

# Return on Capital Employed

**Review of the NZ Listed Sector**

**May 2012**



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## Disclaimer

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## 1 Opening Comment

Dear Reader

We would personally like to thank you for taking the time to read this report. We, at Armillary Private Capital, trust it provides some insights into the performance of listed NZ companies and make you think about how you can apply the methodology used in your own business. The methodology we have used in this report was developed by Du Pont Corporation and therefore is not proprietary to us. As it is simple to apply, anyone who understands the methodology can use it. We regularly use this methodology as a tool in our client engagements and in our financial training curriculum.

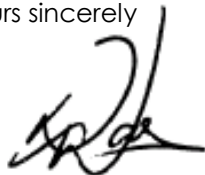
Useable benchmarks to compare businesses are difficult to find in NZ as there is no central database of information available about business performance in general. Accordingly we hope that this report can be used to assist with benchmarking and performance expectations.

We are certain that some of the insights from this report will make you pause and think. We see this report and analysis as an introduction to Return on Capital Employed (ROCE) over the NZ listed market and look forward to being able to extend the depth of the analysis in future years.

We believe that by using the analysis and the insights provided by it, businesses can focus upon value creation.

We would like to thank David Hill, our summer intern for his efforts in compiling this information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'DW', is positioned below the text 'Yours sincerely'.

Armillary Private Capital  
David Wallace  
Managing Director

## 2 Executive Summary

Every business regardless of its' size or function needs to measure its performance and once measured, benchmark itself against its peers in the market. This, however, can be difficult as it's hard to find a tool that not only allows for both inter-company and intra-company comparisons that can also be used year-in, year-out as a consistent basis for performance measurement. Return on Capital Employed (ROCE) is one such tool that can be used for such comparisons as it is a consistent measure of performance from year to year.

ROCE is a measure of business efficiency and is a function of profitability and activity. Profitability is a measure of how much a business is earning before interest on debt and tax (Earnings before interest and tax or EBIT). Activity measures how much the business has invested in operating assets to generate that level of earnings.

This report presents an explanation of ROCE and an analysis of ROCE for Issuers with primary listings on the NZX, NZAX and Unlisted for 2009, 2010 and 2011. The data has been compiled by Armillary Private Capital. It has a number of uses as a screen for investors and a benchmark for unlisted companies.

The table below presents the top 10 Issuers by their 2011 ROCE performance. Interestingly, the list is dominated by retailers and services businesses which in general have high levels of activity (revenue/assets).

Top 10 - 2011 Performance				
Issuer	Market	ROCE 2009	ROCE 2010	ROCE 2011
Fronde	Unlisted	9.3%	(84.8%)	124.7%
Hallenstein	NZX	46.1%	82.1%	61.2%
Briscoe	NZX	23.8%	47.6%	55.8%
Opus	NZX	45.3%	57.0%	52.4%
New Image	NZX	428.1%	142.4%	51.6%
Mainfreight	NZX	42.0%	34.4%	42.8%
Scott Technology	NZX	21.3%	36.1%	40.4%
Vehicle Inspection	Unlisted	(27.0%)	50.8%	38.2%
Restaurant Brands	NZX	21.2%	32.3%	38.1%
Eastpack	Unlisted	18.8%	22.0%	37.7%

The following table ranks the top 10 Issuers by average ROCE over the 2009 through 2011 years. The Issuers on this list are similar to those in the previous table and are largely those listed entities that have a long trading history.

Top 10 - 3 Year Average					
Issuer	Market	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
New Image	NZX	428.1%	142.4%	51.6%	207.4%
Hallenstein	NZX	46.1%	82.1%	61.2%	63.1%
Opus	NZX	45.3%	57.0%	52.4%	51.6%
Briscoe	NZX	23.8%	47.6%	55.8%	42.4%
Mainfreight	NZX	42.0%	34.4%	42.8%	39.8%
Scott Technology	NZX	21.3%	36.1%	40.4%	32.6%
Warehouse	NZX	29.8%	33.5%	29.6%	30.9%
Zintel	NZAX	71.1%	8.9%	12.5%	30.8%
Restaurant Brands	NZX	21.2%	32.3%	38.1%	30.5%
F&P Healthcare	NZX	34.0%	28.5%	24.9%	29.1%

The average ROCE provides a good benchmark for other businesses operating in the same sector.

For the analysis 146 Issuers results were reviewed. Across 145 of the Issuers (Genesis Research was excluded from the simple average) in the sample, of the 2011 results on average the NZ listed sector as a whole has an average -5.4% ROCE. If the outliers (incl Genesis Research) are limited to +/-50% then the average increases to 5.35%. Excluding the worst 10 performers the average ROCE was +10.1%. In 2011 106 Issuers had a ROCE of greater than 0% and 56 had a ROCE of greater than 10%.

The top three ROCE values in 2011 for the NZX market were Hallenstein (61.2%), Briscoe Group (55.8%) and Opus (52.4%). For the NZAX market in 2011 A2 Corp (24.9%), Livestock Improvement (17.5%) and Jasons Travel Media (15.2%) topped the performance rankings. On the Unlisted market the top three performers in 2011 were Fronde (124.7%), Vehicle Inspection NZ (38.2%) and Eastpak (37.7%).

### 3 Return on Capital Employed Explained

#### What is Return on Capital Employed and what does it show?

Return on Capital Employed ("ROCE") is a measure of business effectiveness and capital efficiency. ROCE is a function of profitability, how much profit a business generates before interest on debt and tax ( EBIT) and activity, how much a business has invested in operating assets to generate that level of profitability.

In the 1920's Du Pont Corporation developed what is commonly known as Du Pont accounting and ROCE as a measure of business performance to enable it to compare the performance of its many different business units. The Du Pont accounting method is a powerful and relatively simple approach to determine the impact of management decisions on financial performance. The advantage of this method is that it provides a consistent form of evaluation for a business to use when measuring performance.

At an individual business level ROCE:

- allows comparison between business units of different size over time;
- shows where to invest further and where to cut back;
- shows whether it is worth borrowing further to invest;
- shows if expectations of shareholders are being met;
- indicates the maximum sustainable growth of a business; and
- is used to track whether or not a project is performing according to plan.

ROCE can be used to test operational efficiency, balance sheet management efficiency and the adequacy of return on total capital employed to make an assessment of a business's performance.

ROCE can be used to help management improve both the profitability (EBIT) and balance sheet management. Improvements in these areas will lead to improvements in the Return on Capital employed.

## Calculating ROCE

It is important to note that some changes need to be made to traditional thinking to gain the benefits of this dynamic approach. To achieve this there are two concepts that need to be considered:

### Concepts

#### (i) The separation of funding from operating decisions

Consider the traditional formula for presenting financial statements.

$$\text{EQUITY} = (\text{Current Assets} + \text{Cash} - \text{Current Liabilities}) + \text{Non-current Assets} - \text{Debt}$$

In order to calculate ROCE, all forms of funding need to be removed from the right hand side of the equation. Total net assets should be void of any external funding or debt thereby representing the true value of scarce resources employed in the business.

The financial analysis format can now be structured as follows.

$$\text{DEBT} - \text{CASH} + \text{EQUITY} = (\text{Current Assets} - \text{Current Liabilities}) + \text{Non-Current Assets}$$

$$\text{TOTAL CAPITAL EMPLOYED (TCE)} = \text{TOTAL NET OPERATING ASSETS (TNA)}$$

The movement in TNA reflects operating changes made to the employment of scarce resources, whilst net Debt (debt – cash) and Equity reflects how these changes are funded. It should be noted that where the directors of a business elect to retain minimum levels of cash this cash should be included in TNA.

#### (ii) Balance sheet efficiency – ACTIVITY RATIO.

**Definition:** A measurement of how well the business manages its scarce resources

**Formula:** 
$$\frac{\text{Revenue}}{\text{Total Net Assets}}$$

The Activity Ratio is a measure of how many times a business turns over its TNA in a financial year.

By way of example, an Activity ratio of 2.5 means that for every \$1 invested in TNA the business produces \$2.50 in sales. It answers the question of whether or not the net operating assets are being utilised efficiently in the production of income.

