

Additional Information for Financial Calculations

The following information has been provided to aid in the calculations for the Financial Statement Analysis event, based on the guidelines that will be used for the 2009-10 school year.

GENERAL FINANCIAL COMMENTS

1. All averaged financial statement items should be rounded to whole numbers.
2. All ratios and percentages should be rounded to two decimal points.
3. When asked to identify “All Other Assets”, it is asking for all assets not identified as either Current Assets or Plant Assets (i.e., land, building and equipment). While the statements typically have a line item for Other Assets, there may be additional assets listed that are not part of current or plant assets.

IMPORTANT NOTES

1. Due to recent large-scale changes in the industry, students will **not** be required to obtain or analyze *industry standard* ratios. In Section 4: Ratio Analysis, participants should calculate the ratios for each of the two companies and draw conclusions from only that data.
2. In Section 5: Public Perception, students should research how the recent economic conditions have affected each of the two companies. Students should consider each of the company’s beta in their analysis of the level of risk involved in investing its securities.

LIQUIDITY RATIOS

Liquidity Ratios measure the corporation’s ability to generate short-term funds to meet obligations and cash needs through the management of current assets and liabilities.

ACTIVITY OR EFFICIENCY RATIOS

Efficiency ratios indicate how well assets are utilized by the organization. Efficiency in using assets minimizes the need for investment by lenders or owners. These ratios measure how well assets or capital are being utilized through the sale of inventory, and collection of receivables.

SOLVENCY OR FINANCIAL STRENGTH RATIOS

Financial strength is an indicator of business risk. When business conditions turn bad, financially stronger companies have more staying power. They are less likely to face insolvency and are less likely to make drastic cutbacks that would restrain their ability to grow once better times resume. These ratios often indicate the corporation’s ability to survive over a long period of time.

PROFITABILITY RATIOS

Profitability ratios measure the operating success of an enterprise. The first two ratios tell you how much of each Revenue dollar is left over, after subtracting costs, as profit to the company. The remaining ratios are widely regarded as the ultimate measure of corporate performance.

MARKET OR VALUATION RATIOS

Market ratios help the investor decide whether a stock is inexpensive or costly, more risky or less risky, in comparison to other investment opportunities. In addition, the Payout Ratio allows the investor to evaluate the income-related opportunities of investing in a particular security.

LIQUIDITY RATIOS

$$\text{Current Ratio: } \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Ratio: } \frac{\text{Cash + Cash Equivalents (short-term investments)}}{\text{Current Liabilities}}$$

$$\text{Current Cash/Debt Coverage: } \frac{\text{Net Cash from Operating Activities}}{\text{Ave. Current Liabilities}}$$

ACTIVITY OR EFFICIENCY RATIOS

$$\text{Receivable Turnover: } \frac{\text{Net Sales}}{\text{Average Accounts Receivable}}$$

$$\text{Asset Turnover: } \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

$$\text{Inventory Turnover: } \frac{\text{COGS}}{\text{Average Inventory}}$$

SOLVENCY OR FINANCIAL STRENGTH RATIOS

$$\text{Debt/Total Equity: } \frac{\text{Total Debt (Short Term + Long Term)}}{\text{Total Equity}}$$

$$\text{Times Interest Earned: } \frac{\text{EBIT}}{\text{Interest Expense, net}}$$

$$\text{Cash/Debt Coverage: } \frac{\text{Net Cash from Operating Activities}}{\text{Total Liabilities}}$$

PROFITABILITY RATIOS

$$\text{Gross Margin: } \frac{\text{Gross Profit}}{\text{Net Sales}}$$

$$\text{Profit Margin: } \frac{\text{Net Income}}{\text{Net Sales}}$$

$$\text{EPS: } \frac{\text{Net Income}}{\text{Ave. Common Shares Outstanding}}$$

$$\text{Return on Assets: } \frac{\text{Net Income}}{\text{Average Assets}}$$

Return on Equity:
$$\frac{\text{Net Income}}{\text{Ave. Stockholders' Equity}}$$

MARKET OR VALUATION RATIOS

P/E:
$$\frac{\text{Stock Price (on the Balance Sheet date)}}{\text{EPS}}$$

Payout Ratio:
$$\frac{\text{Cash Dividends}}{\text{Net Income available to Common Stockholders}}$$