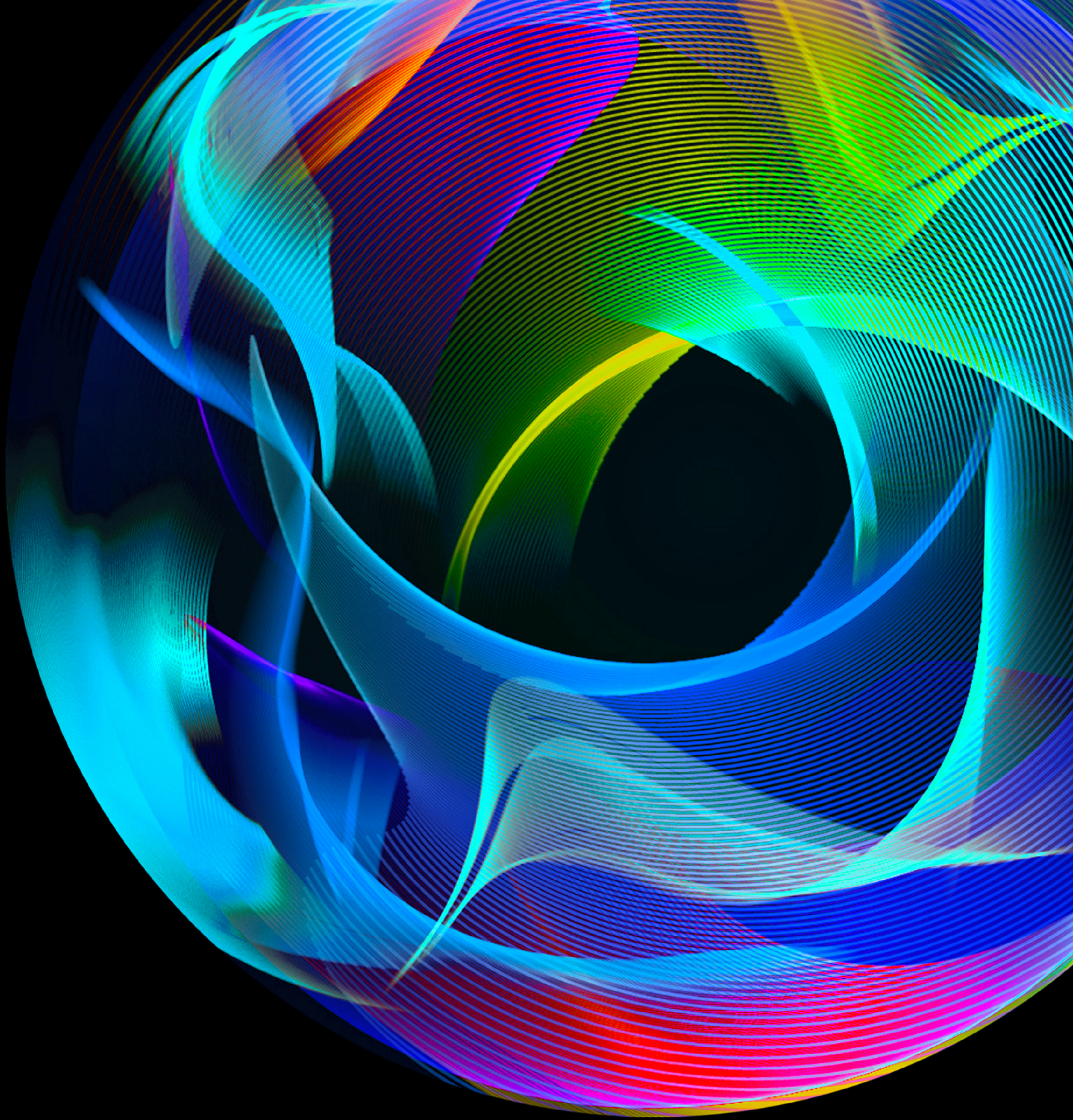
Deloitte.



# Working Capital Roundup Q3 2023

## Oil Field Services—US and Canada

# Glossary of terms

| | |
|---|---|
| **AP** | Accounts payable |
| **AR** | Accounts receivable |
| **CAPEX** | Capital expenditures |
| **CCC** | Cash conversion cycle |
| **COGS** | Cost of goods sold |
| **DIO** | Days inventory outstanding |
| **DPO** | Days payables outstanding |
| **DSO** | Days sales outstanding |
| **FCF** | Free cash flow |
| **PQ** | Prior quarter |
| **PY** | Prior year |
| **QoQ** | Quarter over quarter |
| **WC** | Working capital |
| **WIP** | Work in progress |
| **YoY** | Year over year |