The activity drivers are:

- Stock, Work in Progress, Inventory – the value of raw materials, work in progress and finished goods the business holds;
- Trade Debtors – how much the business has locked up in sales revenues receivable;
- Trade Creditors – how much the business owes to its suppliers for goods and services provided;
- Non-Current Assets – how much is invested in plant and equipment and intangible assets is required to operate the business and produce the goods sold.

Other current assets and liabilities such as prepayments and accruals are included in trade debtors and creditors.

Adjusting one or more of the activity drivers will increase or decrease the Activity ratio and therefore improve or worsen ROCE.

### (iii) Operational Efficiency – PROFITABILITY MARGIN.

**Definition:** A measurement of the Return on Sales purely from an operating perspective.

**Formula:** 
$$\frac{\text{Earnings before interest \& tax}}{\text{Revenue}}$$

The above formula ignores the impact of funding and concentrates on the entity's ability to produce a return from revenue.

The four key profitability drivers are:

- Price – how much a business receives for the goods it sells;



- Volume – how many goods the business sells;
- Cost of Goods Sold – how much it costs the business to produce the goods it sells; and
- Expenses – the overhead expenses of the business.

Adjusting one or more of the profitability drivers will increase or decrease the profitability ratio and therefore improve or worsen ROCE.

## (iv) Return on Capital Employed – ROCE

The link between the Balance Sheet and Profit & Loss is dynamically reflected in ROCE.

**Definition:** The percentage return yielded from the employment of scarce resources in the form of profit before interest and tax

**Formula:** 
$$\frac{\text{EBIT}}{\text{TNA}}$$

OR

Profitability x Activity

The interactive nature of this ratio is seen in the alternative formula as the product of Profitability and Activity. Operational and Balance Sheet efficiency are brought to life in one single ratio. This should be the first area of review in the process of corporate performance assessment, and it should be determined as to whether or not ROCE is adequate and which of its components contribute to both the strengths and weaknesses of the financial strategy.

Irrespective of the type of industry ROCE should at least be equal to or greater than the weighted average cost of capital (WACC) in order for a business to create shareholder value.

**Example:**

Revenue	100,000
EBIT	10,000
Profitability Ratio	10%
TNA	50,000
Activity Ratio	2x
ROCE	$10\% \times 2 = 20\%$

It is worth noting that average TNA for the period over which Revenue and EBIT are derived will give a better result than just considering TNA and the end of the period being measured.

It should also be remembered that ROCE does not change when EQUITY is substituted for DEBT. This highlights the impact of a true operational performance measurement.

**(v) Interfacing Profit and Loss/(Cash) with the Balance Sheet**

The Balance Sheet is just a snapshot of the assets and liabilities of a business at a point in time. However its interaction with profit and loss, through Earnings Before Interest and Tax (EBIT), provides the platform for developing a totally dynamic analytical structure.

Two businesses, producing the same sales and return on sales can be viewed from an operational point of view as being identical even if one were funded by debt and the other by equity. This is because the cost of borrowing is purely a financial issue.

## **ROCE Uses**

ROCE can be used in many ways by organisations and management teams as a performance measure and as a tool when preparing budgets and valuations.

One of these ways is that the management team may set ROCE goals for either the entire organisation or its sub-units and decision making in respect of investing in new projects to ensure that the business is performing at a level that is greater than WACC.

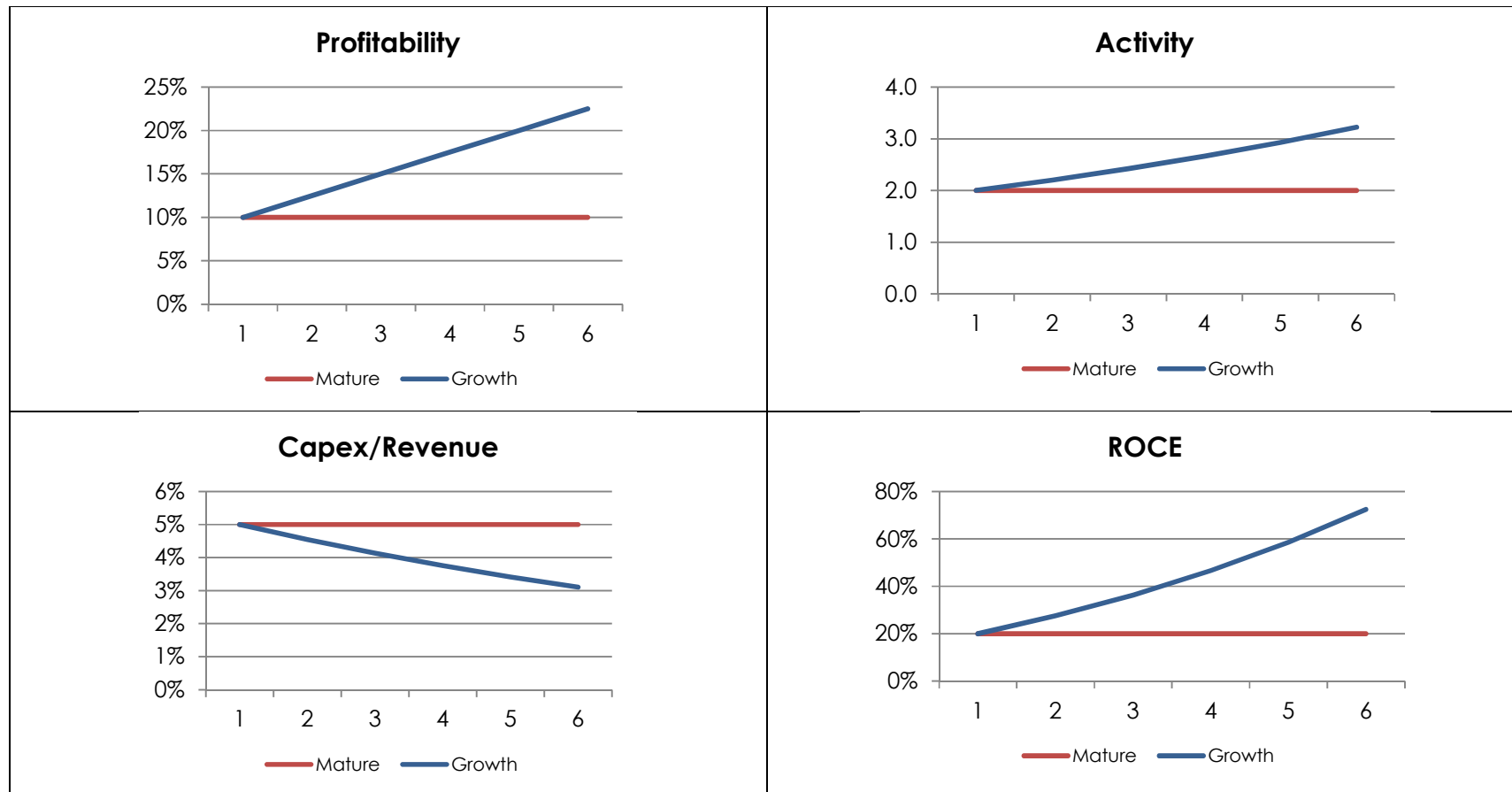
ROCE is also able to be used to set up a performance remuneration plan for management and employees. As it is simple to calculate, ROCE provides a transparent model for such programs.

## **Budgeting and Valuation**

Businesses and analysts often make an underlying error in budgeting or forecasting business performance and hence a business valuation. When undertaking a valuation the biggest error usually arises from utilising overly optimistic forecasts. Discount rates are generally less susceptible to such errors.

Consider the following 4 charts which simplistically compare Profitability, Activity, Capex to Revenue and ROCE ratios for a mature business and a growth business. The underlying issue is that most budgets for mature businesses more than often assume expanding profitability, increasing activity, reducing levels of capital expenditure for every dollar of sales and therefore increasing ROCE. More often than not a mature business is unlikely to see these improvements on an ongoing basis. While some improvement is always possible continuous expansion is unlikely to be experienced on an ongoing basis and the art of getting the forecasts correct is challenging such ongoing expansion assumptions.

