

*LIQUIDITY
MANAGEMENT
AND WORKING
CAPITAL - IN
CHARTS*



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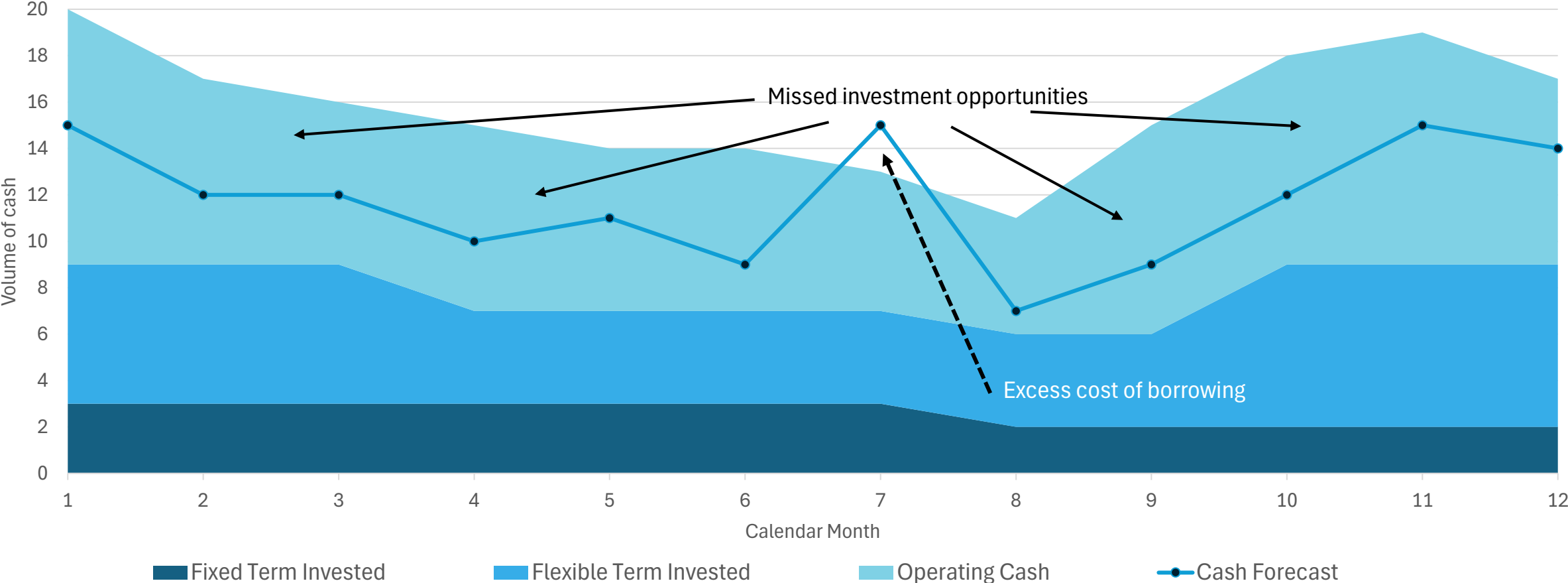
LIQUIDITY



WHAT IS LIQUIDITY?

The ease with which an asset can be converted into cash without affecting its market value. This cash is used to support the company's operations, such as paying suppliers and employees. Excess cash to be invested; projected shortfalls funded.

Liquidity Management Chart



ELEMENTS OF LIQUIDITY MANAGEMENT

Liquidity policies and processes

Balance sheet

Cash flows and processes

Bank account structures

Cash pooling structures

Investments and funding

Working capital and the supply chain

Payments and collections

Forecasting

Visibility and control

Notional/ hybrid

Cash concentration

Clear policies, mapped processes

Diverse & reliable funding sources & investment products

Factoring/ securitisation /SCF

Optimal terms of trade

Trade finance (LoC, guarantees, P-cards)

Clearing and settlement systems

Short, med, and long term

Reporting (e.g. daily cash report, monthly treasury report) & Metrics (e.g. KPIs, targets, ratios, covenants, stress tests)

LIQUIDITY OPTIMISATION

Business Knowledge

- Knowledge of the key cash drivers, inflows and outflows, is critical to liquidity optimisation. Map all significant inflows and outflows
- Understand the culture, nature of the business and its long-term strategy before proposing any optimisation solutions

Cash and Liquidity Forecasts

- Short (30-90 days), medium (12-18 months) and long term (3-5yrs)
- Variances, sensitivity analysis, and feedback are crucial
- Judgement is critical. Forecasts are least reliable when they are most needed: during a crisis (recession, war, COVID) for which few historic data points exist

Relationships

- Build influence over group sub finance teams, procurement and sales/customer teams
- Gather and strengthen support from external finance providers
- People determine the success or otherwise of liquidity projects, especially cashflow forecasting. Ensure buy in and training are prioritised.

