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Insight **Report.**

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As businesses mature, generating cash becomes only the beginning. The greater challenge is deciding where that capital creates the highest value — within the business, outside it, or for shareholders.

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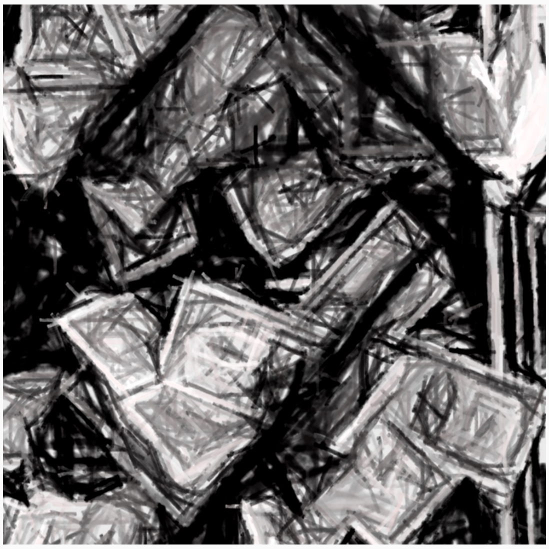
Executive Summary



For many businesses, generating cash is the ultimate measure of success.

Revenue growth, profitability, and market expansion are all important milestones. However, once a company starts generating more cash than it immediately requires, a different challenge emerges:

How should that capital be deployed to create the greatest long term value?

Excess cash creates strategic choices.

- Return capital to shareholders
- Preserve liquidity
- Invest back into the business
- Pursue new opportunities outside the current business

Each option has advantages and risks.

The right decision depends on understanding:

- how much cash the business truly requires,
- what returns different investments can generate,
- the company's strategic ambitions,
- and the balance between growth, resilience, and shareholder returns.

Strong companies do not simply generate cash.
They allocate capital deliberately.

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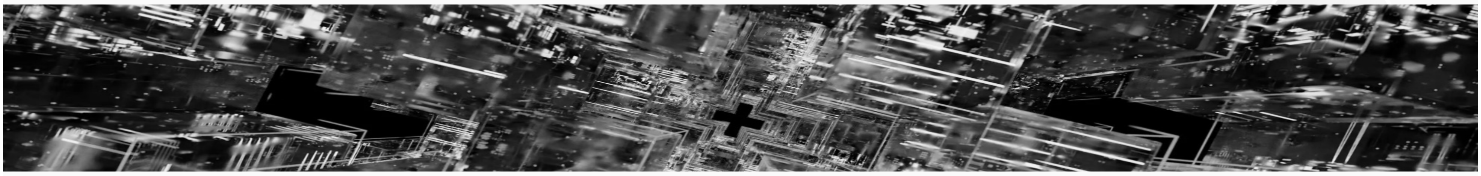
01. Cash Is Not the Same as Available Cash



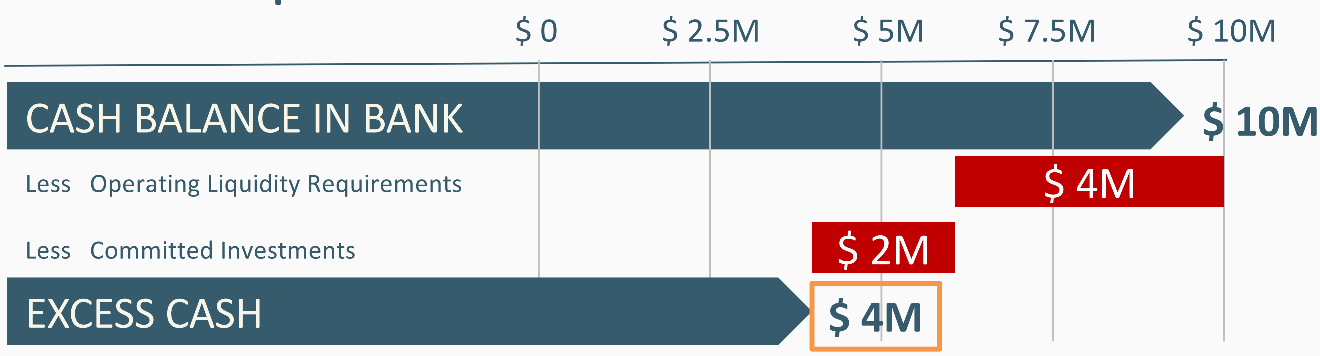
One of the most common mistakes companies make is looking at their bank balance and assuming that all available cash is excess. **It is not.**

Cash sitting in the bank often has a purpose.