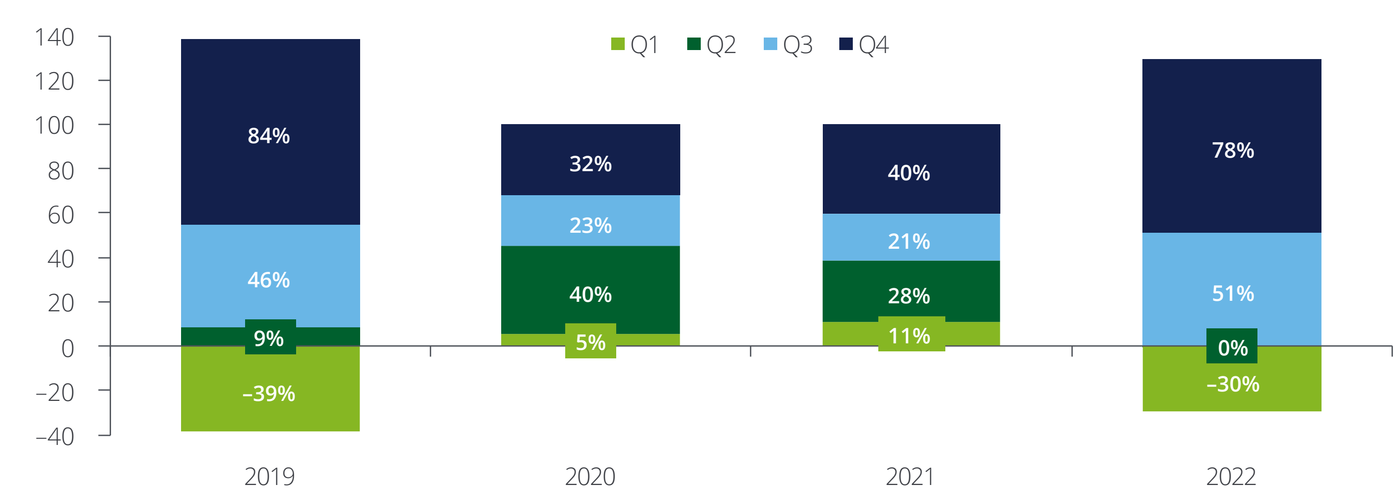
# Quarterly performance summary

## Summary of Q3 results

- In Q3, the revenue strength year to date continued with combined peer group revenues again exceeding $30 billion* and repeated strong operational cash performance and free cash flow
- Average FCF stayed constant at 9.0% of revenue and exceeded an average of $194 million in absolute terms, an increase of $52 million vs. PY, and positioning many companies for a strong full year.
- In our previous quarterly report, we noted that there were some notes of caution around accounts receivable, and the Q3 results show that this continues to be a challenge with average DSO continuing to rise. While some level of friction is to be expected given the rapid increases in revenue, we would expect to see companies taking steps to mitigate this through Q4 and into 2024.
- Alongside the DSO deterioration, results also showed an increase in inventory levels and DIO, which contributed to an overall increase in net working capital. Historically, we have seen inventory increases through the year and some release in Q4, so watching the final path to year end will be critical, as well as determining whether there is sufficient runway for inventory to be deployed and turned into cash.
- Overall, Q3 was a strong performance for cash generation driven by the revenue and income strength, but we expect to see focus on net working capital become more common as 2023 transitions into 2024.

**Prior six quarters' average free cash flow (FCF) and FCF as % of revenue ($ million)**


**Percentage by quarter of full-year free cash flow**




Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

*Please see guidance notes for updates to peer group covered.

# Trailing quarters

## Trailing quarter trends

- **Accounts receivable** – Continued growth in AR with a $0.69 billion increase vs. prior quarter and a 0.8-day increase in DSO, resulting in another sequential quarterly increase. DSO is now 4.0 days up vs. PY, an increase of $3.48 billion in balance sheet levels and marking seven sequential quarters of growth.
- **Inventory** – Levels also continued to increase with a 2.1-day increase in DIO and an additional $0.15 billion vs. PQ. Levels are now $2.25 billion higher than prior year with a 4.8-day increase in average DIO.
- **Accounts payable** – Some signs of positivity here with AP balance growth exceeding growth in inventory levels (up $0.27 billion vs. PQ) and a 1.2-day increase in DPO. Levels are up $1.14 billion vs. prior year, which although not entirely offsetting the inventory growth shows some positive signs and will have supported some of the FCF improvements seen.
- **Net working capital** – Cash tied up in net working capital was $25.57 billion ($4.59 billion higher vs. PY), setting a new high point and contributing some pressure to the overall FCF performance. Free cash flow conversion for the peers dropped 4% vs. PQ, from 98% to 94%, and down from 109% in Q3 2022.

