

Flipside Finance

AN IN-DEPTH

LOOK INTO THE

LIQUIDITY

ASPECT



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CURRENT RATIO

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Formula

Evaluates the ability to cover short-term **obligations** with short-term **assets**.

Use Case

A ratio exceeding 1 is generally positive, but very high ratios may indicate **underutilized assets**.

Nuances

A retail company with \$2 million in Current Assets and \$1.5 million in Current Liabilities has a Current Ratio of 1.33, indicating adequate liquidity.

Example

Industry Benchmarks

Retail	1.5 - 2.0
Manufacturing	1.2 - 2.0
Technology	near 1.0
Utilities	≥ 2.0
Services	1.0 - 2.0
Healthcare	> 1.0



QUICK RATIO

Formula

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Use Case

Provides a stricter measure of liquidity by **excluding inventory**.

Nuances

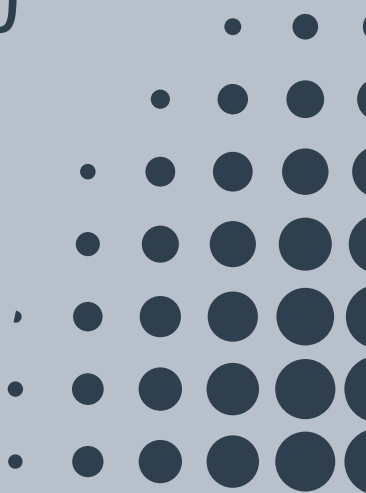
Quick ratio is **more conservative** by excluding inventory, which isn't as easily converted to cash.

Example

A manufacturing firm with \$1 million in current assets, excluding inventory, and \$800,000 in current liabilities has a Quick Ratio of 1.25.

Industry Benchmarks

Retail	0.8 - 1.2
Manufacturing	0.9 - 1.5
Technology	near 1.0
Utilities	> 1.0
Services	1.0 - 1.5
Healthcare	> 1.0



CASH RATIO



$$\frac{\text{Cash \& Cash Equivalents}}{\text{Current Liabilities}}$$

Formula

Measures the ability to cover short-term liabilities with **cash** or **near-cash assets** only.

Use Case

It is a very conservative liquidity ratio, suitable for industries with **stable cash flows**.

Nuances

A technology company with \$400,000 in cash and \$2,000,000 in current liabilities has a Cash Ratio of 0.2.

Example

Industry Benchmarks

Retail	0.05 - 0.10
Technology	0.10 - 0.20
Utilities	> 0.20
Services	0.10 - 0.20
Healthcare	0.10 - 0.20



OPERATING CASH FLOW COVERAGE

Formula

$$\frac{\text{Operating Cash Flow}}{\text{Current Liabilities}}$$

Use Case

Assesses the ability to cover current liabilities with **cash generated from operations**.

Nuances

Seasonal businesses may exhibit **variability** in this ratio.

Example

A seasonal business with \$300,000 in operating cash flow and \$200,000 in current liabilities has a ratio of 1.5 during peak season.

Industry Benchmarks

Retail	_____	1.0 - 1.5
Manufacturing	_____	1.0 - 1.5
Technology	_____	> 1.0
Utilities	_____	>= 2.0
Services	_____	> 1.0
Healthcare	_____	1.0 - 1.5



FREE CASH

Formula

$$\text{Op Income} + \text{Depreciation} - \text{Tax} - \text{Change in WC} - \text{Capital Exp}$$

Use Case

Gives you **cash generated** from Operating Income, adjusting for Taxes, Depreciation, Working Capital, and Capital Expenses.

Nuances

This approach explains in detail how operating income is converted into free cash flow, taking **core adjustments** into account.

Example

A company with Op Income of \$4 Mn, Dep of \$1 Mn, Taxes of \$1 Mn, no change in WC, and Capital Exp of \$1.5 Mn has an FCF of \$2.5 Mn.

Industry Benchmarks

Companies often aim for a positive FCF to fund M&A and increase shareholder returns (Dividends & Share buybacks).



FCF CONVERSION RATIO

Formula

$$\frac{\text{Free Cash Flow}}{\text{Operating Income}}$$

Use Case

Assesses **efficiency** of cash generation and the company's **ability to generate** surplus cash from its operations.

Nuances

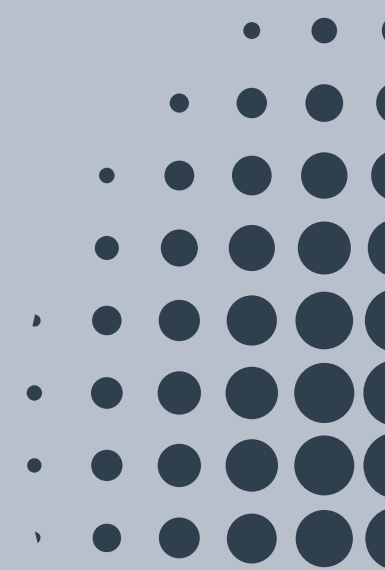
Although a **higher ratio** is typically **desirable**, it's crucial to consider the conversion's long-term **sustainability** and consistency.

Example

If a company's operating income is \$4 million and its free cash flow is \$3 million, it indicates that 75% of operating income converts into free cash.