Forecasts for growth businesses often have the opposite issues. It is rare to find a business in NZ that can achieve EBIT margins in excess of 20% on an ongoing basis. At those levels competitors are likely to enter a market and customers generally start looking elsewhere or in-housing the supply. Revenue growth will also demand lock up in working capital and additional fixed assets to support the growth. Therefore to create robust forecasts for a growth business at some juncture these charts are likely to level out and this levelling is usually earlier than anticipated generally because the business becomes loose with expenditure.



## What is a "Good" ROCE

ROCE is a measure of a company's profitability and its activity. Quite simply a good ROCE is a level that exceeds the weighted average cost of capital for the business. Where this is the case the business will be creating value for its shareholders.

## 4 Discussion of Results

The following tables and charts summarise the findings of our ROCE analysis for Issuers on NZX, NZAX and Unlisted. Interestingly, the overall results were negatively impacted by a small number of Issuers that had large negative EBIT margins. Therefore, on a number of occasions we have reduced the impact of these Issuers by identifying them as outliers and adjusting for their impact.

### 2011 Top 10

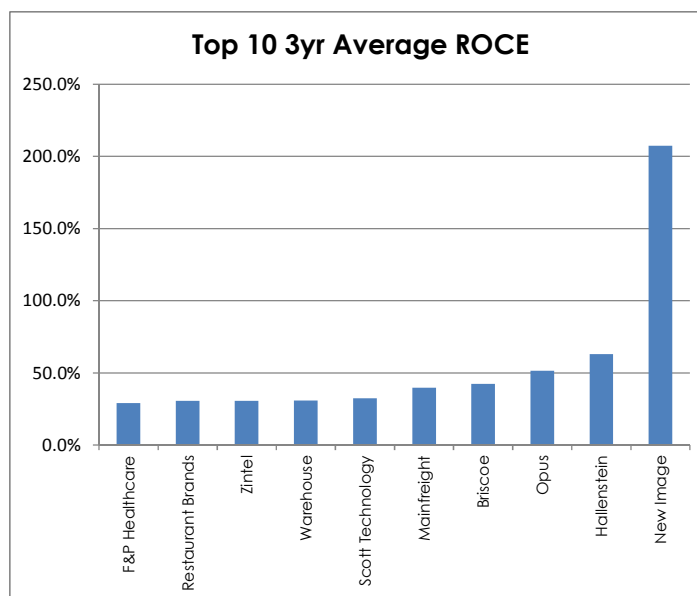
The following table sets out the top 10 Issuers based on 2011 ROCE and includes an interesting mix of retailers and service entities across a variety of sectors.

Top 10 - 2011 Performance				
Issuer	Market	ROCE 2009	ROCE 2010	ROCE 2011
Fronde	Unlisted	9.3%	(84.8%)	124.7%
Hallenstein	NZX	46.1%	82.1%	61.2%
Briscoe	NZX	23.8%	47.6%	55.8%
Opus	NZX	45.3%	57.0%	52.4%
New Image	NZX	428.1%	142.4%	51.6%
Mainfreight	NZX	42.0%	34.4%	42.8%
Scott Technology	NZX	21.3%	36.1%	40.4%
Vehicle Inspection	Unlisted	(27.0%)	50.8%	38.2%
Restaurant Brands	NZX	21.2%	32.3%	38.1%
Eastpack	Unlisted	18.8%	22.0%	37.7%

Fronde presents an interesting top performer that had a 32x Activity Ratio in 2011 (up from 12x in 2010) with a 4% Profitability ratio, whereas Briscoe had a 2011 Activity Ratio of 7.1x with a 7.8% Profitability Ratio.

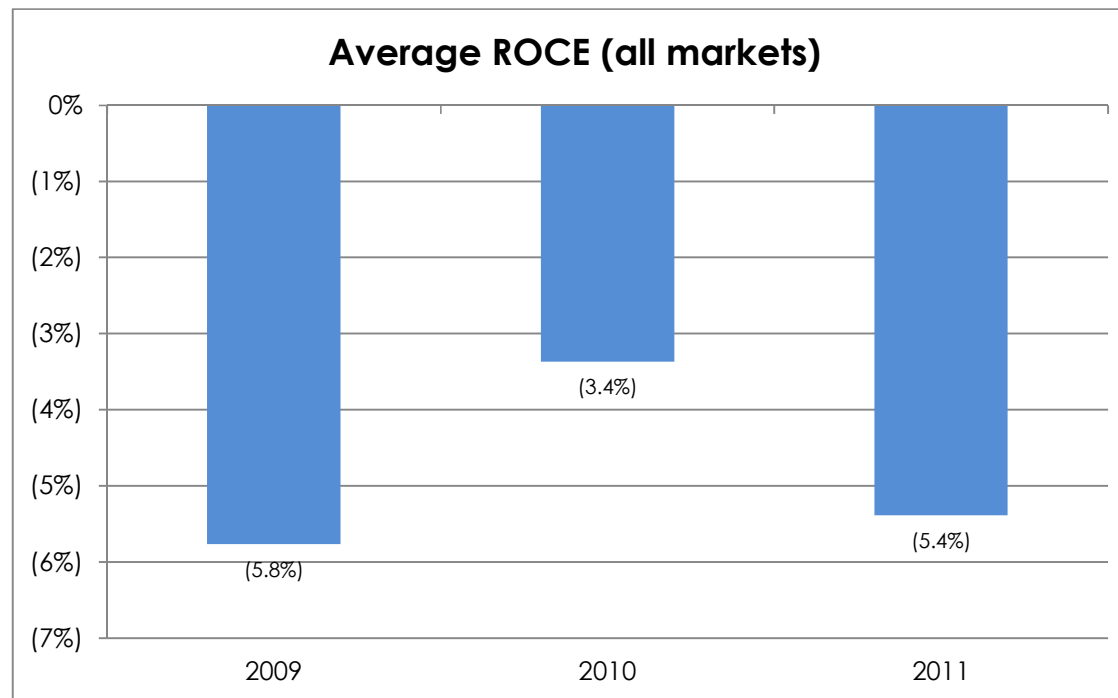
Looking at the top 10 on a three year average basis again shows a high proportion of service related issuers featuring.

Top 10 - 3 Year Average					
Issuer	Market	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
New Image	NZX	428.1%	142.4%	51.6%	207.4%
Hallenstein	NZX	46.1%	82.1%	61.2%	63.1%
Opus	NZX	45.3%	57.0%	52.4%	51.6%
Briscoe	NZX	23.8%	47.6%	55.8%	42.4%
Mainfreight	NZX	42.0%	34.4%	42.8%	39.8%
Scott Technology	NZX	21.3%	36.1%	40.4%	32.6%
Warehouse	NZX	29.8%	33.5%	29.6%	30.9%
Zintel	NZAX	71.1%	8.9%	12.5%	30.8%
Restaurant Brands	NZX	21.2%	32.3%	38.1%	30.5%
F&P Healthcare	NZX	34.0%	28.5%	24.9%	29.1%

