→ Business Restructuring and Turnaround

Working Capital: a Strategic Perspective

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Introduction

Tens of trillions of dollars are tied up globally in working capital — an amount comparable to the total fixed assets deployed across industries worldwide. At the same time, working capital remains one of the most misunderstood and underutilised areas in strategic management and corporate finance. Too often, it is seen as secondary or oversimplified in strategic decision-making, and doesn't get the attention it deserves.

This presentation highlights the complex and multi-faceted nature of working capital and is based on our own specific project experience.

- working capital links day-to-day operations to long-term value generated by fixed assets.
- companies can improve returns by adopting a proactive, sometimes even risk-oriented, approach to working capital, treating it as a value-creative asset rather than an operational necessity.
- working capital is a dynamic tool that drives outcomes aligned with evolving stakeholder needs – when managed properly
- working capital is a cornerstone of any effective business strategy and plays a critical role in strategic business planning related to growth, cost optimisation, M&A, and financial stability
- oversimplifying working capital management can lead to missed opportunities, costly mistakes, and even financial distress

The complexity of working capital often calls for an experienced, multidisciplinary team capable of addressing the financial, operational, and strategic challenges involved.

Through this lens, we invite you to rethink working capital as a pivotal enabler of business performance and growth.

We explore common misconceptions, working capital management, stakeholder expectations, return-enhancing strategies, working capital in business models, good housekeeping, investments and divestments in working capital, and common challenges.

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A number of common misconceptions exist around working capital …

… and there is no single correct answer

Working capital is much more than merely an accounting measure. It is a strategic lever that, when managed well, drives profitability and cash flow stability.

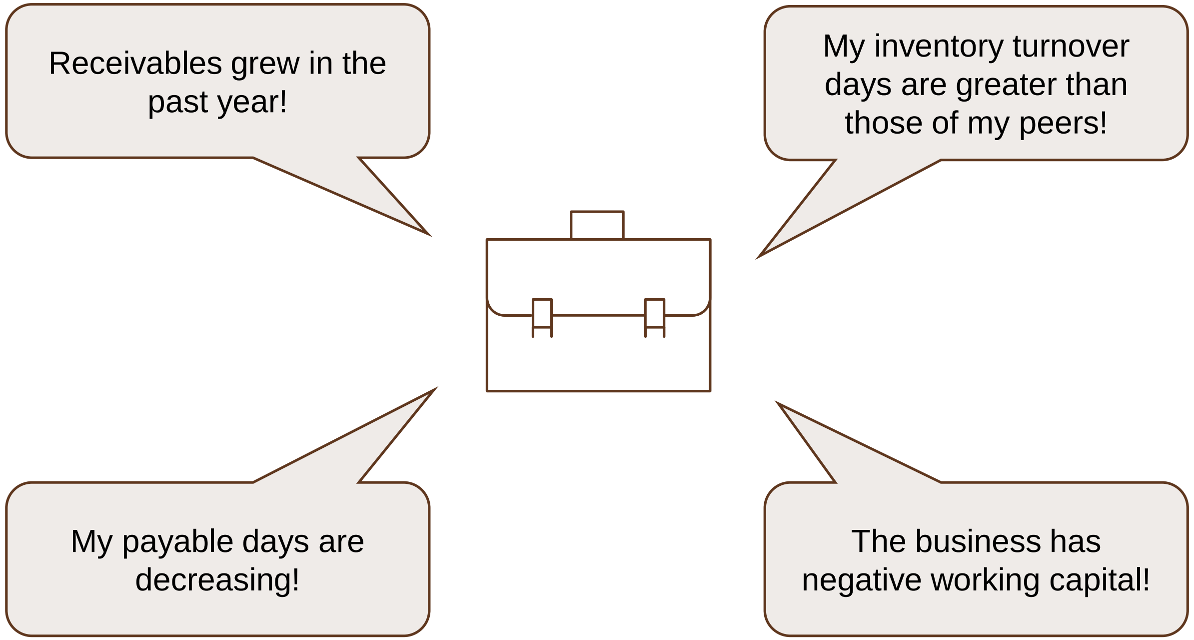
Treating simple handbook metrics such as outstanding days of sales, inventory and payables (DSO, DIO, and DPO) as definitive, which many consultants and analysts do, is often misleading – the equivalent of treating a patient based on the “average temperature in a hospital”. These simplified metrics cannot capture the complex and dynamic nature of net working capital and mask business-specific needs.