It supports:

- Customer payment delays
- Inventory requirements
- Supplier obligations
- Payroll commitments
- Unexpected events
- Future investments

Illustrative Example



The Cash You Have Is Not Always the Cash You Can Use

A company's bank balance can sometimes create a false sense of available capital. Cash sitting in the account does not always mean it is surplus. Every business requires a certain level of liquidity to support daily operations, manage uncertainty, and fund commitments. The challenge for management is to distinguish between cash that is available today and cash that can truly be deployed without impacting the business. Effective cash management starts by understanding this difference. Only then can leaders make informed decisions about investing, growing, or returning capital to shareholders.

This leads to a critical principle:

> **Before deciding what to do with excess cash, companies must understand what cash they truly need.**

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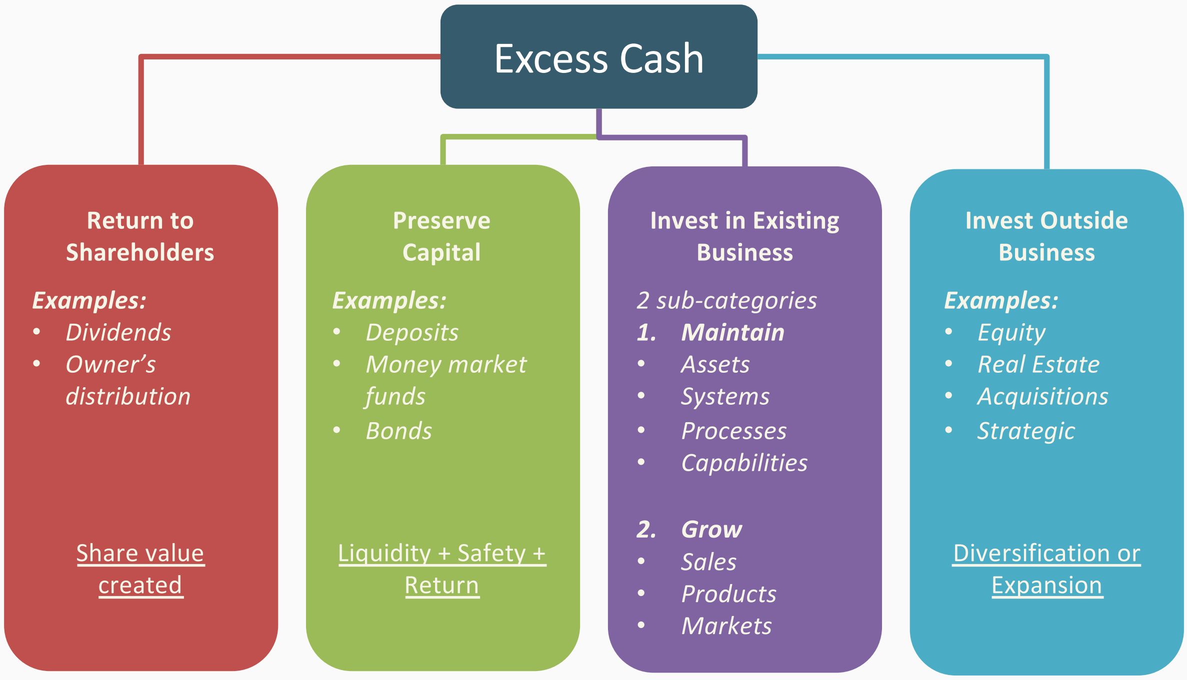
The Cash Allocation Framework



Once a company has identified that it has cash beyond its immediate operational requirements, the next question becomes one of capital allocation: where can this cash create the greatest value? There are four fundamental choices available to management. Each option has a different purpose, risk profile, and expected return. The role of leadership is not simply to decide what to do with cash, but to ensure that every $ is allocated in a way that supports the company's long-term strategy.

Protect

This is the cash needed to ensure the business can operate effectively and support future commitments. It is about maintaining resilience and avoiding unnecessary financial risk.

Allocate

This is cash beyond what the business requires to operate safely. It is to ensure that the business maximizes long-term value creation for itself as well as for its owners/shareholders.

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02. Returning Cash to Shareholders

Returning excess cash to shareholders is one of the most fundamental capital allocation decisions a company can make. Once management has ensured the business has sufficient liquidity for operations and future needs, excess capital may be distributed through dividends or other shareholder distributions. The key is balancing shareholder returns with maintaining the financial flexibility to support future growth and withstand uncertainty.

