

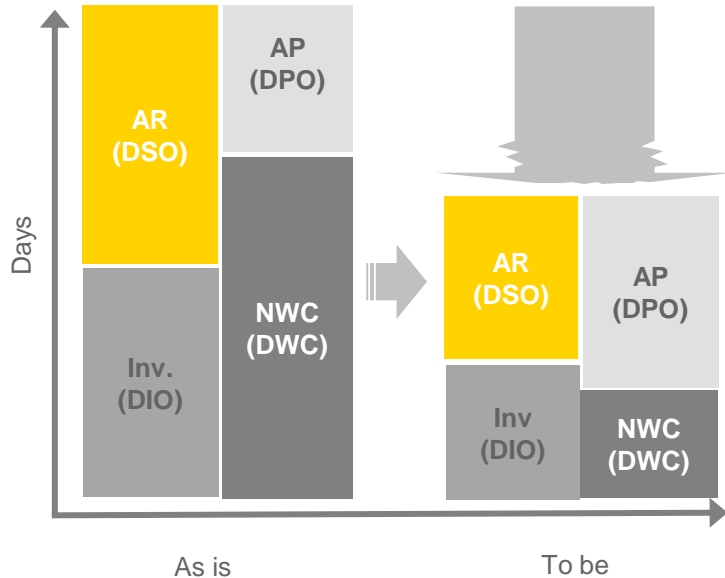
Liquidity: Squeezing the Most out of Your Working Capital

Madrid, February 23rd

Cash released from working capital generates value

Improved cash flow is important in any economic environment and is the cheapest source of incremental liquidity

Net working capital = $A/R + \text{Inventory} - A/P$



Optimizing cash and working capital is a key driver of value creation even though it is often not the primary focus of the business

- ▶ Private Equity owners may need to release cash from working capital to pay down debt, fund shareholder return or avoid covenant issues
- ▶ Growth businesses may need to create liquidity to fund investment, acquisition or other forms of CAPEX
- ▶ Where there is financial distress, releasing cash from working capital may facilitate preservation of the business
- ▶ Optimizing working capital creates funding for business transformation programs

Working capital is the cheapest source of incremental cash

Cash is released through quick wins and longer-term sustainable improvements reducing working capital levels

On average, a typical company can release 35M of working capital for every €500M (7%) of sales

Cash improvement levers

Their interplay has an important impact on sustainability

Cash elements within a business Critical success factors

Culture, Visibility and Control
Establishing the foundations for sustainable cash flow improvements



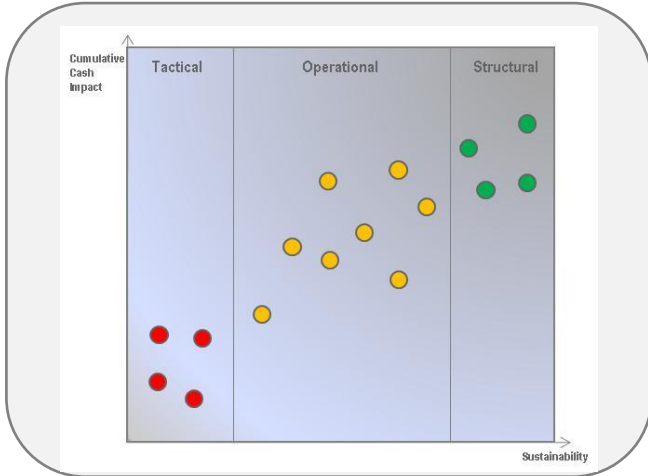
- Timely, clear and precise management reporting, including focused KPIs
- Clearly aligned targets and incentives, across all functions
- Clear roles and responsibilities and ownership of cash flow
- Accurate cash flow forecasting

Working Capital Management

Tactical
Short term measures to achieve short term needs

Operational
Embedding changes in operational processes and commercial arrangements to optimize cash

Structural
Measures which impact organizational working capital needs (through market, product, partnering or radical redesign)



Other Cash Elements
Increase cash generation via improved efficiencies including balance sheet cleansing and releasing trapped cash



