

Deal Advisory 직무교육 – TS 기본 온라인 과정

Working capital 및 Net debt

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01

Modeling –
working capital,
Net debt

Business Modeling – Working Capital

DCF 방법 하에서는 Working capital, CAPEX 에 대한 분석이 반드시 수반되어야 함

Case comparison- Case 1					
KRW m	가정	Year 1	Year 2	Year 3	Year 4
Sales		5,000	6,000	7,200	8,640
COGS	60%	(3,000)	(3,600)	(4,320)	(5,184)
Other expense (excl.D&A)	20%	(1,000)	(1,200)	(1,440)	(1,728)
EBITDA		1,000	1,200	1,440	1,728
AR	60 days	833	1,000	1,200	1,440
AP	30 days	(250)	(300)	(360)	(432)
Net working capital		583	700	840	1,008
Working capital movement			117	140	168
Operating cashflow			1,083	1,300	1,560
Conversion rate			90%	90%	90%
CAPEX	10% of sales		600	720	864
Free cashflow			483	580	696

Case comparison- Case 2					
KRW m	가정	Year 1	Year 2	Year 3	Year 4
Sales		5,000	6,000	7,200	8,640
COGS	60%	(3,000)	(3,600)	(4,320)	(5,184)
Other expense (excl.D&A)	20%	(1,000)	(1,200)	(1,440)	(1,728)
EBITDA		1,000	1,200	1,440	1,728
AR	10 days	137	164	197	237
AP	60 days	(500)	(600)	(720)	(864)
Net working capital		(363)	(436)	(523)	(627)
Working capital movement			(73)	(87)	(105)
Operating cashflow			1,273	1,527	1,833
Conversion rate			106%	106%	106%
CAPEX	5% of sales		300	360	432
Free cashflow			973	1,167	1,401

동일한 매출과 EBITDA 를 가진 business 의 가치가 운전자본과 CAPEX 에 따라 큰 차이가 나타날 수 있음

Business Modeling – Working Capital

Working Capital

- There is no universal definition of working capital available, either in law or stipulated by accounting standards

- 일반적으로 매출채권, 재고자산, 매입채무가 포함됨.

Working Capital vs CAPEX, Net Debt

선급금

- Entertainment 회사의 연예인에게 지급하는 선급금은 Working Capital인가?

선수금

- 건설회사의 선수금은 Working Capital인가?

Business Modeling – Working Capital

예시

- 무역회사 A,B가 있다.
- A, B 모두 해외 Vendor로 부터 900원에 매입하여 1,000원에 판매하며, 매입대금 이외 비용은 없다.
- 모든 매출은 현금으로 입금된다.
- 채무는 A,B사 모두 365일 이후 지급되나 B사는 Usance를 이용한다.
- 상기 현금흐름은 영구히 지속되며, Tax는 없으며, 현할차 10% 가정.
- Usance 이용에 따른 이자 지급은 없다.
- 인수연도(2022년)의 A사, B사의 손익계산서 및 재무상태표는 다음과 같다.
- A사와 B사의 Equity Value는 얼마인가??

A사

재무상태표

현금	1,000	매입채무	900
		이익잉여금	100
	1,000		1,000

손익계산서

매출	1,000
비용	900
EBITDA	100

B사

재무상태표

현금	1,000	USANCE	900
		이익잉여금	100
	1,000		1,000

손익계산서

매출	1,000
비용	900
EBITDA	100

Business Modeling – Working Capital

A사 – USANCE를 W/C로 보는 경우

	Year 0	Year1	Year2	Year3	Year4	Year5	영구
EBITDA		100	100	100	100	100	100
운전자본변동		0	0	0	0	0	0
OCF		100	100	100	100	100	100
현재가치계수		0.9091	0.8264	0.7513	0.6830	0.6209	6.2092
현재가치		90.91	82.64	75.13	68.30	62.09	620.92
Sum of OCF	1,000						
Net Debt	-1,000 (Cash 1,000, 차입금 없음)						
Equity value	2,000						

재무상태표

현금	1,000	매입채무(USANCE)	900
		이익잉여금	100
	1,000		1,000

Net Debt = 차입금 0 – 현금 1,000 = (-) 1,000

B사 – USANCE를 Debt로 보는 경우

	Year 0	Year1	Year2	Year3	Year4	Year5	영구
EBITDA		100	100	100	100	100	100
운전자본변동		0	0	0	0	0	0
OCF		100	100	100	100	100	100
현재가치계수		0.9091	0.8264	0.7513	0.6830	0.6209	6.2092
현재가치		90.91	82.64	75.13	68.30	62.09	620.92
Sum of OCF	1,000						
Net Debt	-100 (Cash 1,000, 차입금 900)						
Equity value	1,100						

재무상태표

현금	1,000	USANCE	900
		이익잉여금	100
	1,000		1,000

Net Debt = 차입금 900 – 현금 1,000 = (-) 100

어떠한 항목을 Working capital로 보느냐, Debt로 보느냐에 따라 Equity Value는 큰 차이를 보임.
Working Capital 및 Debt 분류에 유의하여야 함.

