

Make working capital work for you

Unlocking cash in the mining sector



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Mining companies globally have increased their focus on improving working capital performance in the past few years. EY's *Cash in the ground* report analyzed the working capital performance of 80 of the largest mining companies globally during 2007 to 2013.

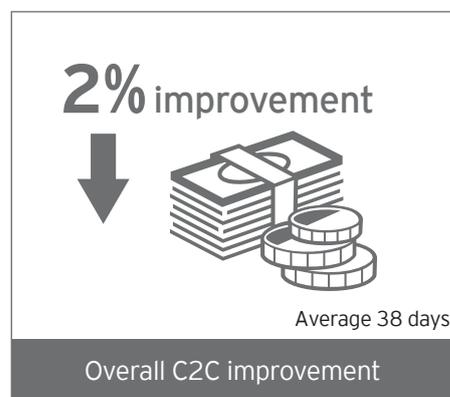
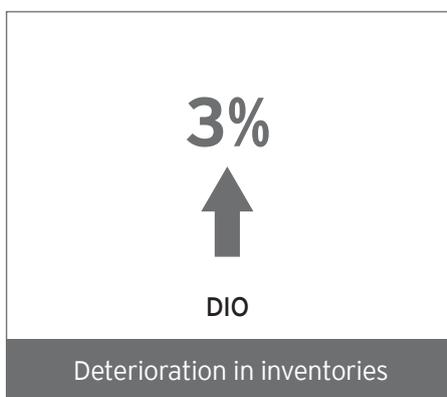
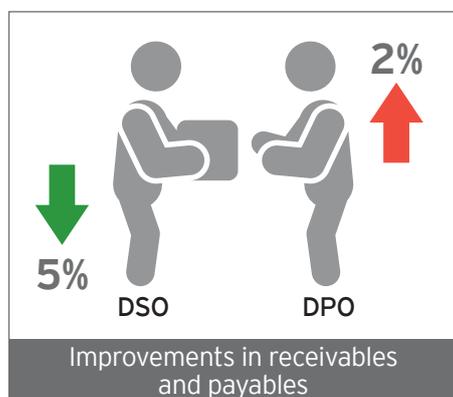
Given the increased attention on working capital since, we have again analyzed the working capital performance of the largest 80 global mining companies, based on the latest publically reported financial information (year-end 31 December 2014). Against a backdrop of ongoing price and currency volatility, the sector's overall cash-to-cash (C2C) position has improved by 2%. However, these results were not sufficient to cancel out the 3% deterioration in C2C over the previous two years.

It remains unclear how much of the improvement is due to changes in commodity prices or changes in currency. A comparison of the results between and within commodity groups shows they were far from uniform – only 3 out of 10 commodity groups (and 46% of companies analyzed) reported a lower C2C.

46%

of companies analyzed reported a lower C2C

Change in Working Capital metrics 2013-14



There has been a clear shift in the sector as miners have increased their focus on freeing up cash to meet commitments made to shareholders around share buybacks and increased dividend policies. This has forced a far greater focus on cash generation and improving working capital management. For example, we saw Rio Tinto announce they had released US\$1.1b of cash during 2014 through reduced inventory levels and improved management of receivables.¹

¹ "Miners slim down on working capital," *Sydney Morning Herald*, 23 February 2015.

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There have been some common areas of focus on freeing up cash, including:

- ▶ Using supply chain as a source of finance, with a number of global miners extending supplier payment terms or looking to implement supply chain finance products
- ▶ Reconfiguring logistics and supply chains to make them leaner and more agile, and allow sharing of spares inventory across mining operations; in some instances, we've seen maintenance teams build up five years worth of spares to minimize production disruption, and they are now left with expensive stockpiles in remote locations which are expensive to redeploy
- ▶ Improving planning, buying and inventory management processes
- ▶ Changing asset maintenance strategies to move away from life cycle, to condition or risk-based models
- ▶ Taking a closer look at customer trade terms, order processing and delivery scheduling
- ▶ Reducing work in progress stock piles that have historically been set aside due to grade or quality

The improved working capital performance has been driven by improved performance in both receivables and payables (DSO down 5% and DPO up 2%), partly offset by a poor showing in inventory (DIO up 3%). The inventory and payables differential (DIO - DPO) was up marginally at 11 days.

In our analysis, the average C2C for the mining sector was 38 days (on a sales-weighted basis). Iron ore displays the lowest level (23 days) and platinum the highest (with C2C of 82 days). Copper, gold, aluminium and zinc stand in the middle and range from C2C of 39 to 52 days. Comparing the findings between companies within each commodity group also shows wide variations in working capital performance.

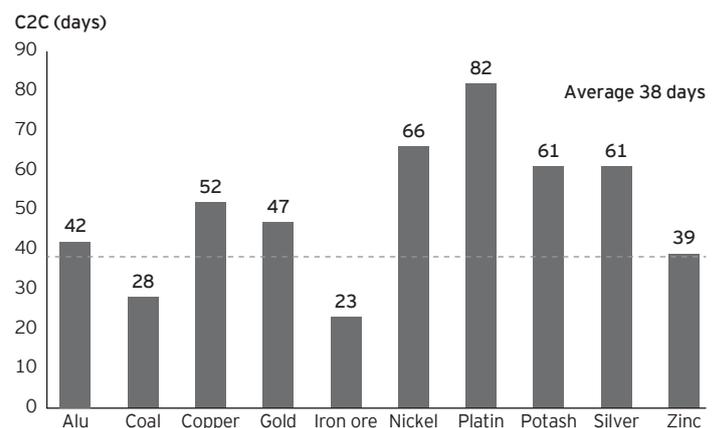
Going forward, we expect the working capital results to reveal even wider divergences in performance between commodity groups and individual companies based on the performance of the

respective commodity prices. Reductions in capex programs (with some choosing to be more selective) will be another contributory factor, especially with miners taking a much more forensic look at sustaining capital, and the resulting impact in inventory spares.

We still see a number of critical challenges that many of the miners will need to address to release cash from working capital, including:

- ▶ Cultural change such that all employees who can influence working capital understand what they can do to better manage cash across inventory, receivables and payables
- ▶ Reconfiguration of supply chains to better control and manage the purchase and deployment of inventory spares
- ▶ Better insights from IT systems on the operational drivers of working capital, not just the financial outcomes

Our analysis and experience in the sector confirms that miners who have taken an enterprise-led approach combined with a bottom-up change management program focused on the front line, have released cash flows totaling tens of billions of US dollars. Given that the aggregate levels of working capital in the sector amount more than US\$200b, there remains plenty of opportunity to release further cash.



WC metrics by commodity group, 2014

Days	Average	Alu	Coal	Copper	Gold	Iron ore	Nickel	Platin	Potash	Silver	Zinc
DSO	27	25	39	29	12	23	18	11	39	26	26
DIO	50	59	35	55	75	37	70	108	47	72	46
DPO	39	42	46	32	40	37	21	37	25	37	33
C2C	38	42	28	52	47	23	66	82	61	61	39

Source: EY analysis, based on publicly available financial statements.

How EY's Global Mining & Metals Network can help your business

With a volatile outlook for mining and metals, the global mining and metals sector is focused on margin and productivity improvements, while poised for value-based growth opportunities as they arise. The sector also faces the increased challenges of maintaining its social license to operate, balancing its talent requirements, effectively managing its capital projects and engaging with government around revenue expectations.

EY's Global Mining & Metals Network is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow by developing solutions to meet these challenges. It brings together a worldwide team of professionals to help you succeed – a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector. Ultimately it enables us to help you meet your goals and compete more effectively.

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