

WORKING CAPITAL REPORT 2010

FINAL
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October 2010 (March 2011 update)



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1 Key finding

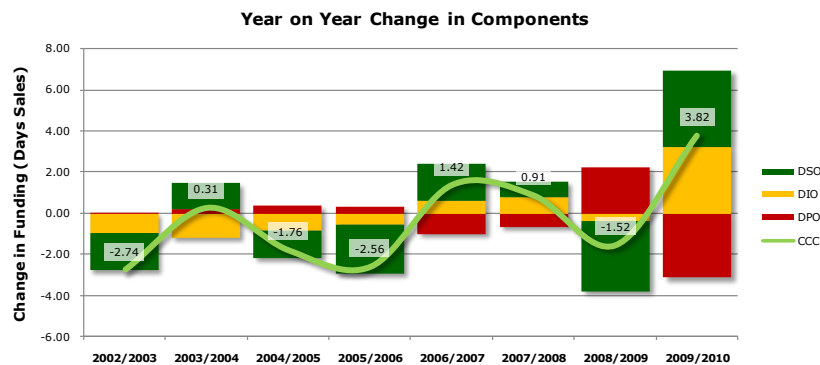
- Analysis of public financial data regarding 4,127 companies worldwide indicates that for fiscal year end between 10/2009 – 9/2010, receivables and inventory positions have increased to 88.5 days worth of sales. This is up 3.2 days when compared to the last year end prior to the credit crisis of 2008. The increase equates to EUR 128.7 billion or 5% liquidity additionally locked in working capital.
- EUR 35.4 Billion in funding, or 0.87 days worth of sales, (equals 27% of the 3.2 days increased working capital funding requirement) has been offloaded onto suppliers. Offloading the funding to suppliers has in some cases been the result of a deliberate management decision, in other cases it has been the consequence of financial distress.
- The net result is that the cash conversion cycle slowed down to a record high of 46.5 days worth of sales.
- 58.4% of all companies reported a slowdown of their cash conversion cycle with 12.4 days sales on average.
41.2% of all companies reported a higher velocity of their cash conversion cycle with on average 10.4 days.
Only a few industry sectors recorded more than 50% of the sector companies with a faster cash conversion cycle in 2010 when compared to prior to the crisis.
- In absolute terms companies have released liquidity from working capital (“positive” cashflow from operations). However in total all companies combined could have released EUR 93.3Bio more from working capital should their cash conversion cycle been identical when compared to just before the crisis. The cash released from working capital recorded is the result of a decline in revenue over the reported period.
- Better rated companies have remained more in control over their working capital than other companies. Given the assumption that credit remains tight and as a result of Basel II and III will become more expensive and dependent on the corporate credit risk, results and shareholder value can be maintained significantly better by improving working capital management.
- Over the last 6 – 7 years Asian companies have gradually taken a larger share in working capital funding. By 2010 they funded almost 15 days more of their sales when compared to 2004



2 Working Capital Management since 2008

In the wake of the credit crisis of September 2008 58.4% of companies worldwide reported a slow down of their cash conversion cycle. On average the cash conversion cycle slowed down with 2.4 days worth of sales, locking an additional EUR 93.3 Billion in liquidity. For this report we compare relevant working capital metrics by company for fiscal year end between October 2009 – September 2010 with data set for fiscal year end between October 2007 – September 2008, the last reporting period prior to the crisis.

The quality of working capital has deteriorated in the past 2 years as the investments in receivables and more importantly inventory has been partially offloaded to suppliers (0.87 days worth of sales or EUR 53 Bio in absolute value).

