



Services



Trade Working Capital Viewpoints

Working Capital's Role in Food

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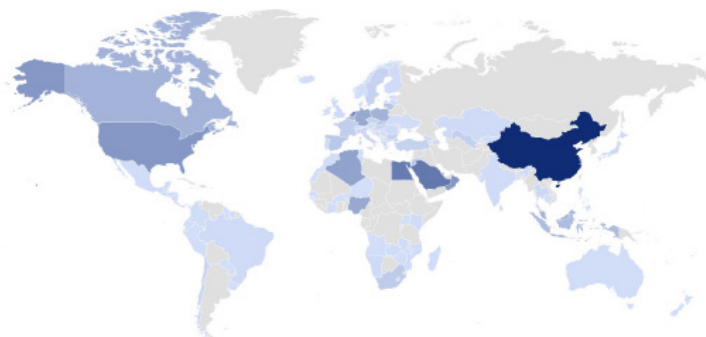
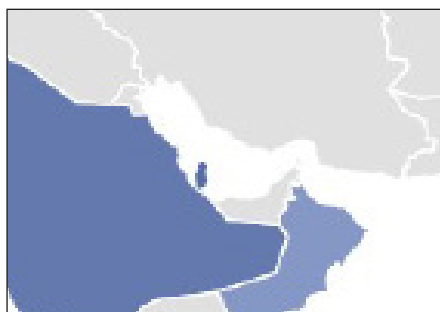
Why Working Capital Matters in Today's Operating Environment

Foods companies are operating in a uniquely challenging environment driven by high inflation, supply chain fragility, geopolitical events, and shifting consumer demand. Geopolitical instability—particularly conflict in the Middle East—has added structural costs and uncertainty to global supply chains that have the potential to be further exacerbated by prolonged conflict. As of Citi Corporate Banking's Q1 2026 analysis, the food industry is contending with modest growth and persistent margin pressure.¹ At the same time, consumer preferences continue to evolve, as things such as natural ingredients and healthier snacking grow in popularity. Given the complexity and global reach of the food value chain, disciplined working capital management is critically important. The ability to unlock liquidity from within the balance sheet may help with **weathering disruption, de-risking supply chains, protecting margins, and funding selective investments.**

The end-to-end global food supply chain is complex, spanning agribusinesses, food manufacturers, and retailers. Operating models can vary significantly by organization and can include highly localized production strategies as well as strategies reliant on seamless global trade. Prolonged conflict has the potential to be disruptive to the entire value chain; increased energy costs can lead to broader inflationary pressure, while disruptions in the movement of freight can impact the availability of inventory. Substitution for inputs or products exists in some cases but not always. Nitrogen is fundamental in agriculture, as it is essential to plant growth. Figure #1 highlights nitrogen-based fertilizer's exposure to the Strait of Hormuz.

The macroeconomic environment remains challenging for the food value chain. Persistent inflation has already driven up input, labor, logistics, and energy costs, while sustained pressure on household budgets has weakened consumer purchasing power. Across the sector, earnings have largely been supported by pricing actions; however, with consumers increasingly price-sensitive, the capacity to pass through further cost increases has materially diminished. Furthermore, cost-conscious consumers can substitute name brand products for grocers' private label offerings when budgets are constrained. As a result, forward earnings expectations are flattening or declining, and many companies across food production, processing, and retail are trading at compressed equity valuations. Figure #2 shows the relationship between 5-year historical average forward P/E versus forward P/E for Agriculture, Food Distribution, Food Retail and Packaged Food companies; a slope of less than one indicates companies in that segment trade at a discount today relative to their historical value.

Figure 1. Map of Countries Exporting Nitrogen based Fertilizer (HS3102), 2024



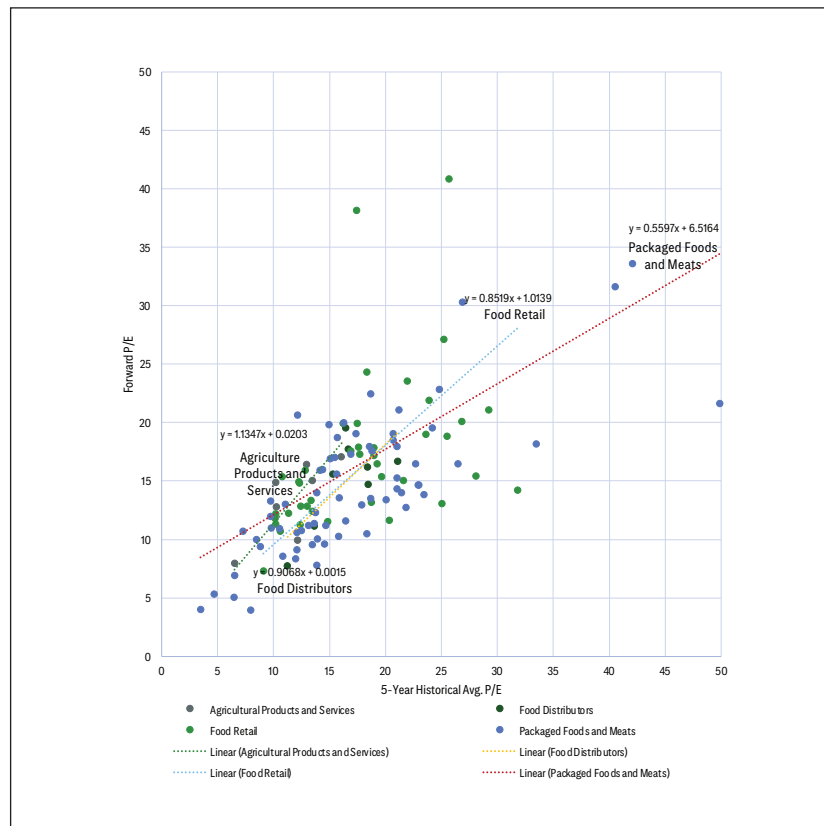
Notes: 1) Note: 2024 data is used as a proxy for 2025 data, which was not yet available for all countries at the time of publication. 2) This chart is provided for illustrative purposes only and is subject to change.
Source: UN Comtrade, Citi Services

