

SIMSA Payment Term Sensitivity Analysis

Public Facing Report

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Executive Summary

Purpose of the Analysis

BDO Canada LLP (BDO) was engaged by the Saskatchewan Industrial and Mining Suppliers Association (SIMSA) to assess the financial and operational implications of extended payment terms on member organizations. This analysis examines how extending payment cycles from 30 to 60, 90, and 120 days affects cash flow, financing requirements, and profitability across supplier segments. The assessment integrates member-reported survey data with scenario-based financial modelling to quantify impacts under both average and high financing conditions.

Financial Impact

Extending payment terms increases financing requirements across all supplier segments, with impacts intensifying as payment cycles lengthen. Under baseline (“average”) financing conditions, defined as the self-reported borrowing rates and financial behaviours observed in the survey sample, the impact on margins remains modest, with less than a 0.40% reduction in share of revenue across all members. All results are derived from member survey responses and reflect the financing costs and behaviours reported by respondents, meaning the results have not been independently verified and should be interpreted as representative of respondent experience.

While the average impact on margins remains relatively modest, this masks a more significant underlying shift in working capital burden. As payment terms extend, firms are required to finance larger receivables balances for longer periods, increasing reliance on both external financing and internal cash reserves to sustain operations.

Differences are also observed across firm size. Mid-sized firms demonstrate the greatest sensitivity to extended payment terms, reflecting a higher proportion of revenue requiring financing and more limited access to low-cost capital relative to larger firms. While smaller firms face heightened liquidity constraints, larger firms are generally better positioned to absorb incremental financing costs due to their scale, though they still experience increased borrowing and working capital pressure.

Operational and Business Impacts

Qualitative survey responses indicate that the impact of extended payment terms extends beyond measurable financing costs. Firms report increased borrowing, greater reliance on internal cash reserves, delays in customer projects, loss of opportunity for innovation, and workforce adjustments to manage cash flow pressure.

Based on the qualitative survey responses, there is evidence that extended payment terms are also influencing business practices. Firms are becoming more selective in client engagement, tightening receivables management, and adjusting pricing and contract structures to reflect the cost of capital. These responses indicate that extended payment cycles are affecting not only financial outcomes, but also operational decision-making and risk management.

Key Takeaways

Extended payment terms have a limited impact on margins at an aggregate level; however, based on the self-reported survey responses, this masks a more significant underlying shift in working capital burden. Many firms are absorbing extended payment cycles through increased borrowing or internal cash, effectively transferring liquidity pressure from customers to suppliers.

This impact is not uniform and becomes more pronounced beyond 60 days, particularly for mid-sized and highly financed firms. As a result, the effects of extended payment terms extend beyond financing cost alone to include increased working capital requirements, reduced financial

flexibility, loss of opportunity to innovate, and changes in operational and commercial behaviour across the supplier base.

Introduction & Objectives

Introduction

The Saskatchewan Industrial and Mining Suppliers Association (SIMSA) is a member-based organization representing companies that supply goods and services to Saskatchewan's industrial and mining sectors. SIMSA's membership includes a diverse range of suppliers that play a critical role in supporting resource development, infrastructure investment, and economic activity across the province.

To support SIMSA's advocacy and policy engagement efforts, BDO Canada LLP (BDO) undertook a targeted survey of a sample of SIMSA members to better understand the financial implications of extended payment terms for industrial and mining suppliers. The survey was codesigned with SIMSA, and focused on collecting standardized financial information, when combined with self-reported member financial and operational data, would enable a robust assessment of how extended payment terms affect suppliers of different sizes.

Specifically, the survey results inform a financial simulation modeling the impact of extending payment terms from 30 days to 120 days, building on previously established cost-of-capital assumptions. The analysis focuses on how these changes affect cash flow requirements, financing costs, and overall financial pressure for small, medium, and large suppliers within the SIMSA membership.

The survey data formed a foundational input into the broader Payment Term Sensitivity Analysis, ensuring that the resulting findings are grounded in member-reported data and reflect the operational realities of SIMSA suppliers.