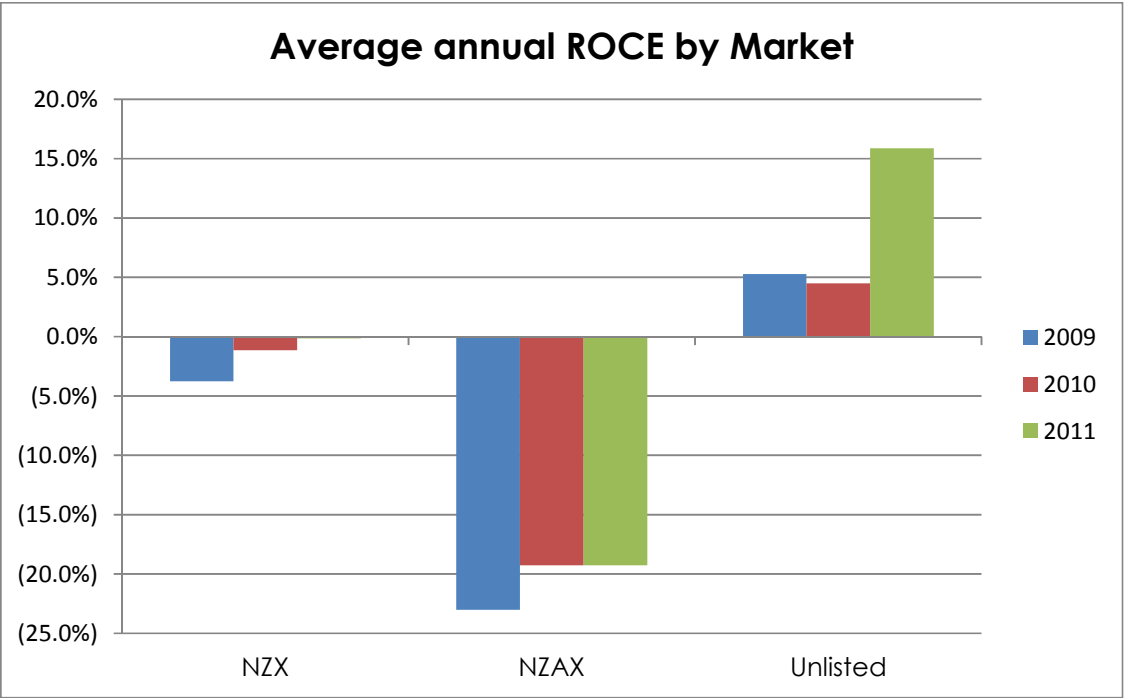


## Markets

The chart below shows a simple average ROCE (not market capitalisation weighted) across 145 of the 146 issuers reviewed on all three markets in the sample set in each of the years reviewed (Genesis Research was excluded as its large negative result significantly skewed the overall outcome). While each of these years showed a negative result we note that in 2011, excluding the worst 10 performers, the average ROCE was +10.1% and, excluding the worst three performers, the average ROCE was +3.1%.



Looking at the average ROCE performance by market for each of the years reviewed shows consistent sub-optimal performance by those entities listed on the NZAX market.

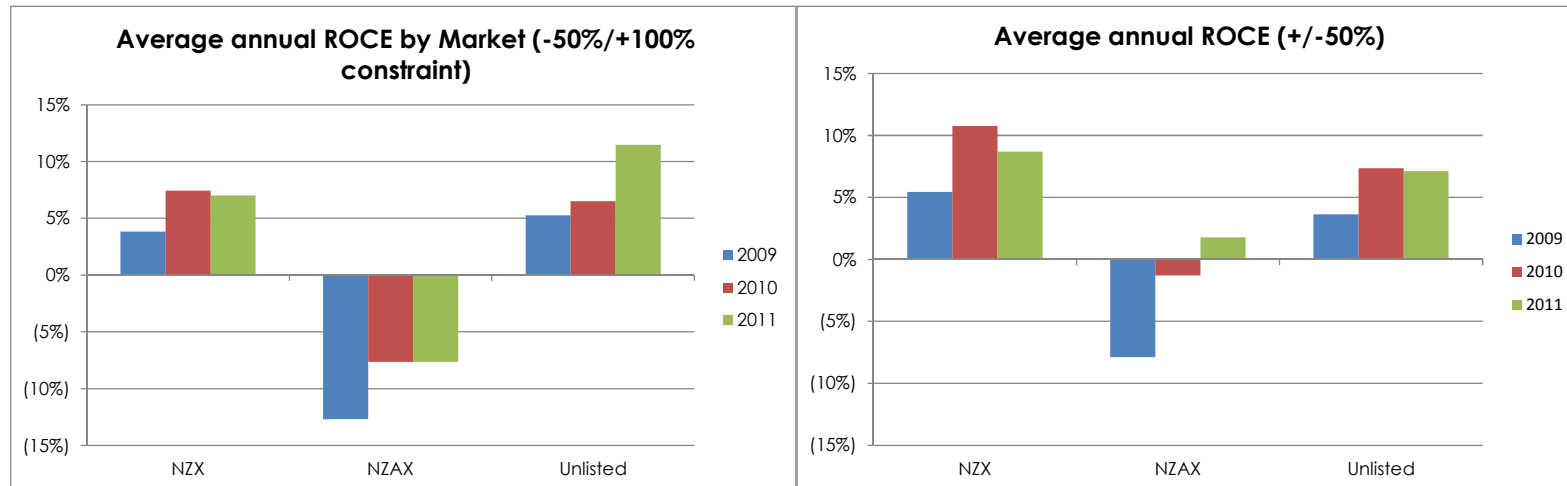




In the two charts below we have enhanced the simple average analysis in the above chart by;

- A. capping the outlier results to -50%, where less, and +100% where more. This is shown in the chart on the left; and
- B. excluding any outliers with ROCE greater than +50% or less than -50%, shown in the chart on the right.

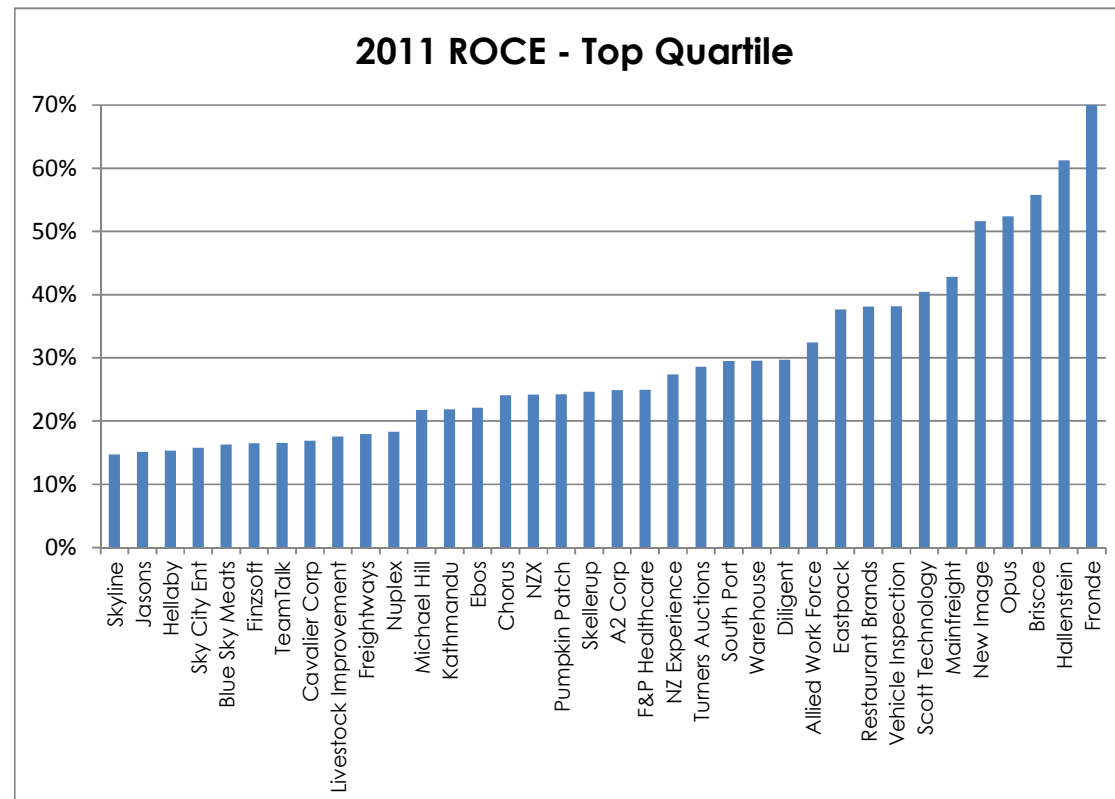
This changes the outcome for the NZX market to a positive for each of the years reviewed.



