FINANCIAL RATIOS OF CANADIAN COMPANIES

July 26, 2012

Alberto Calva // Acus Consulting Ltd

In this paper we are presenting some financial ratios of Canadian companies. Specifically, we are presenting the information for seventeen non-financial industries, as well as the total for all of the non-financial industries and the total for all industries (this is, including non-financial and financial industries).

The financial ratios here presented are four:

a) Return on Capital Employed (ROCE), that measures the profitability of the business
b) Return on Equity (ROE), that measures the profitability for the shareholders
c) Operating Margin, that measures the generation of wealth from the sales
d) Leverage, that measures the relationship between debt and equity

The seventeen non-financial industries are:

1. Agriculture, forestry, fishing and hunting
2. Oil and gas extraction and support activities
3. Mining and quarrying (except oil and gas)
4. Utilities
5. Construction
6. Manufacturing
7. Wholesale trade
8. Retail trade
9. Transportation and warehousing
10. Information and cultural industries
11. Real estate and rental and leasing
12. Professional, scientific and technical services
13. Administrative and support, waste management and remediation services
14. Educational, healthcare and social assistance services
15. Arts, entertainment and recreation
16. Accommodation and food services
17. Repair, maintenance and personal services

For each case we are presenting the financial ratios for the first quarter of 2011, the first quarter of 2012, the change between this two periods and the annual ratio for the year 2011.

Our source is the aggregated information that is available in StatCan, the official statistics national agency of Canada.

WHAT IS A FINANCIAL RATIO

A financial ratio is the comparison between two items from the financial statements. This comparison is done by dividing two numbers and getting a percentage, proportion or ratio. When this comparison is done with the right numerator and denominator then we will have a powerful criterion for the financial analysis. The financial ratios are numbers that can help us analyze a business, in order to know if it is in the right path or else to try to identify opportunity areas or activities that can be improved.

WHY IS THIS INFORMATION USEFUL FOR YOU

The information here presented is useful for almost any company. For companies in Canada it is a benchmark to know if your own company is within these numbers or if you should be reviewing in detail your strategy in order to have the expected financial results. For companies in other countries, it is still a benchmark of what similar companies in Canada are doing, compared with the same industries or the market in each country.

In general, any financial ratio is useless unless we can compare it with some other figures. This comparison has to be done, first with the history and trend of the same company, second, with other companies in the same industry, and third, with the whole market. For these two last reasons is that we need information like the one here presented for us to be able to have a reference for a comparison.

PROFITABILITY FOR THE COMPANY: RETURN ON CAPITAL EMPLOYED

In Table I we can see the financial ratios of Return on Capital Employed (ROCE). This financial ratio is defined as the Net Operating Profit After Taxes (NOPAT) divided by the Capital Employed. The NOPAT is defined as the Operating Profit minus adjusted Income Tax. Operating Profit is Sales minus Cost of Sales minus Operating Expenses. The Capital Employed is usually defined as the Total Assets minus Non Interest Bearing Current Liabilities (like Accounts Payable) minus Cash and Cash Equivalents in the company.

This way, the ROCE helps us identify if a company is generating the required wealth in order to be considered a profitable business or not. ROCE's from different industries can initially be compared, as well as ROCE's from companies in different countries, except that we have to consider an adjustment for the risk in each industry and the risk in each country.

What we can see in Table I is that the ROCE in 2011 for all industries was 7.4% and for non-financial industries it was 7.8%. This means that for each dollar invested in a company the generation of profit after taxes was 7.4 or 7.8 cents. Comparing the first quarters of 2011 and 2012 we can see a decrease. All industries decreased from 7.6% to 7.2%, while the non-financial industries decreased from 8.0% to 7.4%. This means that initially companies are producing less wealth for each dollar invested in from one year to the other.

Which are the most profitable industries and the least ones? Based on the annual figures for 2011, the largest ROCE is for “educational, healthcare and social assistance services” with an 18.8%, followed by “professional, scientific and technical services” with a 13.6% and in third place we can find two industries, each with 10.3%, and these are “wholesale trade” and “repair, maintenance and personal services”.

