

Cash flow or cash burn

Improving working capital performance in the current climate

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Assessing investment attractiveness for renewable energy

- ▶ Ernst & Young publishes research assessing the investment attractiveness of countries and state regions (USA) for renewable energy
- ▶ Australia is ranked 13 out of 25 nations
- ▶ The expansion in policy support for renewable energy in Australia makes this market another fruitful area for analysis
- ▶ *20-20 Vision* is an evaluation of Australian states in terms of large-scale renewables

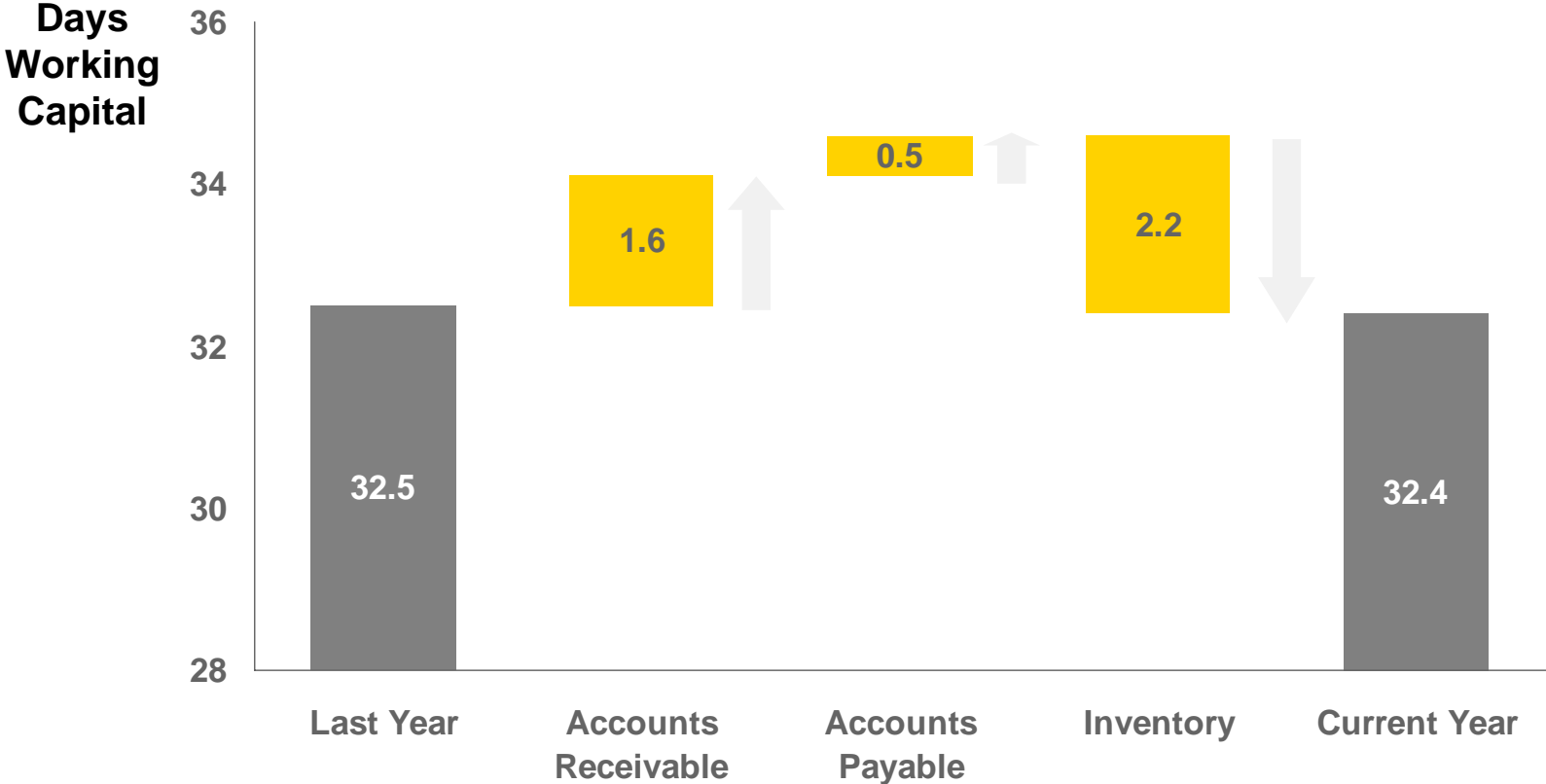


Supporting the growth in clean technologies

- ▶ Top 4 issues we talk to cleantech companies about:
 - ▶ Matching capital to risk profile
