Flipside Finance

ZIN-DEPTH LOOK INTO THE

LEVERAGE ASPECT



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DEBT RATIO

Formula

Use Case

Nuances

Example

Industry Benchmarks

Total Debt x 100
Total Assets

Indicates the proportion of a company's **assets** financed by **debt**.

Companies with **higher** debt ratios may be more **sensitive** to changes in interest rates.

If a company has \$30 million in debt and \$70 million in equity, the debt ratio is 0.3.

Retail ———	0% - 40%
Manufacturing ——	30% - 70%
Energy —	30% - 60%
Consumer Goods ——	0% - 40%
Healthcare ———	20% - 50%
Technology ———	0% - 30%





DEBT-TO-EQUITY RATIO

Formula

Use Case

Nuances

Example

Industry Benchmarks

Total Debt x 100 Shareholder's Equity

This measures the amount of **debt** used to finance assets compared to **shareholder equity**.

Debt for **buybacks** or **dividends** may boost shareholder value but raises the **risk** with a higher D/E ratio.

If a company has \$50 million in debt and \$100 million in equity, the D/E ratio is 0.5.

Retail ———	0% - 50%
Manufacturing ——	50% - 200%
Utilities —	50% - 150%
Consumer Goods ——	0% - 50%
Real-Estate ———	50% - 200%
Healthcare ———	50% - 150%







DEBT-TO-EBITDA RATIO

Formula

Use Case

Nuances

Example

Industry Benchmarks

Total Debt x 100 EBITDA

Assesses a company's ability to repay its debt using its operating income.

Some companies might have to exclude **non-recurring expenses** from EBITDA to get realistic view.

If a company has \$40 million in debt and EBITDA of \$10 million, the ratio is 4 times.

Real-Estate — 4 - 8 times

Manufacturing — 3 - 6 times

Biotech — 1 - 5 times

Consumer Goods — 1 - 3 times

Automotive — 3 - 7 times

Healthcare — 2 - 4 times





EQUITY MULTIPLIER

Formula

Use Case

Nuances

Example

Industry Benchmarks

Total Assets x 100 Shareholder's Equity

Measures the proportion of a company's **assets** funded by **equity.**

The ratio doesn't provide insights into working capital management.

If a company has \$150 million in assets and \$50 million in equity, the EM is 3.

Retail — 1-2
Real-Estate — 6-10
Energy — 2-5
Consumer Goods — 1-2
Technology — 1-3
Healthcare — 2-4





INTEREST COUERAGE RATIO

Formula

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Example

Industry Benchmarks

EBIT x 100 Interest Expense

Assesses a company's ability to cover **interest expenses** with its **operating income**.

A declining trend in the ICR may suggest worsening **financial conditions** or increasing **leverage**.

If a company has EBIT of \$1 million and interest expenses of \$200,000, the ratio is 5.

Automotive2 - 6F. InstitutionsvariesEnergy2 - 5Consumer Goods5 - 10Telecom3 - 8Technology3 - 7





DEBT SERVICE COUERAGE RATIO (DSCR)

Formula

Use Case

Nuances

Example

Industry Benchmarks

Net Operating Income x 100
Total Repayments (Principle + Interest)

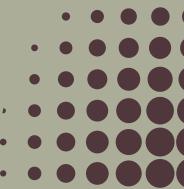
Evaluates a firm's ability to cover its debt obligations from its operating income.

DSCR may not always consider lease obligations.

If a company has a net operating income of \$2 million and total debt service of \$1.5 million, the DSCR is 1.33.

Retail ———	1.2 - 2.0
Technology ———	1.0 - 2.0
Telecom —	- 2.0 - 3.0
Utilities —	- 2.0 - 3.0
Real-Estate ———	1.25 - 2.0
Healthcare ———	- 1.2 - 2.0







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