

MEASURING UP:

Achieving Excellence in ROE & ROA

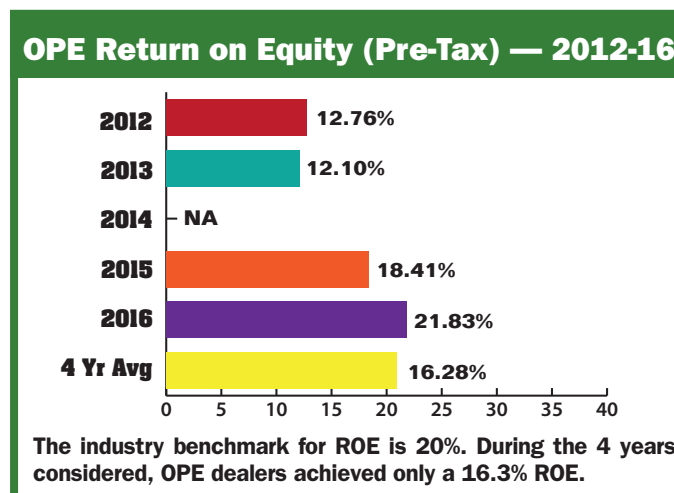
By Dave Kanicki, Executive Editor

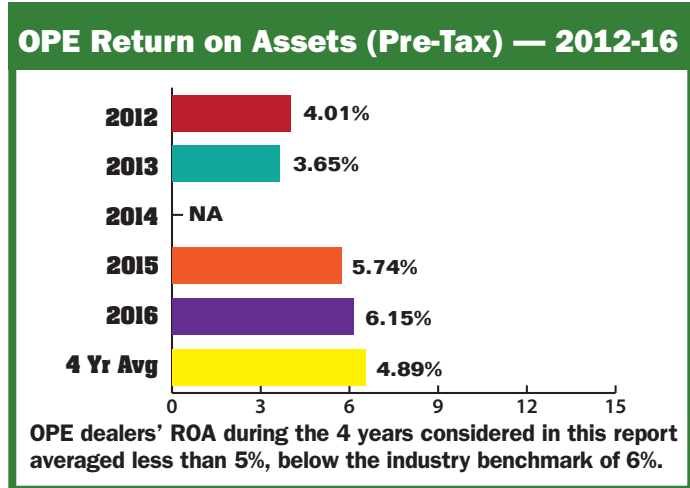
Knowing these two financial ratios are critical to measuring your dealership's level of success.

Return on Equity (ROE) and Return on Assets (ROA) were the two financial ratios most often mentioned by the dealers who responded to *Rural Lifestyle Dealer's* survey about the United Equipment Dealers Assn.'s (UEDA) Cost of Doing Business Study, in terms of measurements critical to their business success.

Return on Equity (ROE). This is the amount of net income returned as a percentage of shareholders equity. It measures a dealership's profitability by revealing how much profit a dealer generates with invested funds. It is calculated by dividing net income by shareholder's equity.

Once again, excluding the 2014 figure, the average pre-tax ROE over the period was 16.28%. This is below the industry's benchmark of 20%. OPE dealers in 2016





were able to surpass the benchmark, achieving an ROE of 21.83%, but this high couldn't balance out the two much lower years in 2012 and 2013, when ROEs came in at 12.76% and 12.10%, respectively.

Return on Assets (ROA). According to UEDA, ROA is calculated by dividing net profits by total assets. This ratio is an important test of operating efficiency. It is a test of the dealership management's use of the assets in the business. It shows the return on total capital investment in the business, which includes both the owner's capital and outside capital, which is represented by total assets.

The industry's benchmark for ROA is 6%, which was exceeded only once during the period (excluding 2014 figures). Dealers' ROA in 2012 was 4.01%, which was followed by an even poorer showing in 2013 of 3.65%. As sales revenue began bouncing back in 2015, dealers' ROA also showed marked improvement to 5.74%. In 2016, the industry exceeded the benchmark by achieving a ROA of 6.15%.

Refer to the charts to see industry benchmarks and dealers' ratios during the 4 years considered.