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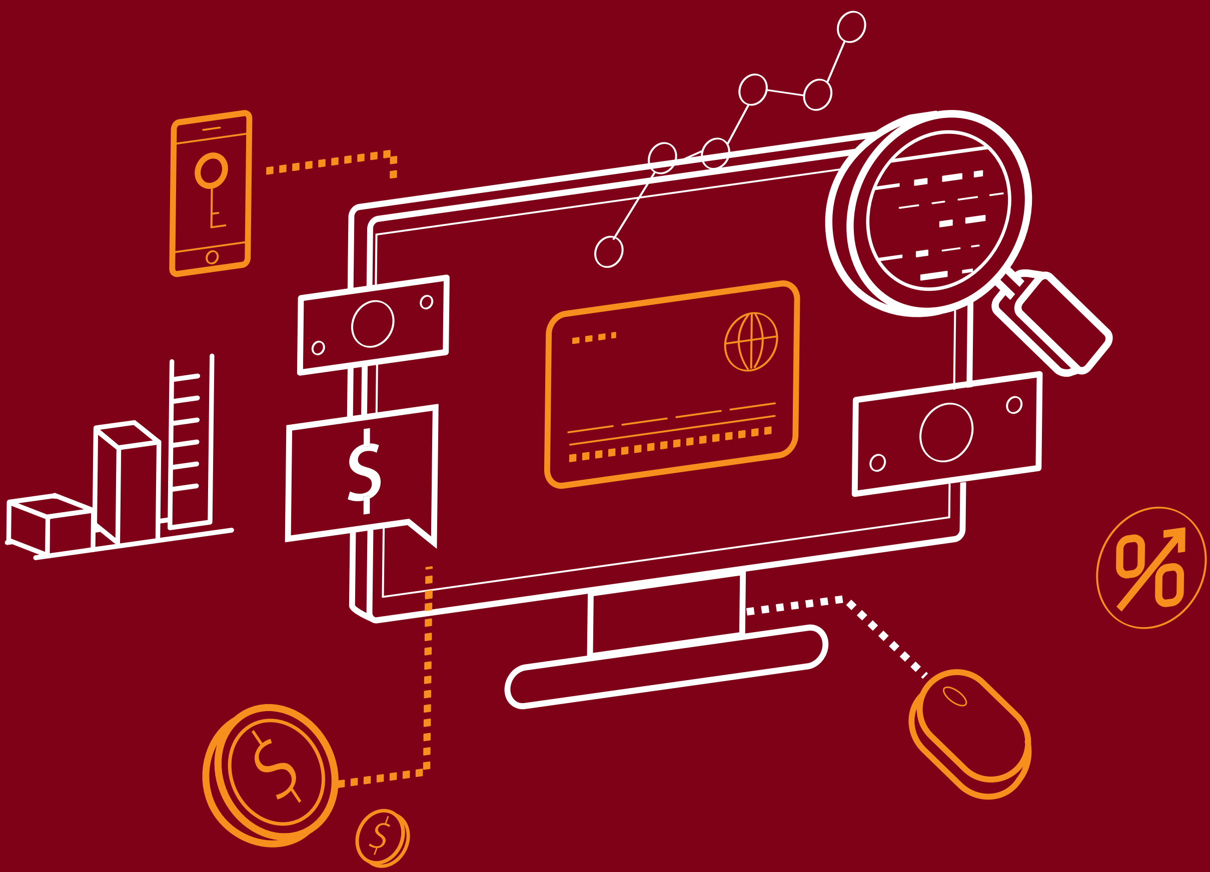
Working Capital - maximising your value

2018 Middle East Working Capital Study



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Key Findings

Our 2018 Middle East Working Capital Study looks at the working capital performance of over 370 publicly listed companies across the Middle East based on the past 5 years of publicly available financial information.

Our key findings show the following:

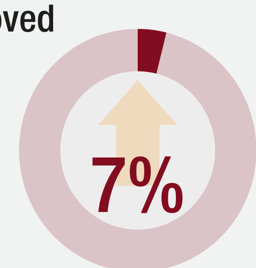
AED 112bn can be released from operational working capital balances of companies in the Middle East

CAPEX and **dividend payouts** at the lowest point in 5 years

Total debt levels are at their **highest point** in the last 5 years

Working capital performance has deteriorated despite a **stretch in DPO**

Only **7%** of businesses improved working capital performance for three years consecutively



Median performers lose ground as top quartile continue to extend their gains

For the first time since 2013, very large business see a decline in working capital performance

Top working capital performers outperform on **all key financial KPI's**

Forward

Welcome to PwC Middle East's 2018 Working Capital study. With the backdrop of improving (but still volatile) oil prices, wide ranging public sector reforms and rapidly changing consumer patterns, external factors for companies in the Middle East are constantly evolving.

Our 2018 study shows a staggering AED 112 billion of trapped liquidity across all three areas of working capital (inventory, receivables and payables) for Middle East listed companies. This represents a significant untapped opportunity to release cash back into the business.

In addition, our study shows that both dividend payouts and capex spend is at the lowest point in the past 5 years. Yet, debt levels are at the highest point in the past 5 years, and at the same time increasing interest rates have been putting more pressure on liquidity.