- Tax including transfer pricing with tax efficient supply chain
- Phasing of capital expenditure
- Cross-border cash strategies, including repatriation of cash
- Cash leakage

- 1. Communicate the importance**
Make working capital improvement important to management and communicate benefits to the business
- 2. Integrate with other priorities**
Embed cash objectives into other key change initiatives, both existing and new
- 3. Measure and improve**
Establish baseline reporting and metrics early on in the program
- 4. Operational change plans**
Engage with the business units on a root and branch basis
- 5. Sustainable changes**
Focus on sustainable changes and not on short term fixes

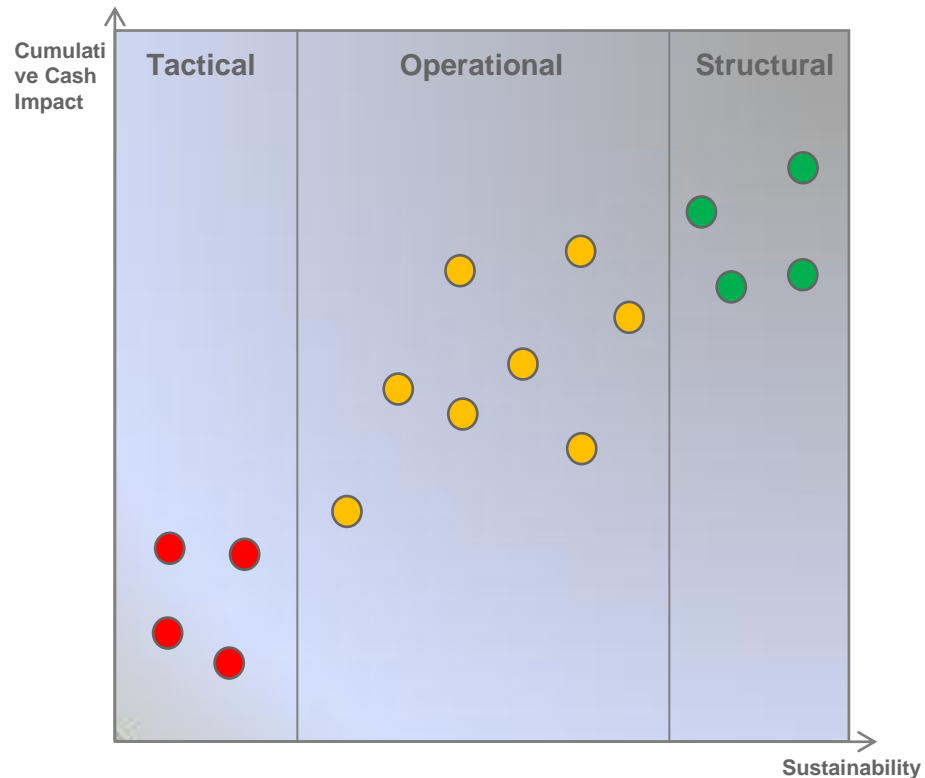
Cash improvement levers

A program should consider both the value and sustainability of cash levers

Example cash levers

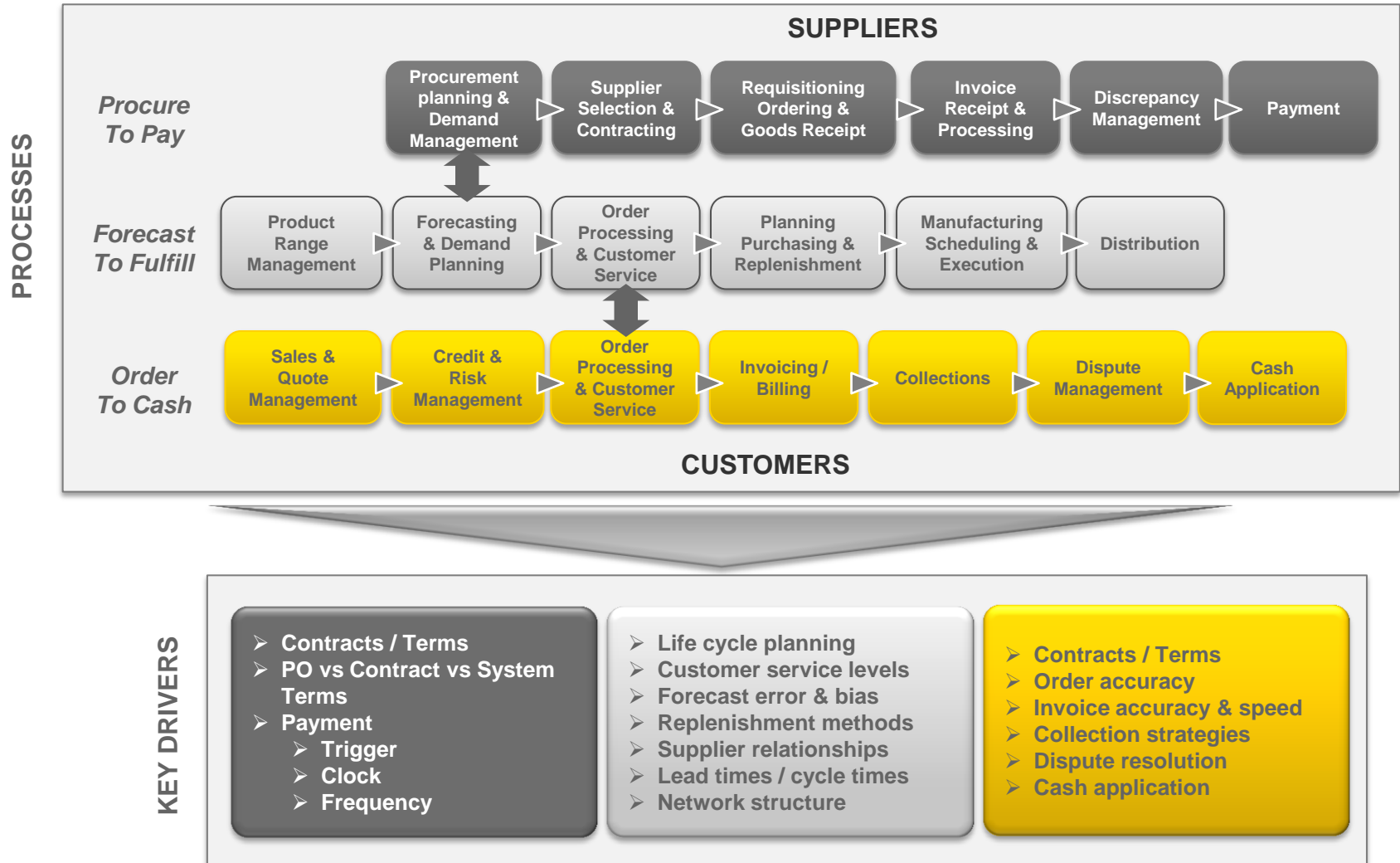
Tactical		Example measure
1	Payment deferrals	Retain cash by paying after agreed terms
2	Discounted stock disposals	Generate cash via discounted sale of stock
3	Debt factoring	Reduce collections work through debt factoring
4	Collections push (discounts)	Speed up cash intake via early payment discount
Operational		Example measure
1	Customer terms	Negotiate more advantageous customer terms
2	Speed to bill	Reduce billing cycle time
3	Collections	Customer segmentation
4	Supplier terms	Negotiate more advantageous supplier terms
5	Payment practices	Stop early payments, optimize payment policy
6	Product management	SKU rationalization
7	Inventory planning	Align sales forecasting with operational planning
8	Measure & incentivize	Leading KPIs, CFF and scorecards
Structural		Example measure
1	Fulfillment strategies	Online or partner fulfillment
2	Sourcing strategies	VMI or inventory outsourcing
3	Product design	Customer products which optimize cashflow
4	Outsourcing	Collections or payables outsourcing

Maturity of cash improvement levers



Key drivers of working capital opportunities

It is critical to quickly focus on key drivers of working capital opportunities within the primary processes



