Working Capital Report
Southeast Asia 2019

Understanding Working Capital

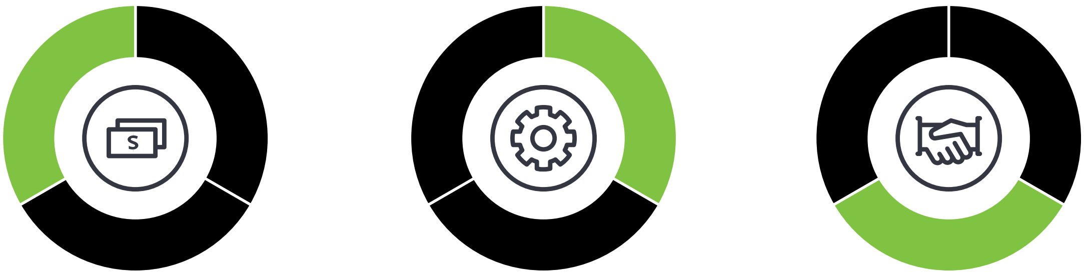
Cash is the life blood of business. Cash tied up in the working capital cycle (which comprises receivables, inventory and payables) can be a drag on business and lead to liquidity pressures. Businesses in Southeast Asia ("SEA") are under-performing their international peers on working capital management; reducing their global competitiveness. Effective working capital management can release cash which can be used for operations, expansion, capital expenditure, deleveraging and dividends.

The Working Capital Cycle

Payables
Procure-to-pay

Inventory
Forecast-to-fulfil

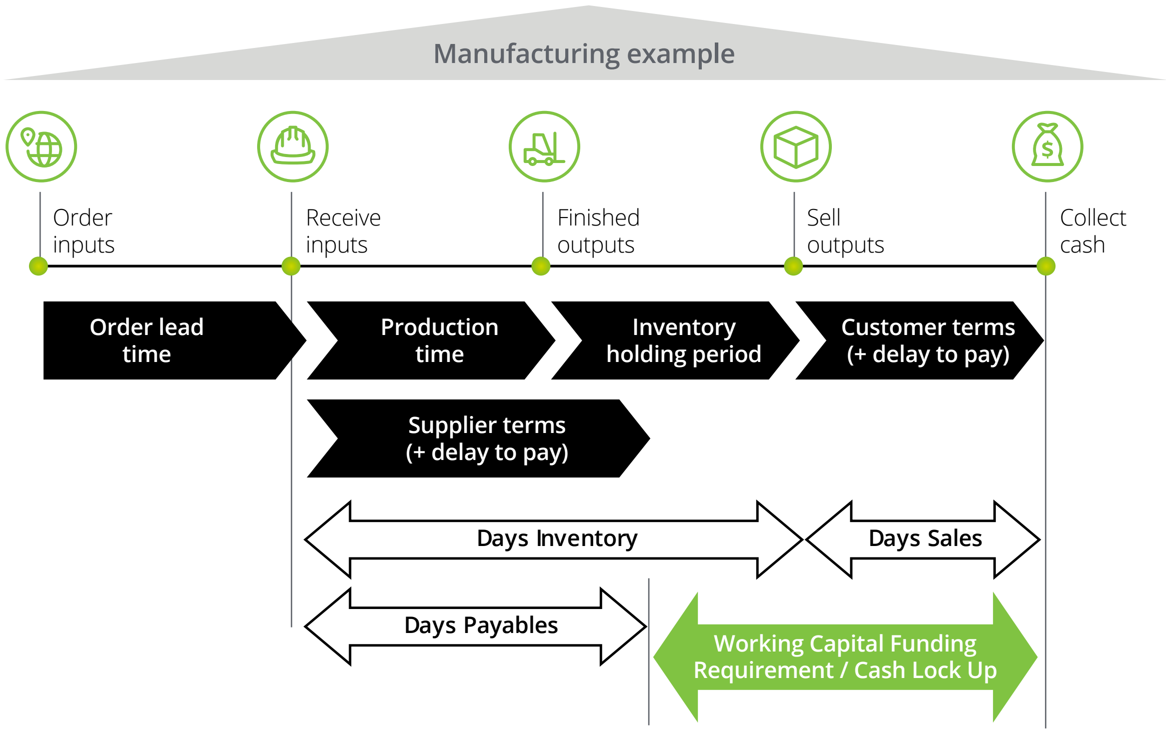
Receivables
Order-to-cash



The end-to-end process, from contracting with suppliers to receiving products/services and ultimately paying

The process of converting raw materials into finished goods, including the ownership of the goods until they have been sold

The process of contracting with customers through to selling goods and eventually collecting cash for the goods delivered



SEA Working Capital Performance

Listed public companies in Southeast Asia have a relatively high working capital investment when compared to the global average; 55 Days Working Capital ("DWC") in 2019. Singaporean companies were able to tighten up their working capital investment in 2019 unlocking USD5.6b through a 6 day reduction in their DWC. However Indonesian companies required an additional USD4.0b in working capital funding due to an 8 day increase in DWC.

