Grant Thornton
An instinct for growth™

Financial Advisory | Funding | Improving Performance

Working Capital Optimisation

Looking to fund an investment, or invest in growth?
A mature business looking to maximise shareholder value?
Suffering financial distress and in need of additional cash?

All businesses need cash. Our Working Capital Optimisation methodology helps businesses at all stages of the lifecycle release cash to achieve their strategic ambitions. We provide below 10 common indicators that suggest it's the right time to get in touch with one of our Working Capital Optimisation specialists to assist.

What are the indicators that Working Capital Optimisation could provide value to your business?

1. Failure to convert EBITDA

If a business is not converting EBITDA into cash, those earnings are being invested elsewhere - often into working capital. Solid financial performance will often mask working capital issues.

2. Recent or planned growth

If the business is growing, there is a good chance its working capital processes have not kept pace. We can assist in analysing and identifying gaps in the current systems to design and implement new processes appropriate to a changing business.

3. Turnover of key staff

A new CFO will often trigger a review of a business' processes and systems, including working capital practices. We see working capital optimisation as a broader whole-of-business function, so changes in other key functions such as sales, supply chain/ procurement or production may also be an ideal time to review and assess the business' working capital processes.

4. Refinancing

When a business is refinancing, prospective lenders will want to know that the business has good working capital practices (especially when it is a 'cash flow' lend) before they commit to provide additional funding.

5. M&A activity

A recently acquired business unit may demonstrate superior or inferior working capital performance than the existing business. A working capital optimisation review will help you to identify why, and assist in implementing best practice across the group.

Alternatively, optimisation of working capital as part of a planned exit could be an opportunity to maximise value realisation for the current owners.

6. Increase in net debt

If net debt is increasing *(especially when calculated as a % of revenue)*, then there has been an increase in either long-term or short-term liabilities, or a decrease in cash. Releasing cash from working capital can assist to bring net debt under control.

7. Investment

A business may invest its funds in a wide variety of areas – new plant and equipment, property, R&D, systems. How will they fund the investment? Releasing cash from working capital is the cheapest form of finance for a business and can be used to support capital investment or growth.

8. Physical indicators or pressures

Is the finance team under constant cash pressure? Are they receiving a high volume of calls from overdue creditors? Or struggling to collect debtors? Is the warehouse full to capacity? These indicators suggest the business is under cash pressure. There may be an opportunity to release cash from working capital to take the strain off the operational functions of the business.

9. High value of write-offs

If a business has a high level of write-offs of inventory, WIP or debtors, this is an indicator that there is a breakdown in the working capital cycle. Our bespoke working capital methodology can help to identify the area(s) of weakness in the processes, and to design a plan and reporting to address the issue(s).

10. Slower than peers or historical

Unfavourable trends in the cash conversion cycle (or its individual elements) as compared to prior periods, or industry peers indicates that those individual cycles are heading in the *wrong* direction for the business and that too much is being invested in working capital.

Reach out to one of our Working Capital Optimisation specialists who will be able to benchmark your business, based on historical or industry data.

Our value proposition

Why do businesses need help?

Because it's complicated.

The value of a business' investment in working capital is based on point-in-time snapshot, normally by looking at a balance sheet. However we consider that the balance sheet indicators are only the symptom.

Our working capital optimisation methodology considers working capital management as a timeline, broken down into three separate cycles for trade debtors, inventory and trade creditors made up of 23 processes, with up to 99 discreet improvement levers available to unlock cash tied up in working capital.

In general, we find that businesses do not maximise and sustain the release of cash from working capital for four reasons:

1. Use of tactical levers (e.g. supplier payment holds and end-of-month debtor collection drives) to meet short-term goals, typically year-end reporting or covenant testing.
   Our methodology is focussed on driving operational and structural changes in order to maximise and sustain the benefits delivered.

2. Responsibility for working capital management is often viewed as the responsibility of the finance function, exclusively under the control of the CFO. We disagree.
   Our approach to working capital optimisation is based on a belief that in order to achieve tangible and sustainable results, all areas of the business need to be engaged and our methodologies reflect that.

3. Business tend to focus too broadly on the symptoms of excessive working capital, rather than drilling into the root causes.
   Our methodology breaks-down the cycles and processes in the business, supported by transactional level data analysis, to identify the root causes, and to design appropriate targeted solutions.

4. Cash improvements are perceived as driving behaviour that may compete with sales or margins or customer relationships.
   The reality is that a failure to focus on working capital will often have negative profit and loss impacts through allocation of human resources, bad-debt and inventory write-offs and additional physical space required. In fact, research undertaken by Grant Thornton UK indicates a five times higher EBIT margin performance for companies that have achieved three years consecutive improvement in working capital.

If any of the indicators are present in your business, our Working Capital Optimisation specialists can assist you to release cash tied-up in in working capital in order to achieve your strategic goals.

Please do not hesitate to reach out to one of our team to discuss how we can assist.

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