Strategic Working Capital Planning

Can we do more with our supply chain knowledge ?

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The changing role of the Treasurer

Extracts from the ACT Business of Treasury Report 2018

"…the treasury profession has evolved from information provider to strategic business partner."

"…treasurers must be technically expert and know their stuff, but also understand their business and the wider forces affecting them."

"Treasurers are the organisation's forward-thinkers, scanning the horizon for financial risks. Their extensive external contacts (banks, rating agencies, lawyers, consultants, regulators…) enable them to provide valuable, predictive insight and help shape the management response."

"To understand the environment and provide their organisations with genuinely predictive insights, treasurers need high-quality management information …but…. 71% of our survey respondents are at least moderately concerned about the quality of financial and business data available for strategic planning and decision-making."

How are we managing our Working Capital Strategies today?

What is the interaction like with your bank?

Operating Lease

Foreign Exchange Facility

Post-shipment Finance

Structured Finance

Corporate Bonds

Doc Collection Discounting

Letter of Credit

Interest rate hedge

Bonds/Guarantees

Charge Cards

Pre-shipment Finance

Supply Chain Finance

Credit Cards

Invoice Discounting

Bill of Exchange Discounting

Daylight Exposure Limit

Hire Purchase Facility

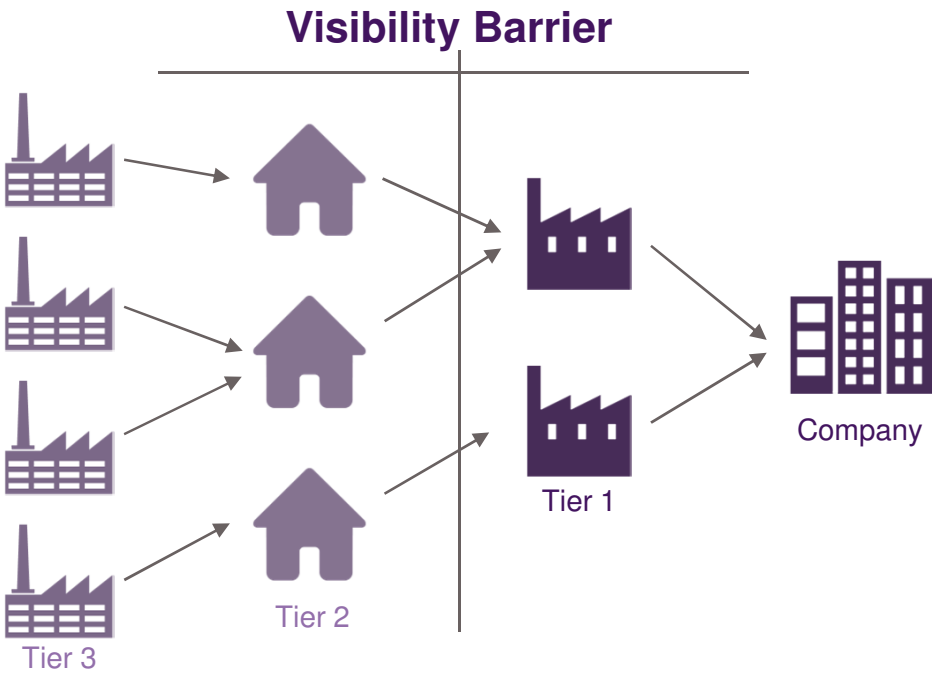
Finance Lease

Fixed Rate Loan

Variable Rate Loan

What sits beyond the barrier?

