pwc.com/workingcapitalsurvey

Bridging the Gap
2015 Annual Benelux Working Capital Survey

pwc

Contents

Executive summary


What is driving working capital?


1. Industry analysis

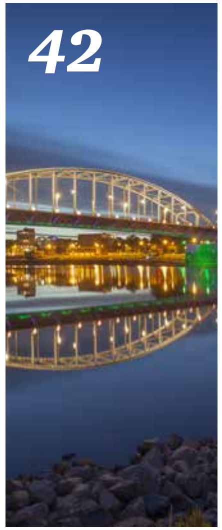

2. Geography analysis


3. Size analysis


4. Financial performance analysis


How we can support you


Appendices


Contacts


First year of significant improvement in the Benelux since 2011

-10.9%

Benelux's cash balances swelled at

EUR 78bn

The revenue trend in the last five years suggests that

EUR 8.5bn

of additional working capital is needed to enable next year's growth

There is a ***wide gap between top and bottom performers*** across most sectors

12/16

12 out of 16 sectors managed to improve working capital since 2010

Belgium

is characterised by the lowest NWC% in the region

Small enterprises have a significantly ***higher NWC %*** than large corporations

Companies that are top performers in working capital, are also better at ***generating cash***

EUR 17bn

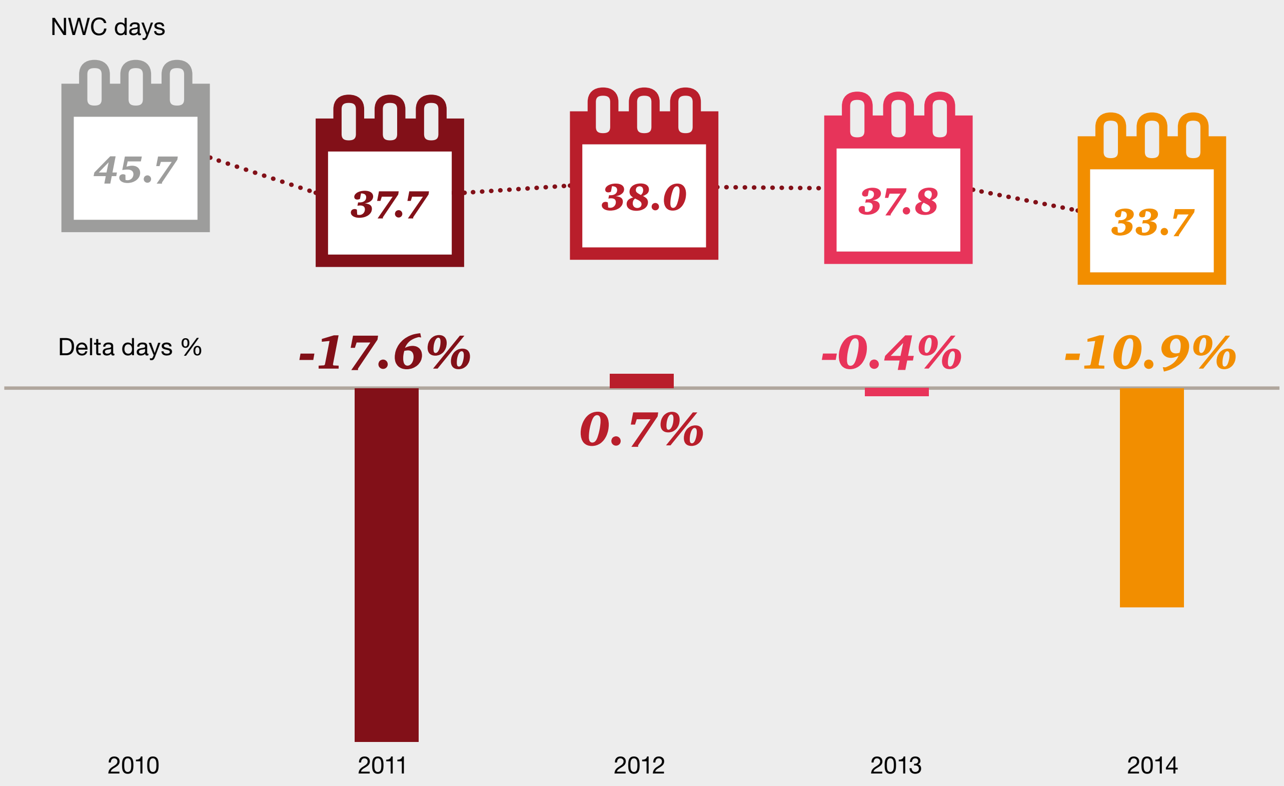
could be released from the balance sheets of Benelux listed companies by addressing poor working capital performance

Working capital is the life blood of every company. During the 2007/08 global financial crisis companies were slow to respond to declining sales, resulting in excess inventory. Combined with the reduced payment morale this led to a steady increase in working capital ratios. In the aftermath of the crisis, working capital started to become a key lever to repay debt and sustain future growth.

After two consecutive years of vitually flat working capital performance, the last year marked a significant improvement in the net working capital (NWC)days of Benelux listed companies.

In the Benelux working capital has significantly improved in 2014 after two years of virtually flat performance

Days working capital

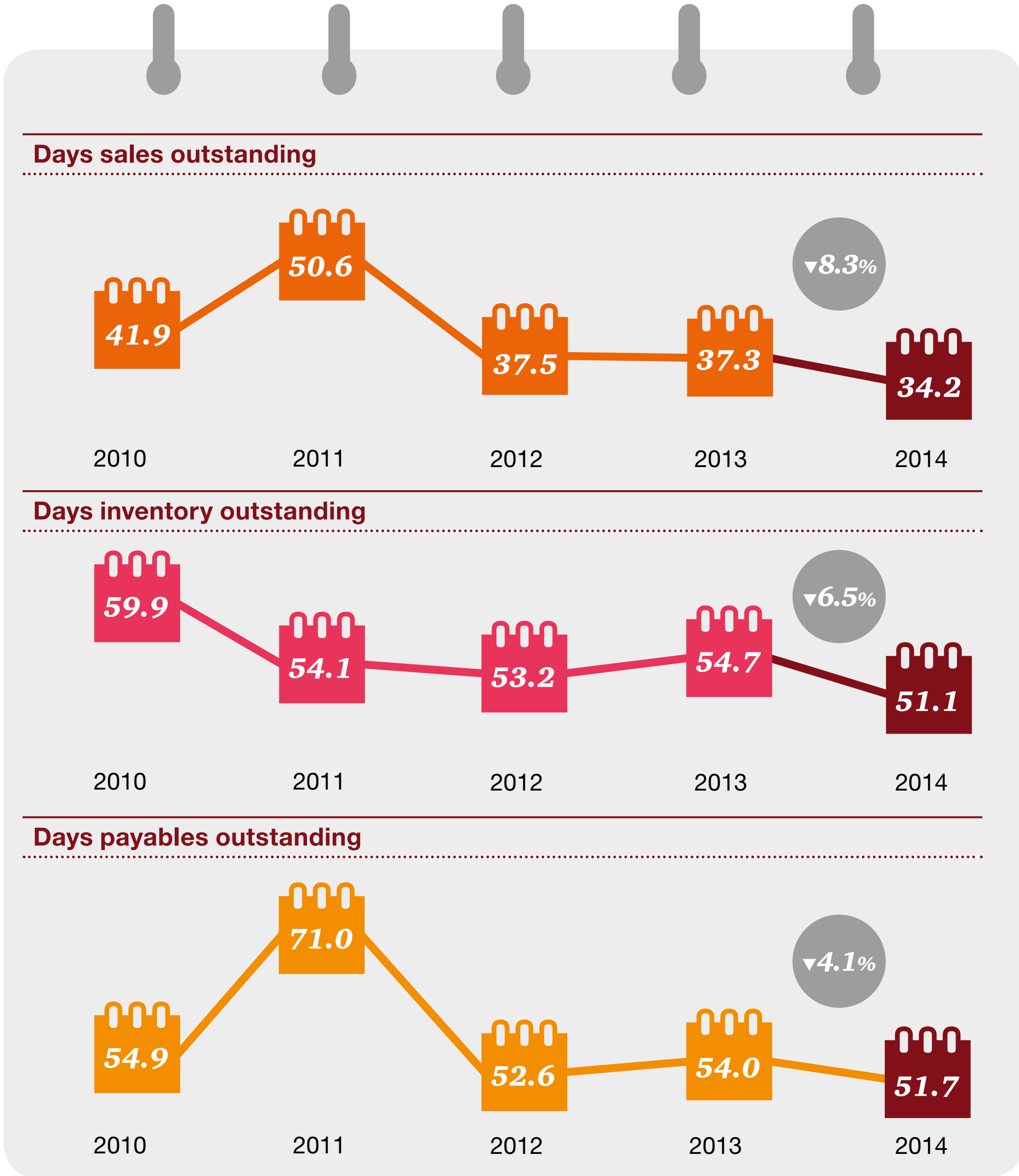


The year-on-year improvement was primarily driven by a strong improvement in inventory, as well as trade receivables

Receivables performance, measured in days sales outstanding (DSO), improved by 8.3% to 34.2 days in the last year. This is significantly lower than what was four years ago, when DSO was 41.9 days. Many corporates continue to consider overdue reduction programmes, combined with delayed supplier payments, as the easiest and safest way to improve working capital. Opportunities relating to billing timeliness & quality, dispute resolution & root cause eradication, trade-offs in logistics & inventories, securitisation & outsourcing, terms & conditions, etc. have frequently remained unaddressed.

