

SPECIFIC-CASE

WORKSHEET 9 OF 9

Investor Asks Why Your ROE Diverges from Competitors

Scenario: A potential investor has reviewed your financial statements alongside two listed competitors. Your ROE is 14%, theirs are 19% and 21%. The investor has asked you to explain the divergence before the next meeting. You have 48 hours to prepare a structured, data-backed answer — not a narrative, a decomposition.



by Ibrahim Anwar

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What This Is For

A 48-hour preparation framework for the investor question that arrives without warning and requires a structured, data-backed answer rather than a general response about growth plans. The question is not rhetorical. The investor is evaluating whether the ROE divergence reflects a structural weakness, a transitional investment period, or a composition difference that implies your business is actually safer despite the lower headline figure. Only a DuPont decomposition answers the question with the specificity the investor requires.

This worksheet produces the three-component analysis that explains what drives each business's ROE, identifies where your business diverges and why, and allows you to make the one claim that changes the interpretation: whether your composition is more or less resilient than competitors' under a revenue decline. That last point is often the most important — a lower ROE from a higher-quality composition is a stronger investment case than a higher ROE purchased with leverage.

Benefits

What you get when you actually run this worksheet on a real situation:

- Produces the DuPont decomposition that separates your ROE from competitors' into three independently interpretable components — the structured answer the investor is waiting for.
- Identifies which component is driving the ROE divergence most, and whether it reflects an operational gap or a financing difference.
- Calculates the revenue decline percentage at which each business's ICR approaches 1.0x — the resilience comparison the investor's question is actually probing.
- Provides the board-ready summary: three sentences on component positioning and one sentence on resilience.
- Documents the analysis in a format that can be left with the investor as a one-page handout.

Framework To Use

— ROE Composition Resilience Test

Same ROE, different composition. The resilience test reveals which composition is safer under stress.

<p>YOUR BUSINESS – ROE 14% (OPERATIONALLY DRIVEN) NPM 5.2%, TAT 1.6x, EM 1.7x. Lower ROE, but EM 1.7x means interest burden is light. EBIT can fall 30% before ICR hits 1.0x at this leverage level.</p>	<p>COMPETITOR B – ROE 21% (LEVERAGE DRIVEN) NPM 3.8%, TAT 1.9x, EM 2.9x. Higher ROE, but EM 2.9x means a 15% EBIT fall already pressures ICR below 1.5x — the common bank minimum. Higher headline, higher risk.</p>
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How To Use

Follow these steps in order. Each one builds on the previous.

- 1** Pull your most recent annual financial statements. Calculate NPM, TAT, and EM. Verify the DuPont ROE check matches the stated ROE within 1 percentage point.
- 2** Pull competitor financial data from publicly available IDX filings or annual reports. Use the same reporting period as your own statements where possible.
- 3** Fill the table with all three businesses. Calculate the DuPont components for each. Add ICR and DER rows — the investor will ask about those regardless of whether they appear in the initial question.
- 4** For each DuPont component, calculate the gap between your business and each competitor. In the 'Explains ROE gap?' column, write Y if the component gap accounts for more than half the ROE difference, Partial if it contributes but is not the primary driver, N if it is not a significant factor.
- 5** For the component where your figure is furthest below competitors': write two sentences — the operational reason (not a general statement, a specific cause with a dollar figure), and the realistic timeframe to close 50% of the gap.
- 6** Calculate the EBIT decline tolerance for all three businesses: $1 - (1/ICR)$. The business with the highest EM and lowest ICR has the lowest tolerance. If that is a competitor, not you, write that finding explicitly — it is your resilience advantage even though your ROE is lower.

Example Use

The investor meeting is in 48 hours. The operator's ROE is 14%, Competitor A is 19%, Competitor B is 21%. IDX filings are available for both competitors. The operator has two hours to do the decomposition and prepare the answer.

Your business (most recent annual): Revenue \$5.1M, Net Income \$261,000, Total Assets \$3.8M, Equity \$1.87M.

$NPM = 261,000 / 5,100,000 = 5.1\%$. $TAT = 5,100,000 / 3,800,000 = 1.34x$. $EM = 3,800,000 / 1,870,000 = 2.03x$.

