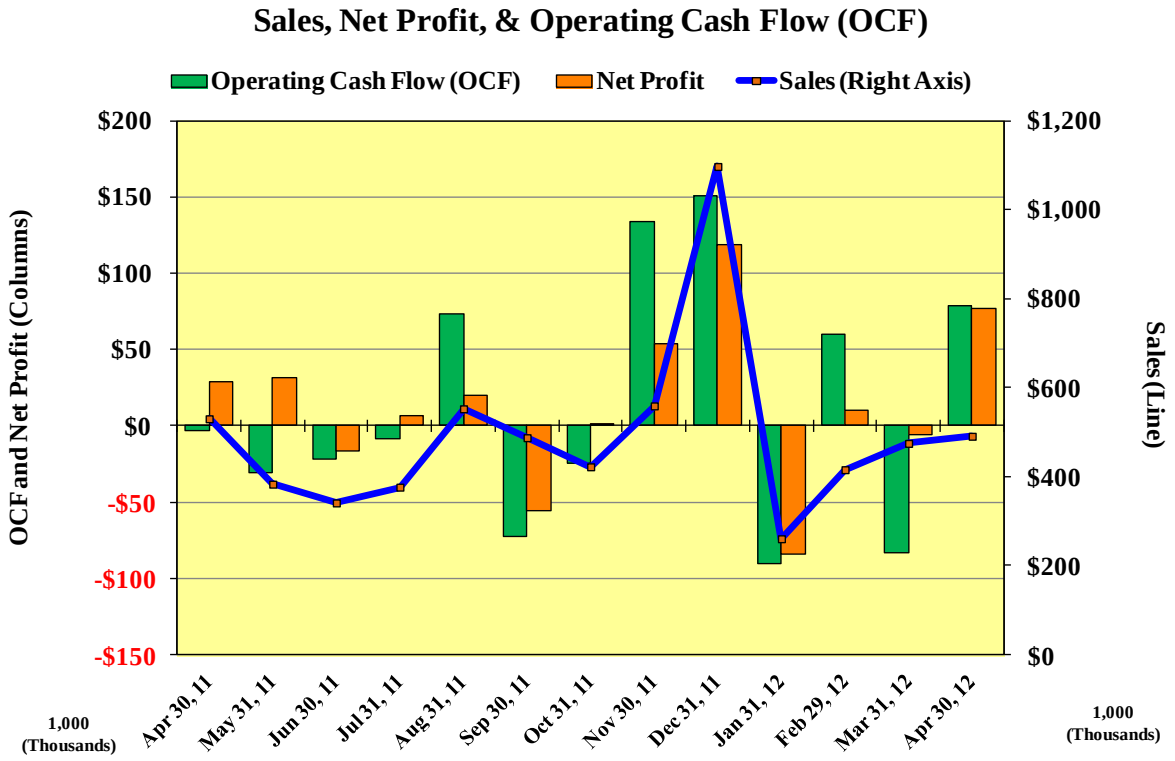
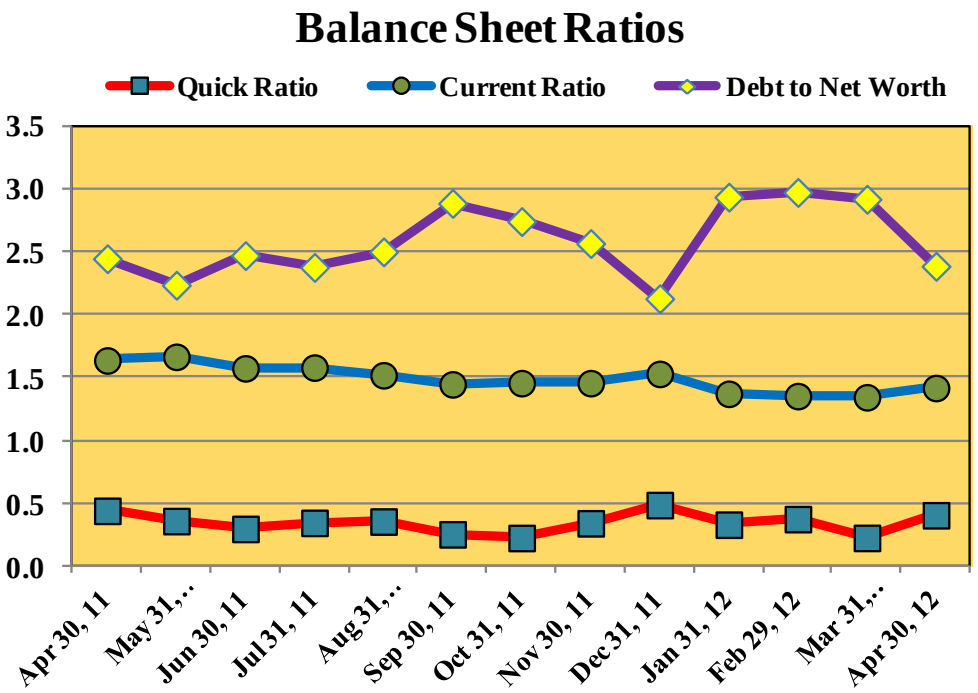