| Performance | CQ1 2022 | CQ2 2022 | CQ3 2022 | CQ4 2022 | CQ1 2023 | CQ2 2023 | CQ3 2023 | vs. PY | vs. PQ |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $21.91B | $24.96B | $27.14B | $28.59B | $28.36B | $29.41B | $30.20B | $3.06B | $0.80B |
| Net income | $0.75B | $0.51B | $1.87B | $2.62B | $2.72B | $2.66B | $2.90B | $1.03B | $0.25B |
| Accounts receivable | $21.22B | $22.63B | $23.88B | $24.74B | $26.67B | $26.67B | $27.36B | $3.48B | $0.69B |
| Inventory | $13.41B | $13.92B | $14.60B | $15.11B | $16.11B | $16.71B | $16.85B | $2.25B | $0.15B |
| Accounts payable | $16.44B | $16.39B | $17.50B | $14.48B | $18.50B | $18.37B | $18.64B | $1.14B | $0.27B |
| Net working capital | $18.19B | $20.16B | $20.98B | $25.37B | $24.29B | $25.01B | $25.57B | $4.59B | $0.56B |
| DSO | 74.5 | 72.4 | 73.0 | 73.1 | 73.8 | 76.2 | 76.9 | 4.0 | 0.8 |
| DIO | 45.1 | 43.7 | 43.8 | 43.5 | 44.7 | 46.5 | 48.6 | 4.8 | 2.1 |
| DPO | 47.0 | 47.8 | 47.3 | 47.3 | 48.4 | 52.0 | 53.2 | 5.8 | 1.2 |
| CCC | 72.6 | 68.3 | 69.4 | 69.3 | 70.1 | 70.7 | 72.3 | 2.9 | 1.7 |
| Cash from operations | $0.06B | $1.35B | $3.58B | $5.12B | $1.50B | $4.46B | $4.67B | $1.09B | $0.21B |
| Capital expenditure | –$1.28B | –$1.41B | –$1.53B | –$1.97B | –$1.77B | –$1.86B | –$1.94B | –$0.41B | –$0.08B |
| Free cash flow | –$1.22B | –$0.07B | $2.05B | $3.15B | –$0.27B | $2.60B | $2.73B | $0.68B | $0.13B |
| FCF conversion | –164% | –13% | 109% | 120% | –10% | 98% | 94% | –15% | –4% |
| FCF as % of revenue | –6% | 0% | 8% | 11% | –1% | 9% | 9% | 1% | 0% |

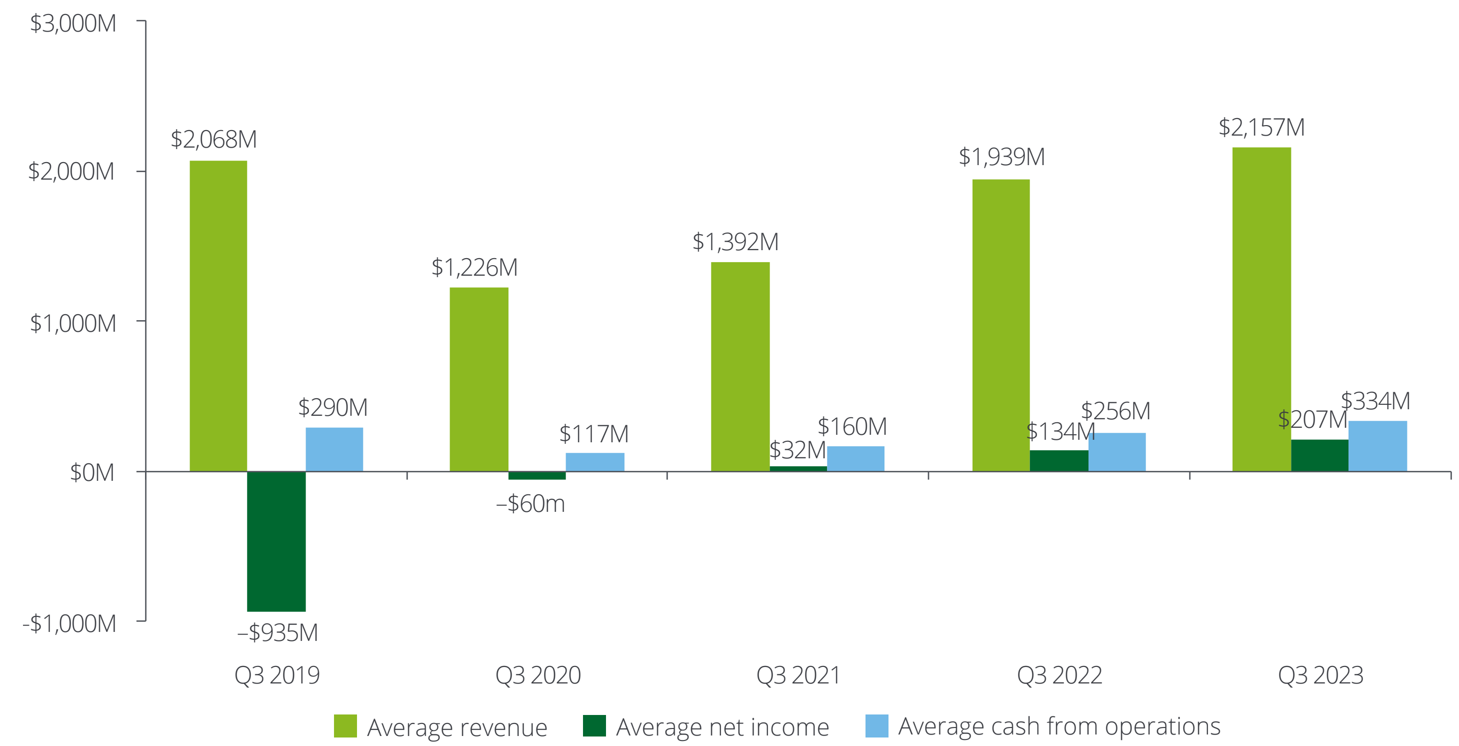
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

