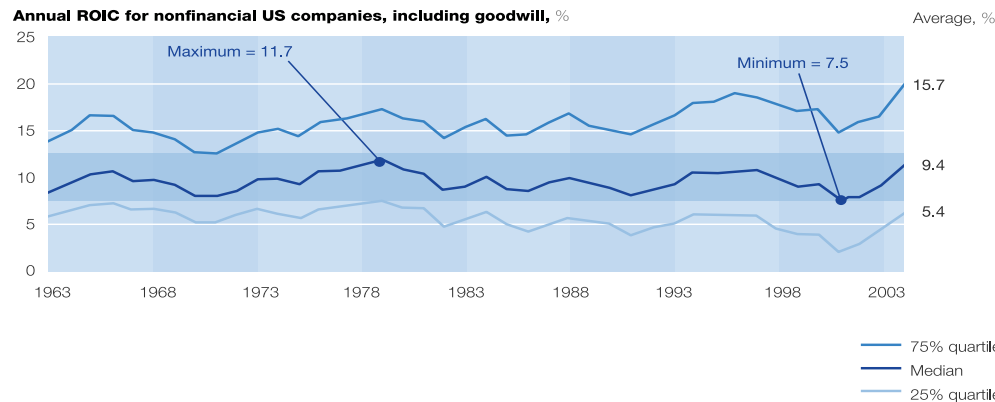
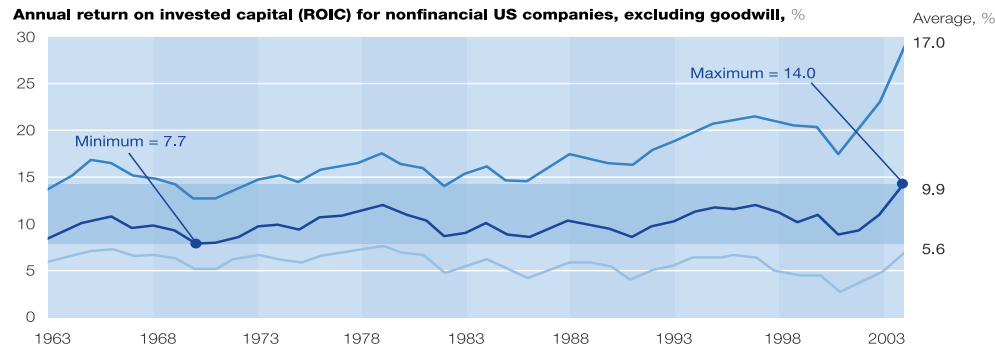


# Insights - Return on Invested Capital

## Key Takeaways

- Median Return on Invested Capital ("ROIC") for U.S. non-financial companies has historically remained close to ~10%, roughly equal to the cost of capital.
- ROIC varies significantly across industries, with asset-light sectors (software, pharmaceuticals, branded consumer goods) generating structurally higher returns than capital-intensive industries.
- ROIC is a key driver of valuation multiples—companies that sustain higher returns on invested capital typically justify higher Price to Earnings ("P/E") ratios.



**Figure 1 - Distribution of ROIC for U.S.**

Return on invested capital for U.S. non-financial companies has historically remained close to 10%, broadly in line with the long-term cost of capital. This reflects the competitive dynamics of markets, where periods of excess profitability tend to attract new entrants and increased competition that gradually compress returns. At the same time, the persistent gap between the top and bottom quartiles highlights the significant dispersion in profitability across firms, emphasizing the importance of competitive advantages and disciplined capital allocation.

These results highlight an important implication for investors. While the aggregate market tends to earn returns close to the cost of capital over time, significant differences persist across industries and firms. Understanding how industry structure, barriers to entry, and capital intensity influence ROIC is therefore critical when assessing long-term value creation.

