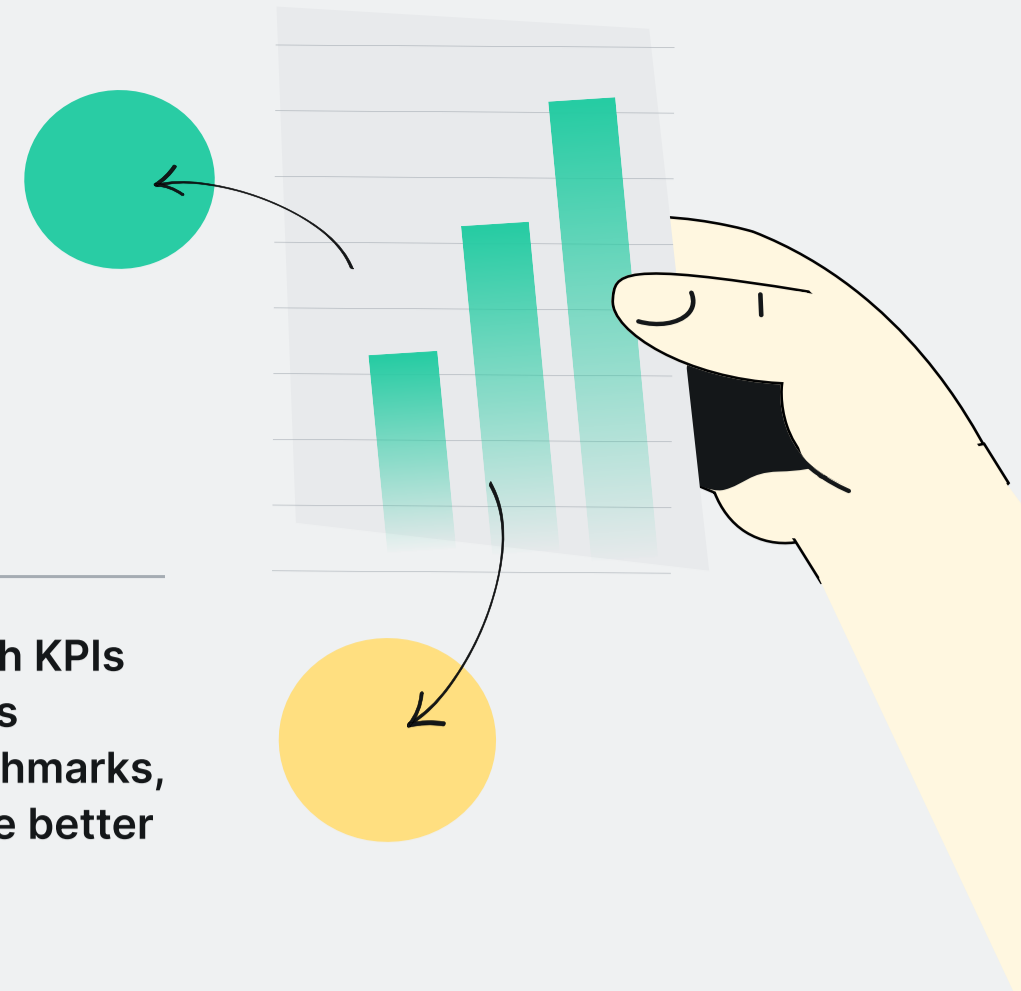


KPI Cheat Sheet: Mastering the Metrics



Part of crafting the perfect business strategy for your company is knowing which KPIs to track. A KPI, or **key performance indicator**, is a quantifiable measure that helps companies assess how well they are achieving their goals. By setting clear benchmarks, evaluating performance, and identifying organizational strengths, companies are better able to support its organizational growth as a whole.

Below we break down the top KPIs finance teams should be tracking by category

Profitability

Operating Expense

Also known as OPEX, it measures how much it costs a business to cover its day-to-day operations.

Gross Profit Margin

The gross profit margin calculates how much money is left over from revenue after subtracting the cost of goods sold.

Payback Period (break even point)

This key important metric is used to determine the length of time an investment takes to be able to pay for itself.

$$\text{Gross Profit Margin} = (\text{Net Sales} - \text{Cost of Goods Sold}) / \text{Net Sales}$$

$$\text{Payback Period} = \text{Initial Capital Cost for Project} / \text{Annual Savings or Earnings from Project}$$

Sales Growth Rate

This KPI allows teams to see the organization's sales growth over time.

Net Profit Margin

The net profit margin, also referred to an organization's bottom line, is the specific KPI that measures a company's efficiency at generating profit rather than revenue.