# Revenue, income, and cash

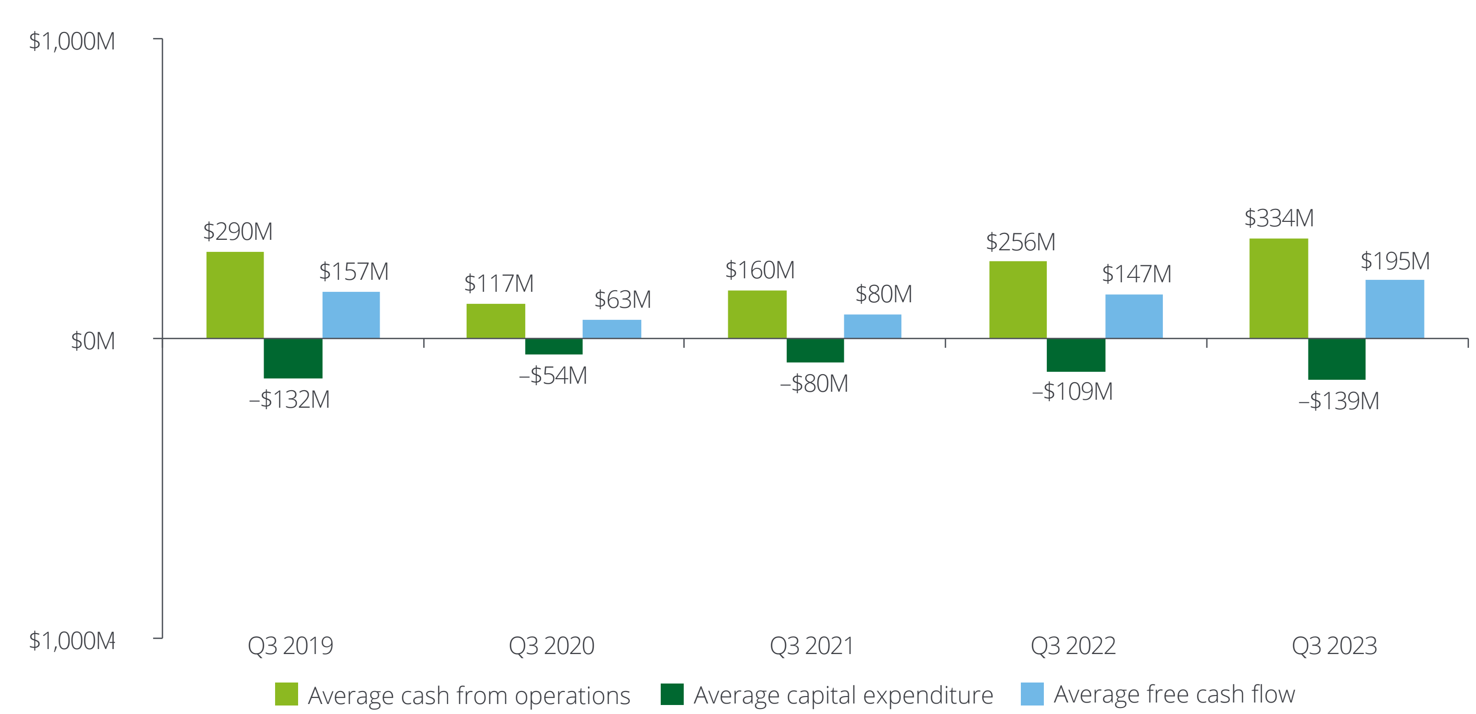
## Revenue, income, and cash

- Revenue growth was again strong in Q3 at $2,157 million, an increase of $932 million on prior year and marking four sequential Q3 periods of average revenue growth for peers and the strongest third quarter in the prior five years.
- Average net income and cash from operations also saw significant growth with average net income exceeding $207 million and average cash from operations at $334 million.
- This marked the highest levels of cash from operations in the prior five-year period, exceeding the prior mark of $290 million set in Q3 2019.
- Average capital expenditure grew from $109 million PY to $139 million, representing the strong Q3 investment levels in the preceding five-year period.
- Free cash flow also set a new recent high mark, increasing from $147 million in Q3 2022 to $195 million, for an increase of $48 million vs. PY.

