



# **SME Financial Health Checklist**

**A practical tool to measure the financial strength of your business**

## Introduction

Running an SME often means balancing growth ambitions with financial discipline. Many companies operate without a clear view of their financial health until problems arise. This checklist provides founders and managers with a structured way to detect risks early and strengthen their foundations.

## Key Dimensions of Financial Health

### Liquidity & Cash Flow

Cash Reserves – Keep at least three months of operating expenses in cash. This ensures resilience in case of delays in payments or unexpected shocks.

Cash Flow Forecasting – Update monthly to anticipate liquidity gaps. It allows proactive decisions rather than reactive responses.

Payment Alignment – Match client payment terms with supplier obligations to avoid financing growth through unnecessary debt.

### Profitability & Margins

Segment Analysis – Break down margins not only globally but by product and client segment to identify hidden inefficiencies.

Margin Trends – Review evolution over the last 12 months. Declining margins may indicate growth without value creation.

Loss-Making Lines – Identify contracts or services that erode profitability even if overall results seem positive.

### Cost Management

Supplier Contracts – Benchmark and renegotiate periodically to capture savings.

ROI Discipline – Ensure major expenses are tied to measurable returns.

Overhead Reviews – Quarterly reviews help control creeping costs that silently erode margins.

### Debt & Capital Structure

Leverage Ratios – Keep debt-to-EBITDA within industry norms to avoid excessive risk.

Balanced Mix – Combine debt and equity strategically to sustain flexibility.

Contingency Lines – Maintain unused credit facilities for liquidity shocks.

## Governance & Reporting

Monthly Reports – Prepare P&L, balance sheet, and cash flow to maintain clarity.

KPI Tracking – Define and monitor key performance indicators aligned with strategy.

Controls – Implement practices like dual approvals and periodic audits to strengthen transparency.

***If you answered 'no' to more than five points, your company may appear solid on the surface but remain fragile underneath. True financial health means growing sustainably, not just faster.***

**Schedule a consultation with Luigi Belato to review your company's financial health and design a solid action plan.**

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