



Working capital optimization

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February 2013

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Quality In Everything We Do

Background

Methodology and approach

Canadian
Financial
Executives
Research
Foundation
(CFERF)

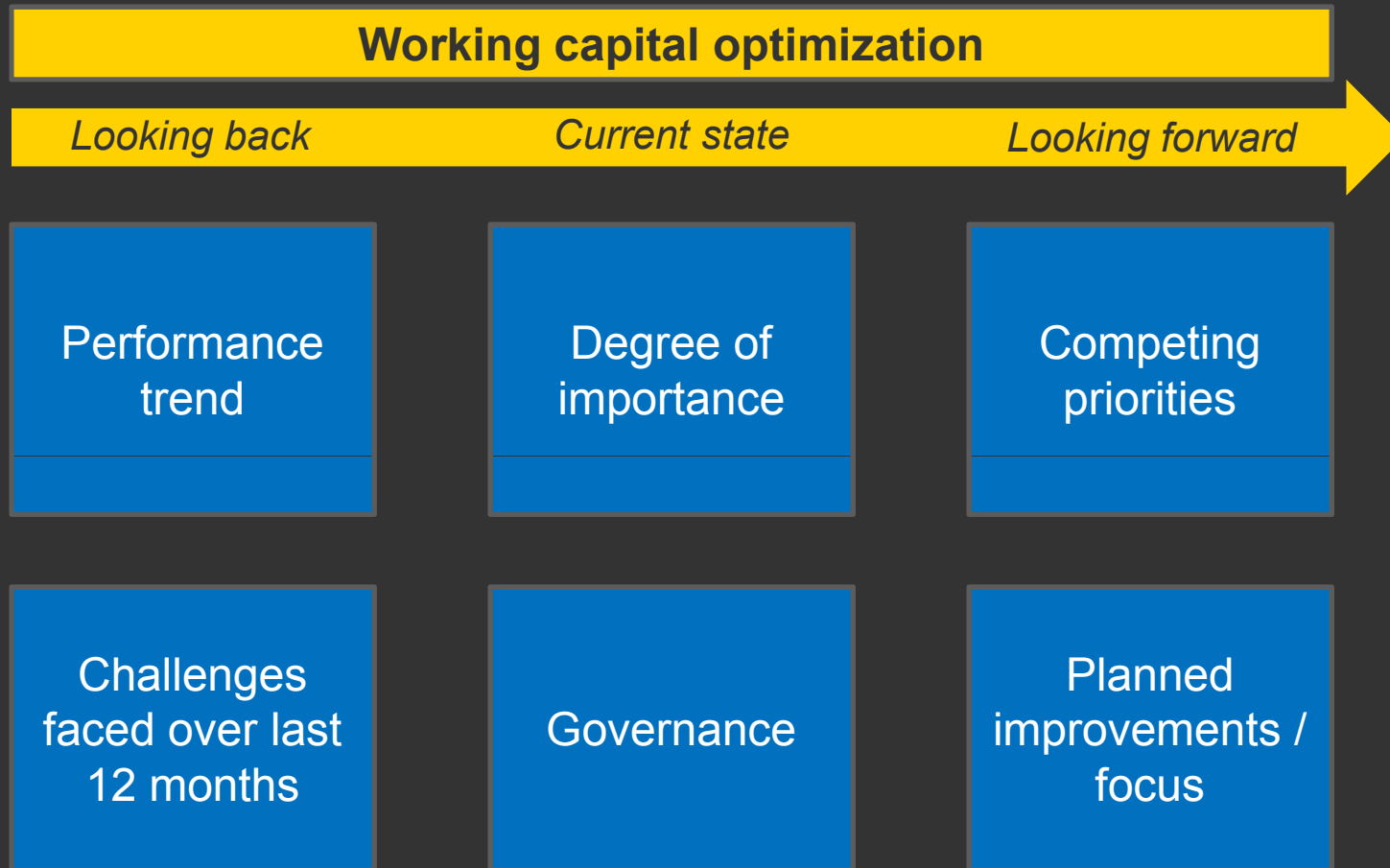
Methodology:

- ▶ FEI Executive Survey (November 2012)
- ▶ CFERF Executive Research Forum

Outcome:

- ▶ Shared experiences
- ▶ Lessons learned

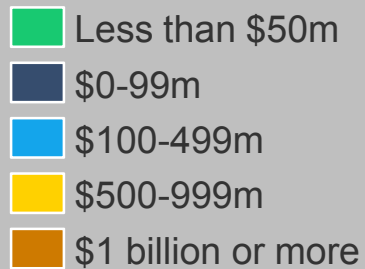
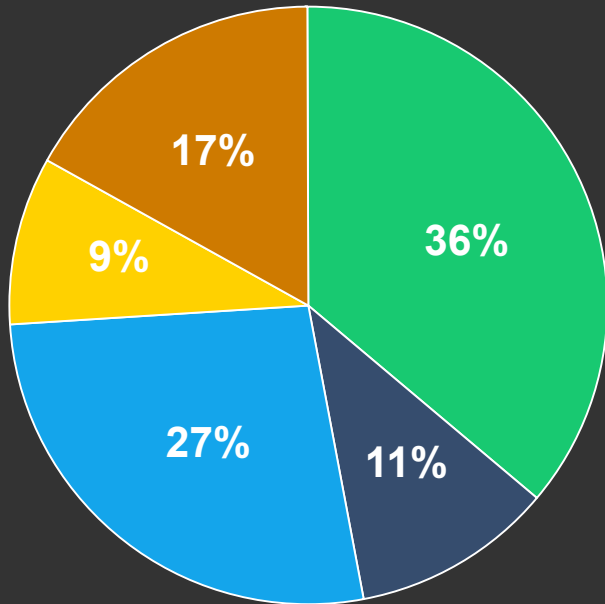
Background Survey focus