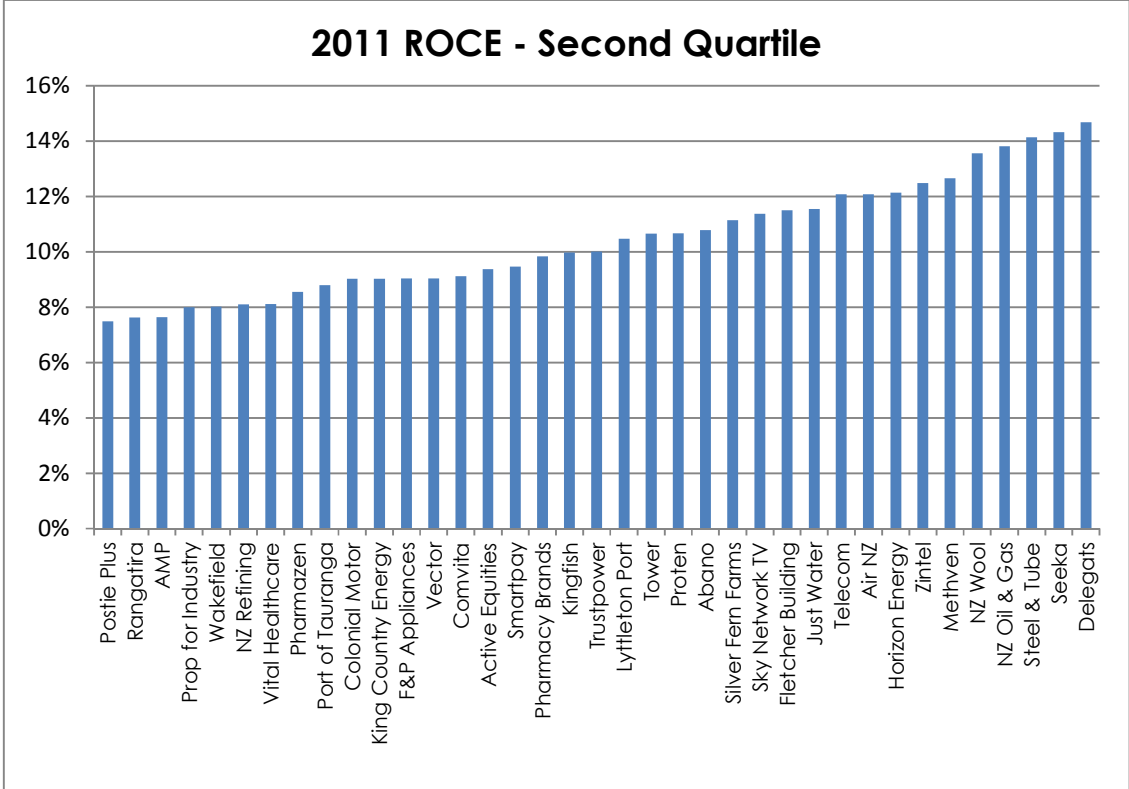
## Individual Issuers

The following 4 graphs show individual ROCE performance for each of the 146 Issuers reviewed.

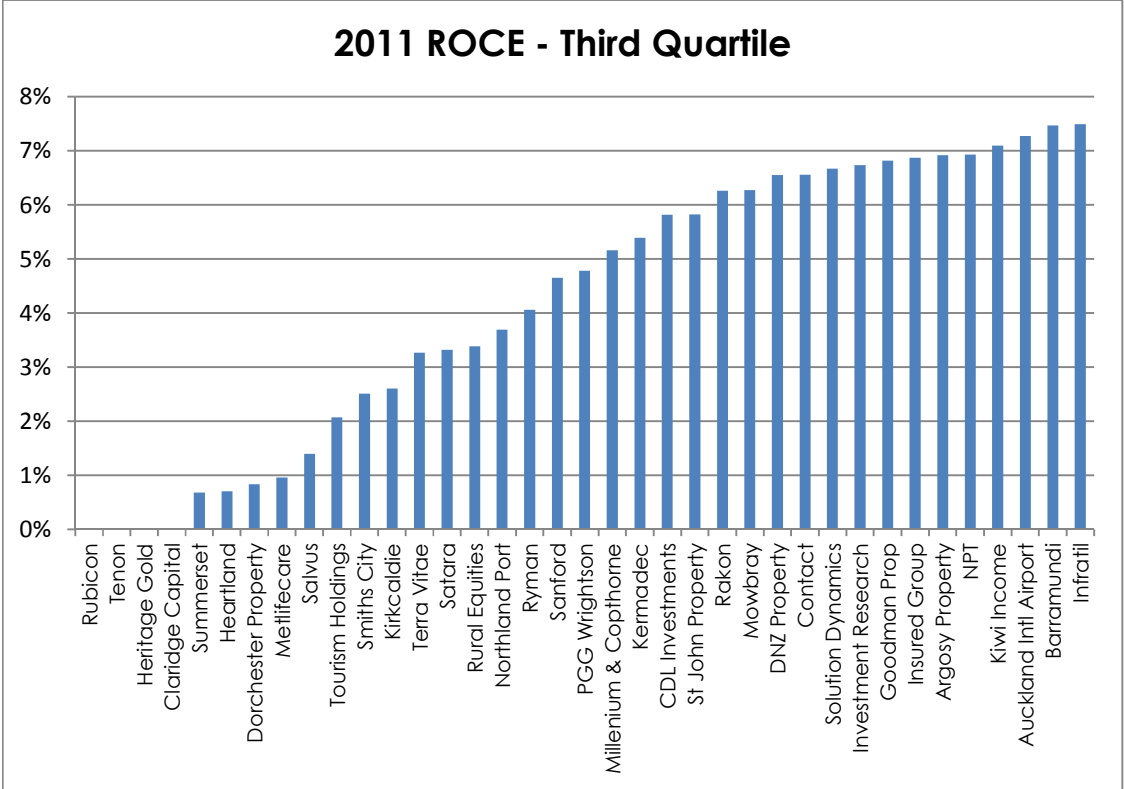
The 36 issuers in the top quartile are dominated by retailers and services related companies. Note for the purposes of this chart, entities with ROCE greater than 70% have been shown as 70%.



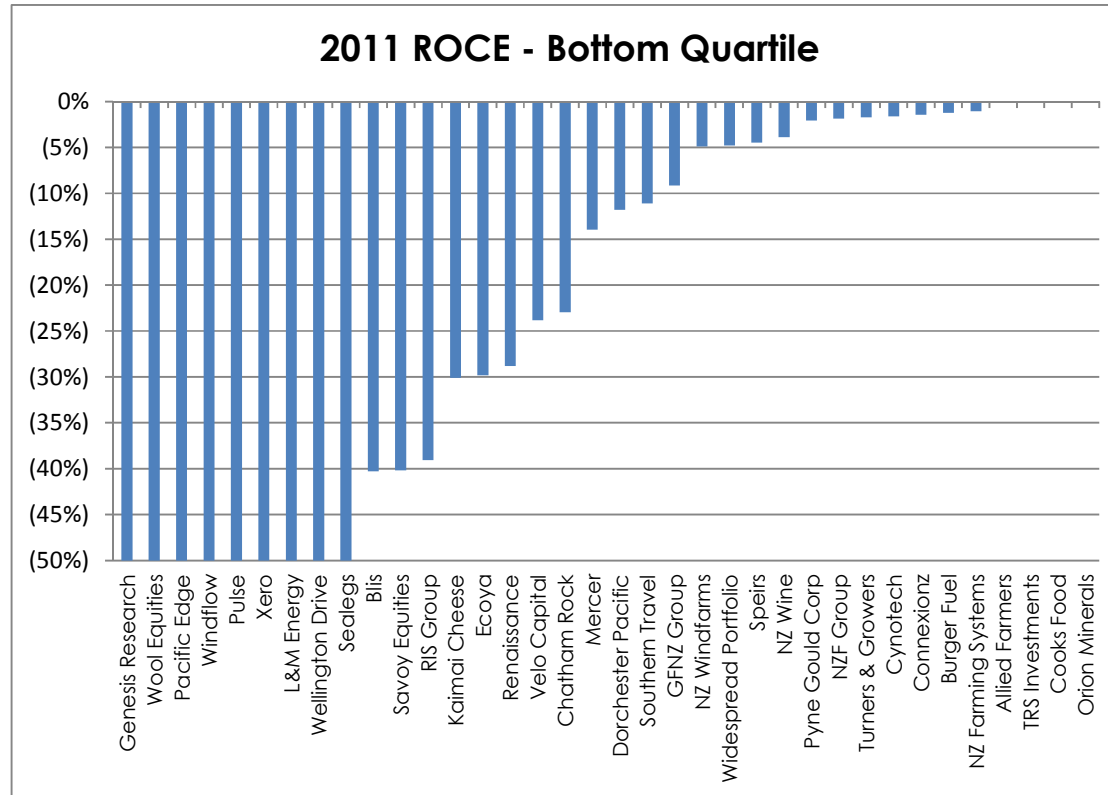
The issuers in the second quartile, with 2011 ROCE's between 7.5% and 14.7%, we estimate are trading at or about their individual weighted average cost of capital.



