TOP 25 BUSINESS & FINANCIAL RATIOS

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Business and financial **ratios** are indispensable for investors, analysts, and business professionals. They play a crucial role in decoding and decrypting the **financial health** and **operational efficiency** of a company, offering a quick snapshot of its performance and stability. Ratios simplify the process of understanding financial statements, providing meaningful insights that are vital for informed decision-making. Whether evaluating **liquidity**, **solvency**, **profitability**, **market** or **investments valuations**, these **quantitative** measures allow stakeholders to identify trends, compare industry peers, and formulate strategies that drive success and sustainability. In essence, financial ratios translate raw data into actionable intelligence, creating a clear roadmap for navigating the complex terrain of financial analysis and business strategy.

Below is a list of the **25 ratios** most commonly used, their formulas, as well as a short interpretation of each ratio:

Category	Ratio Name	Formula	Comments
Liquidity Ratios	Current Ratio	Current Assets / Current Liabilitites	Short-term liquidity
	Quick Ratio (Acid Test)	(Current Assets - Inventory) / Current Liabilities	Short-term liquidity excluding inventory
	Cash Ratio	(Cash & Cash Equivalents) / Current Liabilities	Immediate liquidity
	Operating Cash Flow Ratio	Operating Cash Flow / Total Debt	Debt Coverage
Solvency Ratios	Debt-to-Equity Ratio	Total Debt / Shareholders' Equity	Financial leverage
	Interest Coverage Ratio	EBIT (Earnings Before Interest and Taxes) / Interest Expense	Ability to cover interest expenses
Profitability Ratios	Net Profit Margin	Net Profit / Sales	Profit as a percentage of sales
	Return on Assets (ROA)	Net Income / Total Assets	Profit generated per dollar of assets
	Return on Equity (ROE)	Net Income / Shareholders' Equity	Profit generated per dollar of equity
	Gross Profit Margin	(Sales - Cost of GoodsSold “COGS”) / Sales	Percentage of revenue exceeding COGS
	Operating Proft Margin	Operating Income / Sales	Efficiency at generating operating income
Efficiency Ratios	Inventory Turnover	Cost of Goods Sold “GOGS” / Average Inventory	Frequency of inventory replacement
	Asset Turnover	Sales / Average Total Assets	Revenue generated per dollar of assets
	Receivables Turnover	Net Credit Sales / Average Accounts Receivable	Efficiency at collecting receivables
	Days Sales Outst. (DSO)	365 days / Receivables Turnover	Average collection period
	Days Inventory Outst. (DIO)	365 days / Inventory Turnover	Average days to sell inventory
Market Ratios	Price-to-Earnings (P/E) Ratio	Stock Price / Earnings Per Share (EPS)	Price paid for each dollar of earnings
	Dividend Yield	Dividends per Share / Stock Price	Dividend income return on the stock
	Price-to-Book (P/B) Ratio	Stock Price / Book Value of Equity per Share	Value of company relative to book value
	Earnings Yield	Earnings Per Share (EPS) / Stock Price	Earnings per dollar invested in stock
Investment Valuation Ratios	Price-to-Sales (P/S) Ratio	Stock Price / Sales per Share	Price-to-Sales (P/S) Ratio
	Price-to-Cash Flow Ratio	Stock Price / Cash Flow per Share	Price-to-Cash Flow Ratio
	Return on Invested Capital (ROIC)	Net Operating Profit / Invested Capital	Efficiency at generating return on investment (turning funds into profits)
	Times Interest Earned	EBIT / Interest Expense	Ability to meet debt obligations
	Return on Investment	((Value of Investment – Cost of Investment) / Cost of Investment) × 100%	Investment Efficiency

__Note__: Ratios always need to be interpreted in the context of the specific industry, the overall economy, and the company's previous financial performance. Comparing them to industry benchmarks or competitors can provide a clearer picture of a company's performance. Always use financial ratios as tools in conjunction with other analyses.

Let's have a look at each ratio in more details , and share some tips to improve them. We will also have the S&P 500 Benchmark(*) as reference:

