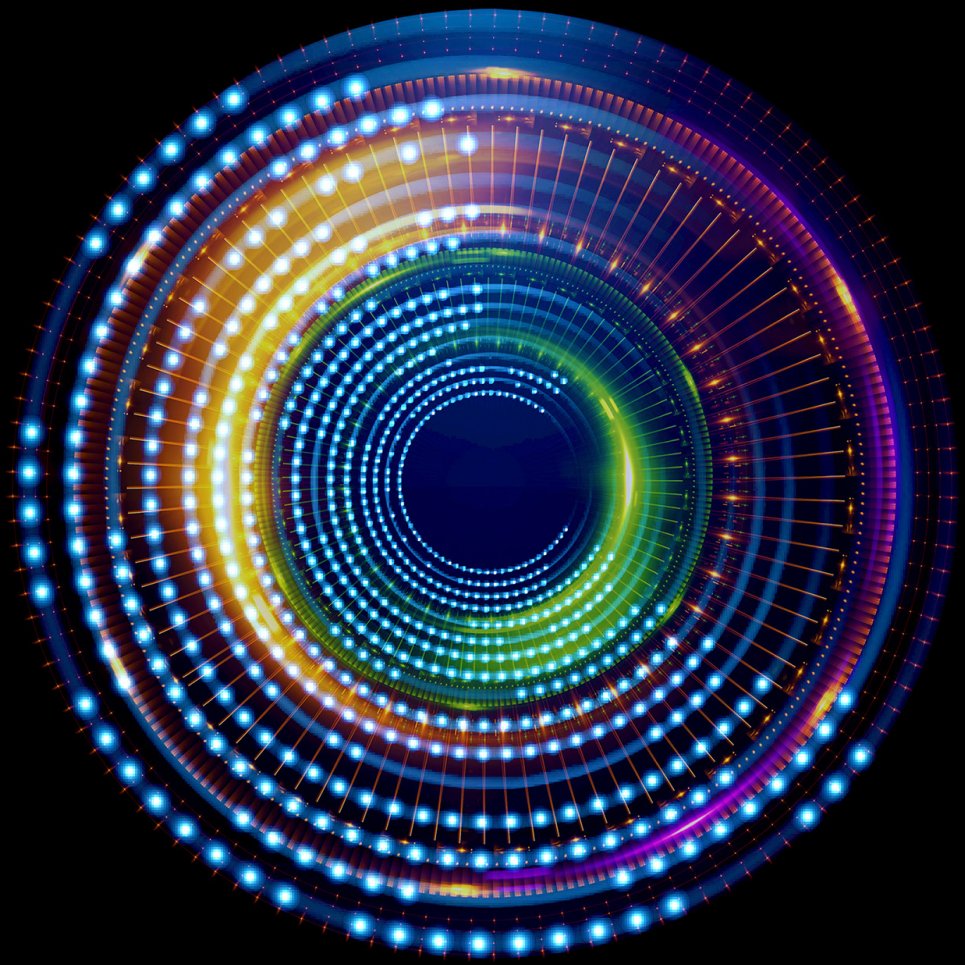
Deloitte.



Working Capital Roundup

A resilient response Q1 2020–Q1 2021

MAKING AN IMPACT THAT MATTERS since 1845

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GLOSSARY OF TERMS

AP – Accounts payable
AR – Accounts receivable
CCC – Cash conversion cycle
COGS – Cost of goods sold
DIO – Days inventory outstanding
DPO – Days payables outstanding
DSO – Days sales outstanding
EBITDA – Earnings before interest, taxes, depreciation, and amortization
ER&I – Energy, resources, and industrials
GDP – Gross domestic product
LSHC – Life sciences and health care
Q – Quarter
TMT – Technology, media, and telecommunications
WC – Working capital
YoY – Year over year

BASIS OF PREPARATION AND ASSUMPTIONS

- For the first time this year, we reviewed the financial and WC performance of all publicly listed companies based in the United States.
- Our review included 3,935 companies, assessing their working capital performance and related key indicators.
- We also looked at shifts in performance on a quarterly basis to highlight the impact that the COVID-19 pandemic has had on WC and liquidity in 2020.
- We excluded the following industries from our analysis due to their erratic WC trends and profiles: financial services and government and public services.

EXECUTIVE SUMMARY

Key statistics (YoY Q1 2020 to Q1 2021)[1]

Number of companies

3,935

Change in revenue

14.2%

Change in EBITDA

25.2%

Change in DSO

-1.1
days

Change in DIO

-0.7
days

Change in DPO

+3.0
days

1 Change calculated in percentage and days: Individual quarters measured YoY for 2019, 2020, and 2021.

Source data: S&P Global Market Intelligence LCC, March 2021; Deloitte sector mapping.

INTRODUCTION

Our look back at working capital (WC) performance in 2020 takes us through the pandemic and into the first quarter of 2021. It was a year that saw a significant decline in gross domestic product (GDP), as market demand was disrupted and supply chains dislocated. Those sectors of the economy hit hardest were energy, resources, and industrials (ER&I) and certain sectors within the consumer industry, while the life sciences and health care (LSHC) and technology, media, and telecommunications (TMT) industries were better positioned to realize opportunities created by new demands. Many companies responded to the crisis by cutting costs and strengthening their balance sheets to weather the storm. Government stimulus helped carry many companies through severe loss of revenues and liquidity shortfalls. Smaller businesses were more severely affected by the loss of demand, with many having to close their doors, and the US economy saw record high unemployment rates. However, the beginning of 2021 saw the introduction of vaccines to help control infection rates, and many economies have begun to recover. Recent forecasts suggest[2] that GDP will grow at a strong pace and the economy will thrive into 2022.

So, how did companies manage WC during this period of uncertainty, and where are they today? Deloitte believes the data indicates a strong recovery by the end of Q1 2021. Overall net WC as a percentage over revenue has improved to 27.3% in Q1 2021, following a high of 36.8% in Q2 2020, at the height of the pandemic. Those sectors affected the most have seen the greatest improvements, but there is still some work to do as companies work to adjust to changes in supply chains, changes in the workforce, and the advancement of innovative technologies. While there are many positive signs, there may also be lingering side effects, given the high level of debt many companies leveraged to ensure sufficient liquidity during the period of uncertainty. Total debt increased from $10.5 trillion in Q4 2019 to $11.4 trillion in Q1 2021. It will be important for companies to manage WC for growth and strategic investments as the economy continues to recover. However, they will also need to manage debt loads and avoid overleverage, which can sometimes lead to a less competitive market position.

Key takeaways

The COVID-19 pandemic has brought the importance of cash and WC sharply into focus. The unprecedented volatility in markets over the past 15 months has affected the top and bottom line of most companies. Normal lead times and replenishment frequencies are elongated, even for regional supply chains, meaning safety stock and inventory policies need to be adapted. Payment morale, as well as creditworthiness and insurability, are continuing to affect the ability to get paid or trade.

As economies emerged from shelter-in-place and stay-at-home orders and have started recognizing the impact of vaccinations on the future, it has been recognized that the route to recovery is unlikely to be smooth, and businesses need to be in the best possible shape for the journey.

Economic conditions will most likely remain challenging for the near term, indicating that companies need to be crystal clear on their levels of liquidity, and be confident that their WC is designed to help weather the storms. Looking ahead, many "business-as-usual" processes to manage WC will likely need to be reconfigured.

2 Daniel Bachman, "United States Economic Forecast: 2nd Quarter 2021," Jun 14, 2021, Deloitte Insights, https://www2.deloitte.com/us/en/insights/economy/us-economic-forecast/united-states-outlook-analysis.html.

Source data: S&P Global Market Intelligence LCC, March 2021; Deloitte sector mapping.