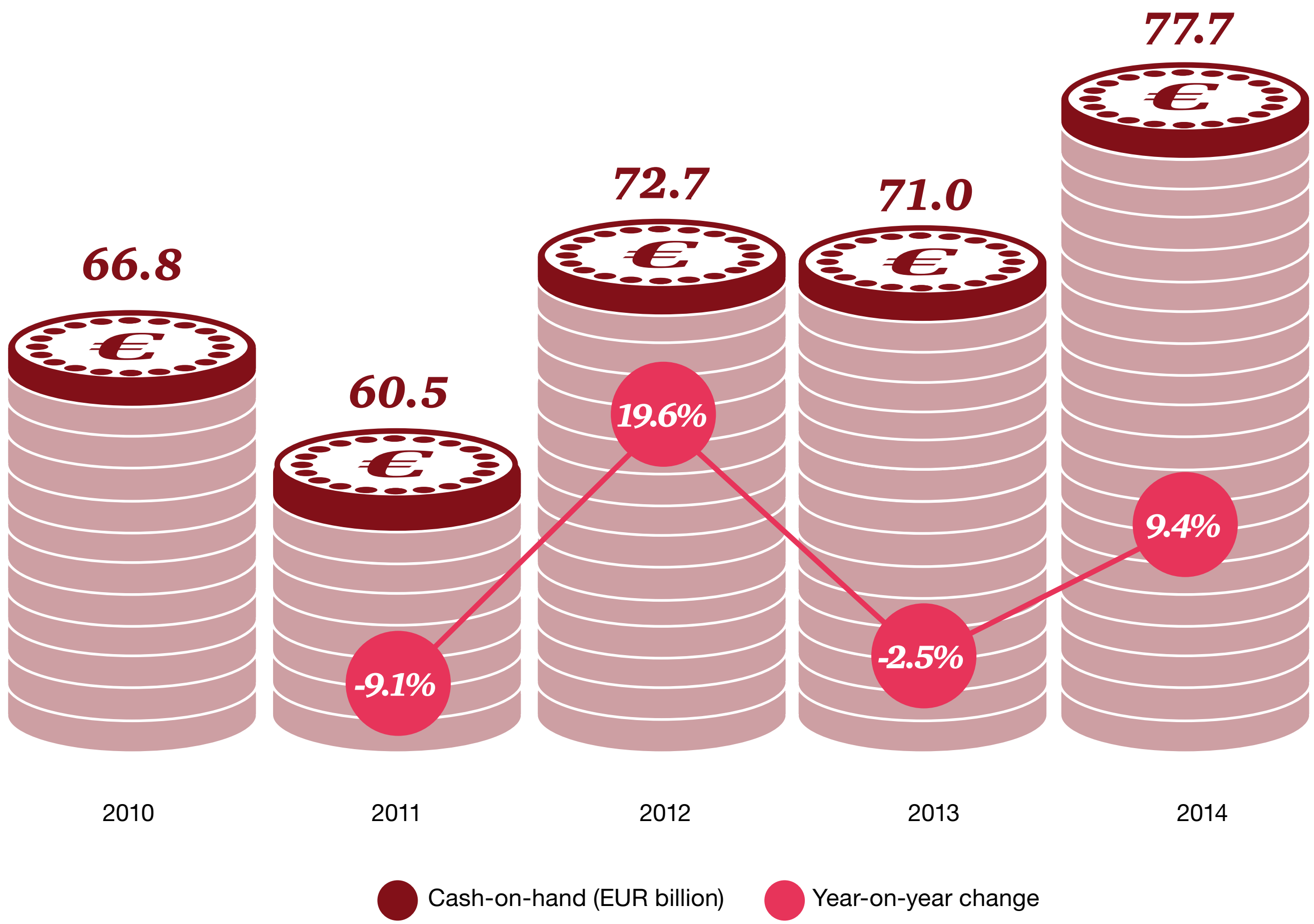
Inventory performance, measured in days inventories on-hand (DIO), has shown a year-on-year improvement of 3.6 days (6.5%). Both corporates and advisors typically focus on supply chain efficiencies, leaving many inventory reduction opportunities unaddressed. There are also some key trends at play that impact performance, such as the changing global economy or increasing environmental considerations, which have encouraged more companies to source or manufacture locally, thereby changing the retail landscape.

The amelioration made on the asset side of the balance sheet was partially countered by a deterioration on the liability side, where days payables outstanding (DPO) decreased by 4.1%. As with inventories, the focus is usually on efficiency (cost) improvements. There is certainly untapped opportunity in this space relating to new developments such as supply chain finance, dynamic discounting platforms and overall supplier performance (including goods in transit, inventories and returns). It is often argued that changes in payables and receivables are a zero sum game for the value chain as a whole: the improvement for one entity is eliminated by the deterioration for the other. However, this is not strictly true. Towards the beginning and the end of the value chain (end-users, commodity settlements, etc.) the terms usually remain unchanged. More importantly, many corporates are starting to think about trade-offs between cash, cost and service. A change in payment behaviour for one can therefore result in cost saving for the other. Lastly, the difference between the Benelux region DSO and DPO of 17.5 days can also be seen as evidence that it is not a zero sum game.



Last year's working capital improvement has contributed to a significant jump of 9.4% in the cash-on-hand balances, which grew to 77.7 billion in 2014

Cash-on-hand

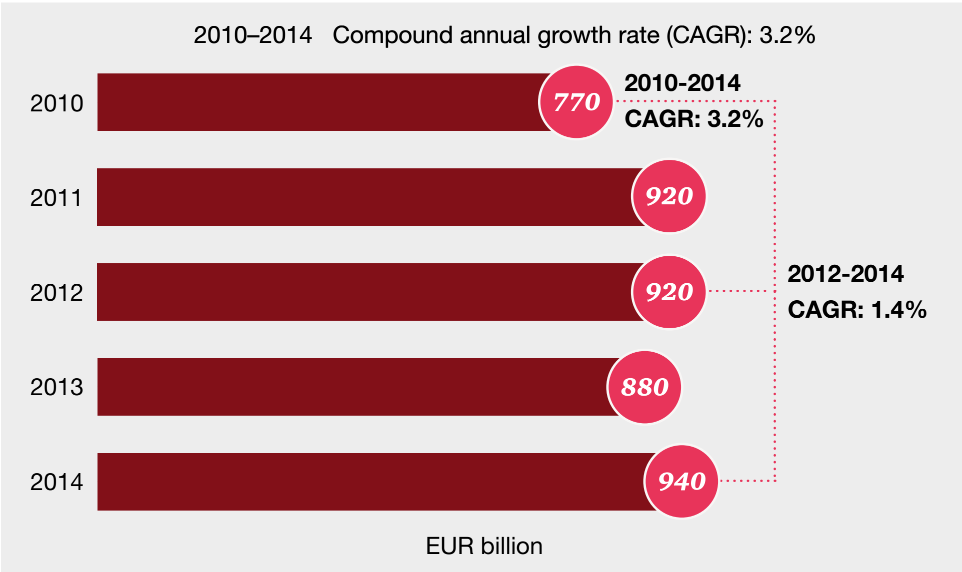


Companies appear to be more awash with a steady improvement of their cash balance (+16.4% over the last five years). The amelioration in working capital is likely to be a key contributing factor.

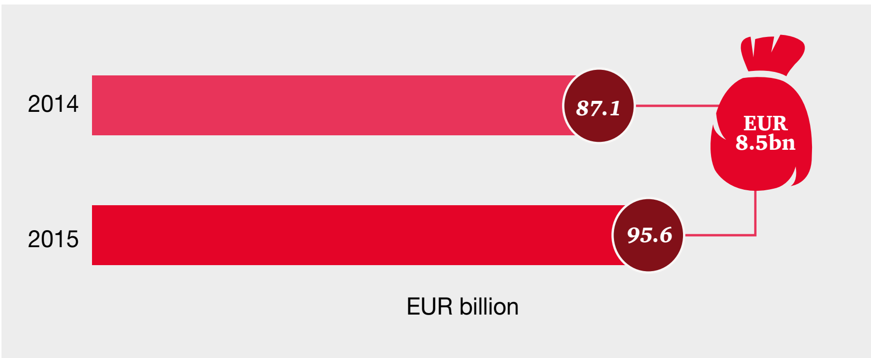
As bank lending rates remain low across many of the world's developed economies, this increasing pile of cash is starting to look extravagant to some investors. We expect to see more shareholders demanding excess cash to either be reinvested into their businesses or to be distributed in the form of dividends/share repurchase programmes. We are seeing more and more evidence in the market that investors are seeking to do both.

The revenue trend in the last five years suggests that EUR 8.5bn billion of additional working capital is required to enable next year's growth

Revenue

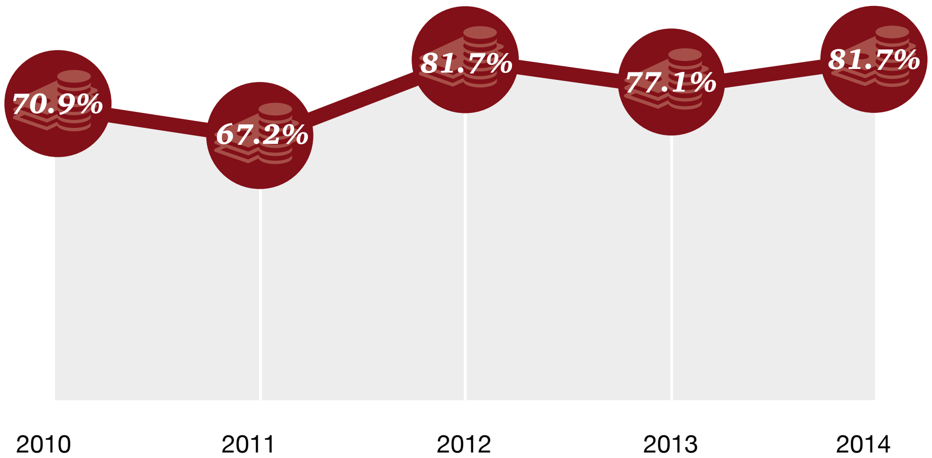


Net working capital



At the same time, companies' overall ability to generate new cash from operations has increased to the highest levels in five years

Cash conversion efficiency (CCE)



While cash levels are high at the moment, there is still a significant requirement for funds to support and enable future growth. Over the last three years the growth rate has been 1.3% per annum (compound annual growth rate).

If this growth rate remains constant and companies maintain the same level of average working capital performance in the last five years they will need a further EUR 8.5billion of working capital to fund their operations in 2015.

Linked to the working capital reduction, we have observed an improvement in the ability to convert EBITDA into operating cash flow (measured by CCE), which increased by 4.6 percentage points (pp) over the last year.

What is driving working capital?