Relying on blanket benchmarks such as industry and global averages often leads to missed opportunities or, worse, financial missteps that could impact liquidity and operational resilience. Failure to appreciate the depth of working capital intricacies causes performance issues, increases borrowing needs, or even leads to financial distress.

While most analysts dive into accounting practices, adjust for seasonality, and normalise one-time variances, they often fail to closely examine the composition of receivables, inventory, and payables. Any working capital analysis requires granularity: it’s about diving into the specifics; at the same time, a bird’s eye view is also needed.

Working capital isn’t “one-size-fits-all”: it requires dynamic customisation, a reflection of operational realities, and careful balancing to avoid tying up cash unnecessarily or compromising supplier / customer relations.

Management means flexibility: by understanding the conceptual depth of working capital, companies can unlock liquidity, fund growth internally, and maintain flexibility to navigate shifting market conditions.



… there is no correct answer as to whether these concerns are valid or not. It all depends on the goals of various stakeholders, as well as the capital structure of the business and those in its value chain. A business can have working capital components of absolutely any size, provided that the cost of its funding and the terms of trade yield optimum results for a particular situation

Working capital management requires a structured and layered approach

1 Correct reporting

Is working capital recorded and measured in alignment with both accounting standards and management requirements?

We have seen cases where, due to an accounting mistreatment, some losses were not recognised in the income statement and remained on the inventory account. This led to overstated working capital and EBITDA, thus distorting the true picture of business liquidity and profitability, and inhibited sound decision-making.

2 "Good housekeeping"

Does your working capital management practice align with *your current* policies on liquidity, risk tolerance, and operational efficiency?

Management should regularly review and enforce payment terms and examine inventory management practices and the collection of receivables, with a focus on healthy cash conversion cycles. Often even existing policies are not followed in practice; for example some suppliers are paid earlier than necessary, thereby slowing the cash cycle and reducing working capital efficiency.

3 Strategic alignment

Do policies and strategic goals reflect stakeholder expectations?

After ensuring that working capital is properly reported and adheres to policies, recalibrate the policies to balance stakeholder priorities, such as cash flow, liquidity, higher profitability, or faster cycle times. For more see the next page.

Unlocking business value by managing working capital

By focusing on these three pillars, companies can transform working capital management from a passive measuring of accounting metrics to a dynamic tool that drives financial and operational activities and is fully aligned with the evolving needs and goals of stakeholders.

A creative working capital management strategy requires both strategic thinking and stakeholder management

1 Analyse stakeholders' needs

Identify key objectives (e.g., growth, cost optimisation, liquidity improvement) and align them with your value chain and macroeconomic environment.

2 Analyse financial and other constraints

- Ascertain your funding limits, debt capacity, cost of capital, and liquidity requirements, with a view to framing achievable targets.
- Incorporate the needs of all stakeholders: shareholders, suppliers, customers, and lenders to ensure that goals are inclusive and balanced.

3 Adopt an holistic view on working capital deployment

- Invest or divest? Assess whether to deploy additional working capital for growth (e.g., expanding inventory or offering better terms) or extract cash by optimising receivables, inventory, and payables.
- Risk management? Recognise that overly aggressive policies, such as extending payables too far or cutting inventory too tight, can lead to supply chain disruptions or customer dissatisfaction.
- Sustainability? Balance short-term financial wins with long-term operational and financial health to avoid destabilising the business.

4 Develop dynamic KPIs tied to strategy.

Build a system of KPIs that balances all goals and use real-time tools (such as Power BI and dashboards) to track performance and early identify trends or deviations.

