RATIO ANALYSIS: LIQUIDITY RATIOS

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Common Liquidity Ratios

Short-term

- Current Ratio
- Quick Ratio
- CFO to Current Liabilities

- Interest Coverage
- Cash Interest Coverage

Long-term

- Debt to Equity
- Long-term Debt to Equity
- Long-term Debt to Tangible Assets

Short-Term Liquidity Ratios

- Does the company have enough cash coming in to cover obligations to pay out cash?
  - Ideally, ratios would be over 1
- Current Ratio = Current Assets / Current Liabilities
- Quick Ratio = (Cash + Receivables) / Current Liabilities
- CFO to Current Liabilities = Cash from Operations / Avg. Current Liabilities

Interest Coverage Ratios

- Does the company have enough cash coming in from operations to cover interest obligations?
  - Ideally, ratios would be over 1
- Interest Coverage = (Operating Income before Depreciation) / Interest Expense
- Cash Interest Coverage = (Cash from Operations + Cash Interest Paid + Cash Taxes) / Cash Interest Paid

Long Term Debt Ratios

- **How does the company finance its growth?**
  - **Also provide measure of bankruptcy risk and borrowing capacity**
- **Debt to Equity = Total Liabilities / Total Stockholders’ Equity**
  - **Total Assets is sometimes used in the denominator**
- **Long-Term-Debt to Equity = Total Long-Term Debt / Total Stockholders’ Equity**
- **Long-Term Debt to Tangible Assets = Total Long-Term Debt / (Total Assets - Intangible Assets)**

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