

Technology Management Series

Executive Financial Management & Financial Analysis

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Glossary of Some Finance Terms

Measuring Growth

Compound Annual Growth Rate (CAGR)

T=ending value

B=starting value

N=number of years

$CAGR = ((T/B)^{(1/N)}) - 1$

Profitability Measures

Gross Margin = (Sales – Cost of Goods Sold)/Sales

Operating Margin = (Sales – Cost of Goods Sold – Operating Expenses)/Sales

EBITDA Margin = (Earnings Before Interest Taxes Depreciation and Amortization) / Sales

Return on Sales = Net Income / Sales

Return on Equity = Net Income / Book Value of Owners' Equity

Return on Assets = Net Income / Book Value of Assets

Working Capital Management Measures

Days Inventory = (Inventory/Cost of Goods Sold) * 365

Days Receivable = (Accounts Receivable/Sales) * 365

Days Payable = (Accounts Payable/Purchases) * 365

Cash Conversion Cycle = Days Inventory + Days Receivable – Days Payable

Net Working Capital = Inventory + Accounts Receivable – Accounts Payable

(Note: some people use slightly different definitions of NWC. For example, some define NWC as Current Assets – Current Liabilities.)

Measures of Leverage

Debt to Value, or Debt to Market Value of Debt and Equity = (Short Term Debt + Long Term Debt) / (Short Term Debt + Long Term Debt + Market Value of Equity)

Debt / Total Book Capital = (Short Term Debt + Long Term Debt) / (Short Term Debt + Long Term Debt + Book Value of Equity)

Total Liabilities / Total Assets

Interest Coverage Ratio (using EBIT) = Earnings Before Interest and Taxes / Interest Expense

Interest Coverage Ratio (using EBITDA) = Earnings Before Interest, Taxes, Depreciation and Amortization / Interest Expense

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = (Current Assets – Inventory) / Current Liabilities

Other Measures

Asset Turnover = Sales / Assets