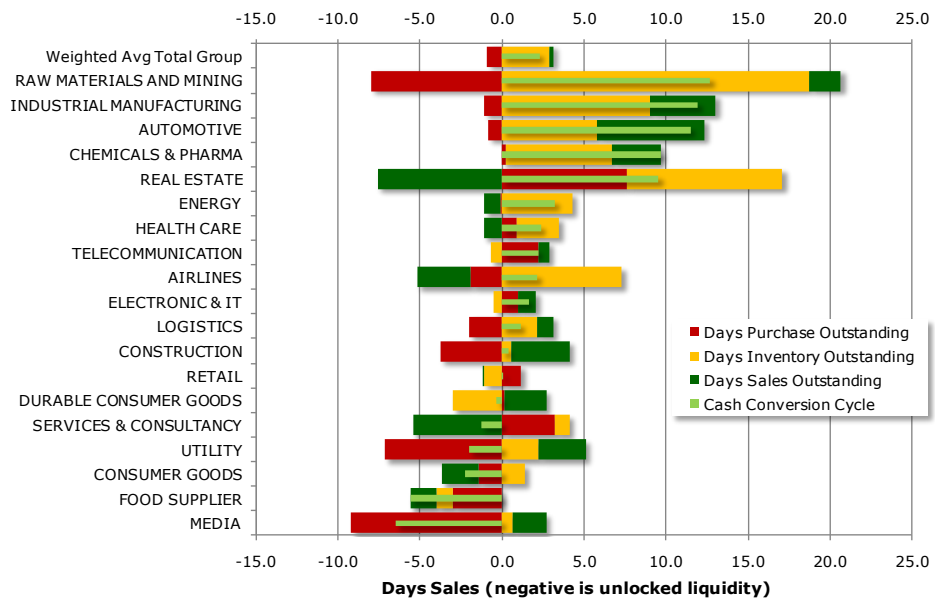


2.1 Results by Industry Sector

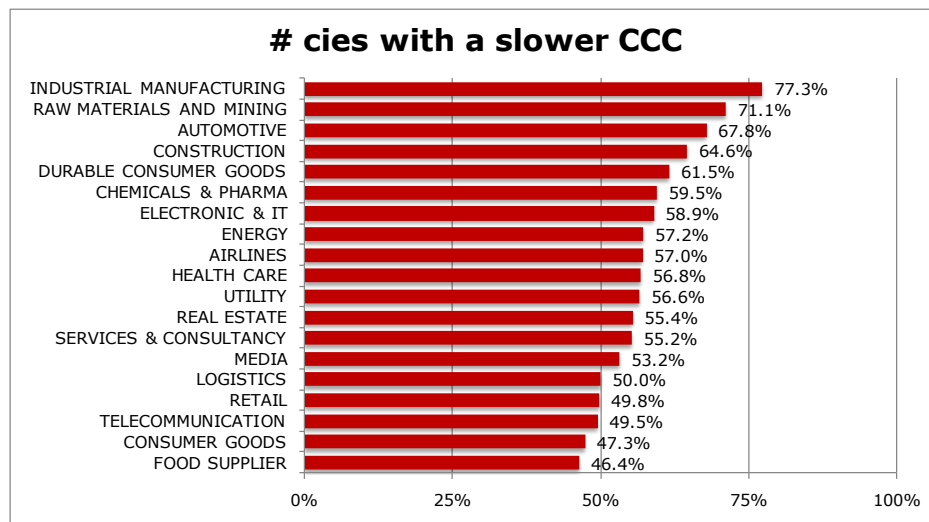
Industry sectors have not been affected equally as the table and graph below summarize. Media companies have on average reduced their investment in working capital with 6.5 days worth of sales, predominantly by delaying outstanding payables with on average 9.2 days.

Allmost all sectors have seen inventory gone up in the last two years. The only industry sector that records on average gains in all three components is the food industry. They have unlocked liquidity by reducing receivables and inventory and extending payables.