Business Modeling – Net debt

Net Debt

- Net debt is defined as the debt less cash (Debt – Cash)

Importance

- 재무상태표상의 차입금과 현금만을 의미하지는 않는다.

Cash?

- 단기금융상품은? 보통 Cash에 포함.
- 5년 만기 정기예금은 Cash에 포함 되어야 하는가?
- 기업이 여유 자금으로 가입한 펀드 상품은 Cash에 포함되어야 하는가?

Debt?
(Debt like items)

- 인수 시점 미지급법인세는 Debt인가?
- 미지급 배당금은 Debt 인가?
- 매출채권 Factoring 금액은 Debt인가?

02

Working Capital

Working capital Contents

- 운전자본에 대한 이해
- 운전자본 검토 목적
- Case Study

Poll question



Quiz.

다음 중 운전자본 구성 항목에 포함되지 않는 것은?

- 1 미지급금
- 2 선수금
- 3 정답 없음(상황에 따라 다름)

Question

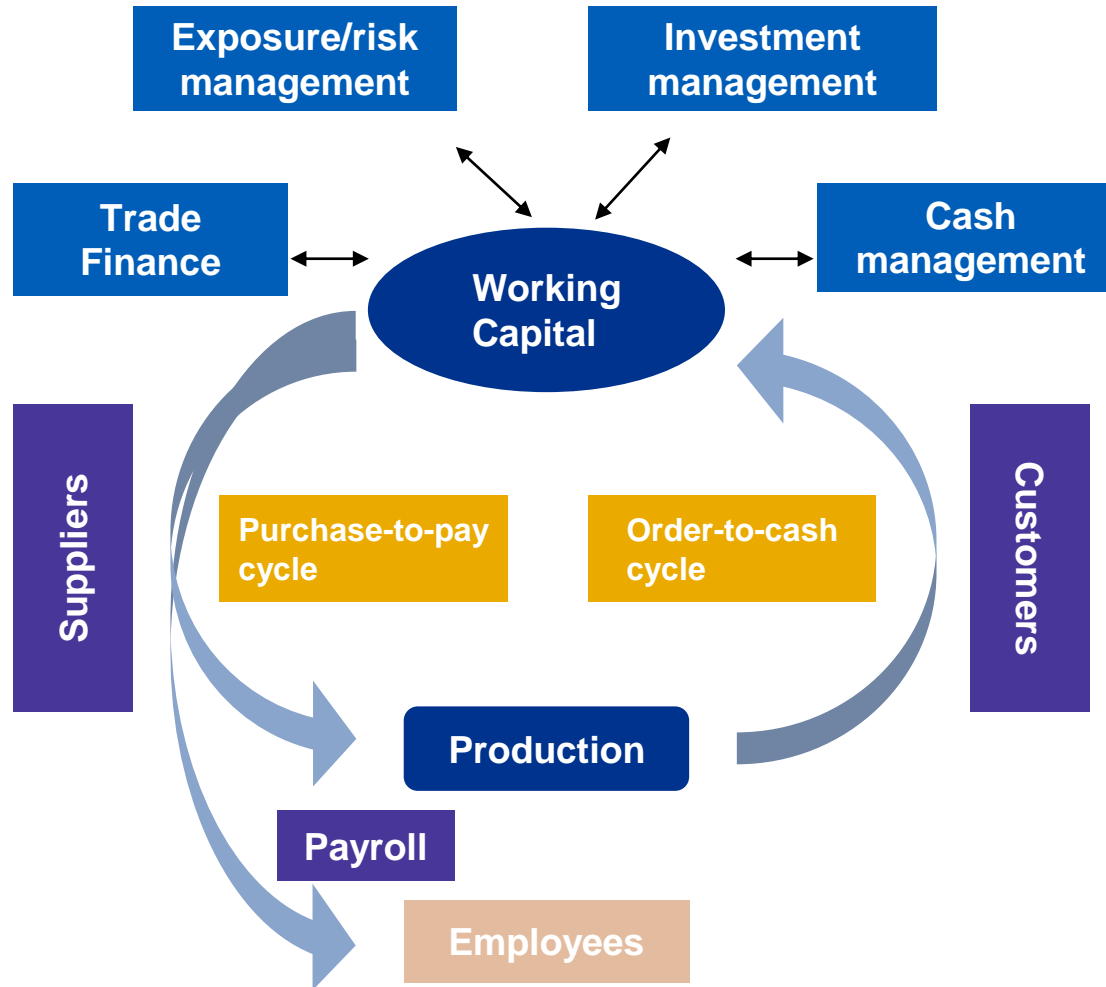


Quiz.

