

Lecture #4

REVIEW / Homework (Ret. Quant)

Each Company's I/S, B/S, CFS, Ratio Analysis

RATIO ANALYSIS (skip Intro to returning Quant)

Relationship – Relative – Relativity – Rate – Rational – Rationilize

Relativity – Einstein – $E=mc^2$ (C=celerity)

“One hair on your head is not enough, but one hair in your soup is much too much”
Mike Zion

Coffee – sugar / 2 spoons

Ratio in Math – Pythagorean Theorem

Ratio in Geometry – PIE

Ratio in Physics – Gravity – Newton's Law – The force between bodies due to the Mass
– 9.8321 ms at the North Pole / 9.7801 at the Equator and 9.8118 at London

Ratio in Statistics – Standard Deviation –measures volatility

RATIO IN FINANCE – Bankers/Investors/Managers/Employees

Comparative Analysis

3 different standards that are used to evaluate the ratios:

1. Increase/Decrease to prior years
2. Industry Standards
3. Compare against Plan Goals

i.e Food Cost 33.0% of Food Revenue

1. Unfavorable Vs last year's 32%
2. Favorable against the Industry Standard of 36%

3. An Unfavorable to 30% plan

RATIOS (pages 70 – 81)

Liquidity Ratio (CR)

Asset Management Ratios (Receivables / Inventory Turns)

Financial Leverage Management Ratios

- Debt/Assets
- Debt/Equity
- Debt/EBITDA
- EBITDA/Interest

Profitability Ratios:

- Gross Margin
- EBITDA Margin
- ROA
- ROE

Market Based Ratios

- $P/E = \text{Market Price per share} / \text{Current Earning per Share}$
- $MP/BV = \text{Market Price per Share} / \text{Book Value per Share}$

Dividend Policy Ratios

- $\text{Payout Ratio} = \text{Dividends per Share} / \text{Earning Per Share}$
- $\text{Dividend Yield} = \text{Expected Dividend Per Share} / \text{Stock Price}$

TREND ANALYSIS

HOMEWORK:

Trend Analysis – Revenue growth, Gross Margins, EBITDA Margins (2003 to 2004 or 2004 to 2005) – some Ratio analysis
