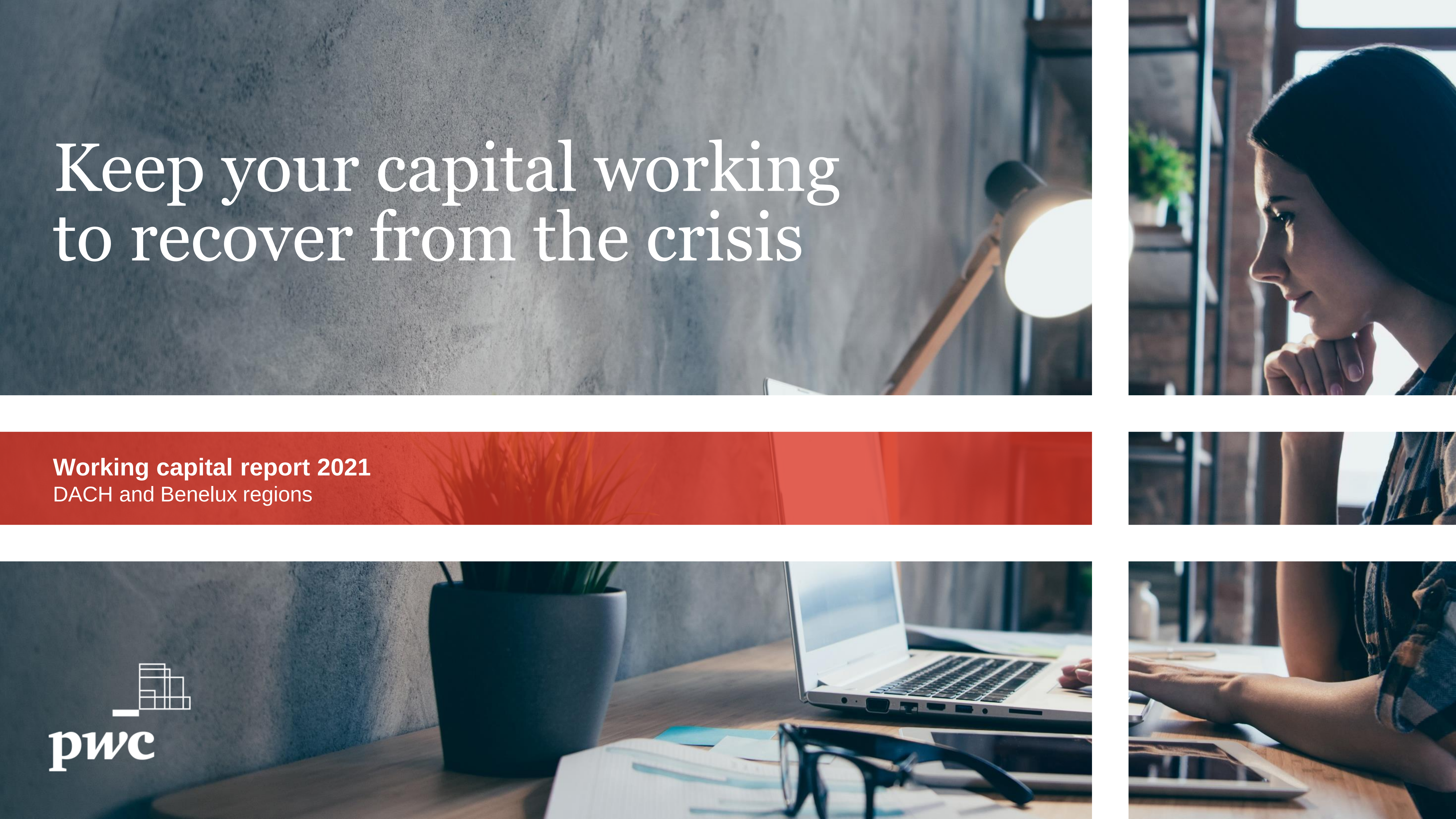


Keep your capital working to recover from the crisis

Working capital report 2021
DACH and Benelux regions

pwc

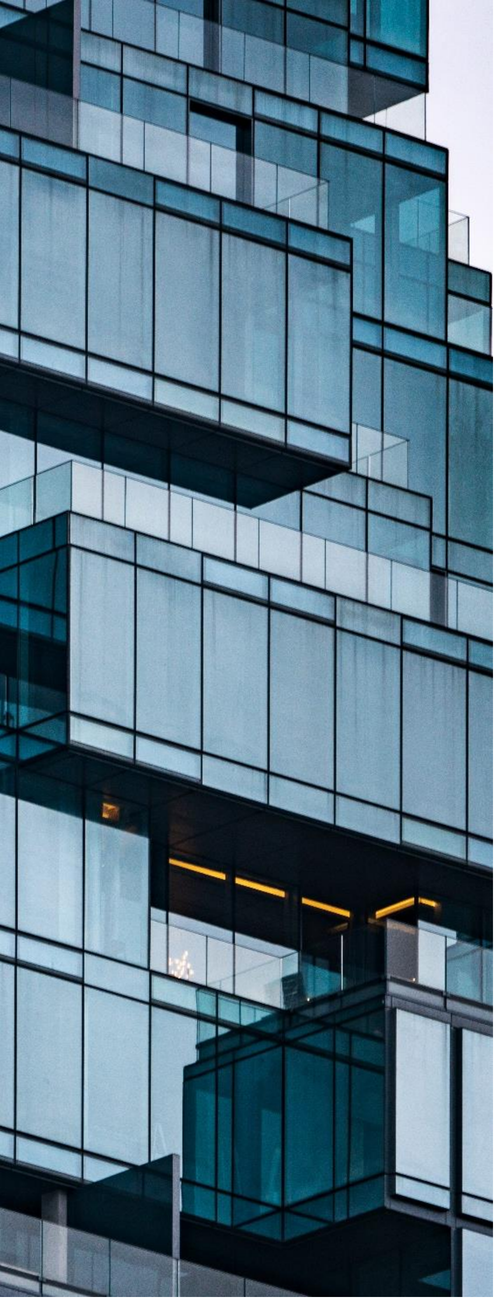


Table of contents

Rob Kortman
Partner,
PwC Germany

Danny Siemes
Senior Director,
PwC The Netherlands

Benjamin Rutz
Director,
PwC Switzerland

Executive summary

The COVID-19 pandemic has brought the importance of cash and working capital sharply into focus.

As economies in the DACH (Germany, Austria and Switzerland) and Benelux regions (Belgium, The Netherlands and Luxembourg) continue to experience multiple periods of lockdown, the route to recovery is unlikely to be smooth, and businesses need to be in the best possible shape for the journey.

These dynamics have resulted in a dramatic and urgent shift in priorities, requiring companies to conserve liquidity, increase cash visibility, protect balance sheets and improve flexibility as the current environment evolves.

Companies that have shown better working capital performance over the last period typically have more advanced operational management and better focus on key working capital areas such as order to cash, procure to pay and – in particular – forecast to fulfil (inventory).

Now is the right time to focus on cash and working capital management. Not prioritising cash is both ignoring an opportunity to drive value and risking a negative impact on cash flow.

- Future disruption (considering the increasing risk of bankruptcies when government funding stops) is creating strong pressure on cash management for companies and their supply chains
- The foundations 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 (to support rejuvenated sales growth, acquisitions, CAPEX, repaying debt etc.)
- Strong cash and working capital disciplines provide better visibility and control over operational and financial performance
- Improved working capital management increases enterprise value

Source: PwC analysis. Analysis uses data available from **658 listed companies in DACH and Benelux from between January 2015 and June 2020.**

COVID-19 is causing unprecedented disruption across all businesses.

It’s imperative for companies to understand its impacts and have the best visibility and controls in place to navigate the situation.

1

Working capital analysis

What has the story been up to the beginning of 2020?

Looking at the financial performance of the largest listed companies in the DACH and Benelux regions over the five years prior to the COVID-19 pandemic, we noticed five key developments:

1. Working capital increased

Net working capital increased by €2bn in 2019 compared to 2018, and relative performance increased by one day in 2019 compared to 2018. This was mainly driven by DACH. During the five years prior to the pandemic, we saw an increase in net working capital of €85bn.

