

R3 - Working Capital Calculator

Enter required data in the blue labeled fields.

Current Annual Dollar Sales **\$** **3,000,000**
Cost of Capital (Assumed) **8%**
Gross Margin (Assumed) **20%** **Proposed Gross Margin** **17%**

<u>Base Case (Current)</u>		<u>Proposed Case (Bunzl Partnership)</u>		<u>Change</u>
A/R Days Outstanding	30	A/R Days Outstanding	30	
Inventory Turns	10.0	Inventory Turns	26.0	
A/P Days Outstanding	30	A/P Days Outstanding	30	
Annual Sales	\$ 3,000,000	Annual Sales	\$ 3,000,000	\$ -
Cost of Goods Sold	\$ 2,400,000	Cost of Goods Sold	\$ 2,490,000	\$ (90,000)
Gross Margin	\$ 600,000	Gross Margin	\$ 510,000	\$ 90,000
Accounts Receivable	\$ 246,575	Accounts Receivable	\$ 246,575	\$ -
Inventory	\$ 240,000	Inventory	\$ 95,769	\$ 144,231
Accounts Payable	\$ 197,260	Accounts Payable	\$ 204,658	\$ (7,397)
Working Capital (AR + INV - AP)	\$ 289,315	Working Capital (AR + INV - AP)	\$ 137,687	\$ 151,628

NOTE:

A/R Balance = (Sales / 365 Days) x A/R Days Outstanding

Inventory = COGS / Turns

A/P Balance = (COGS / 365 Days) x A/P Days Outstanding

Change in Working Capital	
Current Working Capital	\$ 289,315
Est. Future Working Capital	\$ 137,687
Freed Up Working Capital	\$ 151,628
Return on Freed Up Working Capital	
Freed Up Working Capital	\$ 151,628
Invested at Cost of Capital	8%
Return on Freed Up Working Capital	\$ 12,130

From the Point of View of the Customer

Accounts Receivable = Cash that have not been collected from Customers (Sales that have been shipped and invoiced, but not paid)

CASH OUTFLOW

Assumed to be the same (Base Case vs. Proposed Case)

Inventory = Goods Not Yet Sold to Customers, Cash Tied Up as Inventory

CASH OUTFLOW

Will change depending upon how a R3/ Bunzl Program impacts inventory turns

Accounts Payable = Cash Owed to Vendors (Base Case) or to R3/Bunzl (Proposed Case), but not yet paid (still within terms)

CASH INFLOW

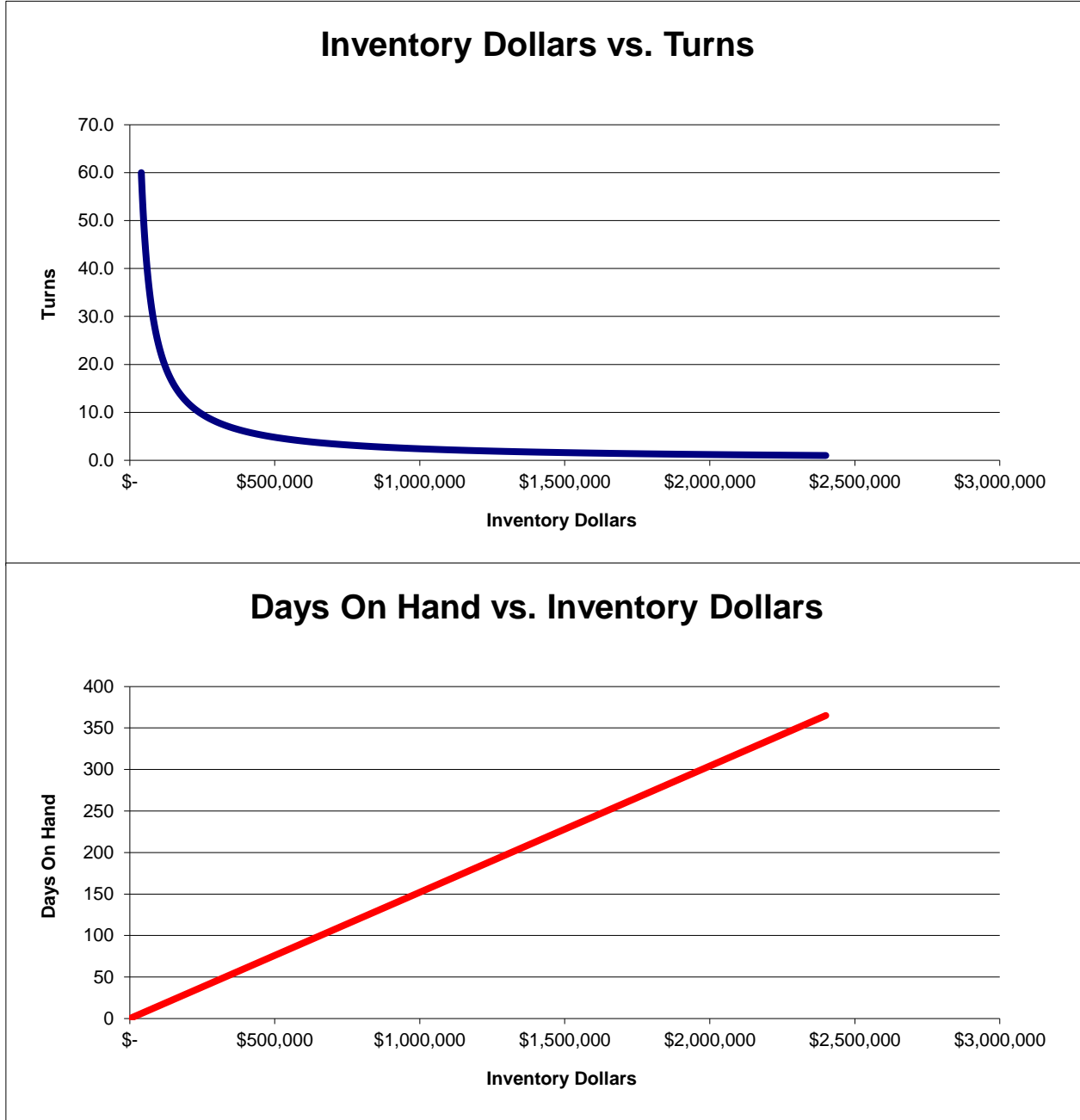
Will change depending upon whether the payment terms change (Base Case vs. Proposed Case)