Working Capital in Southeast Asia

DWC
- Days Working Capital
= (Accounts Receivable + Inventories
- Accounts Payable) / Revenue x 365 days

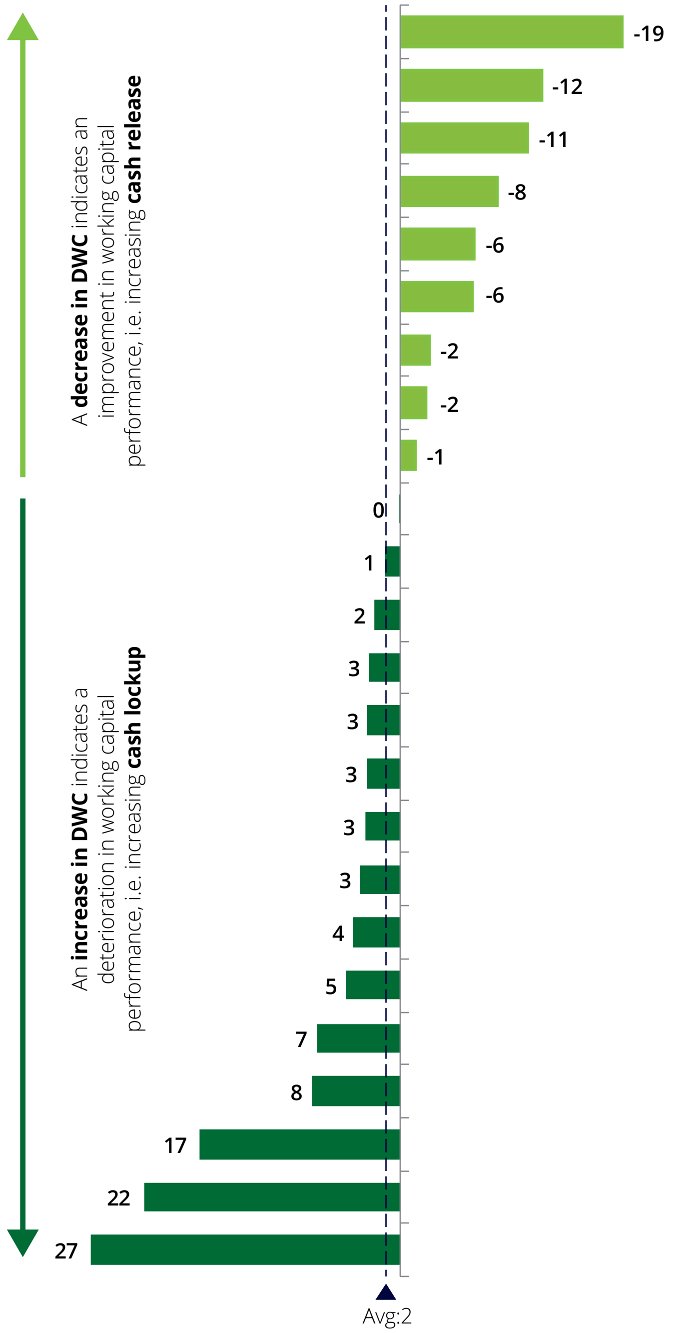
Data Sample Quick Stats

- 6 Countries
- 24 Industries
- 2,260 Public Companies
- USD214b NWC
- Source: Cap IQ
- July 18 to June 19

SEA Industry Performance

Mining companies achieved a 19 day reduction in DWC, releasing USD1.7b in cash, driven by a 7 day reduction in Days Sales Outstanding ("DSO") and a 15 day increase in Days Payable Outstanding ("DPO"). Agricultural companies saw a 27 day increase in DWC, requiring USD2.3b in additional funding, driven by increasing DSO and Days Inventory Outstanding ("DIO").