2. As expected, accounts payable were managed well

Days payable outstanding (DPO) decreased by two days (2019 vs. 2018), and during the five years prior to the pandemic (2015–2019) we saw an increase in DPO of three days – underlining the fact that many companies have undertaken payment term extension programmes and better streamlined the cash outflows to their suppliers.

3. Accounts receivable and inventory performance indicated major areas of opportunity

Many companies needed to kick off significant improvements in days sales outstanding (DSO) and days inventory outstanding (DIO): these increased over the five years prior to the pandemic by three and five days, respectively.

4. The need for data and analytics capabilities is increasing

Effectively managing digital transformation requires companies to continuously invest in data and analytics capabilities in order to achieve visibility in the supply chain and to quickly determine interdependence. This is key to assessing potential operational and financial weaknesses and to preparing for external shocks in the best possible way.

5. Working capital is the next value driver

When the economy slows down or faces a major crisis like the COVID-19 pandemic, companies face pressure on costs and prices. 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.

€42bn
excess working capital tied up on DACH and Benelux balance sheets (2019)

3 days
increase in DPO (2019 vs. 2015)

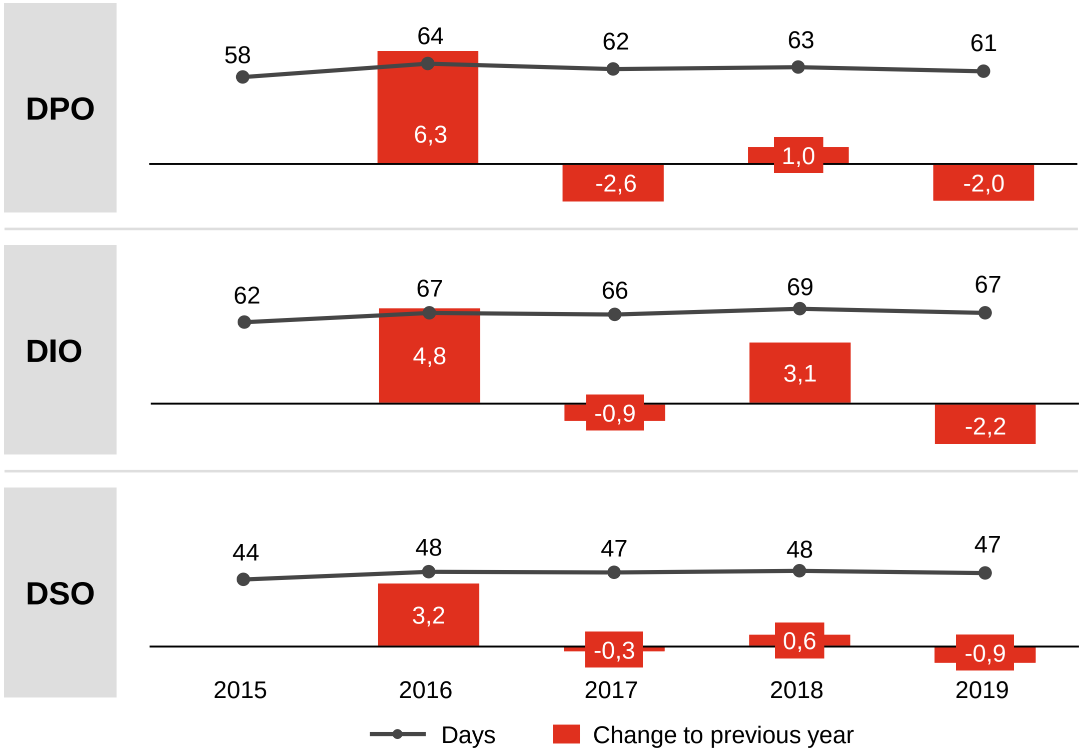
5 days
increase in DIO (2019 vs. 2015)

3 days
increase in DSO (2019 vs. 2015)

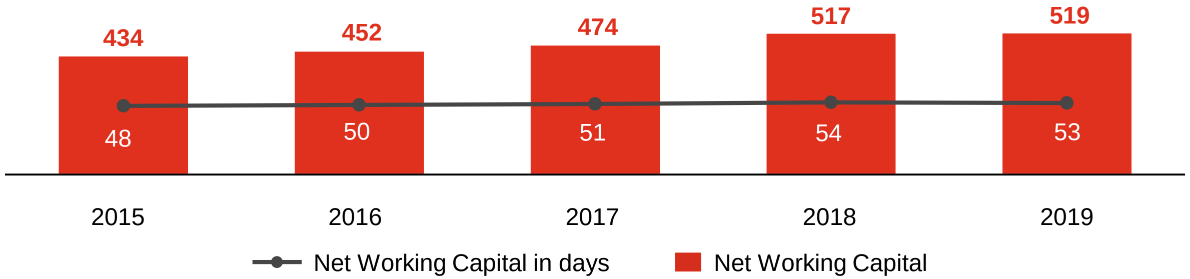
Working capital performance in the DACH & Benelux region prior to COVID-19

Number of companies per sector

DPO, DIO and DSO Trend



Net Working Capital [in €bn] and NWC days



Source: PwC analysis. Analysis uses data available from 658 listed companies in GSA & Benelux region in the time period from January 2015 until June 2020

COVID-19 impact: navigating the new reality

> It is evident that the pandemic has brought the importance of cash and working capital sharply into focus.

Looking at the financial performance of the largest listed companies in the DACH and Benelux regions in Q2 2019 (prior to pandemic) and Q2 2020 (COVID-19 pandemic), it is evident that the pandemic has brought the importance of cash and working capital sharply into focus.

As economies in the DACH and Benelux regions are experiencing multiple periods of lockdown, the route to recovery is unlikely to be smooth, and businesses need to be in the best possible shape for the journey. Economic conditions will most likely remain challenging for the foreseeable future. This means a laser-like focus on liquidity, including optimisation of working capital, will be vital to navigating the months ahead.

Every year, PwC reviews the financial performance of some of the largest companies in the DACH and Benelux region. This year's review included 658 companies with data available for Q2 2020, assessing their working capital performance and related key indicators. In this year's report, we have specifically looked at shifts in performance on a quarterly basis (Q2 2019 vs. Q2 2020) to highlight the impact that the COVID-19 pandemic has had on working capital in 2020.

Across sectors, there has been a rapid shift in working capital requirements, driven by significant disruption to both supply and demand. Normal lead times and replenishment frequencies have been elongated, even for regional supply chains, meaning that safety stock and inventory policies need to be adapted. Payment discipline, as well as creditworthiness and insurability, are continuing to impact companies' ability to get paid or trade.

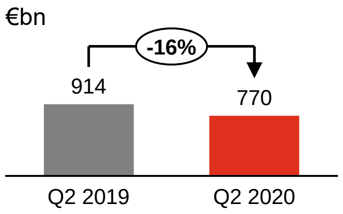
As economies come out of lockdown and start back up, the drain on working capital will likely get worse before it gets better. Looking ahead, many of the 'business as usual' processes for managing working capital will therefore need to be reconfigured.

Impact on working capital performance in DACH and Benelux

COVID-19 pandemic impact on revenues, NWC and NWC days

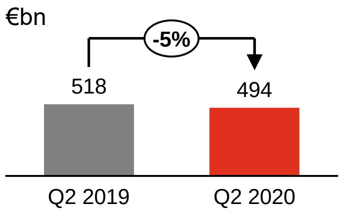
The impact of the COVID-19 pandemic has been significant. This can be observed when looking at the quarterly changes (Q2 2019 vs. Q2 2020) in revenue, NWC and NWC days for a subset of companies in DACH and Benelux (658 companies in total with Q2 2020 data available).

Revenues



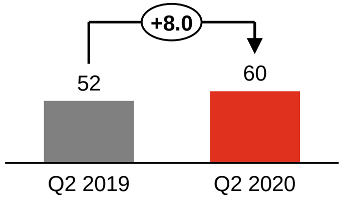
Revenues have decreased by 16% when comparing Q2 2019 with Q2 2020 revenues.