Investment Opportunities

- Invest cash surpluses with the principles of, order of priority, security, liquidity, yield
- Diversify instruments invested (T-bills, MMFs, CDs, deposits, CP)
- Monitor and compare
- Counterparty risk (CDS, credit ratings etc)

Pooling and bank accounts structures

- Rationalise bank accounts and simplify
- Goal of obtaining real-time 100% visibility and control over cash
- Achieve centralisation of cash using sweeping and/or notional pooling structures

Credit Facilities

- Diversify instruments to manage liquidity shortages: overdraft, ST loan, CP, RCF; balance of committed or uncommitted
- Consider funding via capital markets -> less reliance on bank financing -> reduce ancillary pressure -> able to simplify bank account and pooling frameworks

Operations

- Simplify policies; regular review
- Clear and documented procedures; mapped processes
- Reporting (daily cash report)
- Automation (TMS, RPA)
- Simplify interco activity, using non-cash 'book' entries where possible to keep cash centralised

Ledger management

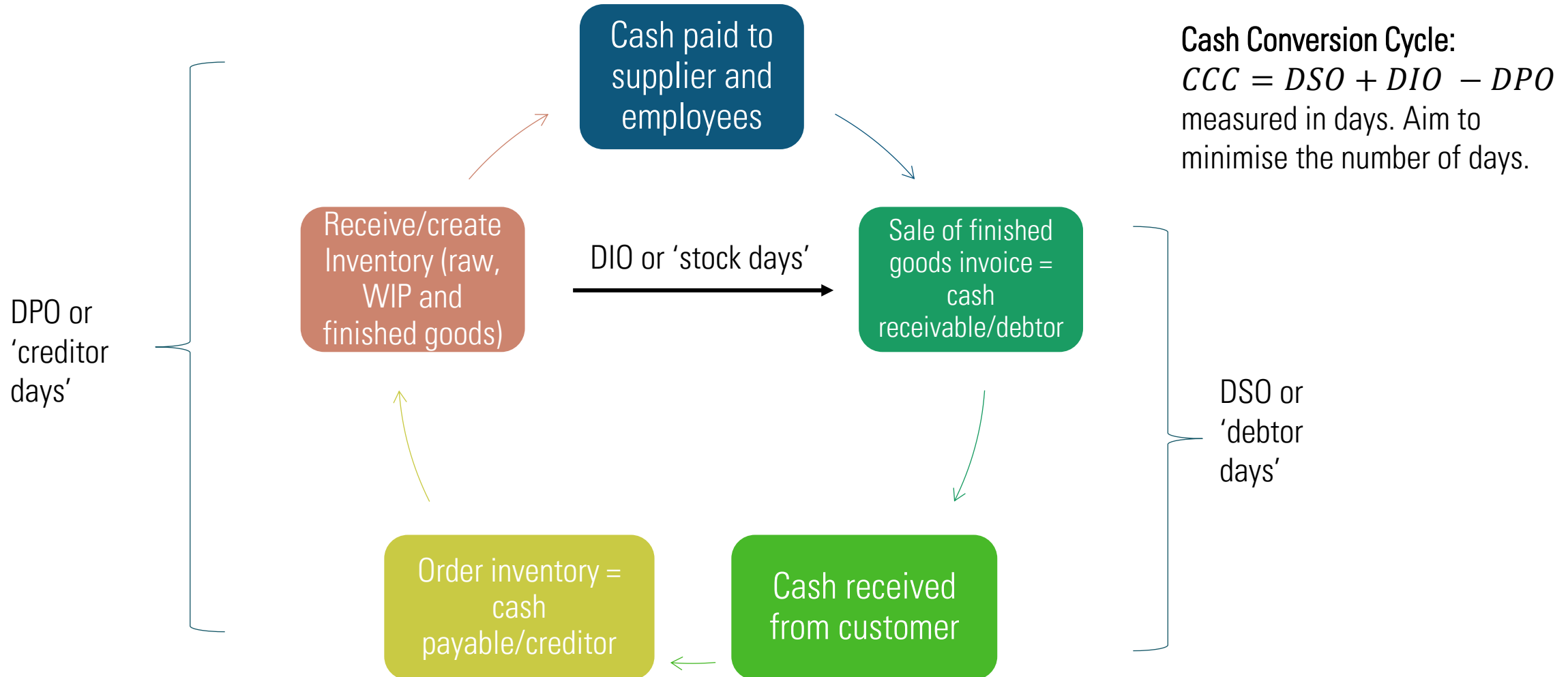
- Finance the supply chain (trade finance, SCF, inventory financing)
- Receivables management (credit risk checks, invoice factoring)
- Float or CIT can be reduced by using more efficient collection methods and processes (automation and EIBP)