Objectives of the Report

The objectives of this report are to:

1. Quantify the financial impact of extended payment terms (30 to 120 days) on SIMSA members including effects on financing costs, and share of revenue
2. Assess how impacts vary across supplier size and membership categories
3. Provide evidence-based insights to support SIMSA's advocacy and policy discussions
4. Ensure findings are grounded in member-reported data and reflect real operating conditions

Insights from Members

Member insights add an important lens to the analysis by showing how extended payment terms impact member organizations. Across the membership base, extending payment terms are not viewed as a narrow accounts receivable issue; they are understood as a transfer of working-capital pressure from customers to suppliers, impacting liquidity, financing costs, project execution, pricing, and long-term competitiveness.

All Members

Across respondents, extended payment terms are occurring within a highly concentrated and sector dependent operating environment, amplifying their impact. The typical SIMSA member derives 90% of total revenue from energy, industrial, and mining customers (77% average), with 44% of the workforce directly supporting these activities. While the average firm appears large, the median firm is significantly smaller (approximately \$9.5M in revenue with 32 employees), indicating that most members operate with limited balance sheet flexibility despite exposure to large scale customers.

At the same time, payment terms are already structurally extended. The median payment term is 60 days (45-day average), exceeding traditional Net30 standards, with evidence indicating that actual cash cycles often extend further due to approval delays and project structures. This establishes a baseline where working capital pressure is already embedded in normal operations, and any movement toward 90 to 120 days materially increases financing requirements.

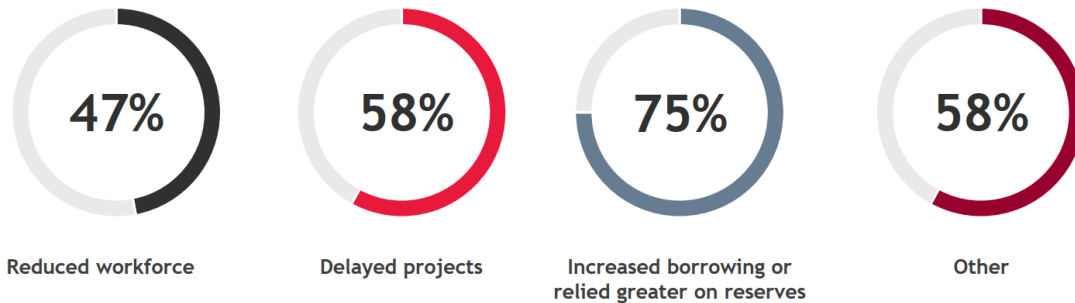


Figure 1: Strategies Taken to Manage Longer Payment Cycles

As seen in **Figure-1** above, the operational consequences of this extended cycle are both widespread and measurable. A clear majority of respondents report tangible business impacts stemming from delayed payments: 47% indicated workforce reductions to manage longer payment cycles, 58% reported delays in customer projects (i.e., projects undertaken by customers rather than internal supplier initiatives), and 75% reported increased borrowing or greater reliance on internal cash reserves, signaling direct pressure on liquidity buffers used to sustain ongoing operations. In addition, 58% of respondents reported other operational impacts, including deferred capital investment, slower procurement, and reduced business development activity.

These findings reinforce that extended payment terms are not being absorbed passively, they are actively reshaping business operations. Beyond formal financing, members describe a range of secondary financial responses, including increased utilization of lines of credit, higher carrying costs, reduced cash buffers, and the use of early payment discounts that erode margins. In many cases, these costs are only partially visible in financial statements, as firms also absorb impacts through delayed growth, postponed hiring, or constrained reinvestment.

Importantly, the burden is also influencing commercial behavior. Members report becoming more selective in bidding, tightening invoice and collections processes, and, in some cases, embedding financing costs into pricing. This introduces a direct link between payment terms and competitiveness: firms facing higher carrying costs must either accept lower margins or risk pricing themselves out of the market.

Finally, the impact extends beyond individual firms into the broader supply chain. To manage liquidity, some members are renegotiating subcontractor terms or delaying vendor payments, effectively passing financial pressure downstream. This creates a cascading effect, where extended payment terms at the top of the value chain translate into compounding stress for smaller suppliers. As a result, payment practices are not only shaping firm-level financial performance, but also influencing supplier participation, project execution risk, and the overall resilience of the industry ecosystem.

