

Basis of preparation

Data used in this survey has been sourced from the S&P Capital IQ platform.

Peer group classification

The Building Products, Construction & Engineering, Food & Beverage, Healthcare Services, Media, Mining & Resources, Retail, Telecommunications and Transport & Distribution peer group samples underpinning this report have been selected according to the Global Industry Classification Standard ("GICS") listed in the table opposite.

Accounting periods

Financial information in this survey draws on the most recently published full year accounts as at 26 October 2018 (i.e. the most recently published full year financial information prior to this date has been used). Prior year comparable figures may differ from our 2017 report for companies in the sample that adjusted their 2017 accounts following the release of our report or restated them when presenting current year results. Adjustments may occur if there has been a change in accounting policy.

| Peer group sample | GICS groups included |
|----------------------------|--|
| Building Products | Construction materials Chemicals Building products Trading companies and distributors |
| Construction & Engineering | Construction and engineering Commercial services and supplies Energy equipment and services |
| Food & Beverage | Food products Personal products Beverages |
| Healthcare Services | Healthcare providers and services |
| Media | Interactive media and services Media |
| Mining & Resources | Metals and mining Oil, gas and consumable fuels |
| Retail | Specialty retail Auto components Distributors Household durables Hotels, restaurants and leisure Multiline retail Internet and direct marketing retail Food and staples retailing |
| Telecommunications | Wireless telecommunication services Commercial services and supplies Diversified telecommunication services |
| Transport & Distribution | Transportation infrastructure Road and rail Commercial services and supplies Air freight and logistics Marine Industrial conglomerates |

The full peer group samples are included on pages 25 - 29.

Basis of preparation

Source data

This publication contains high level financial information sourced from the S&P Capital IQ database of the latest available published financial statements of ASX listed entities for the 2018 financial year. The information contained herein is based on sources we believe reliable, but we do not guarantee its accuracy, and it should be understood to be general information only. The information is not intended to be taken as advice with respect to any specific organisation or situation and cannot be relied upon as such.

McGrathNicol accepts no responsibility for errors or omissions in financial information underpinning this publication, nor the loss of any person arising from use of or reliance on information herein. All readers of this publication must make their own enquiries or obtain professional advice in relation to any issue or matter referred to in this publication.

Limitations

McGrathNicol acknowledges that at the level of detail applied, the analysis has limitations, some of which are noted below. For this reason, the analysis focusses on performance relative to the prior period, rather than in absolute terms against peers.

Days sales outstanding

Debtors include GST, while sales do not. To the extent that a company makes more or less of its sales in Australia (or another jurisdiction that levies a consumption tax), results will vary.

Days inventory outstanding

To the extent that a company has more or less labour included in its cost of sales, results will vary.

Days purchases outstanding

Creditors include GST, while cost of sales do not. To the extent that a company acquires inventory or input services in Australia (or another jurisdiction that levies a consumption tax), results will vary.

In addition, to the extent that there has been an accounting adjustment that has affected a company's sales, purchases, debtors, inventory or creditors, this has not been isolated in the analysis and may be reflected as a change in working capital.

Calculation methodology

The working capital metrics referred to in this report have been calculated, as follows:

Days Sales Outstanding ("DSO")

DSO is the number of days' worth of sales represented by the outstanding debtors at the relevant calculation date.

The calculation used in this survey is:

$$\text{DSO} = \frac{\text{Debtors}}{\text{Sales}} \times 365$$

A low DSO metric is desirable and indicates that it takes a relatively low number of days for a company to collect debtors.

Days Purchases Outstanding ("DPO")

DPO is the number of days' worth of purchases represented by the outstanding creditors at the relevant calculation date. The calculation used in this survey is:

$$\text{DPO} = \frac{\text{Creditors}}{\text{Cost of Sales}} \times 365$$

A low DPO metric indicates that it takes fewer days for a company to pay its trade creditors. A high DPO is desirable from a cash flow and working capital management perspective, but can be an indicator of tight liquidity and the cause of strained supplier relationships.

Days Inventory Outstanding ("DIO")

DIO is the number of days' worth of purchases represented by the inventory balances at the relevant calculation date. The calculation used in this survey is:

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

A low DIO metric is desirable and indicates a relatively high turnover of inventory.

Days Working Capital ("DWC")

DWC is a relative measure of total working capital tied up in a company relative to sales. The calculation used in this survey is:

$$\text{DWC} = \frac{\text{Debtors} + \text{Inventory} - \text{Creditors}}{\text{Sales}} \times 365$$

A low DWC metric is favourable as it indicates a low level of working capital relative to the size of the business.