*WORKING
CAPITAL*

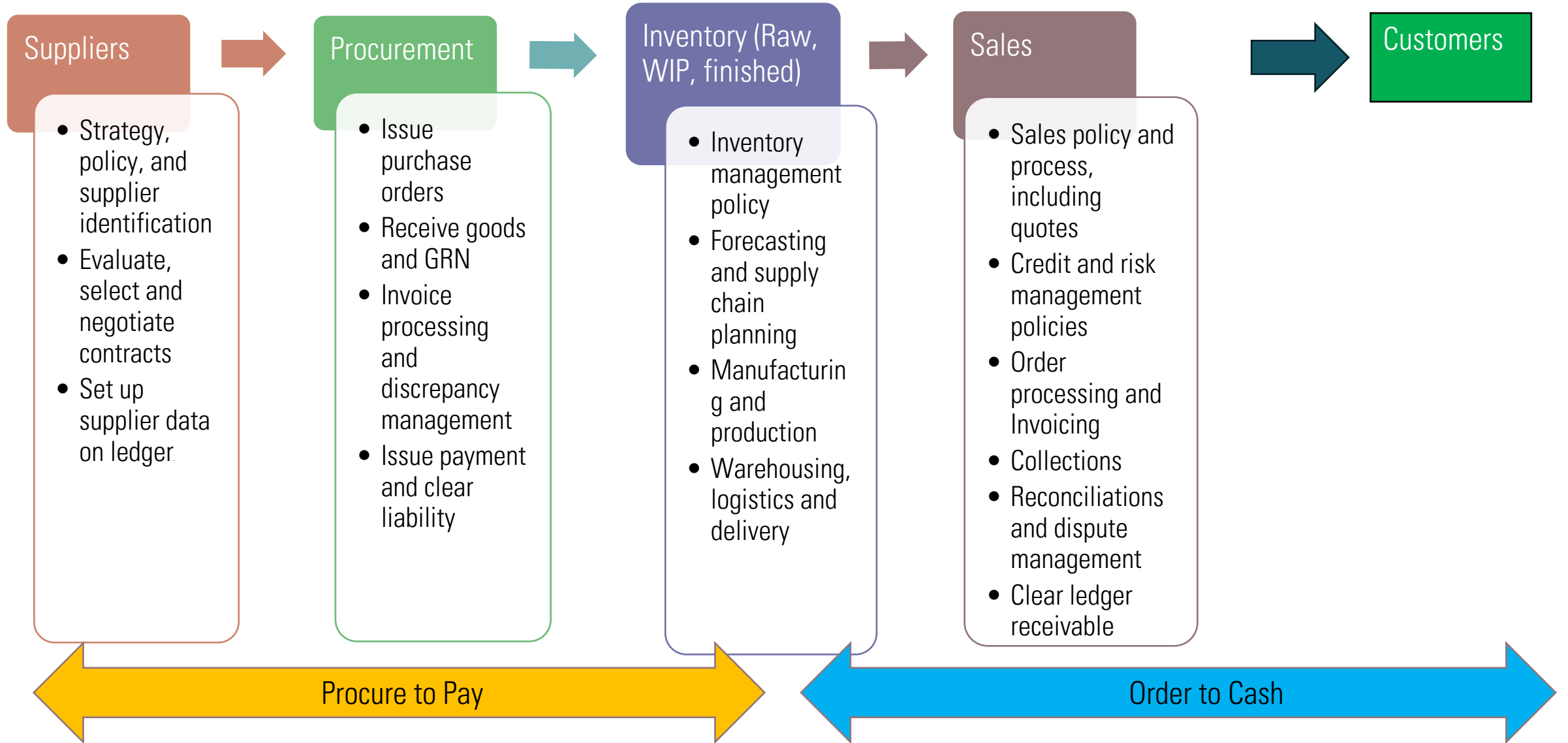


WHAT IS WORKING CAPITAL?

Current assets minus current liabilities represents the operational liquidity of the business. It is depicted as a cycle:



WORKING CAPITAL MANAGEMENT



WORKING CAPITAL OPTIMISATION

Internal optimisation options

Regular policy and process reviews, with feedback	Payments cycle standardisation	Automation, organisation visibility, and use of interfaces
Centralise treasury and procurement	Inventory/AR/AP management including metrics and targets	Goals and incentives alignment, creating a cash-centric culture
Rationalise suppliers and product offerings	Improved cash forecasting and liquidity management	Data analytics used to highlight issues early



External Solutions

Supply chain finance solutions	Trade finance solutions (e.g. LoC and guarantees)	Inventory finance solutions
Receivables financing (e.g. factoring, securitisation)	Review banking T&Cs (e.g. to reduce float times)	Use of P-Cards and corporate cards