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Value creation through working capital excellence

Working Capital Report 2019/20

GSA & Benelux region

pwc


PROGRESS
PART 358-24

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Working capital management is a value driver

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In the face of disruption and rapidly changing business models, cash and working capital are fundamentals that businesses can easily lose sight of. Harnessing the power of data analytics and digital capabilities presents a unique opportunity to take back control, addressing the challenges presented by organisational silos, complex systems and conflicting targets.

Companies that are able to exploit the benefits of data analytics and digital transformation will lead the way in unlocking cash and creating more value.

Digital enablers are now sufficiently accessible and flexible that they should be a standard tool for accelerating working capital improvement. Data analytics can be used to help achieve transparency in relation to cash performance and to better align the efforts of different commercial and operational functions.

Now is the time to focus on cash and working capital management. Companies failing to prioritise cash are both ignoring an opportunity to drive value and risking negative cash flow impacts:

- The foundation of working capital management as a value driver: cash tied up in working capital provides no yield
- Unlocking working capital is a “free” source of capital (for acquisitions, CAPEX, repaying debt etc.)
- Strong cash and working capital discipline provide better visibility and control over operational and financial performance
- Improved working capital management increases company value

Source: PwC analysis. Analysis uses data available from 622 listed companies in the GSA and Benelux region between January 2014 and June 2019.

The story so far

Looking at the financial performance of the largest listed companies in Germany, Austria and Switzerland (GSA region) and in the Netherlands, Belgium and Luxembourg (Benelux region) over the past five years, we have noticed five key developments:

1. **Working capital has increased.**
While net working capital increased by €36bn in 2018 (up 8.7% on 2017), relative performance has increased by 2.3 days compared to 2017 driven by companies in Germany. Nevertheless, positive developments have been identified in certain countries.

2. **As expected, trade payables have been managed well.**
During the last five years, we have seen an increase in days payable outstanding (DPO) of 6.6 days, underlining that many companies have undertaken payment term enhancement programmes and streamlined cash outflows to their suppliers.

3. **Receivables and inventory will be major areas of opportunity.**
A combination of rising customer-DPO and worsening days sales outstanding (DSO) performance has been increasing the pressure on cashflow (from sellers to suppliers) in the end-to-end supply chain within sectors. Therefore, many companies have been focusing on improving their DSO and days inventory outstanding (DIO) performance levels, as both have deteriorated over the last five years by 4 and 8 days, respectively. Best practice working capital management would adopt a holistic enhancement approach rather than take individual initiatives for DSO and DIO.

4. **Working capital is the next value driver.**
Increased returns have mainly been achieved through EBIT improvements. When the economy slows down, companies will face pressure on costs, prices and cash. Some of the value created has been offset by deteriorating net working capital (NWC) performance. Therefore, optimising NWC will become a top priority for CFOs.

5. **The need for cash is increasing.**
Effectively managing the digital transformation requires companies to continuously invest in new technology. Over the last couple of years, companies have faced operational challenges in converting revenue into cash. During the same period, there was no significant increase in capital expenditure (CAPEX) as a percentage of revenues, which might suggest that companies are managing cash levels by limiting investment.

€47bn
excess working capital tied up on GSA & Benelux balance sheets

2.9 days
increase in Days Inventory Outstanding

0.6 days
increase in Days Sales Outstanding

6 of 17
sectors have improved working capital

Working capital performance

Our research has revealed an increase in NWC of €36bn in 2018 (up 8.7% on 2017). In relative terms, however, NWC days have shown a year-on-year (YoY) deterioration of 2.3 days.

> "The asset side of the balance sheet needs to get finally some much-needed attention."

NWC has grown by 8.7% whereas revenues increased by just 4.0%. This has resulted in an overall deterioration of working capital performance from 2017 to 2018, continuing the negative trend of recent years. This trend has been driven mainly by DSO and DIO performance, where we have seen a continuous increase in asset days over the last five years. The trend in DSO and DIO is only partly offset by positive annual DPO performance over the past five years.

Our research indicates that companies have been maintaining their working capital performance at the expense of their suppliers in recent years (i.e., increased DPO levels), to the point where increased government and regulatory pressure on prompt payment becomes a limiting element to further enhancements.

This limit on further trade payables enhancement is requiring companies to focus on improving cash performance in trade receivables and inventory, which many companies have found difficult to achieve in the past.

The performance of both receivables and inventory has been deteriorating continuously over the last five years. This is mainly due to less focused collection and dispute management activities, and operational inefficiencies in production.

As we explore in the study, these trends are not the same across all companies and industries.

Small companies in particular are facing challenges in improving their inventory management capabilities. They also suffer from the extended payment terms of large corporates, and limited purchasing power regarding their own suppliers.

Looking at individual sectors, the communications, entertainment and media sectors were major contributors to NWC growth during the past year, mainly due to changes in accounting standards.

Fig. 1 Net Working Capital and NWC days

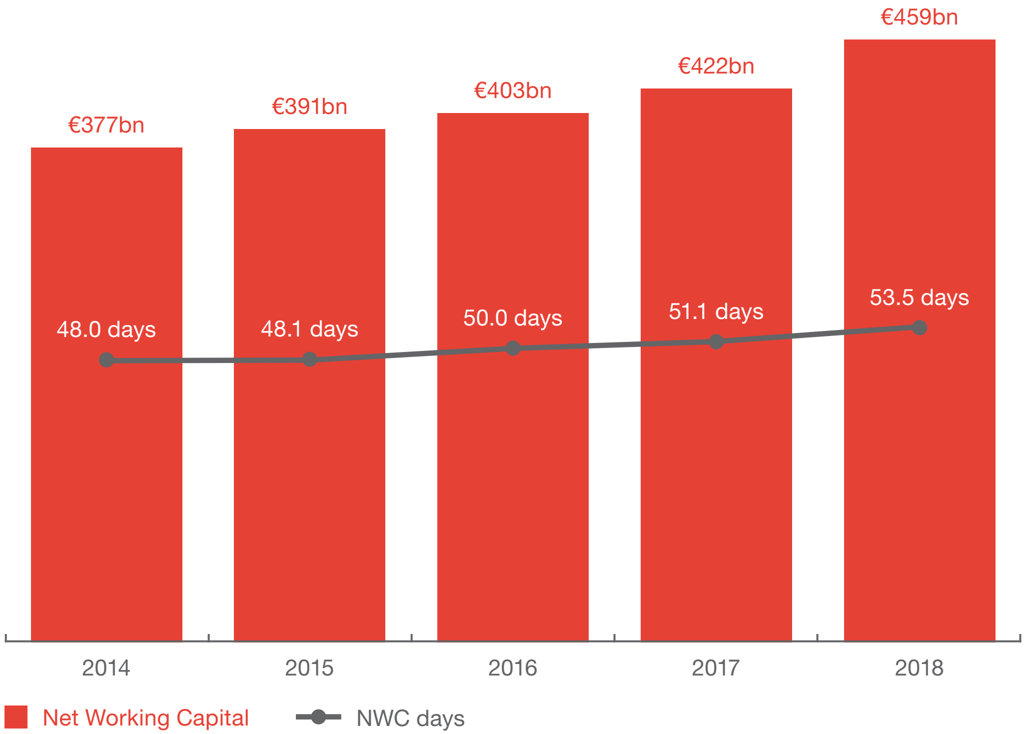
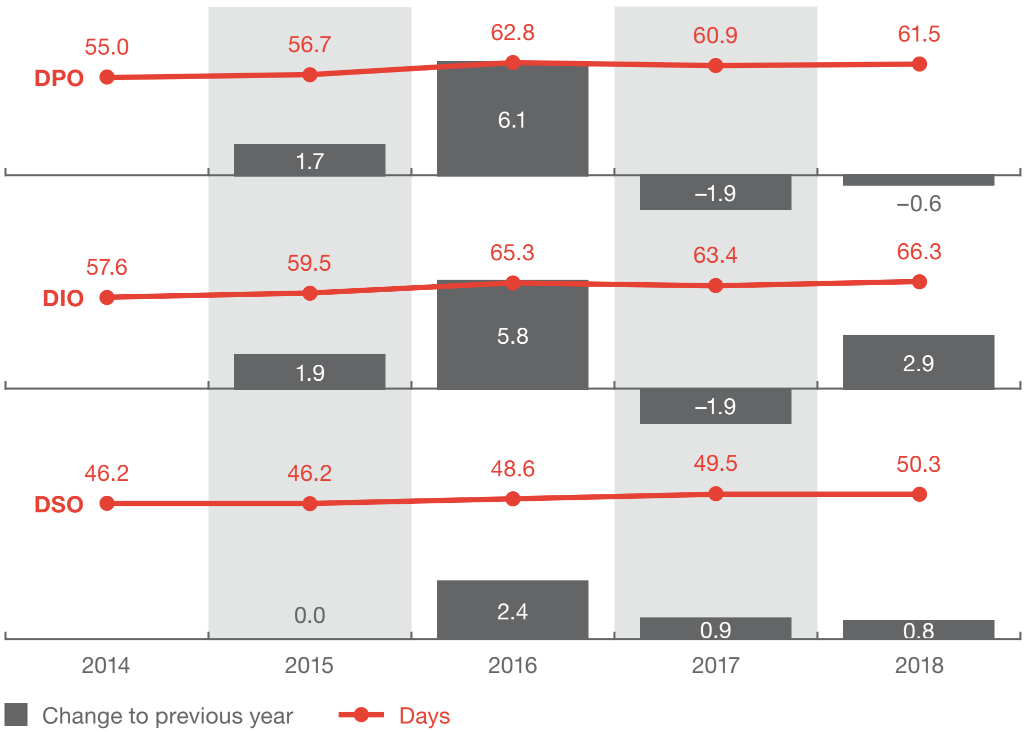