¹Past performance is no guarantee of future results. Real results may vary.

Tactical Approach to Working Capital Management

In the current environment, working capital has emerged as a potentially valuable tool that may help protect margins, reduce leverage, and unlock cash for key capital allocation priorities. Working capital strategies that may have seemed less attractive when interest rates were near zero or revenue growth was abundant are now taking center stage.

Figure 2. 5-Year Historical Avg. Forward P/E vs. Forward P/E, Global Food Industry Companies with \$5bn+ in Revenue



% of Companies with Current Forward P/E Trading at a Discount to 5-Year Historical Avg. P/E			
Agricultural Products and Services	Food Distributors	Food Retail	Packaged Foods and Meats
14%	88%	63%	74%

Inventory Management: Finding a Balance

Inventory can often be a particularly challenging component of working capital. In volatile conditions, building buffer stock is understandable, but indiscriminate inventory increases can quickly consume valuable working capital that could otherwise be used to de-lever, invest in capex, or fund mergers and acquisitions (M&A). Banks historically have been able to help clients diagnose inventory challenges but had few tools to help; however, new solutions have significantly enhanced these capabilities.

Inventory Financing Gaining Traction

By financing inventory held at ports, warehouses, or distribution centers, companies can maintain availability while freeing up cash for other uses. These structures can be especially useful when geopolitical risk forces earlier ordering or higher in-transit inventory.

- Recently, Citi Supplier Finance, in partnership with Citi Global Markets Limited (CGML), arranged a cocoa inventory financing solution that enabled its client to take delivery of cocoa on a “just-in-time” basis and extend paying for inventory up to six months after taking delivery.

Re-Examining Payables and Commercial Terms

Over time, commercial terms may deviate from corporate standards. Corporates with leading supply chain finance programs periodically dedicate resources to review existing commercial terms to help ensure treasury and procurement remain aligned to a corporate’s overarching working capital strategy.

Leading companies pursue collaborative solutions. Extending payment terms while offering suppliers access to supply chain finance programs allows suppliers to receive early payment at attractive rates, while buyers benefit from longer terms. This approach is particularly effective in environments where supplier resilience is paramount, as suppliers themselves face higher financing, energy, and logistics costs.

Notes 1) Data as of 04/24/2026. 2) This chart is provided for illustrative purposes only and is subject to change. Source: S&P Capital IQ, Citi Services

In the current environment, *working capital has emerged as an effective lever to protect margins, reduce leverage, and unlock cash for key capital allocation priorities.*

Using Dynamic Discounting to Relieve Margin Pressure

Dynamic discounting is an underutilized tool that is designed to help improve both margins and supplier stability. Paying suppliers early in exchange for discounts that has the potential to generate higher returns compared to certain alternative uses of cash. Dynamic discounting lets finance teams deploy cash opportunistically, improving gross margins while strengthening supplier relationships. When paired with performance incentives, such as on-time delivery or fill-rate targets, dynamic discounting may also help support operational reliability.

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Optimizing Accounts Receivable Through Structured Solutions

Receivables factoring, securitization, or selective invoice financing may enable companies to convert sales into cash more quickly without pressuring customers or offering excessive discounts. Additionally, accounts receivable financing solutions can help facilitate customer requests for extended payments, which may serve as a powerful differentiator during commercial negotiations. These tools are especially valuable during seasonal peaks or periods of heightened uncertainty, when internal cash generation is critical.

- To help a global agribusiness provider diversify its sources of liquidity and accommodate customer payment terms, Citi Services helped its client establish a trade receivables securitization program with the dual benefits of improved DSO and access to economically priced liquidity.

Conclusion

For companies across the global food supply chain, working capital is no longer just a financial metric—it is a strategic asset. In a world of subdued growth, the ability to manage working capital effectively **may help create significant competitive advantage**. Companies that focus on working capital management may be better positioned to help protect margins, fund growth, and navigate volatility, regardless of how the external environment evolves.