

The CROCI valuation methodology

Main differences between accounting and economic data



| Accounting data | Economic data |
|---|---|
| Book value | Net capital invested |
| Is historical cost accounted and ignores intangible economic assets, such as research and development, and brand advertising. | Is adjusted for inflation, and also includes capitalized intangibles, such as research and development, and brand advertising. |
| Return on Equity | CROCI |
| Does not represent a real return (for example, depreciation is not charged economically and asset life is inconsistent.) | Includes cash return over the life of the assets. Depreciation is charged economically, with similar assets having similar lives. |
| Market capitalization | Enterprise value |
| Only includes the value of the equity, ignoring debt and other calls on shareholders. | Includes financial debt and other liabilities, such as leases, warranties and pension underfunding. |
| Net income | Economic earnings |
| Does not reflect the real level of profitability. | Offers a true and comparable measure of profitability |

Source: Deutsche Bank CROCI team