Fig. 2 DPO, DIO and DSO Trend



Basis of calculations

Metric		Formula
NWC:	(net working capital days)	(Accounts receivable + inventories – accounts payable)/sales x 365
DSO:	(days sales outstanding)	Accounts receivable/sales x 365
DIO:	(days inventories on hand)	Inventories/cost of goods sold x 365
DPO:	(days payables outstanding)	Accounts payable/cost of goods sold x 365

Fig. 3 A closer look reveals variability in working capital performance (Part 1/2)

36 NWC days | –1[1] | 44 DSO | 51 DIO | 63 DPO

The Netherlands

Over the last five years, NWC has improved by 7 days, which was achieved by both decreasing receivables and increasing payables. The Netherlands is outperforming the other DACH and Benelux countries in NWC development (overall GSA and Benelux NWC deteriorated by 5 days over the same period). This is very likely to have been driven by an increased focus on payment terms in recent years. PwC has experienced an increased number of engagements in sectors with project-based businesses.

It’s worth noting that there is a significant gap in NWC performance between large corporates and other companies in the Netherlands.

44 NWC days | 0 | 51 DSO | 58 DIO | 67 DPO

Belgium

Belgium has steadily improved, resulting in an NWC improvement of 3 days over the last five years. All three main working capital components show small improvements, although payables and inventory have deteriorated slightly in the last year. In general, we note that several companies in Belgium have increased their focus on receivable management.

Out of all sectors, the engineering and construction as well as the metals and mining sectors show the greatest improvements in NWC.

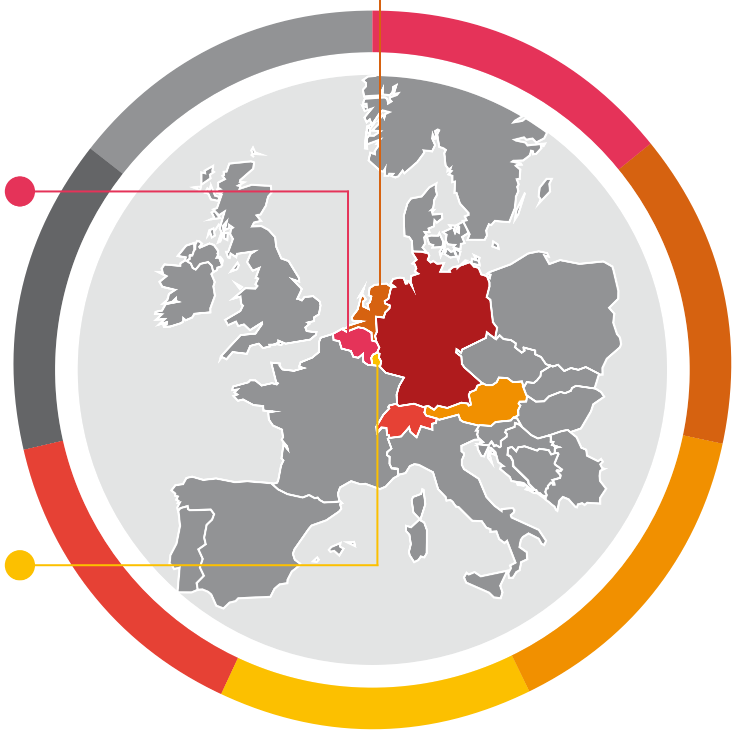
52 NWC days | +4[1] | 46 DSO | 76 DIO | 67 DPO

Luxembourg

NWC improved by a total of 4 days over the five-year period. The main contributors were decreasing inventory levels and an improving payables position.

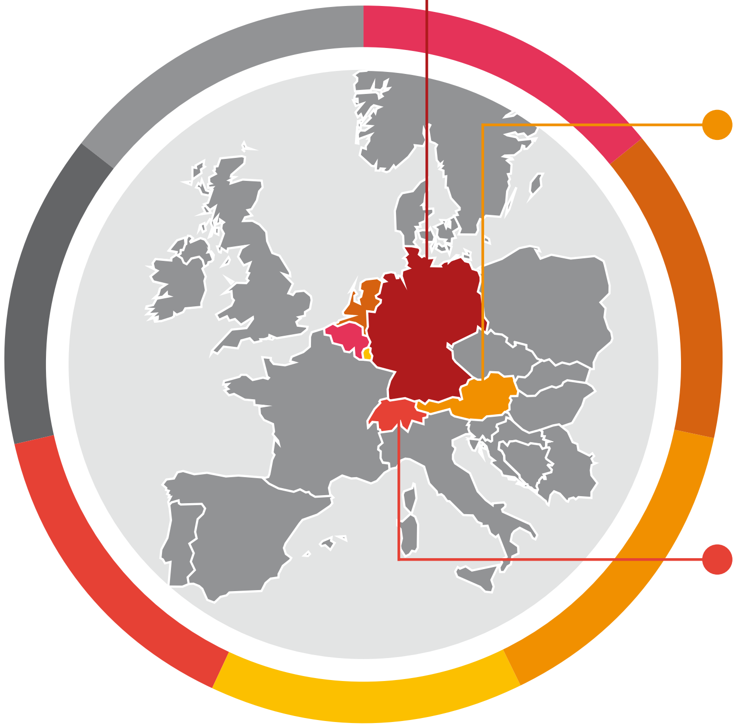
This was despite a 4-day deterioration in NWC over the last year. Payables presented the greatest challenge, deteriorating by 8 days.

Inventory levels are notably higher than elsewhere in Western Europe, due to many industrial manufacturing and mining companies being headquartered in Luxembourg.



[1] change in NWC days YoY 17/18

Fig. 3 A closer look reveals variability in working capital performance (Part 2/2)



Germany

Over the last five years, NWC has increased by 9 days. This mainly resulted from an increase in receivables and inventories, partly offset by better payables management.

We have seen YoY deterioration of working capital levels in nearly every industry. The only improvements we have observed in recent years were in the energy and utilities as well as the engineering and construction sectors. These improvements were backed by significant working capital improvement programmes.

54 NWC days | +3[1] | 50 DSO | 65 DIO | 58 DPO

Austria

NWC has increased by 11 days over the last five years and the overall negative trend since 2014 could slightly absorbed by a positive development since last year. Companies significantly improved their payables balance to 78 days – an improvement of 18 days – which is limiting further improvement potential.

Companies from the industrial manufacturing and the engineering and construction sectors are showing major deterioration. Some companies, however, are showing significant improvements as part of the post-merger integration process; this aims to create value as part of the transaction process.

