# FINANCIAL RATIOS FOR INFORMATION TECHNOLOGY FIRMS

## PERSONNEL RATIOS

- **Sales Per Employee** = $\dfrac{\text{Adjusted Net Revenue}}{\text{Equivalent Full-Time Employees}}$
- **Personnel Cost Ratio** = $\dfrac{\text{Personnel Costs}}{\text{Adjusted Net Revenue}}$
- **Personnel Productivity Ratio** = $\dfrac{\text{Adjusted Net Revenue}}{\text{Personnel Costs}}$
- **Discretionary Payroll Ratio** = $\dfrac{\text{Incentive-Based Personnel Costs}}{\text{Personnel Costs Exclusive of Incentive-Based Compensation}}$
- **Employee Billable Hours Ratio** = $\dfrac{\text{Hours Billed}}{\text{Hours Worked}}$
- **Employee Overhead Cost Ratio** = $\dfrac{\text{Administrative Personnel Costs}}{\text{Personnel Costs}}$
- **Employee Utilization Rate** = $\dfrac{\text{Hours Billed}}{\text{Available Hours}}$

## REVENUE RATIOS

- **Existing Clients Revenue Ratio** = $\dfrac{\text{Revenue from Existing Clients}}{\text{Adjusted Net Revenue}}$
- **New Clients Revenue Ratio** = $\dfrac{\text{Revenue from New Clients}}{\text{Adjusted Net Revenue}}$
- **Maintenance Revenue Ratio** = $\dfrac{\text{Maintenance Revenue}}{\text{Adjusted Net Revenue}}$
- **Software Revenue Ratio** = $\dfrac{\text{Software Revenue}}{\text{Adjusted Net Revenue}}$
- **Large Clients Dependency Ratio** = $\dfrac{\text{Revenue from Large Clients}}{\text{Adjusted Net Revenue}}$
- **Service Revenue Ratio** = $\dfrac{\text{Service Revenue}}{\text{Adjusted Net Revenue}}$
- **Hardware Revenue Ratio** = $\dfrac{\text{Net Hardware Sales}}{\text{Adjusted Net Revenue}}$
- **Third-Party Revenue Ratio** = $\dfrac{\text{Adjusted Net Revenue from the Sale of Third-Party Solutions}}{\text{Adjusted Net Revenue}}$

## OPERATING EXPENSE RATIOS

- **R&D Ratio** = $\dfrac{\text{Research and Development Costs}}{\text{Adjusted Net Revenue}}$
- **Sales Expense Ratio** = $\dfrac{\text{Sales Expenses}}{\text{Adjusted Net Revenue}}$
- **Marketing Expense Ratio** = $\dfrac{\text{Marketing Expenses}}{\text{Adjusted Net Revenue}}$
- **Administrative Employee Cost Ratio** = $\dfrac{\text{Administrative Personnel Costs}}{\text{Total Personnel Costs}}$
- **Monthly Sustenance Ratio** = $\dfrac{\text{Monthly Sustenance Level (MSL)}}{\text{Monthly Adjusted Net Revenue}}$
- **Client Acquisition Costs Ratio** = $\dfrac{\text{Marketing Expenses For New Clients}}{\text{Gross Profit}}$

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## CASH FLOW METRICS

- **Fast MSL Coverage** =
  $$\frac{\text{Cash}}{\text{Monthly Sustenance Level}}$$
- **MSL Coverage** =
  $$\frac{\text{Cash + Accounts Receivable to be Collected in 30 Days}}{\text{Monthly Sustenance Level}}$$
- **Prepaid Cash** =
  Cash - Client Deposits (Prepayments)
- **Prepaid Liquidity** =
  $$\frac{\text{Cash + Accounts Receivable -}}{\text{Client Deposits (Prepayments)}}$$

## PROFITABILITY RATIOS

- **Return on Total Assets** =
  $$\frac{\text{Net Profit after Taxes}}{\text{Total Assets}}$$
- **Return on Equity** =
  $$\frac{\text{Net Profit after Taxes}}{\text{Total Equity}}$$
- **Return on Sales** =
  $$\frac{\text{Net Profit after Taxes}}{\text{Sales}}$$

## WORKING CAPTIAL RATIOS

- **Current Ratio** =
  $$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$
- **Quick Ratio** =
  $$\frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$$

## Financial ratios are frequently utilized to evaluate business performance. This guide uses the following definitions:

- **Adjusted Net Revenue** =
  Sales of software and services plus net hardware sales
- **Net Hardware Sales** =
  Gross margin from hardware sales
- **Monthly Sustenance Level (MSL)** =
  Payroll, taxes, insurance, rent, utilities, telephone, debt service, and other fixed expenses
- **Personnel Costs** =
  Payroll, payroll taxes, health insurance, and direct employee costs



## *The Chalfin Group Inc. provides:*

- ***Advisory Services Relating to the Purchase and Sale of Businesses***
- ***Strategic Planning - Restructuring***
- ***Valuation Services***

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