Completely updated with the latest IRS data!

ALMANAC OF BUSINESS AND INDUSTRIAL FINANCIAL RATIOS

43rd ANNUAL EDITION

2012 EDITION

- Features NAICS data covering North America – U.S., Canada, Mexico
- Provides 50 performance indicators on nearly 200 industries
- Based on actual IRS tax return data from 5.8 million U.S. and international corporations

LEO TROY, Ph.D.

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Dedicated

To Alexander, Suzannah, Dale, Ariel Sarah Troy, Abigayle Hannah Troy, and Rachel Ilana Troy

Preface

Now in its 43rd Edition, the *Almanac of Business and Industrial Financial Ratios* provides a precise benchmark for evaluating an individual company's financial performance. The performance data is derived from the latest available IRS figures on U.S. and international companies, and tracks 50 operating and financial factors in nearly 200 industries. The *Almanac* provides competitive norms in actual dollar amounts for revenue and capital factors, as well as important average operating costs in percent of net sales. It also provides other critical financial factors in percentage, including debt ratio, return on assets, return on equity, profit margin, and more. Beyond its reliable insights into corporate behavior, the *Almanac* can be used by other countries looking to model their economies on American performance.

Also included with the text, in a special pocket provided in the inside cover of the book, is a CD-ROM that contains all the materials found in the book including the explanatory discussion, the data tables, and the supporting index. Also included on the CD, but not in the book itself, is a special template that allows the reader to add individual company data of interest to compare and contrast with data from the book.

2012 Edition Highlights

The 2012 Edition of the *Almanac of Business and Industrial Financial Ratios* has been updated to include the following:

- **Broad scope:** *2012 Almanac* features the North American Industry Classification System (NAICS), so you can benchmark or analyze results consistently with corporations in the United States, Canada, and Mexico.

- **Most industry types:** *2012 Almanac* highlights most industry types, including industries with advanced technologies and newly emerging industries such as paging and wireless communications.

- **A truer picture** of corporate financial performance, since the data isn't based on a mixed bag of averages that might include partnerships or sole proprietors. *2012 Almanac* features a homogeneous universe of American corporate financial performance.

- **Many classifications:** *2012 Almanac* analyzes 195 industries with 50 financial performance items.

- **Benchmarks:** *2012 Almanac* provides 13 benchmarks, including such critical measures as Receipts to Cash Flow, Debt to Total Assets, and Return on Equity both before and after taxes.

- **Analytical tables:** *Table I, Corporations with and without Net Income (All Corporations), and Table II, Corporations with Net Income.*

- **Easier apples-to-apples comparisons:** Each table is divided into 13 asset sizes.

- **More comprehensive:** Total receipts of all corporations covered by *2012 Almanac* is $28.6 trillion, making the *Almanac* the Anatomy of American Corporate Capitalism.

Leo Troy, Ph. D.

October 2011

About the Author

Dr. Leo Troy is Professor of Economics at Rutgers University. He has been a faculty member of Rutgers for 50 years. In addition to authoring the widely praised *Almanac*, he has written many other books and articles published in leading journals. Professor Troy has been the recipient of numerous awards including two from the National Science Foundation, and two Fulbright grants. In addition, he has received numerous awards from private foundations. Dr. Troy received his Ph.D. from Columbia University and is a member of Phi Beta Kappa. He is a veteran of World War II with three battle stars and the combat infantry badge. He is the father of two children and is also a grandfather of three girls, including twins.

Acknowledgments

I wish to acknowledge the contributions of five people in particular for the development of the 43rd Edition of the *Almanac:* Phil Wilson, Alan Kovar of Brighton Best, Lawrence R. Chodor, CPA, CVA, Wiss & Company, Marvin Sunshine, and Karen Kane.

Philip is responsible for the programming, which dealt with a very large amount of data, covering both the current and trend information. Alan, drawing upon his knowledge and experience as a CPA and Partner of Wiss and Company of Livingston, N.J., contributed significantly to the new content of the book. To Marvin Sunshine, Esq, my appreciation for actions and support that helped make the *Almanac* a continuing publication. Karen Kane is acknowledged for her contributions to the graphics of this issue.

