Flipside Finance

AN IN-DEPTH LOOK INTO THE LIQUIDITY ASPECT

Swipe >>>

Frontier Quotient

CURRENT RATIO

Formula

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

Use Case

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

Nuances

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

Example

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.

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

Frontier Quotient

QUICK RATIO

Formula

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

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

Frontier Quotient

CASH RATIO

Formula

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

Use Case

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

Nuances

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

Example

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

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

Frontier Quotient

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

Frontier Quotient

FREE CASH

Formula

Op Income + Depreciation – Tax – Change in WC – 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).

Frontier Quotient

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%.

Frontier Quotient

NET LIQUID BALANCE

Formula

(Cash + Marketable Securities)- 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.

Frontier Quotient

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

Frontier Quotient

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

Frontier Quotient

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

Frontier Quotient

NET BURN RATE

Formula

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

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

Frontier Quotient

RUNWAY

Formula

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

Use Case

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

Nuances

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

Example

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

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

Frontier Quotient

Keep the wisdom flowing

FOLLOW US!!

Don't keep this all to yourself

REPOST!!!

Frontier Quotient