 - ▶ Accessing government grants
 - ▶ Commercialisation *Focus of this discussion*
 - ▶ Cash flow and cash burn
- ▶ Typical characteristics of an emerging cleantech business
 - ▶ Pre-revenue
 - ▶ High levels of technology risk
 - ▶ Reliant on government grants, family and friends
 - ▶ Securing customers and establishing contracts
 - ▶ High capital costs of equipment and plant

Working capital levels have improved marginally despite receivables and payables deteriorating

ASX200 Working Capital Performance – last 12 months

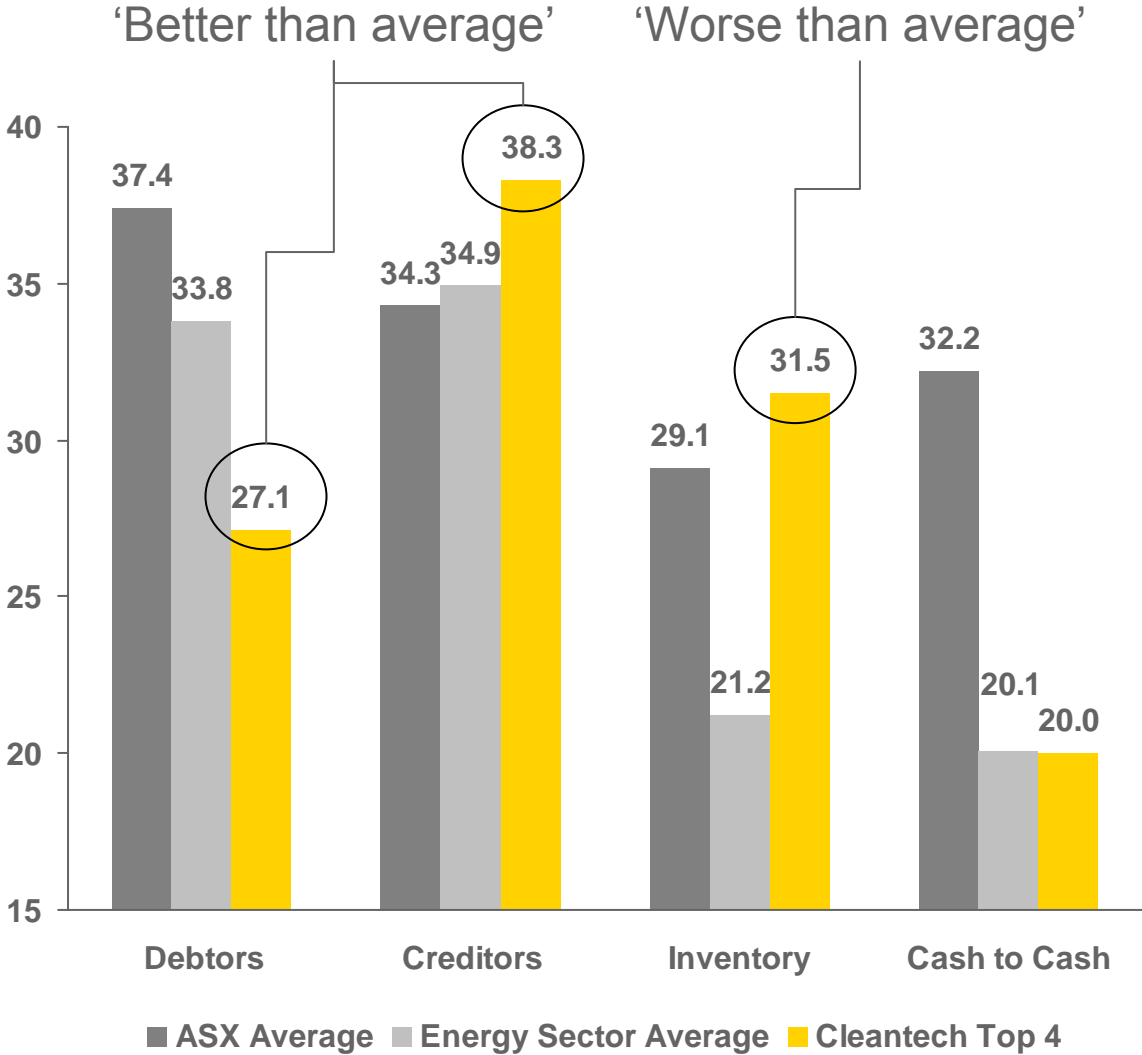


Source: 2008 Ernst & Young Working Capital Survey

A recent Ernst & Young survey found 85% of Australian C-suite and board level executives believe cash flow to be an issue