Special acknowledgement is due my late friends and colleagues, Stan Katz, CPA, and Professor Emeritus of Accounting, Rutgers University, John Gilmour. I thank, too, Professor of Accounting, Rutgers University, David Zaumeyer, Ph.D., CPA, for recommending several ratios that continue to be included in the *Almanac*. I thank Mr. Ka-Neng Au, Business Librarian, Rutgers University, for significant contributions to the *Almanac*.

I wish to recognize, too, the cooperation of members of the Statistics of Income Division of the Internal Revenue Service—in particular, Ken Szeflinksi, Martha A. Harris, and Phyllis J. Whiles of the Corporation Returns Analysis Section. Without their data and its reliability, the Almanac would not be possible. Responsibility for the use of their facts and figures is, of course, solely my own. In this regard, I recall the valuable assistance I received from Barry Rosenstein, MBA, CPA, in checking procedures, in earlier editions, and which have continued into the current one. Finally, I wish to recognize the help of Suzannah B. Troy in bringing about the 43rd annual edition of the *Almanac*. I anticipate continuation of her valuable assistance in subsequent editions.

INTRODUCTION

Questions, Answers and Comments on the *Almanac*

Some users have requested further information on the use of the *Almanac's* ratios and statistics. This Q & A addition to the *Almanac* is in response to that demand.

1. What are the general purposes of the Almanac?

The goal of the *Almanac* is to provide users with a reliable and comprehensive source of standard financial ratios and financial statistics on all corporations, public and private, including those filing 1120S returns in the United States. Excluded are all individual proprietorships and partnerships. The *Almanac* makes available key business and financial statistics, which are consistent and neutral (unbiased by any commercial publisher or trade association).

2. What is the source and reliability of the Almanac's results?

The *Almanac's* results are computed from the Department of the Treasury, Internal Revenue Service's statistical sampling of the tax returns of all corporations. Dividends received from foreign corporations are included in total receipts of those corporations affected. The statistics apply to the company rather than the establishment.

3. Are international comparisons available?

Yes. Because of the adoption of a common system of industrial classification by the U.S., Canada and Mexico, known as the North American Industrial Classification System of industries (NAICS), under the North American Free Trade Agreement, users in Canada and Mexico can compare and contrast their results with those corporations in the United States.

4. What about comparisons within the U.S?

These are the most important applications of the *Almanac*. Results are available for each and every corporation within the U.S., whether public or private, and include small business corporations, those which file the 1120S tax return. Therefore, users can compare their corporate performance with that of their industry and asset size group of corporate enterprise in the United States.

5. How many corporations are covered in the Almanac?

The *Almanac's* results are derived from more than 5.8 million corporation tax returns. Furthermore, the user can easily determine the number of enterprises for the total of each industry and by each of the 12 asset size groups. This makes for a total of 13 asset size comparisons.

6. What about differences in the size of corporations?

In addition to the results for each industry, the *Almanac* displays 12 columns of performance by the size of assets. Again, this makes for a total of 13 asset size comparisons.

7. Does the Almanac distinguish between the profitability of corporations?

In a word, yes. Each industry is divided between two tables: Table I reports the results of all corporations in an industry, that is, those with and without net income. It is followed by a second table for the same industry, Table II, which reports only those corporations with net income.

8. How many items of information are there for each industry?

There are 50 indicators of corporate performance in each table and each industry and for all asset size groups, except where the IRS' data sample is too small, or it does not supply the necessary information.

9. Who are the users of the Almanac?

Accountants, corporate managers, business consultants, investors evaluating a corporate takeover, entrepreneurs considering new businesses, lawyers, and students of accounting, business, and management.

10. What accounting time period is covered?

The Internal Revenue Service provides the most recent statistics publicly available for the *Almanac*. For the 2012 *Almanac*, these statistics apply to the accounting period from July 2008 through June 2009.

