

Warren Buffett's

Financial Statements Rules of Thumb



→ BY BRIAN FEROLDI ←

	METRIC	EQUATION	THRESHOLD
INCOME STATEMENT	Gross Margin	$\frac{\text{Gross Profit}}{\text{Revenue}}$	>40%
	SG&A Margin	$\frac{\text{SG\&A}}{\text{Gross Profit}}$	<30%
	R&D Margin	$\frac{\text{R\&D}}{\text{Gross Profit}}$	<30%
	Depreciation Margin	$\frac{\text{Depreciation}}{\text{Gross Profit}}$	<10%
	Interest Margin	$\frac{\text{Interest Expense}}{\text{Operating Income}}$	<15%
	Tax Margin	$\frac{\text{Taxes}}{\text{Pre-Tax Income}}$	Corporate Tax Rate
	Net Income Margin	$\frac{\text{Net Income}}{\text{Revenue}}$	>20%
	EPS Growth	$\frac{\text{Year 2 EPS}}{\text{Year 1 EPS}}$	Positive & Growing
BALANCE SHEET	Cash & Debt	Cash > Debt	Cash > Debt
	Adjusted Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Shareholder Equity} + \text{Treasury Stock}}$	Below 0.80
	Preferred Stock	NONE	NONE
	Retained Earnings	$\frac{\text{Year 2 Retained Earnings}}{\text{Year 1 Retained Earnings}}$	Consistent Growth
	Treasury Stock	Treasury Stock > 1	Exists
CASH FLOW STATEMENT	Capex Margin	$\frac{\text{Capex}}{\text{Net income}}$	<25%



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