This chart shows the trend of 3 important metrics. The total Revenue or Sales is keyed to the right-hand side axis and is represented as a line at approximately a 10 to 1 scale over Operating Cash Flow and Net Profit, which are represented with columns within the chart. The Operating Cash Flow and Net Profit are keyed to the left-hand side axis

Net Profit
is the amount of value added or lost in a business during a specific operating period of time. The accounting numbers used to generate this chart include non-cash values…this information must be considered along with cash when measuring the performance of a business.

Operating Cash Flow (OCF)
Cash flow from operating activities. Reflects inflows and outflows of cash related to operating the enterprise. A measurement of the internal generation of cash. If consistently larger than profit, consistently builds cash reserves or internal investment capacity. Since it adjusts for liabilities, receivables, and depreciation, operating cash flow is a more accurate measure of how much cash a company has generated (or used) than traditional measures of profitability such as net income or EBIT or EBITA. For example, a company with high cost fixed assets on its books (factories, test equipment, or machinery, etc.) would likely have decreased net income due to depreciation. Since depreciation is a non-cash expense Operating Cash Flow would provide a more accurate picture of the company's current cash holdings than the artificially low net profit. Operating Cash Flow is represented by columns in the chart.

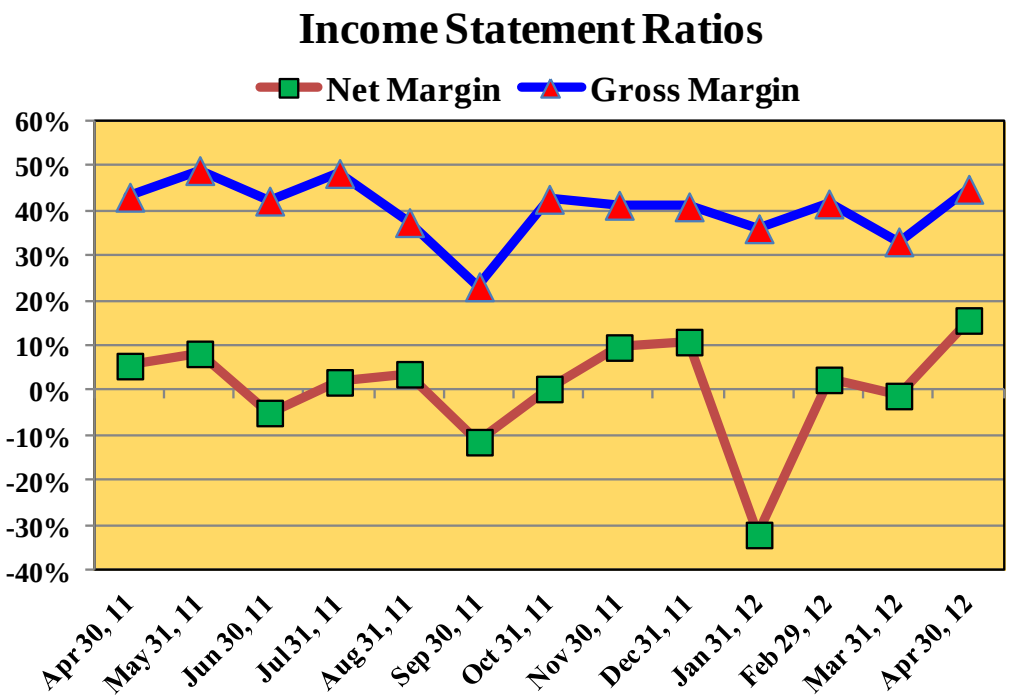
Revenue or Sales
is the measurement of all billings for the value of products or services provided to customers for a reported time period. Sales can be expected to result in collections of cash as defined in related agreements.