$DuPont\ ROE = 5.1\% \times 1.34 \times 2.03 = 13.9\%$ (matches stated 14%, close enough). $ICR: EBIT\ \$392,000 / Interest\ \$95,000 = 4.1x$.

Competitor A (IDX filing): Revenue \$28M, Net Income \$1,092,000, Total Assets \$15.3M, Equity \$5.7M. $NPM = 3.9\%$. $TAT = 1.83x$. $EM = 2.68x$. $DuPont\ ROE = 3.9\% \times 1.83 \times 2.68 = 19.1\%$. $ICR\ from\ filing: 1.91x$.

Competitor B (IDX filing): Revenue \$41M, Net Income \$1,640,000, Total Assets \$22.8M, Equity \$7.8M. $NPM = 4.0\%$. $TAT = 1.80x$. $EM = 2.92x$. $DuPont\ ROE = 4.0\% \times 1.80 \times 2.92 = 21.0\%$. $ICR\ from\ filing: 1.74x$.

Gap analysis: Your NPM is 5.1% vs Competitor A's 3.9% and Competitor B's 4.0% — you lead on margin. Your TAT is 1.34x vs their 1.83x and 1.80x — you are the weakest on asset utilization. Your EM is 2.03x vs their 2.68x and 2.92x — you have the least leverage. The entire ROE gap is explained by TAT and EM combined. Your NPM advantage partially offsets but cannot overcome the TAT disadvantage.

EBIT decline tolerance: Your ICR 4.1x → tolerance $1 - (1/4.1) = 76\%$. Competitor A's ICR 1.91x → tolerance 49%. Competitor B's ICR 1.74x → tolerance 43%.

Investor answer (prepared the evening before the meeting): "Our ROE of 14% diverges from competitors primarily because our asset turnover is 1.34x versus their 1.80x — we have higher working capital relative to revenue, driven by the specific inventory profile of our product lines and a conservative receivables policy that accepts slower collection for higher-quality customer relationships. Our NPM is above both competitors, and our leverage is materially lower. Under a 20% revenue decline, our EBIT decline tolerance is 76% before we approach ICR 1.0x — Competitor A's tolerance is 49% and Competitor B's is 43%. We have a lower ROE and a more resilient composition. For an investor seeking lower volatility in a cyclical distribution environment, that is the relevant comparison."

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. Row labels: NPM (%) · TAT (x) · EM (x) · ROE check (%) · ICR (x) · DER (x) · EBIT decline tolerance (%). Fill your figures from the most recent annual financial statements. Fill competitor figures from publicly available IDX filings or annual reports, same reporting period where possible. ROE check = $\text{NPM} \times \text{TAT} \times \text{EM}$. EBIT decline tolerance = $1 - (1/\text{ICR}) \times 100$. For the 'Explains ROE gap?' column: Y if the component gap accounts for more than half the total ROE difference; Partial if it contributes but is not the primary driver; N if not a significant factor.

2. For the component where your figure is furthest below competitors': write two sentences in the margin — (a) the specific operational reason your figure sits where it is, with a dollar figure (not 'our TAT is lower' but 'our TAT is lower because \$X in receivables have not converted to cash in more than 60 days, representing Y% of total assets'), and (b) the realistic timeframe to close 50% of the gap if you acted on the specific cause now.

3. Investor answer structure — write one sentence for each of the three DuPont components, then one resilience sentence: (component 1) Your NPM relative to both competitors and the operational reason. (component 2) Your TAT relative to both competitors and the operational cause. (component 3) Your EM relative to both competitors and what it implies for leverage risk. (resilience) At current ICR, your EBIT decline tolerance is ___% — compare to each competitor. The investor is not asking why your ROE is lower. They are asking whether the composition is safer under stress.

Tips and Traps

TIPS

- Calculate the EBIT decline tolerance for all three businesses before the investor meeting and lead with it in the resilience comparison. It is a concrete number — 76% vs 49% vs 43% — that cannot be disputed from publicly available filings.
- When TAT is lower than competitors, always check whether a recent large capex is the cause. A new warehouse or distribution system investment drives TAT down temporarily. If so, show the TAT trend: if it was higher two years ago and fell in the year of the investment, the trajectory matters as much as the current figure.
- If the EM gap is the primary driver of ROE divergence, note it without apology. A business with EM 2.0x producing 14% ROE has a different risk profile from one with EM 2.9x producing 21% ROE. Lower leverage is a quality argument, not a weakness argument.
- Bring a one-page version of this table to the investor meeting. An operator who walks in with a prepared DuPont comparison is demonstrating the financial literacy the investor is implicitly testing by asking the ROE question.