IMPACT OF THE PANDEMIC ON KEY FINANCIAL METRICS

- There is no doubt that the pandemic affected us all in numerous ways, from how we worked and balanced family to adjusting the many routine tasks that we perform on a day-to-day basis. It tested our resilience and fortitude in multiple ways, requiring companies to be creative and agile in navigating the unknown.
- In the same manner, the pandemic caused many companies to make challenging decisions with limited information, thereby realizing just how unprepared many companies were to face major headwinds.
- While revenue performance is important to understand a company's growth trajectory, strong liquidity and WC performance is critical to navigate the storms, as well as capture opportunities.
- During 2020, **revenues** consistently declined quarter on quarter, with Q2 experiencing the steepest drop (-15.5%) as a result of shelter-in-place and stay-at-home orders taking effect.
- As evidenced through the decline of EBITDA in relation to revenue, it was clear that many companies were unprepared for these measures and struggled to make swift adjustments to their cost profiles. In Q2 2020, **EBITDA (earnings before interest, tax, depreciation, and amortization)** declined 1.4 times faster than revenue, and in the following quarter, EBITDA halved, indicating that companies caught up and made essential adjustments to remain afloat.
- From a WC perspective, the Q2 2020 **CCC** skyrocketed by 541% (increase of 7.7 days), driven by the deterioration in **DSO** and **DIO**.
- Companies were quick to use one of the key tools in their toolboxes that protect their balance sheets: improving (**DPO**) through delaying payments to suppliers. This, however, also had a knock-on effect on **DSO**, and the constriction of goods and services flow led to the buildup of inventories via **DIO**.
- While there was an improvement in overall performance during Q3 2020, as evidenced by the strengthening of **DSO and DPO**, there is still a ways to go to release trapped cash on companies' balance sheets in order to provide them with the breathing space to weather future storms. In our experience, **inventory** is also the slowest indicator to react to large swings in demand, and long supply chains can be slow to react.

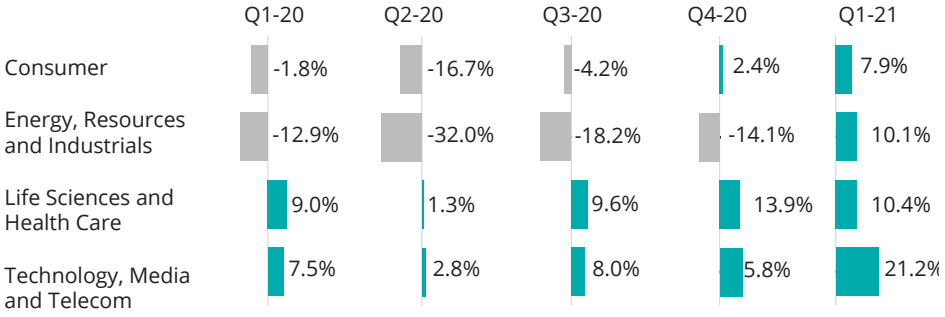
Impact of the pandemic on key financial metrics

	YoY ΣQ1–Q12020–2021[1]	Actual Q1-19	YoY Q1-19 to Q1-20	YoY Q2-19 to Q2-20	YoY Q3-19 to Q3-20	YoY Q4-19 to Q4-20	YoY Q1-20 to Q1-21	Actual Q1-21
Revenue	-1.8%	$4.6Tr	–2.4% ↓	–15.5% ↓	–4.5% ↓	1.5% ↑	12.0% ↑	$5.1Tr
EBITDA	1.0%	$796.9M	–8.5% ↓	–21.5% ↓	–3.5% ↓	2.6% ↑	30.3% ↑	$949.9M
CCC	-4.4	27.9 days	1.2 ↑	7.7 ↑	-0.6 ↓	-0.4 ↓	-5.1 ↓	22.7 days
DSO	1.0	39.4 days	0.4 ↑	2.9 ↑	-1.0 ↓	-0.5 ↓	–2.6 ↓	37.8 days
DIO	2.7	48.3 days	1.5 ↑	8.8 ↑	1.0 ↑	0.2 ↑	-1.3 ↓	47.3 days
DPO	8.1	59.8 days	0.2 ↑	4.0 ↑	0.6 ↑	0.1 ↑	1.2 ↑	62.4 days

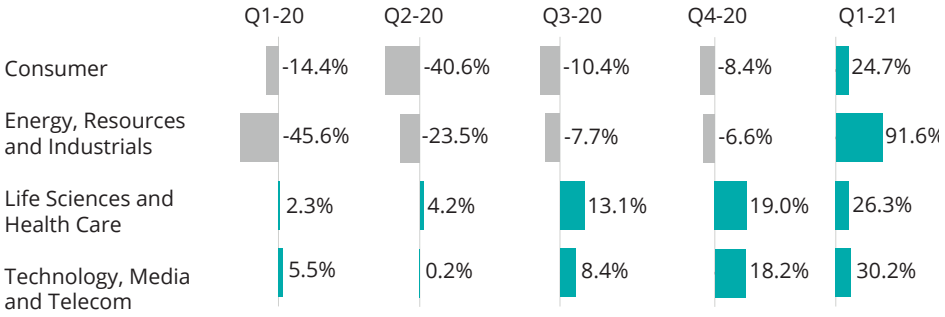
WHERE THE PANDEMIC HIT THE HARDEST: AN INDUSTRY VIEW

- The extent of the pandemic's impact on different companies varies significantly by industry and subsector. As a whole, every sector has felt similar decreases in revenue and an inability to decrease WC to match, leading to an increase in net WC (NWC) days. While **all sectors, with the exception of LSHC, experienced a reduction in Q2 2020 revenues**, it is encouraging to note that all were able to report improvements by Q3 2020, indicating that companies made changes to their ways of working, which positively affected results.
- **Consumer** saw the greatest impact on earnings in relation to revenue during Q1 2020, at a rate of 8 times. By Q2, this reduced to 2.4, indicating that the sector was initially affected greatly and was able to adapt quickly. By Q3, revenue growth returned to optimistic territory, resulting in positive earnings growth.
- **ER&I** lost earnings at a rate of 3.5 to revenue decline in Q1 2020; however, the sector managed to continually bring this ratio down to less than 1 by Q3 2020. This indicates that, even though the sector's revenue was strongly affected by the pandemic, it demonstrated agility to adapt to the new business environment. The strongest declines were noted in Q2 2020, where the shelter-in-place and stay-at-home orders were most notable, reducing energy demands to a record low.
- **LSHC** experienced consistent revenue growth from Q1 2020 to Q1 2021. Earnings also demonstrated steady improvements over this period.
- **TMT** experienced the strongest revenue growth of all industries and across most quarters, even outpacing LSHC. The pandemic increased the rate of digitization and automation across industries.

Percentage change in industry revenue from prior quarter



Percentage change in industry EBITDA from prior quarter



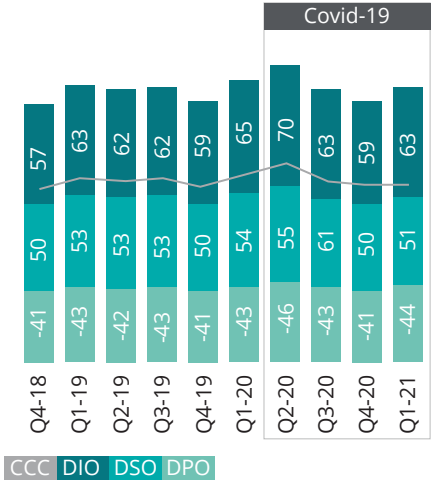
Change calculated in percentage and days: Individual quarters measured YoY for 2019, 2020, and 2021.

Source data: S&P Global Market Intelligence LCC, March 2021; Deloitte sector mapping.