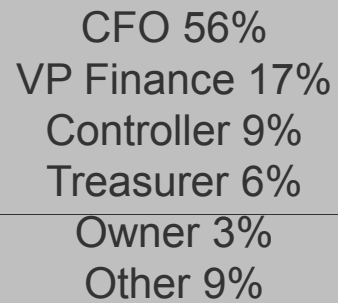
Background

Participant demographics

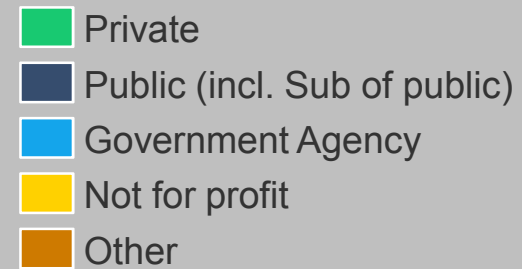
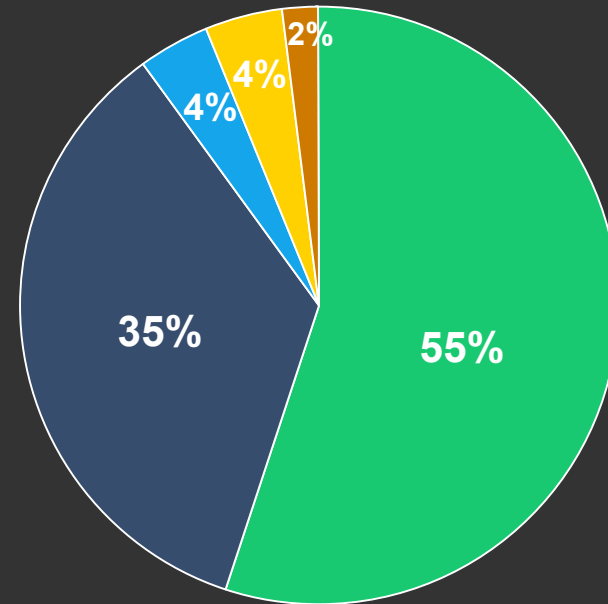
Annual revenue