In the third quartile there is a high grouping of property related issuers around the 7% mark which is not surprising given the nature of their assets.



The fourth quartile of Issuers are those issuers with a ROCE of 0% or less. Note that for the purposes of this chart those issuers with a ROCE of less than -50% we have shown ROCE as -50%. The order represents the Issuers actual ROCE.



We note that some of the Issuers at the bottom of this quartile are focused on a significant growth strategy at the expense of profitability. Xero is an example of this.

## **Outliers**

Outliers, to varying extents, are present in all three markets. This means that each market has experienced one or more issuers with abnormally high or low returns on capital employed, in at least one of the years examined. An example of an outlier is that of Fronde, an issuer on the Unlisted market. Fronde is an outlier for this market in both 2011 and 2010.

As noted elsewhere the outliers at the bottom end place significant downward pressure on the overall average findings. In our analysis we have limited the impact of this by limiting the ROCE for these entities to -50%.

## **Highlights and Lowlights**

The largest ROCE in all markets was New Image in 2009 at 428%.

The top three ROCE values in 2011 for the NZX market were, from highest to lowest, Hallenstein (61.2%), Briscoe Group (55.8%) and Opus (52.7%). The lowest three ROCE values for the NZX market in 2011 were Genesis Research (-100,600%), Pacific Edge (-595.5%), Genesis Research (-222.8% and Xero (-174.6%).

The top three ROCE values in the NZAX market for 2011 are A2 Corp (24.9%), Livestock Improvement (17.5%) and Jasons Travel Media (15.2%). The lowest three ROCE values are Wool Equities (-623.1%), Windflow (-226.7%), and Pulse Utilities (-180.2%).

The top three ROCE's in 2011 for the Unlisted market were, from highest to lowest, Fronde (124.7%), Vehicle Inspection NZ (38.2%) and Eastpak (37.7%). The Unlisted markets lowest three ROCE values for 2011 are Kaimai Cheese (-30.1%), Connexionz (-1.4%), and Dorchester Property (0.8%)

## **Comparison Table Analysis**

Appendix 1 contains a table of results including 2010 and 2011 Profitability Ratio's (EBIT margins) and Activity Ratio's, 2009, 2010 & 2011 ROCE and average ROCE across all three years.

The following tables illustrate how companies with quite different business models and size can have similar levels of ROCE.

Briscoe and Opus have similar levels of revenue, EBIT and TNA. Opus, a services company, has significant levels of goodwill and receivables, whereas Briscoe, a retailer, has significant levels of inventory and fixed assets.

Issuer	Market	Average Revenue (NZ\$m)	Average EBIT (NZ\$m)	Average TNA (NZ\$m)	Average EBIT Margin	Average Activity	Average ROCE
Briscoe	NZX	408.1	26.0	61.1	6.3%	6.6	42.4%
Opus	NZX	376.2	27.5	54.6	7.3%	7.1	51.6%

On the other hand Telecom, a telecommunications company, has significant investment in assets and has an activity ratio of approximately 1x with a 12.5% EBIT margin. Blue Sky Meats, a primary processor, however turns over its asset base 2.5x per annum with a low EBIT margin of just 4.8%. These two entities have however similar returns and yet their business and size are significantly different.

Issuer	Market	Average Revenue (NZ\$m)	Average EBIT (NZ\$m)	Average TNA (NZ\$m)	Average EBIT Margin	Average Activity	Average ROCE
Telecom Corp. of NZ	NZX	5212.3	653.7	5107.3	12.5%	1.0	12.6%
Bluesky Meats	Unlisted	95.2	4.7	38.5	4.8%	2.5	12.2%

## 5 Background on Armillary Private Capital

Armillary Private Capital is an investment banking, asset management, financial training and advisory services firm based in Wellington. The Armillary team have advised a broad range of NZ companies at numerous points along the business life cycle, and in doing so has undertaken extensive investment banking work including debt and equity raisings, M&A, valuations, due diligence, and independent appraisal reports for public and private businesses. Its training business counts a number of government agencies, corporate and tertiary education institutions. Armillary Private Capital is Manager of Touchstone Capital Partners, a special situations investment company, Unlisted, the internet-based securities trading platform and Eden ArgiCapital LP, a recently established investor in agricultural productivity assets.

Armillary uses the DuPont method (DuPont analysis or DuPont accounting) as its primary method of analysis. This powerful and highly practical method allows the development of a rapid understanding of the underlying performance of a business notwithstanding its capital structure. As such the DuPont method assists Armillary to identify key business drivers and provide valuable insight to its clients.

## 6 Sources of Data

The data for this analysis and report has been compiled by Armillary Private Capital from annual reports and information courtesy of Cameron Partners Limited



## Appendix 1 – Detailed Results

Issuer	Market	2010 EBIT Margin	2011 EBIT Margin	2010 Activity Ratio	2011 Activity Ratio	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
A2 Corp	NZAX	0.0%	6.2%	0.0	4.0	(149.3%)	0.0%	24.9%	(41.5%)
Abano	NZX	7.8%	8.1%	1.1	1.3	8.7%	8.5%	10.8%	9.3%
Active Equities	Unlisted	62.6%	67.3%	0.1	0.1	(1.6%)	8.0%	9.4%	5.2%
Air NZ	NZX	3.6%	5.0%	2.7	2.4	(17.3%)	9.8%	12.1%	1.5%
Allied Farmers	NZX	(0.7%)	(0.1%)	0.4	0.5	27.3%	(0.2%)	(0.1%)	9.0%
AMP	NZX	66.0%	67.1%	0.1	0.1	6.6%	7.3%	7.6%	7.2%
Argosy Property	NZX	70.3%	68.9%	0.1	0.1	7.0%	7.0%	6.9%	7.0%
Auckland Intl Airport	NZX	61.4%	61.2%	0.1	0.1	7.7%	7.4%	7.3%	7.5%
Allied Work Force	NZX	4.2%	5.8%	5.1	5.6	21.4%	21.5%	32.4%	25.1%
Barramundi	NZX	89.3%	73.9%	0.2	0.1	(18.9%)	21.6%	7.5%	3.4%
Blis	NZX	(11.1%)	(54.3%)	1.0	0.7	(46.8%)	(10.6%)	(40.3%)	(32.6%)
Blue Sky Meats	Unlisted	2.1%	6.5%	2.2	2.5	15.6%	4.8%	16.3%	12.2%
Briscoe	NZX	7.2%	7.8%	6.6	7.1	23.8%	47.6%	55.8%	42.4%
Burger Fuel	NZAX	(7.0%)	(0.3%)	3.9	4.0	(42.4%)	(27.0%)	(1.2%)	(23.5%)
Cavalier Corp	NZX	9.8%	11.2%	1.5	1.5	15.6%	14.8%	16.9%	15.8%
CDL Investments	NZX	40.3%	44.9%	0.1	0.1	1.8%	4.3%	5.8%	4.0%
Chatham Rock	NZAX	(311.8%)	(2648.0%)	0.1	0.0	(36.6%)	(15.6%)	(23.0%)	(25.1%)
Chorus	NZX	46.6%	40.6%	0.6	0.6	32.7%	28.9%	24.1%	28.6%
Claridge Capital	NZX	0.0%	0.0%	0.0	0.0	(10.1%)	0.0%	0.0%	(3.4%)
Colonial Motor	NZX	2.5%	3.2%	2.3	2.8	7.2%	5.8%	9.0%	7.3%
Comvita	NZX	12.4%	9.4%	1.0	1.0	6.0%	12.5%	9.1%	9.2%
Connexionz	Unlisted	6.8%	(0.2%)	4.2	5.9	31.3%	28.6%	(1.4%)	19.5%
Contact	NZX	12.2%	12.3%	0.5	0.5	7.4%	6.7%	6.6%	6.9%
Cooks Food	NZAX	(3520.0%)	0.0%	0.0	0.0	(27.3%)	(4.1%)	0.0%	(10.5%)
Cynotech	NZAX	(53.0%)	(2.7%)	0.4	0.6	17.6%	(18.6%)	(1.6%)	(0.9%)
Delegats	NZX	11.0%	18.3%	0.7	0.8	16.6%	8.2%	14.7%	13.2%