What's New in This Edition

Beginning with the year 2002, the *Almanac of Business and Industrial Financial Ratios* began using the North American Industry Classification System (NAICS). NAICS replaces the Internal Revenue Service's own system, which it had used for many years, an adaptation of Standard Industrial Classification (SIC); all previous *Almanacs* had used that adaptation.

The new industrial classification system is the product of the North American Free Trade Agreement (NAFTA), and it replaces the existing classification systems not only of the United States but also of Canada and Mexico. Hence, the new system applies uniformly to the three countries, and users of the *Almanac 2012*, utilizing the new international industrial classification system, can now compare their results with corporations in all three nations.

In the United States, the new manual was created by the Office of Management and Budget (OMB). The NAICS system gives special attention to industries producing and furnishing advanced technologies, new and emerging industries, as well as service industries in general. NAICS divides the economy into 21 sectors, five in the predominantly goods-producing area, and 16 in the service producing area.

Industry Sectors

In 2007, NAICS was revised and reorganized; several of those changes apply to the *Almanac 2012*. The Real Estate Investment Trust category (525930) was deleted. In its place, Mortgage REIT's were reclassified to Other Financial Vehicles (525995) while Equity REIT's were reclassified either to Lessors of Buildings (531115) or Lessors of Miniwarehouses, Self-Storage Units and other Real Estate (531135), depending on the content of the REIT portfolio.

The other major changes were in the information sector. The Internet Publishing and Broadcasting category (516100) was deleted and reclassified with Other Information Services (519100). Internet Service Providers (518115) were reclassified to Telecommunications (517000). Web Search Portals (also part of 518115) were reclassified to the expanded category, Other Information Services (519100). The remainder of the 518115 category was reorganized as Data processing, Hosting and Related Services (518210).

The source of the IRS's data are the tax returns of all *active* public and private corporations. Because the *Almanac's* data are derived only from corporate tax returns, there is a mixture of corporate with the financial performance of partnerships and individual proprietorships; the *Almanac's* information constitutes a **homogeneous universe**. The tax returns are classified by the IRS on the basis of the business activity which accounts for a corporation's largest percentage of total receipts. Large corporations with dissimilar business activities are included in only one industry, despite operations that are unrelated to the industry in which they are grouped.

The data developed by the IRS are derived from a stratified probability sample of corporation income tax returns. Where the sample data from the sample are small and should those numbers be used in a denominator, the result is reported as a dot (·) in the *Almanac*. Returns of the largest corporations are generally in the sample from year to year, but comparability can be affected by consolidations and mergers, changes in the law and the tax forms, and changes in the industrial classification system used over the years.

Representative Industries

The *Almanac* reports on nearly 200 industries. Minor industries are denoted by a six-digit code; major industries are designated by a three-digit industry code; industrial sectors by a two-digit code; and industrial divisions by a two-digit code. When the data are the same for minor, major, sector, and industrial division, the IRS reports only the industrial division, and similarly for other identities applicable to the major and sectoral industries; the *Almanac* follows this procedure.

Almanac 2012 continues the previous coverage of reporting information: for all industries, **Table I, Corporations with and without Net Income** (that is, the entire universe of active reporting corporations), and **Table II, Corporations with Net Income**, a subset of the universe. In the *Almanac 2012*, Table I covers over 5.8 million enterprises (corporations), and Table II covers 3.2 million corporations with net income. This implies that 2.6 million corporations reported deficits. The IRS defines net income (or deficit) as the companies' net profit or loss from taxable sources of income reduced by allowable deductions. Total receipts of the 5.8 million corporations reported in *Almanac 2012* was $28.6 trillion, down by $0.2 trillion.