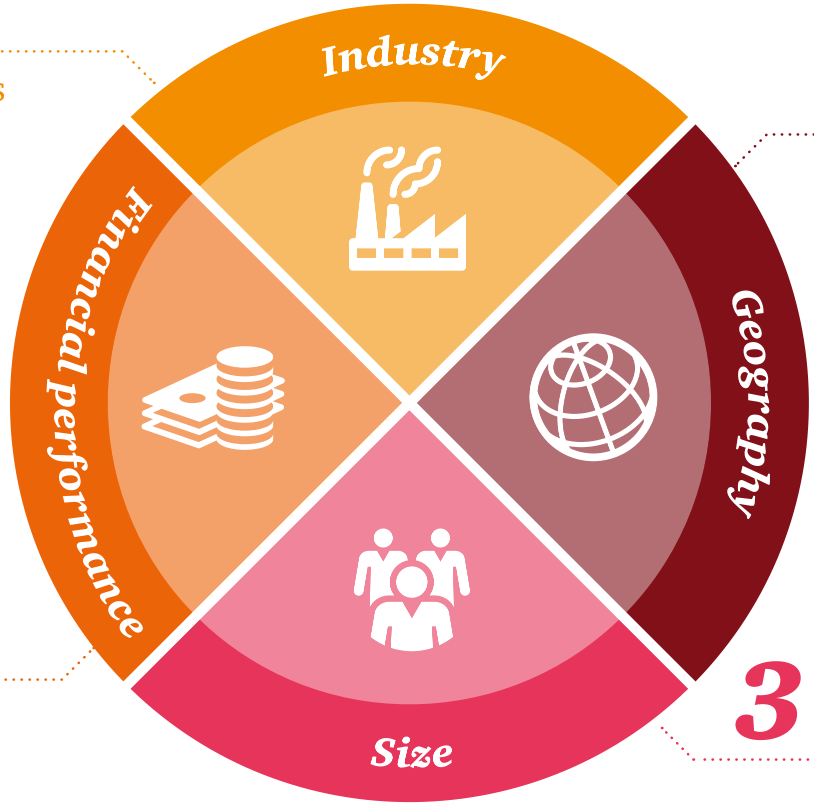
There are four factors impacting a company’s working capital requirements and relative performance

1 The type of business

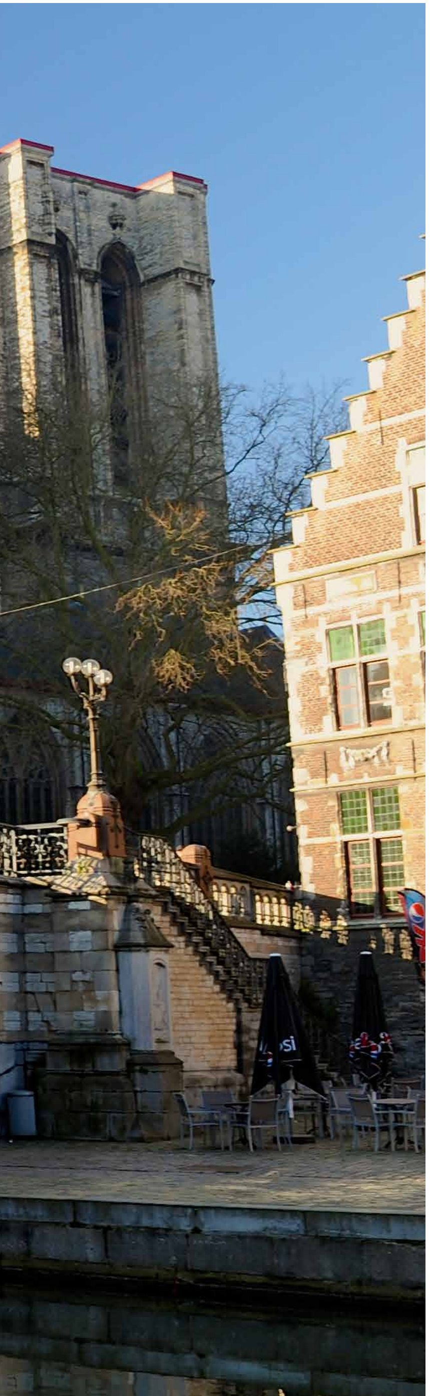
2 The economic maturity of the region

3 The company size

4 Whether management cares about cash



Industry analysis



There is a ***wide gap between top and bottom performers*** across most sectors

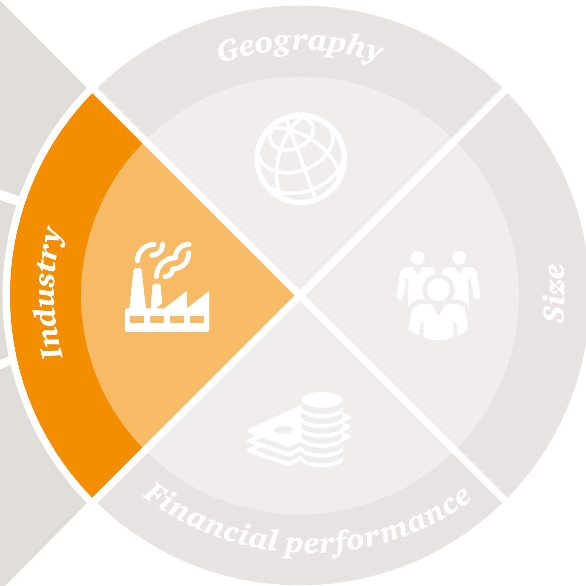
12/16

12 out of 16 sectors improved working capital performance since 2010

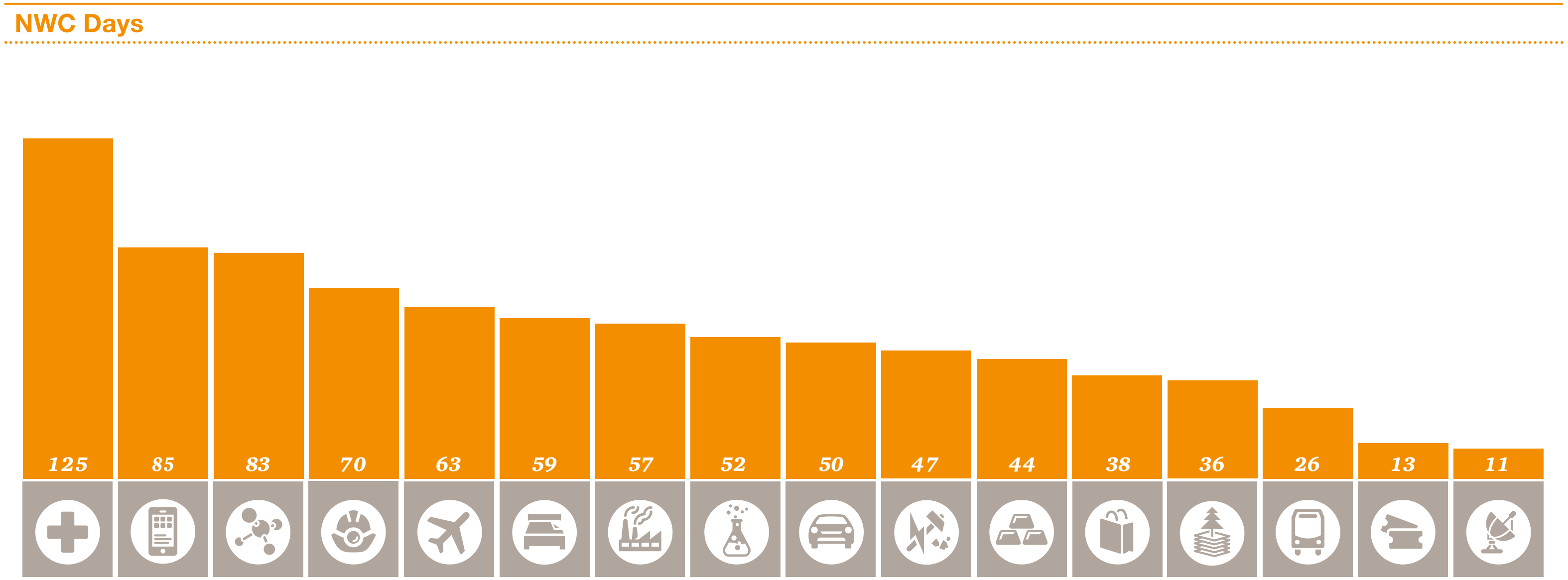
Engineering & Construction

top the table in the Benelux region with a 8.5% improvement in NWC % in the last five years

-8.5%

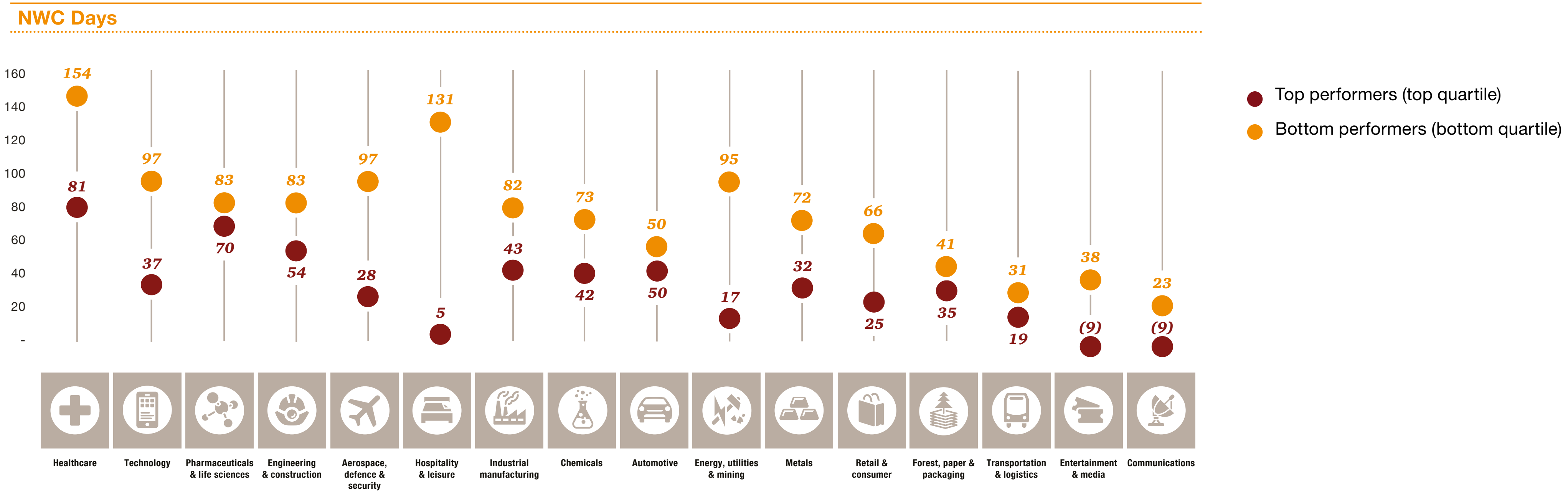


While working capital consumption is dependent on each industry…



"Healthcare", "Technology", and "Pharmaceuticals & life sciences" have the highest median working capital days

… most sectors show a significant spread in performance between top and bottom performers



“Healthcare” and “Engineering & construction” are the sectors with the longest median DSO

DSO

Top performers

Median

Bottom performers

“Pharmaceuticals & life sciences” and “Healthcare” are the sectors with the longest median DIO

