



**TAMER SALAH**  
MARKETING & BEYOND

# Financial Ratios

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# Introduction

- Financial ratios are a fundamental component of any analysis
- Financial ratios offer entrepreneurs a way to evaluate their company's performance and compare it other similar businesses in their industry.
- Ratios measure the relationship between two or more components of financial statements. They are used most effectively when results over several periods are compared. This allows you to follow your company's performance over time and uncover signs of trouble.



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## Basic financial Ratios

Liquidity ratios

السيولة

Solvency ratios

الملاحة المالية

Profitability Ratios

الربحية

Efficiency Ratios  
(Activity Ratios)

الكفاءة

# Quick Ratio (Acid Test)

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

> 1 (at least 1)

Most used- shows how easily business short term debts will be covered by liquid assets or cash

من أهم النسب وأكثرها استخداماً لقياس السيولة في الشركة و قدرة الشركة على الوفاء بالتزاماتها قصيرة الأجل بالأموال والأصول السائلة

# Current Ratio (working Capital Ratio)

Current Assets / Current Liabilities

> 1 (at least 1)

Financial health- How well a company can pay its existing debts in a year

الفرق هنا انها بتضع فيه الاعتبار كل الأصول و المخزون مشه الأصول السائلة فقط

# Cash Ratio

Cash & Cash equivalents / Current liabilities

>1 (good cash)

Determine Cash status

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# Free cash flow

**Free cash flow** = cash from operations — capital expenditures

Investors usually like to see high free cash flow. And it is a good indicator of financial health.

## Debt to equity ratio D/E

**Total Liabilities / Shareholders Equity**

**< 1 (low debt)**

Determine solvency-if business borrowing more than it can payback

الملاءة المالية

قياس نسبة استخدام الدين في تمويل عمليات الشركة

Solvency = Leverage



## Debt to Asset ratio (DEBT RATIO)

$\frac{\text{Total Liabilities}}{\text{Total Assets}}$

< 1 (low debt)

Determine solvency - if business borrowing more than it can payback

تحديد الملاءة المالية وقياس نسبة استخدام الدين في تمويل عمليات الشركة

# Return on Equity Ratio-ROE (return on net worth)

$$\frac{\text{(Earnings - Dividends)}}{\text{Shareholders Equity}}$$

(Net earning after tax)

**= Profitability**

(differs acc. To industry)

Most important ratio for calculating profit

تحديد الربحية للشركة - تختلف حسب كل صناعة

# Profit Margin

$$\frac{\text{Profit}}{\text{Revenue sales}} \times 100$$

$$= \%$$

(the higher the margin the more efficient the company converting sales to profit)

One of fundamental ratios – measures how effective a company is managing overall cost

تحديد نسبة الربحية للشركة

# Operating Profit Margin

$$\text{Operating profit margin} = \frac{\text{gross profit} - \text{operating expenses}}{\text{revenue}} \times 100 = \% \quad (\text{EBIT})$$

Increasing operating margins can indicate better management and cost controls within a company.

تحديد مدى الكفاءة في الإدارة وخصوصاً إدارة النفقات

# Revenue per employee

**Revenue per employee** = annual revenue/average number of employees in the same year

How efficient and productive are employees? This ratio is a good way to see how efficiently a business manages its workforce and should be benchmarked against similar businesses.

تحديد مدى الكفاءة في إدارة فريق العمل و إنتاجيته

# Stock Turnover ratio

is a measure of the number of times inventory is sold or used in a given time period such as one year .

تحديد معدل دوران المخزون

# Inventory Turnover (stock turnover) Ratio

$$\frac{\text{Sales}}{\text{Inventory}}$$

OR

$$\left( \frac{\text{Cost of goods sold}}{\text{Average Inventory}} \right)$$

is a measure of the number of times inventory is sold or used in a given time period such as one year .

It is a good indicator of inventory quality (whether the inventory is obsolete or not), efficient buying practices, and inventory management

A low turnover is normally considered a bad sign because products value tend to deteriorate as they sit in the warehouse for longer than average period of time, also it means that you are not getting best use of your assets.

تحديد معدل دوران المخزون

# Inventory Turnover in days

$$\text{Days inventory outstanding} = 365 / \text{Inventory turnover}$$

In days

it is used to calculate the number of days it takes to sell the inventory on hand or "inventory turnover days":

تحديد متوسط عدد الأيام اللازمة لبيع المخزون



# Benchmarking

## Real Estate: average industry financial ratios for U.S. listed companies

Industry: [65 - Real Estate](#)

Measure of center:

Financial ratio	Year					
	2020	2019	2018	2017	2016	2015
<b>Solvency Ratios</b>						
Debt ratio	0.52	0.52	0.58	0.57	0.64	0.62
Debt-to-equity ratio	0.86	0.72	0.41	0.30	0.44	0.43
Interest coverage ratio	0.92	1.57	1.31	1.39	0.99	0.47
<b>Liquidity Ratios</b>						
Current Ratio	1.87	1.58	1.04	1.18	0.90	1.18
Quick Ratio	1.62	0.71	1.26	0.78	0.41	0.74
Cash Ratio	1.04	0.65	0.48	0.40	0.25	0.86

# Benchmarking

Profitability Ratios						
Profit margin	4.2%	5.7%	3.3%	8.3%	3.9%	3.8%
ROE (Return on equity), after tax	0.3%	0.5%	-2.9%	-1.8%	-5.1%	-22.6%
ROA (Return on assets)	0.7%	1.4%	0.5%	1.6%	0.3%	0.2%
Gross margin	37.5%	48.7%	44%	49.4%	70.3%	62.8%
Operating margin (Return on sales)	12.4%	12%	16.9%	12.5%	13.9%	6.6%
Activity Ratios						
Asset turnover (days)	3499	3601	3549	3280	2863	2835
Receivables turnover (days)	30	28	46	39	28	30
Inventory turnover (days)	30	24	22	18	45	42

# Thank You



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