



# **LIQUIDITY ANALYSIS**

**Company:** Manufacturing Company Example  
**Statement:** Manufacturing Company Statement  
**Reference Industry:** 3086 - Plastics Foam Products (40 companies)

**Net Balance Position Indicators**

Your cash Net Balance Position is composed as follows:

**Working Capital Available** **\$5,879,935**

Less:

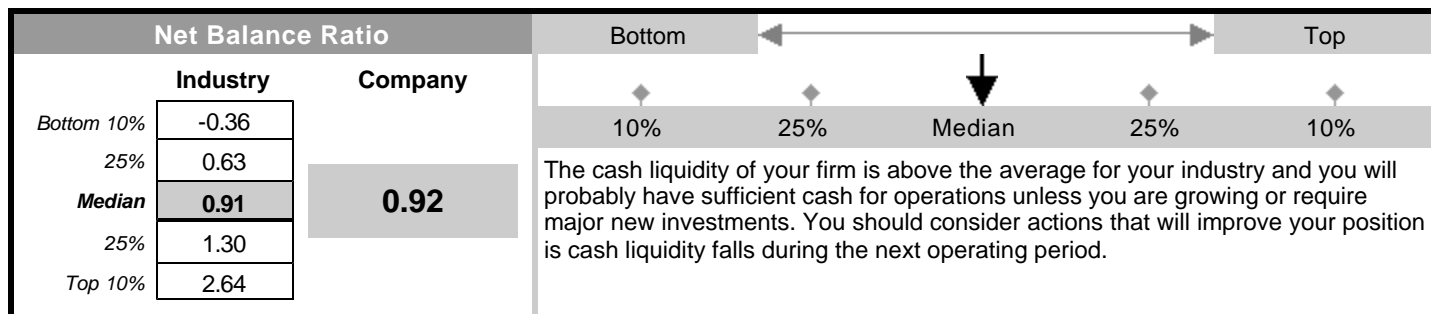
**Working Capital Required** **\$6,421,922**

Equals:

**Net Balance Position** **(\$541,987)**

Your cash liquidity position is negative for the next operating period. Corrective actions may be necessary or you risk being unable to meet short-term obligations. You should review the recommendations on the next two pages to help you develop a strategy to improve your cash liquidity position.

Taking the ratio of Working Capital Available to Working Capital Required, your Net Balance Position compares to that of your peers in the industry as follows:



Note that the Net Balance Position of 0 which translates into the Net Balance Ratio of 1 is ideal if your company is not growing, while a positive value or ratio higher than 1 may be needed if your company is in a growth phase.

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**NBP Correction Worksheet I**

Method 1 **Age of Inventory Reduction**

*Assumed* 13.2 days results in Age of Inventory of 118.8 days and NBP of (\$88,746)

Age of Inventory	Bottom	TARGET			Top
<b>Company current:</b>	<b>132.0</b>	NOW			
<b>Target (for NBP = 0):</b>	<b>116.2</b>	10%	25%	Median	25%
<b>Industry Indicator:</b>	63.0	44.4	32.8	22.0	9.9
<b>Reduction needed:</b>	69.0	87.6	99.2	110.0	122.2
<b>Resulting NBP:</b>	\$1,827,457	\$2,466,716	\$2,865,104	\$3,236,561	\$3,652,436

Your inventory level is higher than the levels shown by the least inventory efficient companies in your industry and it may be consuming excess cash. Refer to the display above to help you estimate the cash liquidity position improvement that could be attained were you to reduce your Age of Inventory to that of more inventory efficient companies in your industry.

Method 2 **Collection Period Reduction**

*Assumed* 5.1 days results in Collection Period of 46.1 days and NBP of (\$366,872)

Collection Period	Bottom	TARGET			Top
<b>Company current:</b>	<b>51.2</b>	NOW	NEW		
<b>Target (for NBP = 0):</b>	<b>42.3</b>	10%	25%	Median	25%
<b>Industry Indicator:</b>	71.8	51.2	43.2	35.5	5.2
<b>Reduction needed:</b>		0.0	8.0	15.6	45.9
<b>Resulting NBP:</b>		(\$541,736)	(\$52,595)	\$416,160	\$2,274,192