Working capital performance indicators

They are fairly simple to understand, but they are not easy to change

Performance Indicator	Meaning	People in charge	Driven by
Days of sales outstanding (DSO)	Average time a receivable remains on the balance sheet, measured as the number of days sales represented by the AR balance How long does it takes to get paid?	<ul style="list-style-type: none">• Sales• Customer Service• Credit• Collections	<ul style="list-style-type: none">• Payment terms• Timeliness of Invoice issuance• Collection effectiveness• Issues that cause late payment
+			
Days of inventory outstanding (DIO)	Inventory in terms of number of days of sales/usage How long will it take to consume the inventory?	<ul style="list-style-type: none">• Sales / Marketing• Customer Service• Manufacturing• Supply Chain• Distribution	<ul style="list-style-type: none">• Inventory policies• Poor forecast accuracy• Inflated lead-times• Low cost sourcing
-			
Days of payables outstanding (DPO)	Value of the creditor balance in terms of number of average days of purchases. How long does it take to pay?	<ul style="list-style-type: none">• Purchasing• Finance	<ul style="list-style-type: none">• Payment terms• Payment triggers• Payment clock• Payment methods
=			
Days of working capital (DWC)	Value of the NWC in terms of number of average days of sales. How many days of sales do we carry as working capital to run the business?	<ul style="list-style-type: none">• CEO/COO & CFO	<ul style="list-style-type: none">• The lower the better

DSO reduction

Through Order To Cash (OTC) process improvements



DSO reduction

Sample actions to squeeze DSO

Process	Issue	Impact	Action
Sales	Sales rep solely aim revenue and margin growth	<p>Sales rep not aware of cash relevance:</p> <ul style="list-style-type: none"> ▶ collection terms are not part of the negotiation ▶ client risk not considered ▶ discounts if prompted collection not offered ▶ no discussion about penalties on delayed payments 	<p>Ensure that compensation schema for Sales rep considers cash indicators</p> <p>→ Bonus timing: partially paid when cash is collected not only when revenue target is achieved</p>
Risk control	<p>Clients without credit limit assigned</p> <p>Rules to set credit limits are not clear</p> <p>High risk customers are not analyzed nor identified</p> <p>Credit limits are not reviewed on a timely basis</p> <p>Many clients are over their credit limit</p>	<p>Significant number of write-offs (+0.1% of total revenues)</p> <p>High level of delayed collections</p>	<p>Recognition of the importance of control risk management</p> <p>Clear rules aligned with the company strategy (profitability growth, increase liquidity)</p> <p>Defined set-up process: responsibility split between Sales and Finance in client acceptance; credit risk management (calculation, review, profile allocation) ; risk triggers (what analysis to deliver, when)</p> <p>Assign payment method and terms appropriately to risk profile</p>

DSO reduction

Sample actions to squeeze DSO

Process	Issue	Impact	Action
Order management	Orders accepted despite low quality of information provided <ul style="list-style-type: none">▶ prices are not up to date▶ order terms does not reflect the terms negotiated▶ ordered volumes not appropriated to client type (a wholesaler send several orders with min quantity)	Collection timing is delayed without any trade-off: disputes on price; too generous conditions	Review and update prices on a timely basis Ensure that orders reflect negotiated conditions (include double check if necessary) Schedule recurring reviews of the ordering client profile (volumes, frequency, timing...)
Invoicing	Time gap between goods delivery and invoice issuing (or invoice printing and sending)	Delayed cash collection	Integrate Logistics information system with invoicing system
Cash collection	High volume of delayed payments: payments delayed over 30 days vs total debtors >15%	Unusual debtor balance	Set-up a Task Force devoted to delayed payment recovery within 2 months
Dispute resolution	High number of credit notes vs total number of invoices (>3% in volume and value)	Resolution time is delayed and thus overall time for cash collection	Assign appropriated resources to dispute resolution: identification, classification and efficient resolution Root analysis and solution deployment to prevent same dispute to occur again

