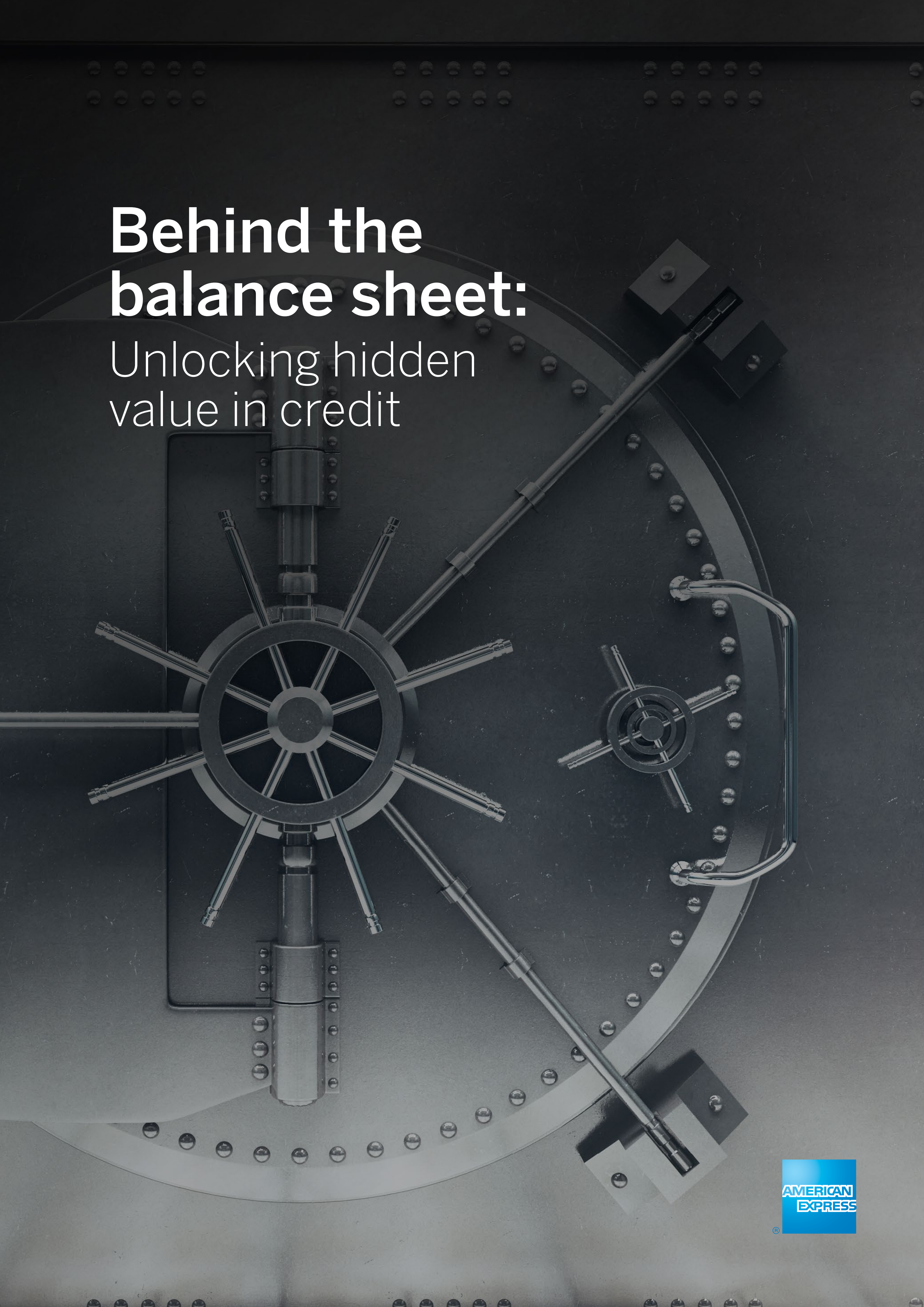
Behind the balance sheet:

Unlocking hidden value in credit



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RESEARCH METHODOLOGY

This research was commissioned by American Express and undertaken by RFi Group, a global intelligence and digital media provider focusing exclusively on financial services.

