



# XXXXX Corporation

Working Capital Discussion Materials

March 2019

# Situation Overview

**Objective:** To provide XXXXX Corporation (“XXXXX”) with a collaborative approach to enhance the working capital position of both XXXXX and its suppliers.

## **Primary Issues for XXXXX:**

– As of 12/31/18 XXXXX had **\$542.1MM<sup>1</sup> - \$569.2MM<sup>2</sup>** tied up in working capital and a cash conversion cycle of **97.2 days**. Day Payable Outstanding (“DPO”) & Cash Conversion Cycle (“CCC”) have not significantly changed over the last 5 years:

	DPO	CCC
2018	33	97.2
2017	33.7	95.4
2016	37.2	97.6
2015	33.2	99.2
2014	29	86.6
2013	28.7	85.9

– Implementation of P-Card program has not resulted in increased DPO

– XXXXX is utilizing cash on the balance sheet to fund inventory at a WACC of 9.1-10.9%. The increased cash could be utilized to reduce debt, fund potential acquisitions, or make other strategic investments

**Citizens’ Solution(s)** - *The following solutions would address XXXXX’s 2019 working capital initiatives through DPO optimization.*

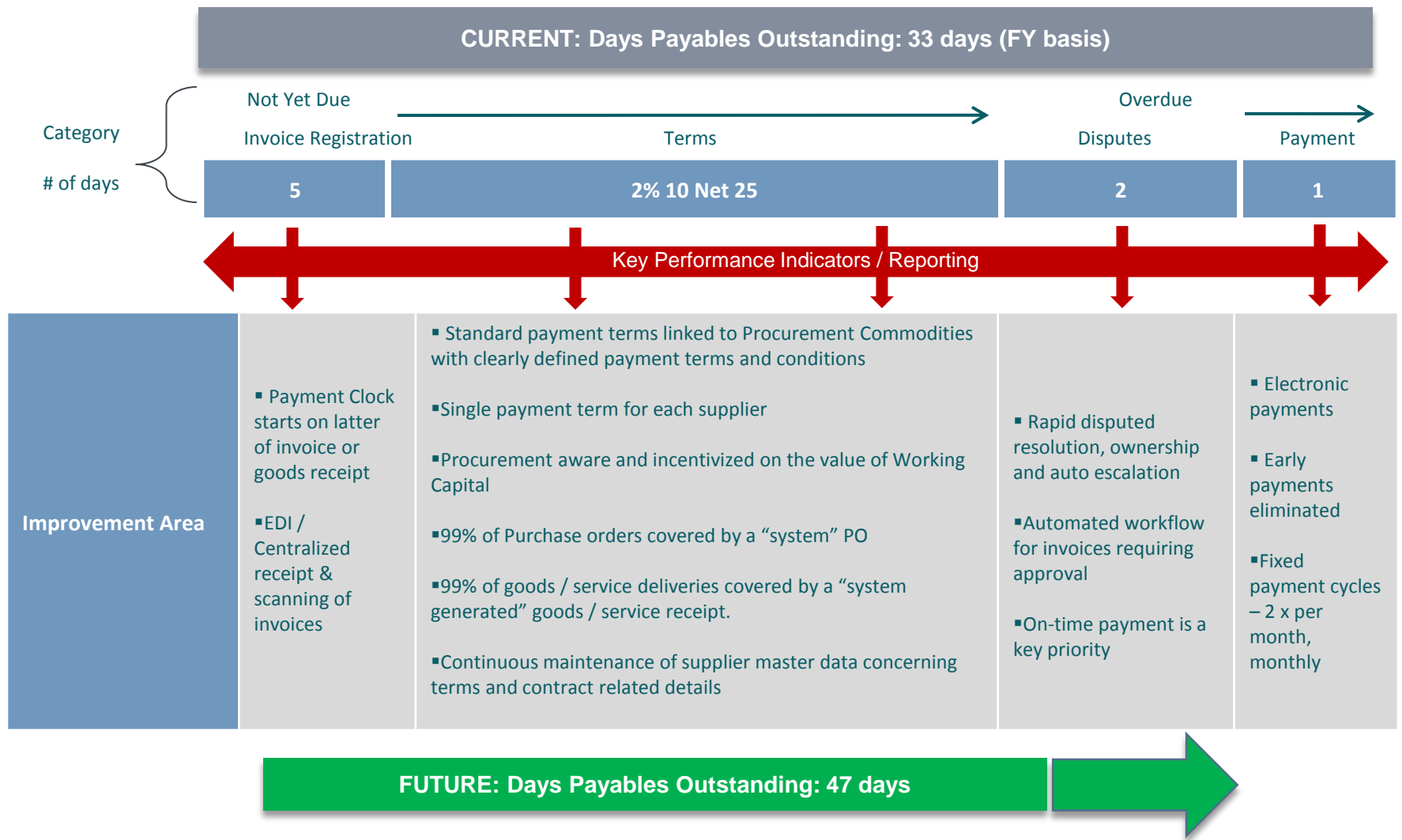
**Solution 1: Integrated Payables (accessAPcard)** - is a e-payables solution that integrates virtual payments into the accounts payable process to pay for goods and services.

