

Working Capital Basics

DSO

2023	2024
34.6	35.7
Change	1.1

Measures the length of the 'order to cash' cycle.

Number of days of sales represented by outstanding debtors at the relevant calculation date.

An increase indicates that a company is taking longer to receive payment from its customers, which could result in cash flow constraints. A decrease indicates that a company is collecting payment from its customers more quickly, improving its cash flow.

DIO

2023	2024
87.4	90.5
Change	3.1

Measures the length of the 'make to order' cycle.

The number of days of purchases represented by inventory balances at the relevant calculation date.

An increase indicates an increase in inventory holdings. The increase may be planned (in anticipation of growth) or it may represent a build-up of unsold inventory due to challenging market conditions. A decrease indicates a reduction in inventory holdings.

DPO

2023	2024
59.5	63.8
Change	4.3

Measures the length of the 'procure to pay' cycle.

The number of days of purchases represented by outstanding creditors at the relevant calculation date.

An increase indicates a company is taking longer to pay its suppliers. This is positive from a cash flow perspective in that it preserves cash, but can indicate tight liquidity and cause strained supplier relationships. A decrease indicates a company is paying its creditors more quickly. This may be planned, but it could also indicate a company is unable to negotiate longer terms with its suppliers.

DWC

2023	2024
52.1	52.5
Change	0.4

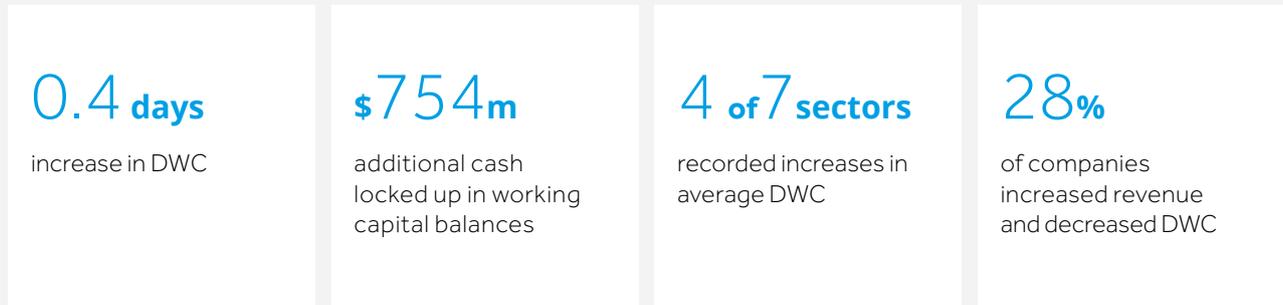
Measures the length of the full working capital or 'cash conversion' cycle.

The relative measure of total working capital tied up in a company relative to its sales.

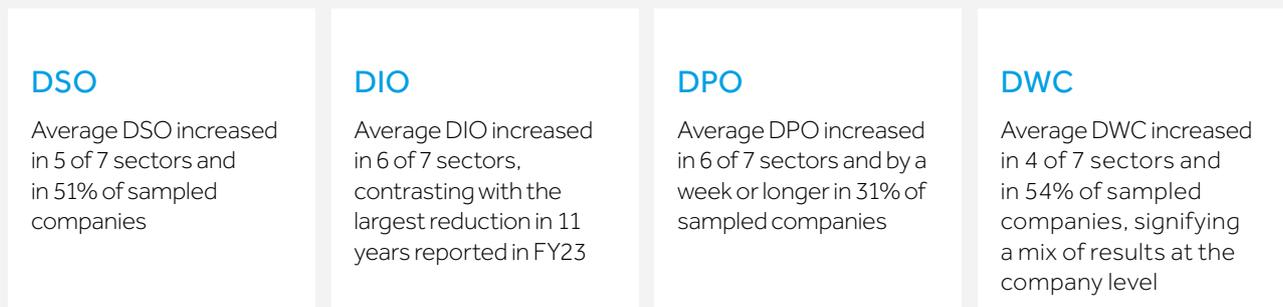
An increase indicates that a higher level of working capital has been required to operate a business, and may result from an increase in DSO or DIO, or a decrease in DPO. A decrease indicates that a lower level of working capital has been required to operate a business, and may result from a decrease in DSO or DIO, or an increase in DPO.

Summary

How have working capital cycles changed in 2024?



