Press Release

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| *Pages* | 2 |

**Working capital management in Europe has never been better, and UK remains top – PwC study**

The largest European companies have never been better at managing their working capital and UK companies are the most efficient compared to their neighbours, a new PwC study shows.

*Working Capital: Never Been Better* analyses the working capital performance of Europe’s largest publicly listed companies and shows that the UK cash-to-cash conversion cycle was an impressive 55 days in 2011, down from 60 days in 2010. Using Days Working Capital (DWC) as a measure of working capital efficiency, the study shows how many days it takes for companies across Europe to convert their working capital into revenue. The faster companies can do this the better.

After the UK, other country groups that showed good working capital management were Central Europe (58 days) and Russia/Ukraine (63 days). The worst performing country was France (83 days), followed by the Nordic countries (78 days) and Germany, Switzerland, Austria and Italy, all at 77 days. Overall European cash conversion cycles have decreased by 5 days to 70 days between 2010 and 2011, mainly due to improvements in receivables and inventories.

Robert Smid, PwC working capital partner, said:

“Cash has become an expensive resource which is more and more difficult to obtain. We should not forget that working capital is the cheapest source of cash, and as most companies have trapped cash sitting on the balance sheet, it makes sense they squeeze as much cash as possible from working capital before seeking additional external financing. This is a move that is likely to be looked upon favourably by lenders who are encouraging organisations to take a more proactive stance in managing their own cash flow. Consequently, working capital management and cash flow forecasting are at the top of the agenda of CFOs and finance executives.

“The increased attention on working capital after the 2008 recession has had a positive impact on the performance of the largest listed companies in Europe. Since then, CFOs have been quick to act and now see working capital as a strategic priority to generate cash and this trend has continued into 2011.

“However, our study also highlights a polarisation where the good performers were able to release cash and fund their own growth while the bad performers deteriorated and had to find additional cash to fund their growth. Although the performance of companies across Europe is improving, the gap between the top 25% and the bottom 25% is widening. In other words the good performers are getting better and the bad are getting worse.”

Although overall European working capital levels are decreasing, the differences in performance are very significant. The study shows that the difference between the good and bad performers is getting more pronounced and this indicates that there is huge improvement potential for those that are not in the upper quartile (top 25% performers). Overall, the study shows that 2,307 of the largest listed European companies had over €900bn (£700bn) unnecessarily tied up in working capital in 2011, which could have been released if all companies included in the study were to match the performance of the upper quartile. By comparison, UK companies had over €59bn (£49bn) tied up in 2011, which could have been released if they had better managed their working capital.

**Sector variations in the UK**

Comparing the cash-to-cash conversion cycle across sectors highlights the differences in underlying business models and reveals those that operate in a cash culture. In the study, retail was the most efficient sector in the UK in 2011, with an average 19 days cash-to-cash conversion cycle. Services companies were second most efficient (23 days), followed by telecommunications (26 days). At the other end of the scale, manufacturing companies were the least efficient (104 days), followed by oil & gas (88 days) and pharmaceuticals (85 days).

All sectors in the UK showed an improvement in working capital between 2010 and 2011, the study shows. The most improved sector in the UK was telecommunications, which improved by 40.8% between 2010 and 2011, followed by oil & gas which improved by 19.9%. The improvement in the telecommunication sector (which in our study includes broadcasting and cable TV) is generally explained by an increased focus on cash and improved working capital controls. Oil & gas working capital numbers should be viewed with caution, however, due to the fluctuating price of raw materials. As such, it is difficult to draw strong conclusions on whether working capital improvement is due to price increases or due to improved performance.

UK retailers followed closely behind oil & gas with progress of 19.8%. Retailers as a general rule have little in the way of debtors as most retail transactions are settled at point of sale. The improvements are largely attributable to improvements in accounts payable due to extended payment terms and delayed payment.

The least improved sectors were utilities, which showed a 1.34% improvement, pharmaceuticals (1.40%) and technology (1.45%). This is, however, still an improvement and given the benign market environment, this should not be seen as a bad result.

**Ends**

**Notes**

1. PwC’s working capital team analysed the largest 2,307 publicly listed European companies (with a turnover of over £100m). It looked at their respective working capital performance, in receivables, payables and inventories over a five year period, from 2007 to 2011 (including companies with a March 2012 year end).
2. 365 companies in the UK were sampled.
3. Working capital was calculated as a percentage of sales (receivables + inventories – payables).
4. Top performers are classified as the upper quartile (i.e. top 25%), and the bottom performers as the bottom 25% of the survey population.
5. The 34 European countries are grouped as 10 clusters:

* UK & Ireland
* France
* Germany, Switzerland, Austria
* Italy
* BeNeLux: Belgium, Netherlands, Luxemburg
* Nordics: Denmark, Finland, Norway, Sweden
* Spain & Portugal
* Other southern Europe: Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Greece, Macedonia, Montenegro, Slovenia, Turkey, Slovakia
* Central Europe: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland,
* Russia & Ukraine

1. To download the report please visit [www.pwc.co.uk/workingcapital](http://www.pwc.co.uk/workingcapital)
2. The financial services, real estate and insurance sectors are excluded.

**Working capital efficiency by Days Working Capital (DWC) across sectors in the UK**

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| **UK sector** | **Average  DWC in 2010** | **Average  DWC in 2011** | **Average conversion time cut by sector / days cut 2010 - 2011** | **Percentage improvement**  **2010 - 2011** |
| Retail | 24.8 | 19.9 | 4.9 | 19.80% |
| Services | 24.3 | 23 | 1.3 | 5.35% |
| Telecommunications | 44.1 | 26.1 | 18 | 40.80% |
| Utilities | 37.3 | 36.8 | 0.5 | 1.34% |
| Consumer goods | 41.7 | 41.2 | 0.5 | 1.20% |
| Basic materials | 76.7 | 64.5 | 12.2 | 15.90% |
| Technology | 68.9 | 67.9 | 1 | 1.45% |
| Pharmaceuticals | 85.9 | 84.7 | 1.2 | 1.40% |
| Oil & gas | 110 | 88.1 | 21.9 | 19.90% |
| Manufacturing | 111.7 | 103.6 | 8.1 | 7.25% |

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