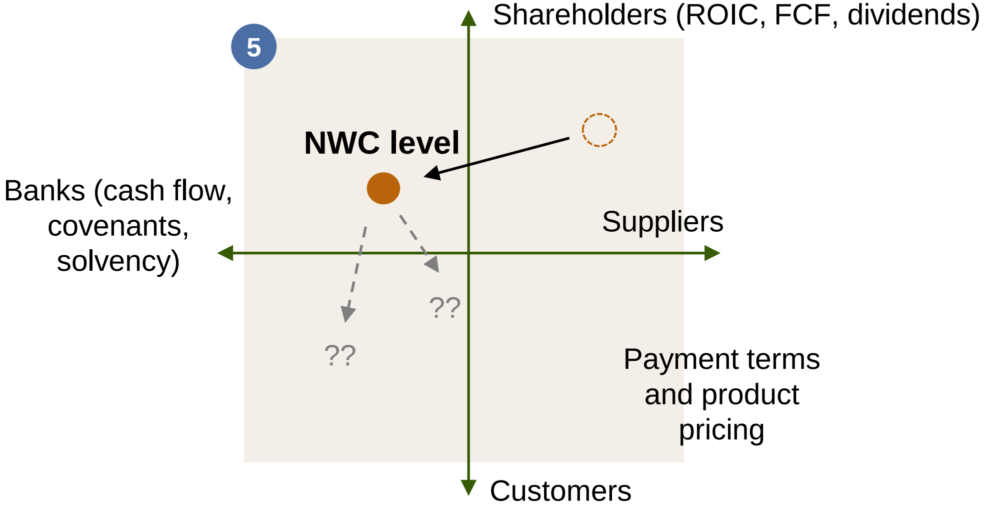
5 Establish a process to continuously re-evaluate working capital strategies in response to changes in market conditions, supply chain dynamics, and economic factors. Engage finance, operations, and procurement teams to ensure that decisions are comprehensive and responsive to real-time challenges.

1 Stakeholder needs → **3 Holistic view** → **4 Set of KPIs**

2 Constraints

- Invest or divest
- Avoid over-aggression
- Sustainability check

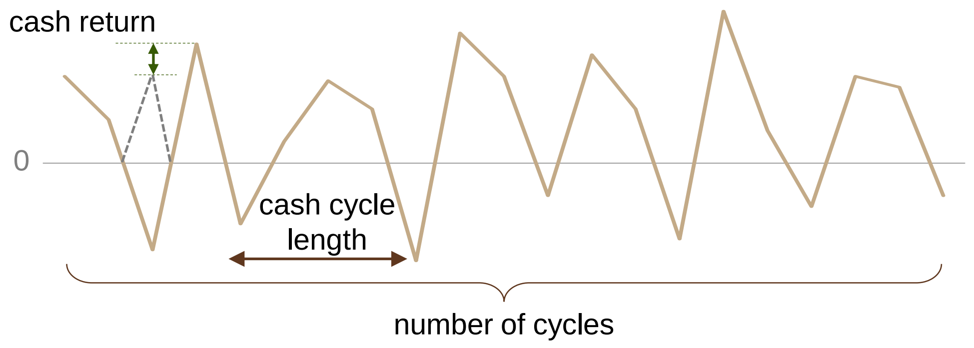
- Tied to strategy: operating efficiency, financial, growth, etc.
- Regular monitoring



Working capital policies should match strategic, financial, and operating goals by integrating sustainability and flexibility. A dynamic approach ensures working capital remains a powerful tool for driving value in today's fast-paced business landscape.

Cash conversion cycle, profitability, and cost of working capital: when properly combined, these maximise long-term returns

