Return on Assets (ROA) by industry

Return on Assets (ROA) is a critical financial metric that measures how efficiently a company uses its assets to generate net income. It is calculated using the formula:

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ROA = Net Income / Total assets (or Average Total assets)
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This ratio is a key indicator of a company's operational efficiency and profitability, providing insights into how well management is utilizing the company's assets to produce earnings. ROA is especially important for comparing the performance of companies within the same industry, as it reflects the unique operational and financial structures that can vary significantly from one sector to another.

Average ROA by Industry

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

Industry	Average ROA	Number of companies
Advertising Agencies	-2.8	22
Aerospace & Defense	3.6	49
Agricultural Inputs	-0.1	11
Airlines	-1.7	13
Apparel Manufacturing	2.9	16
Apparel Retail	4.9	28
Asset Management	2.3	72
Auto Manufacturers	9.9	16
Auto Parts	2.8	45
Auto & Truck Dealerships	0.1	14
Banks - Diversified	1.4	6
Banks - Regional	0.8	271
Beverages - Non-Alcoholic	11.5	9
Beverages - Wineries & Distilleries	3.6	7
Biotechnology	-43.8	481
Broadcasting	-2.3	16
Building Materials	10.7	7
Building Products & Equipment	9	28
Business Equipment & Supplies	2.4	7
Capital Markets	2.1	33

full ratio

Computer Hardware	-1.8	28
Conglomerates	-2.2	11
Consulting Services	6.7	16
Consumer Electronics	-4.7	12
Credit Services	1.8	44
Department Stores	5.1	5
Diagnostics & Research	-17.8	64
Discount Stores	6	9
Drug Manufacturers - General	6.9	12
Drug Manufacturers - Specialty & Generic	-19.2	47
Education & Training Services	3.9	15
Electrical Equipment & Parts	0.5	39
Electronic Components	1.6	30
Electronic Gaming & Multimedia	-1.5	7
Electronics & Computer Distribution	4.6	5
Engineering & Construction	4.6	30
Entertainment	-3.4	38
Farm & Heavy Construction Machinery	5	22
Farm Products	3.4	17
Financial Data & Stock Exchanges	3.3	10
Food Distribution	2.6	9
Footwear & Accessories	8.5	11
Furnishings, Fixtures & Appliances	2.7	18
Gambling	2.9	10
Gold	-0.2	26
Grocery Stores	4.8	10
Healthcare Plans	-8.4	12
Health Information Services	-16.2	30
Home Improvement Retail	4.3	6
Household & Personal Products	4.7	23
Industrial Distribution	6.5	17
Information Technology Services	2.5	52
Insurance Brokers	1.8	12
Insurance - Diversified	2.3	11
Insurance - Life	1.3	12
Insurance - Property & Casualty	2.3	36

full ratio

Integrated Freight & Logistics	6.7	15
Internet Content & Information	-2.6	36
Internet Retail	0.6	22
Leisure	2.7	22
Lodging	1.6	9
Luxury Goods	1.5	5
Marine Shipping	6.8	22
Medical Care Facilities	-3.6	39
Medical Devices	-22.7	95
Medical Distribution	3.4	7
Medical Instruments & Supplies	-17.3	43
Metal Fabrication	5.6	13
Mortgage Finance	1.1	17
Oil & Gas Drilling	4.6	6
Oil & Gas E&P	6.6	60
Oil & Gas Equipment & Services	3.7	42
Oil & Gas Integrated	5	6
Oil & Gas Midstream	7.7	34
Oil & Gas Refining & Marketing	4.3	18
Other Industrial Metals & Mining	-6.7	15
Other Precious Metals & Mining	0.8	12
Packaged Foods	4.8	41
Packaging & Containers	5.3	21
Paper & Paper Products	-2.7	5
Personal Services	9.3	10
Pharmaceutical Retailers	-20.3	7
Pollution & Treatment Controls	4.1	7
Publishing	1.9	7
Railroads	4.2	8
Real Estate - Development	1.4	9
Real Estate Services	1.1	25
Recreational Vehicles	2.5	14
REIT - Diversified	2.4	17
REIT - Healthcare Facilities	1	15
REIT - Hotel & Motel	1.6	15
REIT - Industrial	2.7	16