Inventory Charts

Relationship Between Annual Dollars, Turns, Days On Hand and Inventory Dollars

Annual Dollar Volume

\$3,000,000



As Turns Go Up, Inventory Dollars Fall

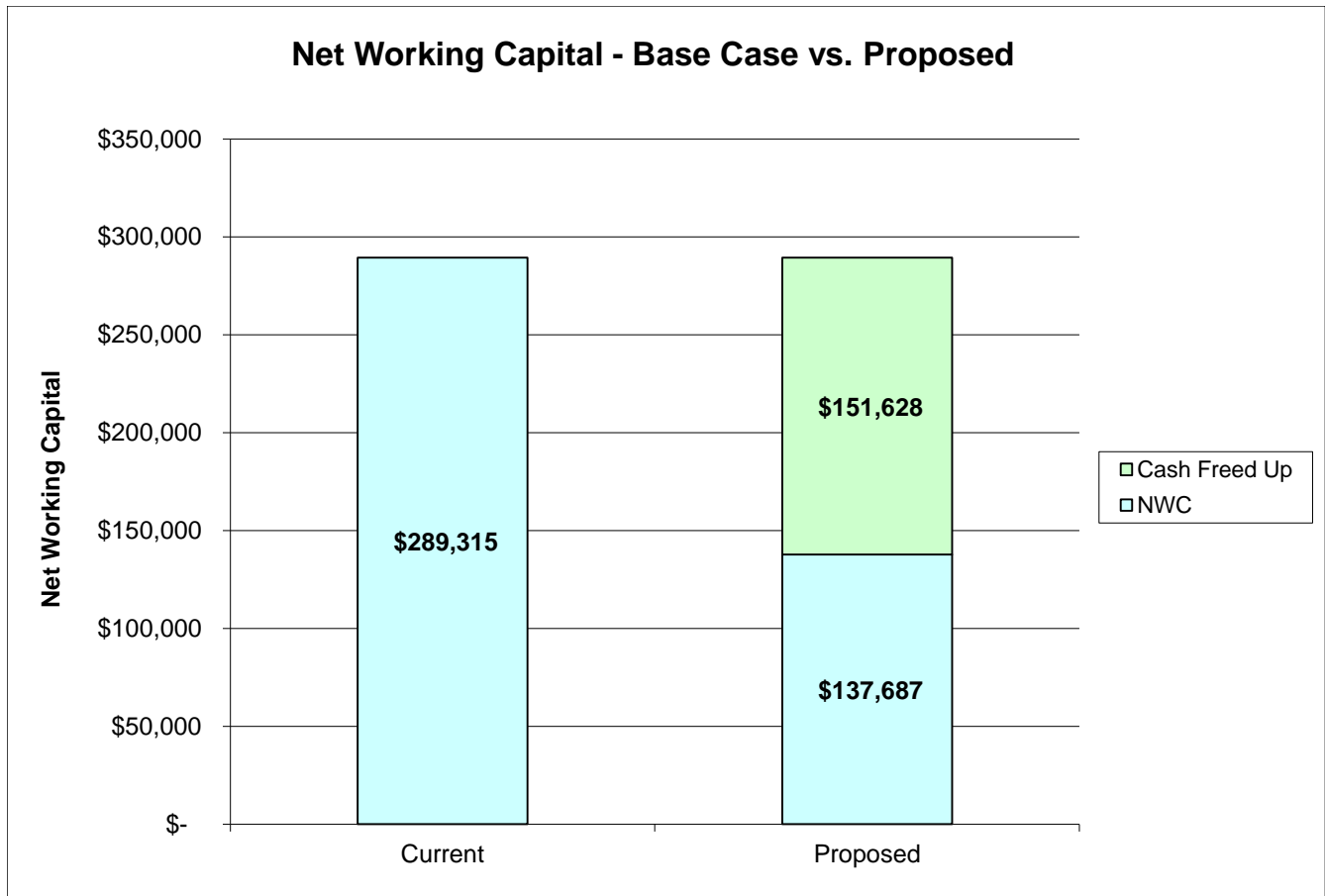
As Days On Hand Goes Up, Inventory Dollars Go Up