Quick Ratio
This ratio, also called "acid test" or "liquid" ratio, measures only cash, marketable securities (cash equivalents) and accounts receivable because they are considered to be the most liquid forms of current assets. It is an expression of the value of a company if it were immediately converted to cash. A Quick Ratio less than 1.0 implies dependency on inventory and other current assets to liquidate short-term debt.

Current Ratio
This ratio is a comparison of current assets to current liabilities, commonly used as a measure of short-run solvency, i.e., the immediate ability of a business to pay its current debts as they come due. Potential creditors use this ratio to measure a company's liquidity or ability to repay short-term debts.

Debt to Worth Ratio
Represented by the purple line on the chart, this ratio indicates the amount due creditors within a year as a percentage of the owners or stockholders investment. The smaller the net worth and the larger the liabilities, the less security for creditors. Normally a business may expect trouble when this relationship exceeds 80%.



Gross Margin
This chart reveals how much a company earns in relation to the costs that it incurs for producing its products and/or services. In other words, this chart is a visual translation of the accounting formula (gross profit divided by gross sales) for comparing gross margin. This is often expressed as a percentage as shown on the left scale of this chart.

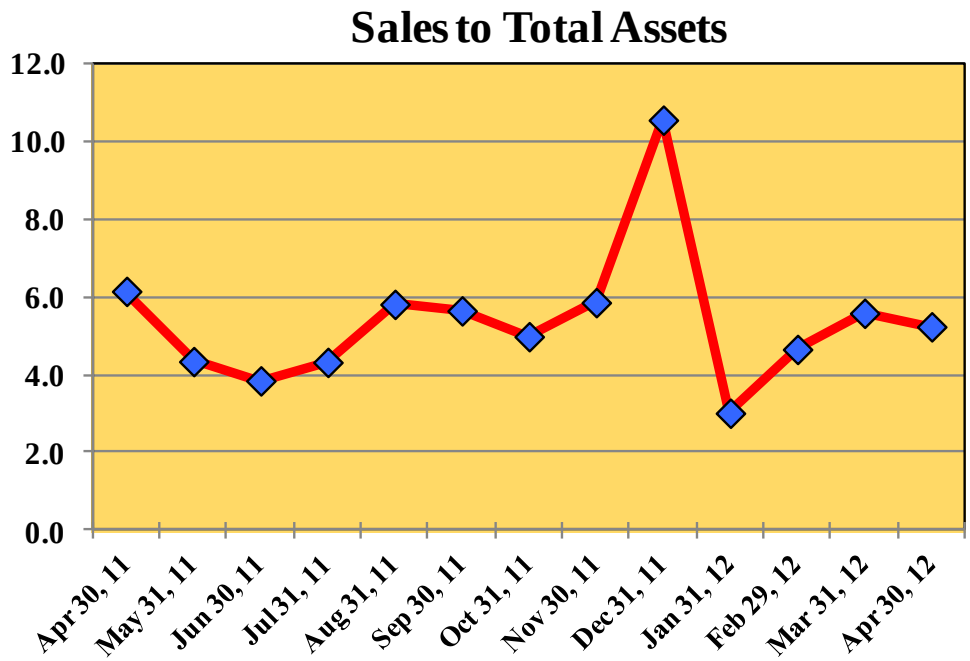
Gross margin is a good indication of how profitable a company is at the most fundamental level.