DIO reduction

Through Forecast To Fulfill (FTF) process improvements



DIO reduction

Sample actions to squeeze DIO

Process	Issue	Impact	Action
Stock responsibility	Security stocks are defined by Sales rep	Nobody seems to be on charge of stock management	Share importance of stock control: <ul style="list-style-type: none">▶ name a Mr. Stock▶ define stock level goals▶ consider stock possession costs within Production and Purchasing economics
	Purchasing area focused on volume discounts		
	Stocks in different areas (I+D, Quality, Production) not belonging to anyone	Stock levels much larger than needs	
	No stock level targets		
	Stock cost is not considered in total margin calculations		
Demand Forecasting	Production volumes led by expected sales or based on annual forecast (defined 6 months ago)	Production or purchasing quantities larger than needs	Set/Enhance demand planning process appropriately <ul style="list-style-type: none">▶ cross functional process▶ it's a lively and ongoing process▶ name a process owner (usually under Supply Chain Manager duties)▶ use a qualitative and quantitative approach
	Sales rep define sales forecast on their own	Stock coverage larger than demand	
	Production systematically add/cut a 20% to volumes requested by Sales		

DIO reduction

Sample actions to squeeze DIO

Process	Issue	Impact	Action
Stock ownership	All stocks belong to the company	High stock levels	Develop and manage stock consignment agreements with suppliers
Product portfolio	All products are “make to stock”, namely those with consumption volume C (<5% of total consumption)	Company holds too many products with too low stock levels	Streamline the product portfolio Keep obsolete products in the portfolio but switch them to a “make to order” strategy
Production strategy	Large production batches to ensure occupancy Significant set-up time driving to large production batches	Production volumes much larger than what is really need Stock hides production planning improvements	Define production batches based considering stock possession cost Set up root analysis and define alternative ways to drive them down
Stock indicators management	All products within a category are managed the same way	Either stock breaks or overstock	Fine tune stock management to product profile or relevance
Stock indicators management	Parameters that impact stock level are not reviewed on a timely basis: <ul style="list-style-type: none">▶ lead times , production and delivery timing▶ security stock▶ replenishment stock	Either stock breaks or overstock	Frequently review these parameters based on product relevance

DPO reduction

Through Purchase To Pay (PTP) process improvements



DPO reduction

Sample actions to squeeze DPO

Process	Issue	Impact	Action
Supplier selection	Too many suppliers in Vendor Master	Less purchasing power	Classify purchasing portfolio by category
	Too many invoices of low value	Higher admin costs	Drive number of suppliers down to 2 by category
Purchase requisition	Unappropriated validation process	Delays due to unnecessary authorizations that does not leverage control	Define a purchasing process quick, flexible and with clear roles
Purchase order	High number of invoices without PO number	Lose of control	No invoice accepted without PO number
	High number of orders created after invoice reception	Complicated cash planning	Ensure application of purchasing policies
	Amendment of supplier terms without approval		
Invoice processing	Invoice reception is decentralized	Lose of control	Define and communicate a single reception point for invoices
	Invoices are not timely received by Accountancy	Complicated cash planning	
		Payment delays	
Dispute management	Payment area is overwhelmed dealing with supplier issues	Invoice are processed following the rule "no complaint – no payment"	Single point of contact to deal with all supplier queries
	Suppliers access directly to the order requester		If possible, create a supplier hotline split by functions

