

Cash Flow.

Marginal Cash Flow

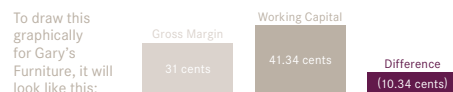
Marginal cash flow is the amount of cash a business needs to generate if it sells another \$1 of products or services. If this is inefficient, it will impact the operation of the business negatively.

| | |
|--------------------|------------------------------------|
| Key Formula | Gross Margin % – Working Capital % |
|--------------------|------------------------------------|

Case study example

| | | |
|---------------------|---------------|----------------------|
| Gross Margin | | 31.00 cents |
| Gross profit | \$13,020,000 | |
| <i>divided by</i> | | |
| Sales | \$42,000,000 | |
| <i>less</i> | | |
| Working Capital | | 41.34 cents |
| Accounts Receivable | 20.55 cents | |
| Inventory | 34.03 cents | |
| Accounts Payable | (13.23) cents | |
| <i>equals</i> | | |
| Cash outflow | | (10.34) cents |

In the case of Gary's Furniture, for every \$1 in additional sales of products or services, there is a deficit of 10.34 cents in cash flow. In this instance, the additional sales growth will hurt Gary's financials, not help it.



Net Cash Flow

Net cash flow is the movement in borrowings and cash at bank that a business has from one period to another.

| | |
|--------------------|---|
| Key Formula | Opening Borrowings – Closing Borrowings |
|--------------------|---|

Case study example

| | |
|----------------------|---------------------|
| Opening borrowings | \$14,019,740 |
| Short term debt | \$5,019,740 |
| Long term debt | \$9,000,000 |
| Cash at Bank | \$0 |
| <i>less</i> | |
| Closing borrowings | \$17,279,813 |
| Short term debt | \$7,279,813 |
| Long term debt | \$10,000,000 |
| Cash at Bank | \$0 |
| <i>equals</i> | |
| Net cash flow | -\$3,260,073 |

In the case of Gary's Furniture, net cash flow has decreased by \$3,260,073. Growth will hurt Gary's financials, not help it.

Scorecard.

| | | | | | | |
|-----------------------------------|---------|----------|---|-----------|----------|--------------------|
| Chapter 1: Profit | Current | 1 | Calculation | Per \$100 | 2 | Target |
| Sales | | | Sales/Sales x 100 | | | |
| COGS | - | | COGS/Sales x 100 | | | |
| Gross Profit | = | | Gross Profit/Sales x 100 | | | |
| Overheads | - | | Overheads/Sales x 100 | | | |
| EBIT | = | | EBIT/Sales x 100 | | | |
| Chapter 2: Working Capital | Current | 1 | | Days | 3 | Target Days |
| Debtors | + | | Debtors/Sales x Days | | | |
| Inventory or WIP | - | | Inventory/COGS x Days | | | |
| Creditors | = | | Creditors/COGS x Days | | | |
| Working Capital (WC) | | | Debtors + Inv or WIP - Creditors | | | |
| Working Capital % | | | WC/Sales x 100 | | | |
| Chapter 3: Fixed Assets | Current | 1 | | Times | 4 | Target |
| Fixed Asset Turnover | | | Sales/Fixed Assets | | | |
| Chapter 4: Cash Flow | Current | 1 | | Times | 5 | Target |
| Marginal Cash Flow | | | GM (%) – WC (%) | | | |
| Net Cash Flow (YTD) | | | Opening Borrowings – Closing Borrowings | | | |
| Operating Cash Flow (Monthly) | | | EBITDA - Change in Working Capital | | | |

Instructions for use

- 1 Fill in the Current Column
- 2 Calculate the Profitability items by dividing each element by sales
- 3 Calculate the Working Capital Days, Total Working Capital and Working Capital %
- 4 Calculate the Fixed Asset Turnover
- 5 Calculate Marginal Cash Flow and Net Cash Flow

Definitions

| | |
|------------------------|--|
| Gross Profit | Sales - COGS |
| Gross Margin (%) | Gross Profit / Sales x 100 |
| Overheads (%) | Overheads / Sales x 100 |
| EBIT | Gross Profit – Overheads |
| Debtor Days | Debtors / Sales x days in period |
| Inventory or WIP | Inventory / COGS x days in period |
| Creditor Days | Creditors / COGS x days in period |
| Working Capital | Debtors + Inventory or WIP – Creditors |
| Working Capital Days | Debtor Days + Inventory or WIP Days – Creditors Days |
| Working Capital (%) | (Debtors + Inventory or WIP – Creditors) / Sales x 100 |
| Fixed Asset Turnover | Sales / Fixed Assets |
| Marginal Cash Flow (%) | Gross Margin (%) – Working Capital (%) |
| Net Cash Flow | Opening Borrowings – Closing Borrowings |