55 NWC days | –1[1] | 61 DSO | 69 DIO | 78 DPO

Switzerland

NWC has improved by 1 day over the last five years. The DIO performance iso figure of 86 days is much higher than in the other DACH countries; this is mainly due to companies from the luxury retail sector, which have long production lead times and spare part commitments to their customers.

Overall, we have seen companies in the pharmaceutical and life sciences as well as the energy and utilities sectors improving their management of NWC.

65 NWC days | –1[1] | 56 DSO | 86 DIO | 69 DPO

[1] change in NWC days YoY 17/18

The next value creation lever

At a time of digital disruption and dramatic shifts in business models across industries, companies' ability to create value has never been more important.

Working capital presents a value creation opportunity not only in "business as usual" circumstances but also in a deals environment. Our analysis suggests that more can be done to boost return on invested capital (ROIC) through working capital management, especially in the GSA region.

Capital-efficient, profitable growth underpins value creation – and while companies have managed to improve returns as measured by ROIC, they have mostly achieved this through closely managing EBIT. Some of the value created through EBIT growth has, however, been offset by stalling NWC performance, restraining improvement in ROIC.

A singular focus on "profitable growth" is still common and ignores other value creation levers. Such a focus will often include extending customer terms to "buy" market share, or increasing inventory ahead of forecasted ambitious growth. More often than not, the latter approach leads to overstocking and to an increase in slow-moving and obsolete stock.

PwC's recent report "Creating value beyond the deal" surveyed 600 senior corporate executives from a range of industries and geographies. In the research, 83% of sellers said there is room for improvement on extracting working capital. This suggests a need for companies to have a comprehensive value creation plan – a guideline, not a checklist – with working capital as a core component.

Fig. 4 ROIC, NWC Days and EBIT

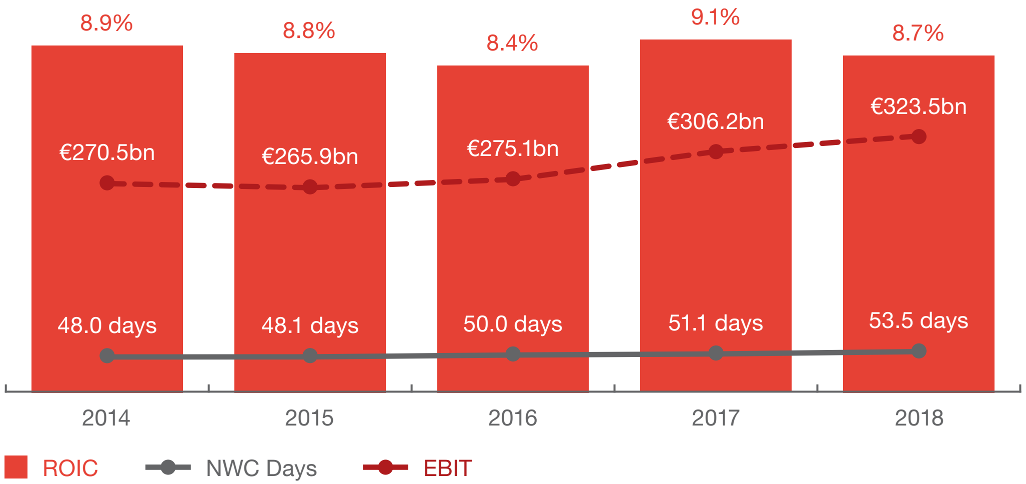
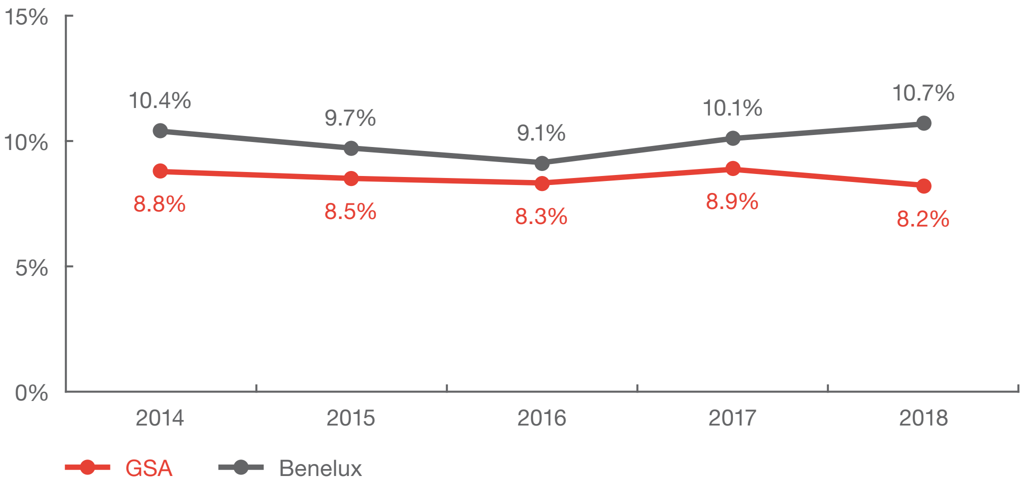


Fig. 5 ROIC per region



Industry performance

Only 6 out of 17 sectors have improved working capital

When we look at iso analyse how sector performance has evolved in the past year, we find large disparities: only 6 sectors out of 17 have improved.

Engineering and construction saw an NWC improvement of 6.7 days in the past year, the largest reduction of any sector. This was mainly driven by improvements on the asset side of the balance sheet, with significant decreases in both DSO (2.3 days) and DIO (5.0 days).

The metals and mining sector came a close second, with companies achieving a 5.7-day reduction in NWC, driven by decreases in DSO (2.1 days) and DIO (10.3 days) and offset by a 5.3-day reduction in DPO.

By contrast, the automotive sector has experienced a large deterioration in performance over the past year.

Furthermore, while sector-level trends give us an indication of the challenges facing certain industries, performance also varies widely at company level within sectors.