Turns DOH WOH MOH

Current Volume \$ 3,000,000

Turns	Inventory Days On Hand	Inventory Weeks On Hand	Inventory Months On Hand
1	365.0	52.0	12.00
2	182.5	26.0	6.00
3	121.7	17.3	4.00
4	91.3	13.0	3.00
5	73.0	10.4	2.40
6	60.8	8.7	2.00
7	52.1	7.4	1.71
8	45.6	6.5	1.50
9	40.6	5.8	1.33
10	36.5	5.2	1.20
11	33.2	4.7	1.09
12	30.4	4.3	1.00
13	28.1	4.0	0.92
14	26.1	3.7	0.86
15	24.3	3.5	0.80
16	22.8	3.3	0.75
17	21.5	3.1	0.71
18	20.3	2.9	0.67
19	19.2	2.7	0.63
20	18.3	2.6	0.60
21	17.4	2.5	0.57
22	16.6	2.4	0.55
23	15.9	2.3	0.52
24	15.2	2.2	0.50
25	14.6	2.1	0.48
26	14.0	2.0	0.46
27	13.5	1.9	0.44
28	13.0	1.9	0.43
29	12.6	1.8	0.41
30	12.2	1.7	0.40
31	11.8	1.7	0.39
32	11.4	1.6	0.38
33	11.1	1.6	0.36
34	10.7	1.5	0.35
35	10.4	1.5	0.34
36	10.1	1.4	0.33
37	9.9	1.4	0.32
38	9.6	1.4	0.32
39	9.4	1.3	0.31
40	9.1	1.3	0.30
41	8.9	1.3	0.29
42	8.7	1.2	0.29
43	8.5	1.2	0.28
44	8.3	1.2	0.27
45	8.1	1.2	0.27
46	7.9	1.1	0.26
47	7.8	1.1	0.26
48	7.6	1.1	0.25
49	7.4	1.1	0.24
50	7.3	1.0	0.24
51	7.2	1.0	0.24
52	7.0	1.0	0.23

NWC Charts



Working Capital Pts.

Working Capital Analysis - Discussion

Working Capital = Inventory + Accounts Receivable - Accounts Payable
All three components are Balance Sheet items, NOT P&L items

Goal = Generate revenue and profits with the least amount of Working Capital

Increasing Working Capital Means Negative Cash Flow - Assets Slowly Convert to Cash

Cash Owed By Customers (AR) Not Collected Quickly Enough
i.e. High Number of AR Days Outstanding (Slow Cash Collection)
Inventory Investment Not Being Sold For Cash Quickly Enough
i.e. Low Inventory Turns, High Number of Days of On Hand Inventory
Cash Paid Out To Vendors (AP) Not Being Held Long Enough
i.e. Low Number of AP Days Outstanding (Faster Pay Out)
Cost of Financing Working Capital Increases
i.e. Working Capital x Cost of Capital

Decreasing Working Capital Means Positive Cash Flow - Assets Quickly Convert to Cash

Cash Owed By Customers (AR) Being Collected Quickly
i.e. Low Number of AR Days Outstanding (Fast Cash Collection)
Inventory Investment Being Sold For Cash Quickly
i.e. High Inventory Turns, Low Number of Days of On Hand Inventory
Cash Paid Out to Vendors (AP) Being Held Longer
i.e. High Number of AP Days Outstanding (Slower Pay Out)
Cost of Financing Working Capital Decreases
i.e. Working Capital x Cost of Capital