Position

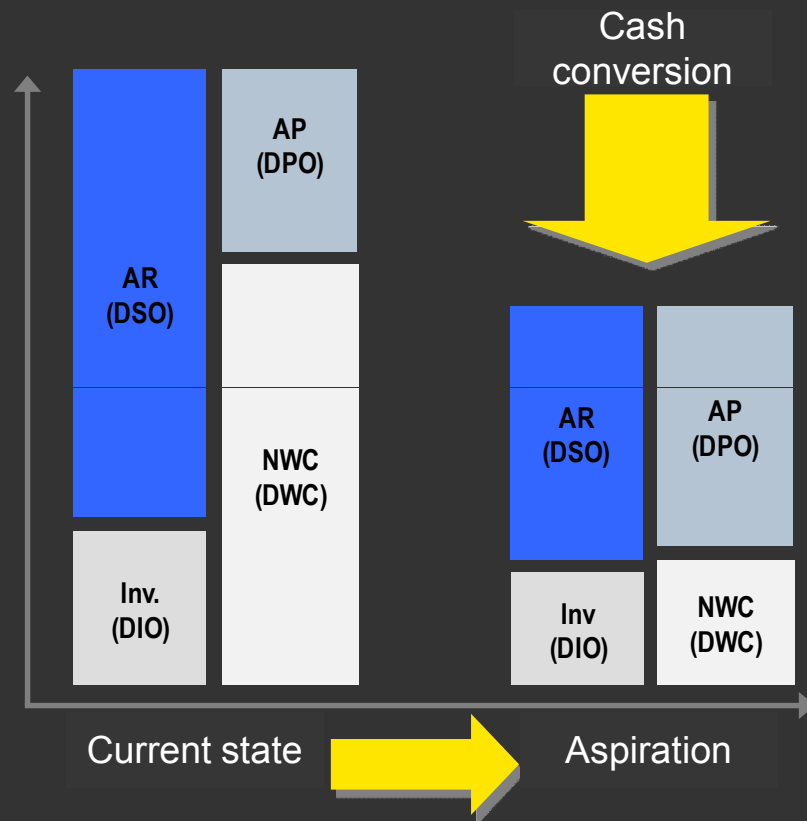


Corporate structure



Background

Working capital defined



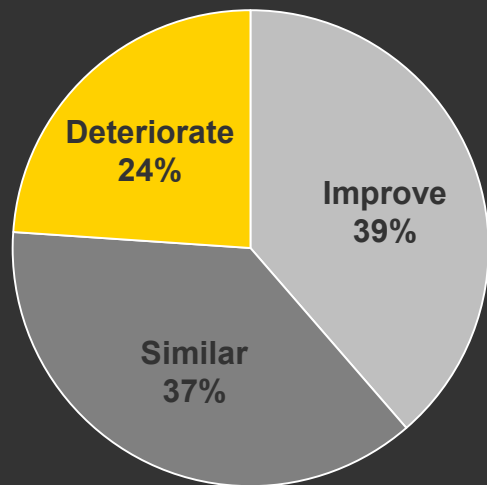
- ▶ Working capital considers the net liquid assets a company has to meet its short term needs
- ▶ Focus = operational improvement for processes underlying the three largest areas of working capital (receivables, payables, Inventory)
- ▶ Increasing or decreasing the velocity of the process cycles impacts the speed with which cash is converted

Looking back

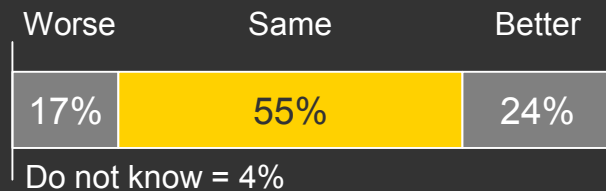
Recent performance trends

FEI Research

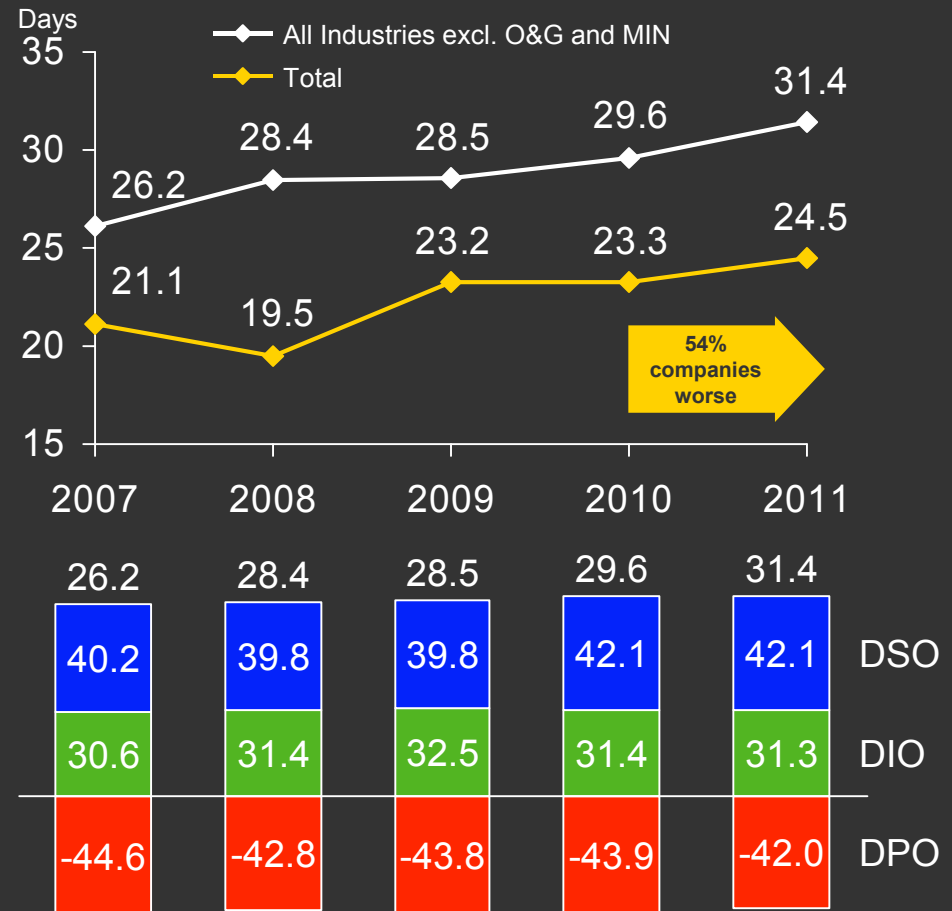
How has working capital performance changed over the last 12 months?



How would you compare performance against industry peers?