Net working capital



In contrast to the large decrease in revenues, cash tied up in businesses' working capital has reduced by only 5%.

NWC days

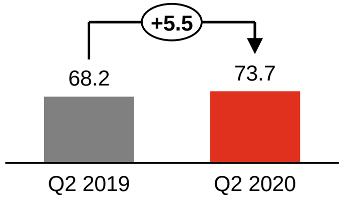


There has been a significant increase in NWC days (8-day increase).

Impact on DPO, DIO and DSO

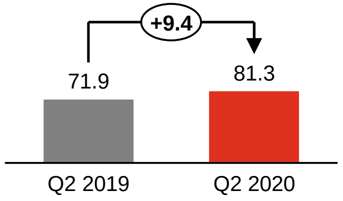
All three areas of working capital were impacted by the COVID-19 crisis, but inventory performance has been impacted most, with a 9.4-day increase in DIO.

DPO



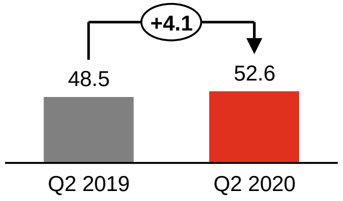
DPO: generally, there are lower levels of payables due to reduced volumes, but payment holds have to be balanced with a clear view of supplier liquidity and the ability to trade on terms.

DIO



DIO: at the start of the pandemic there was a general concern about inventory, and the ability to source materials and service demand. This then very quickly switched to a challenge of excess stock due to demand below initial expectations. The ways in which companies set safety stock and replenishment processes have been significantly impacted.

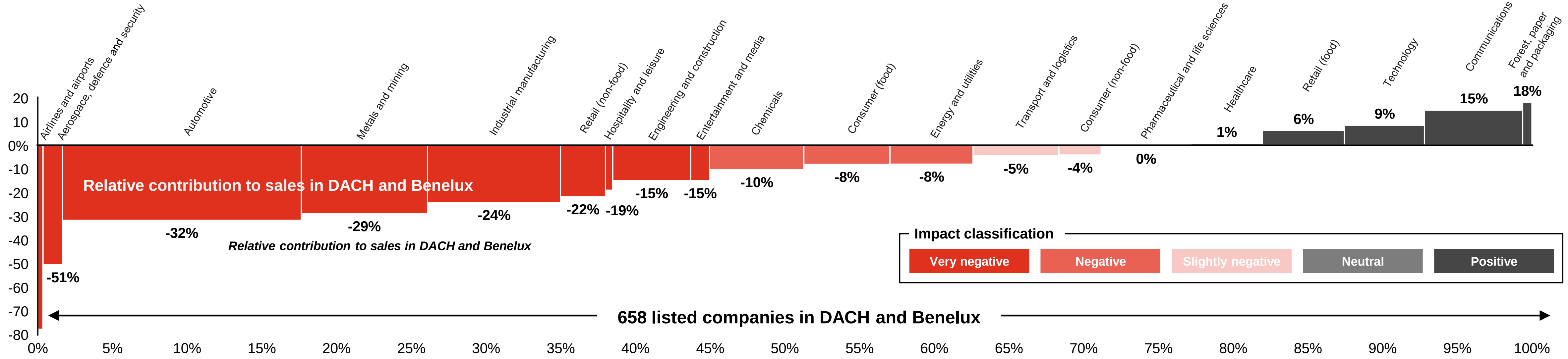
DSO



DSO: on the receivables side, there was also a significant impact on customer payment behaviour. Many companies are experiencing higher and longer overdue payments.

Impact on sectors in DACH and Benelux

Change in sales (Q2 2019 vs. Q2 2020)



The pandemic had a severe impact on sales among large-scale contributors in DACH and Benelux **(automotive, industrial manufacturing, metals and mining, engineering and construction).**

Only healthcare, retail (food), technology, communications, and forest, paper and packaging made positive contributions.

Impact on sectors in DACH and Benelux

Change in NWC days, DPO, DIO and DSO (Q2 2019 vs. Q2 2020)

Large disparities can be observed, with 16 sectors out of 20 showing a deterioration in NWC days.

Aerospace, defence and security saw a deterioration of 176 days when comparing Q2 2019 to Q2 2020, the largest deterioration of any sector. This was mainly driven by deterioration on the asset side of the balance sheet, with significant increases in both DSO (+39 days) and DIO (+167 days). Airlines and airports have also been hit hard by the pandemic, with an increase in NWC days of 48.

The retail (non-food) sector has seen the third-biggest hit due to the pandemic in terms of NWC days. Companies in this sector experienced a 27-day deterioration, mainly driven by increases in DIO (+48 days).

The automotive sector was also heavily impacted by the pandemic, experiencing a 20-day deterioration in NWC days, mainly driven by an increase in DIO (+22 days).

By contrast, the forest, paper and packaging sector, the communications sector, the technology sector and the retail (food) sector have actually experienced a large improvement, with enhanced sales and only minor changes in NWC days when comparing the two quarters.

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

Sector		Change in NWC days[1]	Change in DPO	Change in DIO	Change in DSO
Aerospace, defence and security	↑	+176	+30	+167	+39
Airlines and airports	↑	+48	+68	+15	+101
Retail (non-food)	↑	+27	+21	+48	0
Automotive	↑	+20	+6	+22	+4
Communications	↑	+13	–17	–1	–3
Metals and mining	↑	+9	+7	+15	+1
Pharmaceutical and life sciences	↑	+8	+2	+11	–1
Healthcare	↑	+7	+11	+13	+5
Industrial manufacturing	↑	+7	–7	–8	+8
Energy and utilities	↑	+5	0	+3	+2
Consumer (food)	↑	+5	+8	+11	+2
Forest, paper and packaging	↑	+3	–2	+1	0
Technology	↑	+2	–2	0	0
Chemicals	↑	+1	–3	0	–2
Transport and logistics	↑	+1	0	0	+1
Retail (food)	↑	+1	–4	–2	–1
Hospitality and leisure	↓	–1	+4	+1	+2
Engineering and construction	↓	–8	+18	+4	+6
Consumer (non-food)	↓	–11	+33	+28	–6
Entertainment and media	↓	–15	+20	+2	+3

[1]Change in NWC days = change in DSO + change in DIO – change in DPO

Key sectors face dissimilar challenges and outlooks

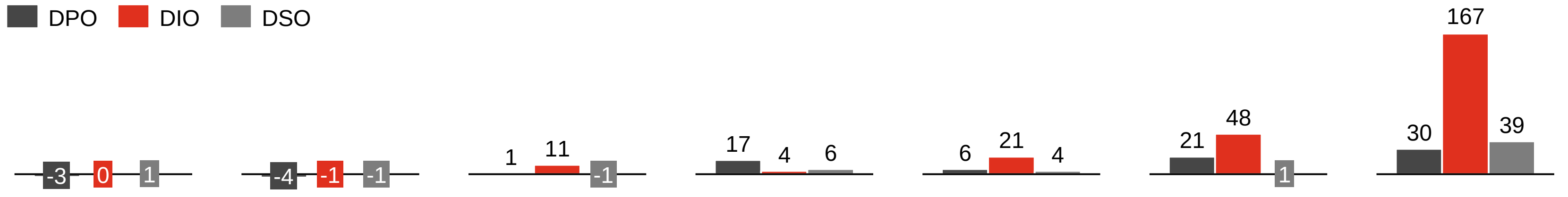
The COVID-19 pandemic's impact on business varies significantly by industry and location. Working capital performance and supply chain resilience differ greatly by industry.

The Q2 2019 vs Q2 2020 Working Capital performance comparison shows that the impact of COVID-19 on performance varies in most sectors due to differences in supply and demand patterns.

Most macro-economic analyses suggest a U-shaped recovery across the European Union (EU), with growth returning in 2021 but GDP still ranging below 2019 levels at the end of 2022.