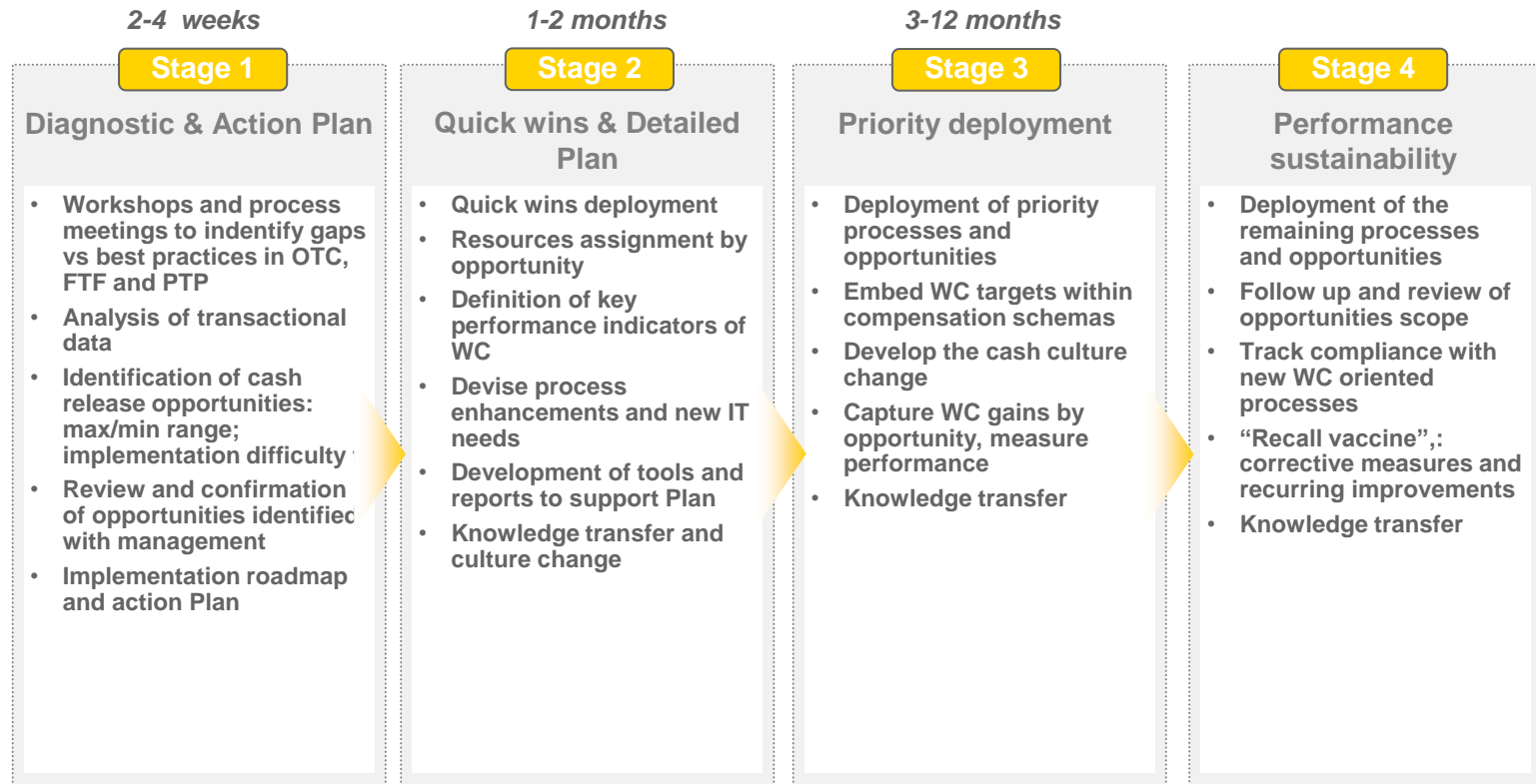
DPO reduction

Sample actions to squeeze DPO

Process	Issue	Impact	Action
Payments	Early payments	Financing offered by suppliers not fully captured Decreases DPO without trade-off	Set system parameters to ensure only due invoices and eligible for payments Revisit financing tools (i.e. confirming)
Payments	High payment frequency (i.e. more than 2 payment runs a month)	“Admin timing” not fully captured	Set and communicate two payment runs a month (second one not too close to the end of month)
Payments	Unappropriated payment methods	Higher admin costs Suppliers wary about payment readiness	Analyze usage of payment methods that offer financial security to suppliers (i.e. confirming)
Payments	High level of duplicated payments	Payments are hard to recover once made	Fine tune system to monitor invoices with similar dates/amounts

Methodology

A typical approach for cash release







-  **Azucarera Ebro** is the leading sugar producer in Spain with total sales in 2010 of €482 million and with over 1,000 employees working at our 5 plants located all over Spain. In May 2009 it became part of British Sugar Group, the second largest sugar producer in the world, which belongs to Associated British Foods (ABF), a listed company in London Stock Market.
-  The sugar produced in our 5 plants comes from collecting beet harvests from around 13,000 growers who supply **Azucarera Ebro** with the finest raw materials every year. Since 2009 we have operated a sugar refinery in the south of Spain, which enables us to use cane sugar as an additional raw material for our production and gives us the opportunity to satisfy market demand.
-  **Azucarera Ebro** is the absolute market leader in Spain, with a market share of over 60%. This leadership is shown in both markets – Industry and Retail.
-  The sugar business is a regulated industry, which puts a lot of restrictions on our operations and growth and provides us with a regulatory framework within which we have to play.



