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Financial Health Report

This is the meat without fat. When banks look over your business for a loan these ratios are the litmus test for risk limits.

Description	1998	1997	1996	1995
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The Standard of All Key Ratios

The Altman Z-Score	5.43	5.70	5.47	5.36
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The Altman Z-Score shows a combination of five different ratios, with each ratio assigned a different weighting. For years, researchers have attempted to identify a ratio or set of ratios that provided an early warning of a business going bankrupt. In the early part of this century, for example, some researchers concluded that the best ratio to calculate and examine was Net Working Capital to Total Assets.

A few years later, someone discovered that the Return on Net Worth and Net Worth to Total Debt ratios were best. Later on, other researchers successfully focused on the Current Ratio, Net Worth to Total Debt, Times Interest Earned, and Net Profit-to-Sales ratios.

Finally, in the 1960s, Edward Altman combined 5 ratios into what has become known as the Altman Z-Score, the best-known predictor of bankruptcy. What the Altman Z-Score does is calculate and combine the 5 financial ratios, assigning each a different weighting.

If the total Z-Score is 1.81 or less, there is a very good chance the business could go bankrupt in the coming year. If the total Z-Score is 3.00 or better there is little danger of bankruptcy.

Liquidity Ratios	1998	1997	1996	1995
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Current Ratio	1.75	1.67	1.89	1.73
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The Current Ratio shows a ratio of current assets to current liabilities.

Quick Ratio	0.26	0.54	0.12	0.31
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The Quick Ratio shows a ratio of liquid assets (cash and near-cash assets as well as accountants receivable) to its current liabilities.

Activity Ratios	1998	1997	1996	1995
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Days Sales in AR	3.72	2.54	3.14	3.04
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The Days Sales in AR shows a ratio indicates how long it takes a business to collect receivables from its customers.

Allowance for Bad Debt as % of AR	18.41%	25.76%	29.07%	31.35%
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The Allowance for Bad Debt as % of AR shows what percentage of the accounts receivable balance is considered not collectible.

Bad Debt Expense as % of Net Revenues	0.15%	0.14%	0.19%	0.19%
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The Bad Debt Expense as % of Net Revenues shows what percentage of revenues is considered not collectible.

Inventory Turnover	1282.65	1102.41	582.20	736.69
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The Inventory Turnover indicates how quickly a business sells its inventory by comparing the inventory balance to the cost of goods sold expense for the period

Days Inventory	0.28	0.33	0.63	0.50
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The Days Inventory shows a ratio indicating how many days a business could continue selling using only its existing inventory.

Net Sales to Inventory	1,646.51	1,472.91	735.32	983.32
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The Net Sales to Inventory ratio indicates the size of annual net sales relative to inventory.

Days Purchases in AP	1.88	2.42	1.79	1.94
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The Days Purchases in AP ratio indicates the size of accounts payable relative to cost of sales.

Net Sales to Working Capital	152.73	181.65	165.91	182.22
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The Net Sales to Working Capital ratio indicates the size of annual net sales relative to working capital (current assets minus current liabilities).

Total Assets to Net Sales	0.03	0.02	0.02	0.02
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The Total Assets to Net Sales ratio indicates how many dollars of assets are required to produce a dollar of sales.

Net Sales to AR	98.06	143.86	116.36	120.25
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The Net Sales to AR ratio indicates the size of the annual net sales relative to accounts receivable.

Net Sales to Net Fixed Assets	98.63	110.94	99.94	97.57
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The Net Sales to Net Fixed Assets ratio indicates the size of the annual net sales relative to net fixed assets.

Net Sales to Total Assets	39.40	44.00	43.92	43.06
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The Net Sales to Net Worth ratio indicates the size of the annual net sales relative to total assets.

Net Sales to Net Worth	69.42	83.40	97.85	96.10
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The Net Sales to Net Worth ratio indicates the size of the net sales relative to net worth (total assets minus total liabilities).

Amortization and Depreciation Expense to Net Sales	0.03	0.02	0.02	0.02
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The Amortization and Depreciation Expense to Net Sales ratio indicates what percentage of each dollar of sales pays non-cash expenses such as amortization expense of intangible assets, copyrights and patents, and depreciation expense of fixed assets.

Profitability Ratios	1998	1997	1996	1995
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Gross Profit Percentage	22.10%	25.15%	20.82%	25.08%
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The Gross Profit Percentage ratio indicates what percentage of each dollar of sales is left over after paying the costs of sales amount.

Operating Expenses as % of Net Sales	97.37%	96.71%	99.15%	98.21%
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The Operating Expenses as % of Net Sales ratio indicates what percentage of each of sales goes to pay operating expenses.

Return on Total Assets	1.04	1.45	0.37	0.77
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The Return on Total Assets ratio indicates the size of net income after taxes relative to a firm's total assets.

Return on Net Worth	1.83	2.75	0.83	1.72
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The Return on Net Worth ratio indicates the size of net income after taxes relative to a firm's net worth (total assets minus total liabilities).

Return on Net Sales	0.03	0.03	0.01	0.02
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The Return on Net Sales ratio indicates what percentage of each dollar of sales actually ends up as profit.

Income before tax to Net Worth	1.83	2.75	0.83	1.72
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The Income before tax to Net Worth ratio indicates the size of net income before taxes relative to a firms' net worth (total assets minus total liabilities).

Income before tax to Total Assets	1.04	1.45	0.37	0.77
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The Income before tax to Total Assets ratio indicates the size of net income before taxes relative to a firms' total assets.

Retained Earning to Net Income	0.00	0.00	0.00	0.00
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The Retained Earnings to Net Income ratio indicates the size of retained earning to net income.

Coverage Ratios	1998	1997	1996	1995
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Times Interest Earned	2.40	3.00	0.78	2.46
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The Times Interest Earned ratio indicates the size of a firm's interest expense relative to its operating profits.

Interest Expense to Net Sales	0.01	0.01	0.01	0.01
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The Interest Expense to Net Sales ratio indicates what percentage of a firm's net sales goes to pay interest expense on its debts.

Current Liabilities to Net Worth	0.60	0.68	0.66	0.72
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The Current Liabilities to Net Worth ratio indicates the size of firms' current liabilities relative to its net worth (total assets minus total liabilities).

Current Liabilities to Inventory	14.32	12.09	4.95	7.36
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The Current Liabilities to Inventory ratio indicates the size of a firms' current liabilities relative to its inventory.

AP to Net Sales	0.00	0.00	0.00	0.00
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The AP to Net Sales ratio indicates the size of a firms' accounts payable relative to its sales revenue.

Total Liabilities to Net Worth	0.63	0.70	0.67	0.72
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The Total Liabilities to Net Worth ratio indicates the size of firms' total liabilities relative to its net worth.

Net Worth to Total Liabilities	1.59	1.44	1.49	1.38
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The Net Worth to Total Liabilities ratio indicates the size of firms' net worth relative to its total liabilities.

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