다음 문항에 대하여, O,X로 답변 하세요.

Working capital은 항상 매출채권, 재고자산, 매입채무로
구성된다

운전자본에 대한 이해



- 운전자본은 기업의 전반적인 영업활동에 영향
 - 공급 업체
 - 고객 관계
 - 공급망
 - 재무 성과
 - 자금 조달 현황
 - 현금흐름 등
- ➡ 재무실사시, 운전자본은 사업에 대한 포괄적인 이해를 통하여 수행 필요
- 이를 통하여, 인수 후 운전자본이 회사의 재무구조 및 Cash flow에 미치는 영향 정량화에 지원

운전자본 검토 목적

✓ Valuation

✓ Link between cash flows and profit

✓ Opportunities for cash generation

✓ Managing working capital at completion and related purchase price adjustments

운전자본 검토 목적 (1/4)

Valuation

향후 사업계획 및 추정 손익에 따른 적정 운전자본 수준 반영

FDD 검토 사항

- 운전 자본 구성 및 주요 사항 확인
 - 회사의 영업활동을 고려하여, 운전 자본 구성 항목 정의
 - 운전 자본 구성 항목별 주요 현황 확인 : 결재 주기, 변동 원인 등
- 과거 운전 자본에 영향을 미친 비반복적이고 일회성 항목을 식별
- ➔ 평가 모델에서 예측하는 미래 운전 자본 요구 사항에 대한 주요 가정을 개발 및 평가하는데 도움이 되도록 비즈니스의 '기본' 운전 자본의 주요 동인 및 추세 설명
 - 운전자본의 주요 동인에 대한 이해를 바탕으로 사업 계획 및 매출 추정에 따라 적정 운전자본 수준이 모델에 반영되고 정량화할 수 있도록 지원

운전자본 검토 목적 (2/4)

Link between
cash flows and
profit

재무 성과와 Cash flow 연결 고리에 대한 이해를 통하여, 적정 Cash management 가능

FDD 검토 사항

- 재무 성과와 순운전자본의 규모 변동의 원인에 대한 이해
 - 매출 및 원가 등 회사의 주요 영업 구조에 대한 이해
 - 관련 순운전자본 특성에 대한 파악 : Seasonality, 선수금 등
 - 자금 조달 현황 및 상환 조건, 상환 계획 등
- ➔ EBITDA 및 순운전자본이 Cash flow에 미치는 영향 검토를 통하여, 회사 Cash management의 주요 관리 항목을 설명
 - EBITDA mutiple로 Deal price가 정해지는 경우, EBITDA외 고려가 필요한 운전자본 수준을 전달

운전자본 검토 목적 (3/4)

Opportunities
for cash
generation

인수 후 운전자본 개선을 통한 Upside potential 가능성 확인

FDD 검토 사항

- 운전 자본 구성 및 주요 사항 확인
 - 매출 고객사별 영업 구조 및 결제 조건 확정 기준 및 확정 조건
 - 지급 거래처별 지급 조건 확정 기준 및 확정 조건, 거래처 선정 기준(공급망 현황)
 - 경쟁사와 결제 조건 차이 및 발생 원인
- ➡ 운전자본의 구성 항목별 동인 분석을 통하여, 인수 후 운전자본을 보다 효과적으로 관리할 수 있는 방안을 계획할 수 있도록 지원
 - 주요 공급업체/고객과 결제 조건 개선 가능성
 - 재고 수준을 줄이는 데 도움이 되는 공급망 효율성 개선 가능성

운전자본 검토 목적 (4/4)

Managing
working capital
at completion
and related
purchase price
adjustments

실사 기준 및 Deal closing 시점간 운전자본 수준 변동에 따른 가격 조정. 운전자본 가격조정 메커니즘은 대상 회사의 영업 구조에 따라 다양한 정산 방법이 존재하므로, 실사를 통하여 최적의 가격조정 방법론 적용 필요

FDD 검토 사항

- Deal value에 운전자본이 적정하게 반영될 수 있도록 검토 지원
 - 운전자본의 정상 수준에 대한 정의
 - 운전자본 메커니즘이 SPA상 적정하게 반영될 수 있도록 검토 지원
- ➡ 가격조정 시, 순운전자본에 대한 주요 고려 사항을 전달. 이를 통하여, 가격조정 방안 확정시, 유불리 사항이 고려될 수 있도록 지원
 - 운전자본 메커니즘 확정 및 운전자본 가격 조정 협상 지원

