ON ONE PAGE

DuPont Analysis

Breaking down return on equity: not how high it is, but how it is made.

IN ONE LINE

ROE is margin times turnover times leverage. Find the lever doing the work, and treat a return built on leverage as a return built on risk.

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ROE = NI/Rev × Rev/A × A/E
= NI/EBT × EBT/EBIT × EBIT/Rev × Rev/A × A/E
```

NI: net income · EBT: pre-tax income · EBIT: operating income · A: assets · E: equity (use averages)

Five rules

1. **Ask how ROE is made.** Margin is pricing, turnover is efficiency, leverage is risk.
2. **Same ROE, different risk.** 15% from a 15% margin is not 15% from 2.5x leverage.
3. **Split the margin.** Five-step separates operations from tax and interest.
4. **Watch buybacks.** Borrowing 200 to buy back shares took ROE from 18.75% to 33.75%.
5. **Pair it with ROIC.** ROIC is not changed by how the business is financed.

Five-step example

Revenue 1,000 · EBIT 120 · interest 20 · tax 25 · assets 800 · equity 400

Lever	Ratio
Tax burden	0.75
Interest burden	0.83
EBIT margin	12.0%
Asset turnover	1.25x
Equity multiplier	2.00x
ROE	18.75%

Same 15% ROE

Luxury brand: **15.0% × 0.80x × 1.25x**. Discount retailer: **2.5% × 2.40x × 2.50x**. The retailer's leverage amplifies any fall in margin.

Before you sign it off

- [ ] Average, not year-end, balances
- [ ] Each lever compared with peers
- [ ] Change in ROE traced to its lever
- [ ] Buybacks and leverage checked
- [ ] ROE read alongside ROIC



GO DEEPER

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