Working capital cycles: the heartbeat of profitability



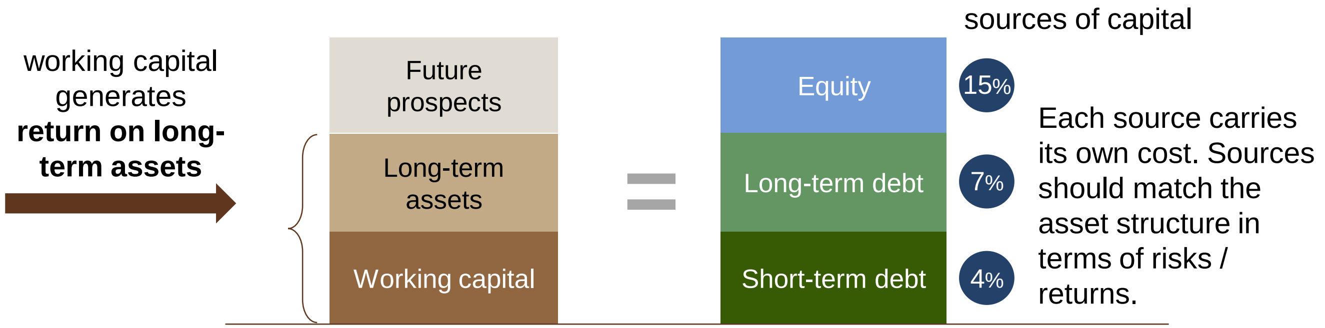
Working capital is constantly oiling the cash generation engine of long-term assets. The number of working capital cycles completed each year has a direct impact on long-term cash profitability and returns on long-term investments.

Linking operating efficiency with financial success. While faster cycles are essential, the cash profitability of each cycle also determines annual income. Each cash return on working capital counts towards a stronger bottom line. Annual income isn't just about total sales or EBITDA; it's driven by how frequently and profitably working capital is cycled. Working capital is not just sitting idle on the balance sheet: it directly translates the efficiency of day-to-day operations into effective financial success.

Strategic advantage. Companies that can strategically optimise between the speed and profitability of cash conversion enjoy an advantage: the ability to reinvest earnings in more cycles. This synergy is a powerful engine for income growth, elevated returns on assets (ROA) and, therefore, higher valuations.

Optimising often requires data-intensive, careful assessments – see the next page.

Earning risk-adjusted returns by asset-liability matching



Strategic allocation. Working capital allocation on the economic balance sheet isn't just an operational choice, it's a long-term strategic decision depending on the business model and macroeconomic environment. It requires a holistic view.

Asset-liability matching. Every dollar in working capital should be strategically matched to the invested capital structure and cost, ensuring the optimal use of low-cost funding. By matching dynamically, companies can lessen financial friction, mitigate risk, and boost overall returns, thereby unleashing growth potential and strategic advantages.

During declines or times of distress, cash is the one true king. When profitability drops, cash invested in working capital takes on critical importance, surpassing typical going-concern valuations, as the focus shifts from future earnings to immediate asset value. Working capital becomes a core asset representing both immediate liquidity and essential cash required for survival and stabilisation, as well as a means of resuming normal operations.

Businesses may employ different strategies, depending on their risk appetite (see p. 5)

Aggressive financial strategies can generate extra returns on your working capital investments

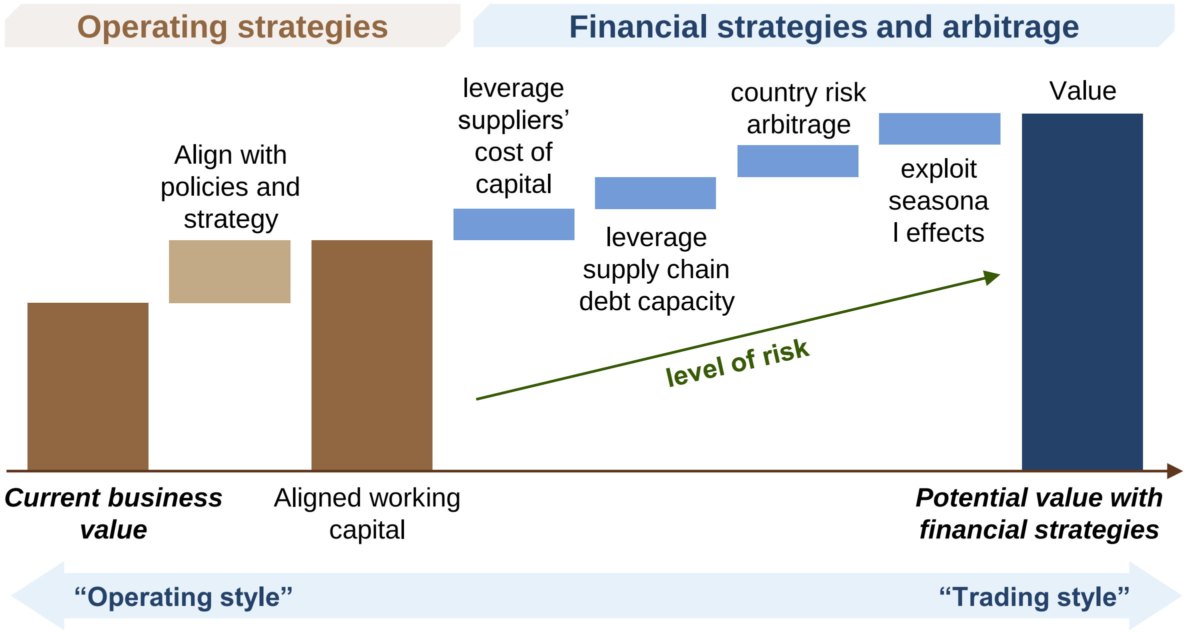
A number of financial strategies can be harnessed to extract more returns from working capital investment by managing it in a more risky, "trading" rather than "operating" style.