	Avg # Cies p.a. in Sector	Avg turnover per Cie (2009/2010 in EUR Mio)	2007/2008				2009/2010				Change in Velocity of CCC in days (DIO and DSO only)	Relative change	
			DPO	DIO	DSO	CCC	DPO	DIO	DSO	CCC			
AIRLINES	114	5,754	655997	-39.0	38.2	47.6	46.8	-40.9	45.5	44.4	49.0	-4.1	-4.77%
AUTOMOTIVE	146	8,669	1265650	-41.8	37.2	56.3	51.7	-42.6	43.0	62.8	63.2	-12.3	-13.19%
CHEMICALS & PHARMA	316	2,809	887753	-33.7	47.0	61.5	74.8	-33.4	53.4	64.4	84.4	-9.4	-8.66%
CONSTRUCTION	226	2,349	530946	-62.2	43.0	71.7	52.5	-66.0	43.6	75.3	52.9	-4.1	-3.61%
CONSUMER GOODS	188	1,483	278887	-32.6	50.4	43.5	61.3	-34.0	51.8	41.3	59.1	0.8	0.83%
DURABLE CONSUMER GOODS	117	2,805	328210	-45.0	77.6	46.9	79.6	-44.8	74.7	49.5	79.3	0.4	0.35%
ELECTRONIC & IT	582	1,834	1067166	-41.1	30.4	62.0	51.3	-40.1	29.9	63.1	52.9	-0.6	-0.69%
ENERGY	306	8,438	2582078	-36.1	26.6	42.0	32.5	-36.2	30.9	41.0	35.7	-3.3	-4.86%
FOOD SUPPLIER	250	3,038	759458	-33.8	42.2	35.8	44.3	-36.7	41.2	34.2	38.7	2.6	3.35%
HEALTH CARE	148	892	131953	-20.5	46.0	67.5	93.0	-19.6	48.6	66.3	95.4	-1.5	-1.34%
INDUSTRIAL MANUFACTURING	348	2,773	965114	-44.1	52.2	65.8	73.9	-45.1	61.2	69.8	85.9	-13.0	-11.04%
LOGISTICS	156	2,277	355156	-31.2	17.8	38.3	24.8	-33.2	19.9	39.3	26.0	-3.1	-5.61%
MEDIA	94	3,223	302971	-71.6	19.2	75.8	23.4	-80.8	19.9	77.8	16.9	-2.7	-2.84%
RAW MATERIALS AND MINING	180	3,319	597351	-34.9	55.3	40.9	61.3	-42.9	73.9	42.9	74.0	-20.7	-21.47%
REAL ESTATE	56	1,001	56050	-43.4	210.2	26.5	193.3	-35.8	219.8	18.9	202.9	-2.0	-0.83%
RETAIL	211	7,264	1532725	-36.7	37.2	11.8	12.3	-35.5	36.2	11.8	12.4	1.1	2.23%
SERVICES & CONSULTANCY	362	2,567	929312	-51.1	29.3	60.4	38.6	-47.9	30.1	55.0	37.3	4.5	5.05%
TELECOMMUNICATION	182	4,748	864058	-45.9	11.4	53.8	19.3	-43.6	10.7	54.4	21.5	0.0	0.07%
UTILITY	145	5,020	727925	-50.7	21.9	64.9	36.1	-57.8	24.1	67.8	34.1	-5.1	-5.89%
Weighted Avg Total Group	4.127	3.591	14.818.760	-41.1	36.2	49.1	44.2	-42.0	39.1	49.3	46.5	-3.2	-3.72%



58.4% of all companies recorded a slower cash conversion cycle in 2009/10 when compared to prior to the crisis. Industrial companies experienced on average a much slower conversion cycle than other companies. The graph below indicates the % number of companies in an industry sector that experienced a slower cash conversion in 2009/10 when compared to their fiscal year end 2007/08.



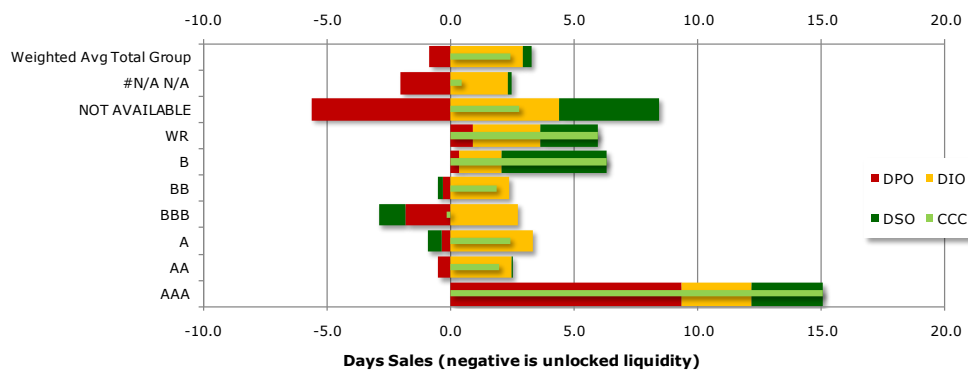


2.2 Results by Company Rating

Two years into the crisis crisis, better rated companies are more capable than unrated companies in controlling their working capital. Unrated companies have more difficulties keeping their inventory and receivables under control and have to defer their payables for a longer period than better rated companies.