**Average QoQ revenue, net income, and free cash flow ($ million)**




**Free cash flow generation ($ million)**



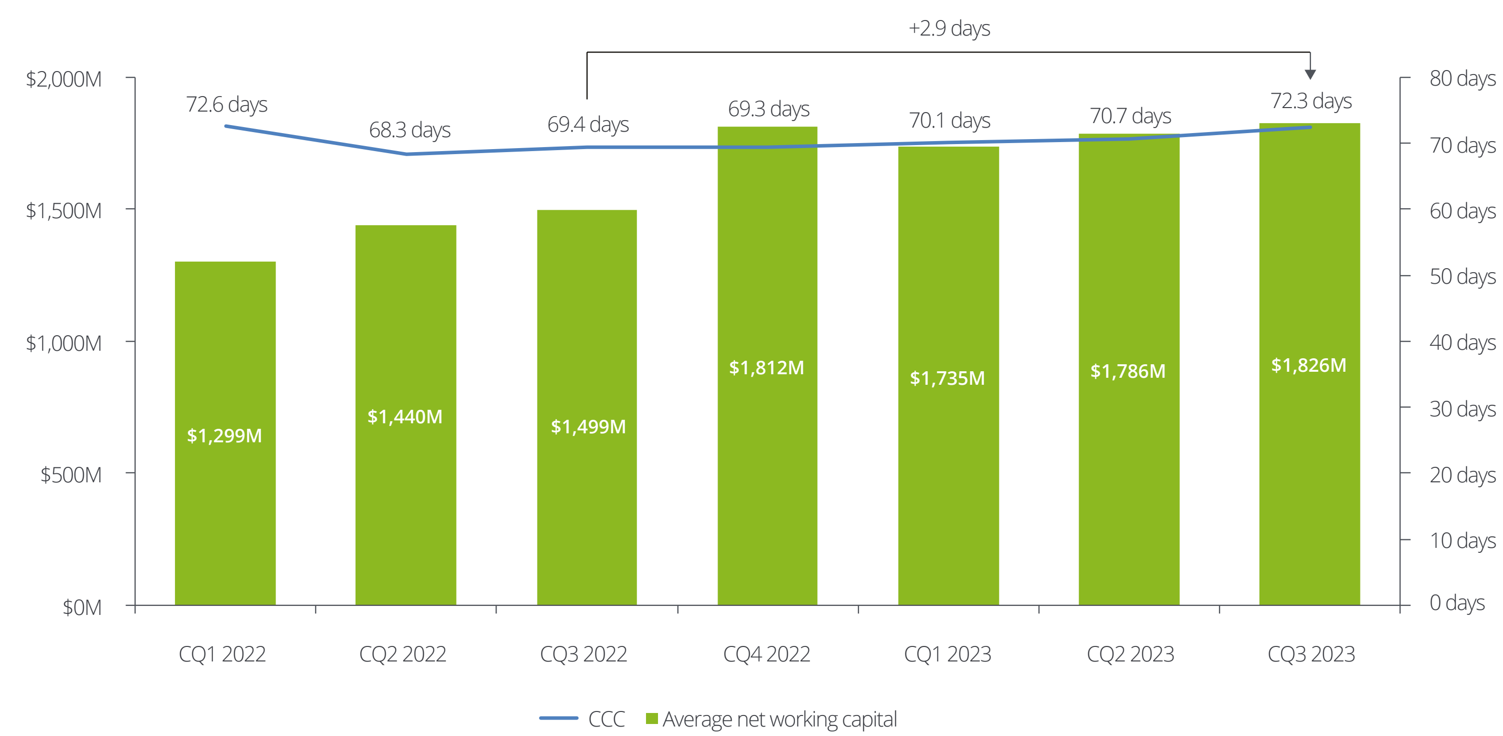

Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

# Cash conversion cycle

## Cash conversion cycle performance

- Average net working capital topped $1.8 billion for the second time in recent quarters, reaching a high of $1,826 million at the end of Q3 and continuing a year of high absolute levels and elevated cycle times.
- Average CCC reached 72.3 days, an increase of 2.9 days on PY and 1.6 days sequential increase, marking the fourth successive quarter of growth.
- While levels were elevated from prior years, when taken against the five-year trend, this remained a reasonably strong quarter, although performance in Q4 will be critical to determine the full-year picture
- Typically, Q1 has represented a high point with levels bleeding off through the year, meaning that unless there is significant progress in Q4, 2023 may result in the highest levels since 2020 and could represent a significant increase in both days' absolute dollars vs. PY.