However, in light of the current reacceleration of Covid-19 infections across most of Europe, more and more economists and corporate leaders expect to see a somewhat slower recovery for 2021 and 2022, or even longer-lasting recessions in some European countries.

Impact	**Neutral / Positive**		**Negative**		**Very negative**		
Industry	**Technology**	**Retail (Food)**	**Pharmaceuticals & life sciences**	**Engineering & construction**	**Automotive**	**Retail (Non-Food)**	**Aerospace, defence & security**
Sales & NWC Ratio	Sales: +8.5% NWC Ratio:+0.5%	Sales: +6.3% NWC Ratio:+0.1%	Sales: -0.3% NWC Ratio:+0.7%	Sales: -15% NWC Ratio:-0.8%	Sales: -31.7% NWC Ratio:+4.7%	Sales: -21.8% NWC Ratio:+5.2%	Sales: -50.5% NWC Ratio:-53.9%



Key Challenges	Digital transformation is driving revenues, offsetting declines caused by the economic downturn.	Large increase in demand during pandemic. Customers from all demographics have shifted to digital and delivery.	Challenge of rapidly scaling up production to meet global needs.	Construction projects are being delayed or cancelled. The impact of the lock-downs could force some to restructure debt, seek new sources of capital or risk insolvency.	Suppliers unable to deliver critical components, delaying or halting the manufacturing process.	Downturn in demand leading to increased inventories that are more and more difficult to clear.	Massively impacted due to significant decline in revenue. New market conditions with alternative to travel and permanently lower demand.
Outlook	Continued growth	Continued growth	U-Scenario	U-Scenario	L-Scenario	U-Scenario	L-Scenario

Impact on company gaps within sectors

For DIO and DPO, the gap between the bottom performers and the top ones has grown when comparing Q2 2019 to Q2 2020 data.

Our analysis shows that the gaps between the top and the bottom performers in each industry have grown due to the COVID-19 pandemic. When comparing Q2 2019 (prior pandemic) to Q2 2020 (pandemic impact), it can be observed that this has been driven primarily by an increase in DIO gaps, as well as DPO gaps between companies.

Days payables outstanding (DPO)

The median of the DPO metrics in Q2 2020 increased (+4 days) compared to Q2 2019, to 61 days. The top and bottom performers have made slight improvements.

The entertainment and media sector shows a wide gap of 150 days between top and bottom, with a relatively high level of DPO.

Conversely, the 20-day gap in retail (food) demonstrates DPO harmonisation in this industry.

Days sales outstanding (DSO)

The median of the DSO metrics in Q2 2020 improved (–6 days) compared to Q2 2019, decreasing to 56 days.

The range between top and bottom is lower than both DPO and DIO. However, some industries stand out.

The range in the aerospace, defence and security sector is the largest, at 101 days (62 in the upper quartile and 163 in the lower quartile).

Days inventory outstanding (DIO)

The median of the DIO metrics in Q2 2020 deteriorated (+6 days) compared to Q2 2019, increasing to 80 days. The range between top and bottom grew across all industries. In particular, they grew further in those industries which already had wide ranges.

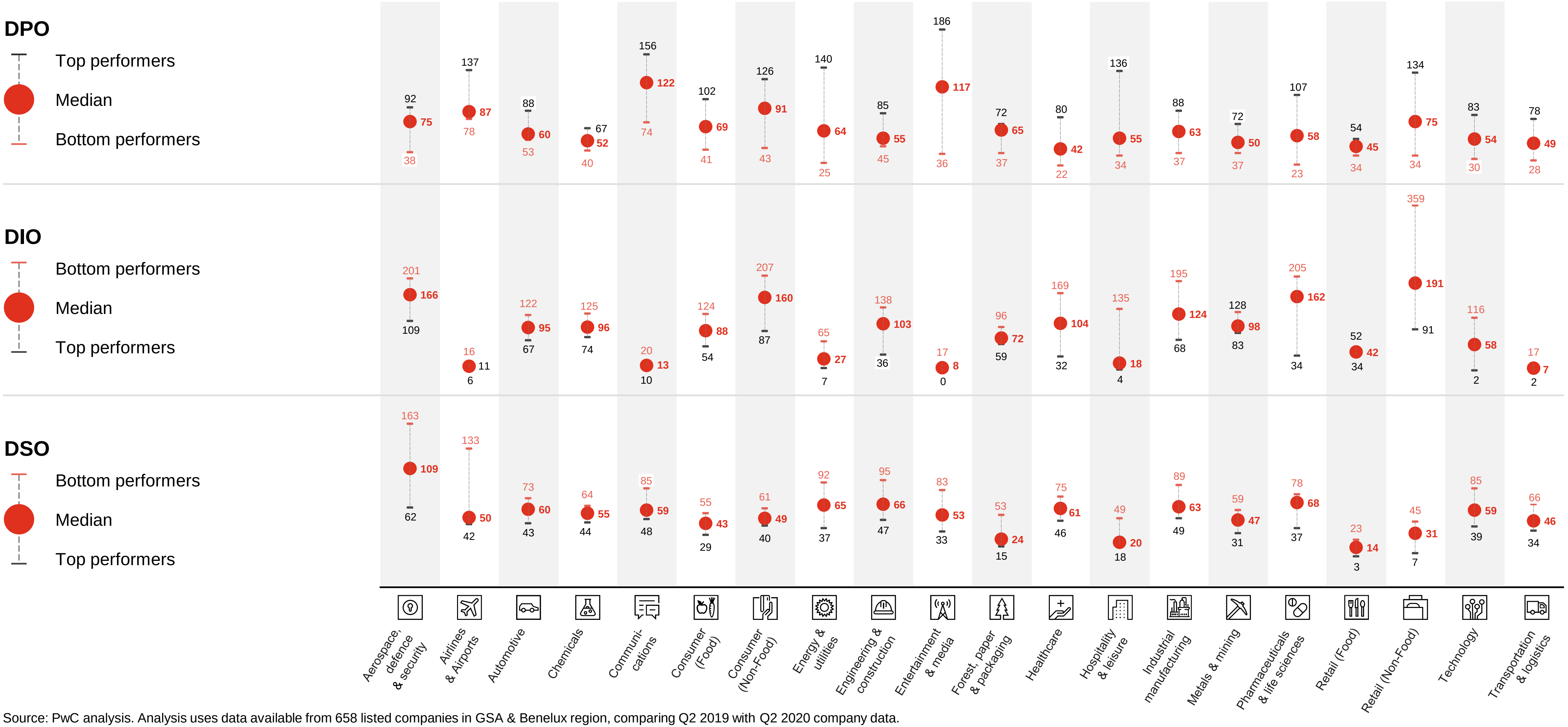
The range in retail (non-food) totalled 268 days, the largest of any sector.

The wide variation of different business models in the technology industry is reflected in the spread of DIO, which varies between 2 and 116 days.

The airlines and airports sector has the smallest range, of only 10 days.

The non-stock-intensive entertainment and media industry has a spread of 0 to 17 days.

Gaps between the top and low performers in each sector



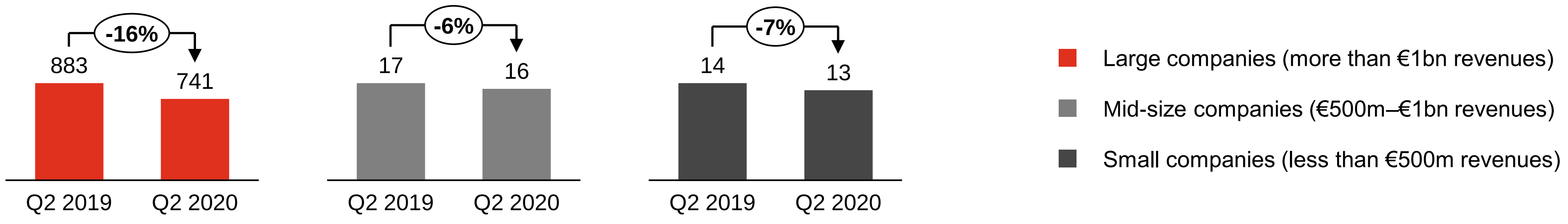
Source: PwC analysis. Analysis uses data available from 658 listed companies in GSA & Benelux region, comparing Q2 2019 with Q2 2020 company data.

