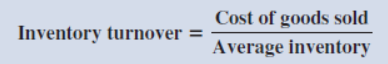
**Ratio Analysis**

All ratios are indexed to the company’s industry and strategic place in the market—whether it is small, mid-sized, or large company.

Retail

* Gross Margin Ratio (Profitability)
  + Net Sales – Cost of Goods Sold/Net Sales or Gross Profit/Net Sales
    - Demonstrates the percentage of sales remaining to pay all expenses after cost of goods sold
* Profit Margin Ratio (Profitability)
  + Net Income/Net Sales
  + 
    - Demonstrates the percentage of sales that is profit
    - Net income in each sales dollar

Inventory

* Inventory Turnover (Liquidity and Efficiency)
  + Cost of Goods Sold/Average Inventory (Average inventory is calculated as beginning inventory plus ending inventory divided by 2)
  + 
    - Demonstrates how often inventory turns into sales during a specific period
    - Efficiency of inventory management
    - How long a company holds inventory before selling it
* Days’ Sales in Inventory (Liquidity and Efficiency)
  + Ending Inventory/Cost of Goods Sold. This ratio is then multiplied by 365
  + 
    - Is there adequate inventory on hand to meet sales demand?
    - Liquidity of inventory – Is inventory turning into sales and eventually cash?

Accounts Receivable

* Accounts Receivable Turnover (Liquidity and Efficiency)
  + Net Sales/Average Net Accounts Receivable (Average net accounts receivable is calculated as beginning net accounts receivable plus ending net accounts divided by 2)
  + 
    - Demonstrates the number of times accounts receivable are collected in a period--how efficiently are accounts receivable collected. A high ratio indicates quick collection.
    - Efficiency of collection
* Average Collection Period or Days’ Sales in AR (Liquidity and Efficiency)
  + 365 divided by the Accounts Receivable Turnover Ratio
    - Demonstrates the number of days it takes to collect on AR.

Assets

* Return on Total Assets Ratio or Return on Assets (Profitability)
  + **Net income**/Average total assets (Average total assets is calculated as beginning total assets plus ending total assets divided by 2)
  + 
    - Demonstrates how well assets are employed to generate profit.
    - Overall profitability of assets
* Total Asset Turnover (Liquidity and Efficiency)
  + **Net Sales**/Average total assets (Average total assets is calculated as beginning total assets plus ending total assets divided by 2)
  + 
    - Demonstrates how well assets are employed to generate sales
    - Efficiency of assets in producing sales

Equity

* Payout Ratio (Profitability)
  + Common Stock Cash Dividends/Net Income
    - A lower payout ratio indicates that a company is retaining more of its earnings to fuel its growth, whereas a higher payout ratio indicates that a company is sharing more of its earnings with stockholders. A payout ratio of more than 100% means that a company's dividend payments are exceeding its net income.
* Return on Common Stockholders’ Equity or Return on Equity (Profitability)
  + Net Income – Preferred Dividends/Average Common Stockholders’ Equity (Average common stockholders’ equity is calculated as beginning common stockholders’ equity plus ending common stockholders’ equity divided by 2)
  + 
    - Demonstrates how well equity is employed to generate profit.
    - Profitability of owner investment