Working capital performance has continued to deteriorate across the Middle East driven mainly by inventory and receivables as in the previous years. It appears that companies are continuing to address this issue by increasing their creditor cycle rather than more sustainable operational improvements across debtors and inventory.

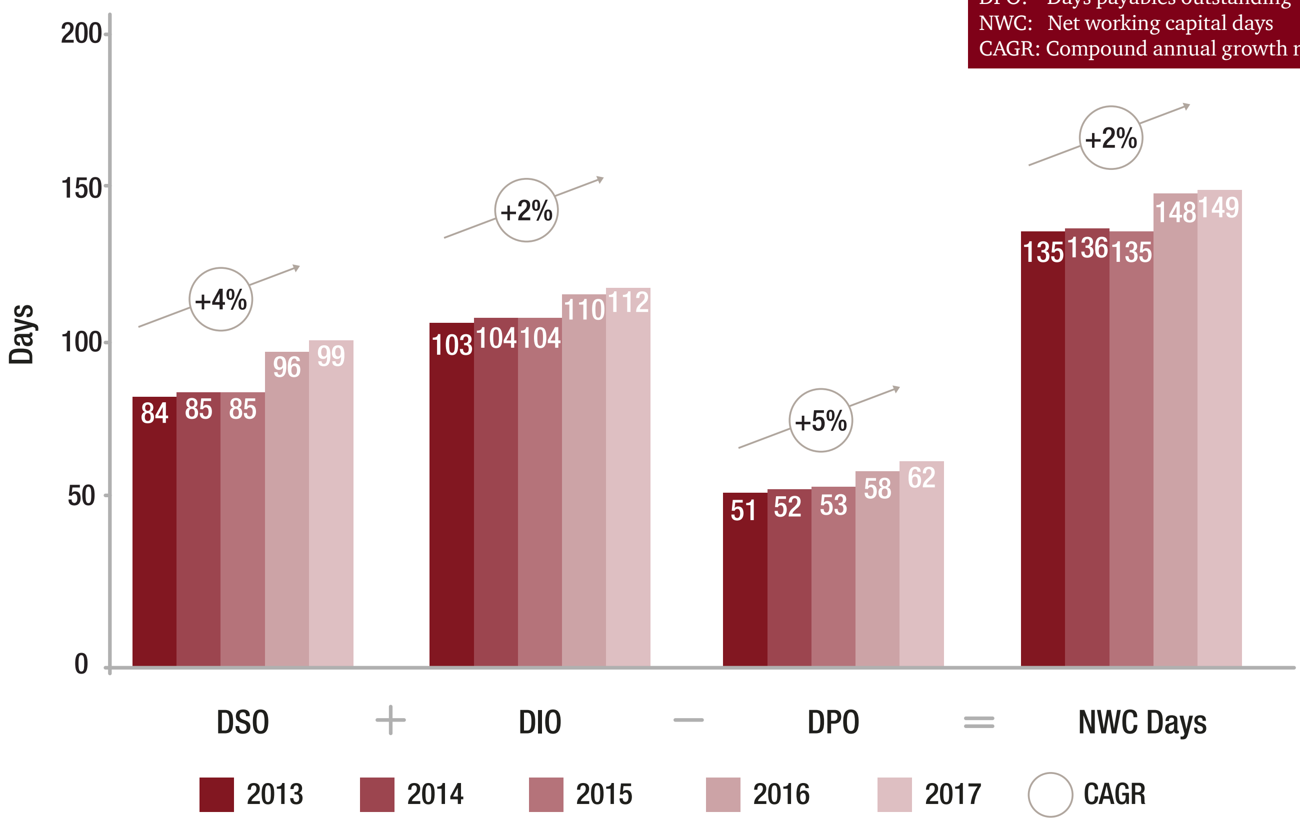
Top performing companies across all sectors in the Middle East continue to improve working capital efficiencies and are increasing the gap between median performers which have stagnated since 2013.

Although circa 50% of the companies have improved their working capital year on year, sustainable working capital improvement remains elusive for the vast majority of Middle East companies. Only 7% of companies in our survey sustainably decreased net working capital days for 3 consecutive years, and a mere 2% for 4 consecutive years.

Working capital improvements require a continuous focus to achieve optimal operational performance. Companies that engage in one off working capital exercises could be detrimental in the long run if payments are simply withheld from suppliers and collections are targeted aggressively across all customers regardless of their payment performance.

Smarter working capital management could increase companies access to capital expenditure, continue to fund dividends and unlock cash to enable future growth.

DSO: Days sales outstanding
DIO: Days inventory outstanding
DPO: Days payables outstanding
NWC: Net working capital days
CAGR: Compound annual growth rate



Source: PwC Middle East Working Capital Study 2018

How we can help

1. Complete a working capital benchmarking exercise to compare performance against peers and identify potential improvement opportunities
2. Perform a diagnostic review to identify ‘quick wins’ and longer-term working capital improvement opportunities
3. Develop detailed action plans for implementation to generate cash and make sustainable improvements
4. Assist the realisation of sustainable working capital reduction by implementing robust, efficient and collaborative processes

Addressing the key levers:

- Identification, harmonisation and improvement of commercial terms
- Process optimisation throughout the end-to-end working capital cycles
- Process compliance and monitoring
- Creating and embedding a ‘cash culture’ within the organisation, optimising the trade-offs between cash, cost and service

Contact us

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