DIO

Top performers

Median

Bottom performers

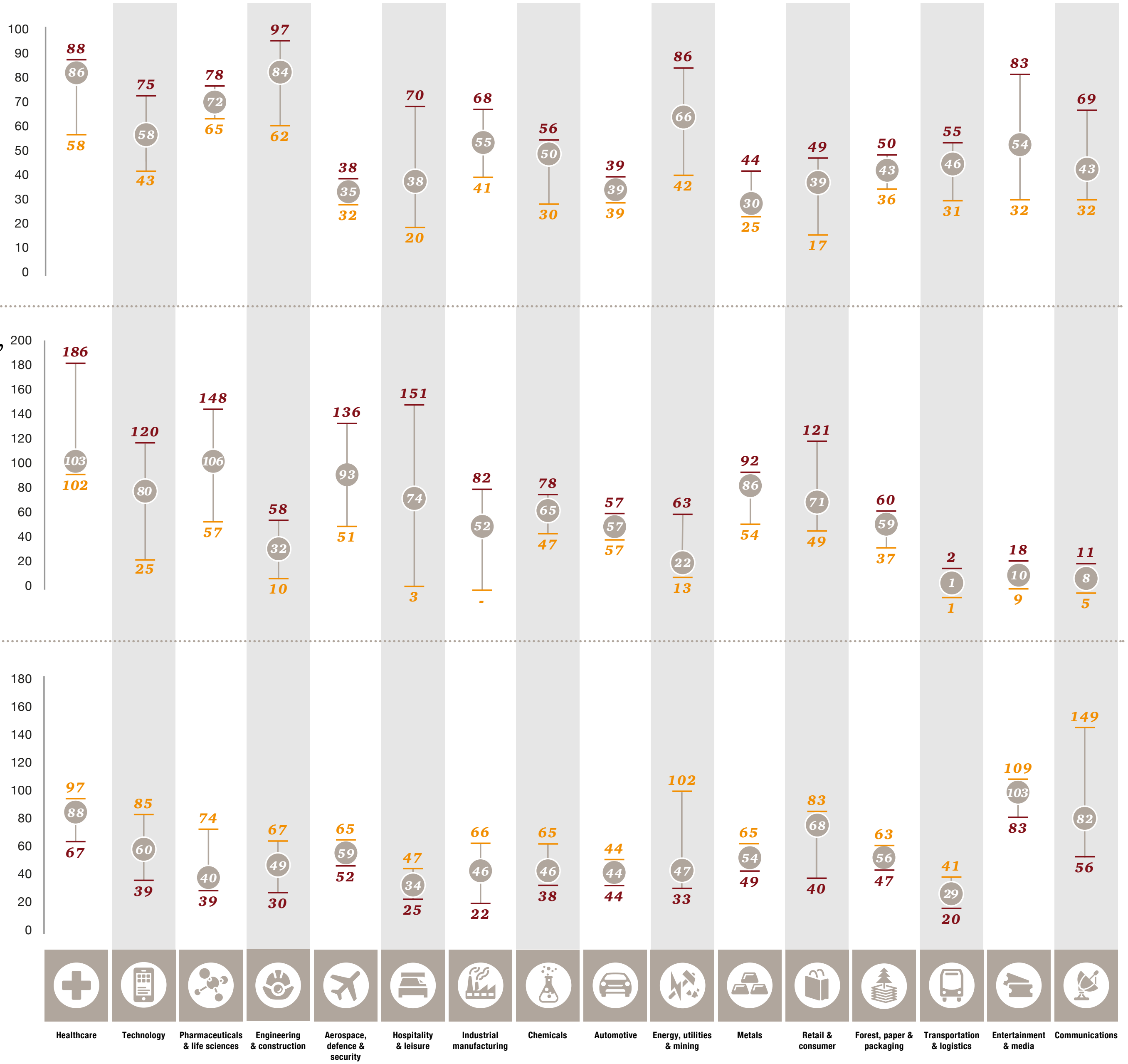
“Hospitality & leisure” and “Transportation & logistics” are the sectors with the shortest DPO

DPO

Top performers

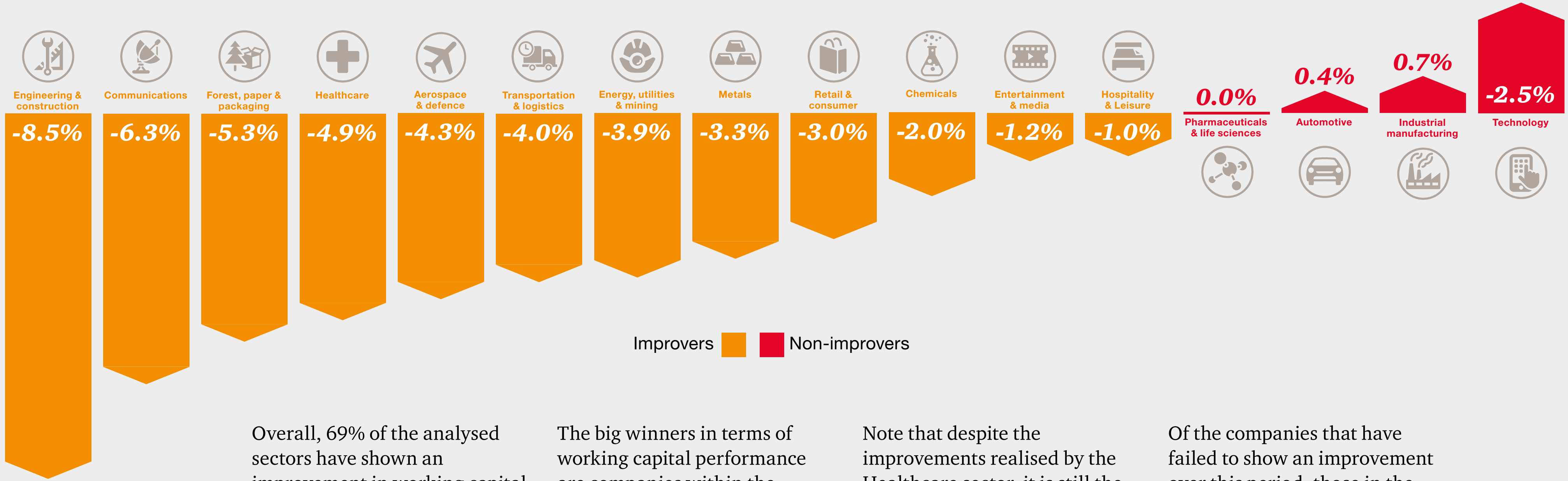
Median

Bottom performers



12 out of 16 sectors managed to improve working capital since 2010

Working capital improvement from 2010 to 2014 (in percentage points of NWC%)



Overall, 69% of the analysed sectors have shown an improvement in working capital since 2010.

The big winners in terms of working capital performance are companies within the "Engineering & Construction", "Forest, paper & packaging" and "Healthcare" sectors.

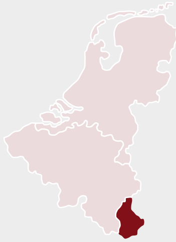
Note that despite the improvements realised by the Healthcare sector, it is still the worst performing sector in absolute terms with an absolute median NWC performance of 125 days.

Of the companies that have failed to show an improvement over this period, those in the "Technology" sector have shown the most significant deterioration (4.3%).

Geography analysis

Luxembourg

has the highest NWC% (14.7%) in the Benelux region



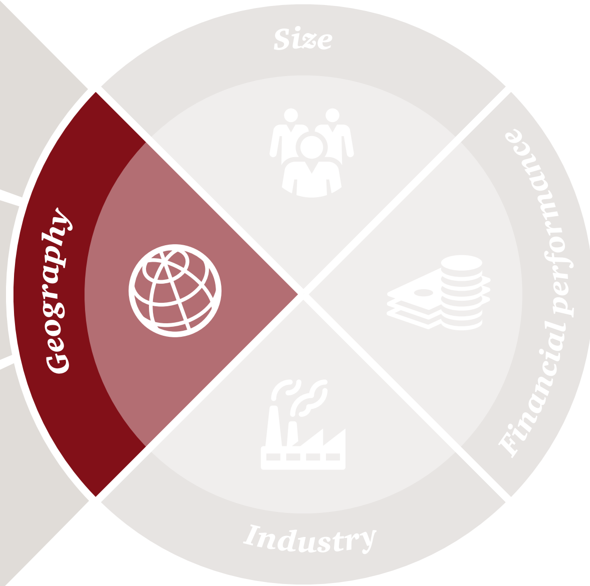
Netherlands and Belgium

have a higher ability to convert EBITDA into cash than all global regions

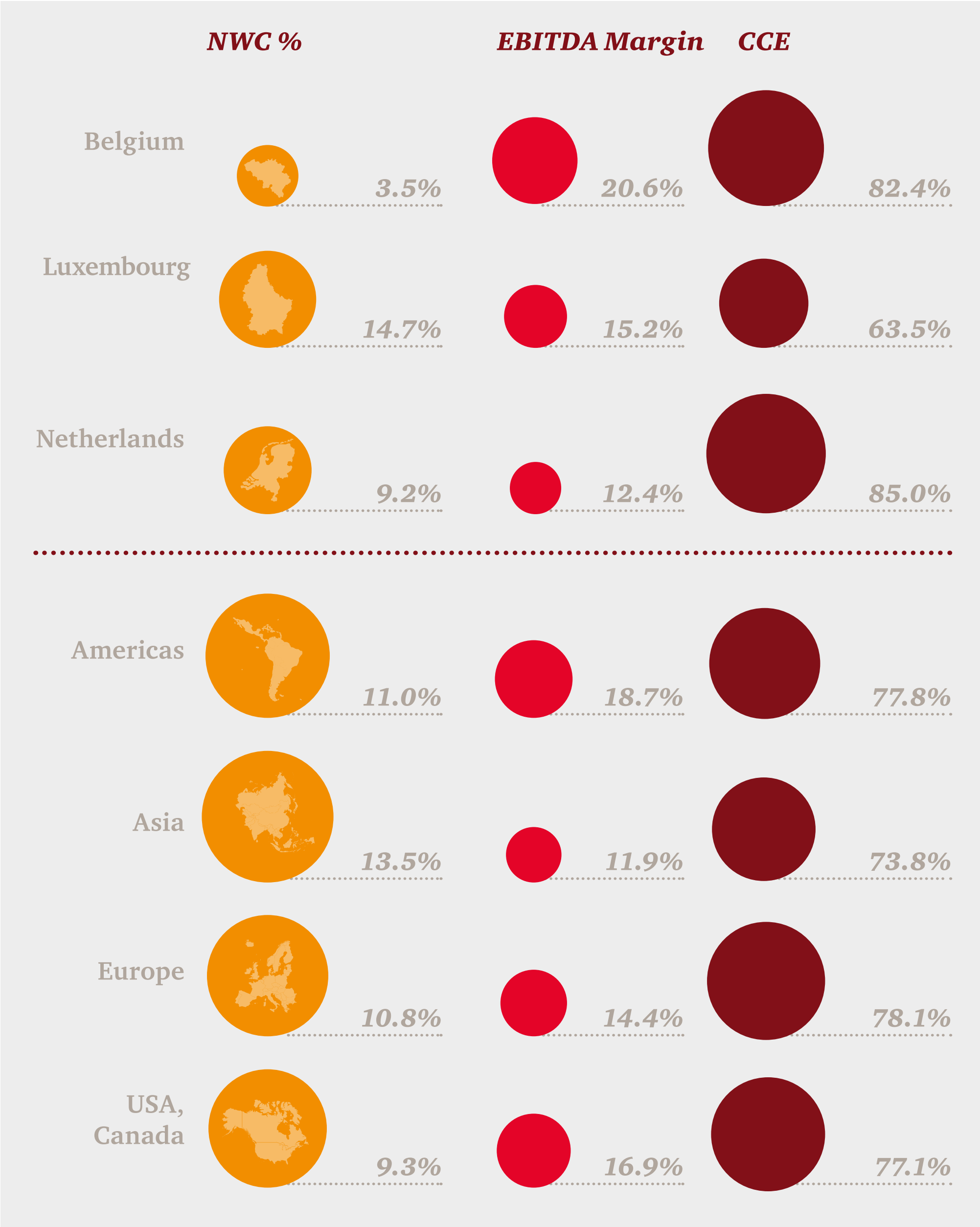
Belgium

realised the strongest decrease in NWC%

-4pp



Luxembourg lags behind from a working capital perspective which is reflected in the ability to convert EBITDA into cash



