Return on Assets (ROA)

Trade for
Good.

What Is Return on Assets (ROA)?

ROA refers to a **financial ratio** that indicates how profitable a company is in relation to its total assets.

ROA is used to determine how efficiently a company uses its assets to generate a profit. The metric is commonly expressed as a percentage by using a company's net income and its average assets.

A **higher ROA** means a company is **more efficient** and productive to generate profits.

Trade for Good.

Key Takeaways

- You can calculate a company's ROA by dividing its net income by its total assets.

ROA = Total Assets/Net Income

- It's always best to **compare** the ROA of **companies within the same industry** because they'll share the same asset base.
- **ROA factors in a company's debt** while Return on Equity does not.

Trade for
Good.

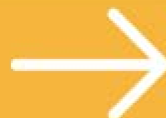
ROA vs. Return on Equity (ROE)

Both ROA and ROE measure how well a company utilizes resources.

The difference is,

- **ROA** factors in how leverages a company is and **how much debt it carries**.
- **ROE** only measures the return on a companies equities **without its liabilities**.

Trade for **Good.**



How ROA is Used by Investors

ROA can be used to **indicate a company is doing well** at increasing profits on each dollar it spends.
A falling ROA can indicate an over-investment in assets to produce revenue growth.

What Is Considered a Good ROA?

- 5% considered good
- Over 20% excellent

It's worth considering ROA's in the same sector.

Trade for Good.