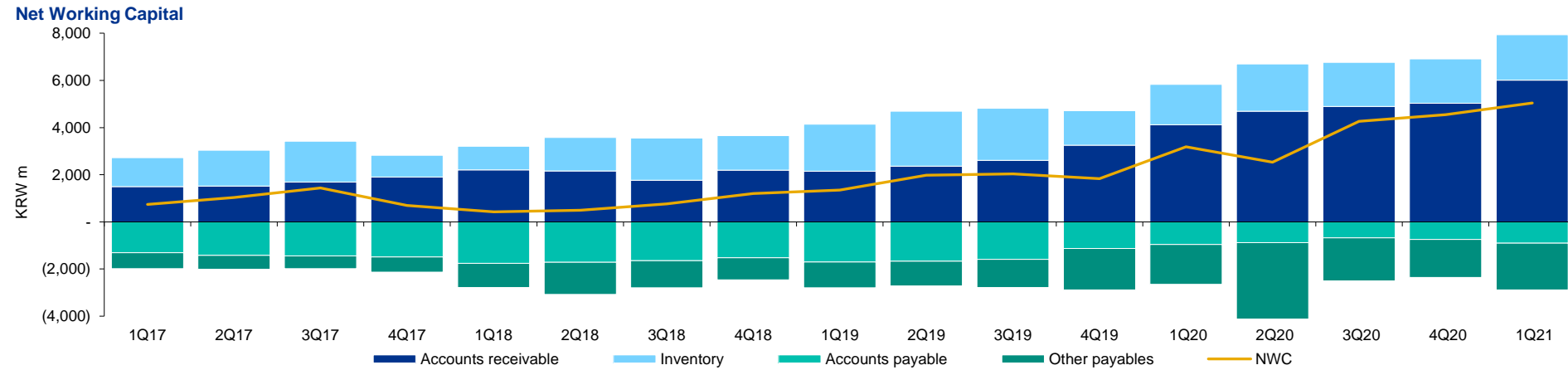
Case Study

순운전자본							
백만원, 일	2017 12mths	2018 12mths	2019 12mths	2020 12mths	2021 12mths	2022 1Q	2022 2Q
매출채권	97,807	112,951	122,514	131,491	126,247	116,515	122,949
재고자산	76,838	75,732	82,348	100,448	95,476	82,092	82,122
매입채무	(71,750)	(96,101)	(135,095)	(152,531)	(133,653)	(115,716)	(122,968)
순운전자본	102,895	92,582	69,767	79,408	88,070	82,891	82,103
매출액	833,145	803,175	911,194	1,083,493	1,033,404	217,926	228,999
매출액 대비	12.4%	11.5%	7.7%	7.3%	8.5%	38.0%	35.9%
매출채권 회전일	42.8	51.3	49.1	44.3	44.6	48.8	49.0
재고자산 회전일	38.3	39.5	38.7	38.5	38.3	38.7	37.6
매입채무 회전일	(35.7)	(50.2)	(63.5)	(58.4)	(53.6)	(54.6)	(56.4)
총 영업 회전일	45.4	40.6	24.3	24.4	29.3	32.9	30.2

Question

- 운전자본 특성은?
- FDD Key finding message?

Case Study

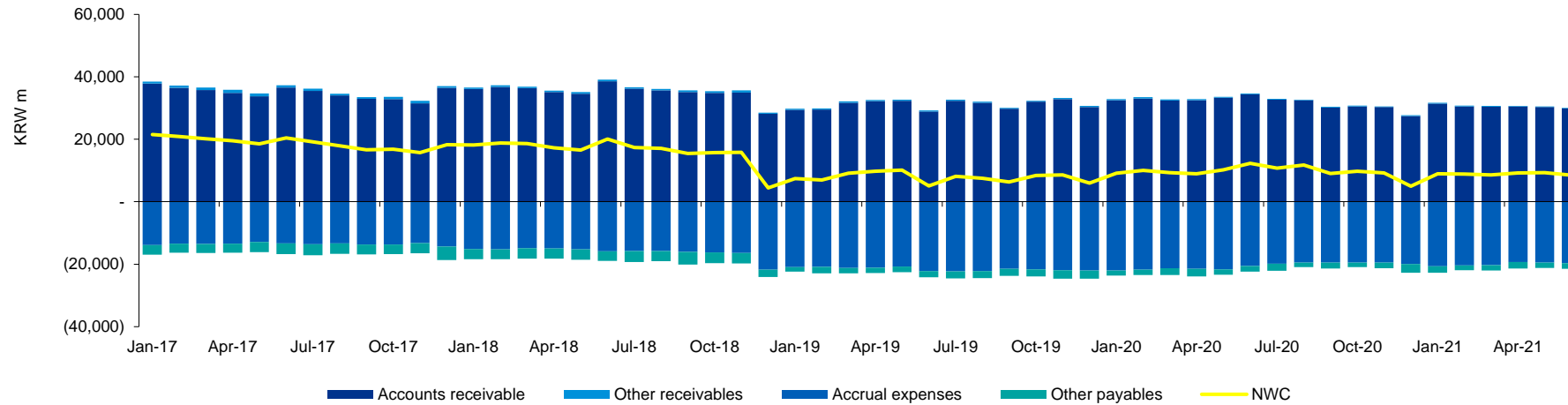


Question

- 운전자본 특성은?
- FDD Key finding message?