On the contrary, the industries with the smallest ROCE are “oil and gas extraction and support activities” with 3.6%, followed by “mining and quarrying (except oil and gas)” with 6.4% and “transportation and warehousing” with 6.5%.

ROCE, initially, has to be larger than the cost of capital of each company. If this is not the case, it would mean that the company is destroying economic value. Larger companies usually have smaller costs of capital, as well as companies in developed countries like Canada have smaller costs of capital than those in emerging economies.

PROFITABILITY FOR THE SHAREHOLDER: RETURN ON EQUITY

In Table II we can see the financial ratios of Return on Equity (ROE). This financial ratio is defined as the Net Profit divided by the Shareholders’ Equity. The Net Profit is the bottom line in the Income Statement and it represents the wealth for the shareholders. The equity is the resources invested by the shareholders in the company, being them one of the funding sources and the other one would be the liabilities.

This way, the ROE helps us identify if a company is generating the required wealth in order to be considered an interesting investment for the shareholders. ROE’s from different industries can initially be compared, as well as ROE’s from companies in different countries, except that we have to consider an adjustment for the risk in each industry and the risk in each country.

What we can see in Table II is that the ROE in 2011 for all industries was 11.0% and for non-financial industries it was 11.8%. This means that for each dollar invested by the shareholders in a company the generation of net profit for them was 11.0 or 11.8 cents. Comparing the first quarters of 2011 and 2012 we can see a decrease. All industries decreased from 11.4% to 10.7%, while the non-financial industries decreased from 12.4% to 11.1%. This means that initially companies are producing less wealth for each dollar invested by the shareholders from one year to the other.

Which are the most profitable industries and the least ones for the shareholders? Based on the annual figures for 2011, the largest ROE is for “educational, healthcare and social assistance services” with a 29.2%, followed by “professional, scientific and technical services” with a 23.0% and in third place we can find “accommodation and food services” with an 18.5%.

On the contrary, the industries with the smallest ROE are “oil and gas extraction and support activities” with 3.7%, followed by “mining and quarrying (except oil and gas)” with 8.8% and “transportation and warehousing” with 8.9%.

OPERATING MARGIN: OPERARTING PROFIT TO SALES

In Table III we can see the financial ratios of Operating Margin. This financial ratio is defined as the Operating Profit divided by the Sales. The Operating Profit is the Sales minus the Cost of Sales minus the Operating Expenses.

The Operating Margin is clearly different within industries. Therefore a comparison among companies from different industries is not suggested. And the reason for the difference among industries is because some industries require larger amounts of resources invested and therefore a larger margin is also required.

What we can see in Table III is that the Operating Margin in 2011 for all industries was 8.7% and for non-financial industries it was 7.3%. This means that for each dollar of sales in a company the operating profit was 8.7 or 7.3 cents. Comparing the first quarters of 2011 and 2012 we can see a slight decrease. All industries decreased from 8.9% to 8.8%, while the non-financial industries decreased from 7.3% to 7.1%. This means that initially companies are producing less profit for each dollar of sales from one year to the other.

LEVERAGE: DEBT TO EQUITY

In Table IV we can see the financial ratios of Leverage. This financial ratio is defined as the division of the Debt with the Equity. This is, how much a company owns to the bank for each dollar the shareholders have invested in the company.

The Leverage is different within industries. Therefore a comparison among companies from different industries is not suggested. And the reason for the difference among industries is because it has to do, among other things, with the length of the operating cycle.

What we can see in Table IV is that the Leverage in 2011 for all industries was 0.85 and for non-financial industries it was 0.91. This means that for each dollar the shareholders have invested in the company, there is a debt of 85 or 91 cents. Comparing the first quarters of 2011 and 2012 we can see that all industries increased from 0.85 to 0.90, while the non-financial industries decreased from 0.93 to 0.89.