Working capital varies greatly in the Benelux-region:

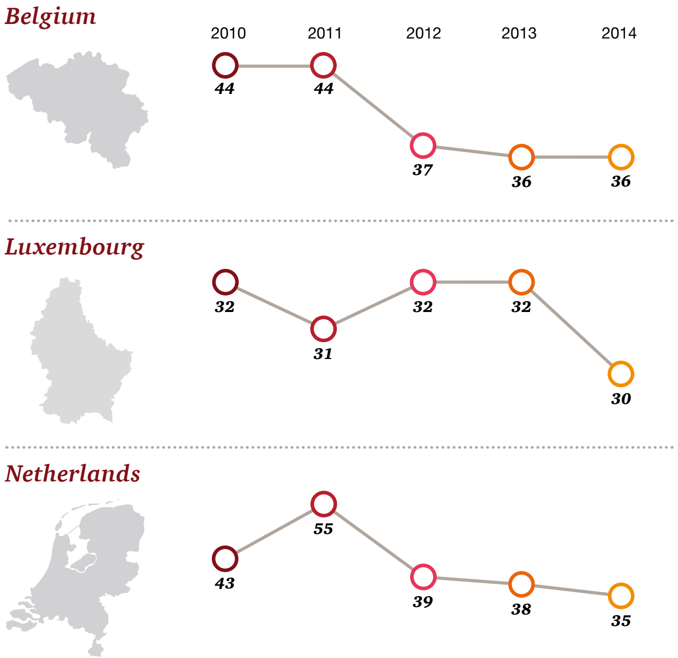
- Companies in Luxembourg have a significantly higher NWC% (14.7%) than those in Belgium and the Netherlands.
- On the contrary Belgium has the lowest NWC% of 3.5%. Also Belgian companies have the highest ability to convert EBITDA into cash.
- Belgium and the Netherlands have a lower NWC% than all global regions, whilst Luxembourg has a higher NWC% than all global regions.
- EBITDA margin is lowest in the Netherlands. From a global perspective only Asia has a lower EBITDA margin.

Belgium exhibited the best performance improvement in the last five years with a decrease of 4 percentage points. The Netherlands and Luxembourg improved by 3.5 and 1.8 percentage points, respectively

Change in percentage point (pp) between 2010 and 2014

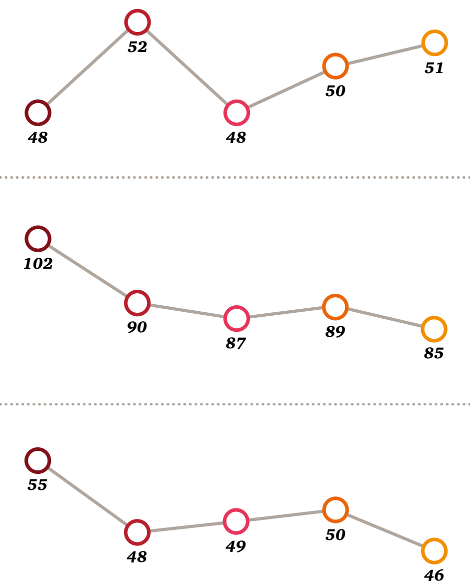
DSO improved in all countries in the last five years with the biggest improvements observed in Belgium and The Netherlands

DSO Trend



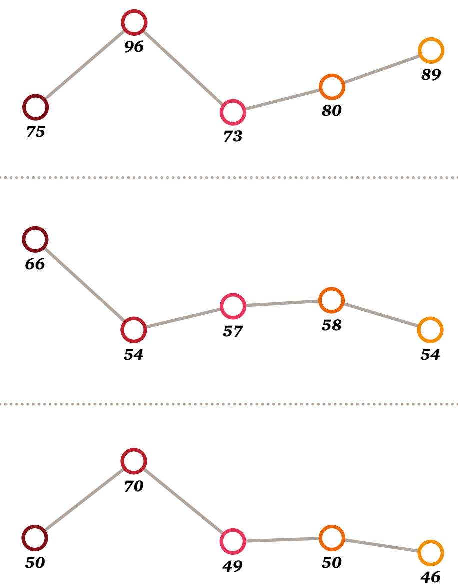
DIO improved by 17 days in Luxembourg and by 9 days in the Netherlands whereas Belgium saw a slight increase of 5%...

