A graph with a line going up

Description automatically generated

A screenshot of a computer program

Description automatically generated

A white background with blue lines

Description automatically generated

A screenshot of a computer program

Description automatically generated

A graph showing a line going up

Description automatically generated

A screen shot of a computer

Description automatically generated

A graph with a line

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A screenshot of a computer program

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A graph with a line going up

Description automatically generated

A black screen with white text

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A graph with a line

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A screenshot of a computer program

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A graph showing a graph

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Apple is more conservative at the beginning

**Interpreting the Debt Ratio**

The debt ratio is a measure of financial leverage. A company that has a debt ratio of more than 50% is known as a "leveraged" company. Its debt ratio is higher than its equity ratio. It means that the business uses more of debt to fuel its funding. In other words, it leverages on outside sources of financing. In the above example, XYL is a leveraged company.

Companies with lower debt ratios and higher equity ratios are known as "conservative" companies.

Leveraged companies are considered riskier since businesses are contractually obliged to pay interests on debts regardless of their operating results. Even if a business incurs operating losses, it still is required to meet fixed interest obligations. In contrast, the payment of dividends to equity holders is not mandatory; it is made only upon the decision of the company’s board. Hence, leveraged companies are more risky.