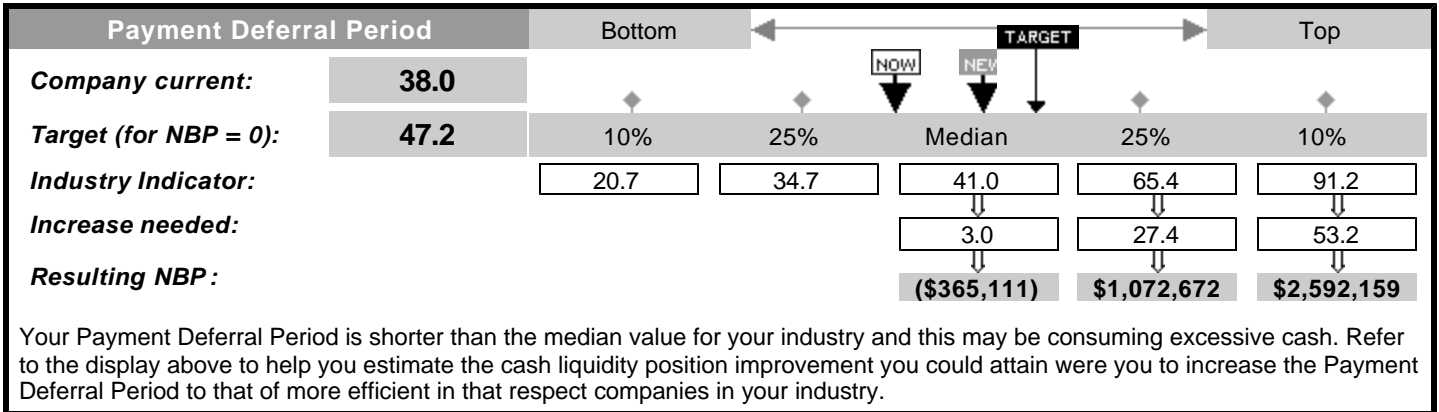
Your Accounts Receivable Collection Period is longer than the levels shown by some of the least collection efficient companies in your industry and it may be consuming excess cash. Refer to the display above to help you estimate the cash liquidity position improvement that could be attained were you to reduce your Collection Period to that of more collection efficient companies in your industry.

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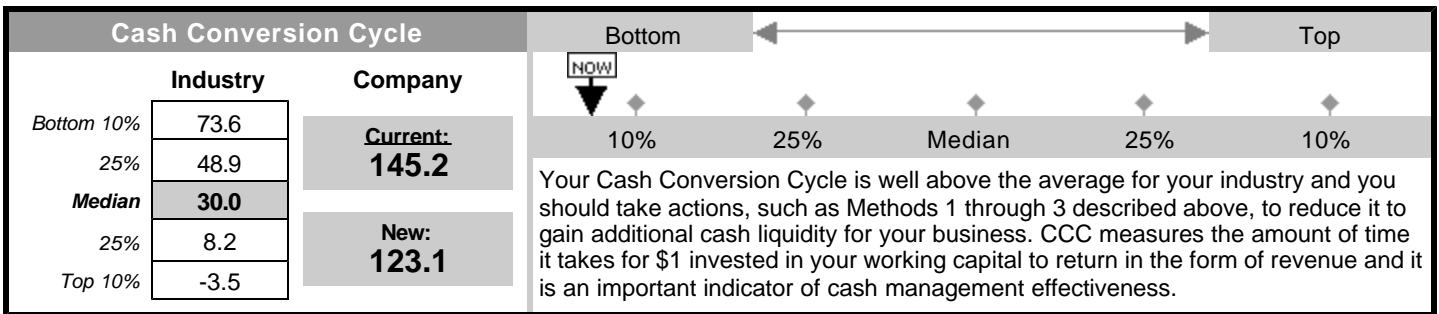
**NBP Correction Worksheet II**

Method 3 **Payment Deferral Period Reduction**

*Assumed* 3.8 days results in *Payment Deferral Period of* 41.8 days and *NBP of* (\$411,509)



The following display shows your company's current position in Cash Conversion Cycle (CCC) in relation to your reference industry resulting from your performance in the above indicators and the new position that your company could attain, provided all three of the above methods are implemented at the rates specified.



Overall Effect

The results of the methods of NBP correction shown above are based on the assumption that each of them is applied separately, whereas a combination of them could be both more realistic and effective. If you find it possible to implement all of the above methods at the rates specified, the overall effect of that will be as follows:

**Resulting NBP** \$447,675