Value chain strategies

- **Leveraging suppliers' cost of capital.** Negotiate better payment terms with suppliers who have access to lower financing costs, allowing for longer payment terms without disrupting supply chains. Use supplier financing programmes (e.g., reverse factoring) to extend payment terms while maintaining supplier goodwill.
- **Utilising value chain debt capacity.** Encourage customers to use their own financing facilities to settle invoices sooner, reduce receivables risk, and enhance cash flow predictability. Collaborate with suppliers to co-finance specific projects or leverage their debt capacity by longer payment terms to free up your own funds.

Arbitrage strategies

- **Country risk premium arbitrage.** Leverage differences in borrowing rates, currency fluctuations, or payment terms across countries to minimise financing costs and optimise working capital deployment. Example: use low-interest financing from stable markets to support operations in higher-risk regions, capturing the cost differential, and optimise intercompany transfers and inventory locations to minimise tax impacts on cash flow.
- **Trading within the year.** Exploit seasonal fluctuations in prices by timing inventory investments. For example: invest in additional inventories during the low season if the funding cost is offset by extra returns from seasonality, manage funding costs and liquidity proactively.
- Optimise logistics to lower costs and cash tied up in transit inventory.



Risk vs. reward

Lower-risk strategies unlock more significant benefits by leveraging external parties' financing capacity and cost of capital while maintaining operational stability.

Higher-risk strategies involve taking well-grounded bets on market or timing opportunities, however they require robust financial controls to mitigate downside risks. By tailoring strategies to the company's risk tolerance and market conditions, businesses can extract maximum value from their working capital without compromising financial stability.

Case study: adjusting the business model and boosting long-term returns by aligning working capital with shareholder goals

Case study: Turnaround of NewRetailCo

NewRetailCo, a home and kitchen accessories retailer with substantial real estate assets, faced stagnant performance despite its solid top-line. High-level metrics identified no clear issues as to why profitability and ROIC lagged behind competitors. A special business restructuring team was deployed to uncover the root causes behind the numbers.

Hidden problem. The team conducted a deep dive into working capital and operational data, leveraging advanced data analysis tools like Power BI. They broke down profitability and turnover at very granular levels: categories, subcategories, and even individual SKUs. The results were very revealing.