Dividends

A distribution of a company's profits to shareholders, typically paid in cash and based on the number of shares owned.

Shareholder distribution

Payments made to owners that return excess capital from the business. The structure may vary depending on the company's legal form.

Share buyback

Repurchases its own shares from existing shareholders, reducing the number of shares and increasing the value of remaining shares.

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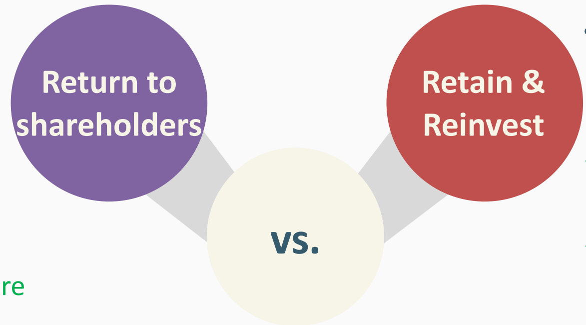
When Returning Cash to Shareholders Makes Sense

Returning excess cash to shareholders can be an effective way of creating value, but only when the business has exhausted more attractive opportunities to reinvest that capital. Companies with limited growth prospects, strong liquidity, and stable cash generation may find that shareholders can generate higher returns by deploying that capital elsewhere.

- **Dividends**
- **Shareholder distribution**
- **Share buyback**



- **Growth investment**
- **Technology**
- **New markets**

Return to shareholders

✓ Immediate shareholder value
✓ Capital can be redeployed elsewhere

X Less liquidity for future opportunities
X May require financing later

Retain & Reinvest

✓ Increased future cash generation
✓ Stronger competitive position

X Requires confidence in opportunities
X Capital remains committed

However, capital allocation is rarely that straightforward. Distributing cash today may improve short-term shareholder returns, but it can also reduce the company's ability to respond to future opportunities or unexpected challenges. A business that returns too much capital may later require external financing to fund expansion, invest in technology, or support acquisitions—often at a significantly higher cost.

The role of management is therefore not simply to decide whether cash can be distributed, but whether it should be. Every decision to return capital carries an opportunity cost: once cash leaves the business, it is no longer available to strengthen operations, accelerate growth, or provide financial resilience.

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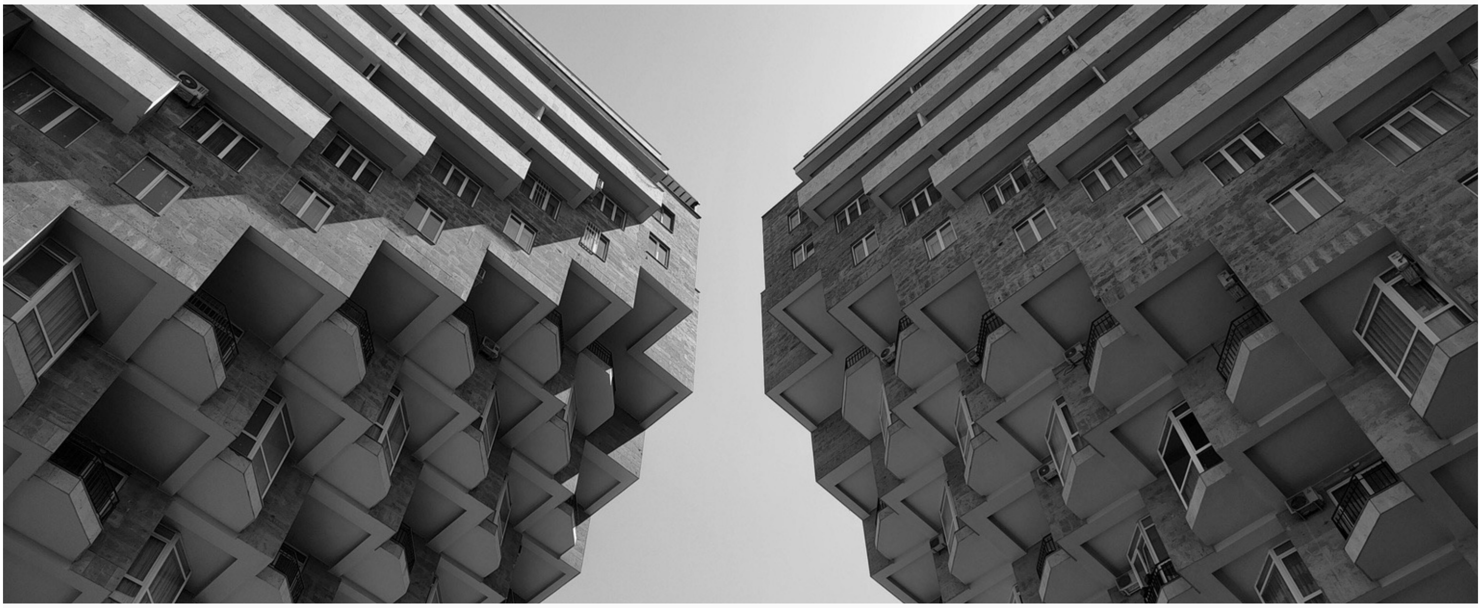
03. Preserving Cash Through External Investments