### Cash conversion cycle and net working capital




### Quarterly average cash conversion cycle

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Q1 | 81.4 | 79.9 | 82.4 | 72.6 | 70.1 |
| Q2 | 75.1 | 123.8 | 75.9 | 68.3 | 70.7 |
| Q3 | 76.6 | 92.6 | 72.6 | 69.4 | 72.3 |
| Q4 | 76.6 | 83.1 | 66.4 | 69.3 | |

Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

# Accounts receivable performance

## Accounts receivable performance

- Accounts receivable continues to be an area of weakness across the peer group with average DSO rising to 76.9 days, an increase of 3.9 days vs. PY and 0.7 days sequentially.
- This also represented the six consecutive quarters of rising DSO and shows a trend that we would recommend peers examine to identify any structural reasons that may be driving this, as well as strategies to mitigate going forward.
- In absolute terms, accounts receivable balances were $1.95 billion, an average increase of $248 million vs. PY and given the trend toward increases in Q4, it is possible that average levels will exceed $2 billion by the end of the year, representing a significant tie-up of working capital.
- Indeed, this effect could be further compounded in 2023 as many peers are making efforts to lower inventory and finalize and invoice shipments or projects that, given the required cycle times, may not allow sufficient time for receivables to turn to cash.
- Effective planning leading into 2024 will be critical to help decrease the possibility that this does not act as a significant Q1 headwind and that companies are able to leverage the revenue gains to drive higher free cash flow.

### DSO and AR balance


### Quarterly Average DSO

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Q1 | 75.7 | 77.8 | 80.0 | 74.5 | 73.8 |
| Q2 | 76.3 | 129.6 | 79.2 | 72.4 | 76.2 |
| Q3 | 76.5 | 82.7 | 77.2 | 73.0 | 76.9 |
| Q4 | 76.5 | 78.8 | 71.7 | 73.1 | |

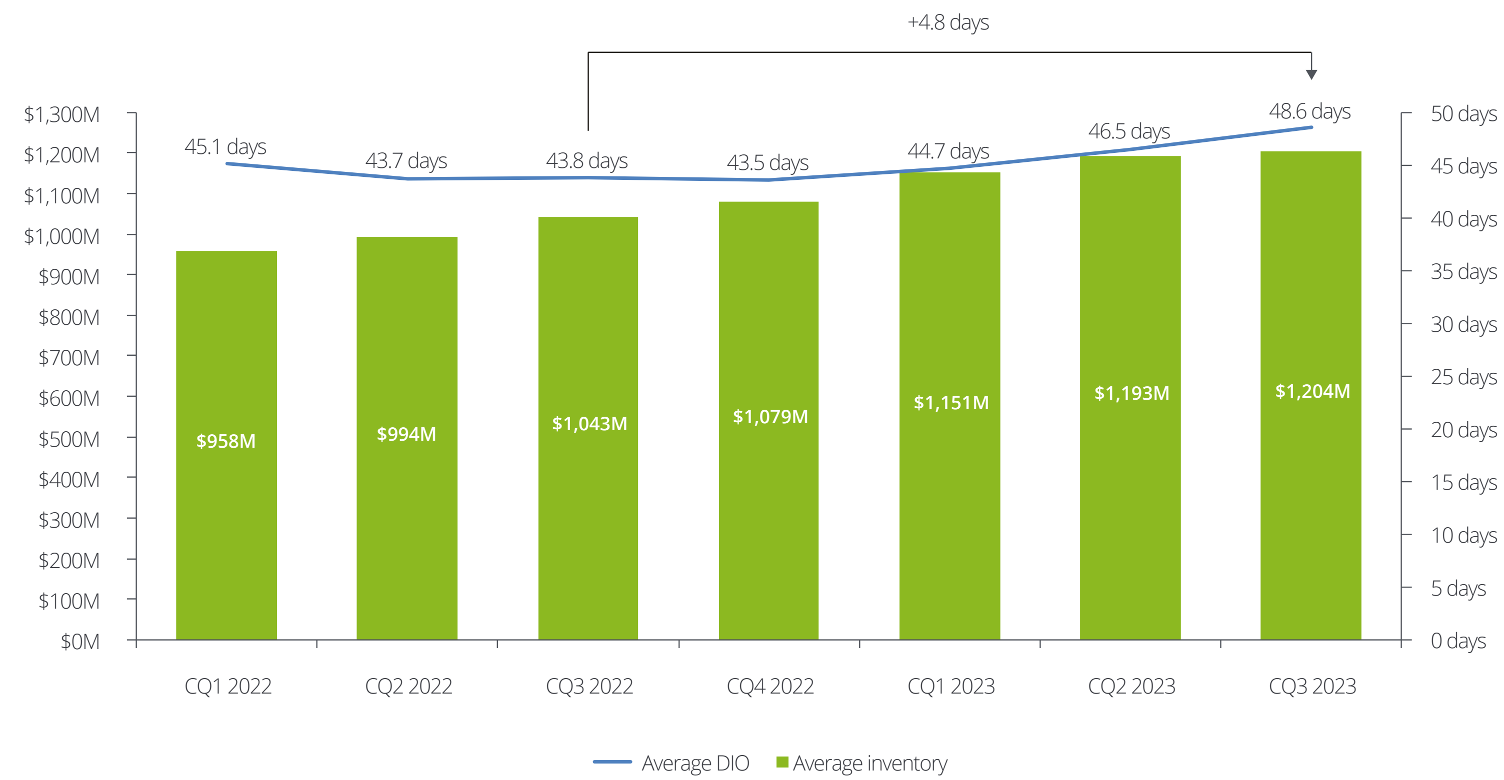
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