Canada Top 400



Source: Publicly available financial statements; EY analysis

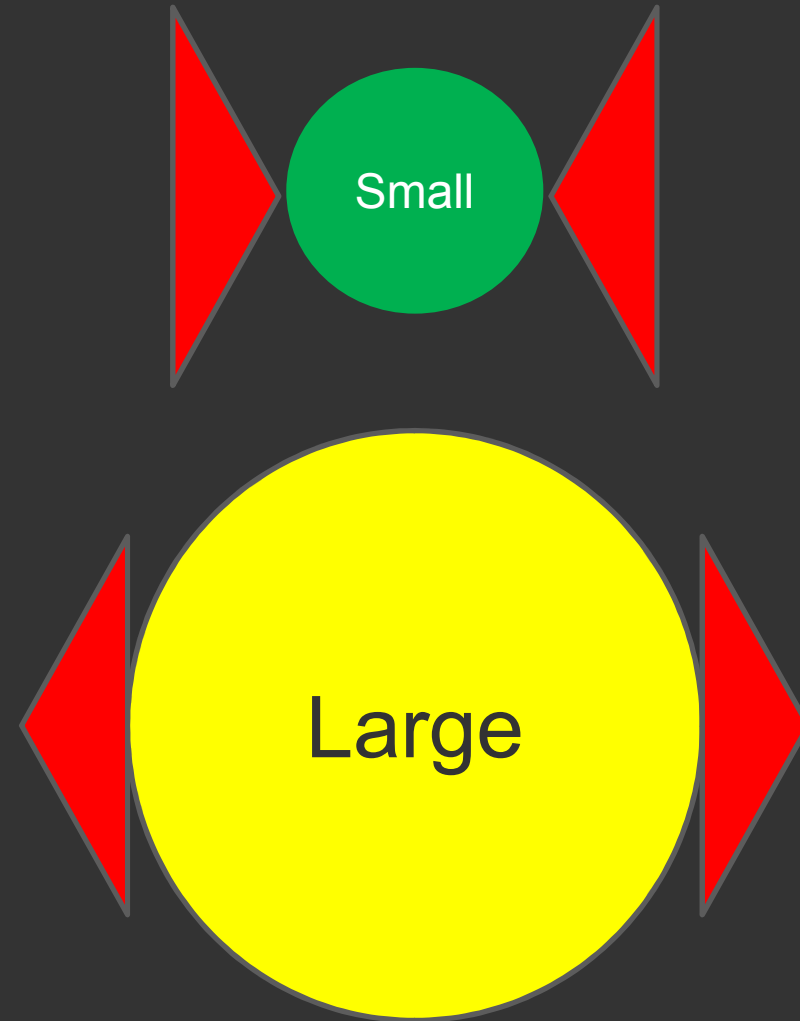
Looking back

Does size matter?

Factors to consider:

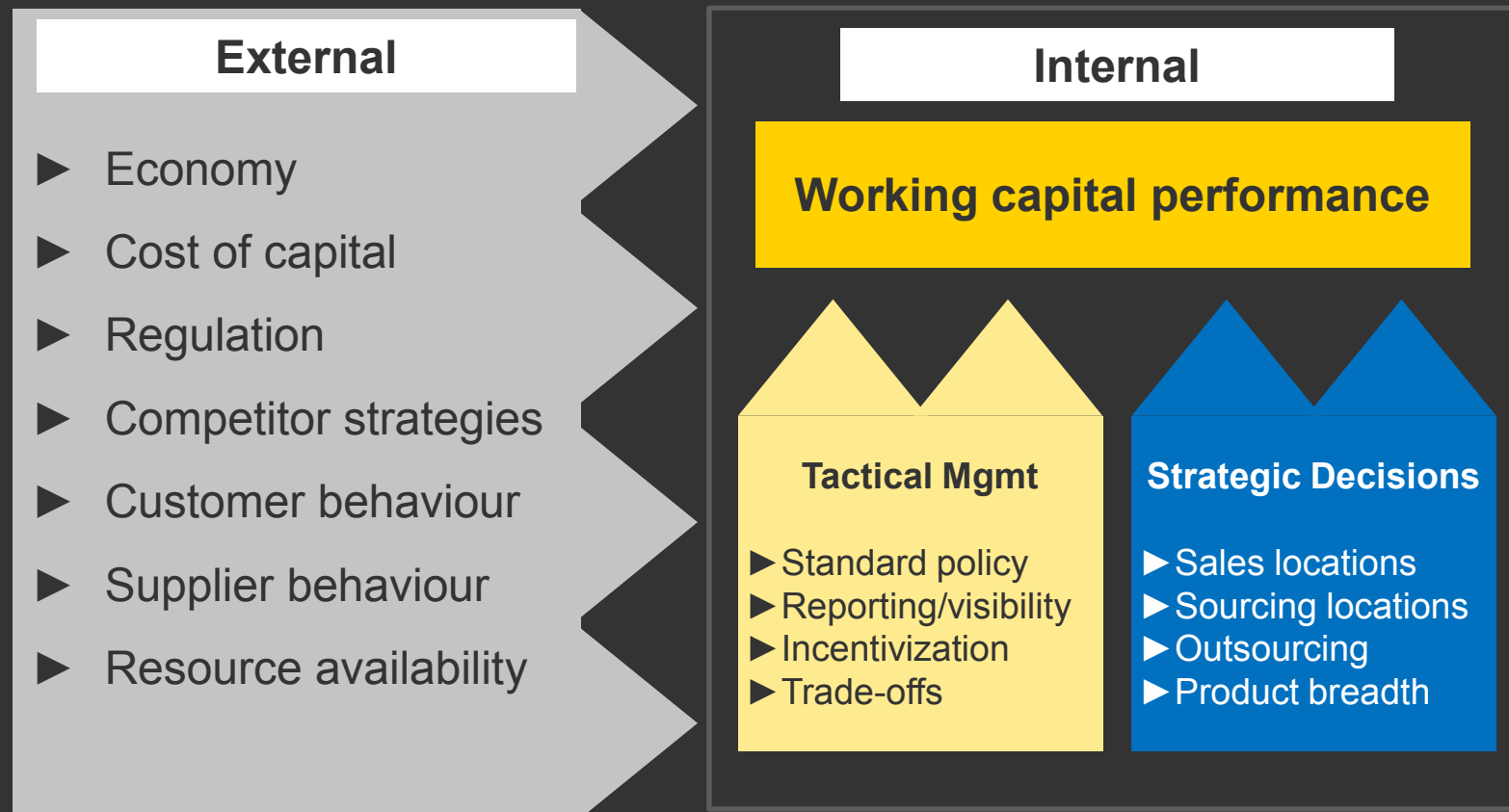
- ▶ Contractual demands
- ▶ Pricing
- ▶ Degree of control
- ▶ Defined processes