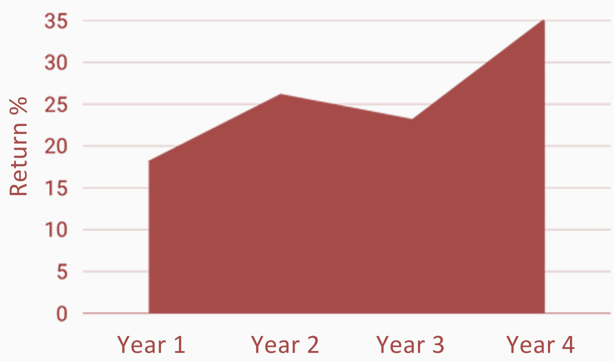


Sometimes companies have surplus cash but do not have immediate operational opportunities. In this situation, the objective becomes:

Preserve capital while generating a return

Common options include:

- Savings accounts
- Fixed deposits
- Money market funds
- Bonds
- Equity investments
- Alternative investments



The appropriate choice depends on

Investment Horizon

Liquidity Requirements

Risk Appetite

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Making Idle Cash Work

Option A: Leave Cash Idle

$ 5,000,000

After 1 year
$ 5,000,000

Return
0%

Option B: Invest in Deposit

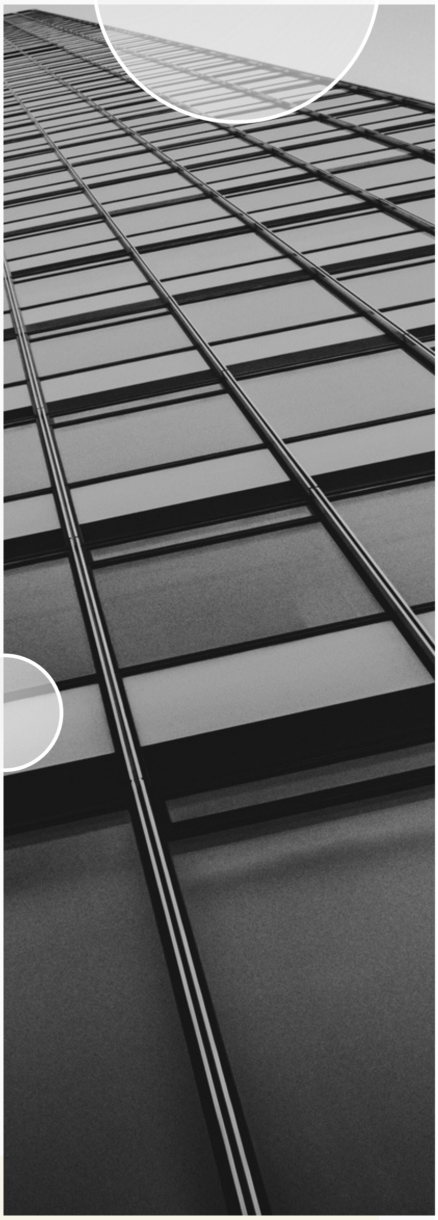
$ 5,000,000

After 1 year
$ 5,200,000

Return
4%

The company generated additional value without changing its operations. **Cash that is not actively managed has an opportunity cost.**

04. Reinvesting Into the Existing Business



For many companies, the highest-return investment opportunity is the business itself. However, internal investment should be separated into two categories:

1. **Protecting the current business**
2. **Creating future growth**

Protecting the Business

Every company has assets and capabilities that require investment.