DIO Trend



However, only Belgium improved DPO performance, by 14 days

DPO Trend

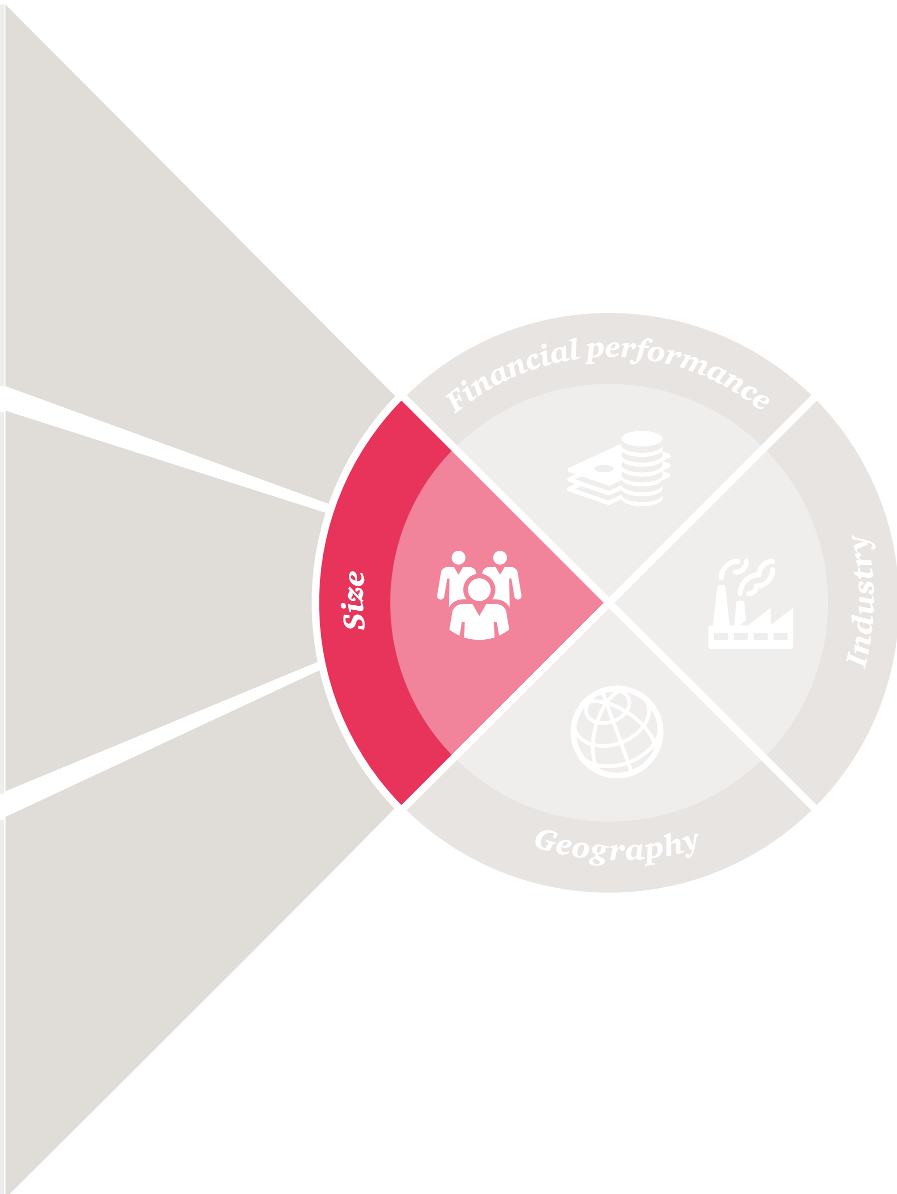


Size analysis

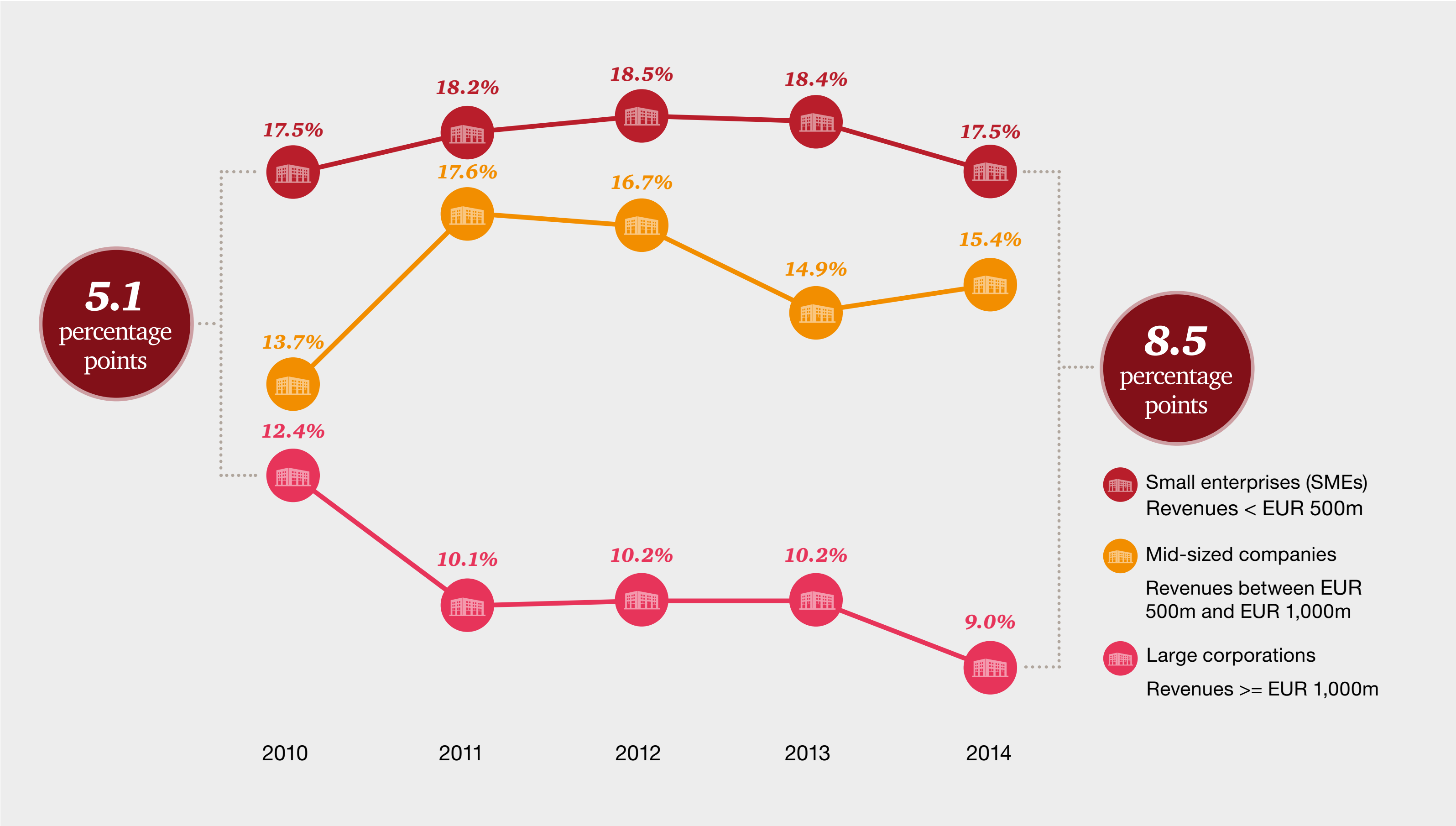
SMEs have
higher NWC %

... and also have significantly higher
DSO and DIO
than large corporations

However, there is no evidence that
large corporations
stretch their creditors
more than SMEs do
as DPO levels
are comparable

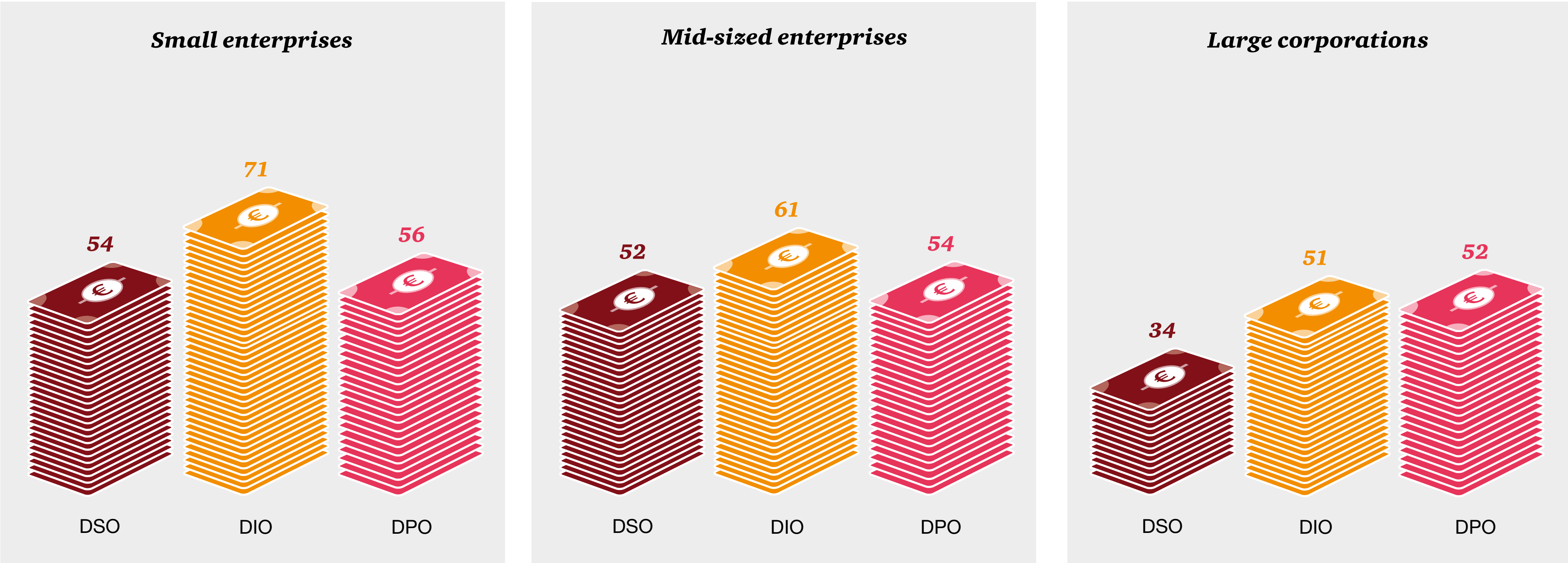


Small companies have significantly higher NWC% than large corporations, and the gap has consistently been above 8 percentage points since 2011



In 2010, the gap between working capital levels of large corporations and SMEs was only 5.1 pp. Over the following four years, this gap has widened to remain between 8.1 and 8.5 pp.

The spread between DSO and DPO in large corporations suggests that these companies are better at negotiating terms with both their customers and suppliers than their SME counterparts, where we observe a balance between DSO and DPO. In addition, DIO levels suggests that large corporations manage their inventory more efficiently than SMEs




Spido

Financial performance analysis

The gap

between NWC % top and bottom performers is significant

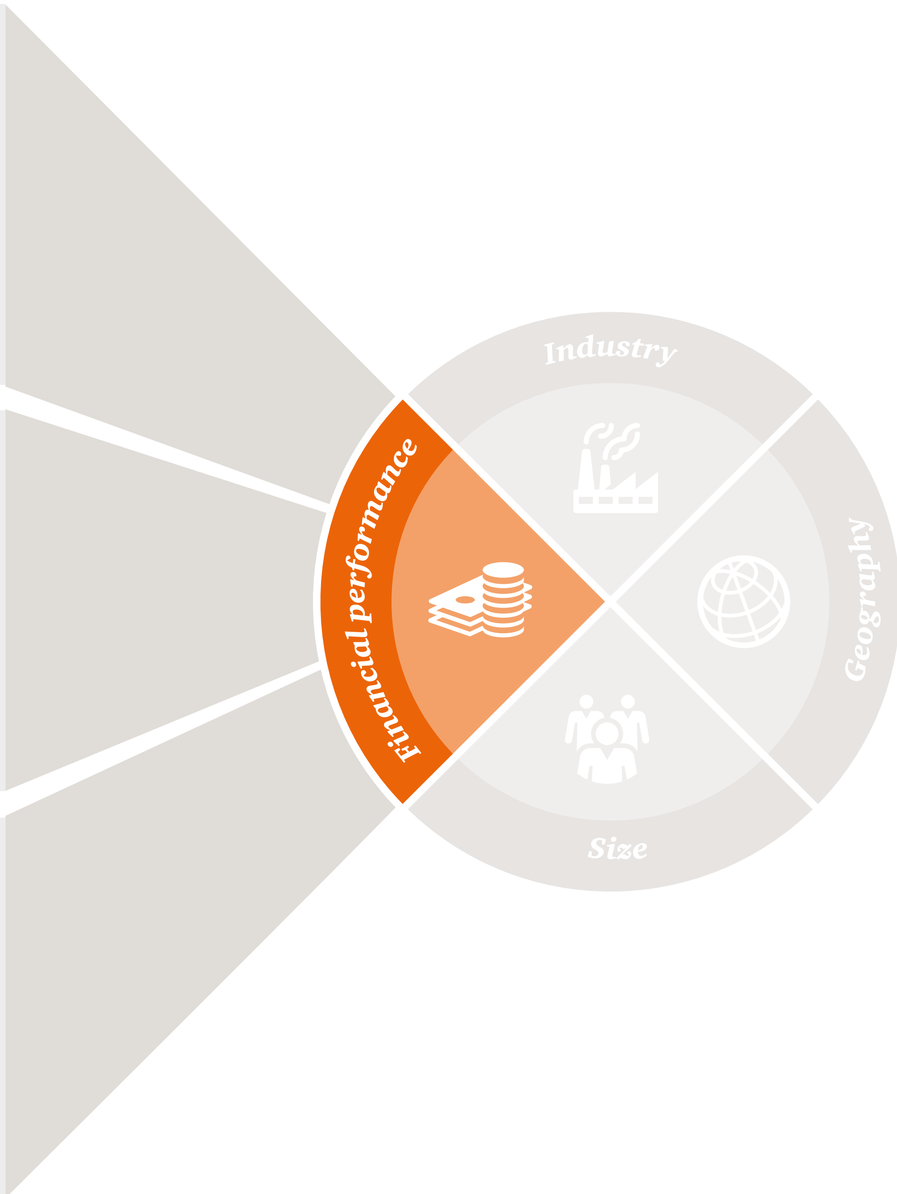
27.5pp

Better working capital leads to better conversion of

EBITDA into cash...