Higher rated companies (AAA and AA) also seem to have been more inclined to invest in their trading partners by paying earlier and extending longer credit to their suppliers when compared to prior to the crisis. However it must also be noted that better rated companies had in the years before the crisis improved their working capital positions significantly more than other copmnaies by reducing receivables outstanding and delaying supplier payments. In most cases the better rated companies that have invested in their working capital since September 2008 have come back to receivable and payable levels of 2003/2004.

	Avg # Cies p.a. in Sector	Avg turnover per Cie (2009/2010 in EUR Mio)	2007/2008				2009/2010				Change in Velocity of CCC in days (DIO and DSO only)	Relative change
			DPO	DIO	DSO	CCC	DPO	DIO	DSO	CCC		
AAA	4	86,167	-40.0	12.8	40.9	13.7	-30.7	15.6	43.8	28.7	-5.7	-10.60%
AA	40	43,107	-32.6	27.8	47.6	42.7	-33.1	30.2	47.6	44.7	-2.5	-3.30%
A	200	19,212	-43.1	35.3	55.1	47.3	-43.5	38.7	54.5	49.7	-2.8	-3.08%
BBB	347	10,452	-41.5	32.5	46.0	37.1	-43.3	35.3	44.9	36.9	-1.6	-2.10%
BB	111	6,967	-43.1	44.8	34.9	36.6	-43.4	47.1	34.7	38.4	-2.2	-2.75%
B	49	6,613	-43.8	29.0	30.6	15.8	-43.4	30.6	34.9	22.1	-5.9	-9.96%
WR	363	3,565	-42.3	47.4	52.3	57.4	-41.4	50.1	54.6	63.4	-5.0	-5.06%
NOT AVAILABLE	188	1,840	-38.6	42.9	45.6	49.8	-44.2	47.2	49.6	52.6	-8.4	-9.51%
#N/A N/A	2,823	897	-42.2	42.7	51.3	51.9	-44.2	45.1	51.5	52.3	-2.5	-2.65%
Weighted Avg Total Group	4,127	3,591	-41.1	36.2	49.1	44.2	-42.0	39.1	49.3	46.5	-3.2	-3.72%





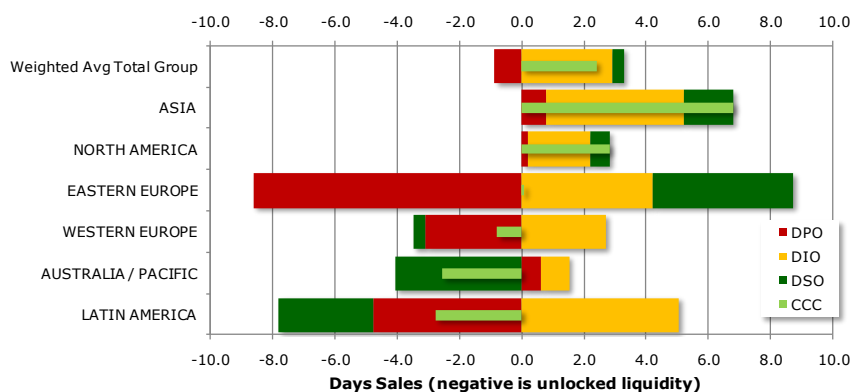
2.3 Results by Geography

Given the fact that the majority of companies included in the analysis are multinationals, difference by region are reported below cannot be explained solely by their geographical footprint. Differences in management decision too should provide an explanation.

Companies headquartered in Australia, Latin America and Western Europe have on average been able to speed up their cash conversion cycle, whereas companies with headquarters in other regions saw their cash conversion slowing down. However Latin American and European companies have only been able to do so by delaying their supplier payments. Australian / Pacific companies have been able to reduce their DPO in the past 2 years.

Western European and Latin American companies however increased the velocity of the cash conversion cycle at the expense of their suppliers, whereas Northern American companies did not change they payment terms as significantly.