These can include:
- Replacing equipment
- Upgrading technology
- Improving security
- Maintaining facilities
- Strengthening controls

These investments may not increase revenue immediately, but they protect future cash generation.

Example

A manufacturing company has a critical machine. Replacement cost: **$500,000**
Management delays replacement because it does not increase sales.

However… potential downtime of 20 days annually with lost contribution margin of $50,000 per day
Potential impact: 20 x $50,000 = $ 1,000,000 per year

The investment in this case is not a cost. It protects $1 million of annual value.

Creating Growth

Growth investments aim to increase future cash generation.

These can include:

- New markets
- Additional sales
- New products
- Automation
- Technology transformation

Example: Sales Expansion

Investment for additional sales team annually

$ 1,000,000

Expected additional revenue
$ 8,000,000

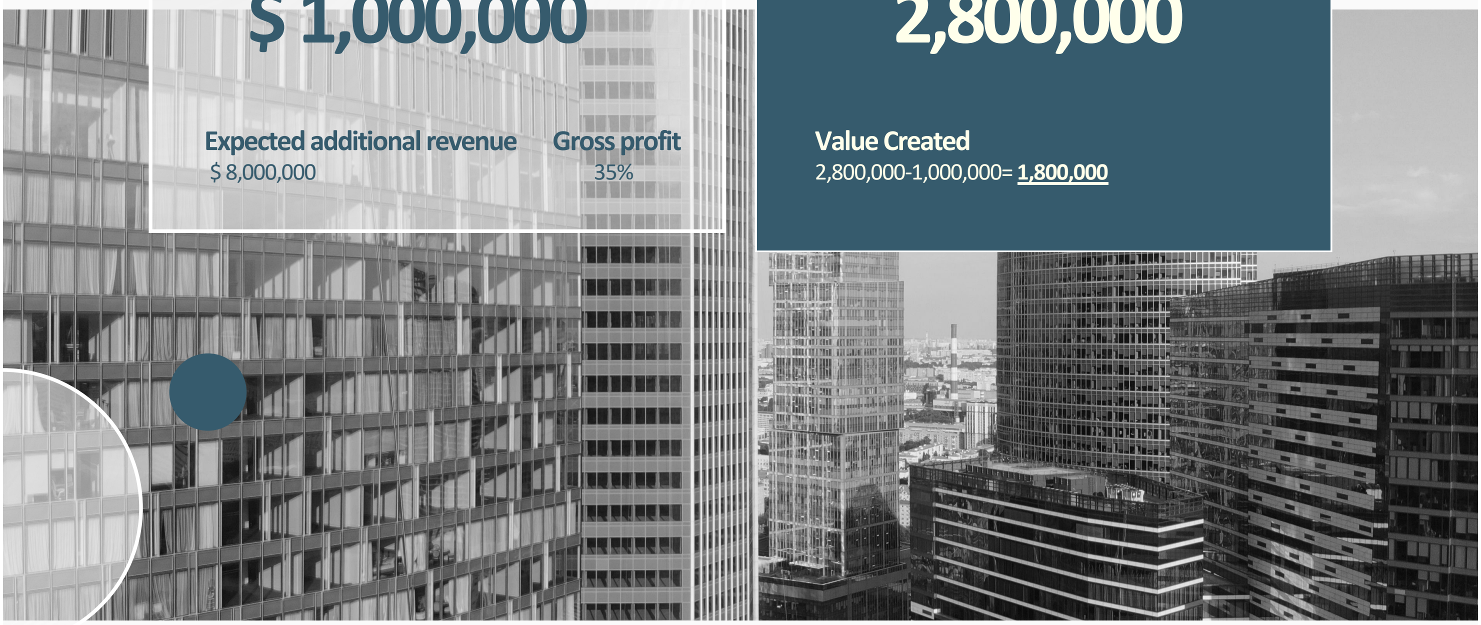
Gross profit
35%

Additional Gross Profit

8 million x 35%

2,800,000

Value Created
2,800,000-1,000,000= **1,800,000**



When there is an opportunity to invest excess cash into the existing business to grow it and the return on the investment outweighs the other options, it is the wisest choice.

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05. Inorganic Growth: Acquisitions and Strategic Investments

The final option is using excess cash to acquire capabilities.

Examples:

- Competitors
- Suppliers
- Technology
- Market access

The advantage is speed. Instead of building capability over years, acquisitions can provide immediate access.