Fig. 6 Working capital change 2017–2018 **2014–2018 trend**

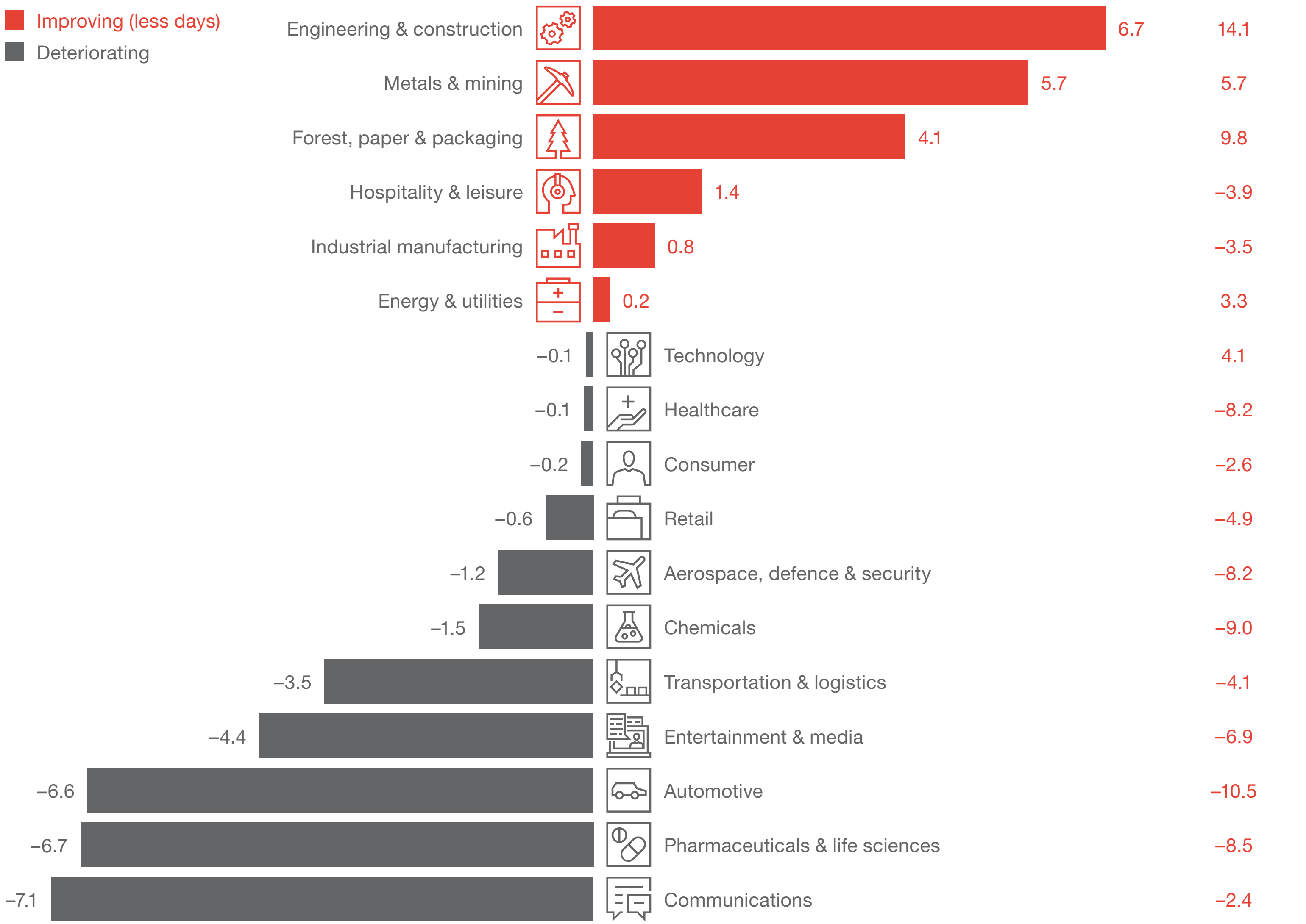
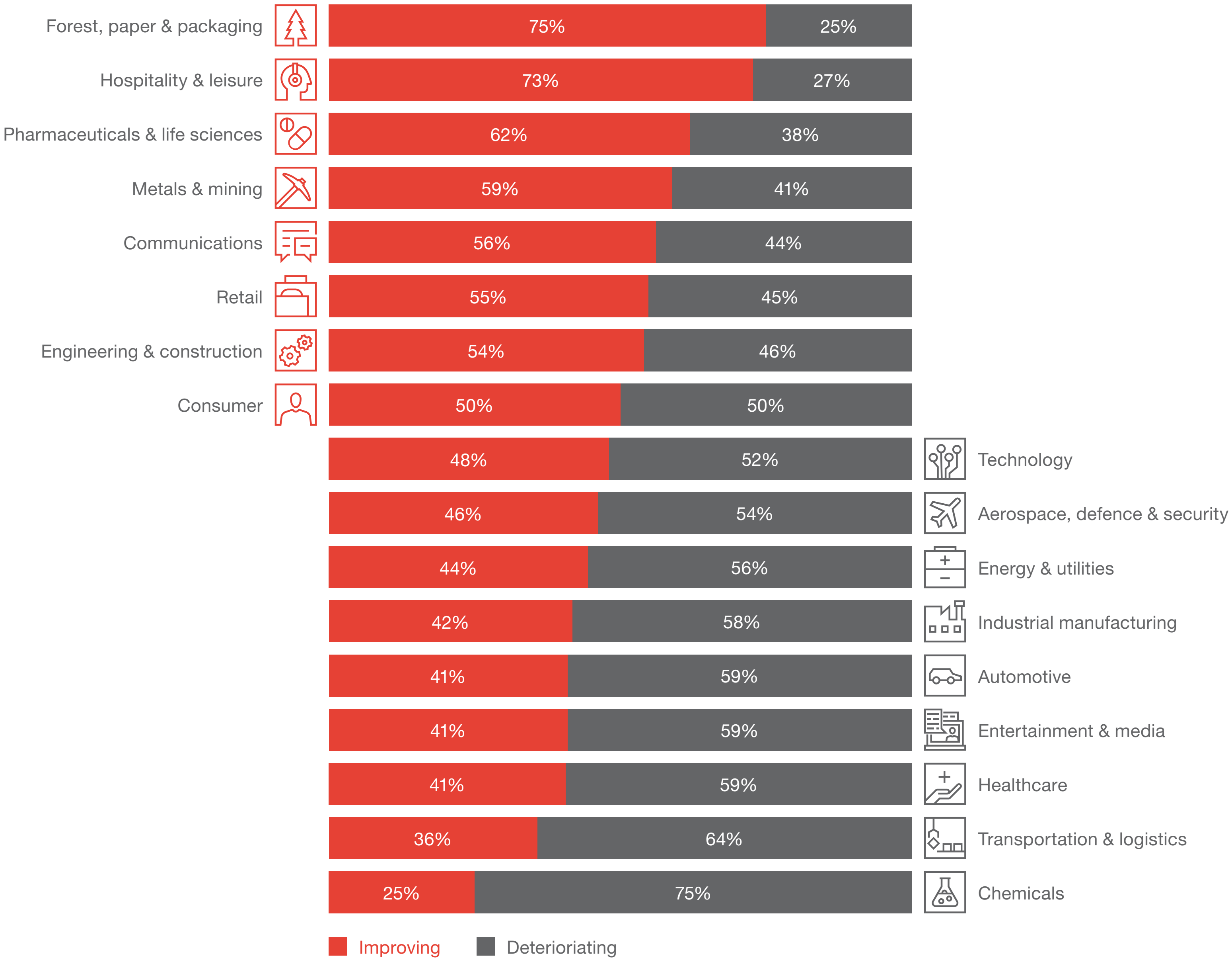


Fig. 7 Sector performance by companies



In 8 out of 17 sectors, the majority of companies managed to improve their working capital YoY performance.

A large proportion of companies in the pharmaceutical and life sciences and the retail sectors improved their working capital performance over the last 12 months, corresponding to the overall trends in these sectors.

But there are also examples where the bulk of companies in a sector reflect an overall negative sector trend, such as in the chemicals or the transportation and logistics sectors.

Contrasting effects are visible in the communications sector. This sector has the most negative YoY working capital performance trend, while more than 50% of the sector companies could improve their NWC performance. It seems that companies with large revenues greatly increased their working capital compared to what smaller companies were able to achieve.

A large gap between the best and the rest

The survey shows that there are still large gaps between the top and bottom performers in each industry. In some cases, levels of deterioration also show very wide spreads between the top and bottom, so that the broad performance variation at company level in each industry still persists. Generally, wide gaps affect DIO more strongly, although DSO and DPO may occasionally be affected as well.

> "For all three metrics of DPO, DIO & DSO the gap between bottom and top performers have enlarged compared to last year."

The median of the DPO metrics remained unchanged from the previous year, at 56 days. The bottom performers have made slight improvements, while the top performers deteriorated slightly. However, this reduction of the gap between top and bottom performers was not observed in all industries.

- The pharmaceutical and life sciences industry shows a wide gap of 79 days between top and bottom, with a relatively high level of DPO.
- The communications sector had the highest DPO numbers of all industries, with a median of 95 days; the gap between top and bottom was 74 days.
- Conversely, the aerospace, defence and security industry had a gap of just 9 days, showing harmonisation in this industry regarding DPO.

The overall median of the DIO metrics improved slightly compared to the previous year. However, the gap between top and bottom performers grew across all industries, particularly in industries which already had wide gaps.

In the healthcare and the engineering and construction sectors, the gap grew by 12 days YoY. At 113 days, the total gap between the top and bottom DIO performers in the healthcare sector is the largest of all the industries surveyed.