Understanding the full value chain is key to managing the supply, demand and flow of goods, services and capital



Hidden Risk

51% of supply chain disruptions originate with Tier 2 & Tier 3 suppliers

- *Allianz Risk Barometer on Business Risk (2014 Report)*

Poor Visibility

54% of executives admit that their firms do not have visibility beyond Tier 1

- *KPMG*

Top Priority

80% of the companies worldwide see better protection of the supply chain as a top priority

- *Accenture*

Heightened Supply Chain Visibility = Better Working Capital Strategies

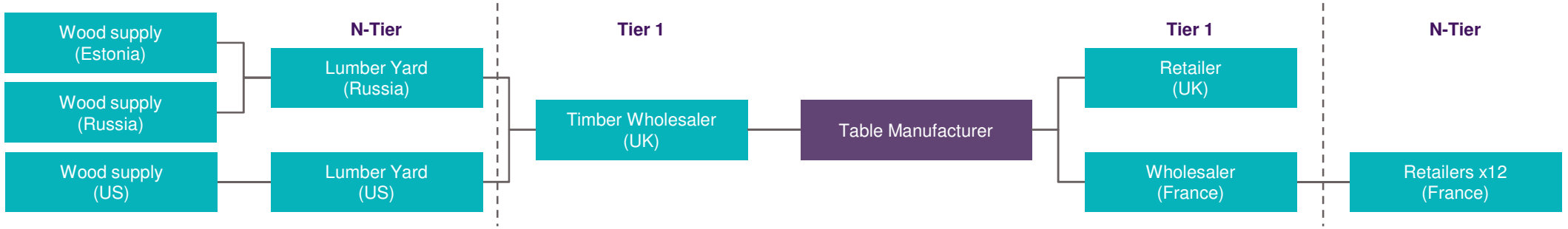
A whole lot more than just shipment tracking… Supply, Demand and Flow

Contractual Shape: Delivery times, payment terms; transport and Insurance costs

Taxes, duties and trade administration: VAT, Import & export duties and licences; local regulations & paperwork

Logistics infrastructure & Cost: Efficiency of routes; reliability of carriers

Foreign Exchange Costs



Product type (supply): probability of supply disruption; seasonality; How generic is the product?

Product type (demand): seasonality; probability of demand disruption; Concentration of buyers?

Disruption from natural Phenomena

Credit integrity of all links

Political Risks and Issues: Brexit; Trade Wars; Sanctions.

Re-Inventing the role of the bank?

Working Capital Product Provider to Supply Chain Partner

Helping to make your supply chain stronger/more resilient

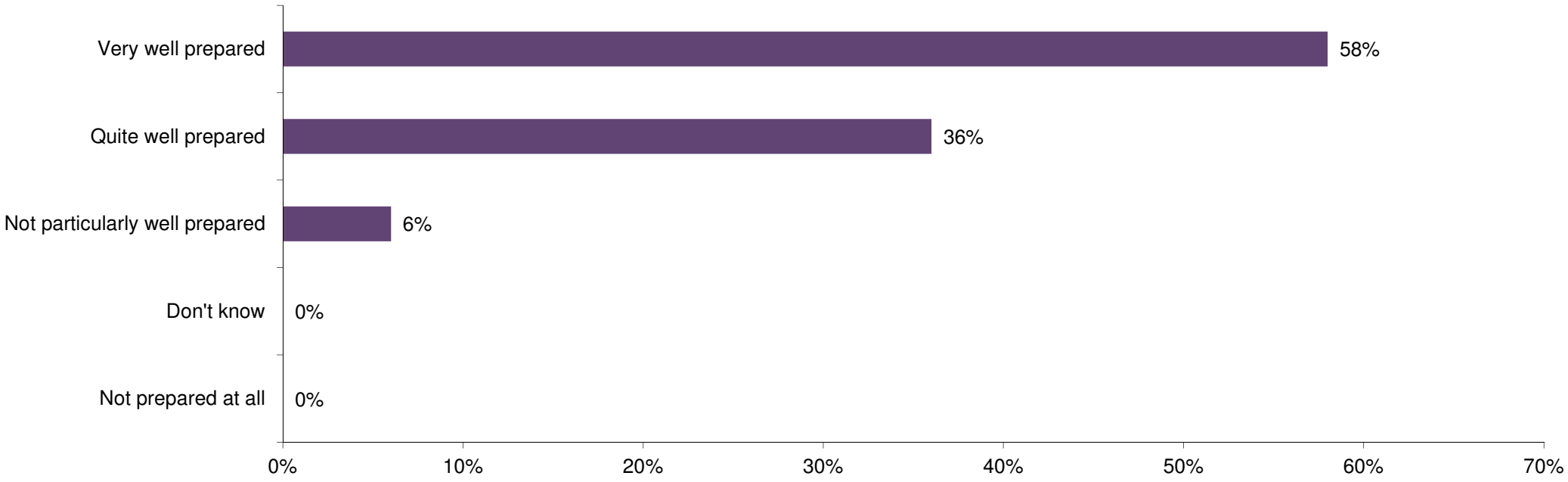
Helping to make your supply chain more cost efficient