However, acquisitions only create value when:

> **Future cash generation exceeds acquisition cost**

Example: Acquisition Decision

Purchase Price
$10 million

Current EBIT
$2 million

Initial valuation
5 x EBIT = $10 million

Annual Cost Saving
$0.7 million

Additional Profit Opportunities
$0.3 million

/ $1 million per year

Payback
$10 million / $1 million = 10 years

Management must decide whether the strategic benefit justifies the investment

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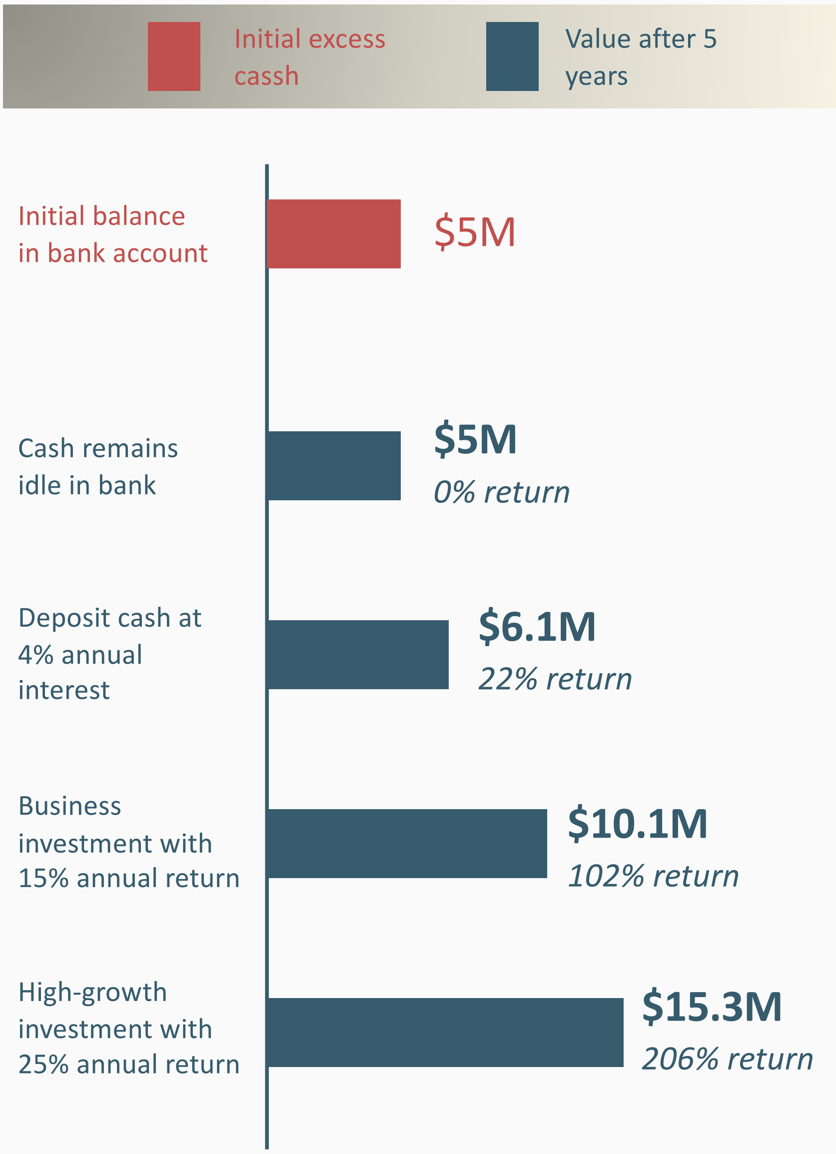
$5 million Excess Cash: Different Strategic Choices



The objective is not to maximise risk. It is to identify where capital creates the highest risk-adjusted return

Capital should be allocated where it generates the highest risk-adjusted return while remaining aligned with the company's strategy. If attractive internal opportunities do not exist, management should progressively consider lower-risk alternatives, such as external investments or deposits. Cash should only remain idle when needed to support operations or maintain liquidity. Otherwise, every unallocated dollar represents an opportunity to create greater long-term value.