# Return on Capital Employed

2012

Issuer	Market	2010 EBIT Margin	2011 EBIT Margin	2010 Activity Ratio	2011 Activity Ratio	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
Diligent	NZX	(29.1%)	5.1%	2.6	5.8	(143.5%)	(76.6%)	29.7%	(63.5%)
DNZ Property	NZX	73.0%	74.3%	0.1	0.1	6.0%	6.1%	6.6%	6.2%
Dorchester Pacific	NZX	205.0%	(681.1%)	-0.1	0.0	(18.7%)	(16.6%)	(11.8%)	(15.7%)
Dorchester Property	Unlisted	0.0%	7.9%	0.0	0.1	0.0%	0.0%	0.8%	0.3%
Eastpack	Unlisted	17.4%	21.4%	1.3	1.8	18.8%	22.0%	37.7%	26.2%
Ebos	NZX	2.7%	2.8%	6.8	7.8	16.8%	18.4%	22.1%	19.1%
Ecoya	NZX	(63.1%)	(23.0%)	2.0	1.3	(45.7%)	(128.8%)	(29.8%)	(68.1%)
Finzsoft	NZX	4.1%	6.5%	2.9	2.5	(50.8%)	12.1%	16.5%	(7.4%)
F&P Appliances	NZX	4.0%	6.4%	1.2	1.4	4.3%	4.7%	9.0%	6.0%
F&P Healthcare	NZX	19.8%	19.3%	1.4	1.3	34.0%	28.5%	24.9%	29.1%
Fletcher Building	NZX	7.3%	7.5%	1.6	1.5	11.6%	11.6%	11.5%	11.6%
Freightways	NZX	16.4%	16.1%	1.1	1.1	19.9%	17.3%	17.9%	18.4%
Fronde	Unlisted	(6.9%)	3.9%	12.4	32.3	9.3%	(84.8%)	124.7%	16.4%
Genesis Research	NZX	(270.8%)	(50300%)	0.8	2.0	(225.2%)	(222.8%)	(100600%)	(33682%)
GFNZ Group	NZAX	(6.0%)	(133.0%)	0.2	0.1	(5.1%)	(1.0%)	(9.2%)	(5.1%)
Goodman Prop	NZX	72.3%	73.5%	0.1	0.1	6.4%	6.5%	6.8%	6.6%
Hallenstein	NZX	13.6%	10.9%	6.0	5.6	46.1%	82.1%	61.2%	63.1%
Heartland	NZX	36.7%	16.9%	0.1	0.0	0.0%	3.4%	0.7%	1.4%
Hellaby	NZX	4.3%	5.4%	2.5	2.8	8.5%	10.8%	15.3%	11.6%
Heritage Gold	NZX	0.0%	0.0%	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Horizon Energy	NZX	31.3%	31.6%	0.4	0.4	11.5%	12.3%	12.1%	12.0%
Infratil	NZX	13.6%	14.1%	0.5	0.5	7.1%	6.9%	7.5%	7.1%
Insured Group	NZX	0.0%	13.5%	0.0	0.5	0.0%	0.0%	6.9%	2.3%
Investment Research	NZAX	4.8%	7.2%	0.6	0.9	(45.2%)	2.7%	6.7%	(11.9%)
Jasons	NZAX	8.0%	7.9%	2.0	1.9	22.1%	16.2%	15.2%	17.8%
Just Water	NZAX	1.1%	9.9%	0.9	1.2	7.3%	1.0%	11.5%	6.6%
Kaimai Cheese	Unlisted	(11.9%)	(28.3%)	0.8	1.1	(15.2%)	(9.0%)	(30.1%)	(18.1%)
Kathmandu	NZX	19.7%	20.9%	0.8	1.0	14.9%	16.7%	21.8%	17.8%
Kermadec	NZX	63.2%	57.4%	0.1	0.1	7.4%	6.5%	5.4%	6.4%

# Return on Capital Employed

2012

Issuer	Market	2010 EBIT Margin	2011 EBIT Margin	2010 Activity Ratio	2011 Activity Ratio	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
King Country Energy	Unlisted	7.2%	21.7%	0.5	0.4	8.2%	3.4%	9.0%	6.9%
Kingfish	NZX	92.6%	82.3%	0.3	0.1	(32.5%)	27.8%	10.0%	1.8%
Kirkcaldie	NZX	5.0%	2.0%	1.3	1.3	7.0%	6.6%	2.6%	5.4%
Kiwi Income	NZX	65.1%	65.9%	0.1	0.1	6.7%	7.0%	7.1%	6.9%
L&M Energy	NZX	0.0%	(3808.2%)	0.0	0.0	0.0%	0.0%	(117.5%)	(39.2%)
Livestock Improvement	NZAX	13.7%	15.9%	0.9	1.1	15.3%	12.6%	17.5%	15.1%
Lyttleton Port	NZX	19.8%	22.6%	0.5	0.5	9.5%	8.9%	10.5%	9.6%
Mainfreight	NZX	11.9%	11.7%	2.9	3.7	42.0%	34.4%	42.8%	39.8%
Mercer	NZX	(3.4%)	(11.9%)	1.2	1.2	(3.4%)	(4.0%)	(14.0%)	(7.1%)
Methven	NZX	9.9%	7.3%	1.7	1.7	18.6%	16.5%	12.7%	15.9%
Metlifecare	NZX	9.4%	10.8%	0.1	0.1	0.9%	0.8%	1.0%	0.9%
Michael Hill	NZX	7.7%	9.3%	2.3	2.3	15.7%	17.6%	21.7%	18.3%
Millenium & Copthorne	NZX	13.0%	23.7%	0.2	0.2	3.4%	2.8%	5.2%	3.8%
Mowbray	NZX	9.5%	9.7%	0.7	0.6	(4.9%)	6.3%	6.3%	2.6%
New Image	NZX	14.0%	9.8%	10.1	5.3	428.1%	142.4%	51.6%	207.4%
NZ Experience	NZX	25.7%	20.9%	1.4	1.3	21.3%	37.0%	27.4%	28.6%
NZ Oil & Gas	NZX	25.9%	38.1%	0.3	0.4	30.8%	7.3%	13.8%	17.3%
NZ Refining	NZX	28.4%	17.9%	0.4	0.5	5.9%	12.1%	8.1%	8.7%
NZ Wine	NZAX	5.4%	(12.2%)	0.3	0.3	3.8%	1.9%	(3.9%)	0.6%
NZ Wool	NZAX	3.3%	5.2%	2.1	2.6	3.1%	6.9%	13.6%	7.9%
Northland Port	NZX	63.0%	69.2%	0.0	0.1	1.9%	2.5%	3.7%	2.7%
NPT	NZX	54.9%	50.8%	0.1	0.1	6.4%	7.0%	6.9%	6.8%
Nuplex	NZX	8.4%	7.2%	2.3	2.6	9.0%	19.6%	18.3%	15.7%
NZ Farming Systems	NZX	(18.6%)	(6.3%)	0.1	0.2	(21.3%)	(2.0%)	(1.1%)	(8.1%)
NZ Windfarms	NZX	(77.5%)	(105.4%)	0.1	0.0	(9.5%)	(4.7%)	(4.9%)	(6.4%)
NZF Group	NZX	23.8%	(120.7%)	0.0	0.0	(1.4%)	1.1%	(1.9%)	(0.7%)
NZX	NZX	32.3%	35.8%	0.6	0.7	26.1%	19.5%	24.2%	23.3%
Opus	NZX	7.9%	7.7%	7.2	6.8	45.3%	57.0%	52.4%	51.6%