Helping to maximise the effectiveness of your working capital/ cash flow strategy

Helping to ensure you use the most appropriate working capital products

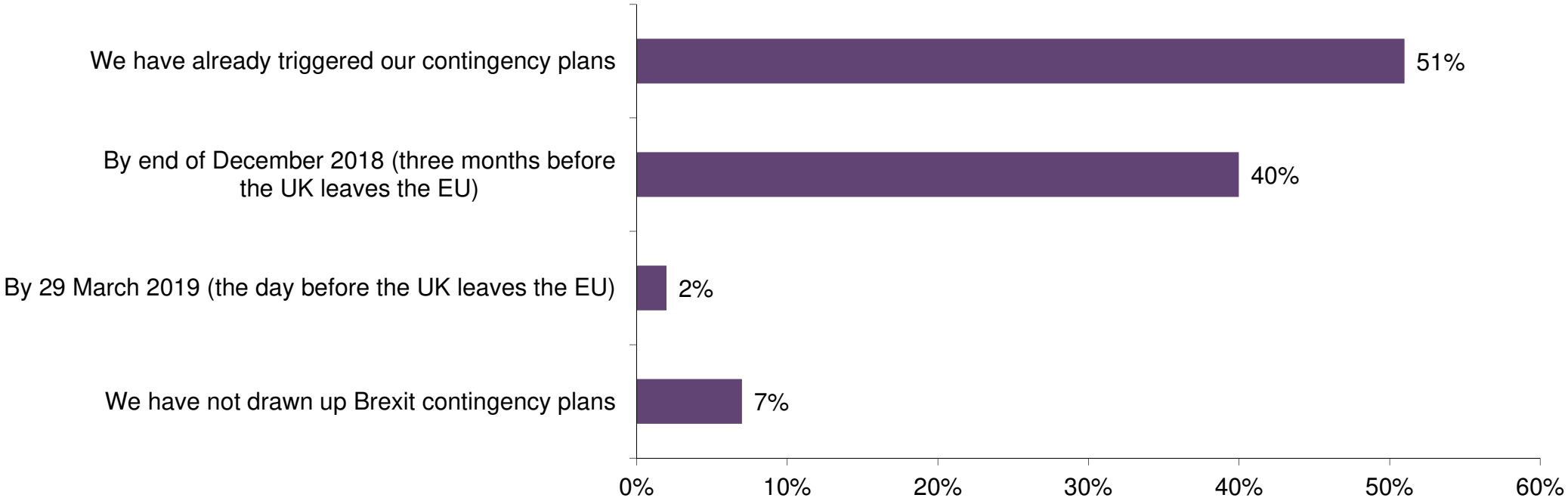
Brexit – Interactive Questions

How prepared for Brexit is your organisation?



Source: Pinsent Masons survey of FTSE 250 executives, Q1-18

When will you trigger contingencies?