**Solution 2 : Buyer’s Credit** – is a LC payable at sight structure, which allows XXXXX to provide sight payment terms to their Suppliers while allowing XXXXX to enjoy delayed credit terms under the LC without any interruption to the existing terms with the Supplier.

**Solution 3 : Supply Chain Finance (“SCF”)** - is a payables discounting program designed to provide XXXXX’s suppliers with alternative financing by permitting them to sell their approved receivables to Citizens. In exchange for immediate liquidity, suppliers agree to a discount rate applied to the sold receivables.



# Driving cash from purchase to pay process

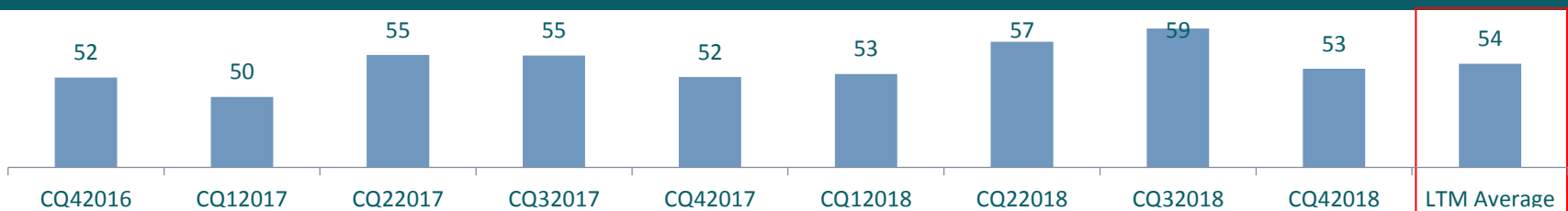


# Working Capital Benchmarking Analysis

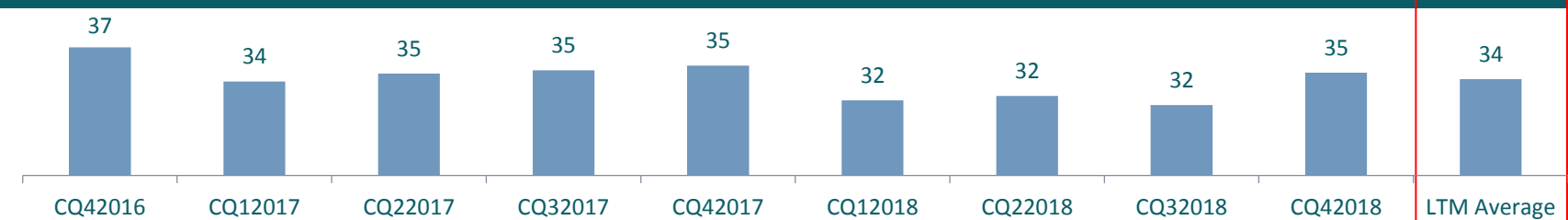
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# XXXXX Working Capital Metrics (LTM basis)