Definitions

- **CFOs** Chief Financial Officers
- **Mid-sized** businesses in Australia with annual revenue values between $2 million and $300 million

Timeframe

The findings contained in this Special Report reflect the views of 355 Chief Financial Officers (CFOs) in Australia. The survey data was collected by RFi Group in October 2016.

Industry Types

Respondents included organisations from more than 21 key industries, including construction, manufacturing, wholesale and retail trade, and professional services.

FY16
% of business with revenue growth during FY16

FY17
% projecting revenue growth in 2017

Greater Control of Your Capital

Cash flow management is the top business priority facing CFOs in mid-sized Australian companies. Yet, cash flow pressures appear to be constraining organisations from growth.

In this American Express Special Report, we surveyed 355 Australian CFOs to take a health check on their cash flow management strategies. The findings reveal insights into the pressures facing Australian businesses, many of which are on the threshold of growth.

Mid-sized businesses[1] have ample optimism for the year ahead. We found 53% of companies experienced growth during FY16, and 65% project growth for 2017.

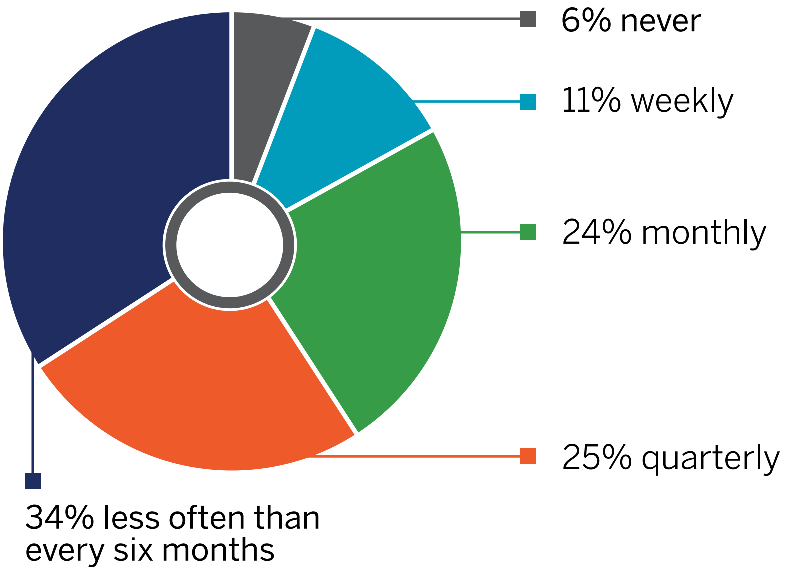
This bright outlook contradicts the trend of the broader Australian business landscape, where overall business confidence is more volatile[2] and 41% of organisations are expecting improved financial performance.

It suggests there is strong underlying confidence in the future performance of mid-sized organisations.

However, in the pursuit of growth, CFOs face ubiquitous stumbling blocks, specifically cash flow and access to capital. Our research found 60% of mid-sized organisations are required to access capital at least quarterly in order to fund business initiatives and drive growth and the majority (86%) will find it challenging to access capital in 2017. This reflects an increase of 26% since March 2015 (up from 60%[3] who found it challenging).

To take advantage of the growth opportunities ahead, CFOs require reliable cash flow so that less of their time is spent reacting to financial management issues and more of their energies can be focused on driving growth.

60%
of organisations will need to access capital at least quarterly to fund business initiatives



[1] Mid-sized businesses are defined as organisations with a turnover between $2 million to $300 million. Research was undertaken by RFI in October 2016
[2] Roy Morgan September Business Confidence figures – Business confidence remains below the 6 year average
[3] 2015 Game Plan for Growth research conducted by ACA Research for American Express

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A CFOs Biggest Distraction.

A CFO's Biggest Distraction

Financial management is just one integral part of the multifaceted priorities of a CFO. The role of today's CFO has evolved to become a key strategic lead within the business, setting the course and direction of the company and leading change and innovation to help strengthen company growth.

If cash flow management issues create time constraints for a CFO, it can impact other aspects of the business, such as driving strategic initiatives. Indeed, two-thirds (66%) of CFOs said that cash flow management distracts them from their other key responsibilities within the business.

It's time consuming, stressful and potentially detrimental to not only a CFO's performance but to the business itself.

CFOs which have effectively evolved their role to become more strategic leaders may have successfully optimised cash flow management.

