Ratio	Calculation	Going up	Going down
Gross profit margin %	$\frac{\text{Gross income}}{\text{Revenue}}$	Good sign for core business. Increased selling prices and/ or decreasing cost of sales.	Bad sign for core business. Decreased selling prices and/ or increasing costs of sales.
Operating profit margin %	$\frac{\text{EBIT}}{\text{Revenue}}$	Good sign. Reducing overheads and/or benefiting from improved gross profit margin.	Bad sign. Increasing overheads and/or suffering from weakening gross profit margin.
EBITDA margin %	$\frac{\text{EBITDA}}{\text{Revenue}}$	Good sign. Reducing overheads (excl. depreciation/ amortization) and/or benefiting from improved gross profit margin.	Bad sign. Increasing overheads (excl. depreciation/ amortization) and/or suffering from weakening gross profit margin.
Net profit margin %	$\frac{\text{Net income}}{\text{Revenue}}$	Good sign. When compared to operating profit margin, this indicates the cost of debt servicing.	Bad sign. When compared to operating profit margin, this indicates the cost of debt servicing.
Inventory days	$\frac{\text{Inventories}}{\text{Cost of sales}} \times 365$	Bad sign. The business is taking longer to sell its inventories.	Good sign. The business is taking less time to sell its inventories.
Receivables days	$\frac{\text{Trade receivables}}{\text{Revenue}} \times 365$	Bad sign. The business is taking longer to get its cash in for its sales.	Good sign. The business is getting quicker at getting its cash in for its sales.
Payables days	$\frac{\text{Trade payables}}{\text{Cost of sales}} \times 365$	Good sign. The business benefits from taking longer to pay suppliers.	Bad sign. The business loses cash paying suppliers earlier.
Interest cover	$\frac{\text{EBIT}}{\text{Interest expense}}$	Good sign. The business can afford to service its debt. Needs to be at least 1.	Bad sign. Concerns over ability to service debt if this falls below 1.
Gearing % (1)	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity}}$	Bad sign. Increasing debt levels increases the risk of the business and reduces ability to repay debt.	Good sign. Decreasing debt decreases the risk of the business from a lending perspective.
Gearing % (2)	$\frac{\text{Interest bearing debt}}{\text{Interest bearing debt + Shareholders' equity}}$	Bad sign. Increasing debt levels increases the risk of the business and reduces ability to repay debt.	Good sign. Decreasing debt decreases the risk of the business from a lending perspective.
Leverage	$\frac{\text{Interest bearing debt}}{\text{EBITDA}}$	Bad sign. Increasing debt levels or falling EBITDA increases the risk of the business and reduces ability to repay debt.	Good sign. Decreasing debt or increasing EBITDA decreases the risk of the business from a lending perspective.
Return on capital employed %	$\frac{\text{EBIT}}{\text{Debt + Shareholders' equity}}$	Good sign. The business is efficient in using its funding to generate profit.	Bad sign. The business is losing profitability and/or efficiency.
Return on equity %	$\frac{\text{Net income}}{\text{Total shareholders' equity}}$	Good sign. The business is generating more profits from shareholders' investment in the business.	Bad sign. The business is generating less profits from shareholders' investment in the business.
Asset turnover	$\frac{\text{Turnover}}{\text{Net assets}}$	Good sign. The business is using its assets efficiently to generate sales.	Bad sign. The business is losing efficiency.
Net working capital	Inventory + Accounts receivable - Accounts payable	Good sign as long as working capital is growing in line with the business.	Good sign if decrease is due to active management to keep balances low.
Working capital funding gap	Inventory days + Receivables days - Payables days	Bad sign. The business will have to borrow more to fund the gap.	Good sign. The business will have to borrow less to fund the gap.
Net working capital to sales %	$\frac{\text{Net working capital}}{\text{Revenue}}$	Bad sign. The business requires more working capital per £/$/€/¥ (etc) of revenue.	Good sign. The business requires less working capital per £/$/€/¥ (etc) of revenue.