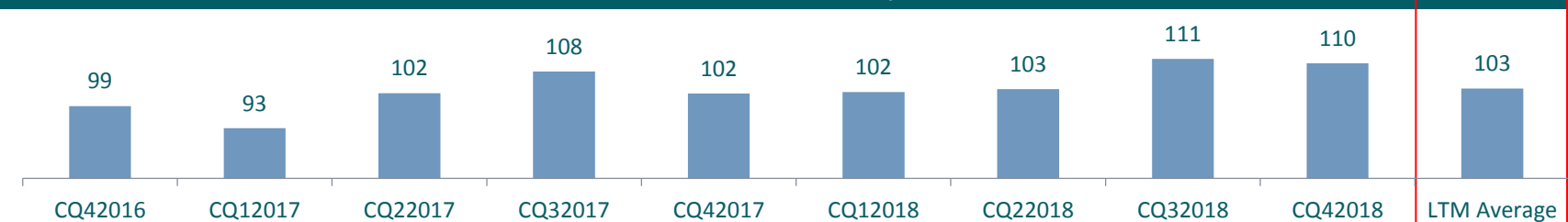
## Days Sales Outstanding (DSO)



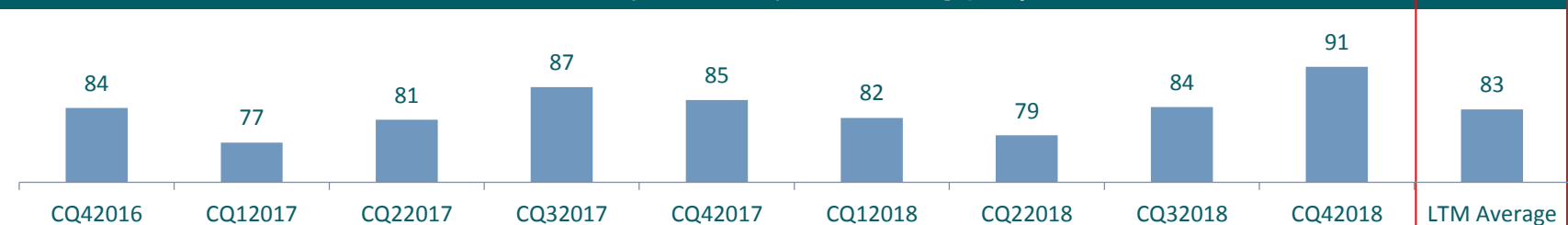
## Days Payables Outstanding (DPO)



## Cash Conversion Cycle



## Days Inventory Outstanding (DIO)



# Industry Comparable Analysis (FY basis)

Company Name	Traded As	FY Avg. Cash Conversion Cycle	FY Avg. Days Sales Outstanding	FY Avg. Days Payable Outstanding	FY Avg. Days Inventory Outstanding	FY Inventory Turnover	FY Cash and Equivalents	FY Accounts Receivable	Accounts Receivable Turnover	S&P Credit Equivalent Rating
XXXXX Corporation	NYSE:NEU	97.25	46.84	33.05	83.46	4.4x	73.04	276.67	7.79	BBB+
Cabot Corporation	NYSE: CBT	78.91	65.52	55.74	69.13	5.3x	175.00	637.00	5.57	BBB
PolyOne Corporation	NYSE: POL	34.33	41.62	51.60	44.31	8.2x	170.90	413.40	8.77	BB
International Flavors & Fragrances Inc.	NYSE: IFF	-	73.48	-	138.52	2.6x	648.52	937.77	4.97	BBB
Sensient Technologies Corporation	NYSE: SXT	201.97	59.32	46.51	189.16	1.9x	31.90	255.35	6.15	NR
H.B. Fuller Company	NYSE: FUL	72.46	57.42	45.20	60.24	6.0x	150.79	485.72	6.34	BB+
RPM International Inc.	NYSE: RPM	102.46	72.33	65.31	95.44	3.8x	244.42	1,113.82	5.05	BBB
Stepan Company	NYSE: SCL	49.04	52.50	44.65	41.19	8.9x	300.20	280.00	6.95	-
Minerals Technologies Inc.	NYSE: MTX	93.43	77.77	46.50	62.16	5.9x	208.80	387.30	4.69	BB
Innospec Inc.	NASDAQ: IOSP	103.88	64.78	41.61	80.72	4.5x	123.10	279.70	5.63	NR
LANXESS Solutions US Inc.	CHMT	106.30	46.80	37.35	96.85	3.8x	220.00	213.00	7.82	NR
Ferro Corporation	NYSE: FOE	125.74	80.24	57.62	103.12	3.5x	63.55	354.42	4.55	BB-
FMC Corporation	NYSE: FMC	207.55	167.09	107.87	148.33	2.5x	161.70	2,285.20	2.18	BBB-
W. R. Grace & Co.	NYSE: GRA	65.56	54.19	69.29	80.66	4.5x	200.50	288.50	6.74	BB
<b>Mean</b>		90.92	58.63	48.87	90.18	5.1x	224.35	549.96	6.45	
<b>Median</b>		78.91	58.37	46.51	76.30	4.8x	172.95	449.56	6.25	

