

Financial Ratios at a Glance



ACTIVITY RATIOS

Meaning

$$\text{Receivables turnover} = \frac{\text{Annual sales}}{\text{Average receivables}}$$

The efficiency of a company in collecting its trade receivables

$$\text{Days of sales outstanding} = \frac{365}{\text{Receivables turnover}}$$

The average number of days a company takes to collect its receivables from clients

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

The efficiency of a company in terms of inventory management

$$\text{Days of inventory on hand} = \frac{365}{\text{Inventory turnover}}$$

The average inventory processing period

$$\text{Payables turnover} = \frac{\text{Purchases}}{\text{Average trade payables}}$$

The efficiency of a company in allowing trade credit to suppliers

$$\text{Number of days of payables} = \frac{365}{\text{Payables turnover ratio}}$$

The average number of days a company takes to pay its suppliers

$$\text{Fixed assets turnover} = \frac{\text{Revenue}}{\text{Average net fixed assets}}$$

The efficiency of a firm in utilizing its fixed assets

$$\text{Working capital turnover} = \frac{\text{Revenue}}{\text{Average working capital}}$$

The efficiency of a firm in managing its working capital (current assets - current liabilities)

$$\text{Total assets turnover} = \frac{\text{Revenue}}{\text{Average total assets}}$$

The efficiency of a firm in using its total assets to create revenue

$$\text{Cash conversion cycle} = \begin{aligned} &+ \text{Days of sales outstanding} \\ &+ \text{Days of inventory on hand} \\ &- \text{Number of days of payables} \end{aligned}$$

The number of days a company takes to convert its investments in inventory and other resources into cash flows from sales

$$\text{Equity turnover} = \frac{\text{Revenue}}{\text{Average total equity}}$$

The efficiency of a firm in utilizing equity to create revenue





LIQUIDITY RATIOS

Meaning

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Ability to meet current liabilities
(with total current assets)

$$\text{Quick ratio} = \frac{\text{Cash} + \text{Marketable securities} + \text{Receivables}}{\text{Current liabilities}}$$

Ability to meet current liabilities
(with total current assets, excluding inventory)

$$\text{Cash ratio} = \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}}$$

Ability to meet current liabilities
(with cash and marketable securities only)

$$\text{Defensive interval} = \frac{\text{Cash} + \text{Marketable securities} + \text{Receivables}}{\text{Average daily expenditure}}$$

The number of days a company can cover its
average daily expenses with the use of current
liquid assets only



SOLVENCY RATIOS

Meaning

$$\text{Debt-to-equity} = \frac{\text{Total debt}}{\text{Total shareholder's equity}}$$

Debt as a percentage of total equity

$$\text{Debt-to-capital} = \frac{\text{Total debt}}{\text{Total debt} + \text{Total shareholder's equity}}$$

Debt as a percentage of total capital

$$\text{Debt-to-assets} = \frac{\text{Total debt}}{\text{Total assets}}$$

Debt as a percentage of total assets

$$\text{Financial leverage} = \frac{\text{Average total assets}}{\text{Average total equity}}$$

An indicator of a company's debt financing usage

$$\text{Interest coverage} = \frac{\text{Earnings before interest and taxes}}{\text{Interest payments}}$$

The ability to cover interest expenses

$$\text{Fixed charge coverage} = \frac{\text{Earnings before interest and taxes} + \text{Lease payments}}{\text{Interest payments} + \text{Lease payments}}$$

The ability to cover interest and lease expenses



PROFITABILITY RATIOS

Meaning

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue}}$$

Gross profitability as a percentage of total revenue

$$\text{Operating profit margin} = \frac{\text{Operating income (EBIT)}}{\text{Revenue}}$$

Operating profitability (before interest and tax) as a percentage of total revenue

$$\text{Pre-tax margin} = \frac{\text{EBT}}{\text{Revenue}}$$

Operating profitability (before tax) as a percentage of total revenue

$$\text{Net profit margin} = \frac{\text{Net income}}{\text{Revenue}}$$

Net profitability as a percentage of total revenue

$$\text{Return on assets (ROA)} = \frac{\text{Net income}}{\text{Average total assets}}$$

Net profitability (excluding interest and taxes) as a percentage of total invested funds

$$\text{Operating return on assets (ROA)} = \frac{\text{Operating profit (EBIT)}}{\text{Average total assets}}$$

Net profitability (including interest and taxes) as a percentage of total invested funds

$$\text{Return on total capital} = \frac{\text{Operating profit (EBIT)}}{\text{Average total capital}}$$

Operating profitability as a percentage of total capital

$$\text{Return on Equity (RoE)} = \frac{\text{Net income}}{\text{Average equity}}$$

Net profitability as a percentage of total equity



VALUATION RATIOS

Meaning

Earnings per Share (EPS) = $\frac{\text{Net Income} - \text{Preferred dividends}}{\text{Outstanding number of common shares}}$ Income earned per 1 common share outstanding

