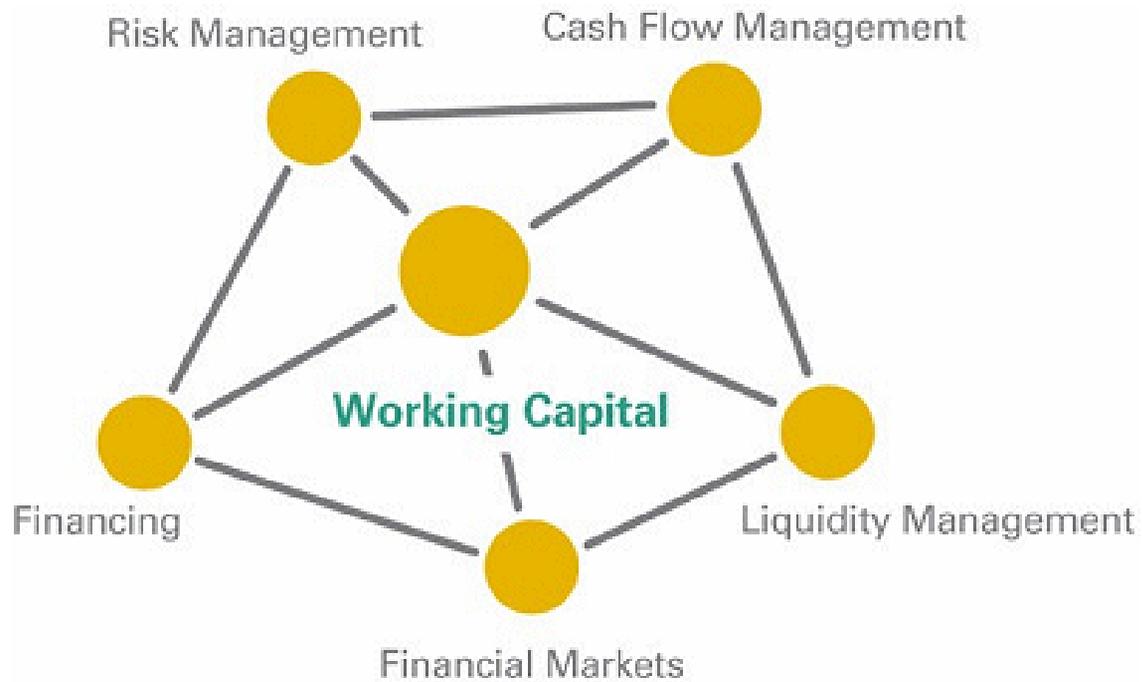


Treasury Consulting

Your Partner for effective Cash Management



Working Capital



Working Capital

- Is your Controlling today **continuous** in line with the figures of Working Capital **consequences**?
- Do you know today, **how much capital** is bound in your Net Working Capital and would you like to increase your equity capital?
- Have you ever calculated, what is your „hidden“ **interest expenditure**?

Introduction

Working Capital, is an absolute key figure to evaluate your liquidity.

This key figure contains the long-term financed part of the Working Capital (although by definition Working Capital is in real short-term).

Assets (raw material, additives, equipment, finished goods)

+ receivables out of delivery & supply

./. liabilities out of delivery & supply

+ advanced payments

./. down payments made

= **WORKING CAPITAL**

Attributes

Working Capital does not change solely by **short-term** financial procedures. But it also does not change solely by **long-term** balance sheet items.

In fact it will be influenced by short- **and** long-term bookings and it points out, in which spread parts of the **short-term generated** Working Capital is financed long- resp. medium-term.

- Short-term: Accounts payable and accounts receivable, salaries etc.
- Long-term: Cash sale of a property, amortization of long-term debts out of liquid funds etc.

Attributes

Working Capital bears consequently, expressed in terms of receivables and a lack of inventory, a shortage in competitiveness of the primary power factor:

- products
- brands
- services

Working Capital is also a **precise indicator for initiated crises**, if it increases more than turnover growth.

Ca. 3 years before a liquidity crunch the key figure „Working Capital / Total Assets“ deteriorates clearly.

Example

Turnover	2'700	DSO	41
Accts. Rec.	300	DPO	27
Accts. Pay.	200	DWC	61
Inventory	150	DIO	20



Interest-Expenses 23'779.- per Year!*

Hidden Capital: 363'000!

* at 6,5% p.a.

Benchmarking

The following statements are based on organizations, which show an average equity ration of 33%.

