive debt, which is not a good sign. Investors should thus use ROE along with other financial metrics and industry benchmarks to make informed decisions.

By analyzing ROE within an industry context, investors can identify companies that are performing well and have sustainable business models. However, it's important to be aware of the limitations of ROE. For instance, ROE is sensitive to leverage, and it can be distorted by non-recurring items or accounting practices.

ROE vs ROA

Return on Equity (ROE) and Return on Assets (ROA) are two important indicators used to evaluate a company's profitability and efficiency. However, these metrics are influenced differently based on the industry. To understand the difference between ROE and ROA, and to determine their significance in different industries, it is necessary to examine what each ratio represents and how industry-specific factors impact these ratios.

Key Differences in Industry Context

that usually use high levels of debt financing, such as banking and financial services, can influence their ROE by utilizing leverage. Return on Assets (ROA), on the other hand, focuses solely on asset efficiency and is less affected by leverage. Therefore, ROA provides a more accurate measure of operational efficiency.

- **Capital Intensity**: The capital intensity of an industry plays a crucial role in its typical return on assets (ROA) figures. Industries that require a significant investment in physical assets, such as manufacturing and utilities, tend to have lower ROA because the denominator, i.e., total assets, is large. However, return on equity (ROE) might not be as directly impacted by capital intensity, assuming the equity portion is not disproportionately large.
- **Profitability and Efficiency**: Return on Equity (ROE) and Return on Assets (ROA) are both metrics that help assess profitability, but from different perspectives. ROE measures how well a company utilizes equity financing to generate profits, making it particularly relevant in industries where equity financing is a significant factor. On the other hand, ROA evaluates how effectively a company uses all its assets, regardless of financing sources, to generate earnings. This makes it a critical measure to evaluate operational efficiency across all industries, especially those with a large asset base.

In essence, both Return on Equity (ROE) and Return on Assets (ROA) provide useful information regarding a company's financial status. However, it is important to consider the impact of industry characteristics on these ratios. This understanding is critical for investors, analysts, and managers, who need to make informed decisions, compare performance, and devise strategies that are tailored to the specific challenges and opportunities presented by their industry.