Improving working capital at Azucarera Ebro

Business rationale behind an integrated working capital approach

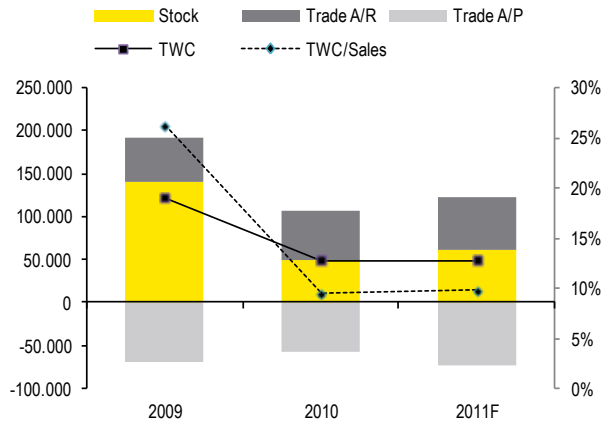
- Associated British Foods has historically been a no leveraged business with a focus on sustainable, profitable growth. Over the last 2 years, however, ABF has taken advantage of a number of opportunities to grow by acquisitions.
- As a result, the group has paid greater attention to cash and working capital management, partially to contribute internal capital to the acquisition agenda as well as to support and mitigate the subsequent debt.
- Based on this, the group wanted to **embrace an inclusive working capital project** to leverage its best practices along all its business entities. In this context, an all-inclusive program of process analysis and implementation of cash release opportunities was launched in early 2010.
- The benefits and goals set for the program were:
 - Challenge as-is OTC, PTP and FTF processes vs. best practices
 - Identification and prioritization of sustainable working capital improvements
 - Reduce financial costs, uncovering new almost-free cash sources
 - Use new cash for debt repayment and/or to create more headroom for covenants
 - Spread a cash culture along the whole group



Working Capital performance at Azucarera Ebro

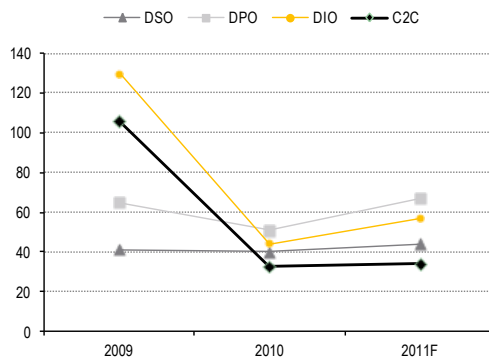
Azucarera Ebro has driven its WC down to 10% of its revenues

Azucarera WC evolution 2009-20011F



Source: Azucarera Ebro

Azucarera WC evolution 2009-20011F



Source: Azucarera Ebro

► Our Working Capital performance is impacted by three main issues

- Global lack of sugar.
- Seasonality of our production.
- Regulatory framework in our industry.

► Due to these restrictions we have been forced to look for secondary working capital optimization opportunities and to push harder on the ones we have identified with potential improvement.

► Housekeeping and discipline acquired during this project will lead us to dramatically improve our Working Capital Performance.

