

BENCHMARKING

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Benchmarking

- Financial Ratios
- Common Size Financial Statements
- Interpretation
- Industry Data Sources
- Company Data Sources

Financial Ratios

- Liquidity Ratios
- Activity Ratios
- Leverage Ratios
- Coverage Ratios
- Profitability and ROI
- Growth Ratios

Liquidity Ratios

- Current Ratio
 - CA / CL
- Quick Ratio
 - $Cash\ Equivalents,\ Securities\ and\ A/R / CL$

Activity Ratios

- AR Turnover
 - $Sales / A/R$
- Inventory Turnover
 - COS / INV
- $Sales / Net\ Working\ Capital\ (ca-cl)$
- $Sales / Gross\ Fixed\ Assets$
- $Sales / Total\ Assets$

Leverage Ratios

- Debt / Equity
- Equity / Total Assets
- LT Debt / Total Capital
- Fixed Assets / Equity
- Total Debt / Total Assets

Coverage Ratios

- Times Interest Earned
 - $\text{Pretax Income} + \text{Interest} / \text{Interest}$
- Fixed Charge Coverage
 - $\text{Pretax Income} + \text{Interest} / \text{Interest and Preferred Dividends}$

Profitability and ROI

- Return on Equity
 - $\text{Net Income} / \text{Equity}$
- Return on Investment
 - $\text{Net Income} / \text{Invested Capital}$
- Return on Assets
 - $\text{Pretax Income} + \text{Interest} / \text{Total Assets}$
- Net Income / Sales

Growth Ratios

- Sales Growth
- Operating Income Growth
- Net Income Growth

Common Size Financials

- Income Statement
 - ◆ All amounts are recalculated as a function of Sales
- Balance Sheet
 - ◆ All amounts are recalculated as a function of total assets

Interpretation

- Calculate Ratios for five years
 - Identify Trends
 - Identify Strengths/weakness
- Compare Company Ratios to Several Industry Sources
 - Consider several years of comparison

Common Size Interpretation

- Identify Cost Behavior
 - Fixed
 - Variable
 - Mixed
- Compare to the Industry
- Compare to Specific Company or Group of Companies

Industry Data Sources

RMA Annual Statement Studies

- Voluntary Information
- Classified by Years and Percentiles
- Classified by Sales Size and Asset Size
- Not Random

Industry Data Sources

Key Business Ratios from Dunn & Bradstreet

- Arranged by SIC
- Good Explanation of ratios, calculations and sources
- Upper and Lower Quartiles

Industry Data Sources

Almanac of Business and Industry Ratios from Prentice Hall

- Source data from tax returns
- Two Classes ... Profitable Co's and Profit and Loss Co's
- Information is Dated

Industry Data Sources

Financial Statement Studies of Small Business from Research and Associates

- Co's have capitalization less than \$1 million
- Detailed Breakdowns by size, sales volumes
- Five Year Trends

Company Data Sources

- Edgar Online
- SEC Directory
- S&P Corporation Records
- Moody's Manuals

Miscellaneous Online Sources

- NAICS Codes
- US Census Business Stats
- Industry Salary and Benefits
- List of Companies
- Bureau of Labor Statistics
- Yahoo Finance

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Thank You ...

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