Change in Days Working Capital, CQ2 2018-CQ2 2019



Change in DWC	Industry	NWC
-19	Mining	$3.3b
-12	Furniture & Wood	$1.3b
-11	Oil & Gas	$14.2b
-8	Industrial Machinery	$3.6b
-6	Construction Materials	$5.6b
-6	Industrial Chemicals	$10.5b
-2	Public Utilities	$11.2b
-2	Steel & Metalworks	$9.2b
-1	Retail	$5.0b
0	Mechanical Engineering	$16.2b
1	Transportation	$2.1b
2	Consumer Goods	$1.9b
3	Construction	$17.0b
3	Computers & Electronics	$7.7b
3	Palm Oil	$13.8b
3	Services	$4.7b
3	FMCG	$22.8b
4	Paper & Printing	$3.4b
5	Telecommunications	$3.8b
7	Health	$2.9b
8	Clothing & Textiles	$2.3b
17	Other	$41.8b
22	Hospitality	$2.6b
27	Agriculture	$7.2b

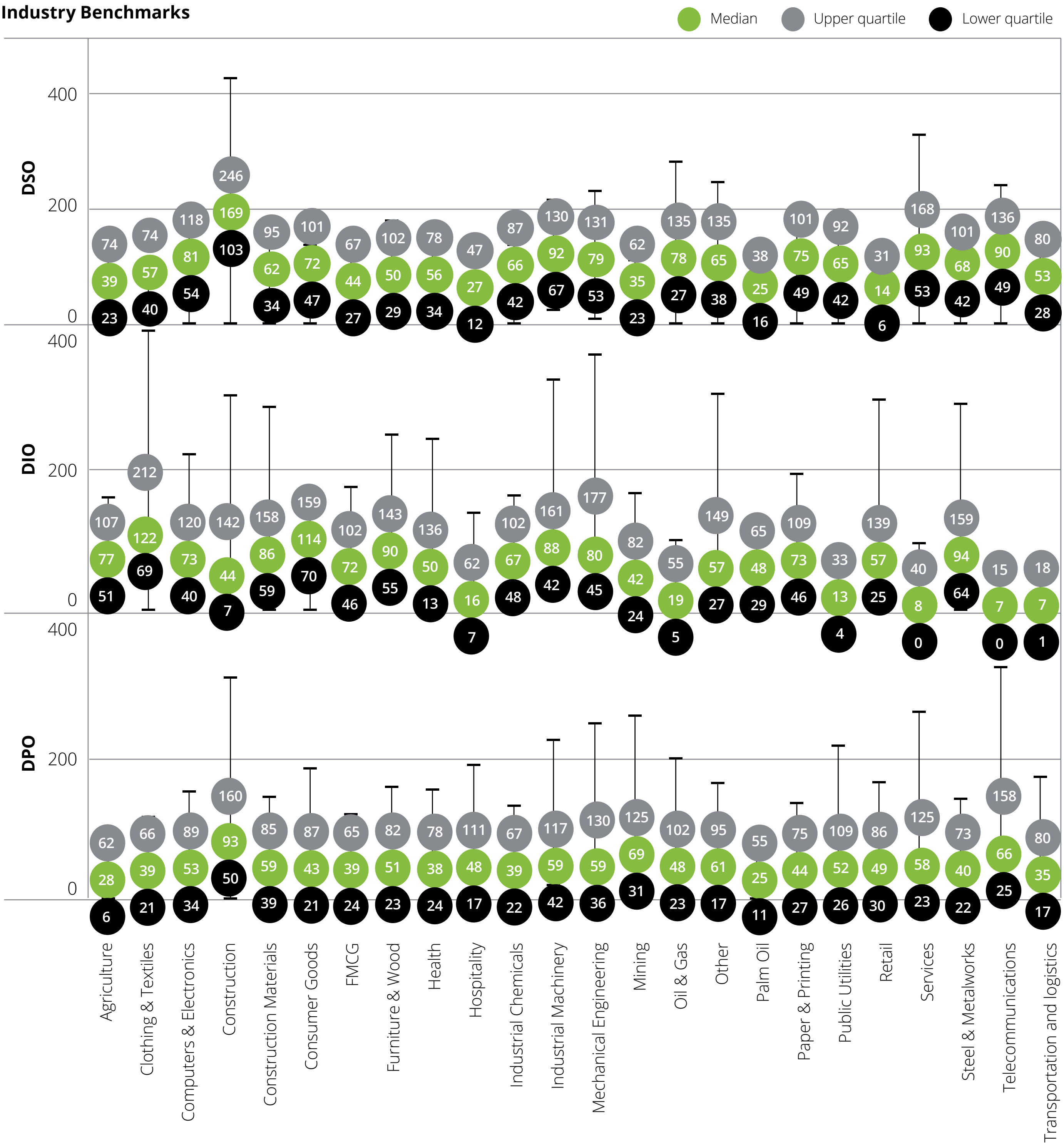
Source: Capital IQ, Deloitte analysis

SEA Industry Benchmarking

We have analysed the working capital performance of over 2 thousand public companies around Southeast Asia.

