Flipside Finance

AN IN-DEPTH LOOK INTO THE PROFITABILITY ASPECT

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Frontier Quotient

PROFITABILITY RATIOS

Margin Ratios

Gauge the company's ability to generate Profits from its Revenues.

Return Ratios

Gauge the company's ability to generate outputs (earnings) from inputs (investments/ assets).

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GROSS PROFIT MARGIN

Formula

$$\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

Use Case

Evaluates a company's ability to manage **production costs** and **pricing strategy**.

Nuances

Does not consider core indirect expenses like **Sales** & **Marketing.**

Example

A company has $500,000 in revenue and $300,000 in gross profit. The GP margin is (300,000 / 500,000) x 100 = 60%.

Industry Benchmarks

Retail	30% - 40%
Manufacturing	20% - 30%
F&B	50% - 60%
Consumer Goods	40% - 60%
Automotive	10% - 20%
Healthcare	50% - 70%

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OPERATING PROFIT (EBIT) MARGIN

Formula

$$\frac{\text{Operating Profit}}{\text{Revenue}} \times 100$$

Use Case

Assesses **operational efficiency** by accounting for all operating expenses.

Nuances

Excludes **interest** and **tax** expenses.

Example

A company with $600,000 in revenue and $100,000 in operating profit has an OP margin of (100,000 / 600,000) x 100 =16.67%.

Industry Benchmarks

Retail	5% - 10%
Manufacturing	8% - 15%
F&B	8% - 12%
Consumer Goods	10% - 15%
Automotive	5% - 10%
Healthcare	15% - 25%

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NET PROFIT MARGIN

Formula

$$\frac{\text{Net Profit}}{\text{Revenue}} \times 100$$

Use Case

Measures **overall profitability** by accounting for all expenses, including taxes and interest.

Nuances

One-time items, such as the sale of assets or legal settlements, can **distort** the Net Profit Margin.

Example

A company with $1,000,000 in revenue and $200,000 in net profit, has the NP margin of (200,000 / 1,000,000) x 100 = 20%.

Industry Benchmarks

Retail	2% - 5%
Manufacturing	4% - 8%
F&B	5% - 10%
Consumer Goods	5% - 10%
Automotive	3% - 6%
Healthcare	10% - 18%

OPERATING CASH FLOW MARGIN

Formula

$$\frac{\text{Operating Cash Flow}}{\text{Revenue}} \times 100$$

Use Case

Measures a company's ability to generate **cash** from **core operations**.

Nuances

Companies **reinvesting** in acquisitions or growth may **intentionally** have lower OCF Margins.

Example

A company with $80,000 in operating cash flow and $400,000 in revenue has an OCF margin of (80,000 / 400,000) x 100 = 20%.

Industry Benchmarks

Retail	5% - 15%
Manufacturing	5% - 20%
F&B	5% - 15%
Consumer Goods	10% - 15%
Automotive	5% - 15%
Healthcare	15% - 25%

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FREE CASH FLOW MARGIN

Formula

$$\frac{\text{Free Cash Flow}}{\text{Revenue}} \times 100$$

Use Case

Evaluates the **efficiency** of generating free cash flow after all **expenses** and capital **investments**.

Nuances

Industries with high capital requirements often have lower FCF Margins due to significant **capital expenditures**.

Example

If a company has $70,000 in free cash flow and $350,000 in revenue, the FCF margin is (70,000 / 350,000) x 100 = 20%.

Industry Benchmarks

Retail	2% - 8%
Industry	5% - 15%
Energy	5% - 15%
Consumer Goods	5% - 10%
Technology	10% - 20%
Healthcare	10% - 20%

EARNINGS BEFORE INTEREST, TAX, DEP & AMO (EBITDA) MARGIN

Formula

$$\frac{\text{EBITDA}}{\text{Revenue}} \times 100$$

Use Case

Focuses on operating profitability while **excluding** depreciation and amortization.

Nuances

Not being standardized in **IFRS/ GAAP**, it can be **manipulated** by the management.

Example

If a company has $120,000 in EBITDA and $600,000 in revenue, the EBITDA margin is (120,000 / 600,000) x 100 = 20%.

Industry Benchmarks

Retail	5% - 15%
Industry	10% - 20%
Energy	15% - 30%
Consumer Goods	15% - 20%
Technology	20% - 40%
Healthcare	20% - 30%

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RETURN ON EQUITY

Formula

$$\frac{\text{Net Profit}}{\text{Shareholder's Equity}} \times 100$$

Use Case

Measures the **return** on investment for **shareholders**.

Nuances

Companies **reinvesting** earnings into business instead of paying dividends may have **lower** current ROE.

Example

If a company has $30,000 in net profit and $150,000 in shareholders' equity, the ROE is (30,000 / 150,000) x 100 = 20%.

Industry Benchmarks

Retail	10% - 20%
Industry	10% - 20%
Energy	5% - 15%
Consumer Goods	10% - 20%
Technology	10% - 25%
Healthcare	10% - 20%

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RETURN ON ASSETS

(RETURN ON INVESTMENT)

Formula

$$\frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Use Case

Evaluates how efficiently a company uses its **assets** to generate **profits**.

Nuances

Organizations can **inflate** their ROA by going for **leasing** the asset instead of **owning** them.

Example

A company has $50,000 in net profit and $500,000 in total assets, resulting in an ROA of (50,000 / 500,000) x 100 = 10%.

Industry Benchmarks

Retail	5% - 15%
Industrial	5% - 15%
Energy	2% - 10%
Consumer Goods	5% - 15%
Telecom	2% - 10%
Technology	5% - 20%

RETURN ON DEBT

Formula

$$\frac{\text{Net Profit}}{\text{Total Debt}} \times 100$$

Use Case

Measures the **profitability** generated from the **total debt** the company holds.

Nuances

Upcoming **debt maturities** impact ROD assessments due to **refinancing risks.**

Example

If a company has $100,000 in net profit and $1,000,000 in total debt, the ROD is (100,000 / 1,000,000) x 100 = 10%.

Industry Benchmarks

Retail	5% - 15%
Manufacturing	5% - 15%
Energy	3% - 10%
Real-Estate	3% - 6%
Technology	5% - 10%
Financial Services	1% - 5%

RETURN ON CAPITAL EMPLOYED

Formula

$$\frac{\text{Net Profit}}{\text{Non-Current Liabilities + Equity}} \times 100$$

Use Case

Assesses how efficiently a company utilizes its **capital** to generate **operating profits**.

Nuances

High ROCE shows capital efficiency but it may not reflect **long-term growth** or **sustainability**.

Example

If a company has $50,000 in operating profit and $500,000 in capital employed, the ROCE is (50,000 / 500,000) x 100 = 10%.

Industry Benchmarks

Retail	10% - 20%
Manufacturing	5% - 15%
Telecom	10% - 15%
Consumer Goods	10% - 20%
Healthcare	12% - 18%
Technology	15% - 25%

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