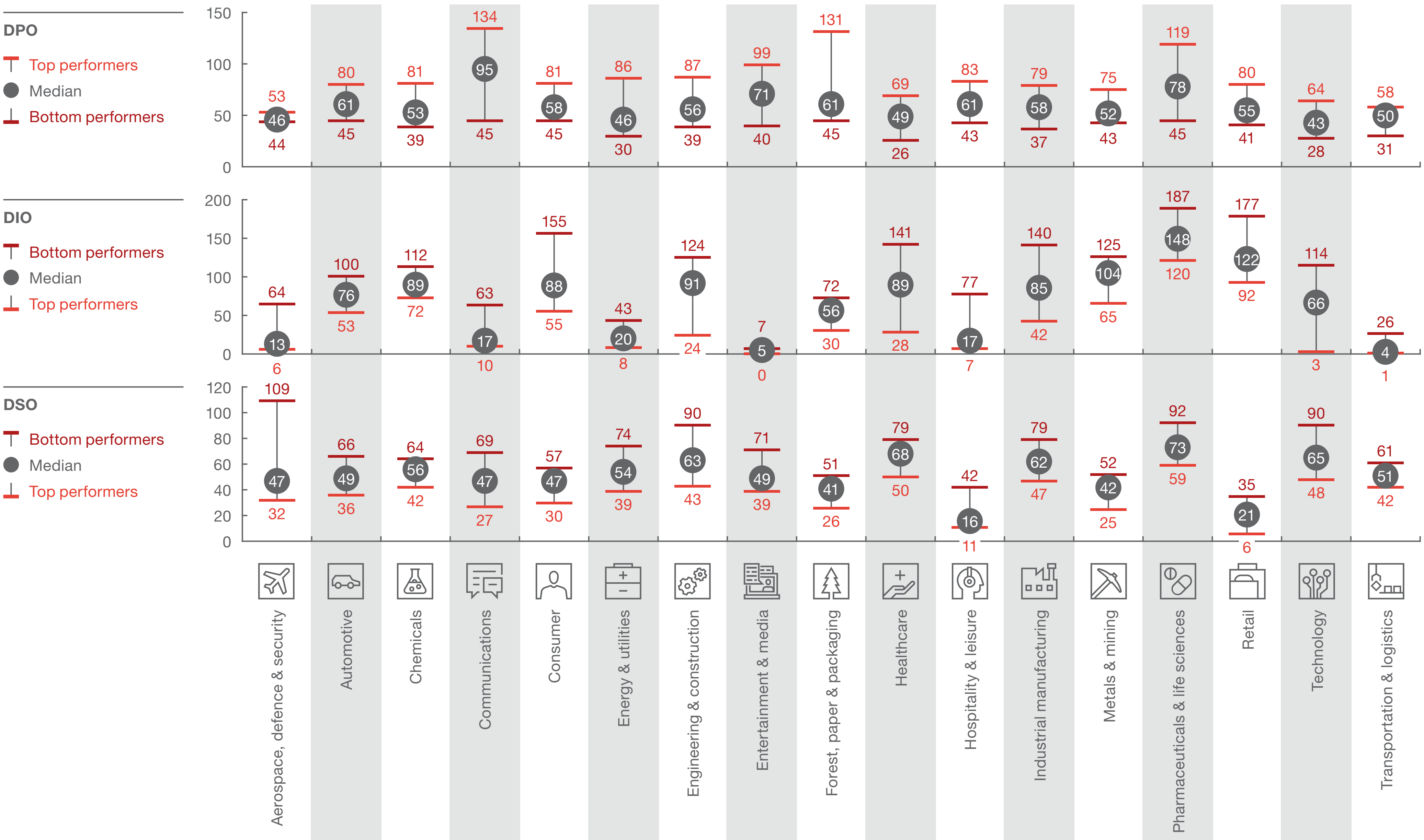
The wide variety of different business models in the technology industry is reflected in the range of DIO in this sector, varying between 3 and 114 days.

The range of DIO in the energy and utilities sector was relatively small, at 35 days. This was the second-smallest gap of all sectors: the best results of all were achieved by the non-stock-intensive entertainment and media industry, in which DIO varied from 0 to 7 days.

The overall median of the DSO metrics improved slightly compared to last year, and the gap between the top and bottom performers is smaller than with DPO and DIO. However, some industries stand out:

- Aerospace, defence and security had 77 days' variation in DSO between the top and bottom performers – the largest gap of all sectors (32 days in the upper quartile and 109 days in the lower quartile).
- The energy and utilities sector managed to reduce its gap in DSO performance by 11 days, resulting in a concentration of companies around the median (54 days).
- The retail industry remains almost unchanged, with a range of 29 days and a median of 21 days. This is the second-lowest median of all sectors, after the hospitality and leisure sector (16 days).

Fig. 8 Sector performance overview



Company performance

Company size still makes a difference

The difference between large and small companies decreased, from 35 days in 2014 to 30 days in 2018.

The main reason for this persistently large range is that larger companies are able to benefit from their greater purchasing power and ability to better negotiate terms with (smaller) suppliers, as well as from better-managed, more efficient supply chains.

As in 2017, the performance differences are in receivables and inventories. DSO varies by up to 12.3 days.

The main NWC performance driver is DIO performance; the difference in DIO performance between small and large companies is more than 23 days.

Challenges remain in optimising supply chain processes, especially for small companies. These challenges will increase with digital transformation of main business areas.

Larger companies are able to counteract increased capital lockup, and can therefore generate higher ROIC than smaller companies.

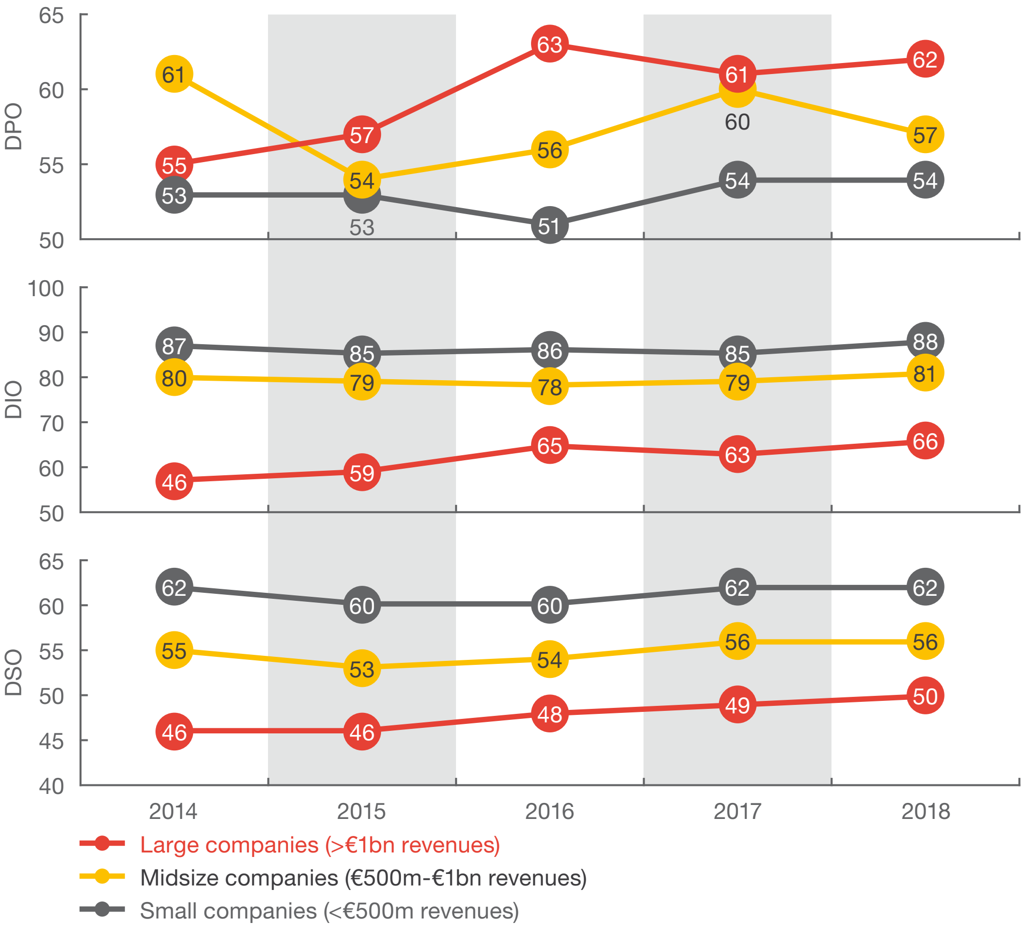
8.7%

Larger companies generate (on average) a 8.7% higher ROIC than smaller companies

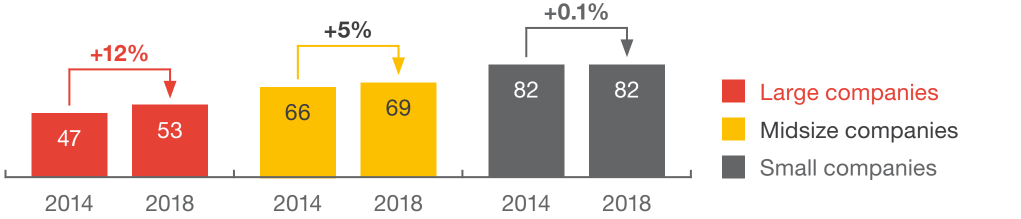
23 days

The main driver in the working capital performance between large and small companies is still the DIO with a variance of 22.7 days.