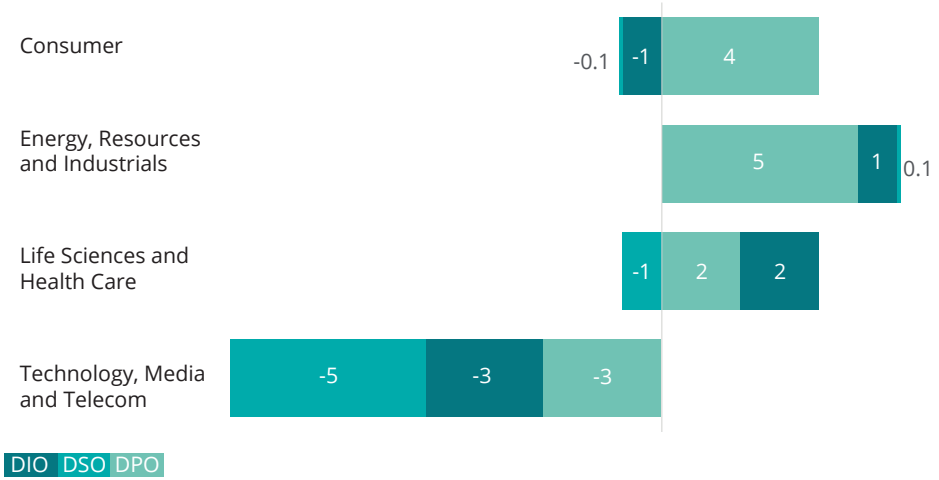
WC PERFORMANCE DURING THE PANDEMIC

- Our study analyzed quarterly performance data, which has shown the impact of the COVID-19 pandemic to be significant. Prior to the pandemic, companies were displaying positive performance in WC. However, Q2 2020 saw the highest **CCC** levels of the pandemic period, as shelter-in-place and stay-at-home orders hampered general consumption and flow of goods and services.
- The increase in **DSO** from Q1 to Q2 2020 (to 55 days) is in part driven by the stretching of DPO, but its Q3 improvement has also clearly outpaced the reduction of DPO, bringing it back close to Q4 2019 levels. This is symptomatic of increasing revenues and declining AR.
- Over the past four quarters, **DPO** reached a record level of 46 days compared with the past six quarters, as companies took advantage of quick cash flow wins by delaying payments to accommodate slower receipts from customers. Q1 2021 DPO has since remained at least one day higher than pre–COVID-19 levels.
- **DIO** also reached record levels in Q2 2020 at 70 days. The trend has quickly improved in Q3 2020, reaching 63 days, last achieved in Q1 2019.

Developments in median CCC by quarter (days)



CCC in days by industry from Q1 2020 to Q1 2021



- WC performance and the resilience of a company's ecosystem differs greatly by industry, with sectors such as industrial manufacturing consuming 60 days of WC on average, compared with retail at 24 days.
- The **consumer** industry leveraged DPO to improve its cash flow position, as indicated by the increase of four days since Q1 2020. This change was mostly driven by the hospitality; tobacco; and apparel, accessories, and luxury goods subsectors. DIO improved by one day, likely due to the impact of increased demand in consumer goods during shelter-in-place and stay-at-home orders. Customer payments remained unchanged with zero-day change in DSO.
- **ER&I** DPO increased the most (five days) to improve cash flow, as demand for energy plummeted and production was not fully adjusted by Q3 2020, leading to a one-day DIO increase. This was likely driven by the difficult nature of forecasting demand during the pandemic. Customers ended up paying no differently than a year ago, with DSO remaining unchanged.
- **LSHC** had the smallest impact on its CCC, with only DIO deteriorating by two days, likely due to the need to stock up on key items, while maintaining extending payments to suppliers, increasing DPO by two days. DSO also improved by one day, indicating that where a sector is in high demand, it is in a better position to request favorable trade terms.
- **TMT** was able to improve its DSO the most by five days while reducing inventories by three days to improve its cash position. DPO deteriorated by three days.

WC TRENDS IN CCC DAYS BY INDUSTRY

Change in DSO by industry during pandemic (▲ from previous quarter)

	Actual Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Actual Q1-21
Consumer	22.8	0.1	7.7	-3.8	-1.4	-2.7	21.9
Energy, Resources and Industrials	37.4	4.5	8.0	-6.2	-3.5	1.7	41.7
Life Sciences and Health Care	38.2	0.5	1.3	-3.0	0.5	0.5	38.1
Technology, Media and Telecom	51.4	2.2	-1.6	-2.4	-2.5	1.1	50.4

Change in DIO by industry during pandemic (▲ from previous quarter)

	Actual Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Actual Q1-21
Consumer	58.2	0.3	4.7	-4.2	-2.6	1.4	57.3
Energy, Resources and Industrials	49.0	6.7	19.7	-12.2	-7.1	0.6	57.2
Life Sciences and Health Care	41.6	-3.0	6.8	-5.6	1.8	-1.3	40.4
Technology, Media and Telecom	25.4	2.2	0.7	-0.8	-4.3	1.5	24.2

Change in DPO by industry during pandemic (▲ from previous quarter)

	Actual Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Actual Q1-21
Consumer	54.5	-0.2	8.1	-1.2	-4.5%	1.8	59.8
Energy, Resources and Industrials	46.3	11.3	14.6	-7.7	-14.1%	11.8	60.7
Life Sciences and Health Care	56.4	9.7	5.9	-6.5	-6.8%	9.0	67.6
Technology, Media and Telecom	63.9	4.2	2.7	-3.3	-4.2%	2.0	64.9

DSO

- The movements in DSO across all sectors from Q1 to Q3 2020 can be mainly attributed to the strong shifts in revenues each quarter (e.g., slight reductions in Q1, significant dips in Q2, and early recovery by Q3). **Consumer and ER&I** experienced the strongest swings in DSO due to significant fluctuations in their revenues. Overall, most sectors have recovered back to prepandemic levels, with the exception of TMT, which has performed better.

DIO

- The changes in DIO for all sectors can mostly be attributed to sudden swings in COGS, driven by a reduction in demand and cost-cutting measures. **LSHC** was the only sector to note a reduction in DIO in Q1 2020, highlighting the sudden and strong demand for its goods as the health crisis kicked in. Conversely, **TMT** has had very low increases and decreases in inventory days.

DPO

- The changes in DPO were not only driven by changes in COGS, but also more deliberate actions by companies to increase AP balances through delayed payments or renegotiated terms. Companies employed these measures to manage the cash flow impacts of higher DSO and DIO levels. Most industries scaled back on these tactics in Q3 2020, with the exception of **consumer**, which managed to maintain its Q2 levels.

Change calculated in percentage and days: Individual quarters measured YoY for 2019, 2020, and 2021.
Source data: S&P Global Market Intelligence LCC, March 2021; Deloitte sector mapping.