Impact of company size

“

The change in revenues and NWC days between Q2 2019 and Q2 2020, differentiated by company size, underlines the fact that size has not helped companies to protect their NWC.

Revenue change (€bn) – Q2 2019 vs. Q2 2020



Change in DPO, DIO, DSO and NWC days – Q2 2019 vs. Q2 2020

	DIO		DSO		DPO		NWC days increase
Large companies	9	+	4	–	5	=	8
Mid-size companies	11	+	3	–	3	=	11
Small companies	12	+	4	–	10	=	6

Size has not been an advantage during the COVID-19 pandemic.

The Q2 2019 vs. Q2 2020 analysis shows that the impact of the COVID-19 pandemic on large and mid-size organisations has been more severe than on smaller companies. This may be driven by a combination of smaller supply chains and lower levels of organisational complexity.

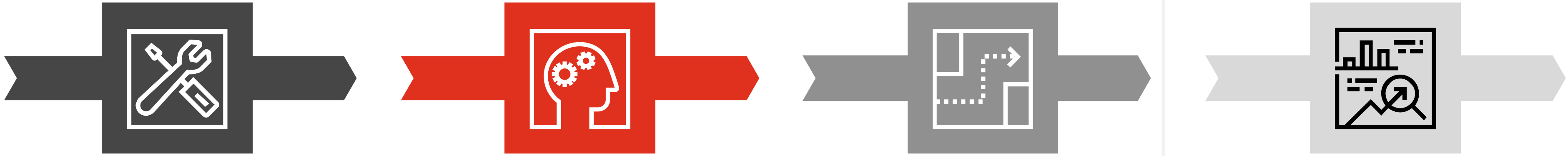
2

Breakout topics

Building resilience: repair, rethink, reconfigure and report

Having dealt with the first waves of COVID-19 and periods of lockdown in 2020, the key focus in the coming months will be on rethinking and reconfiguring working capital processes in order to build up resilience.

COVID-19 has been both a stress test and a catalyst for companies in the DACH and Benelux regions to rethink and reconfigure their working capital processes. As our analysis shows, the impact of the pandemic on the working capital performance of the largest listed companies has been significant. Revenues, net working capital and NWC days have been heavily impacted, indicating the urgent need to build resilience in order to be prepared for future scenarios and external shocks.



1. Repair	2. Rethink	3. Reconfigure	4. Report
Understand impacts	Protect liquidity	Identify working capital profile going forward	Provide quick insights
Ensure business continuity	Manage supply impacts	Ensure operational processes are fit for purpose	Swiftly act in changing business environments
Short-term cash forecasting	Short-term payment contracts	Implement necessary infrastructure and controls	Enable business with real-time information
Engage with stakeholders	Bolster credit collection efforts	Ensure business continuity across the supply chain	Track impacts of implementation projects

Digital technologies are key for ensuring end-to-end visibility and transparency, and they form an excellent starting point to build resilience. Newly acquired and more rapidly acquired insights enable your organisation to react to change more efficiently and effectively, while providing tremendous value by allowing you to focus on the most impactful issues.

The road ahead: ensuring working capital is fit for purpose

Key considerations that have to be taken into account in order to ensure working capital is fit for purpose in these uncertain times:

Do policies, targets and incentives drive the right decisions?
Governance frameworks will need to be aligned to ensure the right trade-offs are made and that the organisation has the right guidance to operate.

Do people have the guidance and skills to take the right action?
Operational functions will require guidance to enable staff to execute the right actions and prevent 'business-as-usual' behaviour.

Is the right operational data available to enable fast decision-making?
Historical models that most processes rely on are limited in their usefulness. Real-time, bottom-up transparency is necessary for informed action.

Are processes still fit for purpose?
Operational working capital processes need to be adjusted to the 'new normal'.

Receivables
- Realign and focus collections
- Credit limits, insurance and ability to trade
- Terms renegotiation and payment terms
- Availability of factoring capacity
- Focused dispute and claim resolution

Inventory
- Reconfigure demand forecasting model
- Update replenishment triggers and lead times
- Realigned safety stock calculation
- Align production campaigns and plans
- Product portfolio contribution alignment

Payables
- Increased payment controls
- Manage change requests for credit terms
- Understand supplier stability and health
- Supply chain financing options

How resilient is my supply chain?
The supply and financial health of critical suppliers needs to be clear before ramping up and contingency plans need to be put in place.

Supply chain resilience and agility

Building resilience in your supply chain

Supply chain visibility exposes risks and weak links in the supply chain.

The impact of COVID-19 has led to severe stress within supply chains. Because of this, many organisations need to rethink the priorities of their supply chain set-up and operation as end-to-end supply chains become more volatile. The Q2 2019 vs. Q2 2020 comparison of working capital performance shows the evident impact of the COVID-19 pandemic on the working capital performance of DACH and Benelux companies in key sectors. It has become critical to build supply chain resilience and improve supply chain agility, enhanced by making use of digital working capital levers in order to be prepared in the best possible way for unexpected risk events in the future.

The immediate impact of COVID-19 …

- Adjusted **supplier base** with multi-source strategies
- **Regionalisation** and **nearshoring** of supply chain activities
- Review of **make-or-buy** decisions
- **Capacity adjustments** up to c. 50% of volume
- Different **customer channel** priorities and new go-to-market approaches
- Adjusted **product portfolios**

… is driving a focus on key capabilities for resilient supply chains

- Dynamic supply chain segmentation
- Closed loop integrated planning and execution
- Supply chain transparency and risk management
- Smart logistics flows
- AI-driven supply chain management
- Future organisation

Key capabilities of future of supply chains

It has become critical to build supply chain resilience in order to be prepared for unexpected risk events, and to respond to and quickly recover from potential disruption.

Making use of digital levers will be key to accelerating this process.

The increased focus on supply chain resilience and agility is enabling organisations to enhance their end-to-end supply chains, fully aligning them with business purposes and increasing digital connection with suppliers and customers while increasing agility and resilience when dealing with societal and economic demands.

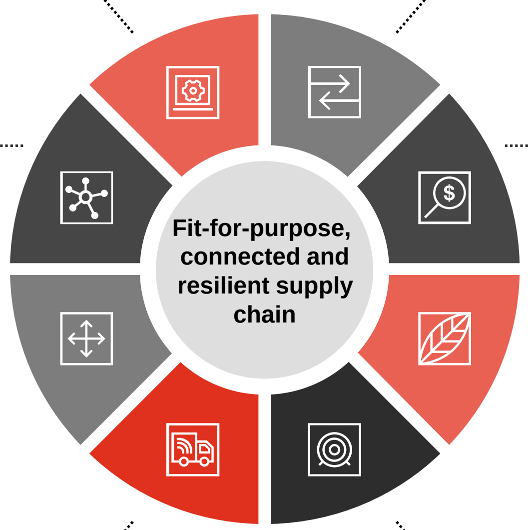
Future of supply chains – key capabilities

Operating model development
Master tomorrow's supply chain challenges with next-level supply chain organisation and capabilities.

AI-driven supply chain management
AI is accelerating supply chain improvements and agility when dealing with disruption/change.

Dynamic supply chain segmentation
Dynamic supply chain segmentation enhances customer centricity and continuously balances service levels, costs and margins.

Smart logistics flows
Smart logistics is the key driver of savings and a growth lever in the connected supply chain ecosystem.



The vision
Tomorrow's supply chains will be connected and self-orchestrated ecosystems.

The working capital benefits
Investments in supply chain excellence pay off in cash, cost and service benefits.

Supply chain transparency and sustainability
Supply chain transparency sets the stage and is a catalyst for greater sustainability.

Closed loop and integrated planning
Next-level planning is synchronised with execution in real time, integrates supply chain partners and enables continuous optimisation.