= Reduced ability to impact working capital performance



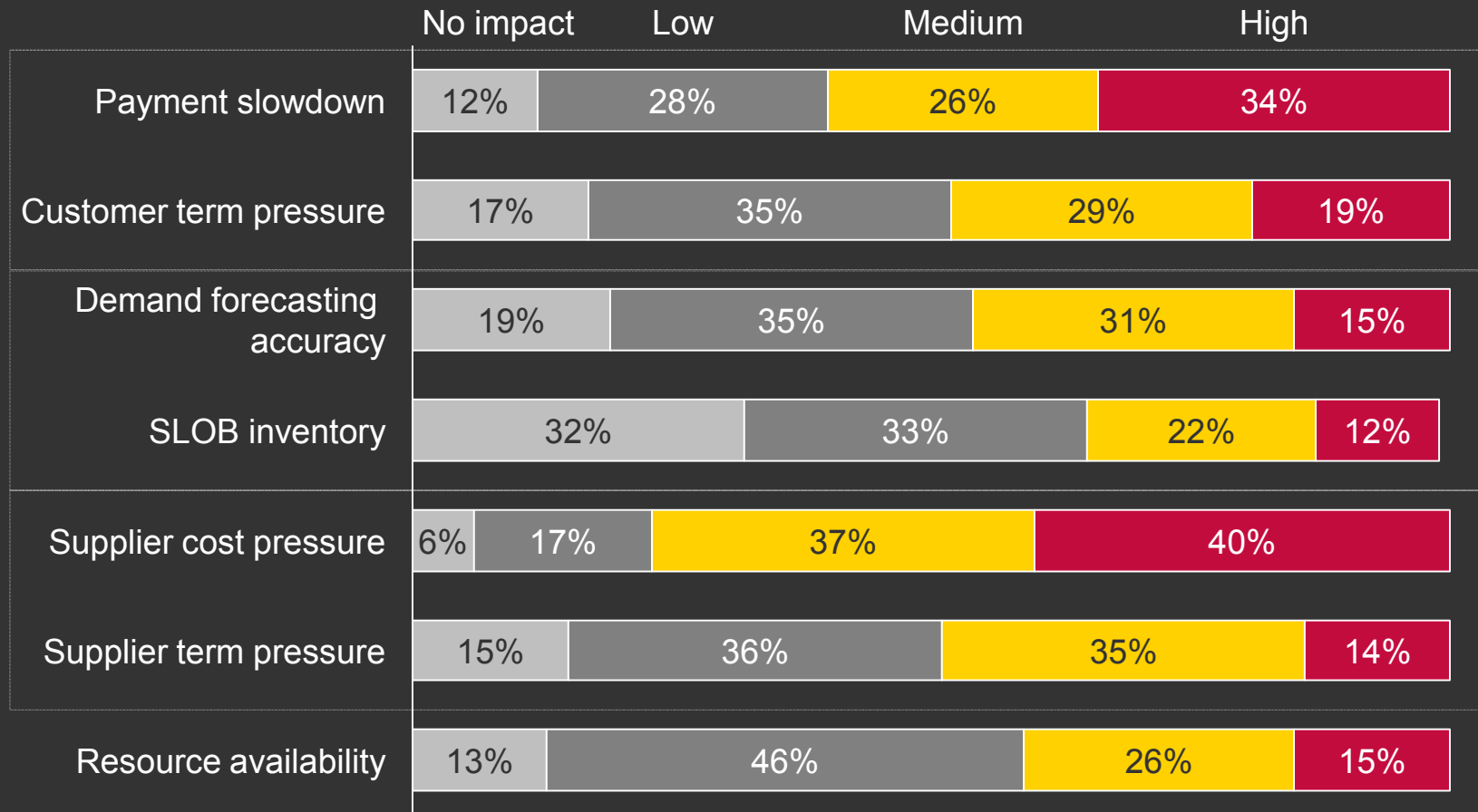
Looking back

Internal and external factors



Looking back

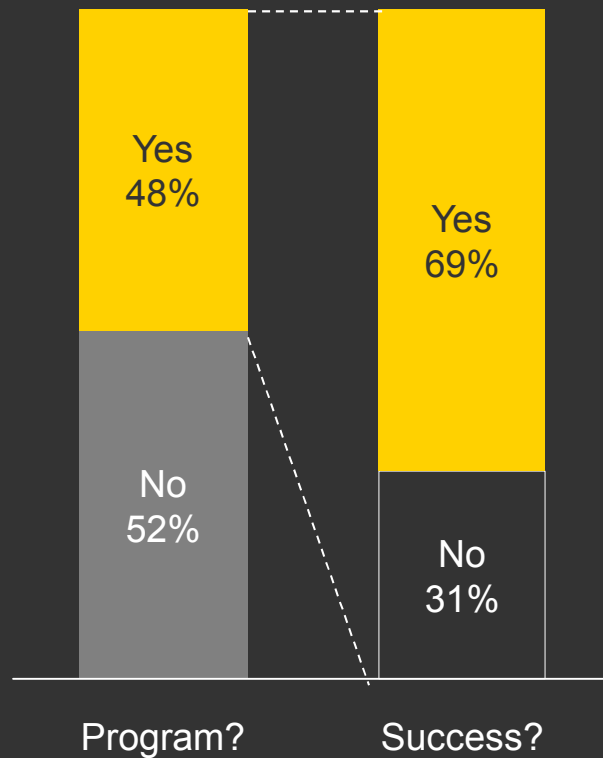
Key challenges over the last 12 months