Case Study

Net Working Capital



Question

- 운전자본 특성은?
- FDD Key finding message?

Case Study

순운전자본			
	2019	2020	2021
백만원	9mths	12mths	12mths
매출채권 등	17,957	9,148	(19,923)
매출채권	14,884	10,233	14,562
미청구공사	62,994	60,297	33,856
초과청구공사	(59,921)	(61,382)	(68,341)
재고자산	2,496	2,842	1,260
매입채무 등	38,899	80,061	88,782
매입채무	40,450	80,671	92,485
선급금_구매	(1,551)	(2,153)	(5,246)
미지급금	-	1,543	1,543
순운전자본	(18,446)	(68,071)	(107,445)
회전기일			
매출채권 등	39	15	-31
재고자산	7	6	2
매입채무 등	109	162	165

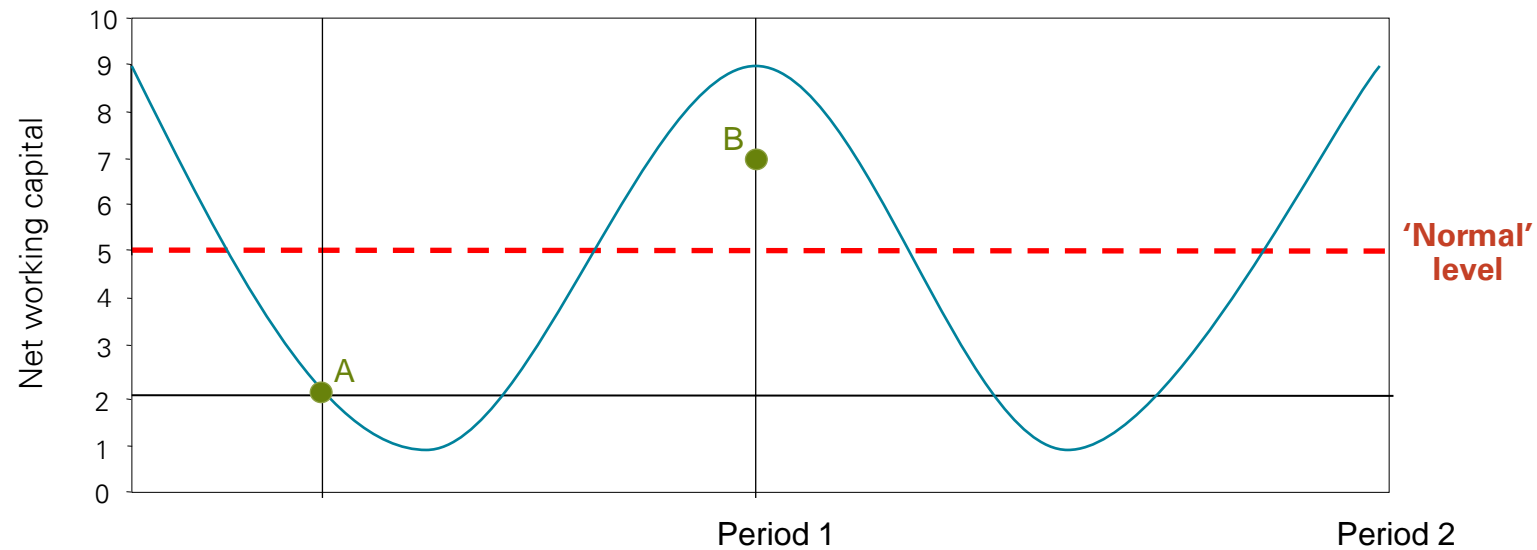
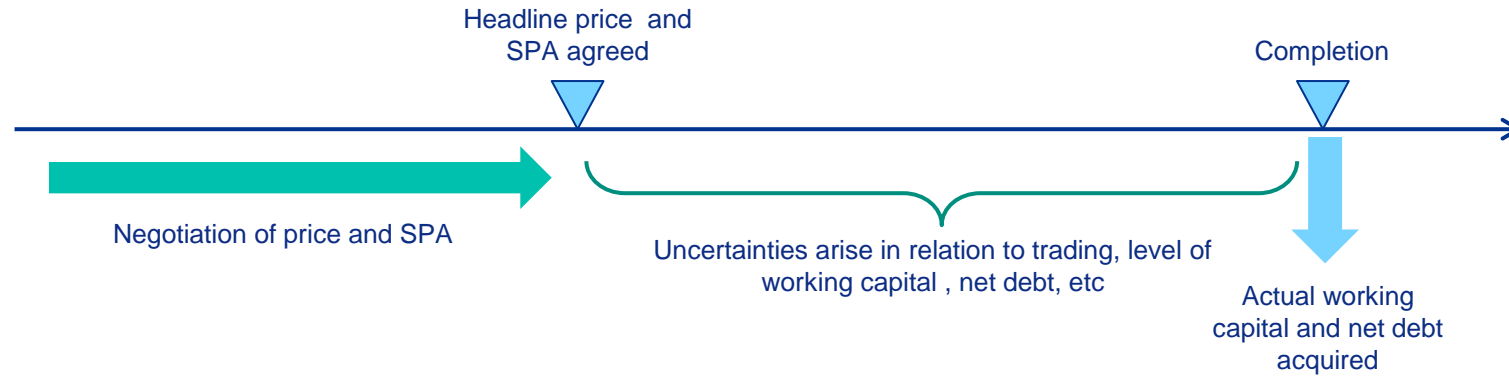
Question