	Avg # Cies p.a. in Sector	Avg turnover per Cie (2009/2010 in EUR Mio)	2007/2008				2009/2010				Change in Velocity of CCC in days (DIO and DSO only)	Relative change
			DPO	DIO	DSO	CCC	DPO	DIO	DSO	CCC		
LATIN AMERICA	65	4,393	-34.1	36.0	45.5	47.3	-38.9	41.0	42.4	44.5	-2.0	-2.43%
AUSTRALIA / PACIFIC	117	1,810	-33.7	30.7	37.6	34.5	-33.1	31.6	33.5	32.0	3.2	4.67%
WESTERN EUROPE	992	5,099	-48.0	39.6	53.5	45.1	-51.1	42.3	53.1	44.3	-2.3	-2.46%
EASTERN EUROPE	137	2,262	-21.7	28.7	37.6	44.6	-30.3	32.9	42.1	44.7	-8.7	-13.17%
NORTH AMERICA	1,377	4,105	-33.7	31.3	37.9	35.4	-33.5	33.3	38.5	38.2	-2.6	-3.80%
ASIA	1,415	2,304	-45.2	39.7	60.9	55.4	-44.5	44.1	62.5	62.2	-6.0	-5.98%
Weighted Avg Total Group	4.127	3.591	-41.1	36.2	49.1	44.2	-42.0	39.1	49.3	46.5	-3.2	-3.72%

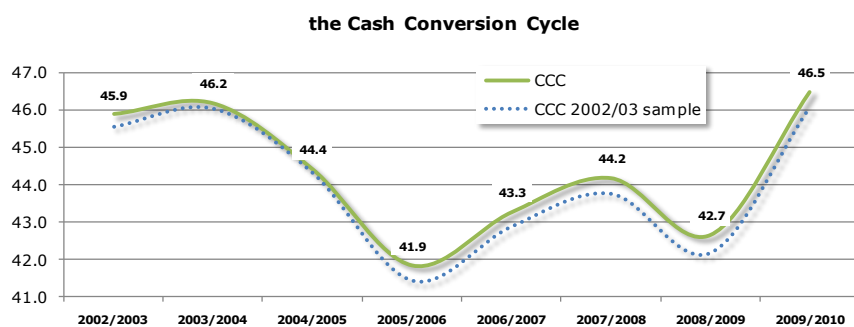




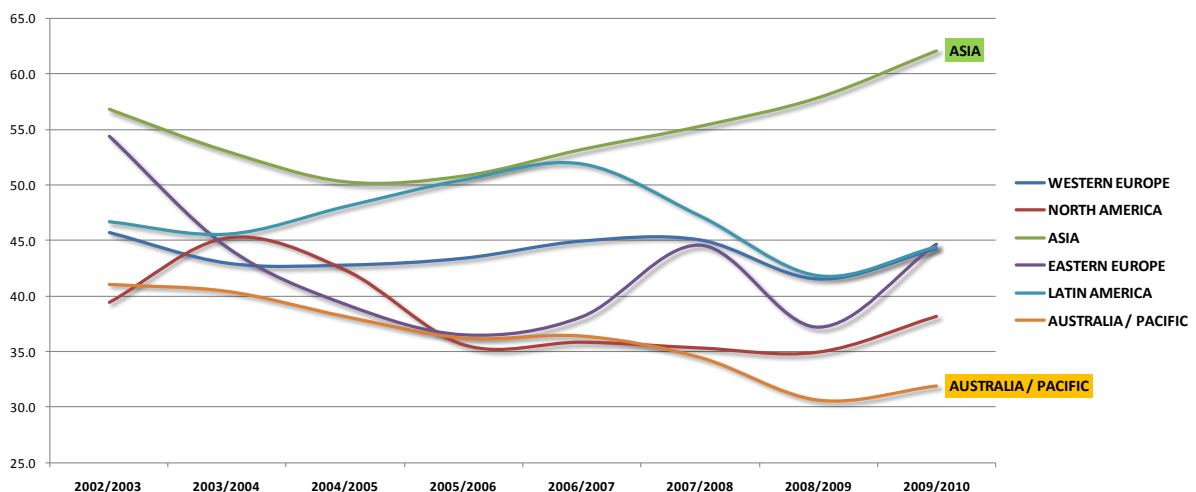
2.4 Long term trends

In the past two year, the cash conversion cycle has slowed down to 46.5 days of sales on average, or up 2.4 days since the credit crisis. This is a slow pace not seen in the past decade. Until 2005/2006 companies improved their working capital positions and unlocking liquidity equivalent to more than 5 days worth of sales. After 2006 the cash conversion cycle slowed down notably.

Since we used a data set for 4127 companies for which we had unbroken data since 2004/2005, we compared the result with older date is not entirely consistent. However the graph below also includes the results for 3409 companies for which we have a full set of data since 2002. Because the lines move very much in parallel, we can conclude that the results for 2002 – 2004 are representative despite incompleteness.