TRAPS

- Answering the ROE question with a general growth narrative instead of a decomposition. 'We are investing in expansion' explains nothing about the component gap. The investor already knows you are smaller than the listed competitors; they want to know why your composition produces a lower ROE and whether that gap is addressable.
- Comparing against only the weaker competitor to look better. If one competitor has a 19% ROE and another has 21%, and you are at 14%, compare against both. Selecting only the one that makes you look closer is visible and undermines credibility.
- Using an estimated or projected ROE in the investor meeting rather than the most recent actuals. Investors pull IDX filings for their own analysis — an ROE figure that does not match public records raises immediate questions about accuracy.
- Treating a high EM as the competitor's strength rather than their risk. EM 2.92x with ICR 1.74x is a fragile position — name it in the investor answer as a composition quality differentiator, not as evidence that the competitor is better managed.

Appendixes

Appendix A — EBIT Decline Tolerance by ICR Level

ICR	Tolerance (% EBIT fall before ICR = 1.0x)
1.10x	9% (essentially no margin of safety)
1.25x	20%
1.33x	25%
1.50x	33%
1.75x	43%
2.00x	50%
2.50x	60%
3.00x	67%
4.00x	75%
5.00x	80%

Formula: $Tolerance = (1 - 1/ICR) \times 100$

Application for the investor meeting:

If your ICR is 4.1x and competitor's is 1.74x, write:

"Under a 20% EBIT decline, our ICR falls to 3.3x – still well above any common covenant minimum. Competitor B's ICR falls to 1.40x – below the 1.50x floor that most Indonesian bank covenants require."

Appendix B — One-Page DuPont Comparison Handout Template

[Leave with investor at the end of the meeting]

DuPont Component Comparison – [Your Business] vs Competitors

Period: [Annual / Year N]

Component	Your business	Competitor A	Competitor B
NPM	____%	____%	____%
TAT	____x	____x	____x
EM	____x	____x	____x
ROE (check)	____%	____%	____%
ICR	____x	____x	____x
Decline tolerance	____%	____%	____%

Key finding:

[One sentence on which component explains the majority of the ROE gap]

[One sentence on the resilience comparison]

Data sources:

[Your business]: Most recent annual financial statements, [date]

[Competitor A]: IDX filing, [ticker], [reporting period]

[Competitor B]: IDX filing, [ticker], [reporting period]



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by Ibrahim Anwar

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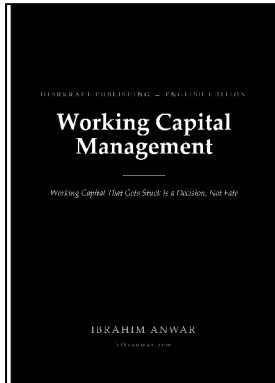
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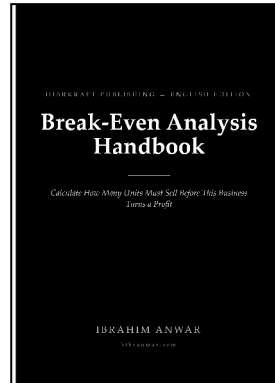


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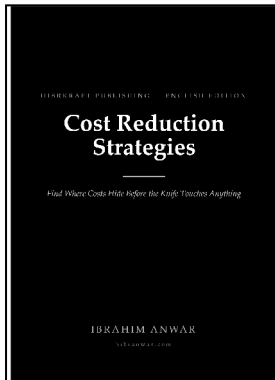


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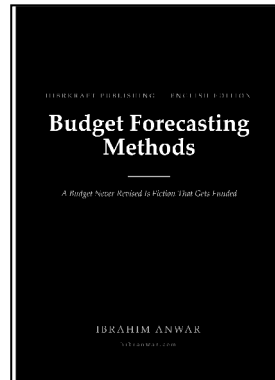


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