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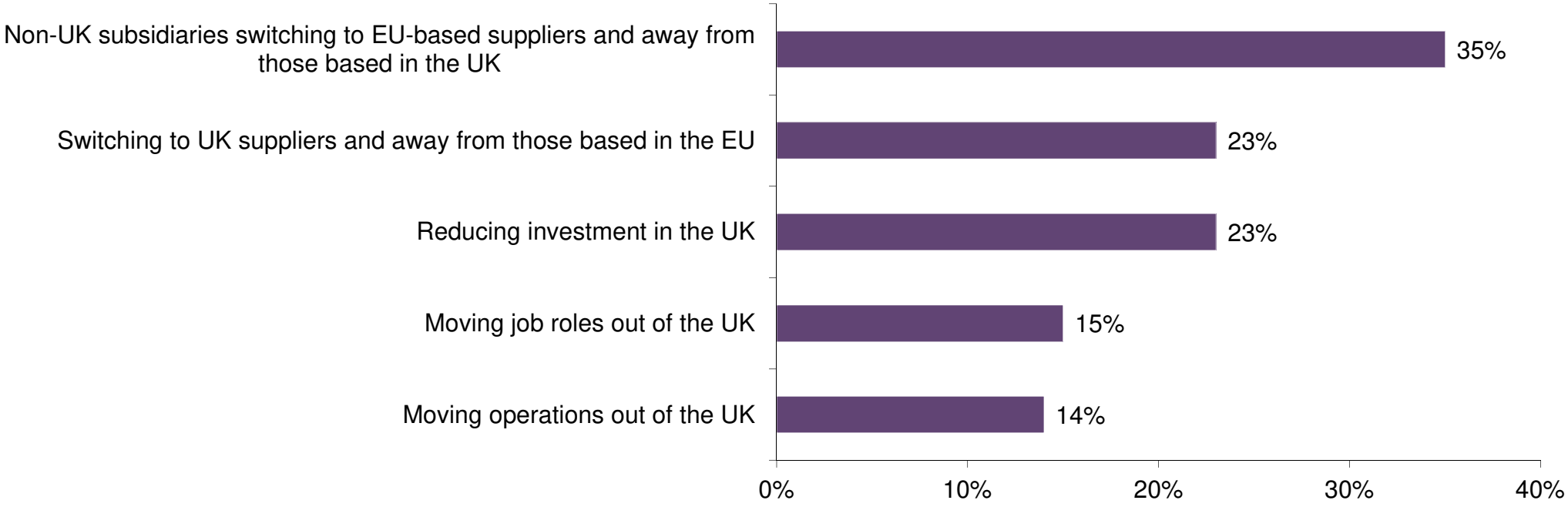
What changes will you make?



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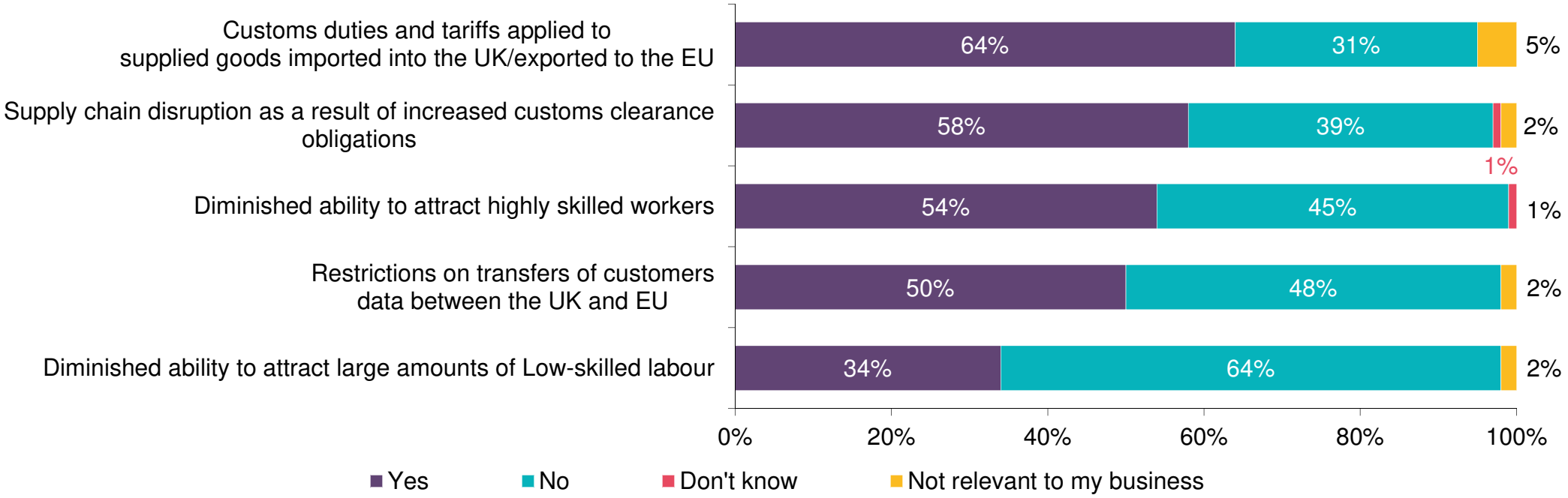
What risk will have the largest impact on business?