The long term trends in most regions move in parallel, with the exception of Asia and Australia.¹ Australia seems to be consistently successful in unlocking liquidity from working capital by reducing days sales outstanding and shortening days payables outstanding.



¹ We ignore for the analysis by region 23 companies located in other regions (Africa, Caribbean) that have been included in the analysis for industry and rating



2.5 "Positive" cashflow from operations

Many companies have reported a "positive" cashflow from operations in the past 2 years. As the graph below summarizes on average companies have amassed cash on their balance sheet. However the liquid assets could have been up to EUR 93.3 Bio more for all 4127 companies combined when compared to the last year before the crisis.

N = 2141	CHANGE 10/2007 - 9/2008 UNTIL 10/2009 - 9/2010					
	EUR Denominated		USD Denominated		GBP Denominated	
PAYABLES	1.0	-2.5%	5.4	12.5%	-0.2	-3.7%
INVENTORIES	2.4	5.3%	6.1	10.2%	-1.3	-8.6%
RECEIVABLES	-2.8	-5.9%	0.6	0.9%	-0.1	-1.6%
CASH CONVERSION CYCLE	0.5	1.0%	12.1	7.1%	-1.6	-5.8%
Positive values indicate an investment (=additional liquidity locked)						
REVENUES	-76.6	-2.1%	-496.5	-5.4%	54.6	14.9%
LIQUIDITY AND NEAR CASH	69.4	23.3%	183.5	28.5%	9.8	34.5%
# COMPANIES	646		1,351		144	

All Values in Functional currency of the company.



3 Input data

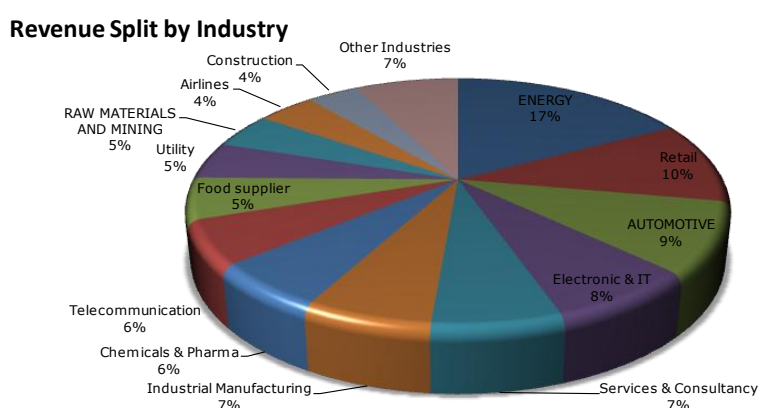
All information used for this report has been in the public domain.

3.1 Companies

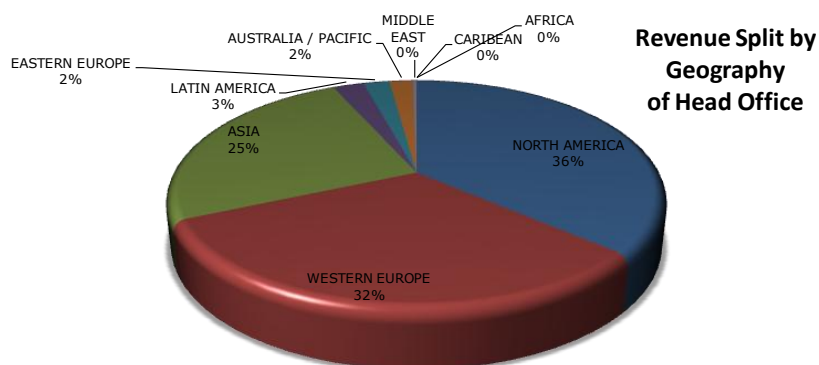
4,127 companies were selected based on availability of continuous availability of relevant data elements for the 5 year period 2004/2005 until 2009/2010.

For periods prior up to 2004/2005 available data from a subset has been used to calculated relative metrics only. The results for the 3,409 companies for which we used a complete data set for the total period suggest no significant deviations in distributions across industries, ratings and within geographies.

Below split of the data used is based on EUR Equivalent revenue for the calendar year 2009.



