**Following Are Ratios That You Might Find Helpful in the Analysis, along with variable names from Compustat Data**.

**“High Level” Ratios**

**Return on Equity = Net Income / Average Shareholders’ Equity**

Return on Equity Compustat = niq / teqq   
Note: you should use

1. niq trailing twelve months (sum of recent four quarters).
2. Average teqq (this quarter plus same quarter one year ago divided by 2).

**Net Profit Margin = Net Income / Sales**

Net Profit Margin Compustat = niq / saleq

Note: Both variables should be trailing twelve months.

**Asset Turnover = Sales / Average Total Assets**

Asset Turnover Compustat = saleq / atq

Note: you should use:

1. Trailing twelve months for saleq
2. Average atq (this quarter plus same quarter one year ago divided by 2).

**Return on Assets = Net Income + Interest Expense X (1-T).**

Compustat ROA = niq+xintqX((1-T)

Note: Use:

1. niq trailing twelve months.
2. xintq trailing twelve months.
3. Tax rate 35% prior to 2018 and 21% after.

**Return on Financial Leverage = ROE-ROA**

See calculations above for ROE and ROA.

**Profitability Analysis   
(use TTM for income statement items)**

**Gross Profit Margin = Gross Profit / Sales**

Compustat Gross Margin =(saleq-cogsq)/saleq

**R&D %= R&D/Sales**

Compustat R&D %= xrdq/saleq

**SG&A% = SG&A/Sales**

Compustat SG&A / Sales = xsgaq/ saleq

**Efficiency Measures**

**(You can use either current quarter or trailing twelve months for income statement items. If you use income statement items, average balance sheet item is current quarter and previous quarter).**

**Fixed Asset Turnover = sales/ Average PP&E**

Compustat Fixed Asset Turnover = saleq/ppeq

**Inventory Turnover = Cost of Goods Sold / Average Inventory**

Compustat Inventory Turnover = cogsq/invtq

**Receivables Turnover = Sales/Average Accounts Receivable**

Compustat Receivables Turnover = saleq/rectrq

**DSO= days in period / receivables turnover**

**Liquidity Ratios (use TTM for income statement items and ending balance for balance sheet items).**

**Current Ratio = Current Assets / Current Liabilities**

Compustat Current Ratio = actq/lctq

**Debt-Equity Ratio = Debt / Equity**

Compustat Debt-Equity = (atq-teqq)/teqq

**Leverage Ratio = Total Assets / Total Shareholders’ Equity**

Compustat Leverage=atq/teqq

Note: For the purposes of decomposing ROE, you should use average assets and equity.

**Times Interest Earned= Earnings Before Interest and Taxes / by interest expense**

(use TTM for this calculation)

Compustat Times Interest earned = oiadpq/xintq

**Valuation Ratios (See Powerpoint slides 5/23)**