# Return on Capital Employed

2012

Issuer	Market	2010 EBIT Margin	2011 EBIT Margin	2010 Activity Ratio	2011 Activity Ratio	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
Orion Minerals	NZAX	0.0%	0.0%	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Pacific Edge	NZX	(245.6%)	(1212.8%)	2.5	0.5	(663.6%)	(611.9%)	(595.5%)	(623.7%)
PGG Wrightson	NZX	4.6%	3.2%	1.0	1.5	6.3%	4.7%	4.8%	5.3%
Pharmacy Brands	NZX	16.5%	21.9%	0.6	0.4	49.6%	10.7%	9.8%	23.4%
Pharmazen	Unlisted	8.8%	7.9%	1.0	1.1	4.1%	8.7%	8.6%	7.1%
Port of Tauranga	NZX	45.1%	42.1%	0.2	0.2	7.8%	7.7%	8.8%	8.1%
Postie Plus	NZX	2.3%	1.7%	4.5	4.5	7.8%	10.3%	7.5%	8.5%
Prop for Industry	NZX	87.5%	89.5%	0.1	0.1	7.2%	7.8%	8.0%	7.7%
Proten	Unlisted	49.0%	45.1%	0.2	0.2	7.8%	10.9%	10.7%	9.8%
Pulse	NZAX	(211.1%)	(19.5%)	0.8	9.2	(108.8%)	(159.1%)	(180.2%)	(149.4%)
Pumpkin Patch	NZX	11.8%	7.2%	3.4	3.4	22.6%	39.9%	24.3%	28.9%
Pyne Gould Corp	NZX	27.8%	(61.7%)	0.0	0.0	10.7%	0.7%	(2.1%)	3.1%
Rakon	NZX	(2.0%)	5.8%	1.0	1.1	(3.1%)	(1.9%)	6.3%	0.4%
Rangatira	Unlisted	20.2%	38.0%	0.2	0.2	8.3%	3.9%	7.6%	6.6%
Renaissance	NZX	1.4%	(2.3%)	13.9	12.6	18.6%	19.6%	(28.8%)	3.1%
Restaurant Brands	NZX	9.4%	11.3%	3.5	3.4	21.2%	32.3%	38.1%	30.5%
RIS Group	NZAX	(371.9%)	(118.6%)	0.2	0.3	(139.8%)	(72.0%)	(39.1%)	(83.6%)
Rubicon	NZX	0.6%	0.0%	1.3	1.2	0.4%	0.8%	0.0%	0.4%
Rural Equities	Unlisted	30.0%	53.7%	0.1	0.1	0.9%	2.0%	3.4%	2.1%
Ryman	NZX	22.2%	22.8%	0.2	0.2	3.1%	4.0%	4.1%	3.7%
Salvus	NZX	12.1%	30.3%	0.0	0.0	(18.3%)	0.4%	1.4%	(5.5%)
Sanford	NZX	8.6%	7.0%	0.6	0.7	8.3%	5.4%	4.6%	6.1%
Satara	NZAX	6.9%	3.4%	1.1	1.0	10.3%	7.5%	3.3%	7.0%
Savoy Equities	NZX	(265.8%)	(8866.7%)	0.1	0.0	(27.3%)	(22.6%)	(40.2%)	(30.0%)
Scott Technology	NZX	19.9%	21.9%	1.8	1.8	21.3%	36.1%	40.4%	32.6%
Sealegs	NZX	2.1%	(35.9%)	4.4	2.2	(146.8%)	9.2%	(78.1%)	(71.9%)
Seeka	NZX	16.8%	9.6%	1.2	1.5	16.3%	20.6%	14.3%	17.1%
Silver Fern Farms	Unlisted	0.6%	2.5%	4.3	4.5	8.4%	2.6%	11.1%	7.4%
Skellerup	NZX	11.4%	15.7%	1.3	1.6	12.0%	15.4%	24.6%	17.4%
Sky City Ent	NZX	28.1%	27.5%	0.5	0.6	14.8%	15.0%	15.8%	15.2%

# Return on Capital Employed

2012

Issuer	Market	2010 EBIT Margin	2011 EBIT Margin	2010 Activity Ratio	2011 Activity Ratio	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
Sky Network TV	NZX	23.6%	24.7%	0.4	0.5	9.6%	10.1%	11.4%	10.4%
Skyline	Unlisted	46.4%	43.0%	0.3	0.3	12.3%	14.8%	14.7%	13.9%
Smartpay	NZX	(2.0%)	5.9%	2.3	1.6	(25.1%)	(4.6%)	9.5%	(6.7%)
Smiths City	NZX	1.5%	1.6%	1.5	1.5	2.1%	2.2%	2.5%	2.3%
Solution Dynamics	NZAX	0.8%	1.5%	5.0	4.6	(2.7%)	4.1%	6.7%	2.7%
South Port	NZX	39.3%	34.7%	0.8	0.8	17.4%	32.0%	29.5%	26.3%
Southern Travel	NZAX	(4.2%)	(1.7%)	5.3	6.7	(22.2%)	(22.4%)	(11.1%)	(18.5%)
Speirs	NZAX	(10.5%)	(2.1%)	1.6	2.2	(0.6%)	(17.2%)	(4.5%)	(7.4%)
St John Property	Unlisted	77.7%	63.8%	0.1	0.1	8.9%	9.7%	5.8%	8.1%
Steel & Tube	NZX	4.2%	6.8%	2.0	2.1	20.4%	8.4%	14.1%	14.3%
Summerset	NZX	17.2%	11.0%	0.1	0.1	(1.3%)	1.2%	0.7%	0.2%
TeamTalk	NZX	21.6%	25.2%	0.6	0.7	16.0%	13.6%	16.5%	15.4%
Telecom	NZX	11.9%	12.5%	1.0	1.0	14.3%	11.4%	12.1%	12.6%
Tenon	NZX	1.8%	0.0%	2.0	1.8	1.8%	3.6%	0.0%	1.8%
Terra Vitae	Unlisted	0.8%	30.7%	0.1	0.1	(0.3%)	0.1%	3.3%	1.0%
Tourism Holdings	NZX	5.4%	2.3%	0.8	0.9	0.5%	4.6%	2.1%	2.4%
Tower	NZX	18.6%	11.8%	1.1	0.9	14.2%	20.4%	10.7%	15.1%
TRS Investments	NZX	(190.9%)	(1566.7%)	1.0	0.0	(156.5%)	(182.6%)	0.0%	(113.0%)
Trustpower	NZX	28.9%	28.7%	0.4	0.3	9.7%	10.1%	10.0%	9.9%
Turners & Growers	NZX	3.6%	(0.9%)	1.7	1.8	5.0%	6.3%	(1.7%)	3.2%
Turners Auctions	NZX	8.6%	9.1%	3.2	3.2	28.1%	27.8%	28.6%	28.1%
Vector	NZX	35.4%	34.9%	0.3	0.3	9.0%	9.0%	9.0%	9.0%
Vehicle Inspection	Unlisted	10.9%	7.4%	4.6	5.2	(27.0%)	50.8%	38.2%	20.6%
Velo Capital	NZAX	4.3%	(2.9%)	4.3	8.2	6.2%	18.3%	(23.8%)	0.2%
Vital Healthcare	NZX	73.3%	74.4%	0.1	0.1	6.9%	7.7%	8.1%	7.6%
Wakefield	NZX	12.7%	10.9%	0.8	0.7	17.1%	9.8%	8.0%	11.6%
Warehouse	NZX	7.5%	6.9%	4.5	4.3	29.8%	33.5%	29.6%	30.9%
Wellington Drive	NZX	(53.5%)	(41.8%)	2.0	2.7	(116.5%)	(106.5%)	(112.4%)	(111.8%)
Widespread Portfolio	NZX	(162.5%)	(93.9%)	0.0	0.1	(4.0%)	(6.0%)	(4.8%)	(4.9%)
Windflow	NZAX	(35.6%)	(68.8%)	5.2	3.3	(45.8%)	(186.2%)	(226.7%)	(152.9%)

# Return on Capital Employed

2012

Issuer	Market	2010 EBIT Margin	2011 EBIT Margin	2010 Activity Ratio	2011 Activity Ratio	ROCE 2009	ROCE 2010	ROCE 2011	Average ROCE
Wool Equities	NZAX	0.0%	(1670.9%)	0.0	0.4	(60.6%)	0.0%	(623.1%)	(227.9%)
Xero	NZX	(285.9%)	(89.8%)	1.0	1.9	(302.1%)	(284.5%)	(174.6%)	(253.7%)
Zintel	NZAX	0.9%	1.2%	9.8	10.2	71.1%	8.9%	12.5%	30.8%