- 운전자본 특성은?
- FDD Key finding message?

주요거래처별 회수조건						
	A사	B사	C사	D사	E사	F사
선수금/최초기성금	None	10%	10%	10%	10%	10%
중도금/납품금	100%	85%	85%	80%	85%	80%
최종기성금	None	5%	5%	10%	5%	10%
수금조건(Invoice 접수후)	90일	30일	30일	60일	55일	30일

매입채무 지급조건	
구분	지급기한
국내외상매입금	30일 ~ 60일
해외외상매입금	6개월
지급어음	6개월(자재관련)
	4개월(외주)
	60일(하도급)

Case study – 가격 조정



Poll question



Quiz.

다음 중 올바른 설명은?

- 1 Working capital = “유동자산-유동부채”
- 2 Valuation에 대한 back up 목적으로 working capital 분석은 이루어진다.
- 3 매수인 입장에서 working capital 분석이 제대로 이루어지지 않을 경우, 실제 가치 보다 높은 가격에 회사를 인수 할 risk가 존재한다.
- 4 Working capital purchase price adjustments는 target working capital을 감소시키기 위한 작업이다.

03

Net Debt

Net debt - contents

- Overview
- What does it really mean
- Why is it important
- Due diligence considerations
- Limitations of net debt

Overview (1/2)

Definition

- Net debt is defined as the debt less cash

Meaning

- What does it really mean...
 - ✓ Debt is not just reported debt and cash is not just reported cash
 - ✓ Debt includes 'debt like items' and cash excludes 'trapped cash'
- Intended to include items that cause a structural difference between EBITDA and operating cash flows

Overview (2/2)

Importance

Why is it important...

- Transactions are often completed on a debt / cash free basis
- The completion mechanism within the Sale and Purchase Agreement (SPA) provides for a \$ to \$ adjustment to base price for net debt
- It is used as a mechanism to deal with uncertainties on completion (pension liability) and to leave unwanted liabilities with the vendor

DD considerations

What do we do...

- Help identify debt and debt like items – both on and off balance sheet
- Help identify exclusions from reported cash – trapped cash, non-distributable cash
- Review SPA for net debt definition and completion accounts mechanism

What does it really mean

Debt like items

- Debt on the balance sheet in the financial statements which usually includes bank debt and accrued interest (reported debt)
- Items with debt like characteristics (one-off and/or non-trading cash outflows), i.e.;
 - pension liabilities
 - capital leases
 - dividends payable
 - litigation costs and/or settlements

Trapped cash

- Cash on the balance sheet in the financial statements which includes cash, securities and short term financial assets
- Items that are classified as cash but are not freely available, i.e.;
 - Cash trapped in overseas jurisdictions
 - Cash held in escrow
 - Bank deposits held as security

Why is it important (1/3)

Valuation

- Most valuation methods define the concept of what a business is worth on a debt and cash free basis (sometimes called its Enterprise Value)
- This is often a key assumption in any offer letter, and an inherent assumption in an offer for a public traded company (the offer price for the shares of a listed company will take into account the value of the debt)
- To the extent that there is net debt in a business at completion, the value of that business to a buyer is less. Therefore, incorrect identification of net debt results in reducing the return on investment to the buyer.

Why is it important (2/3)

Purchase price

- Whether a cash flow model or a price earnings multiple is used to determine the headline (base) price; both exclude net debt from equity value. This leads to a \$ for \$ deduction to the headline purchase price in order to arrive at an equity value
- The SPA provides for mechanism to make this adjustment:
 - Definitions define net debt
 - Completion mechanism provides the process
 - Schedules usually include a detailed table of net debt (at a specific date)
- Net debt, therefore, becomes critical in order to help ensure the transaction is completed at the agreed price
- In some cases, when net debt related adjustments to purchase price are not contemplated in the completion mechanism of the SPA, understanding net debt highlights potential exposures for protection through warranties and indemnities.

