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BUSINESS GUIDE

## EBITDA Doesn't Pay Your Bills— Cash Flow Does

What Every CFO Needs to Know About  
Operating Cash Flow

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# EBITDA Doesn't Pay Your Bills— Cash Flow Does

## What Every CFO Needs to Know About Operating Cash Flow

### The Metric Everyone Uses—But Few Truly Understand

EBITDA—Earnings Before Interest, Taxes, Depreciation, and Amortization—has become a fixture in modern finance. It's quoted in boardrooms, relied upon by lenders, and built into bonus plans. On the surface, it offers a clean view of operating performance. But that's exactly the problem.

While EBITDA is useful in specific contexts, it is not a measure of liquidity. It excludes interest and tax obligations, capital expenditures, and working capital swings—items that directly impact a company's ability to survive and grow. When executives use EBITDA as a decision-making tool, they often mistake theoretical earnings for usable cash.

What results is a dangerous gap between how a business appears on paper and how it functions in practice.

**Oana Labes, Founder and President, Financiaro**



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# Where EBITDA Leads You Astray

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## **It Rewards Short-Term Performance at Long-Term Cost**

Many CFOs tie executive compensation and business unit targets to EBITDA because it's easy to calculate and often looks healthier than net income or cash flow. But this creates perverse incentives. Managers may delay capital investments, over-order inventory, or offer deep customer discounts to improve short-term numbers. These actions may boost EBITDA temporarily, but they weaken the balance sheet and drain cash in the process.

So in the pursuit of EBITDA, organizations inadvertently ignore the financial levers that truly and deeply affect solvency and sustainability.

## **It Inflates Valuation Expectations Without Reflecting Reality**

EBITDA multiples are a favorite tool for advisors and investors seeking a fast, comparable snapshot of company value. But they can be dangerously misleading. Two companies with identical EBITDA can have vastly different levels of free cash flow, capital requirements, and customer risk.

Leaders who rely solely on EBITDA-based valuations may dramatically overestimate what their business is worth. They assume that because peers trade at a 10x multiple, they should too—without accounting for differences in capital needs, customer risk, or cash conversion to name a few.

This inflated perception can lead to aggressive expansion plans, risky financing decisions, or deal structures that look viable on paper but collapse under real cash flow pressure.

## **It Supports Lending Decisions—But Not Loan Repayment**

Banks often use EBITDA to size and underwrite loans. But they are protected by covenants and collateral. Operators are not. When cash flow falters, the bank has legal recourse. Meanwhile, the business owner is left scrambling to make payments from liquidity that EBITDA never accounted for.

Relying on EBITDA to manage debt is like checking your speed to estimate fuel range—it feels useful until the tank runs dry. The bank has your balance sheet as a backup. You don't.

# What Really Drives Liquidity

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The financial strength of a business rests not on EBITDA, but on operating cash flow—the amount of cash generated by its day-to-day operations. Strong operating cash flow provides the means to pay employees, service debt, fund investment, and protect against shocks.

There are three factors that drive the operating cash flow:

## 1. Revenue Growth With Cash Discipline

Sales growth only helps if it translates into cash in a timely and predictable way. Without strong discipline around payment terms, businesses can generate impressive revenue while cash sits locked in receivables.

Excessive discounting to chase volume may inflate top-line results but erode profit margins. And even profitable deals on paper can lead to negative cash outcomes if collections are slow or inconsistent.

CFOs must actively manage the balance between topline growth and cash conversion to avoid funding expansion with future hope instead of present liquidity.

## 2. Operating Efficiency

Healthy margins are not enough. Finance leaders must ensure that SG&A scales appropriately with revenue—rather than becoming a fixed burden. Deferred spending on maintenance, systems, or people may boost short-term results but creates hidden liabilities that resurface later, often at a higher cost.

True operating efficiency means continuously aligning cost structure with performance, so that growth doesn't come at the expense of flexibility or resilience.

## 3. Working Capital Control

The balance sheet often tells a story the income statement cannot. While revenue and profit may appear strong, the cash behind those numbers can be silently leaking away. Delayed collections from customers tie up cash in receivables. Overstocked inventory locks up working capital in unsold goods. And paying suppliers faster than necessary drains liquidity early.

None of this shows up in EBITDA, but all of it affects your ability to operate, invest, and meet obligations in real time.

# A Checklist for CFOs

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Every month, finance leaders should pressure-test their operations against the fundamentals. Start with these questions:

## 1. Revenue and Margin Health

- Are we growing revenue profitably?
- Is customer acquisition cash-positive within a reasonable payback period?
- Are we tracking margin per product—not just gross margin overall?

## 2. Operating Leverage and Cost Discipline

- Are SG&A and COGS scaling proportionally with revenue?
- Are we carrying costs (e.g., headcount, systems) that aren't producing returns?
- Are fixed costs crowding out flexibility?

## 3. Working Capital Control

- Are receivables (DSO) being collected on time—or sliding?
- Is inventory (DIO) aligned to actual demand?
- Are we managing payables (DPO) strategically without hurting supplier relationships?

## 4. CapEx and Cash Commitments

- Are capital investments tied to return timelines?
- Do we stress-test scenarios with lower cash inflow assumptions?
- Are lease and loan obligations synced with cash cycles?

## 5. Cash Visibility and Reporting

- Is operating cash flow tracked monthly—not just quarterly?
- Are finance and business units aligned on cash—not just P&L?
- Do we review performance incentives in light of cash—not just EBITDA?

## The Bottom Line

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EBITDA is not inherently misleading. But it becomes dangerous when used as a stand-in for solvency, sustainability, or value. It was designed for financing and comparability—not capital management.

Strong businesses aren't built on tidy earnings proxies. They're built on the reliable movement of cash—earned through real activity, managed with discipline, and reinvested strategically.

Operating cash flow is what funds growth, repays debt, and keeps a company viable. If EBITDA doesn't translate to cash, and that cash doesn't fund your strategy, then someone—an investor, a lender, or a founder—will need to.

Finance leadership isn't about reporting what looks good. It's about understanding what holds up. And nothing holds up like cash.



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