INDUSTRY FINDINGS: CONSUMER

Actual Q1 2021

CCC
19.4
days

DSO
21.9
days

DIO
57.3
days

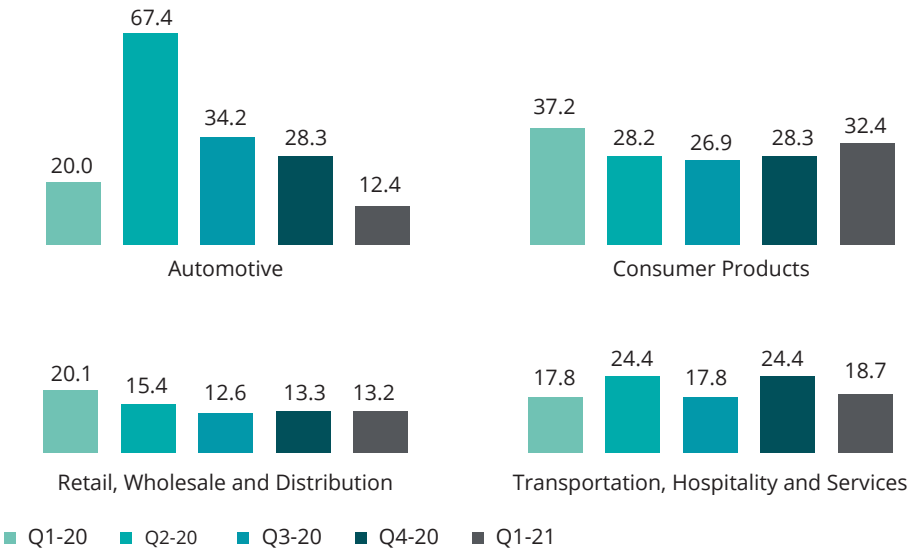
DPO
59.8
days

- By Q1 2021, revenue and earnings performance in the **consumer** industry recovered when compared with Q1 2020, driven by the **automotive, consumer products,** and **retail, wholesale,** and **distribution** sectors, which each experienced significant growth compared with Q1-2020. The **transportation, hospitality,** and **services** sector has yet to fully recover (largely driven by declines in **airlines** and **hospitality**), although the rate of decline has decreased significantly.
- In terms of CCC, WC reduced by more than eight days, influenced by increasing revenue; however, companies in the **consumer** industry should remain focused on WC performance to maintain their improved cash conversion levels.

Quarterly percentage change in revenue (Q1 2020 to Q1 2021)

Sectors	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
Automotive	-7.1%	-40.6%	-4.7%	9.0%	11.5%
Consumer Products	1.0%	-4.4%	-0.6%	4.0%	8.2%
Retail, Wholesale and Distribution	2.5%	0.9%	6.2%	8.9%	12.4%
Transportation, Hospitality and Services	-5.9%	-31.9%	-20.9%	-13.9%	-2.2%

CCC in days by industry from Q1 2020 to Q1 2021

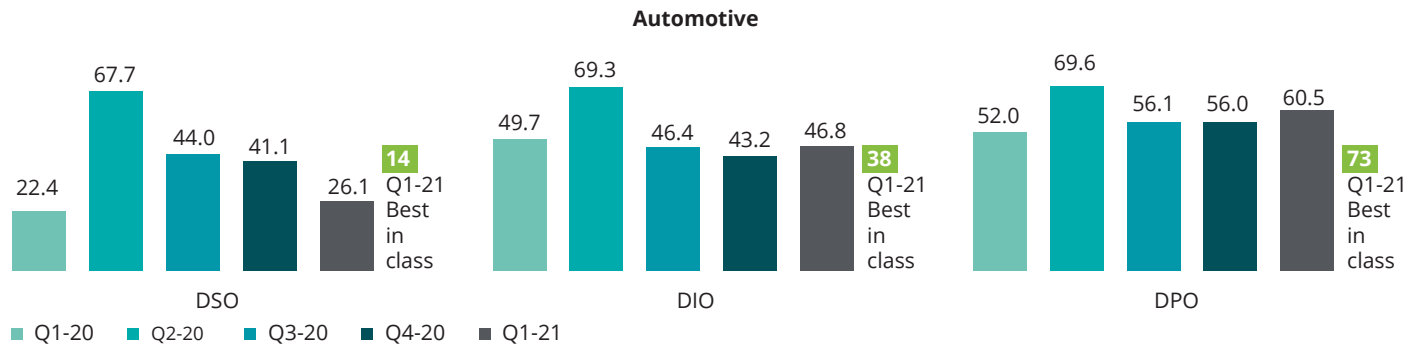


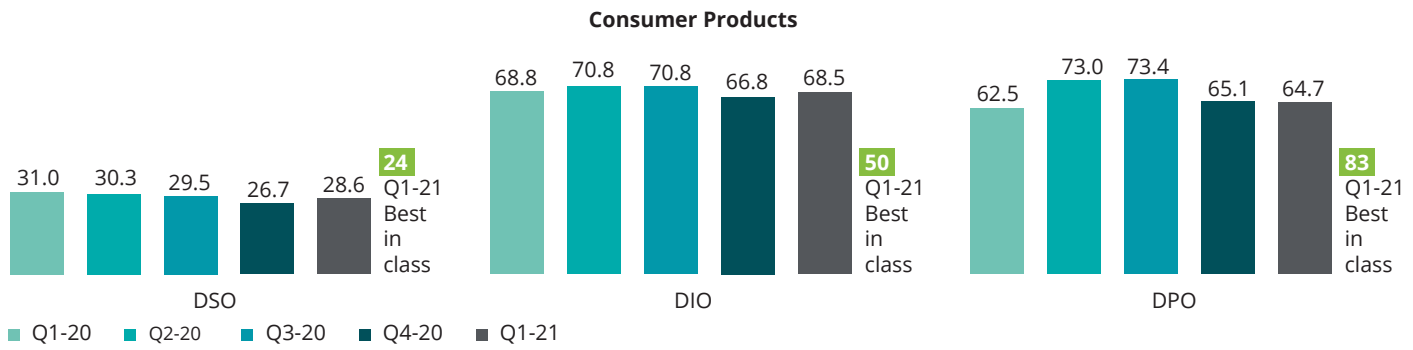
INDUSTRY FINDINGS: CONSUMER (cont.)

Analysis by consumer sector

Of all the sectors in consumer, **automotive** saw the largest increase in DSO due to the pandemic impacts in Q2 2020 as a result of automobile manufacturers' receivables more than doubling, and while automotive DSO has steadily improved throughout 2020 and into Q1 2021, it still hasn't reached Q1 2020 levels, while DIO increased by more than 20 days in Q2 2020 (but returned to historical levels by Q1 2021), and DPO performance has improved throughout the year.

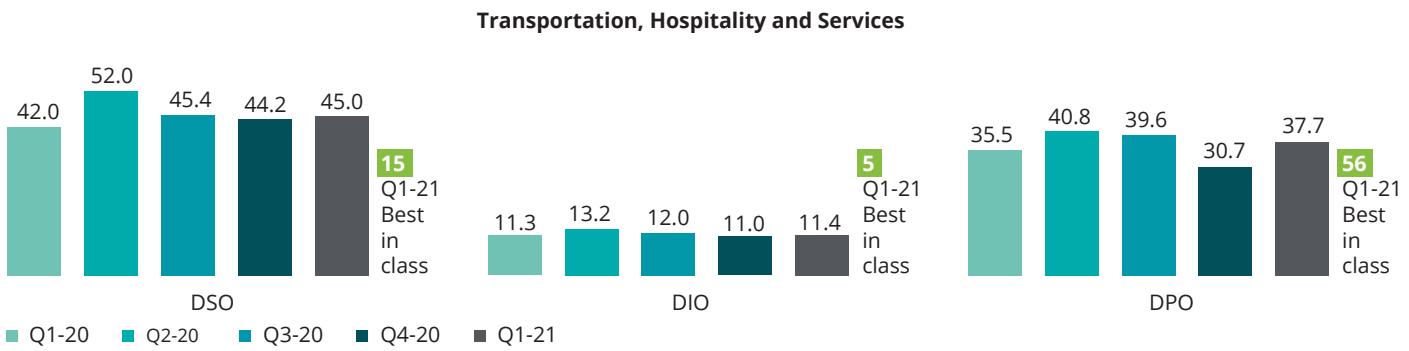
Consumer products companies made greater use of DPO than other sectors, increasing it by 17 days in Q2 2020 and staying two days higher in Q1 2021 while improving DSO by two days at the end of Q1 2021.