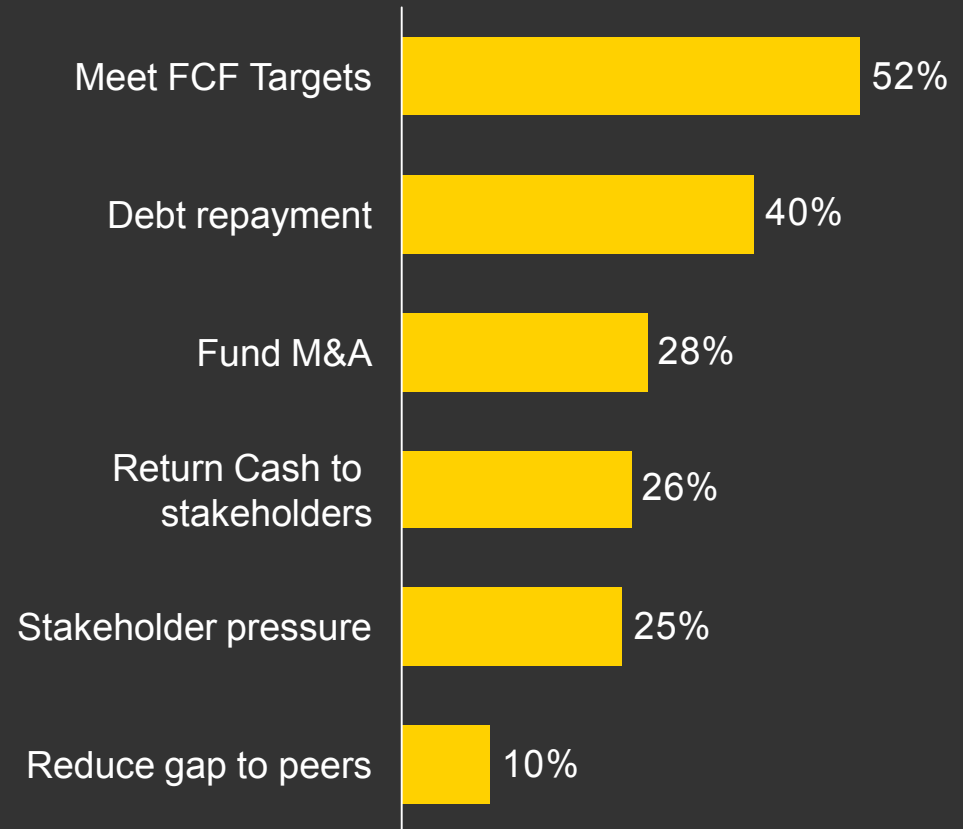
Looking back

Initiated an improvement program

Undertaken improvement program in last 12 months?



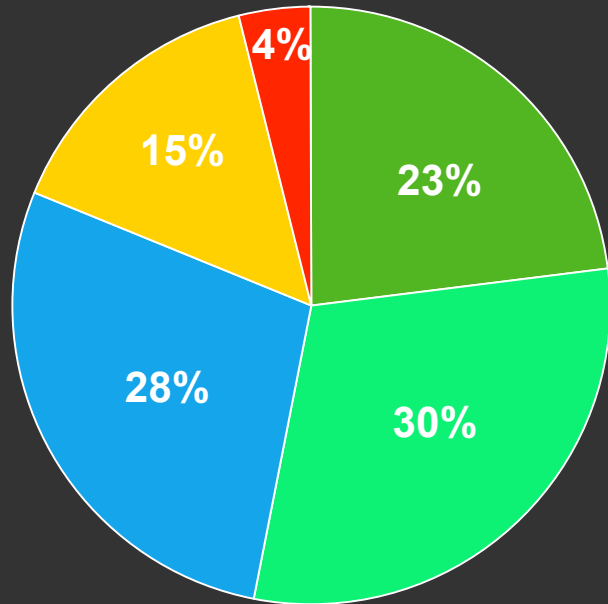
Main drivers for increasing focus on working capital?