full ratio

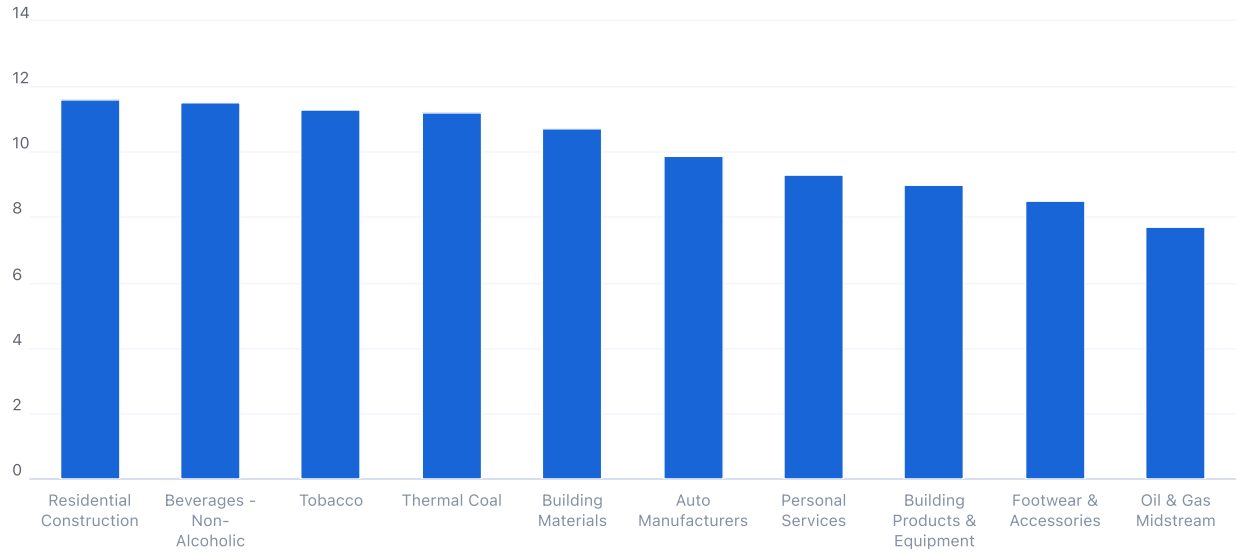
REIT - Residential	1.9	18
REIT - Retail	2.5	21
REIT - Specialty	3.2	15
Rental & Leasing Services	3.2	17
Residential Construction	11.6	20
Resorts & Casinos	2.2	18
Restaurants	3.8	40
Scientific & Technical Instruments	0.9	24
Security & Protection Services	5.4	14
Semiconductor Equipment & Materials	5.6	26
Semiconductors	0.1	62
Software - Application	-2.4	184
Software - Infrastructure	-1	88
Solar	-9.6	12
Specialty Business Services	3.4	25
Specialty Chemicals	2	44
Specialty Industrial Machinery	6.4	72
Specialty Retail	1.9	39
Staffing & Employment Services	4.1	22
Steel	3.4	15
Telecom Services	0.1	33
Textile Manufacturing	-3.5	4
Thermal Coal	11.2	9
Tobacco	11.3	6
Tools & Accessories	6.1	10
Travel Services	6.4	12
Trucking	4.2	11
Utilities - Diversified	2.9	15
Utilities - Regulated Electric	2.5	25
Utilities - Regulated Gas	2.9	14
Utilities - Regulated Water	3.2	12
Utilities - Renewable	1.7	10
Waste Management	-1.4	12

The table shows that the **Residential Construction** industry has the highest average ROA of 11.6, followed by **Beverages - Non-Alcoholic** at 11.5. In contrast, the **Biotechnology** industry has the lowest average ROA of -43.8, followed by the **Medical Devices** industry at -22.7. This variation is due to several factors, including industry-specific earnings and growth prospects, and management's outlook on future performance

full ratio

to see a breakdown of the top industries with the highest ROA for every sector.

All sectors



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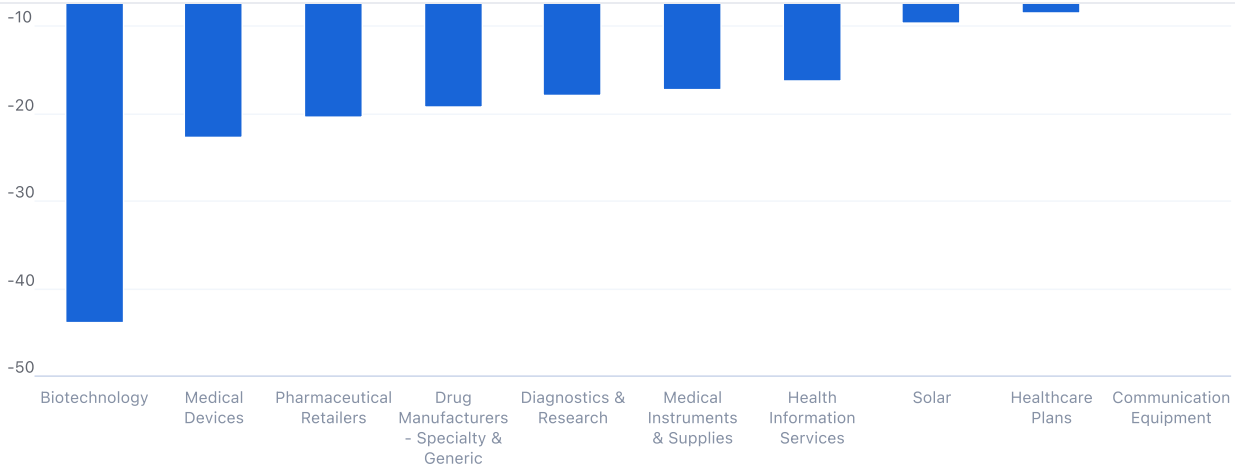
Industries with lowest ROA

The following chart and table presents industries with the lowest ROA. 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 ROA in each sector.

