

Total assets = 1000  
 ROA = 10%  
 After-tax cost of debt = 7%

<i>Debt/Equity</i>	<i>100%</i>	<i>150%</i>	<i>300%</i>
<i>Profit before interest</i>	100	100	100
<i>Cost of debt</i>	35	42	52.5
<i>Net profit</i>	65	58	47.5
<i>ROE</i>	13%	14.5%	19%
<i>Financial leverage coefficient</i>	13%/10% = 1.30	1.45	1.90

**Table 17.1**

Financial leverage effect at different debt/equity ratios

## Segment data analysis

The analysis of the consolidated financial statements, using ratio analysis and related techniques, is important to evaluate company performance through time and relative to its peers. However, it does not shed light on the inner dynamics of the company's performance. In that sense, examining the performance of the company's operating segments through an analysis of the segment reporting data may deepen the understanding of the factors and operations that drive the group's consolidated performance.

Given the nature of the operating segment information provided, a number of segment ratios can be computed, such as:

$$\text{Segment profit margin} = \frac{\text{Segment result}}{\text{Segment revenue}}$$

$$\text{Segment operating cash flow (EBITDA) margin} = \frac{(\text{Segment operating result} + \text{Depreciation and amortization expense})}{\text{Segment revenue}}$$

$$\text{Segment asset turnover} = \frac{\text{Segment revenue}}{\text{Segment assets}}$$

$$\text{Segment ROA} = \frac{\text{Segment result}}{\text{Segment assets}}$$

$$\text{Segment gearing} = \frac{\text{Segment liabilities}}{\text{Segment assets}}$$

Comparing these ratios through time and across segments will increase the understanding of the factors driving overall company performance. They are useful in comparing risks and returns of different operations within a company and among investment alternatives.

The segment ROA can be further analyzed by performing a DuPont type of analysis in the following way:

$$\text{Segment ROA} = \text{Segment profit margin} \times \text{Segment asset turnover}$$