Working Capital Basics

DSO

2022	2023
39.5	33.7
Change	(5.8)

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.

DIO

2022	2023
100.2	88.0
Change	(12.2)

Measures the length of the 'make / supply 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

2022	2023
68.1	55.2
Change	(12.9)

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

2022	2023
59.1	53.5
Change	(5.6)

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. A decrease indicates that a lower level of working capital has been required to operate a business.

Summary

How have working capital cycles changed in 2023?

5.6 **days**

decrease in DWC

$12.3**bn**

additional cash released by reducing working capital balances

7 **sectors**

recorded an improvement in DWC

43**%**

of companies increased revenue and reduced DWC

How have the underlying working capital metrics changed in 2023?

DSO

Average DSO decreased in all sectors and in 61% of sampled companies

DIO

Largest reduction in DIO in 11 years, which resulted in an additional $27 billion of cash released from inventory

DPO

Average DPO reduced in all sectors, and over 75% of the sampled companies

DWC

Average DWC decreased in all sectors, but there was a mix of company results (only 53% of the individual companies achieved the reduction)

What are the sector insights?

Agriculture had the largest DWC improvement of 14.1 days, however it still had the longest cycle of all sectors

Construction & Engineering had the lowest DWC improvement of 0.6 days, due to offsetting reductions in DSO and DPO

DWC spread of >70 days between "best and worst" operators in all seven sectors covered

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

Australian sample companies had the lowest DSO (33.7 days) of all regions sampled

Inventory cycles were longer than the US (1.5x) and Asia (1.2x) but shorter than Europe (0.4x)

5.6 **days**

Australian sample companies had the largest DWC improvement of all regions sampled

FY24 Sector Outlook

All sectors saw a decrease in DWC in 2023. The decrease in DSO and DIO was partially offset by a decrease in DPO. The increase in inventory holdings seen in 2022 was partly "unwound" and payments to suppliers were made more quickly to shore up supply chains, particularly in the Mining & Resources, Building Products and Food & Beverage sectors.

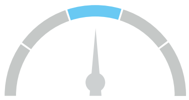
Over 60% of our sampled companies shortened the length of their customer collection cycles, with operators in the Mining & Resources and Food & Beverages sectors doing so by a week or more.

Agriculture

DWC (14.1)

Largest improvement in DWC of all sectors, driven by lower DIO and DSO. However, Agriculture remains the most working capital-intensive sector with operators holding inventory for close to six months (on average).

Looking forward



Moderate conditions

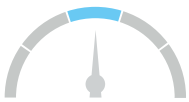
- Make further inventory reductions as global supply chains normalise.
- Proactively manage customer and supplier terms.
- Monitor production levels in the context of challenging weather conditions and lower agricultural commodity prices.

Building Products

DWC (1.3)

Large offsetting reductions in DIO and DPO of close to two weeks each, with DPO now at the lowest level it has been over the last 11 years (at 50.6 days). Resulting impact on net working capital was a small contraction of the cycle.

Looking forward



Moderate conditions

- Make further inventory reductions as global supply chains normalise.
- Shorten collections cycle to reduce / remove "funding gap" (noting over 40% of the sample reported a "funding gap" in FY23).
- Build strategic partnerships with customers to allow for better forward planning.

Construction & Engineering

DWC (0.6)

Decrease in DWC driven by shorter customer collection cycles (DSO down by 6 days). Notably, the benefit was passed onto suppliers, with 83% of the sample reducing DPO (paying suppliers more quickly).

Looking forward

Harder conditions

- Negotiate cash positive or cash neutral projects.
- Ensure robust internal processes, particularly for WIP management.
- Mitigate and manage counterparty risk as demand falls.

Food & Beverage

DWC (8.2)

Shortening of DWC by over a week, driven by material reductions in DSO and DIO. There was an offsetting shortening of DPO, with all of the companies that collected more quickly also paying their suppliers more quickly.

Looking forward

Harder conditions

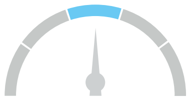
- Maintain or decrease inventory balances (to shift the burden of holding inventory along the supply chain).
- Integrate sales, operations, and inventory planning.
- Review supplier terms and the extent that these can be lengthened (without putting pressure on quality and supply).

Mining & Resources

DWC (5.9)

Lower DWC driven by decreases in DSO and DIO. Close to one third of the sample reduced DSO by two weeks or more (reversing the trend of recent years). The cash flow benefits were shared with suppliers (DPO down by 19.5 days).

Looking forward



Moderate conditions

- Maintain or further improve customer terms.
- Review counterparty risk, particularly on major projects.
- Integrate sales, operations, and inventory planning (as demand uncertainty in some international markets remains).

Retail

DWC (6.0)

Material reduction in inventory holdings (DIO down 19 days) as many retailers shifted from a "just in case" to "just in time" inventory strategy. Suppliers were paid more quickly, but an overall shorter net working capital cycle was achieved.

Looking forward

Harder conditions

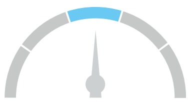
- Continued focus on inventory management.
- Invest in logistics and supply chain to meet multi-channel demand.
- Payment strategies, supplier segmentation, and effective negotiation of terms.

Transport & Logistics

DWC (1.1)

Shortest DWC of all sectors, with the reduction in 2023 driven by decreases in DSO and DIO. All but one of the sampled companies that lowered their DWC did so by collecting more quickly from their customers (DSO down by 3.4 days).

Looking forward



Moderate conditions

- Proactively manage customer and supplier terms.
- Consider tools to automate billing (given growing number of smaller customers for operators).
- Review supplier terms and the extent these can be lengthened (without putting pressure on quality and supply).