

Introduction Managing Net Working Capital at SGS

Net working capital is the lifeblood of our business and is **EVERYONE'S RESPONSIBILITY**.

The lower the requirement for Net Working Capital, the more cash the business generates. Strong cash generation is a vital part of a business' value.

Net Working Capital (NWC) at SGS is the amount of cash immobilised to fund the daily processing of our operations. It is mainly sourced from the timing gap between our receivables (money in), inventories (money tied up in stock) and payables (money out).

$$\text{NWC} = (\text{INVENTORIES} + \text{RECEIVABLES} + \text{UNBILLED REVENUES} - \text{PAYABLES})$$

Our goal is to reduce our NWC figure, so we have more cash SGS at our disposal to fund new projects, new businesses and acquisitions.

NWC Drivers – Cash inflow

Prompt invoicing

Once we have completed the work, we need to make sure that we issue the invoice as soon as possible, so that the invoice to cash cycle (the time it takes between the moment the job is executed and the moment we collect the money) is as short as possible.

Payment collection

After the invoice has been issued, we need to collect the money in the shortest possible time. The longer it takes, the higher our NWC and the more negative the impact on our cash balance

Optimising inventory

Inventories immobilise cash until they are consumed. The key in any operation is to determine the optimal level of inventories needed, so that we do not put our business at risk, but also do not tie up too much cash

NWC Drivers – Cash outflow

Supplier payments

We need to negotiate the best payment terms to avoid paying too early. The later we pay our suppliers, the better it will be for our NWC and cash, since we will avoid using cash too early. The Operating Council has decided that we should pay our suppliers in not less than 60 days. Any new contract should state these payments terms. This will have a strong positive impact on our cash.

There is strong payables management expertise in the Procurement function. It is recommended to liaise with them to engage in a payables optimisation program.

Organisational effectiveness

As a business we will lower NWC by improving our back office processes and organization. We will share best-practice across the network and set up centralised hubs.

Steps you can take to positively enhance our NWC requirement.

- **Negotiate improved terms with our customers to reduce collection times.**
- **Negotiate improved terms with our suppliers to increase payment terms.**
- **Reducing inventory levels to cover just what the business needs.**

Remember!

- **Improving NWC is an ongoing process – it is a day-to-day challenge.**
- **Each of us in the company has a role to play and a duty to protect the financial health of our company, which is rewarded via the bonus policy.**
- **Do not hesitate to contact your local finance manager for any further discussion or questions.**