All values in millions, except per share data and ratios.

Values converted at today's spot rate.



# Working Capital Impact

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# Working Capital Impact by Extending Terms

Inputs	
(\$000)	FY 2018
Revenue	\$ 2,289,675
Cost of Goods Sold	\$ 1,704,312
Annual Spend % of Revenue	74.43%
Account Receivable	\$ 276,667
Account Payable	\$ 151,631
Average Inventory	\$ 396,341
Days Sales Outstanding (DSO)	47
Days Inventory Outstanding (DIO)	83
Days Payable Outstanding (DPO)	33
Cash Conversion Cycle (CCC)	97
Cash	\$ 73,040

Supplier Adoption Tables		
Assumptions	Rates	Annual Spend
1	10.0%	\$170
2	25.0%	\$426
3	50.0%	\$852

Days	
	365

## 25% Supplier Adoption Table; Impact on Overall Working Capital

Supplier Adoption Rate:	Extend Terms in Days										
25%	Current	30	60	90	120	150					
Overall DPO	33	8	41	15	48	23	56	30	63	38	71
Overall DIO	83	0	83	0	83	0	83	0	83	0	83
Overall DSO	47	0	47	0	47	0	47	0	47	0	47
Overall CCC	97	-8	89	-15	82	-23	74	-30	67	-38	59
Cash Flow Improvement (\$000)	N\A	N\A	\$40	N\A	\$72	N\A	\$108	N\A	\$141	N\A	\$179

## 50% Supplier Adoption Table; Impact on Overall Working Capital

Supplier Adoption Rate:	Extend Terms in Days										
50%	Current	30	60	90	120	150					
Overall DPO	33	15	48	30	63	45	78	60	93	75	108
Overall DIO	83	0	83	0	83	0	83	0	83	0	83
Overall DSO	47	0	47	0	47	0	47	0	47	0	47
Overall CCC	97	-15	82	-30	67	-45	52	-60	37	-75	22
Cash Flow Improvement (\$000)	N\A	N\A	\$72	N\A	\$141	N\A	\$211	N\A	\$281	N\A	\$351





# Summary of Impact to XXXXX

With Strategic Payable Extension, XXXXX has the ability to redeploy found capital in various ways such as Balance Sheet Improvement, Return of Capital, or Business Investments

Impacts	Improvement in Days Payable				
	2 Days	4 Days	6 Days	8 Days	10 Days
<b>12/31/2018 Trade Payables</b>	\$152MM	\$152MM	\$152MM	\$152MM	\$152MM
<b>Adjusted Days Payables</b>	35	37	39	41	43
<b>Adjusted Trade Payables</b>	\$164MM	\$174MM	\$182	\$192	\$201
<b>Impact to Cash Flow</b>	\$12MM	\$22MM	\$30MM	\$40MM	\$49 MM
<b>% of FY 2018 Unlevered FCF</b>	7.6%	14.0%	19.0%	25.4%	31.1%