You can use these benchmarks to assess the working capital efficiency of your own business or portfolio company using the Working Capital Health Check on the following page.

Industry Benchmarks



Source: Capital IQ, Deloitte analysis

Working Capital Health Check

Calculate your company's working capital metrics using the formula below and compare the performance with the benchmarks for your industry on the previous page. How much cash could you unlock with the right working capital management strategy? We look at some of the levers to optimise working capital (and size some of the industry opportunities) on the following page.

Working Capital Health Check

Working Capital Formula	My Company Calculate your Company's Working Capital Days	Industry Benchmark Insert industy benchmark from Chart above	Notes
Days Sales Outstanding $DSO = \frac{\text{Accounts Receivable}}{\text{Revenue}} \times 365$	[insert formula result for your company]	[insert from industry benchmark from page 5]	1
Days Inventory Outstanding $DIO = \frac{\text{Inventory}}{\text{COGS}} \times 365$	[insert formula result for your company]	[insert from industry benchmark from page 5]	2
Days Payables Outstanding $DPO = \frac{\text{Accounts Payable}}{\text{COGS}} \times 365$	[insert formula result for your company]	[insert from industry benchmark from page 5]	3

Notes
1. Your Accounts Receivable management is more efficient if your Company DSO is lower than the Industry Benchmark.
2. Your Inventory management is more efficient if your Company DIO is lower than the Industry Benchmark.
3. Your Accounts Payable Management is less efficient if your Company DPO is lower than the Industry Benchmark.

Understanding Working Capital Lock-up
Taking Debtors as an example, assume:
(a) your Accounts Receivable total USD20m; and
(b) your Days Sales Outstanding is 150 days (i.e. it takes 5 months to collect debtors).

The Opportunity
Accelerating collections by just 1 month (20% reduction in collection time) would release ~USD4m in cash for your business. What would you do with that money?

The Cost
Assuming the business has a cost of capital of 7%; that 1 month additional lock-up in receivables is costing the business an additional USD280k p.a.

Illustrative Levers + Opportunities

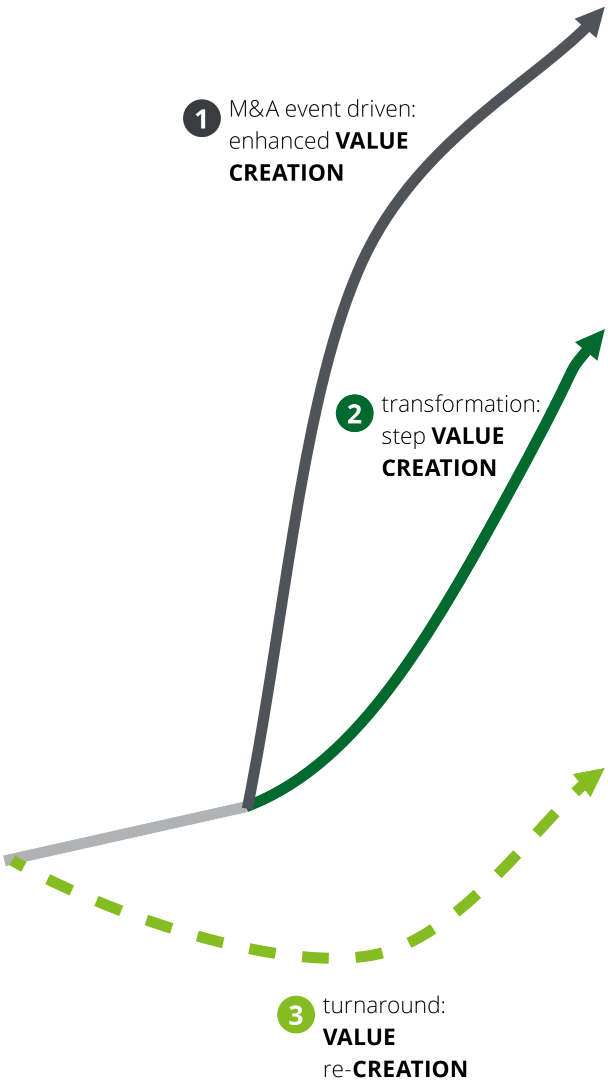
There is a significant opportunity to increase the global competitiveness of Southeast Asian companies through working capital optimisation. Here we demonstrate how tactical, operational and strategic adjustments to a company's debtor collections, inventory and payables management can yield material cash results ...fast! We can help your business to understand the potential for cash release and help develop and implement plans to realise results.