The *Almanac* continues to report performance results not only by the total for each industry, but by 12 other asset size groups (a total of 13 asset size groups), providing 50 items of data and/or ratios on corporate performance:

Total

Zero
$1 to $500,000
$500,001 to $1,000,000
$1,000,001 to $5,000,000
$5,000,001 to $10,000,000
$10,000,001 to $25,000,000
$25,000,001 to $50,000,000
$50,000,001 to $100,000,000
$100,000,001 to $250,000,000
$250,000,001 to $500,000,000
$500,000,001 to $2,500,000,000
$2,500,000,001 or more

All data in Tables I and II cover an accounting period identified on all tables and are the most recent information available from the IRS. For the *Almanac 2012*, the accounting period is July 2008 through June 2009. The dating of the data is counterbalanced by the most extensive industrial coverage available in any report on financial performance, the number of items of corporate performance, and their availability in thirteen asset size groups. Moreover, the timing of the data are also counterbalanced by the stability of the *Almanac's* values as past trends have indicated. Therefore, the *Almanac's* financial results are reliable in assessing current corporate performance.

Beyond its reliable insights into corporate behavior on a micro basis, its comprehensive and detailed coverage make the *Almanac* the **Anatomy of American Corporate Capitalism**. In this macro sense, it constitutes **the** example to those countries desirous of modeling their economies on the American performance.

How to Use the Almanac

On the micro level, the *Almanac* multiplies manyfold the power of financial analysis to evaluate an individual company's financial performance: In contrast to many standard reports, the *Almanac* gives management, and analysts independent of any company, more of the fundamental analytical tools needed to compare their company with companies in the same industry and of the same asset size. The *Almanac* can enhance the value of any company's annual report because it affords the analyst and the stockholder detailed background of financial information for comparison.

All items and ratios are listed in Both Table I and Table II. No figures are reported in the *Almanac* when the IRS has either suppressed the underlying data, or the sample size, or other reasons affecting a calculated result, and where the ratio/item was not applicable to an industry. The 50 tax-based items that provide that financial analysis are as follows:

1. Number of Enterprises

These are the count of corporate tax returns filed by active corporations on one of the Form 1120-series returns.

> **Special Note:** Net Sales is used to compute the percentage of items 3 to 7 to Net Sales for all industries, except Finance, Insurance, and Real Estate (FIRE). For the FIRE industries, Total Receipts are used to compute the percentage of items 3 to 7.

Revenues ($ in thousands), Items 2 to 9

2. Operating Income (Net Sales)

This is the IRS item Business Receipts, the gross operating receipts reduced by the cost of returned goods and allowances.

3. Interest

Taxable interest includes interest on U.S. Government obligations, loans, notes, mortgages, arbitrage bonds, nonexempt private activity bonds, corporate bonds, bank deposits, and tax refunds; interest received from tax-exempt state or local municipal bonds and ESOP loans are not included in this item.

4. Rents

These are the gross amounts received from the use or occupancy of property by corporations whose principal activities did not involve operating rental properties.

5. Royalties

These are gross payments received for the use of property rights before taking deductions.

6. Other Portfolio Income

These consist of cash, notes, and accounts receivable, less allowance for bad debts and inventories.

7. Other Receipts

These receipts include such items as income from minor operations, cash discounts, claims, license rights, judgments, and joint ventures.

8. Total Receipts

Total receipts are the sum of ten items: 1. Business receipts; 2. Interest; 3. Interest on government obligations: state and local; 4. Rents; 5. Royalties; 6. Net capital gains (excluding long-term gains from regulated investment companies); 7. Net gain, noncapital assets; 8. Dividends received from domestic corporations; 9. Dividends received from foreign corporations; 10. Other receipts.

9. Average Total Receipts

Total receipts divided by the number of enterprises.

Operating Costs/Operating Income, Items 10 to 22

10. Cost of Operations

This is the IRS's Costs of Goods Sold; it consists of the costs incurred in producing the goods or furnishing the services that generated the corporations' business receipts.

11. Salaries and Wages

These include the amount of salaries and wages paid as well as bonuses and director's fees, but no contributions to pension plans (see item 16) nor compensation of officers (see item 20).

12. Taxes Paid

Excludes Federal Income Taxes; they are the amounts paid for ordinary state and local taxes, social security, payroll taxes, unemployment insurance taxes, excise taxes, import and tariff duties, and business license and privilege taxes.

13. Interest Paid

These amounts consist of interest paid on all business indebtedness.