Fig. 9 Working capital performance by company size



NWC days trend 2014–2018



Unlocking cash in the digital age

Digital technologies have been a driver of innovation and transformation for many aspects of business across various industries. This year's 22nd PwC Annual Global CEO Survey found that 72% of UK CEOs agree that key enablers and disruptors such as AI will have a significant impact on the way they do business in the next five years.

Harnessing the power of technologies such as data analytics, artificial intelligence (AI) and robotic process automation (RPA) is also becoming increasingly important in optimising working capital.

Digital enablers have the potential to overcome the complexity and fragmentation that have historically hindered companies' working capital performance. Consumer markets such as retail and automotive present good examples of this potential. Both sectors have been struggling in the last few years with deteriorating working capital ratios and limited visibility along the entire supply chain.

Companies in both industries have found that predictive analytics and AI can be deployed to expand forecasting models to include an ever-wider range of data points, from the latest demand data to what's trending on social media. As data points become increasingly diverse, machine learning is helping to improve accuracy. This can help companies identify and set optimal inventory levels, for example.

However, the overall adoption rates for digital enablers remain low, with many companies lacking the capability or understanding of how to use them to generate value. In our work with clients, we see a number of areas that need to be on the working capital agenda to drive optimal performance:

- Applying data analytics to transform information into insight and focus operational activity
- Delivering immersive visualisation to finance, factory floor, commercial reps and procurement alike, building a shared awareness of the importance of cash
- Deploying predictive analytics to enhance inventory models or the efficiency of customer collection processes
- Using drone technology to achieve accelerated inventory count
- Applying RPA to automate back-office processes, such as billing
- Deploying AI algorithms to enable early payment to suppliers while managing dilution risk
- Using behavioural economics and social media flags to prevent bad debts in order-to-cash processes and debt management
- Fine-tuning enterprise resource planning systems to accommodate best practice processes; supplementing capability with specialist cloud-based applications where applicable

We have seen many companies where deploying a data-centric and digitally-enabled working capital approach has delivered a significant improvement in performance. To start the journey to digitally enhanced working capital practices, we believe executives need to think through four key steps:

1. Build your data foundation
2. Apply advanced analytics
3. Improve business performance
4. Explore innovation opportunities

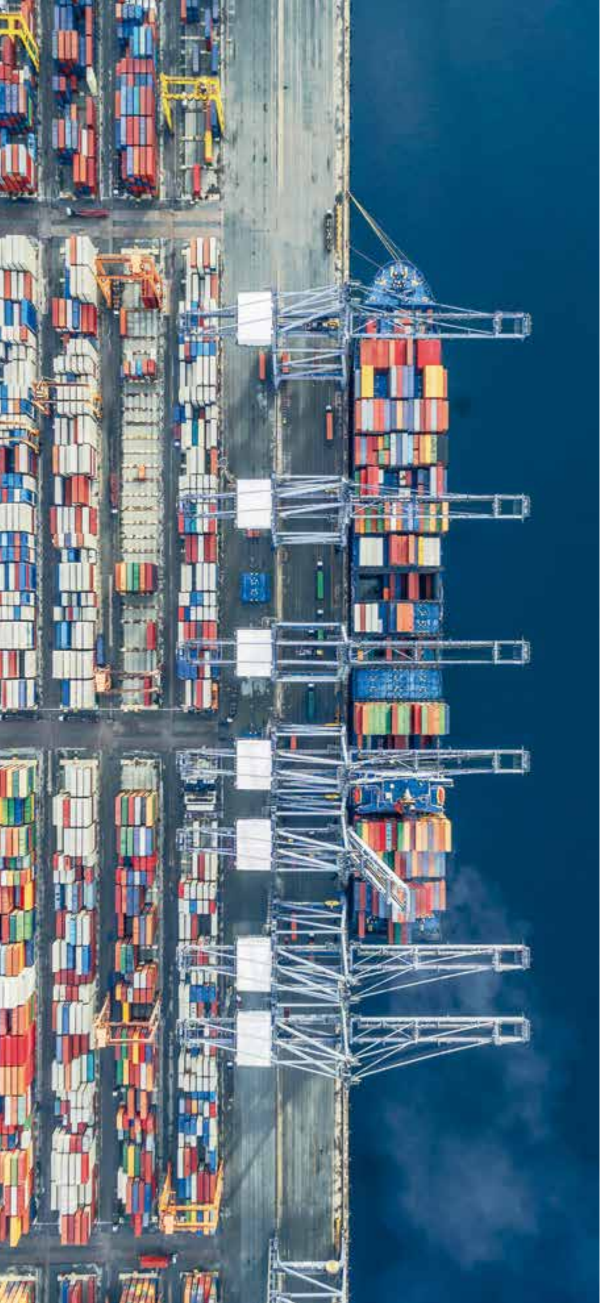
Cash management enhancements

Why your customs and international trade function enhances cash management?

Fig. 10 Key drivers impacting Cash Flow (Duty & Tax) efficiency

Depending on the sector or the country in which an organisation operates, the indirect tax impact linked to customs/trade can account for **12% of the cash flow (i.e. above the line cost)** associated **with all its sales, purchases and inventory.** This is a substantial amount and is often an underestimated cash figure by management, incorrectly perceived as a wash through by many and the true impact is poorly understood and managed. This translates into cash flow (and cash out) disruptions as well as missed opportunities in terms of financing (suspension of cash/tax pre-financing).

However, never has the world of customs and international trade been more of a focal point in the media, politics and business. Previously a back-office task, a company's customs function is now part of the **C-suite discussion** and has become a crucial aspect of strategic, operational and **financial decisions. The time to act is now –** disrupt the current trends by taking full advantage of the cash management opportunities offered to you by international trade.



The impact of TAX duty in terms of cash management should be seen in context of mitigating risks.

The potential is assessed by looking at three key areas (which can vary significantly by region, sectors and organisations):

1 Customs pillars

Classification
Master data management plays a crucial role. Outdated/old data can lead to **higher duty rates (negative impact on cash-flow); Use what is available –** EU rulings means that you can claim preferential duty rates (no tax = no cashout)

Valuation
Optimising your customs valuation will have a direct impact on your duty expenditure (less tax = improved cash flow) with an **immediate effect on your bottom-line**; and

Origin
Controlling the origin of goods enables company's to implement a sustainable free trade aggreement (FTA) – significantly **decreases their duty burden (reduce cash-out)**

2 Compliance

A rigurous compliance function dedicated to customs will enable your organisation to optimise its trade strategy and reap the benefits of trade programs

Missed opportunities
using third parties for compliance represents a cost for but also missed strategic opportunities.

Suspension of cash (tax) pre-financing
A compliance program will help you in avoiding any tax pre-financing by using duty suspension regimes **(no tax = no cash out)**;

Maximising your refunds
Our experience, methodologies and technology will help you in maximising potential refunds resulting from trade operations.

