# Learning Module 16: Credit Analysis for Corporate Issuers

**Fixed Income**

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### EBIT Margin

$$\text{EBIT Margin} = \frac{\text{Operating Income}}{\text{Revenue}}$$

- Credit analysts focus on EBIT (earnings before interest and taxes) to determine a company's operating performance prior to capital costs and taxes, since interest expense is paid before income taxes are calculated. In some cases, EBITDA (or earnings before interest, taxes, depreciation, and amortization expense) is used as a broader measure, which adds back (non-cash) depreciation and amortization expense. Higher EBIT margins increase profits available to service debt.

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- This measures the degree to which operating profit covers periodic interest payments, with a higher coverage ratio representing less credit risk. In some cases, the numerator is changed to include depreciation and amortization (EBITDA) as well as rental expense (EBITDAR), while the denominator may be increased to include lease payments or reduced by interest earned on marketable securities and cash.

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Where:

- $RCF$: Retained Cash Flow
- Use of cash flow rather than earnings measures is also common in measuring leverage, while here the debt measure is reduced by available cash. A higher RCF to net debt measure implies lower leverage.

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