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Free cash flow (FCF) is the amount of cash left over after deducting all operating expenses and capital expenditures. The total amount of free cash flow remaining each month can provide awareness into how the company is doing overall and continued positive changes offers insight into increased earnings.

FCF can measure how efficient a company is at generating cash. This is valuable as it can determine whether a company can pay investors through dividends or share buybacks. It can also be used as a determinant for future scalability and expansion opportunities such as additional locations or new product rollouts. It can also be used to reduce debt and other financial obligations. This offers the company additional opportunities for acquisitions, increases in staffing, buying power and attracts new investors.

The Cash Conversion Cycle (CCC) is the measurement of time it takes for a company to convert its investments into cash flow from sales. Ideally having a low CCC is an indicator of good financial health and CCC tends to be very important for companies that have significant inventory management (Macy's, Target, Walmart, etc.). Having a negative CCC can also be a positive indicator as it reflects a monthly or threshold payment cycle. The company can hold on to the cash for a longer period.

The CCC is comprised of the following: **CCC = DIO + DSO - DPO**

- Days of Inventory Outstanding (DIO) + Days of Sales Outstanding (DSO) – Days of Payables Outstanding (DPO)

To Stripe, this is the length of time from the time the business integrates its platform with Stripe to the time Stripe gets its commission of 2.9% plus $0.30 per successful card charge.

The diagram on the next page summarizes some of the key steps.


Business purchases goods
The business stores the goods
Purchased goods become products and are posted on platform that is intergrated with Stripe
The platform waits for buyer
Buyer makes an order and pays
Stripes takes it share and remits the rest to the business
order is packaged and sent to customer
E-Commerce cash cycle for a retail online business

Stripes Financial Risks

Exchange Rate Risk: This risk arises due to the chance that volatility in foreign exchange rates might impact the value of business transactions and assets. Stripe is exposed to exchange rate risks as it has integrated over 135 currencies from over 120 countries in its operations and systems as stated in its pricing page. This means that declines in the exchange rate in these countries or currencies negatively affect Stripe.

Interest Rate Risk: This is the risk that unfavorable changes in interest rates might adversely affect the business.

Counterparty Risk: This risk arises due to the possibility that business partners and other business parties might default or fail to fulfill their contractual obligations. Stripe has partners in the form of regulation bodies, corporate entities, individuals, investors, employees, etc. At any time, any of these partners can fail to do what is expected of them as per their relationship with Stripe which can in turn affect Stripe.

Additional Financial Risks: Stripe is exposed to operational risks, identity theft risks, fraud risks, credit risks, money laundering risks. This can arise as a result of any of the millions of users can use false identities for wrongful or criminal financial gains, transfer illegal funds, and the company can also make losses from disruptions, failed procedures, policies or system as stated in Stripe (2019) radar page and radar features.

Monthly Management Risk Committee Meeting - Key Metrics

For the monthly management risk committee meeting some of the metrics to be included:

- **Currency Translation Gain/Loss** – will show the translation of Stripe's foreign assets and liabilities to the company's base currency.

- **Liquidity and Cash Management** – calculates and monitors different percentages relating to cash. Ex daily cash balance vs. forecast, total cash, etc.

- **Debt w/ Floating Interest Rate** – monitors the debt that does not have a fixed interest in its lifetime. Even small fluctuations in the interest rate could significantly impact interest related expenses from the outstanding debt.

- **Interest Rate Sensitivity** – complements the floating rate debt as it measures how much the price of a fixed-income asset will fluctuate/change as a result of changes in the interest rate environment.