14. Depreciation

The charges allowed are governed principally by the IRS rules in effect in 1997, basically enacted in 1986, but also include other modifications. Hence, depreciation could represent amounts computed by different sets of rules.

15. Amortization and Depletion

Most amortization is calculated on a straight-line basis. Depletion is allowed for the exhaustion of natural deposits and timber.

16. Pensions, Profit-Sharing, Stock Bonus, and Annuity Plans

These are amounts deducted during the current year for qualified pension, profit-sharing, or other funded deferred compensation plans.

17. Employee Benefits

These are employer contributions to death benefit, insurance, health, accident, and sickness, and other welfare plans.

18. Advertising

Amounts include promotion and publicity expenses.

19. Other Expenses

These include expenses for repairs, bad debts, rent paid on business property, domestic production activities, contributions and gifts, and expenses not allocable to specific deductible items.

20. Officers' Compensation

Salaries, wages, stock bonuses, bonds, and other forms of compensation are included in this item.

21. Operating Margin

This is the net income after all operating costs have been deducted.

22. Operating Margin Before Officers' Compensation

This measure takes into account the effect of Officers' Compensation on the operating margin.

Selected Average Balance Sheet Items ($ in thousands) Items 23 to 29

23. *Average Net Receivables*

The total of Notes and Accounts Receivable, less Allowance for Bad Debts, divided by the number of enterprises. Notes and Accounts Receivable are the gross amounts arising from business sales or services to customers on credit in the course of ordinary trade or business. This includes commercial paper, charge accounts, current intercompany receivables, property investment loans, and trade acceptances.

24. *Average Inventories*

Total inventories are divided by the number of enterprises. Inventories include finished goods, partially finished goods, new materials and supplies acquired for sale, merchandise on hand or in transit, and growing crops reported as assets by agricultural enterprises.

25. *Average Net Property, Plant and Equipment*

This includes depreciable assets less accumulated depreciation, depletable assets less accumulated depletion, and land; the sum is divided by the number of enterprises. Depreciable assets consist of end-of-year balance sheet tangible property, such as buildings and equipment used in trade or business, or held for the production of income, and that has a useful life of one year or more. The amount of accumulated depreciation represents the portion written off in the current year, as well as in prior years. Depletable assets represent the end-of-year value of mineral property, oil and gas wells, and other natural resources; standing timber; intangible development and drilling costs capitalized; and leases and leaseholds, subject to depletion. Accumulated depletion represents the cumulative adjustment of these assets.

26. *Average Total Assets*

Total Assets (and Total Liabilities) are amounts reported in the end-of-year balance sheet. Total Assets are net amounts after reduction from accumulated depreciation, accumulated amortization, accumulated depletion, and the reserve for bad debts. Total Liabilities include the claims of creditors and stockholders' equity, and were net after reduction by the cost of treasury stock. The average of total assets was obtained by dividing it by the number of enterprises.

27. *Average of Notes and Loans Payable, and Mortgages*

These liabilities were separated on the balance sheet according to the time to maturity of the obligations. Time to maturity was based on the date of the balance sheet, rather than the date of issue of the obligations. The total was divided by the number of enterprises.

28. *Average of All Other Liabilities*

These included accounts payable, and other liabilities including other current liabilities. The total was divided by the number of enterprises.

29. *Average Net Worth*

Net Worth represents the stockholders' equity in the corporation (total assets minus the claims of creditors). It consists of Capital Stock, Paid-In Capital Surplus, Retained Earnings Appropriated, Retained Earnings Unappropriated, less cost of treasury stock.

Selected Financial Ratios, Number of Times to One, Ratios 30 to 44

30. Current Ratio

The items that used Current Assets for this ratio are Cash; Notes and Accounts Receivable, Less: Allowance for Bad Debts; Inventories; Government Obligations; Tax-Exempt Securities; and Other Current Assets. For Current Liabilities, the following items were included: Accounts Payable; Mortgages and Notes Maturing in Less than 1 Year; and Other Current Liabilities.