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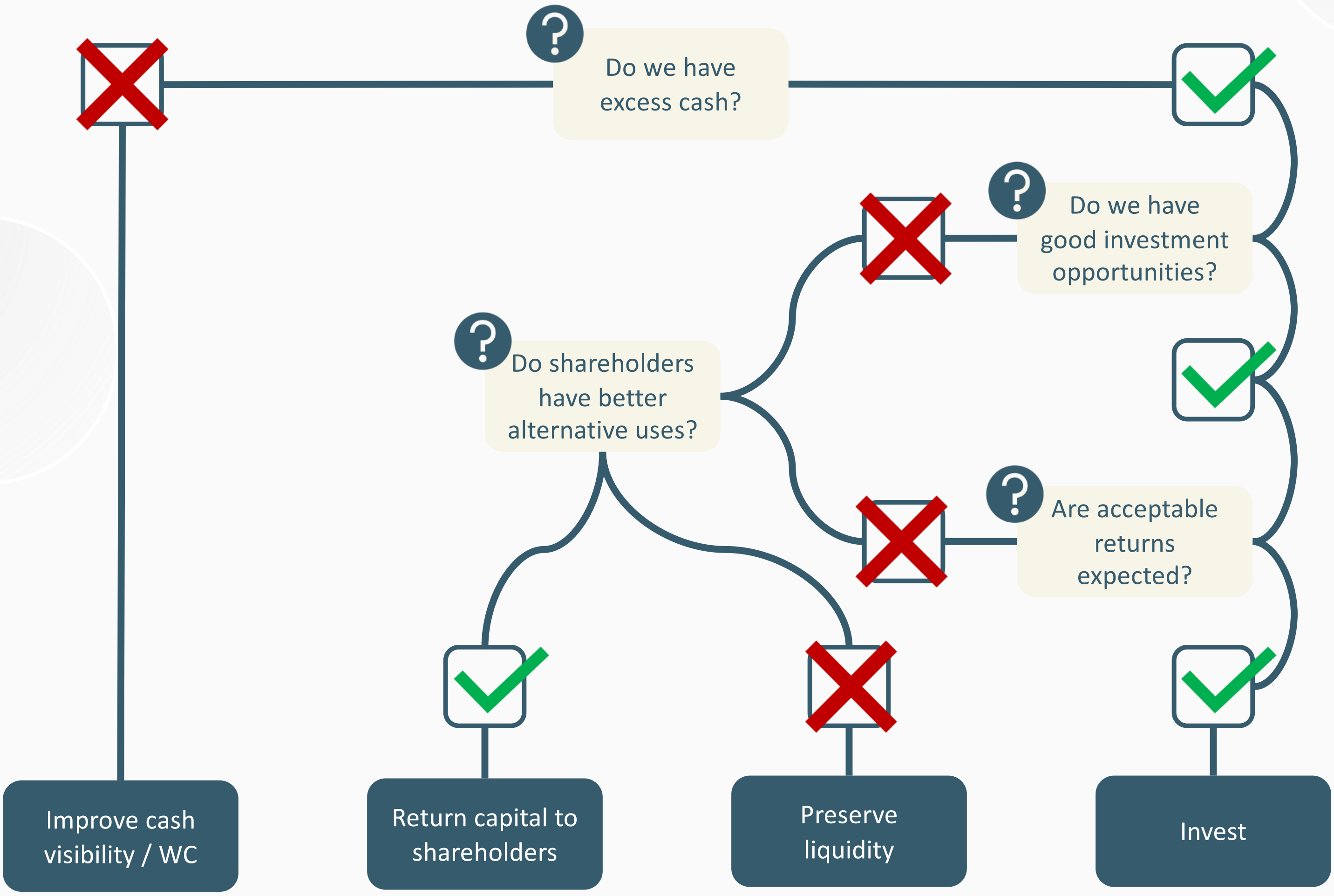
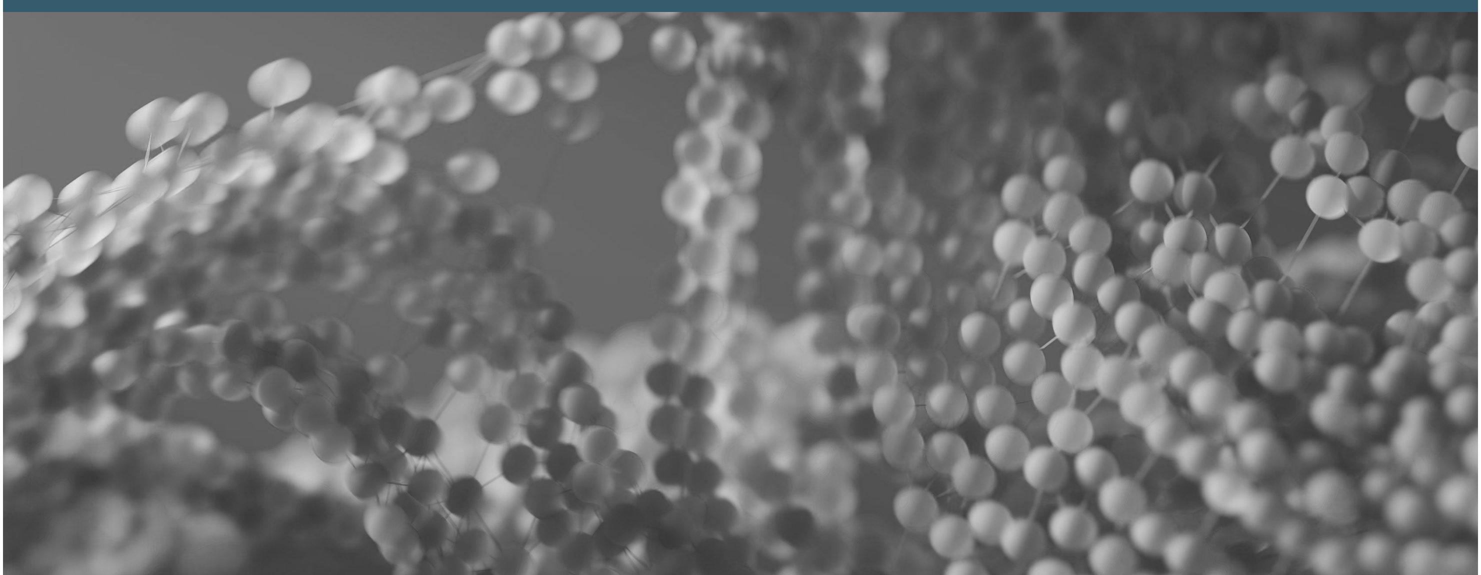
Capital Allocation Decision Tree