Price earnings (P/E) ratio = $\frac{\text{Share price}}{\text{Earnings per share (EPS)}}$ The price that investors are willing to pay per \$1 of earnings

P/E ratio (company wide) = $\frac{\text{Market capitalization}}{\text{Net income}}$ Total price that investors are willing to pay for a company's Net income

Dividend yield = $\frac{\text{Dividend per share}}{\text{Current share price}}$ The "portion" of a share price that is distributed as dividends

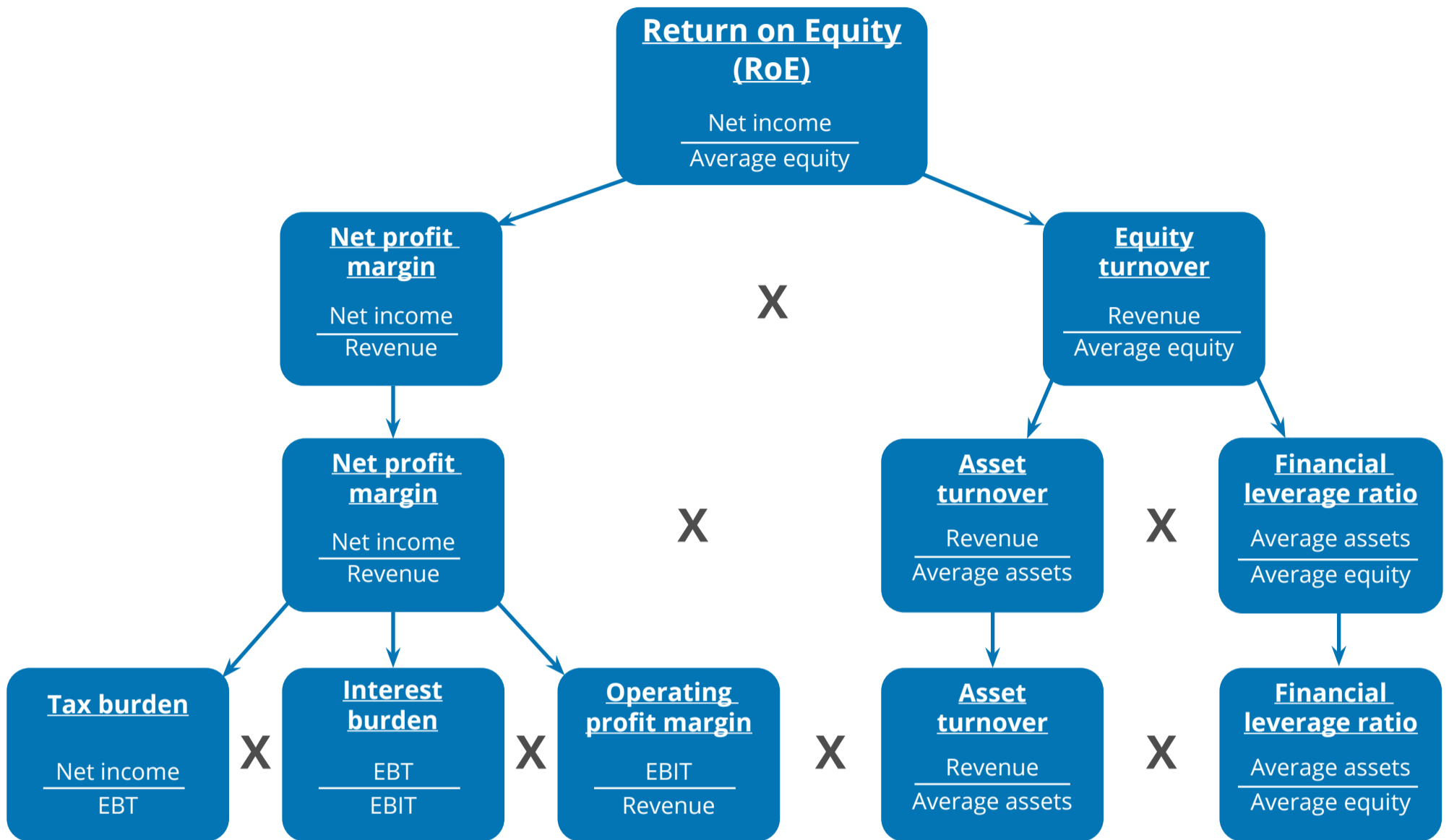
Retention rate (RR) = $\frac{\text{Net income} - \text{Dividends declared}}{\text{Net income}}$ The "portion" of Net income that is reinvested in the company

Dividend payout = $\frac{\text{Dividends declared}}{\text{Net income}}$ The "portion" of Net income that is distributed as dividends

Sustainable growth rate (g) = $RR \times ROE$ Equity growth rate



DUPONT ANALYSIS



365  Financial Analyst

www.365financialanalyst.com