This ratio, rated highest by CPAs as a measure of liquidity, gauges the ability of a company to meet its short-term financial obligations should it be compelled to liquidate its assets. However, it is not an absolute measure of the company's ability to meet its obligations. It is obtained by dividing current assets by current liabilities. The standard guideline has been a ratio of 2 to 1; however, some companies have found that in their experience, a ratio less than 2 to 1 is adequate, while others consider a larger one to be necessary. The ratio is affected by the method of valuation of inventory (LIFO or FIFO) and by inflation. The *Almanac* provides measures that can be treated as standards by size of asset.

31. Quick Ratio

This ratio is also known as the "Acid Test Ratio" because it is often used to estimate a company's general liquidity. There is some disagreement about the inclusion of inventory in the numerator because it may be slow moving, obsolete, or pledged to specific creditors, and, therefore, not be readily convertible into cash. The *Almanac* adopts a conservative approach and does not include the item in calculating the ratio. Excluding inventories and other current assets, the numerator is the same as that used in determining current assets. The denominator, current liabilities, is unchanged. The ratio of 1 to 1 has been considered a reasonable standard, but it is jeopardized because accounts and notes receivable may not be convertible into cash at face value and at short notice. The *Almanac* provides measures that can be treated as standards by size of asset.

32. Net Sales to Working Capital

This is an efficiency, or turnover, ratio that measures the rate at which current assets less current liabilities (Working Capital) is used in making sales. (In industries in Finance, Insurance, and Real Estate, total receipts rather than net sales is used.) A low ratio indicates a less efficient (profitable) use of working capital in making sales. The *Almanac* provides measures that can be treated as standards by size of asset. Working Capital is the difference between current assets and current liabilities.

33. Coverage Ratio

This ratio measures the number of times all interest paid by the company is covered by earnings before interest charges and taxes (EBIT). For that reason, the ratio is also known as the "times interest earned ratio." The ratio indicates the company's ability to service its debt based on its income.

34. Total Asset Turnover

The ratio is an efficiency ratio because it indicates the effectiveness of the company's use of its total assets in generating sales. It is measured by dividing net sales by total assets.

35. Inventory Turnover

Inventory turnover measures the liquidity of the inventory. It is computed by dividing the cost of goods sold by the average inventory. The result shows the number of times that the average inventory can be converted into receivables or cash. The ratio reflects both on the quality of the inventory and the efficiency of management. Typically, the higher the turnover rate, the more likely profits will be higher.

Special Note: Inventory turnover is not computed for industries in Finance, Insurance, and Real Estate.

36. Receivables Turnover

This ratio measures the liquidity of accounts receivable. It indicates the average collection period throughout the year. It is obtained by dividing sales average by net receivables. It is not computed in the Finance, Insurance, and Real Estate industries (although it is calculated for all other industries even though conventional analysis typically omits it) for many of the industries in the *Almanac*.

37. Total Liabilities to Net Worth

This ratio indicates the extent to which the company's funds are supplied by short- and long-term creditors compared to its owners. It is an indicator of the company's long-term debt paying ability. The ratio is one of the most important bearing on the company's capital structure. Net worth is defined in ratio 29.

38. Current Assets to Working Capital

The dependence of Working Capital in part on current assets is important to understanding this part of the source of Working Capital. Current Assets are defined in ratio 30 and Working Capital is defined in ratio 32.

39. Current Liabilities to Working Capital

The dependence of Working Capital in part on current liabilities is important to understanding this part of the source of Working Capital. Current Liabilities are defined in ratio 30 and Working Capital is defined in ratio 32.

40. Working Capital to Net Sales or Total Receipts

The purpose of this ratio is to determine the working capital needed in relation to projected sales or receipts. Working Capital is defined in ratio 32.

41. Inventory to Working Capital

This ratio, by showing the proportion of Working Capital invested in Inventory, indicates the part of Current Assets that are least liquid. Inventories which exceed working capital indicate that current liabilities exceed liquid current assets. Working Capital is defined in ratio 32.

42. Total Receipts to Cash Flow

Cash Flow is the difference between cash receipts and cash disbursements. The ratio of total receipts to cash flow could suggest steps which management might take to improve the company's cash position.