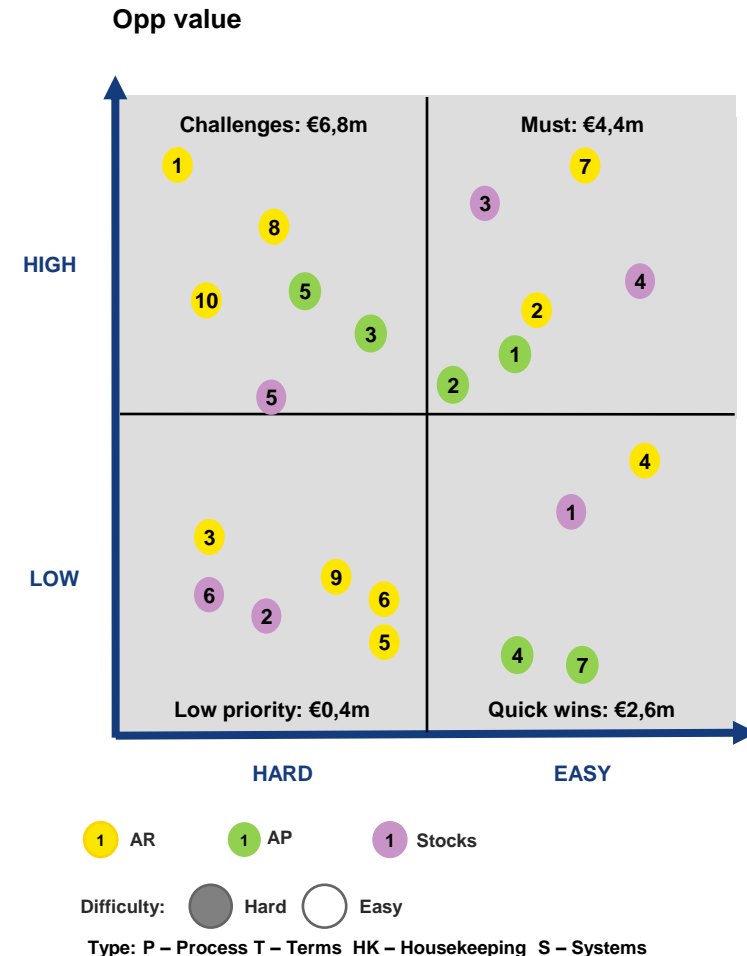
► Working Capital optimization measures must not have a negative impact on business development. What is necessary is to find the room for improvement that always exists.



Sample of opportunities identified

Opportunities are classified for easy prioritization

Ref	Opportunities: quick wins	Type	Dif.
4	Realign AP VM & System Terms (€0,1m)	HK	○
7	Eliminate early payments (€0,1m)	HK	○
4	Eliminate Terms Extension (€1,4m)	HK	○
1	Eliminate excess Pulp (€1,0m)	HK	○
Ref	Opportunities: must	Tipo	Dif.
2	Streamline invoicing process (€0,5m)	P	○
7	Improve payment timeliness (€1,7m)	P	○
4	Contract (PO/Invoice) to system terms (€0,7m)	HK	○
3	Supplier payment terms (€1,1m)	T	○
1	Reduce cane balances (€0,3m)	P	○
2	Reduce chemical coverage (€0,1m)	P	○
Ref	Opportunities: challenges	Tipo	Dif.
1	Align customer payment terms (0,9m)	T	○
3	Revise invoice trigger to Goods Receive Date (€0,4m)	HK	○
5	Reduce excess sugar (0,4m)	P	○



Lessons learnt

The appropriated assignment and commitment of key resources is crucial



Lessons learnt

The appropriated assignment and commitment of key resources is crucial

- Absolutely essential to **involve a project leader at an adequate level from the very beginning** (even in preliminary steps) who will be the one who deals with the project on a daily bases.
- **Approach and Scope of the project has to be clearly defined and communicated to all stakeholders.** It has to be checked that all of them have properly understood.

Important to clearly **understand not just the beginning but also all future steps** of the project.

Every minute lost defining and communicating the project during the first steps will be 100 minutes saved in future stages. Many of the definition work can be used to create metrics and tools for follow up stage.

- Necessary to **involve all Areas of the Company since the first day and even in preliminary meetings.** If this is not done, it will be difficult for the Areas to assume the project as part of their business.
- The project is time consuming. **Define and assign the necessary resources in each Area** of the Company for both, initial steps and follow up.
- **Involve IT** from the very beginning. Their help will be key to simplifying the work.



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