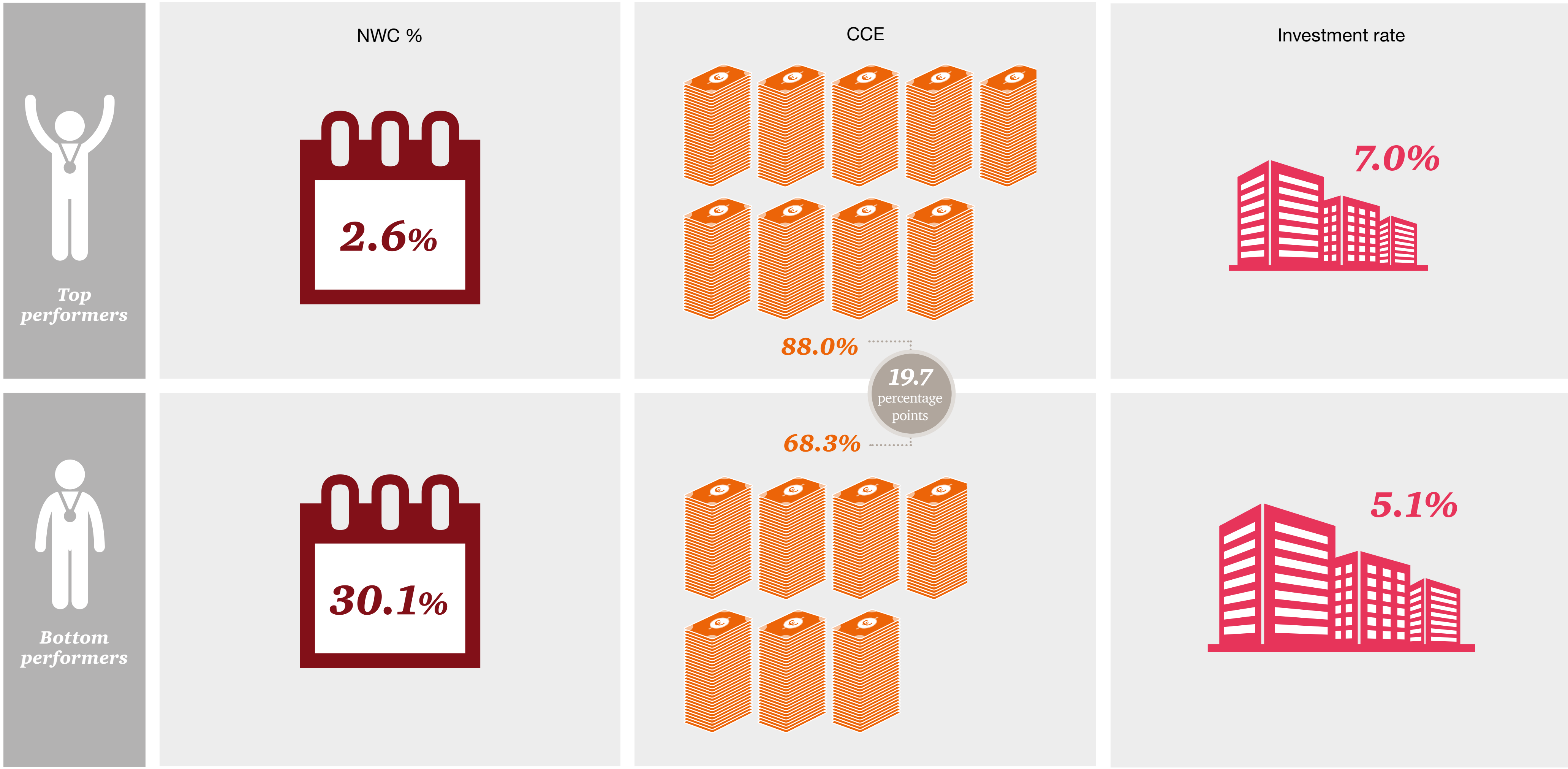
Bottom performers

need to take on more debt to finance their investments



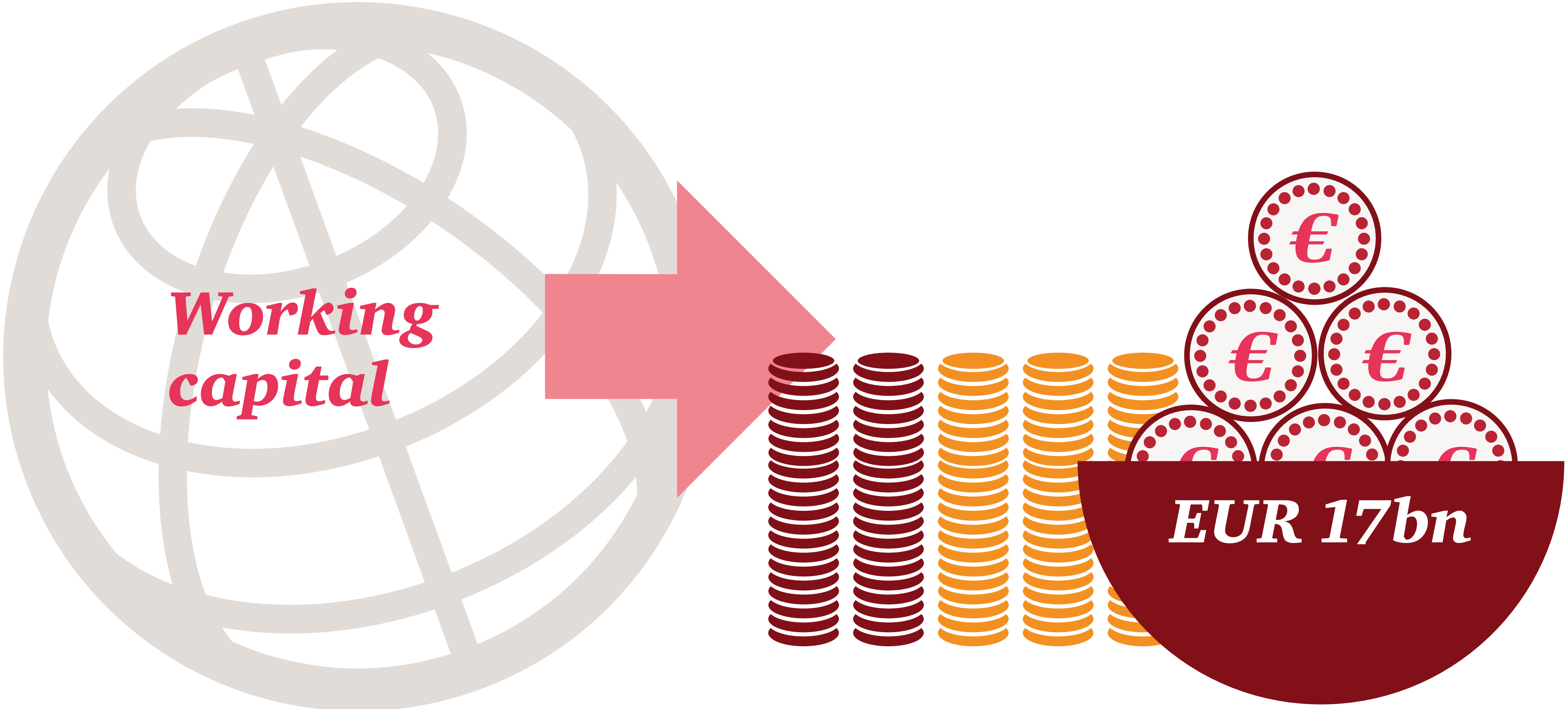
Companies that are top performers (upper quartile) in working capital are also better at generating cash, as confirmed by the 19.7 pp difference in CCE. If bottom performers (lower quartile) were to improve their CCE to top performers' levels, they would be able to generate extra EUR 3.8bn in operating cash flow

Bottom performers have a lower investment rate. This can be explained by the difficulties they face of converting EBITDA into the cash necessary for investments

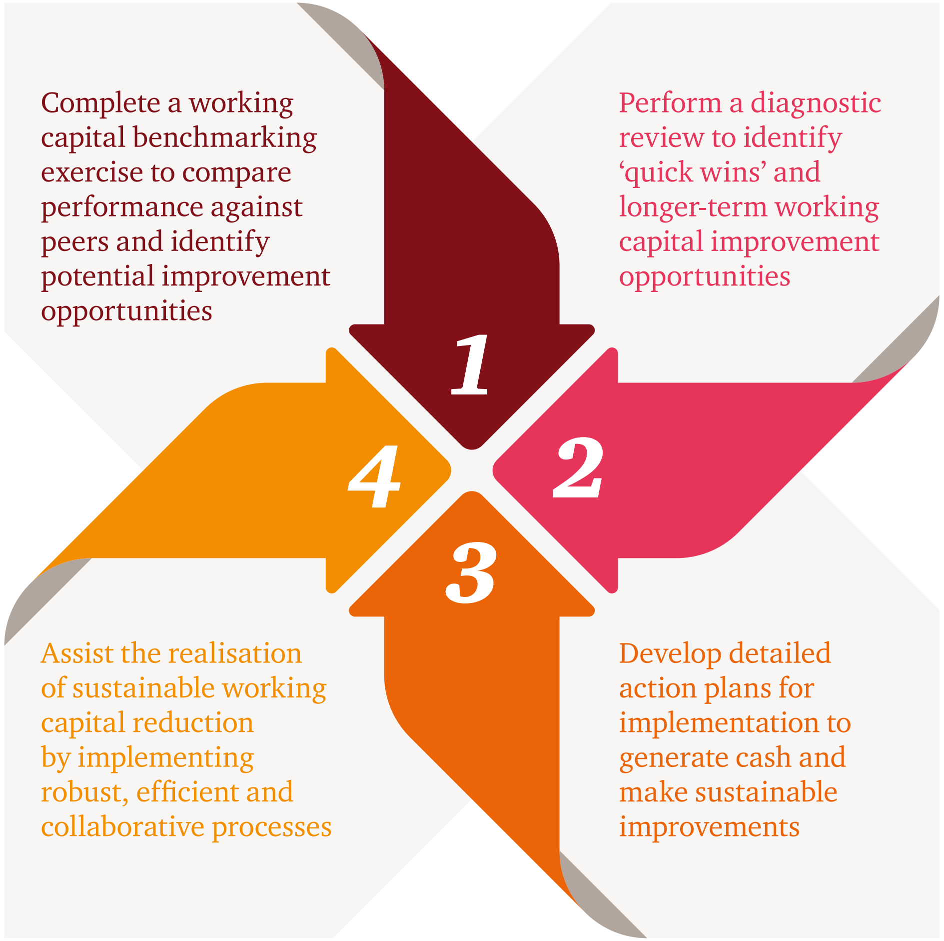


Summary

In the Benelux there is an opportunity to realise EUR 17bn if under-performers improve to the next quartile



How we can support you



Addressing the key levers:

- Identification, harmonisation and improvement of commercial terms
- Process optimisation throughout the end-to-end working capital cycles
- Process compliance and monitoring
- Creating and embedding a 'cash culture' within the organisation, optimising the trade-offs between cash, cost and service

Danny Siemes
NL Director

"Working capital is the easiest and fastest source of cash to bridge funding gaps. Our team of dedicated working capital practioners has delivered sustainable cash improvements for many companies equal to 5-10% of revenues"

Examples of areas where PwC could help you to release cash from working capital:

Accounts receivable

- Credit risk policies
- Aligned and optimised customer terms
- Billing timeliness and quality
- Contract and milestone management
- Prioritised and proactive collection procedures
- Systems-based dispute resolution
- Dispute root cause elimination

Inventory

- Lean and agile supply chain strategies
- Global coordination
- Forecasting techniques
- Production planning
- Accurate tracking of inventory quantities
- Differentiated inventory levels for different goods
- Balanced cash, cost and service considerations

Accounts payable

- Consolidated spending
- Increased control with centre-led procurement
- Avoid leakage with purchasing channels
- Payment terms
- Supply chain finance
- Payment methods
- Eradicate early payments

Appendices

Basis of calculations and limitations

Basis of calculations

This study provides a view of working capital performance. The study is part of our global research of the largest ***10,215*** listed companies worldwide. The Financial Services, Real Estate and Insurance sectors are excluded.