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Final Perspective

The strongest businesses understand that cash is not simply the result of good performance.
Cash is a strategic resource.
It provides:

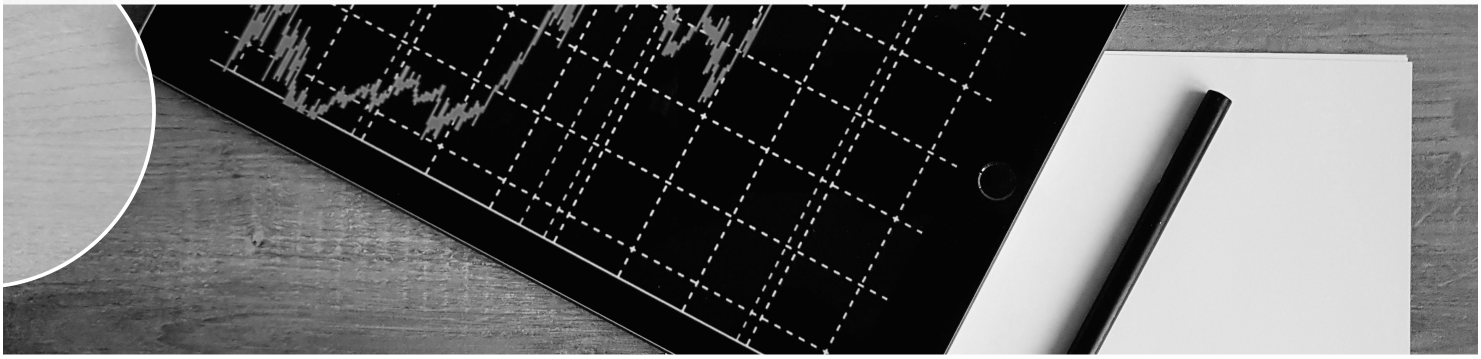
- Resilience during uncertainty
- Freedom to pursue opportunities
- Negotiating power
- The ability to invest when competitors cannot

The companies that outperform over the long term are not necessarily those that generate the most cash. They are the companies that allocate capital most effectively.

They understand:

- **Where should cash be invested?**
- **How much liquidity is enough?**
- **When should capital be returned?**
- **And how can every AED generate the greatest future value?**

Cash generation creates opportunity. Capital allocation determines the outcome.



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About Merzaai Advisory

Merzaai Advisory helps businesses improve the way they manage finance, processes, and cash flow.

By combining finance transformation, treasury expertise, and operational improvement, Merzaai helps organisations identify where value is being lost and build stronger financial foundations for growth.

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