How to Decrease DFN
or, “Ways to need less money”

- Slow sales growth
- Examine capacity constraints
- Lower dividend payout
- Increase Net Margin

THE DUPONT EQUATION & SGR

ROE is perfectly simple to figure out, so why does the DuPont have to make it more complex? Because it’s made up of ratios that tell us stuff:

**RETURN ON EQUITY**

$$\text{ROE} = \frac{\text{Net Income}}{\text{Equity}}$$

**DUPONT EQUATION**

$$\frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

- **NI / S**
  - **NET MARGIN**
  - **PROFITABILITY**
  - How efficiently are our operations running?
  - NI is what’s left after all those costs are deducted from Sales Revenues
  - (See Income Statement Sheet)

- **S / A**
  - **ASSET TURNOVER**
  - **EFFICIENCY**
  - How efficiently is the company using its assets?
  - This one compares sales numbers to how much it’s costing us
  - $S$: Income Stmt  $A$: Balance Sheet

- **A / E**
  - **LEVERAGE MULTIPLIER**
  - **LEVERAGE**
  - Is debt making the company more profitable?
  - The higher the number, the bigger the % of assets paid for with debt
  - Also called Equity Multiplier

- **NI / A**
  - **RETURN ON ASSETS**
  - What can we do with the assets we have?
  - Compares profit to resources, so the higher the number, the better the management is doing.

- **NI / E**
  - **RETURN ON EQUITY**
  - How effective are we at using our money to make more money?
  - The higher the ROE, the more efficient we are at making good use of our owners’ investment.

**SUSTAINABLE GROWTH RATE**

$$\text{SGR} = \text{ROE} \times (1 - b)$$

Sustainable Growth Rate is about finding the perfect balance of increasing sales and paying regular dividends, while not messing with the company’s perfect debt-to-equity ratio.

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