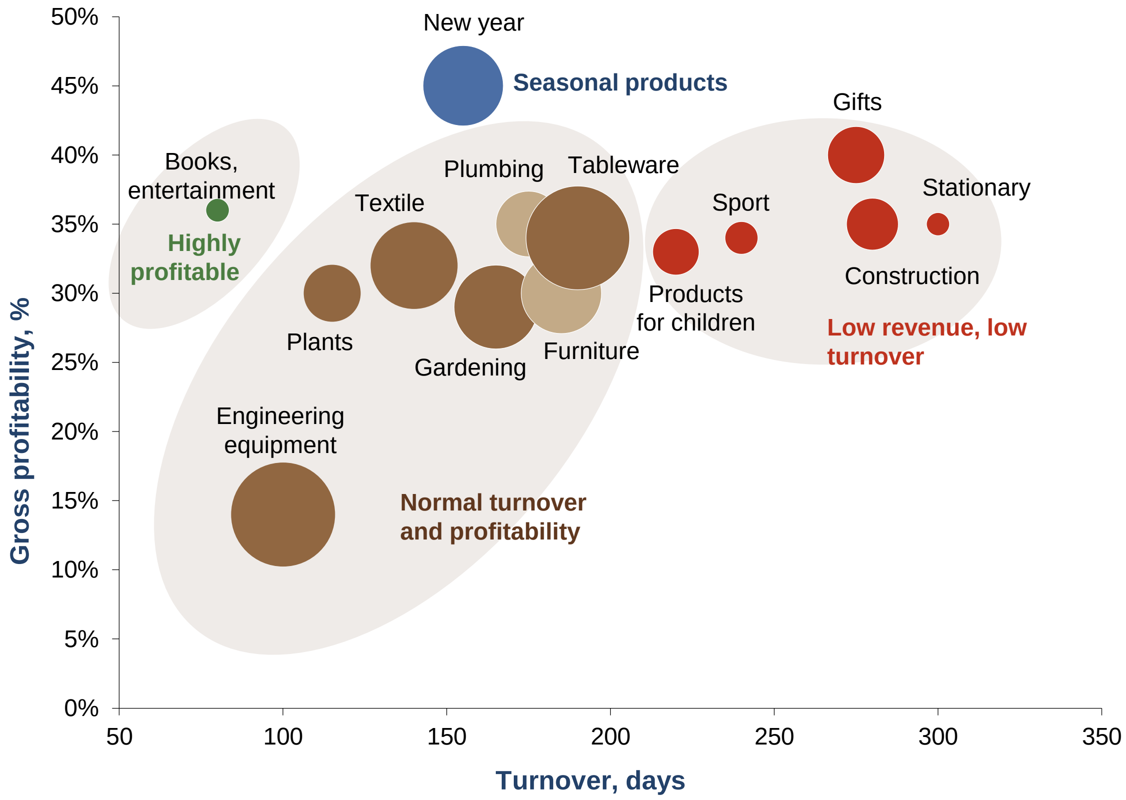
Due to a faulty business-model a significant portion of the product portfolio consumed valuable retail space and cash funds, but failed to generate sufficient returns to recover value invested in real estate, due to either slow movements or low margins.

Action plan: from insight to results The team developed a roadmap of strategic changes: (1) Streamline the SKU portfolio by eliminating underperforming categories and expanding high-margin, high-turnover categories. (2) Reduce the number of SKUs and free-up real estate. (3) Explore alternative revenue sources like pop-up shops and rental agreements for emptied space. (4) Introduce dynamic inventory and space utilisation metrics, ensuring every square foot of real estate constantly contributes to returns.

The results were transformative. By optimising inventory and space utilisation NewRetailCo doubled its ROIC, thus aligning its working capital with long-term asset returns.

NewRetailCo's journey illustrates the strategic role of working capital in connecting day-to-day operations with the broader context of strategic business model. Leveraging data-driven insights to ensure every resource, from SKUs to square footage, delivers maximum investment returns.

Mapping inventories portfolio – two cash conversion axes



Case study: a deep review of the cash conversion cycle; aligning operational practices with policy frameworks to free up cash

Why "good housekeeping" is so important

Purchase-to-pay (P2P) increase. Harmonise payment terms: Consolidate purchasing to gain volume discounts and negotiate favourable terms. **Adhere to payment terms:** maintain supplier relationships and implement tools to extend terms without straining suppliers. **Prevent early payments:** Automate accounts payable, avoid early payments to suppliers.

Order-to-cash (O2C) decrease. Harmonise payment terms: Centralise receivables management, offer early payment discounts to customers, or use factoring to convert receivables into immediate cash. **Avoid late payments:** Automate accounts receivable and invoicing, tighten credit terms for high-risk customers, and streamline collection processes.