Current state

Importance of working capital

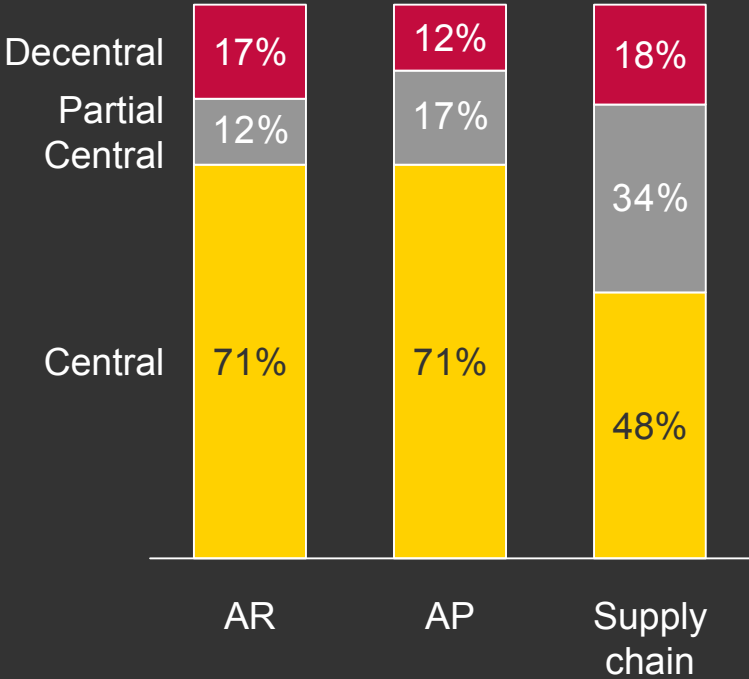
Rate level of importance placed on working capital in organization?



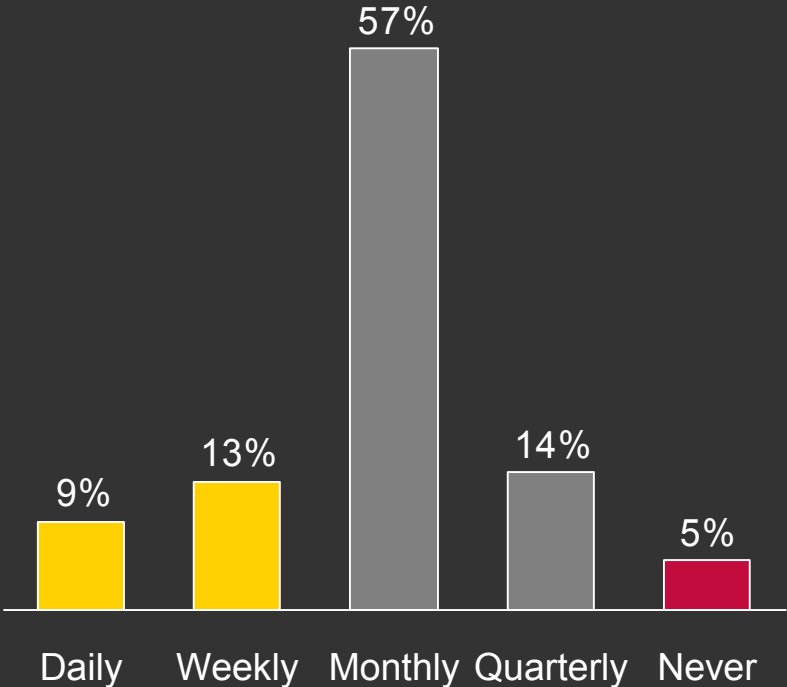
- ▶ Leaders set the tone
- ▶ Importance varies across the organization
- ▶ High = more proactive
- ▶ Public companies > Private companies
- ▶ Competing priorities

Current state Governance

Organizational structure for managing working capital?



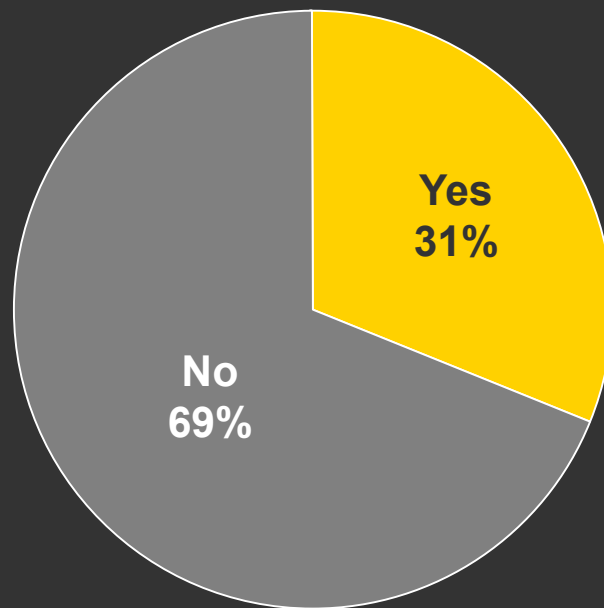
How frequently do you monitor working capital performance?



Sufficient visibility and control? Yes = 75%

Current state Governance

Is working capital or Free Cash Flow performance embedded in variable compensation?