- Consumer goods with high turnover..... 45 days
- Consumer goods with low turnover..... 83 days
- Capital goods with small investment intensity..... 81 days
- Capital goods with high investment intensity..... 116 days

$$\frac{\text{Customers + Inventory}}{\frac{\text{Net Sales}}{365}} = \text{DWC}$$

Steering Components

- Accounts receivable
- Accounts payable
- Stock -> Result of purchase and sale

Improvement Potentials:

- Faster and frequent invoicing
- Consistent dunning process (Caution with Key-Customers!)
- Evaluation of the customer reliability
- Expanding of liability coverage (Caution with discount)
- Isolating components at stock control
- Restriction of the assortment complexity!
- etc.

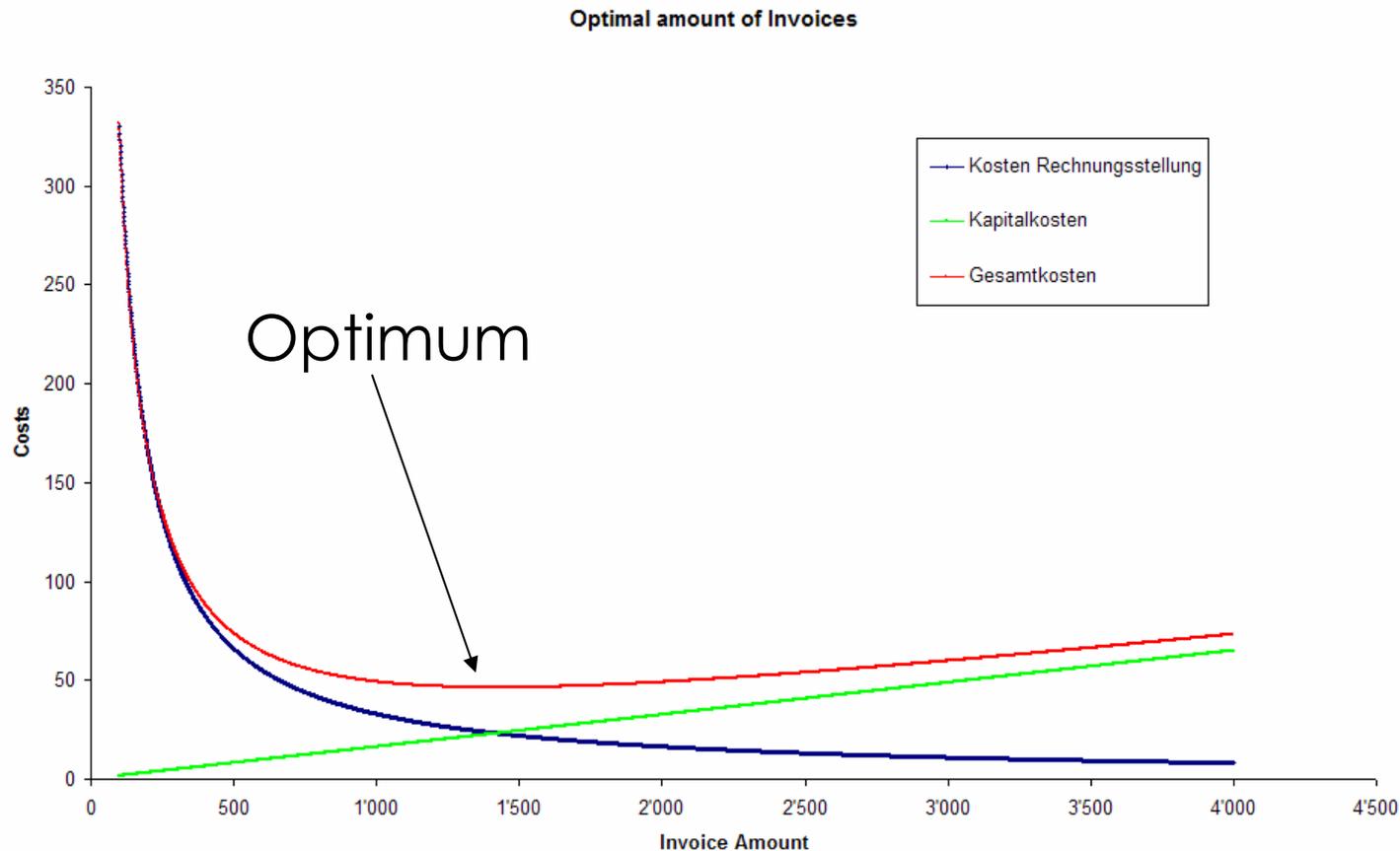
Impacts

Companies, which could reduce the commitment period from 143 to 80 days, show the following changes:

- **Declining of the Working Capital..... 56%**
- **Increasing of the equity ratio..... 9%**
- **Declining of total assets..... 5%**
- **Declining of interest costs..... 40%**

Invoicing

Important, but nevertheless achieved easy internal, is the optimal amount of invoices. Because there are always costs: too often = administrative costs, too less = capital costs.



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