Gross margin is often confused with markup which is gross profit divided by cost of goods sold (COGS).

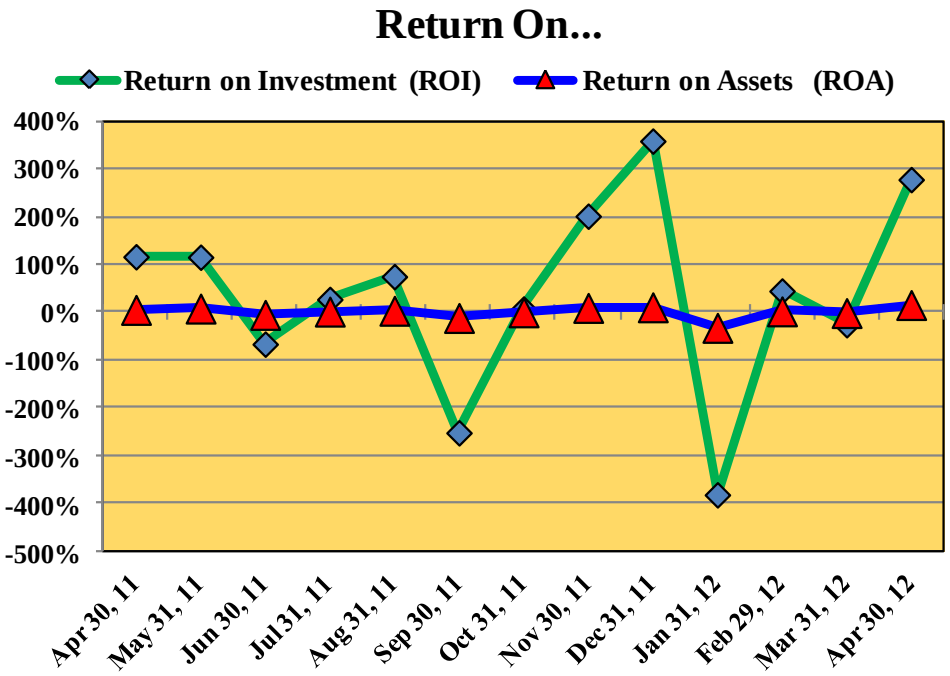
Net Margin
The ratio of net profits to revenues for a company or business segment - typically expressed as a percentage – that shows how much of each dollar earned by the company is translated into profits. Net margins can generally be calculated as:

$$Net\ Margin = \frac{Net\ Profit}{Sales}$$

Where Net Profit = Sales – COGS – Operating Expenses – Interest and Taxes



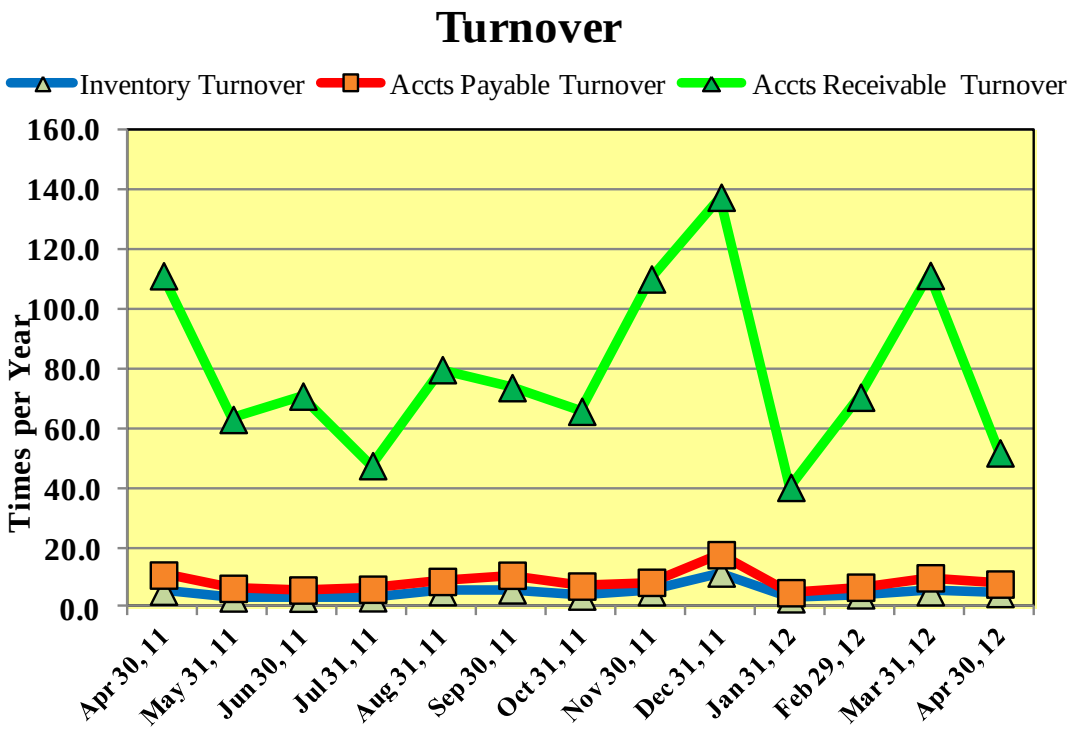
Sales to Total Assets
A ratio that measures a company's earnings before interest and taxes (EBIT) against its total net assets. The ratio is considered an indicator of how effectively a company is using its assets to generate earnings before contractual obligations must be paid.



Return on Investment
A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

Return on Assets (ROA)
The return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue. The ROA is calculated by dividing a company's annual earnings by its total assets (net income/total assets). This number reveals what a company is doing with what it has – how many dollars the company derives from each dollar of assets controlled.

ROA is a useful number for comparing competing companies in the same industry. The number will vary widely across different industries. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on assets.



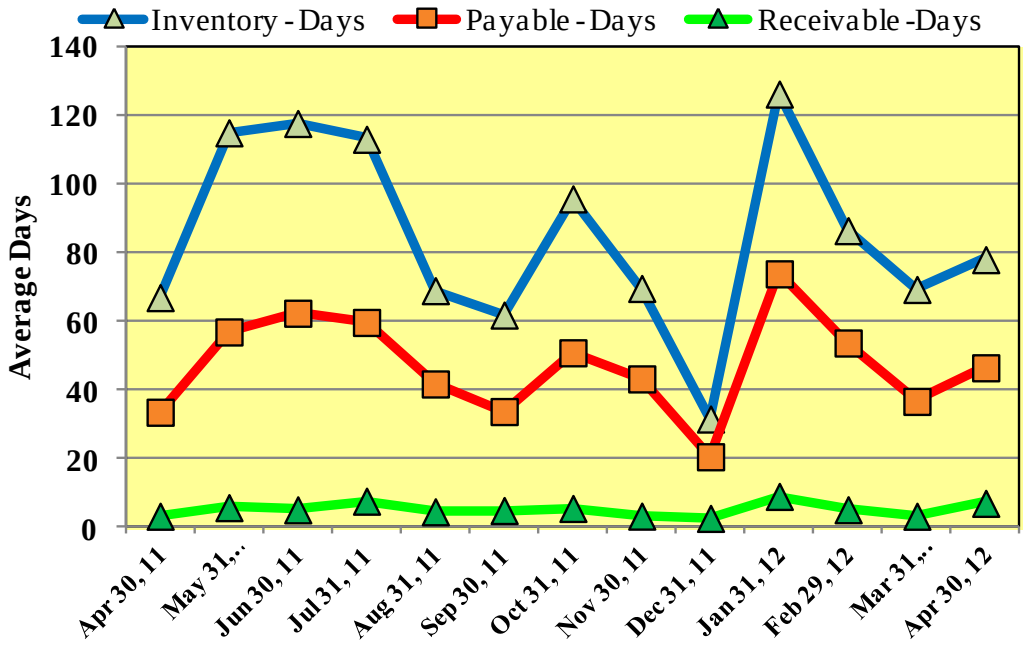
How many times a company turns over its receivables, inventory, and Payables typically has the most impact on a company's cash flow. A company can have very good net profits, but still run out of Cash if it does not manage these 3 metrics well.