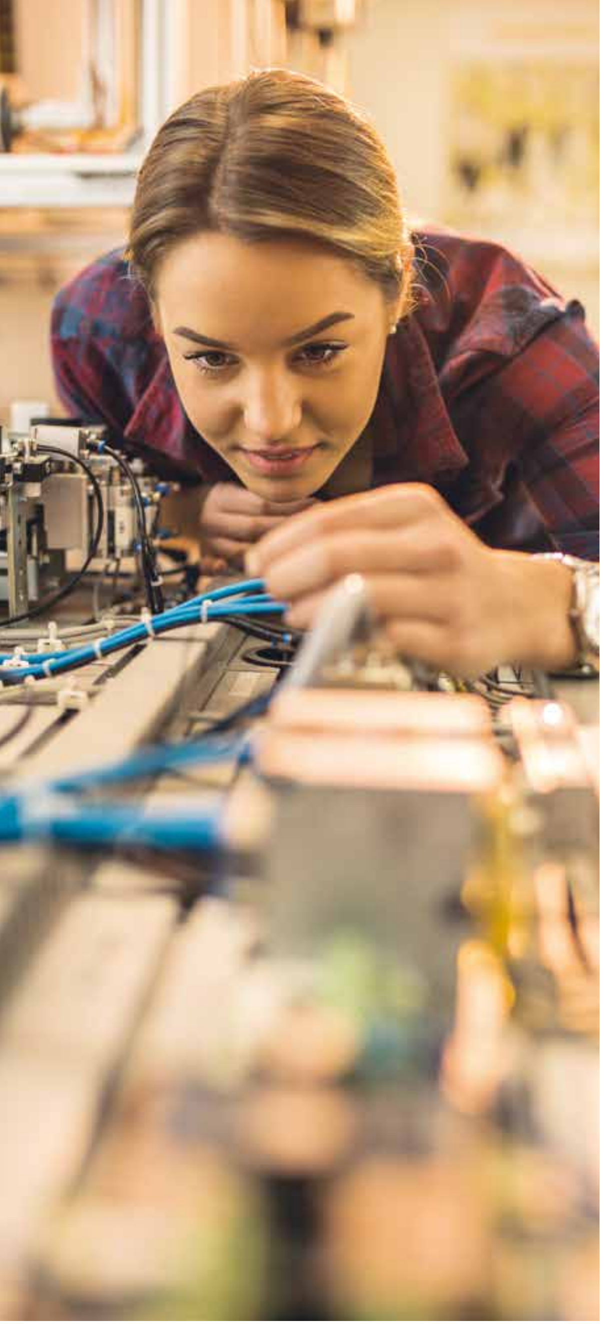
3 Relationships

Now Economy – Consumer expectations at an all-time high with a need for immediate communication and lighting-speed service.

- Blocked shipments, delays and high lead times will not only impact relationships but also translate **into loss of revenue.**

Today's company's need to focus on providing high-quality services at a pace faster than ever before or will otherwise fall behind in customer satisfaction. Take into consideration:

- Time to market & credit management,
- Pricing strategy
- Suppliers and clients relationships
- Tax strategies



The need for cash is increasing

Over the past five years, CAPEX spending relative to revenue has stagnated or slightly increased (0.3%).

Although the increase in CAPEX was minimal, the operating cash flow trend relative to revenue increased by more than 1%.

Although both operating cash flow and CAPEX are increasing in absolute terms, neither is keeping pace with rising global revenue levels.

In absolute terms, the increase in CAPEX represents less than 30% of the increase in operating cash flows, illustrating the competing demands on companies' cash.

Investment may help in the current uncertain global trading environment, both to exploit opportunities and to protect against the impacts of disruption in rapidly-changing markets.

With this in mind, addressing working capital in a structured and sustainable way is an opportunity that companies need to prioritise.

Although there were no improvements in overall working capital performance, companies succeeded in increasing operating cash flow and CAPEX over the last 12 months.

In the past five years, the level of investment relative to revenues has stagnated, with only a slight rise in 2017–18 to 5.4%.

During 2018, operating cashflow has risen to 10.2%, while the previous period saw a negative trend.

Starting from the overall negative working capital trend, cash flow and CAPEX performance could be further increased by greater focus on working capital optimisation.

Fig. 11 Operating cash flow/Revenues

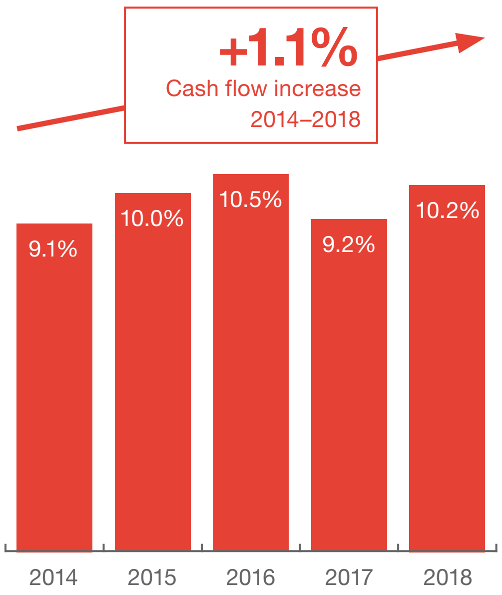
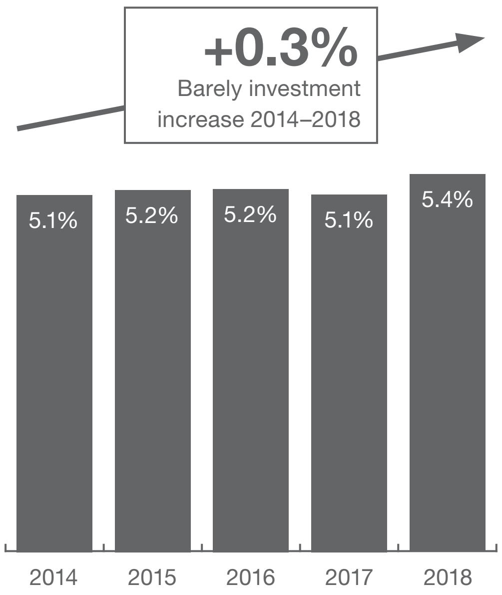


Fig. 12 Capex/Revenues



How we can help

We help our clients to:

- Identify and realise cash and cost benefits across the end-to-end value chain
- Optimise operational processes that underpin the working capital cycle
- Enhance transparency and performance through data analytics and digital working capital solutions
- Achieve rapid cash conservation in crisis situations
- Create a cash culture and upskill the organisation through our working capital academy
- Support roll-out of trade and supply chain financing solutions

Our Working Capital improvement approach

Where and how can we help you to release cash from working capital?

Overall working capital

- Data analytics and digital working capital solutions
- Working capital governance
- Tailored working capital training
- Working capital e-learning tools
- Online working capital maturity assessments
- Trade finance solutions

Accounts receivable

- Tailored, proactive collections
- Credit risk and collection policies
- Aligned and optimised customer terms
- Timely and correct billing, to a high standard
- Contract and milestone settlement management
- Systematic dispute resolution and management
- Cash contract management strategy and support

Inventory

- Lean and agile supply chain strategies
- Global footprint and inventory coordination
- Forecasting accuracy and techniques
- Demand and inventory planning
- Inventory tracking and optimisation
- Balancing cost, cash and service level considerations
- Inventory parameters and controls defining target stock

Accounts payable

- Consolidated spend management
- Increasing control with centre-led procurement
- Helping avoid cash leakage with purchasing channels
- Harmonising and enhancing payment terms
- Supply chain finance benefits assessment and roll-out
- Helping eradicate early payments
- Payment cycles and methods
- Cash negotiating strategy and support

KPIs and methodology

Fig. 13 NWC ratio per sector and country

Sector	Austria	Germany	Switzerland	Belgium	Luxemburg	The Netherlands	Total
Aerospace, defence & security	16%	9%	6%	56%	1%	1%	8%
Automotive	18%	15%	4%	–	15%	25%	15%
Chemicals	20%	25%	21%	16%	16%	14%	20%
Communications	8%	3%	7%	1%	7%	0%	4%
Consumer	21%	16%	8%	6%	30%	1%	8%
Energy & Utilities	5%	8%	8%	–1%	44%	27%	9%
Engineering & construction	11%	3%	19%	6%	–	18%	10%
Entertainment & media	–	4%	9%	–4%	1%	–	3%
Forest, paper & packaging	22%	–	9%	–	–	–	16%
Healthcare	–	22%	20%	37%	11%	25%	23%
Hospitality & leisure	6%	–11%	39%	–	–	13%	–8%
Industrial manufacturing	30%	26%	20%	18%	9%	18%	23%
Metals & Mining	30%	17%	28%	19%	20%	17%	20%
Pharmaceuticals & life sciences	–	38%	22%	16%	33%	30%	27%
Retail	28%	4%	41%	3%	5%	–1%	7%
Technology	20%	19%	16%	18%	19%	25%	20%
Transportation & logistics	5%	3%	8%	10%	17%	6%	5%

