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More details:	Explore the full report: https://www.pwc.com/vn/cash-for-growth

PwC: Vietnam's working capital performance lags behind most regions

- **Cash conversion cycle has increased by six days over the past four years**
- **Working capital outperformers are the most profitable**
- **Vietnam's working capital performance lags behind most regions**
- **US$10 billion cash trapped in net working capital, holding the potential to release up to US$4 billion**

"Cash is the King" is a phrase often quoted in business parlance but seldom given the importance it deserves. To survive and grow, businesses need to maintain adequate cash flows, or in other words, manage working capital effectively. Its importance is not restricted to meeting short-term liabilities, but also for investing in new avenues such as additional capacity, markets, products, and customer growth.

Additionally, from an M&A perspective, working capital performance is one of the more important components of calculating enterprise value or purchase price in the case of a sell side transactions. Organisations are leaving significant money on the table by not optimising their working capital efficiently.

Vietnam's cash to cash cycle (C2C) was around 68 days for the fiscal year 2017 (FY17), which was two times or more higher than most regional and global peers respectively. This is one of the findings from a new study from PwC Vietnam - C*ash for growth or growth for cash?* The study presents analysis of the past four years for the largest 400 companies by revenue across 14 sectors listed on both the Ho Chi Minh City Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX).

Vietnam's working capital performance lags behind most regions

According to PwC Vietnam's working capital performance assessment, there were certain worrying trends about the operation of businesses in Vietnam for the past four years.

ROCE down, margins flat

The top companies have been growing in line with the economic growth, at 6.1% per annum for FY13-17, thanks to a conducive monetary policy and high FDIs. However, margins growth has been flat for the same period due to expenses outgrowing revenues for the same period. Moreover, there was a deterioration in Return on Capital Employed (ROCE) of the companies whilst the financial leverage has increased, with more borrowing to fund capital expenditure.

Stretched cash conversion cycle (C2C)

C2C, the average number of days a company takes to convert resource inputs into cash flows, has increased by six days over the past four years as a result of more working capital used to generate revenue, which was financed through borrowing, rather than internal cash release from operational improvements.

Working Capital outperformers are the most profitable

There is a wide variance in financial performance between top and bottom working capital performers, for which companies who managed their working capital better exhibited the best financial metrics. Top C2C performers had 12 days of C2C, which is around 20 times lower than the bottom C2C performers for FY17, while achieving better solvency, liquidity ratios and less dependency on outside borrowing to fund day-to-day operations.

Inefficiency of companies in managing receivables and inventory is the reason behind this problem, despite companies' efforts to delay payments towards suppliers to maintain liquidity. In addition, 15 out of 400 companies studied were able to shorten their C2C, while improving their financial performance for the same period.

Vietnam working capital performance lags behind most regions

Vietnamese companies are lagging behind in terms of working capital management, namely by 20-40 days compared to mature Western markets like the US and Europe, and by 15 days compared to other Asian peers, with the lag caused primarily by the Engineering & Construction, Healthcare & Pharma and Consumer Products sectors.

According to PwC Vietnam's report, six out of 14 sectors have improved their working capital performance over the last four years. Industries with the greatest improvement were Energy & Utilities, Oil & Gas and Retail (at 15% per annum) while a significant deterioration in working capital performance was observed in Technology, Consumer Products and Metal & Mining sectors (at 10% per annum).

US$10 billion cash trapped in net working capital, potential to release up to US$4 billion

There is US$10 billion in cash still trapped in net working capital. There is, however, the potential to release up to 40% of this total (or US$4 billion) if the organisations included in the study were to optimise their working capital performance to the top quartile level within the sector. In addition, Engineering & Construction, Consumer Products and Metal & Mining with the most cash trapped in net working capital have the greatest prospect for cash release, accounting for almost 50% of the total opportunity.

If past trends continue, the companies would require an incremental ~US$2.5 billion as cash for working capital and Capital expenditure (Capex), which can be met from cash release by implementing working capital optimisation initiatives.

"Inefficient supply chains, changing landscape of trade and channel practices and sub-optimal usage of trade financing solutions from organizations are the biggest reasons of Vietnamese businesses are lagging behind their regional and global peers in working capital performance", said Mohammad Mudasser, Practice Lead, Working Capital Management of PwC Vietnam.

What should businesses be doing?

Working capital management needs to be a strategic priority for companies because it affects not only the balance sheet and income statement positively, but also enables them to pursue strategic goals.

Optimising working capital can help a business improve its balance sheet with cash release from improved receivables collection and inventory minimisation through an effective control of the supply chain. In addition, a sufficient procurement mechanism can enhance a company's payables position, while an efficient management of cash and treasury ensures its capability to self-fund its operations.

A C2C improvement could also affect the income statement positively by increasing revenue through improved stock-service balance and reducing the cost of sales through effective procurement or payables management, as well as decreasing operating expenses through a proficient operation of warehousing and logistics activities.

As a result, companies can pursue strategic goals of cost reduction, profitability maximisation and further enhance shareholder values.

ENDS

Notes to editors:

About PwC's Working Capital Management services

PwC has a dedicated working capital team that can help our clients to identify the main drivers affecting working capital. We develop and implement tailored strategies with our clients to release cash tied up in working capital and generate sustainable benefits. Learn more about us at https://www.pwc.com/vn/en/services/deals/working-capital-management.html

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with over 250,000 people who are committed to delivering quality in assurance, advisory, tax, and legal services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

About PwC Vietnam

PwC Vietnam established offices in Hanoi and HCMC in 1994. Our team of approximately 1,000 local and expatriate staff has a thorough understanding of the business environment in Vietnam and a wide knowledge of policies and procedures covering investment, tax, legal, accounting, and consulting matters. Moreover, we have established PwC Legal Vietnam, PwC Consulting Vietnam, and PwC Vietnam Cybersecurity to diversify the services that PwC offers.

We go the extra mile to help our clients achieve their objectives. With strong industry knowledge that our clients require at a local level, we offer integrated services, bringing a breadth of skills and depth of resources to our clients wherever they do business, throughout Asia and across the world. Visit our website for further information: www.pwc.com/vn.