



Haym Salomon @SalomonCrypto

Jun 13 · 23 tweets · [SalomonCrypto/status/1536367793603366913](https://twitter.com/SalomonCrypto/status/1536367793603366913)

(1/22) Trad-Fi University: Working Capital 101

A basic explainer of a concept that keeps the world turning
(and has almost 0 presence in crypto)

Read this thread, retweet, and then reply with an idea of how to
apply this concept to crypto

Get it right & we'll make billions



(2/22) Not financial advice.

Also, please note there's some accounting peculiarities. Tl;dr because there is liability/asset calculations, the math requires precise and sometime counter-intuitive use of negative numbers.

Not accounting advice!



(3/22) Alright, let's talk product manufacturing cycles. At a super high level, here's one one cycle looks like:

- buy raw materials
- manufacture product
- sell product, get revenue
- subtract revenue from cost of materials, book profit
- repeat

(4/22) Now I'm not going to tell you that producing a product or a service is any more complicated than that.

But what I will tell you is that finance has completely changed the way we manage the money for that process.

This concept is called Working Capital.

(5/22) Banker Definitions

Net Working Capital (NWC): the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

Assets - stuff you own & money owed to you

Liabilities - money you owe



(6/22) Think like this:

- You have \$100
- Alice owes you \$50
- You owe Bob \$125

Your NWC: \$100. You can use that \$100 as long as you have \$125 ready when you need to pay Bob back.

Now the debts have been settled:

- You have \$25
- No outstanding debt

Your NWC: \$25

(7/22) Payment terms: number of days a business has after goods are exchanged to pay

Think like this:

- You are building/selling cars and need glass for windows
- You buy \$100 of glass from Charlie
- Charlie delivers the glass today
- You pay \$100 Charlie in 15 days

(8/22) Think about manufacturing in the real world. It takes time to transform raw materials into a product, move it out into the world and collect revenue

Payment terms are an economic innovation that unlocks the liquidity inherent in the capital locked in real world production

(9/22) Payable: short term debt a company owes for goods/services

Receivable: short term credit a company is owed for for goods/services

Think:

- You sell clothes
- you owe Dennis \$50 for wool/materials (payable)
- Eleanor bought a coat, but will pay \$75 next week (receivable)

(10/22) That's all the vocab we need to know for this thread, let's pull it together:

- net working capital: funds available to an organization for daily operations
- payment terms: the time between delivery of goods and payment
- payable/receivable: short term borrowing/lending

(11/22) In an ideal world, you want to sell your product and then pay your suppliers. Revenue pays off the cost of creating the good and you keep the profit.

And (between you & me) you might not be able to afford the cost of the materials until after the product sells.

(12/22) However, regardless of if you sell your product or not, your supplier sold his product to you. He wants his cash ASAP.

Likewise, whoever you sold your product too wants as much time as possible to pay you.

(13/22) There are millions of businesses in the world, all with specific needs and ambitions. They all negotiate (mostly) bilateral deals trying to measure their needs with their counter-parties' limitations.

This is (a part of) the foundation of the financial economy.

(14/22) The financial economy is distinct from the real economy.

Real economy - production, transportation and consumption of goods and services

Financial economy - manipulation of the flows of capital following in the real economy

(15/22) Example, imagine two almost identical companies who sell breakfast cereal, A and B. Both produce a box for \$1 and sell it for \$3.

Both companies:

- buy materials
- produce cereal (7 days)
- sell/transport/deliver cereal (14 days)
- receive payment after 21 days

(16/22) A has negotiated “ideal” payment terms. Production time is 7 days, sales cycle is 14 days. A pays supplier in 21 days.

When A produces and sells a box of cereal, they don’t need to pay for the grain, packaging, etc. until they receive payment for the finished good.

(17/22) B is... more aggressive. Using its superior powers of negotiation (read: monopoly and monopsony power) to make more favorable deals:

Production time: 7 days

Sales cycle: 14 days

Payment terms: 121 days

(18/22) Cereal price: \$3

Cereal production cost: \$1

A: pays off suppliers immediately

B: has an extra \$2 for 100 days

But this isn’t one box, one time. This is millions of boxes, all the time.

In reality, it’s more like “Company B has an extra, permanent \$20MM.”

(19/22) This concept works in both ways. We aren’t going to walk through it, but think about the inverse of Company B.

That company would be paying its suppliers faster than it receives revenue. It would have a permanent hole of -\$20MM.

(20/22) This is the practice of working capital management; (for most business) cash flow management is essentially working capital management.

Cash managers, financial planners and raw materials buyers coordinate to maximize working capital and then deploy it productively.

(21/22) I was explaining this, a friend said:

“If you manage working capital well, you turn your business into a bank. You’re pooling excess capital and looking for ways to deploy it effectively.”

That’s why I like you degens... you help us boomers see old concepts in new ways

(22/22) Working capital becomes more important the more you understand it. Eventually you can use it to take over the world

Proof? I did learned finance from men who've already done it

NWC > \$1B

“Dream Big. Dreaming small takes the same amount of energy”

Like what you read? Help me spread the world by retweeting the thread (linked below).

Follow me for more explainers and as much alpha as I can possibly serve.

The image is a screenshot of a Twitter post. At the top left is the user's profile picture and name: **Haym Salomon** @SalomonCrypto. To the right is the Twitter logo. The tweet text reads: "(1/22) Trad-Fi University: Working Capital 101", "A basic explainer of a concept that keeps the world turning (and has almost 0 presence in crypto)", "Read this thread, retweet, and then reply with an idea of how to apply this concept to crypto", and "Get it right & we'll make billions". Below the text is a video player showing stacks of 100 Euro banknotes. A play button is centered over the video. A "Watch on Twitter" button is in the top right corner of the video frame. The video has a "GIF" label in the bottom left and "Student ON NEWS" in the bottom right. Below the video, the timestamp "3:20 PM · Jun 13, 2022" and an information icon are visible. At the bottom of the tweet is a link: "Read the full conversation on Twitter". Below the tweet are interaction icons: a heart with "7", a speech bubble with "Reply", and a link icon with "Copy link". At the very bottom is a button that says "Read 2 replies".

...