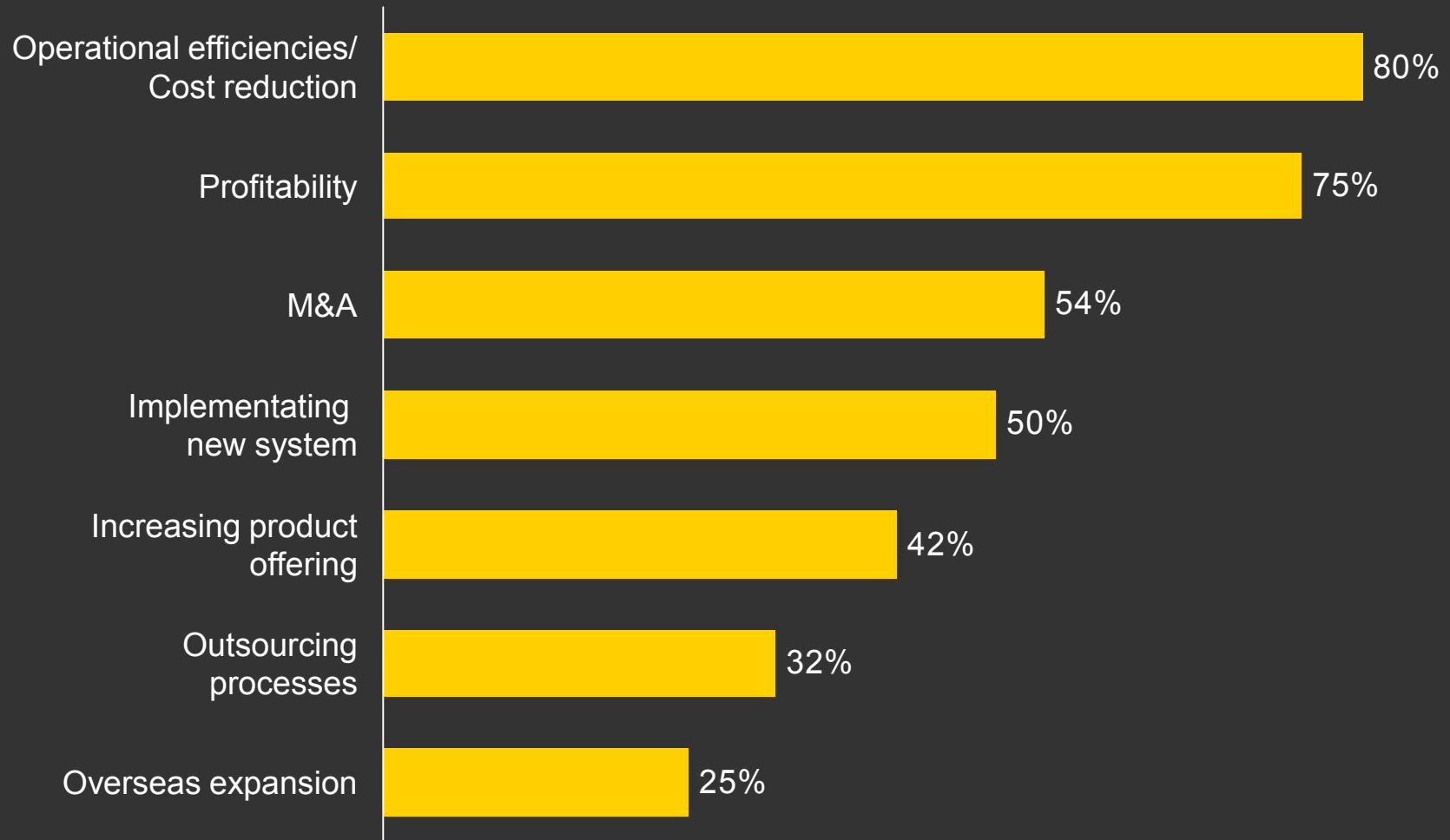


- ▶ 25% average of variable compensation
- ▶ Increasingly common
- ▶ Aligns reward and behaviours
- ▶ Ensure metric in line with influence (i.e. Trade-offs)

Looking forward

Competing priorities

What areas do you anticipate will require management attention in the next 12 months?



Looking forward

Misconceptions

Misconception	Reality
Limited return on investment	Rapid cash inflow (10-20% each area)
Will be detrimental to relationships with customers and suppliers	Improved service levels; customer service increased; increased collaboration
Primarily focused on extending payments	Leading practice policy to increase standardization and improve visibility
Finance responsibility	Company wide challenge

Panel introduction

Experienced panel for today's discussion:

- ▶ Danielle Parent – VP Finance, Fujitsu Canada
- ▶ Derek Petridis – VP Finance, Shikatani Lacroix Design
- ▶ Nancy Lala – CFO, About Communications
- ▶ Barry Levine – Associate Partner, Ernst & Young

Polling

- ▶ Six questions
- ▶ Voting device at your tables
- ▶ First valid entry will be accepted
- ▶ Results are anonymous
- ▶ Start with a test question

Q&A

Looking forward

Lessons learned

- ▶ No silver bullet
- ▶ Requires a tailored approach – influencability
- ▶ Measure if you want to improve
- ▶ A company-wide challenge
- ▶ Requires a change of behaviour

Many thanks for attending!