Fig. 14 DPO days sector and country

Sector	Austria	Germany	Switzerland	Belgium	Luxemburg	The Netherlands	Total
Aerospace, defence & security	42.1	50.3	46.1	68.5	43.7	45.2	48.9
Automotive	66.4	53.3	118.9	–	43.0	0.0	53.7
Chemicals	69.5	46.4	80.6	44.7	36.1	56.1	50.9
Communications	134.2	79.0	126.8	117.2	144.6	95.7	88.9
Consumer	81.4	114.3	86.6	70.8	43.1	109.2	96.6
Energy & Utilities	94.1	39.6	48.9	158.7	48.0	37.8	46.0
Engineering & construction	92.3	121.3	45.9	119.9	–	59.6	94.5
Entertainment & media	–	96.7	46.4	85.8	121.4	–	98.2
Forest, paper & packaging	39.7	–	52.1	–	–	–	45.5
Healthcare	–	41.0	43.1	60.9	17.6	88.6	46.8
Hospitality & leisure	50.4	61.1	81.2	–	–	69.5	61.6
Industrial manufacturing	59.5	59.2	56.4	46.9	63.8	36.8	55.9
Metals & Mining	49.1	57.3	92.2	59.9	57.4	84.7	57.8
Pharmaceuticals & life sciences	–	120.8	83.9	64.9	160.6	83.6	95.3
Retail	91.1	77.1	58.1	62.2	57.2	47.3	61.6
Technology	73.5	60.3	51.8	97.5	59.8	61.2	60.6
Transportation & logistics	49.0	55.0	44.4	45.9	37.0	22.4	51.2

Fig. 15 DIO days sector and country

Sector	Austria	Germany	Switzerland	Belgium	Luxemburg	The Netherlands	Total
Aerospace, defence & security	46.5	23.1	8.9	221.5	3.7	9.3	20.9
Automotive	88.9	89.7	39.4	–	59.7	95.4	89.3
Chemicals	109.4	94.9	99.1	70.0	48.3	63.9	82.5
Communications	23.6	18.8	11.1	12.9	33.5	28.8	19.3
Consumer	126.7	105.7	73.3	49.6	187.9	53.7	72.9
Energy & Utilities	35.5	15.2	6.8	11.7	164.5	24.0	20.6
Engineering & construction	49.7	45.9	68.2	63.0	–	29.0	46.8
Entertainment & media	–	14.2	4.9	7.1	0.7	–	10.5
Forest, paper & packaging	70.7	–	47.0	–	–	–	59.5
Healthcare	–	50.9	66.1	132.8	21.6	108.8	60.0
Hospitality & leisure	18.4	3.0	167.0	–	–	92.4	11.9
Industrial manufacturing	108.5	79.3	53.6	33.4	51.0	29.5	66.2
Metals & Mining	134.1	73.2	166.9	90.0	110.7	116.2	92.4
Pharmaceuticals & life sciences	–	227.4	144.7	59.3	167.1	136.1	166.6
Retail	492.3	70.1	390.5	45.1	81.8	33.8	80.7
Technology	75.4	43.1	58.6	43.8	10.2	132.9	66.8
Transportation & logistics	4.2	5.0	0.2	29.0	54.5	0.8	7.8

Fig. 16 DSO days sector and country

Sector	Austria	Germany	Switzerland	Belgium	Luxemburg	The Netherlands	Total
Aerospace, defence & security	54.1	54.6	36.9	114.8	29.9	32.2	49.8
Automotive	50.3	28.5	61.5	–	39.0	11.6	28.9
Chemicals	49.0	56.0	67.6	35.8	46.6	45.7	51.7
Communications	80.1	51.9	79.3	63.1	59.5	41.0	55.4
Consumer	47.4	64.2	37.3	39.4	24.4	35.0	40.8
Energy & Utilities	56.3	48.4	61.8	70.7	79.6	107.9	52.2
Engineering & construction	69.6	55.8	57.4	61.1	–	90.7	65.6
Entertainment & media	–	67.9	59.1	47.4	64.7	–	66.1
Forest, paper & packaging	57.4	–	36.5	–	–	–	47.3
Healthcare	–	73.7	61.1	87.6	37.3	80.1	74.0
Hospitality & leisure	47.7	10.2	77.0	–	–	33.2	14.8
Industrial manufacturing	79.8	80.7	73.1	78.3	41.5	69.9	76.4
Metals & Mining	40.9	48.6	52.7	45.7	30.5	38.6	44.3
Pharmaceuticals & life sciences	–	97.3	61.2	63.0	116.3	78.1	73.8
Retail	23.7	18.5	22.2	22.7	1.9	7.7	14.6
Technology	70.1	79.2	55.0	108.0	94.2	54.1	68.9
Transportation & logistics	52.4	51.5	64.2	49.7	46.7	41.2	52.5

Methodology

This study provides a view of the top 622 German, Austrian, Swiss, Dutch, Belgian and Luxembourgish companies based on CapitalIQ sectorisation. All calculations are based on publicly available data. Sub-sectors are divided based on CapitalIQ primary industry classification (data available for 100% of sample).

On account of their size, Royal Dutch Shell and Anheuser-Busch InBev have been excluded from the data on their respective countries.

Fig. 17 Basis of calculations

Metric		Definition	Formula
NWC %:	(net working capital %)	NWC % measures working capital requirements relative to the size of the company	(Accounts receivable + inventories – accounts payable)/sales
NWC:	(net working capital days)	Indication of the total days to complete the full cash conversion cycle	(Accounts receivable + inventories – accounts payable)/sales x 365
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	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	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
ROIC:	(Return on invested capital)	Performance ratio to measure the percentage of return a company earns from invested capital	EBIT/(NWC + Fixed Assets)
EBIT:	(Earnings before interest and taxes)	Operating income to measure the profitability of a company by subtracting the cost of goods sold and operating expenses from total revenues	Revenues - (cost of goods sold + operating expenses)

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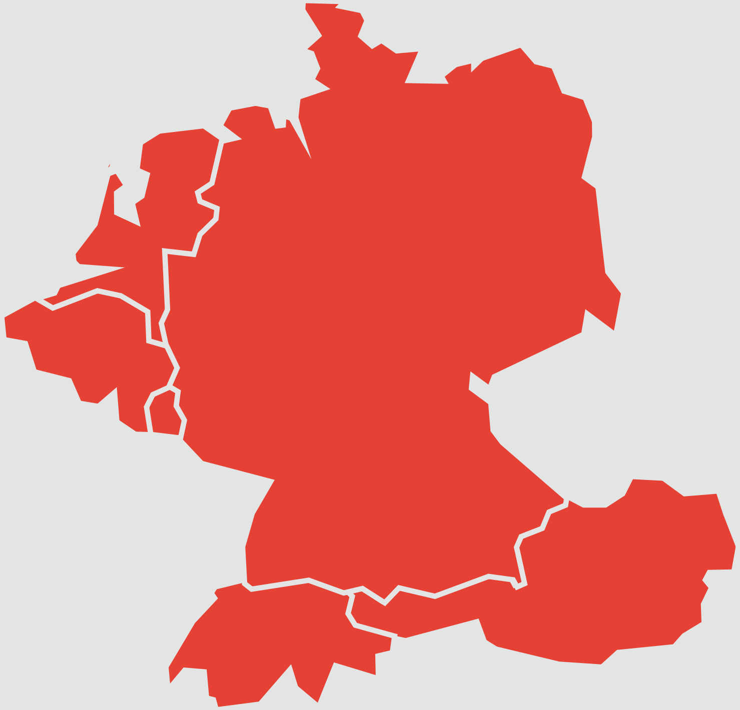

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