Digitalisation and analytics

Digital technologies are key for ensuring end-to-end visibility and transparency

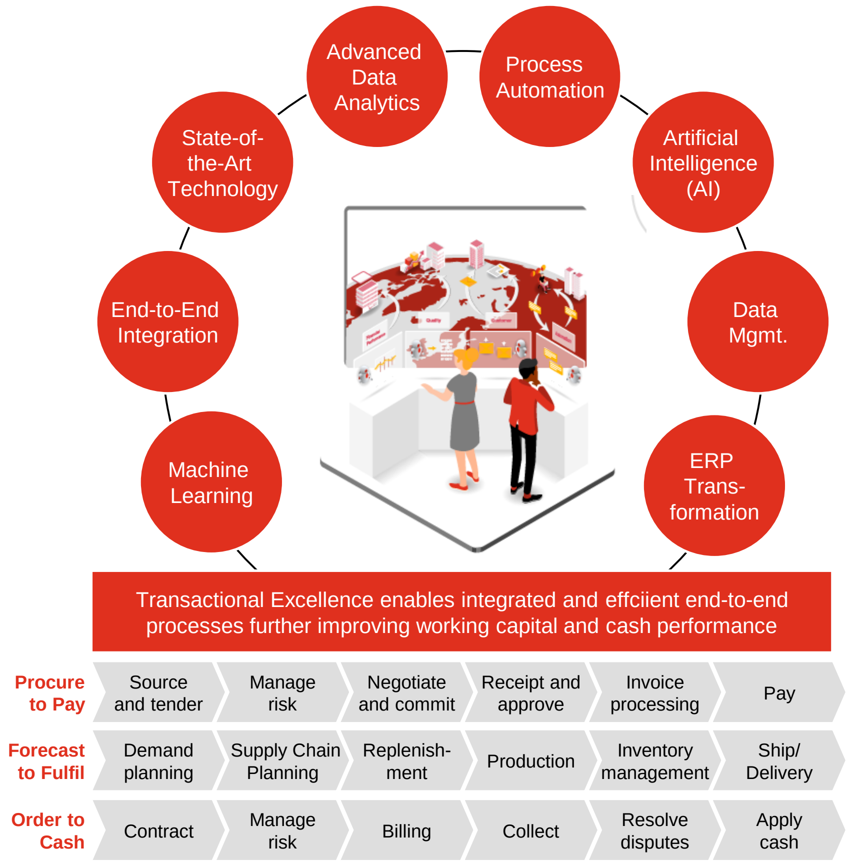
> Companies using digital technologies and Advanced Analytics have dealt better with the COVID-19 pandemic and are equipped to deal with change and uncertainty in the time to come.

In the face of the pandemic and its often high impact on demand patterns, for most CFOs liquidity management and availability has been of high(er) importance. This has increased the focus on working capital management. However, many companies have already realised the easy “cash” wins within their order-to-cash, procure-to-pay and forecast-to-fulfil processes.

In most cases a top-down approach, based on hypothesis testing and short-term actions, has been deployed to realise these ‘easy’ cash wins. This approach typically identifies and realises up to 40% of cash potential, the remaining cash potential is not fully identified and /or realised as it requires a significantly higher focus, effort and especially data-analytics capability.

For this a ‘bottom-up’ approach is required utilising the ERP transactional data combined with AI , i.e. advanced data analytics and process mining, to find and realise the additional cash potential. Every order process, every invoice, every delivery is then analyzed by the AI. Is a supplier delivering too early or too late? What consequences does that have for the inventory? Artificial intelligence can help us recognise and evaluate these correlations.

However, in order to be able to do it in a sustainable way, the current processes in companies must be (re)designed in such a way that employees can efficiently process large volumes of data (Big Data) and transparently map different process variants. All of this always should happen with an eye toward timeliness, stakeholder satisfaction, employee leadership and compliance.



Digital enablers to optimise working capital

> Digital enablers such as advanced data analytics and process mining help to overcome the complexity and fragmentation of end-to-end operational processes.

Process mining plays an important role in designing and improving processes. It performs end-to-end analyses with all existing process variants, individual KPIs, conformance checks, evaluation of automation potential and other features. It enables holistic, end-to-end process optimisation while providing constant insights on performance at transaction level, thus enabling continuous improvement and excellence.

Digital enablers such as advanced data analytics and process mining help companies to overcome the complexity and fragmentation of end-to-end operational processes. They enable not just the release of cash, but also sustainable process excellence.

Although sectors were affected differently by the pandemic, companies were able to use data analytics to quickly determine how their supply chain was impacted, and they were able to act and align with their most important suppliers. Some needed to postpone orders to avoid overstocking due to lower demand, while demand increased for others. In some cases, analytics made it possible to most effectively spend the reduced amount of cash available.

On the order-to-cash side, we have seen that companies were able to quickly identify change in payment behaviour by their customers. In turn, this allowed them to proactively start discussions to understand their clients' situations and mitigate risks. In some instances, we have even seen companies extending terms to help their customers.

Digital enablers such as process mining have the potential to overcome complexity and fragmentation. They can also help with tasks such as identifying time-sensitive orders, anticipating supplier issues early, and maintaining an efficient supply chain during and after COVID-19.

Digital Working Capital Levers

DPO	DIO	DSO
Master data management: Interpreting free-form text and electronic order requirements	**Demand forecasting:** Digitisation of demand forecasting and demand planning	**Order Processing:** Automated order processing
Manage demand for purchase: Automating simple repeatable tasks	**Supply chain management:** Collecting & maintaining supplier information	**Billing:** Managing customer billing
Place and receive orders: Automating order placing processes	**Inventory management:** Inventory planning, optimisation and asset tracking	**Collection & Helpdesk:** Improved service through customer service platforms
Invoice processing: Managing supplier e-invoicing		**Disputes & Deductions:** Resolving payment dispute
Payment processing: Cash management solutions for payments to suppliers		**Cash applications:** Cash application software for maintaining A/R ledger

Supply chain finance

The role of supply chain finance in today's world

The COVID-19 pandemic has disrupted enterprises all over the world, leaving many scrambling for access to the working capital they need to survive.

Organisations are labouring to ensure that both they and their supply chains have enough cash on hand to both survive the present and enable the future.

One of the prominent options being considered is supply chain finance.

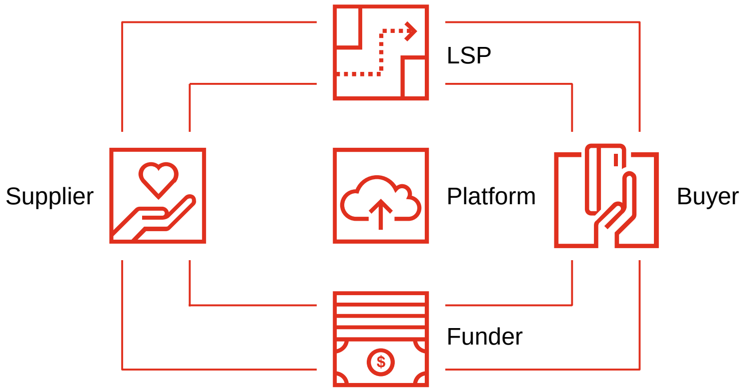
Since the outbreak and rapid spread of COVID-19, demand for supply chain finance (SCF) has soared and funding appears to have remained resilient.

COVID continues to show up some of the deficiencies in B2B payment practices, and it also accentuates the need for corporates to support small and medium-sized enterprises (SMEs), something that often makes sense both commercially and reputationally.

With this in mind, **supply chain financing could be one of the big winners in the coming periods in 2021.**

Supply chain financing is essentially the practice of putting an intermediary (usually a bank or other fintech provider of supply chain financing) into the payment process between the buyer and the supplier. The intermediary then offers 'reverse factoring' as a service: this allows buyers and suppliers to have different payment terms. Typically, the buyer will opt to pay on longer terms, and the seller chooses to get paid on shorter terms. The intermediary then has to figure out how to make a profit in the middle, but this ceases to be the buyer's or the supplier's problem – and in a perfect world, everyone is happy.

