If a firm has a degree of financial leverage (DFL) that is greater than 1.0, then we know that a 1.0 percent change in ______ will cause a change in ______ that is ______ 1.0 percent.

a. EBIT; sales; greater
b. sales; net income; greater
c. sales; EBIT; less than
d. sales; EBIT; greater than
e. EBIT; net income; less

According to its definition, DFL represents the percentage change in EPS that results from a 1 percent change in EBIT (or NOI). Therefore, if DFL > 1.0, then a 1 percent change in EBIT will cause a change in EPS that is greater than 1 percent. As a result, even if the firm does not have operating leverage, in which case a 1 percent change in sales results in a 1 percent change in EBIT, when DFL > 1.0, a 1.0 percent change in EBIT results in a greater than 1 percent change in EPS, and thus a 1 percent change in sales results in a greater than 1 percent change in EPS.