Report Summary

DSO

2021	2022	Change
37.9	39.7	1.8

Average DSO increased in five of the seven sectors and 53% of all sampled companies.

All of the sectors with higher DSO (Construction & Engineering, Building Products, Agriculture, Mining & Resources, and Retail) responded by paying suppliers more slowly (higher DPO).

DIO

2021	2022	Change
88.9	100.8	11.9

Average DIO increased in six of the seven sectors and 70% of all sampled companies. This resulted in an additional $25bn of cash "locked up" in inventory.

Agriculture had the highest average DIO, representing more than five months of sales. Four of the sectors that increased inventory holdings (higher DIO) did so by two weeks or more.

DPO

2021	2022	Change
62.7	65.9	3.2

Average DPO increased in six of the seven sectors and 59% of all sampled companies. In five of the sectors, operators took longer than two months to pay suppliers.

Transport & Logistics was the only sector to experience a shortening of the supplier payment cycle (lower DPO), however it still had the highest DPO of all sampled sectors at 87.6 days and the shortest net working capital cycle.

DWC

2021	2022	Change
53.8	59.1	5.3

Average DWC increased in five of the seven sectors and 64% of all sampled companies. 5.3 days is the largest movement in DWC since 2013.

Significant shift in DWC in H2 (up 10.4 days) as inventory loads increased and suppliers were paid more quickly.

Summary

How have working capital cycles changed in 2022?

5.3 days

increase in DWC

$11.1 billion

additional cash "locked up" in working capital

39%

of companies increased both working capital and debt

78%

of companies increased NWC as a proportion of revenue

What are the sector insights?

Food & Beverage had the largest DWC improvement of 7.1 days, however still had the second longest cycle of all sectors

Building Products had the largest DWC deterioration of 11.7 days, driven by inventory build up

All seven sectors had > 100 days spread between "best and worst"

How did working capital cycles change from H1 to H2?

10.4 days

increase in DWC driven by two thirds of the sample

14.2 days

reduction in DPO as cash flows normalised post-COVID and creditors were paid more quickly

7.2 days

increase in DIO signalling a more cautious approach to inventory management to counter supply chain disruptions

How does Australia stack up against the rest of the world?

15 days

lower average in DSO than other regions

Inventory cycles in Australia longer than other regions (1.2x US, 1.4x EU and 1.4x Asia)

Australian companies increased inventory holdings by almost 3x the international average

Agriculture

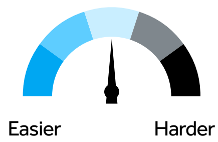
DWC +8.7

Highest inventory load and longest average working capital cycle of all sectors. On average, operators held inventory for five months, reflecting the record seasonal production and disruption to delivery routes caused by adverse weather events.

Working Capital Outlook

The significant build up in inventory, particularly in H2 2022, is expected to unwind somewhat in 2023 as production levels soften. There may also be some pressure to pay suppliers more quickly following a year where average DPO increased by close to a week and 70% of survey respondents called out managing the supplier payment cycle as a key challenge over the last two years.

Managing Working Capital in FY23



Building Products

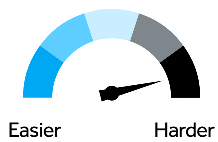
DWC +11.7

Largest deterioration in DWC of all sectors as DIO increased by close to three weeks. Notably, inventory holdings were the highest they have been in the 10 years that the McGrathNicol Advisory Working Capital Report has been published.

Working Capital Outlook

An expected easing in demand and global supply chain pressures is likely to shift the spotlight back onto working capital management, with a particular focus on reducing inventory holdings to longer-term averages. 46% of survey respondents indicated that they had reduced inventory targets for 2023 and a further 18% intended to review inventory management plans in the near future.

Managing Working Capital in FY23



Construction & Engineering

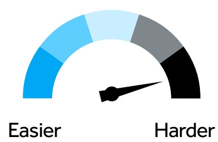
DWC +6.3

Increase in DWC driven by longer collection cycles (DSO up 8.3 days) as weather and supply chain delays made it difficult to progress / complete work and convert that work into cash. To help counter this, 67% of operators paid their suppliers more slowly in 2022.

Working Capital Outlook

Activity contracted in the first quarter of FY23, with 48% of survey respondents concerned that this may translate into margin pressure and reduced liquidity. In 2022, 58% of operators exhibited a structural "funding gap" in their working capital cycle (DSO > DPO) and 46% of survey respondents indicated that they had recently agreed to longer customer terms, which is likely to put more pressure on cash flow.

Managing Working Capital in FY23



Food & Beverage

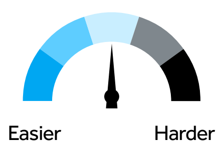
DWC -7.1

Largest improvement in DWC of all sectors, driven by longer supplier payment cycles (DPO up 12.1 days). Interestingly, 50% of operators increased their DPO and carried higher inventory. Inventory levels were the highest levels recorded since 2015.

Working Capital Outlook

Fluctuating DWC between H1 and H2 2022 and a large gap between "best" and "worst" operators (> 300 days) highlights the complexities of managing working in this sector. With DIO and DPO having spiked in 2022, there will likely be a reduced ability to further "stretch" creditors and so the focus in 2023 will be on increased purchasing efficiency and reducing inventory to free up cash.

Managing Working Capital in FY23



Mining & Resources

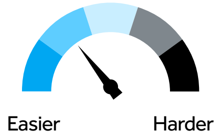
DWC +3.0

Higher DWC driven by increases in DSO and DIO. Approximately 75% of the larger operators with higher DSO extended their average supplier payment cycle by close to two weeks.

Working Capital Outlook

Typically lower net working capital load when compared to other sectors, although 77% of survey respondents noted a recent increase in customer terms (which may put further upward pressure on DSO). Despite this, there appears to be good focus on working capital management with all survey respondents indicating that they commonly adopt "better practice" measures, KPIs and data analytics.

Managing Working Capital in FY23



Retail

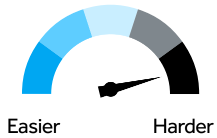
DWC +10.1

Supply chain concerns drove a material increase in inventory holdings (by more than three weeks) and contributed to a higher average DWC. Notably, inventory holdings were the highest they have been in the 10 years that the McGrathNicol Advisory Working Capital Report has been published.

Working Capital Outlook

Both demand and supply remain difficult to accurately predict, with 52% of survey respondents indicating that they had recently increased inventory targets (above 2022 levels) and 54% identifying supply chain disruptions as the biggest challenge over the next 12 months. With consumer sentiment at low points and cost of living pressures likely to remain for at least part of 2023, managing inventory will be challenging.

Managing Working Capital in FY23



Transport & Logistics

DWC -1.1

Shortest net working capital cycle of all sectors, with DWC at its lowest level since 2015. Approximately 75% of operators that were able to lower their DWC did so by collecting from their customers more quickly (DSO down by 0.9 days).

Working Capital Outlook

Typically a sector where operators have to manage large retail, mining, and fuel distribution counterparties, so tight working capital management will remain critical for avoiding liquidity pressures. Survey respondents claimed to spend the most time on working capital than any other sector (over 15 hours per month). All survey respondents cited the use of targets and analytics, whilst 86% prepare and maintain cash flow forecasts.

Managing Working Capital in FY23