Interest Coverage Ratio

The Interest Coverage Ratio is calculated to ensure a company is able to pay back the interest rate with its earnings before interest and taxes.

$$\text{Sales Growth Rate} = (\text{Current Net Sales} - \text{Previous Net Sales} / \text{Previous Net Sales}) \times 100$$

$$\text{Net margin} = \text{net profit} / \text{revenue}$$

$$\text{Interest Coverage} = \text{EBIT} / \text{Interest Expense}$$

Liquidity

Operating Cash Flow

This KPI metric measures the total income generated by regular business operations.

Current Ratio

The current ratio is a performance metric that demonstrates a company's ability to pay off all its financial obligations within a full year.

Cash Conversion Cycle

The CCC is a business metric that indicates how many days it would take for an organization to convert its goods to cash.

$$\text{Operating Cash Flow} = \text{EBIT} + \text{Depreciation} - \text{Taxes} - \text{Change in Working Capital}$$

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

$$\text{CCC} = \text{Days of Inventory Outstanding} + \text{Days Sales Outstanding} - \text{Days Payables Outstanding}$$

Operating Cash Flow Quick Ratio/Acid Test

The quick ratio shows whether a company has sufficient funds to cover short-term financial obligations immediately.

Working Capital

Working capital is a key performance indicator that is used to highlight a company's available assets to meet short-term financial obligations.

$$\text{Quick ratio} = (\text{Cash} + \text{Marketable Securities} + \text{Accounts Receivable}) / \text{Current Liabilities}$$

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Valuation

Burn Rate

This metric is the rate at which a company uses up its cash reserves in a loss-generating scenario.

Earnings Per Share

EPS is one of the leading KPIs for financial reporting. This key metric illustrates a company's profit per outstanding share of stock.

Internal Rate of Return

This financial KPI is used to estimate the profitability of potential investments.

$$\text{Burn Rate} = (\text{Starting Balance} - \text{Ending Balance}) / \# \text{ Months}$$

$$\text{EPS} = (\text{Net Income} - \text{Preferred Dividends}) / (\text{End-of-Period Common Shares Outstanding})$$

$$\text{Internal Rate of Return} = (\text{future value} / \text{present value})^{1 / \# \text{ of periods}} - 1$$

Return on Equity

ROE showcases how well the company is utilizing shareholder equity, allowing investors to gain greater insights into an organization's potential profitability.

Net Present Value

The NPV is used to determine whether or not a project will be profitable or not.

Return on Investment

Return on investment is a popular metric often used by CFOs and financial managers to evaluate the profitability of how well an investment performed.

$$\text{Return on Equity} = \text{Net Income} / \text{Average Shareholders' Equity}$$

$$\text{Net Present Value} = \text{Today's Value of Expected Cash Flows} - \text{Today's Value of Invested Cash}$$

$$\text{Return on Investment} = (\text{Current Value of Investment} - \text{Cost of Investment}) / \text{Cost of Investment}$$

Compound Average Growth Rate

The CAGR is a performance metric that calculates the rate of return that would be necessary for an investment to grow from its initial balance to its ending one.

Future Value

The future value helps evaluate whether or not a project or investment will be profitable. This calculation uses an assumed rate of return to estimate the future value.

$$\text{CAGR} = (\text{final value} / \text{beginning value})^{1/t} - 1$$

$$\text{Future Value} = \text{Present Value} * (1 + \text{Interest Rate})^{\text{Time}}$$

Leverage

Total Debt-to-Equity Ratio

The total debt-to-equity ratio is an important metric used to calculate how much debt a company uses to finance its assets against its shareholder's equity.

Total Debt-to-Asset Ratio

The debt-to-asset ratio is a financial KPI used to evaluate the total amount of debt a company has compared to its assets.

$$\text{Total-Debt-to-Equity} = (\text{Short-Term Debt} + \text{Long-Term Debt}) / \text{Shareholder's Equity}$$

$$\text{Total-Debt-to-Asset} = (\text{Short-Term Debt} + \text{Long-Term Debt}) / \text{Total Assets}$$

Efficiency

Accounts Payable Turnover

This specific metric measures how quickly a company is able to make payments to its suppliers.

$$\text{Accounts Payable (AP) Turnover} = \text{Total Supply Purchases} / ((\text{Beginning AP} - \text{Ending AP}) / 2)$$

Is your organization looking to improve its KPI reporting?

Request a demo today to see how Abacum can help streamline your performance tracking.

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