Measuring the Performance of Public Companies:

Common Ratios & What They Mean

The terms and ratios below are in common use by securities analysts, brokers, institutional investors and others in the investment community, and by companies, public and private, to measure financial performance. They provide quick-reference data useful for making general comparisons.

CF/S - Cash Flow Per Share
EPS - Earnings per share
E/P - Earnings-Price Ratio
EBIT - Earnings Before Interest and Taxes
EBIDT - Earnings Before Interest, Depreciation and Taxes
EBIDTA - Earnings Before Interest, Depreciation, Taxes and Amortization
P/CF - Price to Cash Flow (or CF/S - some prefer Cash Flow per Share)
P/E - Price to earnings
P/S: Price to Sales
P/BV: Price to Book Value
CF/Debt: Cash Flow to Debt
ROIC: Return on Invested Capital
GPM or Gross PM: Gross Profit Margin
NWC: Net Working Capital
T/V or TVol: Trading Volumes

While these ratios are convenient ways to measure ongoing performance, they should not be considered definitive, particularly where in-depth qualitative and quantitative assessments are indicated, as in due diligence. Audit and accounting measurements should be applied where thorough reviews are more appropriate.

What They Mean

CF/S: Cash flow per share. Divide the company's annual cash flow by the number of shares outstanding at fiscal year end. Investors expect this number to be on a fully diluted basis, i.e., including all warrants and options.

EBIT/S: Earnings before interest and taxes per share.

EBITD: Earnings before interest, taxes and depreciation
EBITDA: Earnings before interest, taxes, depreciation and amortization.

E/P: Earnings-price ratio - the relationship of earnings per share to the current stock price. Also referred to as earnings yield. E/P is used to compare the relative attractiveness of stocks, bonds and money market instruments. It is the inverse of the price-earnings ratio.

EP/S: Earnings per share. Net Earnings divided by the number of shares outstanding. Usually expressed both as a gross EP/S and as fully diluted, i.e., including outstanding options and warrants.

P/CF: Price to cash flow. Divide the latest share price by the company's cash flow per share for the most recent 12-month period. (The lowest number is the best ratio.) Cash flow measures a company's ability to grow, without feeding upon itself by selling assets. It includes non-cash charges like depreciation, which can be large at times, thus cash flow is considered by many as a better indicator than earnings. Cash flow is an important indicator for capital intensive companies which invest heavily during start-up, then will have smaller outlays as the business grows -- oil and gas, real estate, cable television.

P/BV: Price to book value. The ratio between a company's latest closing share price divided by its most recent book value, usually a fiscal year end or the end of a quarter. Book value is net worth per share, and calculated by totaling up all assets recognized for accounting purposes and subtracting all liabilities.

P/S: Price to sales. The latest closing price divided by the company's revenues per share for the latest 12 months. (The lowest number is the best ratio.) Sales is more strictly-defined than earnings, thus P/S ratios are more constant and reliable than price-earnings ratios.

> *Note: Industries with higher profit margins like oil and gas, and information technology, generally have higher P/S ratios than those with thinner margins, like the retail sector. Regardless, any stock with a P/S ratio of more than two will be considered high risk.*

P/E: Price to earnings. The latest closing price divided by earnings per share, fully diluted (all warrants and options included), for the most recent four quarters. Financial markets consider P/E a measurement of investor popularity, i.e., their enthusiasm about/confidence in the company's potential for future earnings. Some investors believe a low P/E is an indicator of an undervalued stock. A useful indicator and only one indicator, and somewhat inconsistent — some companies have low P/E ratios as a result of good performance; some have high P/Es due to rapid growth.

Other Ratios

CF/Debt: Ratio of cash flow to debt -- the ability to repay debt. For example, a figure of 0.82 would mean the company's cash flow covers its total debt 0.82 times. Thus the higher the number the better. The markets expect utilities to show cash flow of 0.20 or hither, industrials should be 0.30 or higher.

ROIC: Return on invested capital. The figure shows how well a company's managers have employed its assets, regardless of the source of the capital -- debt or stock. The ratio is expressed as a percentage. The higher the percentage the better; a negative number means a negative return.

NWC: Net working capital. This ratio is similar to a company's current ratio, a comparison of the value of current assets against current liabilities. Net Working Capital also takes into account both short and long term liabilities. The higher the number the more assets a company has to cover its liabilities.

Vol: Trading volume. The number of shares traded over the last 52 weeks. Usually expressed in thousands of shares traded per day or per week. Trading volume compared with shares outstanding and the public float helps measure investor interest. Trading volumes are usually graphed with stock prices and indicate how the market has responded to company performance and announcements.

Hi/Lo: The share price high and low for the past 52 weeks. One indicator of investor interest and confidence.

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NOTE: The above are common performance comparisons but are not the only indicators useful for this purpose. Company financial executives and investors may use other information and ratios in addition to these, according to their experience and preferences, and specific circumstances

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Acknowledgments

The following sources and references were consulted in the preparation of this article: The Financial Post; Canada Company Handbook, published by Report on Business; Investors Digest; Barron's Dictionary of Financial and Investment Terms, and various articles and documents published by Canadian Investor Relations Institute (CIRI), and The Canadian Securities Institute.

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