In contrast, those CFOs unable to find adequate cash flow management systems will spend a disproportionate amount of time managing it and may prevent their organisations from fulfilling growth projections.

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Accessing credit

Courage and cash flow are the keys to success in our industry. You have to be courageous. The pace of technological change in a globalised market means that if you don't invest to innovate, you won't be around in a few years.

Michael Lavilles CEO & CFO of Beyond Travel

Freeing up Capital

Every element of working capital should be carefully controlled to maximise free cash flow, effective credit management and tight control of all debts is essential.

Credit has been part of the Australian financial sector for nearly half a century and we are well versed in using it to effectively manage our personal finances. Yet, there is a substantial gap among CFOs between the perceived benefit of credit for cash flow management and the actual use of credit to manage business expenses.

The majority (81%) of CFOs agree that credit is a good cash flow management tool. The benefits of using credit for cash flow management are three-fold – 'cash flow days' help to extend the terms of business expenses and provide opportunities for early payment discounts to be negotiated. Additionally, having supplier payments line up with preferred statement cycles helps business receivables arrive before business expenses are due, and strengthens supplier relationships.

However, just over half of CFOs (55%) use a credit card to help manage their cash flow. Over a third of CFOs still use business loans (37%) or an overdraft facility (34%) and one fifth (21%) use invoice discounting to help manage cash flow.

81% believe credit is a good way to manage cashflow

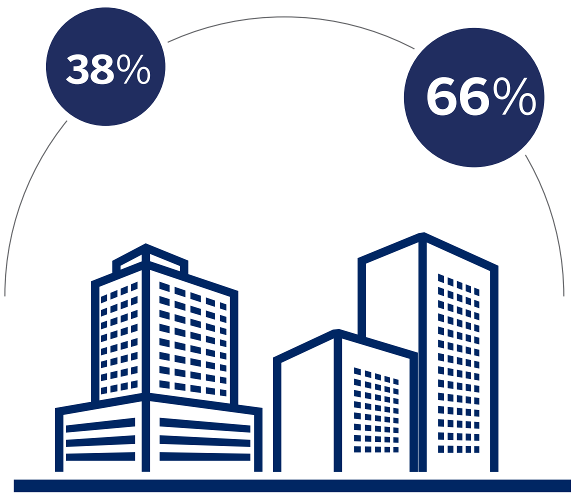
The Cost of Poor Cash Flow

Ready access to capital to sustain cash flow is critical to business strategy, with 38% of CFOs admitting their business has been delayed or unable to achieve a strategic business objective due to insufficient or variable of cash flow.

This increases to 47% among businesses with revenue of more than $50 million, and 62% among businesses operating for less than two years.

Businesses said the average cost of missing their most recent objective due to insufficient cash flow was more than $35,000, and close to $50,000 for larger businesses with annual revenues of more than $50M.

CFOs are fully aware of the impact on their business due to restricted cash flow, yet many stick to the same tried and tested methods to manage it.



38% of business have missed a strategic objective due to insufficient cash flow

66% of CFOs are **TOO BUSY** managing cashflow to focus on other responsibilities