## Product Description

**Reference Portfolio:** Primoat Global Equities Dynamic

**Type:** Actively Managed Certificate

**Issuer:** Bank J. Safra Sarasin Ltd, Basel

**Lead Manager:** Bank J. Safra Sarasin Ltd, Basel

**ISIN:** CH1276337297

**Investment Advisor:** Mirazur Capital S.A.M.

**Sub-Advisor:** Kotai Consulting LTD

**Security Currency:** EUR

**Denomination:** EUR 10,000

**Minimum Investment:** 1 security

## Information

**Report Series:** Insights

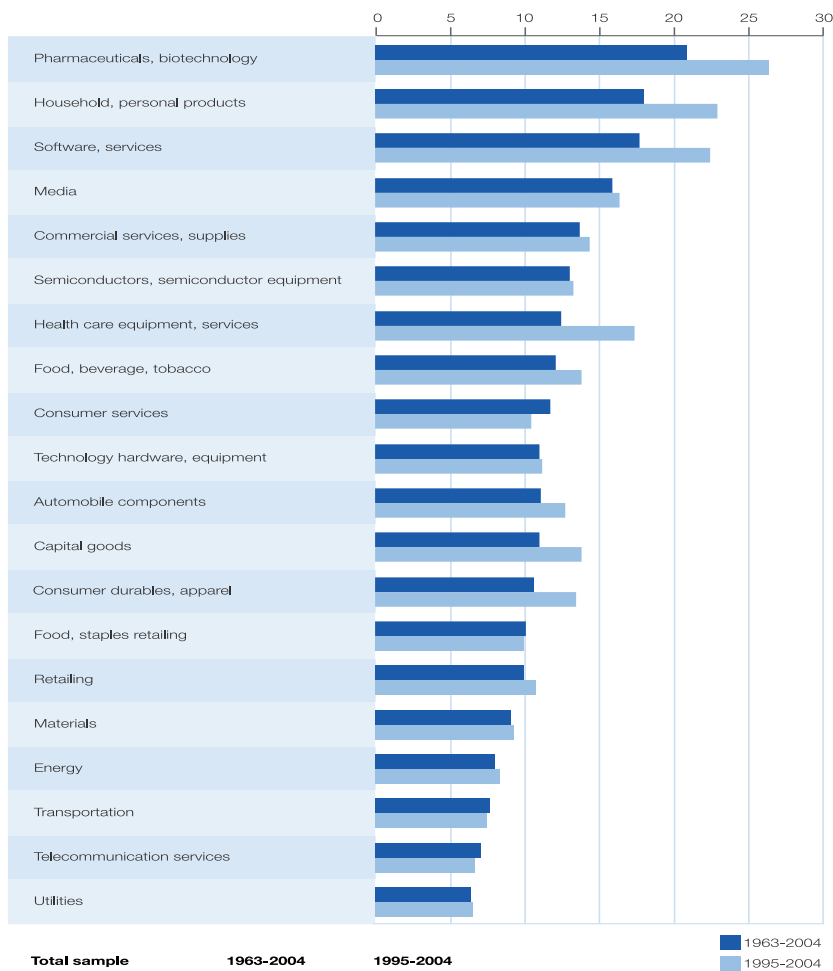
**Date:** 18<sup>th</sup> of March 2026

**Authors:**

Alessandro Felisi, CFA,

Ali Taziki

Median annual ROIC, excluding goodwill,<sup>1</sup> %



Total sample	1963-2004	1995-2004
75th percentile	17.9	22.2
Median	11.1	12.2
25th percentile	6.4	5.6

<sup>1</sup>ROIC = return on invested capital; based on S&P Global Industry Classification Standard (developed by Standard & Poor's and Morgan Stanley Capital International); excludes financial subgroups.

**Figure 2 - Median ROIC across industries**

The chart highlights the persistent differences in profitability across industries. Sectors such as pharmaceuticals, household products, and software consistently generate higher returns on invested capital, largely due to strong intangible assets, brand power, and intellectual property that create barriers to entry. In contrast, capital-intensive industries such as utilities, transportation, and energy tend to produce structurally lower ROIC, reflecting heavy investment requirements and more competitive or regulated market structures.

### ROIC as a driver of Price to Earnings Ratios

Return on Invested Capital is a measure of profitability over the capital invested by a business. The most widely accepted formula is NOPAT / Invested Capital

- NOPAT = Net Operating Profit After Tax
- Invested Capital = Book Value of Equity + Book Value of Debt - Cash & Cash Equivalents

By comparing the Price to Earnings (P/E) ratios of two otherwise identical companies growing at 5%, but with different ROICs, the warranted P/E multiple is higher for the company with the higher ROIC.

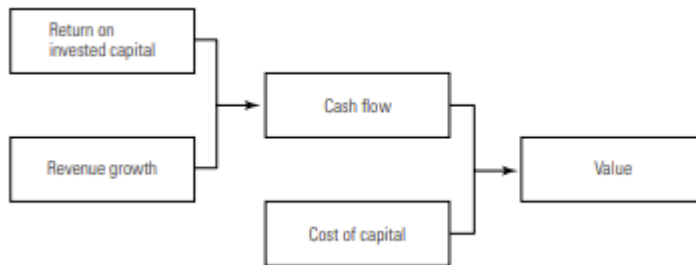
**Figure 3 - ROIC as a driver of Warranted P/E**

Firm 1		Firm 2	
g	5.0%	g	5.0%
ROIC	10.0%	ROIC	20.0%
Discount Rate	10.0%	Discount Rate	10.0%
Investment Rate	50.0%	Investment Rate	25.0%
Long Term g	5.0%	Long Term g	5.0%
<b>Firm Value</b>	<b>1,000</b>	<b>Firm Value</b>	<b>1,500</b>
<b>Warranted P/E</b>	<b>10.0</b>	<b>Warranted P/E</b>	<b>15.0</b>

The formula below generates the **Firm Value**. Together with ROIC, Growth is the second driver influencing Warranted Price to Earnings Ratios.

$$\text{Value} = \frac{\text{NOPLAT}_{t=1} \left(1 - \frac{g}{\text{ROIC}}\right)}{\text{WACC} - g}$$

How ROIC and Growth drive Firm Value is further explained in the book *Value - The 4 Cornerstones of Finance* through the chart below.



In the table below we notice how different combinations of ROIC and Growth will generate different Warranted P/Es.

**Figure 4 - Different ROIC and Growth justify different P/Es**

		ROIC						
P/E		8%	10%	12%	14%	16%	18%	20%
G r o w t h	2%	9.4	10.0	10.4	10.7	10.9	11.1	11.3
	3%	8.9	10.0	10.7	11.2	11.6	11.9	12.1
	4%	8.3	10.0	11.1	11.9	12.5	13.0	13.3
	5%	7.5	10.0	11.7	12.9	13.8	14.4	15.0
	6%	6.3	10.0	12.5	14.3	15.6	16.7	17.5
	7%	4.2	10.0	13.9	16.7	18.8	20.4	21.7

**References**

- Jiang, B., and Koller, T. (2006). A Long-Term Look at ROIC. McKinsey Quarterly.
- McBride, S. (2019). Long-Term Trends Revealed by Our Research on Sector ROICs. New Constructs.
- Value - The 4 Cornerstones of Finance
- Primoat Research