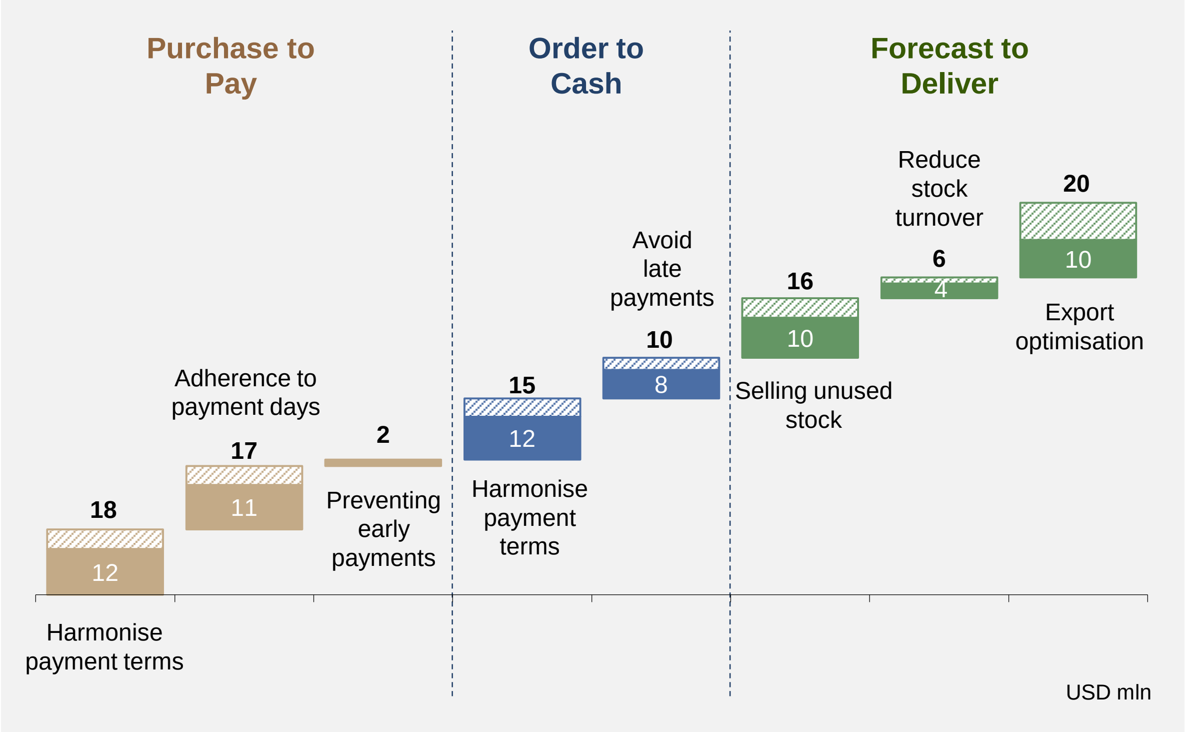
Forecast-to-deliver (inventory optimisation). Sell unused stock to free up cash immediately. Eliminate low-turnover / low-margin SKUs to improve inventory turnover. **Reduce stock turnover:** use advanced analytics to align inventory levels with accurate demand predictions, reducing overstocking or obsolescence. Partner with suppliers to implement JIT practices, decreasing excess inventory and freeing up cash. Reassess safety stock levels, balancing risk and cash flow.

By assessing and improving each working capital cycle component – purchasing, receivables, inventory, and global operations – businesses can free up significant cash and enhance liquidity, thus driving both short-term stability and long-term growth.

Example. A private equity fund acquired PP Inc., a raw material producer. Shortly after the acquisition, they deployed a specialised team to analyse the company's cash conversion cycle (CCC), which identified an opportunity to release trapped cash.

After optimisation, PP's return on working capital (ROWC) went up, enhancing overall ROIC and EBITDA performance. The company redirected the released cash into growth initiatives, driving value creation and making the business more attractive for a future exit.

Cash conversion cycle under the microscope



Over USD100 million in cash was released from working capital, just by aligning practices with policies. These funds were invested into business growth opportunities.

