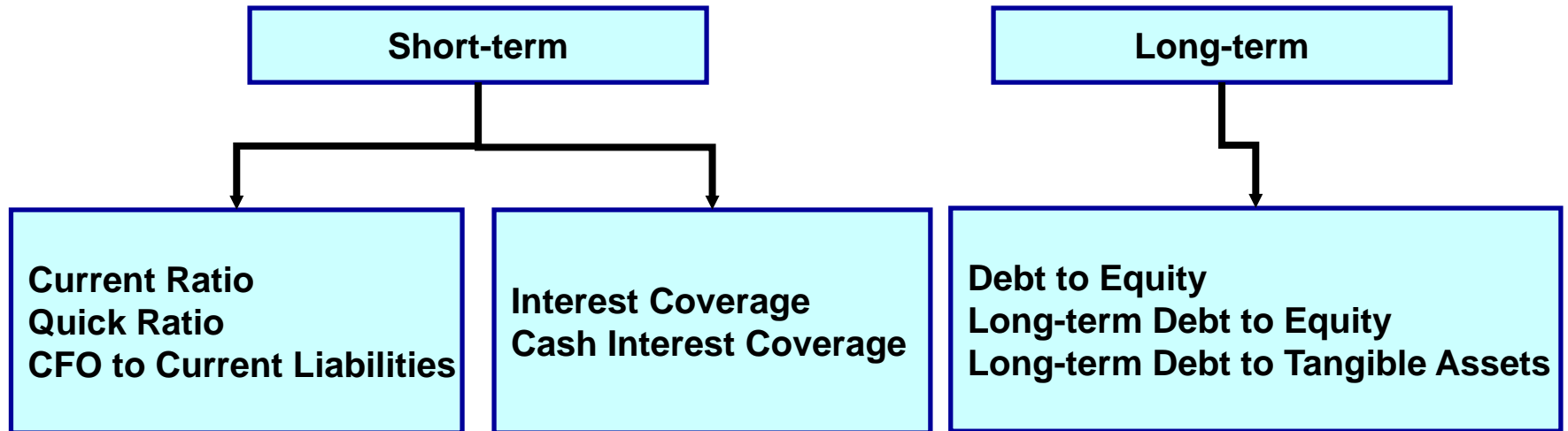


RATIO ANALYSIS: LIQUIDITY RATIOS

Professor Brian Bushee



Common Liquidity Ratios



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)**