Survey Result (Southeast Asia)	**Illustrative Cash Release Levers** (Not exhaustive) — Tactical / Operational / Strategic	**Opportunity** (Potential Release)
	Debtors	
Construction DSO: 169 days *highest across all industries*	Prioritised collections drive (Tactical) Early payment discounts (Operational) Invoice financing (Strategic)	A **7-day** (4%) decrease in **DSO** would release **USD802m**
	Inventory	
Textiles DIO: 122 days *highest across all industries*	Re-pricing to accelerate turnover (Tactical) Reduce minimum stock quantity (Operational) Rationalise (less profitable) SKUs (Strategic)	A **10-day** (8%) decrease in **DIO** would release **USD142m**
	Payables	
Agriculture DPO: 28 days *one of the lowest across all industries*	Request and vouch original invoices (Tactical) Renegotiate terms for early payment discounts (Operational) Rationalise supplier base and seek volume discounts (Strategic)	A **3-day** (11%) increase in **DPO** would release **USD124m**

Deloitte Value Creation Services

Working Capital Optimisation is just one of the tools utilised by our expert Value Creation Services team who combine M&A and Restructuring skillsets with Private Equity techniques to rapidly drive up earnings and cash generation.

Value Creation Scenarios



1 Mergers & Acquisitions
Enhancing M&A opportunities to create value through:

- Due Diligence (com, fin, tech, ops)
- 100 Day Plan
- Integration and Separation

2 Transformation
Optimising existing businesses to drive up profits through:

- Performance Improvement
- SG&A Cost Reduction
- Working Capital Optimisation
- Strategic Sourcing
- Asset Efficiency

3 Turnaround
Restructuring businesses in special situations:

- Cash and Liquidity Improvement
- Restructuring Strategy
- Implementation Support (PMO)
- Chief Restructuring Officer / Advisor
- Managed Exit; fix, sell, close ...for underperforming subs / divisions

Basis of preparation

Basis of calculations

Days Inventory Outstanding ("DIO")

$$\text{DIO} = \frac{\text{Inventory}}{\text{Cost of Sales}} \times 365$$

Days Payables Outstanding ("DPO")

$$\text{DPO} = \frac{\text{Accounts Payable ("AP")}}{\text{Cost of Sales}} \times 365$$

Days Sales Outstanding ("DSO")

$$\text{DSO} = \frac{\text{Accounts Receivable ("AR")}}{\text{Revenue}} \times 365$$

Days Working Capital ("DWC")

$$\text{DWC} = \frac{\text{Inventory+AR−AP}}{\text{Revenue}} \times 365$$

Net Working Capital ("NWC")

NWC = Inventory + AR − AP

Source Data

The financial data has been sourced from the S&P Capital IQ database of the available financial information of entities with primary listings on the Singapore, Malaysia, Indonesia, Thailand, Philippines, Hanoi and Ho Chi Minh stock exchanges for the calendar quarters between July 2017 and June 2019.

Industry Classifications

We have classified the companies in the dataset into 24 industries based on their Standard Industrial Classification (SIC) codes and corresponding major industry groups.

For the purposes of our analysis, we have excluded companies in the Real Estate, Finance and Insurance industries.

Limitations

This communication contains general information only. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. We have not audited or sought to verify the Source Data and make no representations as to accuracy or completeness.

Key contacts

Report Author
Matt Becker
Partner, Financial Advisory
Singapore
T: +65 8332 1977
E: mbecker@deloitte.com

Soo Earn Keoy
Regional Managing Partner
Southeast Asia
T: +65 6216 3238
E: skeoy@deloitte.com

Edy Wirawan
Financial Advisory Leader
Indonesia
T: +62 21 5081 9200
E: ewirawan@deloitte.com

Thavee Thaveesangsakulthai
Financial Advisory Leader
Thailand
T: +66 (0) 20340000
E: tthaveesangsakultha@deloitte.com

Fang Li Wei
Financial Advisory Leader
Malaysia
T: +60 3 7610 8865
E: lwfang@deloitte.com

Phong Le
Financial Advisory Leader
Vietnam
T: +84 28 3521 4080
E: phongle@deloitte.com

Aye Cho
Financial Advisory Services Leader
Myanmar
T: +951 230 7365
E: aycho@deloitte.com

Diane Yap
Financial Advisory Philippines
T: +63 2 581 9053
E: dyap@deloitte.com

Notes

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