- ▶ The availability of credit continues to be an issue, although there is some improvement for the largest companies
- ▶ For the majority of businesses, the GFC has changed the ongoing approach to funding the business?
 - ▶ Capital raisings have been common a solution to cash shortages
- ▶ With a lack of alternative funds available, CFOs are scrutinising their own balance sheets and actively seeking out ways to release cash, both to support operational cash flow demands and to underpin committed or essential capital expenditure
- ▶ 73% of the executives questioned admitted to conducting top-down reviews of cash management and cash flows
 - ▶ But not enough action is being taken

Listed Cleantech businesses are performing better than the ASX average and on par with the Energy Sector, but there has been some pain....



- ▶ Solar Systems Generation Pty Limited was placed in Administration on 7 September 2009
- ▶ This shows the importance in managing cash and working capital effectively in the Cleantech sector
- ▶ Is your business performing as well as the Cleantech Top 4?

Where are we seeing businesses increase their efforts to improve cashflow management?

We are seeing clients taking a very narrow focus on managing cashflow:

1. Terms

- ▶ Supplier terms – extend supplier payment terms eg. 45 days end of month is replacing 30 days end of month as common practice


2. Compliance

- ▶ Customers – increasing effort around managing overdue invoices but not addressing core changes in processes
- ▶ Suppliers – delaying payments to suppliers which is not a sustainable practice ie. not complying with supplier payment terms

Where should you apply your focus to manage cash burn....

1. Terms


- ▶ Customers – as new revenue streams are established, push for the most optimal payment terms
- ▶ Suppliers – now is the time to make sure you have the right payment terms in place eg. 30 days end of month as a standard



Typically the biggest area for improving cashflow
(2-5% of revenue)

2. Process

- ▶ Invoicing – ensuring you are invoicing customers at the earliest point in time
- ▶ Supplier payments – review AP practices around frequency of payments to suppliers



Next biggest area for improving cashflow
(1-3% of revenue)

Where should you apply your focus to manage cash burn....

3. Compliance

- ▶ Credit management processes – moving to more proactive management of customer debt
- ▶ Early payments to suppliers – don't pay supplier before terms



Next biggest area for improving cashflow
(1-3% of revenue)

4. Inventory

- ▶ Ordering processes
- ▶ Sales & Operations planning
- ▶ Challenge inventory parameters eg. safety stock levels, min. order quantities, re-order points



Next biggest area for improving cashflow
(1-3% of revenue)

Where should you apply your focus to manage cash burn....

5. Other

- ▶ Report on the right metrics
- ▶ Incentivise the right behaviours

Cashflow and working capital levels are driven by transactions, so the devil is in understanding the detail

So, what do the leading companies do to improve their working capital performance?

- ▶ Agenda – give cash a high priority on the corporate agenda
- ▶ Understand relative performance – historical and peer benchmarking
- ▶ Understand the performance drivers
- ▶ Set aggressive, bottom up, targets
- ▶ Incentives – redesign / improve the performance drivers

The benefits of focus

- ▶ In our experience, most businesses with a structured approach to improving working capital have achieved additional liquidity of more than 5% of annual sales

Managing cashflows through tighter working capital management practise is vital for emerging businesses

Key you should ask yourself about your business...

- ▶ What challenges is your business facing in regards to raising finance?
 - ▶ Have you critically analysed your balance sheet for cashflow improvement opportunities?
- ▶ How strong are your processes to manage working capital?
 - ▶ On the revenue side (customer terms, invoicing, collections)
 - ▶ On the cost side (supplier terms, AP processes, inventory management if relevant)
- ▶ Have you allocated sufficient resources to manage cash effectively?