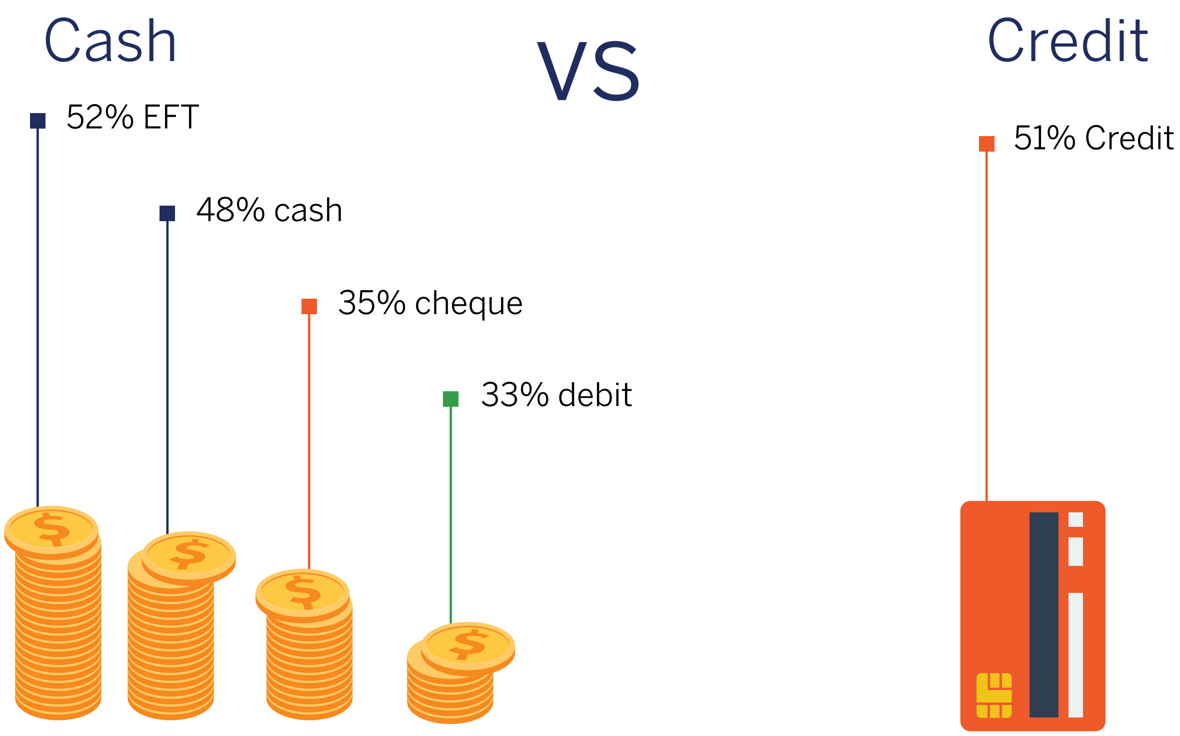
Average cost of missing most recent objective

$35,000

Cash Flow Conundrum

While the CFO's role evolves, in many cases their methods of managing cash flow haven't, with many still using cash over credit. More than one-third (35%) admit to using cheques to pay domestic suppliers, 33% use debit, and half (51%) use credit.

A mid-sized business is at its strongest when it has optimal cash flow practices.
Yet, the majority of businesses (85%) with predictable cash flow opt for cash over credit, rather than using cash to fund business initiatives, and using credit to manage cash flow.



How mid-sized organisations currently pay their domestic suppliers

85% have predictable cashflow

By burning through available cash in the bank, businesses limit their room to harness growth opportunities.

Yet the benefits of using credit – 50 additional days of cash flow which is repaid in full – are clear.

Using credit offers a more predictable way to manage cash flow and may help businesses fund growth opportunities.

58% of CFOs said extra cash flow over this period enables the organisation to pay down debt, while almost half would fund staff training (44%), hire staff (38%) or purchase new equipment (44%).

Additionally, one fifth of businesses (21%) would increase their investment in innovation and R&D.

The time lags between capital outlay and sales income create ongoing cash flow pressure. If you can fulfil orders fast, look after your customers and do it with good manners, you have a significant edge on the competition. Cash flow management is king. No cash flow, no business.

Lachlan MacDonald
CEO of Smac Imports

The Way Forward

Cash flow remains key to any businesses success. Not only is it essential for the company's operation, it also helps to forge strong and valued relationships across its supplier network – an issue we will explore in detail in the next American Express Special Report.

CFOs are now able to plot and navigate business growth, and are in the envious position within their businesses of being able to drive innovation internally.

Yet those without effective cash flow management systems are increasingly tied up with the day-to-day running of the business.

CFOs have the potential and the mandate to overhaul existing financial management tools and thinking, which may no longer be appropriate for organisations on a growth trajectory.

While the typical mid-sized mindset suggests organisations tend to pay with cash or debit, credit is under used which subsequently limits liquidity and business expansion.

Yet credit is a tool for stable companies with predictable and healthy cash flow and the benefits that organisations can reap are large, including paying expenses, hiring staff and purchasing new equipment.

If mid-sized organisations are to take advantage of the positive sentiment and outlook for the sector, CFOs need to invest time in sourcing impactful cash flow management systems. This will allow them to reap the upside of better cash flow and focus their energies on what truly matters, investment strategies that drive growth.