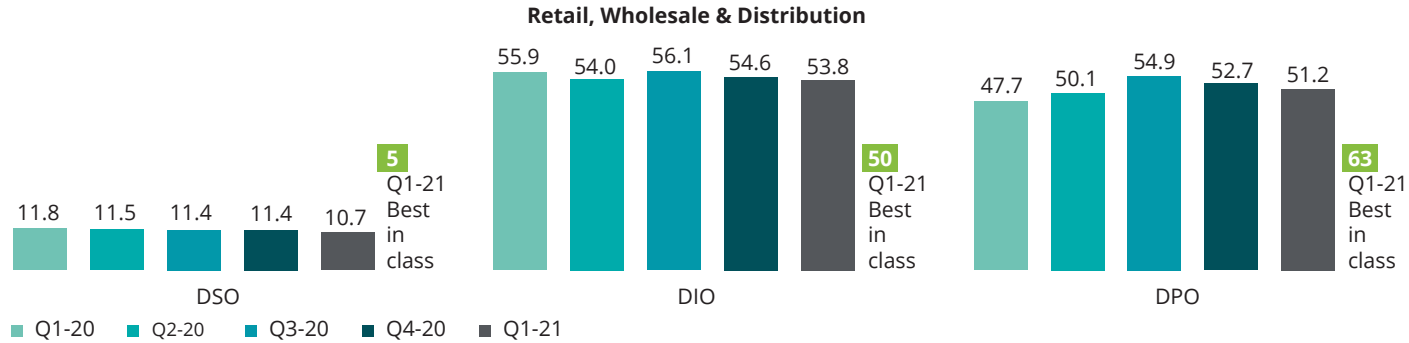


INDUSTRY FINDINGS: CONSUMER (cont.)

Transportation, hospitality, and services, which was hit the hardest in terms of industry disruptions and revenue declines, made use of its AP toolkit by stretching vendors, which increased by five days in Q2 2020 but returned quickly to normalized levels. Airlines and hotels were the most affected subsectors and have not fully recovered as of Q1 2021.



Retail, wholesale, and distribution (RWD) entered 2020 with a challenging few years behind it in terms of low margins and increasing leverage. RWD companies had minimal impact on collections, as seen in the positive DSO trends, but did face inventory and supply chain disruptions, in particular in Q2 2020, and were able to increase DPO by more than seven days and maintain increased DPO levels as of Q1 2021.



INDUSTRY FINDINGS: ENERGY, RESOURCES, AND INDUSTRIALS

Actual Q1 2021

CCC
38.2
days

DSO
41.7
days

DIO
57.2
days

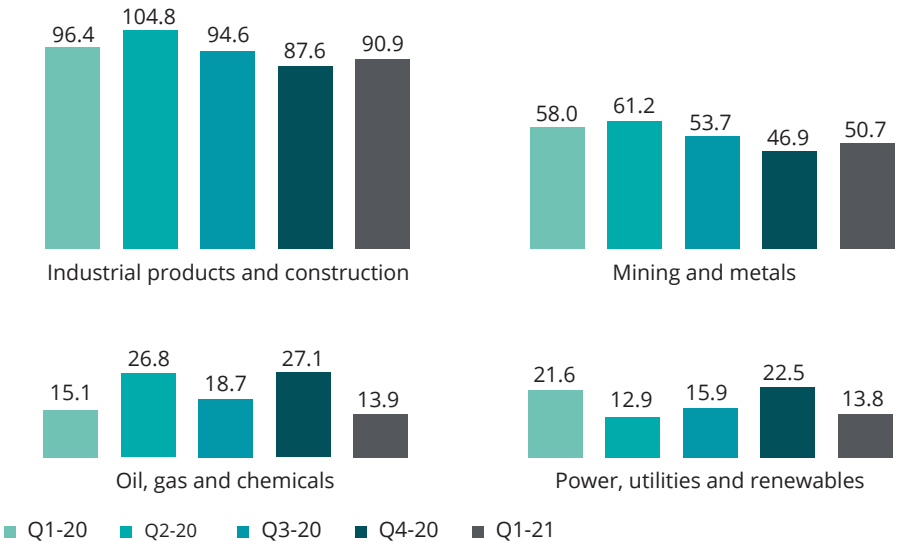
DPO
60.7
days

- **All ER&I sectors** experienced quarter-to-quarter revenue declines early in the pandemic through Q4; by Q1 2021, all sectors experienced revenue increases.
- **Oil, gas, and chemicals** had the steepest revenue decline of all sectors due to shelter-in-place and stay-at-home orders and restrictions in Q2 2020, as well as overall global reduction in ground and air transport, which reduced both demand and price (particularly for oil).
- **Each sector had become more efficient in converting cash** by Q1 2021 versus Q1 2020.
- **As oil, gas, and chemicals had the steepest revenue decline**, it also had a similarly steep CCC slowdown in Q2 2020, in what was a distressing time in the sector (particularly for upstream companies).

Percentage change in revenue (Q1 2020 to Q1 2021)

Sectors	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
Industrial Products	-4.3% ↓	-14.1% ↓	-5.5% ↓	-2.4% ↓	6.9% ↑
Mining and Metals	-7.7% ↓	-19.6% ↓	-5.5% ↓	9.4% ↑	24.5% ↑
Oil, Gas and Chemicals	-18.2% ↓	-44.7% ↓	-27.8% ↓	-24.7% ↓	8.0% ↑
Power, Utilities and Renewables	-5.8% ↓	-5.2% ↓	-1.4% ↓	3.3% ↑	15.4% ↑

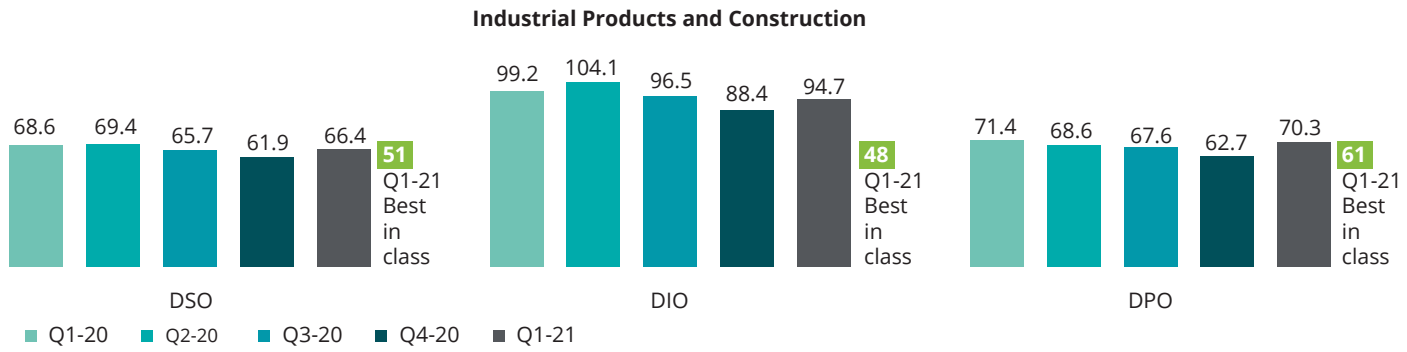
CCC in days by industry from Q1 2020 to Q1 2021



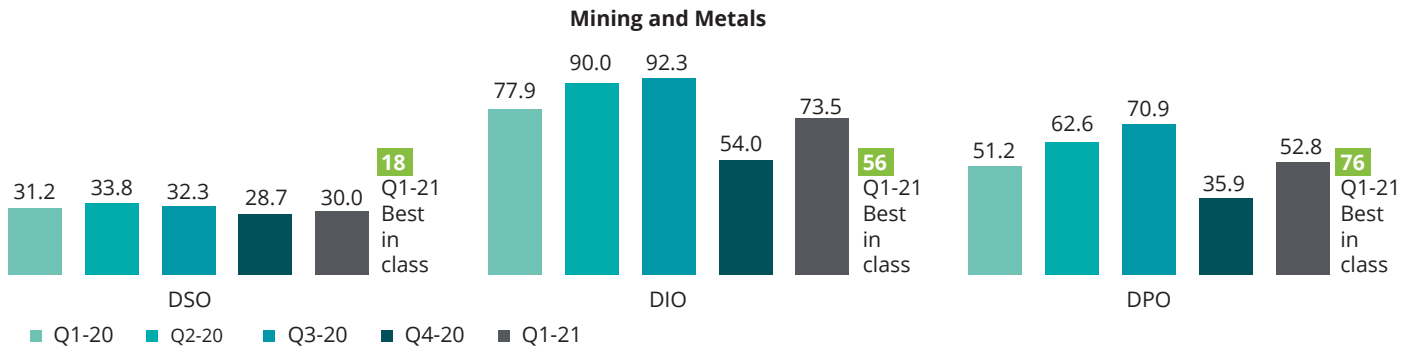
INDUSTRY FINDINGS: ENERGY, RESOURCES, AND INDUSTRIALS (cont.)