# Inventory performance

## Inventory performance

- Inventory was another working capital and cash flow headwind in Q3 with average DIO increasing YoY by 4.8 days to 48.6 days and inventory balances on average $161 million higher than in Q3 2022.
- On a sequential basis, DIO grew by 2.1 days vs. Q2 2023, and although the gain in absolute terms was nominal, this represented seven successive quarters of growth in absolute levels and the fourth successive quarter of growth in DIO.
- 2023 continues to represent a high watermark for DIO, which if 2020 is excluded as an outlier year, represents the most significant build in inventory for more than five years.
- While several firms have used their investor presentations to provide guidance on growth, continued growth in inventory that exceeds the revenue and COGS profile is likely to raise further questions from analysts concerned about carrying costs and operational efficiency.
- Once again, the Q4 performance of both inventory burn-down and conversion to receivables and then cash will be critical to provide the buoyancy for Q1 2024 strength.

**DIO and inventory balance**




**Quarterly average DIO**

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Q1 | 48.3 | 46.0 | 47.7 | 45.1 | 44.7 |
| Q2 | 45.3 | 70.9 | 45.4 | 43.7 | 46.5 |
| Q3 | 46.4 | 62.8 | 43.6 | 43.8 | 48.6 |
| Q4 | 45.0 | 49.8 | 40.7 | 43.5 | |

Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

# Accounts payable performance

## Accounts payable performance

- While in contrast to AR and inventory the overall AP performance was positive, the gains seen were not quite able to keep pace with the growth in inventory.
- On a YoY basis, DPO is now 5.8 days higher than in Q3 2022 with absolute levels reaching their highest in recent quarters at $1,332 million.
- Relative to prior quarters, this represented the strongest Q3 in recent years and has provided some needed buoyancy to offset the growth in AR and inventory previously noted.
- Operationally, it is perhaps not surprising to see the strength here given the increased demand that typically provides greater leverage.
- For those organizations looking to drive cash and working capital benefits, AR is often the first lever that organizations pull to improve cash performance and so can be a leading indicator of transformation agendas.
- However, it will be critical for companies to deliver benefits sustainably to avoid a snapback in Q4 that will act as a brake on full-year performance.

### DPO and AP balance


### Quarterly average DPO

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Q1 | 42.6 | 43.9 | 45.3 | 47.0 | 48.4 |
| Q2 | 46.5 | 76.7 | 48.7 | 47.8 | 52.0 |
| Q3 | 46.3 | 52.9 | 48.2 | 47.3 | 53.2 |
| Q4 | 44.9 | 45.5 | 46.0 | 47.3 | |

