Press Release

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Small companies have significantly higher working capital funding needs than large corporates and the gap is widening.

London, 21 July 2015 -- In 2010, the gap between working capital levels of large corporations and small enterprises was only 7.6 percentage points. Over the following five years, this gap has widened to 10.6 percentage points. Whilst large corporates have improved their working capital performance, small enterprises have experienced a sharp deterioration.

In the same comparison large companies were able to generate more cash from operations, partially driven by their lower working capital funding requirements. Small enterprises have to rely more on external debt to close their funding gap and combined with their comparatively higher interest rates, they are placed at a competitive disadvantage.

Addressing their working capital inefficiencies could generate the cash required to break this cycle address the disadvantage.

These are part of the findings from PwC's latest global working capital survey – which tracks companies' successes in optimising working capital. PwC's '*Bridging the Gap'* analysis combed through the books of 10,215 of the largest listed companies globally to identify trends, performance gaps and improvement potentials.

This year's review shows that for the first time since 2010, working capital has shown significant improvement globally, as companies are waking up to the importance of cash vs profit. This improvement contributed to a jump of 11.3% in the cash-on-hand. However, only 7 out of 16 sectors actually managed to improve their working capital since 2010, but to such an extent that they compensated for the performance gap of the other sectors.

The research uncovered a regional performance gap as well. Asian companies have some of the highest net working capital % (NWC) and the worst cash conversion efficiency, as their working capital performance deteriorated the most in the last 5 years. This is a common trend for companies with relatively high working capital, as most of their cash needs to be reinvested in the business to enable growth.

PwC's analysis also shows a spread between top and bottom performers within each sector and each country. The analysis highlights a worrying trend: the performance gap between the top and bottom performers is widening. On the other hand, however, the analysis is re-assuring as well because bottom performers are able to release more than €950bn of cash from their balance sheets within a few years. Recent revenue trends suggest that EUR 237 billion of additional working capital is needed to enable just next year's revenue growth. So there still is a significant gap to bridge if companies are facing funding constraints and take a longer term view.

Daniel Windaus, working capital partner at PwC and lead author of the report, said:

> "Relative changes in working capital performance aren't driven by economic cycles or interest rates, but by a cash focused mind-set and a greater focus on smarter working capital management. Cash, after all, is the life blood of all companies."

Robert Smid, working capital partner at PwC added:

> "Despite the current low cost of capital, industry leaders continue to focus on generating cash to stay ahead. Cash enables them make critical investments, pay dividends, pursue strategic acquisitions, fill pension gaps, repay debt or reduce covenant default risks. It is the reality of hard cash vs. paper profits."

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www.pwc.com/workingcapitalsurvey

Notes to editors

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

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