Why is it important (3/3)

Financing

- Transactions don't actually get completed on a cash/debt free basis. In reality, at closing, any net debt left by the seller in the business (which will be a reduction to purchase price) will have to be funded by the buyer (in other words instead of paying the seller the buyer funds the net debt)
- In a leveraged transaction, the net debt funding usually comes from a financial institution (lender to the transaction)
- The net debt definition in the SPA, therefore, become critical because:
 - Lender defines debt in the senior credit agreement (SCA)
 - Lender's terms (covenants and coverage ratios) are based on the definition in SCA
 - If the definition of net debt is not aligned between SPA and SCA, the buyer may potentially breach the covenants or coverage ratios

Why is it important

Headline price

- Price Earnings (PE) multiple XYZ
- or
- Discounted Cash Flows (DCF) ABC

\$m

or

Valuation of Enterprise Value (EV) – headline price agreed

Transactions are typically completed on a cash/debt free basis. Therefore the SPA contemplates an adjustment to the headline price for any net debt left in the company, through the completion mechanism.

Price adjustments

- Completion mechanism
 - Net debt/cash
 - Working capital
 - Capex

(B)

G

SPA Completion Accounts

(F)

Other matters

- Commitments
- Liabilities
- Excess assets

H

L

R

May be reflected in valuation for headline price or SPA treatment

(e.g. indemnities and warranties)

NET PURCHASE PRICE

XXX

Why is it important

For Example Purposes Only

Valuation	Example 1	Example 2
Enterprise value	1000	1000
Less: debt		
Reported debt	(300)	(300)
Pension liability	(70)	
Litigation settlement cost	(50)	
Equity value	580	700

Financing needs	Example 1	Example 2
Payment to vendor	580	700
Refinance debt	300	300
Pension and litigation	120	120
Total	1000	1120

- When net debt is not correctly identified, **it increases the overall funding requirements of the transaction**. Such increased needs would have to be financed through equity which **reduces the return on investment for the buyer** (higher investment same earnings)
- In this example, if there are debt like items that don't require a cash outflow post transaction (e.g. guarantees, letters of credit), it should still be highlighted for discussion between the vendor, purchaser and their respective lenders.

Due diligence (DD) considerations

What to
consider in
due
diligence

- What kind of items could be considered as debt?
- Any balances in “the nature of borrowings”
- Debt factoring, promissory notes, or other receivables financing
- Guarantees, supplier finance, letters of credit
- Break costs and early repayment penalties
- Capital commitments
- Trapped cash (signing restrictions, withholding tax)
- Off balance sheet liabilities (e.g. operating leases)
- Are there any cash balances which could be considered as working capital (e.g. cash floats/cash in tills)?
- Are there any cash restrictions – trapped, deposits, advanced payments?

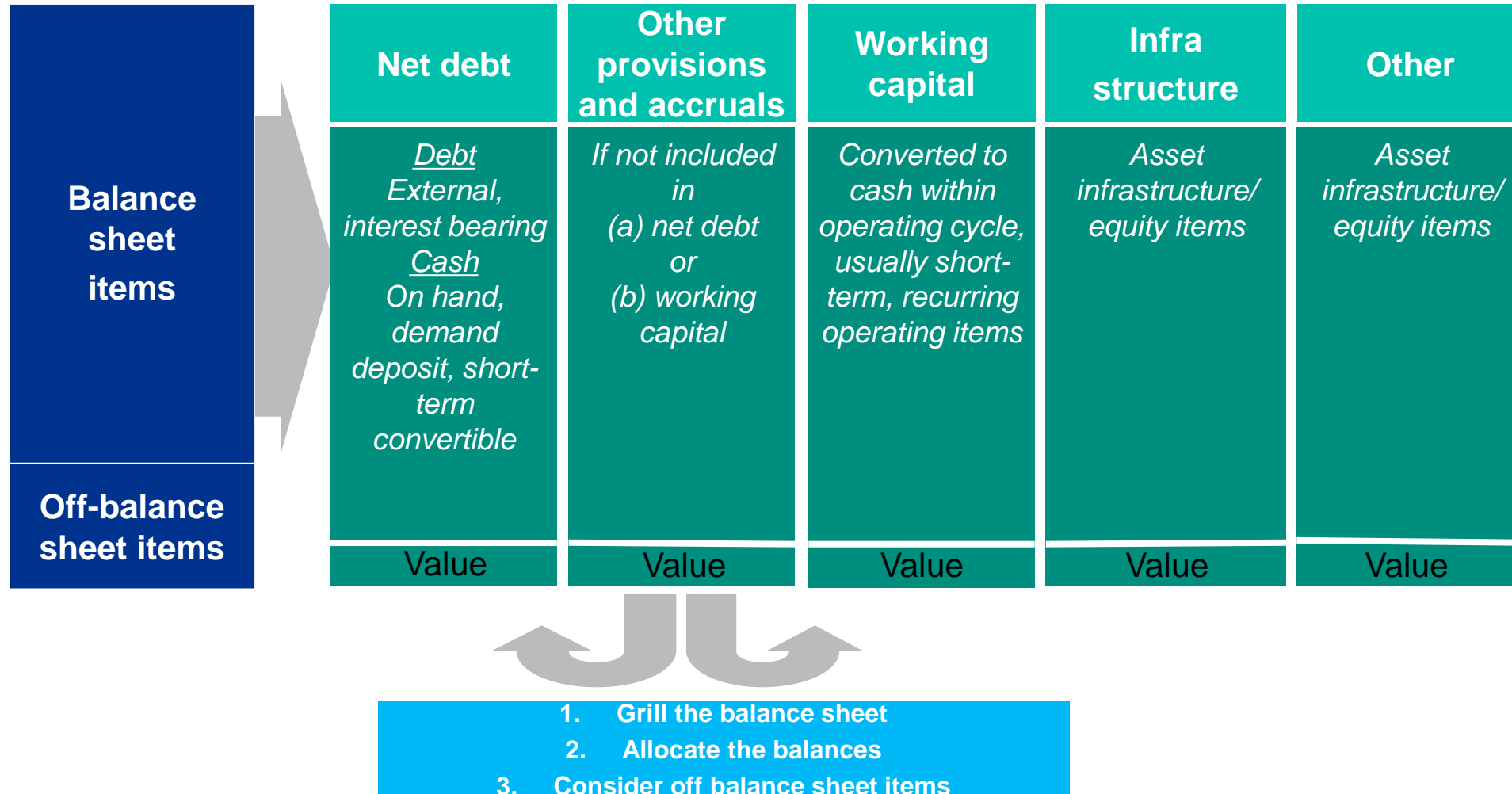
Detailed analysis of ‘on’ and ‘off’ balance sheet items