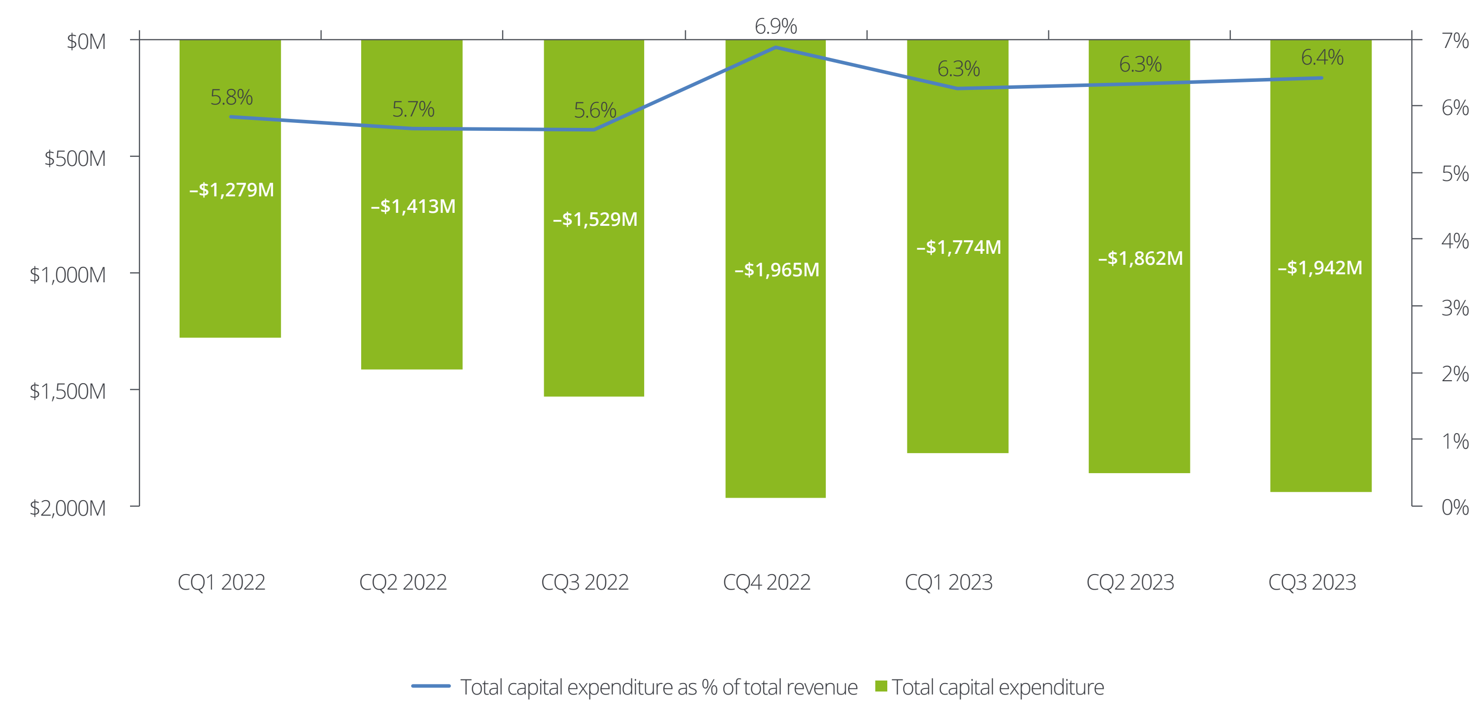
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

# Capital expenditure

## Capital expenditure

- Q3 2023 saw more than $1.94 billion deployed in capital expenditure, a significant level for a third quarter and supportive of the overall story reported by management teams relating to the continued growth and investment.
- Compared to prior periods, this was the second-highest quarter of capital deployments in the past four years and following from the record H1 levels, means that FY2023 is likely to be an exceptionally strong year.
- This total also represented a recent Q3 high of 6.4% of revenues, indicating that companies are growing their capital expenditure marginally ahead of the curve and—should the investments prove optimal—providing a strong platform for future growth.

**Capital expenditure**




**Total capital expenditure by quarter**

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Q1 | –$1.85 | –$1.53 | –$0.80 | –$1.28 | –$1.77 |
| Q2 | –$1.85 | –$0.96 | –$0.98 | –$1.41 | –$1.86 |
| Q3 | –$1.72 | –$0.75 | –$1.20 | –$1.53 | –$1.94 |
| Q4 | –$1.95 | –$0.94 | –$1.51 | –$1.97 | |
| Total | ($7.37) | ($4.18) | ($4.49) | ($6.19) | ($5.57) YTD |

Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

# Methodology and group

### Data on the group examined

- The sample group for this report is 14 publicly traded companies in the United States and Canada that are categorized as Oil and Gas Field Services.
- Due to the discontinuation of one of the peer group reported in the Q2 data, prior periods have been adjusted to remove this from previous results to present like-for-like comparisons in this report.
- Only those companies with recent full-year revenue greater than $1 billion are included to help support the relevance of key metrics and availability of data.
- Data has been sourced from CapitalIQ and is shown unadjusted and as reported.
- There are periods where no quarterly data is reported, and for this reason, averages are used as the primary point of comparison.
- Due to differing fiscal years, all data is also shown in calendar-year quarters.

# Authors

**Anthony Jackson**
**Principal**
Deloitte Transactions
and Business Analytics LLP
Cash & Working Capital
Services Leader
antjackson@deloitte.com

**John Little**
**Principal**
Deloitte Transactions
and Business Analytics LLP
Cash & Working Capital
ER&I Industry Leader
jolittle@deloitte.com

**Justin Hughes**
**Senior Vice President**
Deloitte Transactions
and Business Analytics LLP
juhughes@deloitte.com

Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Deloitte.