All sectors

full ratio



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Diagnostics & Research	-17.8	64
Medical Instruments & Supplies	-17.3	43
Health Information Services	-16.2	30
Solar	-9.6	12
Healthcare Plans	-8.4	12
Communication Equipment	-6.9	47

Understanding ROA Components

ROA involves two primary components: **Net Income** and **Total Assets**. Net Income, derived from the income statement, represents a company's profit after all expenses, taxes, and costs have been subtracted from total revenues. Total Assets, found on the balance sheet, encompass everything a company owns that has value, including cash, inventory, property, and equipment.

The relationship between these components highlights the efficiency with which a company can convert its investments into profits. Different asset management strategies, such as optimizing inventory levels or investing in high-return projects, can significantly influence a company's ROA.

ROA by Industry Analysis

ROA varies widely across industries due to differences in capital intensity, business models, and operational efficiencies:

- **High ROA Industries**: Sectors like software and services, which typically require less physical infrastructure and capital investment, often boast higher ROA figures. These industries benefit from scalable business models that can generate significant income with relatively low asset bases.
- **Low ROA Industries**: Conversely, utilities and transportation are examples of asset-heavy industries with lower ROA. These sectors require substantial investment in physical and fixed assets to operate, which dilutes the net income generated per dollar of assets.

The variation in ROA across industries underscores the importance of considering sector-specific dynamics when evaluating financial performance. Factors such as operational efficiency, capital structure, and even the regulatory

full ratio

Several factors influence a company's ROA, underscoring the complexity of asset management and operational efficiency:

- **Asset Utilization**: How effectively a company uses its assets to generate revenue. High asset turnover indicates efficient use of assets to produce sales.
- **Profit Margins**: Higher profit margins improve ROA, as they indicate a company can convert sales into net income more effectively.
- **Capital Structure**: The mix of debt and equity financing affects total assets and, consequently, ROA. Higher debt levels can increase ROA if the debt is used to finance profitable projects, but it also introduces financial risk.
- **Industry-Specific Factors**: Regulatory environments, market competition, and economic cycles can all impact how assets are utilized and how much profit they generate.

High ROA in Software Industry: A leading software company demonstrates a high ROA, attributed to its low asset base and high-profit margins. The company's business model, focused on digital products and cloud services, requires minimal physical assets, allowing it to generate substantial income on a relatively small asset base.

Low ROA in the Transportation Industry: A national transportation company shows a lower ROA, a reflection of its heavy investment in vehicles, equipment, and infrastructure. Despite substantial revenues, the high cost and depreciation of physical assets dilute the net income generated per dollar of assets.

Return on Assets (ROA) is a vital financial metric that provides valuable insights into how efficiently a company uses its assets to generate profit. While ROA varies significantly across industries due to differences in capital intensity, operational models, and market dynamics, it remains a key indicator of a company's operational and financial efficiency.

For companies, improving ROA involves enhancing operational efficiencies, optimizing the asset base, and making strategic investment decisions that align with long-term financial goals. For investors, ROA offers a lens through which to assess a company's profitability relative to its assets, aiding in the identification of potentially lucrative investment opportunities.

ROA vs ROE

Return on Equity (ROE) and Return on Assets (ROA) are both crucial financial metrics used to assess a company's profitability and efficiency, but they measure different aspects of financial performance and are influenced uniquely across different industries. Understanding the distinction between ROE and ROA, particularly in the context of various industries, requires a look at what each ratio signifies and how industry characteristics impact these ratios.

Key Differences in Industry Context

- **Impact of Leverage**: ROE is directly influenced by the company's capital structure. Companies in industries that typically employ high levels of debt financing (e.g., banking and financial services) can manipulate their ROE through leverage. ROA, focusing solely on asset efficiency, is less directly affected by leverage and provides a purer measure of operational efficiency.
- **Capital Intensity**: The capital intensity of an industry plays a significant role in its typical ROA figures. Industries that require significant investment in physical assets (e.g., manufacturing, utilities) tend to have lower ROA because the denominator (total assets) is large. ROE might not be as directly impacted by capital intensity, assuming the equity portion is not disproportionately large.
- **Profitability and Efficiency**: Both ROE and ROA reflect profitability, but from different perspectives. ROE assesses how well a company uses equity financing to generate profits, making it highly relevant in industries where equity financing is a key factor. ROA looks at how all company assets, regardless of financing source, contribute to earnings, making it a critical measure in evaluating operational efficiency across all industries, especially those that are asset-heavy.

In summary, while both ROE and ROA offer valuable insights into a company's financial health, the impact of industry characteristics on these ratios can be profound. Understanding these nuances is crucial for investors, analysts, and managers in making informed decisions, benchmarking performance, and developing strategies tailored to the specific challenges and opportunities presented by their industry.

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