Which are the industries with the largest leverage and the industries with the smallest? Based on the annual figures for 2011, the largest leverage is for “accommodation and food services” with 2.72 leverage, followed by “arts, entertainment and recreation” with a 1.98 and in third place we can find “real estate and rental and leasing” with a 1.59.

On the contrary, the industries with the smallest leverage are “mining and quarrying (except oil and gas)” with 0.60, followed by “oil and gas extraction and support activities” with 0.62 and “educational, healthcare and social assistance services” with 0.66 leverage.

About Acus Consulting. This firm supports companies, organizations and government agencies in financial and strategic analysis, investment project evaluations, financial planning and decision making. It is based in Toronto.

Contact information:
Alberto Calva
Acus Consulting Ltd
www.AcusConsulting.com
acalva@acusconsulting.com
Tel.: 416-824-1924 & 647-724-0625

Note: If you want to receive this information by e-mail, please send us your personal information (name, company, position, city and country, and email address).

Respect: In Acus Consulting we respect your privacy. We do not sell or rent our data base, neither we give any information to any person or company. Our data base is used only to send reports and emails prepared by our firm.

Responsibility: We are not responsible for the accuracy of the figures here presented; neither for the decisions taken based on this information or based on our comments.

TABLE I: RETURN ON CAPITAL EMPLOYED FOR CANADIAN COMPANIES (Q1-2011, Q2-2012 AND 2011 ANNUAL) (%)

	First quarter 2011	First quarter 2012	Change Q1 2011 to 2012	Total 2011
Total, all industries	**7.6**	**7.2**	**-0.4**	**7.4**
Total, non-financial industries	**8.0**	**7.4**	**-0.6**	**7.8**
Agriculture, forestry, fishing and hunting	6.9	7.3	**0.4**	7.3
Oil and gas extraction and support activities	5.8	4.6	**-1.2**	3.6
Mining and quarrying (except oil and gas)	6.1	1.8	**-4.3**	6.4
Utilities	8.5	7.4	**-1.1**	7.9
Construction	6.5	9.8	**3.3**	7.8
Manufacturing	8.8	7.2	**-1.6**	8.1
Wholesale trade	10.8	9.3	**-1.5**	10.3
Retail trade	8.7	10.0	**1.3**	8.7
Transportation and warehousing	7.4	7.7	**0.3**	6.5
Information and cultural industries	8.8	9.1	**0.3**	7.7
Real estate and rental and leasing	7.4	7.1	**-0.3**	7.8
Professional, scientific and technical services	7.5	10.6	**3.1**	13.6
Adm. & support, waste management & remediation services	8.9	7.8	**-1.1**	8.7
Educational, healthcare & social assist. services	17.7	18.2	**0.5**	18.8
Arts, entertainment and recreation	8.8	7.8	**-1.0**	7.6
Accommodation and food services	6.9	8.0	**1.1**	7.1
Repair, maintenance and personal services	9.4	9.8	**0.4**	10.3

TABLE II: RETURN ON EQUITY (Q1-2011, Q2-2012 AND 2011 ANNUAL)

	First quarter 2011	First quarter 2012	Change Q1 2011 to 2012	Total 2011
Total, all industries	**11.4**	**10.7**	**-0.7**	**11.0**
Total, non-financial industries	**12.4**	**11.1**	**-1.3**	**11.8**
Agriculture, forestry, fishing and hunting	12.2	12.8	**0.6**	12.9
Oil and gas extraction and support activities	7.4	5.5	**-1.9**	3.7
Mining and quarrying (except oil and gas)	8.3	1.6	**-6.7**	8.8
Utilities	13.5	10.9	**-2.6**	12.1
Construction	11.8	17.8	**6.0**	16.5
Manufacturing	12.8	9.9	**-2.9**	11.6
Wholesale trade	17.3	14.6	**-2.7**	16.5
Retail trade	13.0	13.9	**0.9**	12.7
Transportation and warehousing	11.7	13.4	**1.7**	8.9
Information and cultural industries	16.2	14.5	**-1.7**	9.7
Real estate and rental and leasing	14.8	13.6	**-1.2**	15.4
Professional, scientific and technical services	11.8	17.2	**5.4**	23.0
Adm. & support, waste management & remediation services	12.8	9.9	**-2.9**	12.4
Educational, healthcare & social assist. services	26.9	28.0	**1.1**	29.2
Arts, entertainment and recreation	17.3	13.5	**-3.8**	13.2
Accommodation and food services	18.3	22.0	**3.7**	18.5
Repair, maintenance and personal services	16.5	16.8	**0.3**	18.0