Analysis by energy, resources, and industrials sector

Industrial products and construction improved most of its CCC areas, with DIO coming down the most, followed by DSO. DPO improved marginally by one day.

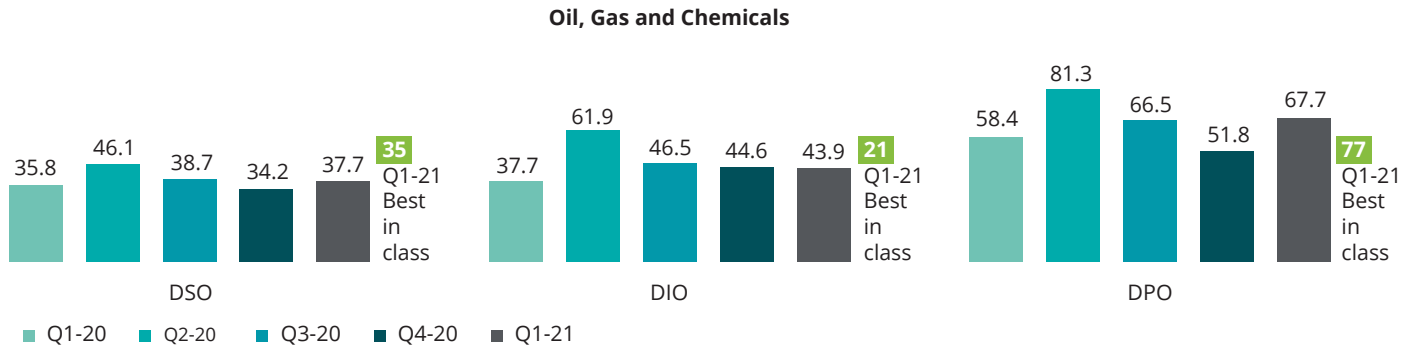


Mining and metals companies, after a turbulent year, had WC metrics in Q1 2021 that were remarkably similar to Q1 2020.

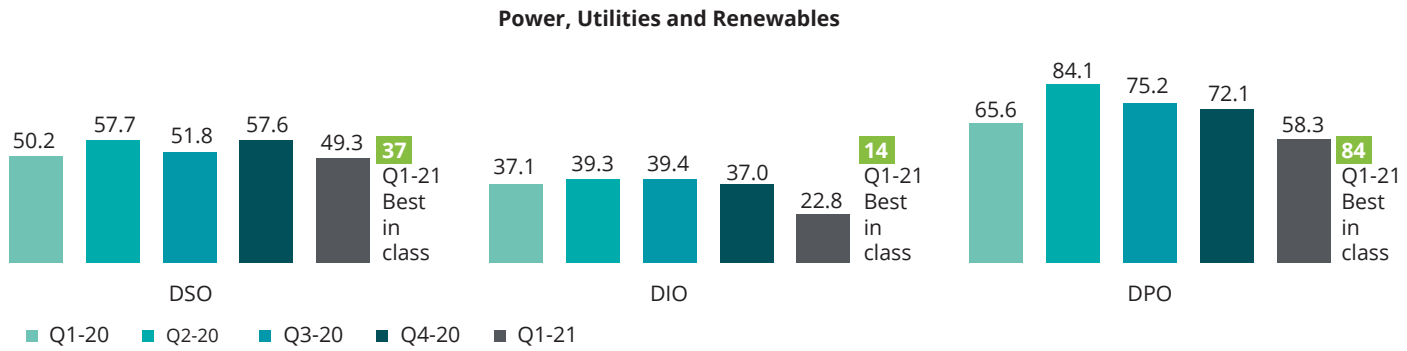


INDUSTRY FINDINGS: ENERGY, RESOURCES, AND INDUSTRIALS (cont.)

Oil, gas, and chemicals companies experienced dramatic shifts around Q2 2020. Receipts and inventory turns slowed in Q2, offset by slower payment of bills, before beginning to normalize in Q3 as businesses adjusted to the pandemic's effects.



Power, utilities, and renewables extended payment terms in Q2, as its customers also paid slower.



INDUSTRY FINDINGS: LIFE SCIENCES AND HEALTH CARE

Actual Q1 2021

CCC
10.9
days

DSO
38.1
days

DIO
40.4
days

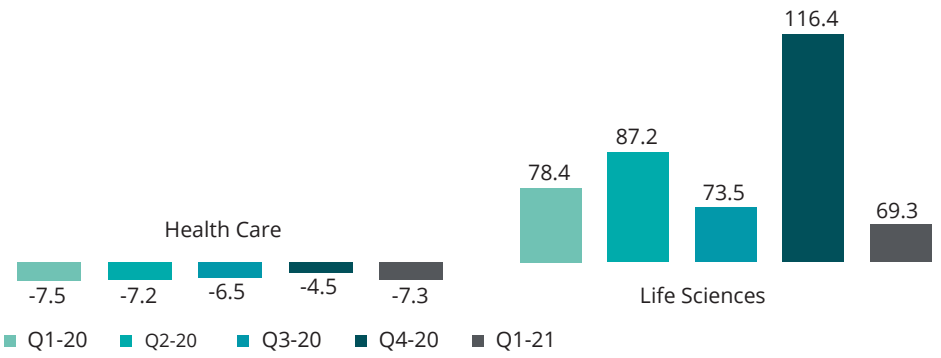
DPO
67.6
days

- LSHC enjoyed strong revenue growth across all quarters, with a **reduction in growth in Q2 2020** due to the pandemic.
- **Life sciences** took the lead from a revenue growth perspective, with peak growth in Q4 2020.
- **CCC for health care** deteriorated by a few days in Q3 and Q4 2020, but recovered to pre–COVID-19 levels in Q1 2021.
- On the other hand, **CCC for life sciences spiked in Q4 2020, in line with revenue increases,** but came back down to 69.3 days, at stronger levels than prepandemic.