Metric		*Basis of calculation*
NWC % (Net working capital %)	*NWC % measures working capital requirements relative to the size of the company.*	(Accounts Receivable + Inventories – Accounts Payable) / Sales
DSO (Days Sales Outstanding)	*DSO is a measure of the average number of days that a company takes to collect cash after the sale of goods or services have been delivered.*	Accounts Receivable / Sales x 365
DIO (Days Inventories On-hand)	*DIO gives an idea of how long it takes for a company to convert its inventory into sales. Generally, the lower (shorter) the DIO, the better.*	Inventories / Cost of Goods Sold x 365
DPO (Days Payables Outstanding)	*DPO is an indicator of how long a company takes to pay its trade creditors.*	Accounts Payable / Cost of Goods Sold x 365
CCE (Cash Conversion Efficiency)	*CCE is an indicator of how efficiently a company is able to convert profit into cash.*	Cash Flow from Operations / EBITDA
Investment Rate	*Investment Rate measures the amount of investment relative to the revenues of a company.*	Capital Expenditure / Sales
ROC (Return on Capital)	*ROC is an indicator of profit as a proportion of a company's capital.*	EBIT x (1 – tax) / Average Total Capital
EBITDA Margin (Earnings before interest, taxes, depreciation and amortisation)	*EBITDA Margin is an indicator of a company's profitability level as a proportion of its revenue.*	EBITDA / Sales
Cost of Debt	*Cost of Debt is the effective rate that a company pays on its debt.*	Interest Expense / Average Total Debt

Limitations

In this Benelux report there are some constraints compared to the global sample. In the Benelux sample some industries are dominant whilst others are less populated.

Companies have been assigned to countries based on the location of their headquarters. Although a significant part of their sales and purchases might be realised in that country, it does not necessarily reflect typical payment terms or behaviour in that country.

As the research is based on publicly available information, all figures are financial year-end figures. Due to the disproportionate efforts to improve working capital performance towards year-end the real underlying working capital requirement within reporting periods might be higher. Also, off-balance-sheet financing or the effect of asset securitisation have not been taken into account.

In the Benelux region and across all sectors there is a total cash opportunity from working capital of more than EUR 17bn primarily concentrated the Netherlands and Luxembourg

Sector	Belgium	Luxembourg	Netherlands	Total
Aerospace, defence & security			5,752	*5,752*
Automotive		-		*-*
Chemicals	212	32	152	*397*
Communications	125	594	-	*719*
Energy, utilities & mining	46	1,028	579	*1,652*
Engineering & construction	23	11	285	*319*
Entertainment & media	8		433	*441*
Forest, paper & packaging	-		3	*3*
Healthcare	338			*338*
Hospitality & leisure	1		187	*188*
Industrial manufacturing	93	43	942	*1,078*
Metals	435	2,730	12	*3,177*
Pharmaceuticals & life sciences	122	-	18	*141*
Retail & consumer	106	121	424	*651*
Technology	26	38	1,879	*1,943*
Transportation & logistics	257	-	89	*347*
Country Total	*1,793*	*4,597*	*10,757*	*17,147*

High opportunity — Low opportunity

Total cash opportunity from working capital

Sampled companies by sector and macro-region

Sector	Belgium	Luxembourg	Netherlands	Total
Aerospace, defence & security			2	2
Automotive		1		1
Chemicals	5	1	4	10
Communications	4	4	2	10
Energy, utilities & mining	3	3	6	12
Engineering & construction	2	1	8	11
Entertainment & media	2		2	4
Forest, paper & packaging	1		2	3
Healthcare	3			3
Hospitality & leisure	1		3	4
Industrial manufacturing	4	4	11	19
Metals	1	3	3	7
Pharmaceuticals & life sciences	1	1	1	3
Retail & consumer	9	5	13	27
Technology	3	2	11	16
Transportation & logistics	2	1	2	5
Total	**41**	**26**	**70**	**137**

NWC/Sales by sector and macro-region

Sector	Belgium	Luxembourg	Netherlands	Total
Aerospace, defence & security			31.0%	**31.0%**
Automotive		13.6%		**13.6%**
Chemicals	12.6%	16.7%	12.7%	**12.7%**
Communications	-0.8%	8.6%	-8.0%	**-2.5%**
Energy, utilities & mining	4.6%	36.0%	4.1%	**4.9%**
Engineering & construction	18.8%	15.7%	16.1%	**16.2%**
Entertainment & media	-5.0%		20.0%	**17.0%**
Forest, paper & packaging	9.4%		10.9%	**10.3%**
Healthcare	32.0%			**32.0%**
Hospitality & leisure	1.6%		30.5%	**19.5%**
Industrial manufacturing	16.7%	10.4%	21.0%	**19.7%**
Metals	33.3%	13.4%	6.6%	**13.7%**
Pharmaceuticals & life sciences	22.8%	15.5%	26.1%	**21.7%**
Retail & consumer	-5.5%	14.5%	3.2%	**-0.1%**
Technology	24.9%	21.0%	29.8%	**29.2%**
Transportation & logistics	10.7%	-0.7%	7.2%	**8.1%**
Total	***3.5%***	***14.7%***	***9.4%***	***9.2%***

DSO by sector and macro-region

Sector	Belgium	Luxembourg	Netherlands	Total
Aerospace, defence & security			39	***39***
Automotive		39		***39***
Chemicals	39	55	40	***40***
Communications	63	48	31	***42***
Energy, utilities & mining	77	70	26	***27***
Engineering & construction	98	32	71	***70***
Entertainment & media	53		97	***92***
Forest, paper & packaging	43		46	***45***
Healthcare	79			***79***
Hospitality & leisure	18		64	***46***
Industrial manufacturing	55	51	68	***65***
Metals	93	18	42	***23***
Pharmaceuticals & life sciences	58	83	72	***67***
Retail & consumer	22	33	25	***24***
Technology	68	57	63	63
Transportation & logistics	29	46	47	40
Total	***36***	***30***	***35***	***34***

DIO by sector and macro-region

Sector	Belgium	Luxembourg	Netherlands	Total
Aerospace, defence & security			154	**154**
Automotive		57		**57**
Chemicals	60	45	55	**56**
Communications	11	13	7	**9**
Energy, utilities & mining	21	151	20	**23**
Engineering & construction	43	85	31	**33**
Entertainment & media	8		33	**27**
Forest, paper & packaging	59		37	**47**
Healthcare	112			**112**
Hospitality & leisure	3		125	**78**
Industrial manufacturing	34	8	75	**63**
Metals	86	90	48	**87**
Pharmaceuticals & life sciences	190	8	106	**96**
Retail & consumer	46	118	45	**47**
Technology	103	46	148	**142**
Transportation & logistics	40	1	1	**14**
Total	**51**	**85**	**46**	**51**

DPO by sector and macro-region

Sector	Belgium	Luxembourg	Netherlands	Total
Aerospace, defence & security			68	68
Automotive		44		44
Chemicals	52	38	47	48
Communications	123	65	173	136
Energy, utilities & mining	159	47	33	34
Engineering & construction	79	49	46	47
Entertainment & media	103		106	105
Forest, paper & packaging	70		47	58
Healthcare	54			54
Hospitality & leisure	21		53	41
Industrial manufacturing	26	25	59	52
Metals	52	56	68	57
Pharmaceuticals & life sciences	108	40	37	67
Retail & consumer	124	76	65	87
Technology	66	18	65	64
Transportation & logistics	27	53	24	27
Total	**89**	**54**	**46**	**52**

Contacts

Robert Smid

Robert Smid
UK Partner, Working Capital Practice Leader
T: +44 20 7804 3598
E: robert.smid@uk.pwc.com

Robert leads our working capital practice and brings over twenty years of working capital advisory experience. He has made an instrumental difference to the free cash flow and balance sheet structure of many companies.

Danny Siemes

Danny Siemes
Director
T: +31 (0)88 792 42 64
E: danny.siemes@nl.pwc.com

Danny leads our working capital practice in the Netherlands & Belgium and has over 10 years of experience.He successfully advised company management and investors on improving cash flow and working capital management.

Rob Kortman

Rob Kortman
Germany Partner
T: +49 1709 879253
E: rob.kortman@de.pwc.com

Rob is a partner in our European working capital practice. He has over seventeen years of extensive experience of delivering working capital management programmes to generate cash for large, corporate clients across Europe, Asia and the Americas.

Nicolas Beaumont

Nicolas Beaumont
Senior Manager
T: +32 2 7104130
E: nicolas.beaumont@be.pwc.com

Nicolas leads our working capital practice in Belgium and has over 7 years of working capital advisory experience. He advised clients on working capital management, helping to release cash from their operations.

Authors of the study

Daniel Windaus

Daniel Windaus
UK Partner, Lead Author
T: +44 20 7804 5012
E: daniel.windaus@uk.pwc.com

Daniel is a partner in our working capital practice, with over sixteen years of working capital experience. He has advised company management and private equity investors on improving cash flow throughout Europe and North America.

Saverio Mitrani

Saverio Mitrani
Manager
T: +44 7711 562120
E: saverio.mitrani@uk.pwc.com

Saverio is a manager in the firm's working capital practice and has spent his career delivering working capital and cash flow related projects across the UK and internationally. His expertise covers all the key areas of working capital, from order-to-cash to inventory management and procure-to-pay.

Working Capital Management Global Network

Australia
David Pratt
T: +612 8266 2776
E: david.pratt@au.pwc.com

CEE
Petr Smutny
T: +42 25 115 1215
E: petr.smutny@cz.pwc.com

Denmark
Bent Jorgensen
T: +45 3945 9259
E: bent.jorgensen@dk.pwc.com

Finland
Michael Hardy
T: +358 50 346 8530
E: michael.hardy@fi.pwc.com

France
Francois Guilbaud
T: +33 156 578 537
E: francois.guilbaud@fr.pwc.com

Germany & Austria
Rob Kortman
T: +49 1709 879253
E: rob.kortman@de.pwc.com

Hong Kong
Ted Osborn
T: +852 2289 2299
E: t.osborn@hk.pwc.com

Italy
Riccardo Bua Odetti
T: +39 026 672 0536
E: riccardo.bua.odetti@it.pwc.com

Malaysia
Ganesh Gunaratnam
T: +603 2173 0888
E: ganesh.gunaratnam@my.pwc.com

Middle East
Mihir Bhatt
T: +971 4304 3641
E: mihir.bhatt@ae.pwc.com

Norway
Jørn Juliussen
T: +47 95 26 00 60
E: jorn.juliussen@no.pwc.com

Singapore
Peter Greaves
T: +65 6236 3388
E: peter.greaves@sg.pwc.com

Spain
Josu Echeverria
T: +34 91 598 4866
E: josu.echeverria.larranga@es.pwc.com

Sweden
Jesper Lindbom
T: +46 70 9291154
E: jesper.lindbom@se.pwc.com

Switzerland
Reto Brunner
T: +41 58 792 1419
E: reto.brunner@ch.pwc.com

The Netherlands & Belgium
Danny Siemes
T: +31 88 792 42 64
E: danny.siemes@nl.pwc.com

Turkey
Gokdeniz Gur
T: +90 212 376 5332
E: gokdeniz.gur@tr.pwc.com

USA
Paul Gaynor
T: +1 925 699 5698
E: paul.m.gaynor@us.pwc.com

pwc.com/workingcapitalsurvey

Design Services 21810 (08/15).