

# Working capital assessment

Optimizing cash and working capital to drive value creation

**EY**

Building a better working world

# A working capital assessment to help fund your business and give you more options for growth

## Is your working capital really working?

Growing businesses need cash to fund everything, from acquisitions and R&D to working capital itself. Managing your funding structure and risks is so crucial that any oversights or weaknesses – even a lapse in focus – can negatively affect your company's overall performance.

Which of the following occupy your management agenda?

- ▶ Desire or need to release cash from operations to fund capital expenditure projects
- ▶ Increased visibility or control over working capital requirements
- ▶ Improved cash flow forecasting capability
- ▶ Need to assess a business before acquisition or prior to integration
- ▶ Reduced exposure to write-offs associated with bad debt/inventory
- ▶ Debt covenant issues
- ▶ Subpar performance compared to industry peer group

Regardless of how solid your company's financial and business circumstances, having clarity and insights into your overall working capital structure and performance drivers will help you optimize or release cash. You may need to create liquidity to fund acquisitions, R&D or capital expenditures, or your working capital may help to preserve the business during financial distress. Alternatively, releasing cash from working capital allows the business to pay down debt or fund shareholder return.

## Working capital that works for you

Working capital works effectively when it is available to fund investments, and you know where to find it. It's working when you have a clear view of your cash flow, when your business can weather economic downturns, when your financial performance is on par with – or better than – your industry peers, and when your customers and suppliers are satisfied.

If you haven't been actively assessing the performance of your company's working capital disciplines, there may be an opportunity to extract cash and make it available for other purposes.

Are you ready to take control of your working capital and make it work better for you?

## EY's working capital assessment

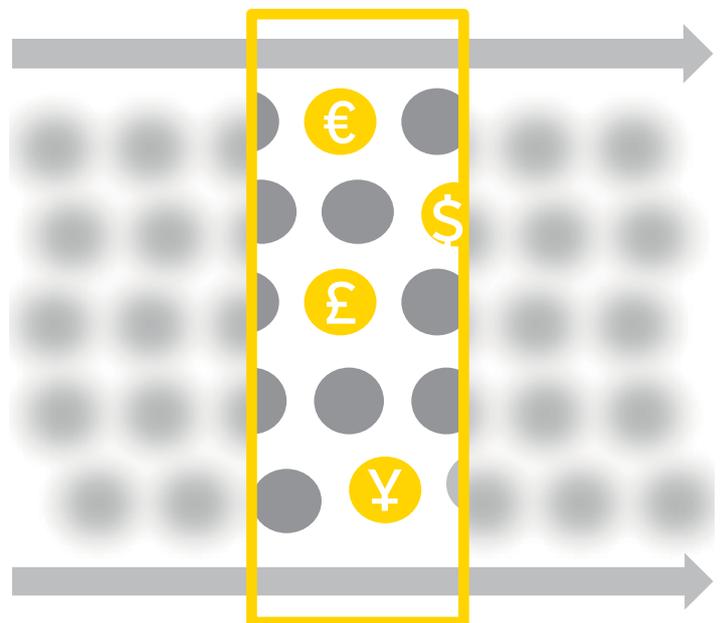
EY's working capital assessment helps you understand how effectively you're managing liquidity. It helps provide clarity and insights into your overall working capital performance, assessing working capital disciplines and highlighting areas for improvement. And ultimately it will serve as a guide as you define priorities, measure potential benefits and develop and drive your action plan.

We apply a diagnostic that focuses on accounts payable, inventory, accounts receivable and other working capital items through qualitative and quantitative methods, including:

- ▶ Transaction-level data analytics
- ▶ Comparison of current performance with leading practices
- ▶ Interviews across various functions and departments
- ▶ Analysis of processes for managing capital

What you get from EY's working capital assessment is a roadmap that recommends options for securing target benefits – and those benefits can go beyond quick wins and short-term improvements. For example:

- ▶ Greater visibility and predictability of cash flows
- ▶ Cash improvements of 5%-10% of annual revenues, 20%-25% of net working capital
- ▶ Post-assessment options to realize identified opportunities



- ▶ Extract cash: the working capital assessment helps **find** and **access** cash for redeployment into the business.

# How can you tell if you might benefit from EY's working capital assessment?

Does your working capital work for or against you? Consider the following performance indicators, then check how each applies to your business with a "yes", "no" or "not sure."

|  | Yes | No | Not sure |
|--|-----|----|----------|
| Uncertain and/or unpredictable business environment and trends       |     |    |          |
| Insufficient cash on hand to fund acquisitions or CAPEX projects     |     |    |          |
| Insufficient cash on hand to address debt covenant issues            |     |    |          |
| Increasing vulnerability to market downturns                         |     |    |          |
| Weak negotiating position in the capital markets                     |     |    |          |
| Cash is inaccessible in operations, business units                   |     |    |          |
| No enterprise-wide focus on cash                                     |     |    |          |
| Little understanding of acquired business's cash position            |     |    |          |
| Dissatisfied suppliers   |     |    |          |
| Increasing customer payment defaults                                 |     |    |          |
| Subpar cash management processes when compared to peers, competition |     |    |          |
| Lack of visibility and control over working capital requirements     |     |    |          |

If you answer "yes" or "not sure" to two or more of these indicators, it may be time to continue the conversation about working capital with your EY audit team. We'll be happy to share insights and ideas based on EY's vast experience of helping clients monitor and improve their working capital structure and performance.