Ratio Name	Interpretation	Tips to Improve the Ratio	Benchmark (*)
Current Ratio	Assesses a company's ability to pay off short-term obligations with its short-term assets. A higher current ratio indicates more operational stability and security.	Reduce short-term debt or increase current assets.	1.5 - 2.5
Quick Ratio	Provides a stringent liquidity measure by excluding inventory from the Current Assets. Offers a snapshot of financial health without relying on asset sales.	Improve collections, reduce inventory, or reduce current liabilities.	1.0 - 1.5
Cash Ratio	Measures immediate liquidity by considering only cash and equivalents. Offers insight into immediate financial stability.	Increase cash reserves or reduce current liabilities.	0.1 - 0.5
Operating Cash Flow Ratio	Reveals how well a company can meet its short-term debt obligations without external support. A ratio above 1 indicates that we can cover the current short-term liabilities with the cash generated in the same period.	Increase cash flows from operations or manage and reduce short-term debts.	Varies significantly by Industry
Debt-to-Equity Ratio	Indicates leverage level. A higher ratio suggests more reliance on debt, possibly increasing risk, while a lower ratio indicates less dependence on external debt.	Reduce long-term debt or increase equity.	0.5 - 2.0
Interest Coverage Ratio	Demonstrates the ease of covering interest expenses on debt. Higher values indicate lower financial risk.	Increase operating income or reduce interest expenses.	4 - 6
Net Profit Margin	Reveals the percentage of revenue translating to net profit. Essential for understanding overall profitability.	Improve pricing strategies or reduce variable costs.	10% - 15%
Return on Assets (ROA)	Measures the efficiency in using assets to generate profit. Higher ROA indicates more efficient asset utilization.	Increase net income or efficiently utilize assets.	4% - 6%
Return on Equity (ROE)	Reflects the ability to generate profits from shareholders' equity. Higher ROE indicates efficient use of equity.	Increase net income or efficiently use equity.	12% - 18%
Gross Profit Margin	Shows the percentage of revenue exceeding the cost of goods sold (COGS), measuring core profitability.	Increase sales prices or reduce the cost of goods sold.	Varies a lot (Tech: 40% - 70%)
Operating Proft Margin	Indicates the percentage of sales revenue remaining after variable production costs, providing insight into operational efficiency.	Optimize operating costs or increase sales prices.	10% - 20%
Inventory Turnover	Shows how often inventory is sold and replaced. Higher turnover suggests efficient inventory management.	Optimize inventory levels or improve sales.	Varies a lot (Tech: 5-15)
Asset Turnover	Measures revenue generated per dollar of assets, indicating efficiency in managing assets to produce sales.	Increase sales or efficiently utilize assets.	0.5 - 1.5
Receivables Turnover	Indicates efficiency in collecting receivables. A higher ratio shows efficient credit and collection processes.	Improve credit policy and enact stringent collection practices.	Varies a lot (Tech: 4-8)
Days Sales Outstanding (DSO)	Represents the average days it takes for a company to collect payment after a sale. Lower DSO means quicker collection.	Improve collection processes or revise credit terms.	30 - 50 days
Days Inventory Outstanding (DIO)	Average days a company holds inventory before selling. Lower DIO indicates faster inventory turnover.	Reduce inventory levels or implement demand forecasting.	Varies a lot (Tech: 20-40)

(*): The provided benchmarks are general, approximate guidelines and can vary significantly between different industries, sub-industries, and individual companies. They are not absolute thresholds but reference points, and their applicability should be considered cautiously. For accurate analysis, use the most current, relevant, and specific benchmarks available for the industry or company being evaluated.

Ratio Name	Interpretation	Tips to Improve the Ratio	Benchmark (*)
Price-to-Earnings (P/E) Ratio	Measures the market value per share relative to earnings per share, helping investors determine the value they should pay for a stock based on its earnings.	Increase earnings or facilitate market revaluation of the stock.	15 - 25
Dividend Yield	Indicates the return on investment for a dividend stock, providing income return on the stock.	Increase dividend payouts or anticipate stock price decrease.	1.5% - 2.5%
Price-to-Book (P/B) Ratio	Compares market value to book value, assisting investors in identifying undervalued stocks.	Increase equity, reduce liabilities, or anticipate stock price decrease.	Varies a lot (Tech: 3-7)
Earnings Yield	Shows earnings generated per investment dollar, providing another tool for evaluating investment viability.	Increase earnings or anticipate stock price decrease.	Varies by market conditions (Tech: 2%-6%)
Price-to-Sales (P/S) Ratio	Represents the value placed on each dollar of a company's sales or revenues, useful for identifying undervalued or overvalued stocks.	Increase sales or anticipate stock price decrease.	1 - 3
Price-to-Cash Flow Ratio	Compares a company's market value to its cash flow, often more informative than P/E as it considers cash flows rather than earnings.	Increase cash flow or anticipate stock price decrease.	Varies a lot (Tech: 10-20)
Operating Margin	Provides insight into profitability from operations, indicating operational efficiency.	Increase operating efficiency or reduce operating expenses.	10% - 30%
Return on Invested Capital (ROIC)	Measures how efficiently a company allocates its capital to profitable investments, with higher values indicating more efficient capital use.	Increase net income or efficiently utilize invested capital.	Varies a lot (Tech: 10%-30%)
Times Interest Earned	Indicates a company's ability to meet its debt obligations, with higher ratios signaling more easily met interest obligations.	Increase operating profits or reduce interest expenses.	Varies a lot (Tech: 10-30)
Return on Investment (ROI)	ROI measures the gain or loss generated on an investment relative to the amount of money invested. It is used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments.	Increase the returns on investment without increasing the cost of investment, or reduce the costs associated with the investment	Varies a lot (Tech: 10%-30%)

A few things to keep in mind:

- The benchmarks provided in the above tables are just general norms for S&P 500 companies (or from the Tech Industry when there are big varieties between industries). Individual industries within the S&P 500 can have widely different norms;
- Always use ratios in conjunction with other financial information. Ratios provide a snapshot but should be interpreted in context;
- It's essential to monitor industry-specific benchmarks as they give a clearer picture of how a company stands relative to its peers. Always ensure that when comparing companies, they are similar in nature or operate in the same industry to ensure the comparison's relevance.;
- For the most updated benchmarks, you would want to consult resources (financial databases, industry reports, or research publications);
- We have listed the top 25 ratios, however there are still numerous other ratios and metrics that analysts use based on specific industries, company types, and analysis needs. Always select ratios that are most relevant to the analysis you are performing/decisions you are making.
- The tips provided to improve the ratios should be considered as general strategies, and implementing them should be done carefully, considering the unique context of each business.

(*): The provided benchmarks are general, approximate guidelines and can vary significantly between different industries, sub-industries, and individual companies. They are not absolute thresholds but reference points, and their applicability should be considered cautiously. For accurate analysis, use the most current, relevant, and specific benchmarks available for the industry or company being evaluated.