TABLE III: OPERATING MARGIN (Q1-2011, Q2-2012 AND 2011 ANNUAL)

	First quarter 2011	First quarter 2012	Change Q1 2011 to 2012	Total 2011
Total, all industries	**8.9%**	**8.8%**	**-0.1%**	**8.7%**
Total, non-financial industries	**7.3%**	**7.1%**	**-0.2%**	**7.3%**
Agriculture, forestry, fishing and hunting	9.5%	10.7%	**1.1%**	10.0%
Oil and gas extraction and support activities	8.2%	6.7%	**-1.5%**	7.3%
Mining and quarrying (except oil and gas)	25.3%	22.3%	**-3.0%**	24.8%
Utilities	10.8%	10.7%	**-0.1%**	9.9%
Construction	3.5%	6.4%	**2.8%**	4.9%
Manufacturing	8.3%	7.1%	**-1.2%**	7.9%
Wholesale trade	4.3%	3.9%	**-0.4%**	4.0%
Retail trade	3.5%	3.8%	**0.3%**	3.6%
Transportation and warehousing	7.3%	7.9%	**0.5%**	6.9%
Information and cultural industries	16.4%	16.7%	**0.3%**	18.1%
Real estate and rental and leasing	18.3%	19.1%	**0.7%**	21.4%
Professional, scientific and technical services	9.2%	9.3%	**0.1%**	9.0%
Adm. & support, waste management & remediation services	6.6%	5.5%	**-1.1%**	6.4%
Educational, healthcare & social assist. services	19.5%	19.4%	**0.0%**	19.8%
Arts, entertainment and recreation	10.7%	11.4%	**0.7%**	10.0%
Accommodation and food services	5.4%	6.7%	**1.3%**	5.8%
Repair, maintenance and personal services	5.8%	6.5%	**0.7%**	6.7%

TABLE IV: DEBT TO EQUITY (Q1-2011, Q2-2012 AND 2011 ANNUAL)

	First quarter 2011	First quarter 2012	Change Q1 2011 to 2012	Total 2011
Total, all industries	**0.85**	**0.90**	**0.04**	**0.85**
Total, non-financial industries	**0.93**	**0.89**	**-0.04**	**0.91**
Agriculture, forestry, fishing and hunting	1.13	1.11	**-0.02**	1.13
Oil and gas extraction and support activities	0.64	0.59	**-0.05**	0.62
Mining and quarrying (except oil and gas)	0.60	0.64	**0.04**	0.60
Utilities	1.29	1.29	**0.00**	1.29
Construction	1.45	1.36	**-0.09**	1.48
Manufacturing	0.72	0.68	**-0.03**	0.68
Wholesale trade	0.81	0.79	**-0.02**	0.80
Retail trade	0.85	0.80	**-0.04**	0.82
Transportation and warehousing	1.25	1.43	**0.18**	1.30
Information and cultural industries	1.22	1.24	**0.02**	1.23
Real estate and rental and leasing	1.63	1.46	**-0.18**	1.59
Professional, scientific and technical services	0.91	0.84	**-0.06**	0.87
Adm. & support, waste management & remediation services	0.80	0.67	**-0.13**	0.76
Educational, healthcare & social assist. services	0.65	0.68	**0.03**	0.66
Arts, entertainment and recreation	2.19	1.74	**-0.45**	1.98
Accommodation and food services	2.77	2.61	**-0.16**	2.72
Repair, maintenance and personal services	1.10	1.01	**-0.09**	1.05