Accounts Receivable Turnover
Blah, Blah, Blah…

Accounts Payable Turnover
Blah, Blah, Blah…

Inventory Turnover
Blah, Blah, Blah…

Average Days

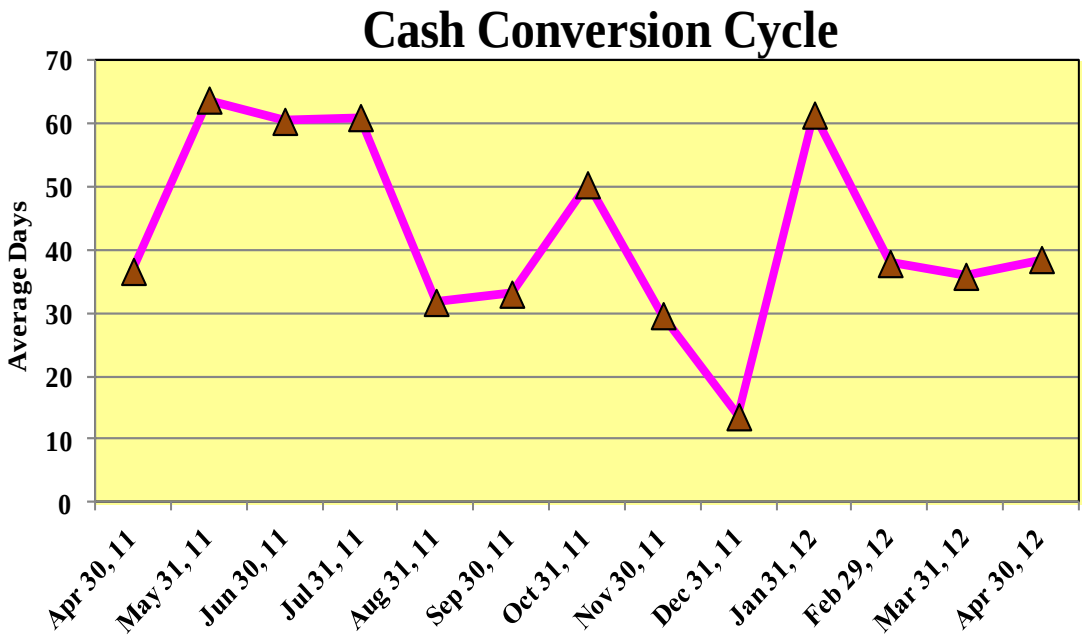


How fast a company collects its receivables, pays its bills or "turns over" its inventory typically has the most impact on a company's cash flow. A company can have very good net profits, but still run out of Cash if it does not manage these 3 metrics well.

Average Days to Collect Receivables
Shows the average number of days it takes for the company to collect what is owed to the company from customers (receivables). The fewer the days, the faster cash is collected.

Average Days of Payables
Reflects the number of days a company takes to pay its bills. Longer periods (over 30 days) are generally less desirable.

Average Days of Inventory
Shows the average number of days that material and work in progress (inventory help for production purposes) is held by the organization before sale. Shorter duration reflects higher conversion rate to cash.



Cash Conversion Cycle (CCC)
This is a measure of Receivables, Payables, and Inventory reflected within the same time period. The CCC Measures how long a firm will be deprived of cash if it increases its investment in resources in order to support customer sales. It is thus a measure of liquidity risk. However, shortening the CCC creates its own risks: while a firm could even achieve a negative CCC by collecting from customers before paying suppliers, a policy of strict collections and lax payments is not always sustainable.