Percentage change in revenue (Q1 2020 to Q1 2021)

Subsectors	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
Health Care	9.2%	1.6%	9.1%	10.4%	7.8%
Life Sciences	8.4%	0.5%	10.9%	23.0%	16.9%

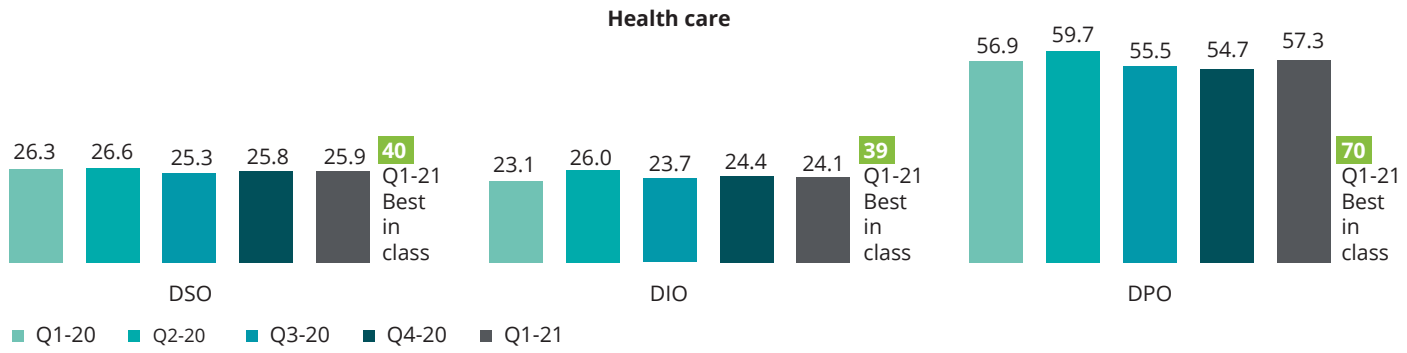
CCC in days by industry from Q1 2020 to Q1 2021



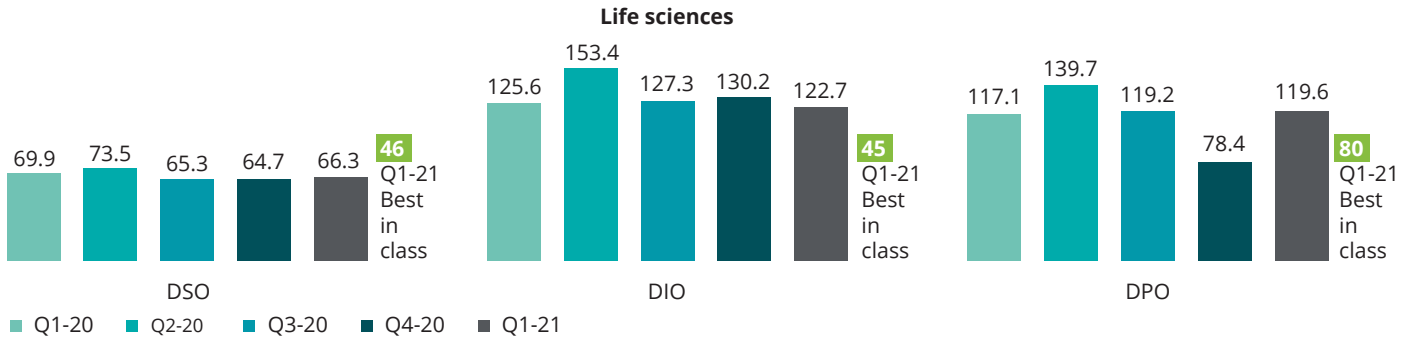
INDUSTRY FINDINGS: LIFE SCIENCES AND HEALTH CARE (cont.)

Analysis by life sciences and health care sector

Health care saw a drop of about one day in DSO from Q2 2020 to Q3 2020, which was largely mirrored by a decrease in DPO of about four days and a decrease of DIO of roughly two days over the same period.



Life sciences improved its DSO by 3.6 days and DPO by 2.5 days since Q1 2020, while DIO decreased by three days. All metrics jumped up at the height of the pandemic (Q2 2020), likely due to the resources required and impact of the fight against COVID-19.



INDUSTRY FINDINGS: TECHNOLOGY, MEDIA, AND TELECOM

Actual Q1 2021

CCC
9.6
days

DSO
50.4
days

DIO
24.2
days

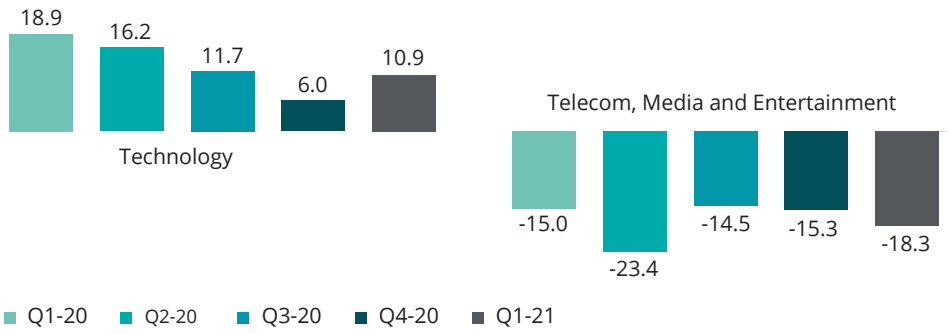
DPO
64.9
days

- The technology sector entered the year 2020 well-positioned to weather the pandemic. Due to large cash balances, most of the sector had low levels of net debt and strong customer and vendor positioning.
- The outlier, prepandemic, was the **telecom** subsector, which was burdened by debt without concomitant growth.
- Overall, though, **TMT** increased revenues, with **software and services** leading the charge. Demand for technological solutions was accelerated due to the immediate work-from-home environment.
- **Telecom**, which had been lagging prepandemic, saw operating leverage improve significantly due to increased demand for bandwidth.
- The weak spot, **entertainment (live)**, saw WC squeezed during 2020 due to the impact of shelter-in-place and stay-at-home orders across the country.
- **Overall, already negative CCC reduced further by three days, with suppliers floating WC needs, driven by a reduction in DSO and DIO.**

Percentage change in revenue (Q1 2020 to Q1 2021)

Subsectors	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
Technology	8.9% ↑	10.5% ↑	13.8% ↑	21.0% ↑	28.1% ↑
Telecom, Media and Entertainment	5.9% ↑	-6.5% ↓	0.7% ↑	8.7% ↑	12.2% ↑

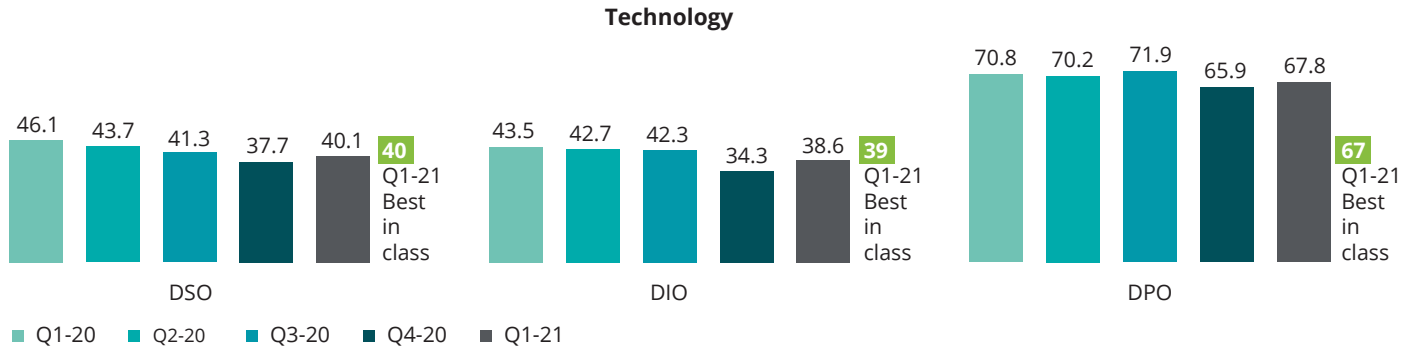
CCC in days by industry from Q1 2020 to Q1 2021