## Potential Impact for New Market:

- Reduction in overall WACC and total carrying cost for held inventory
- Expedited payments to suppliers at an overall reduced rate of capital without increasing balance sheet leverage
- Potential for additional banks to participate in the (Buyer's Credit or SCF) program to diversify risk for XXXXX and Citizens
- Upon implementation of a program with the agreed extended purchase terms as rolled out to the select group of identified suppliers; the working capital gain for XXXXX resulting from the extended DPO is real & quantifiable

**Working Capital  
Is The Cheapest  
Source of Cash**



# Revenue Sharing Annual Rebate Schedule

Tier	Purchase Review Period	Net Qualified Purchase Volume	Revenue Sharing Rebate Rate	Estimated Annual Rebate
1	12 months	\$1,000,000.00 - \$9,999,999.99	1.00%	\$10,000.00
2	12 months	\$10,000,000.00 - \$19,999,999.99	1.20%	\$120,000.00
3	12 months	\$20,000,000.00 - \$39,999,999.99	1.30%	\$260,000.00
4	12 months	\$40,000,000.00 - \$59,999,999.99	1.40%	\$560,000.00
5	12 months	\$60,000,000.00 - \$79,999,999.99	1.60%	\$960,000.00
6	12 months	\$80,000,000.00 - \$99,999,999.99	1.85%	\$1,480,000.00
7	12 months	\$100,000,000.00 - \$119,999,999.99	1.90%	\$1,900,000.00
8	12 months	\$120,000,000.00 - \$149,999,999.99	2.00%	\$2,400,000.00
9	12 months	\$150,000,000.00 - \$179,999,999.99	2.05%	\$3,075,000.00
10	12 months	\$180,000,000.00 - \$199,999,999.99	2.10%	\$3,780,000.00
11	12 months	\$200,000,000.00 +	2.15%	\$4,300,000.00

## Large Ticket

Transactions associated with reduced Large Ticket Interchange (LTI) will not qualify for the rebate outlined above. However, Citizens will rebate XXXXX 70 bps (0.70 %) for all transactions passed through MasterCard as LTI transactions.

*Please see the Citizens Commercial Banking Commercial Card Fee Schedule for details.*

# Value Statement – Scenario #1

CARD PRODUCT	ANNUAL SPEND			
accessAPcard	\$ 30,000,000.00			
TOTAL	\$ 30,000,000.00			
STANDARD SPEND	\$27,000,000		BPS EARNED FOR STANDARD SPEND	1.30%
LARGE TICKET SPEND	\$3,000,000		BPS EARNED FOR LARGE TICKET SPEND	0.70%
TOTAL SPEND	\$30,000,000			
ESTIMATED MONTHLY VOLUME	\$2,500,000.00			
ESTIMATED DAILY VOLUME	\$83,333.33			
CASH ON HOLD (55 DAYS)	\$4,583,333.33			
INTEREST EARNED ON CASH	1%		REBATE EARNED \$27MM IN STANDAR SPEND	\$351,000
CASH EARNED FROM INTEREST	\$45,833.33		REBATE EARNED \$3MM IN LT SPEND	\$21,000
ANNUAL CASH EARNED FROM INTEREST	\$550,000.00		TOTAL REBATE EARNED	\$372,000
ANNUAL CASH EARNED FROM INTEREST X3	\$1,650,000.00		TOTAL REBATE EARNINGS X3	\$1,116,000.00
TOTAL OVERALL 3 YEAR VALUE		\$2,766,000.00		

## Value Statement – Scenario #2

CARD PRODUCT	ANNUAL SPEND			
accessAPcard	\$ 200,000,000.00			
TOTAL	\$ 200,000,000.00			
STANDARD SPEND	\$180,000,000		BPS EARNED FOR STANDARD SPEND	2.00%
LARGE TICKET SPEND	\$20,000,000		BPS EARNED FOR LARGE TICKET SPEND	0.70%
TOTAL SPEND	\$200,000,000			
ESTIMATED MONTHLY VOLUME	\$16,666,666.67			
ESTIMATED DAILY VOLUME	\$555,555.56			
CASH ON HOLD (55 DAYS)	\$30,555,555.56			
INTEREST EARNED ON CASH	1%		REBATE EARNED \$74.7MM IN STANDAR SPEND	\$3,600,000
CASH EARNED FROM INTEREST	\$305,555.56		REBATE EARNED \$8.3MM IN LT SPEND	\$140,000
ANNUAL CASH EARNED FROM INTEREST	\$3,666,666.67		TOTAL REBATE EARNED	\$3,740,000
ANNUAL CASH EARNED FROM INTEREST X3	\$11,000,000.00		TOTAL REBATE EARNINGS X3	\$11,220,000.00
TOTAL OVERALL 3 YEAR VALUE			\$22,220,000.00	