But the solution does not stop there. Most supply chain financing providers go beyond simply organising payments. They offer other value-added services such as 'dynamic discounting', which allows suppliers to be even more flexible in making decisions about when to get paid. These schemes enable suppliers to manage their own payments in exchange for more or less favourable terms, such as early payment for a fee.



SCF improves working capital management by looking at the entire supply chain to identify and address company-wide issues, and can be used as a tool to optimise financial structures, working capital and payment flows in company networks.

The aim of SCF solutions is to create added value between suppliers, purchasing companies, and external financial and logistics service providers (LSPs) by adopting a holistic approach to financial processes.

Supply chain finance increases liquidity in the supply chain for buyers and their suppliers

“

A supplier finance programme (also referred to as a reverse factoring programme) facilitates flexibility with respect to accelerated collection of receivables for suppliers. It also provides access to an additional source of finance with favourable conditions on a recourse basis.

Our suggested staged approach in achieving a successful SCF solution

1. Readiness assessment → Go / No Go → 2. Design → 3. Implementation → 4. Sustain

In the first stage, some important areas need to be assessed to understand the potential and risks.

Strategic fit

- The company’s broader goals are analysed to understand how SCF would fit
- Stakeholder requirements, strategic partnerships, business planning, functional strategy and regulation are all covered

Purchase-to-pay (P2P) process

- The P2P process is analysed to identify pain points and their root causes
- For example: what is the first time match rate? What share of goods/service receipts are processed late?

Accounting and compliance

- Implications and restrictions of accounting, financial reporting and internal controls are assessed
- For example: what are the accounting policies? What’s the position of payables vs. debt?

Supplier appetite

- Suppliers and spending categories are analysed to identify the potential spend in scope
- Supplier segments are evaluated for feasibility and fit with the envisioned solution

This provides you with a high-level business case and roadmap for implementation.

The readiness assessment helps you to understand the potential business case, identifies the requirements for successful implementation of the solution, reduces implementation delays, and facilitates decision-making (‘go/no-go’). The key deliverables of the readiness assessment are:

The business case describes the cost, benefits and operational impact

- Includes which processes are covered, which suppliers, implications for accounting, technical conditions, legal considerations etc.

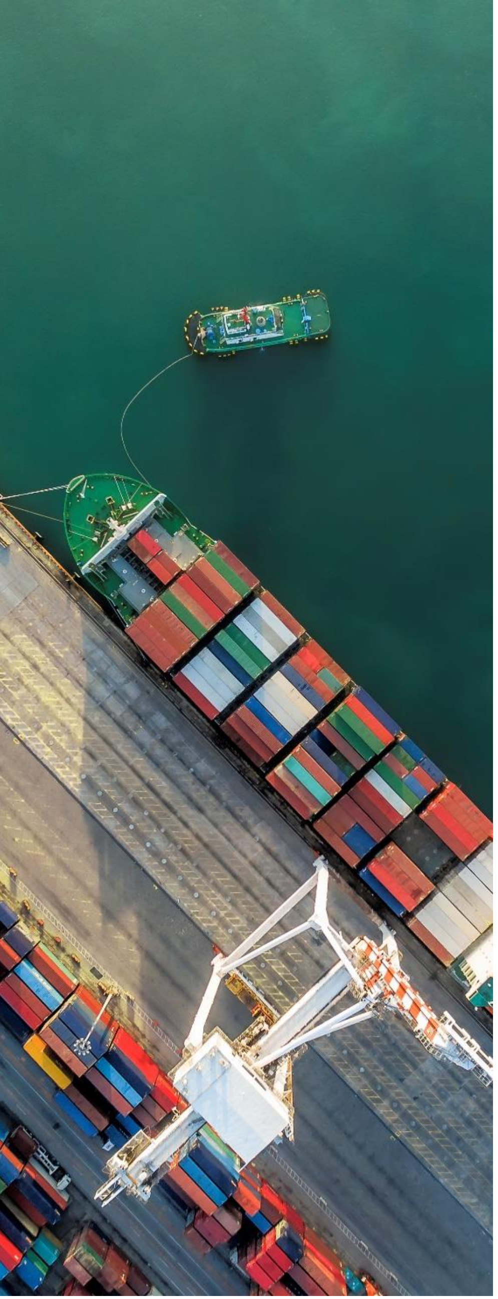
A roadmap, including the key activities and milestones for implementation

- Includes a description of the scope and deliverables, resources required and expected timelines

PwC SCF solutions

- SCF readiness scan
- SCF accounting support
- SCF platform tendering process support and contract review
- SCF business case and roadmap
- P2P process optimisation
- Supplier segmentation and onboarding (including communication)
- ERP optimisation
- Project management and pilot projects

Trade tax and working capital management



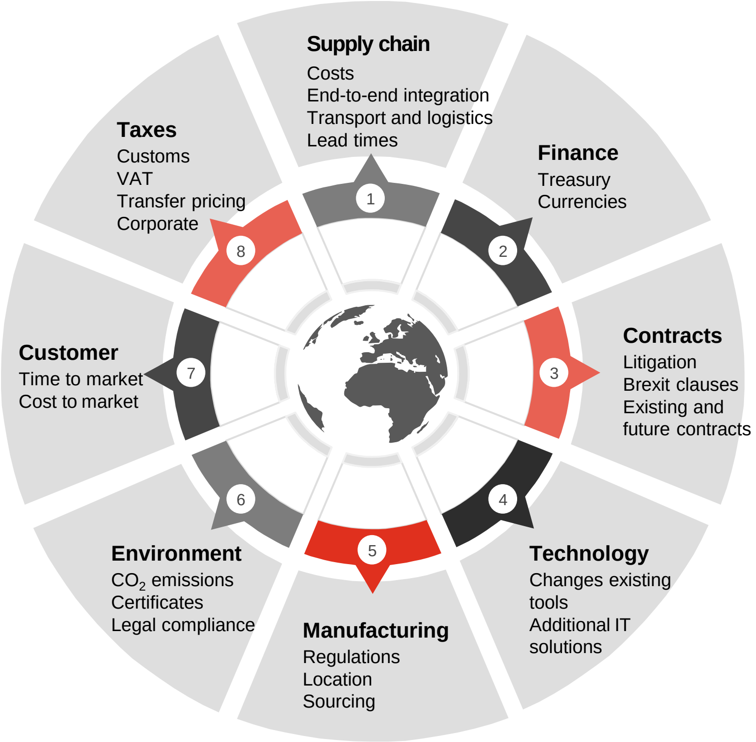
Why customs and trade duty processes impacts cash management

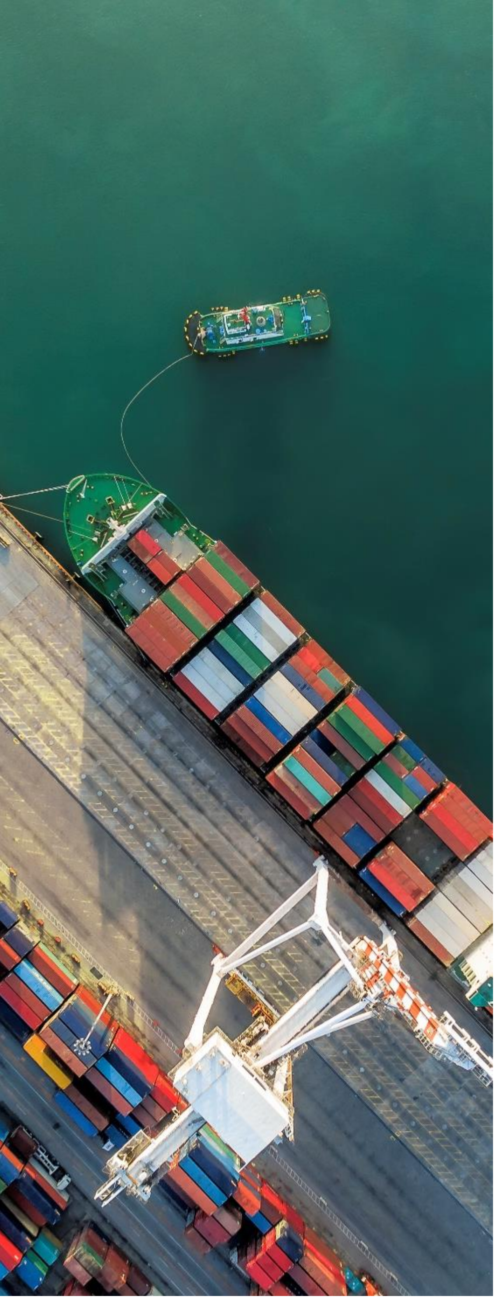
Due to the latest geopolitical and economic changes, the world of customs and international trade has never been more of a focal point in the media, politics and business.