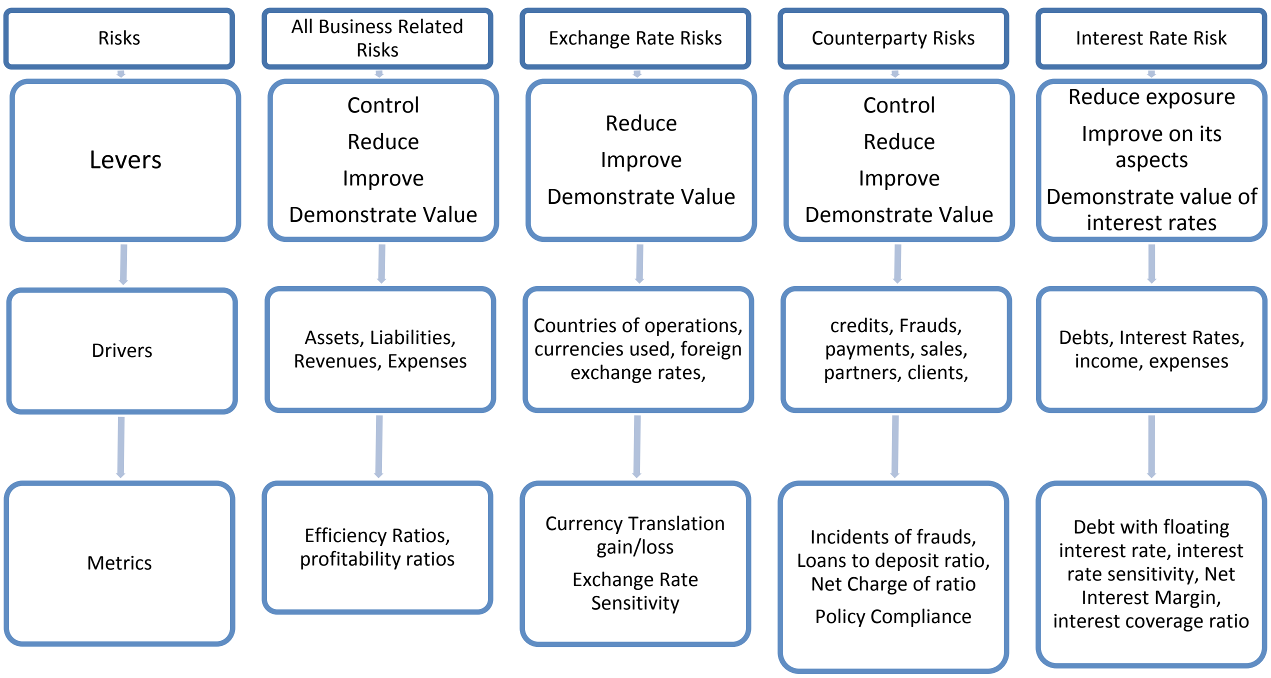
- **Net Interest Margin** – measures the difference between the interest income generated by Stripe and the amount of interest paid to Stripe's lenders.

- **Interest Coverage Ratio** – measures the ability to cover its interests based on income generated. Can it cover the cost of borrowing to meet its short-term obligations?

- **Net Charge-Off (NCO)** – The dollar amount representing the difference between the gross charge-offs and recoveries on delinquent debt. The NCO measures Stripe's ability to recover debts owed to the company.

- **Error Rates** – identifies the accuracy of cash forecasts, forecasted investment income, etc. Can also be used measures the effect of errors made by third parties.

- **Policy Compliance** – measures the adherence of Stripe's rules, regulations and policies.



<u>Developing A Metrics Database for Managing Risk</u>

The metrics database for managing risk would need to follow the risk management framework (Identifying, Measuring, Controlling, Evaluating; the Risk).

Some Key Data Fields: Date, Cash on Hand (Actual + Forecasted), Currency, Foreign Exchange Rates, Cash Flow, Payment Processing costs, Collection costs, # of Bank Accounts, Bank Fees, Investments, Investment Income (Actual + Forecasted), Total Restricted Cash, LIBOR Rate, Fed Funds Rate, Prime Rate etc.

Considerations Before Development:

- Capital Structuring
- Allocation of funding and liquidity costs
- Funding and Liquidity planning
- Political and economic instability in foreign markets
- Environmental risks and its impact on global markets
- Changes in industry + changes in customers behavior

Benchmarking Analysis

Sources:
seekingalpha.com
https://www.citigroup.com/citi/investor/sec.htm

Selected Bank	**Bank of America**
Peers	Citigroup
	Wells Fargo and Co
	US Bank Corp

	Bank of America	Citigroup	Wells Fargo	US Bank Corp	Peers Average
Price to Book (TTM)	1.29	0.98	1.32	1.93	1.41
Dividend Yield	1.89%	2.41%	3.49%	2.87%	2.92%

Balance Sheet Benchmarking

	Bank of America	Citigroup	Wells Fargo	US Bank Corp
Deposits/Total Liabilities	64.5%	59.8%	74.8%	83.0%
Long term labilities/TL	13.8%	15.3%	12.3%	13.1%
Short term labilities/TL	86.2%	84.7%	87.7%	86.9%
Equity/TL	12.4%	10.8%	11.1%	12.5%

Profitability Benchmarking

	Bank of America	Citigroup	Wells Fargo	US Bank Corp
Net Income/Total Assets	1.28%	1.03%	1.30%	1.68%
Cost of Funding (Interest on Deposits/Total Depo:	0.63%	1.15%	0.64%	0.78%
Net Interest Margin (Net Interest Income/Total As	2.2%	2.6%	2.8%	3.0%

Valuation Gap Analysis – Bank of America has one of the lowest Price to Book Ratio in the industry which is justified due to its low profitability (Net Income/Total Assets) and Dividend Yield. Its low profitability stems from its balance sheet structure. As can be seen in the graph below, Bank of America's Deposits/Total Liabilities ratio is one of the lowest among peers after Citigroup which is reflected in its low Net Interest Margin as deposits are normally the cheapest source of funding for the banks.

	Bank of America	**Citi**	**Wells Fargo**	**US Bank Corp**	**Peers Average**
Price to Book (TTM)	1.29	0.98	1.32	1.93	1.41