When asked, “what measures do you *plan* to adopt to manage longer payment cycles?”, SIMSA members indicated they plan to:

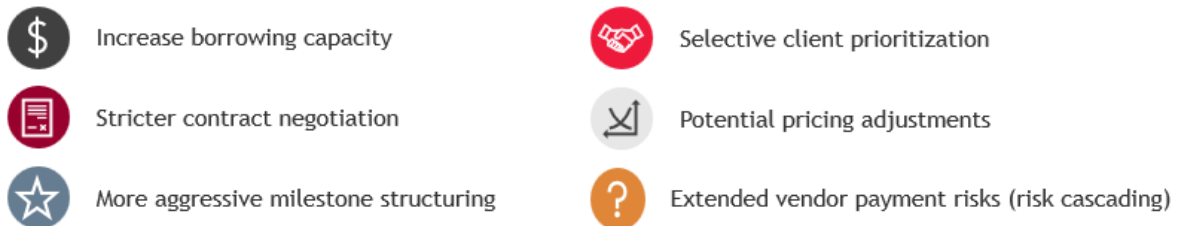


Figure 2: Measures SIMSA Members Plan to Adopt to Manage Longer Payment Cycles

As shown in Figure 2, these behavioural shifts are expected to become more structured and widespread. Firms are not only reacting to current pressures but are planning targeted changes to financing, contracting, pricing, and supply chain management practices to manage sustained longer payment cycles.

Membership Category: Less than \$5M¹

Members below \$5M demonstrate the highest structural exposure to extended payment terms, driven by both high sector concentration and limited financial capacity. Workforce exposure is also significant, with 72% of employees directly supporting sector activity, indicating that both revenue and payroll are highly sensitive to payment timing.

This segment shows the highest reliance on financing, with 73% requiring additional financing and 70% increasing borrowing or heavier reliance on internal reserves to manage cash flow. This reflects a critical constraint: even modest extensions beyond current terms introduce disproportionate strain due to limited balance sheet flexibility.

In the case of having a heavier reliance on internal reserves, this can indicate a limit to balance-sheet flexibility and a greater need to absorb extended payment terms through reserve drawdowns rather than structured financing alone. Prolonged reliance on internal reserves increases vulnerability over time, as repeated drawdowns erode liquidity buffers needed to manage future shocks. This dynamic reduces firms’ capacity to reinvest in growth and innovation, limiting their ability to pursue new opportunities, adopt new technologies, or expand operations as payment cycles lengthen.

¹ SIMSA membership categories *Less than \$2.5M* and *\$2.5M to \$5M* were combined a new category, *Less than \$5M*, for the purpose of this study to ensure each focused member category was statistically representative.

Evidence reinforces that responses in this segment are largely survival-oriented rather than strategic. Firms rely on reactive measures such as increasing borrowing, deferring investment, reducing owner compensation, and extending vendor payments. Looking forward, many anticipate becoming more selective in bidding, embedding financing costs into pricing, or exiting opportunities tied to extended terms altogether. This indicates a clear risk that smaller firms will be constrained in growth and participation, particularly as payment terms extend beyond 60 days.

Membership Category: \$5-10M

Payment terms in this segment average approximately 59 days, with a mixed-term reality (30 to 90+ days) that creates uneven working capital pressure, particularly on larger or longer-cycle projects. While only 17% require new external financing, 42% report increasing borrowing, indicating reliance on existing debt facilities to bridge timing gaps. Operational impacts are more limited, with 17% reporting project delays, suggesting greater short-term resilience.

The defining feature of this segment is a shift toward structured, policy-driven responses. Firms are tightening receivables management, embedding financing costs into pricing, enforcing internal term thresholds, and selectively declining higher-risk contracts. Approximately 33% report customer relationship impacts, with similar forward-looking concern. Overall, firms are managing pressure through commercial discipline rather than reactive cost-cutting, though this introduces competitiveness trade-offs where pricing must reflect financing costs.

Membership Category: \$10-20M

Despite greater scale, this segment exhibits high financial exposure driven by larger contracts and complex project structures. While stated payment terms average approximately 49 days, actual cash cycles frequently extend to 65-90+ days, materially increasing working capital requirements. As a result, 64% of firms require additional financing and 73% report increased borrowing, among the highest levels observed across all segments. Responses indicate that, in addition to external financing, firms are also drawing on internal cash reserves to manage prolonged timing gaps, placing sustained pressure on liquidity buffers.