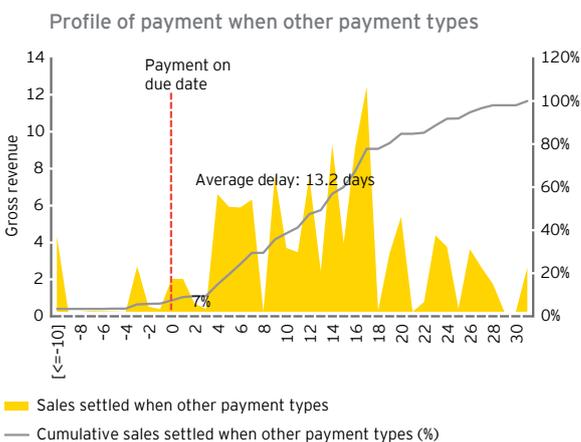
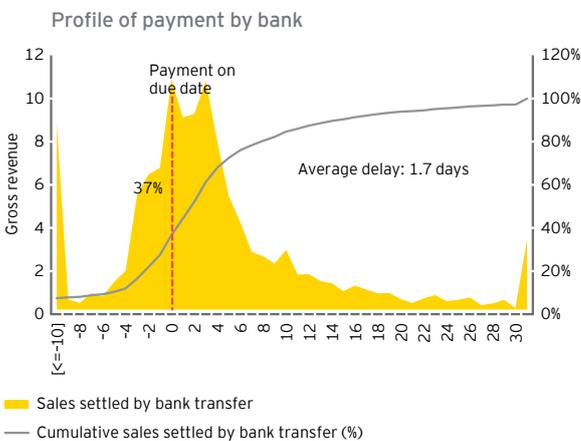
## How the EY assessment works

Your EY audit team, partnered with specialists from our Transaction Advisory Services practice, divide the working capital assessment into several activities within five steps:

### Step 1 Detailed diagnostic of transactional data

Our team performs statistical analyses to understand your customer, supplier and SKU profiles and performance. They evaluate primary drivers of working capital across all relevant processes.

In the example below, data analysis has allowed EY to demonstrate to a client that there is a strong correlation between payment method and payment delay.

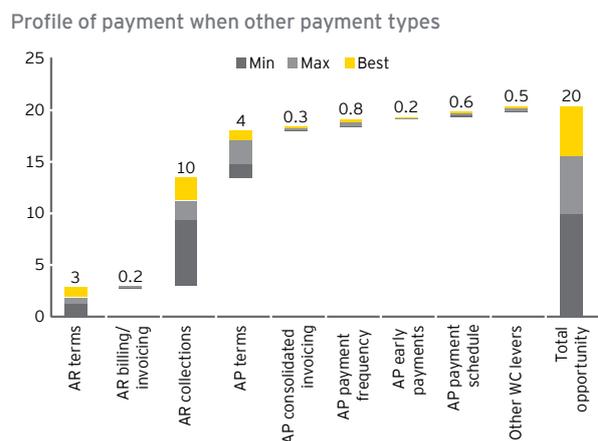


### Step 2 Review of existing policies and processes to identify gaps to leading processes

The team evaluates your working capital management disciplines, identifies opportunities for improvement and correlates them back to analyzed data.

### Step 3 Quantify benefit opportunity

Using the results of steps 1 and 2, we offer you a first set of opportunities to improve processes and policy execution, including a preliminary estimate of the impact of those changes on your cash.



### Step 4 Validate performance drivers and establish targets. Develop insights for improvements.

We share key working capital performance drivers with management as well as potential opportunities, determine targets for each driver and develop insights for improvements.

### Step 5 Findings and recommendations report

All results of the assessment are reported back to you. The report includes findings and recommendations to help improve your working capital structure and performance.

## Why use your external auditor?

We understand your business and the competitive environment in which you operate. We know your team, your constraints, your operating structure and the key risks identified through the annual audit.

Your audit team provides insights and effectiveness through leveraging relationships, knowledge of your IT systems, accounting systems and your financial and operational reporting and tools. We know your industry, key stakeholders and processes and practices from walkthroughs during the external audit.

## The value of an integrated team

During the working capital assessment we leverage the full power of EY and work closely with our Transaction Advisory Services practice to provide you with insights and best practices that are practical recommendations to drive successful results.

Our working capital practice comprises a senior-level team with a 20-year track record of helping our clients throughout the world. The methodology behind EY's working capital assessment draws on the knowledge and experience of EY's Working Capital Advisory Services practice and its work with hundreds of businesses worldwide.

## Convinced that your working capital could work better? You're not alone.

In EY's *All tied up: Working capital management report 2016*, our research suggests that most companies continue to have significant opportunities for improvement in many areas of working capital. Recent analysis indicates that the leading 2,000 US and European companies still have up to US\$1.2t of cash tied up unnecessarily. This amount is equivalent to nearly 7% of their combined sales. In other words, for every US\$1b in sales, the opportunity for working capital improvement is, on average, US\$70m.

Our commitment to you as your auditor is that we will continue to build on our understanding of your organization and your business and reinforce the trust you have placed in us. We are ready to provide you with insights and best practices that will help you improve your working capital structure and performance and build an action plan that helps address your specific issues.

EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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