Row Labels	# Cies	Sum of REVENUE (RC)	Average of REVENUE (RC)	Min of REVENUE (RC)	Max of REVENUE (RC)
Airlines	114	667,463.2	5,854.9	8.5	54,043.0
AUTOMOTIVE	146	1,461,085.5	10,007.4	5.1	207,526.0
Chemicals & Pharma	316	967,386.2	3,061.3	2.9	57,951.3
Construction	226	592,908.4	2,623.5	7.1	43,421.0
CONSUMER GOODS	188	299,837.6	1,594.9	0.4	58,588.1
DURABLE CONSUMER GOODS	117	369,002.5	3,153.9	2.8	71,589.7
Electronic & IT	582	1,206,612.8	2,073.2	0.6	88,623.3
ENERGY	306	2,732,707.1	8,930.4	0.6	245,902.8
Food supplier	250	856,976.9	3,427.9	0.3	64,922.2
HEALTH CARE	148	142,124.9	960.3	0.3	11,358.0
Industrial Manufacturing	348	1,045,451.8	3,004.2	0.2	116,210.0
Logistics	156	401,869.7	2,576.1	10.3	37,404.6
Media	94	306,654.6	3,262.3	30.3	31,874.1
RAW MATERIALS AND MINING	180	722,921.3	4,016.2	4.6	72,149.8
Real Estate	56	67,031.5	1,197.0	0.1	13,492.8
Retail	211	1,673,301.1	7,930.3	9.0	271,250.6
Services & Consultancy	362	1,068,023.6	2,950.3	3.0	72,889.7
Telecommunication	182	917,476.2	5,041.1	11.1	84,314.4
Utility	145	753,311.3	5,195.3	20.2	68,731.0
Grand Total	4,127	16,252,146.2	3,938.0	0.1	271,250.6



GEOGRAPHY	# Cies	TOTAL REVENUE	Average Revenue	Min of Revenue	Max of Revenue
NORTH AMERICA	1,377	5,927,694.1	4,304.8	0.3	333,045.6
WESTERN EUROPE	992	5,235,287.7	5,277.5	0.7	194,116.3
ASIA	1,415	4,058,814.3	2,868.4	0.4	174,546.7
LATIN AMERICA	65	402,269.5	6,188.8	147.1	73,496.6
EASTERN EUROPE	137	336,677.3	2,457.5	0.9	69,487.7
AUSTRALIA / PACIFIC	117	305,426.5	2,610.5	43.0	35,709.9
MIDDLE EAST	6	30,195.0	5,032.5	37.2	19,180.0
CARIBBEAN	13	13,509.6	1,039.2	40.5	2,439.7
AFRICA	5	2,121.5	424.3	156.1	706.0
Grand Total	4,127	16,311,995.4	3,952.5	0.3	333,045.6

3.2 Currencies

Irrespective of the reporting date, all financial values in functional currencies have been converted into EUR at the end of date rate of the last business date in a year prior to using the data for analysis purposes. The exception is financial values for dates in 2010. Those values have been converted at the rate of 30 June, 2010.

3.3 Methodology

Working capital ratios have been calculated based on an average of the balance sheet items (receivables, inventory and payables) at prior year end and at year end. This average has been divided the revenue in EUR at calendar year end and multiplied by 365 days (also for leap years).

Working capital ratios across industry sectors, ratings and regions are weighted averages. The results are weight against the revenue in EUR.

For the purpose of this report data for the period October 2008 – September 2009 have been ignored. Due to the limitations of traditional working capital ratios in highly exceptional periods like the 12 month after the credit crunch started, the calculated ratio will not be a fair presentation of the state of the corporate working capital over the report period.

No adjustment has been made to the calculated averages by rating and geography to compensate for differences in sector weightings.



4 Glossary

Item	Definition
CCC	Cash Conversion cycle = DIO + DPO + DSO
DIO	Days Inventory Outstanding = average of prior year end inventory and year end inventory divided by revenue times 365
DPO	Days Payables Outstanding = average of prior year end payables and year end payables divided by revenue times 365
DSO	Days Sales Outstanding = average of prior year end receivables and year end receivables divided by revenue times 365
Financial Supply Chain	Operational processes related to the product flow from supplier to customer, including purchasing, production warehousing and logistics
Physical Supply Chain	Operational processes related to the management of cash as collected from customers, and disbursed to suppliers and other beneficiaries, including receivables management, cash and FX management, payment processing and financial reporting.