Normally perceived as a back-office task, a company's customs function is now part of **discussion within the C-suite** 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.

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 cash flow (i.e. **above-the-line cost**) associated **with all sales, purchases and inventory**. This is a substantial amount and is often underestimated by management: incorrectly perceived as a 'wash-through tax' or 'neutral' by many, the true impact is poorly understood and managed. This translates into cash flow (and cash out) disruption, as well as missed opportunities in terms of financing (suspension of cash/tax pre-financing).

Key drivers impacting cash flow (duty and tax) efficiency:





Why your customs and international trade function enhances cash management

The impact of tax/duty in terms of cash management should be seen in context of mitigating risks, and is assessed by looking at three areas:

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 mean that you can claim preferential duty rates (**no tax = no cash out**).

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.**

Origin: controlling the origin of goods enables companies to implement a sustainable free trade agreement (FTA), significantly **decreasing their duty burden (reduced cash out).**

2. Compliance

A rigorous compliance function dedicated to customs will enable your organisation to optimise its trade strategy and reap the benefits of trade programmes.

Missed opportunities – using third parties for compliance represents a cost for companies, and also missed strategic opportunities.

Suspension of cash (tax) pre-financing – a compliance programme will help you avoid 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 maximise potential refunds resulting from trade operations.

3. Relationships

The now economy – consumer expectations are at an all-time high, with a need for immediate communication and lightning-fast service.

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

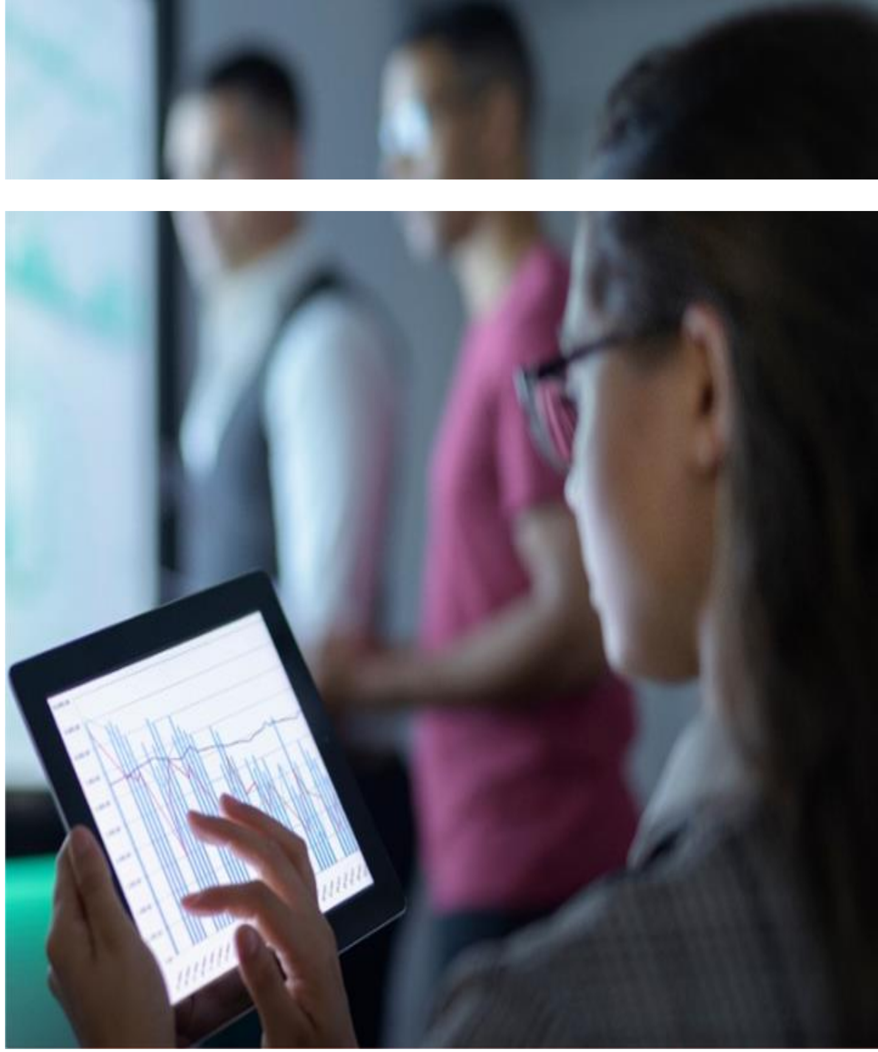
Today's companies need to focus on providing high-quality services at a pace faster than ever before; otherwise, they will fall behind in customer satisfaction. Take into consideration:

- Time to market and credit management
- Pricing strategy
- Supplier and client relationships
- Tax strategies

3

Competencies and team

How we can help



We help our clients to:

- identify and realise cash and cost benefits across end-to-end value chains,
- optimise operational processes that underpin the working capital cycle,
- enhance transparency and performance through data analytics and digital working capital solutions,
- ensure rapid cash conservation in crisis situations,
- develop resilient supply chains in order to be prepared for unexpected risk events and disruption,
- create a ‘cash culture’ and upskill their organisations through our working capital academy, and
- roll out trade and supply chain financing solutions.

Our working capital improvement approach

Quick scan → Diagnostics → Design → Implementation

Where and how we could 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 assessment
- Trade finance solutions

Accounts receivable

- Tailored, proactive collections
- Credit risk policies
- Aligned and optimised customer terms
- Timeliness and quality of billing
- Contract and milestone management
- Systematic dispute resolution
- Dispute root cause elimination
- ‘Surge’ operational bandwidth
- Negotiation strategy and support

Inventory

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

Accounts payable

- Consolidated spending
- Increasing control with centre-led procurement
- Helping avoid leakage with purchasing channels
- Payment terms harmonisation
- Supply chain finance benefits assessment and roll-out
- Helping eradicate early payments
- Payment cycles and methods
- Negotiation strategy and support

Our working capital improvement approach

Quick scan → Diagnostics → Design → Implementation

Authors and working capital contacts

Co-authors

Rob Kortman

Partner,
PwC Germany and Austria

+49 170 9879253

rob.kortman@pwc.com

Danny Siemes

Senior Director,
PwC The Netherlands

+31 6 30 245711

danny.siemes@pwc.com

Benjamin Rutz

Director,
PwC Switzerland

+41 58 7922160

benjamin.rutz@pwc.com

Sebastian Leidig

Senior Manager,
PwC Germany

+49 151 57018180

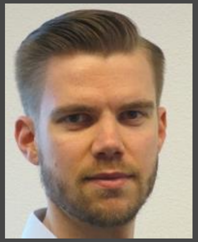
sebastian.leidig@pwc.com

Christian Gerding

Manager,
PwC Germany

+49 175 6372699

christian.gerding@pwc.com



Mark Zwinkels

Manager,
PwC The Netherlands

+31 6 83 141130

mark.zwinkels@pwc.com

Methodology

This study provides a view of the top 658 German, Austrian, Swiss, Dutch, Belgian and Luxembourgish companies following PwC analysis and sectorisation. All calculations are based on publicly available data. The division of sub-sectors is based on CapitalIQ Primary Industry classification (data available for 100% of sample). Royal Dutch Shell and Anheuser-Busch InBev are excluded from the data base due to company size.

Metrics		Definition	Calculation
NWC:	(net working capital days)	NWC days offers an 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 inventory outstanding)	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

Thank you

pwc.com