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LLOYDS BANK

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British firms tying up £500bn that could be used for growth

- British businesses have an estimated £498bn tied up in excess working capital
- Economic uncertainty and resilient revenue growth is putting businesses under historic pressure to increase their working capital
- This could leave businesses exposed if economic conditions were to deteriorate

British businesses have at least £498bn tied up in surplus working capital, which could be used to boost cashflow and growth, according to new figures from Lloyds Bank Commercial Banking.

A combination of revenue growth, which increases the amount of money tied up in unpaid invoices, and firms strategically building up their inventories ahead of anticipated price hikes, have increased pressure on businesses to have more working capital, Lloyds Bank's research found.

Businesses that are actively growing tend to focus more on revenue and margins than working capital and balance sheet efficiency. However, many firms are likely to be left exposed if economic conditions deteriorate which would require them to free up cash quickly.

Working capital is the amount of money that a company ties up in the day-to-day costs of doing business. The more money tied up in working capital, the less available for investment, reducing debt or returning to shareholders.

The Lloyds Bank Working Capital Index is a new six-monthly report that uses the Lloyds Bank Regional Purchasing Managers' Index (PMI) data to calculate the pressure British businesses are under to either increase or decrease working capital.

A reading of more than 100 indicates pressure to devote more cash to working capital, while a reading of less than 100 indicates pressure to prioritise liquidity.

The index, based on PMI data compiled by Markit, can be studied dating back to 2000. The current reading of 104.1 is only slightly down from a record high of 105.0 in October 2016. This indicates that firms need more funds to support their day-to-day operations.

The fact that pressure on working capital has hit record highs at the same time as other lead economic indicators, such as the exchange rate of the British pound, have deteriorated could signal a warning of possible storms to come.

Adrian Walker, managing director, head of Global Transaction Banking at Lloyds Bank, said: "Working capital is the lifeblood of any business, and our research shows that the typical

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British business now has more than £12m unnecessarily tied up in it. This cash mountain suggests that companies are either feeling more positive about the future or that they are reducing their focus on this critical area of business performance.

“This could be a good sign: businesses can afford to stock up and tie up increasing levels of cash in working capital when they are performing well and focussed on growing their business. But, having those funds locked away at times of uncertainty, or if the economy falters, could spell danger.

“By understanding the hurdles they face and how their working capital levels compare with industry norms, British businesses can use this insight to unlock the cash trapped within their business, become more efficient and realise their full potential.”

Chris Williamson, chief business economist at IHS Markit added: “It is worrying that firms are under such high pressure to increase working capital at a time when other economic indicators suggest the economy is starting to slow.

“Looking back over the past 17 years, this index shows that when times get tough, companies normally look to decrease working capital to free up cash. What we’re seeing now is evidence of the corporate sector starting to struggle with customer payment delays and rising costs, while also building a war chest to get through a period of potential uncertainty and volatile business conditions.”

Lloyds Bank also questioned 650 businesses about their outlook for the future. It found that:

- Almost a quarter (24 per cent) said changes to payment terms would be one of their main challenges in the coming 12 months, up from 20 per cent in June 2016
- More than one in five businesses (23 per cent) reported that the time it took to get paid had lengthened over the past year (up from 21 per cent in June 2016)
- Almost one in five (19 per cent) said the sterling exchange rate was a challenge, a huge increase from just two per cent in June 2016

Small and medium-sized businesses (SMEs) felt the pressure to increase working capital most, with their index recording 107.9, compared with 101.4 for larger firms.

Businesses in the construction sector saw the lowest pressure to increase working capital, with an index reading of 103.4, while manufacturing – which built up inventory at the fastest rate in six years, due to the prospect of increasing prices to come – saw the highest pressure with an index of 110.2.

Furthermore, there was a diverse picture across the country. Strong business output meant businesses in the Midlands and Wales recorded the strongest pressure to increase working capital, with an index of 108.0.

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Muted output in Scotland, and London's greater reliance on services businesses – which were unaffected by the trend to build up inventory – meant both regions recorded slight pressure to decrease working capital with indices of 99.5 in Scotland and 99.3 in London.

Mr Walker added: “Our teams of dedicated working capital specialists can help firms of all sizes to explore their working capital cycle and unlock the cash within their business so that they can invest in growth.

“With continued pressure on cash cycles, a build-up of excess working capital and mixed economic signals for 2017, now is the time for British companies to renew focus on working capital.”

Ends

Notes to editors

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Notes to Editors

Lloyds Bank Commercial Banking

- Lloyds Bank Commercial Banking provides comprehensive expert financial services to businesses of all sizes, from start-ups and small businesses to mid-sized businesses and multinational corporations.
- Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support to its clients.
- Lloyds Bank Commercial Banking offers a broad range of finance beyond term lending and this spans import and export trade finance, structured and asset finance, securitisation facilities and capital market funding. Its product specialists provide bespoke financial services and solutions, including tailored cash management, international trade, treasury and risk management services.

Support for SMEs

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- Lloyds Banking Group is committed to helping businesses of all types and sizes, giving them the funding and support they need to grow at home and abroad. We have set out our pledges in our [Helping Britain Prosper Plan](#).
- In 2016 we supported more than 10,000 first time exporters, grew our lending to small businesses and helped 120,000 start-up businesses in their next phase of growth.
- Since the start of 2011, we have grown our net lending to SMEs by 30% whilst the market has contracted by 11%.

To see the latest supporting businesses factsheet please visit:

<http://www.lloydsbankinggroup.com/media/media-kit/supporting-businesses-fact-sheet/>

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