Industry Benchmarks

Industries with lower Capital Expenditure requirements, typically have higher benchmarks, often above 0.6 or 60%.





NET LIQUID BALANCE

Formula

$(\text{Cash} + \text{Marketable Securities}) - \text{Current Liabilities}$

Use Case

Measures **immediate liquidity** position considering only cash and marketable securities.

Nuances

A **positive** NLB indicates strong liquidity, while a **negative** NLB suggests potential issues.

Example

A financial institution with \$700,000 in cash and securities and \$600,000 in liabilities has an NLB of \$100,000.

Industry Benchmarks

Financial institutions usually aim for a positive NLB.



CASH CONVERSION CYCLE

Formula

Days Sales Outstanding (DSO) +
Days Inventory Outstanding (DIO) -
Days Payable Outstanding (DPO)

Use Case

Measures the **time taken** to
convert resource inputs into cash
flows.

Nuances

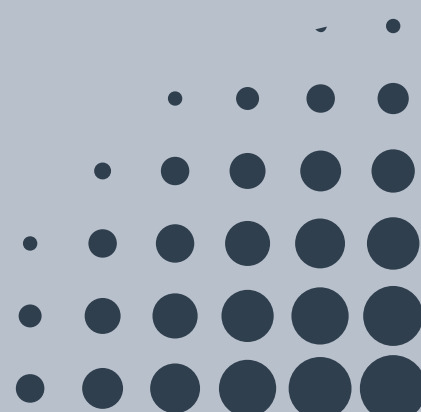
A shorter cycle is favorable, but
industry **norms vary** significantly.

Example

A manufacturing company with a
DSO of 40, DIO of 30, and DPO of 20
has a CCC of 50 days.

Industry Benchmarks

Retail	30 - 60 days
Manufacturing	60 - 90 days
Technology	30 - 60 days
Utilities	> 90 days
Services	30 - 60 days
Healthcare	60 - 90 days



DEFENSIVE INTERVAL RATIO

Formula

$$\frac{\text{Liquid Assets}}{\text{Daily Cash Operating Expenses}}$$

Use Case

Indicates the number of **days** a company can operate using its **liquid assets**.

Nuances

A higher DIR is favorable, but holding **excessive** liquid assets can be **inefficient**.

Example

A company with \$150,000 in liquid assets and daily expenses of \$5,000 has a DIR of 30 days.

Industry Benchmarks

Retail	60 - 90 days
Manufacturing	60 - 120 days
Technology	30 - 60 days
Utilities	120 - 180 days
Services	60 - 90 days
Healthcare	90 - 120 days



GROSS BURN RATE

Formula

$$\frac{\text{Total Operating Expenses}}{\text{Time Period}}$$

Use Case

Measures the total cash expenditure per month, indicating the **rate of cash consumption**.

Nuances

Monitoring changes in gross burn rate is essential for assessing **financial stability**.

Example

A startup with monthly operating expenses of \$80,000 has a Gross Burn Rate of \$80,000/month.

Industry Benchmarks
(Startups' Specific)

	monthly
Early-Stage	\$50K - \$100K
SaaS	\$50K - \$150K
E-Commerce	\$100K - \$250K
Biotech	\$150K - \$300K
Hardware	\$200K - \$400K
Fintech	\$100K - \$200K



NET BURN RATE

Formula

$$\frac{\text{Total Op Expenses} - \text{Total Revenue}}{\text{Time period}}$$

Use Case

Calculates the net cash expenditure per month, providing **insight** into the company's **runway**.

Nuances

A lower net burn rate extends the runway, allowing **more time** to achieve **profitability** or secure **funding**.

Example

A startup with monthly expenses of \$80,000 and revenue of \$30,000 has a Net Burn Rate of \$50,000/month.

Industry Benchmarks
(Startups' Specific)

	monthly
Early-Stage	\$10K - \$50K
SaaS	\$20K - \$100K
E-Commerce	\$50 - \$200K
Biotech	\$50K - \$300K
Hardware	\$50K - \$200K
Fintech	\$20K - \$100K



RUNWAY

$$\frac{\text{Cash Balance}}{\text{Net Burn Rate}}$$

Formula

Indicates how many months a startup can continue operating before **running out of cash**.

Use Case

Regularly reassessing the runway is vital for **financial planning** and securing timely **funding**.

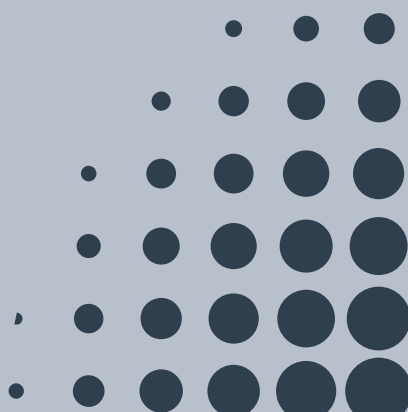
Nuances

A startup with a cash balance of \$500,000 and a Net Burn Rate of \$50,000/month has a Runway of 10 months.

Example

Industry Benchmarks
(Startups' Specific)

Early-Stage	12 - 18 months
SaaS	18 - 24 months
E-Commerce	12 - 18 months
Biotech	24 - 36 months
Hardware	18 - 24 months
Fintech	18 - 24 months



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