## Value Statement – Scenario #3

CARD PRODUCT	ANNUAL SPEND			
accessAPcard	\$ 450,000,000.00			
TOTAL	\$ 450,000,000.00			
STANDARD SPEND	\$225,000,000		BPS EARNED FOR STANDARD SPEND	2.15%
LARGE TICKET SPEND	\$225,000,000		BPS EARNED FOR LARGE TICKET SPEND	0.70%
TOTAL SPEND	\$450,000,000			
ESTIMATED MONTHLY VOLUME	\$37,500,000.00			
ESTIMATED DAILY VOLUME	\$1,250,000.00			
CASH ON HOLD (55 DAYS)	\$68,750,000.00			
INTEREST EARNED ON CASH	1%		REBATE EARNED \$74.7MM IN STANDAR SPEND	\$4,837,500
CASH EARNED FROM INTEREST	\$687,500.00		REBATE EARNED \$8.3MM IN LT SPEND	\$1,575,000
ANNUAL CASH EARNED FROM INTEREST	\$8,250,000.00		TOTAL REBATE EARNED	\$6,412,500
ANNUAL CASH EARNED FROM INTEREST X3	\$24,750,000.00		TOTAL REBATE EARNINGS X3	\$19,237,500.00
TOTAL OVERALL 3 YEAR VALUE			\$43,987,500.00	

# accessAPcard Differentiators

# Performance Validation

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## Mastercard® names Citizens Treasury Solutions “Best in Class” in vendor onboarding Enrollment Success Rates – Overall Process – Client Experience

### Multifaceted On-boarding Strategy

- Dedicated team of enrollment specialists who target accepting and non-accepting suppliers – For the life of XXXXX’s program
- Customized, enrollment program – Specialized communications for different vendor groups – Consider trading partner relationship, size and payment terms
- Vendors are offered both *BIP* and *SIP* options, delivering competitive rates during enrollment.
- Negotiate interchange at the vendor level – Increased adoption, especially for high dollar transactions
- First to market with *Directed Payments*– Expands enrollment to vendors only accepting payment via a website or by phone



### Comprehensive Supplier Optimization

- We contact both known card acceptors and those not currently accepting MasterCard
- All vendors with at least \$10K in XXXXX spend are contacted
- The enrollment strategy is customized to XXXXX’s specific needs
- Where appropriate, we jointly develop a “*Negotiated Term*” strategy to increase vendor acceptance

### Proven, Consistent Success

- We set goals and beat them – Example: Upon campaign completion, an existing client with an original target goal of \$20mm realized over \$70mm in enrolled volume



# Overall Program Differentiation

## Dedicated Account Manager

- Fully engaged partner with deep industry expertise – Delivers ongoing support
- Identifies opportunities for continued growth and additional program value
- Ongoing analysis of A/P file to recommend vendors for next enrollment campaign
- Shares industry best practices, improving program management and direction



## Robust Capabilities

- Multiple options for initiating payments to suppliers – Buyer-Initiated (BIP), Supplier-Initiated (SIP), Directed Payments and On-Demand Payments
- Streamlined vendor payment process– no registration, user ID or password required
- Full and ongoing vendor outreach and enrollment support – For the Life of the Program

## Full Program Support

- Dedicated and Coordinated Implementation, Account and Client Services Managers
- Executive, Relationship Manager, and Treasury Sales Involvement
- Improves communication
- Anticipates needs
- Bespoke solutions tailored to XXXXX's specific industry and vendors

## Committed To Your Success

- “Best In Class” MasterCard award
- #1 in new suppliers enrolled
- #2 in Total Spend Volume
- Unique needs supported
- Full payables integration delivers many avenues for success