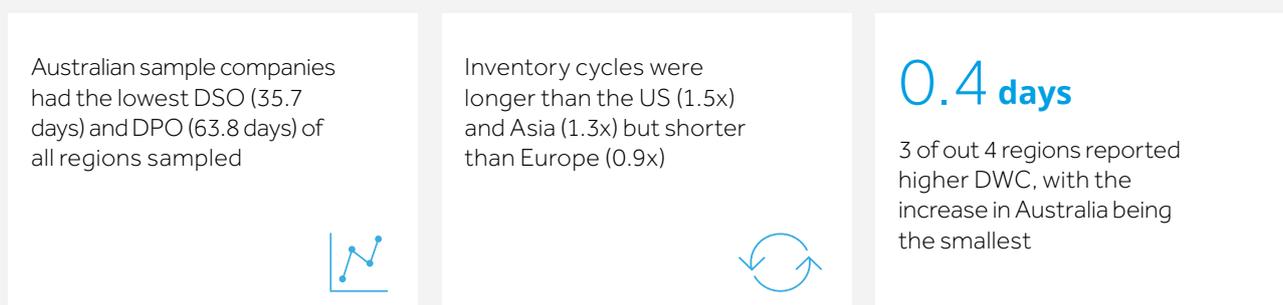
How have the working capital metrics changed in 2024?



What are the sector insights?



How does Australia stack up against the rest of the world?



FY25 Sector Outlook

DWC performance was mixed in FY24, with 4 of 7 sectors experiencing a lengthening of the DWC cycle. This marked somewhat of a reversal from FY23, where all sectors saw a decrease in DWC, mainly achieved through shortening collection cycles and reducing inventory. In FY24, DIO increased by 3.1 days, with sampled companies experiencing subdued demand and slower stock movement. 53% of companies that experienced higher DIO also faced longer customer collection cycles, putting further pressure on cash flow. To ease some of the pressure from higher DIO and DSO, average DPO increased in 56% of sampled companies, with operators in the Agriculture and Construction & Engineering sectors increasing DPO by a week or longer.

Agriculture

DWC 0.3

Slight increase in DWC, masking larger movements in DSO, DIO and DPO. Agriculture remains the most working capital-intensive sector with operators holding inventory for over six months (on average).

Looking forward



Moderate conditions

- Effective inventory management is vital noting improved weather conditions and forecast higher agricultural commodity prices (sample reduced holdings in FY24, with 50% reducing by two weeks or more).
- Proactively manage customer collections given likely limited ability to stretch suppliers more.

Building Products

DWC (1.7)

Reduction in DWC, with significant variances in performance at the company level (noting that almost half of the sample reported DWC movement of a week or more).

Looking forward



Moderate to Harder conditions

- Decrease inventory balances (to shift the burden of holding inventory along the supply chain).
- Focus on customer and supplier management as lower housing approvals slow demand.
- Review supplier terms and the extent to which these can be increased (without putting pressure on quality / supply).

Construction & Engineering

DWC 1.8

Increase in DWC was driven by increases in DSO and DIO, offset by an increase in DPO. The DPO metric was the result of a mix of results at the company level with three of the majors increasing DPO by >30 days to offset increases in DSO and DIO.

Looking forward



Harder conditions

- Proactively manage debtors and WIP by implementing robust internal processes. Likely limited ability to push supplier payment times much higher.
- Mitigate and manage counterparty risks.
- Aim for cash positive or cash neutral projects (through the life of project rather than just at the end).

Food & Beverage

DWC (1.2)

Lower DWC, driven by a material reduction in DIO. This was partially offset by a reduction in DPO with two-thirds of the companies that collected more quickly from customers also paying their suppliers more quickly.

Looking forward



Moderate conditions

- Prioritise inventory management, which remains critical in the sector.
- Integrate sales, operations, and inventory planning.
- Review supplier terms and the extent to which these can be increased (without putting pressure on quality / supply).

Mining & Resources

DWC 1.8

Increase in DWC due to higher DSO and DIO. Close to 60% of the sample that were paid more slowly by their customers also held more inventory, increasing the pressure on cash flow for those operators.

Looking forward



Moderate to Harder conditions

- Regularly review customer terms (using leverage where available to negotiate shorter terms).
- Prioritise inventory management amid commodity price fluctuations.
- Integrate sales, operations, and inventory planning.

Retail

DWC (1.9)

Reduction in DWC as retailers slowed payments to suppliers to mitigate the effects of an increase in DIO.

Looking forward



Harder conditions

- Continue to focus on inventory management (noting operators carried over four months' of inventory in FY24).
- Refocus on supplier management to ensure security of supply, after extending payment cycles in FY24.
- Closely manage cash flow while revenue is impacted by subdued discretionary spend.

Transport & Logistics

DWC 2.8

Largest increase in DWC of all sectors but remains the sector with the lowest working capital load. Increases in DSO and DIO were partially offset by an increase in DPO.

Looking forward



Moderate conditions

- Manage inventory loads as industrial real estate demand and capacity normalises.
- For importers and exporters, consider hedging strategies (given international market volatility).
- Review supplier terms and extent these can be increased (without putting pressure on quality / supply).