Operational impacts are significant, with 45% of firms reporting project delays, indicating that liquidity constraints are directly affecting execution and capacity. In response, firms are adopting more formalized credit and contract management practices, including active collections, milestone billing, and renegotiated payment terms. Approximately 45% report customer relationship impacts, reflecting ongoing commercial tension.

While firms in this segment are better equipped to absorb short-term pressure than smaller members, prolonged reliance on borrowing and internal reserve drawdowns increases vulnerability over time. Continued erosion of liquidity buffers reduces capacity to reinvest in growth and innovation, limiting firms' ability to scale operations, pursue new technologies, or take on complex projects as payment cycles lengthen. As a result, this segment remains highly exposed to extended payment terms due to the scale, duration, and financing intensity of its projects.

Membership Category: \$20M+

Payment terms remain relatively stable at ~52 days, though actual cash cycles often extend beyond this on large, complex projects. Despite stronger balance sheets, 43% of firms require additional financing and 50% report increased borrowing, indicating that scale mitigates but does not eliminate working capital pressure.

Operational impacts are more limited, with 14% reporting project delays, but 36% report current customer relationship impacts and 29% anticipate future impacts, highlighting ongoing commercial pressure. Firms in this segment are responding through system-level strategies,

including contract redesign, milestone billing, pricing adjustments, and selective client engagement.

A key dynamic is the downstream transfer of pressure, with many firms extending payment terms to subcontractors or delaying vendor payments. While large firms are more resilient, they play a central role in redistributing financial strain across the supply chain, introducing broader risks to supplier stability and project execution.

Conclusion

Overall, the findings indicate that extending payment terms from 30 days to 60, 90, and 120 days creates a measurable increase in working capital requirements for SIMSA members, even where the direct impact on reported margins appears modest at an aggregate level. Under average financing conditions, the modelled reduction in share of revenue remains modest; however, this result masks the fact that suppliers must still fund larger receivables balances over longer periods, either by drawing down internal cash reserves or increasing external borrowing.

The sensitivity analysis shows that impacts are not evenly distributed and become more pronounced beyond 60 days. Mid-sized firms demonstrate the greatest sensitivity under average conditions, reflecting a combination of material receivables exposure and more limited access to low-cost capital relative to larger firms. For members with higher structural reliance on external financing (over 15% of revenue financed), the analysis shows a clear and progressively worsening decline in performance as payment cycles extend, indicating that financing pressure compounds rather than stabilizes over time. These results underscore that the burden of extended terms is driven as much by liquidity and access to capital as by the nominal increase in interest expense.

Evidence reinforces that extended payment terms are translating into real operational and commercial consequences. Members report increased borrowing and heavier use of internal cash, customer project delays, loss of opportunity to innovate, and workforce adjustments to manage cash flow gaps. They also describe behavioural responses that can reshape market dynamics, including tighter receivables management, more selective bidding and client engagement, and pricing or contract changes intended to recover the cost of capital. Finally, the findings suggest a broader supply-chain effect: to protect liquidity, some firms are delaying vendor payments or extending subcontractor terms, transmitting financial pressure downstream and increasing execution risk across customer projects. Taken together, the report's findings indicate that extended payment terms function as a transfer of working-capital burden from customers to suppliers, with disproportionate impacts on smaller, mid-sized, and highly financed firms and longer-term implications for sector capacity, investment, and competitiveness.

Recommendations

While this report reflects on the underlying shift in working capital burden, creating a greater reliance on financial reserves. Members' responses suggest that the broader economic impact may be understated where firms are required to draw down internal cash reserves. We recommend further investigation into the opportunity cost of reduced liquidity, including how constrained internal cash affects investment, growth, and operational resilience.

- Quantify foregone or delayed capital investment (e.g., equipment, inventory, systems) attributable to reduced internal cash availability.
- Analyze opportunity costs related to growth and innovation, including deferred product/service development, technology adoption, process improvements, market expansion, and other strategic initiatives constrained by reduced internal cash availability.
- Evaluate operational impacts of liquidity depletion (e.g., slower hiring, training, and procurement; increased reliance on short-term credit; reduced ability to absorb project disruptions).