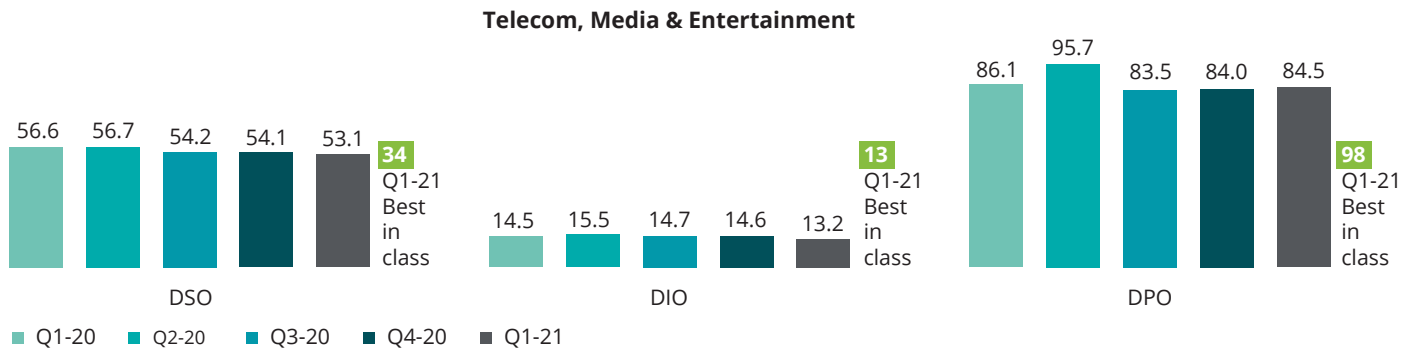
INDUSTRY FINDINGS: TECHNOLOGY, MEDIA, AND TELECOM (cont.)

Analysis by technology, media, and telecommunications sector

Technology improved both its DSO and DIO since Q2 2020 due to increased demand while improving its relationships with suppliers by reducing DPO.



Telecom, media, and entertainment saw large improvements in DSO and DIO after Q2 2020, while DPO deteriorated sharply over the same period.



LOOKING AHEAD

- The uncertainty and rapidly changing WC requirements created by the COVID-19 pandemic required a focus on short-term liquidity as part of the immediate pandemic response in Q2 2020. As economies exit shelter-in-place and stay-at-home orders and consumption returns, businesses need to reconfigure operational processes to ensure they are fit for purpose and can deal with increased uncertainty.
- Companies should move from short-term, reactive behavior to medium- and longer-term cash needs.
- It's essential that everyone making decisions understands the vital importance of protecting liquidity. Building a cash culture means more than highlighting cash as a metric; a cash-conscious culture needs to permeate through the entire organization so that everyone assesses every decision through a liquidity lens.
- Improving work strategies and enablers around WC will become a key part of the reconfigure phase for businesses, which needs to address the following **top six key success factors** to be effective:

Working capital success factors

1. **Executive sponsorship**
   - Executive committee support from CXOs
2. **Cross-functional teaming**
   - Accounts receivable (AR) and accounts payable (AP)
   - Sales, ops, and supply chain
   - IT
3. **Conduct robust discovery process**
   - Use industry-standard measures of performance
   - Perform deep-cycle analytics
   - Review process, policies, controls, risks, actions, issues and decisions (RAID) log, and technology
4. **Develop solutions and road map**
   - Executive buy-in to when vendors, items, and customer decisions need to be made
   - Execute quick wins to build momentum.
5. **Execute vigorously**
   - Resource solutions
   - Hold teams accountable for timelines and targets
6. **Sustainability and governance**
   - Instilling performance mindset (e.g., cash council)
   - Increase visibility and monitor KPIs
   - Measure periodically

Six key questions to ask:

1. What key management support do we have?
2. Do we have the right people and skills?
3. What should we look for in our data?
4. Which quick wins can we action to build momentum?
5. What's the best path to execution?
6. How do we sustain our results?

Cash governance framework: Culture and accountability matters

Governance framework

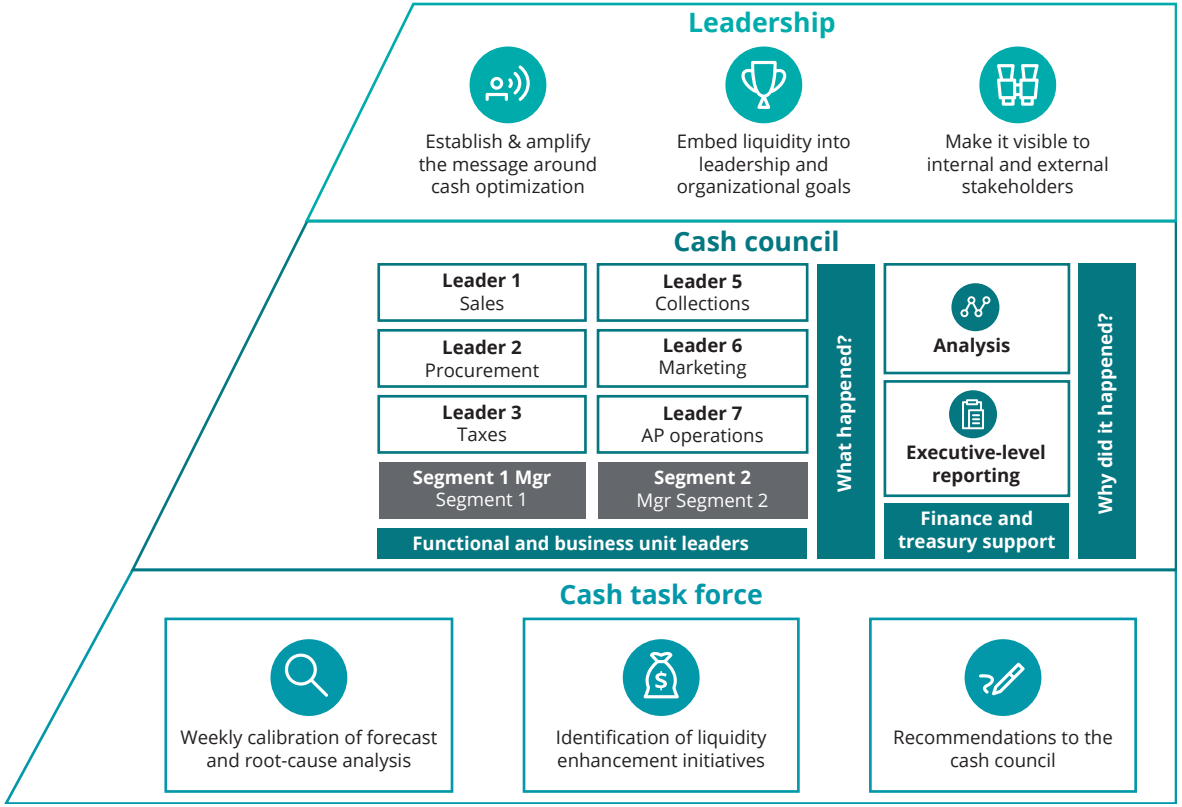
The three layers of a robust governance framework centers on a "cash council," which facilitates analysis, reporting, and recommendations around improving cash.

Each layer serves a different purpose to embed cash and liquidity as a fundamental element of the culture.

Components of effective cash governance

Senior leadership, sponsorship, and support

- Emphasize priority of disciplined and sustainable liquidity management practices
- Define goals and emphasizes results over "processes"
- Drive emphasis on active cash management to both internal and external stakeholders



Building the right team: Functional and operational input

- Bring functional and operational leaders together who manage key liquidity levers
- Enable a diversity of perspectives to understand tactical versus strategic cash management

Embedding consequence

- Establish accountability and ownership for each team member and for the group as a whole
- Develop a methodology and cadence for evaluation of core objectives
- Create a road map of both near- and long-term tangible milestones

Drive visibility through data and consistent measurement

- Structure discussions around data-driven metrics to enable quantifiable progress
- Use the same metrics and reports consistently to show the changing landscape of the business over time
- Build linkage to break down siloes and show the cause and effect of operational decisions and liquidity impact

Enable better decision-making through consistent dialogue

- Bring the "why to the "what" through the medium of regular, cross-functional dialogue
- Base this dialogue on analytics and forecasts to translate insights into actionable decisions

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