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Working capital is a dynamic, strategic tool that influences critical decisions across growth, cost management, M&A, and financial stability

Your goals			Role of working capital
Investing into WC	Growing the business	Market entry	Entering new markets requires upfront investments in inventory and distribution channels and / or offering favourable credit terms to build trust with local distributors and suppliers.
		Product launch	Launching a new product requires building up inventory months in advance and supporting extended receivables in the market penetration phase, thus creating a working capital lag.
		Stimulating sales growth	Offering extended credit terms to customers may improve the sales volume, but should be assessed against the cost of investing into working capital and liquidity risk.
		Acquiring companies	Working capital needs should be carefully analysed before closing the deal. Mismanaged working capital in the target company can result in unforeseen cash requirements post-deal.
Or			
Divesting from WC	Boosting efficiency	Reducing costs	Optimising inventory, renegotiating supplier terms or accelerating receivables collection improves cash flows; it may also create unforeseen operational risks and disruptions.
		Managing the supply chain	Companies must seek to achieve cash flow efficiency and an optimal level of working capital without straining customer and supplier relations.
	Raising cash	Restructuring Turnaround	In distressed scenarios, working capital may be overlooked as a primary lever for releasing tied-up cash to stabilise liquidity and fund operations without external borrowing.
		Funding CapEx	Divesting cash from working capital can temporarily generate necessary funds for capital expenditure without relying on external financing, such as bank debt.

Companies typically focus on top-line growth when pursuing growth strategies. Neglecting **working capital intensity** and its associated cost of capital when making strategic decisions leads to hidden costs and inefficient resource allocation.

Companies should (1) carefully quantify working capital requirements and its cost of capital for each initiative, and (2) balance expansion with sound credit and cash management, ensuring expected benefits exceed the cost of additional investments.

In a challenging environment companies can leverage working capital as an internal funding source, however, such decisions should take into account operational risks, supply chain management, customer and supplier relationships, and the strategic outlook.

By systematically evaluating working capital intensity, businesses can make informed strategic decisions, optimise cash flow, and deliver long-term value to stakeholders.

Working capital analysis and optimisation requires time, effort, and a specialised skills set

Time, effort, and skills

Extensive accounting knowledge. Working capital analysis requires broad expertise to navigate diverse accounting practices, intercompany transactions, and multi-entity consolidation. Adjusting and normalising balances to reflect true working capital efficiency adds layers of complexity, and requires significant time and attention to detail.

Data-heavy analysis. Working capital analysis relies on processing large volumes of data from multiple sources, often fragmented across systems and geographies. Extracting, cleansing, and integrating these data into a coherent framework is labour-intensive and requires advanced analytical tools.

Transaction review. Examining individual transactions to identify inefficiencies (e.g., delayed receivables or inventory bottlenecks) involves meticulous efforts and is resource-intensive. Spotting patterns and anomalies requires both financial expertise and deep operational insights.

Payment terms and process review. Reviewing and assessing payment terms and agreements across a diverse supplier and customer base can be daunting. Negotiating better terms or ensuring compliance with existing agreements demands both strategic negotiation skills and granular data analysis. Mapping and evaluating end-to-end processes for receivables, inventory, and payables requires cross-functional collaboration. Identifying process inefficiencies and implementing process improvements takes significant time and coordination among teams.

Holistic knowledge. Effective working capital analysis must factor in macro-economic trends, industry-specific dynamics, and the company's strategic priorities. This often requires specialised expertise, cross-disciplinary knowledge, and regular updates to stay aligned with external and internal factors.

Deploying specialised skills

A comprehensive working capital analysis requires many hours of painstaking work, especially in complex organisations with decentralised operations. It also requires a multi-disciplinary team of accountants, analysts, strategists, and operational experts to address the full scope of challenges.

Specialised skills such as mastery of advanced data tools (e.g., Power BI, ERP systems), deep accounting knowledge, and process improvement methodologies and case experience are all critical to achieving success.

Working capital analysis is an art that demands a mix of expertise, technology, and strategic thinking. Its challenges underscore the need for dedicated teams, robust tools, and significant time investments to extract actionable insights and drive value.

However, all this effort is worth it and will pay off.

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