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Brexit – Analysis

Brexit: Macroeconomic scenarios summary

	Hard Brexit	Transition Deal	No Brexit
	• UK would be out of the EU, single market and customs union • No transition period • WTO rules apply	• Transition deal agreed to keep conditions unchanged for a period of time • After this UK leaves EU and single market and customs union	• UK maintains permanent preferential access to the single market • UK could seek softer Brexit through bespoke deal with access to single market through European Free Trade Area
FX	• £/$: ~$1.15 • €/£: ~€0.97	• £/$: ~$1.35 • €/£: ~€0.85	• £/$: ~$1. 50 • €/£: ~€0.75
Interest rates	• Potential reversal of 2018 GBP increases	• Potential for continued tightening through transition period	• Chances of monetary tightening in 2019 or earlier are higher • Better growth could prompt increased rates
Economic growth	• Recession due to disruption in trade, fall in investment and weaker or even negative consumption	• Growth at 1.5% - 2.0% in 2019 with consumption picking up slightly • Final trade deal might still mean lower growth rate for the UK	• Growth >2% - Return to 2014 – 2016 growth rates • GDP might only be a little lower at end 2019 than if it had been growing at the expected trend pre-referendum
Trade	• Exporters and importers face severe trade disruption due to tariffs, customs checks and regulatory controls applied at all of the UK's borders	• No major disruption for UK exporters in transition period • However, for EU importers, uncertainty regarding post transition period	• UK would retain access to the Single Market and Customs Union averting trade disruption
Investment	• Disinvestment as companies move operations and staff to avoid new non-tariff and regulatory barriers • EU or UK's ports may not have infrastructure in place for additional border checks	• Uncertainty over final deal would remain and could result in investment uncertainty	• Big difference in investment: no further uncertainty over future of UK's trading status for businesses or investors with cliff-edge averted as UK would retain preferential access to single market
Inflation	• Higher inflation due to GBP weakness and import tariffs	• Potential decline in inflation due to GBP recovery	• Reduction in inflation due to GBP rally
Labour	• No free movement of labour: Sharp fall in migration into the UK resulting in potential labour shortages	• Free movement of labour with some exceptions but potential for companies to start moving some jobs abroad	• Renewed investment could mean job creation and potentially higher wages
Consumption	• Labour market weaker, wage growth unable to mitigate this, resulting in very weak / negative consumption growth	• Real wage growth weak • Little to drive recovery in consumption	• Reduced inflation could boost consumption

Source: Market Consensus

Final thoughts – ‘No-deal’ Brexit factors to consider

Movement of goods through ports

- Roughly 50/50 EU/WTO through UK ports at present
- Impact of increased border customs checks
- Container vs Lorry
- Re evaluation of inventory levels and warehousing requirements

Duties, Tariffs and VAT

- Deferred accounting for VAT
- First time declarations – import and export, plus AEO status: ‘red tape’ costs

Labour shortages

- Recruiting and retaining both high and low skilled EU citizens as workers
- Increased cost base

FX

- Fluctuation in FX may lead to import inflation (incl. raw materials), and increased uncertainty driven by volatility

Regulation

- Mutual recognition of regulation of products and licence to operate?

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