Gather all the facts (will it result in cash outflow, has it been considered in business plan, timing)

Consult with legal advisors

Due diligence (DD) considerations

It is critical that we allocate the balances out and understand how they are going to be dealt with in the SPA and on completion



Due diligence (DD) considerations

Items that may be included as debt

- Deal cost liabilities
- Future commitments/obligations – e.g. break costs
- Management year end bonus
- Bonus accruals
- Deferred income
- Pension liability/deficit
- Debt factoring arrangements
- Off balance sheet finance (Leases, promissory notes)
- Deferred consideration

- Purchaser wants to define as WIDE as possible
- Where to look
 - Other creditors
 - Accruals
 - Off balance sheet

Items that may be excluded from cash

- Deferred income
- Working capital cash balances - Cash in tills
- Rent deposits
- Cash held on escrow
- Trapped cash – foreign exchange restrictions, with holding tax

- Purchaser wants to define as NARROW as possible
- How to identify
 - Understand business dynamics
 - Treasury management

DD considerations – limitations of net debt(1/2)

Common limitations of net debt...

Definitions may be judgmental. May depend more on commercial than accounting interpretation

- The definitions of debt (in particular 'debt like' items) and cash are judgmental and are down to commercial interpretation rather than accounting. The vendor and purchaser will have different perspectives on the same items.
- For example, a purchaser may consider advances from customers as debt like given that the vendor has received benefit of the cash advances in their period of ownership, while the purchaser will have to incur the costs to provide the services relating to that advance. The vendor may counter argue that customer advances are a normal recurring part of the business and are therefore working capital rather than debt like.

Buyer/seller perspective may have a significant influence

- From a purchaser's perspective, it is preferable to define debt as widely as possible and cash as narrowly as possible to maximize net debt and hence lower the overall purchase price.
- However, this approach needs to be balanced with the competitive tension of the deal as a purchaser may lose the deal if they are too aggressive on what they include in the net debt, particularly in a competitive auction process.

DD considerations – limitations of net debt(1/2)

Common limitations of net debt...

Lack of clarity on whether certain items will materialize into cash outflows	<ul style="list-style-type: none">There will often be uncertainty over whether some debt like items will crystallize into cash outflow items, how much and when (e.g. litigation outstanding). In these cases consideration should be given as to whether the risk should be covered off through SPA warranties and indemnities as opposed to price adjustments.However, note that claims to recover losses/damages against SPA warranties and indemnities are made through the court process. There is therefore no certainty that these claims will be successful in part or full and the process can take time to reach conclusion. So if the risk is high, then a price adjustment has more certainty and may be more appropriate.
Double counting	<ul style="list-style-type: none">Care should be taken to avoid double counting net debt adjustments, where management's business plan already incorporate one-off non-trading cash flows.

Poll question



Quiz.

다음 중 Net debt 계산 시, 부채 및 현금 항목으로 포함되어야 하는 계정을 모두 고르면?

- 1 현금 및 현금성자산
- 2 차입부채
- 3 대여금
- 4 상기모두

Poll question



Quiz.

복구충당부채는 Debt like item 인가?

1 o

2 x



Thank you



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